

**ALASKA STATE LEGISLATURE
HOUSE TRANSPORTATION STANDING COMMITTEE**

January 31, 2017

1:32 p.m.

MEMBERS PRESENT

Representative Louise Stutes, Co-Chair
Representative Adam Wool, Co-Chair
Representative Matt Claman
Representative Harriet Drummond
Representative Chuck Kopp
Representative Mark Neuman
Representative Colleen Sullivan-Leonard
Representative David Eastman (alternate)

MEMBERS ABSENT

Representative Gabrielle LeDoux (alternate)

OTHER LEGISLATORS PRESENT

Representative George Rauscher

COMMITTEE CALENDAR

HOUSE BILL NO. 60

"An Act relating to the motor fuel tax; relating to the disposition of revenue from the motor fuel tax; relating to a transportation maintenance fund; and providing for an effective date."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 60

SHORT TITLE: MOTOR FUEL TAX; TRANSPORTATION MAINT. FUND

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

01/18/17	(H)	READ THE FIRST TIME - REFERRALS
01/18/17	(H)	TRA, FIN
01/31/17	(H)	TRA AT 1:30 PM BARNES 124

WITNESS REGISTER

JERRY BURNETT, Deputy Commissioner
Department of Revenue
Juneau, Alaska
POSITION STATEMENT: Presented HB 60.

BRANDON SPANOS, Deputy Director
Tax Division
Department of Revenue
Anchorage, Alaska
POSITION STATEMENT: Answered questions during the hearing on HB 60.

MARC LUIKEN, Commissioner
Department of Transportation & Public Facilities (DOT&PF)
Juneau, Alaska
POSITION STATEMENT: Presented HB 60 on behalf of the governor.

ACTION NARRATIVE

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CO-CHAIR ADAM WOOL called the House Transportation Standing Committee meeting to order at 1:32 p.m. Representatives Wool, Claman, Kopp, Sullivan-Leonard, Neuman, Eastman (alternate), and Stutes were present at the call to order. Also in attendance was Representative Rauscher.

HB 60-MOTOR FUEL TAX; TRANSPORTATION MAINT. FUND

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CO-CHAIR WOOL announced that the only order of business would be HOUSE BILL NO. 60, "An Act relating to the motor fuel tax; relating to the disposition of revenue from the motor fuel tax; relating to a transportation maintenance fund; and providing for an effective date."

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JERRY BURNETT, Deputy Commissioner, Department of Revenue (DOR), stated that HB 60 is designed to increase the motor fuel tax and is an integral part of the governor's budget proposal. Mr. Burnett began with slide three of his PowerPoint by sharing the history of Alaska's motor fuel tax. He said that Alaska's motor fuel tax has been in place in Alaska since 1945. He explained that although the rates have increased over time, the structure has remained unchanged. He noted that the last increase in

Alaska's highway fuel tax, which is currently eight cents, was in 1970. Mr. Burnett reminded the committee that in 1970 the nationwide average gas price was 36 cents per gallon and the median Alaskan income was \$12,500. He reported that in 1971 the first year of collections brought in \$9.4 million to the state. To give the committee some perspective, Mr. Burnett disclosed that at that time Alaska had a state general fund (GF) budget of about \$250 million and a total state budget of \$369 million. He said that the tax now brings in \$40 million annually, which is more like \$4 billion in GF when all the motor fuel taxes are included. He explained that the tax is a per gallon charge and is not based on a changing value. Mr. Burnett reminisced about 2008, when Sarah Palin was governor; oil prices were extremely high, and the state temporarily suspended its motor fuel tax from September 1, 2008 until August 31, 2009. He offered his estimate that just over \$11 billion in oil revenue were brought in that year. Mr. Burnett reported that in 2015 House Bill 158 added almost a penny surcharge to motor fuel and some other refined fuels. He added that revenue generated by House Bill 158 was intended for use by the Department of Environmental Conservation (DEC) for spill prevention and response funding.

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MR. BURNETT moved to slide four and stated that Alaska's fuel tax is currently one of the lowest in the United States. He referenced the Institute on Taxation and Economic Policy (ITEP) report, included in the committee packet, for comparison of motor fuel tax rates in other states. He noted that South Carolina is the next lowest behind Alaska. He stated that even with the increases proposed in HB 60, Alaska would still be below the national average for highway fuel and slightly over the national average for jet and aviation fuel. Mr. Burnett revealed that because of a lack of vast coastlines like Alaska has, many states do not have a separate category for marine fuel tax. He said that marine fuel usage is most often reflected within the highway use tax.

