BUDGET NARRATIVE

POLICY PACKAGE #101

Increased Service with Fuel Tax Increase

Request: $ $6,495,827 OF

PURPOSE

Increased Service with Fuel tax increase: Asks for an increase in service to the aviation community via a fuel tax increase of 2 cents per gallon jet fuel and 2 cents per gallon AVGAS fuel. This POP will enable the Department of Aviation to:
Help fund 55 federally funded airports with up to 5% of the cost of FAA grant match to offset the recent increase of grant match to 10% in the 2012 FAA Reauthorization Bill.

Revitalize the Financial Aid to Municipalities grant program and enable over 50 grants per biennium of $25,000 each to assist with airport projects that bring jobs and economic development to Oregon public use airports around the state.

Enable Oregon Emergency Management (OEM) to more fully fund the Aviation Search and Rescue Program as authorized by ORS 837.035. Currently, Aviation funds part of the Aviation Search and Rescue program through pilot registration of $12 annually but revenue is insufficient to fully fund OEM's Search and Rescue Program. This additional revenue will help to make the SAR program more sustainable.

Enable Aviation Department to be sustainable by increasing revenue for deferred maintenance on state owned airports and buildings as well as provide revenue to offset declines in jet fuel and AVGAS tax receipts as a result of the recession and changes in Airline flight profiles models. See deferred maintenance chart below.

At 1 cent per gallon, Oregon has one of the lowest jet fuel tax rates in the region. See chart below.

State Fuel Tax Rate Comparison				
State	**Jet Fuel Tax**	**Aviation Fuel Tax**	**Commercial Aviation**	**Aviation Sales Tax**
Oregon	$0.01	$0.09	**No Domestic Commercial Exemption** Commercial International Exemption See Attachment A	No Sales Tax
Arizona	$0.03	$0.05	No Domestic Commercial Exemption Commercial International Exemption See Attachment A	No Sales Tax
California	$0.02	$0.18	Commerical Exemption Yes * Common carriers in the business of transporting persons or property for hire are exempt. For Additional exemptions see attachemnt A	7.25% Jet Fuel Sales Tax
Idaho	$0.06	$0.07	No Commercial Exemption For exemptions see Attachent A	No Sales Tax
Nevada	$0.01 *$0.04	$0.02 *$0.08	No Commercial Exemption Dealer Exemption for fuel purchased for another State or country for 500 g or less For additional exemptions see attachment A.	No Sales Tax
Washington	$0.11	$0.11	Commercial Exemption Yes Air Carriers for compensation are exempt Additional Exemptions See Attachment A.	6.5% Non Commercial Aviation Sales Tax 6.5% Commercial Aviation Use Sales Tax Plus an additional 0.5%-3.0% local sales tax

Notes:
* Each County is permitted to impose an additional tax at the rate specified

The fuel tax revenue increase as proposed will have minimal impact on commercial airline ticket prices. Based on data from the Port of Portland's website,
Website, the cost of a two cent increase in jet fuel on average domestic passenger ticket price on 2011 and 2012 data is only $.22 per ticket...
The chart in yellow below lays out the costs per ticket for domestic flight passengers.

Oregon Jet Fuel Tax = 1 cent per gallon
Oregon Aviation Gas Tax = 9 cents per gallon
Oregon Automobile Fuel Tax = 30 cents per gallon
California Sales Tax on Jet Fuel - 7.25% or 25 cents per gallon (at $3.50 per gallon)

Year	Total Jet Fuel Revenue to Oregon Department of Aviation	Estimated Percent of Revenue from Commercial Operations at PDX	Jet Fuel Revenue Generated at PDX	Total Domestic Passengers (International Operators Exempt)	Average Cost Per Passenger	Average Cost Per Departing Domestic Passenger (Total / 2)
2010	$ 1,535,872	95%	$ 1,459,078	12,752,338	$ 0.11	$ 0.23
2011	$ 1,551,850	95%	$ 1,474,258	13,236,651	$ 0.11	$ 0.22

HOW ACHIEVED

An increase in service to the aviation community via a fuel tax increase of 2 cents per gallon jet fuel and 2 cents per gallon AVGAS fuel. Revenue from this increase per biennium will:

a. Provide financial relief to Oregon's rural federally funded public use airports by supplementing the recent increase in FAA grant match from 5% to 10% of construction project costs. Up to 40% of new revenue to provide increased revenue to a trust fund to offset some or all of the 5% increase in grant match for federal funds. Excludes Primary (commercial) Airports.

b. See list of Oregon Federally funded airports on last page of this POP

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See chart below for potential revenue broken down by allocation area. Based on estimated biennium revenue of $6,495,827 for 2 cents jet fuel increase and 2 cents AVGAS increase.

