



Airlines for America®
We Connect the World

Representative John E. Bradley
Chairman
House Revenue and Finance Committee
259 – S Stratton Office Building
Springfield, Illinois 62706

Representative Jack D. Franks
Chairman
State Government Administration Committee
267 – S Stratton Office Building
Springfield, Illinois 62706

Representative David Harris
Minority Spokesman
House Revenue and Finance Committee
221 – N Stratton Office Building
Springfield, Illinois 62706

Representative Robert W. Pritchard
Minority Spokesman
State Government Administration Committee
200 – 3N Stratton Office Building
Springfield, Illinois 62706

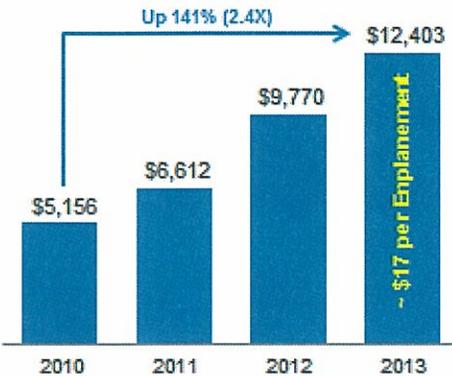
Dear Chairmen Bradley and Franks and Minority Spokesmen Harris and Pritchard,

Airlines for America® (A4A) is the largest and oldest trade organization representing America's passenger and cargo airlines. Annually, commercial aviation helps drive more than \$1 trillion in annual U.S. economic activity and more than 10 million U.S. jobs. Commercial aviation is a major economic driver for Illinois, where airlines have more than 35,000 employees and retirees, operate more than 560,000 flights and carry nearly 48 million passengers, and contribute close to 5% of the state's GDP. The attached slide contains more info about our industry's impact in Illinois.

When airlines are profitable, we grow the number of flights offered and passengers served, and we reinvest in the product to enhance our customers' travel experience and to make our operations more efficient. This in turn translates to significant economic and employment gains for hub markets and the states in which they are situated, as you can see in the slides below:

Improving Finances Enabling Significant Reinvestment in Customer Experience
 Airline CapEx Up ~141% Since 2010, With Plans to Invest an Additional \$11-12B in 2014

U.S. Airline* Capital Expenditures (\$ Millions)



Planned 2014 Capital Expenditures: \$11-12B

- » Aircraft, engines, winglets, spare parts
- » Ground equipment, loading bridges
- » Airport facilities, aircraft hangars
- » Premium seats, new aircraft interiors
- » Maintenance facilities and machinery
- » Bag carousels, carts, scanners
- » In-flight entertainment and Wi-Fi
- » Computers, kiosks, mobile technology

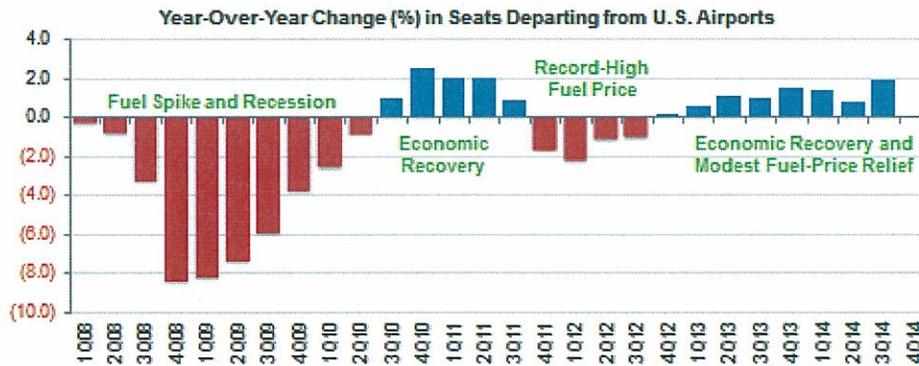
* SBC Wings of Alaska, Allegiant, American/US Airways, Delta, Hawaiian, JetBlue, Southwest, Spirit and United



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As Airlines Generate Modest Returns on Capital, Customers Are Seeing More Seats Scheduled to Depart from U.S. Airports – Two Years of Growth