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CO-CHAIR STUTES inquired about the existence of marine fuel tax rates in some of the U.S. southern coastal states, such as Texas and Louisiana, and queried whether the department had that data for comparison purposes.

MR. BURNETT said that he does not currently have that information but offered his belief that those states likely have

marine taxes. He said that he would be happy to provide that information to the committee.

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REPRESENTATIVE SULLIVAN-LEONARD inquired as to what the current per gallon gas prices are in Southcentral and Southeast Alaska.

MR. BURNETT offered his belief that average per gallon prices are close to \$3 in Southeast and in the \$2.60 range for Southcentral. He shared his assumption that \$2.89 per gallon is currently the lowest available price in Juneau and that although he did not know the exact dollar amount per gallon, that Costco in Anchorage would probably have the cheapest prices.

REPRESENTATIVE SULLIVAN-LEONARD inquired as to how the department arrived at the figures listed on slide six.

MR. BURNETT specified that those figures represent just the motor fuel tax portion of the per-gallon price and not the total amount paid at the pump.

MR. BURNETT returned to his presentation and brought attention to slide five, showing both current and proposed prices for the various types of taxable fuel. He explained that the bottom box, labeled "Off-road use credit," is in regard to a credit for fuel bought specifically for use off of the road. Mr. Burnett specified that that designation usually applies to industrial users or farmers.

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CO-CHAIR WOOL asked whether an owner of a loader could apply for a credit for the diesel fuel consumed by that piece of equipment.

MR. BURNETT answered yes. He elaborated that the credit would still apply whether that loader was used for personal or industrial use. Mr. Burnett reported that the off-road use credit of six cents equates to only a two-cent tax to be paid.

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REPRESENTATIVE CLAMAN asked for clarification whether the off-road use credit would apply on a personal-use basis in communities such as Nome, Kotzebue, and [Utqiagvik] Barrow that all have high snow machine usage.

MR. BURNETT offered his assumption that although snow machine fuel usage would be eligible for the credit, it would depend on the amount used whether it would be worth it to file for credits on small purchases.

REPRESENTATIVE CLAMAN offered his understanding that the credit would not be applied directly at the pump but would actually involve collection of receipts to weigh whether it would be worth it to turn them in for a refund.

MR. BURNETT said that it is a requirement to apply directly to DOR for the credit. He explained that is because the tax is paid at the distributor level, not by the retailer, and not added on to the price of gas at the filling station.

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REPRESENTATIVE NEUMAN surmised that there could be tens of thousands of snow machine and four-wheeler owners in Alaska who could apply for the credit. He inquired whether each individual vehicle would have to be applied for separately or if just once for the total amount of gas. He also questioned whether the state would need more employees to deal with the potential influx of all the credit applicants.

MR. BURNETT indicated that this is not a new credit and that it is already in statute. He noted that HB 60 proposes to increase the credit. Mr. Burnett asked Mr. Spanos to give some examples of previous usage of the credit.

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BRANDON SPANOS, Deputy Director, Tax Division, Department of Revenue (DOR), for clarification, asked whether the question is how difficult is it to administer a credit refund program for off-road use?

CO-CHAIR WOOL confirmed that to be correct.

MR. SPANOS reiterated Mr. Burnett's previous answer that the credit is not new and has been available for some time. He acknowledged that the credit has primarily been used by mining companies for heavy machinery used off-road. He said that there are a few companies who apply for the credit for non-taxable uses. He explained that most companies can buy heating fuel "tax-off," but that some do buy it "tax-on" and then file for

the refund. He revealed that it is only occasionally that an individual applies for the credit for fuel usage from a snow machine or a lawnmower. He added that the refunds are insignificant. In regard to a previous comment concerning Bush communities, he revealed that the department does have an exemption allowing tribes to purchase fuel tax-off, as long as the tribe owns the tank. He explained that means anyone in that community can then purchase fuel for their snow machine or four-wheeler and not have to pay the tax. He noted that if an individual purchases fuel for his/her boat from the tribe, then he/she would have to file a return to pay the tax for the marine fuel.

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CO-CHAIR STUTES asked Mr. Burnett what the increased amounts would be for July 2017 if the taxes were adjusted simply on the inflation rate.

