

STATEMENT OF MARION C. BLAKEY, ADMINISTRATOR, FEDERAL AVIATION ADMINISTRATION, BEFORE THE SENATE COMMITTEE ON FINANCE, ON FINANCING THE NEXT GENERATION AIR TRANSPORTATION SYSTEM, JULY 12, 2007

Good morning, Chairman Baucus, Senator Grassley, and Members of the Committee.

It is a pleasure to be here today and I thank you for the opportunity to address an issue of great national significance. Indeed, it is a scenario that affects every man, woman and child in this great nation. It impacts every business, from blue chips to the corner store. And, it is a situation that requires prompt action by this Committee and the Congress. September 30th—and the expiration of the aviation taxes that currently fund over 80% of the FAA's budget—is only 80 days away, and only 51 that Congress will be in session. Mr. Chairman, you have recognized the significance of that date and the urgent need for timely action by holding this hearing today, and I thank you for that.

Need for change

As you are well aware, the volume of traffic in the national airspace system is rapidly approaching critical mass. For years, the word “gridlock” has been bandied about. For years, experts have pointed to a system that is stretched too thin, a system that simply won't be able to accommodate all those looking to use it. We had a glimpse of this problem with the delays in the summer of 2000, and then the pressure eased with the drop in demand after 9/11. But, thanks to the hard work of the industry, aviation has bounced back and we are now at a critical decision point.

John F. Kennedy once said: “The time to repair the roof is when the sun is shining.”

Well, for our air transportation system the storm clouds aren't just on the horizon, the raindrops are starting to fall.

As passengers, we know, and not just from headlines, that 2006 was the worst in history for air transportation delays—even worse than 2000. Based on the first six months of this year, it is clear 2007 will be even worse.

Notably, these record-setting delays are occurring simultaneously with the safest period in American aviation history. This is no surprise, because the FAA's top priority is safety. We will never sacrifice safety, even in the face of rising congestion.

However, the system is in trouble and everyone who flies knows it. The problem is we have already squeezed out virtually every ounce of capacity that's available to us. We are building runways, redesigning airspace, and working with our stakeholders to get the most out of what we have. But the fundamental problem is we are working within the constraint of air traffic control technology that is half a century old. The amount of traffic the system can handle is limited by radars, a 1950's technology, that update too slowly, and by the speed of voice communication between pilots and air traffic controllers. That system is simply not going to accommodate future aviation demand.

What lie ahead, according to our forecasts, are over a billion commercial passengers annually by 2015, 36% more than in 2006. At the same time, the aviation system will

have to contend with an ever-increasing number of business jets, including the new very light jet models. In fact, our forecasts report the number of GA and air taxi jets will grow twice as fast as commercial aircraft over the next fourteen years. This results in three and a half times as many GA and air taxi jet flight hours by 2020 as there were in 2006. This growth is fantastic for the future of aviation, but we can't get there with our current air traffic control system.

NextGen

Fortunately, there is good news on the horizon. We know the answer to the challenge that brings us here today. America needs the Next Generation Air Transportation System (NextGen). Without it, we will cease to set the pace for global aviation. We will be the country others use as a “lessons-learned” example—the country that identified its problem but couldn't fix it.

We have a clear vision for NextGen and a plan to execute it, including \$4.6 billion of NextGen-related investments over the next five years. These plans were developed in partnership with stakeholders from across the spectrum of aviation, from pilots and airlines to mechanics to Wall Street and beyond. In fact, every segment of aviation agrees we need NextGen—and we need to begin implementing it now. The capacity, safety, and environmental benefits are enormous. The tough issue is how to pay for it.

Cost-based funding

I firmly believe a cost-based funding structure is our best chance of transforming the aviation system into NextGen quickly and efficiently. This is not a new idea. Numerous bipartisan commissions have recommended cost-based funding for the FAA over the last two decades, and air traffic control providers in every other developed country have cost-based funding. We do not. That is unfair to those who fly in the system and will hinder the implementation of NextGen.

