

**ALASKA STATE LEGISLATURE
HOUSE TRANSPORTATION STANDING COMMITTEE**

January 28, 2016

2:03 p.m.

MEMBERS PRESENT

Representative Neal Foster, Co-Chair
Representative Shelley Hughes, Co-Chair
Representative Benjamin Nageak
Representative Louise Stutes
Representative Matt Claman
Representative Dan Ortiz

MEMBERS ABSENT

Representative Charisse Millett

COMMITTEE CALENDAR

HOUSE BILL NO. 249

"An Act requiring the electronic submission of a tax return or report with the Department of Revenue; relating to the motor fuel tax; and providing for an effective date."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 249

SHORT TITLE: ELECTRONIC TAX RETURNS & MOTOR FUEL TAX

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

01/19/16	(H)	READ THE FIRST TIME - REFERRALS
01/19/16	(H)	TRA, FIN
01/28/16	(H)	TRA AT 2:00 PM CAPITOL 17

WITNESS REGISTER

JERRY BURNETT, Deputy Commissioner
Department of Revenue
Juneau, Alaska

POSITION STATEMENT: Assisted with providing a presentation regarding HB 249.

MARK LUKIN, Commissioner
Department of Transportation & Public Facilities

Juneau, Alaska

POSITION STATEMENT: Assisted with providing a presentation regarding HB 249.

STEVE ST. CLAIR

Wasilla, Alaska

POSITION STATEMENT: Testified in opposition to the HB 249.

ACTION NARRATIVE

[2:03:10 PM](#)

CO-CHAIR HUGHES called the House Transportation Standing Committee meeting to order at 1:45 p.m. Representatives Nageak, Stutes, Claman, Ortiz, Foster, and Hughes were present at the call to order.

[CO-CHAIR HUGHES turned the gavel over to Co-Chair Foster.]

HB 249-ELECTRONIC TAX RETURNS & MOTOR FUEL TAX

[Due to technical difficulties, portions of the audio are indiscernible throughout.]

[2:04:08 PM](#)

CO-CHAIR FOSTER announced that the first order of business would be HOUSE BILL NO. 249, "An Act requiring the electronic submission of a tax return or report with the Department of Revenue; relating to the motor fuel tax; and providing for an effective date."

[2:05:22 PM](#)

JERRY BURNETT stated that he would be giving a presentation discussing HB 249, one of several tax increases outlined in the governor's "Sustainable Alaska" Plan. Slide 2 of his presentation displayed the title of the bill: "An act requiring the electronic submission of a tax return or report with the Department of Revenue; relating to the motor fuel tax; and providing for an effective date." He stated that all of the smaller tax bills under consideration by the legislature would require electronic submission of tax returns, as it makes the process more efficient, but there are ways of dealing with (indisc.). He transitioned to slide 3, titled "Motor Fuel Tax History," and explained that there have been taxes on motor fuels in Alaska since 1945. He stated that the tax rates have

increased over time, but the per-gallon tax structure has remained unchanged. He said the last increase for the highway tax was in 1970, when it was changed to eight cents per gallon. He recounted that in 1970 gas was 30 cents per gallon, and he said an eight cent tax was a large portion of the price for a gallon of gas. He stated that the tax has less of an impact today. He said in 1977 marine fuel taxes increased to 5 cents per gallon, and the tax on aviation fuel was last increased in 1994.

[2:07:02 PM](#)

CO-CHAIR HUGHES said she was still chewing on Mr. Burnett's opening statement that this is part of the governor's "Sustainable Alaska" plan. (indisc.) She said she does not see it as sustainable considering the amount of money [Governor Bill Walker's] plan pulls from the private sector and Alaskan families and businesses. She said she is very concerned about that and does not consider it sustainable for Alaska or Alaskans. She asked if Mr. Burnett could say whether the governor is prepared to have his budget decreased if pieces, such as this tax, valued at \$49 million, do not make it through.

[2:08:05 PM](#)

MR. BURNETT replied that he cannot speak for the governor on that particular issue, but he said there are many parts to the "Sustainable Alaska" plan and budget. Each of these would make a contribution and, depending upon which parts pass, others would need to be adjusted, either with spending cuts or additional revenue from another source. He said the outcome would be a matter for the legislature to determine, pending review by the governor. He said there are a lot of pieces, which all have to work together one way or another. He reiterated that if one increase does not go through, something else would have to increase more or there would have to be a decrease in another area.

