

ALASKA STATE LEGISLATURE
HOUSE TRANSPORTATION STANDING COMMITTEE

February 14, 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 Colleen Sullivan-Leonard
Representative David Eastman (alternate)

MEMBERS ABSENT

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
02/09/17	(H)	Heard & Held

02/09/17 (H) MINUTE(TRA)
02/14/17 (H) TRA AT 1:30 PM BARNES 124

WITNESS REGISTER

BRIAN FECHTER, Policy Analyst
Office of the Director
Office of Management & Budget
Office of the Governor
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 Drummond, Wool, Stutes, Kopp, Claman, Sullivan-Leonard, and Eastman were present at the call to order.

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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BRIAN FECHTER, Policy Analyst, Office of the Director, Office of Management & Budget, Office of the Governor, presented HB 60 on behalf of the governor. Mr. Fechter begin his PowerPoint presentation titled, "Motor Fuel Tax Overview HB 60." He explained that HB 60 would increase Alaska's current motor fuel tax by doubling it by fiscal year 2018 (FY 18) and then tripling it by FY 19. He urged the committee to remember that although it may seem like a large increase, motor fuel tax for highways had not been increased since 1970, for water craft since 1977, and for aviation since 1996. Mr. Fechter declared that had the state indexed to inflation, the eight cents per gallon highway tax would actually be 49 cents today. He noted that the bolded figures on the bottom of slide two show current receipts totally \$40.3 million, once doubled that amount would be \$80 million,

and then by FY 19 the state would have \$120 million in receipts. Mr. Fechter affirmed that the receipts will be deposited into a special designated fund to ensure that the taxpayers and the public have some assurance that the money being spent at the pump does indeed get used for transportation infrastructure.

MR. FECHTER moved on to slide six, and discussed examples of what HB 60 would cost everyday Alaskans. He shared an example of a Wasilla to Anchorage commuter, who drives 25,000 miles annually and gets about 25 miles to the gallon. He said that the aforementioned individual currently pays about \$80 a year, which after the tripling would annually amount to \$240. Mr. Fechter noted that although it is a tax increase, the department does not see it as overly burdensome. He next addressed jet fuel by giving an example of an Alaska Airlines' flight from Juneau, Alaska, to Seattle, Washington, lasting 2 hours and 15 minutes and assuming a Boeing 737 burn rate of 750 gallons per hour, and stated that the current cost of \$54 per flight would be \$162 after the second increase. He pointed out that after the second increase the cost per passenger would be only \$1.37 so the increase passed on to the end user would not be overly onerous.

MR. FECHTER said that slide four discusses the comparison of Alaska's fuel tax structure to that of other states. He stated that Alaska's highway tax is the lowest in the nation and also that it has remained unchanged the longest. Mr. Fechter noted that the marine tax has a dotted line because in most states the highway rate is the marine rate. He said that Alaska is unique with only a few other states that give a special preferential rate to marine fuel. He stressed that the special rate is an important policy consideration given the impact the maritime industry has on Alaska.

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CO-CHAIR WOOL offered his understanding that Alaska's marine fuel tax rate of five cents is lower than the highway rate of eight cents and that in most states the two are one and the same.

MR. FECHTER confirmed Co-Chair Wool's understanding. He said that there are only a handful of states that offer special "set asides." He noted that some states only offer a rebate to commercial fisheries, but Alaska is the only state that across the board has watercraft fuel at a lower rate than highway fuel.

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CO-CHAIR STUTES inquired whether the jet fuel tax ranking of 35th out of 50 states was reflective of before or after the multiple increase.

Mr. FECHTER answered that 35th is the current ranking.

CO-CHAIR STUTES asked whether Mr. Fechter had anything showing what the ranking would be after the increases.

MR. FECHTER answered that he did not have those numbers at this time but that he would be happy to report those findings to the committee at a later date. He directed attention to slide five and explained that for 31 states, the aviation fuel tax is actually included in the sales tax. Mr. Fechter illustrated that if Alaska took that approach, and assuming a three percent sales tax rate, it would cost users more than what is proposed under HB 60 and would put the state at about 35th in the nation for aviation related fuel taxes.

CO-CHAIR STUTES requested a chart of where Alaska would stand after all increases.

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REPRESENTATIVE CLAMAN offered his understanding that Alaska is currently 35th in the nation for aviation fuel tax, and he asked for confirmation that Mr. Fechter was saying that even after the increases Alaska would remain in the same ranking.

