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National Air Transportation Association

Statement

of the

National Air Transportation Association

before the

Subcommittee on Aviation,

Committee on Transportation and Infrastructure,

U.S. House of Representatives:

Hearing on

The Financial Condition of the Airport and Airway

Trust Fund

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2167 Rayburn House Office Building
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Appearing for NATA:
James K. Coyne, President

Chairman Mica, Ranking Member Costello, and Members of the Subcommittee:

Thank you for this opportunity to appear before you to discuss the financial condition of the Airport and Airway Trust Fund. My name is James K. Coyne, and I am president of the National Air Transportation Association (NATA). NATA, the voice of aviation business, is the public policy group representing the interests of aviation businesses before the Congress, federal agencies and state governments. NATA's over 2,000 member companies own, operate and service aircraft and provide for the needs of the traveling public by offering services and products to aircraft operators and others such as fuel sales, aircraft maintenance, parts sales, storage, rental, airline servicing, flight training, Part 135 on-demand air charter, fractional aircraft program management and scheduled commuter operations in smaller aircraft. NATA members are a vital link in the aviation industry providing services to the general public, airlines, general aviation and the military.

The Airport and Airway Trust Fund is the lynchpin of America's air transportation system. Since its creation in 1980, the trust fund has provided billions of dollars for aviation infrastructure development that has truly made the United States airspace a nationally integrated system. Thanks to the leadership and foresight of this Committee, in recent years Congress has taken extraordinary measures to unlock the potential the trust fund holds for the aviation industry. Landmark legislation such as AIR-21 and Vision 100 have ensured the integrity of the trust fund and guaranteed that the revenues that air travelers pay into the system are used solely for improvements to aviation infrastructure.

In the past few years, however, the trust fund has seen a decline in revenues and balances. The September 11, 2001 terrorist attacks and the ensuing economic downturn have had a devastating effect on the aviation industry. Fewer air passengers, reduced schedules, and lower fares overall have combined to drive trust fund revenues down. However, despite the many challenges the industry faces today, including soaring fuel costs and burdensome and often unnecessary security requirements, the industry is regaining strength and is back to the levels of air traffic we saw in the years leading up to 9-11. This summer looks to be one of the busiest ever for our nation's air travelers. Many are hopeful that this recovery in air traffic will lift revenues in the aviation trust fund, outweighing the effects of lower fares charged by the airlines. One study predicts a steady increase in trust fund revenues starting this year and revenues rising to over $17 billion in the next decade.

At issue today is the health of the Airport and Airway Trust Fund and what measures, if any, should be taken to alter its revenue sources. Some have suggested switching to a "user fee" system adopted in other countries, in which fees are assessed per flight segment based on a number of factors. These factors include the weight of the aircraft, the distance of the flight segment, and the usage of airports with a heavier volume of air traffic. Other aviation interests would like to remain with the status quo, in which a series of fees and taxes are collected at the point of sale by the government. One thing is certain: there is wide disagreement within the aviation industry as to just how robust the trust fund is, and whether or not we should change the way the trust fund collects revenues.

NATA is in a position unique to all others testifying before you today, as our association represents businesses that contribute to the trust fund through both excise and fuel taxes. Carriers that provide non-scheduled air charter service under Part 135 regulations are classified as commercial air carriers and pay the same excise taxes and segment fees as scheduled airlines. NATA also represents hundreds of fixed-base operators (FBO) throughout the country, who provide services such as maintenance, fuel, and hangar space to general aviation aircraft. With our membership encompassing a broad range of the aviation industry, the association feels that funding for the trust fund should remain with the structure we currently have in place, a combined system of excise taxes and fuel taxes. While there are certainly a number of questions that need to be answered before Congress contemplates any change in the current funding structure for the aviation trust fund, it is critical that Congress is aware that overall a system of user fees could add greater confusion and inefficiency to the air transportation system, cause a bureaucratic nightmare for both government and industry, jeopardize safety at small airports, and ultimately result in less revenue than in the current system.

Federal Aviation Administration Funding

President Bush's Fiscal Year 2006 budget paints a bleak picture for the Federal Aviation Administration (FAA). The President's budget proposes a $55 million cut in the FAA's operations budget, a $2.45 billion cut in the FAA's Facilities and Equipment account, and a $500 million cut in the Airport Improvement Program. Trust fund revenues are expected to reach their lowest levels in almost seven years. Also, the Administration is looking to the trust fund as the sole fundraiser for the FAA. This year, almost 85 percent of the FAA's operations budget will come from trust fund revenues, a dangerous trend that further dilutes the trust fund's original aim of providing a fund for airport and infrastructure funding.

Although these numbers present a sobering view of the state of the aviation industry in the eyes of the government, the FAA presently continues to receive every cent it has asked for from Congress. In the current year, Fiscal Year 2005, the FAA has received 100 percent of its budget request from Congress, yet the agency has still implemented plans to slow down a number of vital programs, including certification of important safety programs. NATA members across the country have received letters from their local Flight Standards District Office stating that any new safety and security programs in need of certification will have to wait due to funding constraints. Attached to my testimony are letters from FAA officials country-wide informing NATA members that they will have to wait on certification of their innovative safety initiatives until more funding is presented. Important procedures that will improve the safety of air transportation are left in limbo, despite the fact that the FAA is supposedly operating with all the resources it needs for this year.

