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1/24/79

HOUSE TAXATION COMMITTEE
46th Legislature

Representative Herb Huennekens, Chairman, called the committee to order at 8:30 a.m., January 24, 1979, in room 434, Capitol Building, Helena. All members of the committee were present, as was the staff attorney.

This hearing on House Bill 60 was an extension of the hearing on this bill heard on January 15, 1979, because some persons vitally interested were not able to be in Helena on January 15.

House Bill 60 would raise the tax on aviation fuel 1¢ per gallon which would amount to \$350-\$400,000 per year that would go into the aeronautics fund.

Richard O'Brien, Conrad, representing the Montana Aeronautics Board of which he is chairman, said the present tax has netted \$360,000 a year. Three-quarters of a cent of the proposed increase would be set aside in an earmarked trust fund to be used for loans. Conrad is undertaking a \$425,000 airport improvement program and is requesting a loan from the Division of Aeronautics of \$40,000 to use as a matching fund for 90% federal dollars. They don't have any sources of funding to come up with for matching money. The board feels very strongly Montana needs good viable airport facilities, since it has general aircraft usage second only to Alaska.

In 15 years - 1961-1976, total loans made to communities from this program are \$2,575,000 and have given grants of \$33,000 in those 15 years. The loan fund could be down to \$218,000 at the end of fiscal year 1979. They want to be able to continue the loan program, but that will have to be curtailed if they don't receive a tax increase. Urged favorable consideration of HB 60.

Richard VanLuchene, Montana Aviation Trades Association, Billings, supports the 3/4¢ for loans, grants, etc. to small Montana airports. See his testimony attached.

Walt Anderson, Ekalaka, Carter County Airport Board of which he is chairman, supports HB 60. They have done \$60,000 in air ambulance work in the last two years. They have to land on the highway. The 2 mills tax for the airport raises \$13,000 a year. Part of that would have to be used to pay back the loan to the airport authority, maintenance, etc. - would all have to come out of there. Maintenance is really high. He favors the increased tax because it goes to small airports and navigational facilities, of which we don't have any. Billings to Rapid City is a long way.

Herb Samon, State Board of Aeronautics, Cut Bank, supports the bill. Testimony is attached.

Opponent;

John Patten, Capital Aeronautics, Inc., Helena, opposes the 2¢ tax on aviation gasoline when it goes to the Aeronautics Division, but he supports the revolving trust account. See his testimony attached.

Proponents:

Charles E. Marshall, member of the Montana Aeronautics Board, definitely is in support of this bill to increase aviation fuel tax to 2¢. Montana relies heavily on aviation and we have to develop small fields that cannot afford to do it on their own. Will find that aviation programs in small towns will not be done without this type of financing. Aviation program is necessary for progress in Montana.

Ray Tocci, Gallatin Valley Hanger, member of the Gallatin County Airport Board, is definitely in favor of the bill as are the associations he represents. See testimony attached.

Rep. Dassinger took over as chairman.

Rep. Huennekens, District #68, Billings, is a light airplane pilot, and is representing the pilots in the state. He flies all over the state, and lots of times needs help. He landed at Ekalaka with no fear as conditions were good, but there are no navigational aids, no omni aids at 6500 feet without omni systems for 75 miles approaching Ekalaka. There are numerous, hundreds, perhaps thousands flying across frighteningly long spaces. For the welfare of Montanans, we need paved strips across the state. Distances are great, we need some route to help small airfields, need more aids.

Rep. Huennekens reassumed as chairman.

Opponents;

Roy K. Erickson, representing scheduled airlines serving Montana - Western, Frontier, Air West, and Northwest Airlines - said HB 60 proposes to increase aviation fuel tax 100%. See his testimony attached, charts, and brochure. The airlines are very much opposed to HB 60. Most states do not have an aviation fuel tax - 34 out of 50 do not, he said. They other means of getting fuel than buying it in the state. They think they are paying their fair share now and any tax now should be justified. Suggesting looking at the fund provided by the airline ticket tax for navigational aids to small airports.

Jay C. Woolley, Western Airlines, Los Angeles, California, opposes HB 60. Most of the money is used for loans. The original loans are provided by the fuel tax and are being paid back by landing fees. See his "Landing Fees and Rent" attachment. 67¢ of the funds should not be charged to general aviation airports that they do not operate into. The total fuel cost has been rising at an alarming rate. \$15 million increase in fuel cost alone. With what they know, fuel costs will go up, for Western alone it could reach \$74 million. Every penny added to the fuel amounts to about \$4,200,000 just for every penny increase systemwide. Routes through Montana are short or medium range and are very marginal if they are profitable at all - 1/5% yield even with additional increase on revenues taken in on the state.

