

HOUSE FINANCE COMMITTEE
April 14, 2003
1:41 P.M.

TAPE HFC 03 - 57, Side A
TAPE HFC 03 - 57, Side B

CALL TO ORDER

Co-Chair Williams called the House Finance Committee meeting to order at 1:41 P.M.

MEMBERS PRESENT

Representative John Harris, Co-Chair
Representative Bill Williams, Co-Chair
Representative Kevin Meyer, Vice-Chair
Representative Eric Croft
Representative Richard Foster
Representative Mike Hawker
Representative Reggie Joule
Representative Carl Moses
Representative Bill Stoltze
Representative Jim Whitaker

MEMBERS ABSENT

Representative Mike Chenault

ALSO PRESENT

William Corbus, Commissioner, Department of Revenue; John MacKinnon, Deputy Commissioner, Highways and Public Facilities, Office of the Commissioner, Department of Transportation & Public Facilities; Kevin Ritchie, Alaska Municipal League, Juneau; Linda Sylvester, Staff, Representative Bruce Weyhrauch; Mark Johnson, Chief, Community Health and Emergency Medical Services, Department of Health and Social Services

PRESENT VIA TELECONFERENCE

Robynn Wilson, Tax Auditor, Department of Revenue; Mike Folkerts, Recreational Boating Safety, U.S. Coast Guard; Chuck Hosack, Deputy Director, Division of Motor Vehicles, Department of Administration

SUMMARY

HB 93 An Act relating to boating safety; repealing secs. 3, 5, 7, 9, 11, 14, 16, 18, 20, 23, 26, 27, and 30, ch. 28, SLA 2000; and providing for an effective date.

HB 93 was HEARD and HELD in Committee for further consideration.

HB 156 An Act increasing the motor fuel tax and repealing the special tax rates on blended fuels; and providing for an effective date.

HB 156 was HEARD and HELD in Committee for further consideration.

#HB156

HOUSE BILL NO. 156

An Act increasing the motor fuel tax and repealing the special tax rates on blended fuels; and providing for an effective date.

Co-Chair Williams noted that it was not his intention to move HB 156 from Committee at this meeting.

WILLIAM CORBUS, COMMISSIONER, DEPARTMENT OF REVENUE, stated that under the authority of article III, section 18, of the Alaska Constitution, HB 93 would increase the State's highway motor fuel tax rate from 8 cents a gallon to 20 cents a gallon and repeal the special rate for gasohol.

Commissioner Corbus noted that in order for Alaska's economy to grow and diversify, the State must expand and improve the transportation infrastructure. Alaska must adequately fund highway construction and maintenance activities. Currently, Alaska spends nearly \$50 million per year in general fund dollars to match the Federal Highway Capital Program and nearly \$60 million dollars per year on maintenance.

At the current eight cents per gallon, Alaska's highway motor fuel tax rate is now the lowest in the nation. Even after the proposed increase, thirty-eight states would have higher rates, and Alaska's fuel tax would be at the 20-cent national average. Had the tax rate been indexed for inflation when it was initiated in 1961, it would be nearly two and a half times the rate proposed in the bill.

Commissioner Corbus pointed out that under existing law, revenue from the motor fuel tax used on roads and highways is deposited in a highway fuel tax account in the general fund. That fund is available for maintenance and construction of highway projects and ferries.

HB 156 would delete AS 43.40.010(a)(4) and AS 43.40.010(b)(4), which provide a special tax rate for blended fuel. Working with industry and private citizens, Alaska no longer requires the use of oxygenated fuels to meet air quality standards. However, the U.S. Environmental

Protection Agency requires that the State be able to rapidly re-impose a requirement for the use of oxy fuels should the air quality deteriorate. The proposal represents a user-pays approach to expanding and improving the transportation infrastructure.

Representative Foster pointed out that since the revenue would be used for improvements of the roads and highways, would the village areas be exempt from the motor fuel tax since there are no roads in those areas. Commissioner Corbus advised that Department of Transportation & Public Facilities would need to respond to that concern.

Co-Chair Harris observed that there are a number of modes of transportation throughout the State such as the Alaska Marine Highway system and the associated truckers, which an increase in fuel tax would hit hard. He asked about the "fairness" of the proposal. Commissioner Corbus could not responded to those issues.

Vice-Chair Meyer inquired if it were possible that the proposed legislation could hurt the State's economy. He noted that the trucking industry currently works on a "thin" margin. Commissioner Corbus acknowledged that the proposed legislation would create an increased cost in doing business for the transportation industry. However, he added that the consequences of not addressing the current fiscal concerns are more serious than those costs.

Vice-Chair Meyer asked if the cars now using natural gas would be exempt. Commissioner Corbus did not know.

