December 15, 2016

The Honorable Pete Kelly
President of the Senate
Alaska State Legislature
State Capitol Room 518
Juneau, AK 99801

Dear President Kelly:

Under the authority of Article III, Section 18 of the Alaska Constitution, I am transmitting a bill relating to the taxation of motor fuels.

The bill would raise the tax rates on the categories of motor fuel currently taxed under AS 43.40.010 (motor fuel tax) by increasing the currently outdated tax rates on motor fuels, including all motor fuel sold or transferred within the state, aviation gasoline, aviation fuel other than gasoline and motor fuel used in and on watercraft. The tax increase would be phased in, with a first increase effective July 1, 2017, and the second increase effective July 1, 2018. The two-part implementation approach in the bill will assist in easing the transition to a more practical tax base.

While the proposed tax increase may appear to represent a significant increase, the tax rates on motor fuel sold or transferred within the state have not been raised in many years; for example, the tax on highway fuel has remained at eight cents a gallon since 1970. This bill would bring Alaska’s tax rate on highway fuel very close to the current national average of 25 cents a gallon.

Further, this bill would establish as AS 43.40.040 the transportation maintenance fund in the general fund. Included in this fund would be the existing special highway fuel tax account (AS 43.40.010(g)), the special nonpublic highway use account (AS 43.40.010(j)), and the special watercraft fuel tax account (AS 43.40.010(f) for revenue generated by the tax. This approach clarifies how motor fuels taxes are accounted for in order to allow the Legislature to appropriate funds for the purposes set out in each account in the transportation maintenance fund, including the direct capital, operating, or maintenance costs of water and harbor, and highway infrastructure.

Thank you for your consideration of this measure.

Sincerely,

Bill Walker
Governor

Enclosure
SENATE BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

THIRTIETH LEGISLATURE - FIRST SESSION

BY THE SENATE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

Introduced:
Referred:

A BILL

FOR AN ACT ENTITLED

"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."

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

* Section 1. AS 29.60.800(a) is amended to read:

(a) There is established the harbor facility grant fund consisting of money appropriated to the fund. Each fiscal year, the legislature may appropriate money to the fund from the watercraft fuel tax account (AS 43.40.010(f)) in the transportation maintenance fund (AS 43.40.040) and from the fisheries business tax collected under AS 43.75.015 after payments to municipalities are made under AS 43.75.130. The legislature may make other appropriations to the fund. The legislature may appropriate to the fund income earned on money in the fund.

* Sec. 2. AS 43.40.010(a) is amended to read:

(a) In addition to the surcharge levied under AS 43.40.005, there is levied a
tax of **16** [EIGHT] cents a gallon on all motor fuel sold or otherwise transferred within the state, except that

(1) the tax on aviation gasoline is **nine and four-tenths** [FOUR AND SEVEN-TENTHS] cents a gallon;

(2) the tax on motor fuel used in and on watercraft of all descriptions is **10** [FIVE] cents a gallon;

(3) the tax on all aviation fuel other than gasoline is **six and four-tenths** [THREE AND TWO-TENTHS] cents a gallon; and

(4) the tax rate on motor fuel that is blended with alcohol is the same tax rate a gallon as other motor fuel; however, in an area and during the months in which fuel containing alcohol is required to be sold, transferred, or used in an effort to attain air quality standards for carbon monoxide as required by federal or state law or regulation, the tax rate on motor fuel that is blended with alcohol is six cents a gallon less than the tax on other motor fuel not described in (1) - (3) of this subsection.

* **Sec. 3.** AS 43.40.010(a), as amended by sec. 2 of this Act, is amended to read:

(a) In addition to the surcharge levied under AS 43.40.005, there is levied a tax of **24** [16] cents a gallon on all motor fuel sold or otherwise transferred within the state, except that

(1) the tax on aviation gasoline is **14.1** [NINE AND FOUR-TENTHS] cents a gallon;

(2) the tax on motor fuel used in and on watercraft of all descriptions is **15** [10] cents a gallon;

(3) the tax on all aviation fuel other than gasoline is **nine and six-tenths** [SIX AND FOUR-TENTHS] cents a gallon; and

(4) the tax rate on motor fuel that is blended with alcohol is the same tax rate a gallon as other motor fuel; however, in an area and during the months in which fuel containing alcohol is required to be sold, transferred, or used in an effort to attain air quality standards for carbon monoxide as required by federal or state law or regulation, the tax rate on motor fuel that is blended with alcohol is six cents a gallon less than the tax on other motor fuel not described in (1) - (3) of this subsection.

