Memorandum

To: TACA Members **Date**: June 9, 2008

From: Robert Chung
Deputy Director **File No:**

Ref: **Preparation of Next Year's Annual Report**

Issue: Each year TACA prepares an annual report to the Commission that:

- Addresses its accomplishments over the year, and
- Raises issues that TACA feels the Commission should advise the Legislature about in the upcoming year.

Recommendation:

Staff recommends that TACA:

- Review the chapter of annual report by the Commission regarding aeronautics and determine if the issues on policy, process, financing are still relevant and if other issues should be considered.
- Review the annual report and request Caltrans Division of Aeronautics for information to update the Annual Report for 2008.
- Form a sub-committee to prepare a draft of the 2008 annual report.

Background:

The Aeronautics chapter of the Commission's 2007 Annual Report follows:

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.

California cannot meet these goals for the statewide aviation system if it continues to leave aviation decision-making to 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.

The Commission's Aviation Responsibilities

The Commission's primary responsibilities regarding aeronautics include:

- Advising and assisting the Legislature and the Secretary of the Business, Transportation and Housing (BT&H) Agency in formulating and evaluating policies and plans for aeronautics programs;

- Adopting the California Aviation System Plan (CASP); a comprehensive plan prepared by Caltrans that defines state policies and funding priorities for general aviation and commercial airports in California; and
- Adopting and allocating funds under the biennial three-year Aeronautics Program, prepared by Caltrans, which directs the use of Aeronautics Account funds to:
  - provide a part of the local match required to receive Federal Airport Improvement Program grants; and
  - fund Acquisition and Development capital outlay projects for airport rehabilitation, safety and capacity improvements at public-use airports.

Technical Advisory Committee on Aeronautics

Under Government Code Section 14506.5, the Commission appoints a Technical Advisory Committee on Aeronautics (TACA) to give advice on the full range of aviation issues considered by the Commission. The current TACA membership includes representatives from airport businesses, aviation divisions of large companies, air cargo companies, pilots and aircraft owners, managers of commercial and rural airports, managers of operations at major commercial airports, metropolitan and local planning organizations, and federal and state aviation agencies.

Caltrans develops the Aeronautics Program from a 10-year Capital Improvement Plan comprised of a fiscally unconstrained list of projects from eligible airports. The Aeronautics Program, a biennial three-year program of projects, is fiscally constrained. The Aeronautics Account, which receives revenues from State general aviation fuel taxes, funds the Aeronautics Program. Funding from the Aeronautics Program, combined with local matching funds, is used to match federal Airport Improvement Program (AIP) grants and fund capital outlay projects at public-use airports through the Acquisition and Development (A&D) element of the California Aid to Airports Program (CAAP). The CAAP also includes a statutory annual credit grant program, which provides annual nondiscretionary grants of $10,000 for each general aviation airport in the State. Aeronautics Account funds are applied first to Caltrans aeronautics operations and the annual credit grant program. Any remaining funds are then available for the projects in the Aeronautics Program adopted by the Commission.

In October 2007, the Commission adopted the 2008 Aeronautics Account Fund Estimate. The Fund Estimate covers Fiscal Years 2008-09 through 2010-11 and identifies approximately $7 million over the three-year fund estimate period to be available for Federal AIP matching grants, A&D grants or funding of other eligible Aeronautics projects. The Commission plans to adopt the Aeronautics Program in the spring of 2008.

