

March 2, 2000

**Senate Bill 411 (Grobschmidt/Stone)**

Tax Exemption for Air Carriers with Hub Terminal Facilities

**Summary of Bill --**

This would exempt Midwest Express from Chapter 70 property taxes and from Chapter 76 state ad valorem taxes assessed as of Jan. 1, 2001. This would produce a reduction in the transportation fund of approximately \$850,000 in 00-01 and \$1.7 million each year thereafter.

**Staff Comments --**

While not without opposition, this bill has attracted support on both sides of the aisle. Seven of its co-sponsors are JFC members (Burke, Moore, Shibilski, Darling, Gard, Riley and Duff).

Appleton-based Air Wisconsin is expected to push for inclusion in this break, but supposedly this will not happen in the JFC.

**Standing Committee Action --**

Referred directly to JFC on Feb. 23, 2000.

**Recommended JFC Action --**

Approve SB411

Bob

# SENATE BILL 411 - ASSEMBLY BILL 801

## TALKING POINTS

### WHY IS MIDWEST EXPRESS SEEKING THIS PROPERTY TAX EXEMPTION?

- Wisconsin's current property tax policies put us at a serious competitive disadvantage.
- Midwest Express needs to grow to be competitive. Expansion plans include doubling the fleet of 40 aircraft and adding an additional \$966 million in fleet value.
- Competitors in neighboring states and in other major hub states across the country do not face similar tax disincentives for growth.
- Expansion could cost \$13-18 million more than competitors would pay in other states where personal property is exempted. Growing in Wisconsin could cost 3-7 times more than in other states.
- Wisconsin should improve its tax code by encouraging investment, not discouraging it.
- Midwest Express is committed to Wisconsin and desires to remain its premier hub airline. The company currently employs 2,695 people, 80% of whom work at its Milwaukee hub. Indirect economic value to the state is even broader. In 1998, Midwest Express generated over 10,500 jobs statewide which generated over \$265 million in personal earnings, \$459 million in business revenue and over \$52 million in state and local taxes.

### WHY SHOULD MIDWEST EXPRESS GET SPECIAL TREATMENT?

- Midwest is not seeking special treatment --- it is seeking tax equity to be able to compete with national competition and tax policies in other states.
- The proposal applies to any airline that meets the definition of a "hub facility". A hub facility, measured in terms of number of flights and destinations, represents a threshold level of economic commitment to the state. The bill is pro growth and establishes an incentive for Midwest Express and other airlines to grow in Wisconsin.
- Hub airlines are a proven engine of economic development for an entire region. Hub airlines generate high-tech jobs, bring in visitors and attract corporate headquarters. Hub exemptions in other states have been used to attract and retain economic development related to the airline industry.
- Thoughtful tax policies have proven to be among the most successful tools available to states for encouraging economic growth. The Wisconsin policy behind the M&E exemption in 1974 was to not tax the tools of production. In the airline industry, aircraft are our tools of production and should similarly be exempt.

## HOW DOES SB 411 / AB 801 AFFECT THE TRANSPORTATION FUND?

- Currently, ad valorem taxes paid by airlines are distributed to the segregated transportation fund. SB 411 / AB 801 would reduce transportation revenue by an estimated \$850,000 this biennium and \$1.7 million thereafter. Funding is not reduced for any activity this biennium.
- Starting with the next biennium, the bill would repeal the current appropriation for state assistance for aeronautical projects and replace it with a new appropriation made up of dedicated revenues from aeronautical sources. Initially, the new appropriation is estimated to receive \$8.5 million in the first year of the next biennium compared to \$11.8 million in the current appropriation. In subsequent years, the appropriation would automatically receive any increases in the dedicated revenues and not be held to a sum certain as is the case today.
- Small airports will not necessarily lose money. Wisconsin's share of federal revenues for airport projects is expected to increase and could offset the cost of the proposal. The extent of the increase will be known prior to taking action on the next biennial budget.
- The Wisconsin Aeronautics Program totalled \$63 million in 1998. The annualized cost of the proposed tax exemption (\$1.7 million) effects 2 and ½ percent of the total. Federal revenues accounted for over 60% with state and local revenues roughly splitting the balance.
- DOT staff oversee 40-50 projects a year --- any interruption in revenue will not cause projects to be abandoned.
- Proposal affects 1 of 8 revenue sources for the aeronautics program. 72% of all aeronautics dollars go to the 8 major airports --- major airports will realize revenue replacement by associated growth in landing fees and passenger charges paid by the airlines directly to the airports.
- Changing the way revenues are allocated for state assistance to airport projects sets the stage for discussing long term funding needs and funding alternatives in the course of the next budget.
- The cost of providing an ad valorem tax exemption to a hub airline will more than be made up by the increased tax revenue generated by the airline's expansion in Wisconsin. How those and other revenues get allocated is a question the Legislature will likely deal with in the course of the next biennial budget.



## Legislative Fiscal Bureau

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March 2, 2000

TO: Members  
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Senate Bill 411: Tax Exemption for Air Carriers with Hub Terminal Facilities

Senate Bill 411 was introduced on February 23, 2000, and referred to the Joint Committee on Finance.

