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AVIATION FINANCING: INDUSTRY PERSPECTIVES

HEARING

BEFORE THE

SUBCOMMITTEE ON ENERGY, NATURAL RESOURCES, AND INFRASTRUCTURE

OF THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

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FIRST SESSION

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AVIATION FINANCING: INDUSTRY PERSPECTIVES

THURSDAY, JULY 19, 2007

U.S. SENATE,
SUBCOMMITTEE ON ENERGY,
NATURAL RESOURCES, AND INFRASTRUCTURE,
COMMITTEE ON FINANCE,
Washington, DC.

The hearing was convened, pursuant to notice, at 2:15 p.m., in room SD–215, Dirksen Senate Office Building, Hon. Jeff Bingaman (chairman of the subcommittee) presiding.

Present: Senators Salazar, Smith, Bunning, Lott, Crapo, and Roberts.

OPENING STATEMENT OF HON. JEFF BINGAMAN, A U.S. SENATOR FROM NEW MEXICO, CHAIRMAN, SUBCOMMITTEE ON ENERGY, NATURAL RESOURCES, AND INFRASTRUCTURE, COMMITTEE ON FINANCE

Senator BINGAMAN. Thank you all for coming and, particularly, thank the witnesses. I know that we have a very distinguished group of witnesses and they are busy people, and we appreciate them taking time out of their busy schedules to be here.

This is the second hearing on the Aviation Trust Fund that we have had under the auspices of the Finance Committee. Last week at the full committee we heard from the administration and budget experts. Today we will hear from industry about their perspective on this Aviation Trust Fund and future revenue for the trust fund.

I also want to take a minute to acknowledge the good work on aviation issues that Senators Rockefeller and Lott have done, both as members of the Finance Committee, but especially in their roles on the Commerce Committee as Chairman and Ranking Member of the Aviation Subcommittee. I think we look forward to working with them this year as we put together the legislation that is needed to guide the future of the aviation industry in the country.

As we heard very loud and clear last week at the hearing, there is near-universal agreement about the need to modernize our air traffic control system to improve safety and efficiency.

We also need to ensure a stable source of funding for the trust fund in the face of the changing nature of aviation. One example is the advent of a new generation of smaller commercial and business jets which will foster a whole new approach to air travel. Along with these technological developments, there have been changes in the way that we travel.

There has been an increase in the air travel both for leisure and for business. The increasing reliance on air travel to cover distances in an efficient manner has given rise to more business aircraft, increases in charter flights, and new arrangements such as air taxis.

Those of us who come from rural States also recognize the importance that aviation plays in small communities. We need to make sure that all communities continue to have the airport infrastructure they need to support aviation and provide a base for air travel in and out of those communities.

Here in the Senate, it is the responsibility of the Finance Committee to make sure that the tax system provides sufficient revenues to support the modification of the air traffic control system and operate and maintain the basic infrastructure needed to support aviation across the country.

At the same time, we need to ensure that the burdens that are placed on the various interests are fairly shared. This hearing will be an opportunity to learn from industry their views on the existing structure, the proposed tax structure, as well as their views on how to equitably allocate taxes among those groups that use the system.

We know this issue has not been without controversy, but in this committee we hope to be even-handed and come out with a series of good public policies that are fair to everyone.

So, before we turn to the witnesses, let me call on Senator Bunning for any opening statement that he would like to make.

OPENING STATEMENT OF HON. JIM BUNNING, A U.S. SENATOR FROM KENTUCKY

Senator BUNNING. Thank you, Chairman Bingaman, for calling this hearing. I would like to thank our panel of witnesses for taking their time to appear before this subcommittee today.

As all of you know, it is time to reauthorize the Federal Aviation Administration, including how we pay for it. This present Congress has an opportunity to make meaningful and lasting changes that will help Americans travel by air.

America has a tradition of pioneering in aircraft traffic that it can be proud of, yet the United States has been using a system for air traffic control that has essentially been in place since the Eisenhower administration.

In fact, location of ground-based radio beacons used in the current system to guide aircraft, in many cases, are in the same spots used by old-fashioned signal fires to guide mail delivery flights in the 1920s.

The United States acted as a pioneer in the creation of the air traffic control system during the dawn of commercial aviation, but it is now stuck with the system it created. Many developing countries, which are for the first time setting up air traffic control systems, are implementing more advanced systems.

I would like to see the United States maintain its edge. Frankly, we do not have much of a choice. The number of people flying is still growing, even if the system of managing the planes that they fly on is not.

According to the Air Transportation Association, there will be about 61,000 flights per day in the year 2016. Sixty-one thousand per day compared to 45,000 per day now. We must be able to handle this enormous increase.

Perhaps the greatest benefit deregulation of the commercial airline industry in 1978 had has been the fall in ticket prices. Now almost anybody can afford to fly. Previously, flying was only possible for the wealthy. It appears obvious that demand for air travel will continue to rise.

If supply of flights is limited because we cannot accommodate any more planes on our outdated air traffic control system, then perhaps we will backslide to the point where only the wealthiest of Americans will be able to fly, and that would be a real shame.

I understand that there is some controversy about how to pay for this upgrade. It is my hope that, with the help of our witnesses, this hearing will be able to aid us in finding an equitable way to do this. I look forward to the panel's testimony, and I thank the subcommittee for its time.

Senator BINGAMAN. All right. Let me just see if either Senator Roberts or Senator Lott wishes to make a statement here.

Senator LOTT. Mr. Chairman, if I could, I will forego my opening remarks and wait until I have the opportunity to ask some questions, because I think it is important we hear from this panel. Thank you.

Senator BINGAMAN. Very good. Thank you very much.

Senator Crapo has indicated he does not need to make a statement.

Senator Roberts, did you need to make a statement?

Senator ROBERTS. Well, I always need to make a statement, but I am not going to. [Laughter.] I just want to thank you. I am the lonely end, which dates me. I am the Pete Dawkins of the subcommittee. Just a few out there, I guess, remember those Army day teams and those teams of the lonely end.

I am not a member of the subcommittee, but I have a very strong interest in this subject area. I agree with Senator Lott, we ought to get on with the questions or the testimony of the witnesses. We thank the witnesses for your time and effort.

Senator BINGAMAN. All right. Thank you very much.

Let me just indicate, I will go ahead and introduce all six witnesses here, and then we will just hear from them in this order: Jim Whitehurst, who is the chief operating officer with Delta Air Lines. Thank you very much for being here. Fred Smith, chairman and CEO of Federal Express, in Memphis. We are very pleased to have you here. Thank you. Vern Raburn, who is the CEO and president of Eclipse Aviation in Albuquerque, NM. We are honored to have you here. David Hackett, who is the president of Gulfstream International Airlines, thank you for coming. Richard Shine, the CEO of Manitoba Recycling in Lancaster, NY. Thank you for being here. And Robert Olislagers, executive director of the Colorado Centennial Airport in Englewood, CO.

Thank you all very much for being here. We will include the full statement that you have prepared as part of our committee record, so you do not need to give us line-by-line on that. But if you could

give us about 6 minutes each of the main points that you think this subcommittee needs to be aware of, we would greatly appreciate it.

Mr. Whitehurst, why don't you go right ahead?

STATEMENT OF JIM WHITEHURST, CHIEF OPERATING OFFICER, DELTA AIR LINES, ATLANTA, GA

Mr. WHITEHURST. All right. Good afternoon, and thank you. Mr. Chairman and members of the subcommittee, it is a privilege to be here today representing both Delta Air Lines and the Air Transport Association. I would request that the statement of the ATA also be included in the record.

[The prepared statement appears in the appendix on p. 69.]

Mr. WHITEHURST. Civil aviation in the United States is at a tipping point. The inescapable reality is that the demands of our customers cannot continue to be met by an outdated 1950s-era air traffic control system.

Delays in the system are at record levels, and cancellations due to the failure of the system to accommodate demand are up at an alarming rate. Flight delays are costing our passengers $10 billion a year, and airlines $7 billion annually.

Passenger and cargo airlines in this country operate more than 30,000 flights a day, carrying over 2 million passengers and 55,000 tons of cargo to cities in all 50 States. This activity draws $1.2 trillion in economic contribution to the economy and produces 11.4 million jobs. If we do not act now to modernize the ATC system, airlines will be forced to curtail growth, and benefits associated with a healthy, vibrant economy could be lost or severely diminished.

Furthermore, the Next Generation air traffic control system is green. It is estimated that the deployment of Next Generation would reduce CO_2 emissions by 10 to 15 percent.

For example, in Atlanta alone the introduction of RMP procedures—that is basically a procedure we use to reduce how we fly—is projected to eliminate 483 million tons of CO_2 annually.

Frankly, today's outdated system, relying on radar and analog radio technologies, is only getting by due to a lot of hard work by our dedicated employees, the FAA, committed air traffic controllers, and others who make the system work despite many flaws and inefficiencies.

My concern, and that of my fellow airline executives and employees, is that the system has reached a saturation point. With passenger demand projected to grow from 745 million to 1 billion passengers by 2015, and with 10,000 to 12,000 new corporate jets expected to enter service in the next 10 years, the situation will only get worse. The ATC system must be fixed to avoid gridlock.

Mr. Chairman, the ATA passenger carriers have come up with a financing formula that would generate the revenue needed to fix the system. It restores fairness to the funding system as it ends the indefensible subsidy of business aviation that could, and should, pay its fair share.

Certified FAA data concludes that airlines and their customers pay more than 90 percent of the taxes and fees to fund the ATC system, but airline operations drive less than 73 percent of the costs.

High-performance turbine aircraft—that is jets, not piston—these are corporate jets, air taxis, and fractional ownership jets that use the same air space and ATC services as airlines, only pay 6 percent of the taxes but drive about 16 percent of the cost.

The ATA proposal restores Congress' original principles of fair and cost-allocated excise taxes, provides more predictable revenue to meet growing operational and capital requirements as the system use grows, ends airline passenger subsidies for corporate aviation, is simple and understandable with minimal administrative costs, and accommodates the most important goal of ensuring affordable service to small communities.

The funding mechanism, a passenger tax, takes advantage of the existing tax collection infrastructure but is tied to projected costs. Our proposal is grounded in the principle that taxing departures and distance is the best way to recover costs aircraft impose on the air traffic and airport infrastructure.

In addition to these domestic taxes, the ATA proposes to maintain the current international arrival and departure tax. Unlike today's current system, ATA's proposal would generate revenues that would increase as passenger growth climbs and more closely links actual cost to the ticket tax.

The current excise tax structure is largely tied to the price of tickets and bears no relationship to cost. If you think about it, a typical flight from Atlanta to Washington, DC could cost a passenger $200, $400, or $1,200 depending on when the ticket was bought, and other factors.

Based on the 7.5 percent ticket tax, passengers sitting next to each other are paying vastly disparate taxes not even remotely related to the cost of the ATC services that that flight incurs. That makes no sense. It especially punishes passengers from smaller cities that most often have to pay a segment fee to connect and higher average fares than travelers from major metropolitan areas.

We estimate that the ATA's fair, cost-based financing proposal based on direct routings would reduce taxes for passengers in Montana by 26 percent, by 27 percent in Iowa, 30 percent in Mississippi, 36 percent in West Virginia, and 20 percent in New Mexico. The departures and distances of flights drive ATC costs, not the price of the ticket.

In closing, we are asking that airlines pay their fair share—no more, no less—of the costs necessary to pay for the airport and airway system. Business aviation should pay its fair share and quit relying on airline passengers to make up the shortfall.

Thank you for this opportunity to share our views and recommendations, and I would be happy to answer questions.

Senator BINGAMAN. Thank you very much for your testimony.

[The prepared statement of Mr. Whitehurst appears in the appendix.]

Senator BINGAMAN. Mr. Smith, thank you for being here. Please go right ahead.

STATEMENT OF FREDERICK W. SMITH, CHAIRMAN AND CEO, FedEx CORPORATION, MEMPHIS, TN

Mr. SMITH. Thank you very much, Senator. On behalf of the 280,000 people who make their living with FedEx, we appreciate your allowing us to express our views.

I will now read my testimony, and ask, as you noted, that it be inserted in the record.

FedEx Express, our largest operating company, operates a fleet of over 700 airplanes to every corner of the United States and to every corner of the globe. It invented the modern time-definite air express industry, and that makes this issue extremely important to us because, being in the business of time-certain services, we cannot operate our time-definite services with a system currently as volatile as the U.S. air traffic control system. So that is our first point, that we very much support the modernization of the system.

The second major point is, quite frankly, we do not have an opinion on which system is used to finance matters. The important thing to us is that we pay our fair share, but not be burdened beyond that.

In fact, on the basis of very extensive studies, including those of the FAA and outside parties, we now more than pay our fair share, in some cases in the study, up to 150 percent of the cost burden we put on the ATC system.

We believe that the system needs to have oversight. The FAA needs to have some sort of formal mechanism to oversee what they are doing. It would be our strong suggestion that simply having money spent according to the FAA's agenda is not wise for them or for the other constituents involved in this matter.

We believe that the general fund contribution should be continued and increased. One problem with S. 1300 is it calls for a declining Federal contribution, starting out below historic levels, usually over 20 percent, and going down from that in outlying years.

Given the up-front demands for new infrastructure to reach Next Generation status of the air traffic control situation, we believe it would be wise if Congress stepped up to the plate for a portion of the funding.

The reform of the national air space is too important an issue to be subject to budgetary penny pinching, given its profound implications for the national economy.

And finally, we would respectfully suggest that unrelated issues should not be included. I am speaking specifically about the labor issues, and I am speaking even more specifically about the labor provision inserted by the House, which deals with only one company and tries to overturn 80 years of legal precedent and years of litigation that found the amendment that was being proposed to be incorrect. And to try to do this with no hearings, no public interest considerations whatsoever, is just the height of bad public policy, in our opinion.

So, thank you very much for allowing us to make our views known, and we appreciate being here.

Senator BINGAMAN. Thank you very much for your testimony.

[The prepared statement of Mr. Smith appears in the appendix.]

Senator BINGAMAN. Mr. Raburn, we are glad to have you here. Go right ahead.

STATEMENT OF VERN RABURN, CEO AND PRESIDENT, ECLIPSE AVIATION CORP., ALBUQUERQUE, NM

Mr. RABURN. Thank you, Mr. Chairman. Chairman Bingaman, members of the subcommittee, I would like to thank you for the opportunity to testify today on the various legislative proposals to fund the Airport and Airways Trust Fund and the need to modernize our air traffic control system.

I am president and founder of Eclipse Aviation, located in Albuquerque, NM. We have successfully designed, developed, and certified and are now manufacturing and delivering the world's very first Very Light Jet. In fact, to date we have delivered over 30 aircraft, and we are on track to deliver more than 200 aircraft by the end of this year.

With the acquisition costs of less than half of today's small jets, significantly less than that of today's business jets, and the lowest operating cost per mile of any jet, the Eclipse 500 provides the lowest cost of jet ownership ever achieved.

This breakthrough has inspired an emerging generation of entrepreneurs to bring a new form of air travel to the flying public: the air taxi concept. It has also opened up a whole new world of convenient air transportation to a majority of the communities in the United States that today simply are not served by commercial airlines, and frankly will never be served by airlines, thereby enabling significant economic and job growth.

Let me modify your opening comments, Mr. Chairman, by saying there is not near-universal agreement, there is universal agreement among all participants in aviation, for the critical need of transformation of our National air transportation system.

We have to get on to the specifics of modernization. Our system and our economy simply cannot afford a system where gridlock is inevitable. The opportunity is great for this change. Our system, as has been pointed out by the other speakers, is really built on technologies from the 1940s and 1950s.

In fact, a good analogy, and one that the FAA has used, said it is a bit like the old telephone system, where you had to ask for the long-distance operator to be patched in to a long-distance line. Imagine a system that is so unscalable as that, and yet that is the system we have today.

So before I go any further, let me make one thing abundantly clear. I believe we as an aviation community, both general aviation and air carriers, need to be paying more to make this transformation to the NextGen happen.

I may not be completely in line with all of my GA colleagues on this point, but I do believe general aviation needs to pay more into the system. We should not be the only ones. Everyone using the system needs to pay more.

In fact, I am in complete agreement with Senator Lott's quote from about a month and a half ago that says "every one of you has to pay more, do more, give more. It is time we do something grand, and you are all going to have to do more." I am in total agreement with that.

Unfortunately, the current funding debate is really being disguised as a NextGen debate, but it is more about shifting cost between the operating system from one user group to another. It is

precisely the hub-and-spoke system that drives the majority of system cost congestion, not the introduction of VLJs.

Just this last Sunday, I flew an Eclipse 500 from Albuquerque to Boca Raton, stopping in heavily used airports such as Ardmore, OK, Birmingham, AL, and there was no congestion. In fact, the tower controller at Ardmore thanked me for landing on a Sunday morning because it gave her somebody to talk to. I am not making that up.

VLJ operators and pilots will use their aircraft to go where the airlines do not, avoiding the congestion with hubs. So we are left with the question: why should Eclipse and other VLJ operators be required to subsidize a hub-and-spoke system when in reality VLJs will neither require, nor seek, regular access to the major airports? Unfortunately, the administration has passed up a unique opportunity to lay the foundation for the NextGen.

The FAA reauthorization bill is not welcome by many members of Congress, and rightly so. It focuses too much attention on abolishment of the current funding system and too little on modernization. It failed to outline the technologies, timeline, or costs of the next phase. I do compliment the Senate authors of S. 1300 in getting the bill out of the gate and dedicating funding to the NextGen system.

Unfortunately, it falls short, in my view. Eclipse strongly opposed the $25 per flight fee contained in S. 1300, as it will penalize the Eclipse more than any other aircraft flying. We will be delivering more than 1,200 aircraft by early 2009.

Under S. 1300, the first 1,200 Eclipse 500 operators would be paying between $17 and $30 million annually in new fees. That is roughly, based on a fairly conservative estimate, 5 percent of the $400 million the FAA used to collect annually for the modernization project.

Now, as much as I would like to see Eclipse 500s populate the system in this way, I can tell you with absolute certainty that our aircraft will not be using anywhere near 5 percent of the system or comprise 5 percent of the operations within the National Airspace System (NAS).

The $25 fee is regressive, as it treats all airplanes the same way, whether they are a 6-seat Eclipse 500 flying on a short segment or a Boeing 777 on a cross-country flight.

Overall, the $25 fee is extremely detrimental to Eclipse and its customers, the vast majority of whom will, as I say, operate short-haul flights into under-utilized airports and communities.

In summary, I believe S. 1300 does not meet the fairness and equity test. In addition to the $25 fee, it more than doubles the fuel tax for Eclipse operators while phasing out the 4.3-cent-per-gallon fuel tax for commercial operators. This simply is not following the philosophy that everyone will need to pay more.

I am encouraged, though, by the provisions of H.R. 2881, the FAA Reauthorization Act. This bill makes modest adjustments to the Jet A fuel tax and aviation gas tax paid for GA operators. In fact, fuel taxes, I believe, are the simplest and most efficient way to pay for system use as they are paid at the pump using an existing collection system.

Just as Congress is debating an increase in the automotive CAFE levels to encourage fuel conservation, a fuel tax would encourage users to modernize their fleets with more fuel-efficient aircraft.

This bill does not make any changes in the current fuel tax paid by commercial carriers. While I would prefer to see all entities pay more, H.R. 2881 is currently the most reasonable approach.

Let me be clear once more: Eclipse and its customers are willing to pay more into the system for modernization. We believe strongly in the need and importance of transforming our system. However, we would like to see an increase administered through the fuel tax, which we believe is an equitable proxy for the use of this system.

Let me also add that we have the opportunity here for a whole new layer, a whole new form of transportation in this Nation. Included in this is increased passenger traffic, yet ironically a decrease in civil service levels throughout the Nation.

Our population is shifting to smaller communities as quality of life and cost of living go up. On-demand, non-scheduled service is key to providing these communities with getting them back on the economic mainline of job creation and economic development. The Eclipse 500 is an enabler to this, and I hope that this committee and Congress will see fit to not halt this innovation in its earliest stages.

Thank you for the opportunity to testify on this subject.

Senator BINGAMAN. Thank you very much for your testimony.

[The prepared statement of Mr. Raburn appears in the appendix.]

Senator BINGAMAN. Mr. Hackett, go right ahead.

STATEMENT OF DAVID HACKETT, PRESIDENT, GULFSTREAM INTERNATIONAL AIRLINES, FORT LAUDERDALE, FL

Mr. HACKETT. Mr. Chairman, members of the subcommittee, thank you very much for inviting me here today. You have my testimony. I would just kind of like to hit the highlights of it.

