

Aviation Fuel Taxation In Michigan



Matt Brinker
Bureau of Aeronautics & Freight Services



Aviation in Michigan

- 488 landing facilities
- 18,610 active pilots
- 7,800 registered aircraft
- 30 scheduled airlines
- 6 aircraft manufacturers
- 131 aircraft/component repair stations
- 6 military aviation facilities

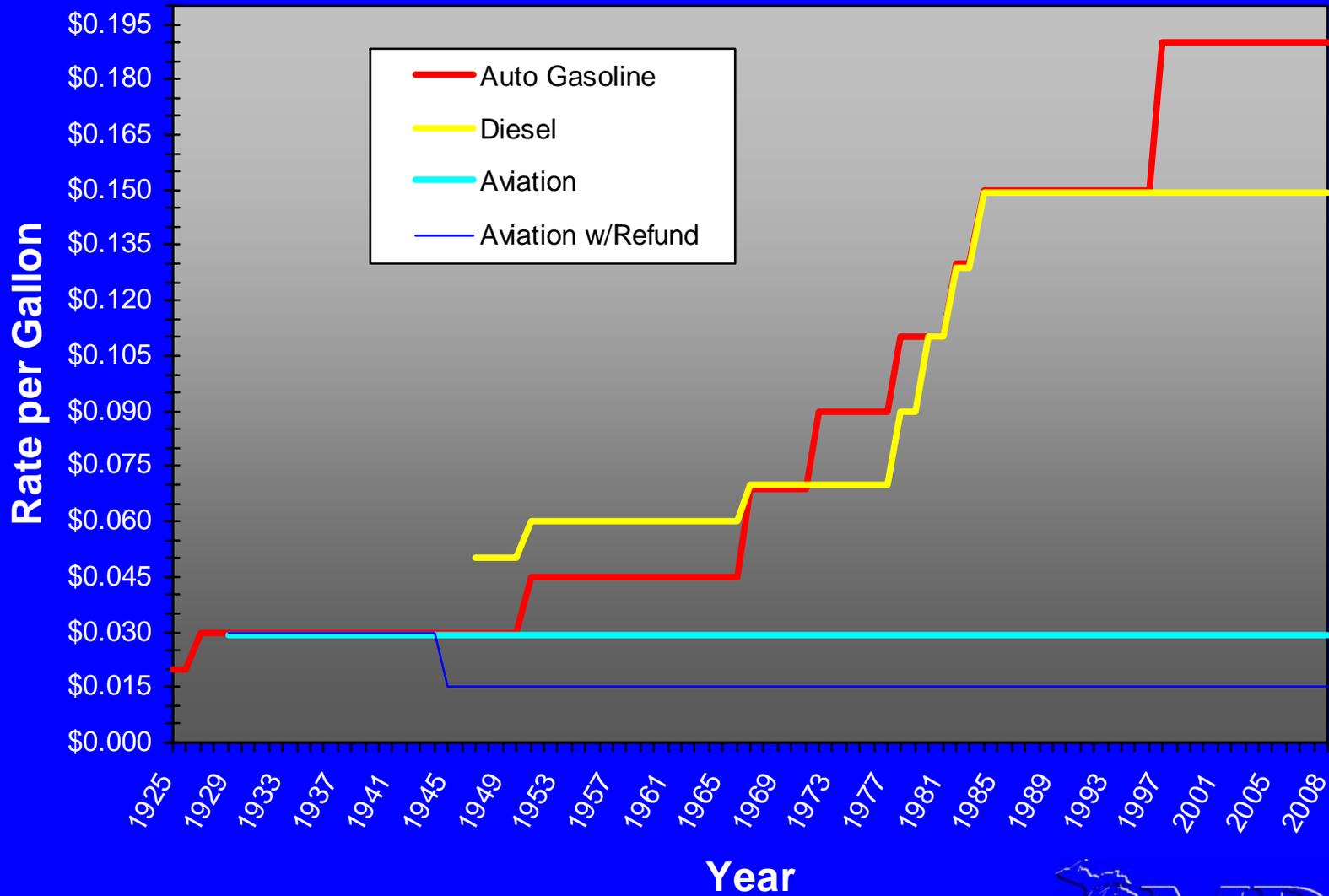
Background

- **Aviation fuel taxation first implemented in 1929 at 3¢ per gallon**
- **State Aeronautics Fund (SAF) created by PA 327 MCL 259.203 of 1945**
- **PA 327 also provided a 1.5¢ per gallon rebate to scheduled, interstate airlines**
- **Approximately 80% of SAF funding derived from aviation fuel tax**
- **The balance from a variety of sources including fees for aircraft registration, tall structure permits, and flight school licensing**

BAFS- Statutory Responsibilities

- Airport Improvement Program (State & Federal)**
- Aircraft Registration**
- Tall Structures Act**
- Aircraft Dealer Licensing**
- Airport Manager Licensing**
- Airport Inspection & Licensing**
- Airport Loan Program**
- Enforcement of Aeronautics Code**
- Maintenance of State Aeronautics Fund**
- Aviation Safety**
- Airport System Plan**
- Airport Planning & Zoning**

Michigan Fuel Tax Rates



Issues

- Revenue to the SAF no longer supports operations
- The Airport Safety & Protection Program (ASAP), funded by the issuance of \$60M bond revenues, has been fully implemented yet additional infrastructure needs have been documented
- Debt service on ASAP bonds totals nearly \$5M/year for 30 years
- If revenue is not enhanced for capital & operations, Bureau may eventually need to reconfigure staff & programs