[2:08:58 PM](#)

CO-CHAIR HUGHES thanked Mr. Burnett for his response and said she wanted to express for the record that the public should not be confused by the word sustainable. She posited that what might be sustainable in terms of keeping the doors of government open, might not be sustainable for families.

[2:09:15 PM](#)

MR. BURNETT continued to slide 4, titled "Motor Fuel Tax History (Continued)," and stated that the highway fuel tax was suspended from September 1, 2008, to August 31, 2009, due to extremely high gas prices, which were in the \$4-plus range. He said there was one month in 2008 when oil tax brought in \$1 billion, so the state was not concerned with revenues from small taxes. In 2015 HB 158 added a \$0.0095 surcharge on motor fuels and some other refined fuels, which was intended for the spill prevention and response fund.

[2:10:12 PM](#)

MR. BURNETT moved on to slide 5, titled "Motor Fuel Tax Proposal," and explained that the proposed motor fuel tax would increase tax rates on all types of motor fuels. He said the rates would increase from 8 to 16 cents per gallon for highway fuel; from 5 to 10 cents per gallon for marine fuel; from 3.2 to 10 cents per gallon for jet fuel; and from 4.7 to 10 cents per gallon for aviation gas. The "off-road use" credit would increase from 6 to 12 cents per gallon. He explained that the "off-road use" credit applies if fuel is bought for use off the highway system. At the time of purchase, the full tax is paid on the fuel, and the credit is applied for and returned retroactively.

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REPRESENTATIVE NAGEAK (indisc.) consideration of the high cost of fuel in the villages of rural Alaska. He stated that his village is 150 miles from the source of Alaska's wealth and the starting point of the pipeline, from whence oil is transported to the Lower 48 before being shipped back as a refined product. He stated that he pays \$6.50 per gallon at home, and in some locations in rural Alaska it is \$20 per gallon. He said adding additional tax on \$20 per gallon would have a tremendous impact on rural Alaskans.

[2:12:20 PM](#)

MR. BURNETT explained that motor fuel taxes are per-gallon taxes, meaning that changes will have differential impacts based on how many gallons are used, not the price of the fuel. He allowed that people who already pay a high price would experience an increase. He said he did not know how distributors and retailers set prices or how prices would be affected by a tax increase. He stated that some people use a

lot more fuel, some people will pay a higher price, and nothing about that part of the current system would change.

REPRESENTATIVE NAGEAK replied that there are two locations near Prudhoe Bay - Nuiqsut and Kaktovik - where it is very expensive to get to the rest of the world. He said it used to be affordable, but now there is a monopoly [on fuel in the region] and it has an impact on those two places in particular, especially if there is an additional tax on gasoline.

[2:14:25 PM](#)

CO-CHAIR HUGHES noted that the numbers in the right hand column of the chart on slide 5 are round numbers. She asked what type of analysis was conducted to produce those figures and if they were based on comparisons with other states or comparisons of the impacts on people in regions of the state. She pointed out that the jet fuel tax rate would be tripled, but the others appear to be doubled. She asked if there was a basis for doubling or tripling the tax or if instead the [administration] started with the goal of finding \$49 million in revenue and then asked how it could be acquired.

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MR. BURNETT replied that there are many considerations in the process of choosing tax rates. He stated that jet fuel and aviation gas tax rates would be increased by a greater factor in part because members of the Aviation Advisory Committee - most of whom, he noted, were present at the meeting - decided, after great consideration, to increase aviation fuel tax rates rather than raise landing fees at certificated airports in Alaska to help offset the cost of repairs. He stated that all aviation fuel taxes have to be spent at airports; it is a requirement of the Federal Aviation Administration (FAA) for grant eligibility. He said all the money that is collected for aviation fuel taxes is spent by the Department of Transportation and Public Facilities (DOTPF) or local governments at the airport where it is collected.

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CO-CHAIR HUGHES stated her understanding that there is a foreign exemption for jet fuel taxes. She asked if that is based in Alaska statute and if the Department of Revenue (DOR) had considered changing it. She stated her understanding that foreign carriers account for the largest portion of jet fuel

purchases, and she offered that [by removing the exemption] the state may be able to bring in more revenue with a smaller tax increase.

[2:17:05 PM](#)

MR. BURNETT stated his understanding that the exemption is in Alaska statute but is also required because these companies are involved in international commerce, and the U.S. Constitution mandates that their fuel cannot be taxed. He stated that Co-Chair Hughes was correct in her understanding that far more jet fuel is sold to international carriers than any others at the Ted Stevens Anchorage International Airport and Fairbanks International Airport.

