

HOUSE FINANCE COMMITTEE
March 20, 2020
9:04 a.m.

9:04:58 AM

CALL TO ORDER

Co-Chair Johnston called the House Finance Committee meeting to order at 9:04 a.m.

MEMBERS PRESENT

Representative Neal Foster, Co-Chair
Representative Jennifer Johnston, Co-Chair
Representative Dan Ortiz, Vice-Chair
Representative Ben Carpenter
Representative Andy Josephson
Representative Gary Knopp
Representative Bart LeBon
Representative Kelly Merrick (Via Teleconference)
Representative Colleen Sullivan-Leonard
Representative Cathy Tilton
Representative Adam Wool

MEMBERS ABSENT

None

ALSO PRESENT

Senator Click Bishop, Sponsor; Darwin Peterson, Staff,
Senator Click Bishop.

PRESENT VIA TELECONFERENCE

Brandon Spanos, Deputy Director, Department of Revenue; Rob
Carpenter, Deputy Commissioner, Department of
Transportation and Public Facilities.

SUMMARY

CSSB 115 (FIN) (efd fld)
MOTOR FUEL TAX; EV REG. FEE

CSSB 115(FIN) (efd fld) was HEARD and HELD in committee for further consideration.

#sb115

CS FOR SENATE BILL NO. 115(FIN) (efd fld)

"An Act relating to vehicle registration fees; and relating to the motor fuel tax."

[9:05:41 AM](#)

SENATOR CLICK BISHOP, SPONSOR, reported that the state had not raised its base excise tax rate on motor fuel since 1970. In 1970, the motor fuel tax accounted for 6 percent of the state's operating budget. After adjusting for inflation, an \$.08 fuel tax rate in 1970 was equivalent to the purchasing power of \$.52 at present. In other words, Alaska's fuel tax had lost 82 percent of its purchasing power since 1970. Senate Bill 115 proposed to raise the tax rate of fuel from \$.08 to \$.16 per gallon and marine fuel from \$.05 to \$.10 per gallon. He reported that with the increase, Alaska would still have the lowest marine fuel tax in the nation and would move from last to 41st in its ranking on highway fuel. Senate Bill 115 did not impose an aviation fuel increase. Prior legislatures had discussed raising the aviation fuel tax and determined that Alaska was competitive with its cargo planes and wanted it to remain that way. The aviation fuel tax was left alone.

Senator Bishop continued that the bill would generate approximately \$33 million in additional state revenue and could potentially take effect as soon as July 1, 2020. He thought the bill was a meaningful step towards the state's ability to fund maintenance and operations. He mentioned that state motor fuel tax revenue had declined by more than \$800,000 over the previous three years from FY 19 to FY 21. In the prior year, the Department of Transportation and Facilities Maintenance (DOT) was given hollow leg receipt authority for \$1.2 million. He requested a brief at ease.

[9:08:59 AM](#)

AT EASE

[9:09:14 AM](#)

RECONVENED

Senator Bishop continued that the money did not transpire because the trend was going down because of a greater use of higher fuel mileage automobiles. It also had to do with more electric and hybrid vehicles being on the road. Meanwhile, maintenance was not keeping up. He noted his district had lost 5 maintenance stations. A station at Silvertip, which served one of the most traveled roads in Alaska, was also lost. He asked members for their consideration on the bill. His staff would review a presentation.

Co-Chair Johnston thanked the bill sponsor for coming to the meeting.

Senator Bishop commented that his office had scheduled appointments with each lawmaker.

[9:11:15 AM](#)

DARWIN PETERSON, STAFF, SENATOR CLICK BISHOP, introduced the PowerPoint Presentation: "Senate Bill 115 Motor Fuel Tax."

Co-Chair Johnston indicated the committee had been joined by Representative Tilton.

