

Memorandum

To: Chairman and Commissioners

Date: November 27, 2007

From: John Pfeifer, TACA Chairman

Ref No: 4.9(a)
Agenda Item 63
ACTION

Ref: TACA Report on Aviation Issues

Issue: Should the Commission accept from the Technical Advisory Committee on Aeronautics (TACA) its report on upcoming issues and include the issues identified in the Commission's 2007 Annual Report?

Recommendation: Commission staff recommends that the Commission accept the attached TACA report and add the salient issues identified to the Commission's 2007 Annual Report.

Summary of TACA Recommendations: TACA recommends that the Commission add to its annual report the upcoming issues identified in the attached TACA report and summarized below.

TACA recommends that the Commission recommend to the Legislature and the Administration that they:

- act to address state aviation system needs through legislation that would provide a stable funding source from the aviation jet fuel sales tax for the Aeronautics Account. The Commission would program and allocate the funds to publicly-owned general aviation airports and air carrier public use airports for airport security, safety, capacity needs and comprehensive land use compatibility plans.
- should inform the California Congressional delegation of the need to maintain and increase the federal funding, including appropriations, for aeronautics in the next re-authorization.

TACA recommends that the Commission direct it to work in 2008 with representatives of the Business, Transportation and Housing Agency and the Department to:

- identify potential roles and policies for the State in developing California's aviation system.
- support appropriate legislative proposals that would:
 - (1) dedicate the Aeronautics Account revenues derived from the existing aviation fuel excise tax and the potential set-aside of a portion of future general aviation jet fuel sales tax for aviation purposes.
 - (2) increase funding for Caltrans to assist smaller airports in securing state and federal aviation grants, to ensure that California receives the maximum amount of federal funding and uses state funds effectively for planning and matching fund purposes.
 - (3) update the California Public Utilities Code sections 21670 through 21679 to further solidify and strengthen airport land use law to preclude and prevent incompatible land use around airports.

- (4) amend current statute to allow local agencies to request Commission approval for an agency to use its own funds, to advance funding for the required match of a Federal Airport Improvement Program grant with the promise for later repayment by the State.
- (5) authorize and fund the Caltrans Division of Aeronautics to provide information to pilots and business aviation departments to promote the use of a larger number of California's airports and use more efficiently the existing system capacity. Existing and newly upgraded facilities often are not used to their potential. Caltrans could help to manage both highway congestion and runway congestion by marketing alternatives to congested airports that are within a convenient distance of major business destinations, especially in light of the growth of air taxi services using small very light jets (VLJs).

Background: If California is to remain competitive in the global economy, its aviation system must:

- be improved to facilitate significant growth in air passenger and air cargo movement,
- provide ground access for and fully integrate increasing freight, business and corporate aviation into the statewide transportation system by having the State and local jurisdictions plan and/or provide highway and arterials in corridors to and from public airports,
- prevent adverse community impacts caused by aviation by having guidelines in place to provide more protection to airports from incompatible land uses and development, and
- continue a high quality of life for our citizens by integrating land use, transportation and housing, while adhering to established California noise and planning standards for airports.

California cannot meet these goals for its aviation system if it continues to leave aviation decision-making to the unpredictable nature of local politics and priorities alone. The State should take responsibility — in cooperation with local, regional, and federal agencies — for providing the leadership and resources needed to develop the aviation system essential to our economy in the 21st Century. California must continually assess its role in aviation to ensure that California remains competitive in the global economy.

Attachment

ISSUES FOR 2008

Outlook for the State Aeronautics Program

The rapidly expanding role of aviation in moving people and goods in the global economy requires the State to act proactively to position itself as a practical and accessible region for commercial and business aviation use. California's economic future depends upon efficient air and surface transportation infrastructure that will connect all areas of the State to the global economy. If California is to remain competitive in the global economy, its aviation system must:

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- prevent adverse community impacts caused by aviation by having guidelines in place to provide more protection to airports from incompatible land uses and development, and
- continue a high quality of life for our citizens by integrating land use, transportation and housing, while adhering to established California noise and planning standards for airports.

California cannot meet these goals for its aviation system if it continues to leave aviation decision-making to the unpredictable nature of local politics and priorities alone. The State should take responsibility — in cooperation with local, regional, and federal agencies — for providing the leadership and support needed to develop the aviation system essential to our economy in the 21st Century. California must continually assess its role in aviation to ensure that California remains competitive in the global economy.

