

# FISCAL NOTE

STATE OF ALASKA  
1999 LEGISLATIVE SESSION

No. 2  
Bill Version: SB 39  
(S) Publish Date: 1/21/99

Revision Date/Time (Note if correction) January 14, 1999 Dept. Affected Revenue  
Title Motor Fuel Tax BRU Revenue Operations  
Component Income and Excise Audit  
Sponsor Rules  
Requester Governor Component Serial No. 113

**Expenditures/Revenues** (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Personal Services	66.6	66.6	66.6	66.6	66.6	66.6
Travel	3.0	3.0	3.0	3.0	3.0	3.0
Contractual	6.0	2.5	2.5	2.5	2.5	2.5
Supplies	1.0	1.0	1.0	1.0	1.0	1.0
Equipment	6.5					
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>83.1</b>	<b>73.1</b>	<b>73.1</b>	<b>73.1</b>	<b>73.1</b>	<b>73.1</b>

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES ( )</b>	<b>26,521.2</b>	<b>29,501.9</b>	<b>30,073.6</b>	<b>30,651.4</b>	<b>31,235.4</b>	<b>31,825.6</b>
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**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	83.1	73.1	73.1	73.1	73.1	73.1
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
<b>TOTAL</b>	<b>83.1</b>	<b>73.1</b>	<b>73.1</b>	<b>73.1</b>	<b>73.1</b>	<b>73.1</b>

Estimate of current year (FY99) cost: 0.0

**POSITIONS**

Full-time	1	1	1	1	1	1
Part-time						
Temporary						

**ANALYSIS:** (Attach a separate page if necessary)

This fiscal note includes operating expenditures for one Revenue Auditor and the position's associated travel, contractual, supply and one-time equipment costs.

Further analysis of this legislation follows on pages 2 - 4.

Prepared by Brett Fried, Economist Phone 465.3682  
Division Income and Excise Audit Date/Time January 14, 1999  
Approved by Wilson L. Condon Date January 14, 1999  
Commissioner  
Agency Department of Revenue

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*Income and Excise Audit Division*

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**BILL ANALYSIS**

**Section 1** increases the tax rate on highway motor fuel from 8 cents a gallon to 17 cents a gallon.

**Section 2** does not affect the seasonal gasohol tax rate reduction. The seasonal tax rate reduction on gasohol is six cents less than the highway motor fuel tax rate (for November-February in the Anchorage area). Consequently, if this bill passes the tax rate on gasohol will be 11 cents a gallon for the months November through February in the Anchorage area.

**Section 3** changes the name from "highway fuel tax account" to the "highway construction and maintenance" account. Although money in this account is available for appropriation, the bill recommends that the money in the account be appropriated "first directly or as matched with available federal-aid highway money for planning, design, and construction of highway projects, ferries, and ferry terminals for construction of highway projects and second for secondary road paving and deferred maintenance projects."

**Section 4** includes the name change discussed in Section 3.

**Section 5** increases the off-road refund from 6 cents a gallon to 13 cents a gallon. Consequently, if the bill passes, taxpayers who receive this refund will pay a net tax rate of 4 cents a gallon.

**Section 6** includes the name change discussed in Section 3.

**Section 7** adds a new section that grants specific authority to the Commissioner of Revenue to assess civil penalties, revoke licenses, and require payment of restitution as a result of violations of motor fuel tax laws and regulations.

**Section 8** clarifies which institutions qualify for the charitable institution exemption.

**Section 9** establishes an effective date of July 1, 1999.

**OPERATING EXPENDITURES**

The Department of Revenue is requesting operating funds to cover the costs of a Revenue Auditor III position. With such a large increase in taxes due the state (increase from \$24 to \$53 million in the first complete year of the tax rate change) the department anticipates increased taxpayer noncompliance.

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With significantly higher levels of tax, it is possible that taxpayers will look for loopholes. Certainly, the increase in the tax rate makes the use of refunds more attractive. These include exempt fuel (e.g., exported fuel, heating fuel and government fuel), fuel conversions and off-highway refunds. This position will be responsible for ensuring that all taxpayers are identified and are paying the proper amount of tax. The projected annual salary costs for this position comes to \$66,600.

The department is also requesting one-time FY 2000 funding of \$6,500 for equipment and \$3,500 for start-up contractual costs. The recurring costs will be \$6,500 annually to cover travel, contractual and supplies.

### REVENUE

The attached analysis details the revenue increase due to changes in motor fuel tax rates. We did not include a factor for increased noncompliance or decreased consumption due to the increase in the tax rate. An elasticity factor was not included for the following three reasons:

- (1) The elasticity of motor fuel gas and diesel tends to be small in the first few years (changes in the motor vehicle stock take a relatively long time).
- (2) The percent change in price due to the tax rate increase is small relative to other factors (e.g., changes in crude oil prices).
- (3) The percent change in price due to the tax increase is small relative to the total cost of operating a motor vehicle.

We did not include a factor for noncompliance because we have no way of estimating the potential effect. We did change our revenue estimates from the first motor-fuel-tax fiscal note to reflect the strong positive correlation between population and motor fuel revenue.

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FY 98 PRELIMINARY ACTUALS\*

	GALLONS		TOTAL	REVENUE		TOTAL
	GAS	DIESEL		GAS	DIESEL	
Taxable Gallons (@ \$.08/gallon)	200,966,030	58,603,028	259,569,058	\$16,077,282	\$4,688,242	\$20,765,525
Gasohol (@ \$.02/gallon)	34,441,847	0	34,441,847	688,837	0	688,837
Off-Highway (@ \$.02/gallon)	3,073,190	120,435,379	123,508,569	61,464	2,408,708	2,470,171
<b>Total FY 98</b>	<b>238,481,067</b>	<b>179,038,407</b>	<b>417,519,474</b>	<b>\$16,827,583</b>	<b>\$7,096,950</b>	<b>\$23,924,533</b>

\* Although the total FY 98 revenue (\$23.9 million) corresponds exactly to the amount of revenue received in FY 98, all the other gallon and revenue amounts are unreconciled estimates.

TAX RATE INCREASE PROJECTIONS

Population Factor	PROJECTED REVENUES					
	FY 2000*	FY 2001 1.0108	FY 2002 1.0107	FY 2003 1.0107	FY 2004 1.0107	FY 2005 1.0107
Taxable Gallons (@ \$.17/gallon)	\$42,180,751	\$44,603,309	\$45,080,564	\$45,562,926	\$46,050,450	\$46,543,190
Gasohol (@ \$.11/gallon)	3,530,393	3,829,520	3,870,496	3,911,910	3,953,768	3,996,073
Off-Highway (@ \$.04/gallon)	4,734,577	4,993,698	5,047,131	5,101,135	5,155,717	5,210,883
<b>Total</b>	<b>\$50,445,721</b>	<b>\$53,426,527</b>	<b>\$53,998,191</b>	<b>\$54,575,971</b>	<b>\$55,159,934</b>	<b>\$55,750,146</b>

**NET INCREASE OVER FY 98**      26,521,188      29,501,994      30,073,658      30,651,439      31,235,401      31,825,613

\* Because the new rates would become effective on July 1, 1999, they would only be applicable for eleven months. Consequently, the FY 2000 estimate includes one month at the old rates and eleven months at the new rates.

**ASSUMPTIONS - (1) Highway gas and diesel consumption patterns in FY 00 are the same as those in FY 98 (e.g. no decrease in consumption due to tax increase), (2) no stockpiling of lower tax gas and diesel, (3) no increase in noncompliance and (4) population increases at the rates shown.**