Presently, there is little connection between what users pay into the system and the costs they generate, and this detachment leads to over-consumption of air traffic services, and ultimately congestion. We know the system is not cost-based from the results of the FAA's most recent study. Using comprehensive cost accounting and activity data, we put together the most detailed and transparent cost allocation ever done by FAA or, we believe, by any other air traffic control provider.

Costs in our study were classified by type of air traffic service. This includes dividing airports into large, medium and low activity categories. We evaluated over 600 cost accounting projects and divided the costs between two main user groups—high performance turbine aircraft and piston aircraft. The study considers piston users to be “marginal” and assigns them virtually none of the system's fixed costs, except at the low activity towers. And our allocation recognizes that a jet in the middle of Montana does not drive the same costs as a jet going into O'Hare. But a corporate jet using exactly the same air traffic services as a commercial jet does drive the same costs.

However, under the current tax system, corporate jets contribute very little tax revenue despite often using virtually the same airspace and services as a commercial airliner. For example, a typical commercial airliner flying from LaGuardia to Miami would pay approximately \$2,015 in taxes. In contrast, a large private jet, flying the same distance, through the same airspace, using the same air traffic services, would pay roughly \$236 in fuel taxes. This boils down to the passengers flying on commercial airlines subsidizing the flights of corporate executives and others who fly private jets, and a system that incentivizes incredible growth in general aviation traffic. On a system-wide basis, our cost allocation found that general aviation drives about 16% of the costs of the air traffic control system, while only paying about 3% of the taxes, a situation that is unsustainable given the growth in GA flight time that we expect. I recognize there has been a lot of rhetoric about fairness over the last few months. However, the sheer numbers are hard to refute. And it's important to note that in the Administration's proposal, we only proposed that GA users pay 11% of the total tax burden, with 10% coming from turbine users and 1% from piston users. That's a particular break for piston users, who would pay less than one-quarter of the air traffic costs allocated to them.

The commercial taxes are currently not cost-based either. The primary source of the commercial tax revenue comes from the 7.5% excise tax that we all pay on the price of commercial airline tickets. This results in different passengers on the same airplane paying different amounts into the Airport and Airway Trust Fund. The same flight on two different days would generate two different amounts of revenue depending on how

many passengers are on the plane and what they paid for their tickets. In short, tying the aviation system's revenue to the price of a ticket may have made some sense before airline deregulation, but it now has nothing to do with the cost to provide service and is an unfair way to fund the operation of our national airspace and the transformation to NextGen.

I know there are some who argue that the current tax system can support the FAA, even if it is not cost-based. While it may be possible to finance pieces of NextGen through the existing taxes, the existing system is inflexible and will not enable the implementation of NextGen as quickly or as rationally as a cost-based funding structure. For instance, some users have said that they would pay additional fees to achieve the efficiencies of NextGen sooner; under the current tax system, this type of flexibility is not possible. We do project revenue to grow under the current system, but the fact that revenue is projected to grow over the long term really misses the point. Keep in mind that not only are we facing the implementation costs of NextGen—which is a two-decade long project--but we also have to operate and manage traffic growth within the current system immediately. Without a cost-based revenue structure that encourages the most efficient use of the airspace, we are vulnerable to short-term increases in delays throughout the system and to long-term funding volatility for NextGen as ticket prices fluctuate. With cost-based financing, the factors that drive our costs—such as how many flights users make and how far they fly—would also drive our revenues. Under the current taxes, there are limited incentives to use resources efficiently, since system users do not pay based on costs. With a cost-based structure, users would understand the impact of their

actions and also see a direct relationship between investments we make and the costs they pay. Finally, without cost-based financing, commercial airline passengers will continue to subsidize corporate jets, and the disparity will only get worse since private jet activity will grow significantly faster than commercial flights.

In short, cost-based financing will improve the efficiency and fairness of the system, and set us on a predictable path towards a NextGen system of technology that allows us to use a lot more of the sky.

This year is a once-in-a-generation opportunity, presenting a rare chance to leave an extraordinary legacy for our children. But to develop the NextGen system successfully, we need a revenue stream that is tied to the actual cost of our operations. We need a revenue stream that's equitable and rational. Our financing system should be balanced, fair, and provide predictability, reliability, and stakeholder involvement. It must also take into account the valuable and unique role that aviation plays in small communities across the country.

