

ALASKA STATE LEGISLATURE
SENATE TRANSPORTATION STANDING COMMITTEE

February 3, 2011

1:01 p.m.

MEMBERS PRESENT

Senator Joe Thomas, Vice Chair
Senator Dennis Egan
Senator Linda Menard
Senator Charlie Huggins

MEMBERS ABSENT

Senator Albert Kookesh, Chair

COMMITTEE CALENDAR

SENATE BILL NO. 41

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

- HEARD AND HELD

PREVIOUS COMMITTEE ACTION

BILL: SB 41

SHORT TITLE: SUSPENDING MOTOR FUEL TAX

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

01/19/11	(S)	READ THE FIRST TIME - REFERRALS
01/19/11	(S)	TRA, L&C, FIN
02/03/11	(S)	TRA AT 1:00 PM BUTROVICH 205

WITNESS REGISTER

MARC LUIKEN, Commissioner
Department of Transportation and Public Facilities
Anchorage, AK

POSITION STATEMENT: Presented SB 41 on behalf of the administration.

JOHANNA BALES, Deputy Director
Tax Division
Department of Revenue
Anchorage, AK

POSITION STATEMENT: Provided supporting information related to SB 41.

ED SNIFFEN, Assistant Attorney General
Civil Division
Department of Law
Anchorage, AK

POSITION STATEMENT: Provided information related to SB 41.

ACTION NARRATIVE

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VICE CHAIR JOE THOMAS called the Senate Transportation Standing Committee meeting to order at 1:01 p.m. Senators Egan, Huggins, and Thomas were present at the call to order. Senator Menard arrived soon thereafter

SB 41-SUSPENDING MOTOR FUEL TAX

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VICE CHAIR THOMAS announced the consideration of SB 41.

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MARC LUIKEN, Commissioner, Department of Transportation and Public Facilities (DOTPF), introduced SB 41 as follows:

Tax suspension is one of the efforts the governor is putting forward to improve the economic health of Alaskans. Suspension of the motor fuel tax will provide immediate tax relief to every citizen in every community across our state. The actual amount of money saved will vary depending on the type of fuel purchased, but most consumers should save up to 8 cents per gallon when fueling their vehicle, boat or plane.

Many Alaskan communities deal with the highest energy costs in the nation. Relieving the burden of motor fuel tax is one step in this administration's effort to improve Alaskan's daily living expenses. Suspending the motor fuel tax provides a temporary reduction in the cost of motor fuel. Efforts are being introduced to provide long-term solutions to our high energy costs.

Some may wonder how suspending the motor fuel tax will impact Alaska's federal funding for transportation. In

fact, a state motor fuel tax has no direct link to federal dollars. Therefore, suspending the motor fuel tax will have no impact on Alaska's federal highway or airport funding. Additionally, Alaskans fund significantly more for transportation than is collected in the state and federal fuel tax revenues.

In FY 12, \$328.5 million is set aside for the Department of Transportation and Public Facilities operating budget, and another \$117 million will supplement the capital budget from general fund dollars. That's 11.5 times more than is collected in motor fuel tax.

Federal fuel tax also paid at the pump contributes to the federal highway trust fund. These funds are then redistributed back to the states via formulas set forth in federal bills related to highways and airport improvement. Those formulas have nothing to do with whether a state collects a separate motor fuel tax as there is no federal government requirement for states to collect a gas tax to support transportation.

Might Congress retaliate against Alaska for suspending the motor fuel tax? It's unlikely. There are several examples of states that have suspended their motor fuel tax just prior to the most recent federal surface transportation bill. SAFETEA-LU went into effect in 2005. Those states actually saw an increase in their federal highway aid.

Additionally, some may be concerned about how suspending the motor fuel tax might impact the Department of Transportation and Public Facilities' operating and capital budgets. There may be fear losing this revenue may equate to a respective decrement in our budget. Well let me talk about the capital budget first. Seventy-six percent of our capital budget comes from federal receipts. I just addressed that issue. The remaining twenty-four percent comes from state general funds and other sources like the international airport system receipts and bonds, AIDEA dividend funds, and highway working capital funds for our state equipment fleet.

