

Aviation in Michigan

How Aviation Works in Michigan

Since the earliest days of flight, Michigan has played a leadership role in aviation. From the first paved runway in the world to the first mass-produced all metal airliner, Michigan has led the way in pioneering aviation achievements. Aeronautics is now an integral part of our transportation system, moving people and goods throughout the world. We have a vibrant and diverse aviation community made up of the airlines, business aviation, and recreational flyers. Not to mention, there are new users like the operators of unmanned aircraft systems and even commercial space vehicles. Virtually, every Michigan citizen is impacted by the benefits aviation provides.

The airports that support these activities are significant assets and highly important to Michigan's economy. We now compete globally for opportunities to attract jobs. Good airports play a notable role as people and businesses consider Michigan as a place to live and work. Business growth in Michigan depends on the aviation system being safe and efficient. With the geographic challenges of Michigan, access to all parts of the state in support of business, tourism, and emergency relief is critical. It is estimated that the economic impact of aviation in Michigan is more than \$22 billion annually.

The industry is now more complex than ever and responding to the critical system needs through strategic investments will ensure we continue to have the safest aviation system in the country. NextGen technologies are already redefining the system by reducing fuel costs, delays, and environmental impacts. In addition, the Federal Aviation Administration (FAA) recently issued a notice of proposed rulemaking outlining the framework for integration of small unmanned aircraft into the national airspace system. Our continued role in this activity will ensure Michigan can capitalize on emerging opportunities and support the safety measures necessary to protect our residents.

Public Act 327 of 1945 established the Michigan Aeronautics Code and created the Michigan Aeronautics Commission (Commission), which provides general supervision of aeronautics within the state. The Michigan Department of Transportation's (MDOT) Office of Aeronautics carries out the day to day duties of the Commission per statute and rules. The Commission has a long standing role in working to promote a safe and efficient aviation system through investment in airport infrastructure. In order to fulfill their role, the Commission supports policies and strategies based on sound principles and has set the following priorities:

- Preserve critical airport infrastructure – pavements and navigation aids.
- Leverage state resources to maximize federal funds.
- Promote job creation and economic development.
- Contribute to statewide efficiency and innovation.
- Eliminate unnecessary or burdensome processes and regulations.
- Have a positive influence on state and national aviation issues.

The ultimate goal of MDOT's Aviation Program is to protect the public in accordance with the Michigan Aeronautics Code. While the commitment to safety, efficiency, quality, and performance are strong, there is no escaping the fact that revenues play a huge part in overall effectiveness.

One of the primary roles of the Office of Aeronautics is administering grants under the federal Airport Improvement Program (AIP). The AIP includes projects at nearly 100 local airports. AIP investments in 2015 for aviation infrastructure improvements were nearly \$100 million. A similar program is proposed for 2016. Asset management is a vital component of any investment strategy.

This is accomplished with the Michigan Airport System Plan and the Airport Capital Improvement Plan, which is included in MDOT's Five-Year Transportation Plan.

Even with federal assistance, local communities continually struggle to maintain and improve airfield pavements, navigation and weather systems; purchase snow removal and firefighting equipment; develop facilities; and maintain their airports. The need identified by the airports and reflected in the Michigan Airport Capital Improvement Plan exceeds \$160 million annually, leaving a significant yearly shortfall.

To address the need for additional revenue, the Office of Aeronautics has continued to find cost savings through efficiencies. Innovation has allowed the office to administer its duties effectively, and there is continued emphasis on finding ways to reduce processing times, improve response times, leverage resources, and use technology to advance those efforts. The Office of Aeronautics also performs its regulatory, licensing and other functions through various programs that are continuously evaluated for efficiency and effectiveness.

The good news is that AIP represents the best return on investment of probably any program in the state and can play an ever increasing role as part of the strategy to grow Michigan's economy. The current state match for the capital program is around \$3.5 million, which leverages more than \$100 million in federal funding. And while there has been a commitment to meet the minimum federal match requirement through one-time appropriations, the state's continued ability to provide support will ultimately be impacted by negative budget pressures caused by market forces and federal policies.

Additional investments have also proven equally effective in supporting jobs through air service, education, and training programs. These activities support the culture of safety and preservation that has characterized Michigan's leadership role in aviation and long-standing commitment to its residents who have come to expect convenient access to the world's air transportation system.

How Michigan Funds Aviation

The key challenge is balancing the need to preserve the system with finding an equitable and adequate way to assess the users. While a number of methods are employed in pursuit of finding this balance, there continues to be a shortfall between identified need and existing revenues to support these activities. Sources of revenue that support aviation include federal and state excise taxes.

