

**HB**

**63**

0-LS0262\Q  
Chenoweth  
4/21/97

CS FOR HOUSE BILL NO. 63( )

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTIETH LEGISLATURE - FIRST SESSION

BY

Offered:  
Referred:

Sponsor(s): REPRESENTATIVES THERRIault, Davies, Kelly, Brice

A BILL

FOR AN ACT ENTITLED

1 "An Act amending the definition of 'motor fuel' under the state's motor fuel tax  
 2 to add, as a part of the tax exemption set out in that definition, exemption from  
 3 the tax for fuel sold for use in jet propulsion aircraft operating in flights that  
 4 continue from foreign countries, to add exemption from the tax for certain  
 5 number 6 'residual fuel oil,' also known as bunker fuel, and to delete the  
 6 exemption from the tax for fuel that is at least 10 percent alcohol by volume;  
 7 and repealing ch. 42, SLA 1994, the Act providing for the imposition of a  
 8 different tax levy on residual fuel oil used in and on certain watercraft until  
 9 June 30, 1998; and providing for an effective date."

10 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

11 \* Section 1. AS 43.40.015(d) is amended to read:

12 (d) A certificate of use is not required

1 (1) for fuel exempted under AS 43.40.100(2)(C) [, (F),] or (J) [(K)];  
2 and

3 (2) for fuel exempted under AS 43.40.100(2)(I) [AS 43.40.100(2)(J)]  
4 other than fuel sold or transferred under this exemption to a person who is engaged in  
5 construction or mining activity.

6 \* Sec. 2. AS 43.40.100(2) is amended to read:

7 (2) "motor fuel" means fuel used in an engine for the propulsion of a  
8 motor vehicle or aircraft, and fuel used in and on watercraft for any purpose, or in a  
9 stationary engine, machine, or mechanical contrivance that [WHICH] is run by an  
10 internal combustion motor; "motor fuel" does not include

11 (A) fuel consigned to foreign countries;

12 (B) fuel sold for use in jet propulsion aircraft operating in  
13 flights to foreign countries or in flights that continue from foreign countries;

14 (C) fuel used in stationary power plants operating as public  
15 utility plants and generating electrical energy for sale to the general public;

16 (D) fuel used by nonprofit power associations or corporations  
17 for generating electric energy for resale;

18 (E) fuel used by charitable institutions;

19 (F) [FUEL WHICH IS AT LEAST 10 PERCENT ALCOHOL  
20 BY VOLUME;

21 (G)] fuel sold or transferred between qualified dealers;

22 (G) [(H)] fuel sold to federal, state, and local government  
23 agencies for official use;

24 (H) [(I)] fuel used in stationary power plants that generate  
25 electrical energy for private residential consumption;

26 (I) [(J)] fuel used to heat private or commercial buildings or  
27 facilities;

28 (J) [(K)] fuel used for other nontaxable purposes as prescribed  
29 by regulations adopted by the department; [OR]

30 (K) [(L)] fuel used in stationary power plants of 100 kilowatts  
31 [KW] or less that generate electrical power for commercial enterprises not for

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resale; or

(L) residual fuel oil used in and on watercraft if the residual fuel oil is sold or transferred in the state or consumed by a user; for purposes of this subparagraph, "residual fuel oil" means the heavy refined hydrocarbon known as number 6 fuel oil that is the residue from crude oil after refined petroleum products have been extracted by the refining process and that may be consumed or used only when sufficient heat is provided to the oil to reduce its viscosity rated by kinetic unit and to give it fluid properties sufficient for pumping and combustion;

\* Sec. 3. Chapter 42, SLA 1994, is repealed.

\* Sec. 4. This Act takes effect July 1, 1997.

