

SENATE BILL REPORT

SB 5329

As Reported by Senate Committee On:
Transportation, February 11, 2021
Ways & Means, February 22, 2021

Title: An act relating to the distribution of aircraft fuel tax revenue.

Brief Description: Concerning the distribution of aircraft fuel tax revenue.

Sponsors: Senators Honeyford and Holy.

Brief History:

Committee Activity: Transportation: 2/01/21, 2/11/21 [DPS-WM].
Ways & Means: 2/18/21, 2/22/21 [DPS (TRAN), DNP, w/oRec].

Brief Summary of First Substitute Bill

- Changes the distribution of state revenues collected from the sales and use tax for aircraft fuel.
- Requires reporting of grant funds awarded for airport projects and estimated funds returned to the general fund from sales and business and occupation taxes generated as a result of the funded airport projects.

SENATE COMMITTEE ON TRANSPORTATION

Majority Report: That Substitute Senate Bill No. 5329 be substituted therefor, and the substitute bill do pass and be referred to Committee on Ways & Means.

Signed by Senators Hobbs, Chair; Saldaña, Vice Chair; King, Ranking Member; Cleveland, Das, Hawkins, Lovelett, Nguyen, Nobles, Padden, Randall, Sheldon, Wilson, C. and Wilson, J.

Staff: Daniel Masterson (786-7454)

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not part of the legislation nor does it constitute a statement of legislative intent.

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass.

Signed by Senators Rolfes, Chair; Frockt, Vice Chair, Capital; Wilson, L., Ranking Member; Brown, Assistant Ranking Member, Operating; Honeyford, Assistant Ranking Member, Capital; Schoesler, Assistant Ranking Member, Capital; Braun, Conway, Dhingra, Gildon, Hunt, Keiser, Mullet, Muzzall, Rivers, Van De Wege, Wagoner and Warnick.

Minority Report: Do not pass.

Signed by Senators Darneille, Hasegawa and Pedersen.

Minority Report: That it be referred without recommendation.

Signed by Senators Robinson, Vice Chair, Operating & Revenue; Carlyle, Liias and Wellman.

Staff: Jeffrey Mitchell (786-7438)

Background: Aircraft fuel is gasoline or any other inflammable liquid that is chiefly used as a fuel for the propulsion of aircraft. An excise tax and a sales and use tax are collected on aircraft fuel used in Washington.

An excise tax of \$0.11 is levied on distributors for each gallon of aircraft fuel sold, delivered, or used in Washington, with some exceptions. This excise tax is collected by the Department of Licensing and remitted to the State Treasurer (treasurer) for deposit into the Aeronautics Account.

A sales or use tax of 6.5 percent of the selling price of aircraft fuel is collected from purchasers and users of aircraft fuel in Washington. The sales and use tax is collected by a seller of aircraft fuel. The seller of aircraft fuel then remits the collected sales and use tax amount to the Department of Revenue (DOR), and DOR remits the moneys to the treasurer for deposit into the state general fund.

Summary of Bill (First Substitute): Beginning November 1, 2022, and by November 1st of each year thereafter, DOR must estimate the gross sales of aircraft fuel subject to sales and use tax for the previous state fiscal year. Pursuant to this estimate, funds must be distributed from the general fund as follows:

- for fiscal years 2022 and 2023, an amount equivalent to imposing a 0.5 percent tax on the amount estimated must be credited to the aeronautics account; and
- beginning with fiscal year 2024, an amount equivalent to imposing a 1 percent tax on the amount estimated must be credited to the aeronautics account.

Beginning July 1, 2021, the Aviation Division of the Department of Transportation (division) must track the amount of additional funds awarded for airport projects through the airport aid grant program. The division must report annually to the Transportation

committees of the Legislature for the years 2021 to 2027, and thereafter as needed. The report must include, but is not limited to:

- a short description of each airport project funded;
- the state grant amount from the aeronautics account contributed to each project;
- the amount of federal matching funds contributed to the project; and
- the amount of local airport sponsor matching funds contributed to the project.

At the end of each fiscal biennium, beginning June 30, 2022, the division must report to the Senate Ways and Means, House Appropriations, and the Transportation committees of the Legislature the estimated amount of funds returned to the general fund giving consideration of sales and business and occupation taxes generated as a result of the funded airport projects.

