**STATEMENT OF MARION C. BLAKEY, ADMINISTRATOR, FEDERAL AVIATION ADMINISTRATION, BEFORE THE SENATE COMMERCE COMMITTEE, SUBCOMMITTEE ON AVIATION ON FINANCING REFORM PROPOSAL, ON FEBRURARY 15, 2007.**

Chairman Rockefeller, Senator Lott, members of the Subcommittee, I am happy to appear before you today to discuss the Administration's proposal to reauthorize the programs of the Federal Aviation Administration (FAA). I have mentioned in my previous appearances before you that we have been working very hard on this proposal for quite some time. With both our programs and our funding set to expire at the end of the fiscal year, we are presented with an important opportunity to make needed changes.

The essential question is: why should we change the current financing mechanisms? The answer, simply put, is that the current mechanisms are not well suited to support the transformation to the Next Generation Air Transportation System (NextGen). This transformation is essential. As we look out into the future, we see a system that will need to grow to accommodate the demands of our stakeholders and the flying public. The current financing mechanisms – both in terms of taxes and spending – are not tied to FAA's cost to deliver services, and therefore are not scalable to meet these growing demands. To deliver the benefits of NextGen, it is essential that a reliable funding stream that better ties our income and our outgo are better tied to the services we provide. NextGen is a reachable goal only if its development and integration is not left to the characteristics of a funding system that does not cover the costs of the system and the services provided. A reliable funding foundation is essential and failure to provide one may well result in tangible programmatic problems in the near term.

Ten years ago, the last funding debate resulted in a lapse of the taxes. At that time, the uncommitted balance of the Aviation Trust Fund was sufficient to sustain continued funding of the aviation accounts without disruption to the system. Today, the Trust Fund balance cannot support such a lapse, and thus such a lapse would have potentially significant consequences. We must approach our work this year as being crucial to the future of aviation. I am sure the debate will be robust and I am anxious to take part in it. We all understand the importance of this industry, just as we are all committed to its success. It is because of our shared values and goals for aviation that I am confident that hard work and dedication will result in a new and better system for funding the FAA.

The Administration's proposal creates a financing system where what users pay into the system – whether user fees or taxes – and the benefits they get out of the system will be more stable and transparent. The proposal adopts a cost-based financing system for the FAA through new user fees and fuel taxes. Most commerical aviation operators would pay for the costs of air traffic control services through user fees and general aviation would pay for these services through a cost-based fuel tax. The new user fees will allow aviation users to pay directly for the services that FAA provides in managing the use of the national airspace. This linkage between what users pay and what FAA invests in will be critical to facilitate our transition to the NextGen modernization the air traffic control system.

The new system will facilitate more reliable, more predictable, and less congested air travel for the traveling public. A newly created Board will give our stakeholders a significant role in key agency financial decisions and will provide strong incentives for the FAA to control costs and meet the demand for services efficiently. The financing proposal is the product of both significant consultation with the public, including our aviation stakeholders, as well as a detailed analysis of the current financing system and various alternatives. We have attempted to balance the diverse views that our stakeholders have expressed with the need for a stable, equitable, and cost-based funding structure. Our recommended solution builds on the work of numerous bi-partisan commissions from the past two decades, including the National Civil Aviation Review Commission that Congress created and that former Secretary Mineta chaired approximately ten years ago.

Today's funding system is largely based on taxes that are, for the most part unrelated to the costs of the services provided by the FAA. While this system has worked well in the past, changes in the industry require that we replace it with something that better reflects the cost of providing service. The success of low cost carriers has been a tremendous benefit to the flying public, but in many instances it results in two identical operations, imposing identical costs to the FAA, paying very differently into the system because so much of the current revenue stream is based on the cost of the ticket. Similarly, as airlines work to control costs per enplanement, they are using increasing numbers of small aircraft. This trend adds to the workload of our air traffic system without increasing tax revenue commensurately. If an airline carries the same number of passengers (at the same fares) on two smaller jets instead of one larger jet, the tax revenues do not change, but the controller workload doubles. Our latest forecasts indicate that the trend to use smaller aircraft by airlines will continue, especially as the current system provides no incentives to the airlines to respond to the costs that a switch from large jets to regional jets imposes on air transportation system.

The results of these trends are best captured in the two charts that I have included with this statement. The first depicts the uncommitted balance in the Trust Fund in FY 2006. This information clearly supports the need for immediate action to prevent any lapse in funding. The second chart compares the Trust Fund revenue to the activity levels in the system. There is clearly no connection between the two. The recent industry changes I discussed have resulted in this disconnect being even more apparent. It is extremely important that a connection be established to ensure an uninterrupted, stable, reliable funding stream to transition us to NextGen.