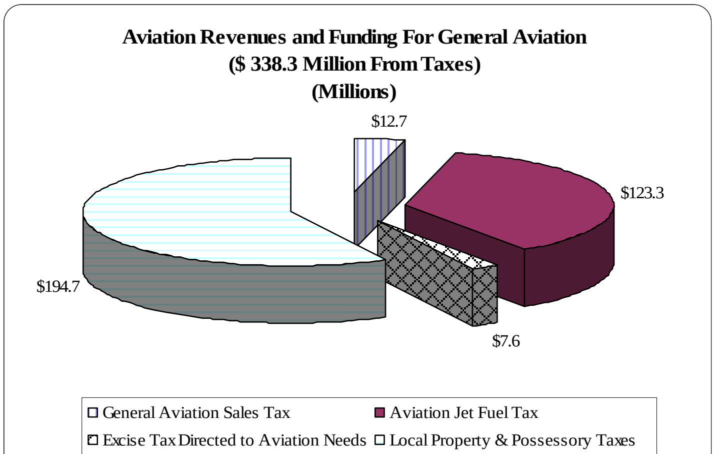
In March 2007, the Commission retained a match rate of 10 percent that local agencies must provide to obtain State funds for Acquisition and Development projects. In June 2007, the Commission retained the reduced Airport Improvement Program (AIP Match) rate of 2.5 percent by the State, thereby increasing the local match required to qualify for federal grants. The reduction in the AIP matching rate will permit previously unfunded A&D non-safety projects to receive State funding during the Fund Estimate period.

During the year, the Commission received advice from its Technical Advisory Committee on Aeronautics regarding the Aeronautics Program and the matching ratios of the Aeronautics grant programs. The Commission also received advice from TACA on pending legislation. The Commission supported bills to increase funding for general aviation capital projects and changes in airport and land use compatibility law.

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 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 that 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.

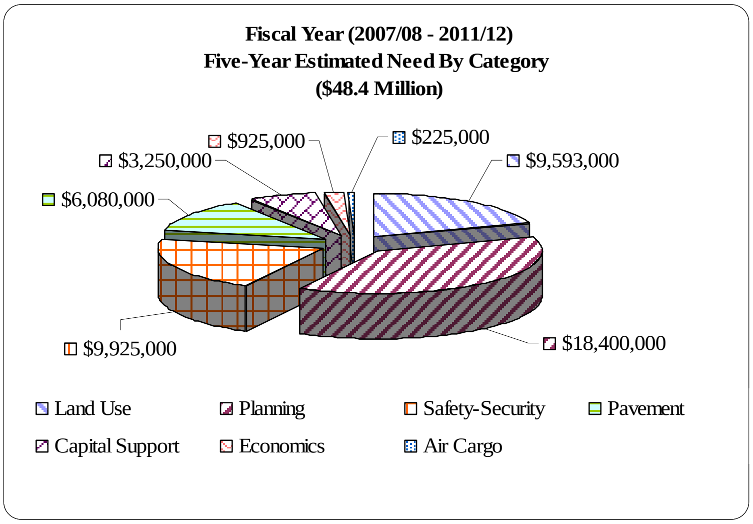


Source: Caltrans Division of Aeronautics

The Commission has long supported increasing state funding to develop an integrated system of airports that adequately meets the demands of California's economy. 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. The Commission supports redirecting a portion of state sales tax revenues from the sale of 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.

Estimated Demand for Future State Aviation Funding

The Commission, based on proposals from 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 on the next page 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 Caltrans to:

- Identify potential roles and policies for the State in developing California's aviation system.
- Support appropriate legislative proposals that would:
  - dedicate the Aeronautics Account revenues derived from the existing aviation fuel excise tax and the potential set-aside of a portion future aviation jet fuel sales tax for aviation purposes.
  - 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.
  - 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.
  - 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.
- 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).

Federal Re-authorization of Vision 100

Vision 100, Century of Flight Authorization Act of 2003, is a four-year statute that lapsed this year. Congress is acting on the re-authorization of Vision 100. 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 about $3.5 billion. California typically receives around eight 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 federal administration proposed a smaller re-authorization, this year, which negatively affects 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 in the re-authorization.

The Federal Aviation Administration (FAA) introduced in February the Next Generation Air Transportation System Financing Reform Act of 2007 (NextGen). NextGen lays 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 FAA the services it provides.

The FAA proposal to forward the Administration's view 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. No legislation passed before Congress recessed. Currently, Congress passed continuing resolutions to allow for continued operation of the FAA and for federal reimbursement of airport improvement projects.

The House version is furthest along. 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. This is more than 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. The House, 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 House 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.