The general funds in the capital budget come from the same source that funds 56 percent of our operating

budget - the general fund. And that is what it is - a general fund. [There is] no direct link to the tax revenue taken in by the state motor fuel tax and the Department of Transportation's budget. Therefore, one cannot make a link between motor tax fuel revenue and our budget. The suspension of the motor fuel tax in 2008 did not impact DOT's budget then and suspending it now will not impact our budget in 2012.

Suspension of the motor fuel tax will significantly impact Alaska's economy. It will certainly benefit many of our largest industries. Alaska's largest private employer, the fishing industry, will benefit significantly from the suspension. United Fishermen of Alaska indicated that a suspension of the tax in 2008 would likely provide some benefit to thousands of commercial fishermen statewide. Trucking and aviation industries and the consumers that buy the goods that those entities deliver will also profit. In fact, we've received letters of support from the Alaska Air Carriers Association indicating economic benefits suspension of the gas tax would have on hundreds of our rural commercial air carriers. Additionally, Alaska Airlines has indicated they will provide a letter of support for this effort.

Bottom line, there is no compelling need to collect a motor fuel tax at this time. While suspension of the tax will benefit every Alaskan in every community, while some may gain more than others, it will be meaningful for all as we put this money back into Alaskan's pockets.

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JOHANNA BALES, Deputy Director, Tax Division, Department of Revenue (DOR), stated agreement with the commissioner that Alaska's federal highway dollars are not affected if the tax is suspended. However, she said, the state is still required to report to the federal government the amount of gasoline it uses for highways. The bill includes a requirement that retailers and distributors must continue to report their sales. This ensures that there will be no impact on highway funding. Suspension of the tax will help all Alaskans including Bush communities that pay a 5 cent tax on fuel used in water craft and off highway use rather than the 8 cent tax for highway use.

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SENATOR HUGGINS commented that his constituents have high expectations of this new commissioner and he's told them that he's pleased with the potential he's seen.

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ED SNIFFEN, Assistant Attorney General, Civil Division, Department of Law (DOL), stated that he is responsible for enforcing Alaska's consumer protection and antitrust statutes and in that capacity he's conducted a few retail gas pricing investigations. He informed the committee that when the tax was suspended in 2008, DOL monitored retail markets in Fairbanks, Anchorage, and Juneau and they noticed an immediate positive impact on consumers. Prices generally dropped by 8 cents per gallon. However, because of market forces it wasn't possible to monitor whether or not that amount was added back into the price of fuel over time

MR. SNIFFEN reported that this week DOL talked to four gas station retailers in Fairbanks and eight in Anchorage regarding the potential impact of suspending the motor fuel tax, and a majority indicated that it would result in an immediate 8 cent/gal savings to consumers. He noted that a couple of independent retailers said that to remain competitive they drop their fuel prices when signs down the street indicate a price drop. "We believe that the suspension does have a positive impact on consumers ... and we would encourage support of the bill," he concluded.

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VICE CHAIR THOMAS asked if he gleaned any unexpected information from those retailers.

MR. SNIFFEN said one retailer commented that if he had paid tax on the fuel currently in his tank he wouldn't drop the price until all that fuel had been sold unless he was compelled to do so to remain competitive. While there may be pockets of independent retailers who may not be swayed initially, he opined that in competitive markets they would have to follow suit.

VICE CHAIR THOMAS said that gas prices in Fairbanks are fairly stable, but his recollection is that when the tax was suspended in 2008 the reduction in price was short-lived. He observed that price seems to be a function of competition, but when large retailers like Safeway and Sam's Club give gas discounts related to purchases in their grocery stores it does have an impact on small independent retailers.

VICE CHAIR THOMAS highlighted the following potential savings to consumers:

- Driving 30,000 miles per year in a vehicle that gets 15 mpg would result in an annual savings of \$160 per year or \$13 per month.
- Driving 30,000 miles per year in a vehicle that gets 25 mpg would result in an annual savings of \$96 per year or \$8 per month.

VICE CHAIR THOMAS noted that KABATA has said that the toll for crossing the bridge would be \$5 each way and that would figure into some driver's calculations.

He asked for an explanation of how the aviation fuel tax flows into small communities and contributes the operation of small airports.

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SENATOR MENARD joined the meeting.

MS. BALES explained that 60 percent of the revenue the state collects from aviation fuel tax goes to municipally-owned or operated airports. This amounts to about \$140,000 per year. The governor has indicated he supports an appropriation from the general fund to offset that loss in revenue sharing funds due to suspension of the fuel tax. The appropriation would be based on the continued mandatory reporting as set forth in the bill.

