



# Aviation Tax Report

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# Legislative Request

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This report is issued to comply with [Minnesota Statute 360.675](#).

## **360.675 AVIATION TAX REPORT.**

On or before June 30, 2016, and every four years thereafter, the commissioner of transportation, in consultation with the commissioner of revenue, shall prepare and submit to the chairs and ranking minority members of the senate and house of representatives committees with jurisdiction over transportation policy and budget, a report that identifies the amount and sources of annual revenues attributable to each type of aviation tax, along with annual expenditures from the state airports fund, and any other transfers out of the fund, during the previous four years. The report must include draft legislation for any recommended statutory changes to ensure the future adequacy of the state airports fund.

The cost of preparing this report is \$8,000.

# Summary

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## Purpose and Scope of the Report

The Aviation Tax Report is submitted in accordance with the requirements of [Minn. Stat. 360.675](#). The report was prepared by the Minnesota Department of Transportation in consultation with the Minnesota Department of Revenue. Financial information contained in this report comes from data created and compiled by MnDOT's Office of Financial Management.

As directed by the law, the report identifies the following for state fiscal years 2012-15:

- the amount and sources of annual revenues attributable to each type of aviation tax
- the annual expenditures from the state airports fund
- the transfers out of the fund
- the transfers into the state airports fund

Finally, the report summarizes how the fund functions relative to changes in revenue streams and provides a brief synopsis of state airports fund operations.

## Aviation Tax Revenues, Expenditures, and Changes

Per [Minn. Stat. 360.017](#), the state airports fund contains money appropriated to it, or directed to be paid into it, by the legislature. The fund is paid out on authorization of the commissioner of transportation and used to:

- Acquire, construct, improve, maintain and operate airports and other air navigation facilities
- Assist municipalities in the acquisition, construction, improvement and maintenance of airports and other air navigation facilities
- Assist municipalities to initiate, enhance and market scheduled air service at their airports
- Promote interest and safety in aeronautics through education and information.
- Pay the salaries and expenses of the Department of Transportation related to aeronautic planning, administration, and operation. All allotments of money from the fund for salaries and expenses are approved by the commissioner of management and budget.

## Annual Revenues Attributable to Each Type of Aviation Tax

The aviation taxes that are directed to the state airports fund are the following:

- Aircraft Sales and Use Tax
- Aircraft Registration Tax
- Aviation Gasoline Excise Tax
- Aviation Jet Fuel and Special Fuel Excise Tax
- Airline Flight Property Tax

