



THE STATE
of **ALASKA**
GOVERNOR BILL WALKER

Department of Transportation and Public Facilities

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March 29, 2017

The Honorable Anna MacKinnon
Alaska State Senate
State Capitol Building, Room 516
Juneau, Alaska 99801

The Honorable Lyman Hoffman
Alaska State Senate
State Capitol Building, Room 518
Juneau, Alaska 99801

Dear Senator MacKinnon and Senator Hoffman:

Thank you for the opportunity to present on Senate Bill 25 during the March 27, 2017, meeting of the Senate Finance Committee. In response to questions posed by committee members, the following information is provided:

- ***In relation to the proposed jet fuel tax increase, has the department done an analysis in terms of the entire package of fees and taxes, e.g., ramp fees and landing fees, that large air carriers are currently paying?***

The third (and final) page of an enclosed brief titled *Alaska State Jet Fuel Tax Exemption for International Flights* includes an analysis of the calendar year 2016 costs required to land a B747-8 aircraft in Anchorage, Seattle, Portland and Vancouver. This chart, and the briefing itself, suggest a tenuous competitive advantage for Alaska's two international airports' ability to attract and retain international cargo flights.

- ***What benefits will the average Alaskan receive from the increased marine fuel tax rate? What services are being provided with those revenues?***

As depicted on the second page of an enclosed brief titled *Motor Fuel Tax Background*, 50% of marine fuel tax revenues will be appropriated within the Alaska Transportation Maintenance Fund to the maintenance and operations of state-owned highways and airports. The other half of the marine fuel tax revenue is identified for Alaska Marine Highway vessel operations, a grant to the Inter-Island Ferry Authority, and the State of Alaska's Municipal Harbor Facility Grant program.

➤ *Do international carriers experience an unfair advantage over domestic carriers as a result of the foreign jet fuel tax exemption?*

Generally speaking, international air carriers are not competing with domestic carriers. Domestic carriers using the Alaska International Airport System, i.e., Ted Stevens Anchorage International Airport and Fairbanks International Airport, are primarily passenger carriers. Domestic cargo carriers like UPS and Fed Ex also enjoy the foreign jet fuel tax exemption for their international flights.

The aviation fuel tax and the jet fuel tax increases are a result of research done by and recommendations from the Governor's Aviation Advisory Board. The Board looked at several revenue generating options, including charging landing fees, adding an aircraft registration fee and others. The Board determined the most equitable way to increase the contribution from users of Alaska's aviation system was to raise the aviation and jet fuel tax. This was their recommendation to Governor Walker and why he included these increases in the motor fuel tax proposal.

If you or your committee members have further questions, please feel free to contact Mike Lesmann at 907-465-4772.

Sincerely,



Maro Luiken
Commissioner

Enclosures

Cc: Randall Hoffbeck, Commissioner, Department of Revenue
Darwin Peterson, Legislative Director, Office of the Governor
Mike Lesmann, Legislative Liaison, DOT&PF