VICE CHAIR THOMAS asked if there is any other revenue sharing associated with the motor fuel tax.

MS. BALES answered no; the balance is deposited directly into the general fund.

VICE CHAIR THOMAS asked for a break-down of the highway, aviation, and marine tax that's collected.

MS. BALES provided the following information for 2010:

- Highway fuel tax is 8 cents/gal and the state collected \$23.4 million.
- Marine fuel tax is 5 cents/gal and the state received \$2 million.
- Aviation fuel tax is 4.7 cents/gal and the state received \$2.9 million in 2010.
- Jet fuel tax is 3.2 cents/gal and the state received about \$337,000.

MS. BALES clarified that the 2010 numbers include two months of the previous fuel tax suspension. Generally, \$30 million is collected in highway-use tax every year. Responding to a question she added that every vehicle that is licensed for highway use is subject to the tax and the tax rates are based on use, not type of fuel.

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SENATOR HUGGINS asked her to state for the record that home-heating fuel falls into a different category.

MS. BALES confirmed that home-heating fuel is exempt from both the state and federal tax.

VICE CHAIR THOMAS asked the source of the data she's citing.

MS. BALES replied she is referencing the DOR annual report. She offered to provide copies to the members.

SENATOR MENARD asked how many other states have suspended the fuel tax and if they've had to offset the lost revenue with another form of tax.

MS. BALES replied most states have dedicated highway funds, but she's aware of two other states that have suspended the tax. While she has no supporting data, she said she assumes they would have had to take money from their general fund to offset the loss in revenue.

SENATOR MENARD asked if the federal government will be reluctant to send money to Alaska if it suspends the fuel tax.

MS. BALES explained that federal highway funding is in no way based the motor fuel tax. However, every dealer that sells fuel and typically collects the fuel tax would still be required to report monthly to the Department of Revenue (DOR) the amount of motor fuel that it sold. In turn, DOR reports the total to the Federal Highway Administration.

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SENATOR MENARD questioned how this would be perceived in Congress.

COMMISSIONER LUIKEN pointed out that the state still pays a federal motor fuel tax, which goes into the surface transportation fund and is redistributed to all states. He

reiterated that there is no link between the state fuel tax that's collected and whether or not the state receives federal funds for highways.

SENATOR MENARD asked if DOTPF is doing any public awareness to correct this misperception.

COMMISSIONER LUIKEN replied that's a good idea.

MS. BALES added that everyone that buys fuel in the state pays the 18.9 cent/gal federal fuel tax. Based on a formula, federal highways returns money to the state to use for transportation projects.

VICE CHAIR THOMAS said it'd be helpful to look at the formula if it's not too complicated.

MS. BALES explained that every state reports the number of gallons of gasoline for highway use that's sold each month. Federal funds are allocated based on whatever percentage of the total the particular state collects. For example, if the Alaska collects one-fiftieth of the total, the federal government would allocate to Alaska one-fiftieth of the total highway taxes collected.

SENATOR MENARD continued to express reservations about the negative perception this might create.

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VICE CHAIR THOMAS said he and at least one in the Alaska delegation have that same concern. He asked Ms. Bales to repeat how much tax that was collected in each category.

MS. BALES restated that the 2010 numbers included two months of the previous tax suspension and provided the following:

- Highway fuel tax collected was \$23 million and would have been approximately \$30 million had the tax been collected for a full 12 months.
- Marine fuel tax collected was \$2 million and would have been approximately \$2.5 million had the tax been collected for a full 12 months.
- Jet fuel tax collected was \$3 million and would have been approximately \$3.5 million had the tax been collected for a full 12 months.
- Aviation fuel tax collected was \$337,000.

On average she said DOR collects about \$40 million each year when the tax is in full effect. Addressing the issue of perception she said she understands the concern, but it's important to understand that the state will continue to fund highway projects using general fund money. It's just that it will come from other sources.

VICE CHAIR THOMAS commented it would come from the oil industry since that's where 90 percent of the state's revenue comes from. Finding no further questions, he announced he would hold SB 41 in committee.

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There being no further business to come before the committee, Vice Chair Thomas adjourned the Senate Transportation Standing Committee meeting at 1:31 p.m.