

TACA REPORT ON THE STATE'S ROLE IN AVIATION

Introduction and Purpose:

The rapidly expanding role of aviation in moving people and goods in the global economy requires a reexamination of the State's role in commercial and business aviation. California's economic future is inextricably linked to providing the transportation infrastructure that will connect all areas of the State to the global economic system. If California is to remain competitive in the global economy, our aviation system must be improved to facilitate significant growth in air passenger and cargo movement, to provide access for and fully integrate increasing business and corporate aviation, to ensure mobility around airports, to responsibly mitigate adverse impacts of aviation on communities, and to continue a high quality of life for our citizens.

California cannot continue to leave the statewide economic interests associated with aviation to the vagaries of local politics and priorities alone. The State should accept the responsibility to provide the leadership and resources, in cooperation with local, regional and Federal agencies, to develop the efficient aviation system that is essential for our economic success in the 21st Century.

Now is the appropriate time to reassess and adjust the State's aviation role in coordination with other efforts underway to address critical transportation issues. Enacted in 2000, the Federal Aviation Investment and Reform Act for the 21st Century (AIR 21) provides increased funding and expanded programs for airport infrastructure maintenance and development. A report identifying the State's top infrastructure priorities and recommending approaches to implement the priorities is due in the next few months from the Governor's Commission on Building the 21st Century. Senate Concurrent Resolution 96 (Chapter 158, 2000 Statutes) requires creation of a Global Gateways Development Program in 2001 to identify high priority airport and seaport access and infrastructure projects for purposes of potential Federal, State and other funding. The California Department of Transportation (Department) is in the early stages of a comprehensive, collaborative process to develop a new statewide, multimodal California Transportation Plan that will address the mobility of people, goods and services over the next 20 years.

Recommendation:

The Technical Advisory Committee on Aeronautics (TACA) is recommending that the California Transportation Commission (CTC) direct TACA to work with representatives of the California Business, Transportation & Housing Agency, the Department, and the California Technology, Trade and Commerce Agency to:

- *identify potential roles and policies for the State in developing California's aviation system, and*
- *develop appropriate legislative proposals that will: (1) augment responsibilities and funding for the Department's Division of Aeronautics; (2) restructure the funding of Division of Aeronautics activities to ensure that those that benefit from the activity, both commercial and general aviation, pay for the program; and (3) reserve all current*

Aeronautics Account revenues derived from general aviation for general aviation purposes.

Background:

The Department is requesting the Commission's adoption of the updated Policy Element of the California Aviation System Plan (CASP). The Policy Element: defines the continuous aviation system planning process and the roles of Federal, State, regional and local participants in the process; discusses issues affecting aviation and its relationship with other modes; and defines the policies and implementing actions guiding Division of Aeronautics activities and CASP development, including funding priorities for general aviation and for commercial service airports in California. TACA participated in development of this update as it has in previous updates and in the initial Policy Element adopted by the Commission in 1991.

The role the Department should play in planning and assisting the infrastructure and capacity development and maintenance of the airport system and the funding limits restricting that role continue to be issues emphasized in the current Policy Element update as well as in the Commission's Annual Reports to the Legislature. Options for increased funding have been discussed for years but no action has yet been taken.

The following points substantiate the need for TACA's recommendation and would be considered in carrying out the recommended actions:

- **There is an increasing shortfall in funding capability between the Department's biennial Aeronautics Capital Improvement Program (CIP) adopted by the Commission and the three-year funded program;**

The Division of Aeronautics provides approximately \$1.5 million a year for State capital grants to airports, \$1.5 million to cover half of the local match required to receive Federal Airport Improvement Program grants, and \$1.5 million for a \$10,000 annual entitlement grant to every publicly-owned public-use general aviation airport. *There is a dramatic funding gap between needs identified in the annualized CIP for general aviation airports (a total of \$108 million annualized -- \$68.5 million unfunded) and the portion of Aeronautics Account funds available to fund the CIP (\$1.5 million annualized).* [See Attachment 1].

A new Federal entitlement program for general aviation included in AIR 21 will likely result in many more federally funded airport projects in California. *In order to capture all Federal funds available to California, the State needs to significantly increase the amount of State funds available to meet local match requirements, estimated at about \$3 million annually.* In some cases, providing a greater share of the local match to assist cash strapped airports should be considered.

