

SENATE FINANCE COMMITTEE
March 27, 2017
9:08 a.m.

9:08:15 AM

CALL TO ORDER

Co-Chair MacKinnon called the Senate Finance Committee meeting to order at 9:08 a.m.

MEMBERS PRESENT

Senator Lyman Hoffman, Co-Chair
Senator Anna MacKinnon, Co-Chair
Senator Click Bishop, Vice-Chair
Senator Mike Dunleavy
Senator Peter Micciche
Senator Donny Olson
Senator Natasha von Imhof

MEMBERS ABSENT

None

ALSO PRESENT

Hugh Short, Appointee; Warren Christian, Appointee; Randall Hoffbeck, Commissioner, Department of Revenue; Mark Luiken, Commissioner, Department of Transportation and Public Facilities.

PRESENT VIA TELECONFERENCE

David Wight, Appointee; Fred Sturman, Self, Soldotna; Jeff Wafford, UPS, Louisville, KY; Dana DeBell, Delta Airlines, Los Angeles; Fred Sturman, Self, Soldotna; Aves Thompson, Alaska Trucking Association, Anchorage.

SUMMARY

SB 25 MOTOR FUEL TAX; TRANSPORTATION MAINT. FUND

SB 25 was HEARD and HELD in committee for further consideration.

CONFIRMATION HEARING: ALASKA GASLINE DEVELOPMENT
CORPORATION BOARD

Co-Chair Hoffman remarked about the public hearing process as it related to education funding. He said that the public should be aware that the senate intended to cut the education budget by 5 percent regardless of public testimony. He said that the public hearing was closed and the item would not be reopened. He shared that lawmakers could provide amendments, which could be considered in the operating budget, but reiterated that the intent was to go through with the 5 percent cut.

Co-Chair MacKinnon interjected that letters on the matter could be submitted to the committee via email.

[9:11:22 AM](#)

^CONFIRMATION HEARING: ALASKA GASLINE DEVELOPMENT
CORPORATION BOARD - DAVID WIGHT, HUGH SHORT, and WARREN
CHRISTIAN

[9:11:56 AM](#)

DAVID WIGHT, APPOINTEE (via teleconference), discussed his qualifications for the Alaska Gasline Development Corporation board. He stated that he had a degree in petroleum engineering and had worked in the energy industry for 41 years. He said that half of his industry career was related to gas processing and development. He further discussed his resume (copy on file).

[9:14:05 AM](#)

Vice-Chair Bishop asked for Mr. Wight's opinion on debt versus equity financing for the state's proposed liquefied natural gas (LNG) project.

Mr. Wight thought that the financing would be determined by the market. He believed that the project required some equity investment by the state, but he could not say the level. He thought that the purchasers, the market, and the financiers would look to a commitment from the primary owners.

[9:16:05 AM](#)

Senator von Imhof referred to the state investment, and wondered where Mr. Wight thought the funds would be found.

Mr. Wight acknowledged the state's budget and income challenges, and expressed that the government of Trinidad and Tobago was much in the same position. The country had relied on investment banks to provide capital. He thought that the project was still possible, and that all avenues would be explored that would result in a minimum capital investment from the state.

[9:18:00 AM](#)

Vice-Chair Bishop asked Mr. Wight about his top priorities for the board for the upcoming year.

Mr. Wight thought it was important to improve investment efficiency and cost structure. He believed that the project size compared to the volume, timing, and price of the market would need to be considered. He stated that the financing of big projects was never easy. He said that Federal Energy Regulatory Commission (FERC) filing and negotiations about plant size would need to take place.

[9:20:16 AM](#)

Senator Dunleavy asked whether there were any other projects that were similar to the project structure that the administration had proposed.

Mr. Wight thought there had been many foreign governments that had decided to own facilities rather than another entity.

[9:21:31 AM](#)

Senator Dunleavy asked for specific names of foreign governments.

Mr. Wight cited Qatar and Indonesia.

[9:22:17 AM](#)

Senator Dunleavy asked whether the approaches of Qatar and Indonesia were similar to the model proposed by the administration.

Mr. Wight replied that he was unable to definitively determine whether the same model was being used.

Co-Chair MacKinnon thought that the question could be posed to a subsequent testifier who was serving on the Alaska Gasline Development Corporation (AGDC) board.

