



AIRCRAFT OWNERS AND PILOTS ASSOCIATION

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before the

**U.S. House Ways & Means Committee
Select Revenue Measures Subcommittee**

Hearing

On
Aviation Taxes

August 1, 2007

Good afternoon Chairman Neal and Ranking member English. Thank you for the opportunity to appear before the Subcommittee today and express our views on the expiring tax provisions related to the Airport and Airway Trust Fund.

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 at least 75 percent of all general aviation activity in the world.

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. It is encouraging to see that one of the witnesses at today's hearing represents an airport because H.R. 2881 includes important funding increases for these facilities in both the Airport Improvement Program authorization and an increase in the Passenger Facility Charge.

While the scheduled airlines direct most of their service to fewer than 400 communities, general aviation provides a critical air transportation link to thousands of communities. Annually, 170 million passengers fly using personal aviation, the equivalent of one of the nation's major airlines.

A healthy air transportation community is essential to the nation's economy accounting for 9 percent of the gross domestic product, \$900 billion in economic impact and 11 million jobs. Similar to the policy for the nation's highway system, Congress has wisely recognized that a federal aviation network is only possible by using tax revenues from various parts of the system for financial support. As an illustration of why this is important, if federal highways had been built in only those states that have contributed "their fair share" since 1956, the Interstate and U.S. highway system would exist in only 15 states! Drivers in Wisconsin, New Jersey, Tennessee, California, Missouri, Florida, Ohio, Georgia, Michigan, South Carolina, North Carolina, Oklahoma, Indiana and Texas have "subsidized" federal-aid highway construction in 35 other states and the District of Columbia.

AOPA members are involved in personal and business aviation, owning and or flying every type of general aviation plane from a simple Piper Cub to a Boeing Business Jet. However, the majority use their aircraft in the way each of us use our personal automobiles and they place a high level of importance on Congressional involvement in overseeing this system. A majority of these individual pilots and aircraft owners pay 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 endorses and urges prompt passage by the Ways and Means Committee of the recommendation for renewing and modifying the aviation taxes supporting the Aviation Trust Fund made by Transportation and Infrastructure Committee Chairman Jim Oberstar and Aviation Subcommittee Chairman Jerry Costello. The recommendation includes a 25 percent increase in the tax on aviation gasoline and a 41 percent increase in the tax on jet fuel. Despite these substantial increases in general aviation fuel taxes, AOPA members support H.R. 2881 because they understand the need to modernize the nation's air traffic control system.

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 suspend 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.

The aviation fuel taxes are extremely efficient to collect and directly relate to the size and use of the aircraft. For example, a smaller aircraft uses less fuel while a larger aircraft uses more fuel and thus pays more taxes. The fuel tax is also a good proxy of distance flown and time in system because these directly correlate with the amount of fuel consumed.

Credible government officials have 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.

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." Congress must continue the traditional levels

(approximately 25%) 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 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.

New Technology and the Future Hold Promise

AOPA members' sentiment about the current economic condition of general aviation 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 navigation technology and today, more than two-thirds of AOPA members use 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 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 demonstrates this technology installed in several of our company aircraft.

There is no doubt that AOPA is committed to modernization of the air traffic control system. However, the big question is how to pay the FAA an estimated \$4.6 billion needed over the next five-years for NextGen.

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. Most of these changes will benefit the airlines, the primary drivers of the FAA's costs. Yet individual aircraft owners will be required to install new equipment to continue accessing airspace they use today.

Under 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 at 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.

AOPA members want this to be considered in the NextGen discussions and your evaluation of the future financing of the Aviation Trust Fund.

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 the problem of congestion and delays. In reality, there is a limit to the amount of improvement and capacity modernization brings.

Second, the airlines point to general aviation as a major cause of delays. Again, not true. General aviation accounts for only four percent of operations at the top ten major hub airports. 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 general aviation instrument operations.

Don't Give the Airlines a Tax Break

As you may be aware, the airlines have generated various FAA financing proposals all designed to reduce their taxes. This includes 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 a need for more money to modernize the system?

AOPA urges the Ways and Means Committee to reject any 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. With tax revenues needed to pay for air traffic control modernization, now is not the time for considering a tax decrease.

User Fees Are Not the Way to Fund the Aviation System

While it was rejected early on by the House Transportation and Infrastructure Committee, it is important that the Ways and Means Committee also reject the calls for user fees for any segment of aviation. We urge your action to provide the aviation taxes necessary to fund the aviation system, eliminating the need for any user fee that generates revenues for financing the air traffic control system outside of the Airport and Airways Trust Fund.

While many of the discussions about user fees include exemptions for the majority of AOPA members, 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.

User Fees Harmful to Aviation/Affect Safety

AOPA members have seen that air traffic control 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 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."

User Fees Reduce/Eliminate Congress From Aviation Oversight

The funding and oversight system currently in place works, and has worked for many inherently governmental functions. Congress is in charge, Congress holds hearings to listen to the industry and their constituents, and then Congress 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 user fee 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. One needs only to look at the airlines' 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 nearly \$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

AOPA recognizes that times are changing and adjustments may need to be made in the manner in which the FAA expenses are covered. For example, 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.

AOPA's 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 25 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.

Conclusion

AOPA urges the Ways and Means Committee to continue the stable and reliable system of aviation excise taxes to fund the FAA by approving the extension of the aviation taxes with the Transportation and Infrastructure Committee's recommended adjustments for general aviation fuel taxes. This enables the aviation community to engage in 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.

Thank you for the opportunity to appear before this Subcommittee today. I would be pleased to respond to any questions that you may have.