



Legislative Fiscal Bureau

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May 29, 2001

Joint Committee on Finance

Paper #900

Tax Exemption for Air Carriers with Hub Terminal Facilities -- Aeronautics Funding (DOT -- Transportation Finance)

[LFB 2001-03 Budget Summary: Page 651, #6 (part)]

CURRENT LAW

The state aeronautics assistance program funds airport improvements through a combination of federal, state and local funds. The state funds are provided from the transportation fund through a sum certain, continuing appropriation. Federal aid is provided in the form of formula funds and discretionary grants. Federal formula funds may be restricted to a particular airport or may be available for any airport in a certain class of airports. Local funds are provided through local general revenues or airport fees. Base funding for the program is \$11,924,100 SEG, \$8,430,700 SEG-L and \$48,900,000 FED.

GOVERNOR

Repeal the existing, sum certain aeronautics assistance SEG appropriation and replace it with the following aeronautics activities appropriations, effective July 1, 2004: (a) a SEG appropriation of all moneys received from aeronautics taxes and fees; (b) a sum sufficient, SEG appropriation of not more than \$650,000 to supplement the funding under the all-moneys-received appropriation; and (c) a sum sufficient, GPR appropriation of not more than \$650,000 to supplement the funding under the all-moneys-received appropriation. Specify that revenue generated by the following taxes and fees would be credited to the all-moneys-received appropriation, effective July 1, 2004: (a) the ad valorem tax on air carriers; (b) aircraft registration fees; (c) the general aviation fuel tax; (d) sales and use taxes on noncommercial aircraft; and (e) any other tax or fee received from an aeronautical activity and deposited in the transportation fund. Specify that this appropriation would exclude 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. Transfer any

unencumbered amounts in the current, sum certain appropriation for aeronautics assistance to the all-moneys-received appropriation immediately before July 1, 2004.

Require DOR, beginning by July 1, 2004, and every July 1 thereafter, to determine the total amount of sales and use taxes on noncommercial aircraft paid in the preceding calendar year and transfer that amount to the transportation fund. Currently, tax collections on the sale and use of noncommercial aircraft are deposited in the general fund.

Specify that an equal amount shall be appropriated in each of the two sum sufficient, supplemental aeronautical activities appropriations and that the sum of these amounts shall be equal to the difference between \$11.8 million and the amount of aeronautical taxes and fees credited to the all-moneys-received appropriation during the previous fiscal year, if the amount credited to the all-moneys-received appropriation was not more than \$11.8 million. In total, no more than \$1.3 million could be provided in any fiscal year (\$650,000 GPR and \$650,000 SEG) to supplement the all-moneys-received appropriation.

Create an Airport Financing Committee, with members appointed by the Governor representing: (a) the Department of Transportation; (b) the Department of Commerce; (c) airport managers; (d) airlines serving Wisconsin; (e) the general aviation community; (f) the people of Wisconsin; and (g) private businesses having an interest in transportation policy and financing. Specify that the Committee shall select its officers and that the person appointed chairperson shall call the Committee's first meeting. Require the Committee to review and evaluate the state's airport system needs and the current system of funding those needs and to recommend changes, if any, to better meet those needs. Require the Committee to review, among other things: (a) aircraft registration fees; (b) aviation fuel taxes and fees; (c) allocation of sales tax receipts from the sale of aircraft, parts and services to the aeronautical activities appropriation created by the bill; and (d) the allocation of other moneys to this appropriation. Specify that the Committee's recommendations would be required, if enacted, to generate revenue in amounts equal to or greater than the sum of moneys appropriated for aeronautical activities in 2001-02. Require the Committee to submit a report containing its evaluation, findings and recommendations to the Governor and Legislature not later than December 31, 2002.

DISCUSSION POINTS

1. The Governor's recommendations summarized under the Fiscal Bureau summary item entitled "Tax Exemption for Air Carriers with Hub Terminal Facilities" involve both a tax exemption for certain commercial air carriers, which would take effect during the 2001-03 biennium, and changes to the funding for DOT's aeronautics assistance program, which would take effect during the 2003-05 biennium. This paper discusses the proposed changes to the funding for the aeronautics assistance program, while LFB Paper #899 discusses the proposed ad valorem tax exemption.

