

ALASKA STATE LEGISLATURE
HOUSE TRANSPORTATION STANDING COMMITTEE

February 4, 2016

1:07 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

HOUSE CONCURRENT RESOLUTION NO. 17

Supporting the aviation industry; and urging the governor to make state-owned land available to the unmanned aircraft systems industry for the management and operation of unmanned aircraft systems and related research, manufacturing, testing, and training.

- MOVED CSHCR 17(TRA) OUT OF COMMITTEE

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

BILL: HCR 17

SHORT TITLE: SUPPORT AVIATION INDUSTRY; USE STATE LAND

SPONSOR(S): HUGHES

01/29/16 (H) READ THE FIRST TIME - REFERRALS
01/29/16 (H) TRA
02/02/16 (H) TRA AT 1:00 PM CAPITOL 17
02/02/16 (H) Heard & Held
02/02/16 (H) MINUTE(TRA)
02/04/16 (H) TRA AT 1:00 PM CAPITOL 17

WITNESS REGISTER

RANDALL HOFFBECK, Commissioner

Department of Revenue (DOR)

Juneau, Alaska

POSITION STATEMENT: Provided the sectional analysis of HB 249.

KEN ALPER, Director

Tax Division

Department of Revenue (DOR)

Anchorage, Alaska

POSITION STATEMENT: Answered questions during the sectional analysis of HB 249.

STEVE HATTER, Deputy Commissioner

Office of the Commissioner

Department of Transportation & Public Facilities (DOTPF)

Juneau, Alaska

POSITION STATEMENT: Answered questions relating to HB 249.

JOE SPRAGUE, Senior Vice President

Communications and External Relations

Alaska Airlines, Inc.

Seattle, Washington

POSITION STATEMENT: Testified on HB 249.

GREG LOUDON, Member

Alaska Chamber

Anchorage, Alaska

POSITION STATEMENT: Testified on HB 249.

RON WILLE, General Manager

Kenai Fjords Tours

Seward, Alaska

POSITION STATEMENT: Testified on HB 249.

CLARK MILNE
Fairbanks, Alaska

POSITION STATEMENT: Testified in support of HB 249.

AVES THOMPSON, Executive Director
Alaska Trucking Association (ATA)
Anchorage, Alaska

POSITION STATEMENT: Testified in support of HB 249.

FRED STURMAN
Kenai, Alaska

POSITION STATEMENT: Testified in opposition to HB 249.

JAMES SQUYRES
Deltana, Alaska

POSITION STATEMENT: Testified in opposition to HB 249.

PAM GOODE
Deltana, Alaska

POSITION STATEMENT: Testified in opposition to HB 249.

LARRY DEVILBISS
Palmer, Alaska

POSITION STATEMENT: Testified in opposition to HB 249.

GINGER BLAISDELL, Staff
Representative Shelley Hughes
Alaska State Legislature;
Member
Unmanned Aircraft Systems Legislative Task Force
Juneau, Alaska

POSITION STATEMENT: Presented HCR 17 on behalf of Representative Hughes, prime sponsor.

ACTION NARRATIVE

[1:07:50 PM](#)

CO-CHAIR SHELLEY HUGHES called the House Transportation Standing Committee meeting to order at 1:07 P.M. Representatives Ortiz, Stutes, Nageak, Claman, and Hughes were present at the call to order. Representative Foster arrived as the meeting was in progress.

HB 249-ELECTRONIC TAX RETURNS & MOTOR FUEL TAX

1:08:41 PM

CO-CHAIR HUGHES 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."

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RANDALL HOFFBECK, Commissioner, Department of Revenue (DOR), began a review of the sectional analysis for HB 249 and stated that Section 1 would add a \$25 or 1 percent tax penalty for failure to file electronically unless an exemption is received by the taxpayer. He explained that all of the tax bills that [the administration] proposed this year include a requirement for electronic filing in order to increase efficiency and improve audit capabilities. He stated that Section 2 contains the language which requires the electronic submission of tax returns, license applications, and other documents to the Department of Revenue, and explained that the section also outlines the process to request an exemption if the taxpayer is unable to file electronically.

COMMISSIONER HOFFBECK explained that Section 3 effectively changes the per gallon tax rate for dealers for all categories of motor fuel as follows: highway fuel and gasohol from \$0.08 to \$0.16; marine fuel from \$0.05 to \$0.10; aviation gasoline from \$0.047 to \$0.10; and jet fuel from \$0.032 to \$0.10. Section 4 language changes the per gallon tax rates for users of all categories of motor fuel by the same rates outlined in Section 3.

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The committee took an at-ease from 1:11 p.m. to 1:14 p.m.

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COMMISSIONER HOFFBECK continued his discussion of the sectional analysis and clarified that Section 3 and Section 4 provide the implementation language for the rates in two statutes. He explained that Section 5 language will allow the increase of the motor fuel refund rate for "off-road use" from \$0.06 to \$0.12, and Section 6 provides language clarifying that the tax

increases would apply to motor fuel sold after the effective date, and that the filing requirement applies to returns submitted after the effective date. He specified that Section 7 includes transitional language allowing for regulations to implement the changes; Section 8 language details the immediate effective date for the transitional regulatory language; and language in Section 9 sets the effective date of July 1, 2016, throughout the bill.

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CO-CHAIR HUGHES inquired as to how the rates were determined, and whether \$49 million was used as a target goal. Further, she asked if an economic analysis of the proposed rates had been conducted with consideration given toward the impacts of marine fuel increases on coastal communities or highway fuel increases on rural locales.

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COMMISSIONER HOFFBECK stated that the rates initially discussed were significantly higher and closer to the national average, as the Alaska motor fuel taxes are substantially lower. He specified that as the governor began to assess the amount of impact the taxes would have on various entities, the rates were altered to distribute the burden across a larger base of the economy, with the idea that everyone should contribute. The resulting agreement was to double the tax; to meet the national average it would need to be quadrupled. He said there wasn't a lot of science behind the proposed increase, given that it would still be one of the lowest motor fuel tax rates in the country. The administration has commissioned the Institute of Social and Economic Research (ISER) to conduct a study on the economic impacts of the governor's plan, which will be available soon. The study was not necessarily designed to analyze the impacts on a specific user group or community, but rather, to describe the potential impacts of a tax increase in general. He noted that with a \$4.7 billion dollar deficit, everything [lawmakers] do will have some impact.