* **Sec. 4.** AS 43.40.010(b) is amended to read:
(b) In addition to the surcharge levied under AS 43.40.005, there is levied a
tax of 16 [EIGHT] cents a gallon on all motor fuel consumed by a user, except that
(1) the tax on aviation gasoline consumed is nine and four-tenths
[FOUR AND SEVEN-TENTHS] cents a gallon;
(2) the tax on motor fuel used in and on watercraft of all descriptions is
10 [FIVE] cents a gallon;
(3) the tax on all aviation fuel other than gasoline is six and four-
tenths [THREE AND TWO-TENTHS] cents a gallon; and
(4) the tax rate on motor fuel that is blended with alcohol is the same
tax rate a gallon as other motor fuel; however, in an area and during the months in
which fuel containing alcohol is required to be sold, transferred, or used in an effort to
attain air quality standards for carbon monoxide as required by federal or state law or
regulation, the tax rate on motor fuel that is blended with alcohol is six cents a gallon
less than the tax on other motor fuel not described in (1) - (3) of this subsection.

* Sec. 5. AS 43.40.010(b), as amended by sec. 4 of this Act, is amended to read:
(b) In addition to the surcharge levied under AS 43.40.005, there is levied a
tax of 24 [16] cents a gallon on all motor fuel consumed by a user, except that
(1) the tax on aviation gasoline consumed is 14.1 [NINE AND FOUR-
tenths] cents a gallon;
(2) the tax on motor fuel used in and on watercraft of all descriptions is
15 [10] cents a gallon;
(3) the tax on all aviation fuel other than gasoline is nine and six-
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(4) the tax rate on motor fuel that is blended with alcohol is the same
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attain air quality standards for carbon monoxide as required by federal or state law or
regulation, the tax rate on motor fuel that is blended with alcohol is six cents a gallon
less than the tax on other motor fuel not described in (1) - (3) of this subsection.

* Sec. 6. AS 43.40.010(e) is amended to read:
(e) Sixty percent of the proceeds of the revenue from the motor fuel taxes on
aviation fuel, excluding the amount determined to have been spent by the state in its collection, shall be refunded to a municipality owning and operating or leasing and operating an airport in the proportion that the revenue was collected at the municipal airport. All other proceeds of the motor fuel taxes on aviation fuel shall be paid into a special aviation fuel tax account in the general fund. The legislature may appropriate [FUNDS] from this account for **direct capital**, [OR] operating, **or maintenance** costs of **airport infrastructure** [AIRPORTS].

* Sec. 7. AS 43.40.010(f) is amended to read:

(f) The proceeds from the revenue from the tax on motor fuel used in boats and watercraft of all descriptions shall be deposited in a special watercraft fuel tax account in the **transportation maintenance** [GENERAL] fund. The legislature may appropriate from this account for **direct capital, operating, or maintenance costs of** water and harbor **infrastructure and** facilities.

* Sec. 8. AS 43.40.010(g) is amended to read:

(g) The proceeds of the revenue from the tax on all motor fuels, except as provided in (e), (f) and (j) of this section, shall be deposited in a special highway fuel tax account in the **transportation maintenance** [STATE GENERAL] fund. The legislature may appropriate from the account [IT] for expenditure by the Department of Transportation and Public Facilities directly or as matched with available federal-aid highway money for **direct capital, operating, or** maintenance costs of highways and **highway infrastructure**, construction of highway projects and ferries included in the program provided for in AS 19.10.150, including approaches, appurtenances and related facilities and acquisition of rights-of-way [or] easements, **or surveys** [AND OTHER HIGHWAY COSTS INCLUDING SURVEYS, ADMINISTRATION, AND RELATED MATTERS]. All departments of the state government authorized to spend funds collected from taxes imposed by this chapter shall perform, when feasible, all construction or reconstruction projects by contract after the projects have been advertised for competitive bids, except that, when feasible, arrangements shall be made with political subdivisions to carry out the construction or reconstruction projects. If it is not feasible for the work to be performed by state engineering forces, the commissioner of transportation and public facilities may contract on a professional
basis with private engineering firms for road design, bridge design, and services in
connection with surveys. If more than one private engineering firm is available for the
work the contracts shall be entered into on a negotiated basis.

* Sec. 9. AS 43.40.010(h) is amended to read:

(h) All motor fuel tax receipts shall be paid into the general fund and
distributed to the proper accounts in the general fund, and for receipts under (f), (g),
and (i) of this section, into the proper accounts in the transportation maintenance
fund. Valid motor fuel tax refund claims shall be paid from the highway fuel tax
account in the transportation maintenance [GENERAL] fund.