Aviation Planning

The policy element of the California Aviation System Plan (CASP), adopted in 2005, defines the State's continuous aviation system planning process. The policy element defines the roles of federal, State, regional and local participants in the process. It covers issues affecting aviation and aviation's relationship with other modes. The policy element also defines the policies and implementing actions for guiding Caltrans Division of Aeronautics activities and CASP development, including funding priorities for general aviation and air carrier public use airports in California.

The Caltrans role in aviation consists of planning and assisting with the development of infrastructure capacity improvements and the maintenance of the airport system. For several years, the CASP policy element has emphasized how funding limitations restrict Caltrans' role, while also proposing options for increased funding of the State aviation program.

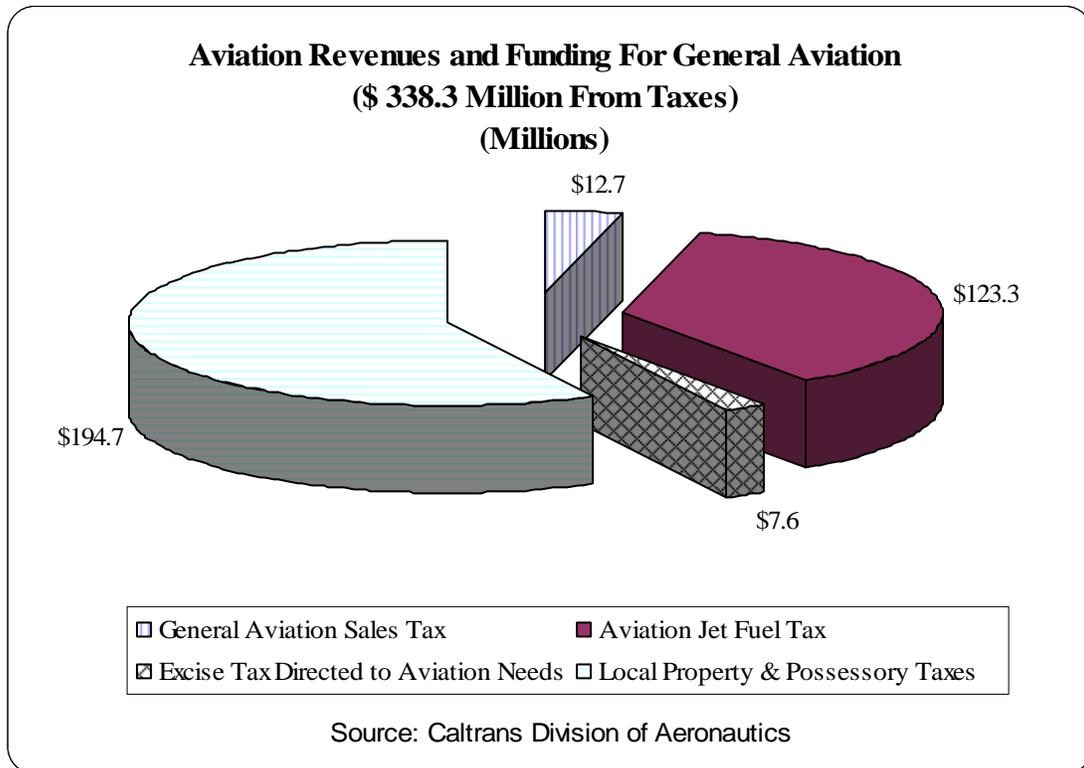
The Commission's role, in addition to providing advice to the Legislature and to the Secretary of Business, Transportation and Housing, is to provide policy direction to Caltrans in the development of the aeronautics plans and programs, adopt the CASP and its various elements, program projects in the Aeronautics Program, and allocate funds.