Senator Dunleavy answered in the affirmative.

[9:23:20 AM](#)

Senator Micciche noted that the two models mentioned by Mr. Wight had significant private sector investment. He wondered whether Mr. Wight planned to pursue the idea of a state owned and controlled project.

Mr. Wight explained that he had spent his career with major companies and had been involved in major capital investments throughout the world. He believed that the project should be a priority for the state and that it was appropriate for the state to take a leadership role. He explained that the state's capital investment should be minimal, but big enough to drive the project with the rest of the investors.

[9:27:49 AM](#)

Senator Micciche asserted that private entities were more efficient than governments when it came to making investments. He wondered how the board could encourage efficiency in investment when it was itself a government entity and therefore prone to thoughtless spending.

Mr. Wight thought that AGDC could act for the estate in the same capacity as a large private company. He believed that the biggest challenges facing the project were the size, price, and environment. But he was optimistic.

[9:30:15 AM](#)

Senator Dunleavy discussed past legislation pertaining to the gasline. He noted that in 2016 the 3 majors had backed out of the project because it did not fit into their portfolios. He wondered whether the 3 majors would be part of the project moving forward if Alaska were more economical.

Mr. Wight contended that the parties never felt the project was uneconomic. He referred to his over 40 years of working with major oil companies. He spoke to the company's limited capital and the reality of having to prioritize projects. He said that if the state wanted to see if the project could be successful someone had to take a leadership role.

[9:33:05 AM](#)

Mr. Wight discussed gas resources in Trinidad and Tobago as they related to the proposed Alaska gasline. He reiterated that what the project needed was strong leadership.

[9:35:19 AM](#)

Co-Chair MacKinnon thanked Mr. Wight and invited Hugh Short to the testifier microphone.

[9:35:52 AM](#)

HUGH SHORT, APPOINTEE, discussed his qualifications for the position and offered biographical and employment history, as well as his experience working on the board (copy on file). He agreed with previous testimony that the project faced challenges, and he relayed that the board had spent a significant amount of time building a coalition of investors, which included ConocoPhillips, Exxon, BP, and the state. He said that the extended commodity downturn throughout 2016 had put a significant amount of pressure on each of those companies globally and locally. He reiterated the challenges to the project that were highlighted by Mr. Wight.

[9:39:57 AM](#)

Mr. Short said that the project finance model attached to the project involved government participation. He relayed that the previous model had been an equity model, where each partner put in 25 percent. He related that the currently project finance model meant that the state would contribute equity to the project and would build the project with the help of investment partners. He said that the model would align the cost of capital over the entire project, versus each company having their own return on equity. The model would also reduce the cost and return of the project, and could have some tax advantages.

[9:41:57 AM](#)

Senator Dunleavy commented that there was about \$100 to \$110 million left in the accounts for the project. He thought there were many Alaskans that questioned the viability of the project. He wondered whether the money in the account should be used to further the project at this time.

Mr. Short relayed that the state had spent approximately \$175 million in the pursuit of a FERC license for the Susitna-Wantana hydro project. He said that AEA and the state were \$75 million away from completing a full FERC license when the decision was made to not move forward with the project and not fund the remaining FERC work. He felt that the state could have had an asset in the FERC license that could have been sold, and he lamented that the state could have made money from the hydroelectric plant, but instead lost the invested money. He likened the gasline project to the Susitna-Wantana project. He felt that having a license in hand would be reflected as an asset on the state's books. He felt that it would be foolish to not move forward with the FERC licensing process for the gasline project.

[9:46:35 AM](#)

Vice-Chair Bishop asked whether the AGDC budget would cover the cost of completing the FERC license, or would additional appropriations be expected.

Mr. Wight thought that the current budget would get AGDC through the FERC process.

[9:47:21 AM](#)

Co-Chair MacKinnon asked what how much of the \$100 million in state assets AGDC expected to spend in FY18.

Mr. Short did not have the information at hand, but agreed to provide greater detail at a later time.

[9:47:58 AM](#)

Senator Micciche commented that there were LNG projects in the U.S. that had done the entire permitting process for under \$100 million. He asked whether the transparency of

the board with the legislature would be an objective for Mr. Short.