I am president of Gulfstream International Airlines. We are a small, Ft. Lauderdale, Florida-based regional carrier. We operate a fleet of 19- and 30-passenger turbo-prop aircraft currently throughout Florida and the Bahamas, most of that through co-chair agreements with major airlines. We carry just under a million passengers a year. We fly just over 200 flights a day.

I would just like to explain our role as we see it in the air transportation network, because I think it is a proxy for carriers like us and something that needs to have important consideration as you look at alternatives for funding air traffic control.

As we have heard here today, there is obviously no doubt that investments need to be made. The question is, how do we finance those investments and how do we do so to protect our Nation's network?

The market that we fly in, we tend to be the low end of volume. Our sort of business strategy is pretty simple. We take small turboprop aircraft and we fly markets that are thinner and smaller than can be supported with larger aircraft.

We do that in two ways. One, we may be the only carrier that operates in a city fare, not unusual for small equipment. Two,

there are also situations where we are not the only carrier in the market, but we may complement the schedules of a bigger carrier, so someone flying a large jet might only have two or three flights in the market.

We tend to complement that, obviously in short-haul travel, with increased frequency. I think as you look at what makes air transportation and air traffic work, it is an important formula in that.

About 50 percent of our flights that we operate on, we are the only carrier. Another 25 percent, we do the complementary service. We are a fairly successful regional carrier. We have been profitable for the last number of years, marginally so.

But I will tell you, it is a tough business and it is not easy to make it work, but we like to think of ourselves as kind of a last line of defense in air service that is out there.

We watch very carefully the trends and the changes that go on in the air transportation industry, and we like to think that we react to those. Most often over the last few years, we have seen large commercial carriers restructure their networks, do things to make themselves more profitable, and many times that has resulted in more service to the big hubs and less service to either small hubs or non-hub airports.

That is kind of where we come in. I use an example where, about a year and a half ago, the market from West Palm Beach to Tallahassee, our State capital—and we are headquartered not too far from West Palm, of course—one of the carriers flying it had three flights a day. It did not work economically because of fuel and other reasons, and they pulled out. Well, we rescheduled our services, found an airplane, and were able to introduce service virtually the next day when that came out. And if you look at what we do and where we do it, that is a common theme of what makes us important. That is, I think, a critical role in air transportation.

Now, clearly that is not unique to Florida or the Bahamas, where we fly. Look anywhere on the East Coast where you have seen major service change. Pittsburgh, as an example, has seen some major reductions in air service over the past couple of years, fairly continuous.

Well, as these cities like a Pittsburgh, Rochester—or take Greensboro, NC, I noted—they have lost air service over the past 4 or 5 years to Baltimore, Pittsburgh, Cleveland, places like that. Clearly these are not the biggest markets in the country, but if you are a small business person or if you are a resident in these markets, we do think it is important to sustain that non-stop, convenient service.

The only way to do that without big hubs is with smaller equipment. That really lends its relevance to the air transportation funding question. We have seen a couple of proposals so far on how to fund investments in air traffic modernization.

The original one, I did not see too many details from the administration. We were just given the highlights of it. And when you added it up, it would equate to something like 30 percent of our entire annual revenue base. Obviously, that did not work. The more recent one we have seen, which includes the $25 user fee and a possible reduction in excise taxes, is without question a move in the right direction. But if you look at the impact on a small carrier

like us, $25 does not sound like a lot. But if we added it up, even net of the fuel savings, it is substantially more money than we made in the entire part of last year.

So I would ask you, as you review and assess these options, that we think very carefully about the impact on small-capacity commercial aircraft, not just the essential air service program. We currently do not take a penny from it. We like to think of ourselves as serving the markets that other people cannot serve profitably. If we over-burden those niches with new expenses, we will not be able to do it.

You can look anywhere in the industry where you have seen the big airlines restructure, and I guarantee you, you will find these niches that pop up. And whether it is Gulfstream that tries to fly them or it is somebody else, it is an important role. I would simply ask that that be taken into consideration.

For example, if they went forward with the $25 fee, we would really need some kind of an exclusion or other protection for small-capacity aircraft, because we do not have the ability to just pass it on to our customers.

Fuel has gone crazy recently, and we do everything we can to keep up with it. I am not sure we are being that successful. But you just cannot pass on the costs directly, and it is obviously a major impact when you have only 19- and 30-seat aircraft. It is a very minor impact if you have large commercial aircraft or expensive corporate jets.

Thank you very much.

Senator BINGAMAN. Thank you very much.

[The prepared statement of Mr. Hackett appears in the appendix.]

Senator BINGAMAN. Mr. Shine, why don't you go right ahead?

STATEMENT OF RICHARD SHINE, CEO, MANITOBA RECYCLING, LANCASTER, NY

Mr. SHINE. Mr. Chairman and members of the subcommittee, good afternoon. This is the first time I have spoken to a Congressional committee, and it is a privilege to be before you today.

My name is Richard Shine. I am here on behalf of the National Business Aviation Association, but I am also a proud member of the Aircraft Owners and Pilots Association.

I am the CEO of Manitoba, a family-owned metals recycling company headquartered in Lancaster, NY. My business employs 60 families in our community. When my grandfather founded Manitoba in 1916, the company collected all the metals it needed within 40 miles of our recycling plant.

But since I joined Manitoba in 1970, the 20 local manufacturers that provided scrap metal to Manitoba had been reduced to one. At some point we needed to expand our business base, and that is where business aviation came in. I applied the flight training I received in the Air Force to fly to locations beyond Lancaster to find scrap metal providers. Our plane got us in front of a lot of people. We did not land every account, but we got enough to survive.

The aircraft we use today is a turbine-powered propeller plane, or turbo-prop, called a Mitsubishi MU–2, like the model that I have

here. As much as ever, we rely on this plane to get outside of our region and generate the metals that we need to stay in business.

So, basically, Mr. Chairman, I represent a small business that operates a turbo-prop aircraft to help my company survive. My story is not unique. Every member on this committee has businesses in their State with stories like mine.

In fact, most companies that use an aircraft are like mine, small- and mid-sized businesses that operate just one small plane. We mostly use piston planes, turbo-props, or small jets that are about the size of an SUV inside. They seat about six people and fly relatively short stage lengths, mostly using small community airports.

You do not often hear about companies like mine in discussions of business aviation. Instead, the focus is always on big Fortune 500 companies. But I hope the members of this subcommittee understand that for every Fortune 500 company that relies on turbine-powered business aviation, there are eight or nine companies like mine.

The reason you have asked me here today is not just to talk about the benefits of business aviation, but how we should fund the modernization of the aviation system. If there is anything I would like you to take from my testimony, it is this: the general aviation community, of which I am a part, supports modernization of our aviation system and is willing to help pay for it.

But what I want this subcommittee and the rest of Congress to understand is, we want to pay at the pump, not through user fees or new taxes. The fuel tax is a simple and proven way to measure and pay for system use by operators like me.

I pay my taxes at the point of service, that is, when I fuel up. A company with a bigger airplane will burn more fuel and pay more fuel taxes. Once the tax is paid at the pump, the government has its money: no paperwork, no collection agents, and no bureaucracy.

Now, I am a businessman from Upstate New York and not a policy expert, but it seems to me that the proposal from the House Transportation and Infrastructure Committee to fund the FAA and modernize the system gets it right.

From what I have read, this proposal would generate additional money from general aviation for system modernization, while letting general aviation continue to pay exclusively at the pump.

I do not understand why anyone would want to replace the simple payment system we have with one based on user fees or some new unproven formula. I have personal experience with user fees. Lancaster is close to Canada, so I have often flown into Canadian airspace.

Here is how that system works. Some weeks after my flight, NavCanada's bureaucracy sends me an invoice. If I have made multiple flights, I get multiple invoices. I have to review the invoices to make sure they have charged me correctly. If they have not, I have to get on the phone to dispute any inaccuracies.

If the charges are correct, I need to fill out a purchase order, cut a check, put the check and invoice back in the mail to NavCanada. Obviously this imposes a significant and hidden administrative cost to my business.

I cannot figure out why anyone would want to put this kind of a burden on businesses like mine when we already have a better and more efficient system in place.

Manitoba runs on a very narrow profit margin. As a businessman, I am always looking for ways to increase efficiencies, reduce red tape, and decrease administrative overhead. User fees will run counter to all that.

I hope Congress will reject user fees and oppose anything that would take money from my business to give a tax break to someone else. Asking me to pay for modernization is perfectly understandable. Asking me to pay for a tax break for some interest group is not.

Mr. Chairman, let me close by reiterating that, if this committee determines that additional revenue is necessary to modernize the Nation's aviation system, I am willing to make an additional contribution to that effort, but please let me continue to make that contribution by paying at the pump exclusively through the fuel tax.

I appreciate the invitation to testify. Speaking on behalf of the business aviation community, I wish to express my willingness to work with you and the members of this committee to draft a reasonable plan to reach our shared modernization goals.

I would be happy to answer any questions.

Senator BINGAMAN. Thank you very much.

[The prepared statement of Mr. Shine appears in the appendix.]

Senator BINGAMAN. Mr. Olislagers, go right ahead, please.

STATEMENT OF ROBERT OLISLAGERS, EXECUTIVE DIRECTOR, COLORADO CENTENNIAL AIRPORT, ENGLEWOOD, CO

Mr. OLISLAGERS. Thank you, Senator. Good afternoon, Chairman Bingaman and members of the subcommittee. On behalf of the Arapahoe County Public Airport Authority and Centennial Airport, I wish to thank you for this opportunity to appear before you today.

I am the executive director of the Arapahoe County Public Airport Authority, which is the operator of Centennial Airport. I wish to begin my testimony today by stating that my colleagues and I in the 3,200 airports in the National Plan of Integrated Airport Systems (NPIAS) around the Nation deeply appreciate the funding levels that are proposed in both the Senate and House bills for the airport improvement program, of which we are a beneficiary.

Centennial Airport was founded in 1968 to serve general aviation, and it is located in the greater Denver metropolitan area. It is the 3rd-busiest general aviation airport in the United States and the 29th-busiest airport in the U.S., as measured in terms of takeoffs and landings.

The airport supports a wide variety of general aviation activities, including, but not limited to, flight training, air ambulance, charter, fractional, cargo, business, and personal aircraft operations. In addition, the airport supports military, homeland security, law enforcement, firefighting, and other critical government functions.

In fact, we have six ambulance companies at Centennial Airport, one of which is responsible for fully one-fourth of all ambulance flights in the United States.

Our airport is typical of others. It is a significant economic driver, with an estimated $1 billion in annual direct and indirect economic activity.

The airport is surrounded by 23 business parks, and, combined, the south metro area is responsible for 25 percent of the State's GDP. The airport is recognized as a significant player.

In 2006, the airport recorded nearly 320,000 operations, or nearly one aircraft every minute between the hours of 6 a.m. and 10 p.m. However, total operations declined by 7.2 percent in 2006, a substantial decrease from previous years.

We believe that the operational decline is almost exclusively attributable to the rise in gas fuel costs, which, on average, were 65 cents per gallon in 2006. This slide continues unabated to date, and suggests extreme price sensitivity. Your deference to the piston community in Senate Bill 1300 is very much appreciated.

Although jet fuel sales rose slightly, I also see evidence of price sensitivity there, as outlined in my prepared remarks. I am concerned that the substantial increases in the excise tax will have a detrimental impact on our industry.

As I see it, there are three primary questions in this debate. One, what will NextGen look like? We know of bits and pieces, but there is no coherent modernization plan in place to date, including the technologies that it entails.

Changing safety-related protocols is an incremental business, and the imbedded uncertainties require ongoing testing and evaluation. I am only reminded of the effort to introduce microwave landing systems a number of years ago.

Two, how will the FAA pay for modernization? The GAO and the current and past DOT Inspectors General have indicated that the present system will generate sufficient funds to accomplish all of the FAA's objectives, including ATC modernization, therefore, the system does not appear to be broken, as suggested. I am referring to the collection of revenues.

Three, why, then, contemplate major structural changes? In the interest of time I will pass on commenting on the general fund contribution, but suffice it to say that the airway system is a national asset and every citizen benefits, and current contribution levels should, at a minimum, be maintained.

Then there is the question of equity and user fees. The claim has been made that general aviation is not paying its fair share. As speakers before me, I would like to make it very clear for the record that general aviation should pay its fair share.

The proposal to implement user fees, however, requires the establishment of a separate bureaucracy to collect the fees. Paying a fair share is best accomplished at the pump through the excise tax system. It is in place, it is efficient, and it is cost-effective.

Creating equity in one area often causes inequity in another. Both GA and air carrier industries are price-sensitive, and we know that every dollar counts. I like to say, no bucks, no Buck Rogers. As stated, GA is quite willing to pay its share, but there is disagreement as to what that share is.

In testimony last week, the Administrator recognized a distinction between the cost allocation of a flight over Montana versus one

going into O'Hare. The same could be said for general aviation flights above and below the congested air carrier routes.

And in another example, only 4 percent of GA aircraft used ATC services at the 10 busiest airports in the United States where cost allocation is highest. Logic would dictate that, if the cost allocation at the 10 busiest airports in the United States is highest, and GA accounts for only 4 percent, then it would seem to be that the fair share is closer to 4 percent than the 11 percent proposed by the administration.

In closing, I do believe that the administration's proposal significantly undermines general aviation as we know it. General aviation airports like Centennial Airport are critical to the economic and social fabric of our country.

It is unique, and there is nothing like it anywhere else in the world. GA will not shy away from paying its fair share, but I respectfully urge you to consider that in the context of existing mechanisms.

Mr. Chairman and members of the subcommittee, I wish to thank you for your time and for inviting me to participate in this important hearing. I would be happy to answer any questions. Thank you.

Senator BINGAMAN. Well, thank you very much.

[The prepared statement of Mr. Olislagers appears in the appendix.]

Senator BINGAMAN. Why don't we do 5-minute rounds here? The order I am going to use is: myself, then Senator Bunning, then Senator Lott, then Senator Crapo, and then Senator Roberts. Senator Roberts was here earlier, but since he is not officially part of this subcommittee, we do not want to defer to him to any excessive extent. [Laughter.]

Senator LOTT. Let us leave this lonesome end down there lonesome. Do not be throwing him the ball.

Senator BINGAMAN. We will give him the ball.

Senator ROBERTS. Mr. Chairman, I am ready to ride drag. I do it a lot. [Laughter.]

Senator BINGAMAN. All right. That is an old Kansas expression, right?

Senator ROBERTS. Yes, it is.

Senator BINGAMAN. Let me ask on this basic question. The FAA claims that they have done a very sophisticated cost allocation, and their proposal for how we should fund the Aviation Trust Fund going forward is based on this, as I understand it. Their cost allocation assigns 73 percent of the air traffic control costs on commercial aviation, and then it has different amounts for different sectors.

I notice in your testimony, Mr. Olislagers, you said there was disagreement about what the fair share is. You think they have not necessarily calculated this right. Is there an alternative calculation that someone has done that we can look at that would have some claim to being independent?

I mean, frankly, I think we are trying to figure out, what is the right allocation? That is a valid question if we are going to try to base the different financial burdens on the basis of cost. But the only one we have seen so far, the only one I have seen, is the one

the FAA came up with. Any of you have an idea? Mr. Smith, did you have a thought about this?

Mr. SMITH. Well, there are two studies that we used to make the statement that I did about the cargo industry's relative share of cost. One of them is almost certainly the FAA study that you were just talking about, and the other one was done by Simat, Helliesen, and Eichner (SH&E) in April of 2006.

Senator BINGAMAN. And who did they do that for, SH&E?

Mr. SMITH. The Cargo Airline Association.

Senator BINGAMAN. All right. Well, obviously we would like to see if there is any other analysis that is out there that we could look at. Any of the rest of you have a thought about this? Mr. Whitehurst?

Mr. WHITEHURST. If I could clarify, the 73 percent that I mentioned, which is also from the FAA, does include cargo carriers, all cargo carriers, in that. So, that 73 is commercial carriers, including cargo carriers.

I do want to state, associated with that number, as far as we know, that is the only fully comprehensive study, because frankly only the FAA has the full data. It absolutely does recognize that the majority of the costs are driven by the major hub airports.

It also recognizes the fact that the fixed costs associated with those facilities are due to the major carriers. So, for instance, at the major hub airports, the major carriers are 95 percent of the operations; GA represents 5 percent of the operations.

In the FAA study, only 3.6 percent of the costs of the major hub operations were allocated to GA, even though they generate 5 percent of the operations, because, very simply, 100 percent of the fixed costs of the major hub operations were allocated to the network carriers. So even though those fixed costs go to benefit GA, they were not included in an allocation to GA because they would exist anyway because of the major carriers.

In addition, 100 percent of the cost of the TRACON facilities, which are the approach facilities for the major hub airports, were allocated to the major carriers, even though, if we take the New York TRACON, 30 percent of the activity of the New York TRACON is for GA, not for the major airlines. But even so, because those facilities needed to exist, 100 percent of the cost of the TRACONs were allocated to the network carriers in the FAA study.

So we feel strongly that, yes, the major carriers generate the majority of the cost of the system, and yes, the fixed costs associated with this system would reasonably exist just for the major carriers, and we should pay that. The FAA has taken that into account in its study. Price Waterhouse has certified that study. That is the 73 percent that we are talking about.

Senator BINGAMAN. Let me ask one other question of you, Mr. Whitehurst. You testify about the ATA proposal here and how you are going to allocate costs among the different airlines in your sector, as I understand it. You say that the proposal is simple and understandable. Why don't you give us a simple explanation on it?

Mr. WHITEHURST. All right. At the highest level, we believe, after looking at the FAA study, that about half the costs of the system are relatively fixed based on departures, and roughly half the cost of the system is variable based on distance flown in the system.

So what we have basically said is, on a per-passenger basis, we will collect half the revenues based on a per-segment, per-passenger charge, and half the revenues based on a per-mileage charge.

Now, technically the math is hard. What we do is, we take the 73 percent of the FAA's cost. Then we look at the number of passenger departures and the number of miles flown, and we do the simple math to calculate it out to get to the actual dollar amounts.

So the principles are very, very simple: half the cost is for departures, so half the revenue will be raised based on passenger departures; half the cost is based on time in the system, so we do that on miles.

Now, that said, we are very sensitive to some of the comments on smaller communities. And let us be clear: Delta serves more small communities by far than any other airline. Through our restructuring, we increased the number of small communities we serve. By the FAA's definition, we serve 144 small communities. To balance that, we very specifically put some things in place to help ease the burden on small communities.

First off, we look at what we call Great Circle miles. So a flight from Boise to Miami, we look at the miles between those two locations. We do not look at the total miles flown, which obviously would require connecting through a hub.

Therefore, the total cost for someone in a small community flying, they will not be subsidizing the guys flying non-stop from New York to L.A. So we tried to build into the system, in balancing what we are doing, both being cost-based, but at the same time understanding our obligation to serve small communities.

Senator BINGAMAN. Thank you very much.

Senator Bunning?

Senator BUNNING. Thank you, Chairman Bingaman.

My question is for Mr. Whitehurst, first off. Do large commercial airlines insist on a user fee, even if you could raise the same revenue by increasing the tax on general aviation fuel?

Mr. WHITEHURST. Our proposal that I summarized today is a passenger tax, it is not a user fee. So our proposal is that we pay for our share of the system via a passenger tax.

Senator BUNNING. It is not a user fee?

Mr. WHITEHURST. It is not a user fee. It is a passenger tax. That is the proposal that the ATA has agreed to and that I have presented today, and we are happy to go through it in more detail.

It is a passenger tax, 50 percent based on a per-segment and 50 percent based on miles flown. We have no opinion as the ATA on how others should pay for the remaining components of the air traffic system.

I certainly understand the logic for the benefits that GA provides. We certainly do not support an increase for piston aircraft. Piston aircraft have almost no impact on the system. They do not fly in our air space. They do not use the TRACON services and the other services. And while we do not advocate one way or another on how others pay for it, for piston aircraft we do not see that they drive any costs in the system.

How the high-performance general aviation aircraft pay is something obviously up to your wisdom, and certainly the opinions of

others. But we have no opinion on how others should pay their share.

Senator BUNNING. Mr. Olislagers, in your testimony you mention the harmful effects that you believe higher fuel prices have had on your general aviation airport. You also mentioned your concern with the proposed $25 user fee. It has been suggested that an increase in the general aviation fuel tax could replace the proposed user fee. From the perspective of your airport, what do you think of that idea?