Existing State Aviation Funding

The State Aeronautics Account represents the sole State source of funding for the Division of Aeronautics and the programs it administers. Revenue sources for the Aeronautics Account include an 18-cent per gallon motor vehicle fuel excise tax on general aviation gasoline and a two-cent per gallon excise tax on general aviation jet fuel. Air carrier, military aircraft and aviation

manufacturing are exempt from the two-cent per gallon excise tax on jet fuel. The annual revenue transferred by the State Controller’s Office (SCO) into the State Aeronautics Account has steadily decreased. In fact, the highest transfer of \$8.4 million occurred in Fiscal Year (FY) 1999-00 and since then it has declined steadily. In fiscal year 2005-06, the SCO reported a transfer of \$7.4 million into the State Aeronautics Account, the lowest transfer since FY 1992-93. Although increased general aviation jet fuel sales have helped slow the decline, the downward trend continues. The State Aeronautics Account will continue to decrease until another funding source comes on line.

The latest available data show that aviation activities annually generate \$338.3 million in taxes from aviation activities which flow into state and local government coffers, yet only 2.3 percent or \$7.6 million from excise taxes addresses aviation needs (see chart below). Of the remaining \$330.7 million in tax revenues, sales tax on aviation jet fuel and general aviation gasoline accounts for an estimated \$123.3 million and \$12.7 million respectively. Property taxes and possessory interests accounts for the remaining \$194.7 million. The State General Fund received \$77.3 million of the \$123.3 million generated from sales and use tax on general aviation jet fuel.



The Commission has long supported increasing state funding to develop an integrated system of airports that adequately meets the demands of California’s economy. The Commission supports redirecting a portion of state sales tax revenues from the sale of general aviation jet fuel to fund state aviation programs. These tax revenues are a “user fee” paid by the aviation industry and users, in the same way that sales tax revenues on gasoline and diesel fuel, currently directed to highway and transit program funding, are user fees on drivers.

If the Legislature and the Administration were to establish a percentage transfer from the general aviation jet fuel sales tax from the State General Fund to the State Aeronautics Account as a set minimum, it would establish a stable baseline of aviation funding. Since the State Aeronautics Account is declining, an annual baseline minimum would provide some of the resources to develop a program to meet future aviation needs. California could make significant progress in

implementing state priorities for increasing airport capacity and safety, security, enhancing air passenger mobility, improving air cargo efficiency, mitigating the impacts of airport operations on local communities, and mitigating the impacts of land use encroachment on airport operations.

Federal Re-authorization of Vision 100

Vision 100, Century of Flight Authorization Act of 2003, is a four-year statute that lapsed September 2007. Congress is considering the re-authorization of Vision 100, while passing a series of continuing resolutions to maintain the status quo. The act provides funding for the Federal Aviation Administration's Airport Improvement Program. These revenues are extremely important for the overall preservation and enhancement of California's Public Use Airport System. Nationwide the annual authorized AIP funding levels were:

Annual AIP Funding Levels:
Federal FY 2004 \$3.4 billion
Federal FY 2005 \$3.5 billion
Federal FY 2006 \$3.6 billion
Federal FY 2007 \$3.7 billion

California typically receives around 8 to 10 percent of the funds appropriated. Over the past several years, the federal administration has proposed smaller appropriations than the authorized levels for the AIP program, including General Aviation Airport Entitlements, and the Small Community Air Service Development Program. The trend towards smaller appropriations could mean a smaller re-authorization, which would negatively impact the funding for nearly 200 of California's general aviation airports. The Legislature and Governor should inform the California Congressional delegation of the need to maintain and increase the federal funding, including appropriations, for aeronautics in the next re-authorization.

The Next Generation Air Transportation System Financing Reform Act of 2007 (NextGen) was introduced in February 2007 by the Federal Aviation Administration (FAA) laying out the Administration's vision for meeting the challenges of transforming the aviation system to handle future demand. The Administration's proposal included fundamental changes to the funding structure of the Federal Aviation Administration and the services it provides.

The changes, according to the FAA proposal, would

- Generate revenue based on the air traffic system, whether it is commercial, business, or general aviation.
- Create a stable, cost-based revenue structure combined with flexible capital financing.
- Maintain a continued general fund contribution for services provided by the FAA.
- Provide up to \$5 billion in Treasury debt financing authority beginning in FY 2013 to support NextGen-related capital needs and accelerate the transition to NextGen.
- Allow airports to more effectively meet their needs through an expansion of the Passenger Facility Charge (PFC) program and reform of its outdated regulations.
- Authorize the use of congestion pricing or actions to more effectively allocate scarce resources at congested airports, reducing delays and maximizing passenger throughput.
- Support a cleaner, quieter, and more energy efficient future for aviation through initiatives that support enhanced stewardship of our natural resources.