Mr. Peterson began with a review of the history of the motor fuel tax in Alaska on slide 2. In 1945 Alaska's first motor fuel tax was levied at \$.01 per gallon. The last time the motor fuel tax was increased, raised to \$.08 per gallon, was in 1970. In 1977 the marine fuel tax was increased to its current rate of \$.05 per gallon. He reported that the aviation fuel tax was raised in 1984 to \$.047 per gallon. From September 1, 2008 through August 31, 2009 the state suspended the motor fuel tax on all fuel types. He continued that 2015 was the last time there was any change to the motor fuel tax component. House Bill 158 [Legislation passed in 2015 - Short Title: Refined Fuel Surcharge; Motor Fuel Tax] added a surcharge on motor fuel of \$.0095 per gallon which was intended for spill prevention and response.

Mr. Peterson indicated slide 3 reviewed the current motor fuel tax rates and the rates proposed in SB 115. Highway fuel was currently \$.08 per gallon. Under the legislation the amount would increase to \$.16 per gallon. Marine fuel was currently \$.05 per gallon. He explained that in Senator

Bishop's original proposal marine fuel increased to \$10 per gallon. However, the House Transportation Committee amended the marine fuel tax whereby licensed commercial fishermen could submit a refund request to the department by the end of the year for a refund for the increase in the marine fuel tax they paid. In other words, they would continue to pay the original \$.05 per gallon tax but could be refunded for the \$.05 increase. The change was reflected in the House Transportation version (version E) of the bill currently under review. Aviation fuel was currently \$.047 per gallon and remained the same in the legislation. Jet fuel was currently \$.032 per gallon with no change proposed in SB 115.

Mr. Peterson reported there was a proposal to increase the off-road use refund from \$.06 per gallon to \$.12 per gallon. The reason for the change was because currently there was an off-road use refund. A person could qualify for a refund when they purchased fuel for snow machines, 4-wheelers, or anything not used on a public highway or public road. Individuals had to keep their receipts and submit them to the department for a refund. Currently, everyone paid \$.02 per gallon whether or not they received a refund. He clarified that since the bill proposed to double the tax, it would also double the refund. For instance, under the legislation, if a person paid \$16 per gallon for highway fuel used for a snow machine, they could submit their receipt for a tax refund. People would continue to pay an off-road fuel tax of \$.04 per gallon.

Representative Wool asked about commercial fishermen being able to apply for a \$.10 per gallon refund. Mr. Peterson corrected Representative Wool that commercial fishermen could apply for a refund of \$.05 per gallon.

Representative Wool clarified that fishermen would still be paying the current \$.05 per gallon marine fuel tax. He wondered what percentage of marine fuel was purchased for commercial use. He thought it would be the majority of the marine fuel sold.

Mr. Peterson responded that the Department of Revenue (DOR) did not have the percentage. He had asked what percentage of the marine fuel revenue was paid for by commercial fishermen. He thought it was a large percentage. He indicated that cruise ships and sport fishermen also purchased marine fuel. It was difficult to determine the

percentage. In 2019, the marine fuel tax brought in \$5.6 million, of which commercial fishermen were responsible for about \$3 million. He admitted he was guessing. The numbers were not broken down by industry.

[9:16:04 AM](#)

Representative Knopp asked about the off-road use refund. He asked what department people would apply to for a refund. Mr. Peterson responded that the refund request would be submitted to DOR.

Representative Knopp asked if federal taxes were removed at the time of purchase. He also queried if the state portion was also removed at the time of purchase.

Mr. Peterson did not know the answer to the federal tax question. He indicated that there was a federal base excise tax on all fuel nationwide of \$.18 per gallon. He was unsure whether the federal excise tax was withheld. He guessed it was not but would check. The state tax was not withheld at the time of purchase. A person had to apply for a refund of \$.06 per gallon with DOR if using the fuel for off-road use. He reported that the same thing applied to large scale industrial mines that had equipment that was not being used for anything but onsite. He understood that most mine corporations sent in their refund request quarterly. He stipulated that the equipment could only be used onsite and not on any public roads.

