



April 14, 2015

The Honorable Phil Barnhart, Chair
House Committee on Revenue
900 Court Street
Salem, OR 97301

RE: HB 2075 – Relating to aircraft fuel

Representative Barnhart and members of the committee:

The City of Eugene/Eugene Airport is opposed to Oregon House Bill 2075. The increase to five cents per gallon on fuel usable in aircraft operated by turbine engines, either turbo-prop or jet engine (jet fuel), will have a direct and detrimental effect on commercial air service across the state. In addition, the vast majority of the proposed revenue generated by the increase in tax rate would go towards state and general aviation purposes, while putting commercial air service at risk.

Unlike most industries in which personnel costs are the largest expense, fuel costs are the largest expense for airlines, accounting for approximately 35% of overall expenses. Volatile and high fuel costs over the past decade have played a pivotal role in the bankruptcies of several airlines and most surviving airlines continue to operate at a deficit. Those airlines that are profitable operate at extremely close margins and decisions on which markets to serve are based almost solely on yield comparisons with competing markets.

IMPACT ANALYSIS:

- An Airbus 321 has a 6,353 gallon fuel capacity. A full fueling at an increase of \$.04 per gallon would cost an estimated additional \$254. With a full flight of 186 passengers, the fuel tax increase would amount to a \$1.37 increase in the cost per enplaned passenger (CPE).
- The stage length on a flight between Eugene and Las Vegas is approximately 800 miles - 28% of maximum range for an A320. Using 28% of the fuel load would result in a \$0.38 CPE increase.
- While acceptable minimum yields vary by airline, the domestic average was about \$0.16 per passenger for year ended 3Q 2014. The proposed \$0.04 fuel tax increase in HB 2075 would mean a 5.5% increase in CPE on an average two-hour stage length flight at EUG.

We fight for every commercial flight we have at the Eugene Airport to meet the air travel needs in our region. The current state aircraft fuel tax for jet fuel is one cent per gallon. A four cent increase may seem small; however, given the highly competitive nature of the



commercial airline industry, it would most surely result in a reduction of existing commercial air service at the Eugene Airport. In addition, it would act as a deterrent for airlines to add additional seat capacity, new nonstop routes, or for a new airline to enter the Eugene market.

According to Airlines 4 America, every penny increase in the price of a gallon of jet fuel drives an additional \$180 million in annual fuel costs for U.S. airlines. Even a price of one dollar higher over the course of one year would translate to about \$18 billion more in operating expenses. Airlines are already subject to a federal commercial fuel tax of 4.3 cents per gallon of jet fuel, in addition to other federal transportation taxes. These taxes fund the federal Airport and Airways Trust fund, the main funding source for the Federal Aviation Administration. The FAA's Airport Improvement Program, in turn, provides funding for infrastructure improvements, which do directly benefit commercial service airports and airlines.

Air service development is a top priority at the Eugene Airport. In annual meetings with airline property managers, we are scrutinized very closely on the cost of doing business at our regional airport. Any additional costs that would be incurred beyond those anticipated and planned for could result in the loss of air service at EUG. This includes the price of fuel provided through the supplier on the field and any taxes passed on to the airlines. A higher jet fuel tax would definitely be a red flag for airlines considering operation at any of the commercial airports across the state. We urge the committee to oppose this bill as written.

Sincerely,

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