

Delta's Fuel Tax Burden in Michigan

How Michigan Compares
To Other Hub States

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Delta Air Lines in Michigan

- Delta and Northwest Airlines merged in October 2008
- The combined company has operated in Michigan since 1958 and has operated a hub in Detroit since 1987
- DTW is Delta's 2nd largest hub behind ATL
- Delta operates at 12 of the 17 commercial airports in Michigan
- 550 daily flights out of Detroit to 115 domestic and 22 international destinations on 4 continents*
- Delta and its connection carriers has more than 7,300 employees in Michigan and helps support over 18,000 jobs at Detroit Metro Airport
- DTW estimated to have an \$11 billion annual impact on the economy**
- DTW is currently the #3 gateway to Asia in the United States, after ORD and SFO. Well positioned to grow to #1 if the right economic climate can be achieved

* delta.com; ApJune 2012 schedule
** University of Michigan Study, 2006

Impact of Fuel Costs on Delta

- Jet fuel is Delta's single largest operating expense (about 35% of operating costs, or \$12B)
- Delta's fuel expense increased by \$3B Year-over-Year from 2010 to and 2011
- Every penny increase in the cost per gallon of jet fuel equates to a roughly \$40M increase in Delta's annual fuel expense
- In recent years, price volatility for fuel has increased dramatically, making planning for fuel cost increasingly difficult
- Delta maintains a hedge portfolio to protect itself from swings in crude oil price, but the hedge book does not offset increases in the product mark-up for jet fuel

Trainer Refinery Acquisition

- On April 30, 2012 Delta announced it is purchasing the Trainer Refinery in Philadelphia, PA from ConocoPhillips for \$150 Million
- Delta plans to invest \$100 Million in improvements to maximize the refinery for the production of jet fuel
- Reduction in demand for gasoline products and increased demand for Jet and Diesel is causing refiners to shift their product mark-up on jet fuel (known as the crack spread), which has increased from \$6 per barrel in 2004 to \$13 per barrel
- The jet crack spread now accounts for 10% of Delta total unit costs, up from 3% two years ago
- Delta will save \$300 million in fuel expense from supplying its Northeast operations with jet fuel from the Trainer facility and exchanging other refinery outputs (gasoline, diesel, and other petroleum products) for jet fuel at other locations