Alaska State Jet Fuel Tax Exemption for International Flights

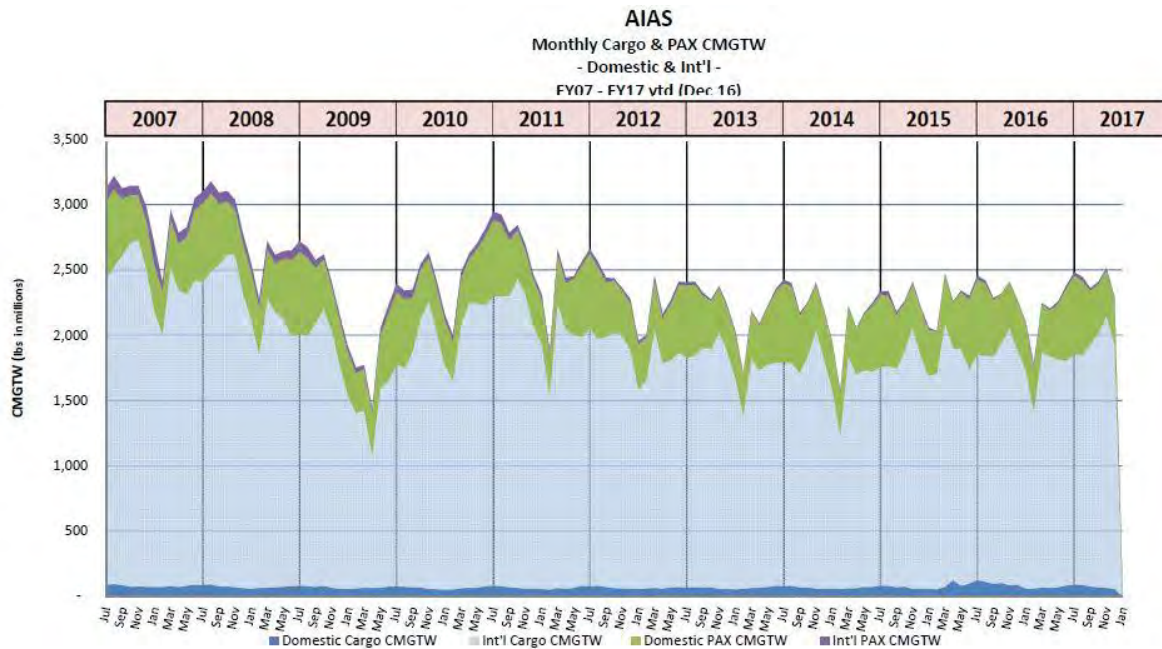
Since 1957 the motor fuel tax in Alaska has included a separate rate for jet fuel, with an original rate of \$0.015 per gallon. The tax rate for jet fuel has since been increased twice; first to \$0.025 in 1968 and again in 1994 to its current rate of \$0.032. The international flight fuel tax exclusion is a critical element to the success of the Alaska International Airport System (AIAS) and remains in use today.

The tax exemption for jet fuel used in foreign commerce provides Ted Stevens Anchorage International (ANC) and Fairbanks International (FAI) airports a competitive advantage in attracting and retaining international cargo flights. Location is a key factor in Alaska's competitiveness in the trans-pacific air cargo market. There are no other airports that provide mid-point servicing stops between the US and Asia. However, there are several factors that pressure air carriers to explore other options which require AIAS to maintain competitive rates and fees.

Most air carriers today have aircraft capable of overflying Alaska. The reason air carriers stop in Alaska is because it is more profitable. How profitable the stop is and how soon new technology in aircraft performance will overcome the profit margin is air carrier specific and information that is typically not shared outside of the company. Although the exact impact of the exemption on profit margins is not known, any cost increase puts negative pressure on the bottom line. FedEx, for instance, has reduced its flights to ANC in the past several years by using a B777 aircraft to fly direct from northern Japan to Memphis. Should the Alaska jet fuel exemption for foreign flights be removed, FedEx could possibly decrease operations in Alaska in favor of their Japan operations.

Air cargo carriers typically operate with a small profit margin or at a loss in some circumstances. The record profits reported in the airline industry recently have been primarily passenger airlines. China Airlines, for example, recently reported increases in their passenger business and a loss in their air cargo business. China Airlines and similar companies could shift their business models to reflect the most profitable operation. For example, there is a world-wide pilot shortage and air carriers must decide where to use their limited pilot resources. Filling passenger operations and leaving cargo operations short is the most logical and easiest decision to make. Any cost increases in Alaska puts negative pressure on companies' resource decisions and could result in fewer cargo flights to Alaska.

Global markets and conditions have large and direct impacts on international air commerce. The recent slowing of China's economy has resulted in lower cargo volumes transiting Alaska. The volatility of the market since 2007 is reflected in the following AIAS graph. The graph depicts total aircraft weight, which is a good revenue indicator since landing fees are based on aircraft weight.



