



# Aviation Tax Report (SFY2020-SFY2023)

June 30, 2024

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Prepared by:

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June 30, 2024

The Honorable Frank Hornstein, Chair  
House Transportation Finance & Policy Committee  
563 State Office Building  
Saint Paul, MN 55155

The Honorable Scott Dibble, Chair  
Senate Transportation Committee  
3107 Minnesota Senate Building  
Saint Paul, MN 55155

The Honorable John Petersburg, GOP Lead  
House Transportation Finance & Policy Committee  
217 State Office Building  
Saint Paul, MN 55155

The Honorable John Jasinski  
Ranking Minority Member  
Senate Transportation Finance & Policy Committee  
2227 Minnesota Senate Building  
Saint Paul, MN 55155

RE: 2020-2023 Aviation Tax Report

Dear Legislators:

The Minnesota Department of Transportation, in consultation with the Minnesota Department of Revenue, is pleased to provide you with the Aviation Tax report as required under [Minn. Stat. 360.675](#).

The report identifies the following for State Fiscal Years 2020 – 2023:

- the amount and sources of annual revenues for each type of aviation tax;
- the annual expenditures from the State Airports Fund;
- the transfers into the State Airports Fund; and
- the transfers out of the State Airports Fund.

The report also summarizes how the fund functions relative to changes in revenue streams and provides a brief synopsis of State Airports Fund operations.

Please contact me if you have any questions about this report, or you may contact Ryan Gaug, Director, Office of Aeronautics, Minnesota Department of Transportation, at [ryan.gaug@state.mn.us](mailto:ryan.gaug@state.mn.us), or 612-422-8601.

Sincerely,



Nancy Daubenberger, P.E.  
Commissioner

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# Legislative Request

This report is issued to comply with [Minnesota Statute 360.675](#).

## **360.675 Aviation Tax Report.**

On or before June 30, 2016, and every four years thereafter, the commissioner of transportation, in consultation with the commissioner of revenue, shall prepare and submit to the chairs and ranking minority members of the senate and house of representatives committees with jurisdiction over transportation policy and budget, a report that identifies the amount and sources of annual revenues attributable to each type of aviation tax, along with annual expenditures from the state airports fund, and any other transfers out of the fund, during the previous four years. The report must include draft legislation for any recommended statutory changes to ensure the future adequacy of the state airports fund.

*The cost of preparing this report is less than \$5,000.*

# Executive Summary

## Purpose and Scope of the Report

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The Aviation Tax Report is submitted in accordance with the requirements of [Minn. Stat. 360.675](#). The report was prepared by the Minnesota Department of Transportation in consultation with the Minnesota Department of Revenue. Financial information contained in this report comes from data created and compiled by MnDOT's Office of Financial Management. As directed by the law, the report identifies the following for state fiscal years 2020-2023:

- the amount and sources of annual revenues attributable to each type of aviation tax
- the annual expenditures from the State Airports Fund
- the transfers out of the fund
- the transfers into the State Airports Fund

Finally, the report summarizes how the fund functions relative to changes in revenue streams and provides a brief synopsis of State Airports Fund operations.

## Aviation Tax Revenues, Expenditures, and Changes

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Per [Minn. Stat. 360.017](#), the State Airports Fund contains money appropriated to it, or directed to be paid into it, by the legislature. The commissioner of transportation authorizes payments from the fund, which are and used to:

- Acquire, construct, improve, maintain and operate airports and other air navigation facilities.
- Assist municipalities in the acquisition, construction, improvement and maintenance of airports and other air navigation facilities.
- Assist municipalities to initiate, enhance and market scheduled air service at their airports.
- Promote interest and safety in aeronautics through education and information.
- Pay MnDOT salaries and expenses for work related to aeronautic planning, administration and operation.

All allotments of money from the fund for salaries and expenses are approved by the commissioner of management and budget.

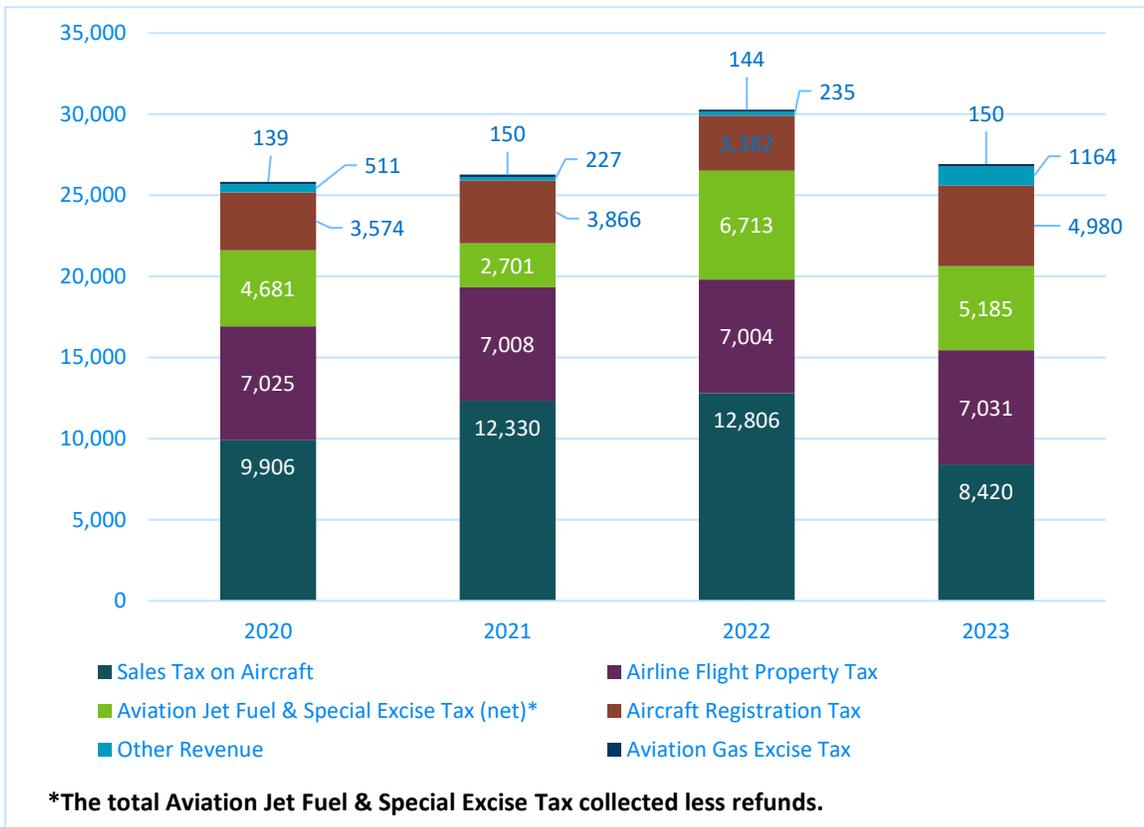
### Annual Revenues Attributable to Each Type of Aviation Tax