Mr. OLISLAGERS. Thank you, Senator. As I mentioned in my verbal testimony, as well as in my written testimony, other than the FAA study, there are no other studies presently available. However, the 4 percent that I mentioned in my remarks represents actually what is currently used by business aircraft in the top 10 airports in the United States. This comes directly from the FAA's own numbers, so I am just simply relying on the FAA's numbers.

The Administrator indicated last week that, in fact, a flight over Montana, for example, would have much less of a burden, and also in terms of cost allocation than, say, an aircraft going into Chicago or any of the major hubs, so I simply based that on workload. So if, in fact, the general aviation community only uses 4 percent in the top 10 busiest markets, I can only assume that the burden elsewhere is, in fact, even less.

So my suggestion would be that it is probably closer to 4 percent. I have heard numbers anywhere from 3 to 6 percent as to what currently is being paid for by general aviation.

Senator BUNNING. All right.

Mr. Smith, as a representative of an all-cargo air industry, would you say that you support or oppose the Rockefeller-Lott bill?

Mr. SMITH. Well, certainly we applaud Senator Lott and Senator Rockefeller's leadership on this matter. It would be, in general, perfectly all right for us, the funding that they have, with the one exception I mentioned that we would strongly support for the contribution from general funds to be kept at historic levels, whereas the legislation that we have analyzed, we see that drifting down.

I mean, it is a national resource like the interstate highway system, and other things. So it seems to me that some component of it, an appropriate component, should remain from the general fund.

Senator BUNNING. The general fund.

Mr. Raburn, in your testimony you mentioned that a fuel tax could better promote fuel efficiency among users. Do you have any thoughts on whether increased efficiency might lead to lower revenues for the trust fund? Would this be something that this committee should be concerned with?

Mr. RABURN. In terms of the incentive to re-equip the fleet to achieve better fuel mileage or fuel efficiency, the interaction between total tax revenues versus the increase in efficiency is a difficult one to come to a conclusion on. I do not think I have enough experience or knowledge to answer that question specifically.

It does seem to me that, in general, given the Nation's predicament when it comes to fossil fuels, that this has to be fundamentally a good thing to encourage efficiency.

One of the best ways to encourage efficiency, in the same way Congress is looking at the CAFE average for the auto manufactur-

ers and for fuel prices, is to make it economically advantageous to have more fuel-efficient aircraft. Will that drive down total tax revenues? Historically, it does not seem to have happened that way. In fact, if anything it seems to drive tax revenues up.

Senator BUNNING. Thank you, Mr. Chairman. My time has expired.

Senator BINGAMAN. Thank you.

Senator Lott?

Senator LOTT. Thank you, Mr. Chairman, for having the hearing. And thanks to all the panel for giving your time to be here and give us the benefit of your thoughts on this.

We are trying to come up with an FAA reauthorization bill and a way to get to modernization. All the testimony we have had in the Commerce Committee, and I think you would all say the same thing, is that we do need to have reauthorization and we need to be thinking about this Next Generation.

When I go to other parts of the world, when I go to Europe, they are moving in that direction. We do have an antiquated system and we are going to have congestion, and so we are going to have to deal with it.

I have worked with aviation now, going back to my years in the House, but particularly in my years in the Senate in the last two authorization bills. Fortunately, the last FAA reauthorization we did, we did not have to come to the tax committee because the taxes and fees were in place for 10 years. But this time, everything expires come the end of September, the authorization, the taxes and fees. So, we have to look at it in the whole sense.

I am involved in this because I think that aviation is very, very important to our country, our infrastructure, and who we are, the way we move around. So we are trying to make sure we come up with something that is fair to everybody.

We have taken some of the recommendations of the administration in our bill that Senator Rockefeller and I developed, and we have rejected some of them. They proposed cutting airport funds; we put it back up to what they would have gotten, $1 billion. But then the airports want an increase in the Passenger Facility Charges (PFCs) from 3.5 to 7.5, or something like that.

So there are a lot of different views here. But I have found that everybody is in agreement that we need a bill and we need modernization, but nobody wants to pay more. I can understand that. I think maybe, Mr. Raburn, if you were not quoting me, it sounded like something I would say: everybody is going to have to pay a little more if we are going to come up with more money to do the job. So, that is what we tried to do.

For instance, in our proposal, commercial aviation actually would pay more, even though we phase out or take away the 4.3-cent-a-gallon tax. Because of the fee, the net result is that the cost is up. We do not give airports as much as they wanted, and we did not get into a lot of labor fights, and we tried to be fair with general aviation, specifically excluding AOPA, the piston-driven general aviation aircraft, crop-dusters, and things like that. No tax increase in aviation fuel, no fee increase.

But I have always said, look, this is not written in stone. We are trying to get results here. So I am discouraged that we are going

to be able to get a result because nobody seems to really want to go forward.

For instance, I commend ATA and the commercial airlines for coming up with a proposal. I mean, it is not easy to get the members of the ATA, all the airlines who had lots of difficulties, partially because everybody has been riding on your back, to come to agreement about how we can do this. I think what you have come up with is certainly worth considering, and you should be commended for doing it.

Now, I do think that what you came up with means you would pay a little less than you would under the current system, but I think the formula you came up with is adjustable, where you could actually get more. But a couple of interesting questions.

One, this measuring of distance. I think you said it, and I understood it this way. The way you measure distance on your formula is not from—like, if you were flying from Jackson to New York or Washington through Atlanta, you do not count that mileage, you count the mileage from Jackson to Washington. Is that correct?

Mr. WHITEHURST. That is correct.

Senator LOTT. All right.

Mr. WHITEHURST. In our formula, we would do the actual miles between the cities, not the miles flown. In fact, we would even reduce it by 250 miles.

Senator LOTT. Explain that. You exempt the first 250 miles?

Mr. WHITEHURST. We exempt the first 250 miles.

Senator LOTT. And what is your purpose for doing that?

Mr. WHITEHURST. It is purely, as we try to balance cost with the impact on small communities which generally have to fly further, we were trying to help benefit small communities by exempting the first 250 miles.

Senator LOTT. Well, we certainly want you to do that. All of us here on this panel, the Senators represent States with small communities. We are rural States. We want to make sure we are in the network, we are in the system. I want these light jets flying.

I am concerned about how we are going to handle all this additional traffic in the system. That is why I want us to have modernization. But that raises the point for general aviation. You say you want to pay your fair share, but I cannot ever get anybody to tell me what that is.

We have had a nervous breakdown over the $25 fee. I do not quite understand that, because it looks to me like, if you pay an additional aviation fuel tax between Dallas and LaGuardia, it would be a lot more than a $50 fee round trip. So, there is a hyperventilation and overreaction that, oh, this is a camel nose under the tent. What do you mean? This is supposed to be a 5-year bill.

But here is my point. All right. So we take the fee away. How do you then get the additional money to go into the system? Well, you say we want aviation. Well, what you pay now is 29 cents a gallon. Our proposal would take it to 39. So if you drop the fee, you are probably going to have to come up with more than 39.

When I looked at general aviation's proposal, I think you were thinking only in terms of maybe 32. That is not going to quite get it. So, sooner or later, through your representatives or somebody, we have to come up with some honest assessment of how much you

use or you do not use, and how much you are now paying, and if not a fee, then what.

I do thank you, Mr. Smith, for being here. I listened to your points about the general funds. I do think there is a common good involved here. But I think the drop in the formula is, like, from 21 percent to 19 percent, not much.

But we could maybe hold that harmless, hold it there, and that would relieve us a little bit of the need to do more. But all I am saying to you is, the clock is running. We are running out of time. We need this bill. We need modernization. I do not know. I am afraid we are not going to get it.

Mr. Chairman, if you will give me one more opportunity to ask a question. Let me ask you, Mr. Smith. One of the things that has discouraged me lately is the House bill that they passed. I was floored by what came out of Mr. Oberstar's committee. Mr. Smith, I would be particularly interested in your observation of areas in that House bill that you think are of particular concern.

Mr. SMITH. Well, as I mentioned, Senator, we object very much to the insertion of language that affects only one company, and that is FedEx Express. FedEx Express has been under the Railway Labor Act since its inception when I formed the company in 1971.

The Railway Labor Act itself was built around a couple of important points, and most importantly was the fractious labor relations in the essential rail services in the late 1800s and the early part of last century, which brought, many times, farmers and people who relied on those systems to their knees.

So the government said, the public interest is the primary interest here, and it did two things which are very important: it required system-wide bargaining agreements, and, second, it took away the unilateral right from labor and management to engage in lock-outs or strikes. It put that under the control of a governmental agency, the National Mediation Board.

So there have been many attempts to say that FedEx Express's pick-up and delivery operations should not be under the Railway Labor Act, and that issue was litigated and firmly decided in 1992 by the Ninth Circuit Court of Appeals, and the Supreme Court denied cert. That opinion is just crystal clear.

It says that FedEx Express's pick-up and delivery operations are an integral part of its air operations, and that is exactly what I had in mind from my service in the Marine Corps. It was an air-ground integrated system from the onset.

So, this bill is being pushed for the private interests of labor. We do not have any opposition to organized labor. We have an excellent relationship with our unionized pilots, and that has nothing to do with it. I think it is also fair to say that it is supported by one of Senator Bunning's constituents, UPS.

I will say this, a little bit immodestly, for which I apologize, Senator Bunning. But all those people would not be in Louisville if it were not for FedEx, because we invented the industry. [Laughter.]

And UPS came in in 1982 with a genealogy very different from ours, as a ground package delivery company, and they decided, for their own reasons, to contract with their ground company, thinking their efficiency would trump our orientation on service. The correct

resolution of this matter in the public interest would be for UPS to be put under the Railway Labor Act.

And, in fact, UPS tried to have that happen after they had a strike in 1998. And sooner or later, that will happen because my best estimate is, between UPS and FedEx, probably 25 percent of the Nation's GDP is in our trucks and in our planes every day. Twenty-five percent. That would be my best estimate.

I can tell you, we are in the ground package business too, but we are not organized the way UPS is. We have a completely separate ground operation. It does not pick up any air express packages. Every FedEx Express pick-up and delivery vehicle picks up air express packages going to every address in the United States and 229 countries around the world.

So, it is a bad thing directed at one company to disadvantage us. It is terrible public policy based on the four failed pieces of legislation that Congress enacted from 1888 until they finally resolved it in 1926. It is certainly inappropriate, in our opinion, to do this without any public hearings, without any consideration of the public interest.

Senator LOTT. Thank you, Mr. Chairman.

Senator BINGAMAN. Thank you.

Let me call on Senator Roberts. He has been waiting patiently here.

Senator ROBERTS. Mr. Smith, my dad was an air/ground officer in the Marine Corps on Iwo Jima. I sure as hell hope that your job is a little easier than his was.

Good news. [Reading.] "Delta Air Lines, Inc., the Nation's third-largest carrier, cited a 5.5-percent gain in sales, as it reported Wednesday that it swung to a profit in the second quarter, which saw it emerge from bankruptcy after shaving billions of dollars in costs. The Atlanta-based company, as a result, beat Wall Street's expectations. When one-time items are excluded, Delta's shares rose 5 cents, to $21.24, in morning trading. In bankruptcy, Delta shed billions in costs, restructured the carrier's operations, survived a hostile take-over, and even repainted the airplanes' tails."

So, Mr. Whitehurst, I think congratulations are in order. We sort of take parentage of that to some degree with H.R. 4, and we were happy to do that.

Now I understand, with the 17 years that you have to repay the under-funding of the pension plan, that American-Continental would like the same thing. I understand that. I also supported it because we had some pension problems with rural cooperatives.

So, Mr. Chairman, that rather controversial bill—or at least in the eyes of some—actually worked out, and we were to happy to support it, and we were happy to see the success here. We offer you our congratulations.

Mr. WHITEHURST. Thank you. And we just put $75 million so far this year in to fund the pension plan, so we appreciate having the opportunity to live up to our commitments.

Senator ROBERTS. Now for page two. [Laughter.] Your testimony claims that airlines and their customers pay in excess of 90 percent of the taxes and fees that go into the trust fund, sir. In your own breakdown, only $7.9 billion is actually attributed to U.S. passenger airlines, which include the regional airlines. If we would

take out the regional airlines, the U.S. commercial carrier's percent drops to 64.1 percent.

So we are all clear, the passenger ticket taxes which you collect are paid by passengers and only the fuel tax is paid by the airline. So of the 77 percent or $7.9 billion, how much do U.S. commercial airlines actually pay in the fuel tax?

I happen to have the chart here from the FAA. We have totaled up lines 5 and 6 and find out it is $382 million, or 4.8 percent. Is that about right in terms of what you think would be fair? Is that a fair statement?

Mr. WHITEHURST. That is about right. I would argue, though, since all of our revenues come from our passengers, actually, the fuel tax as well is paid by our passengers.

Senator ROBERTS. Well, we can note that for the record.

Now, we have heard the Chairman talk about the GAO's testimony last week as to whether costs as designed reasonably reflect the services received by the various users. You referenced Pricewaterhouse, but they simply followed the methodology used. They did not say if it was right or wrong. The FAA stated that they abandoned economic principles when developing the study. So, that is a statement I do not quite understand.

Why, then, should this committee use a study with so much question surrounding it as a basis for determining tax levels? This question has already been asked by Senator Bunning. Has the FAA released their data so any independent groups could conduct their own study? Do we know that?

Mr. WHITEHURST. My understanding is that the detailed, 600 line item study, it has not.

Senator ROBERTS. That it has not? Mr. Chairman, I really think, while I am not ready to go over 600 pages of it—staff is. [Laughter.] Maybe we could go from that.

There was a *Wall Street Journal* article in March that said commercial carriers are using sophisticated routing software when flying internationally in order to minimize user fees levied by some countries to pay for their air traffic controllers.

In fact, it said that United is using the software to re-route planes so as to avoid $146 million in user fees per year. If carriers are now trying to avoid user fees internationally, why would we want to impose such a system here, and would the same thing happen?

Mr. WHITEHURST. I will start. We are not proposing, as the ATA, any user fee at all. We are proposing a passenger ticket tax that is based on a combination of departures and miles flown. I will say, that said, a $25 user fee, we think, has a lot of merit, and we would fully support the $25 approach.

Not only does it move towards a fairer cost-based system, it also provides a predictable revenue stream that could be bonded, therefore, being able to help smooth out the natural CapEx lumpiness that occurs.

Finally—and I run a business every day, so I will speak for us, and I am sure this is true in most businesses—when times get tough, you cut out the long-term CapEx to fund operating needs.

By having a separate capital stream like that, we would be able to ensure that dollars are spent on modernization and not crowded out due to day-to-day short-term operating cost pressures.

Senator ROBERTS. Well, I can tell you, in Wichita, KS, in the general aviation industry, in terms of research and development—and you folks are just trying to keep up just to keep out of bankruptcy and continue your quarterly reports—it largely comes from the general aviation industry. That is an investment that we have to take a look at.

I have to take you out to Dodge City, because in Dodge City, the Kansas cattlemen told me this. That is my hometown, by the way. We were at the coffee klatch. Actually, they came into town and basically said they have opposition to the user fee situation.

One of the cowboys said that the airline's justification for this new tax is that somehow a small turbo-prop carrying three passengers from Garden City, KS, America to Manhattan, KS, home of the ever-optimistic Wildcats, imposes the same cost on the air traffic control system as a jumbo jet carrying 300 passengers from L.A. to New York. Now, that is their view. I know that is not your view, but I think you have to consider that.

Mr. Shine, can you tell Senator Lott why you are very close to a nervous breakdown? [Laughter.]

Mr. SHINE. You will have to talk to my psychiatrist. [Laughter.]

Senator ROBERTS. No. But go into it. I am a minute 50 over, but he was 5, so I have another 3 to go. Except he is senior to me, and I would not dare do that.

But I am just trying to say that everybody talks about corporate aircraft. CEO corporate aircraft, *i.e.,* Donald Trump, Paris Hilton, whoever, as opposed to a whole series of alliances of people of small business operators.

And I am not going to go into farmers, ranchers, and the heart transplant people who fly, and all of that. But you are a darned good example in terms of your testimony, and you have said, sir—who does this paperwork? Do you have a paperwork facilitator in regards to the Canadian system?

Mr. SHINE. Well, it is me and my person who opens the mail, and my person who writes the checks.

Senator ROBERTS. Does that make you nervous?

Mr. SHINE. It does not make me nervous, but it adds cost.

Senator ROBERTS. It is just a pain in some area of your anatomy.

Mr. SHINE. Anatomy. Yes.

Senator ROBERTS. Yes.

Mr. SHINE. Yes, Senator, it is. My point is that we already have a system. We do not mind paying more for the modernization of the air traffic system. We are happy to do that.

But I represent corporate aviation, or general aviation. I am flying an airplane that is 27 years old that carries a maximum of 6 people. I am using it for my business. I would not be in business today in Western New York, because of the loss of manufacturing jobs up there, if I had not been able to get in the airplane and go out and find things in other places. It is a business tool. This airplane is used in a much different way than the airlines use their airplanes.

If we need to help pay—and we agree that we want to modernize the air traffic system, and we are willing to pay our fair share to do that—we feel that it is an administrative burden on the FAA to try to collect user fees.

We feel it is an administrative burden on businesses like mine to pay, and possibly dispute inaccurate, invoices, mail, cut a check. I mean, all that is very, very burdensome. We do not think it is necessary to utilize that kind of a system. We think we have a system in place and we should continue to use it. If we have to raise the fuel tax to people like myself, so be it.

Senator ROBERTS. Thank you, Mr. Chairman.

Senator BINGAMAN. Thank you very much.

Senator Salazar?

Senator SALAZAR. Thank you very much, Chairman Bingaman.

Let me, first, welcome Mr. Olislagers for being here. I have flown in and out of Centennial Airport, I am certain, thousands of times since I have been flying around the State.

Let me just ask a question of you, Mr. Olislagers, and Mr. Shine. That is, for most of us from the huge geographic States of the West, we obviously use general aviation a lot, frankly, because we do not have commercial access to many of the places that we fly to.

What impact do you see in terms of transportation availability through the air out into rural and far-flung communities if the proposal that came out of the Commerce Committee were to be adopted by this Congress?

Mr. SHINE. You are referring, Senator, to the $25 per-flight fee proposal?

Senator SALAZAR. That, among the rest. I mean, the comprehensive proposal which Senator Lott and Senator Rockefeller, I think, shepherded through the Commerce Committee.

Mr. SHINE. All right. One of the problems with that, in my view, is that we do not have the range capability that an airliner, a modern airliner, has.

Senator SALAZAR. I do not want the problems. I want you to tell me what the impact would be in terms of the ability of any of us as Senators, or anyone else, to make sure that we have the ability, through general aviation aircraft, to reach far and rural remote areas. What would be the impact?

Mr. SHINE. Well, currently it is far easier to do that. We have the system that is in place. We pay taxes on that. We pay at the pump. It is simple, it is easy. I give them my credit card, they charge me the tax, and I pay for the air traffic control system on that basis. If we go to a new proposal, a new system, I believe it is going to cost money to administer it. Every dollar I pay in tax will not end up in the FAA.

To pay whatever the fee happens to be, whether it is $25, $100, or $5, there are administrative costs on my side. Why not go to a system to support the modernization that will actually result in every dollar of tax that is paid getting to the FAA?

Senator SALAZAR. All right. Do you have some comments on that, Mr. Olislagers?

Mr. OLISLAGERS. Thank you. Senator, Statewide last year the price of avgas, for example, went up by about 65 cents per gallon, on average. It caused a 26-percent drop in use by piston aircraft.

Now, I recognize in S. 1300 piston aircraft are exempt from the user fee, the $25.

Frankly, many of our clients believed that once a user fee issue is actually in place, that it will just be a matter of time before the piston aircraft users will also be paying into that system. The fact is, there is, even among the jet operators, a great deal of price sensitivity. We have been seeing that across the board, especially at Centennial Airport. Just last week, a new Fixed Base Operator (FBO) opened up which decided to basically sell fuel at cost. They are essentially about——

Senator SALAZAR. So what would happen? What would happen if this legislation that came out of Commerce were to become law? What would be the impact to your operations at Centennial?

Mr. OLISLAGERS. Well, I think at Centennial Airport, it is a very robust airport, but I think we are just as affected as many of the smaller airports, except I think the delta for the smaller airports is much greater because they do not have the ability to absorb significant losses.

But I do believe that the proposal on the table would reduce the number of people using the system. That creates a ratchet effect, which would then in turn require additional fees to pay for the shortfall. I think principally the smaller airports will suffer.

We will only see a concentration of a few airports that will remain in the system. I know for a fact, and I have managed a number of airports that only have 10, 12 airplanes in very rural communities, that would not be able to continue to operate. They are already part of the general fund.

Senator SALAZAR. Thank you.

