

December 15, 2008

The Minnesota Department of Transportation (Mn/DOT) Office of Aeronautics

Comments on:

Minnesota Business Aviation Association (MBAA) State Airports Funding Proposal

The Office of Aeronautics appreciates the effort the MBAA has put into creating a document that provides a starting point in our discussions on possible alternatives to the current revenue generating system that funds the State Airports Fund. Like the Minnesota Council of Airports (MCOA) recommendation, we do believe the Legislative Coordinating Commission (LCC) State Airport Funding Advisory Task Force report titled "State Taxes on Aviation" prepared by Conklin and de Decker should be given to the Legislature without any specific recommendations from the Task Force regarding funding changes.

The following are our comments on the MBAA proposal:

- We believe that with all the economic uncertainty currently present at the state, national and international levels; the present volatility in fuel prices which has a major impact on airline costs; and the very cyclical nature of the aviation industry, it would not be prudent to change the funding system at this time. If the assumptions driving such changes prove to be inaccurate, it could potentially create significant fiscal problems for the State Airports Fund and the ability of the state to help support the public airport system
- The proposal makes a number of assumptions that we were not able to verify with the data presented by the MBAA. We have requested further information from the MBAA. Therefore, it is difficult to determine if the proposal's revenue forecasts are in the ball park.
- The proposed registration revisions address only corporate general aviation aircraft. It would, in effect, create a two-tier system; one for corporate turbine-powered aircraft and another for the rest of general aviation, resulting in adding complexity to the system. It may require major revisions in the collection system procedures, as well as the aircraft registration software which we need additional time to determine the full extent of a modified system.
- The current aircraft registration system is similar to vehicle registration; it's based on age and value. A new aircraft is assessed a tax of 1.0% of the manufacturer's list price for the first year; decreasing to 0.25% after seven years. This tax is based on the financial ability of the owner to pay, proportional to the value of the aircraft, whereas the proposal for corporate general aviation at \$0.50 per pound is not directly related to the value of an aircraft.
- The proposal would significantly increase the total fuel costs to the commercial airlines. In 2007 commercial airlines paid 87% of the fuel tax collected.

- It would not be prudent to make any significant changes in the state airports fund revenue sources until Delta's purchase of Northwest Airlines (NWA) has been fully implemented. We do not know what changes Delta might make to its operations in Minnesota and at Minneapolis – St. Paul International Airport (MSP) in particular. Will the MSP hub be downsized or will it grow? What will happen to international service out of MSP and how might Delta change air service to cities in greater Minnesota? The answers to these, and other, questions could have a significant impact on the state airports fund revenues. For example, will the merged airline buy as much fuel in Minnesota as Northwest has in the past? The State is looking for Delta to make a significant commitment to the region; would increasing their costs be a wise decision?
- The next generation of commercial aircraft will, among other things, be focused on more efficient fuel economy which will further reduce the overall revenue from jet fuel taxes.
- The airflight property tax, which the MBAA proposal would potentially eliminate, has been the most stable funding source for the state airports fund. In most years, it is, by far, the largest revenue source to the fund. If Delta/Northwest was to cut back significantly in its fuel purchases in Minnesota, the airflight property tax would become even more crucial to the solvency of the fund.
- The airlines' contribution to the state airports fund is more than half of the total annual revenue. However, they use only nine of the 136 airports in Minnesota, while corporate general aviation uses most of them. It is the general aviation airports that give businesses convenient, timely access to their facilities in cities throughout Minnesota; cities that do not have scheduled air service.

The following comments relate to the Highlights of the Proposal:

- It is not clear how the proposal has determined that additional revenue would be captured on fractional aircraft.
- We are not sure what the comment "utilizes current State Administrative processes" in the second bullet of the MBAA proposal is referring to. We believe the changes being proposed would require revisions in state law.
- While increasing corporate jet fuel tax from \$0.5 to \$0.6 per gallon would increase revenue generated by transient aircraft, the magnitude is not identified and some of our airport fixed-base operators (FBO's) have expressed concerns about lost of revenue because of a tax increase.
- It appears that the engine type (i.e. turbine vs. non-turbine) is the basis for requiring registration by gross takeoff weight. Since the MBAA proposal indicates that the 60-day rule would be eliminated, what is used to determine whether an aircraft must register with the state?
- The proposal claims reduced taxes for large airlines at MSP and therefore the cost per enplaned passenger. How is this accomplished?

- The proposal creates a double-jeopardy situation for commercial airlines by increasing fuel tax and keeping, the airflight property tax in case revenue from other sources are less than forecasted.
- It is not apparent how the MBAA proposal would change the total cost of aircraft ownership in comparison to the current system.