



APPENDIX 14:

Solution Analysis Summaries

Solution Analysis

Solution 1B – West Coast Infrastructure Exchange (WCX) Project Funding

Overview. The West Coast Infrastructure Exchange (WCX) was launched in 2012 through a partnership of Washington, Oregon, California, and British Columbia to accelerate the deployment of private capital to help address the substantial backlog of infrastructure needs within the West Coast jurisdictions. As such, the backlog of capital needs at airports throughout Washington State could be a prime candidate for use of WCX as a resource to identify funding

opportunities. The roles that WCX provides include:

- **Conduct an evaluations of projects.** This is accomplished through the establishment of a business practices committee. WCX is also set up to help vet and develop worthy projects through offering financial analysis and business case analysis.
- **Look for bundling opportunities.** WCX assists in looking for opportunities to bundle projects that

would be more conducive to offering an adequate return to investors. Typically the exchange seeks to bundle like projects into \$150M dollar increments in an effort to attract investor interest.

- **Provide a conduit to Investors.** Through outreach to the investment community and offering financial analysis, the WCX will help match potential investors to worthy projects.

Analysis Summary

<p>Current State</p>	<ul style="list-style-type: none"> ■ The WCX was established in 2012 and is in place to provide private investment access to solid public infrastructure opportunities. ■ The exchange is currently set up to facilitate water/wastewater projects that meet the program criteria. 	<ul style="list-style-type: none"> ■ The exchange is available to be expanded to the public transportation sector, and particularly to aviation infrastructure development, given certain program requirements are met.
<p>Proposed Solution</p>	<ul style="list-style-type: none"> ■ Include a new provision within the existing WCX program to include transportation and specifically aviation infrastructure projects going forward. ■ WSDOT would need to provide some seed money that would allow for administrative needs within the WCX to accommodate aviation programs. 	<ul style="list-style-type: none"> ■ Potential investors would be paired with solid aviation infrastructure projects of a reasonable magnitude, and most likely bundled in order to reach the \$100-150 million dollar program cost.
<p>Future State if Implemented</p>	<ul style="list-style-type: none"> ■ This solution has the potential to effect and improve the long term funding potential for Washington airports. ■ This solution would apply to large scale revenue producing or airport budget supported programs within the state, so a very small number of bundled projects could have very far reaching positive effects with regard to the overall funding requirements of the airports. ■ The state would have a long term P3 funding tool that could address any funding gaps, and provide airports with ready access to funding for capacity enhancing and economic development related projects going forward. 	<ul style="list-style-type: none"> ■ A typical project in the exchange would follow the following process: (1) project proponent reaches out to the exchange for project specific support; (2) the exchange evaluates the project for funding risk profile and creditworthiness; (3) the exchange seeks to bundle similarly risk profiled projects together in order to meet the particular risk and funding threshold needs of the funding resources; (4) the exchange becomes the conduit between potential investors and project proponent; (5) project specific funding is secured for the public sector proponent with private sector funding being amortized via project revenue streams.



Note: Content, possible solutions, or recommendations contained within these documents should not be considered indicators of WSDOT's future legislative priorities. These possible solutions may not be supported by all members of the Advisory Committee and the organizations they represent.

Solution Analysis

Solution 1B – West Coast Infrastructure Exchange (WCX) Project Funding

SWOT Analysis

	SWOT Group	SWOT Factors
Internal Environments	Strengths	<p>S1 - This solution provides for a net new funding source for the airports.</p> <p>S2 - This solution provides for an educational “guide book” for municipal and airport management.</p> <p>S3 - This solution provides for a very efficient means of private sector project implementation and procurement.</p> <p>S4 - This solution is neutral as far as stakeholder negative impacts.</p>
	Weaknesses	<p>W1 - Only some of the capital projects identified in the needs assessment phase will likely be deemed capable of being bundled to get to a size category of interest to private investors. And, only some of the projects will likely have attributes of interest to private investors (e.g., dedicated repayment revenue stream). Potential project types may be limited to large maintenance, repair and operations (MRO), large cargo facilities, etc.</p> <p>W2 - Lack of overall P3 awareness and understanding. In order to implement or move forward with this solution, a P3 educational guidebook is necessary.</p> <p>W3 - Significant State and Federal administrative and legal requirements for any full airport privatizations.</p> <p>W4 - At certain levels, the cost of funds for private debt and equity is higher than some airports are able to secure through their traditional public airport revenue bond sources.</p> <p>W5 - Private investor level of interest will be keyed to the size, applicability, and ability of the bundled projects to make them an adequate return on their investment.</p>
External Environments	Opportunities	<p>O1 - The solution offers Washington State the opportunity to enhance its relationship with and use of the resources that have been developed by WCX. In addition to helping to identify funding opportunities for the airport projects, insights gained through this process might also be useful in addressing funding needs in other sectors of public infrastructure (e.g., public buildings, water/sewer, and energy).</p> <p>O2 - This solution offers airports the opportunity move forward with a completely new funding source that could offer long term benefits to the state aviation system.</p> <p>O3 - This solution offers airports the opportunity to provide added economic benefits from an increasing and efficient private work force.</p>
	Threats	<p>T1 - Certain locations particularly in heavily unionized areas will have a negative political outlook regarding the implementation of privatization programs.</p> <p>T2 - A lack of understanding on the part of the general public and public sector management of the basic elements of an expanded P3 funding program is a long term threat that an educational/outreach program would need to address.</p>



Solution Analysis

Solution 1B – West Coast Infrastructure Exchange (WCX) Project Funding Implementation Timeline

Short term; 0-2 years:



- **Determine the goals**, applicability and scope of a potential WCX program that may apply to just aviation, or possibly to the larger transportation programs within the state as well.
- **Utilize the existing** water/wastewater **charter** as a model for developing the aviation WCX
- **Work with a sub group** of the Washington Airport Managers Association to identify applicable project bundles and to further refine the provisions of the program.
- **Identify suitable projects** from the 3,600 projects on the Washington airports CIP that have revenue production capabilities or are funded through specific airport budgets.
- **Prepare P3 guidebook** to include an educational component for the infrastructure exchange for airport managers and public officials
- **Establish** a transportation **sponsorship** and administration program to support the exchange in transportation and aviation
- **Conduct P3 workshop(s)** for State aviation officials and airport managers to include a discreet infrastructure exchange educational component

Medium term; 2-5 years:



- **Assess and re-charter** the WCX program with the perspective of delivering the highest possible value to Washington airports.



Solution Analysis

Solution 1B – West Coast Infrastructure Exchange (WCX) Project Funding

Implementation Strategies

Strategy 1 The P3 guidebook will help to both educate public sector managers and potentially the general public as a means of mitigating the lack of understanding about how the interchange would work, and how additional private infrastructure investment will help to create jobs, rather than diminish job opportunities.

Strategy 2 In addition to the guidebook, a public awareness strategy would help raise the benefits of the WCX program in the public realm.

Strategy 3 The need for large scale bundled projects of a large magnitude can be mitigated by making the exchange available to other transportation infrastructure projects through a cross bundling of roadway, bridge, airports and transit projects.

Strategy 4 In order to cut down on the new administrative and legal burden that the exchange would present, WSDOT might consider the cross utilization of existing staff at inception, and then potentially bringing on the necessary P3 staff, only after the exchange is up and running in a mature state.

Solution Variations

Variation 1 Rather than making the exchange financing option only available to aviation projects, WSDOT might consider a multi-mode bundling application that could go beyond just aviation to benefit several or all modes of transportation within the state Washington.



Solution Analysis

Solution 1D – Public Private Partnerships (P3)

Overview. This source concept entails the full utilization of private sector funding for all types of revenue producing airport projects. This concept would include utilization and optimization of the full range of P3 funding sources which range from full airport privatization to partial, facility specific privatization.

This solution envisions the development of a P3 educational “guide book” for municipal and airport managers that will assist them with a full understanding of the laws, administrative process, and keys to success in utilizing private funding sources. The guide book requirement in this solution can be combined with the infrastructure exchange solution (Solution 1B) as an aide to the state airport managers.

Analysis Summary

<p>Current State</p>	<ul style="list-style-type: none"> ■ Full airport privatizations, although difficult to obtain, offer their owning government agency the possibility for obtaining a significant monetized gain that can be used for other public needs within the community ■ Full airport privatizations are governed by the FAA through the airport privatization pilot program, (APPP) 	<ul style="list-style-type: none"> ■ Partial privatizations, such as a standalone single terminal building are not subject to the regulatory oversight of the APPP process, and are a common tool for airport management to use in bringing new private funding sources to their airports ■ Many airport managers are not fully aware of the full range of private funding sources that might be available to resolve some of their capital development needs
<p>Proposed Solution</p>	<ul style="list-style-type: none"> ■ The solution anticipates the utilization and optimization of the full range of P3 funding sources and opportunities. ■ The solution categorizes P3 opportunities into "full" privatizations and "partial" privatizations. Full privatizations are very specific and require FAA approval. Partial privatizations can vary greatly in terms of size, magnitude and application. 	<ul style="list-style-type: none"> ■ The solution should include the development of an educational program for public works officials and airport managers. The educational program would better define and instruct on : full versus partial privatizations; best practices for accessing and attracting private funding; Federal and State laws governing P3 programs and resulting requirements; identification of successful full and partial privatizations in the aviation and non-aviation airport cities realm with lessons learned; and development of a P3 project implementation guide.
<p>Future State if Implemented</p>	<ul style="list-style-type: none"> ■ Educating Washington State’s airport managers, and municipal public works officials on P3 opportunities, requirements, and methods will facilitate more private funding to help supplement federal, state and local resources. ■ The state would have a long term P3 funding tool that could address any funding gaps, and provide airports with ready access to funding for capacity enhancing and economic development related projects going forward. 	<ul style="list-style-type: none"> ■ This funding source solution could also provide Washington airports with a potential new funding source for green and sustainable facilities that can amortize the private debt through monetizing operational cost savings



Note: Content, possible solutions, or recommendations contained within these documents should not be considered indicators of WSDOT’s future legislative priorities. These possible solutions may not be supported by all members of the Advisory Committee and the organizations they represent.