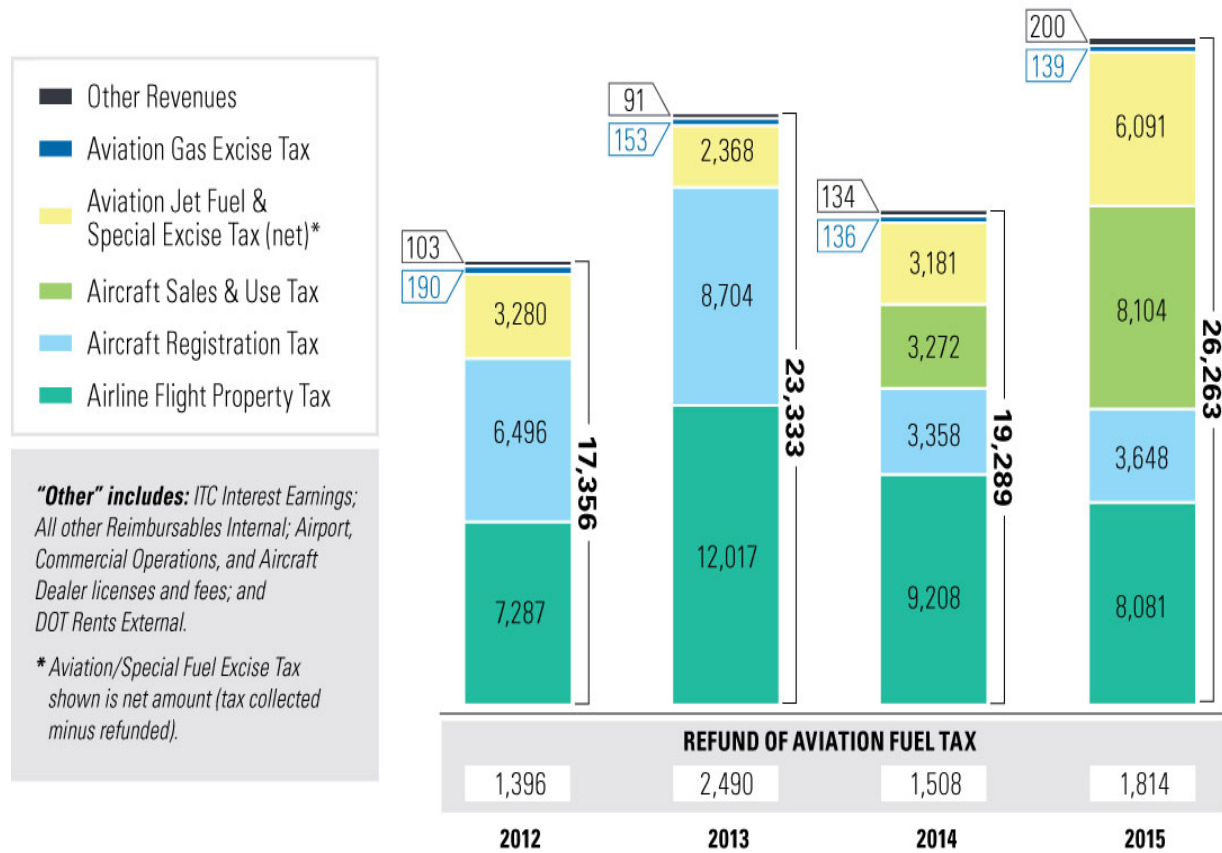
The 2013 Minnesota Legislature made the following changes to the types and amounts of revenues that contribute annually to the state airports fund:

- The aircraft sales and use tax is deposited into the state airports fund rather than into the state’s general fund. This change became effective July 1, 2013.
- The aircraft registration tax was changed from a graduated percentage to a flat rate based on the aircraft list price. This change became effective July 1, 2014.
- The aviation jet fuel and special fuel excise tax was increased from 5 cents to 15 cents per gallon. This change became effective July 1, 2014.
- The sales tax on the purchase and installation of equipment and parts for aircraft repair, maintenance, upgrade and improvement was eliminated. This tax was deposited into the general fund until the effective date of the changes, June 30, 2013.

The amount and sources of annual revenues attributable to each type of aviation tax are shown in Figure 1.