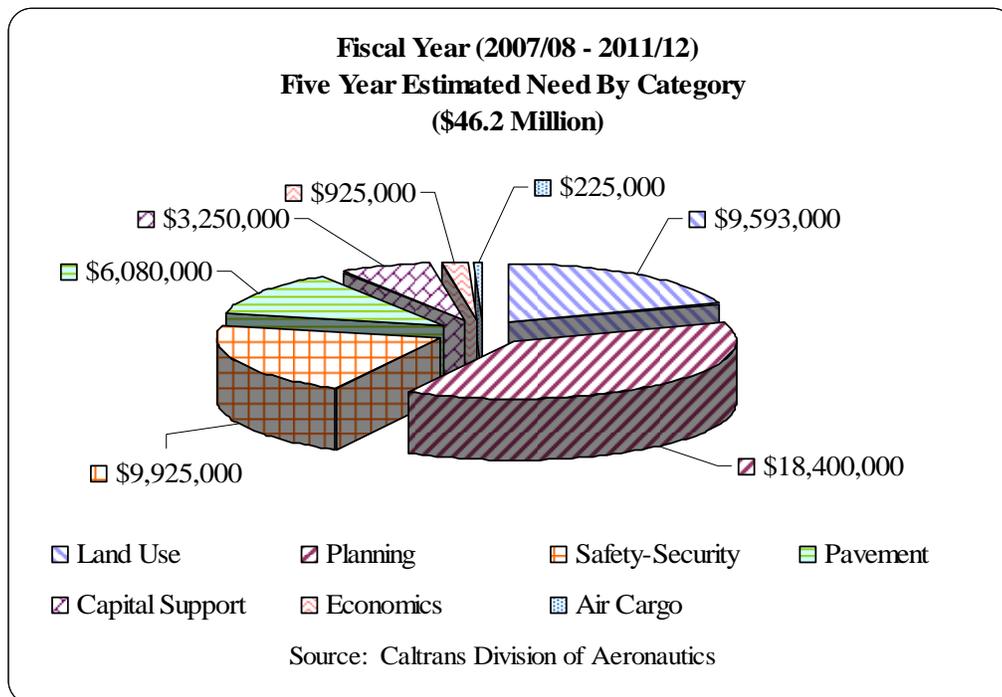
House and Senate versions of the reauthorization legislation were moving through their respective bodies, but a continuing resolution was passed September 30, 2007, and again in November, to allow for continued operation of the FAA and for federal reimbursement of airport improvement projects.

The House version is furthest along and differs from the Administration's proposal. The House version would increase the AIP program over the four-year life of the re-authorization from \$3.9 billion in FY 2008 to \$4.1 billion in FY 2011. The House version is a billion/year more than the Administration's proposal. The bill also provides some \$24 million for the continuation of the Essential Air Service program.

The Administration proposal on revenue generation is to charge the users rather than collecting a fuel tax. Congress, however, concluded that it would use the current methods for generating revenues through a tax on gasoline, where federal taxes on aviation jet fuel would increase from 21.8 to 36 cents per gallon, and the federal tax on aviation gasoline would rise from 19.3 to 24.1 cents per gallon. The bill would also permit an increase in the maximum passenger facility change (PFC) from \$4.50 to \$7 per passenger. The Administration supports an increase to \$6 per passenger.

Continuing Aeronautics Issues

The Commission, based on proposals from its Technical Advisory Committee on Aeronautics (TACA), recommends that the Legislature and the Administration act to address state aviation system needs through legislation that would provide a stable funding source of about \$9 million per year from the aviation jet fuel sales tax for the Aeronautics Account. The Commission would program and allocate the funding to publicly-owned general aviation airports and air carrier public use airports for activities addressing airport safety/security, capacity needs, and needed studies such as economic and land use studies, and comprehensive land use compatibility plans to enhance the capacity and capability of those airports. The chart below shows the estimated five-year need by category.



At the Commission's direction, TACA will work in 2008 with representatives of the Business, Transportation and Housing Agency and the Department to:

- identify potential roles and policies for the State in developing California's aviation system.
- support appropriate legislative proposals that would:

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