

MEMORANDUM



DATE: November 7, 2011
TO: Interested Parties
FROM: William E. Hamilton
RE: State Support for Aeronautics Programs

Background

The State of Michigan has long provided support for Michigan aviation through regulatory oversight of airports, pilots, and flight schools, and through grant programs to Michigan airports. State authority over aeronautics programs is established in the State Aeronautics Code.

The State Aeronautics Code, 1945 PA 327, established the State Aeronautics Commission and gave the commission general supervisory authority over aeronautics within the state. The commission was charged to "*encourage, foster, and participate with and provide grants to the political subdivisions of this state in the development of aeronautics within this state.*" The commission was given authority to "*establish and encourage the establishment of airports, landing fields, and other aeronautical facilities*" and to "*promulgate rules that it considers necessary and advisable for the public safety governing the designing, laying out, location, building, equipping, and operation of airports and landing fields...*"

Activities in support of state aeronautics programs are carried out by the Office of Aeronautics within the Michigan Department of Transportation.

The State Aeronautics Code established the state aviation fuel taxes, and aircraft registration taxes used to support state aeronautics programs. The State Aeronautics Fund (SAF), created in Sec. 34 of the State Aeronautics Code, is the receiving and distribution fund for aeronautics-related tax revenue.

Funding for state aeronautics programs is provided in the state Transportation budget. A total of \$121.8 million was appropriated for aeronautics programs in the FY 2011-12 budget, of which \$94.1 million came from Federal Aviation Administration (FAA) grant programs, \$13.1 million from local sources (for matching federal funds), and \$14.5 million from the SAF.

Airport Improvement Program

The Airport Improvement Program (AIP) is the largest aeronautics program in the state transportation budget; the FY 2011-12 budget appropriates \$109.7 million for AIP grants. In addition, much of the work of the Office of Aeronautics involves administrative support and program management for the AIP. Even though the program is funded primarily with federal funds, without the state appropriation there would be no authority for the state to expend program funds.

The AIP is a federal program of capital assistance to eligible state airports. The Catalog of Federal Domestic Assistance (CFDA) indicates that "*The objective of the Airport Improvement Program is to assist sponsors, owners, or operators, of public-use airports in the development of a nationwide system of airports adequate to meet the needs of civil aeronautics.*"

According to Congressional Research Service Issue Brief IB10026: "*The Airport Improvement Program (AIP) has provided federal grants for airport development and planning since the passage of the Airport and Airway Improvement Act of 1982 (P.L. 97-248). AIP funding is usually spent on projects that support aircraft operations including runways, taxiways, aprons, noise abatement, land purchase, and safety, emergency or snow removal equipment. Funds obligated for the AIP are drawn from the Airport and Airway Trust Fund, which is supported by user fees and fuel taxes.*"

Michigan is one of ten authorized "block grant" states, a designation that allows the state to assume responsibility for administering AIP grants at airports classified as "other than primary" airports, i.e. nonprimary commercial service, reliever, and general aviation airports. In non-block grant states, the FAA has direct administrative control of the AIP program.

The AIP is effectively a pass-through program; federal funds are made available to the state of Michigan for eligible projects. After a review and approval process, grants are awarded by the State Aeronautic Commission for eligible projects at locally-owned airports.¹ Under the current federal program, federal funds participate in 95% of eligible project costs, with the 5% non-federal share split between the state, using SAF revenue, and the local owner. In effect, the state and the local airport owner each participate in 2.5% of eligible project cost.

Over the last 10 fiscal years, baseline appropriations for the AIP program in the state transportation budget have averaged \$163.2 million, of which an average of \$131.4 million came from federal funds. In addition to the baseline appropriations, \$33.8 million in federal AIP funds were provided to Michigan under the American Recovery and Reinvestment Act of 2009 (ARRA) – \$30.4 million in FY 2008-09, and \$3.4 million in FY 2010-11 from a September 2010 redistribution of ARRA funds. These ARRA projects were 100% federally funded; no local match was required.²

In addition to the federal, state, and local funds used to support the AIP capital program, the state has used restricted revenue bonds to finance some aeronautics capital projects. Between June 2003 and June 2006 the Michigan Department of Transportation sold a total of \$60.0 million in bonds designated for aeronautics capital programs. The bond proceeds were appropriated over a five-year period, \$12.0 million per year from FY 2002-03 through FY 2006-07. This Aeronautics bond program was designated as "ASAP."