Program $6,495,827	Percent of revenue increase	Dollar value per biennium
Rural Airports Grant program. Assist Rural Communities with up to 5% of their required 10% match for FAA grants.	40%	$2,598,331
Financial Aid to Municipalities As authorized by ORS 835.035 and OAR 738-125	22%	$1.429,082
Augment Oregon Emergency Management for Search and Rescue	3%	$194,875
Deferred Maintenance and Sustain Ops	35%	$2,273,539
Total	100%	$6,495,827

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Below is a four year historical average of FAA grants as well as projections for 2012 and beyond at 10% grant match... The largest amount in 2010 shows 5% match at $1.28 Million annually. Beyond February of 2012, the highest projected amount to offset the increase from 5% to 10% is projected at an estimated $2.5 million annually. In the chart with percentages on previous page, 40% of new fuel tax revenue estimated at $2.59 million will be sufficient to cover 100% of the cost of the FAA 's 5% increase and leaving the airport sponsor match at the 5% level. Any remaining funds will stay within the airport trust fund for future grants.

Year	Total Project cost	Oregon FAA Grants Awarded (project cost minus 5% grant match/10% 2012 and beyond)	FAA match (increased to 10% in 2012)	5% match (annually) for rural communites with increase in fuel tax revenue
2008	**$20,348,861**	**$ 19,379,868**	**$$1,017,443**	**n/a**
2009	**$19,753,067**	**$ 18,812,445**	**$987,653**	**n/a**
2010	**$25,706,054**	**$ 24,481,956**	**$1,285,303**	**n/a**
2011	**$23,368,765**	**$ 22,255,967**	**$1,168,438**	**n/a**
2012 (estimated)	**$25,000,000**	**$22,500,000**	**$2,500,000**	**$1,250,000**
2013 (estimated)	**$25,000,000**	**$22,500,000**	**$2,500,000**	**$1,250,000**
2014 (estimated)	**$25,000,000**	**$22,500,000**	**$2,500,000**	**$1,250,000**
2015 (estimated)	**$25,000,000**	**$22,500,000**	**$2,500,000**	**$1,250,000**

c. As authorized by ORS 835.035 and OAR 738-125, up to 22% of new revenue will go to a trust fund for Financial Aid to Municipalities (FAM) grant program that provides grants to rural airports that increase jobs and assist in funding for small infrastructure stimulus (less than $25,000 per fiscal year in accordance with OAR 738-020) to local communities including last mile multimodal connections to other transportation modes.

d. Supplement Oregon Emergency Management (OEM) aviation search and rescue program by providing 3% of new revenue in accordance with ORS 837.035 to Oregon Emergency Management. ORS 837.025 currently allows the Department of Aviation to collect pilot registration fee of $12 per month to provide revenue to OEM for their search and rescue program at $52,000 per biennium. This amount has not provided sufficient revenue to comply with ORS 837.035 and this additional revenue will augment pilot registration funding of OEM's SAR program and allow the ability to fully fund the program as the statute was designed.

e. Reduce backlog of deferred maintenance on state owned airports that are not federally funded yet have a role in Oregon's system of airports. Helps Oregon Department of Aviation to be sustainable and allow increase in maintenance and operations of state owned airports. Uses 35% of new revenue. Jet fuel tax rate has been at $0.01 per gallon since the 1999 Legislative session. Of the $0.01 tax, approximately one half supports the Department's operating budget and the other half is dedicated to pavement maintenance for all paved public use airports. The 2011-13 estimated net fuel revenue to Aviation has declined substantially over the past several years. Aviation fuel (AVGAS) tax has been $0.09 per gallon as approved by the 1999 Legislature. Of the $0.09 tax, $0.03 supports the Department's operating budget and $0.06 is dedicated to statewide Pavement Maintenance Program. Since, 2008, revenue has declined year over year. (See chart below) As of the halfway point in 2011-2013 biennium, the revenue continued to decline by over $20,000 per month. The model that airlines use to allocate flights and passengers that generate fuel tax revenue was based on in 1999 no longer exists. Airlines have consolidated flights and fly almost entirely at capacity. The Chart below shows the change in model since 2007. Net effect is a 17% reduction in fuel tax revenue for Department of Aviation since 2007.

Reduction in Fuel Revenue to Department of Aviation –source Port of Portland Enplanement Data

Year	Commercial operations % change over previous year	Enplaned/deplaned passengers	Average Gallons sold/month Jet	Average Gallons sold/month Avgas	Average net rev/month	net revenue to ODA
2007	+2.6%	+4.3%	16,912,719	337,676	183,816	$2,205,794
2008	-5.5%	-2.4%	17,019,900	310,263	178,549	$2,142,592
2009	-12.7%	-9.6%	13,850,205	292,467	151,910	$1,822,927
2010	+0.2%	+2%	12,798,515	276,127	152,195	$1,826,339*
2011	-1%	+3.7%	12,932,090	264,076	152,709	$1,832,519* -17% since 2007
2012 through May	-4.7%	+3.1%	11,971,617	154,988	131,430	NA

*Fuel tax refunds for international flights declined in these years.