If the aircraft fuel tax is paid by electronic funds transfer, and if the payment due date falls on a Saturday, Sunday, or legal holiday, payment is due the next business day.

EFFECT OF CHANGES MADE BY TRANSPORTATION COMMITTEE (First Substitute):

- Provides DOR with four months after the end of each fiscal year to estimate the sales and use tax revenue from aircraft fuel sales for the purpose of determining the amount to distribute to the aeronautics account.
- Makes a change to the due date of tax payments by electronic fund transfer when the due date falls on a Saturday, Sunday, or legal holiday—instead of being due on the business day immediately preceding the due date, the payment is due the next business day.

Appropriation: None.

Fiscal Note: Available.

Creates Committee/Commission/Task Force that includes Legislative members: No.

Effective Date: The bill takes effect on July 1, 2021.

Staff Summary of Public Testimony on Original Bill (Transportation): *The committee recommended a different version of the bill than what was heard.* PRO: The FAA has notified the state it is not compliant with the FAA's aviation revenue policy. Our concern is if we do not come into compliance with revenues from aircraft fuel, we could lose all federal airport funding. That would be a disaster for our airports. If you look at the investments in airports, they repay in the form of sales tax revenues and other things that would overcome the loss of fuel tax revenue. A 2018 airport pavement index study, illustrates the problem. The study showed pavement index was at 78 in 2005, that dropped to 73 in 2018, and is projected to drop to 66 by 2025. If the FAA does punish the state for

non-compliance with the aviation revenue policy, it will not hit the state very much, but it will hit airports. It will hit SeaTac Airport hardest. SeaTac would not benefit directly from this bill. A lot of federal money is currently left on the table. Airport projects receive 90 percent funding from the federal government and the other 10 percent is either state or local match. Help local airports come up with more of that local match so we can pursue all of our federal allocation. Central Washington University operates the only four year aviation program in the Western U.S. out of Bowers Field in Ellensburg. That airport has been deteriorating over the years due to lack of funding. There is only one operating runway, another runway was shut down. Bowers Field is an underutilized asset in Kittitas County. Recently the commissioners have seen Bowers Field as an economic driver for Kittitas County, as well as all of Central Washington. We see this bill as a way to leverage resources for federal grants and to complete more of the projects the airport has under development.

Persons Testifying (Transportation): PRO: Senator Jim Honeyford, Prime Sponsor; Steve DuPont, Central Washington University; Brett Wachsmith, Kittitas County; Chris Herman, Washington Public Ports Association.

Persons Signed In To Testify But Not Testifying (Transportation): No one.

Staff Summary of Public Testimony on First Substitute (Ways & Means): PRO: This bill supports small airports around the state of Washington. Central Washington University has the only undergraduate program in aviation in the state. Even though the pandemic has detrimentally impacted aviation, we are still seeing robust demand for students entering our program. Our facilities are deteriorating. This bill leverages a very impressive federal match. The state receives very little money from the federal government but the airports receive money directly from the federal government. We are worried that the federal revenue use compliance issue could directly impact funding for airports. If an airport is a federal system airport, 90 percent of their project is covered by federal dollars. There is a 90 to 10 match. This is a great bill to put more money into local and regional infrastructure. State aviation provides \$851 million in tax revenue to the state. The state gives back \$1.4 million. The FAA has set aside \$675 million in 2021-25 to support 64 of our airports; however, WSDOT will have to come up with \$4.2 million as a match. We estimate that there is about \$40 million in state taxes on aviation that is coming out of the system and may be out of compliance.

OTHER: There are five main programs within the aviation division. The bulk of funds under consideration relate to the airport grants. The taxes in jeopardy from the federal compliance issue are the hazardous substance tax, the petroleum products tax, and some local sales and use taxes placed on aviation fuel.

Persons Testifying (Ways & Means): PRO: Steve DuPont, Central Washington University; Chris Herman, Washington Public Ports Association; John Dobson, Washington State Aviation Alliance.

OTHER: David Fleckenstein, Washington State Department of Transportation.

Persons Signed In To Testify But Not Testifying (Ways & Means): No one.