

**ALASKA STATE LEGISLATURE
HOUSE LABOR AND COMMERCE STANDING COMMITTEE**

July 11, 2008
9:01 a.m.

MEMBERS PRESENT

Representative Kurt Olson, Chair
Representative Mark Neuman, Vice Chair
Representative Carl Gatto
Representative Gabrielle LeDoux
Representative Jay Ramras
Representative Robert L. "Bob" Buch
Representative Berta Gardner

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

HOUSE BILL NO. 4004

"An Act suspending the motor fuel tax; and providing for an effective date."

- HEARD AND HELD

PREVIOUS COMMITTEE ACTION

BILL: HB4004

SHORT TITLE: SUSPENDING MOTOR FUEL TAX

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

07/09/08 (H) READ THE FIRST TIME - REFERRALS

07/09/08 (H) L&C, FIN

WITNESS REGISTER

JERRY BURNETT, Director
Administrative Services Division
Department of Revenue (DOR)
Juneau, Alaska

POSITION STATEMENT: Provided comments and answered questions during the discussion of HB 4004.

RANDY RUARO, Special Staff Assistant
Office of the Governor

Juneau, Alaska

POSITION STATEMENT: Provided comments and answered questions on HB 4004.

ACTION NARRATIVE

CHAIR KURT OLSON called the House Labor and Commerce Standing Committee meeting to order at 9:01:30 AM. Representatives Gatto, Ramras, Buch, Gardner, Neuman, and Olson were present at the call to order. Representative LeDoux arrived as the meeting was in progress.

HB4004-SUSPENDING MOTOR FUEL TAX

9:01:45 AM

CHAIR OLSON announced that the only order of business would be HOUSE BILL NO. 4004, "An Act suspending the motor fuel tax; and providing for an effective date."

9:02:08 AM

JERRY BURNETT, Director, Administrative Services Division, Department of Revenue (DOR), stated that HB 4004 would suspend the motor fuel tax from August 1, 2008 until August 1, 2009 for all types of motor fuels. He related that current law imposes a tax of \$.08 per gallon on fuels for highway use, \$.05 per gallon for fuels for marine use, \$.047 per gallon for aviation gas, and \$.032 per gallon for jet fuels. He explained that exemptions from these taxes apply to governmental agencies including contractors that provide student transportation. He offered that tax collections total \$40 million, and that suspension of this tax would return money to businesses and individuals that use and sell these motor fuels.

9:03:47 AM

REPRESENTATIVE GATTO inquired as to whether suspension of this tax would result in personnel being shifted to some other agency function.

MR. BURNETT answered that an equivalent of 5.2 personnel are actively involved in collection of taxes and since highway fuels must be reported to the federal government for federal highway tax purposes, the state must continue to track highway used fuels. He related his understanding that the DOR would probably

not change the number of people working on this program since the suspension is only for a period of one year.

[9:04:43 AM](#)

REPRESENTATIVE BUCH inquired as to how the taxes are used so that the public is aware of the effect of the tax suspension.

MR. BURNETT explained that the state does not have dedicated taxes except for those that were instituted prior to statehood or that are required for federal programs. He offered that the funds, for the most part, go into the state's general fund. He related an exception for aviation fuel since the state shares 60 percent of the fuel tax collected at municipally owned or operated airports with the municipalities, which amounts to about \$150,000 per year. He elaborated that an appropriation in the appropriations bill will continue the tax sharing. He projected that the state taxes collected for the first quarter, due to escalating oil prices, will exceed the amount of all the appropriations that have been requested in this special session, such that the "hit" to the general fund would not be significant.

[9:06:24 AM](#)

REPRESENTATIVE BUCH related his understanding that other states use a motor fuel tax for highway maintenance. Since Alaska is unique in its structure, and the taxes are not dedicated, the difference between this state and others is that the tax doesn't come out of any specific fund.

MR. BURNETT agreed that "for the most part, that is absolutely correct."

REPRESENTATIVE BUCH referred to the fiscal note from the DOR. He offered that the \$150,000 [for the 60 percent of aviation gas revenues that are shared with municipalities] is not noted on page 1, but offered it is listed on page 2 as a notation. He surmised the funding will be appropriated at a later date.