The aviation taxes directed to the State Airports Fund are from the following:

- Aircraft Sales and Use Tax
- Aircraft Registration Tax
- Aviation Gasoline Excise Tax
- Aviation Jet Fuel and Special Fuel Excise Tax
- Airline Flight Property Tax

The amount and sources of annual revenues attributable to each type of aviation tax are shown in **Figure 1**.

**Figure 1: State Airports Fund, Summary of Revenues, \$1,000's, SFY 2020 – 2023**

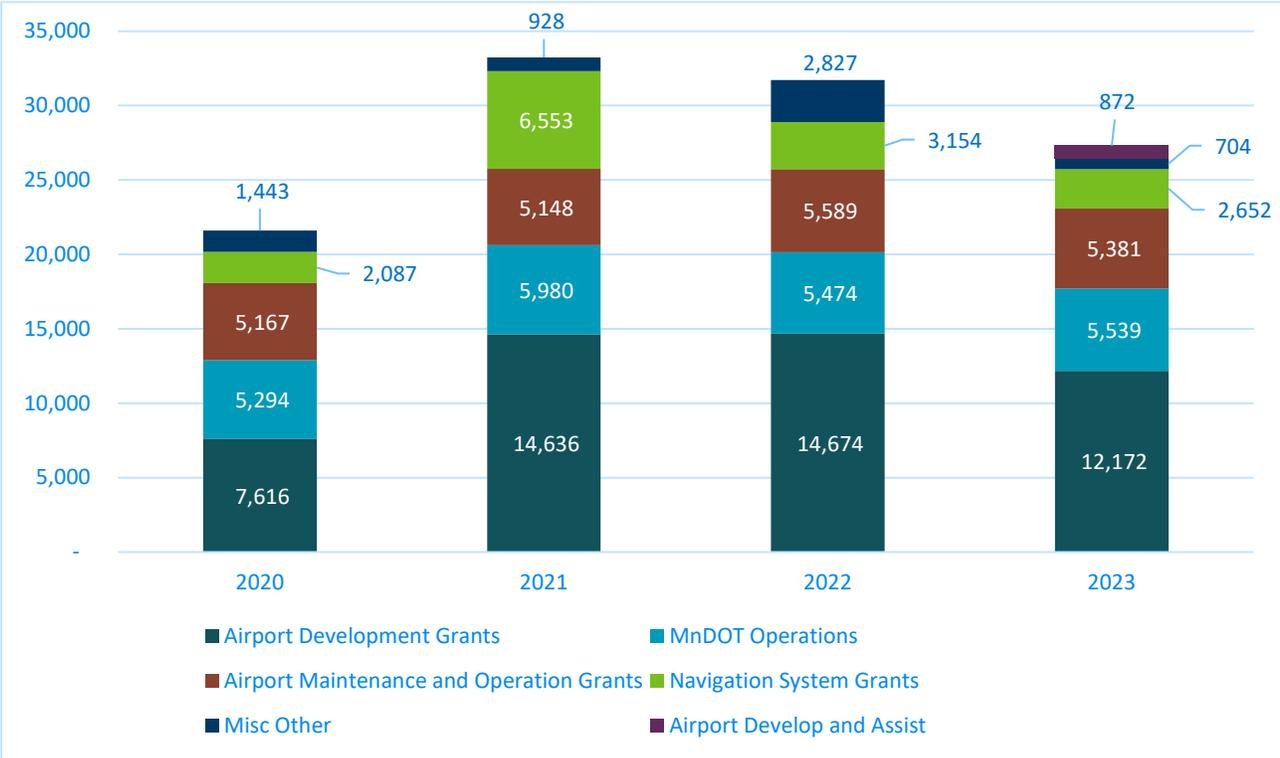


### Annual Expenditures for the State Airports Fund

Annual expenditures from the State Airports Fund, based on fund appropriation categories, are shown in **Figure 2**. The primary expenditure categories are:

- Airport Development Grants
- Airport Maintenance and Operation Grants
- MnDOT Operations
- Navigation System Grants
- Miscellaneous/Other

**Figure 2: State Airports Fund, Summary of Expenditures, \$1,000's, SFY 2020 - 2023**



# State Airports Fund: Revenues and Expenditures

## Introduction

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This report identifies the amounts and sources of annual revenues attributable to each type of aviation tax, annual expenditures and transfers in and out of the State Airports Fund for state fiscal years 2020 through 2023. Finally, the report summarizes how the State Airports Fund operates generally, how the fund functions when there are changes in revenue streams and it also provides a brief synopsis of State Airports Fund operations.

The State Airports Fund is used in accordance with the provisions laid out in [Minn. Stat., Chap. 360](#). In [Minn. Stat. 360.017](#), the law directs that the State Airports Fund consists of all money appropriated to it, or directed to be paid into it, by the legislature.

