

STATEMENT OF THE HONORABLE LANGHORNE M. BOND, FEDERAL AVIATION ADMINISTRATOR, BEFORE THE WAYS AND MEANS COMMITTEE, CONCERNING FINANCING OF THE AIRPORT AND AIRWAY SYSTEM. APRIL 16, 1980.

Mr. Chairman and Members of the Committee:

I appreciate the opportunity to appear before you today to discuss the Administration's proposals regarding aviation user taxes to finance our Nation's airport and airway system through the Airport and Airway Trust Fund. With me today are Mortimer Downey, DOT Assistant Secretary for Budget and Programs, Robert Aaronson, FAA Associate Administrator for Airports, and Donald Lubick, Assistant Secretary for Tax Policy, Department of Treasury.

Mr. Chairman, there are three basic factors that we considered as we developed our aviation user tax proposals: (1) Tax equity; (2) Fiscal policy; and (3) Revenue needs. I would like to address each of these factors.

First, I want to touch on the subject of tax equity. I know the Members of the Committee deal with this subject on a daily basis. An equitable distribution of tax burdens is a fundamental tenet of our taxing system, and it should be. Yet, in the tax structure that has evolved to finance the needs of our airport and airway system, it seems to me that the notion of equity has fallen by the wayside. We need to

correct that problem and the time to do so is now, when proposed legislation to meet the future needs of our air transportation system is pending before the Congress. If we don't, the general taxpayer will continue to bear a disproportionate share of the tax burden.

Let me briefly elaborate on this point, saving some of the more detailed information for later in my statement. When the original Airport and Airway Development Act of 1970 was enacted, there was a clear sentiment on the part of the Congress and the Executive Branch that the needs of the system should be largely financed by the users of the system. The House Interstate and Foreign Commerce Committee, in reporting out that legislation, stated: "It is fitting that the primary financial burden will be assumed by the direct users." They went on to say that "the primary discharge of the financial requirements should be from the continuing trust fund, but to the extent that this is not sufficient to meet the entire need, the Department can, and should, seek necessary additional appropriations which would flow from the general fund." Thus, it is clear that the intent was to seek funding by the general taxpayer as a supplemental or stopgap measure if the revenues from the users were not sufficient to meet all the needs of the

system. The current surplus in the Trust Fund, and the years of heavy subsidization of the system by the general taxpayer, amply demonstrate that this original concept has been substantially distorted by subsequent legislation.

The Ways and Means Committee "agreed that the users of the Federal aviation system should properly pay for a greater share of the cost than at present, and that the goal should be for the civil part of the system to eventually become self-sustaining from the air user taxes." That goal is still a long ways from being met; 85% of the FAA's expenses of operating and maintaining the system are paid for by the general taxpayers and not by system users. The opportunity is with us now to come closer to the goal of user support of the aviation system through revisions to the taxes and authorized uses of the Trust Fund.

In closing for the moment on this point, I would add that the idea of user charges is not an idea whose time has come and gone. To the contrary, the House Budget Committee, in a report focusing on the fiscal year 1981 budget, stated that "It is the opinion of a majority of the Committee, in keeping with the aim of reducing future deficits and lowering the general tax burden, that wherever possible

government services which benefit particular groups or businesses in the economy be substantially supported by those beneficiaries rather than the general taxpayer." They recommended continuation of the existing 8 percent passenger tax and that the general aviation user class begin paying 50 percent of their share in fiscal year 1982. On the subject of increased general aviation taxes, the Committee stated: "As a matter of equity, an increase to 50 percent is recommended and strengthens the whole concept of users paying for the benefits they receive."

I'd like to turn now to the subject of meeting the revenue needs of the system. At the outset, we made determinations independent of the amount of money available in the Trust Fund as to the appropriate amounts to be spent over the next five years for aviation Research, Engineering and Development and for our capital programs of Airport Development Grants and for Facilities and Equipment. The five year program we have proposed would authorize nearly twice the expenditure that was authorized for the five years 1976 through 1980. We believe that our proposed funding levels will provide for the continued improvement of the airport and airway system, though they are not necessarily designed to meet the capacity needs that unconstrained

traffic increases would demand. In the future, rather than expand the system to accommodate demand, we will, if required, exercise our authority to control demand in a manner consistent with system safety and capacity.

