

**ALASKA STATE LEGISLATURE**  
**SENATE TRANSPORTATION STANDING COMMITTEE**

February 2, 2017

1:31 p.m.

**MEMBERS PRESENT**

Senator Bert Stedman, Chair  
Senator Anna MacKinnon  
Senator Click Bishop  
Senator David Wilson  
Senator Dennis Egan

**MEMBERS ABSENT**

All members present

**COMMITTEE CALENDAR**

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."

- HEARD & HELD

**PREVIOUS COMMITTEE ACTION**

BILL: SB 25

SHORT TITLE: MOTOR FUEL TAX;TRANSPORTATION MAINT. FUND

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

01/18/17	(S)	READ THE FIRST TIME - REFERRALS
01/18/17	(S)	TRA, FIN
02/02/17	(S)	TRA AT 1:30 PM BUTROVICH 205

**WITNESS REGISTER**

JERRY BURNETT, Deputy Commissioner  
Department of Revenue  
Juneau, Alaska

**POSITION STATEMENT:** Presented SB 25 of behalf of the administration.

JOHN BINDER, Deputy Commissioner  
Department of Transportation and Public Facilities (DOTPF)  
Anchorage, Alaska

**POSITION STATEMENT:** Presented information on SB 25.

AVES THOMPSON, Executive Director  
Alaska Trucking Association  
Anchorage, Alaska

**POSITION STATEMENT:** Testified in support of SB 25.

NICK D'ANDREA, Vice President  
Public Affairs  
UPS

Louisville, Kentucky

**POSITION STATEMENT:** Testified in support of SB 25.

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

**POSITION STATEMENT:** Testified in support of SB 25.

CHRISTINE KLEIN, representing herself  
Anchorage, Alaska

**POSITION STATEMENT:** Testified in support of SB 25.

MARK BERDAHL, representing himself  
Nikiski, Alaska

**POSITION STATEMENT:** Testified in opposition to SB 25.

RICHARD MCGAHAN, representing himself  
Nikiski, Alaska

**POSITION STATEMENT:** Testified in opposition to SB 25.

GEORGE PIERCE, representing himself  
Kasilof, Alaska

**POSITION STATEMENT:** Testified in opposition to SB 25.

FRED STURMAN, representing himself  
Soldotna, Alaska

**POSITION STATEMENT:** Testified in opposition to SB 25.

CHRYSTAL SCHOENROCK, representing herself  
Nikiski, Alaska

**POSITION STATEMENT:** Testified in opposition to SB 25.

PAMELA BRODIE, representing herself

Homer, Alaska

**POSITION STATEMENT:** Testified in support of SB 25

**ACTION NARRATIVE**

1:31:11 PM

**CHAIR BERT STEDMAN** called the Senate Transportation Standing Committee meeting to order at 1:31 p.m. Present at the call to order were Senators Bishop, Wilson, Egan, and Chair Stedman. Senator MacKinnon arrived shortly thereafter.

**SB 25-MOTOR FUEL TAX; TRANSPORTATION MAINT. FUND**

1:32:08 PM

CHAIR STEDMAN announced that the only order of business would be the first hearing on SB 25. He said the intent is to hear the bill, take public testimony, and hold the bill. He stated that SB 25 is a motor fuel tax/transportation maintenance fund bill sponsored by the Governor.

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JERRY BURNETT, Deputy Commissioner, Department of Revenue, presented SB 25 on behalf of the administration. He thanked the committee for hearing the bill. He related that SB 25 was introduced with the budget this year and the proceeds from the increased motor fuel tax are included in the FY18 budget.

He provided the history of the motor fuel tax. He said that Alaska has had a motor fuel tax since 1945 and the structure has remained unchanged. The last increase of the motor fuel tax for highway use was in 1970, 1977 for marine use, and 1994 for aviation fuel. The highway tax in 1970 was 8 cents a gallon, as it is now, and the average gallon of gas in the U.S. sold for 36 cents. He recalled how 8 cents was a big portion of a gallon of gas back then. The total state budget in FY71 was \$369 million. The general fund portion was around \$240 million, and the motor fuel tax brought in \$9.4 million for highways at that time and was separately identified in the budget.