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CO-CHAIR HUGHES (indisc.) She requested that Mr. Burnett provide the information to the committee so the members could better understand. She said she thought that the statute was changed and that some states were opting out of it. She said she was under the impression that the exemption was designed to encourage business and the use of the Ted Stevens Anchorage International Airport and Fairbanks International Airport, reasoning she said she could understand. She stated that she also knows that as prices have fluctuated, the carriers have not cancelled flights to Alaska; however, she allowed that they may do so if [removing the exemption] were allowed.

[2:18:40 PM](#)

CO-CHAIR FOSTER asked, in reference to slide 5, if the [current] "off-road use" credit applies to vehicles used in construction projects and if he is correct in his understanding that after the proposed credit those vehicles would only be paying four cents per gallon in taxes. He asked if the credit would also apply in villages where four-wheelers are used.

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MR. BURNETT stated that Co-Chair Foster's understanding is correct in both circumstances. He stated that a person can apply for a credit for a four wheeler, or even a lawn mower, noting that it would be a small amount. He stated that DOR does get some very small applications for credits. He said an individual can get a six cent return if the department can verify that the fuel was not used on a highway, and the same

applies if diesel is purchased and used for home heating purposes.

[2:19:54 PM](#)

CO-CHAIR FOSTER stated that in some villages there are no vehicles or cars. He asked if it is even possible for a local retailer to apply for the credit [on behalf of the consumer].

MR. BURNETT stated that he did not know the answer to the question, but he offered to find out for the committee.

[2:20:21 PM](#)

REPRESENTATIVE CLAMAN requested clarification that the international cargo carriers at Ted Stevens Anchorage International Airport and Fairbanks International Airport, which he said constitute the majority of international traffic, do not pay the 3.2-cent and would not [under the proposed legislation] pay the proposed 10-cent aviation fuel tax when they fuel; whereas, Alaska Airlines, Delta Airlines, United Airlines, Jet Blue, or any other domestic carrier do and would have to pay the tax.

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MR. BURNETT replied that is correct.

[2:21:03 PM](#)

REPRESENTATIVE CLAMAN asked if the aforementioned foreign exemption also applies to landing fees.

[2:21:13 PM](#)

MR. BURNETT replied no, international carriers do pay landing fees. He stated that since Anchorage is the second largest freight airport in the United States and one of the largest in the world, many landing fees are collected from international flights.

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REPRESENTATIVE STUTES inquired if any user groups were involved in the process of developing the proposed tax rates.

[2:21:49 PM](#)

MR. BURNETT replied no, other than the Aviation Advisory Committee there were no specific user groups that gave input. He clarified that there was significant input from the general public. He indicated that [DOR] held several public meetings, attended by the Commissioner of Revenue and others, throughout the state since June, during which various proposals were discussed. He stated that there had been a lot of public input, but that he was uncertain who might be considered the highway user group. He speculated that a trucking association may fall into the category.

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CO-CHAIR FOSTER stated his understanding that the administration accepted the recommendations of the Aviation Advisory Committee, with the exception of indexing, which would have stipulated - given a scenario where oil prices were to climb significantly - for example to \$100 per barrel, that the tax rate could be reduced. He stated that he personally likes the idea of indexing, because sometimes government operates under the concept that if the money is there, it must be spent. He asked whether Mr. Burnett had a particular viewpoint on the topic.

[2:23:15 PM](#)

MR. BURNETT stated that Department of Revenue Commissioner Hoffbeck and he spoke with the Aviation Advisory Committee regarding the topic. He stated that [indexing] was not included in the bill, and he related there are no projections of oil prices increasing to that level in the near term. He said the administration is open to discussing that type of change.

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CO-CHAIR FOSTER stated that this will not be the only hearing on the topic. He said one reason he likes the idea and likes talking about it moving forward is that although he agrees that oil prices aren't going that high anytime soon, it would be a difficult change to make later.

[2:24:28 PM](#)

MR. BURNETT moved on to slide 6, titled "Relative Motor Fuel Tax Rate," and said it compares Alaska's current motor fuel tax rates to those of other states. He stated that Alaska's current highway fuel tax rate is the lowest, but there are some states

that are close. He stated that the jet fuel tax rate is thirty-fifth out of fifty, the aviation fuel tax rate is twenty-fourth out of fifty, and most other states do not have a specific marine fuel tax. He said this is likely because most states don't sell much marine fuel and people in those states are paying highway tax rates for marine fuel. He stated that under HB 249, Alaska tax rates would still be below the national average of 20.17 cents [per gallon] for highway fuel and above the national average for jet and aviation fuel. He restated that there was no national average that [DOR] could find for marine fuel tax rates.

