Delta in Alaska and impact of Jet Fuel Tax

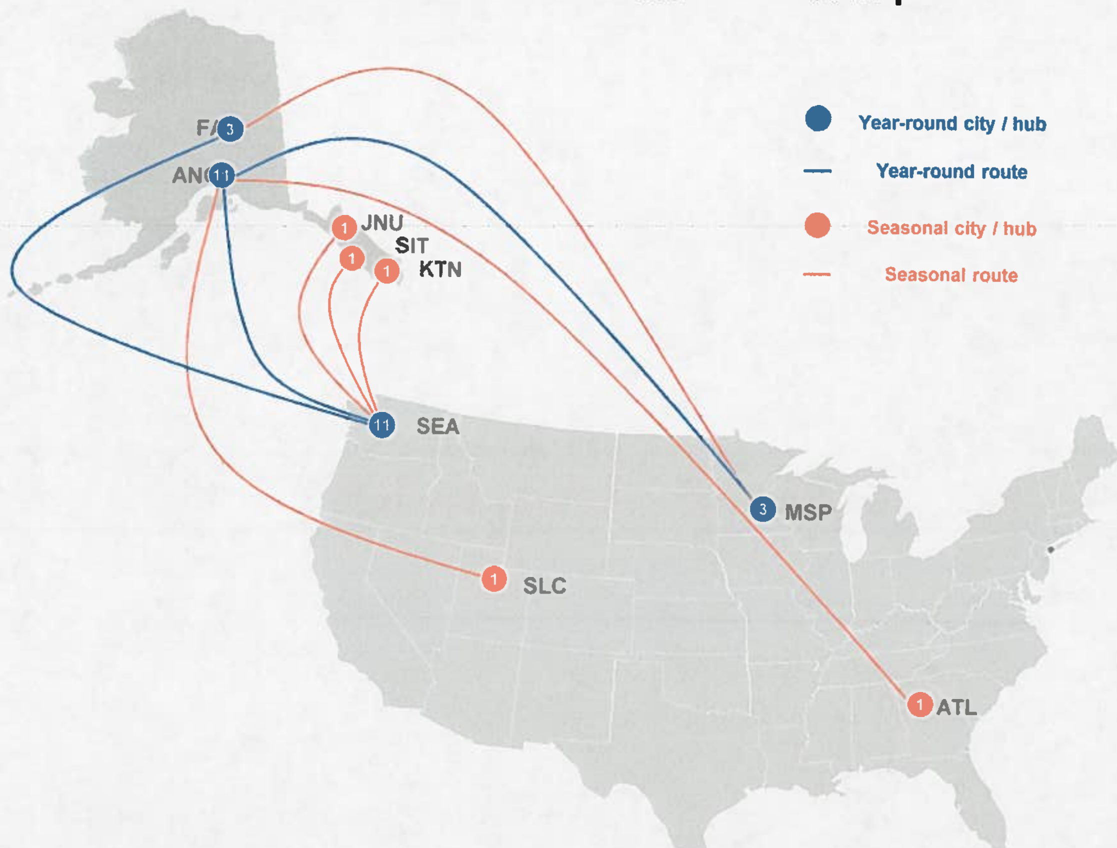
Dana Debel
Managing Director, State and Local Government Affairs

DELTA

Delta's 2017 State of Alaska Service

Delta will operate 17 peak day flights to Alaska in July 2017

2017 Delta Alaska Summer Route Map



Delta will operate nearly 3,000 peak day seats on 9 routes in/out of Alaska

City	Hub	Flights	Seats
ANC	ATL	1	261
	MSP	3	597
	SEA	6	1060
	SLC	1	160
FAI	MSP	1	199
	SEA	2	340
JNU	SEA	1	160
KTN	SEA	1	69
SIT	SEA	1	69
Total		**17**	**2,915**

Employment, Impact and Concern

1. Delta and it's connection carriers employ up to 110 employees in Alaska during the peak summer travel

1. Delta purchases on average $19 Million annually in goods and services in Alaska, and pays millions in landing fees to operate at Alaska airports today.

2. Through connection to our hubs in SEA, SLC, MSP and ATL, Alaska is only one-stop away from over 600 destinations on 5 continents. With our Joint Venture partners of KLM, Air France, Virgin Atlantic, Virgin Australia and AeroMexico, the reach expands.