Figure 1: State Airports Fund, Summary of Revenues, \$1,000’s, SFY 2012-2015

### State Airports Fund: Summary of Revenues *(in \$1,000s)* 2012-2015 State Fiscal Years

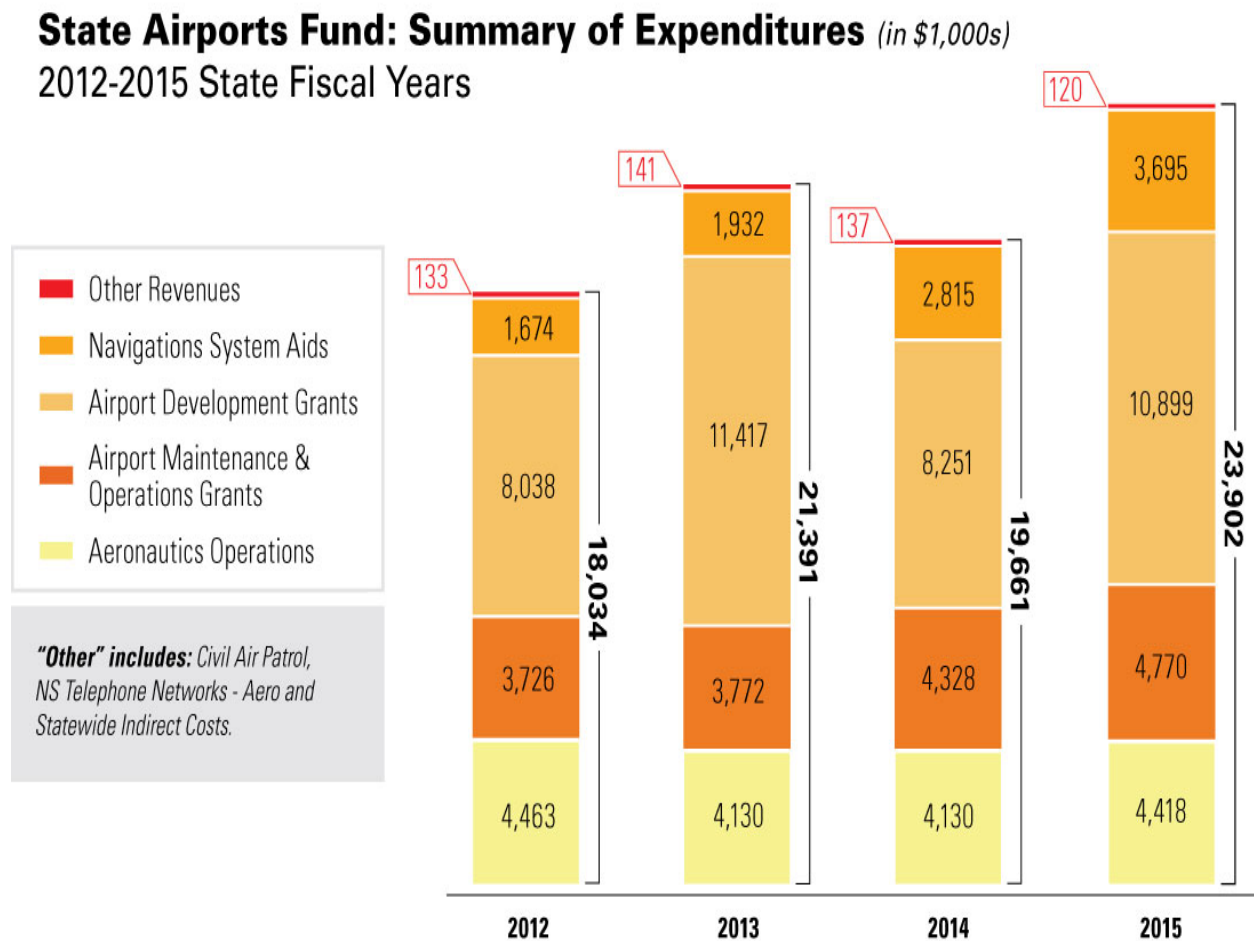


## Annual Expenditures for the State Airports Fund

Annual expenditures from the state airports fund, based on fund appropriation categories, are shown in Figure 2. The primary expenditure categories are:

- Airport Development Grants
- Airport Maintenance and Operation Grants
- Navigation System Aids
- Aeronautics Operations

Figure 2: State Airports Fund, Summary of Expenditures, \$1,000's, SFY 2012-2015



## **Transfers Out of the Fund**

There were no transfers out of the state airports fund during SFY 2012-15.

## **Draft Legislation and Recommended Statutory Changes**

[Minn. Stat. 360.675](#) requires this report to include draft legislation for any recommended statutory changes to ensure the future adequacy of the state airports fund. MnDOT is not recommending any statutory changes at this time; therefore, no draft legislation is included.



