

**ALASKA STATE LEGISLATURE  
HOUSE TRANSPORTATION STANDING COMMITTEE**

February 9, 2017

1:38 p.m.

**MEMBERS PRESENT**

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

**MEMBERS ABSENT**

Representative Matt Claman  
Representative Mark Neuman  
Representative Gabrielle LeDoux (alternate)

**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
01/31/17	(H)	Heard & Held
01/31/17	(H)	MINUTE(TRA)
02/07/17	(H)	TRA AT 1:30 PM BARNES 124
02/07/17	(H)	Heard & Held
02/07/17	(H)	MINUTE(TRA)
02/09/17	(H)	TRA AT 1:30 PM BARNES 124

**WITNESS REGISTER**

NICK D'ANDREA, Vice President  
Public Affairs  
United Parcel Service of America, Inc. (UPS)  
Louisville, Kentucky

**POSITION STATEMENT:** Expressed concerns with HB 60.

DANA DEBEL, Managing Director  
State and Local Government Affairs  
Delta Air Lines, Inc.  
Los Angeles, California

**POSITION STATEMENT:** Expressed concerns with HB 60.

JOHN BINDER, Deputy Commissioner  
Office of the Commissioner;  
Executive Director  
Alaska International Airport System (AIAS)  
Department of Transportation & Public Facilities (DOT&PF)  
Anchorage, Alaska

**POSITION STATEMENT:** Answered questions during the hearing on HB 60.

#### **ACTION NARRATIVE**

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**CO-CHAIR ADAM WOOL** called the House Transportation Standing Committee meeting to order at 1:38 PM. Representatives Stutes, Wool, Kopp, Drummond, and Sullivan-Leonard were present at the call to order. Representative Eastman (alternate) arrived as the meeting was in progress.

#### **HB 60-MOTOR FUEL TAX; TRANSPORTATION MAINT. FUND**

[1:38:52 PM](#)

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."

[1:39:41 PM](#)

NICK D'ANDREA, Vice President, Public Affairs, United Parcel Service of America, Inc. (UPS), stated that UPS appreciates the long-standing working relationship it has with Alaska. He added

that UPS proudly employs more than 1,100 workers in the state, with almost 500 of those being pilots domiciled in Alaska. Mr. D'Andrea stressed that Alaska has played an important role in "UPS's global reach" and that for the past decade Ted Stevens Anchorage International Airport has been its gateway to the Asian-Pacific region. He noted that in recognizing the geographic importance of Anchorage, UPS put a training facility for its MD-11 and 747 fleets there. Mr. D'Andrea shared that UPS recently expanded its fleet to include 14 "747-8s," with an option to purchase an additional 14, and that it hopes to have the new aircraft flying through Anchorage in the future.

MR. D'ANDREA affirmed that UPS originally chose to operate in Alaska because of the business-friendly climate created by the elected leadership. He said that UPS pays close to \$6 million in taxes as well as approximately \$7.2 million in landing fees annually to cover costs at the airports. He conveyed that UPS is sympathetic to the current budgetary situation facing lawmakers and the state of Alaska, and he assured the committee that UPS is here to be part of the solution.

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MR. D'ANDREA explained that UPS is in a unique situation, with regard to the proposed motor fuel tax bill, because it would take a hit in two different ways: once on the ground in the form of an increased motor fuel tax and then again from the increased jet fuel tax. He stressed that UPS fully believes users, including itself, should pay their fair share to maintain infrastructure; therefore, UPS fully supports the proposed increase in motor fuel tax, because it is a pure user fee. Mr. D'Andrea alluded that he would later clarify how the pure user fee motor fuel tax varies from the jet fuel tax. He bolstered the notion by pointing out that UPS uses almost every road in Alaska, so it sees paying the motor fuel tax user fee as its duty.

MR. D'ANDREA asserted that UPS does not support an increase in jet fuel because it is not a pure user fee. He noted that UPS and other airlines already pay user fees to airports through landing fees. As he previously mentioned, UPS pays \$7.2 million annually in landing fees to the Alaska International Airport System (AIAS). He noted that the AIAS is self-sustaining and requires little, if any, state funding, because the passenger and commercial airlines pay for operational support and infrastructure improvements. Mr. D'Andrea added that increasing the jet fuel tax will also increase the indirect subsidy to

airports. He explained that there are currently 17 Federal Aviation Administration (FAA) certified airports, which UPS doesn't use, where there are no landing fees collected to sustain the airports. He suggested that in essence, under HB 60, UPS would be paying money in additional fuel taxes to directly support airports that it does not utilize. He further suggested that UPS does not consider jet fuel tax a user fee.