0-LS0262VT ✓  
Chenoweth  
4/25/97

CS FOR HOUSE BILL NO. 63(RLS)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTIETH LEGISLATURE - FIRST SESSION

BY THE HOUSE RULES COMMITTEE

Offered:  
Referred:

Sponsor(s): REPRESENTATIVES THERRIAULT, Davies, Kelly, Brice

A BILL

FOR AN ACT ENTITLED

1 "An Act amending the definition of 'motor fuel' under the state's motor fuel  
2 tax to add, as a part of the tax exemption set out in that definition, exemption  
3 from the tax for fuel sold for use in jet propulsion aircraft operating in flights  
4 that continue from foreign countries subject to termination of the exemption for  
5 that fuel if a refiner operating a refinery at which the fuel was produced fails  
6 to comply with terms of a voluntary agreement entered into by the refiner to  
7 use Alaska residents, contractors, and suppliers to provide goods and services  
8 when the refinery's capacity is expanded, to add exemption from the tax for  
9 certain number 6 'residual fuel oil,' also known as bunker fuel, and to delete the  
10 exemption from the tax for fuel that is at least 10 percent alcohol by volume;  
11 and repealing ch. 42, SLA 1994, the Act providing for the imposition of a  
12 different tax levy on residual fuel oil used in and on certain watercraft until

1 June 30, 1998; and providing for an effective date."

2 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

3 \* Section 1. AS 43.40.015(d) is amended to read:

4 (d) A certificate of use is not required

5 (1) for fuel exempted under AS 43.40.100(2)(C) [, (F),] or (J) [(K)];

6 and

7 (2) for fuel exempted under AS 43.40.100(2)(I) [AS 43.40.100(2)(J)]

8 other than fuel sold or transferred under this exemption to a person who is engaged in  
9 construction or mining activity.

10 \* Sec. 2. AS 43.40 is amended by adding a new section to read:

11 **Sec. 43.40.022. Exemption from motor fuel tax for certain fuel sold for use  
12 in jet propulsion aircraft operating in flights that continue from foreign countries.**

13 (a) The provisions of this section apply to motor fuel sold for use in jet propulsion  
14 aircraft operating in flights that continue from foreign countries if the fuel was  
15 produced by a refiner and if, on or after the effective date of this section, the refiner  
16 voluntarily commits by agreement entered into with the commissioner that, if the  
17 refiner expands its oil refining capacity in order to produce additional supplies of fuel  
18 for use in jet propulsion aircraft that qualify for the tax exemption, when the refiner  
19 expands capacity, the refiner will

20 (1) use the refiner's best efforts to advertise for, recruit, and employ  
21 qualified residents of the state in the construction activities associated with expanding  
22 refinery capacity;

23 (2) contract with licensed Alaska firms to prepare materials that are  
24 used in construction activities and to provide services in conjunction with activities  
25 associated with expanded refinery capacity and, in contracting with those firms, to  
26 encourage the refiner's contractors to employ and, when necessary, train state  
27 residents; and

28 (3) enter into contracts with Alaska-licensed vendors, contractors, and  
29 suppliers for the provision of supplies and services used in conjunction with activities  
30 associated with expanding refinery capacity.

*Conforming  
amendment!*

1 (b) The commissioner

2 (1) shall allow the tax exemption authorized by (a) of this section to  
3 a person claiming that exemption on the basis of the voluntary agreement made under  
4 (a) of this section;

5 (2) may not deny the tax exemption authorized by (a) of this section  
6 to a dealer or user claiming that exemption for motor fuel acquired from a refiner who  
7 has entered into an agreement under (a) of this section unless the commissioner of  
8 revenue determines that the refiner has not complied with the requirements of the  
9 agreement.

10 (c) For purposes of this section,

11 (1) the term "resident" means an individual who

12 (A) is physically present in the state with the intent to remain  
13 in the state indefinitely and has a home in the state;

14 (B) demonstrates that intent by maintaining a residence in the  
15 state;

16 (C) possesses a resident fishing, trapping, or hunting license, or  
17 receives a permanent fund dividend; and

18 (D) may be required to state under oath that the individual is  
19 not claiming residency outside of the state or obtaining benefits under a claim  
20 of residency outside of the state;

21 (2) the phrases "Alaska-licensed contractors" and "Alaska firms" mean  
22 a contractor or firm that

23 (A) has held an Alaska business license for one year before  
24 performing any work in connection with the commitment described in (a) of  
25 this section;

26 (B) has maintained for one year a place of business within the  
27 state that deals in the supplies, services, or construction of the nature required  
28 for the commitment described in (a) of this section; and

29 (C) is

30 (i) a sole proprietorship and the proprietor is an Alaska  
31 resident;

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- (ii) a partnership and more than 50 percent of the partners are Alaska residents;
- (iii) a corporation that has been incorporated in the state or is authorized to do business in the state; or
- (iv) is a joint venture composed entirely of ventures that qualify under this subparagraph.