MR. FECHTER explained that the chart just shows the special jet fuel and aviation gasoline tax and doesn't show a holistic view of all the taxes that land on aviation gasoline and jet fuel. He clarified that [after the increase in aviation fuel tax] Alaska would rank [32nd out of the 43 state with fuel tax.]

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REPRESENTATIVE EASTMAN queried how the price of gas in Alaska compares to that of other states.

MR. FECHTER stated that he did not have an exact number, but Alaska gas prices were "on the high end" compared to other states.

REPRESENTATIVE EASTMAN offered his assumption that Alaska's already high gas prices were taken into consideration when drafting HB 60.

MR. FECHTER confirmed that assumption.

REPRESENTATIVE EASTMAN requested that that information be provided to the committee.

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REPRESENTATIVE KOPP offered his understanding that 31 states have a sales tax that already applies to fuel.

MR. FECHTER confirmed that is correct.

REPRESENTATIVE KOPP noted that the charts in discussion show the amount of revenue that each of the states is currently collecting and are contrasted with what HB 60 proposes. He elaborated that basically the department is trying to convey that the fuel increases are not unprecedented.

MR. FECHTER answered that is correct. He added that every county and municipality down south has different sales tax rates.

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MR. FECHTER continued with his presentation and discussed the functionality of the designated fund. He recapped that the department will be putting the receipts of the fund into a new Alaska Transportation Maintenance Fund to give users assurance that the money being spent at the pump will only be used on transportation infrastructure. Mr. Fechter explained that one of the differences between a designated and a dedicated fund is that the latter is prohibited under the constitution. He continued that although receipts cannot be earmarked to bind future legislatures, by directing the funds to a specific purpose, designations can be added into statute to act as a "gentlemen's agreement." Mr. Fechter further noted that despite each future legislature's choice to either honor or ignore the designation in statute, of the over 50 designated funds last year there were only 2 out of 50 funds that were used "off-designation." He said that over 90 percent of the time the designations are honored.

CO-CHAIR WOOL requested that Mr. Fechter reveal what those two off-designation instances were.

MR. FECHTER shared that the vehicle rental tax fund, which has a designation for tourism marketing and development, was used for both parks maintenance and highway maintenance; the higher education fund, which has a designation for education programs, was used to fund retirement payments.

CO-CHAIR STUTES asked whether any marine fuel tax could be put into a fund designated for anything marine related, whether that be ports and harbors or the Alaska Marine Highway System (AMHS).

MR. FECHTER answered yes. He said that when developing the proposed fuel tax, the department found that there were already designations written into statute: the highway tax was designated for highway operations and maintenance; the non-public highway tax, which is the tax on snow machines, heavy equipment, et cetera, was to be used on trails and shelters; and the water craft tax was to be used on water and harbor facilities. Mr. Fechter said the department did not materially change any of the three aforementioned designations and thought that it would be best to leave changes, determining how broad or how specific the designations should be, up to the legislature.

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CO-CHAIR STUTES offered her understanding that the marine fuel tax was already a designated fund that allocated additional tax monies to specified projects for water craft in some capacity or another.

MR. FECHTER explained that there were already the designations but there was no way to appropriate specifically from the accounts because they resided in the general fund (GF). He continued that in practice, the legislature would appropriate money from the GF, but since far more money is spent than generated in taxes on transportation assets, it was just assumed that the money came from the three existing designated accounts for the purposes listed.

CO-CHAIR STUTES asked about the level of difficulty to put in statute a designation for motor fuel taxes to go directly into a designated account for highways and the marine fuel taxes into an account for waterways or ports and harbor.

MR. FECHTER replied that Co-Chair Stutes' suggestion would be a very simple fix in the bill. He noted that the bill currently moves the accounts, keeping the current designations, into the new Transportation Maintenance Fund. Mr. Fechter offered his belief that tweaks could be made to the designations that would allocate generated revenue, for instance, from fuel for watercrafts to only be used on the AMHS and ports and harbors facilities. He added that the tweaks could be broadened or tightened as seen fit.

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CO-CHAIR WOOL requested confirmation that the three designations previously discussed were already existing accounts.

MR. FECHTER acknowledged that is correct.

CO-CHAIR WOOL, in regard to motor fuel taxes for off-road equipment, offered his understanding that there is no real way for the department to differentiate, at the place of purchase, whether that fuel was used for a snow machine or in a generator.

MR. FECHTER explained that in order for users to receive the off-road motor fuel tax discount of six cents, a report must be filed with the department showing the specific off-road exempt use. He added that a return form is the only way for the department to track the exact usage for the exempt fuel, such as for a snow machine, a four wheeler, or a generator.

