

STATEMENT OF THE HONORABLE J. LYNN HELMS, FEDERAL AVIATION ADMINISTRATOR, BEFORE THE SENATE COMMITTEE ON FINANCE, SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT, CONCERNING AVIATION USER TAXES. JULY 27, 1981.

Mr. Chairman and Members of the Subcommittee:

I welcome the opportunity to appear before you today to discuss the Administration's position regarding the aviation user taxes needed to finance our Nation's airport and airway system. Our aviation user tax proposal is but one more integral part of the President's total program for economic recovery. It sets forth a balanced and equitable package of taxes that would provide the revenue needed for development of the national aviation system. It will also provide necessary relief to the general taxpayer by requiring aviation system users to pay for the services they use.

Distributing tax burdens on an equitable basis is a fundamental and desirable aspect of our national taxing system. However, the tax structure now in place to finance the needs of our airport and airway system fails to totally meet that primary objective. In fact, current user tax revenues now recover only 36.5% of FAA costs, leaving a substantial share of FAA's costs to be borne by the general taxpayer. The Administration's proposal seeks to correct that inequity; otherwise, the general taxpayer will continue to bear a disproportionate share of the cost of operating and maintaining the nation's airways and airports.

The original Airport and Airway Development Act of 1980 authorized significant funding of operations and maintenance (O&M) costs from the Trust Fund, thus placing much of the responsibility for financing the FAA's costs on the users of the system. In fact, it is clear that the intent at that time was to seek funding by the general taxpayer as a supplemental measure if the revenues from the users were not sufficient to meet all the needs of the system. Congress amended the Act in 1971 to eliminate the provision allowing for substantial O&M funding from the Trust Fund after controversy arose over the failure to spend the amounts authorized by Congress for capital programs. Five years later, in 1976, Congress determined that the increasing burden on the general taxpayer and the sufficiency of funds in the Trust Fund called for the partial reinstatement of O&M funding. This Administration is proposing that expenses incurred in maintaining a safe and effective aviation system for non-government users be covered by the Trust Fund. The revenue schedules we propose will accomplish this. Capital needs and operating and maintenance expenses will be fully met by revenues derived from users and, as necessary to cover the government's activities, from general revenues. Given the history of this issue, let me assure you that I am dedicated to a strong FAA capital equipment program.

I would also add that the failure in the past to consistently apply this O&M approach has been the largest contributing factor to the growing Trust Fund surplus.

Our proposal to increase Trust Fund financing of O&M is not a proposal to increase program levels. In fact, I am firmly committed to holding down unnecessary expenditures and costs by the FAA. But, the significant point is that necessary FAA operating costs will be incurred whether they are funded from the Trust Fund or from the General Fund. Moreover, 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. The source of funding is not an issue when safety of passengers and integrity of the system is at stake.

The Administration is committed to the principle that each class of system users should pay its share of the costs incurred by the FAA in equipping, operating, and maintaining the airport and airway system. Currently, aviation taxes collected from system users amount to 42%, in the aggregate, of the costs allocable to civil aviation incurred by the FAA. The users of commercial air service are paying amounts equivalent to about 60% of the costs incurred by the FAA on their behalf, while the comparable figure for general aviation is in the range of 5 to 15%.

It is proper to have revenue from user taxes eventually cover the correct and proper percentage of the FAA's costs allocable to civil aviation. The remainder of the FAA's costs, which are attributable to military and other government use of the system, would be financed from the general fund. We plan to attain our goal through appropriate tax revenues, incrementally increased over the next five years, from general aviation; concurrently we seek recovery from all other users of an increasing portion of their fair share of the FAA's costs. We are proposing a dual tax structure for noncommercial aviation gasoline and jet fuel with the tax level starting at 12¢ and 20¢/gallon, respectively, and gradually reaching 36¢/gallon for aviation gasoline and 65¢/gallon for jet fuel for FY 1986. We estimate that the revenue from these tax levels will cover about 60% of the FAA costs allocable to general aviation by 1986. 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. However, not only would the difference be decreased, it would also result in more equitable treatment of all system users. Other elements of our user tax proposal include a 6.5% ticket tax, a \$3 passenger international departure tax, a 5% cargo waybill tax, and a tube and tire tax.

It is an established fact that general aviation places significant demands on the system, and that the growth rate of general aviation continues to exceed substantially the growth rates of all other system users. For example, the fiscal year 1981 cost of equipping and operating our network of flight service stations, which is just one element of the services provided to general aviation users, will be over \$250 million, yet the total amount of revenues collected from general aviation, including the commuters, will be approximately \$43 million. Additionally, general aviation planes are becoming increasingly sophisticated and are making continually greater use of the facilities purchased with Trust Fund revenues. In particular, they are increasing usage of instrument facilities and flight plan services. As general aviation increases its utilization of our system, its contribution to the financing of the system should be increased, and we strongly support tax changes to accomplish that end. We must eliminate government subsidy of small segments of the population that are not in clear need of such subsidies if we are to achieve necessary reductions in general tax rates. Our collective responsibility is to all of the taxpayers not just the users of aviation facilities.

The revenues generated by our proposed user taxes, in addition to the uncommitted balance in the Trust Fund, will be sufficient to meet the FAA's capital program needs as well as

its O&M costs. The Trust Fund balance estimated over the next five years will be available for necessary improvements and modernization of the air traffic control system. On the other hand, the user taxes proposed in S. 1272 would simply not generate adequate revenues to support the program needs identified in either the Administration's proposed authorizing legislation or in S. 508, the legislation reported by the Senate Commerce Committee.

In closing, I want to reiterate what I believe to be the two critical elements of the Administration's aviation user tax proposals. First, we have to assure that adequate revenues are available to shape our system to meet future traffic demands. I am absolutely committed to an upgrading and modernization of our air traffic control system. Air safety and our national economy, together with future commerce and employment, are highly dependent on it. Second, we have to seek greater equity in our aviation user taxes and relieve the unnecessary burdens that have been imposed on the general taxpayers. The Administration's tax proposal is directed to both of these vital objectives. Simply put, the users and beneficiaries of a service should bear the major burden of providing that service.

Mr. Chairman, that completes my prepared statement. My associates and I will be pleased to respond to questions you and members of the Subcommittee may have.