

**Statement of
Air Transport Association of America, Inc.
submitted by
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before the
Subcommittee on Energy, Natural Resources and Infrastructure
Committee on Finance
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INTRODUCTION

This Committee has an historic opportunity to lead U.S. aviation into the 21st century. Civil aviation in the United States is at a tipping point. Over the next decade, commercial aviation either will continue to grow and fuel our entire national economy, driving upward of \$1.2 trillion in U.S. economic activity and 11.4 million U.S. jobs, or it will slide into a troubled and unreliable system plagued by inadequate infrastructure and facilities that are unable to meet the demands of the flying and shipping public. The inescapable reality is that the ever growing demand of passengers and shippers for air transportation cannot continue to be met by the Federal Aviation Administration's outdated air traffic control (ATC) system. The Federal Aviation Administration (FAA) must develop and deploy the Next Generation Air Transportation System (NextGen) as quickly as possible.

For the FAA to make the leap into the 21st century, this Committee must craft a funding system for the FAA that restores the relationship between what users pay and the ATC costs they drive, as Congress intended when it first created the Airport and Airway Trust Fund (Trust Fund) in 1970. Such a funding system must ensure equity and fairness among users, be easy to administer and secure a predictable revenue stream for the FAA to develop and deploy NextGen while continuing to maintain the current ATC system until it is no longer needed. This Committee has the chance to put in place a system that will ensure adequate funding for the next decade of investment in our nation's airport and airway system.

The passenger airline members of the Air Transport Association of America, Inc. (ATA) have spent many months developing an alternative means of funding the necessary investment in NextGen. ATA members have different fleets, different route structures and different business models: So, not surprisingly, lengthy discussions and some compromises and accommodations were required to balance the desire for a cost-based system with the need for simplicity and transparency, and to reach consensus. This is a significant achievement – one that escaped the industry when the Trust Fund was last reauthorized. Our goal throughout this process was not – as some contend – to find a way for airlines to avoid paying their fair share for the costs of NextGen. Rather, what drove and unified our members was the goal of ending the unfair situation we have today – a situation in which airlines and their customers pay more than their fair share of ATC system costs and end up subsidizing other system users.

Today I am pleased to announce that ATA passenger airlines, working together, have developed with a financing formula that will cover the passenger airlines' share of ATC and airport system

costs. Because airline passengers currently bear the brunt of funding FAA programs – far out of proportion to the costs they impose or the benefits they receive – the focus of our proposal is on correcting that inequity as we move forward to secure funding for NextGen. While the ATA proposal does not directly address other user groups, the expectation is that each would be required to pay their fair share, or be subsidized by the General Fund rather than by our passengers. In particular, from the beginning we have said that piston-driven general aviation should continue to be supported by General Fund contributions, along with military, air ambulance and other public aircraft. Our proposal is based on the following principles:

- **Fairness.** The current funding structure unfairly places almost the entire burden of paying for the ATC and airport system on airline passengers. It is high time to end this indefensible subsidy of corporate jets – business aviation can and should pay its fair share.
- **Cost-Allocation.** When Congress created the Trust Fund, the relative use of the airport and airway system provided the basis for allocating the costs among different user groups and for establishing equitable excise taxes and fees.¹ That relationship between use of the system and payment for its operation, upkeep and improvement should be restored. Whether revenue is generated through ticket taxes or fuel taxes, the burden must be proportional and allocated based on the costs imposed by each user or class of users.
- **Predictability.** In order to modernize the ATC system and prevent gridlock in the skies and at the airports, we need a predictable funding stream that can be relied upon to support long-term investments in technology and infrastructure. Any new funding mechanism must also be dynamic, so that revenue increases as use of the system increases.
- **Simplicity.** Transparency and ease of administration are critical to the success of any new funding mechanism. No one wants to see the costs of collection taking a big bite out of the revenue needed to fund improvements. Any method of allocating costs must be simple enough that everyone knows exactly what they should be paying, and what they are paying for.