Perhaps the biggest impediment to reforming the trust fund is the FAA's great difficulty in accurately predicting its costs and needs. If the FAA cannot properly assess its costs for any given year, why should we embark on the reform of a system that we're not sure is even in trouble yet?

The On-Demand Air Charter Industry

NATA is the sole representative of on-demand air charter operators in the United States. Despite perceptions that commercial air service strictly encompasses traditional hub and spoke airlines, on-demand charter operators are absolutely considered commercial air carriers. Operating under Part 135 regulations, air charter services charge the same 7.5 percent excise tax and $3 segment fee that the scheduled airlines collect. Comprising over 2,800 operators and generating close to $5 billion per year in revenues, the charter industry is one of the fastest growing segments in the aviation industry. Many Americans are realizing the value of eschewing the traditional air travel system and utilizing charters, which allow passengers to take off and land at many additional airports, including more convenient airports in small communities, without the hassle of connecting flights and long lines.

Unfortunately, in the context of this discussion, it is nearly impossible to determine precisely how much on-demand charter carriers contribute to the trust fund. With the industry comprising primarily small businesses operating with just a small number of aircraft and a small group of employees, obtaining data from all charter businesses is quite difficult.

False Statements Regarding General Aviation's Trust Fund Contribution

In the debate over the future of the Airport and Airway Trust Fund, representatives from the airline industry have repeatedly made the claim that general aviation does not pay its fair share into the trust fund. Nothing could be further from the truth. I have already stated the role of the on-demand air charter industry, which pays the same taxes and fees as the airlines. In fact, one could argue that air charter passengers actually contribute more to the trust fund than they would if they flew on a scheduled air carrier, as charter fees are almost always larger than airline fares. Other general aviation aircraft contribute to the system in the form of a fuel tax on general aviation jet fuel and gasoline. I will describe the benefits of the fuel tax later.

Those who claim that general aviation does not contribute to the trust fund base that claim on general aviation's utilization of the Air Traffic Control (ATC) system. The truth is that the ATC system in the United States was designed for and currently caters to scheduled airlines. The traditional hub and spoke model used by most airlines was firmly in the minds of those who first designed the air traffic control system, and very little has changed over the last 40 years. Despite contributing to the trust fund in the same manner as airlines, Part 135 operators get no special treatment when it comes to air traffic control restrictions. In heavily congested air traffic areas, charter and general aviation traffic are the first to see their flight plans curtailed, while the FAA does very little to reduce airline service into a particular airport. When the FAA issues Special Traffic Management Programs (STMPs) to prepare for special events that bring in unusual volumes of air traffic, airlines are allowed to keep their normal schedule of operations while non-scheduled aircraft are required to follow a number of burdensome restrictions.

Inequitable restrictions are also applied as a result of security measures as the FAA fulfills its role in monitoring the airspace. Whenever a Temporary Flight Restriction (TFR) is put in place, usually when the President is traveling or special events such as last summer's political conventions are taking place, non-scheduled aircraft are prohibited from entering the airspace of the TFR. That policy usually affects an entire airport and, therefore, grounds all general aviation traffic sitting at that airport, while airlines are able to fly right through the airspace and use the airport as if there were no restrictions at all. Such government enforced policies that clearly favor scheduled airlines while punishing general aviation add no strength to the argument that general aviation receives equal treatment and, therefore, should have to pay into the system in the same manner as the airlines.

The Role of the General Aviation Fuel Tax in the Trust Fund

General aviation aircraft, with the exception of on-demand charter operators, contribute to the trust through a fuel tax, which has been in place since 1970. Currently, the fuel tax is set at 21.9 cents per gallon for jet fuel and 19.8 cents per gallon for general aviation gasoline. The tax is collected at the point of sale, when a pilot pays for fuel at an FBO or other fueling station. The fuel tax has proven to be the most cost effective and efficient manner of collecting revenues from general aviation aircraft. With a direct payment of the tax into the trust fund, there is no need for an unwieldy bureaucracy to collect the tax. If Congress is prepared to call the 18-cents-per-gallon gasoline tax a user fee for the Highway Trust Fund, than certainly you can see the logic in a fuel tax for general aviation aircraft. The fuel tax for general aviation aircraft is the fairest way to allow users of small aircraft to pay into the airport and airway trust fund.

The fuel tax has the potential to bring in more revenues to the trust fund than user fees in the years to come. According to FAA forecast statistics, over the next decade, the number of general aviation hours flown in a given year is expected to increase by roughly 5 million hours, while fuel consumption is expected to increase by almost a *billion* gallons. This explosion in fuel consumption will likely be related to the coming debut of very light jets (VLJs) on the market, which will fly much faster than current general aviation aircraft but also consume more fuel. The revenues generated from this increase in fuel consumption should surely give a boost to trust fund revenues.