MR. BURNETT replied that he had not yet done that calculation. He stated that the department would be happy to run the calculations, but there are a number of possibilities of inflation rates to choose. He offered his belief that the general consumer price index (CPI) from the 1970s has almost tripled. He gave further examples of inflation by saying that wage growth in Alaska has quadrupled and the CPI for urban consumers has tripled. He said that had the inflation rate been a percentage of the fuel cost in 1970, the tax would equate to roughly a 33 percent tax. Mr. Burnett elaborated that a 33 percent tax on \$2.50 per gallon fuel would equal well above 24 cents and would be more like one dollar.

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CO-CHAIR WOOL offered his understanding that the off-road credit exists because the motor fuel taxes collected by the department roll back into services that the state provides for restoration and maintenance on roads, airports, and ports. He said that off-road vehicles should not have to pay a tax since theoretically they do not contribute to the depletion of those resources. He asked whether there could be a minimum threshold put in place to help alleviate any congestion that might occur from the large number of snow machine and four-wheeler users in the state who might apply for the credit.

MR. BURNETT replied that he was not aware of any such proposal. He conceded that Mr. Wool's idea doesn't sound unreasonable. He

reiterated what Mr. Wool said about specific designations of the collected taxes being designated for direct expenditures on roads, airports, and harbors. He added that historically it has been that way. He commented that the taxes may have been a dedicated fund prior to statehood, but after statehood it began being separately accounted for a long time. Mr. Burnett said that the motor fuel taxes have always been separately accounted for, but it existed as an account in the GF. He added that the only exception is with aviation fuel tax, which is currently a dedicated fund. Mr. Burnett returned to slide five of his PowerPoint presentation and reviewed the proposed per gallon tax price for both the 2017 and 2018 commencement dates.

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REPRESENTATIVE NEUMAN drew attention to Section 10 that discusses tax proceeds deposited into a transportation maintenance fund ("the fund.") He mentioned that in 2016 Governor Bill Walker took \$250 thousand for the Snowmobile Trails Advisory Council (SnowTRAC) fund from dedicated funds - from fees - and placed it in the GF. He asked whether the department has ever put any money paid by snow machine and off-road vehicle fuel sales into snow machine trails.

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MARC LUIKEN, Commissioner, Department of Transportation & Public Facilities (DOT&PF), answered that he did not recall the aforementioned situation being a fund source for the department, and therefore it would not be a funded service. He added that there may be other departments that receive funds for that type of activity, but that he is certain it is not through the DOT&PF.

REPRESENTATIVE NEUMAN asked Commissioner Luiken whether DOT&PF had ever appropriated any funds for trail maintenance for snow machines or off-road vehicles.

COMMISSIONER LUIKEN answered that DOT&PF has not appropriated any state funds for trail maintenance, but there are federal funds that have been apportioned to the state for trails. He added that the majority of those funds have been spent for trail marking in Northern Alaska. Commissioner Luiken added that he is not aware of any fund source in the department for snow machine trails.

REPRESENTATIVE NEUMAN clarified that he is trying to convey that funds have been collected from snow machine operators for years, but none of the fuel tax proceeds have gone into trail maintenance.

CO-CHAIR WOOL suggested that the preceding issue will arise later in the discussion. He extended his perception that not all fuel tax proceeds go into road maintenance because currently snow machine operators who buy gas can apply for a credit. Co-Chair Wool noted that he personally knows of four-wheeler operators, who use roads and areas along the road, and he is certain that use is not without wear and tear.

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REPRESENTATIVE KOPP reiterated Co-Chair Wool's previous statement that often times recreational vehicle users will drive 100 miles before even using the off-road vehicles. He then asked whether it would be easier and more consistent with the bill sponsor's intent if an off-road use credit were set to apply to anyone in a community that does not have the Division of Motor Vehicles (DMV) regulation of the road. He clarified that in communities where the vehicle count is 499 or less the DMV designates it as an off the state road system [off-highway, rural] community. Representative Kopp added that in off-highway communities' recreational vehicles are often the primary mode of transportation. He asked whether it is the bill sponsor's intent for the credit to cover individuals in the off-highway communities or just any recreational vehicle user.

MR. BURNETT stated that it is the intent of the sponsor to increase fees. He explained that the increases would be specifically used for direct maintenance expenditures for roads, highways, public safety, harbors, and airport facilities. He said that based on his previous statement one could infer Representative Kopp to be correct.

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MR. BURNETT returned to slide six of his PowerPoint presentation and noted that the example shows how much tax people pay under the current and the proposed system. Mr. Burnett stated that in this example he uses a Matanuska-Susitna Valley (Mat-Su) commuter that drives to Anchorage every day, in a sport utility vehicle (SUV), and gets an average of 15 miles to the gallon, to compute an average of 1,600 gallons of fuel used a year. He explained that currently the user in the example pays about \$133

annually in taxes on his/her fuel. Under the proposal that amount would double in July 2017 to \$266, then with the 2018 increment would amount to \$399 per year. He noted that would equal roughly a dollar and change per day for driving to work, as opposed to currently being under one dollar.