Mr. OLISLAGERS. Thank you.

Senator SALAZAR. Thank you very much.

Now, Mr. Whitehurst, first, congratulations on the success of your company and the reports that came out yesterday.

Mr. WHITEHURST. Thank you.

Senator SALAZAR. It is good news for the airline industry everywhere.

Now, I assume you have the position of most commercial carriers, and that is that you support the proposal that came out of Commerce. Is that correct?

Mr. WHITEHURST. We have put forward our own proposal. The proposal coming out of Commerce is not complete, so it is hard for us to say we support it. Something like the $25, while not in the proposal that we put forward, we generally feel moves in the right direction because it moves more towards a more fair, cost-based system. We want to move to a more fair, cost-based system.

Senator SALAZAR. You are generally supportive of the thrust and direction of that proposal?

Mr. WHITEHURST. Yes.

Senator SALAZAR. All right.

And Mr. Smith, I know your company. And by the way, I congratulate you in terms of what you are doing with respect to energy efficiency at FedEx. The view of cargo carriers like yourselves in terms of this proposal: can you summarize that for me?

Mr. SMITH. Well, Senator, we do not have any issue with whatever proposal is adopted. The only two points that are important

to us are, one, that we pay our fair share, not subsidize other folks. As I mentioned, there are two independent studies that show that the all-cargo industry is more than paying its burden on the ATC system already.

Secondarily, that modernization occur. We are in the time-certain delivery business, and the volatility and unpredictability of the air traffic control system today is simply unacceptable, for many reasons.

Senator SALAZAR. Thank you, Mr. Smith.

My time is up, but I just want to make a comment. Senator Lott has been very eloquent in terms of the need for the modernization of the system, and I would imagine that everyone who is sitting at the table today as witnesses would come to an agreement that says, yes, we absolutely need to modernize the system.

So I think that on your first point, Mr. Smith, everybody would be in agreement. I think the big debate, obviously, is who is going to pay for it, and how are we going to fairly and equitably share the burden.

I expect that there will be much debate beyond this hearing on how exactly we do that, and I very much look forward to your thoughts and guidance on how we achieve the modernization goal, and at the same time make sure we have a fair and equitable system of distributing those costs.

Thank you very much, Mr. Chairman.

Senator BINGAMAN. Thank you very much.

Senator Smith?

Senator SMITH. Thank you, Mr. Chairman. My other committee, among others, is the Commerce Committee. I am glad Senator Lott has left. He is my friend, and I voted against his bill. [Laughter.] I voted against it for three reasons, and I would be interested in the responses of any of you to my three concerns.

First of all, perhaps expressed by Senator Bunning, is the idea of setting up another bureaucracy to manage funds that could be more efficiently raised through this committee rather than if we did it on some other basis. I am open to ideas.

Second was the idea that if we are purchasing a capital asset, which is something we need to do—everybody recognizes that, whether they are for the Commerce bill or not—why is there not a sunset on it after it is ended, to end the bureaucracy, and end the fee?

Third, it does seem to me—and I represent Oregon. Portland International does not need any more traffic. Pendleton, where I am from, could really use some, and yet the fee is the same.

It does seem to me that there ought to be some distinction made between Portland and Pendleton, if there is going to be a fee for one versus another. They should not be the same. There may be some good public policy that could drive small aircraft to go elsewhere and not get in the way of the FedExes, and the Deltas, and whatnot. So, I just felt like the Commerce bill was half-baked, and hopefully this committee can come up with something better.

I wonder if any of you would have a thought on my position, which is, yes, we need the system, I am willing to help provide the financing for it. But the idea of some distinction between big hubs

and little towns, and the idea of a sunset if there is going to be a fee program.

Mr. RABURN. Well, Senator, I think you make a very good point about the aircraft and the facilities that they use. Let me draw an example similar to yours. If I were to file a flight plan from Albuquerque to Santa Fe, 75 miles, I would pay $25. Conversely, if I file a flight plan from LaGuardia to, say, Dulles, I would pay $25.

There seems to be no correlation in the Act with the fee-based system to the actual cost that is incurred in the system. There is very little cost incurred to fly from Albuquerque to Santa Fe, or maybe even from Santa Fe to Las Vegas, NM, not Nevada.

So it does seem that the approach of a fixed fee per segment is totally inequitable. Also, the issue of the size of the aircraft is a very, very important issue, because once again, an aircraft that costs—you can pick almost any kind of number or accounting system you want to—but that costs a couple thousand bucks an hour to operate, $25. That has minimal impact.

An aircraft that costs $300 or $400 an hour to operate, that has a lot of impact. So, back to your question, Senator. It has to do, I think, with price elasticity. The less expensive the aircraft is to operate, the more impact this fixed fee is going to have on the potential operations of that aircraft; the more expensive the aircraft it is, the less impact it will have.

So you cannot draw this conclusion of one size fits all, particularly along the line of propulsion. To say all turbine aircraft cost the same to operate is just plain, flat not right.

To say that all piston aircraft do not impose a cost is also plain, flat not right. Piston aircraft use TRACONs. Piston aircraft operate in the system. Piston aircraft operate above 18,000 feet.

Not as much as turbine aircraft, but a turbine aircraft that consumes, as in the case of the Eclipse 500, less than 50 gallons an hour of fuel when it is operating, does not have the same impact as an aircraft that consumes, say, 1,000 gallons an hour of fuel. There is no recognition in the current bill of these differences.

To your question, Senator, about other cost accounting, part of the problem is, the FAA has never released the data, so there is a difficult time of actually understanding how to analyze or how to allocate cost.

I will point out that, internationally, in other countries that have some type of user fee-based system—and it is endorsed by the International Civil Aviation Organization (ICAO), the U.N. agency—it is based on distance and weight.

That seems to be universally acknowledged outside of the United States as the most equitable system of assigning costs or a fair cost within the system, yet none of the proposals on the table recognize the differences in airplane sizes and the differences that they impose.

The simple reality is that a 777 on approach into JFK takes up a heck of a lot more air space than an Eclipse 500 on an approach to Republic Airport 15 miles away, and it has to do with physics. That is all it has to do with, is physics.

Senator SMITH. Mr. Smith, I wonder. I mean, your great company delivers to Portland and Pendleton. Would you like to see a difference in the fee structure?

Mr. SMITH. Well, Senator, based on my 30-some odd years of experience in the business, it comes down to this. What drives the delays and the volatility of the air traffic control system today is peak scheduling at 25 or 30 airports around the country. Punctuation period. There was a good article in the *Wall Street Journal* yesterday about the proliferation of regional jets and so forth.

Now, if you ask my opinion on this outside the realm of this debate, because I do not think this will happen this go-around, but sooner or later two things have to happen. The ATC system has to be modernized so that you can create more capacity, particularly in those peak locations, and more runways, if you can build them.

At many of these top 30 airports, there is no way to put another runway in—Newark, for example, LaGuardia, for example. So you get the most out of the technology that you can. But we will reach a point where you will have to have slot controls and you will have to have congestion pricing.

What that will do is to make it monetarily make sense to move some operations to other airports, because what has really happened over the last few years is there has been more concentration at those major airports, not less. It is particularly egregious in the local areas.

Now, slot controls are not a new thing. They have been put in before. They are just an unpopular thing. It is more and more difficult, as you folks know a lot better than I, to do something sensible that has real organized opposition to it. But that will happen because there is not an infinite amount of air space at those key airports at key times. That is my view.

Now, the problem is how you do that at the Federal level when the airports are basically operated by authorities and local entities like we have at Memphis—our biggest hub is operated by a separate authority—and get some of that money. I do not know. But I do know that that is going to be an equal part some day of solving this problem, because the system is broken today. It does not work.

Senator SMITH. All right.

Mr. WHITEHURST. If I could also add, in terms of your question about cost and system, anything that makes the system closer to cost-based, we would support. Your question about Pendleton versus Portland, you are exactly right. Pendleton would cost much less to fly into than Portland.

The large, congested airports drive the system cost. That said, the way the system currently works is primarily based on an excise tax. A percentage of the ticket price is an excise tax to fund the system. That absolutely biases and lowers costs for those largest facilities, so JFK to Orlando, where multiple carriers, including us, run big airplanes non-stop every day, is relatively low-cost for us to operate and the ticket prices are relatively low, versus flying to small communities.

So, small communities paying a percentage of the ticket price, because the ticket prices are higher, pay substantially more into the system in the costs they drive than flying from JFK to Orlando, or JFK to L.A. Just to contextualize a $25 fee versus how the system actually works for us day in and day out, our average flight from DCA to Jackson, MS is on a 50-seat regional jet.

That average flight segment, we pay $697 into the air traffic control system. Jackson, MS is not driving that kind of cost, but because of the relative ticket prices on a 50-seat regional jet—it is people in that community—this is paid for by the passengers.

Passengers in that community are paying much more than their fair share into a system because it is based on the ticket price versus anything close to the cost to serve. We are very supportive of anything that shows a greater reflection to cost to serve.

Senator SMITH. Great. Thank you.

Senator BINGAMAN. Thank you very much.

Did anybody have another burning question here?

[No response.]

Senator BINGAMAN. If not, we will just stop with that. I think this has been very good testimony. We appreciate you all coming and giving us the benefit of your views.

That will conclude our hearing. Thank you.

[Whereupon, at 3:50 p.m., the hearing was concluded.]

APPENDIX

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

Statement of David F. Hackett
President
Gulfstream International Airlines, Inc.

Before the Finance Subcommittee on Energy,
Natural Resources and Infrastructure

Mr. Chairman and Members of the Subcommittee, good afternoon. Thank you for allowing me to speak here today. My name is Dave Hackett and I am the President of Gulfstream International Airlines, a Fort Lauderdale-based regional air carrier.

Let me begin by telling you a little bit about our company. We operate over 200 daily flights using a fleet of 34 19-30 passenger turboprop aircraft providing service throughout Florida and the Islands of the Bahamas. We carry almost one million passengers per year and employ approximately 700 people. We operate under code share agreements with Continental Airlines, Northwest Airlines and United Air Lines. In our markets, we are the only providers of scheduled air service in over half of our city pairs and in another 25 percent of our city pairs, we are the highest frequency carrier. Most of our services are provided to small or mid-size communities and, at the present time, we are not a participant in the

Essential Air Service Program although we have bid to provide service to Franklin and DuBois, Pennsylvania; Lewisburg, West Virginia and Athens, Georgia later this year..

As most of you know, I'm sure, the airline business is a very difficult one. While many of the largest regional airlines operate under "capacity purchase" or fee-per-departure agreements, all of our operations are conducted under what we call pro-rate agreements, meaning that we share a portion of the revenue from connecting passengers and each flight we operate is entirely at our own financial risk. We are fully responsible for deciding what routes, schedules and local fares to offer.

Similar to other small regional airlines, our business strategy is fairly simple. We utilize small-capacity, commercial aircraft to provide service that is oftentimes not economically viable for operators of larger equipment. Sometimes this comes in the form of being the only carrier in a particular route, and sometimes it means we provide complementary schedules to other larger airlines flying the same routes, thus ensuring passengers have access to convenient schedule alternatives.

This business strategy means that small regional carriers, like ourselves, rarely operate to the large hub cities. I do not believe that you will find any 19 or 30 passenger commercial aircraft flying to such hubs as Atlanta, Chicago or Newark. This is not to say that we don't serve larger airports at all, but if we do, we typically provide flights to smaller destinations such as from Miami to Gainesville, Florida.

Industry Trends

As the industry has undergone restructuring over the past few years, we have seen a trend towards fewer but stronger hub services. I believe the regional airlines play a pivotal role in ensuring continued access to convenient, affordable air transportation by responding to such service changes.

In the case of smaller regional airlines such as ourselves, we tend to be the "last line of defense" in ensuring continuation of non-stop air service. For example, about eighteen months ago, one of the airlines within Florida flying jet aircraft between West Palm Beach and Tallahassee, our state capitol, ceased service for

economic reasons. Fortunately, we were able to arrange for an aircraft to be placed on that route with virtually no service interruption.

In today's economic climate, particularly given high fuel prices, often times the only viable aircraft that can fill such a void in non-hub environments is a smaller turboprop like ours. This is, of course, not something that is unique to our market within Florida. Let's look at Greensboro/High Point, North Carolina for example. It is certainly not what any of us would call a small market; yet in recent years it has lost non-stop service to such cities as Cleveland, Pittsburgh and Baltimore. The story continues to repeat itself with the recent elimination of scheduled service from Pittsburgh to Buffalo and Rochester. We are a firm believer in market forces, and we believe that such city pairs can and will see service re-established, if not by us, then by carriers like us. This is, of course, assuming that the carrier's anticipated revenues and expenses are reasonably in line.

With respect to small-capacity operators in the current Air Traffic Control funding debate, I think we all have a sense that continued investment in our a traffic control capabilities is essential to providing continued growth in air transportation. We

already experience, on a daily basis, the effects of overburdened Air Traffic Control and airspace resources. With the emergence of very light jets, plus continued rapid growth of corporate jet aircraft, this can only get worse without significant infrastructure investment.

I think that most people recognize that the burden of costs borne by the airlines under the present system of FAA funding is quite a bit higher than it should be relative to corporate jet users, due, in part, to the substantial growth that segment has seen over recent years. Clearly, we can see even more dramatic growth in the future for this segment and it is important that we establish a fair and equitable sharing of costs to support the Air Traffic Control system.

While we engage in discussions about funding alternatives, I would ask that you consider very carefully the impact on small and mid-size community commercial air service that these various alternatives will have. Note that we purposely include mid-size communities since, as previously mentioned, it is not just small communities any more that are experiencing issues associated with retaining an efficient network of non-stop air services. I recognize that markets such as Miami-

Gainesville or Pittsburgh-Rochester may not be the largest in the country, but I think we can all agree that to the residents and businesses in these communities, maintaining direct commercial air service is, indeed, very important.

Regarding alternative funding mechanisms for Air Traffic Control investment, I believe the discussion has moved in a positive direction. When the outline of the original structure put forth by the Administration was communicated to us, the impact on small commercial carriers was so draconian, it was difficult to comprehend. I read estimates that the projected Air Traffic Control fees could consume up to 30 percent of our entire annual revenue base.

The current structures under consideration, as I understand them, propose a new $25 per flight user fee, or other fees like it, and a possible reduction in fuel excise taxes for commercial air carriers. Overall, this seems to be a more sensible and logical way to ensure the proper funding and mitigates inequities inherent within the current funding structure. It is important to note, however, that while a $25 per flight fee may sound modest and is likely quite affordable for large commercial aircraft operators as well as the corporate and private jet flights, it would have a

significant and serious adverse impact on our company and other regional carriers that operate small capacity aircraft like us.

While we are generally considered to be a successful regional airline and have been modestly profitable for the past several years, the net impact of the user fee, even including a potential reduction in excise taxes, would be millions of dollars of increased expenses. If such a fee were in place currently, it would, in all likelihood, far exceed our total expected earnings for this year and could well place our company's future in jeopardy. As it is already exceedingly difficult to successfully raise fares as an offset to higher fuel costs, it is equally unlikely for us to recover higher Air Traffic Control fees. Relative to operators of larger aircraft, we simply have far fewer seats to spread the fees over, and burn substantially less fuel per trip, making any prospective savings much lower.

I am sure I speak for other regional airlines in that while we support new investment in our nation's aviation infrastructure, we want to ensure that whatever funding structure is adopted, it include exemptions on new fees or other protections

to ensure that the we are able to continue our important services to smaller communities in the future.

Thank you very much for listening. I look forward to hearing your questions at the conclusion of the panel.

Statement of Robert P. Olislagers

Executive Director
Arapahoe County Public Airport Authority – Centennial Airport

before the

Committee on Finance
Subcommittee on Finance, Energy and Infrastructure
U.S. Senate

concerning

Next Generation Air Transportation System
Financing Reform Act of 2007

July 19, 2007

Good afternoon Chairman Bingaman and members of the Subcommittee. On behalf of the Arapahoe County Public Airport Authority and Centennial Airport, I wish to express my appreciation for this opportunity to appear before you and to share some thoughts regarding the Airport and Airways Trust Fund.

My name is Robert Olislagers, and I am Executive Director of Centennial Airport, the third busiest General Aviation (GA) airport in the U.S. and the 29th busiest airport overall in terms of operations (2006 landings and take-offs). Although I am not here to speak on their behalf, by way of background, I am a member of the board of directors for the American Association of Airport Executives, and have served as chair of its General Aviation Committee for the last three years.

Centennial Airport (APA) was founded in 1968 to serve GA and has steadily grown in activity, both nationally and internationally. The airport is home to over 600 single and twin-engine piston aircraft, and 80 turboprop and jet aircraft. The airport has three runways, a 24/7 FAA-staffed air traffic control tower and 24/7 on-demand U.S. Customs services. The airport, including its four Fixed Base Operators (FBOs), supports a wide variety of GA activities, including, but not limited to, flight training, air ambulance, charter, fractional, cargo, business and personal aircraft operations. In addition, the airport supports military, homeland security, law enforcement, firefighting and other critical government functions. It is also home to two Very Light Jet (VLJ) manufacturers. Of the more than 12 million gallons of fuel sold in 2006, Avgas (used by piston aircraft) accounted for 6 percent, while and Jet-A (used by turbine aircraft) accounted for 94 percent. Traffic volume is nearly equally divided between itinerant and local operations, pointing to the importance of both intrastate and interstate commerce.

I want to begin my testimony by stating that I deeply appreciate the proposed funding levels in S.1300 and H.R.2881, which is $850 Million higher than the level proposed by the Administration. I can also say that operators of airports not in the NPIAS but eligible through the State Apportionment program are very pleased with your continued support of their airports. These are not wasted dollars as has been suggested by some but critically needed funds for rural and remote airports that serve unique niches in the U.S. aviation and airport system. These airports serve as gateways to communities not necessarily sustained by economic activity, such as Centennial Airport, but that nevertheless play a vital role, both economic and social, in the community.

Our airport, as is typical of others like it, is a significant economic driver, with an estimated $1 billion in annual direct and indirect economic activity. The airport is surrounded by 23 business parks, including the Denver Technological Center (DTC) and Inverness. Combined, this area is responsible for 25 percent of Colorado's GDP.

In 2006, the airport recorded nearly 320,000 operations or nearly one aircraft per minute between the hours of 6:00 A.M. and 10:00 P.M., our peak operating hours. However, total operations declined by 7.2% in 2006, as fuel rose an average of $0.65 per gallon statewide. We believe that the operational decline is almost exclusively attributable to the rise in Avgas fuel costs. As gas prices continue to go up, activity continues to go down, accounting for a 10 percent decline at Centennial Airport to date as compared to last year. Similarly, in 2006, Colorado experienced a 26 percent statewide decline, and current figures through June reflect another 26 percent decline in piston aircraft activity. These numbers suggest extreme price sensitivity among piston aircraft users. I know of at least one pilot who sold his aircraft and hangar because the price of fuel made it prohibitive to fly.

It is a somewhat different story with jet fuel but here too, we are seeing significant evidence of the effects of elasticity of demand. While overall operations declined due to the decline in piston traffic, the demand for jet fuel at Centennial Airport rose slightly by 3.2 percent. While the increase suggests a stronger market as compared to AvGas, economics and other evidence point to significant price sensitivity among turboprop and jet operators as well, especially among the charter and fractional companies. Indeed, significant pressure is placed on FBOs to keep lowering costs. Contract fuel with FBOs has become the rule rather than the exception and fractionals alone accounted for as much as 20 percent of all jet fuel sold at the airport last year. Of course, contract fuel means smaller margins for the FBOs who must increasingly look elsewhere for revenue growth. As jet fuel prices rose last year, Centennial Airport witnessed a phenomenon on a scale not been seen before. Due to robust competition, Centennial Airport's jet fuel prices were on average $1.00 per gallon less than at San Francisco International Airport (SFO) and some operators chose to tanker at Centennial Airport rather than purchase fuel at SFO. Operators, who tankered at Centennial Airport, saved thousands per business trip. Finally, only last week Centennial Airport saw the opening of its fourth FBO, except this FBO sells fuel at cost to members because, as a commodity, fuel is always the most contentious, and these days, the most volatile expense of operating an aircraft. While some of the above examples are anecdotal, it strongly suggests that among turboprop and jet operators, the sky has a limit. Therefore, substantial increases in the excise tax will have a detrimental and possibly disproportionate impact on the industry. General Aviation system users do not have the economies of scale or in some cases the ability, to diffuse expenses.

The capacity of GA to react to significant changes in expenses directly relates to the current effort to address the funding of the Aviation Trust Fund. As I see it, there are three primary questions in this debate:

- What is the cost of NextGen?
- How will the FAA pay for this modernization project?
- Does the current system need to be restructured?