"We'd like more flights. But you're not going to have any flights if the airlines don't make money, so we understand their predicament." (Larry Cox, president and CEO of the Memphis-Shelby County Airport Authority, "Regional airlines face closings, bankruptcy," USA Today, Aug. 20, 2012)



Source: Innovata (via Dto WI) published schedules as of March 28, 2014 for all airlines providing scheduled passenger service from U.S. airports to all destinations



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You have asked interested parties to comment on how the Illinois tax structure compares to other states. The major aspect of Illinois' state and local tax structure that makes it an outlier for our industry is the heavy tax burden it places on the purchase of jet fuel for domestic flights. The price of jet fuel has

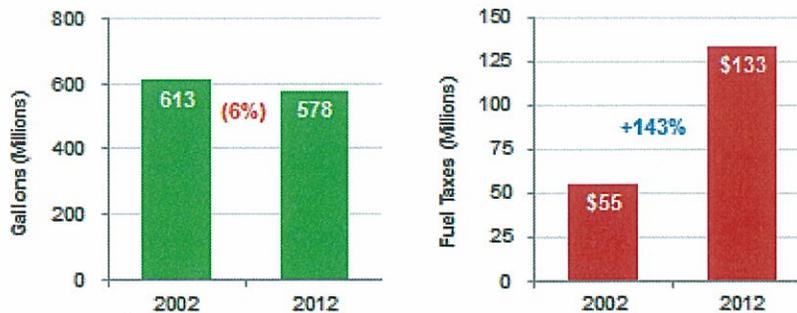
escalated dramatically in the last five years – up 54 percent from \$1.90 per gallon in 2009 to \$2.92 thus far in 2014 – as has the price of other petroleum products. It now represents approximately one-third of the cost of operating a U.S. passenger airline. As you know, Illinois can be one of the most expensive states in the country in which to do business, and the punitively high overall jet fuel tax burden on flights departing Chicago in particular can have a smothering effect on additional Illinois-based job creation and expansion for our industry.

The Chicago region and Illinois as a whole have the highest effective tax burden on the purchase of jet fuel in the nation. Illinois subjects airline jet fuel in Illinois (for domestic use) to its Retailer’s Occupation tax at rates as high as 9.85% of the purchase price, dependent upon the retailer’s sales location. In addition, the City of Chicago subjects jet fuel delivered to a Chicago airport to an additional 5 cents per gallon excise tax. In both cases the tax revenues are used for general government purposes and not available to support aviation operations or investment.

Part of what makes the Illinois jet fuel tax structure particularly onerous is the fact that as the price of fuel increases, the amount of the tax increases so that even if an airline significantly reduces consumption, the tax liability could actually *increase*. This not only unfairly burdens our operations in Illinois as compared to other states, but it also puts Illinois at a competitive disadvantage. As you will see below, in the recent past, carriers have reduced Illinois jet fuel consumption and yet paid **more** in jet fuel taxes to Illinois and its jurisdictions:

Illinois Reaping Jet Fuel Tax Windfall Despite Decreasing Consumption by Industry

→ From 2002 to 2012, American, Southwest and United reduced jet fuel consumption in Illinois by 35 million gallons (down 6%), but paid \$78 million (up 143%) more in jet fuel taxes