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CO-CHAIR HUGHES related her understanding that the proposed tax rates were developed using a gut sense rather than a true analysis, and she expressed appreciation for Commissioner Hoffbeck's forthrightness in that regard. She stated that the tax increase proposals taken as a whole - the motor fuel tax

increases, implementation of an income tax, and a reduction in permanent fund dividends - would disproportionately impact some communities. She mentioned that she is looking forward to reviewing the ISER study.

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REPRESENTATIVE CLAMAN asked whether the national average for fuel tax is \$0.32 or \$0.25.

COMMISSIONER HOFFBECK stated his understanding that the national average is \$0.32.

REPRESENTATIVE CLAMAN relayed that the committee had received a letter from Deputy Commissioner Jerry Burnett of the Department of Revenue (DOR), describing the federal requirement to exclusively spend aviation fuel tax revenue on airports. However, the committee also received a letter from Alaska Airlines, Inc., basing its opposition to the tax increase on the fact that the revenue would not be spent on airports; he requested clarification on this discrepancy.

COMMISSIONER HOFFBECK deferred the question and confirmed that the national average for fuel tax is \$0.25 per gallon.

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KEN ALPER, Director, Tax Division, Department of Revenue (DOR), stated that he was unfamiliar with Mr. Burnett's letter; however, the federal transportation administration does have rules stating that aviation fuel taxes should be spent at airports. It is the understanding at DOR that the rules have been strictly enforced in recent years, and he recalled that the issue had been brought before the body when a bill regarding the refined fuel surcharge was passed. He related that the rules regarding airport spending were part of the rationale for excluding aviation fuel from that piece of legislation. The state provides a significant amount of support to airports from the general fund, and the amount of additional funding from the increased aviation fuel tax, as proposed under HB 249, would be less than the state contributions to airports from the general fund; therefore, part of the proposed legislation was designed as a backfill for state spending. He explained that approximately \$200,000 would be shared with certain municipally owned airports, and the remaining state funds would be used for various, related support projects.

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REPRESENTATIVE CLAMAN requested confirmation that aviation taxes are not currently directed to a dedicated fund, that the federal government tracks how much revenue the state receives from aviation fuel taxes, and expects that money to be spent specifically on airport projects.

MR. ALPER stated his understanding that one of the exemptions to the rule on dedicated funds is an instance where there is a federal requirement. He explained that in the case of this specific federal requirement, Alaska's aviation funding is tied to compliance, and the state does not want to put the substantial amount of federal funding at risk.

REPRESENTATIVE CLAMAN asked whether the intention is to designate aviation tax revenues as dedicated funds, thus allowing the federal government to track the expenditures.

MR. ALPER responded that the administration does not anticipate having a dedicated fund, per se, but, in terms of accounting, the funds can be tracked to airport expenditures.

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REPRESENTATIVE NAGEAK opined that applying changes in the tax structure to every type of motor fuel will have a tremendous impact on rural communities, as fuel prices are based on what is paid at the time the fuel is ordered. He expressed concern regarding the disproportionate impact a \$0.16 per gallon tax could have on people in rural Alaska where gas prices can be as high as \$20 per gallon. He related that in many instances in the Bush, people don't make an income that can be taxed, but this proposal would effectively tax the non-existent incomes of rural Alaskans every time they buy fuel. He noted that the cost of doing business is increasing, especially for businesses that provide support services to rural Alaskan villages. He related that when the cost of doing business goes up, the increased cost is passed on to the consumer; the increases are visited on rural Alaskans, who may be forced to choose between buying a gallon of milk and going without. He explained that the price of the commodity is set when it is delivered by barge, which could be a month prior to a price change. He re-emphasized his stance that the tax increase would fall disproportionately on people with fixed incomes or no income at all.

COMMISSIONER HOFFBECK replied that having lived in Barrow for eight years, he understands the concerns regarding the price of fuel. He stated that some components of the motor fuel tax proposal have been designed to buffer the impact on rural Alaskans. He further explained that because the tax increase is not percentage-based, but is instead based on how much fuel a consumer purchases, it is not a flat tax. He explained that the other component aimed at diminishing the impact on rural Alaskans is the increase in the "off-road use" refund, which is available for people who primarily drive off the road system, with four wheelers, for example. He stated that the largest share of the motor fuel tax would be paid by urban consumers who travel significantly more miles and burn more gas.

REPRESENTATIVE NAGEAK asked whether the requirement to submit tax returns electronically would apply to everyone. He pointed out that there are many people in rural Alaska who do not have access to computers or have not had the experience and opportunities necessary to gain computing skills. He noted that if HB 249 passes, it would implement a \$25 or 1 percent tax penalty for failure to file electronically unless an exemption is received by the tax payer. He asked who would qualify for an exemption.

COMMISSIONER HOFFBECK responded that the taxes are paid at the distributor level, thus individuals would not have to meet the requirement.

REPRESENTATIVE NAGEAK stressed that the tax will be passed on to the consumer.

COMMISSIONER HOFFBECK agreed and said that there is a provision allowing any taxpayer to file on paper if they do not have the ability to file electronically.

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CO-CHAIR FOSTER noted that the issue of equity was raised previously and stated that comparing highway and marine fuel taxes is an "apples to oranges" comparison. He observed that the increases outlined in HB 249 are \$0.08 for highway fuel and \$0.05 for marine, and noted that the aviation tax increases are \$0.047 to \$0.10 and \$0.032 to \$0.10 for gasoline and jet fuel, respectively. He noted the two rates for aviation fuel, and stated his understanding that aviation gas tends to be used more by private pilots of smaller aircraft and that jet fuel is used for airplanes with jet or turbine engines, thus, for more

commercial applications. The recommendation was made by the Aviation Advisory Board, and he asked for the rationale behind setting the different aviation fuel tax rates.