\* Sec. 3. AS 43.40.100(2) is amended to read:

(2) "motor fuel" means fuel used in an engine for the propulsion of a motor vehicle or aircraft, and fuel used in and on watercraft for any purpose, or in a stationary engine, machine, or mechanical contrivance that [WHICH] is run by an internal combustion motor; "motor fuel" does not include

- (A) fuel consigned to foreign countries;
- (B) fuel sold for use in jet propulsion aircraft operating in

flights

(i) to foreign countries; or

(ii) that continue from foreign countries, to the extent provided in AS 43.40.022 authorizing execution of a voluntary agreement in order to secure the exemption;

*jet fuel exempt  
to extent provided  
in .022*

(C) fuel used in stationary power plants operating as public utility plants and generating electrical energy for sale to the general public;

(D) fuel used by nonprofit power associations or corporations for generating electric energy for resale;

(E) fuel used by charitable institutions;

*added*

(F) [FUEL WHICH IS AT LEAST 10 PERCENT ALCOHOL BY VOLUME;

*10% 1-*

(G)] fuel sold or transferred between qualified dealers;

(G) [(H)] fuel sold to federal, state, and local government agencies for official use;

(H) [(I)] fuel used in stationary power plants that generate electrical energy for private residential consumption;

(I) [(J)] fuel used to heat private or commercial buildings or

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facilities;

(J) [(K)] fuel used for other nontaxable purposes as prescribed by regulations adopted by the department; [OR]

(K) [(L)] fuel used in stationary power plants of 100 kilowatts [KW] or less that generate electrical power for commercial enterprises not for resale; or

(L) residual fuel oil used in and on watercraft if the residual fuel oil is sold or transferred in the state or consumed by a user; for purposes of this subparagraph, "residual fuel oil" means the heavy refined hydrocarbon known as number 6 fuel oil that is the residue from crude oil after refined petroleum products have been extracted by the refining process and that may be consumed or used only when sufficient heat is provided to the oil to reduce its viscosity rated by kinetic unit and to give it fluid properties sufficient for pumping and combustion;

\* Sec. 4. Chapter 42, SLA 1994, is repealed.

*Costab. diff tax rate for bunker fuel for passenger watercraft*

\* Sec. 5. AS 43.40.022 NOT SEVERABLE. Notwithstanding AS 01.10.030, the provisions of AS 43.40.022, enacted in sec. 2 of this Act, are not severable from the amendment to AS 43.40.100(2)(B), made by sec. 3 of this Act.

*(allowing continuing flights)*

\* Sec. 6. This Act takes effect July 1, 1997.



United Association of Journeymen and Apprentices of the  
Plumbing and Pipe Fitting Industry of the United States and Canada

LOCAL NO 375

STREET ADDRESS 3568 Geraghty Street

FOUNDED 1888

CITY STATE, ZIP Fairbanks, Alaska 99709

MEMBER NUMBER

DATE

April 28, 1997

Sent Via FAX

Representative Therriault  
State Capitol Bldg. Room 511  
Juneau, Ak 99801-1182

Dear Representative Therriault:

This letter is to lend support to HB 63 Legislation that you sponsored.

As originally proposed this bill would level the field for international carriers fuel suppliers, encouraging additional production from interior refiners who intend to expand their production facilities. A proposed amendment to regulate resident hire and limit contractors is likely to negatively impact certain industrial contractors who have demonstrated excellent Alaska hire practices on previous projects inside the state.

I commend your initial proposal and thank you for your consideration on this issue.