Under the current tax structure, it is clear that taxes paid by different user categories do not generally reflect the costs those users impose on the system. Commercial airlines and their passengers currently pay over 95 percent of the Trust Fund taxes, but our cost allocation shows that they account for approximately 73 percent of air traffic costs. In many cases, “high end” turbine (jet and turboprop) general aviation (GA) flights are consuming similar FAA and airspace resources as the commercial operators, but paying only a fraction of what commercial operators pay.

Because of the fundamental disconnect between the existing tax structure and the FAA's workload, we strongly believe that the FAA needs to move to a different, more rational funding mechanism. I want to be clear that this proposal is not about collecting more money for the FAA, it is about creating a more rational, equitable, and stable system that provides appropriate incentives to airspace users to efficiently use increasingly congested airspace, to the FAA to control costs. Moreover, by adopting new discretionary user fees, the Administration's proposal gives FAA the flexibility to meet the financing challenges of NextGen and facilitates modernization of the aviation system on an assured and predictable basis.

Let me describe in greater detail how our proposal would fund the different parts of the FAA.

**<u>Proposed Funding for the Air Traffic Organization (ATO)</u>**

The cost of ATO's services will primarily be funded by those operating in the system. The manner of contribution will vary depending on the type of operation. Turbine commercial flights would primarily pay user fees; general aviation and all piston-powered flights would primarily pay fuel taxes; and the General Fund would finance the costs of services provided to public users and other programs that we believe are in the general public interest.

User fees would apply to turbine commercial flights, including those by U.S. and foreign airlines, passenger and freight carriers, domestic and international flights, charter operators, and regional airlines. They would cover all flights by jet aircraft that are considered commercial under current tax code, including air taxis and flights operated under fractional ownership. Collecting user fees for air traffic services is an internationally accepted practice in widespread use around the world, and would be consistent with the recommendations of at least seven bi-partisan commissions that have studied this issue over the last two decades. These fees would be based on data derived from the agency's cost accounting and cost allocation systems—including the operations, maintenance, and overhead expenses for the services provided, the facilities and equipment used in such services, and the projected costs for the period during which the services are provided. Existing U.S. overflight fees would be integrated into these new user fees. While the proposal gives the FAA and its users latitude in how the fees would be structured, these fees would clearly tie FAA revenues much more closely to the actual cost of the services provided. We anticipate that approximately three-fourths of the Air Traffic Organization's budget would come from these user fees. The fees would be dedicated to air traffic control and related services and would be treated as discretionary offsetting collections for budget purposes. The proposal also authorizes a reserve, funded by user fees, which FAA would use to minimize the need for increases in fee rates that might otherwise be required to avoid funding shortfalls attributable to unanticipated reductions in aviation activity, or to emergency requirements.

The general aviation (GA) community and piston commercial operations would contribute their allocated share of air traffic control costs primarily via a fuel tax. DOT has considered stakeholder feedback from this community and accepts the argument that the efficiency and simplicity of the fuel tax mechanism merit its continued use as the primary mechanism for GA's contribution to FAA funding. Our goal is to identify the costs associated with these users and then to set the fuel tax rates to recover those costs. We anticipate that just over 10 percent of the ATO's budget would come from these taxes, which would continue to be deposited in the Airport and Airway Trust Fund and be subject to appropriation. The bill proposes periodically recalibrating the portion of the GA fuel tax dedicated to funding ATO based on updates to FAA's cost allocation study.

In addition to the fuel tax, GA and piston commercial flights may be subject to a terminal user fee when they arrive or depart at one of a limited number of large hub airports. In general, these airports are the most congested terminal facilities in the aviation system, and all users at congested facilities contribute to congestion for other users. Given that large hub airports are in metropolitan areas that have alternative airports, which would not be subject to this fee, we believe it is appropriate to apply fees to all users of the most congested airports.

The costs associated with air traffic control service for military and other public users, as well as other functions and services deemed to be in the general public interest would be funded from the General Fund appropriation, as discussed below.