Solution Analysis

Solution 1D – Public Private Partnerships (P3)

SWOT Analysis

	SWOT Group	SWOT Factors
Internal Environments	Strengths	<p>S1 - This solution provides for a net new funding source for the airports</p> <p>S2 - This solution provides for an educational “guide book” for municipal and airport management</p> <p>S3 - This solution provides for a very efficient means of private sector project implementation and procurement</p> <p>S4 - This solution is neutral as far as stakeholder negative impacts</p> <p>S5 - This solution could enhance green and sustainable infrastructure development options</p>
	Weaknesses	<p>W1 - Lack of overall P3 awareness and understanding. In order to implement or move forward with this solution, a P3 educational guidebook is necessary</p> <p>W2 - Significant State and Federal administrative and legal requirements for any full airport privatizations</p> <p>W3 - At certain levels, the cost of funds for private debt and equity is higher than some airports are able to secure through their traditional public airport revenue bond sources.</p> <p>W4 – Airports, including private developments, would need to consider FAA grant assurance requirements if federal funds were used to originally procure the land. The airport owner or lease holder may be exempt from repayment of federal grants, return of property acquired with federal assistance, and the use of proceeds from the airport’s sale or lease to be used exclusively for airport purposes.</p>
External Environments	Opportunities	<p>O1 - This solution offers Washington airports the opportunity move forward with a completely new funding source that could offer long term benefits to the state aviation system</p> <p>O2 - This solution offers Washington airports the opportunity to tap private funding and project delivery sources for green and sustainable project needs that would potentially return economic value in perpetuity</p> <p>O3 - This solution offers Washington airports the opportunity to provide added economic benefits from an increasing and efficient private work force</p>
	Threats	<p>T1 - Certain locations particularly in heavily unionized areas will have a negative political outlook regarding the implementation of privatization programs</p> <p>T2 - A lack of understanding on the part of the general public and public sector management of the basic working parts of an expanded P3 funding program is a long term threat that an educational and public outreach program would need to address</p>

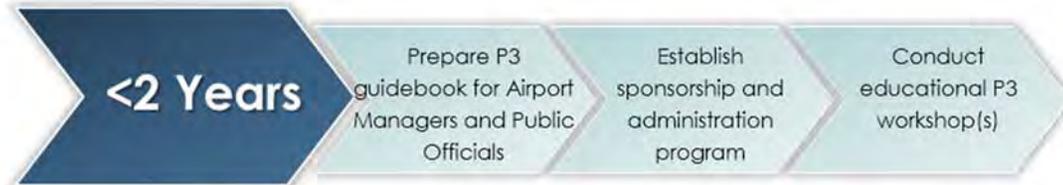


Solution Analysis

Solution 1D – Public Private Partnerships (P3)

Implementation Timeline

Short term; 0-2 years:



- Prepare P3 guidebook for airport managers and public officials
- Conduct P3 workshop for State aviation officials

Medium term; 2-5 years:

- Develop a P3 informational and clearinghouse service for the airports



- Develop key performance indicators for the state P3 program



Solution Analysis

Solution 1D – Public Private Partnerships (P3)

Implementation Strategies

Strategy 1 The P3 guidebook will help to both educate public sector managers and potentially the general public as a means of mitigating the lack of understanding about how the interchange would work, and how additional private infrastructure investment will help to create jobs, rather than diminish job opportunities.

Strategy 2 The P3 guidebook should contain strong examples of the types of projects that may be best suited for P3 investments, and provide examples of successful P3 partial and full privatization projects with the resulting benefits and lessons learned.

Strategy 3 In addition to the guidebook, a public awareness strategy would help raise the benefits of the P3 program in the public realm.

Solution Variations

Variation 1 As a follow-up to the guidebook and public awareness campaigns, WSDOT may consider partnering with airports that have the strongest project opportunities to provide support and implement projects as case studies.

Variation 2 The P3 educational solution can be combined with the West Coast Infrastructure Exchange solution (Solution 1b) to provide a very robust private development option to the airport owners in the State of Washington

Variation 3 Aviation P3 infrastructure programs could be bundled with other transportation and multi-modal infrastructure needs in certain cities to provide an increased level of funding benefit as well as an overall wider range transportation benefit to the local community.

Variation 4 Include P3 educational component in the airport best management practices guidebook (Solution 4a) as a point of reference, education and information for Washington State airport managers.



Solution Analysis

Solution 1G – Alternative Taxing of Airport Operationally Oriented Uses

Overview. This new revenue source concept would provide for a state law that would allow for airport operational activities to be taxed or levied a fee, with the proceeds going to the Aeronautics Account.

The potential listing of airport operational and consumption activity that could be a taxable source are: licensed motor vehicles based at an airport; non-aviation fueling consumption; taxi and commercial vehicle access; airport parking, etc.

For ease of implementation, operational activities that are currently assessed fees and local assessments are featured, such as: parking and ground transportation.

Analysis Summary

Current State	<ul style="list-style-type: none"> ■ There currently is no Washington state law that allows for airport operational activity to be taxed with proceeds going to the Aeronautics Account. 	<ul style="list-style-type: none"> ■ Taxes exist on some of these operations but no revenues are captured for aviation capital and preservation needs at this time.
Proposed Solution	<ul style="list-style-type: none"> ■ The solution would provide for a nominal state tax on airport parking for all commercial service airports. Revenues would be allocated directly to the Aeronautics Account via the Department of Revenue. <ul style="list-style-type: none"> ○ Using SEA-TAC as an example: In 2013 SEA-TAC International Airport brought in \$52.2 Million from parking fees alone. A potential 1% tax on that would bring in an additional \$522,000 in aviation related funding. A 1% increase in the existing “Terminal Direct” Daily Parking (\$35/day), would only be a \$0.35 increase in daily parking cost. 	<ul style="list-style-type: none"> ■ The Solution could provide for a nominal state fee on commercial ground transportation access for all commercial service airports. This could include ground transportation services that are already assessed access charges, such as taxis, courtesy vehicles, shuttles, charters, etc. <ul style="list-style-type: none"> ○ Using SEA-TAC as an example: Revenue from ground transportation at Sea-Tac equaled almost \$8 Million in 2013. The potential impact of a 1% state fee would be \$80,000.
Future State if Implemented	<ul style="list-style-type: none"> ■ The proposed solution has the potential to generate substantial revenues for Washington State airport capital and preservation needs. <ul style="list-style-type: none"> ○ Using just SEA-TAC as an example: Application of 1% tax or fee on parking, and ground transportation could generate an estimated \$632,000 (\$552k in parking taxes + \$80k in Access Permits) annually (at a 1% tax rate) to the Washington State Aeronautics fund. 	<ul style="list-style-type: none"> ■ The intent is to apply these state taxes/fees to all commercial service airports, which would likely significantly increase the estimated \$632,000 deposited into the Aeronautics Account.



Solution Analysis

Solution 1G – Alternative Taxing of Airport Operationally Oriented Uses

SWOT Analysis

	SWOT Group	SWOT Factors
Internal Environments	Strengths	<p>S1 - This solution provides new funding for airport capital and preservation needs by assessing taxes to existing operational revenues captured at commercial service airports.</p> <p>S2 - The new funding could provide a robust, yet aviation generated, revenue source.</p> <p>S3 - The solution diversifies the aeronautics revenue stream.</p>
	Weaknesses	<p>W1 - This solution places the burden on the consumers. The proposed tax would most likely be passed down to the consumer of each taxed product.</p> <p>W2 - This solution would place an additional tax burden on aviation businesses that derive their livelihood at the airports that could ultimately weaken local airport revenue generation. Additionally most of the tax would be derived at the large commercial service airports, such as SEA-TAC and Spokane International airport.</p>
External Environments	Opportunities	<p>O1 - This solution has the potential to provide substantive funding gains depending on what is taxed.</p> <p>O2 - This solution would help Washington airports to be self-sustaining.</p>
	Threats	<p>T1 - This solution has the potential to create a large amount of opposition from the broad range of airport transportation stakeholders including, taxi services, hotel shuttles, charter bus services, and other business.</p> <p>T2 - The increase in taxes and fees could result in less business activity as the cost of the taxes and fees are passed down to the consumer.</p> <p>T3 - An increase in taxes could cause financial hardship on some of the smaller businesses operating in and out of the airport.</p> <p>T4 - The commercial airports may be opposed to this solution if their generated revenues are distributed to all airports.</p>



Solution Analysis

Solution 1G – Alternative Taxing of Airport Operationally Oriented Uses

Implementation Timeline



Short term; 0-2 years:

- **Prepare informational materials** for solution champion such as the Washington Aviation Association, Washington Community Airports Association, Washington Pilots Association, and/or other stakeholders.
- **Identify legislative sponsor** and prepare informational materials.
- **Initiate and track** legislative process.
- **Keep stakeholders informed** of legislative process.



Medium term; 2-5 years:

- **Track progress** on legislative process.
- **Continue to educate** legislators on aviation funding needs.
- **Keep stakeholders informed** of legislative process.



Solution Analysis

Solution 1G – Alternative Taxing of Airport Operationally Oriented Uses

Implementation Strategies

Strategy 1 Keep the initial tax rate very low. This will still bring in additional funding but will ease the impact to the end user. As with the previous strategy, the tax increase could be increased over time in a phased approach.

Strategy 2 Initially focus on educating the public on the importance of the Washington State aviation system and its far-reaching benefits. The aviation system in the state of Washington accounted for \$50.9 billion in total economic activity in 2012. Informing the public on the need of aviation in the state will help to ease the pushback of the increase in taxes.

Solution Variations

Variation 1 The solution could focus only on one part of the solution rather than the three different pieces. For instance the solution could focus on the airport parking fee tax. This solution has the potential to make the largest impact in decreasing the funding gap.

Variation 2 The solution could focus on Federal Aviation Regulation (FAR) Part 139 and only be implemented at Airports with Scheduled service. Not only would this be more lucrative than taxing the smaller airports, but it would place the tax burden on the larger companies rather than the smaller private companies.

Variation 3 For any tax implementation, consider tying the tax to a measure of inflation, so that it could be increased at periodic intervals and not be eroded over time by inflation. Such measures could include changes in the construction price index, the gross domestic product, or similar measures. Inflation adjustments to the tax could be made annually or less periodically, such as every three or five years.



Solution Analysis

Solution 1I – Alternative Taxing of the Proportional Value of Transportation Benefits Derived

Overview. This new revenue source concept would derive a pro-rata share of tax from major business industries or sectors for which the aviation system provides direct benefits to include cargo and passenger transport.

The tax may be applied to the largest industries/business sectors that leverage the aviation system in Washington State. Key industries or sectors may include aerospace, medical, pharmaceutical, information technologies, and energy.

This type of taxing source would use an economic valuation to fix a benefit derived for those aviation users at all of the public use airports in the State.

Analysis Summary

Current State	<ul style="list-style-type: none"> There currently is no Washington state law that allows for specific industries to be to be taxed for aviation-based transportation benefits derived.
Proposed Solution	<ul style="list-style-type: none"> The solution would require a common metric to be applied to businesses that would be the basis for the tax. The Department of Revenue would administer the tax that could be applied as an additional head-tax for business-related travel, and/or an additional state tax on aviation based cargo. The tax may or may not be specific to each industry/sector and would focus on passenger movement and/or cargo shipments. The solution would not be applied to businesses located on airport properties. This solution would place a tax based on the commercial benefits derived from utilization of the aviation system on major business industries or sectors, such as aerospace, medical, pharmaceutical, information technologies, and energy.
Future State if Implemented	<ul style="list-style-type: none"> This new revenue source concept has the potential to significantly address a portion of the \$12 million annual aviation funding gap in that it could be very broadly based, and be applicable to a wide range of user/stakeholders. This revenue source would leverage funds from the users that derive the greatest benefit from the aviation system, and apply the funds back to the system preservation and capital needs.