MR. ALPER answered that the tax rates for aviation and jet fuel have been on the books for decades, but he said he was uncertain as to the exact history. He stated that the [Aviation Advisory Board] favored a tax increase over a landing fee increase; there is an authentic need for funding to support [airport] operations, and the administration is hoping to avoid landing fee increases.

CO-CHAIR FOSTER noted that historically, jet fuel has been taxed at a lower rate than aviation gas, and he speculated that it was perhaps during a time period when significantly less jet fuel was being used. He asked whether this rate was set in the 1970s.

MR. ALPER stated that he believed it was the 1970s and, to put the scale of the changes in perspective, said the State of Alaska has taxed an average of 625 million gallons of fuel per year through the four taxes effected in HB 249. He stated that jet fuel has accounted for 125 million gallons of the total taxed, and general aviation fuel has only accounted for about 10 million gallons; general aviation fuel is a much smaller volume of consumption and is used by private pilots and small planes. He stated that it is important to be aware that there are actually 400 million gallons of jet fuel purchased in Alaska every year, but the vast majority is exempted from tax because it is connected to international flights, largely through the Anchorage freight hub.

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CO-CHAIR FOSTER noted that under the proposed legislation the aviation gas would experience an increase of \$0.053, and jet fuel \$0.068. He asked whether much of the jet fuel is exempt from taxation because it's purchased by companies such as Korean Airlines, and others not based in Alaska.

COMMISSIONER HOFFBECK clarified that the way the current federal law is interpreted by the State of Alaska is that flights coming from, as well as traveling to, foreign destinations are tax exempt. He confirmed that a portion of the Alaska Airlines fuel purchases are tax exempt.

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REPRESENTATIVE ORTIZ stated that he shares Representative Nageak's concern about the impact of a fuel tax on rural Alaska. Many of his constituents also reside in rural locales and there is no question about the tax impact being greater in the Bush; however, the alternative is to reduce services in lieu of increasing revenue, and reductions in services - whether in education, broadband, or similar - also have a disproportionate impact on rural Alaska. He stated that the problem that both the administration and the legislature face is that any changes will have a negative impact. It's worth remembering that the legislature is discussing the impacts of revenue increases on constituents, but reduction in services will also have negative impacts. He asked for confirmation that the revenue of rural airports is subsidized from the general fund, at the 80 percent level.

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STEVE HATTER, Deputy Commissioner, Office of the Commissioner, Department of Transportation & Public Facilities (DOTPF), clarified that the representative's reference is to the funding gap between revenue and expenses relating to the operation of rural aviation systems; a gap of approximately \$34 million per year. The systems requires approximately \$35 million to maintain and operate, with an additional \$5 million in administrative costs. He stated that [DOTPF] collects approximately \$5.8 million in revenue, primarily through lease rates, and the remainder comes out of the general fund.

REPRESENTATIVE ORTIZ stated his belief that the calculated gap equates to a subsidy of approximately 80 percent, supporting the idea that much of the DOTPF airport revenues, from fuel taxes or other sources, are directed back to the aviation support system.

MR. HATTER replied that is correct. He stated that, at the current fuel tax rate, state airport expenses far exceed the revenue from aviation fuel taxes. The large gap provides the means for the state to meet the Federal Aviation Administration's (FAA's) grant assurance requirements.

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CO-CHAIR FOSTER asked for figures describing the funding gaps for the road system and the Alaska Marine Highway System (AMHS).

MR. HATTER replied that he did not know the figures off the top of his head for the amount of those two gaps, but ventured that the AMHS funding gap is a considerable amount as well. He stated that increasing revenue from all sections of the motor fuel tax plan would definitely help close the gap, but would ultimately come nowhere near covering operating costs.

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REPRESENTATIVE CLAMAN stated that over the last several days he has received communications from the Alaska Trucking Association (ATA), heavy users of diesel fuel, stating support for HB 249 and the proposed increase in the motor fuel tax. The Association of General Contractors, also major users of diesel fuel, has also offered its opinion. Further, he reported that he has spoken with a tour operator, whose company consumes 5,600 gallons of diesel on a weekly basis. In rough calculation, the tour operator would experience a \$450 to \$500 per week increase under HB 249. He stated that all of the aforementioned groups and individuals support this tax increase. He asked if there are any statistics available comparing diesel versus gas consumption. The conversation is frequently geared toward the impacts on consumers, he noted, and offered that consumers would see an approximate \$80 per year increase in motor fuel taxes assuming two cars and a driving range of about 20,000 miles per year. He asked whether more of the tax would be paid by the major users of diesel fuel or the average consumers who use less in general, and whether the difference is similar to private aircraft and commercial aircraft users: commercial aircraft users purchase more jet fuel than private aviation users do aviation gas.

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MR. ALPER offered to provide further information to the committee, regarding the number of gallons of gasoline versus diesel fuel taxed [annually]. However, specifying diesel fuel use, with regard to application for industrial purposes versus what is consumed by the average diesel automobile owner, may be beyond the scope of the division, he explained.

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CO-CHAIR HUGHES asked if the economic analysis being conducted by ISER is going to describe impacts by region.

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COMMISSIONER HOFFBECK stated his uncertainty whether the ISER report would include regional analysis, and indicated that the administration contracted ISER to do an impact study of the various issues pertinent to this legislative session. The task of determining methodology has been left up to ISER, allowing the study to be conducted from a totally independent perspective. Responding to a follow-up question, he projected that the report would be complete within two weeks and an executive summary available early next week.

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CO-CHAIR HUGHES, returning to the foreign jet fuel tax exemption as it applies to international flights, expressed her understanding that Alaska statute exempts the flights; however the statutes are based on federal law which has been successfully challenged in Florida. She said a question exists regarding the free-trade zone, near the Anchorage airport, and she asked for information on the flexibility of the foreign exemption. If foreign flights comprise 80 percent of the jet fuel sold in the state, she conjectured that, even without changing the aviation fuel price, simply eliminating the exemption would provide a considerable amount of revenue. She asked whether DOR had statistical information for that scenario.