The first question is: what will NextGen cost? The Administration has repeatedly called for a more stable funding source, and leveraging capital is such a means to an end. Our clients agree that the system is in need of modernizing, especially those who use the system and may benefit from NextGen. To date, however, the FAA has not fully articulated the definition of NextGen, including the technologies it entails. The FAA has provided a rough cost estimate of $1 Billion per year for this new system but if it took its current business plan to the venture capital market or applied for a bank loan, it would get a polite letter of rejection. It simply lacks the detail necessary to make sound decisions.

The second question is: how will the FAA pay for future modernization? The Government Accountability Office (GAO), as well as the current and past DOT Inspectors General have indicated that the present system will generate sufficient funds to accomplish all of the FAA's objectives, including [leveraged] ATC modernization. Dr. Dillingham of the GAO, and Messrs. Scovel and Mead, respectively, have publicly stated that the Airway Trust Fund could support the move to NextGen, with perhaps some rate adjustments.

The third question is: Does the current system need to be restructured when the existing system collects enough revenue to fund NextGen? First, there seems to be a desire to lessen the burden of funding the airway system with general revenues. The airway system in the U.S. is the safest and most advanced system in the world, and allows for the greatest possible efficiency and productivity in the process of moving people, goods and services. By allowing aircraft to function as time-compression systems, the U.S. economy stays ahead of competition in every aspect while simultaneously creating prosperity for its citizens. In fact, irrespective of whether one actively uses the system as a passenger, American taxpayers benefit directly and indirectly through a variety of transparent and not-so transparent services such the movement of mail, cargo, emergency relief and homeland security, to name a few. So there is a real basis for the current structure of funding the airway system through contributions from the General Fund. At present, the average general fund's share of costs stands at 21.5%, which is considerably less than Amtrak's 35%, or the waterway system, which receives as much as 75% from taxpayers.

The point has been made that GA is not paying its fair share of the costs to operate the system and that greater equity must be achieved. I would like to make it clear that many pilots and aircraft operators I have spoken to are in total agreement and that any disparity should be rectified, which brings me to the proposal to implement "user fees". The Administration's proposal, as well as the provisions in S.1300 to supplement the Trust Fund revenue stream with "user

fees", in addition to increases in the excise tax, will further complicate the economic landscape for GA. User fees will require the establishment of a separate bureaucracy to collect the fees. User fees, as the term implies, are "pay-as-you-go" expenses that we prefer were collected through the current excise tax system, which serves the same purpose. The excise tax collection system is already in place and it is a very efficient way to collect revenue. Although user fees do raise revenue, they also add an administrative layer that is especially burdensome. Our clients who fly international routes complain regularly about receiving separate billings from the EU, often months after the fact making dispute resolution especially difficult. Cost is of course also an issue. Testimony provided earlier this week indicated an estimated overhead cost to administer a user fee account at less than 0.5 percent, however, if the current overhead cost to collect the international overflight fee is an indication, the cost is closer to 1.6 percent.

Both GA and Air Carrier (AC) industries are price sensitive and every dollar counts. It is my fear that as fewer GA aircraft take to the skies due to increased costs, the pressure to increase fees to supplement shortfalls will become greater still. GA does not have the flexibility that air carriers have demonstrated in their ability to absorb large revenue swings. The foregoing notwithstanding, GA is quite willing to pay its fair and equitable share of the operating and modernization costs. There is however, disagreement what that share is. In testimony last week, the Administrator recognized the distinction between the cost allocation of a flight over Montana versus one going into O'Hare. The same could be said for GA flights below and above congested air carrier routes and, only four percent of GA aircraft use ATC services at the 10 busiest airports in the U.S. where cost allocation is highest, including Denver. It seems therefore that cost allocation should be closer to 4 percent than the 11 percent proposed by the Administration.

Disparity also appears to exist in how aircraft are handled. According to pilots flying aircraft to Centennial Airport, which is located underneath the Class B Airspace of Denver International Airport (DEN), AC aircraft receive landing priority over aircraft landing at Centennial. This means that during busy times, GA aircraft landing at Centennial Airport have to circle or have their downwind, base or final leg extended to accommodate AC aircraft. It is for this and the other reasons cited that the cost allocation model presented so far does not provide equity nor does it justify a large shift in contributions from AC to GA. (Anecdotally, the assigned "hold" altitude often means that Centennial bound aircraft orbit in the uncomfortable turbulent inversion layer typical for the Denver area. This "hold" altitude also produces noise complaints).

A good number of our tenants who have followed this issue believe that eliminating the AC fuel tax and increasing the tax on them plus user fees is

simply an unjustified shift to assist the airlines. The airlines have been the beneficiaries of massive government bailouts before, regularly enter and exit bankruptcy, operate at losses in the millions and sometimes billions in spite of record load factors and dump pension funds on taxpayers as if this is an economic model to emulate. I am not a subject-matter expert on airline economics and neither are most of our tenants but logic dictates that theirs is not a sustainable model. GA is willing to pay a fair and justified share related to ATC O&M and modernization costs but it is in no position to become the next bailout partner of the airlines.

In closing, the Administration has not made a clear and convincing case that more funds are needed while simultaneously cutting the Airport Improvement Program by $850 Million. It is to credit of the Senate and the House in making sure that the AIP bar is at $3.8 Billion and I thank you for that. We are also in agreement with you that General Aviation needs to pay its fair share and we would like to have an opportunity to determine what that share is before any cuts are provided to the airlines. Finally, I respectfully urge you to consider issues of equity through the excise tax system rather than with a duplicative and separate fee schedule.

Mr. Chairman and Members of the Subcommittee, I wish to thank you for your time and for inviting me to participate in this important hearing. I would be happy to answer any questions you may have.

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Responses to Questions for the Record From Robert Olislagers
Senate Finance Committee Hearing of July 19, 2007

Questions from Ranking Member Grassley

1. The authorizing committees in both the House and Senate have passed bills in regard to the aviation policy and have also made recommendations concerning aviation related excise taxes. The Senate Finance and the House Ways and Means Committee have not dealt with the excise tax issues incident to the Airport and Airway Trust Fund. Please compare the effects of the authorizing committees' recommended proposals on Centennial's airport population and operations.

   The Senate's version increases the per-gallon excise tax from 21.9¢ to 49.1¢, which represents a 124% increase in the tax on Jet fuel. At Centennial Airport (APA), this would cost operators an additional $3.5 Million in taxes on Jet A, using the 2006 jet fuel sales volume of 12,016,971 gallons as the benchmark. S.1300 does not contemplate an increase on AvGas (piston gasoline).

   The House version, using the same APA 2006 volumes on fuel, would increase the jet fuel tax by 41% or $1.37 Million in revenue, while the AvGas tax increases by 25%, generating only $40,567 annually.

   A sizable segment of buyers of AvGas are highly price sensitive, as demonstrated in Colorado in 2006. The average price per gallon rose 65¢ while demand declined by 26%. A similar but less dramatic shift occurred with jet fuel as demand flattened out after several years of robust growth. It is difficult to determine if the decline in jet fuel demand is due to a softening economy or price sensitivity at the pump; however, anecdotal evidence suggests the latter.

   Therefore, substantial increases in fuel costs would negatively impact airport operations in terms of declining revenues, as 42% of APA's revenue came from fuel sales in 2006.

2. Many types of aircraft and aviation activities normally do not utilize large commercial airport facilities. Please discuss what services Centennial (and other GA airports), as distinguished from major hubs, provides to the neighboring community.

   Centennial Airport recorded over 320,000 operations (landings and take offs) in 2006 that are typical of a GA airport. These operations included flight training—many in preparation for the airlines; air ambulance and life flights, including organ donor transplants and patient transfers to local and regional hospitals; Part 135 charter services; small package cargo, including bank floats for the reserve banks; news and traffic flights; and, recreational and sport flying. Without the benefit of a GA airport, many of these 320,000 operations would have to take place at commercial airports such as Denver International Airport or other high-density hub airports, which will contribute to further congestion and delays. The feared worst case outcome, however, may be the consequent demise of GA altogether, due to high capital costs at air-carrier airports (which are not required at GA airports).

3. There have been several discussions of the appropriate allocation of expenses between different kinds of aircraft operation. Please discuss how Centennial accounts for and allocates expenses in its budget amongst large and smaller jets, turbo props, piston twins, small light piston aircraft, helicopters, charter, corporate, fractional share, flight school, and air ambulance emergency relief.

Centennial Airport does not, per se, account for or allocate expenses as described. The Airport's FBOs do so, however, through a structure of ramp, handling, and hanger charges based principally on size and weight of aircraft. The larger the aircraft, the greater the charge (or alternative fuel purchase requirement). See for example, the following transient aircraft schedule recently implemented by one of the Airport's FBOs:

Facility Use Fee (Transient A/C)

	Minimum fuel	***Facility Use Fee***	***Aircraft***
Piston			
Single engine piston	10	10.00	All
Multi engine piston	20	30.00	All
Turboprop			
Single engine turboprop	30	50.00	All
Small multi engine turboprop	60	125.00	King Air, Cheyenne, Conquest, MU-2, Piaggio P.180, Merlin, Turbo Commander
Large multi engine turboprop	100	200.00	Brasilia, SAAB 340/2000, Jetstream, Metroliner
Jet			
Very light jet	50	75.00	Less than 10,000 pounds
Light jet	100	175.00	Lear 20/30/40 series, Citation 500/I/II/V/Ultra/Encore, CitationJet 1/2/3, Premier, Falcon 10, Beechjet
Medium jet	150	225.00	Lear 50/60 series, Hawker, Citation III/VII, Citation Excel, Westwind, Astra, Falcon 20/50, Sabreliner
Heavy jet	200	300.00	Citation X, Citation Sovereign, Gulfstream, Challenger 300/600, Global Express, Legacy, Falcon 900/2000, Jetstar
Helicopter			
All helicopters	20	25.00	All

4. If Centennial is eligible to receive Airport Improvement Program funds, please discuss your history with this program since 2000. As the money for these grants comes from the Airport and Airway Trust Fund, which is primarily funded by commercial aviation excise taxes, do you think it appropriate for general aviation users who benefit from these grants to contribute more money into the trust fund?

   From 2000 to the end of 2006, Centennial Airport GA users paid approximately $16,013,050.00 in excise taxes, while the airport received $14,444,005.00 in AIP funding. Centennial Airport users—not commercial aviation taxes—actually paid close to $1.5 million more into the Airport and Airway Trust Fund than the airport received back. While this may not seem equitable to our users at Centennial Airport, it is to the system as a whole in which our users also benefit from facilities and resources elsewhere that otherwise would not exist save for the redistribution of resources. The National Plan of Integrated Airport Systems is a system and equity is achieved through this redistribution, not unlike the tax system itself. Direct cost accounting does not assign a value to keeping small aircraft away from commercial airports; however, if small airports did not exist, personal aircraft would have little choice but to use commercial airports, contributing to further capacity delays.

5. What are the benefits to the General Aviation population in using GA versus Commercial airports?

   There are multiple benefits for GA in using GA airports. For starters, there is nearly 10:1 ratio of public use GA airports to commercial airports, giving GA users more options, including accessing remote locations not served by commercial service. GA airport facilities are also less costly since they do not require the same long heavy weight bearing runways required at commercial airports. Capacity delays, which are common at commercial airports, especially since the airlines substituted heavy aircraft in favor of smaller regional jets, are rare at GA airport. As stated in No. 4, the greatest benefit is probably to commercial airports and the airlines; if GA airports did not exist, GA aircraft would have to use commercial airports and today's capacity constraints would pale in comparison. GA airports also serve as fire fighting bases, and in emergencies, as was demonstrated in the aftermath of Hurricane Katrina. Again, not all of these operations would mix well with commercial services, heavily dependent on accurate arrival and departure schedules.

6. You have stated that "GA must pay its fair share". What is general aviation's "fair share"?

   The FAA calculated that GA is responsible for 16% of its workload while it estimates the cost burden at 11%, based on a weighted allocation basis; however, no independent study is available that substantiates those numbers; nor, did the FAA use standard economic models to arrive at is conclusions. Moreover, by way of comparison, the Administrator testified at a Senate Finance Committee Hearing in July of 2007 that ATC service for a flight over Montana has a lower cost allocation than ATC service flying in to Chicago O'Hare Airport. We also know from the FAA's own records that GA accounts for less than 4% of traffic at the Nation's 10 busiest airports, which have the highest cost allocation. Therefore, if GA accounts for less than 4% at the highest cost allocation

centers, is it not reasonable to assume that the overall GA cost share is closer to 4% than the 11% cited by the FAA? For this reason, it seems that the increases in the excise tax as proposed in H.R. 2881 are more equitable.

7. The State of Colorado recently purchased ADS-B ground stations to jump-start the NextGen benefits in Colorado. To what degree will NextGen technology benefit GA? Given the benefits, shouldn't GA pay its fair share? What contribution did AIP or other federal funding make to Colorado's ADS-B?

   The State of Colorado paid entirely for the cost of the Multilateration system, which will be augmented by ADS-B when available. No AIP or other federal funds were used; however, the FAA has agreed to take over maintenance of the system once it is operational. This example of NextGen technology will greatly assist pilots in navigating across the challenging Rocky Mountains and GA should pay its fair share of the system irrespective of use. Rolling the cost of this safety enhancement into the excise tax system is more equitable than charging separate user fees because it spreads the cost out to all pilots including those who will otherwise avoid using the system in order to avoid paying for the services provided.

8. What fees does Centennial Airport charge to those who make use of its facilities? To what extent do these fees and charges recover/offset your operating costs?

   Centennial Airport charges a fuel flowage fee, similar to the excise tax. The fee is collected at the pump by the FBOs, which in turn pay the airport on a monthly basis. Fuel accounted for 42% of the revenues collected in 2006, and, along with ground rents and miscellaneous revenues, ensures that the airport meets its federal mandate to be 100% self-sufficient. (Also, please see Q and A # 3)

9. How would user-fees affect Centennial and its users?

   User fees bring additional cost and administrative burdens that are absent in excise tax increases; no need for a separate collection system and no additional paperwork or dispute resolution protocols. Additional cost and administrative burdens will decrease the number of pilots, which in turn means less business and income across the full spectrum of airport activity. It also could cause pilots to avoid paying for services, making the system less safe and adding costs to the rest to make up the subsequent loss in revenue (Also, please see Q & A # 7). The latter creates a perpetual "ratchet" effect until the system is broke. While Centennial Airport and a few other high demand airports may survive such dynamics to a point, many airports will not, forcing GA out of business or to commercial airports, adversely affecting capacity there.

General Aviation Manufacturers Association

Comparison of Current Aviation Taxes and Fees to FAA, Senate and House Proposals

	Current Aviation Taxes	FAA Proposal (Initial Implementation)	Senate Commerce Proposal	House T&I Proposal
Private GA				
Aviation Gas	19.3¢ per gallon	70¢ per gallon**	Recommends keeping 19.3¢ per gallon	Recommends 24.1¢ per gallon
Jet A	21.8¢ per gallon	70¢ per gallon**	Recommends 49¢ per gallon	Recommends 30.7¢ per gallon
User Fees	N/A	Large Hub Airports (Top 30)***	$25 turbine IFR modernization surcharge	N/A
Scheduled Commercial Airlines, Fractional and on-Demand Charters				
Fuel	4.3¢ per gallon	13.6¢ per gallon**	Recommends eliminating over four years	Recommends no change
Taxes	7.5% ticket tax	Eliminated	Recommends no change	Recommends no change
	$3.40 Segment Tax	Eliminated	Recommends no change	Recommends no change
	$15.10 Int'l Departure Tax*	$6.39 Int'l Departure Tax	Recommends no change	Recommends no change
	$7.50 AK/HI Tax plus domestic tax rate	N/A	Recommends no change	Recommends no change
User Fees	N/A	En Route/Oceanic***	$25 turbine IFR modernization surcharge	N/A
	N/A	Terminal Airspace (Top 285 Airports)***		N/A
	N/A	Large Hub Airports (Top 30 Airports)***		N/A
	N/A	Peak Pricing***		N/A
Cargo				
Fuel	4.3¢ per gallon	13.6¢ per gallon**	Recommends eliminating over four years	Recommends no change
Taxes	Waybill Tax (6.25%)	Recommends eliminating	Recommends no change	Recommends no change
User Fees	N/A	Fees are same that apply to airlines***	$25 turbine IFR modernization surcharge	N/A

* Adjusted annually for inflation
** Adjusted biannually for inflation
*** User fees to be set by the Administrator and adjusted annually

Testimony of Vern Raburn
President and CEO
Eclipse Aviation Corporation

Senate Finance Subcommittee on Energy, Natural Resources, and Infrastructure
"Aviation Financing: Industry Perspectives"
July 19, 2007

Chairman Bingaman and members of the Subcommittee, thank you for the opportunity to testify today on the various legislative proposals to fund the Airport and Airway Trust Fund (Trust Fund) and the need to modernize our air traffic control system.

I am President and CEO of Eclipse Aviation Corporation (Eclipse), located in Albuquerque, New Mexico. Eclipse has successfully designed, developed, certified – and is now manufacturing and delivering the world's first Very Light Jet (VLJ) – the Eclipse 500. To date, we have delivered over 30 aircraft and are on track to deliver more than two hundred by the end of this year. This high-performance aircraft has technology and capabilities normally found in jets costing millions of dollars. With an acquisition cost of one half of today's small jets and the lowest operating cost per mile of any jet, the Eclipse 500 provides the lowest cost of jet ownership ever achieved. This breakthrough has made the benefits of jet transportation available to a broader segment of the population, and inspired an emerging generation of entrepreneurs to bring a new form of air travel to the flying public – the air taxi. It has also opened up a new world of convenient air transportation to a majority of the communities in the U.S. that are simply not served by commercial airlines, thereby enabling significant economic and job growth.

My goal today is to first press upon the subcommittee the importance of modernizing our national air transportation system through the Next Generation Air Transportation System (NextGen) initiative. Second, I will provide my insights and recommendations on the various legislative proposals that address funding our aviation system. And finally, I want to dispel a few myths concerning VLJ integration into the national airspace system.

Before I get into my testimony, I want to first say that all participants in the aviation industry are in complete agreement about the critical need for transformation of the nation's air traffic management system. We must get on with the specifics of modernization, as our aviation system and economy simply cannot afford the system gridlock that is inevitable.

Transformation to NextGen

The opportunity for innovation in our air transportation system is upon us. The FAA estimates that in less than twenty years, air traffic will roughly triple and passengers will double[1]. However, simply tripling the old infrastructure is neither an affordable nor scalable solution. The existing architecture of the airspace is built around technologies developed in the middle of

[1] http://www.faa.gov/data_statistics/aviation/long-range_forecasts/media/long06.pdf

the last century. A good analogy, and one that the FAA has used, is that the current system is like the old telephone system with operators connecting lines manually with patch cables. That telephone system became saturated and was not scalable to the levels that modern business and consumers demanded. The Air Traffic Management system is under considerable strain as the demand for air travel increases and as the system's antiquated technology backbone is overwhelmed.

To its credit, the FAA recognized this growing need and in 2003, with the assistance of Congress, created the Joint Planning and Development Office (JPDO) charged with leading, along with aviation stakeholders, an effort to conceptualize and plan the NextGen. Under FAA Administrator Blakey great progress has been made and the transformation to NextGen has already begun.

NextGen technologies will be the most sweeping change to the way we fly since the current system developed during the 1940s and 1950s. These "transformation" technologies are really a re-architecting of the airspace, airports, and aircraft. Transformation includes such concepts as satellite- and airborne-based digitally communicated flight information; self-separation and sequencing; "free flight" or direct routing instead of the current, crowded air lanes system; RNP (required navigation performance), which creates more usable airspace; and four-dimensional flight trajectories (three spatial dimensions plus time). The benefits to the public include increased safety, more choices, more destinations, shorter travel times, greater ease in travel planning, and diffusion of economic opportunity beyond the Interstate off-ramps and hub airports. But the overarching benefit will be a fully scaleable, network centric Air Traffic Management system that will increase the nation's air traffic capacity by a factor of 3 and last well into the 21st century.

I am concerned, however, that these innovations and their tremendous benefits will be derailed by some of the proposed FAA funding concepts.

Funding Proposals

Before I discuss the legislative proposals before us today, let me first make one thing abundantly clear – I believe we as the aviation community, both GA and air carriers, need to be paying more to make the transformation to NextGen. I may not be completely in line with my GA colleagues on this point, but I do believe GA needs to pay more into the system. But we shouldn't be the only ones. Everyone using the system needs to pay more. I completely agree with Senator Lott who was quoted recently as saying "every one of you is going to have to pay more, do more, give more. It's time we do something grand. You're all going to pay more."