[2:25:35 PM](#)

CO-CHAIR HUGHES stated her understanding that the tax rates may be below national average, but asked how total fuel costs would compare with the addition of the proposed tax.

[2:25:51 PM](#)

MR. BURNETT stated that he had not checked how Alaska's fuel costs are ranked compared to other states recently, but he said it has been among the highest. He stated that it is high in Juneau, slightly lower in Anchorage, and much higher in rural areas. The proposed tax increase would raise fuel prices by at least the amount of the tax.

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CO-CHAIR HUGHES requested that before the next committee meeting, Mr. Burnett gather information comparing fuel prices across the nation, with tax included, for the purpose of comparing our fuel costs with the proposed tax increase.

[2:26:47 PM](#)

MR. BURNETT responded that would not be a problem, and he relayed that the information is available on gasbuddy.com at any time. He offered an example to put the tax increase in perspective: a person who drives 20,000 miles per year, in a car that gets 20 miles per gallon, using 1,000 gallons of fuel per year, would experience an increase of \$80.00 per year in his/her fuel bill. For the construction or trucking businesses, this would equate to a significant amount of money.

[2:27:27 PM](#)

MR. BURNETT, in response to Co-Chair Hughes, clarified his example. He added that the figure would vary based on the length of commute, how much a person drives, and the vehicle's gas mileage. He said the tax would impact every consumer differently.

[2:27:53 PM](#)

MR. BURNETT transitioned to slide 7, titled "The New Sustainable Alaska Plan," which displayed a chart titled "Per-Capita Broad-Based State Tax Revenues, by State, 2014." He said he included the chart in the presentation at the request of Co-Chair Hughes' staff. He stated that it is a chart showing the tax burden for per capita, broad-based tax revenues. He stated that Alaska is represented by the bar on the far left of the chart, and he noted that the black portion of Alaska's bar comprises all the new taxes proposed in the governor's "Sustainable Alaska Plan." He stated that the area below the black bar represents the general sales taxes, selective sales taxes, and license taxes, but noted that it does not include individual income tax, as Alaska does not have one. He said University of Alaska Anchorage's (UAA's) Institute for Social and Economic Research (ISER) produced the information on the slide, and he said he was uncertain as to the source of the data. He stated that he did check the Alaska data with the Revenue Sources Book, and he said the \$500 per year, per capita figure - which yields approximately \$370 million per year - is consistent with the Revenue Sources Book for non-petroleum license fees.

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CO-CHAIR HUGHES stated that at first glance it appears that Alaska is doing pretty well in terms of per capita broad-based tax rates, but she said it must be taken into consideration that [Alaskans] corporately own sub-surface rights. She said [Alaskans] have heard for years that oil revenues pay for 90 percent of state government, and although that is currently not the case, it remains true that the money, which belongs to Alaskans, has been paid into the state's general fund. She suggested that it could have been set up such that rather than the money being paid into the general fund each year, it would be divided and paid out to all Alaskans, and a chunk of that paid back as a state income tax. She stated that these oil revenues are not reflected in the bar, and she requested the per capita amount Alaska was receiving into the general fund from oil revenues prior to the decrease in prices.

[2:30:26 PM](#)

MR. BURNETT stated that the oil revenues in Alaska for the past several years have run at a high of approximately \$10 billion per year, which, when divided by a population of approximately 700,000, yields a per capita revenue of about \$7,000 to \$8,000 per person. He said Article XI of the Alaska Statehood Act granted subsurface rights to the state for the purpose of building infrastructure, operating schools, et cetera. He said it was a bargain that the federal government made with the people of Alaska in order to become a state - to sacrifice subsurface rights and use that money to fund government. He said this has basically occurred since Prudhoe Bay came online in the 1960s. He stated that now [the state] doesn't have enough revenue from those rights, and "we are where we are."

[2:32:04 PM](#)

CO-CHAIR HUGHES thanked Mr. Burnett and stated that if the low figure of \$7,000 per capita oil revenue were added to Alaska's bar on the chart, the figure is much higher, and "we the people" have a lot of skin in the game.

[2:32:26 PM](#)

MR. BURNETT transitioned to slide 8, titled "Impacts of Tax Proposal," and stated that gas prices at the pump would increase relative to prices without the tax. He stated that there would be more aviation taxes to fund certificated urban and rural airports. He noted that the tax was requested by the Aviation Advisory Committee as preferable to landing fee increases.