MR. BURNETT said that the next box is an example of freight cost. He noted that he used figures in the example for hauling 30,000 pounds of freight between Anchorage and Fairbanks, one way only. He added that trucking industry representatives were available in the audience for more details. Mr. Burnett elaborated that for the example, he assumes that all 72 gallons of fuel are used, and all 30,000 pounds of freight are transported. He said that means that currently the price would be 2 cents in tax paid per 100 pounds of freight, with the ultimate increase amounting to 6 cents per 100 pounds.

MR. BURNETT moved on to discuss the marine fuel example. He said that he got his rough estimate of 3,000 gallons from a member of the committee. He continued that currently a marine fuel user of 3,000 gallons pays \$150 in taxes annually, with that amount rising to \$450 by 2018 under the proposed legislation. Mr. Burnett addressed jet fuel by disclosing although some companies use millions of gallons a year, he low-ball estimated a figure of 100,000 gallons for this example. He said that presently amounts to \$3,200 in taxes but would increase to just under \$10,000 by 2018 under the current proposal.

MR. BURNETT finished explaining slide six by noting the aviation estimate of 1,000 gallons would represent a typical "weekenders" fuel usage. In this example, the taxes would go from the current \$47 annually to \$141 in 2018. He emphasized that some users might use less fuel and some more fuel, so the estimates could be extended in either direction.

CO-CHAIR STUTES inquired about the difference between jet fuel and aviation gas.

MR. BURNETT explained that jet fuel is very much like diesel fuel, in that it is a distillate product, which is typically taxed at a lower rate. He offered his belief that the aforementioned reasoning is because jet fuel is used in larger quantities than aviation gas. Mr. Burnett clarified that aviation gas is most typically used for reciprocating type engines in smaller planes, whereas the turbo props and jets that

use jet fuel are usually larger aircraft. He noted that there is a long history behind fuel tax rates.

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CO-CHAIR STUTES asked for clarification that typically the smaller privately-owned planes are the ones that use aviation fuel and the larger commercial aircraft use jet fuel.

MR. BURNETT explained that many of the commuter and tourism planes are turboprops and, thus, use aviation gas.

CO-CHAIR STUTES asked whether the determining factor is based on engine type or seating capacity.

MR. BURNETT answered engine type.

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REPRESENTATIVE DRUMMOND inquired whether both commercial passenger and cargo planes would pay the jet fuel tax.

MR. BURNETT responded that both commercial passenger and cargo planes would pay the jet fuel tax, but there are exemptions for foreign flights originating or ending in another country. He said that Ted Stevens Anchorage International Airport is primarily a cargo airport and is one of the top 10 largest cargo airports in the world. He explained that although a fair amount of the fuel cargo plane use is exempt, the exemption is made up for through landing fees. Mr. Burnett added that all fees collected must be used at the airport from which they were collected.

REPRESENTATIVE DRUMMOND offered her understanding that any taxes collected on cargo fuel would be used only at the airport where collected and that it is at the discretion of each airport to determine whether or not additional revenue is needed beyond what is collected through landing fees.

MR. BURNETT said that he would not say it in exactly those words, but one of the balances of having exemptions for cargo planes is that they pay a lot of other fees and provide for other economic activity.

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CO-CHAIR WOOL asked Mr. Burnett to explain whether the state decided not to tax cargo freight lines at the airport or is that dependent on the aircraft's country of origin.

MR. BURNETT offered his understanding that the state exemption is not specifically for cargo flights, but for flights originating in a foreign country.

CO-CHAIR WOOL asked whether it is similar to Alaskans not paying sales tax in another state.

MR. BURNETT answered that it is similar. He repeated that the exemption isn't cargo flight specific but is based off of a flight originating from a foreign country. Mr. Burnett added that although a state exemption is available, aircraft have the ability to bring in fuel bought elsewhere and use it tax free.

CO-CHAIR WOOL inquired whether it is similar to purchases at a duty-free shop.

MR. BURNETT answered yes.

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COMMISSIONER LUIKEN noted that a significant number of cargo aircraft originate in the United States. He emphasized that the country of origin for each specific flight is the determining factor. He gave examples of a flight that originated in an international location and an aircraft departing Anchorage for an international destination and said that those flights would be exempt from the tax.