The light blue area on the graph shows cargo traffic fluctuations which match U.S. and Asian market trends. The 2009 recession is evident, as is the slow economic decline from 2011 to 2014. AIAS manages changing market conditions by working closely with air carriers to establish rates and fees that economically make sense for AIAS and air carriers. This has been an excellent business model for AIAS, as all cargo carriers that operate in the trans-pacific theater operate in Alaska and all new entrants in the market have included Alaska in their route structures.

The purple area in the above graph depicts international passenger aircraft weight. The loss of international passenger service over the past 10 years was due to overflight of Alaska after the opening of Russian airspace; a service stop in Alaska was no longer profitable. Although this particular factor could not be compensated for by any AIAS financial scheme, it is a clear indicator of what might happen if cargo aircraft overflights increase.

Other airports compete for Alaska's business, but they have only been successful when offering strong incentive packages. These incentives have a limited duration and have had a relatively minor effect on drawing business away from Alaska. Should the tax exemption for fuel used in foreign flights be lifted, Alaska's competing airports would gain significant ground. It is reported by several air carriers that jet fuel at ANC is already five to ten cents more expensive on average than our west coast competitors. The typical refueling of a B747-8 at ANC is 26,414 gallons of jet fuel; taxed at a rate of \$0.064 that amounts to \$1,690.50 per aircraft. That would be the equivalent of raising the landing fee for those aircraft by about 68%. Previous landing fee increases of as little as 10% have involved significant concern from air carriers.

The tables below show a comparison of some common airport fees for a B747-8 technical stop at ANC and select west coast competitors and recent changes from 2013 to 2017.

Cost Per Landing B747-8 (CY2013)

	Anchorage	Seattle	Portland	Vancouver
*Aircraft Weight (pounds):	987,000	675,000	675,000	987,000
Fuel Upload (gallons):	26,414	26,414	26,414	26,414
Fuel Flowage Charge (US\$):	\$713.18	N/A	N/A	N/A
Landing Charge (US\$):	\$2,191.14	\$2,126.25	\$2,180.25	\$2,447.76
2 Hour Parking Charge (US\$):	\$154.28	\$100.00	\$0.00	\$0.00
Total:	\$3,058.60	\$2,226.25	\$2,180.25	\$2,447.76

Cost per Landing B747-8 (CY2016)

	Anchorage	Seattle	Portland	Vancouver
Aircraft Weight (pounds):	987,000	675,000	675,000	987,000
Fuel Upload (gallons):	26,414	26,414	26,414	26,414
Fuel Flowage Charge (US\$):	\$713.18	N/A	N/A	N/A
Landing Charge (US\$):	\$2,497.11	\$2,409.75	\$2,362.50	\$1,652.00
2 Hour Parking Charge (US\$):	\$164.02	\$100.00	\$0.00	\$0.00
Total:	\$3,374.31	\$2,509.75	\$2,362.50	\$1,652.00

Cost per Landing B747-8 (CY2017)

	Anchorage	Seattle	Portland	Vancouver
*Aircraft Weight (pounds):	987,000	675,000	675,000	987,000
Fuel Upload (gallons):	26,414	26,414	26,414	26,414
Fuel Flowage Charge (US\$):	\$713.18	N/A	N/A	N/A
Landing Charge (US\$):	\$2,487.24	\$2,409.75	\$2,268.00	\$1,696.05
2 Hour Parking Charge (US\$):	\$164.02	\$100.00	\$0.00	\$0.00
Total:	\$3,364.44	\$2,509.75	\$2,268.00	\$1,696.05

*Anchorage and Vancouver use maximum takeoff weight to calculate landing fees, while Seattle and Portland use maximum landing weight.

Landing fee changes 2013 to 2017:

- Anchorage increased from \$2.22 to \$2.52 per 1,000 pounds maximum takeoff weight
- Seattle increased from \$3.15 to \$3.57 per 1,000 pounds of maximum landing weight
- Portland increased from \$3.23 to \$3.36 per 1,000 pounds of maximum landing weight
- Vancouver decreased from \$2.48USD to \$1.72USD per 1,000 pounds of maximum takeoff weight

Note: the exchange rate US to Canadian dollars was about 1:1 in 2013 and in Feb 2017, 0.77:1.