The ATA proposal is fair, cost-allocated, simple and would generate a predictable revenue stream. It would not harm general aviation or limit service to small communities – indeed, under the ATA proposal it would be much easier for Congress to identify the costs associated with those user groups, such as piston-driven general aviation, that merit public support and appropriate sufficient money from the General Fund for this purpose. Relying on the findings of the FAA January 2007 Cost Allocation Report, the ATA proposal calls for Congress to allocate

¹ See Senate Committee on Commerce, S. Rep. No. 1355, July 1, 1968, at p. 18. (“The statistics on traffic determine the relative use made of the airways subsystems, facilities and services by the airlines, general aviation, and military aviation. The relative use, thus determined, provides the basis for allocating the costs of the system and for establishing equitable user charges.”)



to each group its fair share of the cost of operating, improving and maintaining the ATC and airport system. Unlike the current system, the ATA proposal would generate revenue that would increase in proportion to the number of airline passengers using the air transportation system and would be more closely tied to actual costs than today's ticket taxes. It would be easy to administer and transparent. Most importantly, this proposal would correct the growing inequity that has airline passengers subsidizing business aviation.

WHY CHANGE THE FUNDING SYSTEM?

The funding system established by Congress in 1970 has become increasingly unfair because of largely unforeseen structural changes in the aviation sector. Although general aviation was well recognized at the outset as a significant user of the ATC and airport system, the exponential growth in business aviation and the introduction of fractional ownership of private aircraft has increased demands on the system without anywhere near an equivalent increase in the taxes and fees paid by these users. This disparity will only widen in the future, particularly because of the anticipated widespread introduction of very light jets. Furthermore, what was originally designed as a fund for the *capital* requirements of the airport and airway system² has become the primary means of paying for the operating expenses of the FAA.

According to data compiled by the FAA and certified by the IRS, airlines and their customers generated well in excess of 90 percent³ of the taxes and fees that went into the Airport and Airway Trust Fund in FY2005, yet the FAA Cost Allocation Report shows that airline operations account for less than 73 percent of ATC costs.⁴ In contrast, the most recent FAA data suggest that high-performance general aviation aircraft (including air taxis and fractional-ownership jets),⁵ which typically use the same airspace and ATC services as airlines, contributed 6 percent of total trust fund revenues⁶ but drove an estimated 14-19 percent of ATC costs.⁷

² See, e.g. H.Rep. No. 92-459, reprinted at 1971 U.S.C.C.A.N. 1798-99 ("In enacting this legislation, the Congress was well aware that general appropriations requested by the Executive for air systems improvements and amounts allocated by Congress historically have been substantially reduced in deference to nonaviation budgetary demands. To ensure that the modernization and expansion effort contemplated under the Airport and Airway Development Act did not suffer a similar shortfall, a special trust fund was established to accumulate user revenues to be employed in the capital development program.")

³ The FAA FY 2005 data, certified by the IRS, show U.S. passenger airlines contributed \$7,904 million or 77.1 percent of total Trust Fund collections of \$10,246 million; foreign passenger airlines contributed \$961 million or 9.4 percent; cargo airlines contributed \$511 million or 5 percent, for a total of 91.5 percent. FAA includes air taxis and fractionally-owned aircraft in its commercial aviation category, which accounted for another 3.2 percent, along with another 2 percent from miscellaneous commercial users for a total of 96.7 percent of Trust Fund revenue attributable to commercial aviation.

⁴ The FAA cost allocation study allocated 73 percent of total ATC costs to high-performance commercial aircraft, including air taxis and fractionally-owned jets. ATA estimates that 68-70 percent is attributable to commercial airlines.

⁵ As noted above, FAA includes fractionals and air taxis in its "commercial aviation" category. Because these are nonscheduled operations that function as quasi-private air transportation, ATA includes them with other high-performance business aircraft.

⁶ FY 2005 revenue from general aviation jet fuel taxes accounted for \$295 million or 2.9 percent, with fractionally-owned aircraft and air taxis generating another \$332 million or 3.2 percent.