Solution Analysis

Solution 1I – Alternative Taxing of the Proportional Value of Transportation Benefits Derived

SWOT Analysis

	SWOT Group	SWOT Factors
Internal Environments	Strengths	S1 - This solution would provide a new source of revenue to the Aeronautics Account and could help close or possibly eliminate the funding gap.
		S2 - This solution attempts to place value on the benefits of aviation to the greater economy, which represents a strong correlation between a tax and the benefits being received.
		S3 - This revenue source would leverage funds from the users that derive the greatest benefit from the aviation system, and apply the funds back to the system preservation and capital needs.
		S4 - This revenue source could be easily administered via an additional head tax for business travel tickets, and an additional cargo tax.
	Weaknesses	W1 - This solution would create an additional tax on the business community.
		W2 - This solution would require the creation of a common metric used to apply the tax. It may prove to be difficult to develop and apply to all businesses that utilize the airports.
		W3 - This solution would require additional Department of Revenue administrative functions to assess the tax and collect the revenue.
W4 - The tax would impact the end user of the product as the cost of the tax would be passed on to the consumer.		
External Environments	Opportunities	O1 - This solution Identifies a new strategy in airport funding that could provide a new revenue stream that could close or eliminate the funding gap in the Aeronautics Account.
		O2 - This revenue source would leverage funds from the users that derive the greatest benefit from the aviation system, and apply the funds back to the system preservation and capital needs.
		O3 - The passenger tax could be levied on all business-related travel.
	Threats	T1 - This solution requires a legislative change to the tax code to implement.
		T2 - This solution would be challenging to pass from a political perspective.
		T3 - The new tax could be viewed as "anti-business".
		T4 - Business's would push back on this tax as it would be viewed as eroding some of their existing profit margin.
T5 - This solution may be considered unfair if targeting only certain large sectors.		



Solution Analysis

Solution 1I – Alternative Taxing of the Proportional Value of Transportation Benefits Derived Implementation Timeline

Short term; 0-2 years:



- **Prepare informational materials** for solution champion such as Washington Aviation Association, Washington Community Airports Association, Washington Pilots Association, and/or other stakeholders.
- **Identify legislative sponsor** and prepare informational materials.
- **Initiate and track** legislative process.
- **Keep stakeholders informed** of legislative process.

Medium term; 2-5 years:



- **Track progress** on legislative process.
- **Continue to educate** legislators on aviation funding needs.
- **Keep stakeholders informed** of legislative process.



Solution Analysis

Solution 1I – Alternative Taxing of the Proportional Value of Transportation Benefits Derived

Implementation Strategies

Strategy 1 Prepare materials that will help to educate legislators, public sector managers and the general public on the importance of the aviation system to the state's economy and businesses. The presentation material would highlight the benefits to the business industry, the overall needs of the airports, and the current shortfall in funding for the Aeronautics Account.

Strategy 2 Identify the key business sectors that leverage the state aviation system to the greatest extent. For example the most passenger tickets, or the greatest amount of cargo shipments, etc.

Solution Variations

Variation 1 The solution could be applied to all businesses that utilize aviation services so as not to appear to be targeting specific industries. This could also broaden the tax base which could lessen the overall tax burden on certain industries.

Variation 2 For any tax implementation, consider tying the tax to a measure of inflation, so that it could be increased at periodic intervals and not be eroded over time by inflation. Such measures could include changes in the construction price index, the gross domestic product, or similar measures. Inflation adjustments to the tax could be made annually or less periodically, such as every three or five years.



Solution Analysis

Solution 1J – Alternative Economic Development-Based Consumption Tax

Overview. This new revenue source concept would be tied to existing local and statewide visitor based tax funding. The concept would leverage a share of tourism taxes that is commensurate with the tourism access provided by the Washington State aviation system.

Analysis Summary

<p>Current State</p>	<ul style="list-style-type: none"> ■ Currently there are no direct funding streams to the Aeronautics Account derived from tourist based taxes. ■ This solution would attempt to place value on the importance of aviation to the tourism industry by providing a portion of tax revenues to the Aeronautics Account. ■ The state currently allows cities and counties to levy a 2 percent hotel/motel bed tax on hotels, motels, rooming houses, private campgrounds, RV parks, and similar facilities for continuous periods of less than one month. The tax is credited against the state sales tax so it is not an additive tax. Hotel-motel tax receipts may be used for promotion of tourism or construction and operation of tourism-related facilities, as well as the operational expenses of special events to attract tourists. These funds are administered by the DOR and returned to the local communities. 	<ul style="list-style-type: none"> ■ The State also allows for a Special Hotel/Motel tax of 2 to 3 percent that is used to fund debt service associated with the construction of tourist related activities/facilities (i.e. convention centers). These taxes are not credited against the state sales tax, so there is an additional burden for consumers. These funds are administered by DOR and returned to local communities.
<p>Proposed Solution</p>	<ul style="list-style-type: none"> ■ The proposed solution would enact a new state tax, similar to the existing special hotel/motel tax with the revenues earmarked for the state Aeronautics Account. ■ The solution would only apply to communities that have commercial service airports that promote tourism ■ The solution does not propose re-allocating hotel/motel tax revenue directed towards local jurisdictions 	<ul style="list-style-type: none"> ■ The tax could validate the important role the aviation industry has in the overall state’s tourism industry. ■ The Department of Revenue would serve as the administrator of this tax. ■ The solution is set up derive funding from a source that is directly impacted by aviation. Without aviation, this funding source would most likely decrease dramatically.
<p>Future State if Implemented</p>	<ul style="list-style-type: none"> ■ This source program if broadly applied, could provide substantial new revenues to fund state airport capital and preservation needs. <ul style="list-style-type: none"> ○ In 2009, over \$30 million was distributed to cities and counties that levy the Special Hotel/Motel tax. A 1-2 percent state tax rate of special hotel/motel tax revenues could net the Aeronautics account approximately \$300-600k. 	



Solution Analysis

Solution 1J – Alternative Economic Development-Based Consumption Tax

SWOT Analysis

	SWOT Group	SWOT Factors
Internal Environments	Strengths	S1 - This solution has the potential to help close the funding gap in the Aeronautics Account.
		S2 - This solution is built upon the existing tax base which is already in place.
		S3 - This solution attempts to focus directly on benefits derived from the tourism source that is directly attributable to the State's airports
		S4 - The mechanism to collect and distribute taxes through the Department of Revenue is already in place.
	Weaknesses	W1 - This solution requires a legislative change to the tax code to implement. This solution would require a legislative change in the tax code and is not a solution that WSDOT can bring about on its own.
		W2 – This solution could be viewed as an anti-tourism tax
W3 - The modification of the current tax structure in the State of Washington would initiate substantial political discussion.		
External Environments	Opportunities	O1 - This solution would attempt to place value on the importance of aviation to the tourism industry by providing tax revenues to the Aeronautics Account.
		O2 – This solution would be one of the first taxing solutions that identifies the benefits that aviation provides for the tourism industry
	Threats	T1 - An state hotel/motel tax for the purpose of providing funds for the Aeronautics Account may create political backlash from supporters of non-aviation projects.
		T2 - The tourism industry would likely oppose this solution



Solution Analysis

Solution 1J – Alternative Economic Development-Based Consumption Tax

Implementation Timeline

Short term; 0-2 years:



- Prepare informational materials for solution champion.
- Identify legislative sponsor and prepare informational materials.
- Initiate and track legislative process.
- Keep stakeholders informed of legislative process.

Medium term; 2-5 years:



- Track progress on legislative process.
- Continue to educate legislators on aviation funding needs.
- Keep stakeholders informed of legislative process.



Solution Analysis

Solution 1J – Alternative Economic Development-Based Consumption Tax

Implementation Strategies

Strategy 1 Prepare materials that will help to educate legislators, public sector managers and the general public on the importance of the aviation system to the state's tourism industry. Correlate the value of benefit from the system with respect to enabling significant tourism. Demonstrate how taxing tourism will ultimately create economic growth and jobs in the industry. The presentation material would highlight the benefits of the industry to tourism, the overall needs of the airports, and the current shortfall in funding for the Aeronautics Account.

Strategy 2 Clearly define the geographic areas (i.e. areas served by primary commercial service) that will be impacted by the tax. The tax should be applied to a wide enough geographic area so as not to give the impression that one jurisdiction is being targeted.

Solution Variations

Variation 1 For any tax implementation, consider tying the tax to a measure of inflation, so that it could be increased at periodic intervals and not be eroded over time by inflation. Such measures could include changes in the construction price index, the gross domestic product, or similar measures. Inflation adjustments to the tax could be made annually or less periodically, such as every three or five years.



Solution Analysis

Solution 1k – Establish a State-Sponsored Revolving Aviation Infrastructure Loan Fund (SRF)

Overview. State-seeded revolving loan funds (SRFs) are common in the water and wastewater sector, and have also been used by some states for transportation projects (e.g., Florida). By providing a pool of funds to initiate a loan fund, state funds provide greater leverage than providing direct appropriations to a single project or set of projects. These low-rate loan funds are usually applicable to either revenue funded, or sponsor (airport management) funded programs.

This revolving loan fund could be patterned after that of the State of Florida, which has been a successful, and continual operation for 14 years, with zero loan defaults thus far. Following are some of the operating history and statistics of the Florida program:

- Currently operating both a state backed and federally backed transportation infrastructure program.
- The State backed program averages approximately \$75 million per year, with an average project size of \$17 million.
- The program was initiated with \$90 million in State general fund seed money allocated over two fiscal years.
- The State DOT allocates approximately \$10 million per year in transportation trust fund money to provide continual backing for the program.
- The revolving loan fund can lend at or below market rate.
- Loan fund revenue streams can be bonded to leverage funding for larger projects.
- The loan fund services both public and private sector projects.
- The loan fund is typically used for gap financing, but it has also funded 100% of project costs given an acceptable risk profile.
- The amount of revolving loan source availability each year is contingent on the amount of loan repayments received.
- The program administrative burden is spread throughout the DOT, so there are very few full time staff support positions required.

Analysis Summary

Current State	<ul style="list-style-type: none"> ■ SRF structures have been developed in other states with reasonable success for developing transportation infrastructure. 	<ul style="list-style-type: none"> ■ Revolving loan fund programs require initial seed money, and an administrative/policy structure in order to implement.
Proposed Solution	<ul style="list-style-type: none"> ■ The establishment of an SRF loan program in the State of Washington that would fund needed capital infrastructure for debt worthy projects at airports. ■ The potential project types could include; multi-modal facilities; revenue producing facilities (air cargo, parking, etc.) 	<ul style="list-style-type: none"> ■ The listing of potential project types could be expanded to include a larger set of potential multimodal transportation projects that might interface with airports.
Future State if Implemented	<ul style="list-style-type: none"> ■ Having a revolving loan fund improves the capital development funding options for airports in Washington. 	<ul style="list-style-type: none"> ■ An SRF if applied broadly to a full set of project types could help close the funding gap, and offer a net new funding source for the airports.



Note: Content, possible solutions, or recommendations contained within these documents should not be considered indicators of WSDOT's future legislative priorities. These possible solutions may not be supported by all members of the Advisory Committee and the organizations they represent.