The various legislative proposals introduced over the last several months all impact the future financing of the Trust Fund and modernization. To be clear, however, the current funding debate is not an issue of funding levels needed to modernize. According to the Congressional Budget Office's testimony delivered last week before this committee, the existing funding structure, if maintained, can support over the next decade about $22 billion in additional spending over the baseline FAA spending levels. This is in line with estimates made by the FAA for NextGen costs between $15 and $22 billion through 2025.

In addition to the FAA NextGen costs, there are also estimates that show an aircraft equipage cost needed for existing aircraft to operate in the NextGen will be in excess of $20 billion over the same period. The Eclipse 500 will be fully NextGen compliant by the end of next year at a cost in the thousands of dollars. That is possible because our aircraft is a new design employing the very latest in digital technology.

Unfortunately the current funding debate is being disguised as a NextGen funding debate, but it is really about shifting the costs of operating the entire system from one user group to another. I believe that it is the spoke and hub business model that drives the majority of system costs and congestion, not the introduction of VLJs. As I testified last year and the FAA also agreed, the introduction of VLJs will not cause delays in the system. VLJ operators and owner pilots will use their aircraft to go where the airlines don't, avoiding the congestion associated with the hubs. Why should Eclipse and other VLJ operators be required to subsidize a hub and spoke system, when in reality VLJ's will neither require nor seek regular access to major hub airports?

In fact, it is the advent of the VLJs and its air tax operators – like DayJet – that will provide smaller, rural communities access to affordable air transportation. Mr. Chairman, I know this is of importance to you, as well as Chairman Baucus and Ranking Member Grassley. One of the more persistent arguments being made in this debate is that the flying public, through the taxes they pay on airline tickets, are subsidizing corporate aviation through their contribution to the Trust Fund. However, I must remind the Committee that, in fact, the public taxpayers continue to subsidize commercial, scheduled service at over 140 commercial airports through the Essential Air Service program. In spite of the fact that smaller communities desperately need air transportation to drive business development and economic growth, the reality is that there is significantly less air service available today as measured by communities directly served. Virtually all of these communities have underutilized airports that can be used as economic growth engines. In the face of these challenges, the advent of the Eclipse 500 and other VLJs is playing a critical role in revitalizing the GA industry and improving air transportation to underserved communities throughout the country.

It is important to keep the end users in mind as you evaluate any new funding mechanism. As illustrated below, some of the recent proposals could have a dramatic effect on Eclipse and could ultimately slow down this revitalization of air transportation to smaller communities.

Unfortunately, the Administration passed up a unique opportunity to lay the foundation for NextGen. The FAA's reauthorization bill, entitled "The Next Generation Air Transportation System Financing Reform Act of 2007," was not welcomed by many Members of Congress and rightfully so – it focused too much attention on the abolishment of the current funding system and too little on modernization. It failed to outline the technologies, the timeline or the costs of the next phase of modernization. The bill's user fee proposal would have raised $900 million less than the current funding mechanism (fuel and excise taxes). Specifically, the bill increases the fuel tax for Eclipse 500 operators by over 200% while eliminating the passenger ticket and segment taxes for commercial carriers, thereby decreasing their overall contribution to FAA and NextGen funding.

I complement the Senate authors of S. 1300, "The Aviation Investment and Modernization Act" in getting a bill out of the gate. S. 1300 would establish a new $25 per flight fee or tax for all turbine-powered operations flying IFR. This fee is expected to generate approximately $400 million per year which will go into a FAA Modernization Account. The bill also recommends that the Jet-A fuel tax paid by Part 91 turbine operators be raised from 21.8 cents per gallon by 49 cents per gallon and that the 4.3 cents per gallon fuel tax paid by commercial carriers be phased out.

Eclipse strongly opposes the $25 per flight fee as it will penalize the Eclipse 500 more than any other aircraft flying today! We will deliver more than 1,200 aircraft by the first half of 2009. Under S. 1300, these first 1,200 Eclipse 500 operators would be paying between $17 and $30 million annually in new fees[2]. That is roughly (based on a conservative estimate) 5% of the $400 million the FAA is to collect annually for modernization projects. As much as I would like to see Eclipse 500's populate the system in this way, I can tell you with certainty that our aircraft will not be using anywhere near 5% of the system or comprise 5% of the operations within the NAS.

S. 1300 also disregards the fact that the Eclipse 500 is the most fuel efficient jet on the market and gives an advantage to turbine powered turboprop aircraft flying VFR. The bill is based on the premise that a "blip is a blip". Simply stated size matters. While a comparison between a Boeing 767 and Gulfstream G550 has some validity, comparing that same Boeing 767 to an Eclipse 500 severely strains any concept of creditability. Likewise characterizing aircraft merely by their propulsion system is just plain silly. The $25 per flight fee is regressive as it treats all airplanes the same whether they are a 6-seat Eclipse 500 flying on short segments (Albuquerque, NM to Demming, NM; Gainesville, FL to Naples, FL or Dayton, OH to Charlottesville, VA) or a Boeing 767 on cross country flights (JFK to LAX or SEA to MIA). Overall, the $25 per flight fee is an extremely regressive tax on Eclipse and its customers, the vast majority of who will operate short haul flights into underutilized airports and communities.

In summary, S. 1300 doesn't meet the equity test. In addition to a new $25 per flight user fee, it more than doubles the fuel tax for Eclipse operators, while phasing out the 4.3 cents per gallon fuel tax for commercial operators. This is not following the philosophy that everyone will need to pay more.

I am encouraged by the provisions of H.R. 2881, "The FAA Reauthorization Act of 2007." The bill makes modest adjustments to Jet A fuel tax and Aviation Gas tax paid for by GA operators. Fuel taxes are perhaps the simplest and most efficient way to pay for system use as they are paid for at the pump. Just as Congress is planning to increase the automotive CAFÉ level to encourage fuel conservation, a fuel tax will encourage user to modernize their fleets with more fuel efficient aircraft. The bill also does not make any changes to the current fuel taxes paid for by the commercial carriers. So, it increases taxes for GA operators while maintaining the status

[2] It is estimated that of the 1,200 aircraft delivered approximately 400 will be put into air taxi use and 800 will be flown by individual owners. Air Taxi Eclipse 500 operators with 400 aircraft will fly approximately 1,300 to 2,080 flights per year, which equates to $13 million - $20 million in new taxes per year. 800 owner Eclipse 500s will fly approximately 160,000 to 400,000 total flights per year, which equates to $4 million - $10 million in new taxes per year.

quo for the commercial operators. While I would prefer to see all entities using the aviation system pay more to fund modernization, H.R. 2881 is currently the most reasonable approach to funding NextGen.

Let me be clear, Eclipse and its customers are willing to pay more into the system for modernization. We believe strongly in the need and importance of transforming our system. We have waited long enough. However, we would like to see any increase be administered through the fuel tax which is a more equitable way to fund the system and not through a regressive user fee. The amount of fuel purchased is directly related to the time, distance and facilities used by our aircraft. And it is a fair proxy for the size of an aircraft and the impact on all aviation facilities. It discourages flights into congested airspace and airports where holding patterns and ground delays waste fuel and it promotes fuel efficiency and conservation.

Myths

Let me just briefly address some misconceptions associated with VLJs and airport congestion. As mentioned earlier, VLJs will not utilize the airspace around major hubs. FAA data supports this with GA operations accounting for only six percent of the operations at the Operational Evolution Plan (OEP) 35 airports which is where 73 percent of the passengers fly through and 90 percent of the delays in the NAS come from.

In addition, I want to clarify some of the misinformation regarding the causes of delays in the system. Below is how the Bureau of Transportation Statistics has summarized the causes of Airlines delays for May 2007 (http://www.transtats.bts.gov/OT_Delay/OT_DelayCause1.asp):

- On-time 77.91%
- Air Carrier Delay 5.76%
- Weather Delay 0.76%
- National Aviation System Delay 7.49%
- Security Delay 0.06%
- Aircraft Arriving Late 6.71%
- Cancelled 1.08%
- Diverted 0.23%

The National Aviation System (caused) delays (7.49%) are provided in further detail at http://www.transtats.bts.gov/OT_Delay/ot_delaycause1.asp?type=5&pn=1 and the specific causes are as follows:

- Weather 60.28%
- Volume 24.58%
- Equipment 1.55%
- Closed Runway 10.59%
- Other 3.00%

If you parse out the 24.58% attributable to volume, you will see the only cause that GA could be influencing. This would mean GA could only be a factor in causing delays in 1.84% of flights (0.0749 x 0.2458). However, with GA only accounting for 6 percent of flights at the OEP 35,

isn't it more likely that the 1.84% of flights affected by volume delays, are actually more affected by airline volume than GA traffic?

Besides the fact that airlines drive delays due to their operating patterns they also cause delays merely by the size of their aircraft. Large aircraft require far more air and ground space. Interestingly the 22nd busiest airport in the world is an exclusive general aviation airport in Phoenix, AZ called Deer Valley. In fact it is busier than Boston-Logan, New York-LaGuardia, JFK, Miami, Washington Dulles, or San Francisco. It is important to note that you do not see the delays at Deer Valley that are the norm at those other less busy, commercial airports. Once again physics provides the explanation. Large air transport aircraft require bigger runways, bigger parking spots and much more airspace to arrive and depart.

Some others believe that VLJs will clog our airspace and create gridlock in the skies. The reality is that there is significant available airspace to accommodate these new aircraft. Because the existing U.S. air routes operate like railways – as narrow, pre-determined paths in the sky – airspace on popular routes is crowded. Each aircraft must be separated from the others by carefully defined vertical and horizontal distances. Because of the architecture of the existing system, airspace appears scarce; in reality, airspace is abundant. The challenge lies in accessing the utility of this abundance, through technology. Since VLJs are technologically advanced and nimble and will use complementary airspace and airports, they will not impact the increasing congestion in the large airport system.

Thank you for the opportunity to testify before the Senate Finance Subcommittee on Energy, Natural Resources and Infrastructure. I hope that my comments are instructive to understanding the importance of modernizing our air traffic system; the impact of funding proposals on the Eclipse 500; and the incorporation of VLJs into the NAS.

We look forward to continuing to work with you as you craft the financing title to this important legislation.

Respectfully submitted,

Vern Raburn
President and CEO
Eclipse Aviation Corporation

Statement of Richard W. Shine
CEO, Manitoba Recycling

Chairman Bingaman and members of the Subcommittee, good afternoon. This marks the first time I've spoken to a Congressional Committee, and it is a privilege to be before you today to discuss modernization of the nation's aviation system.

My name is Richard Shine. I'm here on behalf of the National Business Aviation Association, but I'm also a proud member of the Aircraft Owners and Pilots Association.

I'm the CEO of Manitoba, a family-owned metals recycling company headquartered in Lancaster, New York. My business employs 60 families in our community.

When my grandfather founded Manitoba in 1916, the company was able to collect all the metals it needed to stay in business from within forty miles of our recycling plant. But, since I joined Manitoba in 1970, the 20 local manufacturers that provided scrap metal to Manitoba have been reduced to one. At some point, we needed to expand our business base, and that's where business aviation came in.

I decided to apply the flight training I received in the Air Force to fly to locations beyond Lancaster to find scrap metal providers. Our plane covered a lot of ground and got us in front of a lot of people. We didn't land every account, but we got enough of them to survive.

The aircraft we use today is a turbine-powered propeller plane, or turboprop, called a Mitsubishi MU-2, like the model I have here before me. As much as ever, we rely on this plane to get outside our region and generate the metals we need to stay in business. The plane has been the secret to our success, and I'm confident that will continue to be the case.

So basically, Mr. Chairman, I represent a small business that operates a turboprop airplane to help my company survive. My story is not unique. Every Member on this Committee has businesses in their state with a story like Manitoba's.

In fact, most companies that use an aircraft are like mine: small and mid-sized businesses that operate just one small plane. We mostly use piston planes, turboprops or small jets that are about the size of an SUV. They seat about six people inside and fly relatively short stage lengths, mostly using small community airports.

You don't often hear about companies like mine in discussions of business aviation. Instead, the focus is always on big Fortune 500 companies. But, I hope the members of this subcommittee understand that for every Fortune 500 company that relies on turbine powered business aviation, there are eight or nine companies like mine.

You also don't hear much about the many benefits that derive from the use of airplanes by businesses like mine. The fact is, my local airport doesn't have airline service. My business and others are the tenants, providing jobs to the airport workers, pilots, mechanics, ramp workers and others. These are good jobs in places like upstate New York.

The reason you've asked me here today is not just to talk about the benefits of business aviation, but how we should fund the modernization of the FAA. If there is anything you take from my testimony, it is this: the general aviation community, of which I'm a part, supports modernization of our aviation system and is willing to help pay for it.

But what I want this subcommittee and the rest of Congress to understand is that we want to pay at the pump—not through user fees or new taxes.

The fuel tax is a simple, proven and efficient way to measure and pay for system use by operators like me. I pay my taxes at the point of service, which is when I fuel up. If some company has a bigger airplane they'll burn more fuel and pay more fuel taxes. This means my turboprop will pay less than a jet, but more than a small piston plane, which is fair. And, once I've paid at the pump, the government has its money—no paperwork, no collection agents, and no worries about deadbeats or bankrupt companies.

Now, I'm a businessman from upstate New York, and not a policy expert. But it seems to me that the proposal from the House Transportation and Infrastructure Committee to fund FAA and modernize the system gets it right. From what I have read, this proposal would generate additional money from general aviation to modernize the aviation system while letting general aviation continue to pay exclusively at the pump.

I don't understand why anyone would want to replace the simple payment system we have with one based on user fees or some new unproven formula. Unfortunately, other proposals that I've seen not only move from our current structure toward user fees, but also shift huge costs onto general aviation.

I have personal experience with user fees. Lancaster is close to Canada, so I've often flown into Canadian airspace. Canada's user fee system, NavCanada, is very onerous to comply with.

Here's how that system works: Some weeks after my flight, NavCanada's bureaucracy sends me an invoice. If I've made multiple flights, I get multiple invoices. I have to take out the invoices and review them to make sure that they've charged me correctly. If they haven't, I need to get on the phone to dispute any inaccurate charges. If the charges are correct, I need to fill out a purchase order, cut a check, and put the check and invoice back in the mail to NavCanada. Obviously, this imposes a significant and hidden administrative cost to my business.

I can't figure out why anyone would want to put this kind of burden on businesses like mine when we already have a better and more efficient system in place. Manitoba runs on a very narrow profit margin. As a businessman, I'm always looking for ways to increase efficiencies, reduce red tape and decrease administrative overhead. User fees will run counter to all of that.

There is an important difference between adjusting the current tax rates to generate more revenue for modernization and overhauling the system to shift costs between segments. I hope Congress will reject user fees, and oppose anything that would take money from my business to give a tax break to someone else. Asking me to pay for modernization is one thing. Asking me to pay for a tax break for some interest group is another. I am willing to pay an increased fuel tax for modernization. I am not willing to foot the bill for someone else.

Mr. Chairman, let me close by reiterating that if this Committee determines that additional revenue is necessary to modernize the nation's aviation system, I am willing to make an additional contribution to that effort. But please let me continue to make that contribution by paying at the pump, exclusively through the fuel tax.

This is an important issue to me, and I appreciate the invitation to testify. Speaking on behalf of the business aviation industry, I wish to express my willingness to work with you and the members of the committee to craft a reasonable plan to reach our shared modernization goals.

I am happy to answer questions.

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BEFORE THE
COMMITTEE ON FINANCE
ENERGY AND INFRASTRUCTURE SUBCOMMITTEE
UNITED STATES SENATE
WASHINGTON, D.C.

TESTIMONY OF
FREDERICK W. SMITH
CHAIRMAN, CEO AND PRESIDENT, FEDEX CORPORATION
CHAIRMAN, FEDEX EXPRESS

ON

FUNDING THE FEDERAL AVIATION ADMINISTRATION

JULY 19, 2007

Good afternoon. My name is Frederick W. Smith and I am the chairman, CEO and president of FedEx Corporation and the chairman of its FedEx Express subsidiary. It is my honor to be before you, representing the more than 143,000 men and women working for FedEx Express, the nation's largest express transportation company. Through our integrated air and ground network, we provide our customers with express services for documents and goods to every address in the United States and we connect those customers to over 220 countries and territories around the world.

The challenge before you is to secure the future of air transportation in the United States. Will our airlines be able to provide world-class services to passengers and shippers both within and beyond the U.S, or will our air transportation system grind to a halt, with growing demand by users chasing limited services provided by an outdated technology?

The Federal Aviation Administration has proposed a new system of air traffic control which they call the Next Generation Air Transportation System ("NextGen"). This system would end the decades-old dependence on ground-based radar and take advantage of new satellite technology to provide a more effective and efficient system. This system would increase airspace capacity, provide U.S. passengers and shippers with more reliable service, and promote environmental goals by eliminating inefficient routings and traffic holds – all goals that, in this summer of travel delays, high fuel charges and climate change concerns, are vital to our nation's future.

The debate so far has centered on how to finance such a new system. My company does not favor one method over the others. But we do believe that there are some basic policy goals that should guide your choice of financing. First, all users of the system should pay their fair share. Second, the financial arrangements should recognize that the nation's airspace is a critical asset: it protects our national security and it is an economic pillar for all types of consumers and businesses. Third, the system should raise sufficient funds not just to sustain our national air traffic control system as the safest in the world but to modernize it, allowing it to carry forward that level of safety into the coming decades while expanding in size and improving in efficiency.

In developing a financing plan to fund the system, this Committee should be aware of the vital role that air cargo and express industries play in our national economy. We deliver the high-value, time-sensitive cargo on which this economy depends, and we connect U.S. businesses to the world. We operate the transportation system on which the U.S.

Postal Service relies. We operate at large and small airports throughout the U.S, ranging from Kalispell's Glacier Park Airport in Montana to New York City (where we fly to both New York's JFK and Newark's Liberty). Mom-and-pop shops, multinational conglomerates – in big cities and in rural locations – we serve America's businesses. And those businesses must run efficiently and on-time. That's why we think the work this Committee will do to reauthorize the taxes that fund the FAA, coupled with the work of the Commerce Committee to reauthorize the programs of the FAA, including its air traffic control functions, is important not just to the airline industry or to the air cargo industry, but to the entire U.S. economy

Our shippers expect their packages to be delivered on time. We guarantee on-time service to our customers or we will give them their money back. That's a powerful reason for FedEx to operate an on-time system – not only do our customers depend on our timely service, but our business model does as well.

But in order for us to be able to offer U.S. companies our hallmark "just-in time" service, we need an air traffic control network that works well and consistently. Our customers don't really care that a delay was "outside of our control" – that we had ATC delays or whatever. They just want – and expect and deserve – their air shipments to reach the destination on time. We want to operate an on-time aviation machine, making airline schedules "just-in time" rather than "just-in-case."

A modernized air traffic control system is not just an option anymore, but an absolute necessity. We agree with the Administrator who told a Senate gathering last week: "If we wait for tomorrow, we're toast."[1] The air cargo segment is growing faster than the passenger portion, with growth rates averaging 3.3% domestically and 6.3% internationally per year expected until 2020.[2] We cannot sustain this expansion, and offer the services needed by a growing U.S. economy, if the ATC system continues to be overwhelmed. Airlines cannot be asked to spend each day merely trying to catch up to the schedule. That's why we think the issues facing you here today are important not just to the airline industry or to the air cargo industry, but to the entire U.S. economy.

S. 1300, sponsored by Senators Rockefeller and Lott, sets forth a reasonable approach and a blueprint for success in the development of a modernized air traffic control system. It provides for a future NextGen system that will address the crying needs for air traffic modernization and includes elements that provide linkage between financing and usage. We worked closely with Senators Rockefeller and Lott and all recognize and support the hard work that they did to move that bill forward. But as I said before, that is only one piece of the puzzle. This Committee has the responsibility of providing the overall funding stream for the FAA. It is a challenging and daunting task, and as you are well aware there are extremely divergent and strong opinions about the best way to address the overall funding stream for the FAA. At FedEx, we are not wedded to any one financing system. What we want is to continue to pay our fair share into the system. Right now,

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[1] Marion C. Blakey, speech, "Action Now", Senate JPDO Day on the Hill, July 11, Washington, D.C.