He said the budget these days is closer to \$4 billion and taxes are bringing in about \$40 million. As a percentage of the budget, that is much less. He continued to say that in 2008 the motor fuel tax was suspended when the price of gas was over \$4. In 2015 the last fuel tax increase was under a penny and it went to the Spill Prevention and Response Fund.

MR. BURNETT compared Alaska's tax rate to other states. Alaska has the lowest fuel tax of all states and the longest time since there was an increase. For jet fuel, Alaska is 35th out of 50 states and for aviation gas it is 24th out of 50 states. If the bill were to pass, Alaska taxes would still be below average for highway fuel. He noted that he has provided the committee with a report from the Institute on Taxation and Economic Policy 2017 showing the relative motor fuel tax rates. He pointed out that the report shows a different rate than what is in the bill because the rates in the bill include a blended average of local sales tax which is added. The report indicates an average price per gallon in Alaska of about 12 cents. However, it varies tremendously in Alaska due to sales tax.

MR. BURNETT noted that most states do not have a separate marine fuel tax and pay highway rates for their marine fuel.

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MR. BURNETT showed a table with the current motor fuel tax proposal for the following fuels: highway, marine, jet fuel, and aviation gas.

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SENATOR WILSON asked who currently receives off-road use credit.

MR. BURNETT explained that most off-road use credit is for mines and large construction.

MR. BURNETT described the increases for each type of fuel for July 1, 2017, and July 1, 2018.

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CHAIR STEDMAN noted the arrival of Senator MacKinnon.

He asked what the increase in the marine fuel tax will be going towards - the targeted uses.

MR. BURNETT replied that the money will be going into the Transportation Maintenance Fund and it can be used for direct capital and operating expenditures, marine infrastructure, and marine transportation.

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MR. BURNETT provided examples of motor fuel tax impacts. The first example is a motorist who drives 25,000 miles a year would, today, pay \$133 dollars in taxes; next year they would pay \$266 and the following year \$399. The second example shows a

freight driver transporting 30,000 pounds of freight per year paying 2 cents per 100 pounds today, 4 cents next year, and 5 cents the following year. He also showed examples of marine fuel, jet fuel and aviation gas use under the same timeline with the same percentage of increase in costs. He concluded that it triples the cost, but as a percentage of the fuel cost, it is not that large. They are real dollar impacts to people, but the value of the maintenance and infrastructure more than offsets the cost.

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SENATOR MACKINNON asked about the jet fuel proposed increase. She said international operators have requested an exemption due to the effect of long haul flights.

MR. BURNETT explained that long haul international jets are currently exempt and that will not change. He suggested that Mr. Binder could speak to the issue. Mr. Burnett said international carriers are paying for costs through landing fees.

SENATOR MACKINNON asked if they are exempt or partially exempt.

CHAIR STEDMAN noted Mr. Binder would address that question.

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MR. BURNETT explained the disposition of fuel tax revenues. They created the Transportation Maintenance Fund as a new fund within the general fund. Under current law, aviation fuel taxes are "other funds" dedicated as required for participation in a federal program. HB 60 moves taxes on highway and marine fuel from undesignated general fund to designated general fund for budgeting. The Transportation Maintenance Fund will create confidence that revenues from motor fuel will be used to build and maintain transportation infrastructure.

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SENATOR MACKINNON asked if there will be allocations for roads and marine highway.

MR. BURNETT said yes. Within the Transportation Maintenance Fund there will be separate allocations for marine fuel taxes and highway fuel taxes. Within the special aviation fuel account there are allocations not in the general fund.

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He explained the revenue impact of SB 25. There will be additional revenue of about \$40 million the first year and \$80

million per year thereafter. There are small annual variations in the numbers of gallons sold, except for aviation fuel, which varies depending on economic conditions. He said about \$400,000 more will be shared with municipal-owned airports. The remainder will go into the Transportation Maintenance Fund. Estimates in the fiscal note are based on the 2016 Revenue Forecast. He noted it does not account for changes in fuel demand.

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SENATOR WILSON inquired whether any changes in behavior by users are expected due to this tax. For example, a fishing fleet that may decide to buy gas from an international provider.

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MR. BURNETT understood that, because of pricing differences, some marine users already purchase international fuel. However, he opined that the tax is not enough of a change for highway users. The tax is still below the national average.

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MR. BURNETT addressed the implementation cost which will be a one-time cost of \$50,000. No additional staff is needed.