3. The proposed tax increase only compounds the already challenging competitive environment to serve because of cost, and the proposed tax exacerbates that situation.

Alaska
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January 30, 2017

Senator Bert Stedman
Chair, Senate Transportation Committee
State Capitol
Juneau, Alaska 99801

RE: Taxation of Motor Fuels

Dear Senator Stedman:

Alaska Airlines has provided critical air service to Alaskans for 85 years, serving 19 communities across the entire state, with only three connected to the road system. We are the largest commercial carrier in the state, and the only one providing statewide jet service for both passengers and cargo. Due to the reasons explained below specific to Alaska Airlines, we must oppose the Governor's proposed legislation to double the state tax on jet fuel effective July 1, 2017, and then triple the current tax, effective July 1, 2018.

We recognize the fiscal challenges facing the state of Alaska, and fully understand that businesses and residents, including our 1,825 employees that call Alaska home, have to be involved in the necessary solutions. This fuel tax increase, though, would impact much needed commerce as well as basic and vital needs in the state. In many cases, we are the primary means to transport essential commodities into a town, and for residents to access larger urban areas for critical needs such as medical care.

Based on the 2016 taxable jet fuel figures from the Alaska Department of Transportation, our calculations suggest that Alaska Airlines would pay a disproportionally high amount, approximately 45%, of the total of new taxes collected. At the same time, with the proposed increases, by fiscal year 2019 airlines doing business in the state of Alaska will pay more for jet fuel than in 35 other states.*

Alaska Airlines' unique relationship with the state of Alaska extends to actual aviation infrastructure. For decades, we have owned and maintained 11 passenger terminal facilities in rural Alaska communities. In virtually any other location, such facilities would be provided by municipal or state government entities. As a result, the State of Alaska has never incurred any expense related to these essential terminals in these 11 air transportation-dependent communities.

Even in the face of troubling state economic challenges, Alaska Airlines has made a commitment to invest $100 million in the next few years throughout Alaska in our 2020 Great Land Investment Plan. Upgrades to the 11-owned terminals previously referenced has begun, work on a new maintenance and engineering facility in Anchorage will begin this summer, and

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we will introduce three modern 737 dedicated freighters to our fleet in 2017 for use throughout Alaska.

We appreciate that the work ahead of you will be challenging and the decisions difficult. While new revenue may be needed to close the fiscal gap, we respectfully ask that you consider the unintended consequences of a doubling, then tripling of the jet fuel tax, impacting a single, critical component of the state's infrastructure. Alaska Airlines opposes this latest proposal and welcomes the opportunity to discuss the impacts with you further

Sincerely,

Marilyn Romano

Marilyn Romano
Regional Vice-President, Alaska

*Tax Foundation, 2014 Data

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February 1, 2017

The Honorable Pete Kelly
President of the Senate
Alaska State Legislature
Juneau, AK 99801

The Honorable Bryce Edgmon
Speaker of the House
Alaska State Legislature
Juneau, AK 99801

Dear Sen. Kelly and Rep. Edgmon:

On behalf of Airlines for America (A4A)[1] – the oldest and largest trade association of domestic passenger and cargo airlines – I am writing to respectfully express our opposition to the mirror bills relating to the taxation of motor fuels that were transmitted by Governor Walker to the Senate and the House on December 15, 2016. A4A believes these bills, which would raise Alaska's excise tax on jet fuel to 9.6 cents per gallon (cpg) by 2018, would not only place an unfair burden on our carriers but also harm Alaska's economy and competitiveness. We opposed similar legislation last year and reiterate our position that tax increases on jet fuel are bad policy and bad for Alaska.

As you know, commercial aviation is vital to the economic health of Alaska. According to the Federal Aviation Administration, more than 12 percent of the state's jobs (about 56,000), are tied to commercial aviation – ranking third in the country (behind Hawaii and Nevada). Further, approximately 7 percent of the state's economy is tied to commercial aviation – ranking fourth in the country (behind Hawaii, Nevada, and Arizona).

While Alaska's current excise tax of 3.2 cpg seems relatively low, there are 20 states that tax jet fuel at overall lower rates. The state's nearest neighbors in the Pacific Northwest impose similar effective tax rates on jet fuel: 3 cpg in Oregon and 2.4 cpg in Washington. Meanwhile, Delaware, Ohio, and Texas do not tax jet fuel at all, and another 7 states do not impose sales or excise taxes on jet fuel.