REPRESENTATIVE SULLIVAN-LEONARD brought attention back to the slide discussing highway fuel estimates and asked whether Mr. Burnett looked at numbers from anywhere else in the state besides Mat-Su.

MR. BURNETT answered no and stated that he wanted to just use one example, instead of multiple. He said that the location of where someone lives -for example, in Anchorage or Juneau - determines whether he/she might drive less than 10,000 miles; therefore, he thought the Mat-Su to Anchorage commuter would be a good example.

REPRESENTATIVE SULLIVAN-LEONARD asked whether Mr. Burnett could provide the prospective annual cost for the 30,000 Mat-Su residents that commute daily.

MR. BURNETT answered yes.

REPRESENTATIVE SULLIVAN-LEONARD stated that she had concerns for her Mat-Su commuter constituents. She pointed out that an increase in fuel tax will be very burdensome on them.

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REPRESENTATIVE CLAMAN asked whether the foreign fuel tax exemption was only for fuel pumped into planes at Ted Stevens Anchorage International Airport or Fairbanks International Airport.

MR. BURNETT answered that is correct.

REPRESENTATIVE CLAMAN offered his understanding that no matter the company, a plane flying from Anchorage to Hong Kong would not pay the fuel tax if it fueled up in Anchorage; but if the very same plane was flying to Seattle and fueled up in Anchorage, then it would pay the tax, because it would no longer be traveling internationally.

MR. BURNETT confirmed Representative Claman's understanding.

REPRESENTATIVE CLAMAN shared his belief that not only is there a state exemption for flights to foreign airports, but it is a requirement in federal statute.

CO-CHAIR WOOL thanked Representative Claman and Mr. Burnett for clarifying that point.

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REPRESENTATIVE CLAMAN offered his understanding that from both a federal and a state standpoint, theoretically a fuel tax should create a "cost user/cost payer analysis." He added that the intention for the increased fuel tax is to more equitably reflect the cost of maintaining infrastructure with the cost to the user, indicative of individual usage. He noted the importance in having funds available to match with federal dollars for construction projects.

MR. BURNETT stated that Representative Claman was exactly right. He added that the whole point of HB 60 is to have users actually pay for a portion of the cost to maintain transportation infrastructure.

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REPRESENTATIVE DRUMMOND said she would like to know the amount of taxes charged to cargo and/or passenger jets, refueling at foreign ports.

REPRESENTATIVE NEUMAN inquired whether FedEx and United Parcel Service of America, Inc. (UPS) pay fuel taxes.

MR. BURNETT explained that it depends on where a plane is flying to and from and which plane is being used.

MR. BURNETT continued on with his presentation. He said that with the exception of aviation fuel tax, all fuel revenue will go directly into the fund, which is a new fund in the general fund. He illustrated that aviation fuel tax revenue is currently kept in other funds required and, under current law and the Alaska Constitution, is dedicated as needed for participation in federal programs. Mr. Burnett added that for budgetary purposes, HB 60 moves the taxes on marine and highway fuel from the unrestricted general fund (UGF) to the designated general fund (DGF) for budgetary purposes. He noted that the purpose of the move from UGF to DGF is to instill confidence in the public that revenue generated from motor fuel will indeed be used to build and maintain transportation infrastructure.

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MR. BURNETT declared that the potential revenue from the increase in fuel tax would generate about \$40 million the first year, then \$80 million per year thereafter. He mentioned that once the increase is fully implemented, roughly \$400,000 of the revenue would be shared with municipally owned airports. He reiterated that aviation fuel tax revenue has to stay within the system from which it was generated. Mr. Burnett continued that the remainder of aviation fuel revenue goes into the fund, special accounts for road, water transport, and aviation facilities. He explained that the estimates are based off of the fall 2016 revenue forecast and do account for changes in fuel demand or stockpiling. He said that although fuel demand fluctuates for this analysis, the department assumes a fairly steady fuel demand in Alaska. Mr. Burnett defined stockpiling as where a retailer knows the price of fuel is going to increase, so it goes out and fills up the tanks to avoid paying more in taxes.

CO-CHAIR STUTES inquired about the definition of water transport. She noted that the majority of harbors in the state have been turned over to local municipalities. She also inquired about the qualifications for the special account for roads that Mr. Burnett previously mentioned.

MR. BURNETT deferred to Commissioner Luiken.

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COMMISSIONER LUIKEN said that currently the majority of the funds will be identified for roads and airports, but there is a small portion dedicated to the Alaska Marine Highway System (AMHS).