* Sec. 10. AS 43.40.010(j) is amended to read:

(j) The proceeds from the tax on motor fuel used in snow vehicles and, unless
a tax refund is applied for under AS 43.40.050(a), other internal combustion engines
not used in or in conjunction with a motor vehicle licensed to be operated on public
ways shall be deposited in a special nonpublic highway use account in the
transportation maintenance [GENERAL] fund. The legislature may appropriate
from this account to the Department of Transportation and Public Facilities for trail
staking and shelter construction and maintenance.

* Sec. 11. AS 43.40.030(a) is amended to read:

(a) Except as specified in AS 43.40.010(j), a person who uses motor fuel to
operate an internal combustion engine is entitled to a motor fuel tax refund of $12 [SIX]
cents a gallon if

1. the tax on the motor fuel has been paid;

2. the motor fuel is not aviation fuel, or motor fuel used in or on
watercraft; and

3. the internal combustion engine is not used in or in conjunction with
a motor vehicle licensed to be operated on public ways.

* Sec. 12. AS 43.40.030(a), as amended by sec. 11 of this, Act is amended to read:

(a) Except as specified in AS 43.40.010(j), a person who uses motor fuel to
operate an internal combustion engine is entitled to a motor fuel tax refund of $18 [SIX]
cents a gallon if

1. the tax on the motor fuel has been paid;
(2) the motor fuel is not aviation fuel, or motor fuel used in or on
watercraft; and

(3) the internal combustion engine is not used in or in conjunction with
a motor vehicle licensed to be operated on public ways.

* Sec. 13. AS 43.40 is amended by adding a new section to read:

Sec. 43.40.040 Transportation maintenance fund. (a) There is established in
the general fund the transportation maintenance fund consisting of money
appropriated to the fund and the accounts set out in (b) of this section. The legislature
may appropriate from this fund for purposes consistent with this chapter.

(b) The transportation maintenance fund includes the

(1) special highway fuel tax account (AS 43.40.010(g));
(2) special nonpublic highway use account (AS 43.40.010(j));
(3) special watercraft fuel tax account (AS 43.40.010(f)).

(c) The department may adopt regulations necessary to implement the
transportation maintenance fund in a manner consistent with state and federal law.

(d) Nothing in this section creates a dedicated fund.

* Sec. 14. AS 43.40.070(a) is amended to read:

(a) Upon approval of a refund claim of the motor fuel tax by the department, a
disbursement shall be made from the highway fuel tax account in the transportation
maintenance [GENERAL] fund in favor of the applicant in the amount of the claim.

* Sec. 15. The uncodified law of the State of Alaska is amended by adding a new section to
read:

APPLICABILITY. (a) AS 43.40.010(a), as amended by sec. 2 of this Act, applies to
motor fuel sold or transferred in the state on or after the effective date of sec. 2 of this Act.

(b) AS 43.40.010(b), as amended by sec. 4 of this Act, applies to motor fuel
consumed by a user on or after the effective date of sec. 4 of this Act.

(c) AS 43.40.030(a), as amended by sec. 10 of this Act, applies to a motor fuel tax
refund on motor fuel used on or after the effective date of sec. 10 of this Act.

* Sec. 16. The uncodified law of the State of Alaska is amended by adding a new section to
read:

TRANSITION: REGULATIONS. The Department of Revenue may adopt regulations
necessary to implement the changes made by this Act. The regulations take effect under AS 44.62 (Administrative Procedure Act), but not before the effective date of the law implemented by the regulation.

* Sec. 17. Section 16 of this Act takes effect immediately under AS 01.10.070(c).

* Sec. 18. Sections 3, 5, and 12 of this Act take effect July 1, 2018.

* Sec. 19. Except as provided in secs. 17 and 18 of this Act, this Act takes effect July 1, 2017.
FISCAL NOTE

STATE OF ALASKA
2017 LEGISLATIVE SESSION

Bill Version
Fiscal Note Number
Publish Date

Identifier (file name) DOR-TAX-12-13-16
Dept. Affected Department of Revenue
Title Motor Fuel Tax
Appropriation Taxation and Treasury
Allocation Tax Division
Sponsor RULES BY REQUEST
Requester GOVERNOR

Expenditures/Revenues (Thousands of Dollars)

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<th>Expenditures/Revenues</th>
<th>FY18 Appropriation Requested</th>
<th>Included in Governor's FY18 Request</th>
<th>Out-Year Cost Estimates</th>
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FUND SOURCE (Thousands of Dollars)

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CHANGE IN REVENUES (Thousands of Dollars)

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Estimated SUPPLEMENTAL (FY17) operating costs
(discuss reasons and fund source(s) in analysis section)

50.0 (separate supplemental appropriation required)

Estimated CAPITAL (FY18) costs
(discuss reasons and fund source(s) in analysis section)

0.0 (separate capital appropriation required)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No

If yes, by what date are the regulations to be adopted, amended, or repealed? Discuss details in analysis section.