# State Airports Fund: Revenues and Expenditures

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## Introduction

The statute directs that this report identify the amount and sources of annual revenues attributable to each type of aviation tax along with annual expenditures from the state airports fund, and any transfers out of the fund, for the four-year period of state fiscal years 2012 through 2015. The report also identifies transfers into the state airports fund during the same four-year period. Finally, the report summarizes how the fund functions relative to changes in revenue streams and provides a brief synopsis of state airports fund operations.

The state airports fund is used in accordance with [Minn. Stat. 360](#) exclusively for aviation purposes. Per [Minn. Stat. 360.017](#), the state airports fund consists of all money appropriated to it, or directed to be paid into it, by the legislature.

The aviation taxes that are directed to the state airports fund are the following:

- Aircraft Sales and Use Tax
- Aircraft Registration Tax
- Aviation Gasoline Excise Tax
- Aviation Jet Fuel and Special Fuel Excise Tax
- Airline Flight Property Tax

The fund is paid out on authorization of the commissioner of transportation and used to:

- Acquire, construct, improve, maintain and operate airports and other air navigation facilities
- Assist municipalities in the acquisition, construction, improvement and maintenance of airports and other air navigation facilities
- Assist municipalities to initiate, enhance, and market scheduled air service at their airports
- Promote interest and safety in aeronautics through education and information
- Pay the salaries and expenses of the Department of Transportation related to aeronautic planning, administration and operation. All allotments of money from the fund for salaries and expenses are approved by the commissioner of management and budget.

## Aviation Taxes and Other Revenues (SFY 2012 - 2015)

The 2013 Minnesota legislative session made changes to the types and amounts of revenues that contribute annually to the state airports fund in Minnesota. These taxes and related changes are discussed in detail below.

### Aircraft Sales and Use Tax

Effective July 1, 2013, tax revenues from the sales of aircraft must be deposited into the state airports fund. This includes sales and use tax on leased aircraft. The change applies to sales made on or after July 1, 2013 ([Laws of Minnesota 2013, Chapter 143, Article 5](#)). Prior to enactment of this change the tax revenue on these purchases was deposited into the state's general fund. The tax rate on aircraft sales and use tax is 6.875 percent; however, 6.5 percent of tax revenues collected are

deposited into the state airports fund, and the remaining 0.375 percent is deposited in DNR funds per the requirements of the Minnesota Legacy Fund.

### **Aircraft Registration Tax**

An annual registration tax is imposed on aircraft based in Minnesota or used in the state for more than 60 days in a calendar year. This tax is in lieu of all other taxes. Legislation enacted in 2013 changed the tax rate from a graduated percentage to a flat rate based on aircraft list price. The current flat rate tax amount is computed based on the manufacturer's list price of aircraft when new, and ranges from \$100 minimum to \$75,000 maximum. Effective July 1, 2014, the change applies to aircraft tax due on or after that date ([Laws of Minnesota 2013, Chapter 143, Article 5](#)).

### **Airline Flight Property Tax**

The airline flight property tax is paid on aircraft and associated equipment owned by airlines that provide commercial air service. This tax is paid by commercial airlines in lieu of other property taxes on "flight property," which is defined as "...all aircraft and flight equipment used in connection therewith, including spare flight equipment." [Minn. Stat. 270.075](#) requires MnDOT to determine the airline property tax portion of revenue for the state airports fund, which is defined as the difference between the "...total fund appropriation and the estimated total fund revenue from other sources for the state fiscal year in which the tax is payable..." ([Minn. Stat. 270.071](#) through [270.079](#)). The other sources of revenue listed in statute are items such as aircraft sales, aircraft registration and aircraft fuel taxes. The amount of airline property tax collected varies annually depending on the total revenues collected from the "other" sources of state airports fund tax revenues. See Figure 3.

MnDOT calculates the airline flight property tax each year. To compute the tax, the airline's tax capacity is multiplied by an adjusted tax rate. The commissioner may include a portion of the balance in the state airports fund in the calculation to account for unexpected revenue decreases. The airline property tax that is certified includes the full amount of estimated revenue from all airlines' property taxes for a state fiscal year. The amount MnDOT certifies may not match total airline flight property taxes received in a state fiscal year due to this calculation and fluctuations in other sources.

