FISCAL IMPACT REPORT

SPONSOR SFC **DATE TYPED** 03/18/05 **HB**

SHORT TITLE Aviation Fund Distributions To Airports **SB** CS/75/a SCORC

ANALYST Padilla-Jackson

APPROPRIATION

Appropriation Contained		Estimated Impact		Recurring or Non-Rec	Fund Affected
FY06	FY07	FY08	FY09		
$391.4	$985.4	$3,145.4	$3,145.4	Recurring	State Aviation Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY06	FY07			
$391.4	$985.4	$3,145.4	Recurring	State Aviation Fund
$147.0	$147.0	$147.0	Recurring	Local Government (GRT on Jet Fuel)
$41.0	$41.0	$41.0	Recurring	General Fund (SB478)
($246.0)	($840.0)	($3,000.0)	Recurring	General Fund (SB75)
($205.0)*	**($799.0)***	**($2,959.0)**	**Recurring**	**Combined General Fund (SB75 CS)**

(Parenthesis ( ) Indicate Revenue Decreases)

*See Fiscal Implications Section for discussion on potential indirect fiscal impacts.

SOURCES OF INFORMATION
LFC Files

Responses Received From
Department of Transportation (DOT)

SUMMARY

The Senate Finance Committee substitute for Senate Bill 75 as amended by Senate Corporations and Transportation Committee would amend the current distributions to the State Aviation Fund and eliminate time limits on tax deductions for gross receipts and compensating tax.

Eligibility and Distributions

The bill limits eligibility for the gross receipts and compensating tax deductions, requiring that the taxable gross receipts attributable to the sale of fuel specially prepared and sold for use in turboprop or jet-type engines be sold to “commercial aviation operators”. Accordingly, the bill amends the current statutes so that the existing distribution to the State Aviation Fund of 4.79 percent apply to gross receipts attributable to the sale of fuel specially prepared and sold to commercial aviation operators. Additionally, the bill adds a new section that would distribute 3.375 percent to the State Aviation Fund for receipts attributable to the sale of fuel specially prepared and sold to persons or entities that are not commercial aviation operators.

The bill would create a new distribution to the State Aviation Fund from gross receipts tax revenue in amount equal to:

(1) twenty thousand five hundred dollars ($20,500) monthly from July 1, 2005 through June 30, 2006;
(2) seventy thousand dollars ($70,000) monthly from July 1, 2006 through June 30, 2007; and
(3) two hundred fifty thousand dollars ($250,000) monthly after July 1, 2007.

The bill defines "commercial aviation operator" to mean a person or entity that, for compensation or hire, engages in the carriage by aircraft in air commerce of persons or property in accordance with part 121 and scheduled air operations pursuant to part 135 of Title 14 of the Code of Federal Regulations.

The bill states that a portion of the distribution to the State Aviation Fund can be used for administrative costs of the division and that all expenditures made should be in accordance with budgets approved by the Department of Transportation, instead of the Department of Finance and Administration. Balances in the fund would not revert to any other fund.

Deductions

The bill would eliminate time limits on gross receipts and compensating tax deductions available to receipts from the sale of fuel sold to commercial aviation operators, leaving the deduction rate at 55 percent, instead of the phased-down amount of 40 percent, which would have started after June 30, 2007.

The effective date for the provisions of this bill is July 1, 2005.

Synopsis of SCORC Amendments

The Senate Corporations and Transportation Committee amended Senate Bill 75. The amendments strike the term “state owned” as it related to the airports and related facilities. Another amendment would provide that, as it relates to any reimbursement for planning, construction, equipment, materials and maintenance of airports and related facilities; collections by the division for aircraft registration pursuant to the Airport Registration Act; and payments to the division pursuant to Sections 64-1-13, 64-1-13.1 and 64-1-19 NMSA 1978 to the State Aviation Fund, the "Balances in the fund shall not be transferred and shall not revert to any other fund".

FISCAL IMPLICATIONS

Direct Impacts

The total fiscal impact of the committee substituted bill, as per DOT's analysis, would be -$205 thousand to the General Fund in FY06. This amount takes into account the appropriations to the State Aviation Fund of $246 thousand as well as an increase of $41 thousand due to the effective removal of a subsidy on private jet components, according to DOT (see detail below).

DOT notes that the Aviation Fund impact includes $145.4 thousand from jet fuel gross receipts tax, and a phased-in diversion of General Fund gross receipts tax amounting to $246 thousand for a total of $391 thousand in FY06, $840 thousand in FY07, and $3,000 thousand in FY08.

The General Fund impact includes $41 thousand from jet fuel gross receipts tax, and the negative impact of the phased-in diversion of General Fund gross receipts tax to the Aviation Fund amounting to $246 thousand, for a total of -$205 thousand in FY06, $840 thousand in FY07, and $3,000 thousand in FY08.

The local government impact is attributable to increased gross receipts tax on jet fuel used by "non-commercial" airplanes (generally private corporate turboprops and jets).