Mr. Peterson continued to slide 4 which showed the impact on the average Alaska consumer through the increase in the motor fuel tax being proposed in SB 115. The number was determined by calculating the following. The bill sponsor looked at the number of registered passenger vehicles in the state (cars and trucks only). There were 654,826 registered vehicles per the Division of Motor Vehicles. He considered the average miles per year per vehicle selecting 15,000 miles per year as stated in *Kelly Bluebook*. The average miles per gallon was 20.85 miles (cars averaged 24.2 miles per gallon and, trucks averaged 17.4 miles per gallon). The information was provided by DOT. Gallons of fuel purchased by the average consumer per year was 719 gallons (15,000 miles per year divided by 20.85 miles per gallon). The annual increased tax cost per vehicle would be 719 gallons multiplied by \$.08 totaling \$57.52 per year. Currently, the average Alaskan consumer paid about \$57.00

per year. The increase would essentially double the amount to \$115.04 per year.

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Mr. Peterson turned to slide 5 which reviewed the proposed new electric vehicle registration fee. The Senate Finance Committee amended the bill to add an electric vehicle registration fee. The amendment was offered because electric vehicles, becoming increasingly popular, did not pay any fuel tax but drove on the roads contributing to wear and tear. The other body thought it was prudent to include an additional registration fee. The bill sponsor had looked at other ways of possibly capturing that group of vehicles potentially metering the electric usage on vehicles. However, it was not feasible. Most other states charged an additional registration fee similar to the fee proposed in SB 115.

Mr. Peterson reported that the definition of an electric vehicle was included in the legislation - a vehicle that was powered solely by an electric motor drawing current from rechargeable batteries, fuel cells, or other portable sources of electrical current and manufactured primarily for use on public streets, roads, and highways. The vehicles had to be 100 percent electric. Presently, there was a biennial registration fee for all passenger vehicles of \$100. The proposed change would increase the fee to \$200 (\$50 biennially). The revenue was collected by the Division of Motor Vehicles just like a regular registration fee was collected. However, the addition would be deposited into the highway maintenance fund. The intent was clear that the additional registration fee was to be used for highway maintenance. There were approximately 600 pure electric vehicles in Alaska at present. He noted the population of electric cars would continue to grow.

Mr. Peterson reported that the other body also proposed an additional registration fee for plug-in hybrid vehicles. Plug-in hybrids were those electric vehicles that operated on gasoline and electricity. Hybrids were defined as vehicles capable of using gasoline, diesel fuel, or alternative fuel and was powered in part by electrical energy using a battery storage system capable of being recharged from an external source of electricity and manufactured primarily for use on public streets, roads, and highways. He continued that the biennial registration

fee increase proposed for plug-in hybrids was \$50 biennially (\$25 per year). The sponsor came up with the amount based on the fact that hybrid vehicles purchased gasoline and paid some motor fuel tax. The funds would also be deposited into the highway maintenance fund. There were approximately 300 hybrid vehicles in Alaska. The total revenue generated from the increased registration fee was about \$100,000 per year.

Co-Chair Johnston asked if the senator's office had talked about other types of alternative vehicles. Mr. Peterson responded that the senator had not considered other alternatively fueled vehicles. He would be happy to address a change to the bill for vehicles that did not use gasoline or electricity for power.

[9:23:56 AM](#)

Representative LeBon asked whether the marine tax revenues would be used for marine purposes.