[2] U.S. Department of Transportation, Federal Aviation Administration, FAA Aerospace Forecasts, Fiscal Years 2007-2020.

all-cargo air carriers pay an amount in excess of 100% of their burden on the ATC network, through a combination of the cargo waybill excise tax and the fuel tax.[3] Whether the new funding system is tied to actual usage or the waybill and fuel taxes are maintained, we don't have a strong preference provided the all-cargo industry is not shouldering a disproportionate cost burden. We should not be asked to accept a more unequal burden on all-cargo operators than the status quo – where we now pay more than 100% of our fair share.

Furthermore, just because we are avid supporters of an updated ATC system, we should not be viewed as a "deep pocket" which might make up system shortfalls created by the unwillingness or alleged inability of other users to pay the costs of much-needed modernization. This would be particularly unfair since the all-cargo industry, which operates at off-peak hours, actually imposes less of a burden on the ATC system than a straight time-in-system or per-flight calculation would reflect.

The FAA has historically received a significant portion of its funding from the general fund. Past FAA bills, and the current one, S. 1300, continues a contribution to the funding of the national ATC network from the general fund. We believe that it is critical for an FAA bill to support nercesssary growth in infrastructure costs. To that end, we want to ensure that S. 1300 especially in the later years, reflects the necessary funding to continue to address system needs. Funding for Fiscal 2009 and 2010 would actually be decreased from Fiscal 2008, which is in turn below historic amounts. The general fund

[3] See, Testimony of Stephen A. Alterman, Cargo Airline Association, submitted for today's hearing, for more data on all-cargo contributions to the present ATC funding scheme and the use of the ATC system by the industry. Appendix B describes the tax payments made by the all-cargo carrier segment.

contribution should recognize the value of a well-run air transportation system to the U.S. economy, as well as reflecting public use of that system. We would strongly suggest that this Committee include financing sufficient to increase the general fund contribution, rather than decreasing it, at this critical juncture.

In looking at needed changes in the ATC system, there is more than just a funding system that should be considered. Controls are also critical: it is also important that users become more involved in the decisions going forward. In the run-up to the announcement of the Administration's bill, the FAA told the industry that under its user fee system, it would be "user pays, user says." However, the advisory board format put forward in their proposal consigned users to merely making suggestions rather than decisions, while the Administrator and Secretary of Transportation would have ended up with unparalleled power over the system design, funding and performance. Listening to users (or other stakeholders, including Congress) would be at best an optional event. The FAA proposal would have even eliminated the "nuclear" option of judicial review, making airlines totally captive payers, just writing checks. We have to maintain some accountability outside of the FAA, so that the resultant NextGen system meets the present and future needs of users.

Finally, although the bill is not before this committee, we commend the drafters of S. 1300 for limiting the bill to addressing the critical priorities of the FAA going forward. A modernized air traffic control system, increased research and development funds for aeronautical innovations (particularly in the environmental area), and mechanisms for

continued development of America's airports – these are and should be the focal points for this reauthorization legislation. We hope this committee will also embrace that view. It is unfortunate that others in Congress have used this critical legislative moment as an opportunity to introduce unrelated labor and ancillary concerns into the process, which could defeat an important initiative required today by the shipping and traveling public.

In summary, I appreciate the invitation to testify on this important subject. The U.S. air traffic control system must be modernized and such an initiative should not be delayed. Payment for such modernization should be through a fair and equitable system, balanced to reflect the burdens placed on it by the users, along with a general revenue contribution that reflects the high value of the national airspace as an economic and security asset. Time is of the essence. Thank you for giving me a portion of your valuable time.

Oral Testimony of
James Whitehurst, COO, Delta Air Lines, Inc.
before the
Subcommittee on Energy, Natural Resources and Infrastructure
Committee on Finance
U.S. Senate
July 19, 2007

Good afternoon.

Mr. Chairman and Members of the Subcommittee, it is a privilege to be here today representing both Delta Air Lines and the Air Transport Association. I would request that the statement of ATA be included in the record.

Civil aviation in the United States is at a tipping point. The inescapable reality is that the demands of our customers cannot continue to be met by the current outdated, 1950s era air traffic control system. Delays in the system are at record levels and cancellations, due to the failure of the system to accommodate demand, are up at an alarming rate. Flight delays cost passengers $10 billion and airlines $7 billion annually.

Passenger and cargo airlines in this country operate more that 30,000 flights a day, carrying over two million passengers and 55,000 tons of cargo to thousands of cities in all 50 states. This activity drives $1.2 trillion in economic contributions to the economy and produces 11.4 million jobs. If we do not act now to modernize the ATC system, airlines will be forced to curtail growth. The benefits associated with a healthy, vibrant economy could be lost or severely diminished.

Furthermore, NextGen is green. It is estimated that deployment of NextGen would reduce CO_2 by 10-15%. For example, in Atlanta introduction of RNP procedures is projected to eliminate 483 million tons of CO_2.

Frankly, today's outdated system – relying on radar and analog radio technologies – is only "getting by" due to a lot of hard work by our dedicated employees, the FAA, committed air traffic controllers and others, who make the system work despite its many flaws and inefficiencies. My concern – and that of my fellow airline executives and employees – is that the system has reached its saturation point. With passenger demand projected to grow from 745 million to 1 billion by 2015, and with 10 to 12 thousand new corporate jets expected to enter service in the next 10 years, this situation will only get worse. The ATC system must be fixed to avoid gridlock.

Mr. Chairman, the ATA passenger carriers have come up with a financing formula that would generate the revenue needed to fix the system. It restores fairness to the funding system as it ends the indefensible subsidy of business aviation that could and should pay its fair share.

Certified FAA data concludes that airlines and their customers pay more than 90 percent of the taxes and fees to fund the ATC system, but airline operations drive less than 73 percent of the costs. High-performance turbine aircraft (that's jets, not piston) – corporate jets, air taxis and fractional ownership jets that use the same airspace and ATC services as airlines – only pay about 6 percent of the taxes but drive around 16 percent of the costs.

The ATA proposal restores Congress' original principles of fair and cost-allocated excise taxes; provides more predictable revenue to meet growing operational and capital requirements as system use grows; ends airline passenger subsidy of corporate aviation; is simple and understandable with minimal administrative costs; and accommodates the most important goal of ensuring affordable service to small communities.

The funding mechanism – a passenger tax – takes advantage of the existing tax collection infrastructure but is tied to projected costs. Our proposal is grounded in the principle that taxing departures and distance is the best way to recover the costs aircraft impose on the air traffic and airport infrastructure. In addition to these domestic taxes, ATA proposes to maintain the current international arrival and departure tax.

Unlike today's current system, ATA's proposal would generate revenue that would increase as passenger growth climbs, and more closely links actual costs to the ticket tax. The current excise tax structure is largely tied to ticket prices and bears no relationship to cost. Think about it, a typical flight from Atlanta to Washington, D.C. could cost a passenger $200, $400 or $1200, depending on when the ticket was bought and other factors. Based on the 7.5% ticket tax, passengers sitting next to each other are paying widely disparate taxes not even remotely related to the ATC costs the flight incurs. That makes no sense. It especially punishes passengers from smaller cities that most often have to pay a segment fee to connect and higher average fares than travelers from major

metropolitan areas. We estimate that ATA's fairer, cost-based financing proposal based on direct routings would reduce taxes for passengers in Montana by 26%, 27% in Iowa, 30% in Mississippi, 36% in West Virginia and 20% in New Mexico. The departures and distances of flights drive ATC costs, not the price of the ticket.

In closing, we are asking that airline passengers pay their fair share – no more, no less – of the costs necessary to pay for the airport and airway system. Business aviation should pay its fair share, and quit relying on airline passengers to make up the shortfall.

Thank you for this opportunity to share our views and recommendations. I would be pleased to answer any questions that you may have.

Statement of
Air Transport Association of America, Inc.
submitted by
James Whitehurst, COO, Delta Air Lines, Inc.
before the
Subcommittee on Energy, Natural Resources and Infrastructure
Committee on Finance
U.S. Senate
July 19, 2007

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 system[2] 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 percent[3] 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 revenues[6] but drove an estimated 14-19 percent of ATC costs.[7]

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[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 $961million 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**	**2006E**	**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

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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 lead 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

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[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.

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

[15] H.R. No. 91-601, reprinted in 1970 U.S.C.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 group 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.

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Statement of Aircraft Owners and Pilots Association

for the Record

for the

U.S. Senate Finance Committee
Subcommittee on Energy, Natural Resources & Infrastructure

Hearing

On
Aviation Financing

July 19, 2007

The Aircraft Owners and Pilots Association (AOPA) is a not-for-profit individual membership organization of more than 412,000 pilots. AOPA's mission is to effectively serve the interests and needs of its members as aircraft owners and pilots and establish, maintain, and articulate positions of leadership to promote the economy, safety, utility, and popularity of flight in general aviation aircraft. Representing two thirds of all pilots in the United States, AOPA is the largest, civil aviation organization in the world. The U.S. accounts for 75 percent of all general aviation activity.

Pilots flying in the United States experience first hand the safest and most efficient air transportation system in the world. The network of 5,200 public use airports, complemented by the more than 13,000 privately owned landing facilities is a unique national resource. Because AOPA members are involved in personal and business aviation, the majority using their aircraft in the way each of us use our personal automobiles, they place a high level of importance on the government's involvement in supporting this system.

A majority of these individual pilots and aircraft owners pay for the aviation excise taxes out of their own pockets, like we do for automobile gas, and as you might imagine, are extremely interested in FAA reauthorization and the debate over FAA funding.

AOPA member's sentiment about the current economic condition of the general aviation economic environment is at a six year high. In a recent survey, more than 50 percent of AOPA members rate it as "good" or "excellent." This is due in large part to the technology being incorporated into the aviation system. General aviation pilots were early adopters of satellite technology with more than two-thirds of AOPA members currently using GPS as their primary means of navigation. As a group, pilots are supportive of the move from 1950's radar to ADS-B, the central component of the Next Generation Air Transportation System (NextGen) that modernizes the nation's air traffic control (ATC) system.

AOPA has been involved in the proof of concept for this new technology, known as the Capstone program field-tested in Alaska that has contributed to a reduction of fatal accidents by 49 percent. For over seven years, AOPA has hosted an FAA ground uplink station in its headquarters and regularly demonstrated this technology installed in several of our company aircraft

There is no doubt that AOPA is committed to modernize the ATC system, the big question is how to pay the FAA an estimated $4.6 billion needed over the next five-years for NextGen.

The FAA's and the nation's airlines two-year plus push for user fees and dramatic increases in taxes on general aviation has led to an increasing pessimism among AOPA members about the future of general aviation. The fear, based in large part from what has happened around the world, is that

ultimately pilots will be priced out of the sky. Nine out of ten AOPA members stated that if the tax on aviation gasoline is increased by 50-cents per gallon as proposed by the FAA, they will reduce or curtail their flying.

Current Financing System Works
AOPA believes the aviation system should continue to be financed through a combination of aviation taxes and general treasury funds. The aviation excise taxes have been a stable and reliable source of revenue for the FAA for over 40 years. And, Trust Fund revenues are at an all time high. Credible government officials have all testified that air traffic control modernization can be accomplished through the existing FAA tax-based funding mechanism. The Office of Management and Budget revenue projections indicate current taxes can support aviation investments. The Government Accountability Office has testified on several occasions that modernization can be accomplished under the existing FAA financing structure. Likewise, the Department of Transportation Inspector General has stated that the current tax system can fund the FAA, and increase spending for NextGen as long as there is a general fund contribution.

User Fees Are Not the Way to Fund the Aviation System
My request to you, Mr. Chairman and members of the Subcommittee, reject the calls for user fees for any segment of aviation. While I know that the Finance Committee does not have jurisdiction over the $25 air traffic control modernization surcharge (user fee") included in S. 1300, we urge your action to provide the aviation taxes necessary to fund the aviation system, eliminating the need for the $25 fee. Then, we can all get on with the real issues at hand through a productive, meaningful discussion on how to strengthen the nation's airports and modernize air traffic control – the plan, design, implementation -- that enables the U.S. to continue its global aviation leadership position.

While the majority of AOPA members are exempt from the $25 user fee in S. 1300, AOPA opposes user fees for any segment of aviation. User fees for any segment of aviation are the "camel's nose under the tent" and once introduced it is only a matter of time until they apply to all users. As we have seen in foreign countries, there is a trickle down effect that in a relatively short period of time charges all users for segments of the air traffic system. During debate on S. 1300, the $25 user fees was frequently referred to as a starting point for the collection of fees. That is the reason AOPA's members told us to oppose the ATC surcharge – even though the majority (those not purchasing jet fuel) of them would not be immediately covered.

With that being said, AOPA does not believe that status quo is an option. We were pleased when the House Transportation &Infrastructure Committee made its recommendation to the Ways and Means Committee to retain aviation taxes as the means to finance aviation system from aviation users. Despite a 25 percent increase in the tax on aviation gasoline and a 41 percent increase in the tax on jet fuel, AOPA members support the bill (H.R. 2881).

User Fees Harmful to Aviation/Affect Safety
AOPA members have seen that ATC user fees stymie general aviation around the world with huge costs to operate aircraft and, most importantly, insert cost considerations into critical safety decisions. Pilots in Europe's user fee system are continually faced with additional charges for use of the aviation system resulting in a decision between use of a safety service and the cost. For example in Germany, general aviation pilots face penalties when they are unable to complete a non-precision instrument approach at a general aviation airport as originally planned because of deteriorating weather conditions. The penalty, when combined with a landing fee, to fly a precision approach at an alternate air carrier airport could total $1,000. This is due to user fee pricing schemes and congestion management principals aimed at deterring general aviation pilots from using the services thus affecting safety.

Another chilling illustration of the adverse affects of user fees comes from Australia. The country's Bureau of Transport and Regional Economics indicates that 20 years of user fees have contributed to a 28 percent decline in general aviation hours flown. Dick Smith, the former Chairman of the Australia's Civil Aviation Authority who actually endorsed the fees, recently observed, "basically, user pays (as we call it here) or the commercialization of Civil Aviation Safety Authority and Airservices, has been a disaster for general aviation in Australia and I believe the same will happen in the USA if it goes ahead."

Don't Give the Airlines a Tax Break
The Commerce Committee has recommended increasing the tax on general aviation jet fuel by 124 percent, while eliminating the 4.3 cents per gallon fuel tax paid by the airlines. The 4.3-cent gas tax is the only aviation tax paid by the airlines. While the airlines assert they pay 94 percent of the revenue into the aviation trust fund, it is the passengers – not the airlines - who actually pay the majority of the tax on the value of the ticket, plus a segment fee. The airlines are simply a tax collector.

General aviation is willing to help pay for air traffic control modernization but we are not willing to pay for a tax cut for the airlines. How can an airline tax break even be considered if there is need for more money to modernize the system?

AOPA urges the Finance Committee to reject this tax break for the airline industry that has received nearly $37 billion worth of government benefits, tax breaks and bailouts over the last ten years.

Keep Air Traffic Control Modernization in Perspective
This summer, the airline community and the FAA have used the issue of delays to make several erroneous points about NextGen. First, they assert that modernization will immediately eliminate or dramatically reduce delays. This is not true. The FAA reports the single most prevalent cause of delays is weather.

And, no amount of modernization is ever going to make it safe for an aircraft to fly through a thunderstorm. Weather delays are compounded by the airlines' practice of scheduling more aircraft onto a runway than the runway can handle in a given period of time.

While incorporating new technology will improve the air traffic control system this will take time and should not be viewed as an immediate solution to problem of congestion and delays. In reality, there is a limit to the amount of improvement and capacity modernization brings.

Second, general aviation is being pointed to as a major cause of delays. Again, not true. General aviation accounts for only four percent of operations at the top ten major hubs. In fact, based on operation counts from the FAA's New York Approach Control (N90), general aviation operations are down by 9 percent since 2002. At the New York area airports general aviation is down as well. And, it is important to note that airline ground holds in New York also apply to instrument operations as well.

Aircraft Owners Will Make Significant Investments Under NextGen
While the government shouldered much of the cost for air traffic control modernization in the past, under NextGen aircraft owners will shoulder significantly more of the costs as investments are required to be made in new aircraft avionics.

Under the NextGen, aircraft upgrades to satellite based navigation and surveillance technologies are necessary, and the costs will be high. In fact, much of the FAA's NextGen plan hinges on the installation of a new generation of electronics in nearly all aircraft. The result, aircraft equipment upgrades will be as least as much, if not more, than the FAA's upgrades for air traffic control modernization over the next two decades. Even recent modernization efforts such as the Wide Area Augmentation System (WAAS) are costing the government and users about an equal share of investment -- $10,000 per aircraft (based on WAAS system purchase price of $2 billion and $10,000 per WAAS receiver for 200,000 aircraft). In the future, the burden of investments will tip the scales toward the aircraft owner.

Not only will aircraft owners be required to install new equipment to continue accessing airspace they use today, they will also pay user fees if the Senate proposal becomes law. It may not be this year or next, but eventually they will pay, and when they do, the results will be disastrous to our cost-sensitive industry.

Aviation National Asset Deserves Federal Investment
Since 1969, just prior to establishing the FAA's Airport and Airway Trust Fund, Congress recognized that a general fund contribution is necessary. Nearly 40 years ago, they observed that, "there are others who are indirectly benefited by

air transportation because of the non-aviation employment which air transportation generates." It is important for Congress to continue the traditional levels of support for the aviation system from general taxpayers. It's illogical to back away from the economic engine that our country's robust aviation system powers. The direct and indirect benefit of aviation to America represents nine percent of our gross domestic product.

The use of general fund investment in transportation is consistent in other areas of the federal budget. For example, the waterway system receives 75 percent of its funds from general taxpayers. Amtrak, which accounts for 25 million passengers, receives more than 35 percent from the general fund. This clearly illustrates the disparity in treatment of aviation, which carried more than 700 million passengers in 2005.

User Fees Reduces/Eliminates Congress From Aviation Oversight
The funding and oversight system currently in place works, and has worked for many inherently government functions. Congress is in charge, Congress holds hearings to listen to the industry and their constituents, and then passes legislation that holds them accountable – in fairness to all within their scope of responsibility. This is a prime reason AOPA adamantly opposes user fees for any segment of the aviation community. The proposal places control in the hands of the FAA and the airlines by diminishing, and ultimately eliminating, Congressional oversight of the nation's air transportation system. Another "catch phrase" - "off setting collections" - this process and fee setting procedure gives power to the FAA Administrator leading to reduced Congressional involvement and oversight. One needs only to look at the airline's objection to some of the proposals by citing the governing boards do not have enough airline representatives.

Fiscal Responsibility Can Come From Reduced Costs
AOPA has shown a commitment to reducing the costs of services utilized by the general aviation community while at the same time looking for ways to improve safety by enhancing the quality of FAA services. This includes the FAA contract with Lockheed Martin for Flight Service Station modernization and operation. This agreement saves taxpayers $2.2 billion over ten-years and more importantly promises dramatic changes for pilots through a modernized system with call center standards and other performance based criteria. AOPA has also worked closely with the FAA in reducing obsolete or unnecessary ground navigational aids.

AOPA Is Willing to Cooperate and Be Part of the Solution
The Association recognizes that times are changing and adjustments may need to be made in the manner in which the FAA expenses are covered. For example, AOPA has not opposed the new or significant increases in various "transactional charges" for aircraft and airman registration included in H.R. 2881 and the FAA's proposal. As an illustration, the fee for registering an aircraft is proposed to

increase from the current rate of $5 to $130. Based on our analysis of these charges compared with similar charges imposed on automobiles and boats, these are within the range of that charged by states. While no one wants to pay more, there is recognition that many of these have not been adjusted since the 1960s.

Conclude with a Number of Key Assumptions and Principles:

- The United States has the safest and most efficient air transportation system in the world, moving more aircraft and more people than the rest of the world combined.

- Excise taxes, not user fees, are the appropriate and cost-efficient way for all aviation users to support the system.

- Congress' direct management and oversight of FAA spending and programs should not be changed.

- National transportation assets vital to the United States economy require a level of support from general tax revenues. The General Fund contribution to FAA operations should be maintained at the historical average of 21.5 percent of the FAA budget.

- Airports are as critical to the aviation transportation system as on- and off-ramps are to our federal highway system. Federal airport funding should be sustained at no less than the current levels.

AOPA urges the Finance Committee to continue the stable and reliable system of aviation excise taxes to fund the FAA, eliminating the need for the $25 user fee. Then, we can all get on with the real issues at hand through a productive, meaningful discussion on how to strengthen the nation's airports and modernize air traffic control – the plan, design, implementation -- that enables the U.S. to continue its global aviation leadership position.