2. To summarize the proposed changes, the current sum certain, SEG appropriation for

aeronautics assistance would be eliminated and replaced with an appropriation of all moneys received from aeronautics taxes and fees (the "all-moneys-received appropriation"). Because this amount may fall below the current level of SEG funding for the aeronautics assistance program, two other, sum sufficient appropriations would be created to supplement the amounts in the all-moneys-received appropriation (the "supplemental appropriations"). One of the supplemental appropriations would be from the transportation fund and one would be from the general fund.

3. Although the supplemental appropriations would be created as sum sufficient appropriations to provide the difference between \$11,800,000 and the amount credited to the all-moneys-received appropriation in the prior year, the amount provided in each of the supplemental appropriations would be capped at \$650,000, so the maximum amount of the supplement would be \$1,300,000. This mechanism is intended to provide about the same amount of state funds that is currently provided for aeronautics assistance, although \$11,800,000 is slightly lower than the amount of base funding for the program, which is \$11,924,100.

4. The current transportation fund aeronautics-related revenue sources are estimated to generate \$9,040,300 in 2002-03, the first full fiscal year that the proposed airline hub exemption would be in effect. The corresponding amount in the future would be credited to the all-moneys-received appropriation, beginning in 2004-05. In addition, the bill would transfer revenue generated by the sales and use taxes on noncommercial aircraft from the general fund to the transportation fund and credit this amount to the all-moneys-received appropriation, also beginning in 2004-05 (a change to the language in the bill should be made to clarify this effective date). The sales and use taxes on noncommercial aircraft are currently estimated to generate about \$4.0 million per year. If these amounts are representative of what would be transferred to the all-moneys-received appropriation, a total of \$13.0 million per year would be credited to that appropriation. In this case, no ongoing funding would be provided in the supplemental appropriations.

5. In the first year this funding mechanism is in place (2004-05), \$650,000 GPR and \$650,000 SEG would be appropriated in the supplemental appropriations, since no moneys would have been deposited in the all-moneys-received appropriation in 2003-04. To avoid this situation, one alternative would be to base the amount in the supplemental appropriations in 2004-05 on the amounts that would have been credited to the all-moneys-received appropriation if it had been in place in 2003-04.

6. Under the proposed funding mechanism, annual funding for the aeronautics assistance program could fall below \$11.8 million under certain circumstances. If the total amount credited to the all-moneys-received appropriation declines from the previous year and is below \$11.8 million, the total amount provided in the three appropriations would be less than \$11.8 million. For instance, if, in 2004-05, the amount credited to the all-moneys-received appropriation is \$11.0 million, the amount in the two supplemental appropriations in 2005-06 would be \$800,000 (\$400,000 SEG and \$400,000 GPR). If the amount credited to the all-moneys-received appropriation in 2005-06 is \$10.8 million, then total spending on aeronautics assistance in that year would be \$11.6 million. Both revenue from the sales tax on aircraft and revenue from other aeronautics taxes and fees vary somewhat from year to year and are sensitive to economic

conditions, so a decline in revenue from these sources from one year to the next may occasionally occur. In addition, if the amount credited to the all-moneys-received appropriation in any year falls below \$10.5 million, the total funding for aeronautics assistance in that year will fall below \$11.8 million.

7. The aeronautics assistance funding mechanism that is included in the bill was included in similar legislative proposals last session. At the time of its inclusion in these other bills, there was some uncertainty regarding federal airport aid, since the federal airport aid authorizing act had expired and the provisions of the new reauthorization act were unknown. Since that time, the federal airport program has been reauthorized in a manner that significantly increases federal airport spending and airport aid for the state. In federal fiscal year 2000, before the reauthorization, the state received \$28.4 million, while in 2001, the first year of the new act, it is estimated the state will receive \$50.3 million, which is a 77% increase. It is expected that federal airport aid in subsequent years will remain at, or increase above, the 2001 level.