MR. D'ANDREA declared that in addition to UPS and Delta Air Lines, Inc. ("Delta"), there are other members of the aviation community, including those involved in Airlines for America and the Cargo Airline Association, who are concerned that targeting the aviation industry for a state budget shortfall could cause a reduction in both cargo and commercial flights to Alaska. He appended that it could also cause an accelerated push toward dependence on newer aircraft that would allow airlines to bypass Anchorage altogether. Mr. D'Andrea stressed that a decrease of the number of flights in this area raises further concerns, including the potential of diminished investments in infrastructure if fewer airlines are paying into the aviation fund through fuel taxes. He reiterated that UPS empathizes with Alaska and its current fiscal environment as well as being appreciative of the growth-friendly environment Alaska has provided to the aviation industry in the past and that the industry urges the state to consider the consequences of an increased jet fuel tax on the state.

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REPRESENTATIVE SULLIVAN-LEONARD asked whether Mr. D'Andrea had an estimation of annual jet fuel if it were to be exempt.

MR. D'ANDREA asked Representative Sullivan-Leonard to clarify whether she was talking about the jet fuel tax or the international exemption.

REPRESENTATIVE SULLIVAN-LEONARD responded that she was addressing the jet fuel tax.

MR. D'ANDREA asked her to rephrase her question and clarify whether she was asking how much it would cost UPS.

REPRESENTATIVE SULLIVAN-LEONARD inquired how much was originally figured for the jet fuel tax and whether it was estimated how much would be saved.

CO-CHAIR WOOL offered his understanding that Representative Sullivan-Leonard was asking how much UPS' fuel expenditures would increase if jet fuel tax were to increase.

REPRESENTATIVE SULLIVAN-LEONARD clarified that she wanted to know how much UPS would save if it were exempt.

CO-CHAIR WOOL rephrased his understanding that the figure the committee was looking for was how much UPS would save if it didn't have to pay the increase. He asked whether Mr. D'Andrea had an estimate of how much UPS would pay out under the proposed increase.

MR. D'ANDREA responded that the amount varies by year, but currently ranges from \$500,000 to \$1 million. He noted that if UPS started flying the 747-8s then the number would be higher.

REPRESENTATIVE KOPP inquired whether any UPS packages go out to any of the 17 FAA certified airports.

MR. D'ANDREA answered that he was fairly sure some UPS packages get delivered through the aforementioned airports. He offered an estimate that less than 3,000 UPS packages go outside of the urban areas.

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CO-CHAIR WOOL clarified his understanding that less than 3,000 UPS packages go out to the previously mentioned airports.

MR. D'ANDREA resolved that he meant outside of Anchorage and Fairbanks when he referenced the small percentage of its packages that travel outside of urban areas.

CO-CHAIR STUTES extended her awareness that there are two, possibly three, UPS trucks in Kodiak, and she asked whether the less than 3,000 packages previously quoted by Mr. D'Andrea, for all the rural areas, was on an annual basis.

MR. D'ANDREA responded that the figure is representative of air volume flown in. He noted that depending on the need, some freight can be trucked from place to place. He illustrated his point by saying that two-day delivery packages probably needed to go by air, but ground shipping packages allowed for other, longer delivery methods.

CO-CHAIR STUTES followed up that everything that comes to Kodiak comes by UPS "blue," because there are no connecting roads.

MR. D'ANDREA conceded that Co-Chair Stutes was correct that everything is delivered by air in Kodiak.

CO-CHAIR STUTES acknowledged her bewilderment with the aforementioned figure of 3,000 packages.

CO-CHAIR WOOL provided his perception that flights traveling to and from international destinations are already exempt from the jet fuel tax, so that in the instance Mr. D'Andrea previously mentioned, where 777's and other long-range aircraft are more regularly used to fly over Anchorage, the increase in tax wouldn't really effect those aircraft.

MR. D'ANDREA answered that is correct but noted that UPS also flies domestic routes between the United States and Anchorage. He added that that is where the tax would be incurred and by passengers as well.

CO-CHAIR WOOL clarified that he meant flights flying over Anchorage to avoid the tax would be international.

MR. D'ANDREA responded that is correct.

CO-CHAIR WOOL said that jet fuel tax is currently being paid, but when not designated for airports, it simply goes into the general fund. He asked whether Mr. D'Andrea has any objection to how the jet fuel taxes are currently structured.

MR. D'ANDREA pointed out that currently UPS is essentially paying for other airports, and it is the belief of UPS that airports should be self-sufficient.