Raising the excise tax to 9.6 cpg would make Alaska's jet fuel tax the 15th most burdensome in the country, which could have a devastating impact to a state so heavily reliant on travel and tourism. As airline costs – like taxes – increase, the number of departing seats can decrease. Air service reductions typically lead to reduced travel and trade – and ultimately fewer jobs – thereby damaging the economy.

[1] A4A members include: Alaska Airlines, Inc., American Airlines, Inc., Atlas Air, Inc., Federal Express Corp., Hawaiian Airlines, JetBlue Airways Corp., Southwest Airlines Co., United Continental Holdings, Inc., and UPS Airlines; Air Canada is an associate member.

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In addition to general opposition to a tax hike, A4A has concerns about the use of fuel tax revenue. For 30 years, Congress has prohibited taxes on aviation fuels unless the proceeds are used for airport capital or operating costs or state aviation programs (49 U.S.C. section 47133). The only exception to the law applies to fuel-related taxes that were levied prior to 1987, which are grandfathered. However, if a tax existed before 1987 and afterward the tax is raised, that increase is not grandfathered. Although state law provides for jet fuel taxes to be directed toward aviation, A4A is concerned that if the fuel excise tax is increased, the overall increased revenue will not flow to aviation because of the state's fiscal situation.

A4A greatly appreciates the chance to comment on this important matter. We would be happy to speak or meet with you or your staff if you would like to discuss this further. Thank you for your time and consideration.

Sincerely,

Jon Almeras
Managing Director, Taxes
Airlines for America

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Louisville, KY 40223
502.329.3000 Tel

February 1, 2017

Governor Bill Walker
PO Box 110001
Juneau, AK 99811

Dear Governor Walker:

UPS appreciates our long-standing working relationship with Alaska, and we're proud to employ more than 1,100 UPSers in the state, including 489 of our pilots who are domiciled there. No matter where we operate, we strive to play our part in the local economy as a responsible corporate citizen. UPS currently pays $6 million in taxes each year and more than $7 million in landing fees annually to cover airport costs incurred at Ted Stevens International Airport.

Two components of Alaska's proposed motor fuel tax bill, however, stand to directly impact UPS. While we support a motor fuel tax increase to fund infrastructure building and repair, we strongly oppose the jet fuel tax increase contained in the same bill.

As we see it, the motor fuel tax portion is purely a user fee. UPS uses all the roads in Alaska and absolutely believes that we should pay our fair share for infrastructure. Alaska also currently has one of the lowest motor fuel tax rates in the nation. It is obviously difficult to fund 2017 transportation needs with 1970s funding; for this reason, UPS is supportive of the motor fuel tax increase.

The jet fuel tax increase, though, is not a user fee. In fact, it would effectively tax UPS twice.

UPS already pays more than $7 million dollars annually in aviation user fees in the form of landing fees incurred at Ted Stevens International Airport. These fees go directly into the aviation infrastructure where we operate (Anchorage). In fact, the Alaska International Airport System is self-sustaining due to the landing fees paid by its users. This means the current fuel tax generated is paying for smaller airports, which UPS doesn't utilize, and which do not charge landing fees to sustain their airport. The proposal to triple the jet fuel tax is asking UPS and other carriers to subsidize airports we do not use.

We also believe increasing the jet fuel tax could impact Alaska's role in the cargo industry. Currently, it is situated perfectly as UPS's gateway to and from Asia. We have a good relationship with the airport, and Alaska has always had a fair cost of doing business. As aircraft continue to evolve, flying longer ranges with better payload capacity, it is safe to assume those in the cargo industry will continue to evaluate the most efficient options for each carrier's network.

We understand the difficult situation you and other lawmakers are facing and we appreciate the work you are doing for your constituents, including our own UPSers. While we support the motor fuel tax increase, I hope you understand our concerns to increase the jet fuel tax. We aren't opposed to paying user fees for infrastructure we use, but subsidizing other airports we don't use and who do not levy landing fees is not a sustainable way to fund Alaska's aviation infrastructure.

Nick D'Andrea

Nick D'Andrea
Vice President, UPS Public Affairs