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AIRPORT PARKING TAX

House Bill 4454 as enrolled
Public Act 680 of 2002
Second Analysis (1-22-03)

Sponsor: Rep. Bruce Patterson
House Committee: Tax Policy
Senate Committee: Finance

THE APPARENT PROBLEM:

The Airport Parking Tax Act was created by Public Act 248 of 1987 as part of a package of bills to provide financial assistance to Wayne County, which was described at the time as suffering from massive budget problems and faced with the possibility of bankruptcy. While there were many factors contributing to this crisis, it was generally agreed that the county faced extraordinarily and uniquely high mandated indigent health care costs. Among other things, the state assistance package included an emergency loan to the county from the state; the granting to the county of additional authority to borrow by issuing bonds; and the dedication of revenue from a four cent per pack increase in the cigarette tax to be used by the county to repay debts, repay the principal on emergency loans, and repay bonds issued under the Fiscal Stabilization Act. Some portion of the cigarette tax increase was also to be used by all Michigan counties to defray the costs of public health and criminal justice programs. The package also included the airport parking tax, which the legislation said could be used to service bonds (but did not have to be so used).

The airport parking tax levies an excise tax on the operators of airport parking facilities at the rate of 30 percent of the charge for parking. It applies only at a "regional airport facility", defined as an airport that services four million or more enplanements annually, and the act was designed to apply to Detroit Wayne County Metropolitan Airport. The tax is levied on parking facilities within the airport or within five miles of the boundaries of the airport, other than employee lots and publicly owned metered spaces. The proceeds go to a special state fund to be distributed monthly, with most of the revenue going to the county and a small percentage to the city in which the airport is located, Romulus. (The city's percentage has been described as 20 percent of revenue from parking outside the airport). The tax is administered by the revenue division of the Department of Treasury. According to the House Fiscal Agency's August 2002 booklet entitled State of Michigan Revenue Source and Distribution, the airport parking excise tax was estimated to have raised $14.9 million in fiscal year 2001-2002 (although county officials estimate the revenue slightly higher).

Some people believe that the airport parking tax has served its original purpose and should be repealed in the near future. Meanwhile, a new proposal for the state to issue bonds to match federal dollars for airport safety and security would rely on some of the revenues from the airport tax. According to budget specialists, Governor Engler in his February 2002 budget message proposed the Airport Safety and Protection Plan or ASAP, which involves the sale of $60 million in bonds to match federal funds for capital improvement programs at airports, including programs to enhance airport security in the wake of the terrorist attacks of September 11, 2001. The governor proposed earmarking $6 million from airport parking tax revenue for airport projects around the state, with some portion going to debt service for the ASAP bonds.

THE CONTENT OF THE BILL:

The bill would amend the Airport Parking Tax Act to do the following.

- Lower the rate as of January 1, 2003 to 27 percent from 30 percent.

- Repeal the tax on December 31, 2007 or on the date when certain state-issued bonds for airport safety and security are retired, whichever was later.

- Distribute revenue from the tax so that $6 million each state fiscal year goes to the State Aeronautics Fund (SAF) exclusively for safety and security projects at state airports, including reimbursing the Comprehensive Transportation Fund (CTF) for certain principal and interest payments on bonds; $1.5 million per calendar year goes to a city containing a regional airport (Romulus); and the remainder goes to Wayne County for indigent health care. (The bill would repeal the provisions in statute that detailed the distribution of revenues.)

Improvements at State Airports. As mentioned, the funds distributed to the SAF would have to be used exclusively for safety and security projects at state airports, including reimbursement to the CTF of amounts used to pay principal and interest on bonds issued on or before December 31, 2007 by the State Transportation Commission to provide matching funds by the state for federal funds to be used for safety and security at state airports. These are the bonds referred to in the repealer language. The 97 eligible state airports are listed in the bill.

Wayne County Indigent Health Care. The bill would require that the county provide written documentation each fiscal year to the state treasurer that the distribution to the county was used for indigent health care, along with written documentation of all other revenues used for indigent health care in that fiscal year. If the state treasurer determined that the distribution was not used for indigent health care, the county would have to immediately repay the funds to the state treasurer for deposit in the state's general fund.