CO-CHAIR WOOL shared that there are over 200 airports in Alaska. He expressed uncertainty that all of them could be self-sufficient.

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REPRESENTATIVE DRUMMOND inquired whether Ted Stevens Anchorage International Airport actually needs the additional revenue from an increase in jet fuel taxes, since the air carrier consortium funds the airport through landing fees and other taxes. She also questioned whether the problem is something that has arisen

along the way or if the increases are something the Ted Stevens Anchorage International Airport and AIAS are seeking.

MR. D'ANDREA deflected to Deputy Commissioner Binder for more detail. He offered his understanding that since the AIAS is self-sufficient, any current jet fuel taxes were directed to other airports, besides Ted Stevens Anchorage International Airport or Fairbanks International Airport.

CO-CHAIR WOOL stated his perception that the jet fuel tax currently collected goes directly in the general fund, so it could be going into schools or other things besides transportation.

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DANA DEBEL, Managing Director, State and Local Government Affairs, Delta Air Lines, Inc. ("Delta"), stated that Delta is proud to be the second largest commercial carrier in the state of Alaska and that it carries about 12 percent of the state's passengers. She explained that Delta's service in Alaska is year-round to Anchorage and Fairbanks and seasonal to the Southeast communities of Juneau, Sitka, and Ketchikan. Ms. Debel stated that over the past few years Delta has worked to expand its footprint in Alaska, and it looks forward to continuing that growth. She added that one area of particular importance for expansion has been the hub of Seattle, which has grown 100 percent in terms of seat capacity over the past three years. Ms. Debel explained that like UPS, Delta confirms that a tripling of jet fuel tax will take Alaska from one of the more competitive states to one of the more expensive states in terms of effective tax rates. She explained that a number of states don't tax jet fuel at all, while some have an effective cap that is significantly lower than what the effective tax rate would be if the proposed legislation passes.

MS. DEBEL declared that Alaska is both a challenging and competitive environment to operate in today and that anything that will make it more challenging, from a cost perspective, will make it more difficult to attract competition and additional services. She declared that Delta is not opposed to paying its "fair share." She explained that much like UPS, Delta pays landing fees, rental rates, and passenger facility charges and, through lease agreements with airports and fuel flowage fees, it does its part to support airports. Ms. Debel shared that Delta is concerned about the money from increased taxes going to fund infrastructure and operations of airports

not utilized by Delta. She announced that Delta maintains that the appropriate way to deal with costs of operation is in direct negotiations with the airlines that operate there or with other aviation partners that utilize the airport.

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REPRESENTATIVE KOPP mentioned the letter from Alaska Air Carriers Association (AACA), included in the committee packet, requesting an amendment to repeal the existing foreign flight exemption. He asked whether Delta has taken a formal position on the bill as it currently stands.

MS. DEBEL answered that Delta is not a member of AACA. She noted that the position taken in the letter from AACA is not reflective of Delta's position. Delta does not support the increase as it currently sits in the bill and would be open to working with committee members.

CO-CHAIR WOOL inquired whether Delta currently has international flights that would be taking advantage of the fuel tax exemption.

MS. DEBEL answered no. She said Delta only operates domestically out of Alaska.

CO-CHAIR WOOL reiterated his question of whether Delta had any flights that fueled up in Anchorage and then went on to Asia or Europe.

MS. DEBEL confirmed that Delta does not.

CO-CHAIR WOOL asked Ms. Debel whether he was understanding correctly that Delta sees the need for Alaska to increase revenue from different sources, but instead of a jet fuel tax tripling, Delta would prefer to see separate negotiations instead of an across the board deal.

MS. DEBEL clarified that she intended to mean that in airports where Delta operates, it almost always pays landing fees and/or rental rates through terminal leases. She added that when airports need to raise revenue it usually happens through direct negotiations around landing fees or landing fee adjustments. She also mentioned that airport revenue generation often involves lease negotiations for space Delta might be utilizing inside the terminal, on the apron, inside hangers, or "back of house space."

CO-CHAIR WOOL said that he interpreted that Ms. Debel was talking about facility usage and not fuel tax. He asked whether Delta is okay with the current fuel tax level in Alaska.

MS. DEBEL asserted that Delta is not looking for additional exemption from the existing fuel tax rate.

2:00:51 PM

JOHN BINDER, Deputy Commissioner, Office of the Commissioner; Executive Director, Alaska International Airport System (AIAS), Department of Transportation & Public Facilities (DOT&PF), repeated the question previously asked about whether any of the jet fuel tax revenue collected at Ted Stevens Anchorage International Airport and Fairbanks International Airport flows into the AIAS. He stated that the answer is no. He explained that all fuel tax revenue collected across the state - regardless of which airport - flows into the general fund. He mentioned landing fees as an example of an additional revenue source and said that no matter whether it is collected at Ted Stevens Anchorage International or Fairbanks International Airport, it flows into an enterprise fund to maintain the operating and capital costs for that system.

