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Next Generation Air Transportation System
Financing Reform Act of 2007

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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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