Sincerely,

J. C. Wingfield, Business Manager  
Financial Secretary-Treasurer

sia

MURVIN J BOEDF  
General President

MARION A. LEE  
General Secretary-Treasurer

DONALD F McNAMARA  
Asst. General President

Letters should  
be confined to  
the subject

TOTAL P.01

0-LS0262X  
Chenoweth  
4/29/97

**CS FOR HOUSE BILL NO. 63(2d RLS)  
IN THE LEGISLATURE OF THE STATE OF ALASKA  
TWENTIETH LEGISLATURE - FIRST SESSION**

**BY THE HOUSE RULES COMMITTEE**

**Offered:  
Referred:**

**Sponsor(s): REPRESENTATIVES THERRIAULT, Davies, Kelly, Brice**

**A BILL**

**FOR AN ACT ENTITLED**

1 "An Act amending the definition of 'motor fuel' under the state's motor fuel  
2 tax to add, as a part of the tax exemption set out in that definition, exemption  
3 from the tax for fuel sold for use in jet propulsion aircraft operating in flights  
4 that continue from foreign countries, subject to termination of the exemption for  
5 that fuel if a refiner operating a refinery at which the fuel was produced fails  
6 to comply with terms of a voluntary agreement entered into by the refiner to  
7 use Alaska residents, contractors, and suppliers to provide goods and services  
8 when the refinery's capacity is expanded, to add exemption from the tax for  
9 certain number 6 'residual fuel oil,' also known as bunker fuel, and to delete the  
10 exemption from the tax for fuel that is at least 10 percent alcohol by volume;  
11 and repealing ch. 42, SLA 1994, the Act providing for the imposition of a  
12 different tax levy on residual fuel oil used in and on certain watercraft until

1 June 30, 1998; and providing for an effective date."

2 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

3 \* Section 1. AS 43.40.015(d) is amended to read:

4 (d) A certificate of use is not required

5 (1) for fuel exempted under AS 43.40.100(2)(C) [, (F),] or (J) [(K)];

6 and

7 (2) for fuel exempted under AS 43.40.100(2)(I) [AS 43.40.100(2)(J)]

8 other than fuel sold or transferred under this exemption to a person who is engaged in  
9 construction or mining activity.

10 \* Sec. 2. AS 43.40 is amended by adding a new section to read:

11 **Sec. 43.40.092. Disallowance of exemption from motor fuel tax for certain**  
12 **fuel sold for use in jet propulsion aircraft operating in flights that continue from**  
13 **foreign countries.** (a) The provisions of this section apply to disallow the exemption  
14 for motor fuel sold for use by a dealer or used by a user in jet propulsion aircraft  
15 operating in flights that continue from foreign countries if, for motor fuel produced by  
16 a refiner,

17 (1) the refiner determines, on or after the effective date of this section,  
18 that the refiner will expand capacity or expand the refinery to produce more residual  
19 fuel oil used in watercraft;

20 (2) on or after the effective date of this section, the refiner has  
21 voluntarily committed by agreement entered into with the commissioner that, if the  
22 refiner expands its oil refining capacity in order to produce additional supplies of fuel  
23 for use in jet propulsion aircraft that qualify for the tax exemption, when the refiner  
24 expands capacity, the refiner will

25 (A) use the refiner's best efforts to advertise for, recruit, and  
26 employ in the construction activities associated with expanding refinery  
27 capacity resident workers who have experience in the specific fields in which  
28 they are hired to work;

29 (B) contract with licensed Alaska firms to prepare materials that  
30 are used in construction activities and to provide services in conjunction with

1 activities associated with expanded refinery capacity and, in contracting with  
2 those firms, to encourage the refiner's contractors to employ and, when  
3 necessary, train state residents; and

4 (C) enter into contracts with Alaska-licensed vendors,  
5 contractors, and suppliers for the provision of supplies and services used in  
6 conjunction with activities associated with expanding refinery capacity; and

7 (3) the commissioner determines that a dealer or user claiming the  
8 exemption for motor fuel acquired from a refiner who has entered into an agreement  
9 described in (2) of this subsection acquired the motor fuel for which the exemption is  
10 claimed from a refiner who has not complied with the requirements of the agreement  
11 in completing expansion of its oil refining capacity under the agreement described in  
12 (1) of this subsection.