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JOHN BINDER, Deputy Commissioner, Department of Transportation and Public Facilities (DOTPF), presented information on SB 25. He said he would explain how the funds from SB 25 would be used. He began with the scope of the presentation which is to show the impact of the motor fuel tax on DOT's operating budget. He said it ends up being a fund swap between the unrestricted general fund (UGF) and the designated general fund (DGF) as a result of the tax revenues. The budget components that are recipients of the fuel tax revenue are the regional Highways and Aviation components and the Alaska Marine Highway System.

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MR. BINDER showed the overall FY2018 Governor's proposed operating budget with all funding sources. The total budget is about \$581 million, primarily funded through four different fund categories. The two pie charts compare the FY 17 Management plan to the FY 18 proposed plan. The Governor's proposed plan shows a decrease in UGF and a corresponding increase in DGF as a result of SB 25. He pointed out that one of the biggest benefits of the

bill is that it ties the fees people are being charged to the operation and preservation of systems they are using.

He drew attention to the smaller funds that make up the broad four fund categories.

MR. BINDER addressed Senator MacKinnon's question about the international airport revenue funds. He summarized that all domestic aircraft traffic is charged the full aviation fuel tax per current state statute. All international traffic is completely exempt.

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SENATOR MACKINNON asked if there is a reciprocal agreement for U.S. flights to other countries.

MR. BINDER said no, he is not aware of any.

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MR. BINDER showed the four core services that DOT operates under: operating, preserving, and modernizing Alaska's transportation infrastructure, and providing transportation services. The two core services affected by SB 25 are the "operate" and "preserve" areas.

He addressed the preserve core service first, noting the direct services that support it. It extends the life of existing transportation infrastructure. Much of this area is federally funded and requires the state to meet federal standards.

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MR. BINDER discussed the results of the bill on the FY 18 budget. There would be a 23 percent reduction of UGF and an increase of 5 percent in DGF. The services provided with that money would not change. He showed examples of direct services on the preserve side of the house.

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SENATOR BISHOP asked if Mr. Binder anticipates any improvement in services or status quo.

MR. BINDER said the department always strives to provide better service, but the overall funding would not change so it would be the same level of services currently allocated.

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MR. BINDER addressed the operate core services. Currently, about \$105 million is allocated for this area. These are services the public typically sees, such as snow removal. They allow movement on existing infrastructure. He noted a 71 percent decrease in UGF and a corresponding 4 percent increase in DGF. He said that there are performance measures in place to ensure quality services.

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MR. BINDER showed a slide comparing fund category distribution between the current and proposed budgets.

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SENATOR MACKINNON appreciates that the department is using service standards from the operating side of the house. She inquired if there is a similar structure for capital investments, such as airports. She brought up an example of three airports within a 12-mile radius by Toksook Bay, noting that one airport is on the improvement list. She asked if it is cheaper to do maintenance on three airports than to build and maintain a road to connect three communities. She requested information, from a capital perspective, how DOT evaluates cost allocation choices.

MR. BINDER agreed to provide that information.

CHAIR STEDMAN thanked the presenters.

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AVES THOMPSON, Executive Director, Alaska Trucking Association, testified in support of SB 25. He shared the history of the Trucking Association. He said one of their legislative priorities is the development of a balanced, durable, long-term fiscal plan utilizing cuts to state government, use of permanent fund earnings, and taxes if required. The fuel tax as proposed in SB 25 is acceptable within the framework of a long-term fiscal plan. They believe in a fuel tax increase if the funds can be dedicated to transportation needs. He noted an objection to the motor fuel tax last year was that there were no specific guidelines on how the revenue would be spent. This year with the Transportation Maintenance Fund, they are able to support it. He noted the trucking industry pays about 40 to 45 percent of the motor fuel taxes in the state.

MR. THOMPSON asked the committee to consider spacing the two-step tax; have an 8 cent increase in 2017 and again in 2019 in order to give the trucking industry time to adjust to the

increases. He noted that many companies already use fuel surcharges, which are based on a regional index. The Association would end up absorbing the increase until it can be adjusted into the freight rates.