Representative Hawker pointed out the Governor's opposition to the House Transportation version of the bill. He asked what specific changes were needed to warrant support. Commissioner Corbus explained that version does not create the immediate revenues needed by the State. The transportation version would create no revenue for FY04 and only a small amount for FY05. He reiterated concerns regarding the cash flow.

Representative Moses asked if the Administration would support an increase to sixteen cents a gallon, giving eight cents per gallon back to the municipalities to maintain their roads. Commissioner Corbus responded that the Administration's position is that the State needs enhanced revenues and lower expenditures. If the State can determine a way to hold the deficit at a point outlined by the Governor, then the Administration will be receptive to changes.

Co-Chair Harris asked if Commissioner Corbus was referring to the section of the bill which would not take effect unless a Constitutional amendment was added addressing a

dedicated fund. Commissioner Corbus acknowledged that was correct.

Co-Chair Harris questioned if the Department had considered an increase to the marine fuel tax as a revenue source for assuming the small boat harbors. Commissioner Corbus noted the emphasis behind HB 156, attempts to pay for highway maintenance costs. He added that the fuel tax for marine vessels would be a different consideration.

Co-Chair Harris clarified that the emphasis of the Administration is to place some money into highway maintenance, replacing general funds in that category with other funds. In that situation, it would be a tax increase and a decrease on the amount of the draw to the Constitutional Budget Reserve (CBR). Commissioner Corbus agreed.

Representative Joule understood that the Administration does not support HB 156 being tied to another constitutional dedicated fund amendment. He asked if the Administration would support dedicated funds outside of the bill. Commissioner Corbus replied that he did not know the Administration's position regarding that concern. He offered to find out and get back to Committee members.

ROBYNN WILSON, TAX AUDITOR, DEPARTMENT OF REVENUE, responded to the question from Representative Foster about the exemption of the village areas from the tax. She clarified that for off-road use, the user would be entitled to a refund. Under present law, the off-road user is entitled to six cents of the eight cents per gallon; under the proposed legislation, the user would be entitled to a discounted price per gallon.

Representative Joule asked about the eligibility process for the rebate, collecting receipts throughout the year. He inquired the rebate amount expected to be received for the twenty-cent gas tax.

Ms. Wilson explained that the purchaser would have to collect their receipts and submit them as often as was convenient for them throughout the year. They could file once a month or yearly; there is no statutory requirement regarding how often they must file as long as it is that same one-year period. The proposed version of the bill offers a refund of eighteen cents per twenty cents paid. The net effect will be the same as the amount currently being paid by the user.

Representative Joule asked if the age and/or type of the vehicle would matter if they were classified as off road vehicles. Ms. Wilson responded that the age or type of the vehicle does not matter except that the vehicle must be

licensed to not be used on public ways. She added that in some of the more remote areas, no requirement exists that the vehicle be licensed and that absolutely, the off-road refund would be granted.

Representative Joule questioned if many people had pursued getting reimbursement on the tax paid. Ms. Wilson replied that the claims are somewhat "spotty". She added, it is difficult to quantify because the user can accumulate receipts for extended periods of time before sending them in. She did not have specific information.

Co-Chair Williams requested further information regarding sharing of tax revenue among the municipalities.

JOHN MACKINNON, DEPUTY COMMISSIONER, HIGHWAYS AND PUBLIC FACILITIES, OFFICE OF THE COMMISSIONER, DEPARTMENT OF TRANSPORTATION & PUBLIC FACILITIES, pointed out that idea had been suggested by the Alaska Municipal League (AML), which he thought would be a policy call of the House and Senate. Mr. MacKinnon did not believe that the Administration would support the idea.

Since 1991, when the legislation was passed on a national level, there were federal highway funds to be used on municipal roads, an ability granted to Puerto Rico and Alaska. No other state in the Union was allowed that option. In 1991, when the program first started, there was \$200 thousand dollars put into the federal highway fund, federal gas tax for the municipal roads. In 2002, the amount was over \$72 million dollars. Mr. MacKinnon emphasized that there has been a significant increase of federal money put into municipal roads.

Representative Croft inquired about the refund for those Alaskans living rurally. Ms. Wilson explained that there is a form available on the Department's web site; otherwise, the Department can mail out the forms upon request. She pointed out the five cents per gallon marine tax.

Representative Croft understood that the federal highway money was to be used for construction not maintenance. Mr. MacKinnon explained that was technically correct, however, in practice that is not the way it happens. There is a fine line between what is construction and what are maintenance costs. Some State programs use federal construction monies.

Co-Chair Harris questioned the "fairness" of the proposed legislation to the Alaska Marine Highway system and the trucking industry. Mr. MacKinnon did not believe that the tax would apply to the marine highway, as he did not think that the State could tax a State entity and that the legislation does exempt State and federal agencies from

paying. Mr. MacKinnon understood that there was an amendment that would apply to the Alaska Railroad.