Solution Analysis

Solution 1k – Establish a State-Sponsored Revolving Aviation Infrastructure Loan Fund (SRF)

SWOT Analysis

	SWOT Group	SWOT Factors
Internal Environments	Strengths	S1 - The SRF solution is acceptable from the standpoint of being able to help Washington airports fund a greater part of their capital requirements, using their own self-generated resources
		S2 - The solution would garner a wide range of user group support, and have very little if any opposition.
		S3 - The solution will help local airports to help themselves, with a new low-rate loan funding option.
	Weaknesses	W1 - For the SRF solution would require upfront seed money on the part of the State.
		W2 - The SRF would require the adoption of guiding policies, an administrative set up and some means of financial reporting to be established.
		W3 – The SRF would be limited to projects that would produce revenues or cut costs to pay back the loans.
External Environments	Opportunities	O1 - The SRF offers the airports an additional funding source that would allow them to utilize their borrowing and bonding capacity on other projects and programs.
		O2 - The SRF offers a net new funding source, which would translate into new jobs and economic gains.
		O3 – The SRF could be developed across WSDOT to support all modes of transportation projects.
	Threats	T1 - Any creative funding source, such as a revolving loan fund would be subject to some public scrutiny and criticism.



Solution Analysis

Solution 1k – Establish a State-Sponsored Revolving Aviation Infrastructure Loan Fund (SRF)

Implementation Timeline



Short term; 0-2 years:

- **Develop SRF program policies**, guidelines, set policies, determine project thresholds and determine administrative needs
- **Identify and budget** the necessary seed money to begin the program
- **Identify areas** where administrative support can be found for the initiation of the program
- **Establish an aviation pilot project** to work out all of the administrative obstacles and to establish proof of concept
- **Develop program performance** indicators and track actual benefits to aviation capital programs



Medium term; 2-5 years:

- **Modify and amend the program** as necessary based on pilot program results
- **Develop collateral educational materials** and conduct workshops for airport management to help build awareness and improve effectiveness of the SRF program



Solution Analysis

Solution 1k – Establish a State-Sponsored Revolving Aviation Infrastructure Loan Fund (SRF)

Implementation Strategies

Strategy 1 Work through the various aviation trade groups to gain feedback, direction and support for the SRF program, prior to initiation.

Strategy 2 Work out an administrative support program that would utilize existing staff skills until the program becomes more mature.

Strategy 3 Conduct a proactive informational outreach on the program prior to initiation. Make assessments on the viability of the program for aviation only, or across the transportation modes.

Strategy 4 Initiate a “proof of concept” pilot program in partnership with a selected airport.

Solution Variations

Variation 1 Apply the solution beyond state aviation to all modes of transportation. This has a potential benefit of providing a larger impact to the state transportation system (and garnering broader support), while continuing to be a significant new source to aviation.

Variation 2 Apply this solution in a scaled down version for aviation and aviation multimodal projects only, which will lower seed money requirements, and provide a direct benefit to aviation funding gap needs.



Solution Analysis

Solution 2A – Realignment of Current Transportation Revenue Allocations

Overview. This solution refines the allocations of current Washington State transportation-generated revenues with a direct nexus to the state aviation system to better reflect a pro-rata share of tax revenues going back to aviation capital needs in proportion to the benefit provided by aviation and air commerce. This concept does not propose to impose higher rates or affect revenue sources, but envisions only modifications to the existing revenue allocations that may represent a more appropriate funding approach for aviation.

Analysis Summary

<p>Current State</p>	<ul style="list-style-type: none"> ■ A percentage of the motor vehicle fuel taxes generated in Washington State are currently allocated to the Aeronautics Account: <ul style="list-style-type: none"> ○ 0.028% of all statewide revenue from the motor vehicle fuel tax ○ 0.028% is an estimate of the percentage of motor vehicle fuel is used in general aviation aircraft ○ Equates to approximately \$258,000 in average annual revenue 	<ul style="list-style-type: none"> ■ Rental cars are taxed and fund a portion of the WSDOT Multi Modal Account. Revenues from rental cars into the DOT Transportation Fund are planned at \$53.8 million in the current Biennial Budget FY 2013-15. (Source: Transportation Revenue Forecast Council, June 2014 Transportation Economic and Revenue Forecasts). ■ Approximately 50 percent of all rental cars originate at airport properties nationally¹.
<p>Proposed Solution</p>	<ul style="list-style-type: none"> ■ Determine a more appropriate allocation of the current .028% transfer of Motor Vehicle Fuel fund revenues to the Aeronautics account, based upon a more equitable pro-rata share of aviation generated motor vehicle fuel consumption. Aviation as a whole uses more than .028% of the total Motor Vehicle fuel used in the State of Washington. Motor vehicle fuel tax generated by ground service equipment such as tugs and belt loaders, ARFF (Aircraft Rescue and Fire Fighting) equipment and operations vehicles, and passenger busses that transfer passengers from terminal to terminal could be allocated to the Aeronautics account. 	<ul style="list-style-type: none"> ■ The solution could allocate a portion of the existing rental car tax revenues (\$53.8 million in FY 2013-15 budget) currently allocated to the WSDOT Multi Modal Account to the aeronautics account. A study would be conducted as part of the solution to determine the amount of rental cars generated at airport locations vs. off-site locations. This study would help define the appropriate allocation of revenues to shift to the Aeronautics account.
<p>Future State if Implemented</p>	<ul style="list-style-type: none"> ■ This concept could represent a very large step in providing a long term sustainable funding sources for aviation capital and preservation needs. <ul style="list-style-type: none"> ○ For example, revising the current motor vehicle tax allocation to 0.1% from 0.028% has the potential to allocate an additional \$720,000 per year to aviation. 	

¹ What a \$24 billion car rental market means to the U.S. travel economy, Samantha Shankman, Skift.com, May 8, 2013



Solution Analysis

Solution 2A – Realignment of Current Transportation Revenue Allocations

SWOT Analysis

	SWOT Group	SWOT Factors
Internal Environments	Strengths	S1 - The Washington State Motor Vehicle Tax is projected to generate \$2.5 Billion in revenues over the 2013-2015 biennium. A small increase in the aviation component rate could potentially cover the aviation funding gap.
		S2 – This solution may be a more accurate accounting of the motor vehicle fuel percentage used to support operations and general aviation aircraft operations at Washington airports.
		S3 – Strong correlation linking aviation system benefits and use to motor vehicle fuels and car rentals.
		S4 - The new funding could provide a robust, yet aviation generated, revenue source.
		S5 - The solution diversifies the aeronautics revenue stream.
	Weaknesses	W1 – Solution would require additional study to determine appropriate volumes of motor vehicle fuels to support general aviation aircraft operations, as well as other airside/landside airport operations.
		W2 – The solution is contingent on State politics, and the transparency of the metric(s) adopted to justify the modifications.
W3 – This solution would rob from Peter (highways/road funds) to pay Paul (aviation).		
		W4 - While it is recognized that a large portion of car rentals originate at airport properties (approximately 50 percent nationally), data specific to Washington State was not available to help determine a more accurate percentage of rental car tax revenue attributed to rental cars originating on airport properties.
External Environments	Opportunities	O1 – Due to the large scale of the motor vehicle tax, even a slight increase in the share of the Washington State Motor Vehicle Tax Fund into the aeronautics account has the potential to dramatically reduce or even eliminate the \$12 million annual aviation system funding gap.
		O2 – This solution would help Washington airports to be self-sustaining.
	Threats	T1 - The Solution has a large political threat. Re-allocating funds from highways/roadways to the Aeronautics Account could prove politically difficult.
		T2 – Any Solution that modifies the motor vehicle tax fund will have political opposition.



Solution Analysis

Solution 2A – Realignment of Current Transportation Revenue Allocations

Implementation Timeline

Short term; 0-2 years:



- Prepare informational materials for solution champion such as the Washington Aviation Association, Washington Community Airports Association, Washington Pilots Association, and/or other stakeholders.
- Conduct a study to determine the percentage of total rental cars rented in the State originates at airport locations.
- Identify legislative sponsor and prepare informational materials.
- Initiate and track legislative process.
- Keep stakeholders informed of legislative process.

Medium term; 2-5 years:



- Track progress on legislative process.
- Continue to educate legislators on aviation funding needs.
- Keep stakeholders informed of legislative process.



Solution Analysis

Solution 2A – Realignment of Current Transportation Revenue Allocations

Implementation Strategies

Strategy 1 Educate the public on the relative importance of the aviation system to the other transportation modes. The aviation industry in the state of Washington accounted for \$50.9 billion in total economic activity in 2012. Informing the public on the need of aviation in the state will help to ease the pushback of re-allocating funding within the Motor Vehicle Tax Fund and the Multi-modal account.

Strategy 2 Discussions to support future increases in the Motor Vehicle Tax Fund should involve aviation and the use of motor vehicle fuels, as well as the relative importance of the aviation system to the other transportation modes and systems.

Strategy 3 Conduct a study to estimate the number of rental cars originating at airport locations in the State of Washington. This would help determine the appropriate share of Rental Car Tax revenues to allocate to the Aeronautics Fund.

Strategy 4 As part of this solution, a study would be performed to estimate the ground based fuel consumption at Primary Commercial Service Airports. This study would determine a more appropriate share of the current Motor Vehicle Fuel Tax being deposited in the Aeronautics fund, as well as give stakeholders a more accurate estimate of the possible revenues the Solution would generate.

Solution Variations

Variation 1 Increases in the portion of the Motor Vehicle Fuel Tax directed towards the Aeronautics Account could be phased in incrementally over time, and capped at an agreed-upon commensurate rate.

Variation 2 Pursuing reallocations from these revenue sources could be approached on a source-by-source basis as political climate and other factors allow.



Solution Analysis

Solution 2B – Modify Current State Transportation Funds Allocations Across All Modes

Overview. In this solution, allocations from all of the state aviation and transportation funding resources are evaluated and revised to better account for the proportional value of aviation as a transportation system mode within the state of Washington. All current State Transportation Fund accounts would be evaluated to prioritize statewide investment in each of the transportation modes, based on relative benefits back to the state and citizens, and other key statewide strategies.

