Airport Funding Changes in FY 18-19 Enacted Budget

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Issue

Summarize the changes to airport funding under the FY 18-19 enacted budget. Describe what prompted them and their effect on general aviation (GA) airport funding.

Summary

The state's FY 18-19 biennial budget (PA 17-2, June Special Session (JSS)) directs a portion of the petroleum products gross earnings tax (known as PGET) on aviation fuel to a new "Connecticut airport and aviation account" and eliminates state subsidies for Connecticut Airport Authority (CAA) operated airports. This change was necessary because of a recent Federal Aviation Administration (FAA) policy clarification regarding aviation fuel taxes and airport revenue diversion.

Changes in Enacted Budget

The budget act establishes the "Connecticut airport and aviation account" and requires DOT to use the account's resources for airport and aviation-related purposes (PA 17-2, JSS, § 672). It requires that the Department of Revenue Services (DRS) commissioner deposit in the account 75.3% of PGET revenue from aviation fuel sources (equivalent to 6.1% of aviation fuel sales), notwithstanding a law requiring that all PGET revenue be deposited in the STF (CGS § 13b-61a).

FAA Revenue Policy Clarification

FAA Revenue Diversion Policy

Federal law imposes tight restrictions on the use of revenue generated by federally-supported airports ("airport revenue"). Specifically, it requires that all revenue generated by a public airport be used for the capital or operating expenses of (1) the airport, (2) the local airport system, or (3) other local air transportation facilities owned or operated by the airport owner or operator. It also specifies that local fuel taxes charged on aviation fuel (except taxes in effect on December 30, 1987) are considered airport revenue (49 U.S.C. § 47107(b)).

Local Aviation Fuel Taxes Clarification

In 2014, the FAA clarified its policy on local aviation fuel taxes, stating that (1) "local taxes" includes state taxes and (2) proceeds from new and existing state taxes on aviation fuel sales (except those in effect prior to December 30, 1987) are considered airport revenue, and thus subject to restrictions, even if the taxes are of general applicability. Further, the FAA stated that proceeds from any increase to taxes in existence before December 30, 1987 are also considered airport revenue (79 FR 66282).The FAA policy requires that states comply by December 8, 2017.

Impact on Connecticut. Aviation fuel sales in Connecticut are subject to the PGET. Proceeds from PGET are deposited in the STF and used for transportation funding (e.g., debt service on transportation bonds and operating budgets for the departments of transportation and motor vehicles).

On December 30, 1987, the PGET rate was 2%. Currently, the rate is 8.1%. Under FAA policy, the 2% rate qualifies for grandfathering, but proceeds from any additional tax increase must be used for airport purposes. In response to the ruling and to minimize revenue loss to the STF, PA 17-2, JSS, diverts this tax revenue (6.1%) to the new airport account and eliminates STF subsidies to the airports (see Table 1).

The legislature could have complied with the FAA ruling in one of three ways. In its submitted action plan to the FAA, DRS stated that Connecticut was prepared to enact one of the following changes by December 8, 2017: (1) divert the non-grandfathered PGET revenue, as had been proposed in the governor's budget, (2) reduce the PGET rate on aviation fuel to 2%, or (3) exempt aviation fuel from PGET.

Effect of Change on GA Airport Funding.

The state's GA airport system operates at a deficit which, according to CAA, it cannot offset with Bradley airport revenue because of bond restrictions and FAA rules. As stated above, the state has previously provided subsidies in order to offset the deficit ($4.17 million in FY 17). For FY 18, CAA expects to incur $6.4 million in GA airport operating expenses, offset by $2.6 million in GA airport operating revenues, resulting in an operating deficit of $3.8 million. As table 1 shows, the diversion enacted in the budget is expected to more than offset the loss of the GA airport subsidy.

Table 1: Projected Aviation Fuel Sales and PGET Revenue *(in millions)*

	2017	***2018***	***2019***	***2020***
Estimated Value of Aviation Fuel Sales	$ 105.7	$ 115.2	$ 127.3	$ 142.7
Taxed at 8.1%	8.6	9.3	10.3	11.6
Less: if Taxed at 2.0%	2.1	2.3	2.5	2.9
Revenue Loss to STF/Gain to Airports	**6.4**	**7.0**	**7.8**	**8.7**

Source: Governor's Recommended Budget Book, Office of Policy and Management

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