13 (b) For purposes of this section,

14 (1) the term "resident worker" means an individual who

15 (A) is physically present in the state with the intent to remain  
16 in the state indefinitely and has a home in the state;

17 (B) demonstrates that intent by maintaining a residence in the  
18 state;

19 (C) possesses a resident fishing, trapping, or hunting license, or  
20 receives a permanent fund dividend; and

21 (D) may be required to state under oath that the individual is  
22 not claiming residency outside of the state or obtaining benefits under a claim  
23 of residency outside of the state;

24 (2) the phrases "Alaska-licensed contractors" and "Alaska firms" mean  
25 a contractor or firm that

26 (A) has held an Alaska business license for one year before  
27 performing any work in connection with the commitment described in (a) of  
28 this section;

29 (B) has maintained for one year a place of business within the  
30 state that deals in the supplies, services, or construction of the nature required  
31 for the commitment described in (a) of this section; and

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(C) is

(i) a sole proprietorship and the proprietor is an Alaska resident;

(ii) a partnership and more than 50 percent of the partners are Alaska residents;

(iii) a corporation that has been incorporated in the state or is authorized to do business in the state; or

(iv) a joint venture composed entirely of ventures that qualify under this subparagraph.

\* Sec. 3. AS 43.40.100(2) is amended to read:

(2) "motor fuel" means fuel used in an engine for the propulsion of a motor vehicle or aircraft, and fuel used in and on watercraft for any purpose, or in a stationary engine, machine, or mechanical contrivance that [WHICH] is run by an internal combustion motor; "motor fuel" does not include

(A) fuel consigned to foreign countries;

(B) fuel sold for use in jet propulsion aircraft operating in flights

(i) to foreign countries; or

(ii) that continue from foreign countries, unless exemption of the motor fuel from taxation is disallowed because of the refiner's failure to comply with the provisions of a voluntary agreement under AS 43.40.092 in conjunction with expansion of refinery capacity;

(C) fuel used in stationary power plants operating as public utility plants and generating electrical energy for sale to the general public;

(D) fuel used by nonprofit power associations or corporations for generating electric energy for resale;

(E) fuel used by charitable institutions;

(F) [FUEL WHICH IS AT LEAST 10 PERCENT ALCOHOL BY VOLUME;

(G)] fuel sold or transferred between qualified dealers;

1                    (G) [(H)] fuel sold to federal, state, and local government  
2 agencies for official use;

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4 electrical energy for private residential consumption;

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6 facilities;

7                    (J) [(K)] fuel used for other nontaxable purposes as prescribed  
8 by regulations adopted by the department; [OR]

9                    (K) [(L)] fuel used in stationary power plants of 100 kilowatts  
10 [KW] or less that generate electrical power for commercial enterprises not for  
11 resale; or

12                    (L) residual fuel oil used in and on watercraft if the residual  
13 fuel oil is sold or transferred in the state or consumed by a user; for  
14 purposes of this subparagraph, "residual fuel oil" means the heavy refined  
15 hydrocarbon known as number 6 fuel oil that is the residue from crude oil  
16 after refined petroleum products have been extracted by the refining  
17 process and that may be consumed or used only when sufficient heat is  
18 provided to the oil to reduce its viscosity rated by kinetic unit and to give  
19 it fluid properties sufficient for pumping and combustion;

20 \* Sec. 4. Chapter 42, SLA 1994, is repealed.

21 \* Sec. 5. This Act takes effect July 1, 1997.

# Alaska State Legislature


REPRESENTATIVE  
GENE THERRIAULT  
Mailing Address  
119 N Cushman, Suite 101  
Fairbanks, Alaska 99701  
(907) 488-0857  
FAX (907) 488-4271



While in Session  
State Capitol  
Juneau, Alaska  
99801-1182  
(907) 465-4797  
Fax (907) 465-3884  
House District 33

## House Of Representatives

### MEMORANDUM

**DATE:** April 16, 1997  
**TO:** Representative Pete Kott, Chair  
House Rules Committee  
**FROM:** Representative Gene Therriault   
**SUBJECT:** Scheduling of HB 63

---

I respectfully request CSHB 63(FIN), "An Act relating to the motor fuel tax and to the definition of 'motor fuel' under that tax; and providing for an effective date" be scheduled for a hearing on the House floor.

Attached you will find a copy of CSHB 63(FIN) that I am submitting for your consideration.