Mr. Short answered in the affirmative. He lamented that over the last 9 months the board had been in negotiations with project partners over 4 key agreements. He expressed frustration over the amount of information that had to be discussed in executive session, and he said he understood that the executive sessions had irritated the legislature. He said that his goal for the future was to limit executive sessions to a minimal amount. He relayed that transparency was one of the board's biggest challenges because the project was shrouded in multiple confidentiality agreements. He said that transparency was the board's biggest priority.

[9:50:35 AM](#)

Senator Micciche queried the criteria AGDC would use to determine whether the project was economical or whether it should be killed.

Mr. Short stated that AGDC was structured to give the governor the ability to hire, and the legislature the ability to retain or fire, board members. He said that he had worked to serve independent and apolitically. He feared that things could be politicized and that decisions would be made based on the wrong criteria. He thought that if the current board felt that the project was not feasible, and was not an effective use of resources, the project would be shut down.

[9:54:10 AM](#)

Senator von Imhof echoed the comments of Senator Micciche and thanked Mr. Short for his service. She discussed the FERC license as a milestone, and wondered if there was an expiration date on the suite of permits. She wondered whether the demand for the supplied product would change within the lifetime of the FERC permit.

Mr. Short could not speak to a specific expiration of the FERC license. He said that the state of Alaska had been pursuing the project for his lifetime thus far, and had not achieved the FERC license or induced any buyers. He thought that achieving a FERC license and continuing to attempt to

get gas from the North Slope to tidewater was an important pursuit.

[9:56:48 AM](#)

Senator von Imhof agreed, as long as the FERC license was transferrable. She thought clearly global economics would determine the future of the project.

[9:57:28 AM](#)

Co-Chair MacKinnon asked who Mr. Short thought should be responsible for the marketing of Alaska's natural gas.

Mr. Short replied that AGDC played an important role in communicating with the market. He listed the various reasons why the project was exciting. He believed that the marketing of Alaska's gas rested on the shoulders of the State of Alaska.

[9:59:11 AM](#)

Co-Chair MacKinnon referred to initial legislation that contemplated DNR as a possible marketer of the gas. She understood that Mr. Short believed that AGDC should be in charge of marketing Alaska's gas.

Mr. Short responded that DNR and AGDC had been in conversation about streamlining the process of gas sales. He felt that the biggest challenge the board faced was to be more efficient. He said that if AGDC and DNR needed to craft a cooperative agreement to be able to efficiently tackle the task to get to market, while maintain the discipline of DNR negotiating the deal, then that should be the process that was pursued.

[10:00:32 AM](#)

Co-Chair MacKinnon asked who would benefit from competition in the scenario under which all the project partners sold gas in the global market with all eyes focused on Asia.

Mr. Short felt that one of the biggest challenges was determining whether to sell gas through a joint marketing agreement with our partners, or under independent sales. He lamented that it had been difficult to negotiate a joint marketing agreement with four separate parties. He said

that at the end of the day each gas seller and buyer would have to negotiate a deal and common economics would dictate that the pricing would be similar. He felt that the state would benefit if some level of production and sale of gas could be induced.

[10:02:31 AM](#)

Co-Chair MacKinnon asked if one was a natural gas buyer such as Asia or China, would the price be better if less people were marketing gas in Alaska.

Mr. Short was unsure whether there was an absolute answer to the question. He thought that the cost structure would dictate the available margin. He said that the buyer's ability to negotiate significantly different deals based on the same source of gas would be limited because of the underlying cost structure of the entire infrastructure.

[10:04:01 AM](#)

Co-Chair MacKinnon hoped that someone could explain to why putting more gas, from a fourth seller, would be beneficial to the state. She thought that companies that already had marketing potential in other regions and nations would have an easier time at selling than the state.

Co-Chair MacKinnon thanked Mr. Short for his service.

[10:05:03 AM](#)

AT EASE

[10:05:49 AM](#)

RECONVENED

Co-Chair MacKinnon informed that the committee would not be taking public testimony on the confirmations.

[10:06:26 AM](#)

WARREN CHRISTIAN, APPOINTEE, discussed his qualifications for the Alaska Gasline Development Corporation (AGDC) Board (copy on file).

[10:08:25 AM](#)

Vice-Chair Bishop asked how many board meetings Mr. Christian had attended thus far.

Mr. Christian specified that he had attended all of the board meetings that had been held since his appointment.

Vice-Chair Bishop asked whether Mr. Christian had seen any opportunity to bring suggestions to the project to lower project costs.