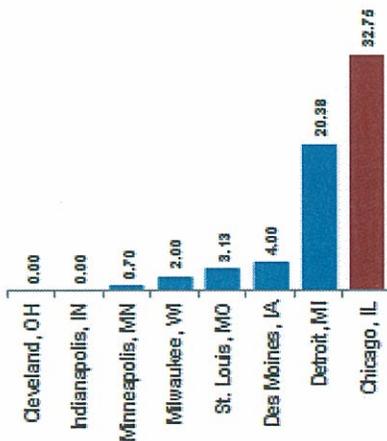


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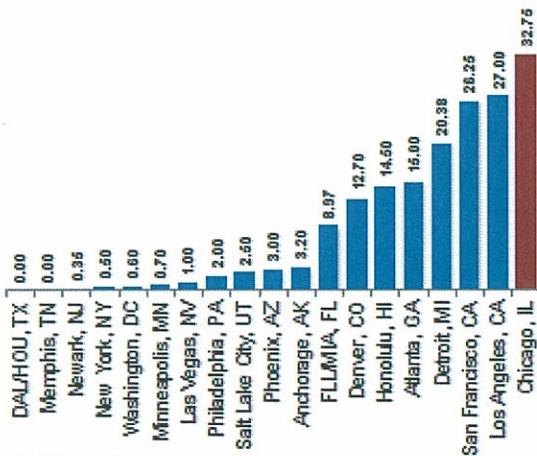
Many states around the country understand and appreciate the aviation industry’s robust economic impact and have structured tax policy consciously to foster and increase that impact – a decision that can correlate with job creation and additional seats supplied in the marketplace. For example, numerous states completely exempt jet fuel from taxation. New York, New Jersey and Washington, (hub state locations) subject only jet fuel purchased and consumed in the state to taxation. Several other states, such as Kentucky, Missouri, and North Carolina, cap the total amount of fuel purchased annually or the amount of fuel tax paid annually by an individual airline. Finally, several states apply flat cents-per-gallon taxes on jet fuel or a sales tax rate that is lower than the state standard rate. Below you will find a detailed analysis of the state and local tax burden on jet fuel and below you will see charts comparing Illinois to neighboring states as well as to certain hub states:

Illinois and its Local Jurisdictions Impose the Highest Domestic Tax on Jet Fuel
Effective Tax Rate (Cents Per Gallon) on Jet Fuel in Selected U.S. States

Comparison: Neighboring States



Comparison: Selected Hub States



Source: AAA analysis of state and local tax codes; assumes price paid for jet fuel of \$3.00 per gallon.



So how did we get to the point where Illinois has the highest burden in the country? Between 1955 and 1963 the Illinois Department of Revenue applied the same method of taxation of aviation fuel as New York and New Jersey, based on the amount of fuel purchased in Illinois and consumed in take-offs from an Illinois airport. The Department of Revenue then changed its interpretation and applied the tax on all fuel purchased in Illinois, rather than the amount consumed in the state. A reasonable and predictable tax structure with a more explicit value placed on the importance of job growth and economic development is paramount to Illinois’ success when it comes to the economic and employment potential of our partnership together. A return to the method of taxation recognized by

the state between 1955 and 1963, among other possible solutions, would be a much better situation than the one in which we find ourselves today.

We sincerely appreciate the committee's interest in this issue. We know that this may be new ground for some of you and we look forward to continuing this dialogue about how together we can make Illinois not just a "big" state for aviation driven economic development, but the "biggest" that it can be. Simply, we want to help Illinois realize its full economic and employment potential. Please do not hesitate to contact me at any time.

Sincerely,

A handwritten signature in blue ink, appearing to read 'S Williams', with a stylized, cursive script.

Sean Williams
Vice President, State and Local Government Affairs
swilliams@airlines.org



A4A Member Airline Employees

Work in Illinois	31,219
Retired in Illinois	4,836

Airline Operations

Annual Departures	560K
Annual Passengers	43.8M
Annual Cargo (Tons)	841.0K
Value of merchandise imported by air	\$80.3B
Value of merchandise exported by air	\$37.3B
Total Import/Export Trade	\$117.6B

Aviation Economic Impact

	<u>Direct</u>	<u>Indirect</u>	<u>Total</u>
Economic Activity	\$20.8B	\$26.2B	\$47.0B
Earnings (Payroll)	\$6.0B	\$7.8B	\$13.9B
Jobs	128K	209K	337K
State GDP			\$26.9B
Share of State GDP			4.3%
Share of State Jobs			4.6%

Sources/Footnotes:

- A4A member airline companies' active employees as of September 2012; excludes Federal Express
- Departures, passengers and cargo (Source: U.S Department of Transportation T100 segment data, CY2012)
- Value of merchandise imported/exported by air (Source: U.S. Census Bureau, CY2012)
- Federal Aviation Administration, "The Economic Impact of Civil Aviation on the U.S. Economy - Economic Impact of Civil Aviation by State," 2011
- Average U.S. passenger airline salary per year (2012) was \$66.8K; excludes benefits and payroll taxes (Source: U.S. Department of Transportation, Form 41) versus a statewide average annual salary of \$47K (Source: U.S. Bureau of Labor Statistics, May 2012)