⁷ The FAA cost allocation study allocated 9.6 percent of costs to high-performance general aviation aircraft, a category that does not include air taxis or fractionally-owned jets. Although FAA has not published a breakdown of its allocated costs other than by broad groups, ATA has analyzed the activity data to derive an estimate of 4-5 percent of costs that should be allocated to air taxis and fractionally-owned aircraft, for a total of 13.6-14.6 percent



The inequity is even more readily apparent when one compares the taxes and fees paid for one flight by a commercial passenger airline to the taxes paid for a flight on the same route by a private corporate aircraft. A commercial flight from Washington, D.C. to Fort Lauderdale, a distance of under 1,000 miles, would generate around \$1,434 in taxes and fees, assuming a load factor of 75 percent. A private Cessna C750 carrying four passengers would pay just \$112. That's more than a tenfold difference. The same aircraft on a flight from Washington, D.C. to New York City would pay \$1007 and \$26, respectively, while a transcontinental flight from Washington, D.C. to Los Angeles would generate \$1,897 from the commercial airline and just \$287 from the corporate jet.

The disparity between who pays and who imposes costs is just as stark when it comes to airports – almost one-third of Airport Improvement Program (AIP) dollars go to airports with no commercial service. That means that airline passengers are paying for airport improvements from which they will never benefit.

In 1970 when the Trust Fund was established, airlines were the principal users of the ATC system. FAA data show 2,586 airliners in service compared with 1,833 corporate aircraft. In addition, ticket prices were set by the government under a formula that took into account miles flown. Accordingly, "a ticket tax is geared to charge an equitable tax related to the distance traveled and the cost per mile of air operation, since ticket prices for short flights are more per mile than long-line flights and the tax is proportional to the price of the ticket."⁸ At the time, funding the Trust Fund primarily through an *ad valorem* ticket tax made sense, because it reflected a relationship between use of the system and payments. That relationship is what Congress intended when it enacted the 1970 legislation – that Trust Fund revenues were intended to be "raised and allocated according to the costs imposed by the respective system users."⁹

With deregulation of the airline industry, the link between ticket prices and length of trip, which was the basis of the Civil Aeronautic Board rate-making system, was severed. Today, the market determines what passengers pay for any given ticket, with the result being that an *ad valorem* tax on airfares can no longer serve as a proxy for the costs imposed on the system. At the same time, the fuel tax paid by corporate jets has not kept pace with their increased demand on the system.

Number of Aircraft	1970	2000	Growth
U.S. air carriers (all psgr. and cargo props and jets)	2,586	7,626	2.9x
Turbine-powered GA (turboprops + turbojets)	1,833	18,058	9.9x
Turbine GA share of total	41 percent	70 percent	29 pts.

Today there are almost 10,500 *more* high-performance general aviation aircraft than commercial airliners in the U.S. fleet. While this fact alone does not mean corporate jets have overtaken commercial jet operations, common sense tells us that they are much bigger users of the ATC system today than they were in 1970. And in fact, FAA data shows that high-performance

attributable to high-performance general aviation when these users are included. In addition, ATA believes that some percentage of the cost of flight service stations, which account for 6.1 percent of total ATC costs, should be allocated to high-performance general aviation.

⁸ Report of Committee on Ways and Means, reprinted in 1970 U.S.C.C.A.N. 3084.

⁹ H.R. Rep. No. 91-601, reprinted in 1970 U.S.C.C.A.N. 3047.



general aviation has grown to account for 26 percent of ATC activity. Unfortunately, the taxes and fees paid by business aviation have not kept up with this dramatic growth, leading to an imbalance in payments into the Trust Fund. This imbalance in ATC system use and payments between sectors has led to an obvious and undeniable economic distortion that has airlines and their customers subsidizing business aviation. And, FAA forecasts explosive growth in very light jets (VLJs) for personal and business use while new business models such as "charter-the-seat" jets are being developed. Unless checked, the disproportionate tax on airlines and their passengers – and the accompanying subsidy of business aviation – will only increase over time.

Congress originally intended the taxes and fees that went into the Trust Fund to establish "a direct relationship between the use of the system and the money generated to meet the needs required by the users."¹⁰ From the outset, the intent was imperfectly realized, largely because of the difficulty in calculating the costs imposed by some user groups. Although as early as 1968 the Senate Commerce Committee recognized that "the rapidly growing fleet of general-aviation aircraft, including each year more jets, will impose additional demands for air traffic facilities and services," the Secretary of Transportation's assessment that a fuel tax of about 47 cents per gallon would be required to recover the general aviation share of the costs of the airways was met with strong objection by representatives of general aviation, who argued that the administration's costs were improperly allocated among the categories of users (and particularly, insufficiently to the general public).¹¹ The Commerce Committee concluded that there was very little information to decide the appropriate tax for this user group.