CO-CHAIR WOOL offered his understanding that any remaining amount that is not rebated would then be determined to be off-road and would be designated to be used on trails and shelters.

MR. FECHTER confirmed that is the current designation in statute. He said it is ultimately up to the legislature to determine exactly what sort of designation should be placed on the previously mentioned items. He continued on to slide seven, and repeated what he previously said about the accounts always being comingled in the GF with no way to appropriate specifically from them. Mr. Fechter restated that in the past money was appropriated from the GF and then when expenditures exceeded collections it was just assumed to come from the respective accounts. He noted that if HB 60 passes and the accounts get moved into the Transportation Maintenance Fund, then they will still be comingled. He explained that the comingling yields added flexibility for the department. Mr. Fechter said that the comingling puts pressure on the department

to be frugal with its budget, because money not spent from the appropriation from this fund will lapse back into the fund to be available in case of an emergency, a disaster, or a one-time deferred maintenance need. He brought attention to jet fuel and aviation gas and said they are not listed as part of the three accounts that would move into the new fund. He said that is because jet fuel and aviation gas are already separate, due to Federal Aviation Administration (FAA) regulations, and that change was reclassified last session.

MR. FECHTER addressed the table on slide eight, which outlines the proposed allocations of the funds. He stated that the allocations are not written in stone and the department will certainly entertain alternate allocations from the legislature to reach an equitable allocation of funding. He read from the table, as follows:

We are putting \$9.2 million to airport operations and maintenance. \$62.5 for highway and road maintenance allocated to the three regions based on the size of their total budget. There is an appropriation to the Alaska Bureau of Highway Patrol in the Department of Public Safety. There are two capitol grants for transit, one provides transportation services for the elderly and disabled and the other provides [a] state match that leverages federal dollars for communities to purchase and operate bus systems. And we have three appropriations for marine transportation, including: the AMHS; a grant to the Inter-Island Ferry Authority (IFA) that runs the Ketchikan route; and the Municipal Harbor Facility Grant Fund, which is a 50/50 matching program that funds harbor repairs. The top scoring project on this list will cost \$5 million and be fully funded in the governor's budget, and it's for Wrangell, Shoemaker Harbor.

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REPRESENTATIVE DRUMMOND questioned Mr. Fechter about the history of the IFA and why the state is providing a grant for its operation.

MR. FECHTER answered that the IFA can run the Ketchikan to Hollis route less expensively than the AMHS. He said that the state gives the IFA a small grant annually to subsidize its operations; the local communities wanted more frequent service than the AMHS was willing to give. He shared his belief that

over the years the grant amount had tapered down from being closer to \$1 million annually a few years ago.

REPRESENTATIVE DRUMMOND offered her understanding that the IFA used to operate two vessels, one from the north end of Prince of Wales (POW) to Wrangell and Petersburg and one from the south end of the island to Ketchikan; however, only one vessel is currently in operation and maintains the southern route. She shared her belief that the northern run couldn't keep passenger volumes at sustainable levels.

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CO-CHAIR STUTES asked Mr. Fechter to clarify whether the state will no longer be taking 50 percent of the marine fuel tax and applying it toward highway and road maintenance.

MR. FECHTER addressed that slide nine shows that the proposed allocation takes 6 percent of total collections and diverts it to marine transportation, and marine fuel tax comprises 12 percent of total collection. He added that it is probably a fair criticism that the marine community may be getting a little short changed on this allocation, but this is just the first proposal, and he is certain that in working with the legislature, the most equitable distribution of funding can be found.

CO-CHAIR STUTES requested confirmation that the department is still taking 50 percent [of marine fuel tax] and applying it to road and highway.

MR. FECHTER responded that is correct.

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REPRESENTATIVE KOPP noted that in reference to a previous slide, Mr. Fechter had said something that he thinks is very important for the committee to understand. He asked Mr. Fechter to clarify that designating this fund allows that unspent money to be lapsed back into the fund.

MR. FECHTER answered that is correct.

REPRESENTATIVE KOPP remarked that during a previous committee meeting he had asked about how the department planned and paid for disasters, such as a road wash out, when those types of incidences occur almost every year. He said he had also asked

if the newly designated fund would help the department to pay for incidences without using GF money or reducing the department's entire operational budget. He noted that he previously got an indefinite answer but is now asking Mr. Fechter whether the new fund will give DOT&PF a better avenue to pay for those incidences.

MR. FECHTER confirmed that is correct. He said there will be funding left in the motor fuel tax account, provided the department lapses funding back to the fund, which can then be available for disasters and one-time emergency situations.