Analysis Summary

<p>Current State</p>	<ul style="list-style-type: none"> ■ The Aeronautics Account is nearly wholly funded by aviation-generated revenue sources. ■ The largest revenue source for the Aeronautics Account is aviation fuel taxes. In the past 10 years (2004-2013), aviation fuel taxes have accounted for an average of 82 percent of the state generated revenues in to the Account. The Department of Licensing collects the aircraft fuel tax, which is deposited in the Aeronautics Account. ■ A portion of motor vehicle fuel taxes collected by the Transportation Fund are re-distributed to the Aeronautics Account. This provision compensated for unclaimed gasoline used in aircraft that did not pay the aviation fuel tax. The percentage distributed from the motor vehicle fuel taxes is 0.028% and has not changed since its inception in 1987 (RCW 82.36.415). 	<ul style="list-style-type: none"> ■ Funding sources for aeronautics investment vary by state. The Airport Investment Study reviewed eight states in comparison to Washington State. <ul style="list-style-type: none"> ○ Of the states reviewed, revenues from tax contributions ranged from a low of \$50,000 in Wyoming to a high of \$47 million in Tennessee. The average revenue for the nine states is approximately \$19 million. Washington’s Aeronautic Account had revenues of \$3.6 million in 2013. ○ Of the states surveyed, the largest sources of revenues for aviation funds are Aviation Fuel Taxes and Motor Vehicle Fuel Tax ■ Washington State currently subsidizes some modes of transportation (i.e. Ferries, rail) while not subsidizing others.
<p>Proposed Solution</p>	<ul style="list-style-type: none"> ■ This solution would initiate a study to ascertain the funding sources for Washington State transportation, and how they are currently distributed across the modes. The study would identify apples-to-apples comparisons of the benefit of each of these modes to the state, and consider strategic priorities to help decision makers derive an allocation policy and formulae to consider and benefit all of the modes. 	<ul style="list-style-type: none"> ■ This solution could also review all transportation related revenues into the Transportation Fund to determine if aviation has a role in generating those revenues. If aviation has a role in generating the revenue, the Aeronautics Account should receive a portion of the revenues.
<p>Future State if Implemented</p>	<ul style="list-style-type: none"> ■ The solution could modify the structure of the Transportation Fund and look at all transportation modes with a more holistic approach. It would aim to align the overall benefits of the different modes with available revenues. 	<ul style="list-style-type: none"> ■ The solution could completely revisit and simplify revenue sources into the Transportation Fund to be allocated to all modes.



Note: Content, possible solutions, or recommendations contained within these documents should not be considered indicators of WSDOT’s future legislative priorities. These possible solutions may not be supported by all members of the Advisory Committee and the organizations they represent.

Solution Analysis

Solution 2B – Modify Current State Transportation Funds Allocations Across All Modes

SWOT Analysis

	SWOT Group	SWOT Factors
Internal Environments	Strengths	S1 - This solution has the potential to eliminate the funding gap and provide the Aeronautics Account with a robust long term source of funding.
		S2 - This solution views all transportation modes in the state and identifies and prioritizes needs.
		S3 - This solution could simplify the revenue stream into the Aeronautics Account by eliminating some of the existing aviation taxes and shifting reliance towards one or two main sources.
		S4 - This solution would include the aviation system into the overall transportation funding and prioritization discussions and would likely increase recognition and support of the relative value of the aviation system.
	Weaknesses	W1 - This solution would require a legislative change in the tax code and is not a solution that WSDOT can bring about on its own.
		W2 - This solution would change the way state funds are administered.
		W3 - It may be a challenge to convince legislators the value of viewing all modes and revenue sources together to fund overall priorities.
		W4 - This solution would require additional detailed study to evaluate all of the transportation funding modes and attempt to identify relative values of the modes.
External Environments	Opportunities	O1 - This solution offers the potential to address the aviation funding gap with a single across-the-board solution.
		O2 - By giving aviation a share of the tax revenues the solution helps to validate the relative importance of the aviation system in the State.
		O3 - This solution could potentially simplify the revenue stream into the Aeronautics Account by eliminating some of the existing aviation taxes and shifting reliance towards one or two main sources.
	Threats	T1 - A change in the way transportation revenues are allocated may create resistance from supporters of non-aviation transportation projects.
		T2 - Modifications between state administered funds may be difficult to explain and get support from the current stakeholders.
		T3 - While the aviation system infrastructure funding gap may be addressed, it may come at the cost of increasing the gap in other transportation modes.



Solution Analysis

Solution 2B – Modify Current State Transportation Funds Allocations Across All Modes

Implementation Timeline

Short term; 0-2 years:



- **Identify solution champions** and allies across the required stakeholders. Create a task force to investigate solution opportunities and issues.
- **Refine solution** to meet the needs of key stakeholders and draft legislation.

Medium term; 2-5 years:



- **Initiate and track** legislative process.
- **Continue to educate** legislators on aviation funding needs.
- **Keep stakeholders informed** of legislative process.



Solution Analysis

Solution 2B – Modify Current State Transportation Funds Allocations Across All Modes

Implementation Strategies

Strategy 1 Focus initial study on ascertaining the funding sources for Washington State transportation, and how they are currently distributed across the modes. The study would identify apples-to-apples comparisons of the benefit of each of these modes to the state, and consider strategic priorities to help decision makers derive an allocation policy and formulae to consider and benefit all of the modes.

Strategy 2 Initial study may also consider all transportation related revenues into the Transportation Fund to determine if aviation has a role in generating those revenues. If aviation has a role in generating the revenue, the Aeronautics Account should receive a portion of the revenues.

Strategy 3 Stakeholders from across the transportation modes would need to be included in the study to validate the approach and provide input.

Strategy 4 This discussion may best be considered when there is a strong state interest in revisiting the primary revenues in to the Transportation Fund. For example, if the state is looking at alternatives to the motor vehicle fuel tax, it may be beneficial to look at revenue streams and allocations holistically at this time.

Solution Variations

Variation 1 The solution could focus on reallocating revenues into the Transportation Fund for which aviation has a direct role in generating (as per Solution 2A), such as:

- o Rental car revenues currently deposited into the WSDOT Multi Modal Account. Reallocation could be based, in part, on the percentage of car rentals that originate from airports.
- o Motor vehicle fuel taxes currently allocated to the Aeronautics Account may be adjusted to more accurately reflect the use of motor vehicle fuels in both aircraft and airfield operations.



Solution Analysis

Solution 3A – Increase Select Aviation Tax Rates

Overview. This concept would entail an increase in the current taxation program that goes into the State Aeronautics Account. This solution would focus on taxes currently supporting aviation, and specifically on tax sources that could provide a meaningful contribution towards the statewide aviation capital and preservation needs. With the exception of the aviation fuel excise tax, all tax revenues were deemed

inconsequential in terms of addressing the funding gap. Therefore, this solution analyzes an increase in the aviation fuel excise tax rate. This solution would require state legislation in order to increase the excise tax rate on aviation fuels.

Analysis Summary

Current State	<ul style="list-style-type: none"> ■ Current funding to the Aeronautics Account comes from several sources, with total values expressed in a 10-year average ■ Aircraft dealer license fees: \$75 per dealer per year (\$4,000 total) ■ Aircraft registration fees: \$15 per year per aircraft (\$89,500 total) ■ Federal USDOT revenue: currently approximately \$700,000 per year ■ Aircraft excise taxes: 10% of total gathered; rates vary per type of commuter and non-commuter aircraft (10% sent to Aeronautics Account totals \$32,044) ■ Aircraft fuel tax: \$0.11 per gallon sold (totals approximately \$2.5 million) 	<ul style="list-style-type: none"> ■ Motor vehicle fuel tax: 0.028% of total statewide gas tax collections (\$258,000 total) ■ Other revenue sources totaling nearly \$100,000 ■ Interest income totaling approximately \$50,000 ■ The total collected from these sources gives the Aeronautics Account an average annual funding of approximately \$3.7 million, \$1.4 million of which is projected to fund aviation projects. This is far short of the \$12.1 million¹ needed for the state share of total aviation funding.
Proposed Solution	<ul style="list-style-type: none"> ■ Proposed legislative changes would increase the aviation fuel excise tax rate from \$0.11 per gallon to \$0.155 per gallon to match the rate found in New Jersey. Changes would result in over \$1 million in new revenue generated for the Aeronautics Account for a total state share of over \$4.7 million. 	
Future State if Implemented	<p>Changes would result in over \$1 million in new revenue generated for the Aeronautics Account.</p>	

¹ *Washington Airport Investment Study, Consequences of Perpetuating Current Funding, Exhibit 5-32, p. 31.*



Solution Analysis

Solution 3A – Increase Select Aviation Tax Rates

SWOT Analysis

	SWOT Group	SWOT Factors
Internal Environments	Strengths	S1 – This solution eliminates some of the funding gap. Aviation fuel excise tax rate increase from \$0.11 per gallon to \$0.155 per gallon adds over \$1 million in revenue to the Aeronautics Account.
		S2 – This solution increases the self-sustainability of the state’s aviation industry. The tax increases are only originating from aviation-related sources.
		S3 - This solution does not impose a new tax. Since the tax already exists, it is relatively easy to collect additional tax receipts if the Legislature raises the tax rate, since the infrastructure and organization are already in place.
	Weaknesses	W1 - This solution places a larger burden on purchasers of aviation fuel. The increase to \$0.155 per gallon of fuel sold would place a burden of over \$1 million annually in additional tax revenue from payers of the aviation fuel excise tax.
W2 - This solution does not provide new revenue from other aviation tax sources.		
W3 - This solution requires legislative changes to the tax code and is not a solution that a state agency or aviation/airport organizations can bring about on their own.		
W4 - This analysis assumes demand for the taxed product is inelastic. This solution assumes that increased costs of aviation fuel (due to higher taxes) will not result in decreased demand for aviation fuel.		
External Environments	Opportunities	O1 – An increase in the aviation fuel excise tax could provide bill sponsors and supporters leverage in any attempt to eliminate the fuel tax exemptions for commercial carriers since it could be shown that taxes weren’t being raised unilaterally on the carriers, but were being increased on all aviation users in the state.
	Threats	T1 - The increase in the aviation fuel excise tax rate to \$0.155 per gallon may deter the use of aviation in the state.
		T2 – Aviation fuel excise tax revenues are already the largest source of funding for WSDOT Aviation. By placing a larger burden on aviation fuel tax revenue, it puts the Aeronautics Account at greater risk in the event of market changes since it further concentrates WSDOT Aviation’s reliance on aviation fuel sales as its primary source of revenue.
		T3 – There is likely to be political opposition to raising the aviation fuel excise tax rate. Among the 50 U.S. states, 14 currently do not impose an excise tax on jet fuel, which comprises the vast majority of aviation fuel sales. Of those that do, the average is \$0.055 per gallon of jet fuel. Washington’s rate of \$0.11 is the fourth highest in the country. ² When factoring in sales tax on aviation fuel, Washington has the second highest taxes on jet fuel, so tying to increase taxes on a product that is already heavily taxed is likely to be a challenging undertaking.

² NBAA State Aviation Tax Report, www.nbaa.org/admin/taxes/state



Note: Content, possible solutions, or recommendations contained within these documents should not be considered indicators of WSDOT’s future legislative priorities. These possible solutions may not be supported by all members of the Advisory Committee and the organizations they represent.

Solution Analysis

Solution 3A – Increase Select Aviation Tax Rates

Implementation Timeline

Short term; 0-2 years:



- **Prepare informational materials** for solution champion such as Washington Aviation Association, Washington Community Airports Association, Washington Pilots Association, and/or other stakeholders.
- **Identify legislative sponsor** and prepare informational materials.
- **Initiate and track** legislative process.
- **Keep stakeholders informed** of legislative process.

Medium term; 2-5 years:



- **Track progress** on legislative process.
- **Continue to educate legislators** on aviation funding needs.
- **Keep stakeholders informed** of legislative process.