Since 1995, 37.6 million gallons of tax exempt foreign-produced fuel has been brought into Alaska for use in foreign flights. Without new legislation, it is anticipated that the practice of using the foreign trade zone (FTZ) to import fuel will increase as airlines move to purchase tax exempt fuel for use in foreign flights.

CS HB 63 (FIN) will exempt all jet fuel used in international flights. This will provide a level playing field to Alaskan oil refiners and should stimulate growth for this Alaskan resource.

CSHB 63(FIN) was amended in the House Finance Committee to repeal the tax exemption for fuel that is at least 10 percent alcohol by volume. This action leaves the Federal tax exemption of 5.4 cents per gallon for this fuel in place. The Finance Committee Substitute also exempts residual fuel oil (bunker fuel) used in watercraft, if this fuel is sold or transferred within the State of Alaska, from motor fuel taxation.

Attachments include:

1. Bill copies
2. Sponsor Statement
3. Sectional Analysis
4. Current Fiscal Note

I appreciate your consideration of my request.

attachments (6)

# Alaska State Legislature

REPRESENTATIVE  
GENE THERRIAULT

Mailing Address  
119 N. Cushman, Suite 101  
Fairbanks, Alaska 99701  
(907) 486-0857  
FAX (907) 488-4271



While in Session  
State Capitol  
Juneau, Alaska  
99801-1182  
(907) 465-4797  
Fax (907) 465-3884

## House Of Representatives

House District 33

### CSHB 63(FIn)

Extending the motor fuel tax exemption of fuel sold for use in jet propulsion aircraft to fuel used in those aircraft for flights that continue from a foreign country, and exempting from motor fuel tax residual fuel oil used in and on watercraft if it is sold or transferred in the state; deleting the current tax exemption for fuel that is at least 10 percent alcohol by volume.

**SPONSOR:** Representative Gene Therriault

### SPONSOR STATEMENT:

CSHB 63(FIN) extends the motor fuel tax exemption to include fuel used in aircraft for flights that continue from a foreign country. Currently, the State of Alaska provides a tax exemption for fuel used only in flights to foreign countries. Federal law preempts state taxation of imported aviation fuel transported through a foreign trade zone (FTZ) for use in aircraft during foreign flights. The federal definition of "foreign flight" includes flights originating from and flights continuing to a foreign country. As a result, jet fuel produced in Alaska is taxed 3.2 cents per gallon more than similar fuel produced at foreign refineries.

Two tankers filled with 20.7 million gallons of tax exempt foreign-produced fuel were brought into Alaska during 1995. Last year just under 38 million gallons were imported into the FTZ. Without new legislation, it is anticipated that the practice of using the FTZ to import fuel will increase as airlines move to purchase the tax exempt fuel for use in foreign flights.

CSHB 63(FIN) is needed to provide a level playing field to Alaskan producers by allowing the tax exemption for all fuel used in foreign flights.

The original version of HB 63 was amended by the House Transportation Committee to also exclude residual fuel oil (commonly known as bunker fuel) used on passenger watercraft from motor fuel tax. The committee substitute will also repeal the 1994 legislation (Ch 42 SLA 94) that established a two tiered tax structure on residual (bunker) fuel oil for passenger watercraft.

CSHB 63(FIN) was amended by the House Finance Committee by expanding the definition of motor fuel tax and motor fuel; repealing the motor fuel tax exemption for fuel that contains an alcohol additive (gasohol), and deleting the word "passenger" as well as all references to "passenger watercraft".

# Alaska State Legislature

REPRESENTATIVE  
GENE THERRIAULT

Mailing Address  
119 N. Cushman, Suite 101  
Fairbanks, Alaska 99701  
(907) 488-0857  
FAX: (907) 488-4271



While in Session  
State Capitol  
Juneau, Alaska  
99801-1182  
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Fax (907) 465-3884

## House Of Representatives

House District 33

**CSHB 63(FIN) 04/04/97**

Modifies the existing statutes regarding taxation of motor fuel products such as jet fuel sold for use by aircraft flying to foreign destinations to also apply to jet fuel use by flights of foreign origination continuing on to a U.S. destination; fuel at least 10 percent alcohol by volume; as well as any residual fuel oil sold or transferred in the state.

**SPONSOR:** Representative Gene Therriault

Sectional Analysis:

Expands the bill title to motor fuel tax and to the definition of 'motor fuel' under that tax.

