

Date of Hearing: July 7, 2025

ASSEMBLY COMMITTEE ON TRANSPORTATION

Lori D. Wilson, Chair

SB 661 (Hurtado) – As Amended May 29, 2025

**SENATE VOTE:** 39-0

**SUBJECT:** Airports: financial assistance

**SUMMARY:** Redirects revenues attributable to sales and use taxes (SUT) imposed on jet fuel from the General Fund to airports and to the Aeronautics Account, and specifies a funding formula for the distribution of those funds. Specifically, **this bill:**

- 1) Directs airports to retain 50% of the revenue collected from taxes on jet fuel sold at airports in the state and to use these revenues only for purposes related to airport operations, capital improvements, maintenance, and other aviation-related infrastructure needs as determined by the airport's governing authority.
- 2) Redirects the remaining 50% of the revenue collected from taxes on jet fuel sold at airports in the state from the General Fund to the Aeronautics Account in the State Transportation Fund, and requires the Division of Aeronautics to annually allocate the following percentages of available funds for airports and aviation-related purposes:
  - a) 20% for qualifying general aviation airports, to be credited to individual airport subaccounts in a manner consistent with the current Aeronautics Account process;
  - b) 40% to be divided among large, medium, and small hub commercial airports and nonhub commercial airports, in the following percentages:
    - i. 30% for large hub commercial airports (Los Angeles, San Diego, and San Francisco);
    - ii. 20% for medium hub commercial airports (Oakland, Burbank, Ontario, San Jose, Santa Ana/John Wayne, and Sacramento);
    - iii. 20% for small hub commercial airports (Fresno, Long Beach, Palm Springs, and Santa Barbara); and,
    - iv. 30% percent for nonhub commercial airports (Redding, Bishop, San Luis Obispo, Stockton, Monterey, Santa Maria, Santa Rosa/Sonoma County, Arcata/Humboldt County, Bakersfield/Meadows Field, and San Bernardino).
  - c) 15% for grants to be made available to nonhub commercial airports with less than 300,000 enplanements annually to attract, establish, and expand air service through incentives, marketing, passenger studies, route analysis, and the acquisition of consultants;
  - d) 5% to provide grants for aviation education that includes, but is not limited to, programs, projects, or initiatives that improve or enrich aviation within the California aviation community, such as scholarships for flight training and aviation-related degrees from accredited universities: and,

- i. Requires priority for grants be given to underrepresented students, women, veterans, and persons of low income.
  - e) 15% for other state aviation programs and aviation-related purposes; and,
  - f) Not more 5% for the division's administrative costs.
- 3) Makes findings and declarations related to the City of Bakersfield, the County of Kern, and how expanded flight access in Kern County will encourage economic activity in the region.

**EXISTING LAW:**

- 1) Establishes the Aeronautics Account within the State Transportation Fund. (Public Utilities Code Section (PUC) 21680)
- 2) Requires Caltrans to establish individual revolving fund subaccounts for eligible airports in the Aeronautics Account. (PUC 21682)
- 3) Requires the California Transportation Commission (CTC) to adopt procedures, priorities and application process for funding from the Aeronautics Account. (PUC 21706)
- 4) As of July 1, 2012, transfer revenues attributable to an aircraft jet fuel tax from the Aeronautics Account to the General Fund. (Revenue and Taxation Code (RTC) Section 8352.3)
- 5) Imposes the state sales tax on every retailer "engaged in business in this state" that sells tangible personal property, requires retailers to register with the California Department of Fee and Tax Administration (CDTFA), and remit taxes collected from purchasers to CDTFA. Sales tax applies whenever there is a retail sale. (RTC 6203)
- 6) Requires retailers of aircraft jet fuel to report quarterly to CDTFA on their sales of aircraft jet fuel. CDTFA is required to post the information from these reports online on a quarterly basis to comply with Federal Aviation Administration (FAA) policy. (RTC 6452.05)

**FISCAL EFFECT:** According to the Senate Committee on Appropriations:

"Ongoing estimated General Fund losses of approximately \$54 million annually as a result of the redirection of the General Fund portion of the sales and use taxes (SUT) imposed on aviation fuel to the Aviation Account. Actual amounts of General Fund losses would depend upon the volume of jet fuel subject to the SUT and the retail price per gallon of that fuel. See Staff Comments.