Solution Analysis

Solution 3A – Increase Select Aviation Tax Rates

Implementation Strategies

Strategy 1 Since taxes on aviation fuel in Washington are already quite high compared to other states, supporters of this solution will need to focus on the benefits that users will derive from their increased taxes.

Strategy 2 Many states impose different tax rates on jet fuel and avgas. One possible variation is increasing the aviation fuel excise tax only on jet fuel and leaving the rate on avgas at \$0.11 since users of piston aircraft are likely to be more price sensitive than operators of turbine aircraft. Increasing the fuel excise tax rate on jet fuel will generate the most revenue since it comprises the majority of aviation fuel sales.

Strategy 3 If bill sponsors and supporters elect to increase other aviation taxes or fees (see Variation 1 below), it would be beneficial to focus on the idea that the burden of additional funding is being spread as widely as possible.

Strategy 4 To lessen political opposition to an increase in the aviation fuel excise tax, bill sponsors and supporters could consider trying to exempt aviation fuel from the state sales tax. More than half the U.S. states do not impose sales tax on aviation fuel (31 have no sales tax on jet fuel and 34 have no sales tax on avgas).³

Solution Variations

Variation 1 Bill sponsors and supporters may want to consider increasing the tax rates and fees on other revenue sources by an amount proportional to the proposed increase in the aviation fuel excise tax rate. While the revenue contributions from these sources will be inconsequential in terms of addressing the funding gap, increases in dealer license fees, aircraft registration fees, and aircraft excise taxes would help diversify WSDOT Aviation's funding sources and show that the impact of tax increases was being spread among a larger group of aviation users.

Variation 2 Several states charge aircraft registration fees at different levels based on the weight of the aircraft. Employing such a system in Washington would increase revenue without placing a large financial burden on many smaller aircraft operators.

Variation 3 Another potential source of increased revenue is the motor vehicle fuel tax, which currently contributes 0.028% of gas tax collections to the Aeronautics Account. An increase from this source (Solution 2A) would not impose additional burdens upon aviation users.

³ NBAA State Aviation Tax Report, www.nbaa.org/admin/taxes/state



Solution Analysis

Solution 3B – Airport Leasehold Taxes Go Directly into the Aeronautics Account

Overview. In this concept, airport leasehold tax revenues would be routed to the WSDOT Aeronautics Account to fund aviation preservation and capital projects, instead of being diverted into the General Fund. Primary advantages of this solution are:

- **May cover the funding gap.** Estimates of the magnitude of leasehold taxes generated on airports indicate there is a strong possibility that a significant portion, or even all, of the funding gap could be addressed with this solution.
- **Not a new tax or tax increase.** Leasehold taxes are currently paid to the General Fund, and this solution involves redirecting those taxes

to a different account. Since this isn't a new tax or a tax increase (taxpayers won't pay any more than they are currently paying), there is no risk of a change in tax revenues because of a change in tax rates.

Analysis Summary

<p>Current State</p>	<ul style="list-style-type: none"> ■ Washington imposes a tax on private parties that rent public property, termed a leasehold excise tax. ■ This tax is in lieu of a property tax, which is not paid on publicly owned property. ■ Current tax rate is 12.84% of the rent paid. ■ Approximately 53 percent of these tax revenues go to the State General Fund and 47 percent are distributed to the county and city where the leased property is located. 	<ul style="list-style-type: none"> ■ In 2013, leasehold excise taxes (from all state lands) generated \$27.4 million for the State General Fund and \$24.3 million for local jurisdictions. ■ The bulk of leasehold excise taxes come from warehouses and manufacturing plants constructed on port property, airline facilities at public airports, major businesses on the University of Washington's metropolitan tract in downtown Seattle, state grazing lands, DNR tidelands, national forest land leased for recreational cabins, and publicly developed industrial property.
<p>Proposed Solution</p>	<ul style="list-style-type: none"> ■ Leasehold excise taxes currently generated by leases on publicly owned airports would be reallocated from the General Fund to the Aeronautics Account so the proceeds could be spent on aviation assets. 	
<p>Future State if Implemented</p>	<ul style="list-style-type: none"> ■ Annual tax revenues from this proposed solution are projected to be no more than \$25 million annually, since this is the share of leasehold excise taxes that the state averages annually from leases on all state land sources. 	<ul style="list-style-type: none"> ■ Based on an analysis of leasehold excise taxes reported by SEA (\$5.7 million) and GEG (\$0.4 million), it is estimated that the state airport system contributes at least \$8.9 million, and probably closer to \$15.9 million in leasehold excise taxes. The state's share of these estimates (53%) makes this a range of \$4.7 million to \$8.4 million, which would cover from between half to the entire funding gap.

Solution Analysis

Solution 3B – Airport Leasehold Taxes Go Directly into the Aeronautics Account

SWOT Analysis

	SWOT Group	SWOT Factors
Internal Environments	Strengths	S1 - This solution could provide significant tax revenues to fund airport preservation and capital needs. With the State collecting \$25 million in leasehold excise taxes annually, the portion generated on airports could be substantial.
		S2 – This is an existing tax. Since the tax already exists, it should be fairly easy (from an administrative point of view) to designate those funds that are generated on airports and direct them to the Aeronautics Account.
		S3 – This solution does not impose additional taxes. It simply shifts currently collected taxes from the General Fund to the Aeronautics Account.
	Weaknesses	W1 - This solution requires legislative changes to the tax code and is not a solution that a state agency or aviation/airport organizations can bring about on their own.
External Environments	Opportunities	O1 - This solution fulfills implied public policy. The <i>Washington Joint Legislative Audit & Review Committee 2011 Tax Preference Performance Reviews, Report 12-2</i> stated that an implied public policy goal of Washington tax policy ¹ is to have those that pay a tax benefit from that tax. By dedicating leasehold excise taxes generated by airports to the Aeronautics Account, this meets the implied public policy goal since the money would be spent on airports.
	Threats	T1 – Due to significant competing interests for state funding, there may be significant political opposition to removing airport leasehold excise tax revenues from the General Fund.

¹ State of Washington Joint Legislative Audit & Review Committee 2011 Tax Preference Performance Reviews, Report 12-2, January 11, 2012, page 29.

Solution Analysis

Solution 3B – Airport Leasehold Taxes Go Directly into the Aeronautics Account

Implementation Timeline

Short term; 0-2 years:



- **Prepare informational materials** for solution champion such as Washington Aviation Association, Washington Community Airports Association, Washington Pilots Association, and/or other stakeholders.
- **Identify legislative sponsor** and prepare informational materials.
- **Initiate and track** legislative process.
- **Keep stakeholders informed** of legislative process.

Medium term; 2-5 years:



- **Track progress** on legislative process.
- **Continue to educate legislators** on aviation funding needs.
- **Keep stakeholders informed** of legislative process.

Solution Analysis

Solution 3B – Airport Leasehold Taxes Go Directly into the Aeronautics Account

Implementation Strategies

Strategy 1 Bill sponsors should identify and support proponents of this solution that can drive the legislative process and effect this change.

Strategy 2 To counter political opposition, bill sponsors and supporters should enlist the aid of aviation support groups. Additionally, bill sponsors and supporters should consider trying to build a coalition that includes non-aviation organizations through efforts like those illustrated in Variation 1.

Solution Variations

Variation 1 As an example of how to address current political issues, a variation on this solution could help with another significant legislative funding issues. For example, the leasehold tax revenues currently deposited into the state General fund could be split between the Aeronautics Account and schools (K-12), with an emphasis on schools that provide aviation education.

Variation 2 If the amount of leasehold taxes paid by airports is more than the funding gap, only a fraction of the leasehold taxes would need to go to the Aeronautics Account.



Solution Analysis

Solution 3C – Revise Fuel Excise Tax Exemptions

Overview. This concept would raise fuel excise tax revenue by reviewing and optimizing existing exemptions. This concept would apply to all stakeholders, so that a more consistent aviation fuel excise tax base would be in place. Any net increase to tax revenues would go directly into the Aeronautics Account. Notable features of this solution include:

- **Identified by state legislature in 2011.** As part of a periodic review of tax exemptions, the

Washington legislature recommended reviewing and clarifying fuel excise tax exemptions in the *State of Washington Joint Legislative Audit & Review Committee 2011 Tax Preference Performance Reviews, Report 12-2*.

- **Potential to significantly address airport capital and preservation needs in Washington State.** Estimates of the taxes not paid because of the fuel excise tax exemption vary, but even for the lowest estimates, the unrealized taxes would

help address the State’s portion of the funding gap.

- **Fulfills public policy.** One goal of a tax is for the tax proceeds to be used to benefit those that pay the tax. Currently, some of the exempted entities benefit from the fuel excise taxes paid by the non-exempt entities. Modifying the exemptions would better align this tax with public policy.

Analysis Summary

Current State	<ul style="list-style-type: none"> ■ Washington imposes an \$0.11 per gallon excise tax on all aviation fuel sold in Washington. The proceeds go to the Aeronautics Fund and are responsible for approximately 85 percent¹ of WSDOT Aviation’s funding. ■ Exemptions apply to 96 percent of fuel transactions² in Washington in a typical year, resulting in most of the tax falling on general aviation users engaged in business, recreational, or instructional flights. ■ Exemptions to this fuel excise tax apply to: <ul style="list-style-type: none"> ○ Fuel delivered directly into the tanks of specified commercial operators. ○ Fuel delivered into the bulk storage tank of a certified user. ○ Fuel purchased by the US government. ○ Emergency medical air transport entities. ○ Agricultural use. ○ Fuel used in the operation of aircraft for testing or experimental purposes. ○ Training of crews for purchasers of aircraft who are certified air carriers. ○ Fuel sold for export and exported from the state. ○ Fuel sold to a licensed aircraft fuel distributor. ○ Fuel imported into the state in interstate/foreign commerce and intended to be sold while in interstate/foreign commerce.
Proposed Solution	<ul style="list-style-type: none"> ■ Exemptions on the fuel excise tax would be revised so that the \$0.11 per gallon fuel excise tax is applied as uniformly as possible. ■ Some exemptions would have to be kept in place to avoid legal issues. For example, the state is not allowed to collect taxes from the federal government, so the exemption for fuel purchased by the federal government would need to remain in place.
Future State if Implemented	<ul style="list-style-type: none"> ■ Estimates of additional revenue brought into the Aeronautics Account from the revision of fuel excise tax exemptions range from approximately \$8 million³ to nearly \$60 million⁴. ■ Other exemptions could be retained for a variety of reasons as outlined in ‘Solution Variations’

¹ *Washington Airport Investment Study, Funding Airport Investments, Exhibit 3-27, p. 27.*

² *State of Washington Joint Legislative Audit & Review Committee 2011 Tax Preference Performance Reviews, Report 12-2, January 11, 2012, page 32.*

³ *State of Washington Joint Legislative Audit & Review Committee 2011 Tax Preference Performance Reviews, Report 12-2, January 11, 2012, page 33.*

