SENATE THIRD READING
SB 661 (Hurtado)
As Amended August 13, 2026
2/3 vote

SUMMARY

Requires the California Department of Transportation, Division of Aeronautics to allocate 75% of sales and use tax revenues derived from the sale, storage, use, and other consumption of jet fuel revenue to public and private airports, 15% to general aviation airports, 1% for aviation education, and 9% or existing grant programs that serve nonnub and small hub airports, and until January 1, 2032 $500,000 annually to award grants to rural, nonhub commercial airports and general aviation airports.

Major Provisions

Requires Division of Aeronautics (Division), within the California Department of Transportation, to annually allocate from revenue collected from taxes on jet fuel sold at airports, after deducting administrative expenses, to eligible recipients the following percentages of available funds for airports and aviation-related purposes as follows:

a) 75% of the revenue to be divided among each public and private airport where jet fuel is sold or consumed based on the airport's fuel flowage statistics reported for the previous calendar year. Of this total annual allocation, until December 31, 2031, the division must use $500,000 to provide grants to rural, nonhub commercial airports and general aviation airports;

b) 15% for general aviation airports, to be divided and credited to individual airports consistent with a process established by the Division;

c) 1% to provide grants for aviation education that includes, but is not limited to, programs that provide workforce development, flight training, traffic control training and education, and aviation-related degrees from accredited universities; and,

d) 9% to existing grant programs that serve nonhub and small hub airports; and,

1) In the first year, up to $1 million is available for administrative costs incurred by the Division to establish a process and allocate funds pursuant to (b) above; thereafter, up to $600,000 annually is available to the Division for administrative costs.

2) Requires the Controller, on or before September 1 each year, to transfer SUT revenues derived from the imposition of SUT on purchases of jet fuel, at a combined rate of 1.25%, for allocation to airports and aviation-related purposes pursuant to the allocation enumerated in #1 above.

3) Requires all public and private use airports where jet fuel is sold or consumed to report to the Division the airport's fuel flowage statistics for the previous calendar year by March 31 for purposes of calculating individual airport fuel tax allocations.

4) Defines fuel flowage statistics as including the total gallons of jet fuel sold or consumed annually at an airport.

COMMENTS

Existing law establishes the Aeronautics Account (within the State Transportation Fund), into which revenues from fuel excise taxes of 18 cents per gallon on aviation fuel and two cents per gallon on aircraft jet fuel are deposited. These rates were set in 1994 and 1969, respectively.

State law imposes sales tax on every retailer "engaged in business in this state" that sells tangible personal property (TPP). A complementary "use tax" applies on the storage, use, or other consumption of TPP purchased out-of-state but subsequently used in California, which is applied at the same rate. All retailers are required to register with and remit collected taxes to the California Department of Tax and Fee Administration (CDTFA). Sales tax applies whenever there is a retail sale; the current sales and use tax rate is 7.25%. 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 to an aircraft or into a storage facility.

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 exclusively 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, Chapter 17, Statutes of 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.

Redistributing aviation fuel taxes. This bill redirects sales and use taxes collected from sales of aircraft jet fuel from the General Fund, Local Public Safety Fund and the Local Revenue 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 75% 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 bill requires 15% of the revenue to be allocated to general aviation airports, to be divided and credited to individual airports consistent with a process established by the Division. Nine percent of the revenues would be allocated to existing grant programs for smaller, regional airports while 1% would go towards grants for training, education, workforce development.

The author intends this bill to resolve the dispute between California and the FAA and to provide adequate funding for the state's aviation system. The latest amendments are the final product of extensive negotiations among stakeholders.

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."

Arguments in Support
In support, the California Airports Council writes, "SB 661 represents California's most significant effort to address the longstanding issue of aviation fuel tax revenue diversion and bring the state into compliance with federal aviation revenue use requirements. For decades, California has remained one of the few jurisdictions that continues to divert certain aviation fuel tax revenues to non-aviation purposes. SB 661 establishes a framework to dedicate those revenues to aviation uses and reinvest them in California's aviation system… SB 661 demonstrates California's commitment to resolving this issue in good faith and provides a practical path toward achieving compliance while reinvesting aviation-generated revenues back into aviation purposes."

Arguments in Opposition
No opposition on file.

FISCAL COMMENTS

According to the Assembly Appropriations Committee:

Increased annual revenue of approximately $39 million to the Aeronautics Account and a corresponding revenue loss to the General Fund of approximately $7.8 million and $15.6 million to each the Local Public Safety Fund and the Local Revenue Fund (based on recent annual jet fuel sales in California of $3.1 billion and the bill's transfer rate of 1.25%).

Significant annual costs to Caltrans to allocate funds deposited into the Aeronautics Account. Caltrans estimates these costs at approximately $800,000 to fund four positions to allocate funds to over 200 airports. If Caltrans' cost estimate turns out to be accurate, the bill provides sufficient funding to cover this administrative cost in the first year of implementation—up to $1 million—but insufficient funding—up to $600,000—in each subsequent year.

VOTES

SENATE FLOOR: 39-0-1
YES: Allen, Alvarado-Gil, Archuleta, Arreguín, Ashby, Becker, Blakespear, Cabaldon, Caballero, Cervantes, Choi, Cortese, Dahle, Durazo, Gonzalez, Grayson, Grove, Hurtado, Jones, Laird, Limón, McGuire, McNerney, Menjivar, Niello, Ochoa Bogh, Padilla, Pérez, Richardson, Rubio, Seyarto, Smallwood-Cuevas, Stern, Strickland, Umberg, Valladares, Wahab, Weber Pierson, Wiener
ABS, ABST OR NV: Reyes

ASM TRANSPORTATION: 15-0-1
YES: Wilson, Davies, Ahrens, Bennett, Caloza, Carrillo, Hart, Jackson, Lackey, Lowenthal, Macedo, Papan, Ransom, Rogers, Ward
ABS, ABST OR NV: Hoover

ASM REVENUE AND TAXATION: 7-0-0
YES: Gipson, Sanchez, Carrillo, DeMaio, McKinnor, Quirk-Silva, Michelle Rodriguez

ASM APPROPRIATIONS: 11-0-4
YES: Wicks, Arambula, Calderon, Caloza, Fong, Mark González, Krell, Pacheco, Pellerin, Sharp-Collins, Solache
ABS, ABST OR NV: Hoover, Dixon, Ta, Tangipa

UPDATED

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