Consistent with these principles, we proposed a hybrid system of cost-based user fees, cost-based taxes and a general fund contribution to pay for the cost of specific public good services. The key to such a financing system is to have a clear link between costs and revenues. And, of course, if it is to be truly cost-based, the amount of money coming in must be adjustable as costs change—both upwards as we invest in NextGen and

downwards as we reap the benefits of a more efficient system in future years. That sort of adjustability is more challenging to do with taxes than with user fees.

Building flexibility into our revenue stream is also important to allow us to spend the revenue we generate where and when we need it. Without the ability to spend what comes in, we will not be able to support the NextGen transformation. One of the ways our bill would achieve this is by directly counting the incoming user fees against the spending of those fees in annual appropriations.

We are pleased S. 1300 supports the need to transform the aviation system by providing funding through a modernization surcharge that supports NextGen-related capital projects. I hope the Finance Committee will use this building block in the construction of a fair and cost-based financing system for the FAA. We know that the Administration's bill has led to a spirited debate over financing the air transportation system. Regardless of what type of financing mechanism is ultimately adopted, we believe it is imperative that such a system mirror actual costs and charge those responsible for the services provided to them.

Price of inaction

As I mentioned at the outset, there is an urgent need for action. The expiration of the current taxes is less than three months away. Ten years ago, the last funding debate resulted in a series of lapses in aviation taxes during two years of short term fixes.

During that time the Airport and Airway Trust Fund lost 10 months of tax revenues. At

that time, the uncommitted balance of the Trust Fund was sufficient to sustain the FAA, but the start-stop nature of the short-term fixes caused serious problems for programs such as AIP. Today, the Trust Fund's uncommitted balance is equivalent to less than two months of appropriations. Thus, a lapse in tax authority would have real and significant consequences. The aviation system cannot afford a lapse that puts air transportation – the lifeblood of our economy - at risk.

Short-term extensions without a long-term solution are not a good option either.

Extensions would not address the need for reform or congestion relief, would postpone the hard decisions, and would make it difficult to implement the airport grant program in particular. Additionally, immediate legislative action is necessary to advance NextGen initiatives. If funding reform is not approved with sufficient lead time to implement the new system at the start of FY 2009, \$450 million in new FY 2009 NextGen investments are particularly at risk. Critical investments in automation, advanced communications systems, facilities, and system integration could be significantly delayed.

Outyear Costs

Finally, we note that section 313 of S. 1300 threatens the FAA's ability to control its costs in the outyears. Under this provision, in the event of a negotiation impasse, the matter would go to binding arbitration. The Administration opposes legislative efforts that would limit the FAA's ability to manage its workforce and that would threaten investment in critical aviation safety programs.

Also, the authorization levels in the Senate Commerce bill are significantly higher than those proposed in the Administration's bill for the airport grants program. Authorization levels consistent with the Administration's proposal would adequately support the capital program and reduce the need for higher taxes to support the authorization levels.

Conclusion

This committee will make some serious decisions over the coming weeks affecting the future of the aviation system. Before you make these determinations, I ask that you take a step back and look at the big picture. In it you will see passengers crowded into terminals, delays piling up—from large hubs to small communities, but you will also see an opportunity to make real progress, in a balanced, fair way for the aviation community as a whole, not just for a select few.

So far, in the Senate's action on the aviation reauthorization, I have been impressed by the recognition of two undeniable facts. First, NextGen technology and programs are necessary to carry U.S. aviation into the first quarter of this century and lay the foundation for what lies beyond. Second, there is a great deal of inequity built into the current tax structure and this is an opportunity to correct it.

It is clear that we share many of the same goals for the future of aviation. A more efficient, safer, higher-capacity and more environmentally-friendly aviation system is essential to the continued vitality of America's economy. NextGen is that system, and

we must seize the opportunity this year to deliver it with a cost-based and fair financing structure. I look forward to working with you to achieve that goal by September 30th.

Mr. Chairman, that concludes my prepared statement. I would be happy to answer your and the other Senators' questions at this time.