**Proposed Funding for Aviation Safety**

The funding proposal includes modest user fees to pay for the costs of 25 activities in the areas of certification and registration. These include issuance of certain certificates, appointment and training of designees, registration of aircraft and airmen, airmen medical certificates, and training provided to other aviation authorities. All of these activities are specific services that FAA provides for individual businesses; other federal, state and local government agencies charge for similar services, as do many international aviation authorities. In fact, FAA currently charges fees for many of these services; however, the current fees are set significantly below the cost of providing the service. The legislation specifies the amount to be charged for 12 specific services. Thirteen other activities are identified for which fees will be collected, but do not have the unit charge specified as FAA's cost accounting system is still being implemented with respect to regulation and certification activities. As with the ATO fees, the charges for these activities will be determined based on the available data derived from the agency's cost accounting and cost allocation systems and revenue from the fees would be treated as offsetting collections. Based on the historical cost of these activities, DOT anticipates that approximately 10 percent of FAA's Aviation Safety budget will come from user fees.

Regardless of the type of product or amount of fee determined for that product, FAA will always make fee decisions considering safety first. We are also mindful of the significant international leadership role of both the FAA and the U.S. industry, and the fact that benefits from many aviation safety functions (such as ongoing surveillance) are widely dispersed to the traveling and non-traveling public. No fee structure will compromise the FAA's statutory safety responsibilities or the U.S. aviation community's ability to remain the world's principal system innovator. As a result, we are proposing that the vast majority of FAA's aviation safety responsibilities remain funded from the General Fund.

## **General Fund Proposal**

The Administration derived its General Fund proposal by evaluating specific activities to determine whether they are in the general public interest and have a compelling case for a General Fund appropriation. The dollar figures in the reauthorization proposal are based on the following activities and services:

- *Air traffic costs allocated to public users* (military, other government aircraft, and air ambulances), because DOT views providing air traffic control services to these flights as serving the public good;
- *Flight service stations*, because charging user fees for these services would encourage general aviation pilots to fly "outside the system," which would have a negative safety impact;
- *Low activity towers*, because they help provide safe access to the aviation system to numerous small communities and are a critical part of the national aviation infrastructure; the primary users of these terminals (piston aircraft) likely cannot bear the cost of funding them, even though many of these towers are contract towers, which are the FAA's most cost-efficient facilities;
- *Safety regulation and oversight* that are not recovered by user fees, because these regulatory functions benefit the general public by contributing to a safe and reliable air transportation system;
- *Commercial Space Transportation*, because, given the early and volatile state of the industry, it would be virtually impossible to develop a schedule of fees that would generate significant revenue without unduly burdening the industry

and placing U.S. companies at a competitive disadvantage compared to heavily subsidized firms from other countries; and

- *The safety portion of Research, Engineering and Development* (RE&D) related to aging aircraft and aircraft catastrophic failure prevention (approximately $17 million of the RE&D budget[1]), because this research supports FAA's "public good" regulatory functions.

**Transition and Elimination of Other Aviation Excise Taxes**

The Administration proposes that the changes to the aviation financing system take effect at the start of fiscal year 2009, in order to provide the FAA with sufficient time to establish user fees and implement a billing and collection system. Our proposal therefore extends the current excise taxes for one year to ensure that the FAA has sufficient funding in FY 2008.

As of FY 2009, the existing domestic ticket tax (including the tax on mileage awards), domestic segment tax, cargo waybill tax, and Alaska/Hawaii departure tax would expire under our proposal. The proposed user fees, adjusted fuel taxes, and the adjusted international arrival and departure tax would replace these taxes. This represents a significant simplification of the aviation excise tax system.

**FAA Governance**

A review of air traffic service providers around the world shows that one of the common changes accompanying the introduction of user fees is adoption of a "user pays, user

[1] The remainder of RE&D would be funded from the Airport and Airway Trust Fund, and is included in the universal fuel tax rate discussed below under "Proposed Funding for AIP, RE&D and EAS".

says" policy – according users a significant role in decisions relating to the setting of fees and the use of moneys collected.

Therefore, a new Governance Board (the "Air Transportation System Advisory Board") comprised of user representatives and public interest members appointed by the Secretary would have a significant role in the decisions of the agency. Although the FAA Administrator and the Secretary retain ultimate responsibility for the safety and operation of the National Airspace System and thus have the final decision authority, the Board would provide advice and recommendations on the creation and adoption of user fees, and would propose modifications to them on a periodic basis. Under our proposal, if the Board does not approve the establishment or modification of a fee, the Administrator can only implement it after publishing a written determination in the Federal Register. This Board would also review and make recommendations with respect to major capital infrastructure decisions and modernization projects, the agency's strategic plan, and the development and adoption of ATO's operational performance metrics. Finally, the Board would review and provide advice on FAA's safety programs, budget, and cost accounting system. However, the FAA Administrator would retain the safety and policy responsibilities and decision-making authority of the FAA with user input for these areas in a solely advisory capacity. Of course, as the FAA is a government agency, Congress will always have the ultimate oversight authority.