Also, appropriately addressing reliever and general aviation airport infrastructure needs is increasingly important as commercial service airports face severe capacity constraints from growing passenger and cargo activity and the expanding business and corporate segments of general aviation. Improving reliever and general aviation airport infrastructure and capacity to accommodate business and corporate aircraft will help to mitigate congestion and environmental pressures at the larger commercial service airports and will provide for continued growth of an important contributor to the State's economy.

- **Pressure from development and incompatible uses on land surrounding airports emphasizes the need to have local Airport Comprehensive Land Use Plans (CLUPs) in place.**

Incompatible land use development near airports of all sizes and categories is one of the most serious capacity and infrastructure improvement problems affecting airport viability in California. State legislation requires all counties with airports "open for the benefit of the general public" to form an Airport Land Use Commission (ALUC) and develop a CLUP for each of the airports in the county. As planning issues for airports become more complex, staff time and costs for handling those issues are rising. Insufficient funding has precluded CLUP development in many counties. While funding of CLUPs is an eligible category in the State CIP, few are funded because of limited funds. *The estimate of funds needed to complete CLUPs statewide is \$5.22 million.*

- **As aviation activity grows in California, the public's annoyance with aircraft noise can be expected to grow and there will be increased interest from State Legislators to affect that issue from the State level.**

Under State Law, the Division of Aeronautics administers State Noise Standards for airports. Nine of the ten airports that currently must comply with those standards are commercial service airports, yet the entire program is funded with general aviation fuel tax funds. *The State's noise program has historically cost the Division of Aeronautics in excess of \$300,000 per year.*

Practically every year, State legislation is introduced that, if passed, would require the Division of Aeronautics to take some additional action regarding noise generated primarily by air carrier aircraft. Last year, a bill proposed a \$500 tax credit for persons exposed to a specific level of noise. This year, there was interest from a legislator for the Division to conduct a \$100,000 study regarding aircraft noise in neighborhoods that are well outside any airport's "noise impact area" as defined in the State's Noise Standards. These proposals, however, seldom include a new funding source to implement them.

As pressure increases to provide more service to members of the public who consider themselves to be affected by aircraft noise, there needs to be a mechanism for having the air carriers fund those programs, since they are the most significant generators of aircraft noise.

- **Providing adequate surface connections to airports is critical to improving airport capacity, while there is a general inattention and misunderstanding of the importance of ground access to airports.**

The importance of assessing airport ground access needs and defining appropriate ways to meet those needs consistently has been a concern discussed in the CASP Policy Element and in the Commission's annual reports to the legislature. *In 1999, a Commission survey of airports and the CASP Capital Improvement Plan (CIP) indicated 41 airports had 103 unfunded ground access projects costing \$3.1 billion.* An Airport Ground Access Study just completed by the Division of Aeronautics provides a project specific assessment of needs and recommend methods to plan, fund, program and implement airport ground access improvements, including how the State should take a stronger role.

- **There is an immediate need to aggressively undertake aviation system planning projects to address commercial passenger and cargo capacity shortfalls.**

Historically, funding for CASP development and related aviation system planning projects has come from Federal Airport Improvement Program (AIP) or other Federal planning and research grants. In fact, PUC Sec. 21707 mandates that funding for the CASP shall come from Federal grants. State funding policy has been guided by a concern that limited Aeronautics Account funds should be dedicated to its general aviation source and focused on maintaining airport infrastructure and administering legislatively mandated aviation regulations. Thus aviation system planning conducted by the Department has been dependent upon Federal priorities and funding levels. *The State needs to take action to more aggressively participate in studies and projects that will define how and where airport expansion should take place.* One example is to participate in proposed alternative airport site studies in the San Diego region that could include an international interface with Tijuana International Airport in Mexico. Such studies would address commercial airport capacity shortfalls in the San Diego region.