⁴ *12billion.org, Washington data sheet*



Solution Analysis

Solution 3C – Revise Fuel Excise Tax Exemptions

SWOT Analysis

	SWOT Group	SWOT Factors
Internal Environments	Strengths	S1 - This solution could provide significant tax revenues to fund airport preservation and capital needs. Removal of all aircraft fuel excise tax exemptions would have increased tax revenues to the Aeronautics Account by an estimated \$153 million in 2013, ⁵ assuming no change in demand. This includes exemptions on fuel that is exported and fuel purchased by the US government. This estimate exceeds the expected annual gap state share of approximately \$8.4 million. ⁶
		S2 - This solution does not impose a new tax. Since the tax already exists, it is relatively easy to start collecting tax receipts if the Legislature revises the exemption, since the infrastructure and organization are already in place.
	Weaknesses*	W1 - This solution requires legislative changes to the tax code and is not a solution that a state agency or aviation/airport organizations can bring about on their own.
		W2 - It is unlikely that all exemptions can be revised. Of the \$153 million in estimated aircraft fuel excise tax exemptions, \$66 million comes from fuel that is exported and \$32 million comes from fuel purchased by the US government. The US Constitution prohibits states from taxing either of these items. The remaining \$55 million of fuel excise tax exemptions may or may not be entirely collectible by the state if the fuel excise tax exemption is revised due to Constitutional issues.
		W3 - This solution assumes that increased costs of a product (because of higher taxes) will not result in decreased demand for the product. This may be a valid assumption for small increases in costs, but is likely not valid for the millions of dollars revision of the fuel excise tax exemption is expected to generate.
		W4 - Increased taxes could lead to reductions or elimination of air service, specifically to small and rural communities.
		W5 - Increased taxes could lead to increased air fares.
		W6 - Increases in airline costs (including taxes) may result in air service reductions that could lead to reduced travel and trade, and ultimately fewer Washington jobs and slow economic recovery.
W7 - Increasing the tax burden on airlines could lead to less revenue to state and local government, reduced tourism and less economic growth.		

⁵ State of Washington Joint Legislative Audit & Review Committee 2011 Tax Preference Performance Reviews, Report 12-2, January 11, 2012, page 32.

⁶ Washington Airport Investment Study, Consequences of Perpetuating Current Funding, Exhibit 5-32, p. 31.



Solution Analysis

Solution 3C – Revise Fuel Excise Tax Exemptions

	SWOT Group	SWOT Factors
External Environments	Opportunities	<p>O1 - This solution, if linked to future legislative bills, provides the Legislature the opportunity to review and clarify the public policy objectives of the preferences. The <i>Washington JLARC 2011 Tax Preference Review</i> found that this exemption no longer meets the implied public policy goal of having those that benefit from a tax pay that tax. When originally enacted, the revenues from this tax were spent just on small airports and benefited the payers of the tax – individual and business aircraft users. Over time, the program has expanded and revenues are spent on all sizes of airports, so that air carriers are now benefiting from the tax but not paying it. The legislation behind this tax exemption does not state any public policy goals for the exemption, so the <i>Washington JLARC</i> developed the implied public policy goal stated above and was part of the rationale behind the recommendation to review and clarify the exemptions on the aircraft fuel excise tax.</p>
	Threats*	<p>T1 - The solution may be ruled unconstitutional. Removal of the tax exemption on aircraft fuel used for interstate trade may run afoul of the US Constitution’s Commerce Clause if not done properly.</p>
		<p>T2 - There may be opposition from entities that are exempted from this tax that could damage professional relationships within the aviation community. In many cases, these entities are valued partners to airport sponsors, have strong working ties with aviation organizations, and are important stakeholders of WSDOT.</p>
		<p>T3 - There may be airline passenger opposition. Passengers faced with higher airfares from airlines that pass on the tax may oppose eliminating the exemption.</p>
		<p>T4 - There may be public opposition. Even though this solution proposes reinstating an existing tax by eliminating a tax exemption, the general public is likely to view this as a new tax and oppose it accordingly.</p>
		<p>T5 - The solution may not be sustainable. Since fuel costs are a major expense for airlines, there has been increasing emphasis placed on more fuel efficient aircraft. With more fuel efficient aircraft, fuel consumption is unlikely to grow as fast as demand on the aviation system. Since the aircraft fuel excise tax is based on volume and not a percent of the cost of the fuel, this slow growth in fuel consumption means that future tax revenues from this source may not be sufficient to meet future needs, especially if higher fuel prices drive down demand for fuel.</p>
		<p>T6 - The solution may shift aircraft fuel demand to other states. If air ambulance and aerial applicators no longer benefit from the tax exemption, they may elect to purchase fuel in adjacent states where lower taxes result in less expensive fuel, especially if their operation is based at an airport near the state border. Similarly, airlines may tanker fuel into Washington in order to avoid purchasing fuel in Washington. The net result could be lower aircraft fuel excise tax revenues than projected.</p>

**In reviewing this document, select legislators were interested in learning what evidence supported certain weaknesses/threats identified. An in-depth analysis of these key challenges was conducted and is provided in Appendix 17.*



Solution Analysis

Solution 3C – Revise Fuel Excise Tax Exemptions

Implementation Timeline

Short term; 0-2 years:



- **Prepare informational materials** for solution champion such as Washington Aviation Association, Washington Community Airports Association, Washington Pilots Association, and/or other stakeholders.
- **Identify legislative sponsor** and prepare informational materials.
- **Initiate and track** legislative process.
- **Keep stakeholders informed** of legislative process.

Medium term; 2-5 years:



- **Track progress** on legislative process.
- **Continue to educate legislators** on aviation funding needs.
- **Keep stakeholders informed** of legislative process.



Solution Analysis

Solution 3C – Revise Fuel Excise Tax Exemptions

Implementation Strategies

Strategy 1 Bill sponsors and supporters will need to give careful consideration to the constitutional issues surrounding the removal of certain tax exemptions. Consultation with a legal expert is advised.

Strategy 2 Given the likely political opposition from numerous groups (airlines and passengers, to name just two), bill sponsors and supporters will need to form a support coalition that can collaborate with these groups.

Solution Variations

Variation 1 Emergency medical air transport entities contribute to public safety through the services they offer. Bill sponsors and supporters may want to consider whether revising the exemption on medical air transport entities is worth imposing additional costs on critical healthcare services and the public good they provide in return for a small amount of revenue.

Variation 2 In keeping with the inferred public policy objectives outlined in the *Washington JLARC*, bill sponsors and supporters should consider maintaining the fuel excise tax exemptions on fuel sold for export and exported from the state. The same logic should also be applied to fuel imported into the state in interstate or foreign commerce and intended to be sold while in interstate or foreign commerce. This would comply with US Constitutional prohibitions on taxing goods in interstate or foreign commerce. If these fuel excise tax exemptions are maintained, along with the exemptions recommended in Variation 1 and Variation 2, the aircraft fuel excise tax could produce an additional \$56 million in tax revenue for the Aeronautics Account,⁷ assuming no change in demand for fuel.

Variation 3 Consider keeping the aircraft fuel excise tax exemption on fuel purchased for flight testing and training of flight crews. These exemptions help support the aircraft manufacturing industry in Washington and it may not be prudent to raise taxes on this segment of the industry.

Variation 4 Washington state applies sales tax only to commercial jet fuel that is used in the state, known as a burn-rate. It may be appropriate to apply the burn-rate methodology to the fuel excise tax and collect this tax from the airlines for the fuel consumed within Washington. Note that only three states (Washington, New York, and New Jersey) use a burn-rate methodology.⁸ All others tax the entire amount of fuel purchased in the state.

Variation 5 For any tax implementation, consider linking the tax to a measure of inflation, so that it could be increased at periodic intervals and not be eroded over time by inflation. Such measures of inflation could include changes in the construction price index, the gross

⁷ Based on Washington DOL 2013 data of 511 million gallons of tax exempt aircraft fuel used by airlines (classified as sales to Washington certified users or exempt aircraft) taxed at \$0.11 per gallon.

⁸ *Combined Effective Commercial Jet Fuel Tax Rates and Fees by State*, Tax Foundation, taxfoundation.org/blog/combined-effective-commercial-jet-fuel-tax-rates-and-fees-state, retrieved 28 October 2014.



Solution Analysis

Solution 3C – Revise Fuel Excise Tax Exemptions

domestic product, or similar measures. Inflation adjustments to the tax could be made annually or less periodically, such as every three or five years.

Variation 6 Instead of a flat per gallon fuel excise tax, the state could apply a sliding scale fuel excise tax that would incentivize operations in Washington. For example, this is one example of a sliding scale of tax rates that could be applied to all aviation fuel users.

Annual Miles Flown in Washington	Fuel Excise Tax Rate
0 miles to 10,000 miles	\$0.11
10,000 miles to 50,000 miles	\$0.10
50,000 miles to 100,000 miles	\$0.09
100,000 miles to 250,000 miles	\$0.08
250,000 miles to 500,000 miles	\$0.07
500,000 miles to 1,000,000 miles	\$0.06
1,000,000 miles or more	\$0.05

Alternative variations include sliding scales that use the number of gallons of fuel purchased annually in Washington, the number of landings and take offs in Washington, or the number of flight hours flown in Washington.



Solution Analysis

Solution 3D – Modify the State Aircraft Excise Tax and Sales Tax Programs

Overview. This optimization concept would revise the state excise tax program for aircraft by modifying the 1987 legislation that set up the current program. This improvement considers changing the Aeronautics Account revenue allocation from the current 10% to a total of 100%.

This solution could also expand the definition of aircraft in the legislation to include unmanned aircraft.

Analysis Summary

<p>Current State</p>	<ul style="list-style-type: none"> ■ Washington based aircraft are subject to either the property tax or the aircraft excise tax, depending on the type of aircraft. ■ General aviation aircraft (all aircraft except those owned by the government or by commercial airlines) must pay the annual aircraft excise tax, but are exempt from the property tax. ■ Aircraft excise tax is based on the type of aircraft, ranging from \$20 to \$125 per year. ■ Aircraft excise taxes generate approximately \$330,000 annually. 	<ul style="list-style-type: none"> ■ Ninety percent of the revenues from the aircraft excise tax (approximately \$300,000) are deposited into the state General Fund, and 10 percent (approximately \$30,000) are deposited into the Aeronautics Account. ■ A state sales tax of 6.5 percent applies to all aircraft purchases made in Washington. The tax revenues are deposited in the state General Fund.
<p>Proposed Solution</p>	<ul style="list-style-type: none"> ■ Change the allocation of aircraft excise taxes so that it all gets deposited into the Aeronautics Account instead of just 10 percent of the proceeds. The Washington legislature considered allocating 100% of aircraft excise taxes to the Aeronautics Account during its 2014 session. However, time ran out before the Legislature could pass a final version of the bill. 	<ul style="list-style-type: none"> ■ Aircraft excise taxes would be applied to unmanned aircraft.
<p>Future State if Implemented</p>	<ul style="list-style-type: none"> ■ Shifting the portion of the aircraft excise tax that goes to the General Fund to the Aeronautics Account would increase Aeronautics Account funding by approximately \$300,000 annually. 	<ul style="list-style-type: none"> ■ Unmanned aircraft would be subject to aircraft excise tax. WSDOT Aviation would need to register and track unmanned aircraft in order to administer aircraft excise tax collections on unmanned aircraft.