8. The dedication of sales and use tax revenue from the sale of noncommercial aircraft is a significant component of the Governor's proposal to fund aeronautics assistance. Proponents of this policy argue that sales tax revenue collected on noncommercial aircraft should be used to help pay for the airport infrastructure that these aircraft use.

9. The dedication of sales tax revenue on aircraft to airport improvements may create a precedent that leads to the dedication of the sales tax revenue from the sale of other products to particular purposes. For instance, the sales tax revenue generated on the sale of boats, snowmobiles or motor vehicles could be dedicated to programs that benefit users of these products. This policy may be difficult to sustain, since in all of these cases, it would involve the transfer of general fund revenue to other funds. Consequently, other potential uses of general fund money, such as education, health programs, shared revenue or tax reductions would ultimately be impacted.

10. A case may also be made that it is not appropriate to dedicate general sales tax revenue on a particular product to programs that primarily benefit the users of that product, even if general fund revenues were sufficient to support such a policy. While purchasers of aircraft, for instance, would be supporting the cost of airport improvements through the payment of sales taxes, this would be made possible only by relieving these purchasers from the responsibility of supporting all the programs that are funded with general fund dollars. The additional funds provided for airport improvements, therefore, would come at no additional cost to the aircraft user. In contrast, the purchasers of any other products that are subject to the sales tax would not enjoy the privilege of capturing the exclusive benefits of their sales tax payments.

11. Some other states support aviation programs with general fund dollars and so it may be appropriate for Wisconsin to do so also. It could be argued, however, that Wisconsin's general fund already indirectly supports the aviation programs and other transportation fund programs by exempting motor vehicle and aviation fuel and commercial aircraft from the sales tax. The sales tax exemptions result in a loss of potential revenue to the general fund that allows excise taxes on motor vehicle fuel and general aviation fuel and the ad valorem tax on commercial aircraft to be higher

than could be sustained if these items were not exempt from the sales tax.

12. In addition to the dedication of general fund sales and use tax revenue to the transportation fund, the bill's mechanism for funding aeronautics assistance would also depart from past practice by dedicating revenue from particular transportation fund taxes and fees to a particular program. The revenue deposited in the segregated transportation fund is generated from taxes and fees that are all generally related to the use of transportation facilities or DOT programs. Current law does not tie particular transportation programs to particular fund revenues, which may be because it has been assumed that transportation users benefit from all types of transportation improvements and programs, even if they do not use particular types of transportation facilities. For instance, harbor, rail and airport improvements hold some benefit to motorists who use highways, since quality water, rail and air transportation infrastructure may allow more freight and passengers to be transported by these modes instead of on the highway, thereby reducing highway congestion.

13. There may be disadvantages to dedicating particular transportation fund revenues to particular programs. For instance, it may limit the Legislature's flexibility to fund programs based on a consideration of the relative priority of transportation programs. Assuming that a future Legislature retains this practice, the aeronautics assistance program may be funded at a higher or lower level than the Legislature would otherwise determine to be appropriate, depending upon the fluctuations in aeronautics-related revenue. Under current practice, each Legislature can make a determination on funding all transportation programs based upon a consideration of the relative priorities of those programs. Earmarking particular revenues for specific programs could create a situation in which short-term revenue fluctuations interfere with a sensible long-term program of improvements.

14. The mechanism for funding aeronautics assistance in the Governor's bill and in other airline hub exemption bills in the current and past legislative sessions has been proposed out of a concern that the transportation fund be "held harmless" from the proposed airline hub exemption. Beginning in the 2003-05 biennium, the general fund would reimburse the transportation fund through the dedication of the sales tax on noncommercial aircraft to the transportation fund and the use of a GPR supplemental appropriation for aeronautics assistance. A case may be made, however, that the general fund is not currently in a better position to absorb the effect of the exemption than is the transportation fund, and, therefore, it may be appropriate for the transportation fund to absorb the revenue loss associated with the exemption.