The Importance of Supporting Airport Infrastructure Investment

Testimony of
American Road and Transportation Builders Association
1219 28th Street, N.W.
Washington, DC 20007

Before the
United States Senate
Committee on Finance

July 19, 2007

On behalf of the American Road and Transportation Builders Association (ARTBA) and its 5,000 member firms and public agencies nationwide, the association would like to thank Chairman Baucus and the members of the Finance Committee for reviewing the Airport and Airways Trust Fund and its supporting revenues. ARTBA members belong to the association because they support strong federal investment in transportation improvement programs to meet the needs and demands of the American public and business community. The industry we represent generates more than $200 billion annually in U.S. economic activity and sustains 2.5 million American jobs.

With the current federal aviation program financing mechanism set to expire September 30, the Finance Committee has an excellent opportunity to assist in alleviating aviation system congestion by providing tax policy reforms that will increase necessary revenues into the Airport and Airway Trust Fund. These new resources would allow the Federal Aviation Administration (FAA) to provide increased airport capital improvement grants through the Airport Improvement Program (AIP), which supports much needed airport capacity projects.

Current and Future System Demands

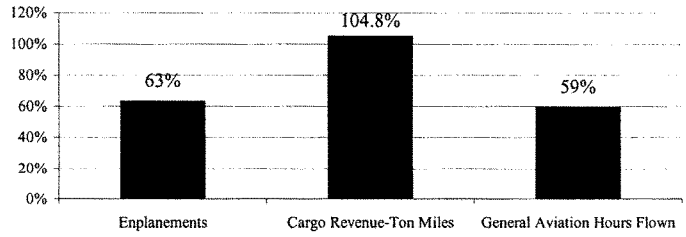
As the Committee considers various revenue generating proposals for the Airport and Airway Trust Fund, it is important to recognize how these resources will be used to address the growing demands being places on the nation's civil aviation system.

Commercial Aviation - Passenger
According to the FAA's March 15 Aerospace Forecasts: Fiscal Years 2007-2020, U.S. commercial air carrier enplanements reached record levels in FY 2006. There were a total of 740.4 million enplanements in FY 2006, 3.8 million more than in FY 2005. This represents a 5.7 percent increase of 42.8 million enplanements over the FY 2000 level, when one in every four commercial flights was delayed, cancelled or diverted. By FAA estimates, commercial passenger enplanements will reach one billion per year by FY 2015, a 36.1 percent increase over FY 2006 estimates. By 2020, total enplanements will reach 1.206.6 billion, a projected 63 percent increase in 14 years.

Commercial Aviation – Cargo
The significant growth in aviation passenger travel is expected to be eclipsed by the forecasted growth for air cargo shipments. In FY 2006, cargo revenue ton miles (RTM's) reached 39.689 billion, a 32 percent increase from FY 2000. By FY 2020, cargo RTM's are expected to reach 81.285 billion, a 104.8 percent increase from FY 2006.

General Aviation
General Aviation (GA) has been somewhat unstable since FY 2000, due to the increase in fuel prices over the past few years. However, due to factors like Very Light Jets entering the market in the near future, GA use is expected to climb over the next 14 years. In FY 2006, the FAA found there were 27.543 million hours flown by planes classified as GA. By FY 2020, FAA projects GA planes will fly 43.860 million hours, a 59 percent increase in 14 years.

Projected Growth In Aviation Services 2006-2020



Source: Federal Aviation Administration

Delays
From January 2006 to January 2007, on-time arrival was at 75.3 percent for commercial passenger airlines, very similar to the rate in 2000. In its 2002 report, the Commission on the Future of the U.S. Aerospace Industry estimated the cost of aviation delays to the U.S. economy were $9 billion in 2000 and will climb to $30 billion annually by 2015. The commission estimated the total cost of air traffic management delays from 2000 to 2012 will be $170 billion, unless significant infrastructure investment is made.

The commission's report also points out that from 1991 to 2002, air passenger traffic had increased by 40 percent, but only seven new runways and one new airport had been built during this time.

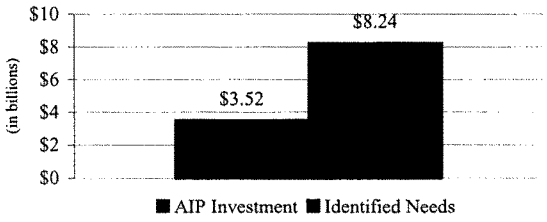
Why More Revenues Are Needed

Currently, the Airport and Airways Trust Fund (ATF) collects revenues through various excise taxes that support more than 80 percent of FAA's activities. The ATF balance reached a high of $11 billion in 1999, but, according to Congressional Budget Office, the balance will decline to $1.6 billion at the end of FY 2007. The increased investment required to expand aviation system capacity through AIP grants, to keep pace with the rising cost of construction materials, and implement the Next Generation Air Traffic Control System (NEXTGEN) will exceed existing ATF revenues. As such, ensuring the future viability of the national civil aviation system will require an enhanced financing plan that will support these needed investments.

AIP Investment Levels

The FAA 2007-2011 National Plan of Integrated Airport Systems (NPIAS) found that $41.2 billion would be necessary to meet identified AIP-eligible projects, an average of $8.24 billion annually. In FY 2007, $3.52 billion was appropriated for AIP grants. This is a shortfall of $4.72 billion annually, which means the federal government is investing less than half of documented airport infrastructure needs.

Shortfall Between Actual AIP Investment and Identified System Needs FY 2007



Source: Federal Aviation Administration

Furthermore, airports have reported annual investment needs of $17.5 billion for all planned development costs (AIP eligible and ineligible projects). These documented needs exceed available airport revenues by $4 to $6 billion per year. The independent needs assessments from FAA and the airport community clearly demonstrate federal aviation infrastructure investment is not keeping pace with growing demands placed on the system.

Material Prices & Inflation
The costs of two key materials used to construct and improve airport infrastructure, asphalt and aggregates, have risen dramatically over the last few years. According to data from the U.S. Bureau of Labor Statistics, the average cost of asphalt rose 78.7 percent between 2004 and 2006. The average cost of aggregate production rose 16.8 percent during the same period. The increase in asphalt prices is due to several factors, including higher aggregate and fuel prices, new EPA standards, and the decision by some refineries to halt production.

The general level of inflation in the U.S. economy, as measured by the Consumer Price Index, rose 6.7 percent between 2004 and 2006. Considering AIP investment has increased 3.5 percent from FY 2004 to FY 2006, it is very clear that AIP investment has not kept up with the rate of inflation and is even further behind the growth in materials costs. In fact, in 2004 dollars, the purchasing power of the $3.47 billion provided for the AIP in FY 2005 was $3.36 billion and the program's $3.52 billion in FY 2006 purchased $3.41 billion worth of improvements. This does not take into account the higher material costs faced by airport infrastructure contractors, which further erodes the value of AIP investment. If the cost of materials and the level of federal investment continue to increase at these differing rates, the ability for AIP investments to help address the nation's aviation infrastructure needs will further deteriorate.

Conclusion

Like much of the nation's transportation network, the civil aviation system is facing a dual crisis—demands on the system far exceed available revenues, and existing airport infrastructure capacity is saturated. Compounding this situation is the fact that passenger and freight aviation travel are expected to dramatically increase in the coming years. Clearly a comprehensive solution to this challenge must be developed, and expanding airport infrastructure capacity is a major component of that solution. The Finance Committee has the authority to ensure the nation's aviation infrastructure is properly financed for the life of the next reauthorization of the federal aviation programs. With the funding structure of the FAA set to expire September 30, just 73 days from today, it is critical the Committee, and Congress, act swiftly to address this situation.

Mr. Chairman, upgrading our nation's aviation infrastructure is about more than just relieving congestion and improving the efficiency of airline operations. It is about securing America's place in the global economic marketplace. While some will undoubtedly focus on the difficulties of improving aviation system capacity, we urge you and all Committee members to consider the consequences of today's aviation infrastructure network attempting to accommodate 105 percent more freight and 63 percent more passenger travel. The 2007 reauthorization of the aviation programs presents an opportunity to meaningfully address this national dilemma and the American Road & Transportation Builders Association pledges to work with you to take full advantage of that opportunity.

BEFORE THE
SUBCOMMITTEE ON ENERGY, NATURAL RESOURCES, AND INFRASTRUCTURE
COMMITTEE ON FINANCE
UNITED STATES SENATE
WASHINGTON, D.C.

Testimony of
Stephen A. Alterman
President
Cargo Airline Association
1220 19th Street, NW
Suite 400
Washington, DC 20036
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On

Aviation Financing: Industry Perspectives

July 19, 2007

Good afternoon. My name is Steve Alterman and I am the President of the Cargo Airline Association, the nationwide organization representing the interests of the all-cargo air carrier industry, as well as other businesses and entities with a stake in the air cargo supply chain. (A list of current members is attached as Appendix A).

The All-Cargo Industry

Although an integral part of the air transportation community, the all-cargo segment is unique, with operating characteristics different from other segments, resulting in substantially different air transportation system use and relatively less stress on system resources. Since our only mission is to provide our worldwide customers and shippers with end-to-end transportation services, a large percentage of our flights are during nighttime hours, thus allowing us to meet

time-definite demands and to offer expedited delivery throughout the nation and the world.[1] We currently pay for over 100% of our share of air traffic system use through a combination of a 6.25% air waybill tax and 4.3 cents per gallon fuel tax.[2] Attached as Appendix B is a chart detailing the system use and tax payments made by the all-cargo air carrier segment of the aviation marketplace.

The air cargo industry is one of the fastest growing segments of the commercial aviation universe, with growth rates averaging 3.3% domestically and 6.3% internationally per year expected until 2020.[3] In order to continue to provide the time-definite service that our shippers and the world economy demand, we are dependent on a modern air traffic management system that provides the flexibility for growth in the coming years. We simply cannot afford to continue to manage traffic with technology (radar) designed in the first instance to fight World War II. Rather, we must improve the system using the technology and procedures necessary to address the shortfalls in capacity that will occur as future demand continues to grow.

Moreover, modernization of the system is critical for reasons other than simply addressing future capacity. Operational procedures using satellite-based technology will yield more efficient operations, resulting in less noise and less fuel burn, thereby reducing aircraft engine emissions. These environmental benefits cannot be overlooked. Nor can the potential safety enhancements that will result with the provision of better and more timely information to both pilots and controllers.

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[1] Such nighttime operations are clearly "off-peak" and result in an efficient use of system resources.
[2] *See* Air Cargo Airlines System Use Analysis, SH & E, 2006 and the FAA's internal Cost Allocation results for Calendar Year 2005.
[3] U.S. Department of Transportation, Federal Aviation Administration, FAA Aerospace Forecasts, Fiscal Years 2007-2020.

Since air cargo is expected to continue to be a major growth element in this system, we have a significant stake in the modernization effort now underway. We strongly believe the effort to modernize must not be delayed and Congress needs to move this year to ensure that the programs fundamental to a modernized system are both authorized and funded.

Financing the FAA

On behalf of the all-cargo industry segment, the following comments are offered to attempt to provide a framework for financing the FAA as we move toward a new, modernized, aviation system.

First, the U.S. aviation system is a national asset that benefits all citizens and drives the nation's economy. The consequences of a sub-par system are constrained economic growth and diminished U.S. competitiveness in the world marketplace. Congress has historically recognized these facts by providing a General Fund contribution in excess of 20% of the FAA Budget. We are disappointed that the President's Budget and the FAA legislative proposal (H.R. 1356, introduced on February 14, 2007) not only provide a smaller percentage of General Fund contribution for Fiscal 2008, but actually envision a decrease in funding for 2009 and 2010. With the need for significant infrastructure investments in the coming years, this federal contribution should increase, not decrease. Therefore, we propose that this General Fund contribution be established at 25% of the FAA budget.[4]

[4] This proposal is in line with the consensus of many segments of the aviation community on the General Fund issue that was forwarded to Congress in a letter dated June 5, 2007 (copy attached as Appendix C).

Second, whatever funding mechanism is ultimately decided upon, Congress should ensure that industry funding obligations are fairly allocated. As a basic principle, no industry segment should be forced to subsidize any other segment. From the all-cargo perspective, where under the current system cargo industry members pay a 6.25% air waybill tax plus a 4.3 cent per gallon fuel tax, studies indicate that our industry segment pays somewhat more than 100% of our system use. This is before taking into account that much of our use of the system is at off-peak times – meaning that not only do we place a relatively low burden on the system but, by spreading operations over 24 hours, we also enhance the system's overall efficiency. While we do not expect any relief for that portion of our system use that exceeds 100%, neither should we be expected to pay any more than our current share in order to make up for the shortfall in contributions from other industry segments.[5] This equitable result can be accomplished by simply retaining the current funding mechanism for the air transportation of cargo or by ensuring that any new system applicable to us does not unfairly impact our industry segment.[6]

As the Committee charged with determining the formula for precisely how the FAA should be financed, Finance Committee Members will be confronted with several alternative proposals. Each option must be carefully weighed and consideration must be given for how any change, even slight, could impact the various industry segments and their operations. For our segment, it is important to note that maintaining the current structure for all-cargo operations would still yield more money for modernization. As noted above, the all-cargo industry has been

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[5] To the extent that any new proposal from other industry segment results in a reduced payment for that segment, care should be given to ensure that segments already paying for more than their share of system use (such as the all-cargo carriers), are not forced to make up any shortfall caused by such tax breaks.

[6] S. 1300, introduced on May 3, 2007 contains a proposal to assess a new $25 fee per flight fee for use of the nation's airspace. If coupled with a corresponding phase-out of the current 4.3 cents per gallon fuel tax and maintenance of the existing 6.25% airwaybill tax, the Cargo Airline Association would not oppose such a method of FAA funding.

consistently profitable and is forecasted to continue to grow. Therefore, maintenance of the current tax structure for the all-cargo industry will, in fact, result in **increased** annual payments by industry members. In other words, our industry's growth will ensure an expanding contribution from our members – even with a stable tax structure. From 1997 to 2005 for example, the annual airwaybill tax has grown from approximately $300 million to approximately $500 million.

Third, we strongly believe that Congress should support the funding necessary for Research and Development in an amount adequate to develop the necessary "out-year" modernization products. As a practical matter, today's R&D provides tomorrow's Facilities and Equipment, and any funding gaps in this area will seriously impede the modernization effort. This issue is of special concern in light of the re-prioritization of NASA R&D funding to concentrate on future space travel and "de-prioritize" short and mid-term aeronautics research. A specific area of R&D concern is the research necessary to address growing environmental concerns.

Finally, even if it is determined that the current excise tax system must be completely overhauled, we cannot support a new structure that gives the FAA Administrator virtually unfettered authority to set the level and structure of fees at will, with little or no Congressional oversight and no provisions for judicial review. While the Administration's proposed Bill (H.R. 1356) does list use-related factors that the Administrator might take into consideration in setting user fees, all of these elements are discretionary and need not be used. Such authority would

clearly eliminate any incentive for the FAA to cut costs[7] or restrain future cost increases since fees could always be raised to cover unnecessary agency spending.

Moreover, it appears that the user fee system envisioned by the original FAA proposal, as well as other proposals being advanced by other industry segments, will require a complicated and costly bureaucracy simply to assess and collect the fees. The added costs of establishing and maintaining this bureaucracy cannot be justified, especially when other, simpler and more transparent, options may be available. Indeed, perhaps the most logical and simple way of proceeding at this time would be to retain the current system of excise and fuel taxes at their current levels – except that turbine powered General Aviation aircraft would pay an increased fuel tax to make the structure more equitable and to provide additional funds that could be used for future modernization projects.[8]

The Cargo Airline Association and its member companies are committed to working with Congress, the FAA and colleagues in the aviation community to arrive at an equitable system that meets the needs of all aviation interests. If the Committee has any questions with respect to this testimony, please feel free to contact us.

Thank you very much.

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[7] Indeed, without any detail in the proposed Bill, we have no idea of what expenses can be eliminated in a modernized system.

[8] Testimony by the Department of Transportation Inspector General and the Government Accountability Office indicates that the current system of FAA funding will raise sufficient funds for future modernization. At the same time, a small increase in the overall funding by raising turbine GA fuel taxes would provide a financial buffer if the costs of modernization have been underestimated.

APPENDIX A

THE CARGO AIRLINE ASSOCIATION
The Voice of the Air Cargo Industry

MEMBERSHIP LIST

ALL-CARGO AIR CARRIERS

* ABX Air, Inc.	Wilmington, OH
* Atlas Air, Inc.	Purchase, NY
* FedEx Express	Memphis, TN
* United Parcel Service	Louisville, KY
* Air Transport International	Little Rock AR
Capital Cargo International	Orlando, FL
DHL Express	Miami, FL
First Air	Gloucester, Canada
Kalitta Air	Ypsilanti, MI
Kitty Hawk Inc.	Dallas, TX

AIRPORT ASSOCIATE MEMBERS

Ft. Wayne International Airport	Ft.Wayne, IN
Louisville International Airport	Louisville, KY
Memphis-Shelby County Airport Authority	Memphis, TN
New Orleans International Airport	New Orleans, LA

OTHER ASSOCIATE MEMBERS

Airbus North America Holdings, Inc.	Washington, DC
Aviation Facilities Company, Inc.	McLean, VA
Bristol Associates, Inc.	Washington, DC
Campbell-Hill Aviation Group	Alexandria, VA
Keiser & Associates	Oakland, CA

* Member, Board of Directors

APPENDIX B

SYSTEM USE v. FUNDING CONTRIBUTION
Scheduled All-Cargo Operations

	System Use %	Funding%[1]
U.S. Commercial Freight Carriers (Cargo Airline Association Members)		
S,H&E Study[2]	3.2	4.8
FAA FY 2005 Cost Allocation Report[3]	3.5	4.7
All Scheduled All-Cargo (Including Foreign and Regional Carriers)		
S,H&E Study	5.1	5.3
FAA FY 2005 Cost Allocation Report	4.6	5.0

Note 1: All data is unadjusted for operational characteristics such as "time of day", "place of operation" or other factors relevant to system use.

Note 2: With respect to the FAA data, scheduled all-cargo system use was compared with all non-exempt operations. If exempt operations were added to the equation, the industry system use would be decreased by approximately 0.2%.

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[1] Funding numbers based on actual Airport and Airway Trust Fund Tax Revenue
[2] *Air Cargo Airlines System Use Analysis*, SH&E, April 2006 (SH&E study based on 2004 use data).
[3] *FY 2005 Air Traffic Organization Data Package*, pp. 6-7.

APPENDIX C

June 5, 2007

The Honorable James Oberstar
Chairman
House Committee on Transportation
and Infrastructure
2165 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairmen Oberstar:

On March 16th, numerous industry representatives wrote urging Congressional action this year to authorize the fundamental building blocks for the Next Generation Air Transportation System. As you know this is a matter of safety, efficiency and economic prosperity. Modernization must be a national priority as other nations are seeking to take away the United State's long held leadership in aviation and Air Traffic Control infrastructure. With the opportunity to modernize the air transportation system before us, the time to act is now.

We are pleased that the Committee has engaged parties in both the public and private sectors, however, the question of funding remains. While there has been a difference of opinion within the industry on a reliable funding mechanism, the consensus is that a robust General Fund contribution is a must in order to offset any shortfall. The FAA proposal calls for a 19% general fund contribution, maintaining the low levels from 2006 and 2007. The FAA's projections show that the general fund contribution will continue to drop in future years, with 17% and 16% General Fund contributions for 2009 and 2010 respectively. The 19% General Fund contribution is marginal, and the projected trend for the General Fund is inadequate. A minimum General Fund contribution must be set at 25% of FAA's budget.

Safety oversight remains an inherently governmental responsibility and, as such, must be funded through the general fund. The 25% general fund contribution will provide the FAA's Aviation Safety (AVS) organization funding stability and ensure that AVS has sufficient resources to meet its obligations for NextGen and new product certification, as well as facilitate proper oversight for global manufacturing and repair operations.

The NextGen Initiative is truly a question of leadership and must be a priority for all of us. With a General Fund contribution of 25%, the FAA will be in a position to work with industry to manage the impending wave of aircraft and systems. Failing to increase the contribution level has the potential to slow modernization efforts, with the adverse impacts reaching far beyond the industry. It is for this reason, that we adamantly request that the General Fund contribution be increased to 25%.

We look forward to working with you as we continue to move forward with this important legislation. If we may be of any assistance, please do not hesitate to ask.

Sincerely,

Aerospace Industries Association
Airports Council International-North America
Airline Pilots Association
Airbus
The Boeing Company
Cargo Airlines Association
Computer Science Corporation
Harris Corporation
Lockheed Martin
General Aviation Manufactures Association
National Aircraft Resale Association
National Business Aircraft Association
Sensis Corporation
United States Chamber of Commerce

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