Mr. Christian stated that the management team had engaged him in the FERC process, through which he believed cost reductions would be realized. He said that permitting often increased the cost of a project, but that he could work to lower the permitting costs.

[10:09:45 AM](#)

Senator Dunleavy asked whether the goal of AGDC was to receive a FERC license or to determine the viability of the project.

Mr. Christian opined that the FERC process was critical. He said that the FERC permit would be viable for three years, after which there was a possibility of extension. He stated that the third party tolling and third party financing, as well as the federal tax exemption because of state ownership, would be beneficial to the project. He relayed that AGDC would be returning to the legislature to ask for additional funding because the budget only covered the project through FY 18, and the FERC permit would not be procured by that deadline.

[10:12:18 AM](#)

Senator Olson expressed concern that the project was not being efficiently handled. He worried that the board would not have the self-discipline to cancel the project if necessary. He lamented that the state had poured millions of dollars into projects that had so far proved fruitless.

Mr. Christian agreed with Senator Micciche that there was a difference between state ownership and state control. He was not in favor of the state running anything in the private sector. He considered that the method by which it was possible to determine if the project was viable was to determine whether the model could no longer be

substantiated. He did not think the state was ready to discontinue the project. He believed that the FERC process should be continued to completion.

[10:16:30 AM](#)

Co-Chair MacKinnon asked Mr. Christian who he though should be selling Alaska's natural gas.

Mr. Christian thought the reasonability of marketing the gas belonged to DNR, he added that the responsibility of marketing the project lie with AGDC.

[10:17:12 AM](#)

AT EASE

[10:17:34 AM](#)

RECONVENED

FRED STURMAN, SELF, SOLDOTNA (via teleconference), commented on the AGDC confirmations. He expressed support for Mr. Short. He testified that that the project should be terminated.

[10:19:32 AM](#)

Vice-Chair Bishop FORWARDED the appointments of David Wight, Hugh Short, and Warren Christian to a Joint Session for consideration in accordance with Alaska Statute. He relayed that this did not reflect an intent by any member Senate Finance Committee to vote for or against the confirmation of the individuals during any further sessions.

There being NO OBJECTION, it was so ordered.

[10:20:14 AM](#)

AT EASE

[10:21:29 AM](#)

RECONVENED

#sb25

SENATE BILL NO. 25

"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."

[10:21:37 AM](#)

Co-Chair MacKinnon OPENED public testimony.

[10:22:10 AM](#)

JEFF WAFFORD, UPS, LOUISVILLE, KY (via teleconference), testified in opposition to SB 25. He discussed the impact the bill would have on UPS (copy on file):

Thank you for the opportunity to provide testimony on the proposed Motor Fuel Tax Bill and the impact it could have on UPS and the air cargo industry. UPS is one of several in our industry that oppose an increase in the tax on jet fuel. UPS appreciates the long-standing working relationship with the State of Alaska. We have more than 1,100 employees in Alaska, including 489 pilots who are domiciled here.

Traditionally, Alaska has played an important role in UPS's global reach; not only do we deliver to thousands of customers daily, but Anchorage serves as our gateway to the Asia-Pacific region. Anchorage also serves as the training location for our Representative Doogan-11 and 747 fleets.

UPS located in Alaska because of the business-friendly climate created by elected leadership. We pay close to \$6 million in general and aviation taxes here, as well as approximately \$7.2 million in landing fees annually to cover costs at airports. We have also invested into the local area, spending millions on a flight training center that celebrated its tenth anniversary in Anchorage last year.

We sympathize with the situation you are faced with. We also understand that the budget outlook in Alaska for future years is under a tremendous amount of scrutiny given the lower price of oil and what it means to the budget of Alaska.

UPS is in a unique situation as it related to the proposed motor fuel tax bill. First, UPS faces the risk of higher taxes on two different business units;

ground in the form of the motor fuel tax increase and air in the form of the increased jet fuel tax. Second, UPS actually supports the increase in the motor fuel tax as it is a pure user fee. UPS uses most, if not all, of the roads in Alaska and we believe we should pay into maintenance of that infrastructure.