Why this fiscal note differs from previous version (if initial version, please note as such)

Initial version

Prepared by Ken Alper, Director
Division Tax Division
Approved by Jerry Burnett, Deputy Commissioner
Agency Department of Revenue

Phone (907)465-8221
Date/Time 12/13/16 9:00 AM
Date 12/13/2016

(Revised 8/12/16 OMB/LFD)
Analysis

Bill Analysis
Alaska has had an excise tax on motor fuel since 1945, which is charged and collected monthly. The highway tax rate was last increased in 1970; marine rate in 1977; aviation and jet fuel rates in 1994. The last major changes to the program were in 2008 when the motor fuel tax was suspended effective September 1, 2008 to August 31, 2009. Additionally, a surcharge of slightly less than 1 cent per gallon is added to the tax on most refined fuels as of July 1, 2015 to support Spill Prevention and Response.

The primary change in this legislation would be to increase the tax rates of all categories of motor fuel in two steps: On July 1, 2017, the tax rate for highway fuel would rise from $0.08 to $0.16 per gallon; for marine fuel, from $0.05 to $0.10 per gallon; for jet fuel, from $0.032 to $0.064 per gallon; and for aviation gasoline, from $0.047 to $0.094. On July 1, 2018, the tax rate for highway fuel would rise to $0.24; for marine fuel to $0.15; for jet fuel to $0.096; and for aviation gasoline to $0.141.

DOR estimates that increasing the motor fuel tax rates approximately double tax collections in FY18 and triple tax collections in FY19 and beyond, with eventual additional revenue of approximately $80 million per year. Of this, approximately $4 million would be shared with municipally owned airports.

Estimates are based on annual statewide taxable consumption of approximately 370 million gallons of highway fuel, 120 million gallons of marine fuel, 130 million gallons of jet fuel, and 10 million gallons of aviation gasoline. Estimates are based on the fall 2016 revenue forecast. The estimates make no adjustment for changes in demand due to higher prices, or for stockpiling in advance of the tax increase.

Implementation Cost
This legislation would require the Department of Revenue to update its Tax Revenue Management System (TRMS) and Revenue Online (ROL) which allows a taxpayer to file a return online. The update would consist of reprogramming both systems, updating the return rules in TRMS and testing both systems thoroughly to verify that they function as expected. We would also need to update the current tax return forms.

The one-time fiscal note figure of $50.0 in FY17 is to cover the costs of having our contractor update the two systems. We do not anticipate any continuing costs or additional staff needs. After the implementation of the changes, this legislation would not cause any additional administrative burden on the Tax Division.

Fund Changes
Currently, aviation motor fuel taxes are considered Other Restricted funds for budget purposes, and remaining motor fuel taxes are considered Unrestricted General Fund revenue. This legislation maintains aviation fuel taxes as Other Restricted and changes the remaining motor fuel taxes from unrestricted to designated general funds. In doing so, it creates several new funds within the general fund. The legislature may use these funds to support highway maintenance, water and harbor infrastructure, and similar needs.

In the table on page 1 of this document, this change in designation is reflected by reducing the current forecasted revenue from Unrestricted General Funds by the fall forecast for non-aviation motor fuel taxes. Meanwhile, for non-aviation motor fuel taxes, the entire revenue amount (both current forecast and the tax increases contained within this bill) are added as designated general funds. For aviation motor fuel taxes, the amount of the tax increase is added as Other Restricted revenue.
## Expenditures/Revenues
(Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

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Estimated SUPPLEMENTAL (FY17) operating costs__  
(discuss reasons and fund source(s) in analysis section)  
(supplemental appropriation required)

Estimated CAPITAL (FY18) costs__  
(discuss reasons and fund source(s) in analysis section)  
(capital appropriation required)

ASSOCIATED REGULATIONS  
Does the bill direct, or will the bill result in, regulation changes adopted by your agency? _No_  
If yes, by what date are the regulations to be adopted, amended, or repealed? _Discuss details in analysis section._

Why this fiscal note differs from previous version (if initial version, please note as such)__  
Initial version.

Prepared by Mike Lesmann  
Division Commissioner's Office  
Approved by Amanda Holland  
Agency DOT&PF  
(Revised 8/12/16 OMS/L/FD)
Establishing the Alaska Transportation Maintenance Fund provides the Legislature with the ability to directly appropriate increased transportation-generated revenues to transportation-related capital, operating, or maintenance expenditures.
December 15, 2016

The Honorable Bryce Edgmon
Speaker of the House
Alaska State Legislature
State Capitol Room 410
Juneau, AK 99801

Dear Speaker Edgmon:

Under the authority of Article III, Section 18 of the Alaska Constitution, I am transmitting a bill relating to the taxation of motor fuels.

