F I S C A L   I M P A C T   R E P O R T

SPONSOR SFC **DATE TYPED** 3/08/04 **HB**

SHORT TITLE Exempt Jet Fuel From Gross Receipts Tax **SB** 478/SFCSa

ANALYST Padilla-Jackson

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY05	FY06			
NFI	$41.0	Similar	Recurring	General Fund
NFI	$145.0	Similar	Recurring	State Aviation Fund
NFI	$147.0	Similar	Recurring	Local Governments
	$333.0	**Similar**	**Recurring**	**Total**

(Parenthesis ( ) Indicate Revenue Decreases)

Relates to Senate Bill 75 (see detail below).

SOURCES OF INFORMATION
LFC Files

Responses Received From
Department of Transportation (DOT)
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

The Senate Finance Committee substitute for Senate Bill 478 would clarify eligibility for the 55 percent gross receipts and compensating tax deductions on jet fuel to include only "commercial aviation operators". The bill also removes the current sunset date for the 55 percent deduction.

Distributions

The bill amends current statutes so that the current distribution of 4.79 percent of taxable gross receipts attributable to the sale of fuel specially prepared and sold for use in turboprop or jet-type engines requires that the fuel be sold to "commercial aviation operators". The bill defines "commercial aviation operators" to mean a person or entity that, for compensation or hire, engages in the carriage by aircraft in air commerce of persons or property. A new distribution is made to the Aviation Fund amounting to 3.775% of taxable gross receipts on jet fuel that is not sold to a commercial aviation operator for use in turboprop or jet-type engines.

Lastly, the bill repeals the sunset provision, which would have ended the fifty-five percent gross receipts and compensating tax deduction in favor of the previously imposed amount of 40 percent.

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

Significant Issues

DOT notes that this revenue to the Aviation Fund (a portion of GRT on jet fuel) is the major revenue source to that fund, accounting for about 50 percent of total Aviation Fund revenue. Since certain other revenues are earmarked for the Air Service Assistance Program, this GRT on jet fuel revenue represents about 69 percent of the unrestricted portion of the Aviation Division's budget.

ADMINISTRATIVE IMPACT

TRD anticipates minimal impacts on the department.

FISCAL IMPLICATIONS

The fiscal impact of the committee substitute for Senate Bill 478, according to the DOT analysis, is $333 thousand in FY06. Gross revenue from jet fuel sales is estimated to be approximately $51 million in FY06. Approximately $9 million or 18 percent of this revenue is assumed to come from non commercial aviation users. Eliminating the 55 percent tax deduction for non-commercial aviation users would increase revenues by approximately $330 thousand. The distributions in the revenue table show the net allocation of these additional revenues under present law formulas with the modifications proposed in the bill. Based on these formulas, DOT estimates that the bill will generate approximately $41 thousand to the General Fund, $145 thousand to the State Aviation Fund, and $147 thousand to local governments. TRD concurred with these estimates.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

DOT cautions that SB 75 also amends the same section. If both Senate Bill 75 and Senate bill 478 were to be passed and signed this session, the latter signed bill would become law, invalidating portions of the earlier signed bill. Since the two bills both add material to the same section, there would be a conflict, except for the fact that Senate Bill 75 has been adjusted to include all the provisions of Senate Bill 478.

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OTHER SUBSTANTIVE ISSUES

DOT provided the following issues:

- The Aviation Division reports that a significant increase in Federal Aviation Administration (FAA) funding to New Mexico could be achieved if the state were to receive FAA funding using the "channeling" method of administration or if the state gained "block grant" status. Currently most FAA funding comes to New Mexico through direct grants to specific airport improvement projects, and the funding is not routed through the Aviation Division. Under the "channeling" or "block grant" approach, FAA funds would be channeled through the Aviation Division. One important aspect of being considered by the FAA for "channeling" or "block grant" status is that the state funding sources be dedicated revenue streams that may be depended upon from year to year. This is a very important consideration when determining the mechanism that would supplement or hold the Aviation Fund harmless to any proposed change in the GRT deduction on jet fuel (the bill works well in this regard).

- In FY02 New Mexico received about $1.8 million in FAA discretionary funds, while Arkansas received $22.4 million, Louisiana received $34.2 million, and Oklahoma received $15.4 million. Texas (a block grant state) received $81.9 million in discretionary funds.

- At the present time there are airport improvement needs in New Mexico (excluding the Albuquerque Sunport) of over $248 million projected during the FY03 through FY07 time period. While these projects are being addressed at a level of about $16 million per year, there are sufficient resources to address only about one-third of the state's needs.

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