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REPRESENTATIVE ORTIZ asked whether the aviation taxes are currently dedicated and returned directly to urban and rural airports.

[2:33:04 PM](#)

MR. BURNETT stated that the FAA requires, in order to participate in federal programs, that revenue from aviation fuel taxes is allocated to urban and rural airports. He stated that the revenue acts as a dedicated fund and in the Revenue Sources Book it shows up as general fund money. He said it is collected and kept in a sub-account of the general fund, but an amount equal to it is spent for these purposes.

REPRESENTATIVE ORTIZ asked whether that was true of automobile fuel taxes.

[2:33:45 PM](#)

MR. BURNETT stated that no other taxes have a dedication in the state constitution or a requirement under federal law to be spent for any specific purpose.

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REPRESENTATIVE CLAMAN inquired where the FAA requirement can be found.

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MR. BURNETT replied that [the requirement for aviation fuel tax distribution] is in federal regulation and is part of the grant assurance agreements between the State of Alaska and the FAA in order to receive federal dollars for airports. In response to a follow-up question Mr. Burnett said DOTPF would provide the specific location, under which the regulation exists.

[2:35:00 PM](#)

REPRESENTATIVE ORTIZ inquired what percentage of Alaska's airport operational costs are covered by federal funding.

[2:35:25 PM](#)

MR. BURNETT replied that DOR would provide the information to the committee.

[2:35:36 PM](#)

REPRESENTATIVE NAGEAK asked how many certificated urban airports are in the Alaska.

[2:35:49 PM](#)

MARK LUKIN, Commissioner, Department of Transportation & Public Facilities, stated that there are a total of [247] state owned and operated airports. In response to a follow up question, he relayed that of those, 21 are certificated, which essentially means those are the airports with jet service. He stated that this tax would actually fund all 247 airports. He stated that

DOTPF would deliver the exact number to the committee, and he said the number may be slightly higher.

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REPRESENTATIVE NAGEAK said 247 (indisc.).

[2:37:09 PM](#)

CO-CHAIR HUGHES requested that Mr. Burnett return to slide 8, regarding the impacts of the tax proposal, and stated that there is an important bullet missing. She said not only would gas prices at the pump rise, but so would the price of goods and travel. She asked if there had been any analysis regarding the increased costs to the consumers.

[2:37:34 PM](#)

MR. BURNETT stated that Co-Chair Hughes is correct in her assessment that consumer prices would increase. He stated that [DOR] can't predict the precise effect but may be able to predict relative effects. He stated that it is a per gallon tax and price has varied tremendously over the past two years; if an eight-cent tax is added to a gallon of fuel today, the total cost of the gallon is still much lower than it was then. He stated that it might be less expensive next year or it might be more expensive. He said it is not technically possible to give an exact answer to Co-Chair Hughes' question; however, the tax increase would affect airline ticket prices, parking prices, and anything else related to transportation.

[2:38:45 PM](#)

REPRESENTATIVE NAGEAK asked if this increase would extend to the United States Postal Service (USPS), freight, and similar expenses.

[2:38:58 PM](#)

MR. BURNETT replied that it is likely there would be some effect on the cost of those types of services. He suggested that for air carriers the effect would be less than a needed landing fee increase. He pointed out that there are no toll roads in Alaska yet, and [the state] would probably like to avoid that. He stated there are some countries where people pay every time they travel anywhere. He stated that many effects are unknown, but

the goal of [tax] increases is to avoid the known effects of not having enough funding.

[2:39:47 PM](#)

REPRESENTATIVE NAGEAK said the tax increase would have a tremendous impact on rural customers. He said the cost of freight to his town is much more than it used to be; the cost of living, including goods and services, is already extremely high; and this would increase it further. He said there are few jobs and few avenues for taxation, and he stated that there are many people in rural Alaska who wish they had a tax to pay, because that would mean they had a job.

[2:41:37 PM](#)

CO-CHAIR FOSTER stated that even with the proposed tax, the price of fuel is substantially lower than it was two years ago. He said the proposed tax could be doubled or tripled and prices would still be lower than they were two years ago, but in places like Western Alaska, Nome, or Bethel, fuel prices do not change monthly as they might in a place like Anchorage. He said this is because rural areas get a shipment of fuel in September and lock in a price, which remains steady for the winter and, in some cases, until the following June. He said the public does not realize some of the challenges that rural Alaska has.