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MR. ALPER replied that DOR had run some similar analyses regarding numbers and the order of magnitude, at the time the legislature was considering the fuel surcharge bill introduced last session, and he offered to rework the numbers to provide updated information to the committee. He said he was not familiar with the specifics of the Florida case, but there are some federal constitutional issues related to the commerce clause. He stated his awareness of differences between outbound and inbound foreign flights, which include a rule regarding flights continuing on locally. He suggested that when it comes time for public testimony, Alaska Airlines would have a strong opinion on the issue.

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CO-CHAIR HUGHES opined that the foreign exemption is pertinent to the conversation. Despite considerable fuel price fluctuations over the years, carriers have continued to provide service to Anchorage. A break-even point exists where it would

no longer make sense for an airline to provide service to Alaska, and that is something the committee needs to understand. She noted that of the \$49 million anticipated revenue, businesses and residents would each pay a portion, and although the business - not just transporters, but all types of businesses including retail and service providers - would pay the tax initially, ultimately the cost would be passed on to consumers. She posited that a tax increase will affect all Alaskans and individuals would ultimately pay, which, she stressed is her primary concern.

CO-CHAIR HUGHES compared the governor's tax proposal strategy to throwing proposals against a wall to see what sticks, peeling off those that do, adding them up, and reassessing the bottom line afterward. She noted that Alaska's high cost of government is among the highest in the nation and held that the proposed budget maintains that status. She opined that further reductions in costs must be made, and expressed concern over the combination of maintaining the high cost of government and the prospect of collecting \$49 million with the proposed tax. She said every dollar that is not reduced from the budget will come out of residents' pockets and suggested that a dollar in the pocket of the private sector in Alaska has a larger multiplier effect than a dollar held by government.

CO-CHAIR HUGHES restated her concern about the proposal, and emphasized that it may affect some communities more heavily than others. She said the tax may be low relative to other states, but Alaskans pay more at the pump; California and Hawaii may pay more, but it can be offset by lower food costs. She remarked that the average amount of fuel used in some Alaskan locales far exceeds that of others and offered an example from her region: one parent has a daily commute while the other drives the children throughout the Matanuska-Susitna Borough. Additionally, for some people, a trip to the store may mean a 20-mile round trip. The proposed tax would impact her area significantly, she predicted and said that she would feel more comfortable reducing the budget to essential services; however, if circumstance arose where an area would lose an Alaska State Trooper or close a section of road, then she might support a tax increase. Knowing that the \$49 million would be going back into transportation infrastructure and maintenance, rather than to the general fund, would also provide some piece of mind, she shared.

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REPRESENTATIVE NAGEAK stated that Alaska's primary transportation modes are marine and aviation, and he pointed out that marine transportation is seasonal for South Central, Southwestern, and Northern coastal regions due to ice conditions. These methods are the only travel options for residents who do not live on the road or rail system, which is a circumstance that will not change. He indicated that connecting all areas of the state by road remains cost prohibitive and, given the transportation challenges, leaves communities isolated. As an aside, he noted that some of that isolation is countered by modern communication technology, which allows events to be transmitted instantaneously. He explained that due to the seasonality of transportation to some regions, if the cost of fuel was high, at the time of purchase and delivery, it would remain high until the next buying season; between February and June of the following year. Fuel costs are significantly higher in rural Alaska than elsewhere in the state, he maintained, and expressed uncertainty as to how rural Alaskans would get through the fiscal challenge.

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REPRESENTATIVE CLAMAN requested that Mr. Alper be directed to provide the committee with figures comparing expenses and revenue for both the rural and international airports for the purpose of drawing a complete picture of the funding gap.

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CO-CHAIR HUGHES stated that the United Parcel Service of America, Inc., Delta Air Lines, Inc., and Checker Dispatch, LLC. has each submitted a testimonial letter, which are included in the committee packet.

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JOE SPRAGUE, Senior Vice President, Communications and External Relations, Alaska Airlines, Inc., introduced the team members in attendance and pointed out the written testimony available in the committee packet. He said Alaska Airlines has operated in Alaska for 84 years, and currently provides service to 19 cities. He explained that only 3 of these cities are connected to the road system and, from that standpoint, Alaska Airlines views its services as a critical component of the state's infrastructure. He held that this is further evidenced by the fact that the company build the terminal facilities for 11 of the communities served. In other words, these facilities, which

would be funded by municipal and state governments anywhere else in the country, are provided by Alaska Airlines at no cost to the state. Alaska Airlines has maintained these facilities over the years, and is about to invest in them again; the infrastructure directly provided to the airports is a large part of Alaska Airlines' service to the state. He reported that Alaska Airlines has 1,820 employees in Alaska and is privileged to count the vast majority of the residents of Alaska as customers.

MR. SPRAGUE stated that due to the company's extensive presence in the state, it is very concerned with HB 249, as it would raise the tax on jet fuel by over 200 percent. In addition to the jet fuel tax increase being exceedingly large, internal calculations suggest that Alaska Airlines would pay over 30 percent of the increase. He stated his concern regarding how the taxes would be utilized, with the revenue initially transferred to the general fund, and eventually allocated to the aviation system. He pointed out that the FAA stipulates use of state tax revenue for aviation purposes when those funds are collected from aviation entities. He emphasized that, due to the company's awareness of the fiscal challenges facing the state, it's not saying "heck no" to any sort of tax increase, recognizing that all businesses and residents need to be involved in the necessary solutions. He warned that the fuel tax increase will impact much needed commerce in the state, as well as basic needs. In many cases Alaska Airlines is the primary means of transporting basic commodities to a town, and as well as providing the means for residents to access larger urban areas for basic needs such as medical care and other services. He announced that Alaska Airlines intends to begin a multi-pronged investment in the state, estimated to total tens of millions of dollars, on three to four year projects, which include: improvements to the 11 rural terminal facilities, the development of a new hangar and aircraft maintenance facility at the Ted Stevens Anchorage International Airport, and the conversion of three modern 737 aircraft for use as freighters to support the cargo and airfreight needs of the state. Although new revenue may be needed, Alaska Airlines urges careful consideration of the impact of such a large tax increase on a single, critical component of the state's infrastructure. He concluded by reviewing the economic contributions being made by Alaska Airlines in a variety of ways including a corporate income tax for 2015 of \$10 million and paid approximately \$2 million in state fuel tax.