However, we oppose the jet fuel tax as it's not a user fee. UPS and other airlines already pay user fees to airports in terms of landing fees. As I mentioned earlier, we pay roughly \$7.2 million in landing fees to the Alaska International Airport System each year. AIAS is self-sustaining and requires little if any state funding as the passenger and commercial airlines pay for operational support and infrastructure improvements.

In fact, the AIAS is thriving, and making an important economic impact on the state. According to a DOT study, the AIAS accounts for 17,000 jobs, including one in ten jobs in Anchorage and one in 20 jobs in Fairbanks.

Increasing the jet fuel tax also increases the indirect subsidy to airports where there are no landing fees and which UPS does not regularly use.

UPS does contract with carriers to deliver packages to airports outside of the AIAS, but this is on a minimal basis, and UPS is already paying jet fuel taxes on domestic flights to subsidize those airports, along with fees to the contracted carriers for any costs they may incur.

In addition, UPS, Delta, and other members of the aviation community, including those involved in Airlines for America and the Cargo Airlines Association, are concerned that targeting the aviation industry for a budget shortfall could cause a reduction on cargo and commercial flights to Alaska.

This increase could also cause an accelerated push toward dependence on newer aircraft that can bypass Anchorage, as at least one cargo carrier had started to do already.

A decrease in the number of flights raises further concerns, including the potential of diminished investments in infrastructure if not as many airlines are paying into the aviation fund through fuel taxes. As it stands, cargo-related revenues account for nearly two-thirds of AIAS revenues. If higher costs cause carriers to fly elsewhere, this could indirectly lead to either a reduction on revenues, or lead to the remaining carriers having to pay more into the system to account for those who bypass Alaska.

Again, UPS empathizes with the state of Alaska and its budget deficit. We appreciate the partnership we've had here and the growth-friendly environment that has allowed UPS to operate here over many years. We hope that you will greatly consider the consequences of what an increase in the jet fuel tax can mean to the great state of Alaska.

[10:27:29 AM](#)

DANA DEBELL, DELTA AIRLINES, LOS ANGELES (via teleconference), testified in opposition to SB 25. She relayed that Delta currently operated 17, peak day flights to Alaska into Anchorage and Fairbanks, where they operated year round, and seasonally into Juneau, Sitka, and Ketchikan. She expressed concern that the increased income tax would make an already tough environment to operate in even more challenging. She expounded on the benefits that Delta doing business in Alaska brought to the state. She asserted that the tax increase would compound the already challenging competitive environment. She shared that through the connection to Delta hubs in various cities, Alaska was only one-stop away from over 600 destinations on 5 continents. She reiterated that it was a challenge to operate profitably in Alaska.

[10:30:49 AM](#)

FRED STURMAN, SELF, SOLDOTNA (via teleconference), testified in opposition to the bill. He expressed concern for the budget shortfall in his area of the state and the subsequent job losses. He did not believe that taxes should be implemented until further budget cuts were made.

[10:33:45 AM](#)

AVES THOMPSON, ALASKA TRUCKING ASSOCIATION, ANCHORAGE (via teleconference), spoke in support of the bill. He expressed support the development of a balanced, durable, and long term fiscal plan that utilized cuts to state government, use of permanent funds earnings, and taxes if required. He believed that the tax proposed in the legislation was acceptable within the framework of a long term fiscal plan. He thought that action was critical during the current legislative session. He said that the association supported a motor tax increase if the funds were dedicated to transportation needs. He stated that the trucking industry paid 45 percent of the state motor fuel tax. He suggested that intent language could be added that would make a commitment to a highway fuel tax account that could be used for roads and bridges. He hoped that the uses of the Public Transportation Fund could be reined in so that the funds could be directed toward transportation maintenance. He relayed that he supported the change made by the house that extended the implementation date to \$.08 in 2017, and the same in 2019.

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Co-Chair MacKinnon CLOSED public testimony.

[10:37:45 AM](#)

RANDALL HOFFBECK, COMMISSIONER, DEPARTMENT OF REVENUE, discussed the presentation, "State of Alaska Department of Revenue: SB 25 - Motor Fuel Tax," (copy on file). He said that the presentation contained information from two departments, revenue and transportation, as well as sectional analysis and fiscal note information.