To address this concern, the legislation required the Secretary of Transportation to conduct a study of the appropriate method for allocating the costs of the airport and airway system among the various users so that Congress could determine whether revisions in the taxes were required "in order to assure, insofar as practicable, an equitable distribution of the tax burden among the various classes of persons using the airports and airways of the United States or otherwise deriving benefits from such airports and airways."¹² FAA produced numerous cost allocation studies in the ensuing years, but continued to be hampered by lack of data regarding the nonscheduled users of the system. At least two bipartisan presidential and congressional commissions identified the need for comprehensive and reliable cost accounting and cost allocation as the predicate for reforming the funding scheme.¹³

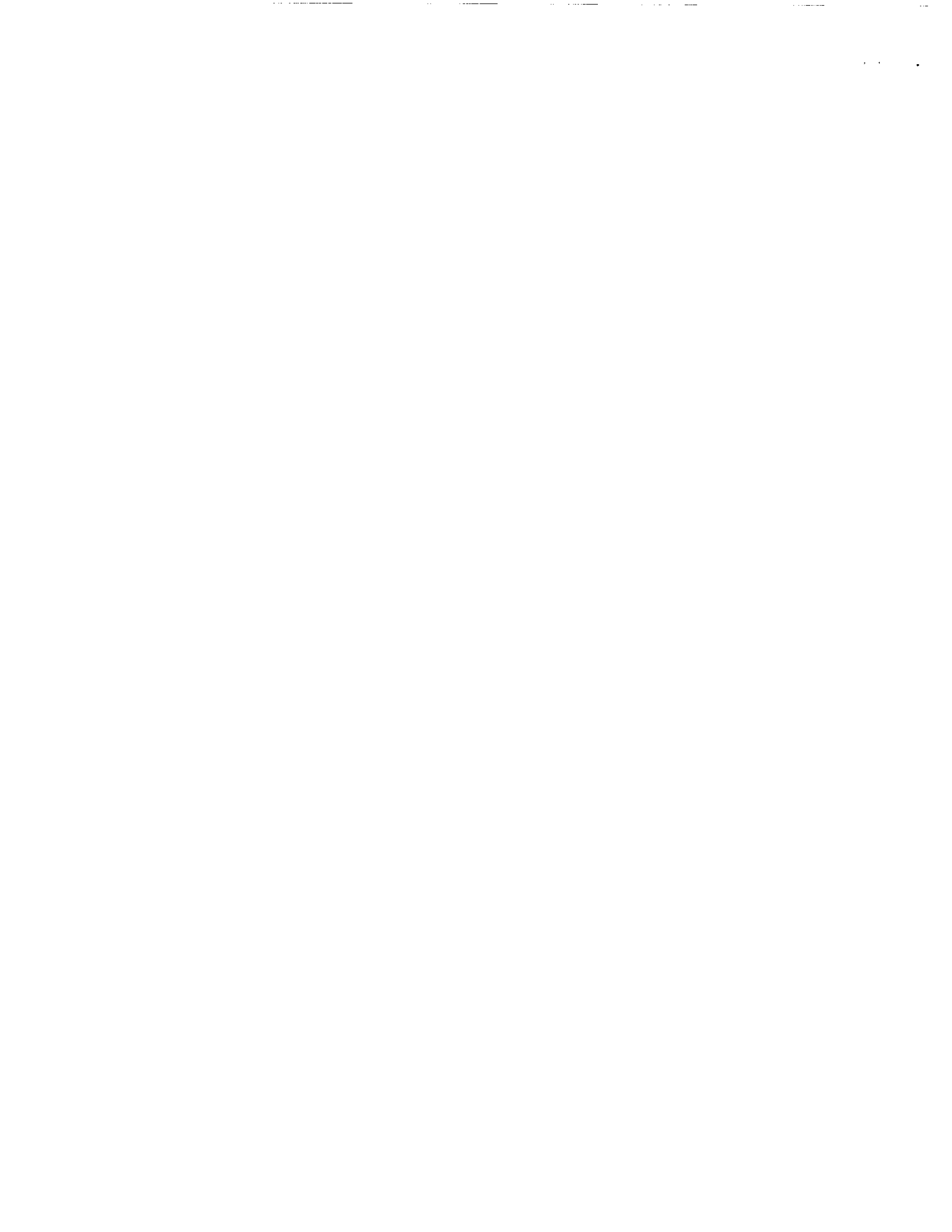
More recently, the FAA has developed sophisticated cost-accounting and cost-allocation systems that allow the relationship between costs and payments to be restored. In January 2007, FAA released the most comprehensive cost allocation study to date – one that fully accounts for the different kinds of costs imposed by different categories of users. This study recognizes that the piston-driven aircraft fleet in noncommercial use does not demand the same level of ATC services or impose the same costs on the system as a high-performance aircraft, and appropriately assigns costs based on these differences. Thus, piston GA is assigned just 5.9 percent of total ATC costs (excluding Flight Service Stations) even though it accounted for 38