CO-CHAIR STUTES inquired whether the aforementioned "small portion" is equivalent to what the marine fuel tax increase would be.

COMMISSIONER LUIKEN answered that he would have to further investigate what the expectation is for revenue from the marine tax before he could answer Co-Chair Stutes's question. He noted that the money oriented to the Alaska Marine Highway System Fund is currently \$2.5 million.

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CO-CHAIR STUTES stated her interest in knowing what the increased revenue would be, as opposed to what AMHS might expect to receive.

MR. BURNETT continued with his presentation. He explained that HB 60 would change the rate on an already existing tax and would include a onetime implementation cost of \$50,000, with no additional on-going costs.

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COMMISSIONER LUIKEN revealed that his presentation would discuss where the funds would go under the proposed legislation. He said that the revenue generated by motor fuel tax would be placed into a transportation maintenance fund which would be called the Alaska Transportation Maintenance Fund. He noted that the fund is a DGF, or other fund, and would replace an equal amount of UGF that would come out of the budget. He said that roughly \$64.8 million of UGF would be replaced with the earnings from the proposed tax and would go into a designated

fund. Commissioner Luiken stated that \$4.5 million of UGF would be swapped with DGF in the aviation account, for a total of \$69.3 million swapped for the DOT&PF budget. He recalled that Mr. Burnett mentioned that amount to be roughly \$80 million. Commissioner Luiken noted that there is a portion that would go to the Department of Public Safety (DPS) and the Department of Commerce and Community and Economic Development (DCCED), but that he did not have the exact figures at this time.

COMMISSIONER LUIKEN drew attention to two pie charts on slide three. He said that the one to the right is the management plan and represents the fund sources for the operating budget. He read from the chart that 51 percent is "other," 37 percent is UGF, and roughly 11 percent is DGF. He remarked that the fund source swap would increase the DGF portion considerably and would replace the UGF portion of the department's budget.

CO-CHAIR WOOL offered his understanding that the total would essentially stay the same, but the department would be getting more from DGS and less from the UGF. He added that the legislature would be able to allocate less money to DOT&PF to keep its budget at the same amount.

COMMISSIONER LUIKEN affirmed that is correct.

REPRESENTATIVE NEUMAN noted that there have been extensive talks from both the governor and the legislature about further reductions within the operating budget. He inquired whether the proposal would match cuts from the department's operating budget.

COMMISSIONER LUIKEN responded that there are reductions in DOT&PF's operating budget, but he does not have last year's total at this time. He shared his belief that the \$581,260,000 total for the operating budget listed on slide three is roughly \$5 million less than the total budget for the previous year.

REPRESENTATIVE NEUMAN offered his understanding that Commissioner Luiken's answer to his question was no.

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COMMISSIONER LUIKEN returned to his presentation. He said that the bubble chart on slide three is reflective of the portions of the fund sources for DOT&PF's 2018 budget. He noted that the tail of bubbles on the right starting with "CIP receipts" represents all of the funds that make up the "other" fund

portion of DOT&PF's operating budget. He noted that the blue bubble showing UGF is the 25 percent portion. Commissioner Luiken said that the first bubble underneath UGF is representative of the new designated fund, the fund, and that the other, the Alaska Marine Highway System Fund, is already in existence. He added that the two aforementioned bubbles also reflect the new DGF portion of the budget.

COMMISSIONER LUIKEN announced that slide four shows the department's reorientation of its focus toward the services delivered. He explained that the services provided can be labeled as four core services to: preserve, operate, modernize, and provide transportation services. Commissioner Luiken added that other than Modernize Alaska's Transportation Infrastructure, the state is primarily responsible for funding the other three services. He declared that he wanted to primarily focus on two of those services, because that is where the bulk of "the fund source swap" - the DGF - will actually be going in order to help offset the cost of providing these services to Alaskans.

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COMMISSIONER LUIKEN stated that slide five shows the definition of DOT&PF's preserve service. He said that preserve service is primarily to ensure and sustain the life of Alaska's transportation infrastructure. Commissioner Luiken listed the direct services that support the preserve service as: surface preservation, off-surface preservation, bridge preservation, vehicle management, and vessel/terminal management. He noted that slide six shows the entire budget for fiscal year 2017 (FY 17) and is broken down into what was spent from UGF, DGF, and "other" for what is spent on the preserve services. Commissioner Luiken said that the department identified what was spent for each of the direct services.

