

HB 102 / SB 41
Suspending Motor Fuel Tax

Highlights

Thank you for your interest in the Governor's legislation regarding suspending Alaska's motor fuel tax for the next two years. The tax suspension is one of many efforts this administration is putting forward to improve the economic health of Alaskans. The motor fuel tax suspension will provide immediate tax relief to nearly every citizen in every community across the state.

The actual amount of money saved by Alaskans will vary depending on the type of fuel being purchased; for example, consumers should save eight cents per gallon when fueling their vehicles, five cents per gallon for marine fuel and 4.7 cents per gallon for aviation fuel.

Many Alaskan communities face the highest energy costs in the nation. Motor fuel tax relief is one step in our effort to improve Alaska's daily living expenses. While suspending the motor fuel tax would provide a temporary reduction in the cost of motor fuel, additional efforts are being introduced for long term solutions to high energy costs.

- Leave more money in Alaskan's pockets
- One dollar is circulated 5 – 8 times in Alaska's economy
- Alaskans will save \$35-40 million each year of the suspension

FAQ's:

Will suspending the motor fuel tax impact Alaska's federal highway funding?

Suspending the motor fuel tax will not impact Alaska's federal highway funding. The taxes go into the general fund. There is no dedicated fund to highways. Motor fuel tax dollars are just as likely to be spent on a capital project for a building or for any of the hundreds of expenditure types that come out of the state general fund.

- Alaskans do invest funds in transportation
FY11 Operating budget is \$327.9 GF over half of the total operating budget of \$585.5

FY11 Capital Budget \$62.0 GF and an additional \$54.6 in GF match

FY12 Operating budget is \$328.5 total operating is \$585.4

FY12 Capital budget is \$36.9 with an additional \$65.1 in match

- On average since 2000, we have spent \$240 million annually between the Departments of Transportation and Commerce on transportation. That's roughly \$400 per person. Gas prices would have to be \$32 per gallon to fund Alaskans transportation program if it was funded solely through gas taxes. Last year we spent \$360 million and have 691,000 people so it was \$521 per person.
- The federal government still receives gas taxes
- There is no federal requirement that states must collect a gas tax to support transportation

Will the consumer see the savings at the pump?

Studies from MIT indicate that most of the savings from gas tax suspensions are passed onto the consumer. When Alaska suspended the gas tax in 2008 there was a roughly 8 cent a gallon decrease in

gasoline prices in Anchorage the day the tax was suspended. We cannot verify perfectly that every cent of the tax suspension was passed onto consumers but the one thing that is certain is that Alaskan consumers will pay nearly \$35-\$40 million dollars in taxes that are not necessary to collect at this time.

- The 2008 motor fuel tax suspension showed great success as motor fuel prices at the pump dropped by eight cents almost immediately when the suspension went into effect. On the same account, motor fuel prices increased by eight cents immediately after the suspension ended.

How will this tax suspension actually help Alaska's economy?

Certain sectors of our economy tend to benefit more from gas tax suspensions. Alaska's largest private employer, the fishing industry will benefit significantly from the tax suspension. Trucking and airline companies that pay the tax and the consumers that buy the goods those entities deliver will also benefit. Long distance commuters will also see higher than average savings.

Will Congress retaliate against Alaska for a gas tax suspension?

Unlikely. Several states that suspended their gas tax before the passage of SAFETEA-LU in 2005 actually saw an increase of federal highway aid funds of roughly 20-30% from previous levels. Presumably, state tax policy is a matter of state's rights that Congress will respect.

Bullet points:

- Alaska has the second highest retail price of gasoline in the country.
- The \$35-\$40 million that would have been raised by the tax would go back into people's pockets and generate more in their local economies – spending on groceries, clothing, or other necessities with a multiplier of 5-8.
- Suspension for only two years – it has been suspended before and was reinstituted.
- Currently tax revenues go into the general fund and can be expended on anything.
- Alaska puts a lot of General Fund money into transportation infrastructure. An average of \$4,000 per person. 80 times more than what they spend at the pump in current fuel tax. Gas would cost \$32 per gallon if we taxed Alaskans at the pump to pay for just the state portion of the transportation program.
- The average person would see a direct \$58 in personal relief and more when you consider the decrease in the cost of goods and travel. (\$35 million/600,000 people) Money in the hands of an individual has a multiplier effect in the marketplace – 5-8 times. So \$35 million in the hands of small businesses and individuals could boost our economy to have an impact of \$175-\$280 million dollars.