

ALASKA STATE LEGISLATURE
HOUSE TRANSPORTATION STANDING COMMITTEE

February 6, 2016

1:02 p.m.

MEMBERS PRESENT

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

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 |
| 01/28/16 | (H) | Heard & Held |
| 01/28/16 | (H) | MINUTE(TRA) |
| 02/04/16 | (H) | TRA AT 1:00 PM CAPITOL 17 |
| 02/04/16 | (H) | Heard & Held |
| 02/04/16 | (H) | MINUTE(TRA) |
| 02/06/16 | (H) | TRA AT 1:00 PM CAPITOL 17 |

WITNESS REGISTER

BETH FREAD
Palmer, Alaska

POSITION STATEMENT: Testified regarding HB 249.

STEVE ST. CLAIR
Wasilla, Alaska

POSITION STATEMENT: Testified in opposition to HB 249.

ABBY ST. CLAIR
Wasilla, Alaska

POSITION STATEMENT: Testified in opposition to HB 249.

MIKE COONS
Palmer, Alaska

POSITION STATEMENT: Testified in opposition to HB 249.

ED ZASTROW
Ketchikan, Alaska

POSITION STATEMENT: Testified regarding HB 249.

CLAY MURPHY
North Pole, Alaska

POSITION STATEMENT: Testified in opposition to HB 249.

BRIAN MCNEIL
Fairbanks, Alaska

POSITION STATEMENT: Testified in support of HB 249.

JIM SYKES
Palmer, Alaska

POSITION STATEMENT: Testified in support of HB 249.

BRIAN SIMPSON
Fairbanks, Alaska

POSITION STATEMENT: Testified in opposition to HB 249.

ACTION NARRATIVE

[1:02:18 PM](#)

CO-CHAIR SHELLEY HUGHES called the House Transportation Standing Committee meeting back to order at 1:02 p.m. Representatives Nageak, Stutes, Ortiz, Claman, and Hughes were present at the call back to order. Representative Foster arrived as the meeting was in progress. [The House Transportation Standing Committee reconvened from a meeting that was recessed at 3:01 p.m. on February 4, 2016.]

HB 249-ELECTRONIC TAX RETURNS & MOTOR FUEL TAX

1:02:30 PM

CO-CHAIR HUGHES announced that the only 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."

CO-CHAIR HUGHES noted that public testimony remained open from the previous meeting.

1:03:57 PM

CO-CHAIR HUGHES directed committee members' attention to 24 written testimonies received by her office since the previous meeting and noted that 22 of those expressed concern regarding the proposed legislation. She indicated that any additional written public testimony would be added to the record.

1:05:07 PM

BETH FREAD stated that she appreciated the opportunity to speak regarding HB 249, because she works in the real estate industry and, accordingly, is almost always on the road. She indicated that she does not necessarily oppose the proposed legislation, but that she believes the proposed motor fuel taxes should have caps applied. She expounded that [Alaskans] experienced gas prices over four dollars per gallon in the previous year. She explained that high prices resulted in a huge cut to her revenue. She requested that language be included in the legislation stipulating that if gas prices climb to a specified level, the tax would roll back to a lower rate. She opined that the bill should not be considered until the state budget is cut and suggested that no new revenue be generated until the budget had been reduced to between \$4.2 and \$4.5 billion. She stated her understanding that [state government] can utilize permanent fund earnings to help fund government for a period of time, and she reemphasized her belief that [the state] should reduce spending prior to "making money from [citizens'] pockets." Additionally, she expressed doubt regarding the governor's plan to defund the permanent fund, and she urged the committee to oppose the plan.

1:07:18 PM

STEVE ST. CLAIR stated that HB 249 would have a negative impact on all Alaskans, especially those living subsistence lifestyles, and he explained that rural Alaskans utilize motor fuel, aviation fuel, and watercraft fuel for survival. He recounted a conversation with his mother-in-law, an Inupiat woman who was raised in rural Alaska, during which she explained that all those fuel types are used by people in the villages. He related that in Shishmaref, motor fuel is used in ATVs and snow machines for transportation and hunting, and in some instances motor fuel is utilized for cooking stoves and lamps. He pointed out that many communities in Alaska are accessible only by plane and watercraft, and the cost of basic amenities are very high in these locations. He stated that many people in rural areas must travel to Anchorage, for medical appointments, and their associated airline tickets are primarily paid for by the state. He noted that many [rural Alaskans] use the medical trips to Anchorage as an opportunity to purchase basic amenities due to the price differences. He referenced an example of toilet paper being cheaper to ship from Anchorage than it is to purchase in the villages and posited that the proposed motor fuel tax increases would serve to further increase prices of consumer goods in the villages. He informed the committee that despite recent price reductions for fuel in cities, prices remain high off the road system. He insisted that the proposed tax increases would be disproportionately burdensome to [Alaskans] living subsistence lifestyles, which is necessitated by a lack of jobs in rural Alaska.