REPRESENTATIVE SULLIVAN-LEONARD requested that Mr. Binder clarify whether a portion of the landing fees went into both the international airport fund and the state general fund.

MR. BINDER answered that landing fees collected at Ted Stevens Anchorage International Airport and Fairbanks International Airport flow into the international airport fund and the rest of the airports in the state are used free of charge by carriers and users. He added that there is no other rate or fee structure at any of the other airports in the state.

CO-CHAIR WOOL asked whether it is Mr. Binder's sole responsibility to oversee Ted Stevens Anchorage International Airport or whether there are others across the state he oversees.

MR. BINDER acknowledged that he oversees both Ted Stevens Anchorage International Airport and Fairbanks International Airport and also oversees the general operation of the remaining 240 other airports in the state.

CO-CHAIR WOOL offered his assumption that Mr. Binder knows how the needs of the state are and aren't being met and asked whether he agreed that it was a good use of funds for any additional revenue coming from jet fuel or aviation gas to go to the other 200 airports.

MR. BINDER stated that he agreed. He explained that the general operating cost for the rural system - which is everything besides Ted Stevens Anchorage International Airport and Fairbanks International Airport - is \$40 million per year. He furthered his point by elaborating the discrepancy between current fuel tax revenue generation of about \$4.5 million and current operating costs.

CO-CHAIR WOOL asked whether Mr. Binder had a response when asked about Ted Stevens Anchorage International Airport and Fairbanks International Airport being totally self-sufficient through landing fees, et cetera, and why carriers such as UPS and Delta should be concerned with paying increased fuel taxes only to pay for other airports that are not of concern to them.

MR. BINDER said that Co-Chair Wool addressed a fair concern. He explained that he feels the argument holds true in regard to the international fuel tax exemption where the international cargo carriers, just passing through Anchorage and Fairbanks, are certainly not using the rural airport systems. Contrary to that, passenger carriers or UPS and FedEx do utilize the rural airport systems.

[2:06:19 PM](#)

REPRESENTATIVE EASTMAN inquired as to how many of the 240 airports in the state charge landing fees.

MR. BINDER answered zero.

REPRESENTATIVE EASTMAN shared his opinion that there doesn't appear to be a link between use and cost, and he wondered if the department had an opinion on whether landing fees should be implemented at the other airports.

MR. BINDER explained that about two years ago the governor tasked the department with investigation of revenue generation options because of the discrepancy between users of those facilities and the revenue generated by those facilities. He continued that part of the effort was to engage individuals from the stakeholder group and that one of those was the Aviation

Advisory Board. He noted that some of the options investigated were aircraft registration fees, airport user fees, a landing tax, or a fuel tax. He noted that the number one goal is to be equitable and fair across all user groups and to not increase the cost to the administration to collect those fees.

[2:08:12 PM](#)

REPRESENTATIVE SULLIVAN-LEONARD offered her understanding of smaller municipal airports, such as the one in Wasilla, where fees are incurred through leases and not landing fees.

MR. BINDER confirmed Representative Sullivan-Leonard's understanding. He reiterated that the main difference with local sponsors of municipally operated airports is the desire to achieve self-sufficiency through imposed rates and fees. He added that the rural system collects fees through lease rates for tenants.

CO-CHAIR WOOL inquired whether landing fees were included for every plane that landed or whether there was a size limit.

MR. BINDER explained that landing fees are generally charged based on a certain rate per 1,000 pounds of certified maximum gross take-off weight. He noted that gross take-off weight is used to avoid problems where individuals might want to try to pay less because the aircraft is only half full. He said that the smaller type aircraft below 6,000-12,000 pounds, which lots of private general aviation categories fall into, are charged a flat rate; the larger passenger aircraft are charged per 1000 pounds.

CO-CHAIR WOOL asked what the typical smallest flat fee would be in Anchorage, and whether or not that included Lake Hood.

MR. BINDER answered that he did not have the current minimum weight rates for Ted Stevens Anchorage International Airport and Fairbanks International Airport but offered to get back to the committee with that information. He offered an example that the 747-800 aircraft pays approximately \$3,000 per landing and that it is the largest aircraft to land there.

CO-CHAIR WOOL asked whether Lake Hood is included in the collection of landing fees.

MR. BINDER answered no.

2:11:24 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 2:11 p.m.