All costs are going up. Western in 1978 in Montana for flight property and property taxes in general paid \$845,740, State of Montana income taxes \$17,000, fuel taxes \$46,335. If forced to pay a higher fuel tax, it could be unprofitable with a 1.5% profit margin this takes a pretty good chunk out of it.

Landing fees \$208,666 at the four airports they serve, plus \$230,085 charges and the total comes up over \$687,000 in taxes and landing fees and the cost of doing business in Montana.

Tankering - have a pretty good price on fuel in Canada - will of necessity have to tanker fuel in Canada rather than buy it here. Utah has a 4¢ tax - 1¢ goes to operate the division, the other 3¢ goes back into the Salt Lake City airport to help keep landing fees at a low rate. There are also refineries at Salt Lake City which gives them a good rate.

They have absolutely no feelings about the suit going on. They have had good cooperation with the Aeronautics Commission. Their opposition has nothing to do with the problems or investigations going on.

You are dealing with the lifeline of the state - air transportation is the only way you can go. Dan Sparkman, President of Big Sky Airlines, asked me to express opposition to this bill. These additional costs will make it that much harder for him to operate at a profit.

Homer L. Holman, Holman Aviation Co., Great Falls, president, is a fixed base operator that is involved in refueling large and general aircraft. Approximately 4,166,000 gallons of gas is pumped by this company, with 3,900,000 gallons going to the airlines. At the Great Falls airport approximately 80% of all the fuel pumped goes to airlines, 15% is the general aviation share of the amount of fuel.

The Great Falls airport can handle the wide-bodied aircraft that comes over the poles. It is a very costly type of operation and very competitive. They are involved in operations with the Luftansa.

Canadians charge \$500 fueling charges which is less than here, but other charges make up the difference. TWA has a choice of Great Falls or Salt Lake City and if we continue to increase our costs, we will not get this business and the Aeronautics Commission will not have the benefits from this tax. These plans pick up 7-10,000 gallons on a stop.

There is an unfortunate situation on landing fees which range from 28¢ to 56¢. An additional cost to overcome when competing with Salt Lake City. Very definitely interested in the cost of the fuel to the carrier. The carrier actually purchases from the oil companies and they charge a fee to put the fuel aboard. The only other city that can handle a wide-bodied plane is at Billings.

The fuel tax on fuel sold at Great Falls in 1978 was \$44,660 - HB 60 would double that cost. Airline tankering decreases when they make a good Canadian purchase on fuel. Fueling in Spokane is cheaper than at Great Falls, and it is refined in Billings. Gas prices rose 1 1/2¢ last week. It takes fuel to carry fuel. The planes figure out how much fuel it takes to go to Great Falls, land at Missoula and on to Spokane and will purchase the minimum amount they can in their operations. When using large volumes, they don't have to charge such high prices, plus all states around do have a better fuel price than at Great Falls. The price of average fuel handling is cheaper than that at Great Falls. 707 planes land on schedule in Great Falls, but not so many refuel there.

We definitely need a good airport system in Montana, but have to look at some other means of taxation. Asamara pays on their \$1.8 million jet \$20,000 a year tax and just a very small amount of that comes back into the airport. If you need revenue, have to go back to the airports from which it is derived.

Robert N. Slichter, Frontier Airlines, Denver, said this proposed 100% increase causes a great deal of concern to them. They are willing to pay their fare share of landing fees, etc. This is part of their business. But he cannot say strongly enough how a 100% increase would affect their operation. Would have to take a very, very close look at it. This would do nothing to stimulate commercial airline business in Montana and could very well work to the complete opposite.

Property taxes paid in Montana in 1974, were \$66,500, in 1978, \$111,000. Landing fees and rentals in 1974 amounted to \$185,000, in 1978, \$391,662. If there is a fuel increase, it will cause us a great deal of concern. Passage of the Airline Deregulation Law has made for a more competitive business. Definitely against an increase in the fuel tax.

Dave Jonas, Helena Chamber of Commerce which represents 693 members, is getting tired of one business subsidizing another business. He opposes paying general aviation dues when the ones who pay do not use them. Business is supposed to stay within a 5.75 guideline on prices. Deregulation really concerns us here in Helena. They have just built a nice new airport. Everybody is filing for the same route, but all are bypassing the City of Helena. Northwest is now stopping in Helena, but if Western and Alaska and any others start flying this route, other airlines will say we are not wanting to make Montana stops. We have to keep the big airlines here.

We ought to cut back in a few areas also. Western will not stop overnight in Helena and fill their tanks. They will skip us and bypass small businesses in Helena. Every additional penny will make this happen.

Proponents:

Rep. Fagg said Billings is the center of the Northwest Airlines. This proposed gas tax is not for subsidizing the Aeronautics Division. 508 passed in 1974 clearly states that the Aeronautics Administration is to charge individual state agencies - no gas tax goes into the air transportation section, nor to any division provided for by legislative action.