MR. ST. CLAIR stated that HB 249 is estimated to generate \$40 million for the general fund, which he claimed was "another monster that needs to be addressed." He held that adding revenue to the general fund encourages the growth of government, which he considered counterproductive in a fiscal crisis. He explained that in 2014 the State of Alaska paid \$39.6 million to rural Alaskans via the Power Cost Equalization Program (PCEP). He posited that it would be counter intuitive to increase fuel taxes on the same group of people receiving subsidies for high fuel costs. He reemphasized his belief that HB 249 was a "bad bill" and should never leave committee, and stated that taxation and changes to the permanent fund and permanent fund dividend should never be considered until government is "right-sized." He maintained that the "magic number" is \$4.5 [billion] in unrestricted general fund spending in Fiscal Year 2017 (FY 17) and opined that any attempt that fails to meet the threshold is a disingenuous attempt to solve [Alaska's] fiscal problem. He encouraged the committee to oppose HB 249.

[1:10:42 PM](#)

ABBY ST. CLAIR testified in opposition to HB 249. She related that in Shishmaref, where she was raised, the cost of living is incredibly high, and warned that an increase in fuel taxes would result in a corresponding increase in the cost of necessities. She informed the committee that the current fuel price [in Shishmaref] is \$6.99 per gallon. She explained that [high fuel prices] make hunting, fishing, and the subsistence lifestyle passed down by her ancestors more difficult. She requested that [the legislature] reassess the current budget and find other means [of balancing the budget] before increasing taxes.

[1:11:33 PM](#)

MIKE COONS stated his opposition to HB 249 and noted that Governor Bill Walker has suggested that [state government] cannot cut its way to a sustainable budget. He suggested that the governor's \$100 to \$200 million in proposed budget cuts would do very little toward the goal of developing a sustainable budget. He explained that he opposed the proposition of utilizing the permanent fund, and he posited that the governor's proposed state income tax is unfair to people who work because, like all "progressive tax schemes," low income residents do not pay the tax but do soak up the majority of Department of Health and Social Services spending. He indicated that although the governor's proposed sales tax is fairer, it is disproportionately visited upon those with low incomes. In reference to the proposed "sin taxes" on alcohol and tobacco, he expressed doubt that the increased cost would lead to any meaningful reduction in usage.

MR. COONS transitioned to a discussion of the proposed legislation and noted that President Obama had recently proposed legislation that would create a \$10 per barrel oil tax for alternative energy. He stated that Section 3 of the proposed legislation raised many questions that would create difficult accounting circumstances for gas stations. He pointed out that all tax increases would be between 100 and 175 percent of current rates. He listed the proposed rate changes described in Section 3 of the bill and stated that he found them confusing. He stated his assumption that fuel oil for home heating, which is diesel, would be included in the tax scheme and suggested that a heating fuel tax increase would significantly impact rentals and homeowners. He contended that the "off-road use" refund outlined in Section 5 of the proposed legislation is complicated in terms of the logistics of applying for the

refund; he questioned how a gas station could determine the purpose of the fuel being purchased and how an individual would be compensated for his/her due refund. He concluded, "This is not a perfect bill; this is a horrible bill. Get a big backhoe and burry this bill ten feet under poured concrete."

1:15:04 PM

ED ZASTROW stated that he has lived in the territory and state of Alaska for over 50 years. He acknowledged that the state is currently "enjoying a fiscal problem" and requested that if the proposed tax increase were to be implemented, [the legislature] consider imposing the tax increase in a "stepped" manner over the next several years. He pointed out that other taxes are going to be implemented and "stepping" the motor fuel tax increases would help [manage the transition].