Solution Analysis

Solution 3D – Modify the State Aircraft Excise Tax and Sales Tax Programs

SWOT Analysis

	SWOT Group	SWOT Factors
Internal Environments	Strengths	S1 - This solution could provide additional tax revenues to fund airport preservation and capital needs. Reallocation of aircraft excise tax revenues to where 100 percent goes to the Aeronautics Account would create approximately \$300,000 in additional revenue per year for WSDOT Aviation, instead of only \$30,000 seen currently. This reallocation would still result in a funding gap of approximately \$8 million.
		S2 - Expanding the aircraft excise tax to include unmanned aircraft also provides additional tax revenues. Future projections of unmanned aircraft estimate upwards of 30,000 nationwide by 2020 (600 per state on average).
		S3 - This solution does not impose a new tax. Since the tax already exists, it should be relatively easy to allocate all of the aircraft excise tax receipts to the Aeronautics Account.
	Weaknesses	W1 - Reallocation of aircraft excise tax alone is still well below projected program funding needs. Reallocating 100 percent of aircraft excise tax revenues into the Aeronautics Account at their current fee schedule would still result in a funding gap of approximately \$8 million. A total of approximately \$330,000 would go into the Aeronautics Account, which is \$300,000 more than is currently deposited annually.
		W2 - Expanding the excise tax to include unmanned aircraft may be difficult to implement. Many unmanned aircraft that are licensed by the FAA are operated by governmental agencies for activities such as law enforcement, firefighting, border patrol, and search and rescue. These unmanned aircraft are most likely exempt from tax since they are publicly owned. Privately owned unmanned aircraft are not registered by WSDOT, therefore it would prove difficult to catalog unmanned aircraft and enforce annual aircraft excise tax payment.
		W3 - This solution requires legislative changes to the tax code and is not a solution that a state agency or aviation/airport organizations can bring about on their own.



Solution Analysis

Solution 3D – Modify the State Aircraft Excise Tax and Sales Tax Programs

	SWOT Group	SWOT Factors
External Environments	Opportunities	O1 - This solution fulfills implied public policy. The <i>State of Washington Joint Legislative Audit & Review Committee 2011 Tax Preference Performance Reviews, Report 12-2</i> stated that an implied public policy goal of Washington tax policy is to have those that pay a tax benefit from that tax. By dedicating 100% of aircraft excise taxes to the Aeronautics Account (instead of just 10%), this meets the implied public policy goal since all aircraft excise tax money would be spent on airports.
		O2 - This solution supports current legislative efforts. The Washington legislature considered allocating 100% of aircraft excise taxes to the Aeronautics Account during the 2014 legislative session, but ran out of time before they were able to move the bill to the governor’s office. Efforts are underway to find Senate and House sponsors for a 2015 legislative session bill.
	Threats	T1 – There is significant pressure on the state General Fund. A number of special interest groups are also lobbying for increased funding. Legislators cannot support all of these requests and tough decisions must be made.
T2 – New taxes on unmanned aircraft will likely be met with strong resistance from that industry.		



Solution Analysis

Solution 3D – Modify the State Aircraft Excise Tax and Sales Tax Programs

Implementation Timeline

Short term; 0-2 years:



- **Prepare informational materials** for solution champion such as Washington Aviation Association, Washington Community Airports Association, Washington Pilots Association, and/or other stakeholders.
- **Identify legislative sponsor** and prepare informational materials.
- **Initiate WAC revision** to include UAS in the fee schedule.
- **Initiate and track** legislative process.
- **Keep stakeholders informed** of legislative process.

Medium term; 2-5 years:



- **Track progress** on legislative process.
- **Continue to educate legislators** on aviation funding needs.
- **Keep stakeholders informed** of legislative process.



Solution Analysis

Solution 3D – Modify the State Aircraft Excise Tax and Sales Tax Programs

Implementation Strategies

Strategy 1 The focus should be on support for the current legislative efforts to capture 100% of the aircraft excise tax revenues for the state aviation system.

Strategy 2 Once 100% of the aircraft excise tax is captured for the state aviation system, key stakeholders coordination should occur to determine if further adjustments to the tax are feasible.

Solution Variations

Variation 1 An alternative to taxing aircraft a flat rate based on the type of aircraft is to impose an annual aircraft excise tax of a fixed percent of the value of the aircraft. A survey of aircraft excise taxes in the US found three states that impose such a tax, ranging from 0.3 percent of the value of the aircraft, up to 3 percent of the value of the aircraft.

Variation 2 Consider reallocating the 6.5% sales tax on aircraft sold in Washington State to the Aeronautics Account from the state General Fund.

Variation 3 For any tax implementation, consider tying the tax to a measure of inflation, so that it could be increased at periodic intervals and not be eroded over time by inflation. Such measures could include changes in the construction price index, the gross domestic product, or similar measures. Inflation adjustments to the tax could be made annually or less periodically, such as every three or five years.



Solution Analysis

Solution 4F – Develop a Best Management Practices (BMP) Guidebook/Toolkit for Airports

Overview. This concept entails a tool kit that would be developed primarily for the non-self-sufficient general aviation airports in the State. The toolkit would be offered to these airports as a means of helping them adopt the best practices that would better allow them to move toward self-sufficiency in their capital development programs. Instituting best management practices would allow the airports to work on the local side of the projected

funding gap. A best practices toolkit could address and give valuable information on: Operating Expense savings techniques; revenue generation techniques; property management, economic development and job creation techniques; administrative and technological best practices, and an assessment of Washington airports with regard to national best management practices.

This guidebook/toolkit can be patterned after the ongoing airport sustainability toolkit being developed by the State of Colorado. This FAA funded project is being piloted at; Rifle, Fremont and Centennial airports. The toolkits being developed will help maintain long term viability/sustainability by helping them with their environmental, financial and community support needs going forward.

Analysis Summary

Current State	<ul style="list-style-type: none"> Currently, many airports are managed without access to best management practices. Many smaller airports struggle to come up with local match funding for needed capital development, and are subsidized by their local municipality. 	<ul style="list-style-type: none"> Airport management best practices when utilized, have proven very effective in improving the airport bottom line, reducing operating expenses, and allowing for more needed capital development funding capacity at the local level.
Proposed Solution	<ul style="list-style-type: none"> Develop a BMP guidebook/toolkit. 	<ul style="list-style-type: none"> Distribute guidebook/toolkit information and conduct training for interested airports and municipal managers.
Future State if Implemented	<ul style="list-style-type: none"> A best management practices BMP guidebook would document those practices from throughout the United States and around the World that are helping airports improve their bottom line, and thus have more funding available for needed capital development. 	<ul style="list-style-type: none"> Those airports that would take advantage of an opportunity to improve their business basis through best management practices could become less dependent on local subsidies. This would also help improve the overall capital funding situation in the State, by enabling airports to become more financially self-sufficient.



Solution Analysis

Solution 4F – Develop a Best Management Practices (BMP) Guidebook/Toolkit for Airports

SWOT Analysis

	SWOT Group	SWOT Factors
Internal Environments	Strengths	S1 - This BMP solution is very acceptable from the standpoint of being able to help Washington airports fund a greater part of their capital requirements, using their own self-generated resources
		S2 - The solution has a wide range of user group support
		S3 - The solution will help local airports to help themselves, which will have short, medium and long range benefits to the state funding requirements
		S4 – FAA is developing a similar guidebook reference for GA airports that may be leveraged in part or on the whole for WA GA airports.
Weaknesses	W1 - For the BMP solution to be successful for the state, it will require buy-in from local airports sponsors and governing agencies	
	W2 – Some airport organizations will not want to cast any light on how they are currently operating	
External Environments	Opportunities	O1 - The BMP solution offers the state of Washington and WSDOT the opportunity to take the lead in terms of innovation and promoting self-improvement for the airports
		O2 - This solution can also help airports to address critical areas of: safety, security, sustainability, and management of their physical assets
		O3 - This solution offers the state the opportunity to resolve long term capital financial need benefits
	Threats	T1 - The BMP solution might be viewed as a political overstepping on the part of WSDOT if the process is not properly presented to the user groups

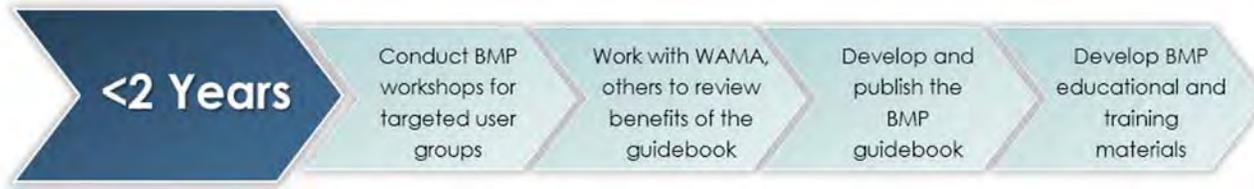


Solution Analysis

Solution 4F – Develop a Best Management Practices (BMP) Guidebook/Toolkit for Airports

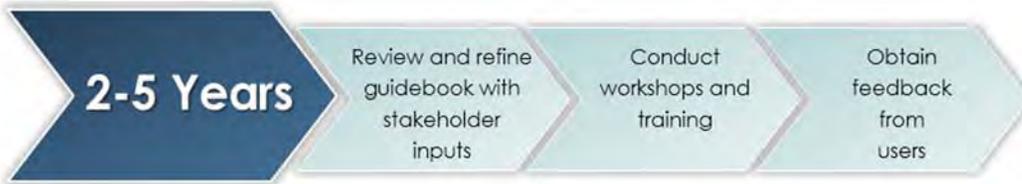
Implementation Timeline

Short term; 0-2 years:



- Conduct a series of BMP workshops for targeted user groups
- Work with the state airport management association to support and get the word out about the benefits of the guidebook
- Assemble, develop and publish the comprehensive BMP guidebook/toolkit
- Develop the collateral educational and outreach material

Medium term; 2-5 years:



- Assemble user feedback with the goal of developing guidebook/toolkit refinements
- Conduct workshops and training.
- Include outreach to user groups to garner necessary feedback relating to successes and future needs.

Long term; 5 years and beyond:



- Assemble, develop and publish the updated guidebook/toolkit on 5 year cycles



Solution Analysis

Solution 4F – Develop a Best Management Practices (BMP) Guidebook/Toolkit for Airports

Implementation Strategies

Strategy 1 While developing the BMP guidebook, conduct outreach and solicit input from the small and medium size general aviation airports.

Strategy 2 Work closely with all municipal and airport management associations to establish need and buy-in for the BMP guidebook/toolkit and education program.

Strategy 3 Take the opportunity through a formal informational program to highlight the long term sustainable value of the airports operating under established best practices.

Solution Variations

Variation 1 Include a P3 educational component to the guidebook/toolkit to help educate the Washington State aviation and airport management officials regarding the availability and applicability of P3 funding programs to help them resolve their capital funding gaps.