The aviation taxes that are directed to the State Airports Fund are the following:

- Aircraft Sales and Use Tax
- Aircraft Registration Tax
- Aviation Gasoline Excise Tax
- Aviation Jet Fuel and Special Fuel Excise Tax
- Airline Flight Property Tax

The fund is paid out on authorization of the commissioner of transportation and used to:

- Acquire, construct, improve, maintain and operate airports and other air navigation facilities
- Assist municipalities in the acquisition, construction, improvement and maintenance of airports and other air navigation facilities
- Assist municipalities to initiate, enhance, and market scheduled air service at their airports
- Promote interest and safety in aeronautics through education and information
- Pay MnDOT salaries and expenses for work related to aeronautic planning, administration and operation.

All allotments of money from the fund for salaries and expenses are approved by the commissioner of management and budget.

## Aviation Taxes and Other Revenues (SFY 2020 - 2023)

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The following section provides information about the types of revenues and the amounts of revenues that are directed into the State Airports Fund.

### Aircraft Sales and Use Tax

Most of the aircraft sales and use tax is deposited into the State Airports Fund per [Minn. Stat. 297A.82, Subd. 4a](#). This includes sales and use tax on leased aircraft. The tax rate on aircraft sales and use tax is 6.875 percent; however, 6.5 percent of tax revenues collected are deposited into the State Airports Fund and the remaining 0.375 percent is deposited in DNR accounts, required under laws for the Minnesota Legacy Fund.

## Aircraft Registration Tax

An annual registration tax is imposed on aircraft based in Minnesota or used in the state for more than 60 days in a calendar year. This flat rate tax amount is computed based on the manufacturer's list price of aircraft when new and ranges from \$100 minimum to \$75,000 maximum ([Minn. Stat. 360.531, Subd. 2](#)).

## Airline Flight Property Tax

The airline flight property tax is paid on aircraft and associated equipment owned, leased, loaned or otherwise made available to an airline company engaged in air commerce in Minnesota. "Flight property" is defined as "...all aircraft and flight equipment used in connection therewith, including spare flight equipment." This tax is paid by airline companies in lieu of other personal property taxes on flight property.

[Minn. Stat. 270.075](#) requires MnDOT to determine the airline property tax portion of revenue for the State Airports Fund, which is defined as the difference between the "...total fund appropriation and the estimated total fund revenue from other sources for the state fiscal year in which the tax is payable..." ([Minn. Stat. 270.071 through 270.079](#)).

The "other sources" of revenue listed in statute are items such as aircraft sales, aircraft registration and aircraft fuel taxes. The amount of airline property tax collected varies annually depending on the total revenues collected from the "other sources" of State Airports Fund tax revenues. See **Figure 6** for a breakdown of revenue sources.

MnDOT calculates the airline flight property tax levy each year. To compute the tax, the airline's tax capacity is multiplied by an adjusted tax rate. The commissioner of revenue determines the rate of tax to be levied and collected against the net tax capacity. The commissioner of transportation may include a portion of the balance in the State Airports Fund in the calculation to account for unexpected revenue decreases. The airline property tax that is certified by the commissioner of transportation to the commissioner of revenue includes the full amount of estimated revenue from all airline taxes for a state fiscal year. The amount MnDOT certifies may not match total airline flight property taxes received in a state fiscal year due to this calculation and fluctuations in other sources.

## Aviation Jet Fuel and Special Fuel Excise Tax

In [Minn. Stat. 296A.01, Subd. 2](#), the excise tax on jet fuel and special fuel is 15 cents per gallon. The excise tax applies to jet fuel received, sold, or withdrawn from storage for use as a substitute for aviation gasoline, but not taxed as gasoline.

**Figure 3** shows the potential tax revenues at 15 cents per gallon, as compared to the adjusted tax revenues and net tax revenues for SFYs 2020-2023. The net tax revenues divided by gallons provides the effective tax rate for each year, which ranges from approximately 85 to 90 percent less than the applied tax rate in statute.

**Figure 3: Aviation Jet Fuel and Special Fuel Excise Tax Revenues and Effective Tax Rates, 2020-2023 State Fiscal Years<sup>1</sup>**

Aviation Jet Fuel and Special Fuel Excise Tax	Gallons	Potential Tax Revenue @ \$0.15/gal	Adjusted Tax Revenue	Less Refunds	Net Tax Revenues	Effective Tax Rate (\$/gal)
2020	327,686,383	\$49,152,957	\$7,531,865	\$2,850,604	\$4,681,261	0.014
2021	194,504,835	\$29,175,725	\$4,791,729	\$2,090,327	\$2,701,402	0.014
2022	294,000,417	\$44,100,062	\$8,547,624	\$1,833,810	\$6,713,814	0.023
2023	318,454,502	\$47,768,175	\$7,432,638	\$2,246,942	\$5,185,696	0.016
<b>Total (2020-2023)</b>	1,134,646,137	\$170,196,919	\$28,303,856	\$9,021,683	\$19,282,173	0.017

### Aviation Gasoline Excise Tax

Aviation gasoline is any gasoline capable of use for producing or generating power for propelling internal combustion engine aircraft that meets specifications in American Society for Testing Materials specification D910-16. The current aviation gasoline excise tax rate is 5 cents per gallon ([Minn. Stat. 296A.01, Subd. 7](#)). As opposed to aviation jet fuel and special fuel, the tax rate as stated in statute and the effective tax rate for aviation gasoline are effectively the same, as reflected in **Figure 4**.