1:16:33 PM

CLAY MURPHY shared that he is a veteran, a 35-year resident of the state of Alaska, a retired Alaska Railroad worker, a former fuel truck driver, and he currently drives busses. He stated that he had always voted in local, state, and federal elections, and he opposed the motor fuel tax increases proposed in HB 249 as they would increase the cost of energy in the interior. He discussed how companies cascade their cost of doing business to consumers and pointed out that the proposed legislation would double or even quadruple current motor fuel tax rates but would not significantly improve the current budget circumstance. He said he agreed with previous comments suggesting that the state should make meaningful spending cuts, and he related that the companies he has worked for in the past all ran their businesses on revenues; when revenues decreased, the companies were forced to make meaningful cuts. He noted that he hasn't seen that occur with Alaska's state government. He said the first action that state government wants to take in response to the budget shortfall is to implement resident taxes, which he opined was the wrong action. He stated that businesses make cuts if their projected revenues are estimated to be lower. He cited several business-based examples of how the state could reduce costs, including: implementation of a hiring freeze, cancellation of travel reimbursements, restructuring agencies, facility consolidation, sale of unnecessary buildings and lands, delay of promotions, parking and potentially disposing of equipment and vehicles, cancellation of unnecessary services, increased scrutiny and meaningful reductions at all levels of management,

and implementation of a wage cut with a promise of reinstatement upon return of revenues.

MR. MURPHY stated that if a tax is created, it must sunset at a certain point. He posited that an existing agency should perform the work of taxation; no new agencies or personnel should be allowed, as no increase to government could be responsibly allowed. He held that businesses will not ask for increased taxation, but those who work for state agencies and the University of Alaska will say "we should pay our fair share." He opined that Alaskan residents already pay their "fair share." He specified that his federal taxes increase every year, and his property mill rate is increasing. He explained that the state receives significant funding, given its population, from the federal government and the money is from taxpayers. He recommended that the legislature begin spending cuts by "trimming the fat" in the Department of Transportation & Public Facilities (DOTPF) and taking actions such as those listed previously. He stated that the commissioner of an agency should have the ability to perform the necessary streamlining and restructuring or they should be replaced by someone who can. He acknowledged that the reductions are difficult, but maintained that strong leadership is necessary at this time. He stated his opposition for tapping the permanent fund, but said if it must happen, he would support Senator McGuire's proposed legislation. He advised the committee that the Anchorage LIO debacle is an embarrassment to the state, and he compared it to former Governor Murkowski's jet.

[1:21:52 PM](#)

BRIAN MCNEIL stated that Alaska's per gallon [highway] fuel tax rates are either the lowest or close to the lowest of the 50 states and the average state highway fuel tax rate is approximately \$0.30 per gallon, while the highest rate is \$0.50 per gallon. He commented that based on [Alaska's] difficult topography, large geographic area, inclement weather conditions, small population, and the associated maintenance requirements, he does not understand how [Alaska's motor fuel tax rate] is not higher. He maintained that Alaska is an expensive state, with regard to transportation for the aforementioned reasons, and he said he doesn't see a way around it. He affirmed that he does not like to pay taxes any more than anyone else, but stated his belief that Alaskans must be reasonable.

[1:24:20 PM](#)

JIM SYKES acknowledged the severity of Alaska's fiscal crisis and stated that a motor fuel tax increase seemed reasonable under the circumstance. He stated his hope that motor fuel tax revenues would be applied toward maintenance, as the federal government will provide significant funding toward road construction, but very little for maintenance purposes. He explained that the result of that imbalance is that many roads have been constructed, but there is less money to maintain them. He noted that many Bush communities use fuel but do not have roads to maintain; he emphasized the importance of providing some level of funding to rural community services if their taxes are also going to be raised. He stated that it is appropriate for the tax to be applied by the gallon, specifically due to the incredibly high cost of fuel in rural communities. He indicated that upon consideration of revenue options after making budget cuts, the proposed motor fuel tax increase would be a prudent choice. He noted that Alaska does not have dedicated funds, and accordingly he expressed his hope that the revenue generated from the proposed tax increase would be utilized for a combination of both road maintenance and community services in rural communities. He said he was not sure he supported the bill, but indicated his belief that the proposal was headed in the right direction because [Alaskan's] must start paying their own way.