Co-Chair Harris asked if the Administration was contemplating an increase to the marine fuel tax in order to help communities take over the maintenance and operations of the boat harbors. Mr. MacKinnon advised that at present, the Administration is not looking at that. The Administration is considering the longstanding program of boat harbors, rebuilding and bringing them up to standard and then transferring the maintenance and operations to the municipalities.

Representative Stoltze noted that he had questions for the Department of Education & Early Development regarding pupil transportation. He commented that the legislation would add costs to that concern. Representative Stoltze requested that the Department of Education & Early Development be present at the next meeting.

Vice-Chair Meyer understood that the Department of Education & Early Development would be exempt from the legislation. Representative Stoltze pointed out the number of private contractors involved with pupil transportation moving.

Vice-Chair Meyer asked if natural gas burning fuel would be exempt. Mr. MacKinnon believed it would be exempt. He offered to get back to the Committee regarding that concern. Ms. Wilson added that there is currently an exemption in the motor fuel tax law, which exempts liquefied petroleum gas.

Representative Foster commented that the general fund portion of the Department of Transportation & Public Facilities budget last year was \$97 million dollars. He asked how much would the eight cents per gallon raise. Mr. MacKinnon understood that it would raise approximately \$28 million dollars.

Representative Stoltze inquired if there was a concept for "kicking" back to the municipalities and how it would be determined. Ms. Wilson explained that the manner in which current statute is written, the tax is collected at the wholesale level. There would be no recording of where the fuel was sold retail. If there is municipal sharing, there would need to be some sort of recording requirement from the distributors.

KEVIN RITCHIE, ALASKA MUNICIPAL LEAGUE, JUNEAU, stated that in the Alaska Municipal League (AML) policy statement, AML supports an increase in motor vehicle registration fees and motor vehicle fuel taxes as long as:

- Fuel tax and vehicle registration fees are used to fund State and municipal highway road operation, maintenance, and improvements; and
- The motor vehicle fuel tax and vehicle registration fees are shared on an equitable basis between local and State government based on the proportion of local vs. State maintained roads.

Representative Joule reiterated his concern for the smaller village communities, which are already paying a high price for gas. Mr. Ritchie acknowledged that there are many people that do not support a gas tax and that AML would like to work with them. One of the advantages of a gas tax over a sales tax is that percentage tax penalizes commodities in different parts of the State. One of the advantages of a gas tax, is that it is more equitable.

Representative Croft introduced Amendment #1, #23-GH1118\H.1, Kurtz, 4/14/03. (Copy on File).

Representative Croft stated that the amendment would help to address concerns voiced by Mr. Ritchie. The amendment would clarify that if revenue sharing is fully funded, then the entire amount of the tax could be collected. If less is sent to municipalities, the amount that can be collected would decrease.

Representative Joule spoke to Amendment #2, #23-GH1118\H.2, Kurtz, 4/14/03. (Copy on File).

Representative Joule noted that the amendment would exempt rural areas not connected to the main road system from being taxed.

Representative Joule questioned if HB 156 had received a referral to the Ways and Means Committee for discussion and inclusion in the statewide fiscal plan. Co-Chair Williams noted that at this time, it had not received that referral.

Co-Chair Williams stated that HB 156 would be HELD in Committee for further consideration.

#HB93

HOUSE BILL NO. 93

An Act relating to boating safety; repealing secs. 3, 5, 7, 9, 11, 14, 16, 18, 20, 23, 26, 27, and 30, ch. 28, SLA 2000; and providing for an effective date.

LINDA SYLVESTER, STAFF, REPRESENTATIVE BRUCE WEYHRAUCH, testified that HB 93 was the reauthorization of the Boating Safety Act. She advised that the "form" of the bill was confusing. In 2000, HB 108, the Alaska Boating Safety Act,

sponsored by Representative Bill Hudson was passed. She noted that HB 93 had been introduced at the request of the Coast Guard.

Ms. Sylvester pointed out that the Act would eliminate the sunset provision. Additionally, if the steady funding does not come through, the program would be eliminated. The legislation guarantees that the funds are there and that the language, which would sunset the provision, would be eliminated.

She noted that the bill had been amended in the House Transportation Committee. That Committee eliminated the most controversial provision, the requirement for non-powered boats to be registered. The Coast Guard is "comfortable" with that change as is Representative Weyhrauch. The State of Alaska would be missing out on about \$39,000 dollars in registration fees that would be used to register non-powered boats, ten feet and over.

Representative Stoltze asked if the bill would allow for someone from out of State to bring a truck full of kayaks into Alaska, creating a little summer industry. He thought that could cost the Coast Guard a lot of money. Ms. Sylvester replied that would be allowed if those boats did not have a motor and were less than ten feet long.