Issues Affecting the AIP and State Aeronautics Programs

Airport Improvement Program – In December 2003, President Bush signed into law *Vision 100 - Century of Flight Authorization Act of 2003* (Public Law 108-176) which reauthorized federal aeronautics programs, including the AIP, through September 30, 2007. Authority for the federal AIP expired on September 30, 2007; Congress has not yet passed a long-term reauthorization. On September 16, 2011, President Obama signed into law a short-term extension of the federal aviation programs through January 31, 2012. It was the 22nd short-term extension since September 2007.

¹ According to the 2008 Michigan Airport System Plan, there are 235 *Public Use* airports in the state, of which 129 are publicly owned. Of these 129 publicly owned airports 95 are on the National Plan of Integrated Airport Systems, (NPIAS), and thus eligible for federal aid under the Airport Improvement Program. Most of the publicly owned airports are owned by a local unit of government (county, city, or airport authority). Four airports, the Romeo Airport in Macomb County, the Canton-Plymouth-Mettetal Airport in western Wayne County, the Linden Airport in Genesee County, and the Houghton Lake State Airport in Roscommon County are owned by the Michigan Department of Transportation.

² For additional information on ARRA grants, see House Fiscal Agency analysis of House Bill 4308 of the 2009 Legislative Session, and Senate Bill 138 of the 2011 Legislative Session.

State Aeronautics Fund (SAF) – The SAF is a state-restricted fund established in Sec. 34 of the State Aeronautics Code. Historically, the principal revenue sources for the SAF have been specific taxes on aviation fuel, and, to a much lesser extent, aircraft registration taxes. These two revenue sources are constitutionally restricted for transportation (Article IX, Section 9 of the 1963 Constitution) and are restricted for aeronautics purposes by Sec. 35 of the State Aeronautics Code. The fund also receives revenue from certain airport, pilot, and aviation school licensing fees, and from rental charges for use of the state airplanes.

Sec. 203 of the State Aeronautics Code establishes a tax rate of 3 cents per gallon of aviation fuel – a rate unchanged since first instituted in 1931. Although the stated tax rate is 3 cents per gallon, Sec. 203 also provides for a credit of 1 and one-half cents per gallon for interstate airline operators on scheduled operations.

Revenue generated by the aviation fuel tax peaked at \$8.4 million in FY 1998-99 and has trended downward in recent years. Aviation fuel tax revenue for both FY 2010-11 and FY 2011-12 is estimated to be \$5.5 million.

The aircraft registration tax established in Sec. 11 of the State Aeronautics Code is a weight-based tax – 1-cent per pound of either maximum gross weight or maximum takeoff weight, whichever is greater. This tax rate is unchanged since 1988. The tax is expected to generate \$280,000 in FY 2011-12, an average of \$40 per aircraft based on approximately 7,000 aircraft registrations.

The SAF also receives \$6.0 million each year from an earmark of Airport Parking Tax revenue. The Airport Parking Tax Act (1987 PA 248) provides for a tax on parking facility transactions at Detroit Wayne County Metro Airport and within five miles of that airport. Public Act 680 of 2002 amended the Airport Parking Tax Act to establish the \$6.0 million annual SAF earmark, beginning with the 2002-03 fiscal year.

Use of Airport Parking Tax revenue within the SAF is restricted to repayment of ASAP bonds, to matching federal AIP funding, and to certain safety and security capital projects which were either not eligible for federal aid or for which federal aid was not available.

Public Act 680 of 2002 established a sunset for the tax; it repealed the Airport Parking Tax Act, and thus authority to impose the tax, effective December 31, 2007, or when all airport safety and security bonds authorized under the act were retired, whichever date is later.

The Michigan Department of Transportation has issued the \$60.0 million in airport safety and security bonds ("ASAP" bonds) under the authority of Public Act 680 – \$24.0 million in June 2003, and \$36.0 million in June 2006. Current bond schedules provide for the bonds to be retired in 2031.

Attachments (click on link to view attachments)

[FY 2011-12 Aeronautics Approps.pdf](#)

[SAF AppropsandRev Hist.pdf](#)

[SAF Aviation Fuel Tax Rev.pdf](#)

[MI Aeronautics Capital Outlay Approps.pdf](#)