The bill would raise the tax rates on the categories of motor fuel currently taxed under AS 43.40.010 (motor fuel tax) by increasing the currently outdated tax rates on motor fuels, including all motor fuel sold or transferred within the state, aviation gasoline, aviation fuel other than gasoline and motor fuel used in and on watercraft. The tax increase would be phased in, with a first increase effective July 1, 2017, and the second increase effective July 1, 2018. The two-part implementation approach in the bill will assist in easing the transition to a more practical tax base.

While the proposed tax increase may appear to represent a significant increase, the tax rates on motor fuel sold or transferred within the state have not been raised in many years; for example, the tax on highway fuel has remained at eight cents a gallon since 1970. This bill would bring Alaska’s tax rate on highway fuel very close to the current national average of 25 cents a gallon.

Further, this bill would establish as AS 43.40.040 the transportation maintenance fund in the general fund. Included in this fund would be the existing special highway fuel tax account (AS 43.40.010(g)), the special nonpublic highway use account (AS 43.40.010(j)), and the special watercraft fuel tax account (AS 43.40.010(f)) for revenue generated by the tax. This approach clarifies how motor fuels taxes are accounted for in order to allow the Legislature to appropriate funds for the purposes set out in each account in the transportation maintenance fund, including the direct capital, operating, or maintenance costs of water and harbor, and highway infrastructure.

Thank you for your consideration of this measure.

Sincerely,

Bill Walker
Governor

Enclosure
HOUSE BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

THIRTIETH LEGISLATURE - FIRST SESSION

BY THE HOUSE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

Introduced:
Referred:

A BILL

FOR AN ACT ENTITLED

"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."

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

* Section 1. AS 29.60.800(a) is amended to read:

(a) There is established the harbor facility grant fund consisting of money appropriated to the fund. Each fiscal year, the legislature may appropriate money to the fund from the watercraft fuel tax account (AS 43.40.010(f)) in the transportation maintenance fund (AS 43.40.040) and from the fisheries business tax collected under AS 43.75.015 after payments to municipalities are made under AS 43.75.130. The legislature may make other appropriations to the fund. The legislature may appropriate to the fund income earned on money in the fund.

* Sec. 2. AS 43.40.010(a) is amended to read:

(a) In addition to the surcharge levied under AS 43.40.005, there is levied a
tax of 16 [EIGHT] cents a gallon on all motor fuel sold or otherwise transferred within
the state, except that

(1) the tax on aviation gasoline is nine and four-tenths [FOUR AND
SEVEN-TENTHS] cents a gallon;

(2) the tax on motor fuel used in and on watercraft of all descriptions is
10 [FIVE] cents a gallon;

(3) the tax on all aviation fuel other than gasoline is six and four-
tenths [THREE AND TWO-TENTHS] cents a gallon; and

(4) the tax rate on motor fuel that is blended with alcohol is the same
tax rate a gallon as other motor fuel; however, in an area and during the months in
which fuel containing alcohol is required to be sold, transferred, or used in an effort to
attain air quality standards for carbon monoxide as required by federal or state law or
regulation, the tax rate on motor fuel that is blended with alcohol is six cents a gallon
less than the tax on other motor fuel not described in (1) - (3) of this subsection.

* Sec. 3. AS 43.40.010(a), as amended by sec. 2 of this Act, is amended to read:

(a) In addition to the surcharge levied under AS 43.40.005, there is levied a
tax of 24 [16] cents a gallon on all motor fuel sold or otherwise transferred within the
state, except that

(1) the tax on aviation gasoline is 14.1 [NINE AND FOUR-TENTHS]
cents a gallon;

(2) the tax on motor fuel used in and on watercraft of all descriptions is
15 [10] cents a gallon;

(3) the tax on all aviation fuel other than gasoline is nine and six-
tenths [SIX AND FOUR-TENTHS] cents a gallon; and

(4) the tax rate on motor fuel that is blended with alcohol is the same
tax rate a gallon as other motor fuel; however, in an area and during the months in
which fuel containing alcohol is required to be sold, transferred, or used in an effort to
attain air quality standards for carbon monoxide as required by federal or state law or
regulation, the tax rate on motor fuel that is blended with alcohol is six cents a gallon
less than the tax on other motor fuel not described in (1) - (3) of this subsection.

