

BUDGET NARRATIVE

POLICY PACKAGE #101

Increased Service with Fuel Tax Increase

Request: \$6,000,000 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.

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 airports by supplementing the recent increase in FAA grant match from 5% to 10% of construction project costs. Up to 35% 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. Below is a four year historical average of FAA grants. The largest amount in 2010 shows 5% match at \$1.22 Million annually. This could be \$2.4 million per biennium in potential grant match to rural communities. In chart with percentages on next page, 40% of new revenue would amount to one biennium value of highest year of 5% grant match.

Year	Oregon FAA Grants Awarded	5% match
2008	\$ 19,379,868	\$968,994
2009	\$ 18,812,445	\$940,622

BUDGET NARRATIVE

2010	\$ 24,481,956	\$1,224,098
2011	\$ 22,255,967	\$1,112,798

- c. As authorized by ORS 835.035 and OAR 738-125, up to 33% of new revenue 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 2% of new revenue in accordance with ORS 837.035. ORS .025 currently allows the Department of Aviation to collect pilot registration fee of \$12 per month
- 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 and helps Oregon Department of Aviation to be sustainable and allow increase in maintenance and operations of state owned airports. Uses 35% of new revenue.

STAFFING IMPACT

Two additional FTE to be determined for administration of grant 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 an affected rural community throughout Oregon. See chart below for FAA grants awarded and grant match provided at 5 % (statewide except PDX.) **This POP will enable ODA to help leverage up to 90% return in Federal grants. See total of FAA grants for past 4 years below. For a \$1.2 million dollar investment annually, (\$2.4 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.**

BUDGET NARRATIVE

Year	Oregon FAA Grants Awarded	5% match
2008	\$ 19,379,868	\$968,994
2009	\$ 18,812,445	\$940,622
2010	\$ 24,481,956	\$1,224,098
2011	\$ 22,255,967	\$1,112,798

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 the Office of Emergency Management...to search for lost planes and persons, rescue of lost persons, pilot survival education and training and all other 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 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. **This POP will provide up to \$180,000 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 projects. Revenues have been insufficient to finance any FAM grants

BUDGET NARRATIVE

since 2007 and the program has been suspended. **Revenue for this POP will provide up to 40 grants of \$25,000 per grant 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 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). Minimal maintenance has been put into the remaining 14 NON-NPIAS airports other than that sufficient to keep them safe. **This POP will enable ODA to keep Oregon's system of 28 state owned airports open and safe and provide sustainable funding to the agency.**

See chart below for potential revenue broken down by allocation area. Based on estimated biennium revenue of \$6,000,000 for 2 cents

Program	Percent of revenue increase	Dollar value
Rural Airports Grant program. Assist Rural Communities with up to 5% match for FAA grants.	40%	\$2,400,000
Financial Aid to Municipalities	22%	\$1,320,000
Augment OEM Search and Rescue	3%	\$180,000
Deferred Maint and Sustain Ops	35%	\$2,100,000
Total	100%	\$6,000,000

BUDGET NARRATIVE

REVENUE SOURCE

5. 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 LC to amend ORS 319.

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. Revenue continues to decline year over year. (See chart below) As of the halfway point in 2011-2013, the revenue continues to remain flat. The model that 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 Dept of Aviation since 2007.

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

BUDGET NARRATIVE

2012 through May	-4.7%	+3.1%	11,971,617	154,988	131,430	NA
---------------------	-------	-------	------------	---------	---------	----

*Fuel tax refunds for international flights declined.