### **Aviation Jet Fuel and Special Fuel Excise Tax**

Legislation enacted in 2013 increased, from 5 cents per gallon to 15 cents per gallon, the excise tax on all jet fuel or special fuel received, sold, or withdrawn from storage in Minnesota, for use as substitutes for aviation gasoline and not otherwise taxed as gasoline. The effective date was July 1, 2014 and applies to sales made on or after that date ([Laws of Minnesota 2013, Chapter 143, Article 5](#)).

### **Aviation Gasoline Excise Tax**

Aviation gasoline is any gasoline capable of use for producing or generating power for propelling internal combustion engine aircraft that meets specifications in American Society for Testing Materials specification D910-11. The current aviation gasoline excise tax rate is 5 cents per gallon ([Minn. Stat. 296A.01, Subd. 7](#)). 2013 legislation did not change this tax.

## Summary of Impacts on Revenues (2012 – 2015)

Legislative changes enacted in 2013 restructured aviation taxes. Effective July 1, 2013, tax revenues from the sales of aircraft are now deposited into the state airports fund. This change, along with changes to the aircraft registration tax and the aviation jet and special fuel excise tax, created noticeable changes in the amount of revenue contributed by each tax for state fiscal years 2014 and 2015. See Figure 3.

Figure 3: State Airports Fund, Summary of Revenues (\$1,000s), 2012-2015 State Fiscal Years

Account Name	State Fiscal Year			
	2012	2013	2014	2015
Aircraft Sales and Use Tax	0	0	3,272	8,104
Aircraft Registration Tax	6,496	8,704	3,358	3,648
Aviation Gasoline Excise Tax	190	153	136	139
Aviation Jet Fuel and Special Fuel Excise Tax (net)*	3,280	2,368	3,181	6,091
Airline Flight Property Tax	7,287	12,017	9,208	8,081
Other Revenues**	103	91	134	200
<b>Total</b>	<b>17,356</b>	<b>23,333</b>	<b>19,289</b>	<b>26,263</b>

\*Aviation Jet Fuel and Special Fuel Excise Tax shown is the net amount, which is the tax collected minus refunds.

\*\*Other Revenues includes: interest earnings; all other internal reimbursables; airport, commercial operations and aircraft dealer licenses; and MnDOT external rents.

Certain general aviation aircraft parts and labor were exempted from the sales tax in 2013. Although this reduces General Fund revenue, it has no impact on the State Airports Fund.

## Annual Expenditures (SFY 2012 - 2015)

Annual expenditures from the state airports fund are used for capital projects such as: planning and constructing runways, taxiways, and buildings, airport maintenance and operations, navigational aids and aeronautics operations. Expenditures are available and distributed on an annual cycle. The specific amount in each program varies from year to year based on needs and funds appropriated. See Figure 4 on the next page for more details.

## Airport Development Grants

This program is the largest of the state funded aeronautics programs. It funds most capital improvements at state system airports that benefit the air-traveling public. The airport development grant program, which is also known as the airport construction grant program, distributes funds to state system airports through a competitive process, with selection criteria and local contribution percentages set annually by MnDOT.

## Airport Maintenance and Operations Grants

This program provides 75 percent state reimbursement to state system airports for their documented, routine maintenance expenses up to a limited amount categorized by airport infrastructure. The program distributes funds to state system airports through a formula process.

## Navigation System Aids

This program provides funding for infrastructure critical to safe airplane navigation. Navigation systems include ground-based navigation aids such as instrument landing systems and automated weather observation stations. Minnesota and the federal government each own and maintain portions of the navigational aid network located in the state. Although funded separately, the two systems are complementary. The navigation system aids program distributes funds to MnDOT based on statewide need as determined by MnDOT and local partners.