Fiscal policy had an impact on our decision as to the most desirable method for reducing the surplus in the Airport and Airway Trust Fund. As you know, Mr. Chairman, ever since the restriction was placed on the use of Trust Fund revenue to cover FAA operating and maintenance expenses, the Trust Fund has been accumulating a growing surplus of uncommitted funds, a fact which has been widely criticized and which has generated considerable debate over the merits of alternative approaches for reducing the surplus, such as reducing taxes, raising program levels, or expanding uses of Trust Fund revenues. We do not believe that it would be sound fiscal policy to lower the 8% passenger ticket tax, as has been proposed in the Senate. This is just not the time for tax cuts, which tend to fuel inflationary pressures. Nor would it be wise to seek added expenditures to reduce the surplus. The program levels we have proposed are reasonable and continue to reflect an increase over prior year authorizations despite recent and substantial cuts in many other Federal programs.

In developing our legislative proposal, we felt, and continue to believe, that legislation should provide for reducing the Trust Fund balance to near zero without necessitating severe changes in tax collections or program expenditures. To accomplish this, we developed a proposal that we believed would result in a steady decline in the Trust Fund balance over the next ten years, but would leave a self-sustaining Trust Fund after the surplus is depleted. To attempt to draw the balance down more rapidly by substantial tax reductions would require major changes when the surplus is eliminated. We would then have to consider either tax increases or major decreases in program expenditures to provide continuity in the program.

Let me be candid, however, and acknowledge that since the time the Administration bill was developed our estimates of future Trust Fund revenues have been revised upward as a result of escalating ticket prices primarily due to higher fuel prices. We continue to believe, though, in the basic approach we have proposed. If, however, revenues exceed expenditure levels, I believe that this excess should be directed to the operating and maintenance costs of the system. This will have the effect of controlling the Trust Fund surplus without increasing Federal expenditures.

Moreover, it will continue the practice of shifting system costs to the system users.

The notion of tax equity comports with the Administration's view that each class of system users should pay its fair share of the costs of operating and maintaining the Federal airport and airway system. Currently, aviation taxes collected from system users amount to about 56%, in the aggregate, of the costs allocable to civil aviation that are incurred by the FAA in equipping, operating, and maintaining the airport and airway system. The users of commercial air service are paying amounts equivalent to about 90% of the costs incurred by the FAA on their behalf, while the comparable figure for general aviation is in the range of 14 to 22%, depending on the assumptions used in allocating costs.

Our goal is a gradual increase in the overall cost recovery through a progressively higher level of tax collection from general aviation, and recovery from all users of an increasing portion of the FAA's costs of operating and maintaining the airway system. The increased cost recovery from general aviation would primarily arise from the conversion of the existing 7¢ per gallon tax on aviation fuel into a 10% "ad valorem" tax. This concept is analogous

to the passenger ticket tax or freight waybill tax, both of which are based directly on a percentage of the cost of the service provided.

Enactment of our proposed tax changes along with our proposed program authorizations for operations and maintenance would increase the level of recovery from general aviation to about 24 to 44%, again depending on allocation assumptions. Recovery from the users of commercial aviation would be in the 95% range. Though the general aviation users would still be paying a much smaller share of the FAA costs attributable to them than would the users of commercial air service, the gap would not be as great, and thus would represent more equitable treatment of all system users.

Let me take this opportunity to make clear that general aviation really does place demands on the system, and the growth rate of general aviation continues to exceed substantially the growth rates of all other system users. For example, the fiscal year 1980 cost of equipping and operating our network of flight service stations that is attributable to general aviation users is projected to be over \$120 million, yet the total amount of revenues

collected from general aviation is estimated to be about \$83 million. We are going forward with a major capital improvement program for flight service stations that will enable us to keep pace with the demand for their services at a cost of \$495 million through fiscal year 1986. Additionally, general aviation planes are becoming increasingly sophisticated, are often used for business purposes, and are more and more frequently able to use the all-weather capability of the facilities purchased with Trust Fund revenues. As general aviation increases its utilization of our system, it is only fair that we increase GA's contribution to the financing of the system, and we have proposed tax changes to accomplish that end.