- **There is a need to ensure that appropriate attention is given to new and emerging issues and related activities.**

The CASP Policy Element attempts to comprehensively identify new or emerging issues and to recommend appropriate actions to address the issues. One example in the most recent Policy Element update is the addition of a policy to guide activities of the Space Office, a recent addition to the Division of Aeronautics. The new Space and Technology Policy recognizes the importance of considering increasingly routine commercial space launch and recovery activities as an essential mode of the transportation system in the CASP and in other intermodal planning, including the California Transportation Plan update. *While responsibilities of the Division of Aeronautics continue to increase, resources have remained constant.*

- **Funding Considerations:** [See Attachment 2]

Existing State Funding:

Annual revenue deposited in the State Aeronautics Account is approximately \$8 million. The Aeronautics Account is the sole State source of funding for the Division of Aeronautics and the programs it administers. The revenue sources are an 18 cents per gallon motor vehicle fuel tax on **general aviation** gasoline, and a 2 cents per gallon tax on **general aviation** jet fuel. Air carrier and military aircraft and aviation manufacturing are exempt from the 2 cents per gallon jet fuel tax.

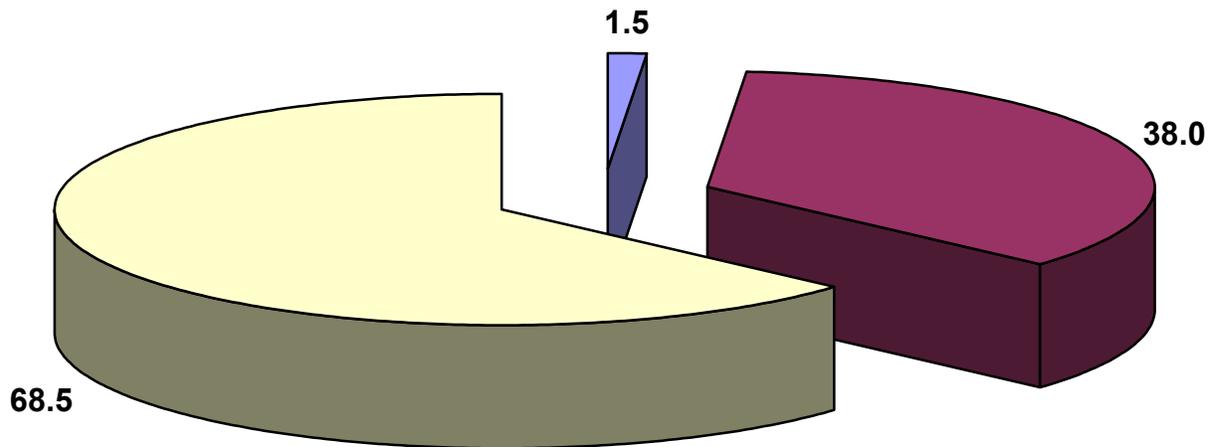
The Division of Aeronautics administers four financial assistance programs primarily for general aviation projects. **Annual Grants** of \$10,000/year are available for capital improvements as well as maintenance and operation costs at **general aviation** public-use airports. **Reliever and commercial service** airports are not eligible for this grant. **AIP Matching funds** match every eligible Federal AIP grant. **Commercial service** airports are not eligible but reliever airports are. **Acquisition and Development Grants** are selected from the State's Capital Improvement Program (CIP). Projects at all publicly owned airports are eligible, and grants are limited to \$500,000 per project. The California **Airport Loan Program** issues loans to airports for construction and acquisition projects that benefit general aviation uses at airports and improve financial self-sufficiency. **All airports** that are owned by a qualified public agency are eligible for these loan funds.

Aviation Funding Sources:

Nearly \$215 million in State and local taxes is collected from the aviation industry annually and only about \$8 million (3.25%) is directed to address aviation needs. Additional revenues generated by aviation but not going to the Aeronautics Account are as follows: *sales tax on jet fuel of approximately \$168 million* (deposited in the State and local general funds); *sales tax on general aviation aircraft of approximately \$10 million* (deposited in the State and local general funds); and *property tax on general aviation assessed valuation of approximately \$30 million* (deposited in local general funds and local school districts).

It appears the aviation industry currently contributes sufficient tax revenues that, if a portion of the revenues were used to address aviation needs, California could make significant progress in implementing State priorities to enhance airport capacity and safety, air passenger mobility, air cargo efficiency, and mitigation of airport operations on communities.

