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Report of the Airport Funding Advisory Task Force

January 1, 2009

Background

The Airport Funding Advisory Task Force was created by action of the Legislative Coordinating Commission (LCC) on June 19, 2007. See Attachment 1. The LCC action was based on an appropriation during the 2007 legislative session appropriating \$200,000 to the Commission for a Task Force to study issues related to funding of Minnesota's state airports.

The Task Force has three members appointed by the House of Representatives and three members appointed by the Senate. The Task Force also has fourteen non-voting members representing various interest groups. The members and participants are listed on Attachment 2.

The Task Force met eight times over a fourteen month period. Records of those meetings are available from the Task Forces' web site at: <http://www.commissions.leg.state.mn.us/afwg/meetingarchive.htm>. All meetings were held in the Capitol Complex and were open to the public.

Data collection

The Task Force focused much of its time in gaining a better understanding of the various sources of revenue that support the State Airport Fund. The members also wanted a better understanding of Minnesota's funding streams in comparison to those of other states. After publishing a request for Statements of Qualifications in the State Register, the Task Force contracted with Conklin and deDecker, a nationally known aviation research firm. The consultant gathered data and presented two reports to the Task Force, comparing Minnesota's tax structure to that of other states that were considered competitive with our state. The reports are available at: <http://www.commissions.leg.state.mn.us/afwg/report.htm>

Findings

The consultant was asked to review tax structures in fourteen states.

- Of those fourteen states, she concluded that three: Arizona, Michigan and Pennsylvania, were most similar to Minnesota, since they were also served by one large hub airport.

- Of the fourteen states:

- Only Minnesota and Arizona generate significant funding from their Aircraft Registration fee. Minnesota has the highest aircraft registration fee.

- Minnesota ranks in the middle of those states that receive state funding.

- Eight of these states have a dedicated Aviation Fund.

- Minnesota ranks in the top half of states relating to taxes and fees imposed on general aviation.

- Only Minnesota has different rates for the amount of fuel purchased. Arizona taxes only the first ten million gallons and Wisconsin gives a two cent rebate to operators who purchase over one million gallons per month
- In recent years, several states have passed legislation making it easier for non-residents to bring their aircraft to their state and not pay state sales tax/use tax on the work done on their aircraft. Although there is lost revenue on the parts installed on these aircraft, the measure creates more jobs in the state.

Consultant's Recommendations

Conklin and deDecker included several recommendations in their report that would make Minnesota a more friendly state to bring aircraft to for service:

- Create a maintenance exemption (for sales and use taxes relating to aircraft maintenance) similar to those in states such as Michigan, Indiana, Missouri and Ohio.
- Reduce Minnesota's existing aircraft registration fees, and then enforce them.
- Exempt aircraft operated under FAR Part 135 (commercial general aviation) from the state sales/use tax.

The Task Force voted to accept the consultant's report at its December 8, 2008 meeting.

Task Force recommendations

The Task Force did not formally adopt recommendations for the legislature. On behalf of the Task Force, and considering the Task Force's deliberations, Representative Dill and Senator Jungbauer, the co-chairs, make these recommendations:

- It is critical and essential that the cancellation of the \$15 million to the State Airport Trust Fund be reinstated. The Task Force members feel strongly that the Fund be used solely for its stated purpose, and that it not be used for any other purposes except to maintain the critical infrastructure of Minnesota's state airports.
- Task force members engaged in a vigorous discussion of possible re-structuring of revenue streams that support the State Airports Fund. Members accepted without recommendation a proposed revision of the current revenue structure that was suggested by the Minnesota Business Aviation Association. That proposal is attached.

Copies of proposals dealing with potential changes to the funding streams are available at the Task Force's web site: <http://www.commissions.leg.state.mn.us/afwg/afwg.htm>. Task Force members also believe that because of the State's short term fiscal situation, it would be better to continue to study possible revisions to the funding stream and make changes during a future legislative session.