Federal taxes are assessed on passengers, freight/mail and aviation fuel and contribute to the Federal Aviation Trust Fund. These funds return to Michigan through the AIP. Federal fuel taxes are divided between general aviation (GA) and commercial aviation as follows:

- 21.8 cents per gallon GA jet fuel tax
- 19.3 cents per gallon GA Avgas tax
- 4.3 cents per gallon commercial jet fuel tax

State taxes that support airport infrastructure and safety are generated primarily from the aviation fuel (excise) tax on jet fuel. Avgas, or "100LL," as it is known, accounts for less than 1 percent of the total collected. Until 2016, no revenue was received from the state sales tax or from any road funding sources. The State Aeronautics Fund is funded separately from all other modes and stands alone. That mechanism and other revenue sources are discussed below.

Aviation Fuel Excise Tax – The excise tax on aviation fuel is 3 cents per gallon, an amount enacted in 1929 and has since never increased. In fact, it was only modified once in 1945 to rebate 1.5 cents to commercial airlines and remains unchanged today. This was done during times of significant growth and prosperity in aviation. In 1999, the excise tax generated more than \$8 million on 400 million gallons, while in 2014 the amount was just over \$5 million on 275 million gallons. More efficient aircraft and elimination of smaller (50 seat) aircraft with less frequency have had the greatest impact on gallons consumed and taxes collected. With declining numbers of aviation gallons sold, this revenue source is at its lowest point ever and continues to decrease. Not surprisingly, the overall condition of airfield pavements is also in decline.

While fuel taxes are universally accepted as the fairest and best way to assess the users of aviation, the cents per gallon mechanism is outdated and regressive. Modernizing the funding mechanism to reflect inflationary pressures by converting to a percentage of the wholesale price would allow for adjustment with fluctuating fuel prices.

At current volumes, this source generates approximately \$5,500,000 annually.

Aircraft Registration Fees – Another source of revenue is the aircraft registration fee of 1 cent per pound, which generates approximately \$265,000 per year on more than 6,000 aircraft. Commercial carriers are exempt. The average fee per aircraft is around \$40. At one time, there were more than 10,000 aircraft registered with the state. In addition, the fee to transfer ownership of an aircraft is a flat \$5.

Licensing and Permits – Currently, Michigan's 235 public use airports are inspected and licensed annually, with fees between \$25 for a basic utility field to \$100 for an air carrier airport. In addition, the airport manager is also licensed for a \$5 fee. Modification to these fees is being considered.

Parking Tax – The Detroit Metro Airport Parking Tax provides \$6 million to pay debt service on \$60 million in bonds sold in the mid-2000s to fund aviation investment. The funds generated from these bonds made a significant impact on system conditions. The debt service payments continue until 2032.

Sales Tax – Beginning in October 1, 2016, 2 percent of the sales tax on aviation fuel will be dedicated to aviation in Michigan. This generates approximately \$10 -12 million per year. This amount is directed with 35 percent to the State Aeronautics Fund and 65 percent to the Qualified Airport Fund. Currently, only Wayne County's (Metro) airport is a "qualified" airport. A qualified airport is defined in the Aeronautics Code as an airport with over 10 million enplanements (passengers flying out of the airport). These funds are used to support capital projects throughout the state and also ensures all federal requirements related to the use of proceeds from taxes on aviation fuel in Michigan are met.

Concession/Rental Car Tax – A vast majority of rental car transactions take place at airports. Similar to other concessions at airports, rental cars are taxed in various ways through facility charges and, primarily, the sales tax. This has not been a method of revenue generation for the state to date, but local communities and airports use this frequently. The sales taxes generated on airports from concessions are significant, but is not used to fund state aeronautics programs.

Summary

Today, Michigan's leadership role in aeronautics is being challenged by the evolution of the industry and the growth of competition around the world. Funding uncertainties have hurt the ability to fulfill our obligations, particularly in being able to commit to multi-year investments,

which can add efficiency and value to projects, in addition to saving significant costs. In times of constrained budgets, we need to focus our resources on the existing system, as well as supporting new technology and capabilities. Michigan cannot risk being left behind as the aerospace industry becomes more complex, diverse and globalized. A lot is at stake here, so getting it right is crucial.

The rapidly changing aviation industry, the technological opportunities, the uncertain fiscal environment, and evolving workforce all comprise a compelling case for transformational change. We should embrace a common vision for the role Michigan will play in the future of aviation, both domestically and globally. These mutual goals will enable us to work closely in the coming months and years to achieve those transformational changes. To succeed, we need to unite the interests of the industry and flying public around our priorities. With a unified view from the airports, users, and providers, we can appropriately address the challenges being faced. We can make a real difference and preserve Michigan's leadership role.

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