* Sec. 4. AS 43.40.010(b) is amended to read:
(b) In addition to the surcharge levied under AS 43.40.005, there is levied a tax of 16 [EIGHT] cents a gallon on all motor fuel consumed by a user, except that

(1) the tax on aviation gasoline consumed is nine and four-tenths
[FOUR AND SEVEN-TENTHS] cents a gallon;

(2) the tax on motor fuel used in and on watercraft of all descriptions is 10 [FIVE] cents a gallon;

(3) the tax on all aviation fuel other than gasoline is six and four-tenths [THREE AND TWO-TENTHS] cents a gallon; and

(4) the tax rate on motor fuel that is blended with alcohol is the same tax rate a gallon as other motor fuel; however, in an area and during the months in which fuel containing alcohol is required to be sold, transferred, or used in an effort to attain air quality standards for carbon monoxide as required by federal or state law or regulation, the tax rate on motor fuel that is blended with alcohol is six cents a gallon less than the tax on other motor fuel not described in (1) - (3) of this subsection.

* Sec. 5. AS 43.40.010(b), as amended by sec. 4 of this Act, is amended to read:

(b) In addition to the surcharge levied under AS 43.40.005, there is levied a tax of 24 [16] cents a gallon on all motor fuel consumed by a user, except that

(1) the tax on aviation gasoline consumed is 14.1 [NINE AND FOUR-TENTHS] cents a gallon;

(2) the tax on motor fuel used in and on watercraft of all descriptions is 15 [10] cents a gallon;

(3) the tax on all aviation fuel other than gasoline is nine and six-tenths [SIX AND FOUR-TENTHS] cents a gallon; and

(4) the tax rate on motor fuel that is blended with alcohol is the same tax rate a gallon as other motor fuel; however, in an area and during the months in which fuel containing alcohol is required to be sold, transferred, or used in an effort to attain air quality standards for carbon monoxide as required by federal or state law or regulation, the tax rate on motor fuel that is blended with alcohol is six cents a gallon less than the tax on other motor fuel not described in (1) - (3) of this subsection.

* Sec. 6. AS 43.40.010(e) is amended to read:

(e) Sixty percent of the proceeds of the revenue from the motor fuel taxes on
aviation fuel, excluding the amount determined to have been spent by the state in its
collection, shall be refunded to a municipality owning and operating or leasing and
operating an airport in the proportion that the revenue was collected at the municipal
airport. All other proceeds of the motor fuel taxes on aviation fuel shall be paid into a
special aviation fuel tax account in the general fund. The legislature may appropriate
[FUNDS] from this account for **direct** capital, [OR] operating, **or maintenance** costs
of **airport infrastructure** [AIRPORTS].

* Sec. 7. AS 43.40.010(f) is amended to read:

    (f) The proceeds from the revenue from the tax on motor fuel used in boats
and watercraft of all descriptions shall be deposited in a special watercraft fuel tax
account in the **transportation maintenance** [GENERAL] fund. The legislature may
appropriate from this account for **direct capital, operating, or maintenance costs of**
water and harbor **infrastructure and** facilities.

* Sec. 8. AS 43.40.010(g) is amended to read:

    (g) The proceeds of the revenue from the tax on all motor fuels, except as
provided in (e), (f) and (j) of this section, shall be deposited in a special highway fuel
tax account in the **transportation maintenance** [STATE GENERAL] fund. The
legislature may appropriate from the account [IT] for expenditure by the Department
of Transportation and Public Facilities directly or as matched with available federal-
aid highway money for **direct capital, operating, or** maintenance costs of highways
and highway **infrastructure**, construction of highway projects and ferries included in
the program provided for in AS 19.10.150, including approaches, appurtenances and
related facilities and acquisition of rights-of-way, [or] easements, **or surveys** [AND
OTHER HIGHWAY COSTS INCLUDING SURVEYS, ADMINISTRATION, AND
RELATED MATTERS]. All departments of the state government authorized to spend
funds collected from taxes imposed by this chapter shall perform, when feasible, all
construction or reconstruction projects by contract after the projects have been
advertised for competitive bids, except that, when feasible, arrangements shall be
made with political subdivisions to carry out the construction or reconstruction
projects. If it is not feasible for the work to be performed by state engineering forces,
the commissioner of transportation and public facilities may contract on a professional

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*New Text Underlined [DELETED TEXT BRACKETED]*
basis with private engineering firms for road design, bridge design, and services in
connection with surveys. If more than one private engineering firm is available for the
work the contracts shall be entered into on a negotiated basis.

* Sec. 9. AS 43.40.010(h) is amended to read:

(h) All motor fuel tax receipts shall be paid into the general fund and
distributed to the proper accounts in the general fund, and for receipts under (f), (g),
and (j) of this section, into the proper accounts in the transportation maintenance
fund. Valid motor fuel tax refund claims shall be paid from the highway fuel tax
account in the transportation maintenance [GENERAL] fund.