**Figure 4: Aviation Gasoline Excise Tax Revenues & Effective Tax Rates, 2020-2023 State Fiscal Years**

Aviation Gasoline Excise Tax	Gallons	Revenue @ \$0.05/gal	Adjusted Tax Revenue	Effective Tax Rate (\$/gal)
2020	2,771,079	\$138,553	\$138,767	0.05
2021	3,001,543	\$150,077	\$149,455	0.049
2022	2,891,094	\$144,554	\$150,738	0.052
2023	3,001,438	\$150,071	\$150,077	0.05
<b>Total (2020-2023)</b>	11,665,154	\$583,255	\$589,037	0.05

### Summary of Impacts on Revenues (2020 – 2023)

Since legislative changes enacted in 2013 restructured aviation taxes, revenues from the Aircraft Sales and Use Tax, Aircraft Registration Tax, Airline Flight Property Tax, Aviation Jet Fuel and Special Fuel Excise Tax and Aviation Gasoline Excise Tax are all deposited into the State Airports Fund. This resulted in a noticeable change in the amount of revenue contributed by each tax category to the State Airports Fund starting in state fiscal year 2014. Revenues from SFYs 2016 to 2019 totaled \$94.28 million, an increase of \$8.04 million, or 9.3 percent, from the preceding four years (SFYs 2012 to 2015).

Revenues from the four years during SFYs 2020 to 2023 total \$109.31 million, an increase of \$15.03 million, or 15.9 percent, from the preceding four years (SFYs 2016 to 2019). **Figure 6** provides revenue figures for SFYs 2020- 2023. Below **Figure 5** shows the year-over-year revenue percent changes for each revenue source during the same period:

<sup>1</sup> Minnesota Department of Revenue. "Petroleum Tax Collection Reports, FY2020-2023." August 1, 2023. <https://www.revenue.state.mn.us/petroleum-tax-collection-reports>.

**Figure 5: Year-Over-Year Percent Changes for State Airports Fund Revenue Sources, SFY 2020-2023**

Revenue Source	Year-Over Year Percent Change: 2020	Year-Over Year Percent Change: 2021	Year-Over Year Percent Change: 2022	Year-Over Year Percent Change: 2023
Aircraft Sales and Use Tax	3%	24%	4%	-34%
Airline Flight Property Tax	0%	0%	0%	0%
Aircraft Registration Tax	9%	8%	-13%	47%
Aviation Jet Fuel & Special Excise Tax (net)*	-14%	-42%	149%	-23%
Aviation Gas Excise Tax	-0.2%	8%	0.8%	-0.4%
Miscellaneous/Other	-12%	-56%	4%	395%

**Figure 6: State Airports Fund, Summary of Revenues (\$1,000s), 2020-2023 State Fiscal Years**

STATE AIRPORTS FUND	2020	2021	2022	2023
<b>Revenues</b>				
Aircraft Sales and Use Tax	9,606	12,330	12,806	8,420
Airline Flight Property Tax	<b>7,025</b>	<b>7,008</b>	<b>7,004</b>	<b>7,031</b>
Aircraft Registration Tax	3,574	3,866	3,382	4,980
Aviation Jet Fuel & Special Excise Tax (net)*	<b>4,681</b>	<b>2,701</b>	<b>6,713</b>	<b>5,185</b>
Aviation Gas Excise Tax	138	149	150	150
Other Revenue Totals	<b>511</b>	<b>227</b>	<b>235</b>	<b>1,164</b>
Departmental Earnings	18	65	76	22
Investment Income	465	130	129	1,112
All Other Internal Reimbursements	28	33	31	30
<b>Revenue Totals</b>	<b>25,483</b>	<b>26,521</b>	<b>30,519</b>	<b>26,791</b>

## Annual Expenditures (SFY 2020 - 2023)

Annual expenditures from the State Airports Fund are used for capital projects, airport maintenance and operations projects, navigation systems projects and the MnDOT Office of Aeronautics operating budget.

Examples of the type of projects and services include the following:

- planning and constructing runways, taxiways and buildings
- airport maintenance and operations
- installation and maintenance of navigation systems

Funds are available and distributed on an annual cycle. The specific amount in each program varies from year to year based on needs and funds appropriated. See **Figure 7** on the next page for more details.

### Airport Development Grants

This program is the largest of the state funded aeronautics programs. It funds most capital improvements at state system airports that benefit the air-traveling public. The airport development grant program, also

known as the airport construction grant program, distributes funds to state system airports through a competitive process, with selection criteria and local contribution percentages set annually by MnDOT.

### **Airport Maintenance and Operations Grants**

This program provides 75 percent state reimbursement to state system airports for their documented, routine maintenance expenses up to a limited amount. The limit is categorized by airport infrastructure, which is based on the type of runway the airport has, whether the runway has lighting, and how much parallel taxiway the airport has. The program distributes funds to state system airports through a formula process.

### **Navigation Systems**

This program funds infrastructure critical to safe aircraft navigation. Navigation systems include equipment such as ground-based instrument landing systems and automated weather observation stations. The State of Minnesota owns and maintains over 200 federally commissioned navigational systems that support the National Airspace System. Each of these systems are critical to pilot and aviation safety. The funds to purchase and maintain these systems are appropriated through the State Airports Fund.

### **MnDOT Aeronautics Operations**

The MnDOT Office of Aeronautics operating budget is funded by the State Airports Fund. The budget amount is determined through MnDOT's biennial budgeting process, and is used for the following aviation activities:

- system safety and operations
- aviation education
- aviation system planning
- aviation tax collection
- aircraft registration
- enforcement of regulations through inspections and licensure
- technical assistance

**Figure 7: State Airports Fund, Summary of Expenditures (\$1,000s), 2020-2023 State Fiscal Years**

Expenditures	2020	2021	2022	2023
Airport Development Grants	7,616	14,636	14,674	12,173
Airport Maintenance and Operation Grants	5,167	5,148	5,589	5,381
Navigation System Grants	2,087	6,553	3,153	2,652
Airport Develop and Assist – NAVAID construction	0	0	0	872
<b>Airport Development and Assistance Totals</b>	<b>14,870</b>	<b>26,337</b>	<b>23,418</b>	<b>21,078</b>
Payroll	3,853	3,930	3,963	3,999
Non-Payroll	1,342	2,001	1,409	1,497
<b>MnDOT Operations Totals</b>	<b>5,294</b>	<b>5,980</b>	<b>5,474</b>	<b>5,539</b>
Civil Air Patrol	80	80	80	80
Duluth Airport Authority Aeronautics	1,260	423	39	-
Rochester International Airport Improvements	0	0	0	0
St. Cloud Airport Study	0	0	0	0
CAP Facility Grant	61	379	2,662	523
Statewide Indirect	42	46	46	37
Unmanned Aircraft Systems – Non-Payroll	0	0	0	1
Unmanned Aircraft Systems – Payroll	0	0	0	63
<b>Miscellaneous/Other Totals</b>	<b>1,443</b>	<b>928</b>	<b>2,827</b>	<b>704</b>
<b>Total Expenditures</b>	<b>21,607</b>	<b>33,245</b>	<b>31,718</b>	<b>27,321</b>

## Fund Transfers

There were no additional transfers into the State Airports Fund from 2017-2023. There were two transfers out of the fund, including \$700,000 in 2021 and \$300,000 in 2023 both for the costs of developing a new aircraft registration tax system.