[2:42:46 PM](#)

REPRESENTATIVE CLAMAN stated that [the committee] must keep in mind the other side of the equation, which is that if [the legislature] does not close the fiscal gap, there will be dire consequences to the state on all levels as well. He said there are also broad impacts of doing nothing with regard to the substantial deficit.

[2:43:20 PM](#)

MR. BURNETT concurred and said [Representative Claman's observations] relate to a complex problem that [state government] must address.

[2:43:31 PM](#)

CO-CHAIR FOSTER mentioned that this was not the only meeting that the committee will hold regarding HB 249, and he suggested

that members take as much time as they want in terms of questions.

[2:43:46 PM](#)

CO-CHAIR HUGHES referred to the slide relating to impacts of the tax proposal and asked if there was any consideration for the specific regional impacts of the proposed tax increase, such as cost of freight in rural areas. She posited that people in the Matanuska-Susitna (Mat-Su) region probably put more miles on their vehicles than anyone else in the state, with the possible exception of Kenai Peninsula residents. She said this especially applies to people who commute, but even for those who do not, a round trip to the grocery store may be 20 miles as everything is so spread out. She surmised that a large portion of the \$49 million on the revenue impact slide would come from her region, but because these are not designated funds, it would not necessarily benefit the people of her region. She stated that a user fee may be more palatable in the sense that a user would know that the road would be well maintained by their fee. She asked if she was correct in her understanding that the funds from the motor fuel tax are not dedicated.

[2:45:21 PM](#)

MR. BURNETT replied that Co-Chair Hughes was correct in her understanding that other than the aviation fuel tax, the legislature is free to spend the money however it chooses, so it is incumbent upon the legislature and the governor to propose a budget that utilizes whatever tax revenues are collected. He said [the legislature] could choose to spend motor fuel tax revenues at DOT or somewhere else, and that is something they could explain to constituents in the future.

[2:46:03 PM](#)

MR. BURNETT, in response to Co-Chair Hughes, stated his understanding that there was regional consideration for the impacts of the bill. He said although [a motor fuel tax] is not a user fee, there are similarities. He stated that the cost of maintaining highways is greater than the amount of money collected from taxes. He said the tax does offset costs, and the amount of use of the highways and airports varies directly proportional to how much fuel is purchased. In that sense, regional impacts have been taken into consideration.

[2:46:59 PM](#)

CO-CHAIR HUGHES stated that although the committee is considering this proposal in isolation from all other proposals, the income tax proposal combined with the proposal in HB 249 would disproportionately burden the Mat-Su region due to the number of people who are employed and the number of miles they drive, and she said she views this as problematic.

[2:47:25 PM](#)

REPRESENTATIVE NAGEAK said (indisc.) rural Alaska, especially. He stated that residents of the region "do not have [the money] to pay that in the first place," and they don't know how much will be charged. He said with the level of employment in rural Alaska (indisc.). He said [the proposed legislation] would have a tremendous impact on the people who depend on fuel for their livelihood, including subsistence hunting, fishing, and all other aspects of their lives. [The proposed legislation] would have a disproportionate impact on the pumps in rural Alaska when compared to the effects on people who live on the road system. He said the high cost of transporting fuel had not been taken into consideration. He said most of the fuel is paid for at a market price based on the rest of the United States, and prices are incredibly high. He concluded by stating his belief that the effects of HB 249 would be disproportionate and unfair [toward rural Alaskans].

[2:49:34 PM](#)

MR. BURNETT continued his presentation on slide 9, titled "Revenue Impact," and stated that the tax increase would be expected to generate approximately \$49 million per year in additional revenue, of which \$200,000 would be shared with municipally owned airports. These include airports in Juneau, Kenai, Palmer, and Wasilla.

[2:50:00 PM](#)

CO-CHAIR HUGHES inquired as to the amount shared with municipally owned airports, and she asked if there was another amount that was always in the budget set aside for those airports. She stated that she was under the impression that there was some sort of reduction for municipal airport funding in this year's budget.

[2:50:18 PM](#)

MR. BURNETT responded that the shared taxes are in the range of \$140,000 per year at the current rates. He suggested that perhaps Commissioner Lukin could speak to any other reductions in funding.

[2:50:36 PM](#)

COMMISSIONER LUKIN stated that under HB 249, the state contribution to municipal airport match funding for capital projects would be reduced. He said it is a large difference, as those are state match funds that used to be paid optionally to municipal airports. He said at this point, with the federal program, [DOTPF] has elected not to continue [state match funds for capital projects to municipal airports].