Equity, as I discussed earlier, has also been a major consideration in the way the Administration has resolved the question of who should pay for the costs of maintaining and operating the airway system. We have a strong conviction that, as a matter of fairness to the general taxpayers of this country, the Congress should provide for very substantial increases in the levels of operation and maintenance expenses (O&M) financed out of the Trust Fund. It is unfair to continue to ask taxpayers who don't travel by air, or ship by air, or operate aircraft, to pay for 85% of the FAA's operating expenses.

Our proposal would enable a much greater portion of these operations and maintenance costs to be borne by those who most directly benefit from the system--essentially the air passengers. This would be done through the transfer each year of over \$1 billion from the Airport and Airway Trust Fund to reimburse the General Fund of the Treasury for a portion of the cost of maintaining and operating the airway system. The actual amounts authorized for transfer would be \$1.3 billion in fiscal year 1981, \$1.45 billion in fiscal year 1982, \$1.6 billion in fiscal year 1983, \$1.75 billion in fiscal year 1984, and \$1.9 billion in fiscal year 1985, for a five year total of \$8 billion. Not only will this approach permit better use of the aviation tax dollars that are already being collected, but it will relieve the general taxpayer of the substantial financial burden of costs incurred by the FAA on behalf of the users of the aviation system.

The purpose of our O&M financing proposal is to obtain a more equitable recovery from system users of the cost of providing FAA services. While general taxpayers certainly benefit from the existence of a strong national system of airports and airways, there can be no doubt that the primary beneficiaries of that system are the pilots, passengers, and

shippers who use the system. There can also be no doubt that the current system, which funds about 85% of FAA's O&M expenses from the General Fund, does not reflect that distribution of benefits.

Mr. Chairman, some Members of Congress have made statements that the Administration's proposal to fund significantly larger shares of O&M from the Trust Fund runs contrary to the original intent of Congress. I would like to point out to the Members of the Committee that the original language of the Airport and Airway Development Act of 1970 provided that the balance of moneys available in the Trust Fund after the allocation of capital investment moneys, "shall be allocated for...the maintenance and operation of air navigation facilities."

It was only after a previous Administration failed to spend the amounts authorized by Congress for capital programs that the Congress amended the Act in 1971 to eliminate the provision allowing for substantial O&M funding from the Trust Fund. In 1976, Congress determined that the increasing burden on the general taxpayer and the sufficiency of funds in the Trust Fund mandated the partial reinstatement of O&M funding. These same factors argue even

more persuasively today for increasing the amount of O&M funding allowed to be financed from the Trust Fund. I want to stress that we are seeking the financing of O&M costs from the Trust Fund only after the capital needs of the system have been met. This approach is fully consistent with the original concept underlying the establishment of the Trust Fund. I might add that the failure in the past to reinstitute this approach has been the largest contributing factor to the growing Trust Fund surplus.

I want to emphasize that our proposal to increase Trust Fund financing of O&M is not a proposal to increase program levels, nor is it a proposal to pay for "bureaucrats' salaries" as some would have you believe. O&M contributes directly to system safety since a navigational aid or facility must be operated and maintained if it is to do any good. FAA operating costs will be incurred whether they are funded from the Trust Fund or from the General Fund.

It should also be noted that the Trust Fund generates sufficient revenues to finance these programs without compromising the capital programs we all support. We are proposing this change to achieve broad policy goals. Furthermore, having previously observed that present

national fiscal needs argue against tax cuts, I think it is clear that the way to control the Trust Fund surplus, short of massive increases in capital programs, is to increase Trust Fund financing of O&M. In this way, we are not spending more Federal dollars than we otherwise would, and thus we are not contributing to inflation. We are also ensuring that the air transportation system user pays a fair share of the cost of operating and maintaining the system.

Mr. Chairman, that concludes my prepared statement. My associates and I will be pleased to respond to any questions you may have at this time.