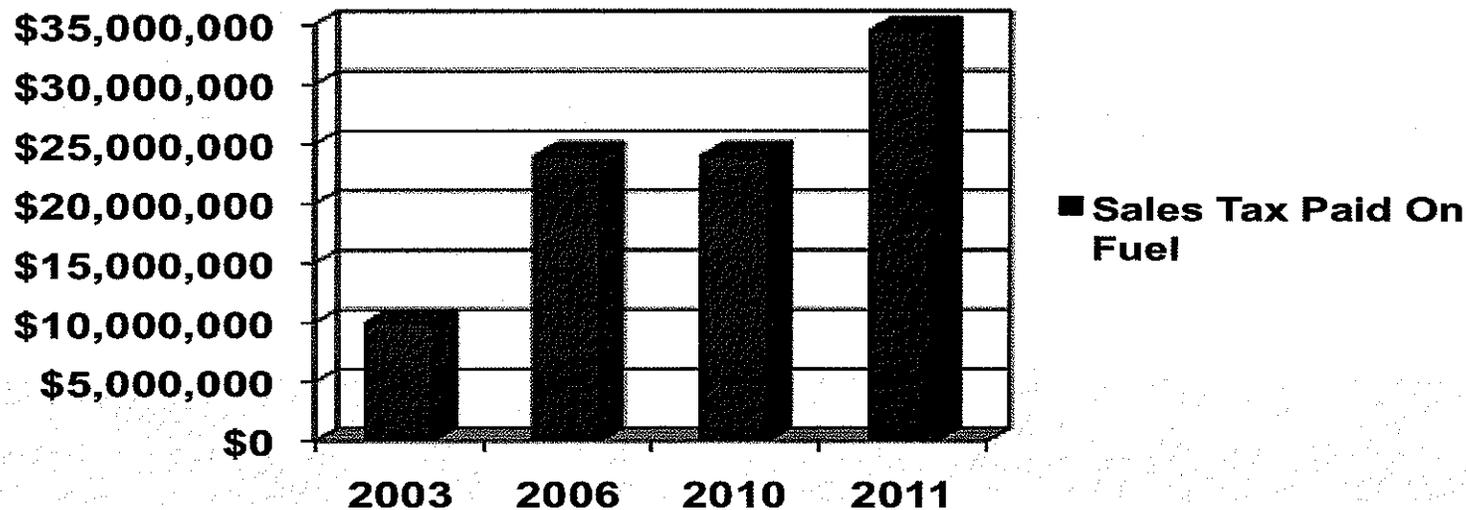
Michigan Fuel Tax Rates and Impact

- Michigan fuel tax rates:
 - Sales tax: 6%
 - Excise tax: 3.0 cents per gallon (cpg), less 1.5 cpg credit for fuel purchased for interstate flights
 - Underground Storage Tank Fee: 0.875 cpg
 - Combined effective rate (at a fuel price of \$3.25 per gallon): 21.9 cpg
- Based on a fuel price of \$3.25 per gallon, estimated annual Michigan fuel tax liability is approximately \$39M*, comprised of:
 - Sales tax: \$34.5M
 - Excise tax: \$2.7M
 - Environmental tax: \$1.6M
- Michigan fuel taxes increase Delta's cost of fuel in Michigan by 6.75%

* Based on 2011 projected consumption

Annual Sales Tax on Michigan Fuel Purchases

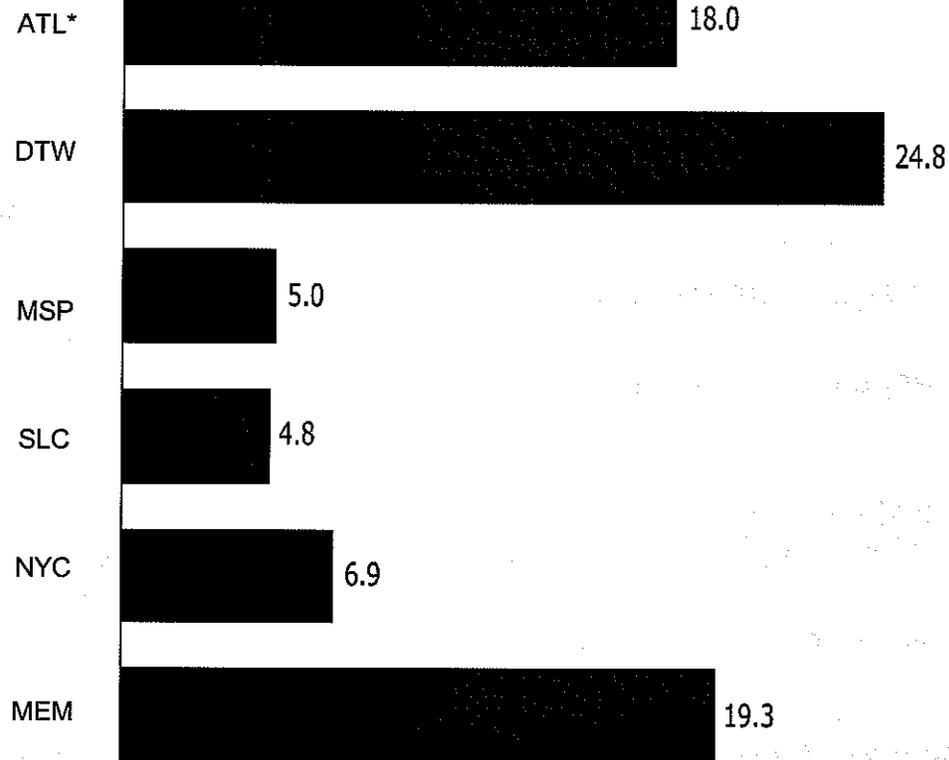
- Delta's Michigan sales tax on fuel has increased dramatically over recent years - at the very time that airlines are facing increasing financial challenges
- Cost increases are driven by fuel price rather than consumption due to application of a percentage based tax (sales tax) rather than a per gallon tax
- From 2003 to 2011, purchases of taxable gallons in Michigan will be down more than 20%, while Michigan sales tax liability will be up more than 250%
- From 2010 to 2011, purchases of taxable gallons in Michigan will be down approximately 5%, while Michigan sales tax is estimated to increase 50%