[2:51:14 PM](#)

CO-CHAIR HUGHES inquired how much the funds are being reduced.

[2:51:16 PM](#)

COMMISSIONER LUKIN stated that it used to be a 50 percent match and now there is no match.

[2:51:23 PM](#)

CO-CHAIR HUGHES asked for the total dollar figure that would be removed from the program.

[2:51:32 PM](#)

COMMISSIONER LUKIN replied that he would get the exact figure for the committee.

[2:51:36 PM](#)

CO-CHAIR FOSTER asked how many municipal airports exist in the state.

COMMISSIONER LUKIN offered his understanding that there are five; they are located in Juneau, Wasilla, Palmer, Soldatna, and Kenai.

[2:51:58 PM](#)

REPRESENTATIVE CLAMAN asked if the airport in Ketchikan is a municipal airport.

COMMISSIONER LUKIN stated that the Ketchikan International Airport is a state owned airport, but DOTPF has an agreement with the Ketchikan Gateway Borough such that the borough will run the airport, which allows it to charge landing fees.

[2:52:22 PM](#)

MR. BURNETT presented slide 10, titled "Revenue Impact (continued)," and said the estimates are based on the fall 2015 forecast and do not account for changes in demand or stockpiling. He stated that [DOR] expects a small amount of stockpiling to occur, where people buy fuel in anticipation of the tax increase, specifically at the distributor level.

MR. BURNETT transitioned to slide 11, titled "Implementation Cost," and stated that there would be an implementation cost for the proposal. He explained that under HB 249, DOR would have to update the Tax Revenue Management System (TRMS) and change the tax return forms, among other things. He stated that DOR expects a one-time implementation cost of \$50,000 and does not expect any ongoing additional cost related to administering the tax program.

[2:53:12 PM](#)

MR. BURNETT stated that slides 12 and 13 discuss how the budget gap would be closed with the governor's sustainable plan. He said he would not be speaking on that but did point out on slide 13 where the proposed motor fuel tax would fit within the new revenue components of the governor's plan.

[2:53:31 PM](#)

CO-CHAIR HUGHES asked, in reference to slide 12, about the \$850 million from existing taxes and fees (indisc.).

[2:54:01 PM](#)

MR. BURNETT replied that those are existing revenues, not new revenues, and includes components like corporate income tax, personal taxes like those in an earlier chart, some license fees, direct charges, and some other types of revenues. He also pointed out the "earnings on savings" line item.

[2:54:29 PM](#)

MR. BURNETT, in response to Co-Chair Hughes, stated that all of the new revenue components can be found on slide 13, which shows all of the new proposals, including a change to the mining license tax, an increase to the fishing landing tax, increased taxes on cruise ship passengers, the proposed motor fuel tax, increased alcohol tax, tobacco tax, hardening the floor on oil and gas taxes, and an income tax, all of which would add up to \$457 million dollars.

[2:55:16 PM](#)

CO-CHAIR FOSTER asked for clarification that the \$5.242 billion figure for reductions and new revenue is not the Fiscal Year 2017 (FY 17) total operating budget.

MR. BURNETT replied that it is the amount that approximates the FY 17 budget, including the capital budget and other statewide expenditures like retirement; not only the agency operations, but also all unrestricted general fund spending.

[2:56:01 PM](#)

REPRESENTATIVE ORTIZ requested confirmation that if the legislature accepted all of the governor's plan, the budget would be roughly balanced.

MR. BURNETT replied that is correct and stated that if any part of the package is altered, it must be offset by a reciprocal action.

MR. BURNETT stated that the last two slides are a sectional analysis of HB 249, and he indicated he could discuss the specifics of HB 249 at the committee's request.

CO-CHAIR FOSTER stated that it appears as though the major components of the sectional analysis were discussed previously in the meeting.

[2:56:55 PM](#)

REPRESENTATIVE NAGEAK stated his opinion that [the sectional analysis] would be good information to have when it comes time to discuss the bill on the floor.

MR. BURNETT stated that he would be willing to present the sectional analysis and that it would not take long. He stated that Section 1 would add a \$25 or 1 percent tax penalty for

failure to file electronically unless the taxpayer received an exemption. Section 2 would require the electronic submission of tax returns. He stated that this is a common element of all the smaller tax proposals. He said HB 249 would change the general tax statutes and apply to all tax types administered by DOR.