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CO-CHAIR FOSTER asked the administration to comment regarding the FAA's requirement for expenditures of aviation revenue.

COMMISSIONER HOFFBECK replied that the state is spending more in the maintenance and operation of airports than it collects in aviation taxes; which can be easily demonstrated. If the state were to collect more from aviation than they spend, there would be an issue. He noted that there is also an issue related to dedicated funds within the constitution. It requires DOR to track the funds and ensure that what is spent is at least equal to, or greater than, the amount received in the aviation tax.

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REPRESENTATIVE CLAMAN asked whether the fact that more state money goes into the airports than comes in from aviation taxes sufficiently addresses Alaska Airlines' concern about the lack of a dedicated aviation fund.

MR. SPRAGUE replied affirmatively, and said that of more concern is the added cost of several million dollars that Alaska Airlines would incur, specific to intra-Alaska operations. He stated that high fares are the norm on intra-Alaska routes, as it is very expensive to operate in-state. Alaska Airlines continues to seek ways to lower operating costs and the tax increase would serve to increase expenses, potentially for many years to come.

REPRESENTATIVE CLAMAN offered his assumption that if the fuel tax increases by \$0.068 per gallon, the company will recalculate its rates, resulting in consumers paying more for air travel.

MR. SPRAGUE concurred, and said that, like any business, Alaska Airlines must cover its costs and when expenses rise, pricing is adjusted to cover the increase. He added that, as Alaska Airlines is considering a very large capital investment in the state, the addition of a recurring cost, while not necessarily causing the company to cancel plans, does curb its enthusiasm.

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REPRESENTATIVE ORTIZ stated his assumption that with oil down to \$30 per barrel, Alaska Airlines' fuel costs have been reduced significantly. He asked if it is accurate to say that Alaska Airlines has benefitted from the lower fuel costs, and that,

even with the additional tax, the price of fuel remains lower than it was two years ago.

MR. SPRAGUE agreed that lower fuel prices have been a benefit, and fares are down because the company is able to pass the savings on to its customers. The lower cost has also helped Alaska Airlines' financial position, allowing it to consider capital investments in the state. He pointed out that fuel prices fluctuate significantly and - while experts may suggest that prices are going to be "lower, longer" in the present - if a fuel tax increase is enacted, it could remain in place indefinitely. He related that the belief held by the airline industry is that oil prices are going to rebound and companies will pay higher prices over time.

REPRESENTATIVE ORTIZ asked whether the lack of significant progress by the state, regarding its fiscal situation, increases the risks associated with Alaska Airlines' intended capital investments.

MR. SPRAGUE replied that Alaska Airlines has certain needs in the state of Alaska with respect to operations. The rural terminals are in need of improvements as the newest is 15 years old, the facilities are exposed to harsh environmental conditions much of the year, and none have been adjusted to meet the (Transportation Security Administration) TSA requirements imposed after [the terrorist attacks of September 11, 2001]. The changes need to take place regardless of what the state does to address the fiscal situation; this holds true for both the maintenance facility in Anchorage and the company's commitment to serving cargo needs. He suggested that Alaska Airlines will likely proceed with the investments, but will do so with some level of trepidation given an economic environment that is cloudy at best and, absent legislative action, could get cloudier. He emphasized, yes, there is concern.

[2:10:48 PM](#)

CO-CHAIR FOSTER asked if Alaska Airlines is a member of, or has input into, the Aviation Advisory Board, which made the recommendations for the proposed tax increases.

MR. SPRAGUE confirmed the company's awareness of the proceedings with the Aviation Advisory Board, and has an executive who represents the airlines as a member. However, Alaska Airlines did not have a participating member when the recommendation for the tax increase was made. He stated his appreciation for the

question, because it is an important distinction. Mr. Sprague offered assurance that Alaska Airlines' is supportive of its aviation colleagues in Alaska, and works closely with other aviation operators, whether in regard to safety or commercial issues. It's unusual for Alaska Airlines to have a different position from the rest of the aviation operators in the state, but what makes it unique is the level of investment the company has made in the state's aviation infrastructure. He remarked that some other airlines have their own terminal facilities, but none of them have eleven, large, TSA-equipped, cargo-equipped, terminal facilities.

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REPRESENTATIVE CLAMAN stated that he has heard many business leaders express the urgent importance of addressing the fiscal gap this session and not postponing action to another session. He asked which would be the greater risk to Alaska Airlines' confidence in continued investment in Alaska: the fuel tax increasing to \$0.10 or the legislature not making real progress toward closing the fiscal gap.

MR. SPRAGUE stated that Alaska Airlines' understanding is that the amount of revenue that would be raised by increasing the motor fuel taxes would not sufficiently address the state's fiscal challenges.

REPRESENTATIVE CLAMAN clarified that he was referencing the larger fiscal situation, not just the fuel tax, with his previous question.

MR. SPRAGUE stated that Alaska Airlines' view is that action is going to have to be taken across the various levers that are available to the legislature to address the issue.