**FUNDS AVAILABLE FOR AIRPORT IMPROVEMENTS (Million \$)
(GA and Reliever Airport Annual Needs-\$108 Million)**



■ State funds available ■ FAA funds available ■ Funding gap

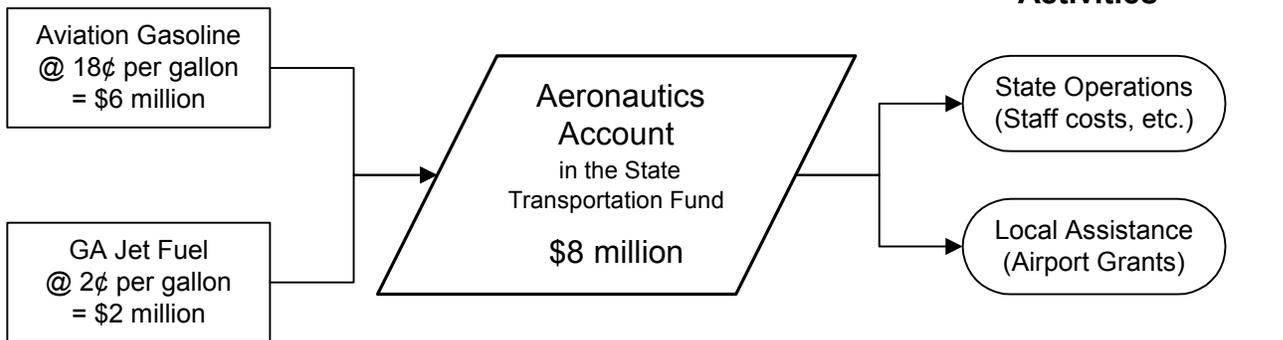
*FAA Airport Improvement Program (Fiscal Year 2000)

**California Department of Transportation, Division of Aeronautics, Capital Improvement Program (July 2001)

Aviation Revenue Sources from State Excise & Sales Taxes

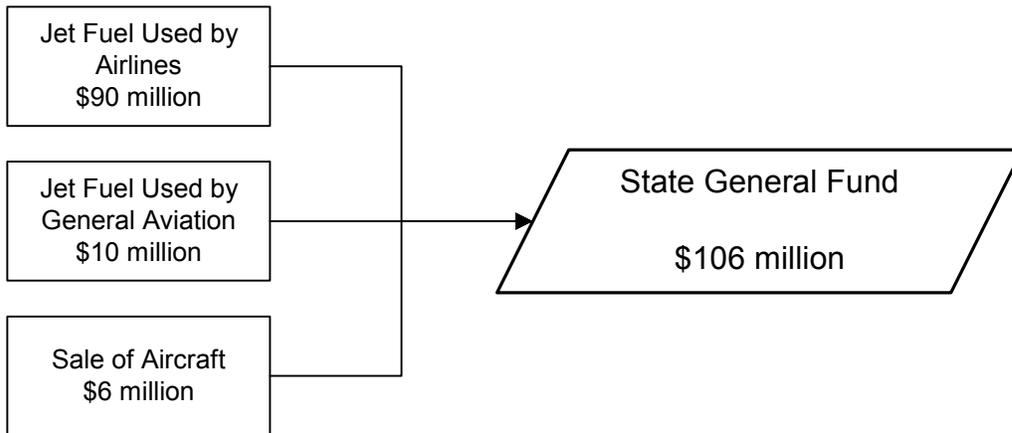
Tax Revenue Sources, Calendar Year 1999

Estimated Excise Taxes



Estimated Sales/Use Taxes (@ 5.0%)

[This excludes the local portions of the tax which are equivalent to 2.92%]



The Division of Aeronautics has several, minor non-tax revenue sources that do not appear in this chart. "GA" General aviation is all aviation except for the military and scheduled airlines (including cargo). Excise tax figures are based on monthly Board of Equalization (BOE) reports of distributed gallons. The jet-fuel sales tax estimates are based on federal DOE reports on gallons sold, BOE reports on tax-exempt fuels and GA jet fuel gallons, and Caltrans' estimate of average retail fuel prices. "Sale of Aircraft" is from BOE and includes taxable repair services and sale of aircraft parts. Nearly all of this sales activity involves only GA. For year 2001, the "state" sales tax rate declined to 4.75%, but the price of jet fuel is much higher than 1999.