

# **A Concept Paper for Providing Additional Funding for Airport Development in Texas: Using an Aviation-Related Sales Tax to Fund Airport Improvements**

## **Overview:**

- Texas is a block grant state and administers federal funds for airport development for general aviation airports. By law, the Texas Department of Transportation is the agent of the state and each political subdivision for the purpose of applying for, receiving, and disbursing federal funds for general aviation airports. TxDOT also administers a state grant program for general aviation airport development. Federal funding for these airports comprises 70 percent of the total while state and local contributions are 19 percent and eleven percent, respectively.
- Texas, having no state tax on aviation fuel, is among the very few states that does not have a dedicated source of funds for airport development. Some states have two or more. State funds for airport grants come from the non-dedicated portion of Fund Six. For the past three years, state funding has been \$16 million per year.
- The state airport system is comprised of more than 300 airports ranging from small rural airports serving the agricultural communities across the state to the large international airports in our large urban areas. The 27 commercial service airports in the state system receive funding directly from the Federal Aviation Administration while the general aviation airports receive state and federal funding through the TxDOT Aviation Division. Due to limited funding, no state funds for capital improvement projects are available for commercial service airports in Texas.
- Total state and federal funding has averaged approximately \$71.8 million in the last three years, not including local government matching funds. The current 0-5 year (short term) needs/implementation costs for general aviation airports alone is in excess of \$1.1 billion.
- Many of the state's commercial service airports also serve as the primary general aviation airport in their region. Often these airports have limited commercial flights and range from a few to a dozen flights per day. These are typically to one or both of the two large hubs in the state, Dallas-Fort Worth International Airport (American Eagle) or George Bush Intercontinental Airport (Continental Express/ExpressJet).

- These smaller commercial service airports do not have the ability to generate revenue like their larger counterparts and often find themselves at a financial disadvantage as their FAA funding levels are minimal compared to their needs. Unfortunately, rising costs, particularly construction and security costs, take up most of the grant money received. Additional funds for airport development would allow these airports to improve, maintain and expand their business opportunities thus providing additional economic growth.
- Perhaps the most equitable or direct way to provide additional funding to our state airport system is by redirecting the existing sales tax on aviation and air transportation-related goods and services from the general fund into a dedicated airport improvement program. Several years ago, a similar method was used to provide dedicated funding to the Texas Department of Parks and Wildlife by redirecting a sales tax on sporting goods to fund the state’s parks. It is emphasized that no new taxes are necessary for this program.
- Utilizing such a sales tax for state airport development would generate substantially more than what is currently allocated. This would allow state aviation officials to spend money generated by users of the system where it matters most while meeting more of the needs of the airport system as a whole. Table ES1 shows the funding levels for 2004-2006.

**Table ES1. A Comparison of Current and Projected Aviation Development Funds under a State Aviation Sales and Franchise Tax Scenario, 2004-2006.**

<b>Year</b>	<b>Current State Airport Funding</b>	<b>Projected State Airport Funding – Sales/Franchise Tax</b>
2004	\$16,000,000	\$61,768,865
2005	\$16,000,000	\$71,549,606
2006	\$16,000,000	\$69,777,072
<b>Total</b>	<b>\$48,000,000</b>	<b>\$203,095,543</b>

Source: TxDOT-Aviation (state funding) and Texas Comptroller of Public Accounts (tax revenue)

- Using state sales and franchise taxes on aviation and air transportation goods and services would provide a dedicated funding source for the state’s airports and would provide a close link between the tax and how that money is spent. It would provide a significant and needed boost to airport development funding in the state for both general aviation airports and the small commercial service airports that serve our business community. It would contribute greatly to both safety and preservation of the existing aviation system investment and contribute to economic growth across the state.

**Summary:**

Texas is among the few states in the country that does not fund its airports from a dedicated airport development fund. What state money is available comes from the Texas Department of Transportation. State funds have been level at \$16 million for the past three years. The majority of the money available for general aviation airport development (70%) comes from FAA funds with the remainder coming from local governments that own the airports (11%).

Implementing a change in how the state sales tax on aviation and air transportation-related products and services is used would provide a larger and steady revenue stream for airport development. It would presumably keep up with rising costs and inflation as the cost of goods and services increases and the tax revenues collected would be closely related to its use. As the state-allocated amount has remained the same for three years, the state's purchasing power has eroded. This has occurred at a time when prices for concrete, steel and other construction materials have seen noticeable increases.

As demonstrated, the level of funding for the last year available (2006) would have increased from its current \$16 million to approximately \$70 million. This would allow more money, approximately \$54 million, to be available for all airports in the state including those currently eligible for state and/or federal funding. It would also provide funding for airport projects at the smaller commercial service airports that often are not able to generate on-airport revenue like their larger counterparts but still have compelling development needs. These include apron space, terminal upgrades, air cargo facilities, and other airside and landside improvements. Many of the state's smaller commercial service airports are functionally large general aviation airports in terms of their activity and ability to generate revenue. They provide the only access to the community for corporate aircraft that have facilities in the area or do business in the area. Their commercial service consists of two to twelve commuter flights per day in turboprop or small regional jet aircraft that connect the community to the large hub airports in Houston or Dallas.

An aviation-related sales tax would raise significantly more money for stated funded airport development than is currently available. It would provide additional funding opportunities for the state's smaller commercial service airports that serve as the economic

engines of their regions. Most importantly, this source of revenue would provide the closest link with the actual users of the airport system.

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