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April 15, 2019

Senator Lee Beyer
Representative Caddy McKeown
Co-Chairs, Joint Committee on Transportation
State Capitol
Salem, OR 97301

Dear Senator Beyer and Representative McKeown and members of the committee:

On behalf of the member airlines of Airlines for America (A4A)[1], I respectfully write to oppose efforts in Oregon HB2402 to increase the state's jet fuel tax beyond its current 3 cents per gallon rate. A4A is the trade organization of the principal U.S. airlines. The fundamental purpose of the association is to foster a business environment that drives our nation's economy and global competitiveness. Higher taxes will act as a drag on aviation's role as a catalyst in Oregon's economy. In 2018, airlines, passengers and shippers paid more than $134 million for the commercial service airports we use. Adding additional taxes to that burden in order to fund airports we will not use is bad public policy.

Higher jet fuel taxes will impact consumers and small businesses the most and present the risk of higher airfares and shipping costs – or less air service – to offset the increase in jet fuel tax. Consumers want low airfares, not higher taxes, especially visitors who fuel Oregon's thriving $12 billion tourism industry, and airlines are under tremendous pressure to keep costs under control. Last year, Oregon's average one-way domestic airfare including ancillary fees paid was $161, the lowest it has ever been on record after adjusting for inflation, thanks in large part to expanded air service and industry competition. Why put this positive trend at risk?

Fuel is the industry's second largest expense after labor and while two pennies might seem inconsequential, in the airline business, every penny counts: in 2018, U.S. passenger airlines only generated 6 cents of profit for every dollar they collected. Higher jet fuel taxes will hurt the industry's ability to reinvest in services that benefit consumers and employees and/or pass on the higher costs to their customers and likely dampen demand. HB2402 will discourage airlines from growing their operations in Oregon, especially low-cost airlines that have provided effective market competition and price relief to consumers. At worst, HB2402 could compel airlines to curb service that is marginally profitable or unprofitable. Airline capacity is mobile and constantly

[1] A4A members include: Alaska Airlines, Inc., American Airlines, Inc., Atlas Air, Inc., Federal Express Corp., Hawaiian Airlines, JetBlue Airways Corp., Southwest Airlines Co., United Continental Holdings, Inc., and UPS Airlines; Air Canada is an associate member.

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adjusted as the industry seeks to deploy their aircraft in environments that generate the highest financial return.
Other states have recognized the benefits of a healthy commercial aviation to their local economies and have moved to keep costs low for the airlines. In 2016, North Carolina eliminated taxes on jet fuel and has prospered as air service has grown faster than the national average and fueled the state's economic growth. Georgia and Florida have reduced their taxes in recent years and have benefitted from above average air service growth. These states acknowledge that fuel tax revenues paid by the airlines and their customers should be used for the benefit of commercial airline passengers, not for subsidizing general aviation. In Oregon, commercial aviation accounted for 32 percent of total operations but generated over 90 percent of the state's total aeronautical revenues. Conversely, general aviation only generated three percent of the state's total aeronautical revenues yet accounted for 63 percent of total operations.[2] General aviation is welcome to fund their own operations in the same way that commercial service airports are funded by the airlines and passengers who use them. The proposed tax hike will exacerbate this inequity.

We are also concerned about how the state would use revenues from the increase in the jet fuel tax. As you know, the FAA's revenue use policy requires that any revenue from an increase in taxes on aviation fuel be spent on aviation. We have not seen a proper accounting of how the last tax increase in 2015 was spent. Further, the state responded in 2016 to the FAA's request for a compliance plan with a one-paragraph statement that Oregon was in compliance and no further detail, so the FAA and the public have not been able to assess the state's compliance with federal law with respect to the 2015 increase.[3] We believe at minimum that any tax increase is premature until the state can show how the last tax increase was spent and demonstrate a need for further revenue.

Given commercial aviation's vital role in Oregon's economy, we urge you to reject this unnecessary tax hike.

Sincerely

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[2] Source: FAA Opsnet, FAA Form 127

[3] See letter of Oregon Department of Aviation to FAA, available at https://www.regulations.gov/document?D=FAA-2013-0988-0185. (The letter is misdated but was sent in January 2016.) Further correspondence between the FAA and the state may exist, but it has not been made public yet by the FAA.

The Vast Majority of Aeronautical Revenues at Oregon's Commercial-Service Airports Come From Fees Assessed Directly on Airlines

	2018 Revenues
Passenger airline landing fees	$ 39,549,873
Terminal arrival fees - rents - utilities	67,887,995
Terminal area apron charges/tiedowns	783,865
Federal inspection fees	970,989
Other passenger aeronautical fees	2,077,581
Landing fees from cargo	5,128,498
Landing fees from GA and military	1,478,169
FBO revenue - contract or sponsor-operated	2,534,999
Cargo and hangar rentals	10,748,989
Fuel sales net profit/loss or fuel flowage fees	1,113,191
Security reimbursement from U.S. government	157,735
Other non-passenger aeronautical revenue	1,593,637
Total Aeronautical Revenues	**$ 134,025,521**

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NORTH BEND MUNI
PORTLAND INTL
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KLAMATH FALLS
EUGENE - MAHLON SWEET FIELD

Sources: FAA Operating and Financial Summary (Form 127)