



THE STATE
of **ALASKA**
GOVERNOR BILL WALKER

Department of Revenue

TAX DIVISION

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November 2, 2017

The Honorable Senator Anna MacKinnon, Co-Chair
The Honorable Senator Lyman Hoffman, Co-Chair
Senate Finance Committee
State Capitol Building
Juneau, AK 99801

Dear Co-Chairs MacKinnon and Hoffman:

The purpose of this letter is to provide you with a written response on what legislative action last year prompted the shift of motor fuels tax from UGF to DGF brought up during the Department of Revenue (DOR) presentation by Commissioner Fisher and Chief Economist Dan Stickel to the Senate Finance Committee on October 30, 2017 regarding the Preliminary Fall Revenue Forecast:

Legislative Finance, after reviewing the relevant statutory language, determined that motor fuel tax has been incorrectly classified as unrestricted revenue for budget purposes in the past. As a result of this review, they determined that the tax should be classified as designated in the future, and the Office of Management and Budget concurred. There was no new legislative action to precipitate this change, only a reinterpretation of existing statute. DOR reclassified motor fuel taxes beginning with FY 2018 (no retroactive change) for consistency with this change in the budget process. The attached analysis provided by Legislative Finance gives additional detail on this fund change.

I hope you find this information to be useful. Please do not hesitate to contact me if you have further questions.

Sincerely,

A handwritten signature in blue ink, appearing to read "Ken Alper".

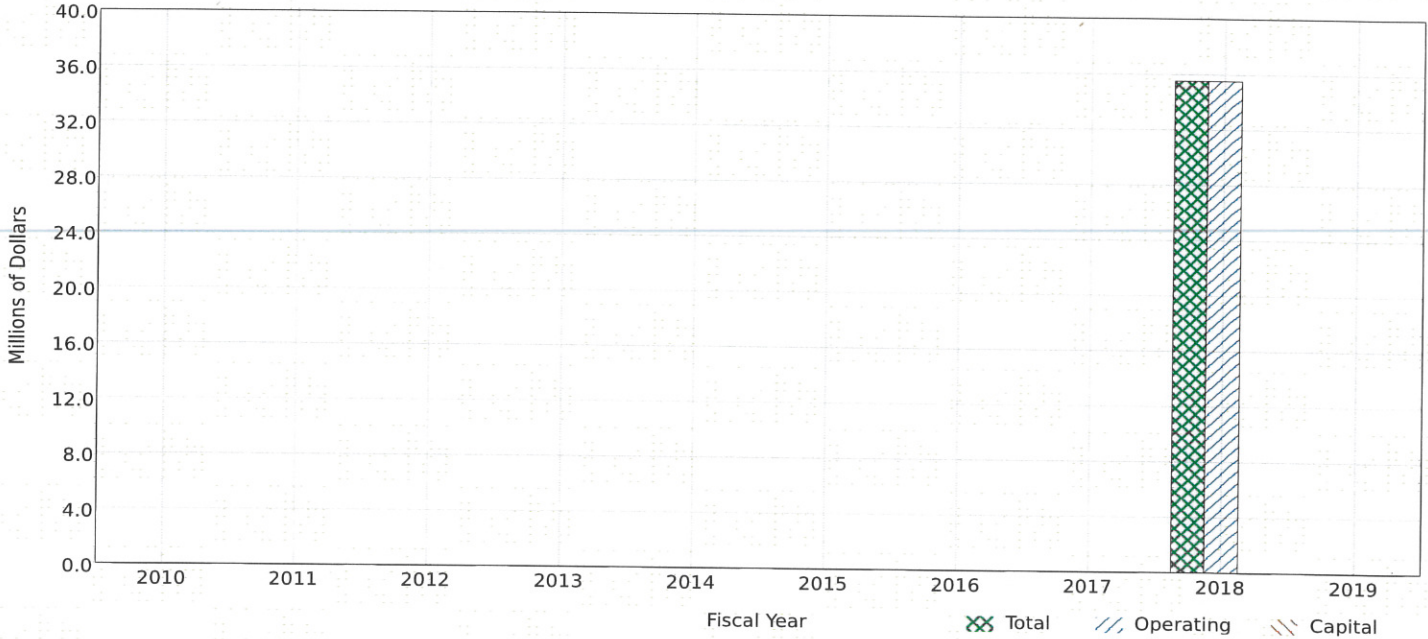
Ken Alper
Tax Director

Fund Source Report

1249 Motor Fuel Motor Fuel Tax Receipts

Year Authorized 2018
 Year Repealed
 Active? Yes
 Mental Health? No
 Duplicated? No
 Fund Group Designated General

Operating and Capital Appropriations



Legal Authority
AS 43.40.010(f)(g)(j)

Source of Revenue
Taxes levied on fuel for watercraft (f), road vehicles (g) and off-road vehicles (j) are directed to three separate accounts in the general fund.

Restrictions on Use
Sections (f), (g) and (j) designate tax receipts for (1) water and harbor facilities, (2) maintenance of highways and construction of highway projects and ferries, and (3) trail staking and shelter construction and maintenance, respectively.

Description and History
December 2016

This code was established in response to a Governor's bill creating a transportation maintenance fund. After review of the bill, it was clear that motor fuel tax receipts had historically been misclassified as unrestricted general funds. AS 43.40.010 (g), (h), and (j) direct taxes levied on fuel for watercraft (f), road vehicles (g) and off-road vehicles (j) to three separate accounts in the general fund and designate those accounts for (1) water and harbor facilities, (2) maintenance of highways and construction of highway projects and ferries, and (3) trail staking and shelter construction and maintenance.

Reclassification of motor fuel tax receipts--except aviation fuel (code 1239) which is dedicated for aviation use--as designated general funds resulted in a \$35 million reduction in UGF revenue in FY18 and a corresponding increase in DGF spending and revenue.

July 2017

The bill proposed by the Governor did not pass, but the fund code will be retained and (non-aviation) motor fuel tax receipts will still be classified as DGF per existing statutes.

The three accounts use a single fund code, and DOT&PF is expected to track revenue and expenditures for each of the three purposes independent of the budget system, as the Department of Fish and Game does for the multiple accounts in the Fish and Game fund.