* Sec. 10. AS 43.40.010(j) is amended to read:

(j) The proceeds from the tax on motor fuel used in snow vehicles and, unless
a tax refund is applied for under AS 43.40.050(a), other internal combustion engines
not used in or in conjunction with a motor vehicle licensed to be operated on public
ways shall be deposited in a special nonpublic highway use account in the
transportation maintenance [GENERAL] fund. The legislature may appropriate
from this account to the Department of Transportation and Public Facilities for trail
staking and shelter construction and maintenance.

* Sec. 11. AS 43.40.030(a) is amended to read:

(a) Except as specified in AS 43.40.010(j), a person who uses motor fuel to
operate an internal combustion engine is entitled to a motor fuel tax refund of 12 [SIX]
cents a gallon if

(1) the tax on the motor fuel has been paid;

(2) the motor fuel is not aviation fuel, or motor fuel used in or on
watercraft; and

(3) the internal combustion engine is not used in or in conjunction with
a motor vehicle licensed to be operated on public ways.

* Sec. 12. AS 43.40.030(a), as amended by sec. 11 of this Act is amended to read:

(a) Except as specified in AS 43.40.010(j), a person who uses motor fuel to
operate an internal combustion engine is entitled to a motor fuel tax refund of 18 [SIX]
cents a gallon if

(1) the tax on the motor fuel has been paid;
(2) the motor fuel is not aviation fuel, or motor fuel used in or on
watercraft; and
(3) the internal combustion engine is not used in or in conjunction with
a motor vehicle licensed to be operated on public ways.

* Sec. 13. AS 43.40 is amended by adding a new section to read:

Sec. 43.40.040 Transportation maintenance fund. (a) There is established in
the general fund the transportation maintenance fund consisting of money
appropriated to the fund and the accounts set out in (b) of this section. The legislature
may appropriate from this fund for purposes consistent with this chapter.

(b) The transportation maintenance fund includes the
(1) special highway fuel tax account (AS 43.40.010(g));
(2) special nonpublic highway use account (AS 43.40.010(j));
(3) special watercraft fuel tax account (AS 43.40.010(f)).

(c) The department may adopt regulations necessary to implement the
transportation maintenance fund in a manner consistent with state and federal law.

(d) Nothing in this section creates a dedicated fund.

* Sec. 14. AS 43.40.070(a) is amended to read:

(a) Upon approval of a refund claim of the motor fuel tax by the department, a
disbursement shall be made from the highway fuel tax account in the transportation
maintenance [GENERAL] fund in favor of the applicant in the amount of the claim.

* Sec. 15. The uncodified law of the State of Alaska is amended by adding a new section to
read:

APPLICABILITY. (a) AS 43.40.010(a), as amended by sec. 2 of this Act, applies to
motor fuel sold or transferred in the state on or after the effective date of sec. 2 of this Act.

(b) AS 43.40.010(b), as amended by sec. 4 of this Act, applies to motor fuel
consumed by a user on or after the effective date of sec. 4 of this Act.

(c) AS 43.40.030(a), as amended by sec. 10 of this Act, applies to a motor fuel tax
refund on motor fuel used on or after the effective date of sec. 10 of this Act.

* Sec. 16. The uncodified law of the State of Alaska is amended by adding a new section to
read:

TRANSITION: REGULATIONS. The Department of Revenue may adopt regulations
necessary to implement the changes made by this Act. The regulations take effect under
AS 44.62 (Administrative Procedure Act), but not before the effective date of the law
implemented by the regulation.

* Sec. 17. Section 16 of this Act takes effect immediately under AS 01.10.070(c).

* Sec. 18. Sections 3, 5, and 12 of this Act take effect July 1, 2018.

* Sec. 19. Except as provided in secs. 17 and 18 of this Act, this Act takes effect July 1,
2017.
## FISCAL NOTE

### STATE OF ALASKA
2017 LEGISLATIVE SESSION

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<td>Taxation and Treasury</td>
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### Expenditures/Revenues
(Thousands of Dollars)

**Note:** Amounts do not include inflation unless otherwise noted below.

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<tr>
<th>OPERATING EXPENDITURES</th>
<th>FY18</th>
<th>FY19</th>
<th>FY20</th>
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**FUND SOURCE**
(Thousands of Dollars)

| 1002 Federal Receipts |      |
| 1003 GF Match         |      |
| 1004 GF               |      |
| 1005 GF/Prgm (DGF)    |      |
| 1007 I/A Ropts (Other)|      |
| 1178 temp code (UGF)  |      |
| **TOTAL**             | 0.0  |

### POSITIONS

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### CHANGE IN REVENUES

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<th>FY18</th>
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<td>(36,000.0)</td>
<td>(36,200.0)</td>
<td>(36,500.0)</td>
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Estimated SUPPLEMENTAL (FY17) operating costs

50.0 

(separate supplemental appropriation required)

Estimated CAPITAL (FY18) costs

0.0 

(separate capital appropriation required)

### ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No

If yes, by what date are the regulations to be adopted, amended, or repealed? Discuss details in analysis section.