### SUMMARY OF BILL

The bill would provide an exemption from Chapter 70 property taxes and from Chapter 76 state ad valorem taxes for all property owned by an air carrier that operates an air carrier hub terminal facility in Wisconsin, effective with taxes assessed as of January 1, 2001. Because air carriers may pay ad valorem taxes in lieu of general local property taxes, in order to effectively provide a tax exemption, exemptions would be created for both types of taxes.

An air carrier would be defined as any person engaged in the business of transporting persons or property in aircraft for hire on regularly scheduled flights. The bill would define an air carrier hub terminal facility as a facility at which an air carrier operated at least 45 common carrier departing flights each weekday in the prior year and transported passengers to at least 15 nonstop destinations or transported cargo to nonstop destinations. DOR would be required to promulgate an administrative rule defining "nonstop destinations" for purposes of this provision. This provision would currently only apply to Midwest Express airlines.

Effective July 1, 2001, the bill would repeal the existing aeronautics assistance SEG appropriation and replace it with a new aeronautical activities SEG appropriation. The existing appropriation is a sum certain, continuing appropriation limited to the specific amounts appropriated in each biennial budget. The new appropriation would also be a continuing appropriation, but a specific amount would not be set. Instead, the appropriation would be provided all monies received from the ad valorem tax on air carriers, aircraft registration fees, the general aviation fuel tax and any other tax or fee from an aeronautical activity, except those amounts

appropriated from the following: (a) aeronautical assistance funds provided to the state by local units of government or other sources; (b) federal aeronautical assistance funds; and (c) funds received by DOT as payment for services associated with the Department's aircraft fleet. Deposits to the newly-created aeronautical activities appropriation would first apply to monies received from taxes and fees on July 1, 2001. In addition, the bill would require the transfer of any unencumbered amounts in the current state aeronautics assistance appropriation to the newly-created aeronautical activities appropriation on July 1, 2001.

## **FISCAL EFFECT**

In 1999, 26 airline carrier companies had a taxable value apportioned to Wisconsin of approximately \$389.7 million and were assessed \$8,990,748 in ad valorem taxes. For 1999, Midwest Express had a taxable value apportioned to Wisconsin of \$78.2 million and was assessed \$1,729,600 in state ad valorem taxes. Revenues from these airline ad valorem taxes are deposited to the transportation fund.

Under the bill, the exemption from Chapter 70 property taxes and from Chapter 76 state ad valorem taxes would first occur for taxes assessed as of January 1, 2001. Ad valorem tax payments are made in May and November of the year for which the assessments are made. It is estimated that the assessment for Midwest Express in 2001 would be approximately \$1.7 million. Because the tax exemption would initially apply to taxes assessed as of January 1, 2001, Midwest Express would not be required to make a May, 2001, payment. As a result, revenues to the transportation fund would be reduced by approximately \$850,000 in 2000-01 and approximately \$1.7 million per year on an ongoing basis.

The bill would also repeal the existing aeronautics assistance appropriation funded from the transportation fund after the 1999-01 biennium. As a result, \$11,832,200 in base SEG funding would be deleted in 2001-02. The appropriation would be replaced with a new appropriation for aeronautical activities that would fund the same activities that are currently funded from the existing appropriation. However, instead of drawing from unspecified transportation fund revenues, the current transportation fund revenues associated with ad valorem taxes on air carriers, aircraft registration fees, the general aviation fuel tax and most other taxes or fees associated with an aeronautical activity would be earmarked for this new appropriation and be available for expenditure.

Under current law, it is estimated that aeronautical taxes and fees will produce \$10.2 million in revenues in 2000-01. The proposed exemption for Midwest Express would reduce the ongoing revenues by an estimated \$1.7 million, to \$8.5 million. Compared to the 2000-01 funding for the aeronautics assistance program (\$11.8 million), it is estimated that the bill would reduce annual appropriations for aeronautics activities by \$3.3 million, beginning in 2001-02.

Since the expenditure reductions resulting from the bill would not occur until next biennium, there is some uncertainty as to what the effects would be on DOT's aeronautics program. Nevertheless, it is possible to identify the general type of airport projects that would be most likely affected. Of the \$11.8 million SEG appropriation for aeronautics, about \$10.0 million is used for airport construction or equipment projects. Of this amount, typically about one-fourth, or \$2.5 million, is used to match available federal airport aid. Although 83 out of the 100 airports on the state airport system are eligible for federal aid, most of the federal aid is used on the state's commercial airports or larger airports handling corporate aircraft traffic. The \$7.5 million of state funds that is not used to match federal funds is used on projects at airports that are not eligible for federal aid or on projects at airports where federal funds are not typically used. Since it is likely that state funds would continue to be used to match all available federal aid, projects at these smaller airports would be more likely to be delayed or cancelled as a result of the expenditure reduction caused by the bill.

In summary, the bill would reduce transportation fund revenues by an estimated \$850,000 in 2000-01, with no change in transportation fund expenditures. Beginning in 2001-02, the bill would reduce transportation fund revenues by an estimated \$1.7 million annually, but would also reduce transportation fund expenditures by an estimated \$3.3 million annually.

Prepared by: Al Runde