Restriction on Distributions. The bill would specify that the distributions referred to above would not be made if all taxing units were authorized by law to impose taxes (and the collection of taxes was made) on concessions at the Detroit Wayne County Regional Airport under Public Act 189 of 1953. That act deals with the taxation of lessees or users of otherwise tax-exempt real property. It allows private, profit-making lessees or users of tax-exempt real property to be subject to [property] taxes as if they were the owners of the property, but the act does not currently apply to property used as a concession at a public airport (and some other places).

MCL 207.373 and 207.377a

FISCAL IMPLICATIONS:

The House Fiscal Agency has estimated that without this bill revenues for fiscal year 2003 from the airport parking tax would be $17 million. Of that, $15.672 million would go to Wayne County and $1.328 million would go to the City of Romulus. With the enactment of the bill, airport parking tax revenues would be $15.3 million (with the rate reduction from 30 percent to 27 percent). Of that, $6 million will go to the State Aeronautics Fund; $1.5 million will go to Romulus; and the remainder, $7.8 million will go to Wayne County. This will mean a loss of $7.872 million to Wayne County. (1-22-03)

ARGUMENTS:

For:

As enacted, the bill would reduce the rate of the airport parking tax from 30 percent to 27 percent; distribute $6 million of the revenue to the state to provide a match for federal airport improvement funds, including bonds to improve airport safety and security; continue allocating revenue to Romulus, the city in which Metro airport is located; and require that the revenue going to Wayne County be dedicated to the cost of indigent health care. It would also repeal the tax either by December 31, 2007 or by the date on which state-issued bonds for airport safety and security were retired.

The earmarking of money for new safety and security projects will help produce $160 million in federal funds each year, say proponents, and will help produce a total security investment in state airports of $1 billion over five years. This could help fund such post-9/11 measures as controlled airport access, passenger and baggage screening, terminal modifications, and employee screening, according to information from the Michigan Department of Transportation. This will benefit all of the users of the state's airports.

Against:

The bill would significantly reduce revenue currently flowing to Wayne County from the tax on parking at Metro Airport. It eliminates half of the county's revenue from the special tax, a tax that has always been dedicated to the needs of Wayne County. This will cause the county (and those it serves) serious hardship during a time when budgets are already in trouble due to the economic downturn. It diverts money that would otherwise go to the county to airports all around the state to pay for safety and security projects that are the responsibility of the state and federal government (and that are yet to be explained or described in detail). Is this fair?

For:

Proponents of repealing the airport parking tax say the onerous tax has served the purpose for which it was created over a dozen years ago and should be repealed. It was enacted as part of a package to help Wayne County deal with a severe fiscal crisis. The county's fiscal situation is much improved and some of the additional debt it took on as part of the state assistance package has been retired. There is no longer justification for making the state's travelers (and those seeing them off) contribute to the county budget. It should be noted that the revenue from the parking tax does not go toward airport operations or improvements but to the general fund of the county. The tax — at a rate of 30 percent on top of parking fees — is excessive. Proponents of repeal say that the tax revenue was to be securitization for an emergency loan from the state, a loan that was repaid several years ago. The tax has thus already been collected for longer than it should have been. The airport parking tax revenue should not be seen as an endless additional source of state revenue granted to the county. Given the size of its overall budget, the county should be able to deal with the loss of revenue from the repeal of this tax without an impact on essential services through the exercise of prudent fiscal management.

Against:

Wayne County officials say that the repeal of the airport parking tax would result in a major revenue loss to the county annually. They have produced several scenarios of what the impact of repeal could be [if carried out today]. It could mean the layoff of 368 employees, they say. Or, if the revenue loss was applied to criminal justice programs, the closings of three floors in the jail, reduced park patrols, and eliminating 100 jobs from the circuit court and friend of the court operations. Other scenarios involve eliminating the out-county dental program, reducing immunizations, cutting food inspections, and reducing health care services to the working poor by one-third, including nutrition services to women and children. County officials say the airport parking tax revenue has not been used to pay off loans or retire bonds, but has been put to use to cover shortfalls in the county operating budget. Ensuring the fiscal stability of the county has always been its purpose and that need remains today. They say the revenue is the only "elastic" source of general purpose revenue and the growth in that revenue has helped contribute to the recent fiscal success of the county. The county, say officials, has seen continuous balanced budgets since 1988 and its bond rating has gone from junk status to an "A" status. County officials also say parking rates, with the tax included, are not out of line in comparison with rates charged at other large airports.

Analyst: C. Couch

■This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.