[2:14:08 PM](#)

GREG LOUDON, member, Alaska Chamber, stated that the chamber's legislative affairs committee members were asked to clarify priorities for the upcoming legislative session. He pointed out that written testimony was submitted on August 24, 2015, to Governor Walker and the Alaska State Legislature. For answering the fiscal situation, the Alaska Chamber's number one priority is the reduction of state spending to a sustainable level, which the chamber defines as \$4.5 billion, or less, of unrestricted general fund expenditures by fiscal year 2018 (FY18). The second priority is to use permanent fund earnings, and the last

priority is to invoke broad-based taxes. He informed the committee that the important message from the Alaska Chamber is that it supports closing the fiscal gap and encourages the legislature to take strong action this session to accomplish that, but it wants the focus to be on cutting state expenses before looking to other sources of revenue.

[2:15:35 PM](#)

CO-CHAIR FOSTER noted that, if the legislature were to use the permanent fund earnings, after subtracting what is needed to pay a dividend and inflation proofing, approximately \$5 billion would be available. At the current oil price of \$20 to \$30 per barrel that sum would be gone in as little as 18 months. He asked whether Alaska Chamber has a long-term strategy.

MR. LOUDON stated that the Alaska Chamber has not taken a specific position on the governor's proposed bill or related legislation, as introduced. The Alaska Chamber knows that some form of legislation is necessary, and it is not advocating that the state spend all of the permanent fund earnings. The chamber is emphasizing the importance for the legislature to reduce state spending before considering other sources of revenue.

[2:17:27 PM](#)

CO-CHAIR HUGHES asked for clarification that the Alaska Chamber's stance is that there is a preferred order to the actions taken to close the gap: reduce government spending, use the permanent fund in some way, and, as a last resort, increase taxes.

MR. LOUDON replied that is correct.

CO-CHAIR HUGHES commented that Alaska's budget from ten years ago, adjusted for inflation, was approximately \$4.1 billion. She granted that there are differences now such as pension obligations and health care. A \$4.5 billion unrestricted general fund budget sounds like a realistic target, and she said she personally does not recall any public outcry about a lack of government services 10 years ago.

[2:18:32 PM](#)

REPRESENTATIVE STUTES asked if the Alaska Chamber has any ideas regarding ways to cut state spending.

MR. LOUDON responded that the chamber has developed a framework for how it would suggest making reductions in government spending; however, the framework does not involve isolated cuts, but offers department by department recommendations.

2:19:09 PM

REPRESENTATIVE ORTIZ asked if the Alaska Chamber has been provided with any information on the economic impacts of the recommended reductions. He gave the example of a significant reduction in spending for the Alaska Department of Fish & Game (ADFG) resulting in a lack of positions necessary to accomplish their projects, which may result in more conservative management decisions, which would in turn result in fewer fish caught, and ultimately less income earned in the fisheries. He stated that the legislature needs to reduce the budget and will, but the question is how that is accomplished with a minimal impact on the overall economy. He asked if there has been any analysis on the impact of a \$4.5 billion budget.

MR. LOUDON answered that the Alaska Chamber worked with ISER, and other state resources, to analyze the potential economic impacts of budget reductions. The \$4.5 billion dollar number is a summary of the expenditures that the Alaska Chamber believes is reasonable.

2:20:56 PM

RON WILLE, General Manager, Kenai Fjords Tours, stated that the implementation of a \$0.05 increase in marine fuel tax rates would double the current rate and substantially increase costs to his company. He stated that in recent years back-to-back, double-digit minimum wage increases for some of the seasonal entry level jobs that Kenai Fjord Tours hires have also increased costs. He said coupling these increases has had an impact on the business and the company's bottom line. The marine fuel taxes made more sense, he said, when the state owned and operated many of the harbors throughout the state. Seward now owns and maintains its own harbor, and the revenue from marine fuel taxes do not seem to directly transfer from the state to the local coffers. He asked whether funds generated by the marine fuel tax would be dedicated to locally owned ports and harbors. Another area of concern, similar to that held by people in rural Alaska, is that the company only has one marine fuel supplier, which causes less competition in the market and can lead to higher prices. He concluded by stating that large increases over such a short time period does not allow a company

to make adjustments to its pricing structure and compensate for the increased costs.

[2:23:28 PM](#)

CO-CHAIR HUGHES asked what the projected, additional costs would be for his business, under HB 249.

MR. WILLE replied that fuel costs would increase by tens of thousands of dollars.

[2:23:50 PM](#)

CO-CHAIR HUGHES opened public testimony on HB 249.

[2:24:02 PM](#)

CLARK MILNE stated support for HB 249 and SB 132 and said he believes that the revenue would be allocated to current road, harbor, and airport maintenance expenditures. He stated his understanding that Alaska's highway fuel tax is the lowest in the country, at \$0.08, and would remain the lowest even if increased to the proposed \$0.16. He stated that implementation of the tax would put Alaska in better stead with the Federal Highway Administration and given that the overall cost of fuel has dropped by 50 percent, the addition of \$0.08 is not a significant burden. The proposed tax increase, as structured by the Aviation Advisory Board, would not result in any new collection costs and would be visited upon people who use the associated infrastructure. Also, the impacts of a fuel tax would be greater for fuel-based businesses such as taxis, airlines, mining, and construction. It is imperative for Alaska to continue using the subaccounts within the general fund, he said, as mandated by AS 43.40.010 (g), which reads as follows: "The proceeds of the revenue from the tax on all motor fuels, except as provided in (e), (f) and (j) of this section, shall be deposited in a special highway fuel tax account in the state general fund." He opined that because of this statute, the state does not need a dedicated fund. He said he is not certain that the subaccount is a designated fund, but it is handled and accounted for in such a way that the legislature or a private citizen can track revenues and expenses. The entire \$49 million tax increase divided by 700,000 citizens would result in a per-capita increase of about \$70 per person, per year, which, he predicted, would help meet the needs of the state.

[2:27:31 PM](#)

CO-CHAIR HUGHES clarified that, even though the subaccounts are written in statute, the legislature has the ability to move the funds and use them in whatever way is deemed necessary.