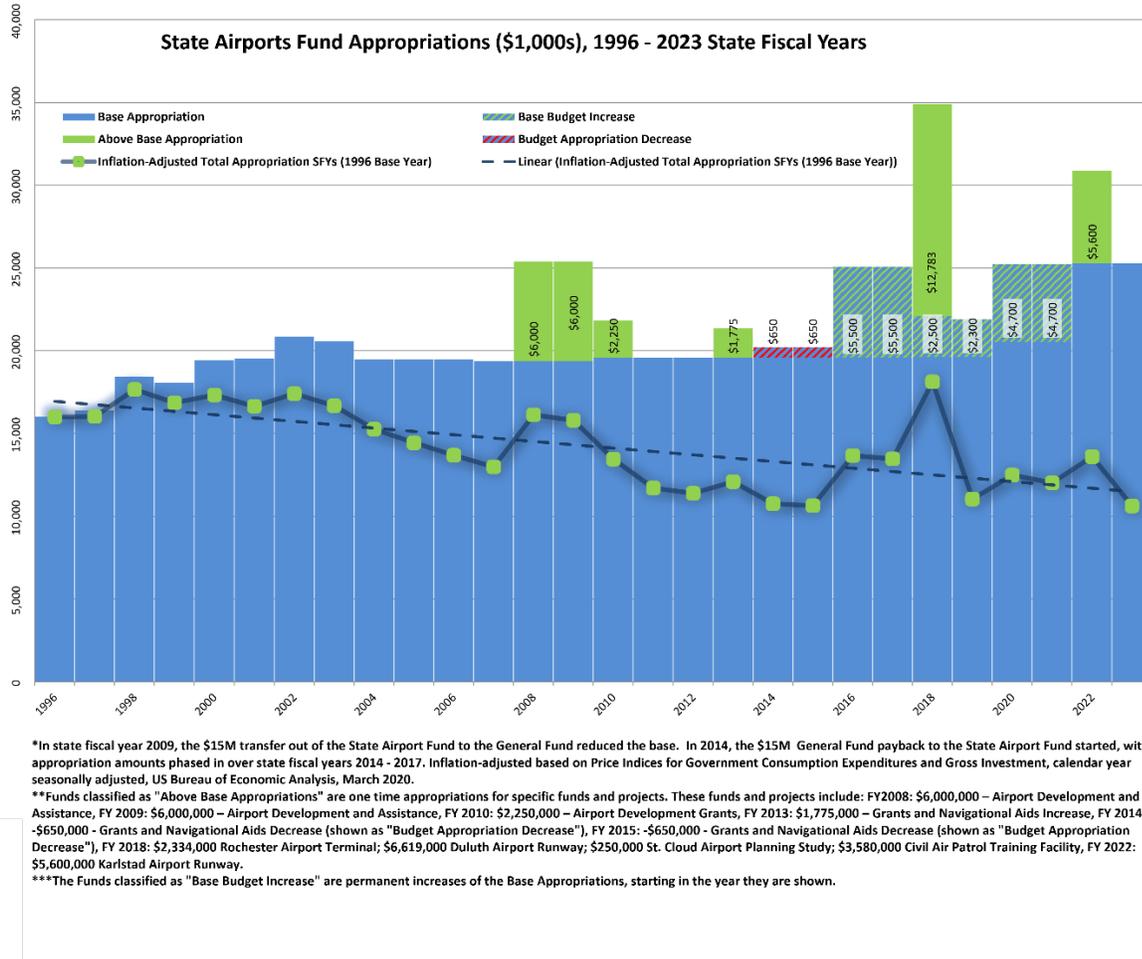
## The State Airports Fund: Operations

Created in 2014, the State Airports Fund balance policy requires a level of reserve to protect against major fluctuations in revenue and to avoid a deficit at the end of a biennium. The fund maintains an undesignated, unreserved fund balance that is not less than 5 percent of total appropriations, not more than 15 percent of total appropriations and not more than \$3 million. If any forecast projects that the fund balance will not be met, MnDOT will propose mitigating action. There are actions that are, on occasion, used during a biennium including adjustments to the airline flight property tax, supplemental budget submissions, postponement or acceleration of grant applications and awards and modifications of local airport contribution rates to ensure the State Airports Fund remains viable. These steps are used as needed during the biennium, unless the commissioner finds that an emergency warrants a longer period of adjustment.

Money in the State Airports Fund is appropriated annually to MnDOT based on each biennial transportation budget. Base fund appropriations for a majority of the previous 20+ state fiscal years were relatively

consistent. From 2014 through 2023, base fund appropriations trended upward, increasing by over \$5 million. Despite these increases, inflationary factors have eroded the purchasing power of the base fund appropriation, resulting in an inflation adjusted total appropriation that is 33.5 percent lower in 2023 than in 1996. See **Figure 8**.

**Figure 7: State Airports Fund, Appropriations (\$1,000s), 1996-2023 State Fiscal Years**



Annual expenditures from the State Airports Fund are used for capital projects such as planning and constructing airport runways, taxiways, buildings, airport maintenance and operations, navigational systems and MnDOT Aeronautics operations. Local municipalities and airport authorities are responsible for capital improvement projects, which must be listed in the airport’s capital improvement program to be eligible for state and federal funding. The above base appropriation is the funding amount that is in addition to the base appropriation established in the previous biennial budget.