The California Department of Tax and Fee Administration (CDTFA) indicates that any administrative costs to comply with fund transfer requirements would be minor and absorbable.

One-time and ongoing Caltrans costs in the low millions for approximately 12 PY of new staff to develop and administer a new grant program for airport and aviation-related purposes. Staff notes that the bill authorizes up to 5% of funds transferred to the Aviation Account to be used for Caltrans administrative costs, which would be sufficient to cover these new staff costs. (Aviation Account)."

**COMMENTS:** Existing law establishes the Aeronautics Account within the State Transportation Fund. This account is funded by revenues from fuel excise taxes of 18 cents per gallon on aviation fuel (aviation gasoline) and two cents per gallon on aircraft jet fuel. These rates were set in 1994 and 1969, respectively. Generally, common carriers, defined as those who transport people or property for compensation pursuant to a Certificate of Public Convenience and Necessity issued by the United States or a foreign government, do not pay fuel excise tax.

State law imposes the sales tax on every retailer “engaged in business in this state” that sells tangible personal property, requires them to register with the CDTFA and remit taxes collected from purchasers to CDTFA. Sales tax applies whenever there is a retail sale. The current sales and use tax rate is 7.25%. Additionally, cities, counties, and specified special districts may increase the sales and use tax, also known as district or transactions and use taxes.

CDTFA collects sales taxes from retailers, deposits the state share in the General Fund and other appropriate funds, and then allocates the local share of the sales tax and any district tax to the appropriate jurisdiction. Sales tax is generally imposed on sales of aircraft jet fuel when the dealer delivers aircraft fuel tank to an aircraft or into a storage facility from which the fuel used an aircraft.

*Aviation fuel tax in California.* In July 2012, California began transferring revenues attributable to aviation fuel taxes from the Aeronautics Account to the General Fund. In November 2014, the Federal Aviation Administration (FAA) issued a directive (Docket No. FAA-2013-0988) to confirm its longstanding policy, based on federal law, that aviation fuel taxes be used for airport purposes and state aviation programs. The directive does not apply to state and local taxes on aviation fuel in effect prior to December 30, 1987.

According to the FAA, California has yet to reach compliance. In correspondence with the FAA over the last ten years, the California Department of Finance (DOF) disagrees, arguing that California meets the FAA’s requirement by funding offsetting project costs that are beneficial to the state’s airport network. DOF wrote to the FAA in 2017 that “California complies with federal law by spending more on its airports than the State receives in state general tax revenue derived from aviation fuel.” The FAA rejected this assertion, arguing that DOF’s contention was unsubstantiated and asked for detailed financial documentation of the State’s expenditures that were directly related to air transportation. The FAA has threatened to withhold federal money and “seek assistance from the U.S. Attorney’s Office” if California does not comply. The dispute remains unresolved.

In response to the FAA’s threats, the Legislature added a requirement that sellers of aircraft jet fuel at an airport must track and report their sales of jet fuel by airport location on a supplementary form for return periods, beginning January 1, 2020 (AB 90, Committee on Budget, 2020). The report must include the amounts of jet fuel sold by airport location, including total taxable jet fuel sales and the amount of tax collected, as well as a separate line for taxable sales of jet fuel at non-airport locations. As a result, CDTFA now receives information about revenues subject to the FAA policy.

