

**Statement of Louise Frankel Stoll,
Assistant Secretary for Budget and Programs and Chief Financial Officer,
Department of Transportation,
before the Senate Finance Committee, on Aviation Excise Taxes.
February 4, 1997.**

Mr. Chairman and Members of the Committee:

I welcome the opportunity to appear before you to discuss the three issues you raised in your letter: The Airport and Airway Trust Fund balance, Federal Aviation Administration (FAA) cost allocation; and long-term funding mechanisms for the FAA. Joining me today is Monte Belger, Acting Deputy Administrator of the FAA. We appreciate the Committee's timely decision to hold this hearing. It is essential that Congress act quickly to renew the aviation excise taxes and extend Treasury's authority to make transfers to the Trust Fund in order to prevent unacceptable funding conditions in aviation, one of the nation's most significant industries.

Airport and Airway Trust Fund Balance

For nearly three decades the FAA has been funded largely by aviation excise taxes through the Airport and Airway Trust Fund. These include partial funding for FAA operations and full funding for facilities and equipment, airport grants and research. Those taxes lapsed on December 31 of last year. We urge this Committee to support their short-term renewal as promptly as possible, and to include the authority necessary to transfer taxes paid in January and February. Every day that the taxes are not collected results in a loss of approximately \$20 million in revenue to the Trust Fund.

We had previously projected that at the current rate of spending, the uncommitted balance of the Trust Fund would be depleted around July 1 of this year. However, we have recently learned that revenue collected through December 1996 will not be transferred to the Aviation Trust Fund without a change in legislative authority. So the uncommitted balance in the Trust Fund, \$1.9 billion, is all we have left for the remainder of fiscal year (FY) 1997. Funds for FAA capital programs will be depleted in March at current obligation rates. Thus the need for Congressional action is even more urgent. Unless Congress acts promptly to reinstate the taxes, the impact on the FAA, particularly its Capital Programs will be imminent and severe.

In light of these recent developments I have described above, we have carefully considered our options with the goal of moving forward in a manner that is both prudent and responsible.

Let me provide a complete explanation: \$5.3 billion of FAA's FY 1997 appropriation of \$8.6 billion was to come from the Trust Fund, and the remainder from the General Fund and overflight fees. The uncommitted Trust Fund balance available for FY 1997 was \$3 billion, and \$1.1 billion had been obligated as of January 31, leaving an uncommitted balance of \$1.9 billion in the Trust Fund. If the FAA is to live within Trust Fund limits and retain all its air traffic controllers and its regulatory, safety, and security staffs through the end of the fiscal year, action must be taken absent the reinstatement of the

Ticket Tax. We have decided to dedicate the remaining uncommitted funds to pay for these essential operations until the fiscal year end, and to reduce drastically the agency's capital accounts to make that possible. Dedicating funds for the regulatory, safety and security staffs would leave only \$500 million available for FAA capital programs, such as airport safety and security improvement grants, safety and security equipment purchases, and research efforts. The amount such programs normally obligate in 2 months, would be the total available for the rest of the fiscal year. That means severe limits on new obligations, Airport Improvement Program (AIP) grants will be halted, and existing contracts will be reviewed to determine whether stop work notices must be issued.

We are very aware that the results of this option are painful, but because our operational functions are our first priority, if the taxes are not restored we have no choice. The FAA will have to prepare to take steps almost immediately. Actions such as interrupting funding of FAA's capital programs could have repercussions beyond the FAA. The importance of aviation as a vital part of our nation's economy is clear. This is true not only in terms of the direct benefits provided for the millions of people who rely on air travel each year, but also in terms of the indirect benefits aviation provides. It has been estimated that aviation and related industries contributed almost six percent of our gross domestic product, and employed 8.8 million people in 1993. No one would deny the impact that aviation has on the efficiency and productivity of many businesses,

in all sectors of the economy, that depend on the rapid and reliable service provided by the national air transportation system.

The results of the anticipated shortfall in funding if the taxes are not restored will not be just a temporary cessation of work, but will instead have a "ripple effect." This ripple effect can perhaps best be understood in the context of airport grants. If Trust Fund revenues are not restored, the delay in issuing AIP grants could cause airport sponsors, especially in the northern part of the country, to miss some or all of the 1997 construction season. The loss of the construction season would lead to increased costs for these projects and disruptions of existing construction schedules for phased projects. We urge reinstatement of the taxes until late September of the current fiscal year in order to permit the agency to continue carrying out its capital programs.

Long Term User Fees and Cost Allocation

The President's Budget, which is scheduled to be released on February 6, will address long-term mechanisms for financing the FAA. This is also the object of the study in the Independent Financial Assessment and the National Civil Aviation Review Commission established under the Federal Aviation Reauthorization Act of 1996. I know these issues are of great interest to this Committee, and the Administration looks forward to working with you on them after release of the President's Budget.

The Department of Transportation and the FAA worked with the last Congress on aviation financing issues, and these efforts culminated in enactment of the Federal Aviation Reauthorization Act of 1996, which provided the framework for achieving financial reform for the agency. Subtitle C of the "FAA Reform" Title of the Act requires, first of all, that an independent assessment of the FAA's financing needs be conducted. The legislation specifies factors to be taken into account, such as anticipated air traffic forecasts, and includes a requirement for a cost allocation study. The FAA has awarded Coopers and Lybrand (C&L) a contract for this assessment and cost allocation study, which is to be completed later this month. FAA had earlier contracted with Gellman Research Associates (GRA), Incorporated for a cost allocation study. The work undertaken pursuant to that effort, however, was not finalized by the FAA, given the recent statutory direction for the independent financial analysis and cost allocation study. C&L has been provided the data earlier compiled under the GRA contract, but we will not see their final product until later this month. We will assure that this Committee receives a copy of the C&L work, once it has been completed.

The financial assessment and cost allocation study will, in turn, form the basis for the deliberations of the National Civil Aviation Review Commission, also called for by the Reauthorization Act. The Commission is to review aviation funding and safety issues. Among other topics, Congress directed the Commission's aviation funding task force to conduct a comprehensive study of FAA's costs, and evaluate financing alternatives to the aviation excise tax system. The Commission is to consider the full array of

possibilities, including supporting the FAA's financial needs through user fees, taxes, or some combination of these revenue sources.

Before closing, Mr. Chairman, let me note that we are here today to urge quick action to reinstate the aviation excise taxes, not to advance a particular legislative solution for FAA's long-term financing needs. Aviation is a dynamic industry, and virtually all indicators suggest that it will continue to grow. Failure to restore the aviation excise taxes would have severe consequences for the nation's air travelers, causing delays in bringing on line much-needed modernization programs that will enhance the system's overall safety, efficiency and capacity. An immediate renewal of the authority for the Department of the Treasury to transfer receipts into the Trust Fund, and a short-term extension of the taxes to carry us through this period of deliberations and studies of long-term financing solutions for the FAA, would be the best way to avoid costly and disruptive interruptions to FAA and the aviation industry.

That concludes my prepared statement. I would be pleased to respond to any questions you may have at this time.