¹⁰ H.R. No. 91-601, reprinted in 1970 U.S.C.C.A.N. 3049.

¹¹ Senate Committee on Commerce, S. Rep. No. 1355, July 1, 1968, at p. 29.

¹² Airport and Airway Revenue Act of 1970, P.L. 91-258, section 209(a).

¹³ See The National Commission to Ensure a Strong Competitive Airline Industry, *Change, Challenge and Competition: A Report to the President and Congress* (August 1993); *Avoiding Aviation Gridlock and Reducing the Accident Rate*, Report of the President's National Civil Aviation Review Commission (December 1997);



percent of total terminal operations.¹⁴ This cost allocation study allows, for the first time, a realistic assessment of what each group should be paying as its fair share of the costs of the system.

The current funding mechanism is based predominantly on the price of a ticket and other factors that bear no relationship to the volume of traffic using the ATC system or the nation's airports. Consequently, the current funding mechanism is not linked with FAA workload incurred to accommodate the increasing volume and complex mix of commercial and noncommercial aircraft operations that the public is demanding. In order to modernize the ATC system and prevent gridlock in the skies and at the airports, we need a predictable funding stream that can be relied upon to support long-term investments in technology and infrastructure. Any new funding mechanism must also be dynamic, so that revenue increases as use of the system increases. This will return the system to one which "will generally match and grow with the demands for its use," as intended by Congress when the Trust Fund was first created.¹⁵

NextGen will require a significantly more predictable funding stream than the current patchwork of taxes and fees that bears no relation to the costs of operating, maintaining and improving the system. The FAA projects that one billion passengers will be enplaned in FY2015, up from nearly 750 million enplanements in 2006, and that 10,000 general aviation aircraft, including traditional business jets, turboprops and VLJs, will be added to the fleet between 2007 and 2017. Any new funding mechanism adopted must be dynamic, so that the demands placed on the system by growth in any sector will be immediately reflected in the revenue generated by that sector.

Airlines and their customers also have subsidized development of the approximately 3,400 airports in the national system -- including 2,847 noncommercial airports that have never seen a commercial airplane. The 67 largest commercial airports alone account for 89 percent of commercial passengers, who generate the bulk of the taxes and fees that go into the Trust Fund, yet in FY2005, according to the FAA 22nd Annual Report to Congress (May 2007), those same 67 airports received only 35 percent of all AIP grants -- \$1.2 billion out of a program total of \$3.4 billion.

WHAT SHOULD A NEW FUNDING SYSTEM LOOK LIKE?

A new funding system should return to the principles that Congress established in 1970:

- Fairness: It should raise Trust Fund revenues "according to the costs imposed by the respective system users."
- Cost-based: It should align charges for ATC services with the costs the FAA incurs to provide those services.
- Predictability: It should ensure a predictable revenue stream to accomplish three things: fully fund the ATC system's normal operating and capital requirements; protect the FAA against the economic cycles that characterize the aviation sector; and provide adequate funds for the development and implementation of NextGen to accommodate growth in all sectors.

¹⁴ http://www.faa.gov/regulations_policies/reauthorization/media/FY05_ATODataPackage.xls

¹⁵ H.R. No. 91-601, reprinted in 1970 U.S.C.A.N. 3055.



In addition to the key factors of fairness, cost-based charges and funding stability, the Trust Fund charging system should be able to accommodate additional important policy objectives such as ensuring a vibrant general aviation sector and affordable service to small communities. It also should pass the "common sense" test and be understandable by the public and system users.