The FAA Administrator and a representative from the Department of Defense would be Board members, along with members representing airports, air carriers, general aviation, business aviation, aviation manufacturing, and the public interest. The Management

Advisory Council and Air Traffic Services Committee would be discontinued with the creation of this new Board.

**Proposed Funding and Programmatic Reforms for AIP, RE&D and EAS**

The FAA is committed to a healthy national air transportation system. Airports are a key part of the system, and that includes small primary and general aviation airports that rely on AIP funding to help meet their capital needs. We have proposed changes to Federal funding programs that will stabilize and enhance these funding sources for airports.

This proposal ensures that smaller airports that cannot generate sufficient funding on their own can rely on their entitlement funds to complete strategic projects. These airports play an important role in the national aviation system. Therefore, we propose financing the program through taxes.

I am certain our proposed changes to these important programs will be the subject of future hearings before this subcommittee and look forward to sharing the details of that proposal with you. However, today I will focus my comments on how our new structure will fund AIP and our other important programs.

The proposed taxes are administratively simple and build on existing collection mechanisms. Specifically, DOT proposes funding the AIP program via a set of simplified excise taxes, consisting of a flat, universal fuel tax for domestic commercial and all GA flights and an international passenger head tax for international commercial passenger flights. This universal fuel tax would be in addition to the proposed GA ATO fuel taxes for GA users. Like the ATO taxes, these taxes would be deposited into the Airport and Airway Trust Fund and be subject to Congressional appropriation. The proposed taxes are expected to generate receipts sufficient to cover the proposed authorization levels for AIP, the Essential Air Service (EAS) program, and the Trust Fund's portion of RE&D. The bill also proposes indexing both the AIP portion of the fuel tax and the international passenger tax to inflation to keep pace with inflation.

The universal fuel tax and international passenger tax would also be the funding sources for all of EAS and most of RE&D. As in the case of AIP, it is appropriate for users to fund most research and development because it ultimately benefits them, but it is challenging to allocate research costs to specific users. Similarly, EAS has a long history of being funded by users through overflight fees; however, it is not part of air traffic control costs, and similar to AIP, is largely a grant program to assist small communities that cannot support service on their own. Therefore, the Administration has included EAS and RE&D funding requirements in the proposed universal fuel tax and international passenger tax rates. However, AIP is the primary driver of the tax rates.

**NextGen – Funding of Major Capital Projects**

As I stated at the outset, one of the drivers of our proposed changes to how the FAA is funded is to the challenge of funding NextGen. Implementing NextGen will be a unique transition from the technology of 50 years ago to the technologies of tomorrow and it will require a substantial investment of capital. Financing this investment is something I have very strong views about. Business as usual is not an option. The new discretionary user fees will enable us to fund several important NextGen investments. However, to avoid spikes in the user fee levels the Administration's proposal also would authorize us to borrow through the Secretary of the Treasury beginning in FY 2013 with debt service recovered from users of the system by FY 2017. This authority would contribute to a more business like funding structure, leverage limited resources, and further accelerate the transition to NextGen by better aligning payment for a project with the benefits that project generates and providing greater flexibility to take advantage of capital investment opportunities as technology changes. Examples of FAA projects that may be appropriate for debt financing include safety-critical and mission-essential software and systems that controllers and traffic flow managers will use to support trajectory based operations in the NextGen system, enhancements to the global positioning system (GPS) technology related to civil aviation, surveillance technology for homeland security and defense, and potential facility consolidation. This authority would be targeted, as noted, for a limited time period (FY 2013 to FY2017) and would be capped at $5 billion. We think this innovative authority will give us what we need when we need it.

I want to end by saying that I know we all share the same basic goals for an industry that we all care about deeply. We want a safe system that can meet future demand - one that is cost effective and efficient and that meet the needs of the flying public. We all appreciate the importance of this industry, not only to those of us lucky enough to be a part of it, but to every American. While I anticipate and look forward to a frank and wide-ranging discussion of this proposal and others that I'm sure will be put on the table, I cannot overstate my personal commitment to the need for a funding system that better ties FAA’s costs to its revenues and its revenues to its spending.  It is the fundamental component that supports all of our important initiatives.  So, let the debate begin.

This concludes my prepared statement.  I will be happy to answer your questions at this time.