[10:38:16 AM](#)

Commissioner Hoffbeck turned to Slide 2, "Motor Fuel Tax Increase":

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

[10:38:57 AM](#)

Commissioner Hoffbeck showed Slide 3, "Motor Fuel Tax History":

- Began in 1945
- Tax rates have increased over time, but structure unchanged
 - Last increase: highway 1970, marine 1977, aviation fuel 1994
- Tax was suspended from Sept. 1, 2008, to Aug. 31, 2009
- In 2015, HB 158 added \$0.0095 surcharge on
- motor fuels and some other refined fuels
 - Intended for spill prevention and response fund

[10:39:55 AM](#)

Commissioner Hoffbeck discussed Slide 4, "Relative Motor Fuel Tax Rate":

- Alaska's fuel taxes are among lowest in U.S. (1)
 - o Highway fuel: lowest and the longest time since increase
 - o Jet fuel: 35thout of 50
 - o Aviation gas: 24thout of 50
- Under this bill, Alaska taxes would be:
 - o Below national average for highway fuel
 - o Above national average for jet/aviation fuel

(1)Per Institute on Taxation and Economic Policy 2017
No comprehensive data for other states' marine fuel taxes.

However, we believe that in most states the "marine" rate is the "highway" rate.

Therefore, our "marine" rate is likely also one of the lowest in the country.

[10:41:51 AM](#)

Commissioner Hoffbeck turned to Slide 5, "Motor Fuel Tax Proposal," which showed a table that reflected the change in rates over time under the bill. The current price of highway fuel was \$.08, and was expected to go up 50 \$.16 on July 1, 2017, and \$.24 on July 1, 2018. The current price of marine fuel was \$.05, and was expected to go up to \$.10 on July 1, 2017, and \$.24 on July 1, 2018. The current price of jet fuel was \$.032, and was expected to go up to

\$.064 on July 1, 2017 and \$.096 on July 1, 2018. They current "off road use" credit was $-\$.06$ and was expected to change to $-\$.12$ in July 2017, and $-\$.18$ in July 2018.

[10:42:42 AM](#)

Commissioner Hoffbeck displayed Slide 6, "Motor Fuel Tax Impacts (examples)," which showed a table that offered several examples of how the prices would affect Alaskans.

[10:44:25 AM](#)

Commissioner Hoffbeck moved to Slide 7, "Disposition of Revenues":

- Creates "Transportation Maintenance Fund" as a new fund within the General Fund.
 - Aviation fuel taxes are other funds (dedicated as required for participation in a federal program) under current law
 - HB 60 moves taxes on highway and marine fuel from Undesignated General Fund to Designated General Fund for budgeting
 - Creates confidence that revenues from motor fuel will be used to build and maintain transportation infrastructure

Commissioner Hoffbeck said that people were more willing to pay a tax when they were given assurances that the fund would support the infrastructure for which the tax was being collected. He related that though the funds could not be dedicated, a designated fund structure would be created within the general fund. [He noted that the slide should reflect SB 25, not HB 60.]

[10:45:24 AM](#)

Senator Micciche asked how the funds would be accounted for in the budgetary process.

Commissioner Hoffbeck stated that the money would be set in separate funds: aviation, marine, and highway, and the money to fund the services for those areas would be drawn from the fund first. He said supplemental funds would come from other general funds sources.

Senator Micciche asked whether Commissioner Hoffbeck envisioned earmarking the funds.

Commissioner Hoffbeck answered in the affirmative.

[10:46:39 AM](#)

Senator von Imhof wondered whether there had been an analysis done on how the increase would affect the fees and taxes already paid to the state by large jet airlines.

Commissioner Hoffbeck offered to provide a report compiled by DOT that examined landing fees and taxes associated with various airport operations in hub cities.

[10:47:50 AM](#)

Commissioner Hoffbeck spoke to Slide 8, "Revenue Impact":

- o Additional revenue about \$40 million first year, \$80 million per year thereafter
 - \$0.4 million will be shared with municipal-owned airports
 - Remainder: Transportation maintenance fund, special accounts for road, water transport, and aviation facilities
- o Estimates based on fall 2016 revenue forecast
- o Does not account for changes in fuel demand or stockpiling

Commissioner Hoffbeck noted that approximately \$71.4 million would come from marine and highway taxes, and approximately \$9.3 million from jet fuel. He shared that the fall 2016 revenue forecast assumed that \$370 million gallons of highway fuel would be sold within the state, 120 million gallons of marine fuel, 130 million gallons of jet fuel, and 10 million gallons of aviation fuel. He added that of the 130 gallons of jet fuel that was taxed there was 480 million gallons that were exempt because of the international flight exemption.