STAFFING IMPACT

No additional FTE. ODA will contract out administrative assistance similar to Pavement Maintenance Program.

QUANTIFYING RESULTS

1. In the FAA Reauthorization Bill signed into law in February of 2012, the FAA increased grant match for airports sponsors for federally funded airports from 5% match to 10% match. 55 of the 97 public use airports in Oregon were affected by this change. Some airports in Oregon have revised scope of projects in order to offset the 5% increase in match. For example, a $2 million runway renovation project funded by the FAA that required a 5% match meant the local community owning the airport had to provide $100,000 as a match. At 10%, that match increased by an

additional $100,000, generating a financial burden for affected communities throughout Oregon. See previous chart for FAA grants awarded and grant match provided at 5 % (statewide except commercial service airports that are on a different model and receive a higher allocation of FAA funding. (North Bend, Medford, Eugene, Klamath Falls, Redmond, Pendleton and PDX) **This POP will enable ODA to help leverage up to 90% return in Federal grants. See previous chart for total of FAA grants for past 4 years. For a $1.2 million dollar investment annually, ($2.6 million per biennium), up to $48 million dollars in federal grants could be achieved. Note that an additional 5% will still be required by local Airport Sponsor.**

Chart shows that highest grant match annually for FAA grants to leverage over $22 million in federal funds is $1.12 million. By using new fuel tax increase revenue assisting Oregon Airports with up to 5% of project costs to compensate for FAA increase to 10%, can free up general funds in cities and counties that own airports for other projects. **Strongly promotes jobs and economic development.**

2. Aircraft pilot registration is required in Oregon at a cost of $12 annually. Proceeds from pilot registration are split between Oregon Emergency Management and Oregon Department of Aviation. ORS 837.035 allocates revenue from pilot registration to payment of expenses incurred by by the Office of Emergency Management..."to search for lost planes and persons, rescue of lost persons , pilot survival education and training and all othere expenses directly attributable to search and rescue program". It also allows the Department of Aviation to pay expenses related to registration of pilot licenses. Section 2 of ORS 837.035 allows Oregon Emergency Management to provide insurance to compensate any member of of a volunteer air search and rescue organization ...sustained in the scope of performing air search and rescue operations while under the direction of OEM. There is insufficient revenue to cover all of the expenditures with existing revenue. ODA currently reimburses part of an FTE for a Search and Rescue Coordinator position and reimburses fuel costs to counties via OEM for air search fuel costs. **By allocating 3% of new revenue, this POP will provide up to $203,972 to fully fund the aviation search and rescue program as envisioned by ORS 837.035 and potentially eliminate the requirement for pilot registration fees in Oregon.**

3. OAR 738-125-0015 as authorized by ORS 835.035 allows Department of Aviation to administer a Financial Aid to Municipalities grant program.

Aviation has used this grant program to assist rural communities with funding aviation projects at Oregon public use airports. Revenues have been insufficient to finance any FAM grants since 2007 and the program has been suspended. **Revenue for this POP will provide up to 56 grants of $25,000 per airport per biennium for aviation infrastructure projects and provide increased jobs in rural Oregon communities.**

4. Of the 97 public use airports in Oregon. 57 are part of the FAA's National Plan of Integrated Airports System (NPIAS) and are eligible for FAA grant funding. Two of them (Sportsman Airpark in Newberg and Sun River do not accept FAA grant funding. The remaining 40 no-NPIAS public use airports rely on the resources of the owner to maintain and operate their airports. 16 of them are owned and/or managed by the Department of Aviation. Deferred maintenance on state sponsored non-NPIAS airports and buildings has increased to approximately $2.9 Million dollars. Due to lack of revenue to address these shortfalls, ODA has had to close one airport (Crescent Lake) and cease night operations at another. (Prospect) due to revenue shortfall. Minimal maintenance has been put into the remaining 14 NON-NPIAS airports other than that sufficient to keep them safe. The Agency has **reduced staff by 5 from 17 to 12 FTE. Of the 12 current staff, there is only maintenance person for 28 airports. The agency has streamlined processes, used temporary workers and volunteers to assist with airport maintenance during peak flying season to keep airports maintained and safe. To continue to operate a system of airports long term in this fashion is unsustainable. This POP will enable ODA to keep Oregon's system of state owned airports open and safe and provide sustainable funding to the agency.** **attach Deferred funding list**

REVENUE SOURCE

The Department Of Aviation is supported entirely by Other and Federal Funds. Jet fuel and aviation fuel tax represents over 50% of the Other Fund revenue for the Department. This POP will be funded by a 2 cent per gallon increase in jet fuel fees and a 2 cent per gallon AVGAS fees through Legislative Concept to amend ORS 319.