REPRESENTATIVE KOPP shared his opinion that that is a huge benefit to the department it previously didn't have.

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REPRESENTATIVE SULLIVAN-LEONARD offered her understanding that transit and bus users would not pay into this particular tax, but that 2 percent would still be appropriated for transit and bus use.

MR. FECHTER explained that there is an exemption for municipalities and localities, which typically run bus systems. He indicated that transportation [taxes] also fund non-profits, which are fuel tax exempt and the Bureau of Highway Patrol - a state entity. He stated that this allocation of funding just represents "a first stab" before legislative input of where the administration would put the funding from this tax and absolutely open to working together to find a more equitable allocation of funding.

REPRESENTATIVE SULLIVAN-LEONARD stated her belief that the big buses create wear and tear on the road systems, and she opined that is an important topic for further discussion.

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REPRESENTATIVE EASTMAN shared that he sees a giant hole in Mr. Fechter's presentation, and that is: What is the impact going to be on Alaskans once this is implemented? He offered his belief that the proposed tax would put Alaska above Washington in terms of the cost of gas to users at the pump. He noted that Washington already has a gas tax that is over 37.6 cents per gallon. Representative Eastman explained that if Alaska's gas tax is going to be increased to an amount comparable to that of California and Hawaii, then he would like to see the department

both own up to that move and explain how it will effect Alaskans. He added that without that information, he does not believe it is possible to adequately assess that this tax will do what the department is intending.

MR. FECHTER said the department could provide the requested information.

CO-CHAIR WOOL shared his opinion that the conversation about gas prices in Alaska verses that of other states is probably beyond the scope of this committee and hearing. He added that how Alaska sets its gas prices or how the private market sets gas prices is an important conversation for another time.

MR. FECHTER returned to his presentation, to the final slide, and stated that the number one priority is for the increased tax to reduce the deficit, no matter how the funds are allocated. He reviewed that there are four separate accounts, and it is up to the legislature to determine how the designation should be written and what should be funded from the proceeds of the tax.

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REPRESENTATIVE SULLIVAN-LEONARD asked whether Alaska currently has a designated fund mechanism.

MR. FECHTER answered that there was a designation written into law, but it could never be implemented, because the designation lived as a subaccount of the GF. He added that although the legislature can appropriate funds from the GF, it is not easy because of the many subaccounts.

REPRESENTATIVE SULLIVAN-LEONARD inquired whether companies like Tesoro Corporation are paying some sort of a fuel tax and, if so, where that money goes.

MR. FECHTER responded that the close to one-cent tax is paid at the distributor level and is a separate tax. He explained that the proposed taxes would be paid at the actual point of delivery.

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CO-CHAIR STUTES inquired whether she was correct in thinking that the department doesn't have a preference as to how the funds are designated, because wherever the funds go, they will just replace UGF funds.

MR. FECHTER answered that's correct. He stated that as long as the governor's priorities are funded in the final budget, the department does not really care how the funds get allocated.

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CO-CHAIR WOOL, in follow-up to Representative Stutes' question, asked whether any of the total revenues, for any of the funds, are in excess of what is needed for each of the components and would roll into surplus.

MR. FECHTER explained that the department spends far more in UGF than would be generated, even after the tax is tripled.

CO-CHAIR WOOL, in follow-up to Representative Kopp's question about excess money for a rainy day, offered his understanding that in none of the revenues, if dispersed to the separate funds, does the department foresee any left over. He added that in order to see any surplus, the department would have to bring in UGF money just to get it up to its operating level. He inquired whether avalanche or catastrophe money would come from somewhere else.

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MR. FECHTER explained that the argument he was trying to previously make is that if the department is frugal with its budget and lapses money back to the fund, then it would be available for future use. He said that currently if the entirety of the budget is not spent, then it lapses back to the GF and is much more challenging to appropriate for a one-time use. He noted that if it lapses to a designated fund, then it is much more palatable to appropriate money from that source.

CO-CHAIR WOOL asked whether left over money combined with UGF money could, at the end of the year, be lapsed back into one of the designated funds.

MR. FECHTER answered yes.

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REPRESENTATIVE EASTMAN requested information on how much the department lapses back annually.

MR. FECHTER replied that that information is extremely variable and offered his educated guess that statewide, all departments, would be roughly \$50 million in UGF for FY 16.

REPRESENTATIVE EASTMAN requested that Mr. Fechter provide that information from the past five years to the committee.

CO-CHAIR WOOL announced that the committee will request a committee substitute be drafted for HB 60.

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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 2:05 p.m.