COMMISSIONER LUIKEN continued on to slide seven and discussed the next service offered, off-surface preservation. He said that it primarily includes things like brush cutting, drainage, and ditching. He noted that the FY 17 amount of \$26,225,500 will directly be used to maintain that service. He explained that the target for the department is shown in the pictures on the bottom left of the slide. In the event the department isn't funded correctly, and is not able to deliver that service, the result is more like what is shown in the right-hand pictures. Commissioner Luiken said that the other important pieces to note is the department's measurement of its performance and how well

it is utilizing the funds. He offered his commitment to the department's holding itself accountable to Alaskans and the legislature as its investors.

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CO-CHAIR WOOL inquired whether federal funding for new construction would pay for resurfacing or repaving of roads.

COMMISSIONER LUIKEN stated that those services were reflected in the "other" category of the bar chart. He added that DOT&PF has worked with federal funding partners to help determine that certain activities the department does are actually eligible for federal funds.

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COMMISSIONER LUIKEN continued on to slide eight and said that it shows the second core service provided - the operate service - which is primarily funded with state funds and includes all of the things that help the department move people and things across the system. He listed the direct services that support the operate service as: illumination; snow and ice removal, operate certificated airports, striping, signage, signals, and information transportation services. Commissioner Luiken said that slide nine shows the operating budget for the operate services. He shared that the vast majority of funds in the operate budget is currently UGF, but with the fund source swap the UGF number will decrease and the DGF amount will increase. Commissioner Luiken moved to slide ten and said that the department spends roughly \$74 million annually on snow and ice removal. He reiterated that the department is measuring its performance and ability to meet targets. Commissioner Luiken stressed that snow and ice removal activities are exactly what the fund will help cover.

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REPRESENTATIVE NEUMAN drew attention back to slide nine, showing the operating budget for operate services, and inquired how much of the 71 percent of UGF money went toward AMHS and how much to highways.

COMMISSIONER LUIKEN revealed that the operate core services are primarily for horizontal systems. He noted that the AMHS budget is reflected under the provide transportation core service. He

noted that the provide transportation core service is where the bulk of funds, whether UGF or DGF, reside.

REPRESENTATIVE NEUMAN requested that the department provide information on how much and which fund sources are funded for AMHS, airports, and highways.

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REPRESENTATIVE DRUMMOND offered her assumption that the \$74 million listed for snow and ice removal is for the removal of snow and ice from roadways as well as from small rural airports.

COMMISSIONER LUIKEN confirmed that is correct.

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REPRESENTATIVE KOPP stated that Representative Talerico had shared with him the comments he had received from his district on how timely and swiftly the snow and ice removal was this year.

COMMISSIONER LUIKEN returned to his presentation and noted that the last slide is a summary pointing out that the proposal is not an increase in DOT&PF's operating budget but is a swap from UGF to DGF. He said the swap is reflected through percentages of the budget that would be funded by UGF or DGF if HB 60 passes.

[2:30:10 PM](#)

CO-CHAIR STUTES shared her desire to ask Commissioner Luiken the same question she had just asked Mr. Neussl in a previous DOT&PF subcommittee meeting. She shared her knowledge of the existence of issues surrounding funding as it directly relates to the scheduling of the AMHS. Co-Chair Stutes inquired whether Commissioner Luiken believed that it would be to the advantage of AMHS and to the state if AMHS was forward funded for two years. She offered her belief that the forward funding would allow for a solid, dependable schedule to be released by the department - weather dependent, of course.

COMMISSIONER LUIKEN stated that it is definitely not a benefit to have uncertainty in a transportation system. He added that uncertainty creates potential downfall, both for the user and indirect recipient of those services. Commissioner Luiken declared that any time certainty, especially regarding funding,

can be inserted into a transportation system, improvement to services would be seen. He noted that there are potential impacts to local businesses that either directly or indirectly benefit from a [reliable] AMHS schedule.

CO-CHAIR STUTES, in regard to her previous question, offered her understanding that Commissioner Luiken's answer is yes. She offered further interpretation of his comment to mean that there could be significant improvement to the dependability of AMHS and that the increased dependability could potentially equate to increased revenue generation.

COMMISSIONER LUIKEN confirmed that all to be correct.

[2:32:44 PM](#)

REPRESENTATIVE NEUMAN inquired how the rates for the increases were decided.

MR. BURNETT resolved that the ultimate rate was intended to be close to the national average for highway fuel, while also covering a percentage of DOT&PF's costs. Mr. Burnett added that a 24-cent highway fuel tax rate would put the state just below the national average. He added that rather than going directly from 8 to 24 cents, the decision was made to step it from 8 to 24 over a two-year period.