Mr. Peterson responded in the affirmative. He elaborated that there were currently four funds within the general fund that were designated. All highway fuel revenue proceeds were deposited into the highway maintenance account. All marine fuel revenues were deposited into the watercraft account. He indicated there was an account for jet and aviation fuel and an account for off-road fuel. Whether or not a refund request was made, the \$.02 per gallon amount would be deposited into the off-road account. He reported that the highway maintenance account had always been appropriated by the legislature for highway construction and maintenance. The statute also allowed for the funding to be used for ferries. The watercraft fund was used for ports and harbors. The harbor matching grant program was used for the upkeep and maintenance on Alaska's harbors. The jet and aviation fuel taxes were used strictly for airports. The Federal Aviation Administration (FAA) had a requirement that any revenue raised from aviation and jet fuel went back into the airport. It was essentially a dedicated fund because the state was not allowed to use the revenue for anything other than airports. The off-road account was designated for trails.

Representative LeBon asked about the highway fuel tax increase. He wondered if the tax applied to both private and commercial uses. Whereas, the off-road use tax had a

separate designation between commercial and private use. He clarified that no matter whether a person was using the highway for personal or business travel, they were responsible for paying the additional tax. He asked about the marine fuel tax and whether it only applied to personal use. Commercial users could apply for a refund. He asked if he was accurate. Mr. Peterson replied, "That's correct as proposed by the House Transportation Committee Substitute. The proposal did not come from the Senate."

Representative Sullivan-Leonard noted that when the bill came through the previous year she had protested loudly. She indicated that at least a third of the Mat-Su Valley population of 110,000 traveled as commuters to Anchorage. They would see a significant increase in gasoline charges on a weekly basis. She could not support the bill because of a large disparity between her district and other districts. People living in Anchorage did not commute to the Valley. Folks living in the Mat-Su were a large part of Anchorage's workforce. She wondered if the bill sponsor had considered the issue when developing the legislation.

Mr. Peterson responded that it had been discussed. He noted that a member of the other body had spoken on the floor about how everyone made choices about where they lived. The Mat-Su Borough was an attractive place to live because of the lower real estate and the availability of land. People who lived there choose to work in Anchorage because there were more jobs and the salaries were higher. He reiterated that it was an attractive choice to live in the Valley.

Representative Josephson asked if the maintenance fund had historically received help from the general fund. He queried whether it was totally reliant on the tax. Mr. Peterson deferred to a representative from DOR. Representative Josephson restated his question.

[9:29:38 AM](#)

BRANDON SPANOS, DEPUTY DIRECTOR, DEPARTMENT OF REVENUE (via teleconference), responded that the department did not track the information only the revenue the state received and deposited into the fund. He suggested directing the question to DOT or the Department of Administration for the specifics of the fund.

[9:30:13 AM](#)

ROB CARPENTER, DEPUTY COMMISSIONER, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES (via teleconference), responded that the total budget for highways and aviation was about \$130 million. The highway fuel tax money for \$35 million, a mere portion of the total maintenance cost needed for the state's three regions.

Representative Josephson was concerned with the Senator's report that five maintenance stations in his district had been shuttered. He wondered if the closures were partly a reflection of SB 115 and the overall lack of revenue. Mr. Peterson thought Representative Josephson had provided a fair assessment.

Representative Wool recalled the fuel tax raised \$35 million. He thought if the tax was doubled, the estimated revenue would be about \$70 million. He was looking at the calculation for the annual cost per vehicle of \$57.00. He would ask a related question later. He wondered if the refund was proposed in the House Transportation Committee. Mr. Peterson asked if the representative was asking about the off-road use refund or the refund available to commercial fishermen. Representative Wool was asking about both. He wondered if the taxes existed prior to the proposed SB 115.

Mr. Peterson responded that the off-road use refund currently existed in statute. The refund for commercial fishermen had never existed in statute. It was new from the House Transportation Committee.

Representative Wool commented that commercial vehicles paid into the fund. He asked the number on port maintenance. Mr. Carpenter wondered if Representative Wool's question was how much of the motor fuel tax was currently appropriated towards ports and harbors.