*Redistributing aviation fuel taxes.* This bill redirects sales and use taxes collected from sales of aircraft jet fuel from the General Fund to the Aeronautics Account to primarily improve airport infrastructure based on a prescribed funding formula. The formula includes a partial return-to-

source provision, which directs 50% of the revenue collected from taxes on jet fuel to be retained by the airport at which the jet fuel was sold. The airport would be able to use the funds for purposes related to airport operations, capital improvements, maintenance, and other aviation-related infrastructure needs as determined by the airport's governing authority.

The other half of the revenue would be deposited into the Aeronautics Account and distributed by Caltrans' Aeronautics Division to airports pursuant to a funding formula based on type, size, and enplanements. A small portion of the funds in the Aeronautics Account would be eligible to be used for other aviation-related purposes, such as aviation education.

Based on the state's current tax rate and redistribution allocations included in this bill, below is an estimated allocation to each sector:

General Fund Tax Revenue (3.9375%)		\$ 139,604,335
<b>General Aviation</b>	<b>20%</b>	<b>\$ 27,920,867</b>
<b>Commercial Airports - Divided by Hub Size</b>	<b>40%</b>	<b>\$ 55,841,734</b>
Large Hubs	30%	\$ 16,752,520
Medium Hubs	20%	\$ 11,168,347
Small Hubs	20%	\$ 11,168,347
Non-Hubs	30%	\$ 16,752,520
<b>Non-Hubs with less than 300,000 annual enplanements</b>	<b>15%</b>	<b>\$ 20,940,650</b>
<b>Aviation Education</b>	<b>5%</b>	<b>\$ 6,980,217</b>
<b>Other State Aviation Programs</b>	<b>15%</b>	<b>\$ 20,940,650</b>
<b>Division of Aeronautics Admin - 5% Max</b>	<b>5%</b>	<b>\$ 6,980,217</b>
<b>TOTAL</b>	<b>100%</b>	<b>\$ 139,604,335</b>

It is the understanding of the committee that the author is actively working with airport stakeholders to adjust how the proceeds of state and local taxes on aviation fuels are distributed. The author may wish to amend the funding distribution to better reflect the proportion of revenue each airport generates from taxes paid on aviation fuels.

*According to the author, "California's airports are vital gateways for economic opportunity, yet too many face barriers to improving infrastructure, expanding air service, and supporting local jobs. SB 661 creates a dedicated funding stream for airports to invest in airport infrastructure, attract new routes, and develop a skilled aviation workforce, helping regions across the state strengthen their economies and improve connectivity. By ensuring targeted, sustainable investments, this bill supports our statewide goals for equitable economic development, mobility, and job creation in growing industries."*

*In support, Kern County Board of Supervisors writes, "California's airports serve as key economic engines, supporting jobs, boosting tourism, and fostering connectivity for residents and businesses across the state. However, many airports lack the necessary resources to modernize infrastructure, attract new air service routes, and meet growing passenger and cargo demands."*

This bill will support economic growth, workforce development, and enhanced access to transportation across California's airports, including airports in your district."

*Previous legislation.* AB 90 (Committee on Budget) Chapter 17, Statutes of 2020 requires retailers of aircraft jet fuel to report quarterly to CDTFA on their sales of aircraft jet fuel.

SB 988 (McGuire of 2020) would have required aviation fuel retailers to provide quarterly information showing the information required for the state to comply with the FAA's "Policy and Procedures Concerning the Use of Airport Revenue; Proceeds from Taxes on Aviation Fuel." *This bill was not set for a hearing in the Senate Governance and Finance Committee, but the contents of the bill were successfully included in the budget.*

SB 747 (McGuire of 2015) would have provided for an annual appropriation of aviation fuel tax revenues from the General Fund to the Aeronautics Account in order to comply with federal law. *This bill died in Senate Appropriations Committee.*

#### **REGISTERED SUPPORT / OPPOSITION:**

##### **Support**

Kern County Board of Supervisors

##### **Opposition**

None on file

**Analysis Prepared by:** Julia Kingsley / TRANS. / (916) 319-2093