Representative Joule asked if the umiaks from the northern Alaskan coastal communities would have to be registered.

Co-Chair Harris asked if it was automatic that the Coast Guard requires registration for any commercially used boat.

TAPE HFC 03 - 57, Side B

MIKE FOLKERTS, (TESTIFIED VIA TELECONFERENCE), RECREATIONAL BOATING SAFETY SPECIALIST, U.S. COAST GUARD, commented that the Coast Guard does support HB 93. The Coast Guard does carry on the Boating Safety Program under #131, Title 46, the United States Code. The goal is to encourage the states to assume the major role in providing the boater safety mission. Federal financial assistance to the state is provided through the boating safety account, Aquatic Resources Trust Fund, also known as the Wallop Trust Fund. Part of the eligibility requirement to receive the funding was achieved in HB 108. That bill was passed with a sunset clause that would allow the Legislature to revisit the law to assure that consistent and adequate funding was in place. HB 93 repeals that sunset allowing the law to become permanent. That action will help build a long-term program and reduce recreational boating fatalities.

Mr. Folkerts reiterated that the Coast Guard does support HB 93 and will maintain their relationship with the State of Alaska. He added that under current law, if the boat is over ten feet long, registration is required; however, under federal law that is not true unless the craft is powered.

Representative Stoltze inquired why the bill was not up for another sunset consideration. Mr. Folkerts responded that the benefit of the repeal would make the law permanent. He noted that there are a couple things within the law that need to be fixed and that once the law became permanent, then those concerns could be more inline with the federal requirements. He stressed that at this point, it is a "bare bones" law. If the law does sunset, the State could loose all their federal funding plus the registration money. The federal government, through Title 46, is required to transfer responsibility of the boating safety regulations to each state.

Representative Stoltze interjected that Mr. Folkerts testimony made him uncomfortable with anything more than a sunset. Representative Stoltze indicated that he would like to maintain a certain amount of control over the program in order to guarantee that the State can "revisit" any problems. He reiterated that he would prefer another extension.

Representative Croft asked if the bill would be held in Committee as he had concerns with the "non-motorized" issue. He stated that the non-motorized registration has been an overly burdensome requirement that frustrates people.

Co-Chair Harris referenced the fiscal note by the Department of Administration, pointing out the one increased part time position. Ms. Sylvester countered that the note indicates a decrease, not an increase of one position.

Representative Stoltze requested that the Coast Guard provide a breakdown of their rescue costs associated with both the non-motorized and motorized boats for the next scheduled meeting on the legislation. Mr. Folkerts responded that he would make that information available. Ms. Sylvester interjected that from evidence provided in other committee hearings, there is no justification to eliminate non-powered boats. She added that a person would be just as likely to drown on a non-powered boat as on a powered boat. The common risk factor is the "water". It would be a policy decision made by the State regarding whether to register the small "fun" crafts.

Co-Chair Harris noted that his staff had indicated from information supplied by the Coast Guard, that 25% of all boating fatalities from 1991-2000 were in non-motorized

craft. He stressed the significant impact on the Coast Guard rescue.

Representative Stoltze mentioned that there is growing resentment within his constituency, paying for programs that they do not like. He recommended that there should be some type of equity issue, forcing people to look at the value of the program.

MARK JOHNSON, CHIEF, COMMUNITY HEALTH AND EMERGENCY MEDICAL SERVICES, DEPARTMENT OF HEALTH AND SOCIAL SERVICES, noted that the Department of Health & Social Services supports the bill. He commented that the Department is particularly interested in seeing the deaths from drowning reduced. Prior to the legislation, there were approximately 29 drownings per year; since the legislation passed, that number has been reduced to approximately 16-21. Some of the money, which Alaska has become eligible for from the federal government, has been used in the Emergency Medical Services office in communities throughout the State for the "Kids Don't Float Program". Mr. Johnson concluded that boating safety is working statewide.

Co-Chair Williams asked the Department's view on motorized versus non-motorized boats. Mr. Johnson acknowledged that some drownings have resulted in the non-motorized vehicles. He agreed it would be a judgment call for the Legislature to make.

CHUCK HOSACK, (TESTIFIED VIA TELECONFERENCE), DEPUTY DIRECTOR, DIVISION OF MOTOR VEHICLES, DEPARTMENT OF ADMINISTRATION, pointed out that the Division has submitted a fiscal note indicating a decrease in the budget and a slight decrease in revenue in dropping the requirement to register non-motorized boats. He added that the part-time position should be indicated as a loss of one position. Mr. Hosack offered to answer questions regarding the program.

Co-Chair Williams stated that the bill would be HELD in Committee for further consideration.

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ADJOURNMENT

The meeting was adjourned at 2:42 P.M.