The Federal Aviation Administration runs an Airport Improvement Program that provides grant-in-aid funding for planning, land acquisition and capital improvement projects at the 96 airports in Minnesota included in the National Plan of Integrated Airport System. The following are the three categories of federal airport funds:

- state apportionment based on population
- entitlement funds that are set amounts
- discretionary/competitive funds

[Minn. Stat. 360.0161](#) requires municipalities to apply for federal financial airport assistance through MnDOT Office of Aeronautics. An airport that applies for a federal grant for a proposed project must program the project in the Airport Capital Grant Program at least a year in advance. Each year more projects are identified than are funded. For example, in FY24 there were 152 capital grant project requests, and the Office of Aeronautics was able to write grants for only 51 of them. This amounts to \$20.3 million dollars in total state funding requests with \$6.2 million dollars of state funding being offered out and spent. With only a third of the projects requested being funded, it can be a challenge to identify medium- and long-term improvements, maintenance needs, and operation needs included in the Airport Capital Improvement Program. MnDOT also works with airports to retain and better leverage federal funds.

## Other Effects on the State Airports Fund

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### Adequacy Statement

The State Airports Fund requires adequate revenues and funding to finance airport development, provide aviation support assistance and provide for services to maintain and operate the state aviation system for public purposes and matters of public necessity. An adequate State Airports Fund has enough resources to continue to deliver high quality airport development and support services. It also has cash reserves sufficient to ensure fund solvency during times of crises. The future adequacy of the state airport fund depends on sustained revenues and appropriations at inflationary rates to ensure the continued maintenance and improvement of the state aviation system that benefits the aviation community, traveling public, businesses and state and local economies.

The ability to effectively deliver the airport capital improvement program (CIP) will be influenced by the adequacy of future revenues in the State Airports Fund, broader state budgetary constraints and the availability of federal funding from the Federal Aviation Administration (FAA).

In November 2021, Congress passed the Bipartisan Infrastructure Law (BIL), a once in a generation investment in our nation's infrastructure. BIL provides \$15 billion in funding for runways, taxiways, safety and sustainability projects, as well as terminal, airport-transit connections and roadway projects. This funding is crucial for the improvement and modernization of the nation's aviation infrastructure.

The Minnesota Legislature provided \$36 million in fiscal year 2024 for matches to federal aid and state investments related to airport infrastructure projects. In five years, the FAA is projected to allocate around \$300 million of federal funding via BIL, with the state providing a 5% match for these funds. Additionally, BIL also includes the Airport Terminal Program, which Minnesota has been awarded \$65 million of federal funds for grants that are going to seven different airports in federal fiscal years 2022-2024. The state is providing a 2.5% match for the Airport Terminal Program funds. Finally, through the BIL Federal Contract Tower program, three airports have received federal funds for their towers totaling \$1.6 million, these projects do not require a state match. Through these investments, the FAA aims to ensure the continued growth and success of the aviation industry while prioritizing safety and environmental responsibility. BIL funding will have a significant impact on Minnesota's aviation infrastructure and have already been utilized for projects such as acquiring snow removal equipment at Bemidji Regional Airport; an Environmental Impact Study at Windom Municipal Airport; and taxilane development at Duluth International Airport. This funding will provide numerous needed renovations and expansions to Minnesota airports, enhancing safety and efficiency for both passengers and airlines.

## Recreational Drones

Recreational aerial drones, also known as unmanned aircraft systems, or UAS, are becoming increasingly popular among consumers. Today, there are 1,541,951 recreational drones registered with the FAA with the estimated active fleet at around 557,300 as of December 2023.<sup>2</sup> The FAA does not share drone registration data with individual states and so MnDOT is unable to accurately account for the number of drones owned and operated within the state.

Under [Minn. Stat. 360.013 Subd. 37](#), recreational drones are considered aircraft. Recreational drones are exempt from registration and the aircraft sales and use tax per [Minn. Stat. 360.55, Subd. 9 \(2\)\(b\)](#), but as aircraft, sales tax paid on recreational drones should be deposited into the State Airports Fund. Given the extensive retail availability of recreational drones and the limited aircraft registration and sales tax reporting structure, the Department of Revenue is unable to collect drone-generated tax revenues.

The sale of recreational drones is subject to state sales tax collected and deposited into the State's general fund.

## Airport Capital Improvement Program

The Airport Capital Improvement Program (CIP) documents and identifies needed construction projects that develop and preserve the publicly owned system of Minnesota airports. From the CIP, projects are identified for funding through the Airport Capital Grant Program as well as the Airport Maintenance and Operation Program.

### *Airport Construction Grant Program*

This program funds the construction of runways, taxiways, aprons, arrival/departure buildings, utility lines and navigational systems; the acquisition of airport land for MnDOT clear zones; the removal of obstructions, such as trees; and other projects of a similar nature.

### *Airport Maintenance and Operation Program*

This program funds eligible expenses and costs for the day-to-day labor, material, equipment and utility expenses of maintaining airport pavements, airport grounds, lighting systems, buildings and maintenance equipment.

The following data identifying and evaluating funding needs was derived from the [2022 MnSASP](#) and adjusted to account for inflation. As of April 2024, the five-year (SFYs 2026-2030) need for project funding is projected to be \$4.5 billion. With expected state appropriations of approximately \$138 million over that same time frame, there is a funding gap of \$4.3 billion when only state funds are considered. **Figure 9** and **Figure 10** provide more detailed information on CIP funding needs and gaps.