## MnDOT Aeronautics Operations

The MnDOT Office of Aeronautics budget is funded by the state airports fund. The budget amount is determined through MnDOT's biannual budgeting process, and is used for aviation system safety and operations; aviation education; aviation system planning; aviation tax collection; aircraft registration, enforcement of regulations through inspections and licensure; and technical assistance.

Figure 4: State Airports Fund, Summary of Expenditures (\$1,000s), 2012-2015 State Fiscal Years

Expenditure	State Fiscal Year			
	2012	2013	2014	2015
Airport Development Grants	8,038	11,417	8,251	10,899
Airport Maintenance and Operation Grants	3,726	3,772	4,328	4,770
Navigation System Aids	1,674	1,932	2,815	3,695
Aeronautics Operations	4,463	4,130	4,130	4,418
Other*	133	141	137	120
<b>Total</b>	<b>18,034</b>	<b>21,392</b>	<b>19,661</b>	<b>23,902</b>

\*Other includes Civil Air Patrol, NS telephone network for aeronautics, and statewide indirect costs.

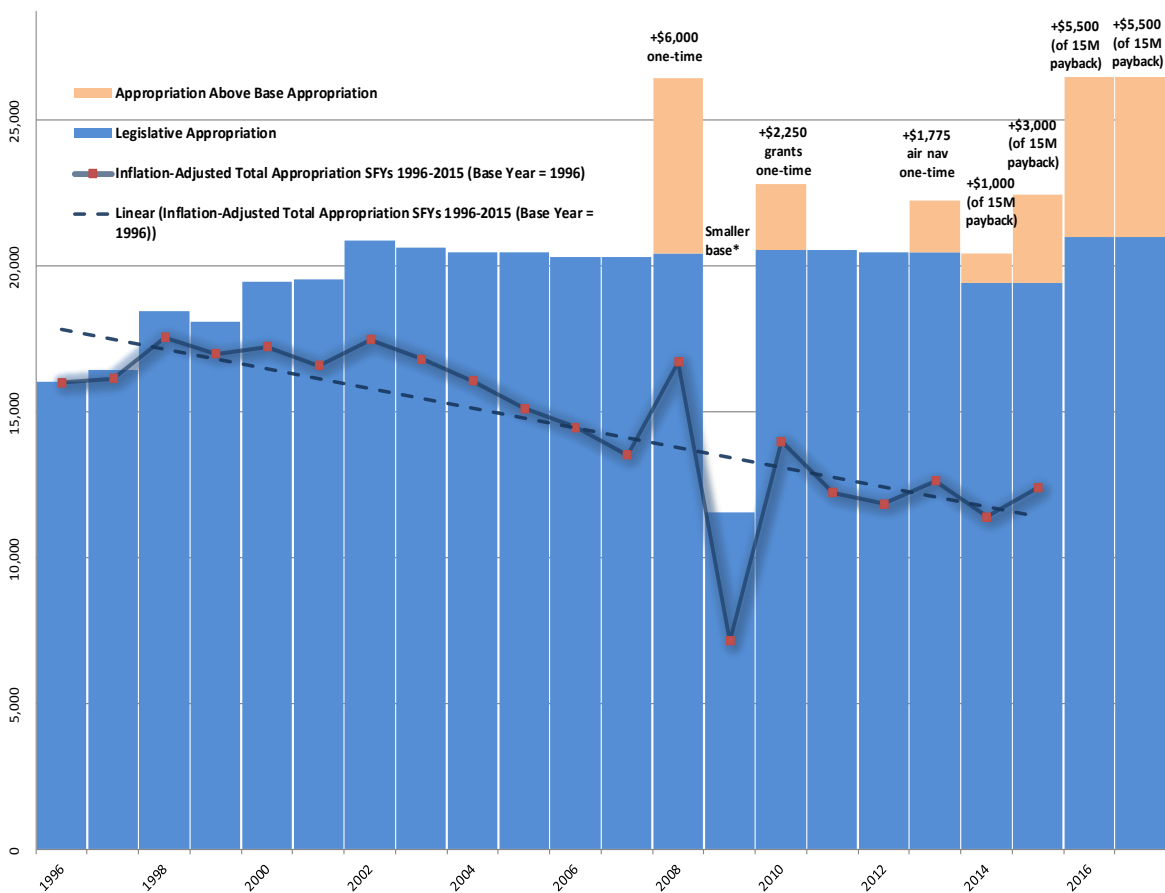
## Fund Transfers

There were no transfers out of the state airports fund during state fiscal years 2012-15. In 2003, the Minnesota Legislature transferred \$15 million from the state airports fund to the general fund with a requirement that the funds be transferred back in 2007 (Laws of Minnesota 2003 Special Session, Chapter 18, Article 1). Legislative changes enacted in 2013 authorized the transfer back starting in state fiscal year 2014 (Laws of Minnesota 2012, Chapter 289, Section 1, Subd. 2). Additional spending (above the typical “base” spending amount) authorized by the transfer back is being phased in based on a spending plan developed by MnDOT. The additional spending amounts are \$1 million in state fiscal year 2014, \$3 million in 2015, \$5.5 million in 2016 and \$5.5 million in 2017.

## The State Airports Fund: Its Operation

Money in the state airports fund is appropriated annually to MnDOT based on each biennial transportation budget. Fund appropriations for the previous 20 state fiscal years (1996 through 2016) were relatively flat. When factoring in inflation, the buying power of the appropriations has declined. See Figure 5.

Figure 5: State Airports Fund, Appropriations (\$1,000s), 1996-2017 State Fiscal Years



\*In state fiscal year 2009, the \$15M transfer out of the State Airport Fund to the General Fund reduced the base. In 2014, the \$15M General Fund payback to the State Airport Fund started, with appropriation amounts phased in over state fiscal years 2014 - 2017. Inflation-adjusted based on Price Indices for Government Consumption Expenditures and Gross Investment, calendar year seasonally adjusted, US Bureau of Economic Analysis, Nov 24 2015.