1:26:30 PM

BRIAN SIMPSON emphasized his opposition to the proposed tax increase. He said Alaska is already a "welfare state" and expounded that there is little consideration of small business owners who "actually work for a living." He posited that the idea of increasing the cost of personal or business transportation is abhorrent and remarked that the cost of funding state employees and their associated benefits packages is a significant financial stressor. He indicated that in addition to the cost associated with state employees, there are substantial costs associated with "a big block of people who just live off of the state." He pointed out that the administrative costs associated with providing services to rural areas would increase in relation to the increased transportation costs that the proposed legislation would cause. He contended that the best course of action would be to slowly dismantle the dependency of residents, ween people off of the state, and encourage people to have "real jobs" and produce things. He emphasized his belief that this tax proposal is a particularly bad idea, and he does not see any gain for people who actually work for a living and contribute to the state. As an aside, he

indicated his opposition to electronic filing and the imposition of an income tax for the cited reason that income taxes also punish those who work. He urged the committee, "Dismantle this welfare state; the writing is on the wall."

[1:32:43 PM](#)

REPRESENTATIVE NAGEAK stated that the proposed tax increases are disproportionately aimed at people who can't afford to pay them, particularly people in rural Alaska. He explained that most good jobs available in rural Alaska require skilled laborers, and many rural residents don't have those skillsets; therefore, most available jobs are filled by shift workers who live on the road system. He stated that there are both organized and unorganized boroughs in the state, as is constitutionally mandated, and boroughs have a duty to step up and find ways to raise revenues in their communities. He indicated that his borough has taken the initiative [since establishment] to build infrastructure in the village, including power plants, health clinics, and runways. He related that his borough took advantage when opportunity presented itself in the form of tax revenues from the oil industry.

REPRESENTATIVE NAGEAK suggested that people should be less concerned about state spending and more concerned about their own boroughs, and he recommended that local governments take the initiative to [solve their fiscal problems]. He said many people call for cuts [to state spending], but none of them want to cut services that affect them. He expressed the need for honest discussion regarding [the fiscal crisis] and noted that [Alaska] is in [a fiscal circumstance] where a bucket of chicken is more expensive than a barrel of oil. He remarked that [Alaska's economy] is near "the bottom of the barrel" and accordingly all [Alaskans] must "give and take." He stated that [solving the budget crisis] will be difficult, but it must be done. He stated that the governor's proposals are in front of [the legislature] and that the conversations had begun. He encouraged Alaskan residents to call in and share their ideas with the legislature regarding solutions for the fiscal problem, and he acknowledged that [the legislature] can't be afraid to make tough decisions.

[1:39:03 PM](#)

CO-CHAIR HUGHES commented to clarify that funds collected under HB 249 would not be reflective of a user fee, in that there would not be a requirement that the revenue be used specifically

toward transportation infrastructure, with the exception of a requirement that taxes on aviation fuel are used to fund airports. She further clarified that all fuel tax revenues are deposited into the general fund. She noted that despite being one of the states with the lowest fuel tax rates in the nation, Alaska still has one of the highest cost per gallon of fuel. She mentioned a federal proposal being considered by the current administration, which, if it were to pass, would increase the price per gallon of gasoline by \$0.25.

1:40:25 PM

REPRESENTATIVE ORTIZ thanked everyone who testified for sharing their views on Alaska's fiscal situation. He stated that government, by the people, for the people is not just an idea; it can be a reality. He complimented testifiers for taking the time to share comments and making it more of a reality. He commented, regarding the governor's proposal in general, that the governor did come up with a plan knowing that some of his tax proposals would be unpopular, even with himself. He expressed his appreciation for the governor's demonstrated leadership in formulating a plan for the legislature "to pick apart and criticize." He added that although the legislature has unpopular options to choose from, the alternative is significantly more budget cuts. In response to the criticism that the governor's proposed \$100 million budget cut is not large enough, he reminded that in the previous session, with the governor's leadership, the legislature cut approximately \$450 million from the operating budget and \$400 million from the capital budget. He contended that the proposed cuts for this session cannot be considered outside the context of cuts from the previous session, and he noted that those cuts will mean significant reductions in services that are important to people.

1:43:05 PM

CO-CHAIR HUGHES thanked the participants.

[HB 249 was held over.]

ADJOURNMENT

There being no further business before the committee, the House Transportation Standing Committee meeting was adjourned at 1:44 p.m.