Regarding the airport and their airways budget, part of which was unused - fact of the matter is that many programs can't be funded. \$189,000 is not a great deal of money and could be carried over and used in the future and make for more substantial program in the State of Montana. This money has been budgeted and will be used. A tremendous amount of this budget has been paid for by the major airlines themselves.

When the airline strike was on the airlines actually showed an increase in income - there were no services here and no gas sold, but income went up. The taxes airlines provide go to provide them office space, a place to operate - they are charged rent for it. Billings taxes paid for the building. Their budget goes for H-Markers, and Airway Beacons located in all little fields in eastern Montana. The tax is a cost of doing business.

People from the Alaska Lines who are trying to get into Montana are not present. Many airlines trying to get in aren't present at this hearing to protest.

Air fares are reduced substantially because of deregulation. When they can cut their fares in half, 1¢ per gallon isn't going to affect them very much. A portion of the tax will be passed on to the users. And that can be deducted from the government because it is a cost of operation. What will this do to Northern people. A big feeder to them is the light airplane.

This tax doesn't go to subsidize airlines in Montana; there is no surplus in the Aeronautics funds, it is budgeted; this is certainly not a 100% increase; Markers and Beacons are very necessary. Neighboring states are doing the same thing. This is a necessary piece of legislation. There comes a time to pay your own way.

Wayne C. Turner, Triangle Aviation, Big Sandy, feels this bill should be amended to delete the 1/4¢ for administrative portion, and be passed with this amendment. Small airports need help - they provide passenger boarding to air carriers. See testimony attached.

Questions from the committee -

Rep. Huennekens told Mr. O'Brien that funds from the state revolving fund also go to airports servicing large planes. Construction of improvements made are of the sort that would be a benefit to the larger airlines. Mr. O'Brien gave the committee a handout showing the status of loans and grants going back to 1959. All the money borrowed as loans has been paid back.

ADAT stands for Airport Development Aid to Transportation.

Mr. Erickson said everything is relative - we are basing our position on the fact that it isn't necessary and is 100% in error. Look at Attachment E, Northwest Airlines boarding - boarded 9,422,000 gallons at Billings and 37,000 gallons at Butte for exactly that reason - because of the substantial price differential.

Rep. Harrington asked Mr. Erickson why the difference in gas at Billings and Butte. Mr. Dick Beaton, station manager, said they buy from a private operator, and pay service fees for putting fuel into airplanes - fuel is trucked into Butte. When fuel is put in at Butte because of operational reasons they go in light loaded, and put in a little and take off.

Rep. Reichert asked Mr. Holman if another system is higher than Montana's. He said this bill takes property share on their aircraft and goes back into the industry. Taxes from fuel are not the proper way to distribute the costs. Small airport might buy 10 gallons, so a Lear Jet comes in and buys 1,000 gallons - takes the same service. Airlines used to do all their own fueling because they did not have any other means of refueling. It takes \$100 million insurance and includes the knowledge of refueling to do this. The trend is for the airlines to get out of the "into plane" operation. Other companies are doing the airlines' work, and do all the refueling on the Great Falls airport. Butte has never been used as a refueling stop. They have locked-in prices so if they were lowered, would have to lower all prices.

Rep. Underdal asked what is the difference between jet fuels and general aviation gas? Mr. Holman said 70% of all the fuel brought into Montana is for airlines, Not quite 30% is general aviation. Great Falls 88% of all the product pumped is airline fuel, To break it down into jet and general aviation fuel would be almost impossible.

Rep. Hirsch asked because of heavy income tax liability will they overfly Montana? He doesn't think any carrier will overfly Montana - he said they would have to purchase the fuel out-of-state. The price of fuel isn't close to being made up by additional income. They can tanker fuel into Great Falls. The business of income tax here is not their major expense. Their major expense is in landing fees and rentals and gas.

Rep. Huennekens addressed Mr. Erickson, saying based on load, flight conditions, etc. at point of destination, this is much more complex than it appears on the surface. Mr. Erickson said it isn't the simplest thing in the world. Computers enter into the picture. They try to get the lowest price of fuel they can. The cost of tankering a gallon of gas in from Chicago even enters the picture.

Rep. Lien asked how far a gallon of gas can be tankered. Sometimes it doesn't cost anything. Can load up with some without costing anything because the truck itself would cost to travel. Sometimes could come out of Chicago and might carry 3-4,000 gallons and might not cost you anything. Have to have some fuel in a plane as it does not handle well without some load.

Rep. Bertelsen asked Mr. O'Brien if the Aeronautics Commission has figures. Mr. Woolley explained they know what the load will be, and put into computer the weather, jet streams, passenger load, etc. They are most efficient fuel users. They know on a daily basis what amount of fuel they will need at any one point.