Representative Wool responded partially. He also asked how much was spent on ports and harbors. He had been told that the marine tax generated about \$5.6 million. He asked for the total. Mr. Carpenter responded that as the FY 20 budget was laid out there was approximately \$3.6 million of the motor fuel tax would go towards the marine highway system. There was nothing from the motor fuel tax going towards ports and harbor maintenance or the Port and Harbor Grant Program.

Representative Wool asked if ports and harbors fell under the responsibility of the state or municipalities. Mr. Carpenter responded that state owned ports and harbors were under the responsibility of DOT. He noted the municipal harbor matching grant program where a local community would put up 50 percent of the amount necessary for their harbor and the state would match the amount. As part of the matching grant program there was a general fund appropriation for a project in Cordova in the capital budget. The motor fuel tax could be used for the program but was not being used currently.

Representative Wool asked whether a commercial fishing vessel docked in a coastal community would be using a state or municipal harbor. Mr. Carpenter responded that he did not currently have a list of state-owned harbors in front of him. He suggested that the City and Borough of Juneau had its own harbors. Some harbors were state-owned.

[9:35:44 AM](#)

Representative Knopp asked if only commercial fishing vessels would qualify for the refund or whether charter boats would as well. Mr. Peterson replied that it only applied to registered CFEC vessels. The amendment did not include sport fishing charter boats or cruise ships.

Representative Knopp asked if the marine fuel tax was used exclusively for ports and harbors. Mr. Peterson replied that the intent would be for the additional funds generated from the marine fuel tax to be used to upgrade the state and municipalities ports and harbors. The state was 100 percent responsible for state ports and harbors. Municipal ports and harbors would be funded through the Harbor Matching Grant Program which was a 50 percent state match with local municipalities.

Co-Chair Johnston reported Representative Carpenter had joined the meeting.

Vice-Chair Ortiz asked if there was a figure reflecting the amount of deferred maintenance for highways. He wondered if there was a way to determine if the amount had increased over the years. Mr. Carpenter relayed that the department had an accounting of its deferred maintenance for all its assets statewide including highways. He believed the amount

had increased over the previous few years as deferred maintenance money had declined in the budget similar to other agencies.

Vice-Chair Ortiz wondered if Mr. Carpenter had a figure. Mr. Carpenter responded that he could provide the information. A hearing was supposed to be scheduled at which time the department would provide great detail.

Co-Chair Johnston asked what road maintenance encompassed. She was aware snow removal was a part of it. She wondered if resurfacing for ruts was included. She asked what defined maintenance was for the highway fund. Mr. Carpenter replied that maintenance included items such as road plowing, brush cutting, and road striping to ensure the roads were in safe condition. He continued that any kind of reconstruction or major construction would be paid for through federal highway funds or a federally funded program rather than state road maintenance funds. Rut repair would be considered major reconstruction.

Co-Chair Johnston asked if the funds were used to keep Alaska's roads open through the winter. Mr. Carpenter clarified if Co-Chair Johnston was referring to the motor fuel tax. Co-Chair Johnston responded, "Yes." Mr. Carpenter answered that the motor fuel tax was part of the funding used to keep the roads open in the winter. The department also had a considerable undesignated general fund (UGF) component that went towards highway maintenance.

Co-Chair Johnston clarified that the motor fuel tax was one of the funding sources besides general funds for keeping all highways open. Mr. Carpenter responded in the affirmative.

[9:40:11 AM](#)

Mr. Peterson reviewed a comparison of Alaska to other states on slide 6. Currently, Alaska had the lowest marine fuel tax in the nation. If the bill passed Alaska would rank 41st rather than 50th. Alaska currently had a more competitive ranking among other states for jet fuel - Alaska ranked 36th. Alaska Ranked 40th in Aviation fuel.

Mr. Peterson explained that slide 7 was a graphic depiction of how Alaska compared to other states. The far left-hand side of the bar graph showed where Alaska currently sat and

was the lowest. The numbers came from the American Petroleum Institute. They published state motor fuel taxes every year. The information was from January 1, 2020. The blue line on the graph showed the base excise tax in each state. The orange showed other state fees and local taxes. He explained that many states had other state fees which were charged at the pump for highway fuel including county and municipal taxes and any other additional fees the state placed on marine fuel.