The ATA Proposal – Fair, Simple and More Closely Tied to Costs, and Benefits Small Communities

The ATA formula for passenger airlines accomplishes all of the above-stated goals. It is a two-part approach that reflects the two main programs funded by the Trust Fund: the ATC system and the AIP program. The funding mechanism – a per-passenger tax – takes advantage of the existing tax collection infrastructure but is tied to projected costs. Furthermore, it relies on the FAA cost allocation study, which demonstrates that about one-half of the costs in the ATC system are related to takeoffs/landings (i.e., essentially fixed costs) and one-half of the costs are related to time in the air (i.e., variable costs). Consequently, our proposal is grounded in the principle that tracking departures and time in the system are the best ways to measure the costs that aircraft impose for ATC services. For simplicity and ease of administration, distance (as measured by Great Circle Miles) is used as a proxy for time in the system. The resulting departure and distance taxes are transparent and easily understood.

- The ATC Component: The ATA proposal would raise the amount of money from passenger carriers that represents their fair share of total ATC costs using the FAA cost allocation methodology. To derive an appropriate per-passenger charge, ATA proposes a fixed domestic departure tax, calculated to generate approximately half of the revenue target, and a variable distance tax, based on Great Circle Miles (GCM) flown on each ticket.
- The AIP Component: Like the ATC funding, the domestic portion of AIP is raised through a 50/50 split between a distance tax and departure tax. These taxes would generate sufficient revenue to fund approximately 71 percent of the total AIP budget, the percentage that historically has gone to commercial service airports,¹⁶ thus ending another unfair subsidy imposed on airlines and their customers.

In addition to these domestic taxes, ATA proposes to maintain the current international arrival and departure tax, with revenues split evenly between the ATC and AIP components.

The ATA proposal is fair because it fully allocates to each user group its share of costs, thus restoring Congress' principle of allocating ATC funding proportionally among system users based on the costs they drive. ATA does not seek to define the amounts other users should pay or mandate the collection mechanism. The ATA proposal follows the principle that each user group should pay its fair share or be supported by the general fund, but leaves the determination about how other groups would pay to Congress.

The ATA formula also relies on FAA cost data and the FAA cost allocation study, which has been recognized by the Government Accountability Office as accurate and complete. Consequently, it achieves the twin goals of more closely aligning revenues and costs, and ensuring revenue growth as system demand grows. Also, because the per-passenger tax is not tied to ticket prices but to passenger volume, the ATA proposal produces a more predictable

¹⁶ Our analysis of AIP grants demonstrates that commercial carriers pay \$1 billion to airports that receive no commercial service.

revenue stream. No longer will Trust Fund revenue be subject to the impact of market forces on air fares or the well-known economic cycles that characterize the commercial airline industry. This is a critical factor as FAA moves forward to develop and implement NextGen.

The ATA proposal also is easy to administer and will not create a new administrative bureaucracy. Systems already exist for airlines to collect and remit taxes and fees, and those systems can be easily adapted to implement the ATA proposal.

Another benefit of this formula is that it supports service to small communities. This results from using Great Circle Miles as the distance to be taxed between the origination of a passenger's flight and the ultimate destination of such passenger. For passengers from smaller communities who must take connecting or indirect routes, using Great Circle Miles reduces their tax (by reducing the distance used to calculate the distance tax) and places them on equal footing with passengers who can fly directly between major markets. Another adjustment exempts the first 250 miles of any flight, which lessens the overall cost burden that passengers from small communities would have to bear. Using GCM and exempting the first 250 miles of each flight are critical in taking into account the economic realities of serving small communities.

CONCLUSION

The current funding system is broken and must be fixed if the FAA is to avoid becoming the regulator of inconvenience. A new funding structure is the stepping stone to the 21st century NextGen ATC system this country desperately needs. The ATA proposal restores Congress' original principles of fair and cost-allocated excise taxes; provides more predictable revenue to meet growing operating and capital requirements as system use grows; ends airline subsidy of corporate aviation; is simple and understandable with minimal administrative costs; and accommodates the important policy goals of ensuring affordable service to small communities and promoting a vibrant general aviation sector. We urge the Committee to move quickly to enact it.