[2:28:13 PM](#)

AVES THOMPSON, Executive Director, Alaska Trucking Association, stated support for HB 249, and said that one of the ATA legislative priorities in 2016 is the development of a balanced, durable, long-term fiscal plan utilizing cuts to state government, permanent fund earnings, and taxes, if required. He stated that the fuel tax increase, as proposed in HB 249, is acceptable to ATA, within the framework of a long-term fiscal plan. He stated that ATA believes action is critical this legislative session and has long-supported a fuel tax increase if the funds can be dedicated to transportation needs. He relayed that it is ATA's understanding that the funds would not be dedicated in HB 249, but ATA's members feel strongly that they need to help resolve the fiscal issues by doing their part.

[2:29:47 PM](#)

CO-CHAIR HUGHES asked whether ATA agrees with the governor's proposed budget or if the association is more inclined to support the Alaska Chamber's proposal of a \$4.5 billion budget.

MR. THOMPSON responded that ATA want to see further reduction in state spending, consideration of use of the permanent fund earnings, and an increase in taxes - all part of a longer-term plan. He stated that action needs to take place now, and that there is a lot of uncertainty in the credit markets, in construction, in transportation, and in other industries; people are wondering what will happen next. He urged the committee to consider the whole package and said the motor fuel tax increase is acceptable within the framework of a larger plan.

[2:31:32 PM](#)

FRED STURMAN stated opposition to HB 249, and said that he has been testifying regularly over the past ten years in an effort to persuade the legislature to reduce government spending. He expressed opposition to any new taxes until the state cuts at least 30 percent of its spending. When it comes time to discuss taxes, the state should start with an income tax, followed by a sales tax, followed by accessing the permanent fund, he opined, and concluded that by accessing the permanent fund, implementing

a sales tax, increasing motor fuel tax rates, and some of the other proposed taxes the state would effectively eliminate any discretionary money held by the public, and there would no longer be an economy. As an owner of a couple of small businesses, he reported that business has been down by 15 to 20 percent in the last two years and is getting worse. He related that he recently spoke with people who are selling everything they have and moving out of state. The economy in the near future is going to be worse than it was in the 1980s unless there are major cuts to government spending. Based on a \$4 billion fiscal gap, the state is short \$5,714 per capita. He stated his hope that the legislature would stop discussing implementation of new taxes and start focusing on cuts to the government. Additionally, he suggested that the Division of Motor Vehicles (DMV) and the Kodiak rocket launch facility be cut and that road maintenance be contracted. He suggested that the State of Alaska should purchase products and services in support of the government from locally owned businesses as much as possible, and opined that the legislature for the past 10 to 20 years has been spending more than it can afford.

[2:35:41 PM](#)

JAMES SQUYRES stated opposition to HB 249 and opined that the legislature should further reduce the size of government rather than entertain the governor's plan to increase revenue at the expense of the private economy. The state should be continuing to cut, not "run from one side of the boat to the other." He encouraged members to endorse the judicious use of the earnings reserve and the power of the majority to lower the overall budget to \$4.5 billion. He stated that a 100 percent increase in the fuel tax is one of several proposals that would inordinately place the burden of the fiscal crisis on the backs of the people. He related that he lives in rural Alaska, drives 80 miles round trip to get to town, plows one mile of unmaintained state road to get to his driveway, and must maintain two plow trucks to ensure access to his property. He stated that gasoline is used for energy, plowing, cutting, splitting, and transport to and from town. He related that fuel costs have finally come down for the interior, and posed the question, "Will the fuel tax be dropped if the price of oil goes back up?" He restated his opposition to HB 249, because of the budget.

[2:37:45 PM](#)

PAM GOODE stated opposition to HB 249, and opined that the proposed bill is unnecessary and a total waste of time. She said the legislature should focus entirely on cutting the size of government, not on raising revenue. She stated her understanding that DOTPF has increased in size by 109 percent in the last 10 years, and this increase was not used for services, but instead to "hold up the size of government." The economic challenge is faced by all Alaskans and the rural sector is going to be hit very hard. She posited that the bigger insult to rural Alaskans is the removal of money from the private sector and its placement in the hands of government, which is normally located in the larger cities; therefore, the state would be taking money out of the rural communities and placing it in cities. She commented on the argument that an increase in motor fuel tax is positive because it captures tourism dollars, stating that the summer is not just the tourism season, but is also the time of year that all Alaskans travel. She indicated that she was offended by the claim that, when compared to other states, Alaska does not tax enough. The cost of living in Alaska is already high she said, and stressed that she doesn't want Alaska to be like other states. Alaska has more liberty and more freedom, she opined, and it needs to stay that way. The only way to ensure that happens is to keep the size of government down. She restated her opposition to HB 249, because she said it would not address the root cause of the fiscal problem: government spending.

2:40:14 PM

LARRY DEVILBISS testified that he is a beef farmer attempting to compete with cattle farms in the Lower 48. He related that in the Lower 48, cattle can graze on natural grass for nine months per year and farmers only have to provide feed for 3 months per year; however, the opposite is true in Alaska, where farmers must provide feed 9 months per year. He said the consequence of this is that in the summer, [his farm] puts up a lot of hay. He stated that last year's "Schedule F" form for his federal income tax confirmed that fuel is easily the largest single expense in the cost of putting up hay in the summer, and is easily 50 percent more than the cost of fertilizer. He explained that fuel costs are a huge impact, and he is aware of an exemption that exists for off-road users, but HB 249 would double his farm tax. He stated his awareness that someday this sort of provision may be necessary, but he said it bothers him that state government wants to "reach into his pocket" on July 1, at the time of first hay cut, before the legislature has determined a sustainable level of government. The legislature should find

the minimal level of state services, before dipping into the private side of the economy. He posited that state government is more concerned with preserving the public economy than the private economy.

[2:43:04 PM](#)

CO-CHAIR HUGHES announced that HB 249 would be held over and that public testimony would remain open.

The committee took an at ease from 2:43 to 2:49 p.m.

HCR 17-SUPPORT AVIATION INDUSTRY; USE STATE LAND

[2:49:06 PM](#)

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

CO-CHAIR FOSTER announced that the final order of business would be HOUSE CONCURRENT RESOLUTION NO. 17, Supporting the aviation industry; and urging the governor to make state-owned land available to the unmanned aircraft systems (UAS) industry for the management and operation of UAS and related research, manufacturing, testing, and training.