Mr. Peterson continued that the federal government levied an \$.184 per gallon federal excise tax on all 50 states which was not reflected in the slide. Alaska's base excise tax shown in blue included \$.95 per gallon for the refined fuel surcharge. The other taxes for Alaska shown in orange included a 1.1 percent weighted average for sales tax from cities and boroughs. Under SB 115 Alaska would move 10 slots to the right and would rank 41st in the nation.

Representative Josephson was only looking at the base tax. If the bill became law, Alaska would be ranked 49th or 50th. Mr. Peterson agreed. However, he used Vermont as an example. Although it had a lower base tax, it had substantial other state and local fees. He highlighted Pennsylvania. It had the second highest ranking only behind California. It had no base excise tax but had considerable other state taxes and local fees. Ultimately, the taxes paid by Pennsylvanians was quite high even though the state had no excise tax. Every state did things differently which could be seen in the graph.

Representative Wool commented that Anchorage recently instated a motor fuel tax. He wondered if he would pay the same motor fuel tax if he were to purchase marine fuel from the Port of Anchorage. Mr. Peterson, was unsure but thought it would only apply to highway fuel, not to marine fuel. If a person purchased marine fuel at a port in Anchorage, they would be paying \$.05 per gallon towards tax.

Mr. Peterson concluded his presentation. He was available to answer questions. He also had a sectional analysis, if the committee wanted him to review it.

[9:45:03 AM](#)

Representative LeBon asked how the bill would address permanent registration on vehicles. He asked how an electric vehicle would be treated under the bill.

Mr. Peterson responded that there was currently a program in statute called Permanent Registration and applied to all vehicles in an unorganized borough. It also applied to municipalities that had opted in. He further explained that if a vehicle was 8 years old or older, a person could apply for a permanent registration. The fee was \$25 in addition to the regular biannual registration fee. Upon registration a Z-Tag was provided. A person would no longer have to pay a biannual vehicle registration fee. The municipalities that had opted into the program included Yakutat, the City of Nenana, the Denali Borough, the Mat-Su Borough, the Fairbanks North Star Borough, the City of Valdez, the City of Hoonah, and the Kenai Peninsula Borough. The Municipality of Anchorage elected to participate in the Permanent Registration Program for non-commercial trailers only, not passenger vehicles. The remainder of the state did not have a permanent registration option.

Representative LeBon asked how electric vehicles were treated regarding permanent registration. He wondered if an owner of an electric vehicle 8 years old or older could apply for a permanent registration and avoid future biennial fees.

Mr. Peterson responded that he was correct. Electric vehicles were treated the same as any other passenger vehicle. If a person owned an electric vehicle and lived in an unorganized borough or one of the municipalities he had mentioned, a person could also qualify for a permanent registration for an additional \$25 as long as the vehicle was 8 years old or older. He noted that the batteries on electric vehicles had a life of about 8 years. He had spoken to a representative from the Juneau Electric Vehicle Association. He reported that half of the electric vehicles in Alaska were in Juneau. He found out that when a vehicle was 8 years old and the batteries needed replacing, most people simply purchased a new vehicle because of replacement costs.

Co-Chair Johnston indicated amendments were due by 5:00 p.m. on Saturday, March 21, 2020. She relayed the agenda for the afternoon meeting and the list of invited testifiers.

9:50:56 AM

AT EASE

9:51:37 AM

RECONVENED

Co-Chair Johnston announced that bills previously heard or scheduled would be on the agenda for the afternoon meeting.

CSSB 115(FIN)(efd fld) was HEARD and HELD in committee for further consideration.

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ADJOURNMENT

9:51:55 AM

The meeting was adjourned at 9:51 a.m.