MI Effective Sales Tax Rate on Jet Fuel Highest of all Delta Hubs

\$3.00 Per Gallon Fuel Cost

Combined local and federal fuel taxes (2011)
Cents per gallon



* Note: In 2012 the GA Legislature passed and the Governor signed a 25% reduction in the sales tax on jet fuel (from 4% to 3%) so the effective tax rate for ATL will decrease in 2012

Michigan Has the Highest Effective Tax Rate Among Delta Hubs

- **Georgia (ATL)**
 - 6% combined state and local sales tax, with \$30M credit over the next 2 years
 - No excise or environmental tax
 - 2011 estimated effective tax rate: 14.8 cpg in Georgia vs. 21.3 cpg in Michigan
 - Net of the credit, the effective tax rate in Michigan is 44% higher than Georgia
- **Kentucky (CVG)**
 - 6% sales tax - \$1M annual cap for sales tax on jet fuel
 - No excise tax or environmental tax
 - Effective tax rate in Michigan is 36 times that of Kentucky
- **Minnesota (MSP)**
 - No sales tax on jet fuel
 - Excise tax of 5 cpg on first 200,000 gallons, then 0.5 cpg
 - Petroleum inspection fee of 0.1 cpg
 - Effective tax rate in Michigan is 35 times that of Minnesota
- **New York (LGA and JFK)**
 - No sales tax
 - Excise tax: 6.8 cpg, but applied only to gallons burned in NY
 - Effective tax rate is approximately 0.6 cpg
 - Effective tax rate in Michigan is 37 times higher than New York
- **Utah (SLC)**
 - No sales tax on jet fuel
 - 2.5 cpg excise tax
 - Michigan's effective tax rate is 8.5 times that of Utah

Michigan's Tax Burden Puts Delta at a Competitive Disadvantage to Other Airlines

- **Colorado (Hub for United/Continental and Southwest)**
 - Sales tax: 2.9%
 - Excise tax: 4 cpg (City of Denver)
 - Effective tax rate in Michigan is 74% higher than Colorado
- **New Jersey (Hub for United/Continental)**
 - No sales tax on jet fuel
 - Excise tax: 4 cpg, but applied only to fuel burned in New Jersey (effective tax rate is approximately 0.0028 cpg)
 - Effective tax rate in Michigan is 75 times higher than New Jersey
- **Texas (Hubs for American, United/Continental and Southwest)**
 - No sales tax on jet fuel
 - No excise tax on jet fuel
- **Arizona (Hubs for US Airways and Southwest)**
 - No sales tax on jet fuel
 - Excise tax: State tax of 3.05 cpg (capped at \$305,000 per year), plus local tax (PHX) of 1.037 cpg
 - Effective tax rate in Michigan is 20 times higher than Arizona

How to Make Michigan and Delta More Competitive

- Policy Considerations
 - Due to price volatility of fuel, sales tax is difficult to plan for or predict (both for the State and Delta)
 - Sales tax is a consumption tax, but Delta's dramatic increase in Michigan sales tax does not track consumption and normal inflation
 - A tax on fuel purchased, but not consumed, in Michigan uniquely disadvantages a hub operation
 - Other consumers in Michigan are taxed largely on goods purchased and consumed in Michigan
 - Interstate motor carriers are taxed on fuel consumed in Michigan based on miles traveled
- Solution
 - Exempt jet fuel from percentage sales tax
 - TX, AZ, FL, MN, NJ, NY, NV, OH, PA, UT, VA, WI and KY (effectively exempt based on low cap)
 - Reduce sales tax by 2% to make MI more competitive with other states