[10:49:05 AM](#)

Co-Chair MacKinnon clarified that the tax was proposed to collect \$40 million additional dollars.

[10:49:25 AM](#)

Commissioner Hoffbeck addressed Slide 9, "Implementation Cost":

- o Dept. of Revenue must update:
 - Tax Revenue Management System (TRMS)
 - Revenue Online (ROL) which allows a taxpayer to file a return and apply for a dealer license online
 - Tax return forms
- o One-time implementation cost of \$50,000 to recreate tax forms and reprogram and test the tax system to accommodate the rate changes
- o No additional costs to administer the tax program

Commissioner Hoffbeck qualified that there was minimal cost associated with implementation of the tax.

[10:49:59 AM](#)

Co-Chair Hoffman asked which airports in the state were municipally owned.

Commissioner Hoffbeck agreed to provide the information at a later date.

Co-Chair Hoffman wondered how much the average Alaskan benefitted from the taxes on marine fuel.

Commissioner Hoffbeck deferred the question to a later date.

[10:51:09 AM](#)

Vice-Chair Bishop understood that the taxes would be collected at the wholesale level, and not the retail level.

Commissioner Hoffbeck answered in the affirmative.

Commissioner Hoffbeck listed the municipalities that were receiving payments from the gas tax funds:

Yakutat
Wrangell
Wasilla
Venetie Tribal Government

Thorne Bay
Soldotna
Sitka
Seldovia
Kwinhagak
Pelican
Palmer
North Slope Borough
Nenana
Kodiak
Ketchikan
Klawock
Kenai
Kake
Juneau
Haines
Igiugig
Delta Junction
Craig
Anchorage
Akutan

[10:52:04 AM](#)

Senator Dunleavy asked requested clarification of the definition of "off road use credit".

Commissioner Hoffbeck explained that there was a provision within the statute that allowed users to apply for reimbursement of the tax paid on motor fuel purchased in association with the highway tax that was used for non-highway related purposes, such as a four-wheeler.

Senator Dunleavy surmised that Alaskan's who used the gas for their four wheelers could apply for the credit.

Commissioner Hoffbeck answered in the affirmative.

[10:53:21 AM](#)

Senator Olson wondered whether the Origin Destination exemption under AS 43.40.100 would remain intact under the legislation.

Commissioner Hoffbeck stated that the bill did not change the exemption in any way.

Senator Olson thought that the exemption created an unfair advantage for carriers that traveled internationally.

Commissioner Hoffbeck replied that the justifiability of the exemption had been questioned. He shared that part of the exemption was federally mandated; if a flight was leaving Anchorage or Fairbanks to land in a foreign destination it could not be taxed. The state had increased the exemption by saying that if a flight was arriving from a foreign destination it would not be taxed, which expanded the federally required exemption. He admitted that the fairness of the exemption was in question, but that generating business was also a consideration.

[10:55:35 AM](#)

Senator Olson wondered if the administration would be in favor of abolishing the exemption, in order to create a more equal playing field.

Commissioner Hoffbeck said that the economics of abandoning the exemption would need to be studied before a determination could be made.

[10:56:33 AM](#)

MARK LUIKEN, COMMISSIONER, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES, referenced the presentation "Alaska Department of Transportation and Public Facilities - Senate Bill 25" (copy on file).

Commissioner Luiken looked at Slide 2, "Scope":

- o This briefing addresses the Department of Transportation & Public Facilities (DOT&PF) operating budget.
- o The funds generated by Alaska's Motor Fuel Tax that will be placed in the Alaska Transportation Maintenance Fund (DGF/Other) replace an equal amount of Unrestricted General Funds (UGF) that currently fund DOT&PF's operating budget.
 - UGF to DGF fund swap: \$64.8M
 - UGF to Other fund swap (Aviation): \$4.5M
 - Total fund swap: \$69.3M
- o The budget components that are recipients of the fuel tax revenue are the regional Highways

& Aviation components and the Alaska Marine Highway System.

SB 25 was HEARD and HELD in committee for further consideration.

Co-Chair MacKinnon discussed housekeeping.

#

ADJOURNMENT

10:58:48 AM

The meeting was adjourned at 10:58 a.m.