Section 1: Amends AS 43.40.015(d) by deleting the reference to fuel which is at least 10 percent alcohol by volume.

Section 2: Amends AS 43.40.100(2)(B) to expand the current tax exemption for fuel sold for use by jet propulsion aircraft operating in flights that continue from foreign countries.

Deletes current tax exemption for fuel that is at least 10 percent alcohol by volume (AS 43.40.100(2)(F)).

Expands the description (KW) to its complete spelling of kilowatts in AS.43.40.100(2)(L).

Amends AS 43.40.100 by adding residual oil used in watercraft, if that same fuel is sold or transferred within the State, to the list of exemptions from motor fuel taxation.

Re-letters G to K under AS 43.40.100 Definitions, to adjust for changes.

Section 3: Repeals Chapter 42, SLA 1994. This legislation established a two tiered tax levied on residual oil that was sold for passenger watercraft use. This two tiered tax structure has proven to be ineffective.

Section 4: Establishes an effective date of July 1, 1997.



United Association of Journeymen and Apprentices of the  
Plumbing and Pipe Fitting Industry of the United States and Canada

LOCAL NO

375

STREET ADDRESS

3568 Geraghty Street

FOUNDED 1884

CITY, STATE, ZIP

Fairbanks, Alaska 99709

SUBJECT MATTER

DATE

April 28, 1997

Sent Via FAX

Representative Therriault  
State Capitol Bldg. Room 511  
Juneau, Ak 99801-1182

Dear Representative Therriault:

This letter is to lend support to HB 63 Legislation that you sponsored.

As originally proposed this bill would level the field for international carriers fuel suppliers, encouraging additional production from interior refiners who intend to expand their production facilities. A proposed amendment to regulate resident hire and limit contractors is likely to negatively impact certain industrial contractors who have demonstrated excellent Alaska hire practices on previous projects inside the state.

I commend your initial proposal and thank you for your consideration on this issue.

Sincerely,

J. C. Wingfield, Business Manager  
Financial Secretary-Treasurer

sia

MARVIN J. BOEDT  
General President

MARION A. LEFF  
General Secretary-Treasurer

DONALD F. McNAMARA  
Asst. General President

Letters should  
be confined to  
one subject

TOTAL P. 01



Revision Date: \_\_\_\_\_ Dept. Affected: Revenue  
Title: Aviation Fuel Tax Exemption BRU: Revenue Operations  
Component: Income and Excise Audit  
Sponsor: Representative Therriault  
Requestor: (H) TRA COMPONENT SERIAL NO. 113

Expenditures/Revenues: (Thousands of Dollars)

	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
<b>OPERATING EXPENDITURES</b>						
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>CAPITAL EXPENDITURES</b>						
<b>CHANGE IN REVENUES ( )</b>	<b>4,575.0</b>	<b>4,575.0</b>	<b>4,575.0</b>	<b>4,575.0</b>	<b>4,575.0</b>	<b>4,575.0</b>

FUND SOURCE (Thousands of Dollars)

	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
1002 Federal Receipts						
1003 GF Match						
1004 GF	0.0	0.0	0.0	0.0	0.0	0.0
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY97) cost \$ 0.0

POSITIONS:

	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

(See Attached Analysis)

Prepared by: Robert Bartholomew, Assistant Director  
Division: Income and Excise Audit  
Approved by Commissioner: Wilson L. Condon  
Agency: Revenue

Phone: 465-2320  
Date: April 2, 1997  
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**HB 63 Amends the Motor Fuel Tax Statutes for Three Types of Fuel. Outlined Below is an Analysis for Each Change**

**ISSUE #1 Aviation Jet Fuel Amendments**

The activation of a Foreign Trade Zone (FTZ) in Anchorage (Oct. 1995) allowed imported foreign aviation fuel to be sold preempted (by federal law) from state tax to aircraft flying directly or indirectly to a foreign country. Alaska oil refining industry believes that they will not be able to compete economically with FTZ (foreign import) fuel unless the current Alaska tax exemption for direct foreign flights is expanded to include indirect (i.e. flights that refuel in Alaska, stop in another U.S. city and then continue on to a foreign country). Current Alaska statutes provide only for an exemption for fuel sold on flights going directly to a foreign country.