REPRESENTATIVE NEUMAN queried whether the tax increases are proportionate to the money that is currently going into management funds. He shared his concern that the proposed changes might allow for inequitable distributions to the management funds for highway, aviation, and marine, from FY 17. Representative Neuman asked whether the department had checked the numbers to ensure there isn't an unequal distribution.

MR. BURNETT shared his belief that it doesn't work out exactly proportionately, but in each case the amount of tax generated is significantly less than the total expenditures in those areas.

REPRESENTATIVE NEUMAN offered his opinion that the reason for the proposed increase in fuel tax is to supplement the UGF with generated tax revenue, but the proposed tax increases are not proportionate to the same amount of money that was previously allocated.

[2:34:59 PM](#)

CO-CHAIR WOOL requested that Mr. Burnett clarify whether under the current motor fuel tax structure none of the tax revenue is actually designated to airports, roads, or ports.

MR. BURNETT explained that aviation fuel taxes are 100 percent dedicated to use on airports due to federal regulations. The [taxes] function just like a dedicated fund, which is allowable under the Alaska Constitution for uses required for participation in federal programs.

CO-CHAIR WOOL offered his understanding that motor fuel taxes, at 8 cents a gallon since 1971, have gone into the GF where DOT&PF can then access those funds.

MR. BURNETT interjected to note that each of those taxes is currently being separately accounted for within the GF. He added that it is important to understand that although the funds get money directly, it can be accounted for how much of the expenditures that would have been paid for by that tax. Mr. Burnett explained that during his tenure with the department the marine fuel taxes, which go into a special fund, have always been used for those specific purposes. He said that there is already a connection but "this makes that connection tighter and takes it out of ... the unrestricted general fund for budgetary purposes."

CO-CHAIR WOOL, in regard to Representative Neuman, offered his understanding that Mr. Burnett was trying to convey that although there is currently a connection, the connection isn't proportionate. He continued that it has just historically been that way and that the numbers were determined at different times and using different metrics. He noted that a tax rate of eight cents in 1971 remaining stagnant at eight cents in 2013 obviously is not reflective of the current cost to the state to maintain its road systems.

MR. BURNETT pointed out that in 1971 the highway motor fuel taxes in the Department of Highway budget were \$9.4 million and \$9.8 million in UGF.

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REPRESENTATIVE NEUMAN described a discrepancy in the sectional analysis in bullet points two and three. The former calls for changes in the per gallon tax rate for dealers; the latter calls for a change in the tax rate for users. He inquired why the tax rate increase for dealers is different from the one for users.

MR. BURNETT answered that the taxes are paid at the distributor level and that the users simply pay the retail cost of the fuel. He noted that there may be an error in the sectional analysis or possibly in the way it is being interpreted.

CO-CHAIR WOOL offered his understanding that the retailer is not collecting or paying out taxes and that all of the taxing takes place at the wholesale level.

REPRESENTATIVE NEUMAN requested clarification of the sectional analysis.

CO-CHAIR WOOL ensured Representative Neuman that he would have the department follow up on that question.

[2:39:19 PM](#)

REPRESENTATIVE KOPP provided his insight that HB 60 would, for the first time, "create the fund."

MR. BURNETT said that for purposes of highway motor fuels, HB 60 would create a fund outside of the UGF, but still within the GF, that is designated for use for this purpose. He added that there is currently an existing account within the UGF that identifies the revenues from the motor fuel taxes. In response to Representative Kopp's question, Mr. Burnett stated that the answer is yes.

REPRESENTATIVE KOPP, in response to Representative Neuman's proportionality question, asked whether creating the fund would make it easier to track the money for statistical data gathering purposes.

MR. BURNETT responded yes. He said that HB 60 would make it easier to track and easier to identify certain monies within the budget. He added that DOT&PF's budget would otherwise look like all UGF, even though it was paid out of a highway maintenance account within the GF. Mr. Burnett noted that HB 60 would specify fuel tax revenue as a different fund source in budgetary documents.

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REPRESENTATIVE NEUMAN pointed out that sections two and three of the bill contains different numbers.

CO-CHAIR WOOL said that the committee would seek clarification on that discrepancy.

[2:41:34 PM](#)

CO-CHAIR WOOL announced that HB 60 would be held over.

ADJOURNMENT

There being no further business before the committee, the House Transportation Standing Committee meeting was adjourned at 2:42 p.m.