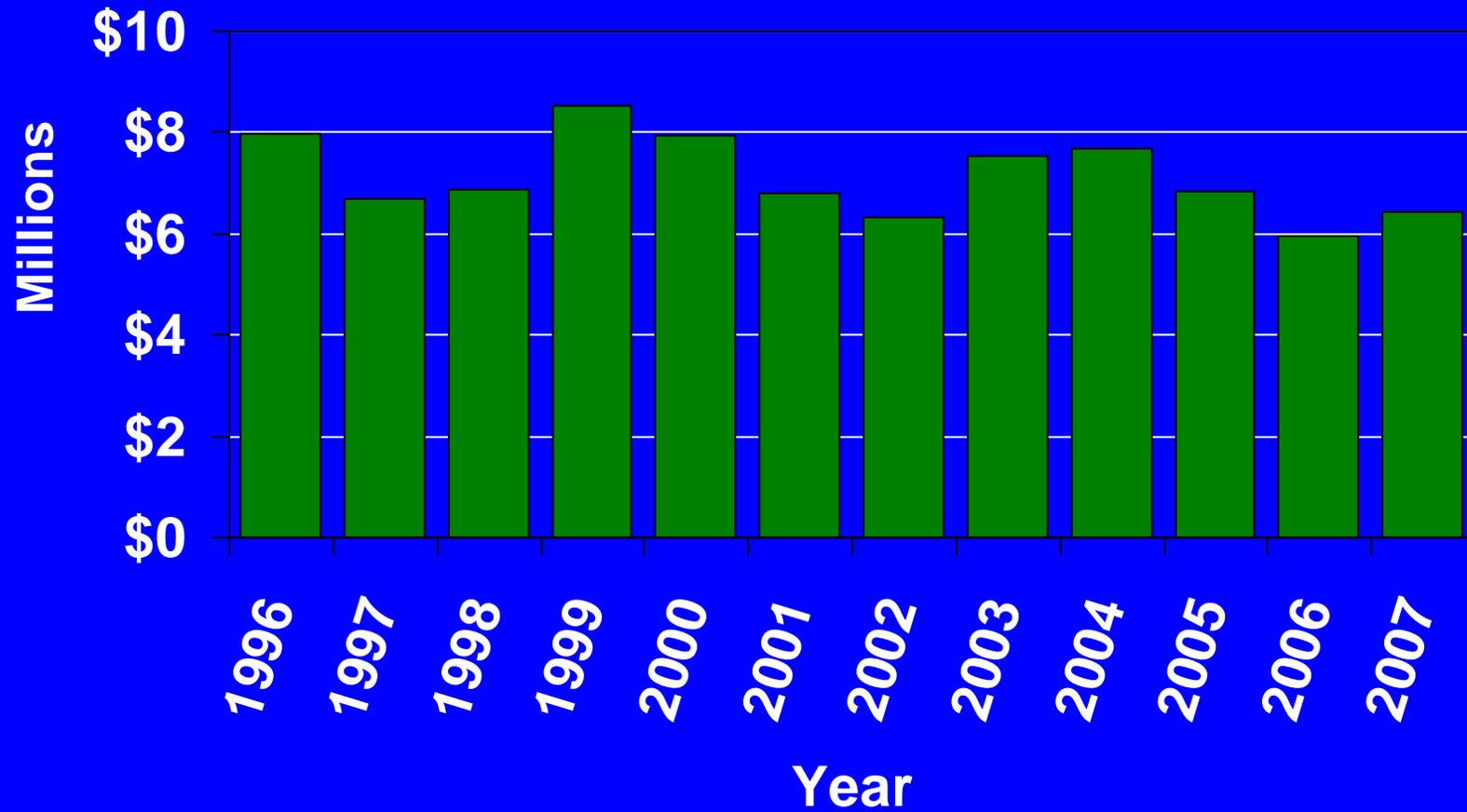
Budget

- **Despite containment measures, the authorized bureau operations budget for FY2008 exceeds anticipated revenue by 14%**
- **Actual FY2008 year to date revenue is 9% lower than anticipated**

Capital

- Documented needs for infrastructure improvements exceed \$1.3 billion over the next five years
- Anticipate only \$575 million in federal funds
- Result is a shortfall of \$725 million which is further exacerbated by new, unfunded federal mandates

Aviation Fuel Tax Revenue FY1996-2007



Industry Trends

- **Airlines**
 - **Crude oil prices and supply uncertainty**
 - **Fleet and schedule restructuring**
 - **Mergers & Bankruptcies**
 - **Northwest Airlines**

Industry Trends

- **General aviation**
 - **Alternative fuels (auto gas, diesel, etc.)**
 - **Insurance costs**
 - **Light Sport aircraft**

Foreign Trade Zones

- **Greater Detroit Foreign Trade Zone (FTZ)**
- **Tax-free fuel for international flights**
- **Annual loss of \$4 Million for the SAF**
- **FTZ popularity increasing**

Sales Tax

- **Currently, 100% of sales tax on aviation-related purchases goes to General Fund**
- **If sales tax benefited the SAF in the same manner as automotive-related purchases benefit the Comprehensive Transportation Fund (CTF), SAF would receive an additional \$1.45 Million in annual tax revenue on aviation-related purchases**

Solutions?

- **Modify fuel tax rate**
- **Eliminate refund with a higher base rate**
- **Institute percentile based tax rate with or without a refund**

Potential Fee Proposals

- **Increase fees for aircraft registration, aircraft dealer registration, and penalty for failure to register**
- **Amend Tall Structure Act to more accurately describe permit process and to establish an application fee**
- **Eliminated licensing of flight schools and hospital heliports**

Questions & Discussion