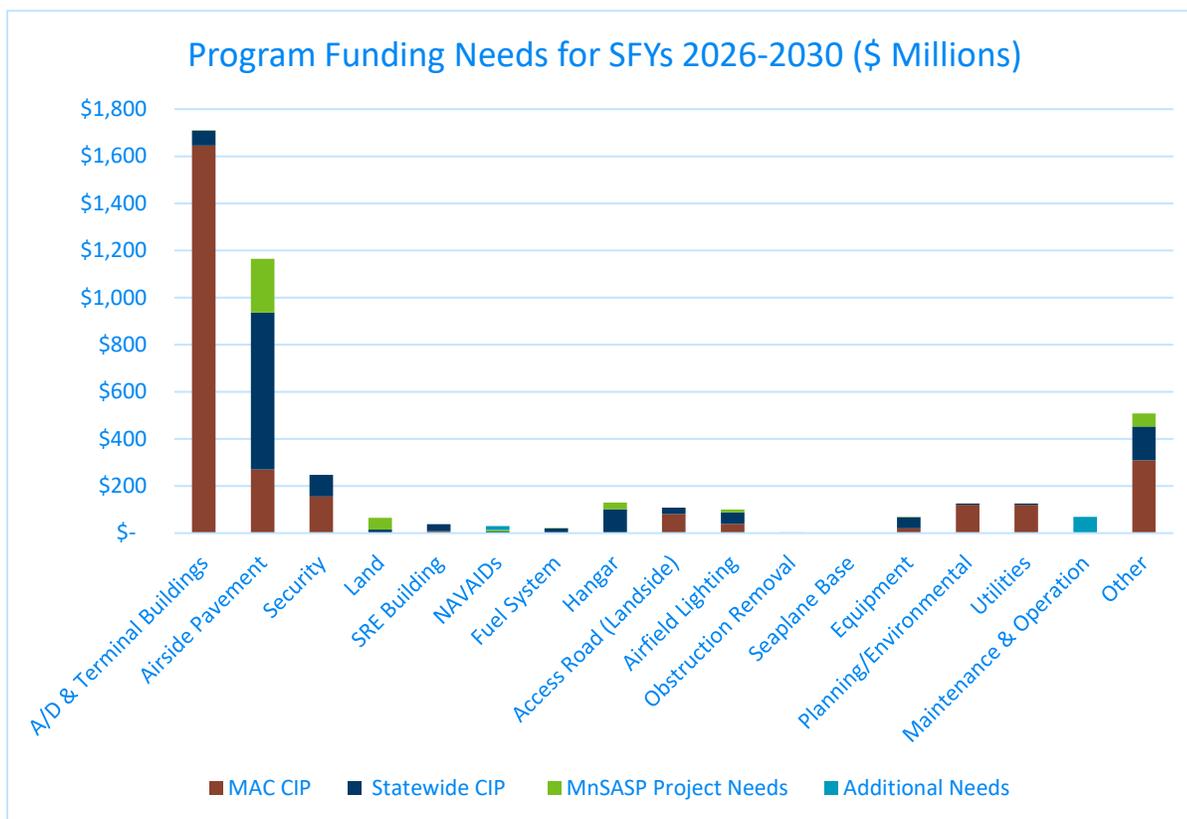
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<sup>2</sup> Federal Aviation Administration. FAA Aerospace Forecast Fiscal Years 2024-2044, "Emerging Aviation Entrants: Unmanned Aircraft System and Advanced Air Mobility. April 2024. <https://www.faa.gov/dataresearch/aviation/aerospaceforecasts/uas-and-aam>.

**Figure 8: Airport Capital Improvement Program Funding Gap, 2026-2030 State Fiscal Years**

	Amount
Anticipated Appropriations	\$138,783,160
Projected Need	\$4,517,342,834
Funding Gap	(\$4,378,559,674)

**Figure 9: Program Funding Needs, 2026-2030 State Fiscal Years**



The total Minnesota Program Funding Needs combine project needs identified by airports and MnDOT during the 2022 Minnesota State Aviation System Plan (MnSASP) to quantify the total financial need of the Minnesota aviation system.

The total costs of the system organized by greatest need are shown in **Figure 10**. Project costs are estimated to be over \$4 billion through the investment horizon of 2030. As shown, A/D buildings and terminals contribute the greatest singular investment need in Minnesota at over \$1.6 billion, driven primarily by the ongoing Terminal 1 modernization project at MSP. The next largest project type, airside pavement, includes the maintenance and preservation of taxiways, runways, and aprons. Terminals and airside pavements are typically an airport’s greatest assets and expenses, so the substantial percentage of overall funding being allocated to these project types is consistent with a well-maintained aviation system.

## **Airline Flight Property Tax**

The Airline Flight Property Tax is a tax on flight property that is owned, leased, loaned, or made available to an airline company operating in Minnesota. Minnesota Statutes [270.071](#) through [270.079](#) require that State Aeronautics establish the airline flight property tax annually by calculating the difference between the "total fund appropriation and the estimated total fund revenue from other sources." This means that the airline flight property tax rate may vary from year-to-year depending on anticipated revenues from other funding sources to maintain fund stability.

The MnDOT Office of Aeronautics is evaluating how this revenue source has performed overtime including how it impacts other revenue sources. One consideration under evaluation at the suggestion of aviation stakeholders is the de-coupling of the airline flight property tax rate calculation from the other funding sources to allow for two autonomous revenue streams for the State Airports Fund. The de-coupling could increase both the total revenue and the consistency of revenue for the State Airports Fund to ensure it remains viable into the future.

## **Fuel Tax Rebate**

Per [Minn. Stat. 296A.17 Subd. 3](#), Minnesota has an aviation tax refund program that is available to dealers of aviation gasoline or special fuel for aircraft use and either pay Airflight Property Tax or are aerial applicators with a Category B-general aerial license as well as aircraft owners who purchase gasoline for aviation use. Aircraft owners who purchase gasoline for aviation use may apply for a partial refund of the 5 cents-per-gallon excise tax on gasoline used to power their aircraft. Each year the refund program results in an approximately \$40.0+ million rebate of aviation fuel taxes that would otherwise be revenue directed to the State Airports Fund.