[2:49:40 PM](#)

REPRESENTATIVE NAGEAK moved to adopt Amendment 1 [not labeled], which read as follows [original punctuation provided]:

Page 1, Line 13:

Remove: "aviation"

Insert: "unmanned aircraft systems"

Whereas the state anticipates 173 new jobs in the ~~aviation~~ **unmanned aircraft systems** industry...

Page 1, Line 15:

Remove: "aviation"

Insert: "unmanned aircraft systems"

Jobs indirectly created by the ~~aviation~~ **unmanned aircraft systems** that...

Page 2, Line 1:

Insert at end of the paragraph:

Related earnings into the state's economy **as identified in the May 2013 McDowell Group report**

prepared for the Alaska Center for Unmanned Aircraft
Systems Integration, University of Alaska Fairbanks.

[2:50:06 PM](#)

CO-CHAIR FOSTER objected for the purpose of discussion.

[2:50:15 PM](#)

GINGER BLAISDELL, Staff, Representative Shelley Hughes, Alaska State Legislature, Member, Unmanned Aircraft Systems Legislative Task Force, stated that Amendment 1 has three parts designed to add some clarification and was brought to the attention of the committee by Representative Claman. She stated that under Amendment 1, on page 1, line 13, the word "aviation" would be removed and replaced with "unmanned aircraft systems", because the information provided is specific to UAS rather than the entire aviation industry. She stated that the same change would be made on page 1, line 15. She said on page 2, line 1, the change references the source of the information as a May 2013 McDowell Group report prepared for the Alaska Center for Unmanned Aircraft Systems Integration at the University of Alaska Fairbanks, as part of an application to be an FAA test site.

[2:51:36 PM](#)

CO-CHAIR FOSTER removed his objection. There being no further objection, Amendment 1 was adopted.

[2:51:52 PM](#)

REPRESENTATIVE NAGEAK moved to adopt Amendment 2 [not labeled], which read as follows [original punctuation provided]:

Page 2 ADD a new section following line 26:

COPIES of this resolution shall be sent to the Honorable Michael P. Huerta, Administrator, Federal Aviation Administration; Honorable Bill Walker, Governor of Alaska; Commissioners of all Alaska State Departments; Executive Directors of all State Corporations; and Brian Wynne, President and CEO, Association for Unmanned Vehicle Systems International

[2:51:59 PM](#)

CO-CHAIR FOSTER objected for the purpose of discussion.

2:52:05 PM

MS. BLAISDELL stated that Amendment 2 adds a new section, with language identifying where copies of HCR 17 are to be provided. She said all state departments are being encouraged to look at their land holdings to determine whether a contractual arrangement could be made. She indicated that giving copies of the concurrent resolution to those on the list would serve the purpose of publicizing that Alaska is open for business.

2:52:55 PM

REPRESENTATIVE NAGEAK sought clarification regarding what qualifies as a state corporation.

MS. BLAISDELL responded that the intention is to distribute the proposed resolution to all executive directors of all State of Alaska corporations, such as the Alaska Railroad Corporation, the Alaska Housing Finance Corporation, and the Alaska Mental Health Trust. All of the named entities have land holdings and may be interested in allowing commercial UAS access. She stated that sending a copy of HCR 17 to all state corporations would involve distributing an extraordinary number of copies, and many corporations would have no involvement with the UAS industry. She explained that specific UAS companies are not listed because not all of them are known to the [UAS Legislative Task Force]. Alaska is trying to attract business from both the Lower 48 and overseas, and some of these potential investors wish to remain anonymous.

REPRESENTATIVE NAGEAK stated that Amendment 2 should be reworded to read "State of Alaska corporations."

2:55:35 PM

CO-CHAIR FOSTER asked if Representative Nageak was offering a conceptual amendment to Amendment 2.

2:55:49 PM

REPRESENTATIVE NAGEAK replied yes.

[The committee treated the amendment to Amendment 2 as moved for adoption.]

[2:55:53 PM](#)

CO-CHAIR HUGHES offered that since HCR 17 does not need to be distributed to every State of Alaska corporation, perhaps the conceptual amendment to the amendment should be rephrased "relevant State of Alaska corporations."

MS. BLAISDELL stated that she would prefer to send HCR 17 to all State of Alaska corporations, because she was not sure who she would specifically exclude.

REPRESENTATIVE NAGEAK agreed with Ms. Blaisdell's assessment.

[2:56:34 PM](#)

CO-CHAIR FOSTER asked if there was consensus from the committee for adopting Conceptual Amendment 1 to Amendment 2.

CO-CHAIR HUGHES stated that as the sponsor, she would be fine with the Conceptual Amendment.

[2:57:01 PM](#)

REPRESENTATIVE CLAMAN offered that Amendment 2 should read "following line 28" versus "following line 26."

[2:57:28 PM](#)

CO-CHAIR HUGHES clarified that "after line 26" is correct, owing to the work draft which, although not adopted, was provided.

CO-CHAIR FOSTER requested clarification.

MS. BLAISDELL explained that under proposed Conceptual Amendment 1 to Amendment 2, the copies of the resolution would be sent to "State of Alaska Corporations".

[The committee treated Conceptual Amendment 1 to Amendment 2 as adopted.]

[2:58:42 PM](#)

CO-CHAIR FOSTER removed his objection to the motion to adopt Amendment 2, as amended, and with no further objection, Amendment 2 was adopted.

[2:59:16 PM](#)

REPRESENTATIVE STUTES moved to report HCR 17, as amended, out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, CSHCR 17(TRA) was reported from the House Transportation Standing Committee.

[3:01:29 PM](#)

ADJOURNMENT

The House Transportation Standing Committee meeting was recessed at 3:01 p.m. to be continued at 1:00 P.M. on February 6, 2016. [The meeting reconvened on February 6, 2016]