[2:57:44 PM](#)

REPRESENTATIVE CLAMAN asked whether the owners of the gas stations would be responsible for electronic filing and paying the tax.

MR. BURNETT stated that the tax is paid farther up the supply chain, at the distributor level. He stated that last year there were 243 motor fuel tax payers.

[2:58:23 PM](#)

REPRESENTATIVE CLAMAN asked for clarification that the only instance where the average consumer would need to pay attention to the electronic filing requirement is in relation to the proposed income tax.

MR. BURNETT stated that there are no taxes currently paid directly by consumers; however, there is a car tax and a tire tax that are added at the point of sale. Other taxes are paid at the distributor level or are direct business taxes.

[2:59:25 PM](#)

CO-CHAIR HUGHES asked who, under HB 249, would qualify for an exemption from electronic filing.

MR. BURNETT replied that the exemptions would be for cases where the distributor may operate in rural Alaska and may not have the ability to file electronically. He said most businesses that pay this tax would not be exempt.

[3:00:02 PM](#)

CO-CHAIR HUGHES clarified that the exemption would be from electronic filing, not from payment of the tax.

REPRESENTATIVE NAGEAK asked if the tax would specifically apply to business enterprises.

MR. BURNETT responded that the tax would be collected at the distributor level and passed on to the user.

REPRESENTATIVE NAGEAK asked whether, under HB 249, it would be the individual's responsibility to file electronically unless they receive an exemption. He said a lot of people in rural Alaska don't have computers and cannot file electronically, and the \$25 penalty is another disproportionate impact on rural Alaskans.

MR. BURNETT clarified that the individual Alaskan does not [and would not] file a tax return for this tax. It is paid at the distributor level. He clarified, in response to Representative Nageak that the tax payer is the distributor.

[3:01:33 PM](#)

CO-CHAIR FOSTER (indisc.), opened the meeting to public testimony on HB 249.

[3:02:07 PM](#)

STEVE ST. CLAIR stated that he does not have any direct affiliation with any groups or organizations and is testifying on behalf of himself as a concerned Alaskan. He stated that he would like to discuss the proposed motor fuel tax, aviation fuel tax, and marine fuel tax. He read a definition of the word tax: "a compulsory contribution to a state revenue, rendered by the government on worker's income, business profits, et cetera." He stated that the second definition is "a strain or heavy burden." He said as he was listening to the committee meeting he heard Representative Nageak discuss increased prices of goods and services. He stated that in Alaska the cost of living is already higher than most other places and there are secondary and tertiary effects when transportation is taken into account. He said increased costs may create a situation where people who are on a fixed income cannot afford to live in Alaska. He stated his belief that before any taxation occurs, government needs to be "right-sized." He indicated that government has grown disproportionately and out of control.

MR. ST. CLAIR stated that based on a previous conversation with Co-Chair Hughes, he understands that \$4.5 billion is the target budget for FY 17. He said this [target budget] is supported by ISER recommendations, Mr. Goldsmith, Brad Keithly, and an oil and gas consultant. He stated that before there is discussion of taxes or revenue sources, [the state] needs to make sure that

it can afford the budget. He said the legislators were elected to represent constituents in Juneau. He stated that in line with the second definition of taxes, [the legislature] would be putting a strain or heavy burden on constituents by approving or recommending this tax. He stated that his district is represented by Representative Cathy Tilton and Senator Bill Stoltze. He said he speaks with his representatives, is actively engaged with them, and they know how he feels about this topic and several others. He said Alaska is a vast state without much infrastructure; many of the villages can only be accessed by flight or watercraft. He opined that increasing fuel costs would increase ticket prices, which would will place an undue burden or strain on constituents. He stated that synonyms of the word tax include: strain, stretch, burden, load, encumber, and "push too far." He thanked the committee for its time and service.

[3:06:21 PM](#)

CO-CHAIR FOSTER (indisc.) or Kimberly in Co-Chair Hughes' office and they can direct people on how to testify. He drew attention to two emails included in the committee packet. The first email was from Tim Ivanitskiy, a 15-year Wasilla resident, who wrote in opposition to the proposed fuel tax increase and to relay that his parents and brother also oppose it. The second email was from Katie Sinclair, a Houston/Big Lake resident and Anchorage taxi driver, who said she opposes the bill due to her commute, and the increase in the overhead costs associated with driving a taxi.

[HB 249 was held over.]

[3:07:35 PM](#)

ADJOURNMENT

There being no further business before the committee, the House Transportation Standing Committee meeting was adjourned at 3:08 p.m.