



AIRCRAFT OWNERS AND PILOTS ASSOCIATION

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December 1, 2008

The Honorable Hoon-Yung Hopgood
Chair
Committee on Transportation
Michigan House of Representatives
Lansing, MI 48909-7514

RE: House Bill 6751

Dear Mr. Chairman:

The Aircraft Owners and Pilots Association (AOPA) represents the General Aviation (GA) interests of more than 414,000 pilots nationwide – including 12,000 in Michigan – and I am writing to express our opposition to provisions of House Bill 6751, which would significantly increase taxes on aviation in Michigan. This legislation is an outgrowth of some of the alternatives proposed by the State's Transportation Funding Task Force.

We are principally concerned about the proposed restructuring of Michigan's tax on aviation fuel. Today, Michigan's current tax rate on aviation fuel is three cents per gallon, with a refund of one and one-half cents per gallon to commercial interstate airline operators. Each penny on a gallon brings the State \$3.6 million. HB 6751 proposes to change this from a flat fee to a tax of three percent of the wholesale price on each gallon of fuel.

While three cents per gallon may not seem like a significant cost, it is coupled with the State's sales tax, which is levied at the rate of six percent of the retail price is currently levied on sales of aviation fuel and other aviation related products, such as aircraft, and aircraft parts. So, as the cost of aviation fuel has climbed dramatically, so has the State of Michigan's take from this sales tax! While some of these funds are constitutionally dedicated to other purposes, the legislature could repurpose the remainder to the State's Aviation Fund. This could realize an average of nearly \$15 million dollars a year at current rates.

For many years, Michigan aviators have paid the six percent sales tax on aviation fuel and aviation related products without seeing a benefit to the State's aviation system. Before the legislature imposes an additional burden on a sector of its economy and transportation system already under considerable pressure, it should seek alternatives to funding its aviation program.

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You may be aware that Congress has yet to adopt a long-term financing plan for the Federal aviation program. The Administration, the Senate and the House each have put forth different proposals. While the proposals differ in details, they all mean an increase in cost to general aviation. Additionally, aviation has been severely impacted by dramatic increases in fuel costs, prices that have not declined along with the recent drop in automotive fuels.

These costs have already had a negative effect on General Aviation, which comprises all flying that is not military activity or schedule passenger airline service. As fuels costs have doubled since 2005, GA activity has dropped by hundreds of thousands of annual operations. If tax increases exacerbate this trend, it will likely cause a significant decline in this important segment of the nation's economy, which today supports 1.3 million jobs and over \$150 billion of total economic activity. This would have a detrimental effect on GA's ability to continue its vital role in your state and local economy through Michigan's nearly 500 airports.

Please remember that, by its nature, aviation does not recognize state lines. Aircraft operators living close to states that border Michigan with more favorable tax environments will choose to base, fuel, purchase, and service their aircraft in those states. Not only would HB 6751 create an unfavorable tax environment for aviation in Michigan, it would be likely to depress the level of aviation-related business activity at Michigan airports, thus impacting airport revenues, local businesses and economies. This would certainly include aircraft service providers, and likely aircraft sales as well, since the two are often closely linked. These revenues generated by the sale, storage and service of those aircraft could easily go to neighboring states.

Many states, recognizing the special nature of aviation, are taking their tax policies in a very different direction. They have seen and understood the value of having a vital, growing aviation sector in their state economies. Remember, aviation businesses provide highly skilled, well-paying jobs, while generating broad tax, transportation and economic benefits statewide.

Given the economic good sense that protecting the aviation sector makes for Michigan's economy, we strongly urge you to revise HB 6751 to delete this significant alteration in the State's fuel tax scheme, and consider some of the other alternatives suggested by the Transportation Funding Task Force.

Thank you for your consideration of our comments. We hope you will take the time to make the right economic choices for Michigan aviation.

Respectfully,

Gregory Pecoraro

Vice President, Government Affairs