Legislative Coordinating Commission
Resolution Extending the
Airport Funding Advisory Task Force

_____ moves that the resolution LCC-5, adopted by the Legislative Coordinating Commission on June 19, 2007 be amended to read as follows:

Be it Resolved, by the Legislative Coordinating Commission of the State of Minnesota:

1. **Authority.** The Airport Funding Advisory Task Force is established under authority provided in Minnesota Statutes 3.305, Subdivision 6.
2. **Membership.** The Airport Funding Advisory Task Force (Task Force) consists of:
 - a. three members of the senate, including at least one member from the minority party, appointed by the Subcommittee on Committees of the Committee on Rules and Administration of the senate; and
 - b. three members of the House of Representatives, two appointed by the speaker of the House and one appointed by the minority leader.

The appointing authorities must select members based on knowledge and experience in aviation funding issues. All appointments required by this paragraph must be completed by September 1, 2007.

- c. The co-chairs of the Task Force may appoint additional nonvoting members to the Task Force, including, but not limited to, representatives of the following organizations:
 - i. the Department of Transportation Aeronautics Office
 - ii. the Aircraft Owners and Pilots Association;
 - iii. the Experimental Aircraft Association/ACAA;
 - iv. the Metropolitan Airports Commission;
 - v. the Minnesota Aviation Trades Association;
 - vi. the Minnesota Business Aviation Association;
 - vii. the Minnesota Council of Airports;
 - viii. the Minnesota Seaplane Pilots Association;
 - ix. the National Business Aviation Association; and
 - x. the Minnesota Wing, Civil Air Patrol.
3. **Organization.** The Director of the Legislative Coordinating Commission shall convene the first meeting of the Working Group, at which the Working Group shall elect its co-chairs, a senator and a representative.
4. **Duties.** The Task Force shall study and make recommendations regarding the best methods for funding airports in the state and the state airports fund. The Task Force shall study:
 - a. the adequacy of current sources of revenue for the state airports fund and airports in the state;

- b. policy considerations regarding the use of the sales tax on aircraft as a potential source of revenue for airports;
- c. how other states fund airports;
- d. projected aviation needs of the future, including required investments in aviation infrastructure;
- e. aircraft registration taxes; and
- f. other issues relating to the funding of airports as determined by the Task Force.

5. Expenses; Support.

- a. The Legislative Coordinating Commission may pay per diems and reimburse expenses the voting members of the Task Force incur in carrying out their work.
- b. Appropriate staff of the LCC, the House, and Senate must provide support to the Working Group.
- c. The Task Force may commit and spend up to \$200,000 appropriated to the LCC in Laws 2007, chapter 143, article 1, section 3, subdivision 2, to carry out its work. The Task Force may hire consultants if necessary to carry out its work.

6. Report. The Task Force must report its recommendations by January 1, 2009 to the chairs of the legislative committees with jurisdiction over airports and aviation issues and to the legislature as required by Minnesota Statutes, section 3.195

7. Expiration. The Task Force expires after submission of its report.

February 22, 2008

Airport Funding Advisory Task Force Members

House Members:

Representative David Dill, Co-Chair

Representative Mike Beard

Representative Ann Lenczewski

Senate Members:

Senator Mike Jungbauer, Co-Chair

Senator Tarryl Clark

Senator Ann Rest

Non-Voting Members:

Neil Brackin, Minnesota Business Aviation Association

Alex Haak, Minnesota Aviation Trades Association

Eric Hynnek, Minnesota Seaplane Pilots Association

Kimberly Johnson, UPS

Mitch Kilian, Metropolitan Airports Commission

David Maib, National Business Aviation Association

Kevin Rebman, Aircraft Owners and Pilots Association

Greg Reigel, Experimental Aircraft Association

Brian Ryks, American Association of Airport Executives

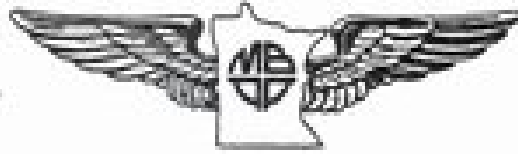
Kevin Sliwinski, Minnesota Wing, Civil Air Patrol

Tracy Smith, Northwest Airlines

Ray Strege, Short Elliot Hendrickson, Inc.