15. If current sales tax and airline ad valorem tax collections are reflective of what those collections will be in 2004-05, when the aeronautics assistance funding mechanism would become effective, general fund transfers and appropriations for aeronautics assistance would exceed the amount of the airline hub exemption by about \$1.5 million. The following table illustrates the revenue impacts for 2004-05, assuming that: (a) the sales and use tax on aircraft will generate \$4.0 million per year; (b) the proposed ad valorem tax exemption would result in a reduction of transportation fund revenue of \$2.5 million per year; and (c) no supplemental appropriations are required to fund aeronautics assistance at \$11.8 million.

**Revenue Change Resulting From Ad Valorem Tax Exemption and
Sales Tax Exemption (In Millions)**

	<u>Transportation Fund</u>	<u>General Fund</u>
Ad Valorem Tax Exemption	-\$2.5	\$0.0
Aircraft Sales Tax Transfer	<u>4.0</u>	<u>-4.0</u>
Net Change	\$1.5	-\$4.0

16. If the Committee determines that the general fund should absorb the full cost of the proposed exemption beginning in 2004-05, but not more than the cost of the exemption, one alternative (if the exemption is approved) would be to annually transfer, from the general fund to the transportation fund, the amount of revenue loss associated with the exemption, beginning on July 1, 2004. Since the exempt airlines' property would no longer be assessed after the exemption takes effect, the amount of the transfer could be fixed at the amount that the exempt airlines paid in ad valorem taxes in the final year that they are subject to the tax.

17. The bill's mechanism to fund aeronautics assistance would not begin until the second year of the 2003-05 biennium. Until that time, the current method of funding airport improvements would be maintained. If the Committee has concerns about the dedication of sales tax revenue or particular transportation fund revenues to aeronautics assistance, one alternative would be to maintain current law with respect to the funding of aeronautics assistance and reconsider at a future date whether changes like those proposed in the bill should be made. The bill would create an Airport Financing Committee to study the issue of how airport improvements are financed. If the creation of this Committee is approved, the Legislature could use the information and recommendations developed by this Committee to make a decision on whether any changes are needed to the mechanism used to fund aeronautics assistance. Since the statutory charge to this Committee is, in part, tied to the proposed changes to the funding mechanism, the wording of the charge may need to be modified to reflect the decisions the Legislature makes with respect to the funding mechanism.

ALTERNATIVES TO BILL

1. Approve the Governor's recommendation related to the mechanism used to fund the aeronautics assistance program, beginning on July 1, 2004, including the repeal of the current, sum certain appropriation for aeronautics assistance, the creation of three new appropriations for aeronautics assistance and the transfer of sales and use tax revenue from the sale of noncommercial aircraft to the transportation fund. Also, approve the Governor's recommendation to create an Airport Financing Study Committee. In addition, clarify that the first transfer of revenue from the general fund to the transportation fund would occur on July 1, 2004.

2. Approve the Governor's recommendations related to the mechanism used to fund the aeronautics assistance program and the Airport Financing Study Committee, but modify the mechanism for establishing the amount in the supplemental appropriations by specifying that in 2004-05 the amount would be based on the difference between \$11.8 million and the amount that would have been credited to the all-moneys-received appropriation in the prior year had that appropriation been in effect in that year. In addition, clarify that the first transfer of revenue from the general fund to the transportation fund would occur on July 1, 2004.

3. Delete the Governor's recommendation with respect to the funding mechanism for aeronautics assistance. Instead, require a transfer from the general fund to the transportation fund, beginning on July 1, 2004, and annually thereafter, of the amount that the airlines that qualify for the exemption paid in ad valorem taxes in the last year in which they paid those taxes, which would require the general fund to absorb the approximate amount of the revenue loss associated with the exemption, beginning in 2004-05, but not more than that amount. This alternative would only be relevant if the proposed exemption is approved. Modify the Governor's recommendation with respect to the Airport Financing Study Committee to reflect the decision on the aeronautics assistance funding mechanism.

4. Delete the Governor's recommendation with respect to the funding mechanism for aeronautics assistance. Modify the Governor's recommendation with respect to the Airport Financing Study Committee to reflect the decision on the aeronautics assistance funding mechanism.

5. Maintain current law.

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