Like the evaluation of the Airline Flight Property tax described above, the MnDOT Office of Aeronautics is also evaluating the impacts a reduction of the partial refund amount to capture a larger portion of the aviation fuel taxes to ensure the State Airports Fund remains viable.

## **Replacement of the King Air Aircraft**

MnDOT Aeronautics Air Transportation Services provides safe and efficient air transportation to individuals conducting business on behalf of the State of Minnesota. The service provides cost-effective travel that can save time and resources by enabling more work to be accomplished in less time than driving or other modes of travel. The service is primarily provided through the agency's ownership and operation of two Beechcraft King Air aircraft: N55MN and N70MN. The costs for operating these aircraft are paid through an annual appropriation from the General Fund and through the sharing of variable cost with other state agencies when they use the aircraft. Both King Air aircraft are reaching the end of their useful life and the Office of Aeronautics is evaluating replacement scenarios which includes identification of funding sources. Any replacement strategy pursued would be contingent upon legislative involvement.

## **Operating Budget Pressure Increase**

As expected, staff salaries and other office expenses have continued to rise during this time. MnDOT Office of Aeronautics will need an increase in its operating budget to meet the rising costs of salaries and operating costs. MnDOT is committed to hiring and retaining staff with the experience and expertise to support aviation throughout Minnesota.

## PFAS Transition Cost

The health and environmental risks of the chemical family PFAS (per- and polyfluoroalkyl substances) have become increasingly more understood leading to their ban in Minnesota. Among many other products, PFAS are key components in the aqueous film-forming foam (AFFF) used to fight petroleum-based fires at aviation facilities. For decades airports have been required by the FAA to use foams that contain PFAS to maintain their operating certifications.

Removing PFAS foams from airports to comply with statute, and to minimize health and environmental risks, is a logistically and financially difficult burden for airports to bear. MnDOT Office of Aeronautics is anticipating requests for financial assistance from airports for the required PFAS transition. Financial assistance could include monitoring grants, equipment grants, aircraft rescue and firefighting truck (ARFF) grants, and infrastructure replacement grants.

The programs supported by the State Airports Fund are not adequate to assist airports with the PFAS transition. MnDOT Office of Aeronautics anticipates this may require additional state funds targeted to the PFAS transition efforts at airports.

## Navigation Systems

Navigation Systems include ground-based navigation aids such as VHF Omni-directional range stations, instrument landing systems and automated weather observation stations. MnDOT owns and operates a number of these systems throughout the state.

The State’s legacy navigation systems are several decades old, many dating back to the 1960s and 1970s. In 2024, MnDOT Office of Aeronautics was appropriated \$15 million to begin to address the aging systems. This much needed appropriation can only address half of the established \$30 million need at the time of the request. Over the past decade, technology and satellite-based navigation systems have reduced the dependency on older radio-based systems. Maintaining the existing radio-based systems is an increasing challenge because of phased out production, limited availability of replacement parts and a shortage of qualified technicians. While satellite-based GPS systems provide a more sophisticated and less expensive alternative to legacy systems, many pilots continue to depend on radio-based navigation systems. Further, these legacy systems provide an important redundancy should any disruptions to satellite-based GPS occur.

An overall assessment of the aging, ground-based systems was carried out and a prioritization model was built to map out the schedule and funding that will be needed for the navigation system updates. **Figure 11** indicates the results of that assessment.

**Figure 11: Funding Needs for Navigation System Updates, 2024-2028 State Fiscal Years**

State Fiscal Year	Original \$30M Identified Funding Need	Remaining Funding Gap	Actual Spend Plan for \$15M Funding
2024	\$5,400,000	\$2,400,000	\$300,000
2025	\$5,400,000	\$2,400,000	\$3,500,000
2026	\$6,700,000	\$3,700,000	\$3,900,000
2027	\$6,700,000	\$3,700,000	\$4,400,000
2028	\$6,800,000	\$3,800,000	\$2,900,000

With ‘funding gaps’ from SFY24 to SFY28 (shown in Figure 11) and with additional equipment soon reaching the end of useful life, it will be necessary to obtain additional funding well beyond the \$15 million that was already appropriated. See Figure 12.

**Figure 12: Projected Additional Funding Support for Navigation System Replacements, 2029-2033 State Fiscal Years**

State Fiscal Year	Amount
2029	\$8,700,000
2030	\$8,900,000
2031	\$9,100,000
2032	\$9,100,000
2033	\$9,200,000

Note that these figures represent the funding needs for the Office of Aeronautics, whereas the needs represented in Figure 10 were derived directly from the 2022 MnSASP.

## Recommended Statutory Changes

[Minn. Stat. 360.675](#) requires this report to include draft legislation for any recommended statutory changes to ensure the future adequacy of the State Airports Fund.

MnDOR, in partnership with MnDOT, recommends the following statutory changes:

Statute modified [Minn. Stat. 297A.82, subd. 3](#)

Subd. 3. **Payment of tax.** If an aircraft is purchased from a person who is not the holder of a valid sales and use tax permit under this chapter, the purchaser shall pay the tax prior to registering or licensing the aircraft in this state.

Draft language

The purchase price in those instances where the aircraft is acquired by gift or by any other transfer for a nominal or no monetary consideration shall also include the average value of similar aircraft, established by standards and guides as determined by the Department of Transportation, Aeronautics and Aviation Division.

Reason for proposal

There are provisions in place to collect sales tax on average value when motor vehicles are sold for a nominal price. [Minn. Stat. 297B.01 subd. 14](#) states that, "The purchase price in those instances where the motor vehicle is acquired by gift or by any other transfer for a nominal or no monetary consideration shall also include the average value of similar motor vehicles, established by standards and guides as determined by the motor vehicle registrar."

Currently, purchasers of aircraft are allowed to register the aircraft and list a nominal sales price and pay sales tax on that nominal price. The draft language would allow DOT and Revenue to work together to enforce sales tax collection based on average value.