Harold Van Leeuwen Jr., Minnesota Council of Airports

Gary Workman, Office of Aeronautics, MnDOT



Minnesota Business Aviation Association
3800 E. 70th Street, Minneapolis, MN 55450
www.mbaa-mn.org, email: mbaa@mbaa-mn.org

State Airports Funding Proposal

This proposal is based upon the following data:

- Fuel Consumption amounts and distribution from 2008
- Turbine Aircraft Registered in MN from 2006
- Non-Jet General Aviation Aircraft historical averages from 1996-2006
- No changes to any Av-Gas powered, military, CAP, or otherwise currently exempt aircraft
- Interest Income Consistent with Airports Fund 15 Year Avg.

<u>Fuel Tax</u>	<u>CURRENT</u>
0 - 50,000 @ .05	
50,001 -150,000 @ .02	
150,001 ó 200,000 @ .01	
<u>Above 200,000 @ .005</u>	
TOTAL (2008)	\$3,418,000

- **Effective Rate of \$.0085 per Gallon**

<u>Fuel Tax Commercial Air Carrier</u>	<u>PROPOSED</u>
>75 million @ .05	\$8,885,000
>150 million @ .02	\$1,500,000
>300 million @ .01	\$1,500,000
<u>>300 million @.005</u>	<u>\$ 0</u>
TOTAL (2008)	\$11,885,000

- **Effective Tax rate of \$.035 per Gallon**
- **Does not include General Aviation Jet Fuel Tax which would be captured in the below inflated rate**

Fuel Tax Corporate

PROPOSED

64.3 Million Gallons @ \$.06 per Gallon = Total (2008) \$3,858,000

- This would increase contribution from transient aircraft ó including charter and fractional ó which currently contribute \$.05/Gal, no registration fees and qualify for volume refunds
- No GA operator, including fractional will approach 75MM Gallons annually, therefore receive \$0 refund

A/C Registration

PROPOSED

Aircraft Registered in MN will pay \$0.50 per pound of Maximum Gross Takeoff Weight ó a number easily obtained.

Total Registered Weight in 2006 = \$1,951,325

This is based upon the most current list of registered aircraft the MBAA had access to for MN ó will be higher amount for 2008

Total Revenue From above

General Aviation Turbine Aircraft Registration	\$1,951,325
Jet Fuel Tax	<u>\$3,858,000</u>
TOTAL GA Jet Aircraft contribution	\$5,809,325
General Aviation (non-turbine) A/C registration remains un-changed and contributes approx. \$300,000 annually	\$300,000
Av-Gas 10 Year Average Generates	<u>\$280,000</u>
Total Revenue for small general aviation aircraft	\$580,000
	<u>Interest Income</u>
Average from 1991-2006	<u>\$1,049,734</u>
Grand Total for State Airports Funds	\$19,324,059

Highlights of this Proposal:

- Additional revenue to be generated through fractional aircraft operators paying \$.50 / LB is not included in above forecast
- Utilizes current State of MN Administrative Processes
- Increases revenue contribution by transient aircraft.
- Eliminates 60 Day Rule which is misunderstood and impossible to enforce
- Large hub airlines at MSP would see a reduction in total tax and therefore Cost per Enplaned Passenger
- FBO fuel sales for GA aircraft would have minimal negative effect (\$.06/gal)
- Flight Line Property Tax is not eliminated, but is also not required in order to achieve integrity
 - FLPT is backfill instrument which is not understood by participants
 - FLPT was permanently reduced in 2002 and never reinstated
 - Can still be kept in law in case of extenuating shortfalls
Just not depended upon annually

This proposal could be adopted for an initial period of 5 years in which the state of Minnesota could pursue the following:

- Create tax exempt status for aviation maintenance and manufacturing.
- Allow sales tax on aircraft or a portion thereof to be dedicated to the State Airports Fund.
- Explore enforcement of registration fees on aircraft in MN
- Explore Landing Fee on non-registered aircraft operating in MN
- Explore the impact of fractional owned aircraft who will contribute \$.50/LB of GTOW going forward

Just as cost per enplaned passenger (CEP) is good for the MAC and commercial airlines, assuring total cost of aircraft ownership is beneficial for the general aviation community. Keeping costs competitive for aircraft operators has proven successful in other states and is good policy for the State of Minnesota and the State Airports Fund.

The MBAA looks forward to input from all committee members in order to further our common goal of solidifying the funding sources for the State Airports Fund.

Respectfully Submitted,

Neil Brackin
President
Minnesota Business Aviation Association