### Why this fiscal note differs from previous version (if initial version, please note as such)

Initial version

Prepared by Ken Alper, Director
Division Tax Division
Approved by Jerry Burnett, Deputy Commissioner
Agency Department of Revenue

(Revised 8/12/16 OMB/LFD)
Analysis

Bill Analysis
Alaska has had an excise tax on motor fuel since 1945, which is charged and collected monthly. The highway tax rate was last increased in 1970; marine rate in 1977; aviation and jet fuel rates in 1994. The last major changes to the program were in 2008 when the motor fuel tax was suspended effective September 1, 2008 to August 31, 2009. Additionally, a surcharge of slightly less than 1 cent per gallon is added to the tax on most refined fuels as of July 1, 2015 to support Spill Prevention and Response.

The primary change in this legislation would be to increase the tax rates of all categories of motor fuel in two steps: On July 1, 2017, the tax rate for highway fuel would rise from $0.08 to $0.16 per gallon; for marine fuel, from $0.05 to $0.10 per gallon; for jet fuel, from $0.032 to $0.064 per gallon; and for aviation gasoline, from $0.047 to $0.094. On July 1, 2018, the tax rate for highway fuel would rise to $0.24; for marine fuel to $0.15; for jet fuel to $0.096; and for aviation gasoline to $0.141.

DOR estimates that increasing the motor fuel tax rates approximately double tax collections in FY18 and triple tax collections in FY19 and beyond, with eventual additional revenue of approximately $80 million per year. Of this, approximately $0.4 million would be shared with municipally owned airports.

Estimates are based on annual statewide taxable consumption of approximately 370 million gallons of highway fuel, 120 million gallons of marine fuel, 130 million gallons of jet fuel, and 10 million gallons of aviation gasoline.

Estimates are based on the fall 2016 revenue forecast. The estimates make no adjustment for changes in demand due to higher prices, or for stockpiling in advance of the tax increase.

Implementation Cost
This legislation would require the Department of Revenue to update its Tax Revenue Management System (TRMS) and Revenue Online (ROL) which allows a taxpayer to file a return online. The update would consist of reprogramming both systems, updating the return rules in TRMS and testing both systems thoroughly to verify that they function as expected. We would also need to update the current tax return forms.

The one-time fiscal note figure of $50.0 in FY17 is to cover the costs of having our contractor update the two systems. We do not anticipate any continuing costs or additional staff needs. After the implementation of the changes, this legislation would not cause any additional administrative burden on the Tax Division.

Fund Changes
Currently, aviation motor fuel taxes are considered Other Restricted funds for budget purposes, and remaining motor fuel taxes are considered Unrestricted General Fund revenue. This legislation maintains aviation fuel taxes as Other Restricted and changes the remaining motor fuel taxes from unrestricted to designated general funds. In doing so, it creates several new funds within the general fund. The legislature may use these funds to support highway maintenance, water and harbor infrastructure, and similar needs.

In the table on page 1 of this document, this change in designation is reflected by reducing the current forecasted revenue from Unrestricted General Funds by the fall forecast for non-aviation motor fuel taxes. Meanwhile, for non-aviation motor fuel taxes, the entire revenue amount (both current forecast and the tax increases contained within this bill) are added as designated general funds. For aviation motor fuel taxes, the amount of the tax increase is added as Other Restricted revenue.
STATE OF ALASKA
2017 LEGISLATIVE SESSION

Act Relating to Motor Fuel Tax

Sponsor: Rules by Request of the Governor
Requester: Governor

Expenditures/Revenues (Thousands of Dollars)

<table>
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<th>OPERATING EXPENDITURES</th>
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FUND SOURCE (Thousands of Dollars)

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Estimated SUPPLEMENTAL (FY17) operating costs (separate supplemental appropriation required)

Estimated CAPITAL (FY18) costs (separate capital appropriation required)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No
If yes, by what date are the regulations to be adopted, amended, or repealed? Discuss details in analysis section.

Why this fiscal note differs from previous version (if initial version, please note as such)

Initial version:

Prepared by: Mike Lesmann
Division: Commissioner's Office
Approved by: Amanda Holland
Agency: DOT&PF

Phone 465-4772
Date-Time 12/1/16 12:00 AM
Date 12/1/2016

(Revised 8/12/16 OMS/LFD)
Establishing the Alaska Transportation Maintenance Fund provides the Legislature with the ability to directly appropriate increased transportation-generated revenues to transportation-related capital, operating, or maintenance expenditures.