Rep. Burnett asked Mr. Erickson what their actual gallon fuel cost is. Mr. Erickson said the Twin Cities, Spokane and Chicago can supply their fuel needs and can avoid fueling partially in Montana. The cost varies from station to station and fuel contracts were all frozen in 1972. We can only pass through the increase that the Arabs gave to us. We have exactly the same prices we had in 1972 and fuel has gone from about \$2,800 to over \$7,000 for the same fuel. The basic price that it costs us, plus 4% non-product increase to take care of increase in salaries, etc. Back to 1972, if we had a 15% mark-up, have the same mark-up. General aviation o.k.s on an area basis - would have to raise all in that area. There was a 1 1/2¢ raise in gas last week. Northwest would have to be raised in their whole system.

Herb Salmon, Aviation Board of Aeronautics, is still operating on the same 1¢ since 1945. Rep. Fabrega asked how much has gallonage increased? He was told it has decreased about 65% since 1945 because of the Glasgow Airbase being closed down.

Mr. Erickson commented that where you provide 70% of this tax, you don't feel you are getting 70% of the benefit for airports they serve. They feel they are paying for facilities that should be paid for already.

Rep. Fabrega asked if you pay 70% of the tax, do you not get 70% of the benefit if the money were used in navigational aids, etc. Mr. Woolley said No - they don't go to airports where benefits are made. You are paying an 8¢ tax on air tickets which airlines are trying to reduce to 5¢ or 6¢ because ADAT has a \$3 billion surplus. They pay landing fees and rentals. Landing fees repay loans to Aeronautics Commission and rentals provide revenue for bonds by the communities to build the facilities, not only for the airlines to use, but for the convenience of the customer. They are repaying the "jet way". \$1.5 million into the jet ways.

Rep. Fabrega asked if there is a landing fee for general aviation at any airport? There is a flowage fee on the aircraft - 4¢ goes to the authority in Great Falls. Airlines pay a landing fee of 56¢ per 1,000 pounds in Great Falls.

Mr. Erickson said they don't need a lot of the programs the Aeronautics build. They don't get 70% benefit. Programs are fine, but not supportive of the industry.

Rep. Williams asked Mr. Erickson what figure they come up with when they equate passenger miles in Montana with occupied seats, starting from the premise that smaller airports could stand more navigational aids. Mr. Erickson said you don't want to charge that to the private pilot. Should look to Washington - at the \$3 billion that is getting ever bigger. That might be obtained on a 90-10 basis. There is lots of money sitting unused in Washington.

Rep. Dozier asked the price of gas in Calgary - it is 39.6¢ per gallon. Raising the 1¢ costs the whole industry \$1 million - it is not an inconsequential matter.

Rep. Nordtvedt asked what fraction of operations of airlines is the fuel cost - Mr. Woolley said 30% in this area.

Rep. Gilligan asked Mr. Jonas if the general public is paying for this? He said the general public is getting tired of paying for these minority taxes. They object to having to pay for federal revenue when they can't fly their own plane, and are against this bill.

Part of the problem is that property taxes and other taxes on the air business do not go back to the air business.

The question of who uses the Helena airport the most arose. Mr. Patten said general aviation does indeed pay its way. Taxes that go into the general fund for their aircraft leave the air industry. The 2¢ tax is a greater burden on a small person than it is on a large line. Are there more general aviation landings at Helena? There is no charge for general aviation landings at the new airport.

There is a \$3.5 billion trust fund for airline accidents. It is proposed to go back to FAA regions who would dole it out to the various states. The larger airlines will want most to make safety provisions.

Rep. Dassinger asked Mr. Woolley the comparison of tax would be to 1.5% profit. He said they took in at Casper for the first 11 months in excess of \$4 million, expenses, including fuel, etc, were also in excess of \$4 million. Had a profit

margin of 1.4%. Pretty small margin. The percentage of value to the airlines that 70% provided was partly returned by the strip in Billings that has 9,500 feet of specially paved strip and over 125# stress built in. The airlines do derive 70% of the value of that tax Rep. Dassinger believes.

Rep. Sivertsen mentioned to Mr. Jonas there is a fixed cost for travel no matter what the means of transportation. Mr. Jonas does not believe it should be put on commercial travel.

Rep. Harrington asked Mr. Jonas if we are possibly faced with loss of air service because of air deregulation. Mr. Jonas answered that is true.

Wayne Turner, Flying Service in Big Sandy, views the aviation tax as a users' tax since they do benefit from it. The tax is being paid in general by airlines and not by general aviation. However, they do provide passengers both ways.


Rep. Reichert asked if the state Chamber of Commerce had taken a stand on this issue. There has been no statement from the state Chamber of Commerce.

Rep. Harrington asked the industry for a list of boardings in different cities from the major airlines over the last year.

The meeting adjourned at 11:45 a.m.



REP. HERB HUENNEKENS, Chairman



Secretary