Problems Associated With User Fees

Imposing a user fee system in the United States similar to those used by Canada or European countries will cause significant problems for the general aviation industry. Although supporters of a user fee system point to successful implementation in other countries, this Committee already knows the extreme difficulty of comparing foreign air transportation systems with that of the United States. General aviation traffic in the United States dwarfs other countries in comparison. According to National Transportation Safety Board statistics, in 2003 the United States logged 25.8 million hours of general aviation flight time, compared with just 1.67 million in Canada.

Perhaps the greatest argument against user fees is the bureaucratic and administrative disaster that looms if such a system is implemented. If the United States were to adopt a system similar to Canada's, flights would be billed after the trip has been completed. Aircraft operators would receive these bills sometimes weeks and months after the flight, and busier operators can generate multiple bills per day and hundreds in a particular week. The general aviation industry is not equipped to handle this enormous accounting burden. While airlines will be able to check schedules and use the overall size of their operation to more efficiently audit their fight activity, small businesses, including air charter operators, will not have the resources to perform such audits. They will have to rely on the good faith of the FAA that they are being accurately assessed for their activity.

The unique nature of the on-demand industry also presents a problem for user fees in that charter operators sometimes have little advance notice as to a client's destination and when they are departing. Charter businesses could generate enough bills from the FAA to require hiring additional employees to review and match each bill to the operator's records to ensure that the company is being properly billed. Ninety percent of all Part 135 operators have less than 25 employees and generate less than $5 million in revenue every year. These operators could not possibly justify having dedicated staff to review bills submitted to them by the FAA or a similar corporate entity.

Although user fees would wreak havoc on the general aviation industry, the burden imposed on the FAA could be even worse. In an agency that is already claiming significant budget problems, establishing an office responsible for assessing every flight segment in the entire air transportation system would prove to be a bureaucratic nightmare. Even if the FAA delegated the responsibility to a corporate entity, the oversight needed by the agency would cut into any forecasted gains in revenues under this new system and drive up the FAA's already "tight" operating budget. As an example, we've been hearing about the FAA's air traffic control modernization plans since the early 1980s and look where we are today. Do any of you on this panel honestly have faith in the FAA's ability to accurately and efficiently keep track of and properly assess every single flight segment in the United States? I doubt many of you do.

Another advantage the current system holds over a proposed user fee system is the protection aviation businesses receive from the Internal Revenue Service when it comes to collecting taxes. In many cases, air charter operators bill their clients after the trip is completed. If the client refuses to pay a bill or attempts to pay a lesser amount, the client is still liable to the IRS for the excise taxes and segment fees generated by the flight. The IRS holds the customer of the air service responsible for paying those fees and does not punish the aviation business for their clients' unscrupulous behavior. In a user fee system, these businesses would need to be offered the same protection in the liability of fees currently offered by the IRS. Without a guarantee that the business will not be held accountable, most charter operators would find it difficult to support any user fee system.

In addition to the economic issues I have described that could arise with a user fee-based system, safety concerns present another significant problem. Presumably, a user fee system will charge an aircraft based on the level of air traffic control services it receives over the course of a particular flight. In a country with thousands of small airports, many lacking any air traffic control services, user fees would discourage numerous operators from using safer air traffic control systems and cause them to decide to use airports with limited or no air traffic control service to avoid the hefty fees that come with use of those services. Imagine a situation where aircraft owners, in an attempt to cut costs, begin to use smaller, rural airports with no control tower rather than more technically advanced airports. Smaller airports will be unable to handle the increased volume of traffic in a safe and secure manner, and the overall safety of the air transportation system would be compromised.

Conclusion

You have heard a number of arguments today regarding the current and future financial condition of the trust fund and what we should or should not do in the future to ensure a healthy trust fund balance. As a representative of segments of the aviation industry that contribute via both excise and fuel taxes, NATA has seen the effects of each method of payment. While any business would prefer to lower its overall tax burden, the aviation businesses represented by NATA are eager to contribute to the trust fund to make certain that our nation's aviation infrastructure is maintained and expanded in the decades to come.

The current system is the most fair and efficient way to proceed in collecting trust fund revenues. While scheduled airlines contribute the majority of revenues into the fund, they receive more than preferential treatment in the air traffic control system. On-demand charter and general aviation operators contribute to the trust fund in a manner that reflects their usage of the air traffic control system. Air charter operators, which are commercial air carriers just like scheduled airlines, contribute through the same system of ticket taxes and segment fees as scheduled airlines. Other general aviation aircraft have been contributing to the fund through fuel taxes for over 35 years. Fuel taxes leave no open questions regarding the collection of taxes for a particular flight. Every gallon is taxed equally, no matter where the aircraft is flying.

All of us here today appreciate the FAA's foresight in looking to the future of the aviation industry and into methods of improving our nation's infrastructure in a rapidly changing environment. NATA applauds Administrator Blakey for opening a dialogue on this important issue and listening to the voices of every facet of the industry on this subject. We feel that the system of funding currently in place is the best way to ensure a fair and guaranteed funding stream into the Airport and Airway trust fund. As the FAA and Congress continue to evaluate the changing needs of America's aviation industry, NATA is eager to work hand in hand with them in improving the system.

Thank you for the opportunity to testify, and I will be happy to answer your questions.