Motor Fuel Tax Background

Background:

Alaska levies a motor fuel tax on motor fuel sold, transferred, or used within Alaska. The Division collects motor fuel taxes primarily from wholesalers and distributors that hold “qualified dealer” licenses issued by the Department. There are four basic types of motor fuel taxes: diesel, gasoline, aviation, and gasohol. End users can claim an exemption from this tax and receive a refund if the motor fuel was used for exempt purposes (like in state vehicles).

Tax Rates and Proposed Increase:

The tax increase will double motor fuel taxes in FY2018 and triple them in FY2019. After these increases Alaska’s tax rates will be near the average tax of all 50 states and DC.

Motor Fuel Tax Rates (Cents Per Gallon)			
Tax Type	Current Tax Rate	FY2018 Tax Rate	FY2019 Tax Rate
Highway Fuel	\$0.08	\$0.16	\$0.24
Marine Fuel	\$0.05	\$0.10	\$0.15
Aviation Gasoline	\$0.047	\$0.094	\$0.141
Jet Fuel	\$0.032	\$0.064	\$0.096

Revenue will increase significantly over the next 2 years as the tax increase is phased in.

Projected Motor Fuel Tax Collections (In Millions)			
	Aviation Fuel	Highway & Marine Fuel	Total Collections
FY2017	\$4.7	\$35.5	\$40.2
FY2018 (Rates Double)	\$9.3	\$71.4	\$80.7
FY2019 (Rates Triple)	\$13.9	\$107.9	\$121.8

Aviation Fuel Tax:

Due to the federal restrictions, all revenue derived from aviation must be used on airport purposes. The increase in aviation gasoline and jet fuel revenues is dedicated for use on airports. Currently the state spends over \$28 million per year operating the 242 airports that it owns. The general funds being used to subsidize these airports can be replaced with aviation fuel tax proceeds to keep airports open.

Motor Fuel Tax Fund:

In addition to the tax increase, the Governor’s legislation proposes depositing all revenues from the motor fuel tax into a new Transportation Infrastructure and Maintenance fund. This fund will be used for airport, highway and Alaska Marine Highway System operations and maintenance.

Where Does the Money Go?	Total Collection in Millions	Percent of Total Tax (all types)	Source	Approx Total UGF Budget in Millions	% of Gap Bridged
100% of Aviation Gasoline Tax					
Airport Operations & Maintenance	\$ 9.2	12%	100% of Jet Fuel Tax	24	39%
Central Region Highways & Aviation	\$ 2.8				
Northern Region Highways & Aviation	\$ 4.8				
Southcoast Region Highways & Aviation	\$ 1.6				
94% of Highway Motor Fuel Tax 50% of Marine Fuel Tax					
Highway & Road Maintenance	\$ 62.5	78%	Tax	73	86%
Central Region Highways & Aviation	\$ 19.1				
Northern Region Highways & Aviation	\$ 32.1				
Southcoast Region Highways & Aviation	\$ 11.2				
2.4% of Highway Motor Fuel Tax					
Roadway Safety	\$ 1.5	2%		1.5	100%
Department of Public Safety - Alaska Bureau of Highway Patrol	\$ 1.5				
3.2% of Highway Motor Fuel Tax					
Transit / Buses	\$ 2	2%		2	100%
Coordinated Transportation Services for Elderly/Disabled (Capital Budget)	\$ 1				
Public & Community Transportation State Match (Capital Budget)	\$ 1				
50% of Marine Fuel Tax					
Marine Transportation	\$ 5.1	6%	Tax	88.7	6%
Marine Highway System - Marine Vessel Operations	\$ 2.4				
Grant to Inter-island Ferry Authority (Ketchikan/Hollis route)	\$ 0.3				
Municipal Harbor Facility Grant (Harbor Repair)	\$ 2.5				

**After the first increase, Alaska will collect \$80.7 million
(current collections & increase) from the following sources**

