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February 13, 2020

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

Re: HB 4036

Dear Senator Beyer and Representative McKeown:

We understand that key policy questions remain regarding Oregon's consideration of an increase in the aviation fuel tax. We appreciate these questions and the opportunity to ensure policymakers understand the potential ramifications of HB 4036. We have addressed the questions in red below:

1. Does a jet fuel tax increase really impact airlines or do they simply pass it through to consumers?

   Someone has to pay for the tax increase, whether it is the airline and/or their customers. In either case, there is no question that it is the customer who gets hurt. If the economics allow the airline to pass the tax through, airfares and shipments will cost more and demand and potential growth in the market will be curbed. If the economics allow the airline to absorb the increase, there will be fewer resources for the airline to directly invest in things that passengers want, such as more routes and new products. Most importantly, routes which are already at risk of being discontinued due to lack of profitability can be canceled.

   In some instances, it will be a mix of both – consumers and airlines will pay directly. Regardless, constituents will feel the effects of these harmful public policy decisions after they are made when fares go up or service to their favorite destination gets cut.

2. Other states have a higher jet fuel tax than Oregon.

   Some states have no tax on fuel at all or exempt commercial carriers, and those that do tax fuel have very complex nuances which often make the tax rate much less than what the statute reads. Without getting into the extreme complexities of every state's tax code, below are examples of the actual tax rates for other states (cpg = cents per gallon):

   - States with no tax:
     - TX
     - OH

    - NC
    - GA
- States which only apply a jet fuel tax to fuel burned within the state's border, making their actual liability much lower than what is in the statute:
    - WA (2.4 cpg)
    - NY: (0.5 cpg)
    - NJ: (0.4 cpg)
- Two other notable examples:
    - AZ only taxes the first 10 million gallons purchased, making the effective rate is 0.8 cpg
    - FL offers rebates and tax credits based on employment in the state, so the rate often effectively becomes zero

Airlines are making historic investments in airport infrastructure across the country. In Oregon, Portland International Airport is undergoing $2 billion in capital projects as part of its PDX Next program. What many people don't realize is that these airport projects are largely from airlines and their passengers through rents, fees and taxes rather than public tax dollars. This funding model is important because it allows the airlines and airport to partner on building necessary infrastructure to serve its customers, while generating significant economic benefits to the community and region all without tapping into general fund revenues.

Sincerely,

Sean Williams
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