**Current Law**

AS 43.40 (Alaska motor fuel tax) currently imposes a 3.2 cent per gallon tax on aviation jet fuel purchased in Alaska. Fuel purchased in Alaska for use in flights directly from Alaska to a foreign country is exempt from the Alaska tax. Fuel purchased for use in flights originating in a foreign country, refueling in Alaska and continuing to a U.S. destination prior to returning to foreign country (i.e. indirect foreign flight) is taxable.

**Proposed Law**

HB 63 would expand the above exemption to exempt from tax fuel purchased in Alaska for all flights to or from foreign countries.

**Revenue Impact**

This bill will result in approximately \$2.800 million in revenue loss for FY 98 and annually through FY 2003. (See note #2 under assumptions, below.)

This estimate considers the effect of the recent activation of Anchorage Foreign Trade Zones (FTZ). The FTZ allows international air carriers to use imported fuel without incurring customs duties. Under the rules and regulations of the U.S. Customs Service, the operation of the FTZ allows air carriers to place imported fuel in the FTZ and withdraw the fuel for use in flights to or from a foreign country. Under federal law, the State of Alaska cannot impose tax on fuel placed in the FTZ. Alaska will lose some tax revenues from the FTZ independently of HB 63.

The fiscal impact of HB 63 results from exempting fuel that could not otherwise qualify for FTZ treatment or the current foreign flight exemption. The fiscal impact is measured by the amount of domestic fuel that is used for flights that continue from foreign countries to a U.S. destination.

**Fiscal Note Assumptions/Calculations**

1) During calendar year 1996 169.4 million gallons of AVJET was imported into the Port of Anchorage. 37.6 million (22%) qualified as FTZ AVJET. For FY98 DOR assumes 37 million gallons of FTZ AVJET will be imported. Transportation costs and favorable crude price and supply will continue to make Alaska refined fuel most economical. West Coast imports will continue to be cheaper than imported foreign fuel. Alaska's growing AVJET demand and occasional favorable world market prices will support importation of some FTZ fuel.

2) Total estimated AVJET tax revenues to be collected in FY98 is \$7.2 million. Fuel used by carriers who fly primarily domestic routes accounts for \$3.2 million. Thus estimated revenues from indirect foreign flights is estimated at \$4.0 million. Estimated revenue loss due to import of FTZ fuel, based on 37 million gallons (calendar year 1996 actuals) is \$1.2 million. This assumes that 100% of all FTZ imports will be used on foreign flights, thus qualifying for tax preemption. Thus the remaining potential revenue loss from HB 63 is \$2.8 million for FY 98.

3) Actual revenue loss is dependent on the amount of foreign fuel that will be imported and placed in FTZ. Alaska is pre-empted from taxing this fuel.

**Issue # 2 Marine Motor Fuel Amendment.**

HB 63 removes the current 5 cents a gallon marine fuel tax on bunker fuel used in watercraft. Bunker fuel is defined as residual fuel oil (#6) that is the residue from crude oil after refined petroleum products have been extracted by the refining process.

**Revenue Effect**

DOR is receiving tax revenue on bunker fuel used in watercraft. But the amount could not be distinguished from the total \$8.5 million of FY96 marine fuel tax revenue. Industry provided information show 12.5 million gallons of bunker fuel were consumed in 1996 for a total tax revenue of \$625,000. By removing the tax on bunker fuel the state this would lose this revenue.

**Issue #3 - Repeal the motor fuel tax exemption for fuel that contains an alcohol additive (gasohol).**

HB 63 repeals the exemption from motor fuel tax for gasohol. DOR estimates that 100 million gallons of gasohol will be sold in FY98. \$8 million in tax revenues will be collected if the exemption is repealed.

**Summary of the Changes in tax Revenue from HB 63**

ISSUE #1 Aviation Jet Fuel Amendments	(\$2,800,000)
Issue # 2 Marine Motor Fuel Amendment	( 625,000)
Issue #3 - Repeal the gasohol tax exemption	<u>\$8,000,000</u>
 Net New Revenue	 <u>\$4,575,000</u>