Annual expenditures from the state airports fund are used for capital projects such as planning and constructing airport runways, taxiways, buildings, airport maintenance and operations, navigational aids and MnDOT Aeronautics operations. Local municipalities and airport authorities are responsible for capital improvement projects, which must be listed in the airport's capital improvement program to be eligible for state and federal funding.

The Federal Aviation Administration administers an Airport Improvement Program that provides grant-in-aid funding for planning, land acquisition, and capital improvement projects at the 97 airports in Minnesota included in the National Plan of Integrated Airport Systems airports. There are six categories of federal airport funds, with state apportionment (based on population), entitlement (set amounts), and discretionary (competitive) funds mostly commonly used.

Minnesota Statute, Chapter 360.0161 requires municipalities to apply for federal financial airport assistance through MnDOT Office of Aeronautics. An airport that applies for a federal grant for a proposed project must program the project in the Airport Capital Improvement Program at least a year in advance.

Each year more projects are identified than are funded. The annual nature of the capital improvement program update cycle and the grant funding process makes identifying medium- and long-term improvements and maintenance and operation needs a challenge. MnDOT also works with airports to retain and better leverage federal funds.

Created in 2014, the state airports fund balance policy requires a level of reserve to protect against major fluctuations in revenue and to avoid a deficit at the end of a biennium. The fund should maintain an undesignated, unreserved fund balance: not less than 5% of total appropriations, not more than 15% of total appropriations, and not more than \$3 million. If any forecast projects that the fund balance will not be met, MnDOT will propose mitigating action. Potential actions include adjustments to the airline flight property tax, supplemental budget submissions, postponement or acceleration of grant applications and awards and modifications of local airport contribution rates. These steps should occur by the end of a biennium, unless the commissioner finds that an emergency warrants a longer period of adjustment.

### **Draft Legislation and Recommended Statutory Changes**

MnDOT is not recommending any statutory changes at this time.