MR. BURNETT agreed, provided that the legislature agrees that, "we need to keep the municipalities whole" since they are not collecting additional funds.

[9:07:33 AM](#)

REPRESENTATIVE RAMRAS inquired as to whether the suspension of motor fuel tax will jeopardize matching federal funds.

MR. BURNETT answered no, so long as the state continues to account and report sales of highway taxes to the federal government.

[9:08:06 AM](#)

REPRESENTATIVE RAMRAS inquired as to whether the committee can obtain confirmation from the legislative legal attorney on that matter.

CHAIR OLSON responded he would do so.

REPRESENTATIVE RAMRAS related that small service stations are "pinched" and further inquired as to any assurance that a suspension of a fuel tax would be passed on to the consumers.

MR. BURNETT answered that there isn't a guarantee that consumers will see a reduction. He related that if the motor fuel tax is not suspended that consumers will continue to pay the tax. He offered that Illinois and Indiana suspended their gas tax in 2000 and the follow-up studies show that the pass through rate was between 60 to 80 percent of the tax savings.

[9:09:42 AM](#)

RANDY RUARO, Special Staff Assistant, Office of the Governor, added, in response to Representative Ramras' concern, offered that to the extent that that his constituents are being "pinched" at the retail level, this money would be spent in the Fairbanks private sector. Thus, the motor fuel tax suspension would still benefit Alaskans, whether it is an 80 or 100 percent pass through.

REPRESENTATIVE RAMRAS highlighted that it could also stay in pocket of [corporations] such as the large stores or non-independent gas stations. He related his understanding that no guarantee exists, just a hope that it will assist consumers.

MR. BURNETT characterized it as "more than a hope" since the competitive force of the market enters into it. He related that when stations compete for customers, they drop prices in order to attract more customers. He related that Illinois and Indiana reported that the pass through was effective at about 60 to 80 percent.

[9:11:13 AM](#)

REPRESENTATIVE GATTO said he hopes that on August 1, 2008 that the advertised prices would drop \$.08 cents per gallon. He opined that the tax suspension might offset increases in the cost of fuel and as a result the pump price would stay the same. He offered that the state collects the tax, remits it to the federal government, and that the state is reimbursed about \$5.77 for each \$1 remitted.

MR. RUARO responded that he is not sure of the exact amount. He explained that it is not relevant to the federal government whether a motor fuel tax that is collected and spent on the state's highways or if the state funds the expenditure from the general fund since, unlike most states, Alaska does not have a dedicated motor fuel tax.

REPRESENTATIVE GATTO inquired as to whether the state remits motor fuel tax funds collected to the federal government or whether the federal government only collects a portion.

MR. RUARO related his understanding that with most federal programs, the state makes the expenditure and the federal government reimburses about 90 percent based on a formula. Therefore, it avoids the situation in which the state collects a certain amount, remits it, and obtains a refund. Instead, it is a matter of the Federal Highway Administration's review of the state's overall expenditure without regard for the specific funding source.

[9:13:17 AM](#)

REPRESENTATIVE LEDOUX related her understanding that this process would be similar to how changes in sales taxes are tracked and that if the sales tax is reduced that no guarantee exists that the reduction is passed on to the consumers.

MR. RUARO answered that it is not different. He maintained that if the motor fuel tax is not suspended, that consumers will continue to pay an additional \$3 million per month in motor fuel taxes.

[9:14:17 AM](#)

REPRESENTATIVE LEDOUX posed a scenario in which the motor fuel tax is suspended, but the rates are not lowered by businesses.

She inquired as to whether that would represent anti-competitive or anti-trust activities.

MR. RUARO offered that he is not an expert on anti-trust matters. However, he surmised that activity could be an indication of some agreement to keep prices at a certain level. He related that stations will likely try to entice more customers [by lowering prices.]

[9:15:22 AM](#)

CHAIR OLSON announced that the committee would recess to the "call of the chair." He said he did not anticipate that it would be before the end of next week. He said that he will allow AGIA to work its way through the system prior to taking any action on HB 4004. He noted that he would attempt to give members as much advance notice as possible.

[9:15:47 AM](#)

ADJOURNMENT

There being no further business before the committee, the House Labor and Commerce Standing Committee meeting was adjourned at 9:15 a.m.