Indirect Impacts

According to an analysis provided by DOT, the bill presents an unusual and rather extraordinary example of a proposal where the economic feedback effects might be taken into consideration and weighed against the direct ("static") revenue impact of the proposal. The principal goal of the bill is to attract additional Federal Aviation Administration funds to New Mexico to be used for airport construction projects. With an additional dedicated revenue source, the Aviation Division believes New Mexico could attract up to $30 million in additional FAA funds. Airport construction projects can be financed using 95 percent FAA funds, 2.5 percent state funds, and 2.5 percent local funds, so a modest amount of state money can leverage a significantly large amount of construction activity. Simply stated, when the General Fund gross receipts tax rate imposed on a construction project (3.775% in municipal areas) is greater than the state matching funds contribution to the project (2.5%), there is a potential to make more money back than is spent on the project.

DOT notes that the actual fiscal impact and revenue feedback effects of the bill are not exactly as simple as suggested above, but the concept behind the bill is simple and straightforward. This FAA funding is probably the only area in which the state can expect a 38 to 1 match ratio, and since the funds can only be used for airport construction, there is a significant economic stimulus from the construction activity financed by the new outside (FAA) money.

The Department of Transportation economist and revenue estimator has consulted with the Avia-

tion Division regarding the expected costs of administration and the flow of funds into construction projects, and has concluded there will be significant revenue generated for the State General Fund as a result of additional construction activity attributable to the attraction of additional FAA funds to New Mexico. Under the scenario proposed by the Aviation Division, additional airport construction projects could be undertaken as follows: $3.7 million in FY06, $11.4 million in FY07, and $35.7 million (or possibly more) in FY08 and subsequent years.
Additional construction activity, financed by additional federal funds, represents an "injection" into the New Mexico economy that serves as an economic stimulus, so long as the construction activity continues. Since this particular federal funding source represents a recurring source of funds, the additional airport construction would be a recurring activity, and the stimulative affect on the state's economy would be of a long-run nature and not just a "one-time deal".

Using what the DOT economist considers to be "quite straightforward and modest" assumptions, DOT reports expected revenue benefits to the State General Fund attributable to the increased airport construction to be as follows:

General Fund Revenue from Additional Airport Construction
($ thousands)

Fiscal Year	1st Round GRT on Airport Construction	2nd Round GRT on 50% of FAA Money	Personal Income Tax on Additional Taxable Income	Total Additional General Fund Revenue
FY2006	139	66	176	381
FY2007	429	189	503	1,121
FY2008	1,347	566	1,510	3,424
FY2009	1,347	566	1,510	3,424

Notes:

- General Fund GRT rate of 3.775% assumed (within municipal jurisdiction).
- Earnings (wage income) multiplier of 1.97 applicable to highway construction would also be applicable to airport construction – DOT cites the BEA/RIMS model as the source of the 1.97 multiplier.
- 2nd round GRT imposed on 50% of FAA (additional) money: given a multiplier of about 2, and since the 1st round is fully-taxable construction, the 2nd round GRT impact represents general spending of personal income. Since not all spending is subject to GRT, it was assumed that perhaps 50% of those expenditures might be subject to GRT.
- Personal Income Tax: the new FAA money times the multiplier of 1.97 was assumed to be additional Adjusted Gross Income. Taxable income was assumed to be 73% of AGI, and the average tax rate on taxable income was assumed to be 3.5%. The 73% taxable income assumption and the 3.5% tax rate assumption have been confirmed by economists at the Taxation & Revenue Department.

Net General Fund Impact:

DOT suggests that if this airport construction impact is added to the "Static" Fiscal Impact Estimate, the net result is positive for the State General Fund.

Net General Fund Revenue ("Static" + Construction)			
Fiscal Year	"Static" Fiscal Impact Estimate	Additional Construction General Fund Revenue	Net General Fund
FY2006	(205)	381	176
FY2007	(799)	1,121	322
FY2008	(2,959)	3,424	465
FY2009	(2,959)	3,424	465

LFC staff requested that the Department of Finance and Administration conduct an analysis of this proposal using the REMI model.

Legislative Finance Committee staff requested that the Department of Finance and Administration conduct an analysis of this proposal using the REMI model. Preliminary results from the REMI model indicate similar but slightly weaker General Fund revenue feedback attributable to Personal Income Tax, and considerably stronger revenue feedback attributable to Gross Receipts Tax. The net revenue feedback to the General Fund in the REMI analysis appears to be about 50 percent stronger than the numbers shown above (i.e., about $600 thousand net positive FY07 and FY08) and increasing in subsequent years.

The REMI model was purchased by the state to evaluate the dynamic impact of certain fiscal issues. Analysis is developed based on agreed assumptions made by state revenue estimators. At this time, LFC staff consider the assumptions used in DOT's analysis to be reasonable because the positive dynamic impacts result from new dollars flowing into the state and because modest feedback effects were used to develop the estimate.

OPJ/lg:rs