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He also wished to see stronger intent language regarding the Transportation Maintenance Fund. There is no increase in the total funding available, so the Association wants to ensure that the spending is for roads, bridges, and highway maintenance only. He used the example of the line item in the Department of Public Safety's budget for money from the Transportation Maintenance Fund for highway patrolling.

CHAIR STEDMAN commented that there is a restriction on dedicated funds. He said it is important that those funds are proportionately allocated and within the constitutional mandate. It will be a conversation to have with the Senate Finance Committee.

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SENATOR MACKINNON asked when trucking contracts are negotiated.

MR. THOMPSON said it varies depending on when the contracts were first negotiated. They are typically for a year or more. He clarified his proposal to have a two-tiered tax of an 8-cent increase beginning on July 1, 2017, with another 8-cent increase on July 1, 2019.

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SENATOR BISHOP how the 30,000 pounds for freight rate was chosen as an example.

MR. THOMPSON agreed it would be a light load.

SENATOR BISHOP said it could be an arbitrary number.

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NICK D'ANDREA, Vice President, Public Affairs, UPS, testified in support of SB 25. He responded to a previous question from Senator MacKinnon on international exemptions.

SENATOR MACKINNON noted one state removed that exemption.

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MR. D'ANDREA described the makeup of UPS in Alaska. He talked about new purchases and why UPS is located in Alaska. He listed

the services and benefits UPS provides to the state. He brought up the fact that the fuel tax goes to subsidize airports that UPS do not use. He voiced concern that the tax targets aviation and may decrease the number of flights. They would like to support the motor fuel tax.

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DANA DEBEL, Managing Director, State and Local Government Affairs, Delta Airlines, testified in support of SB 25. She concurred with Mr. D'Andrea's concerns about revenue going to other airports that Delta does not use. She discussed Delta's footprint in the state. She listed the flights to Alaska and the number of employees. She said she prefers not to subsidize airports they do not use.

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SENATOR BISHOP opined that UPS and Delta do benefit by the other airports in Alaska.

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CHRISTINE KLEIN, representing herself, testified in support of SB 25. She shared that she served on past administrative transportation committees. She brought up that Alaska is the only state that does not have a transportation fund, so money for operations that come out of general funds are cut when there is a budget crisis. Alaska has the lowest fuel tax in the country. She said it could provide better services by leveraging state funding. The projects that rely on federal monies are more costly and take longer. Also, there will be competition nationally and Alaska is not contributing to it.

She concluded that in this critical budget crisis everyone must participate in the solution. She spoke of a program that existed previously. She said the user fee will help and the increased fuel tax. The \$80 million in new revenue would be dedicated to maintenance. She agreed with Mr. Thompson. It is the most equitable way to generate needed revenue and complies with federal grant requirements. She recommended no exceptions.

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MARK BERDAHL, representing himself, testified in opposition to SB 25. He said the tax will fall on the average citizen and doubling the tax is too much.

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RICHARD MCGAHAN, representing himself, testified in opposition to SB 25. He maintained that Alaskans use a lot of fuel and

already pay too much for gas. He suggested getting rid of some state employees who just got a raise and getting rid of the ferries. He said the state should have saved more money from oil.

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GEORGE PIERCE, representing himself, testified in opposition to SB 25. He suggested that the oil industry pay the tax instead of the people. Gas, oil, and mining should pay the tax and legislators should cut their staff.

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CHAIR STEDMAN said the legislature will continue to work on the problem.

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FRED STURMAN, representing himself, testified in opposition to SB 25. He shared a story about his friends' financial issues and said more taxes would hurt them more. He requested legislators keep people in mind when they add a motor fuel tax.

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CHRYSTAL SCHOENROCK, representing herself, testified in opposition to SB 25. She spoke of "hard times" people and her business are having and said they can't afford a tax.

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PAMELA BRODIE, representing herself, testified in support of SB 25. She said people have to do their part to fix the budget crisis. She thought the tax could raise or lower the tax based on the price of oil per barrel.

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CHAIR STEDMAN asked if there are any final questions.

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SENATOR BISHOP asked at how Mr. Burnett arrived at 30,000 pounds of freight (slide 5).

MR. BURNETT replied.

CHAIR STEDMAN thanked the presenters and held SB 25 in committee.

[2:49:11 PM](#)

There being no further business to come before the committee,  
Chair Stedman adjourned the Senate Transportation Standing  
Committee at 2:49 p.m.