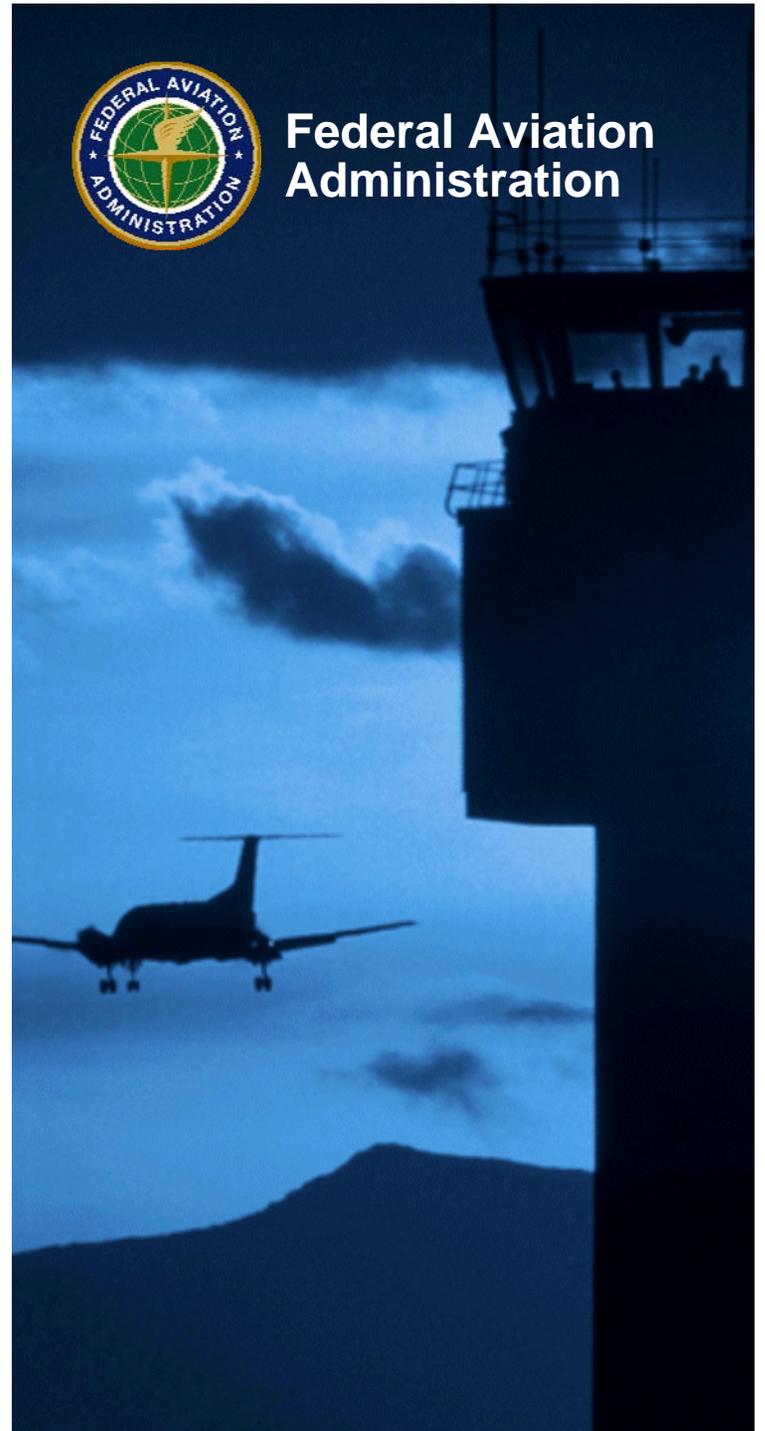


Aviation Financing: Why Change is Needed

April 11, 2006

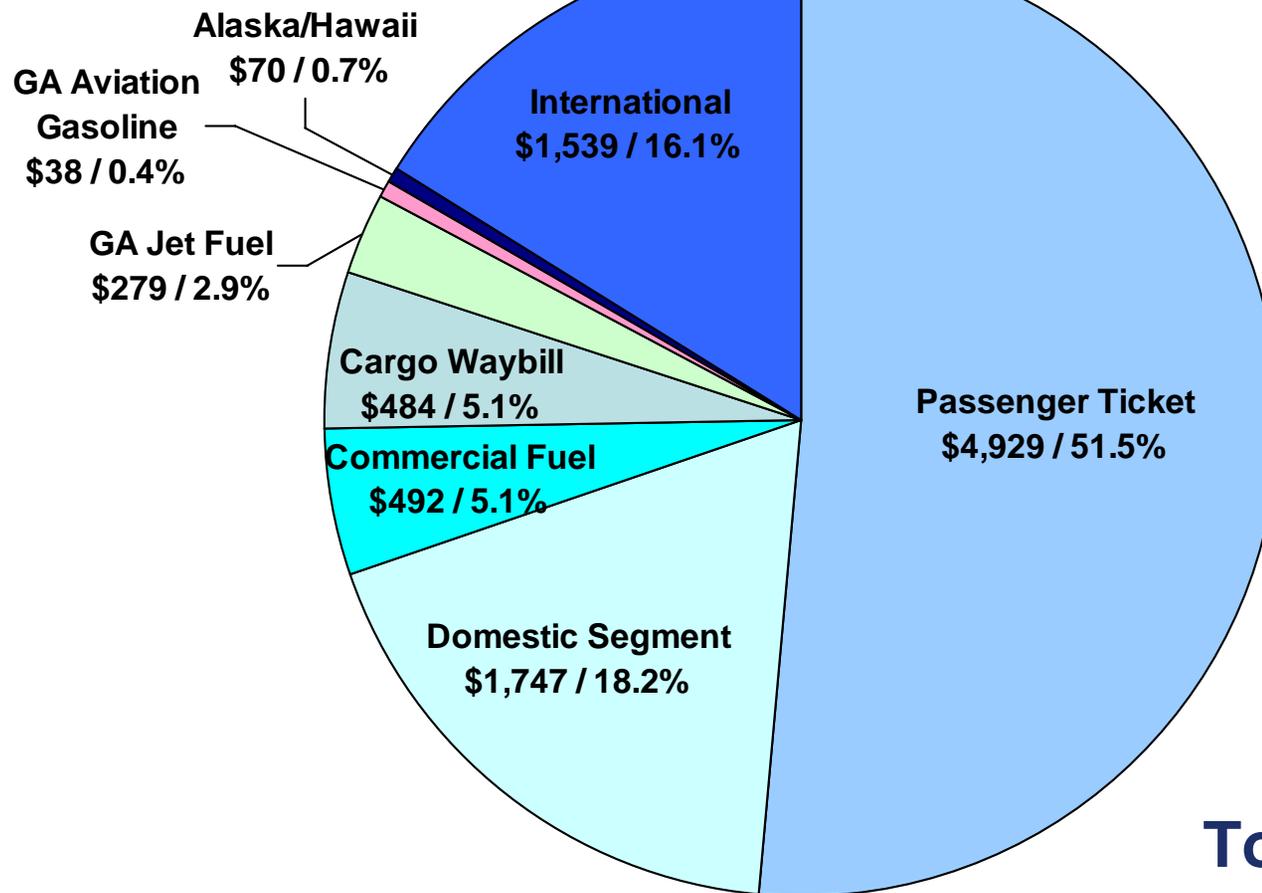


**Federal Aviation
Administration**



FY04 Tax Revenue Sources¹

\$ in millions



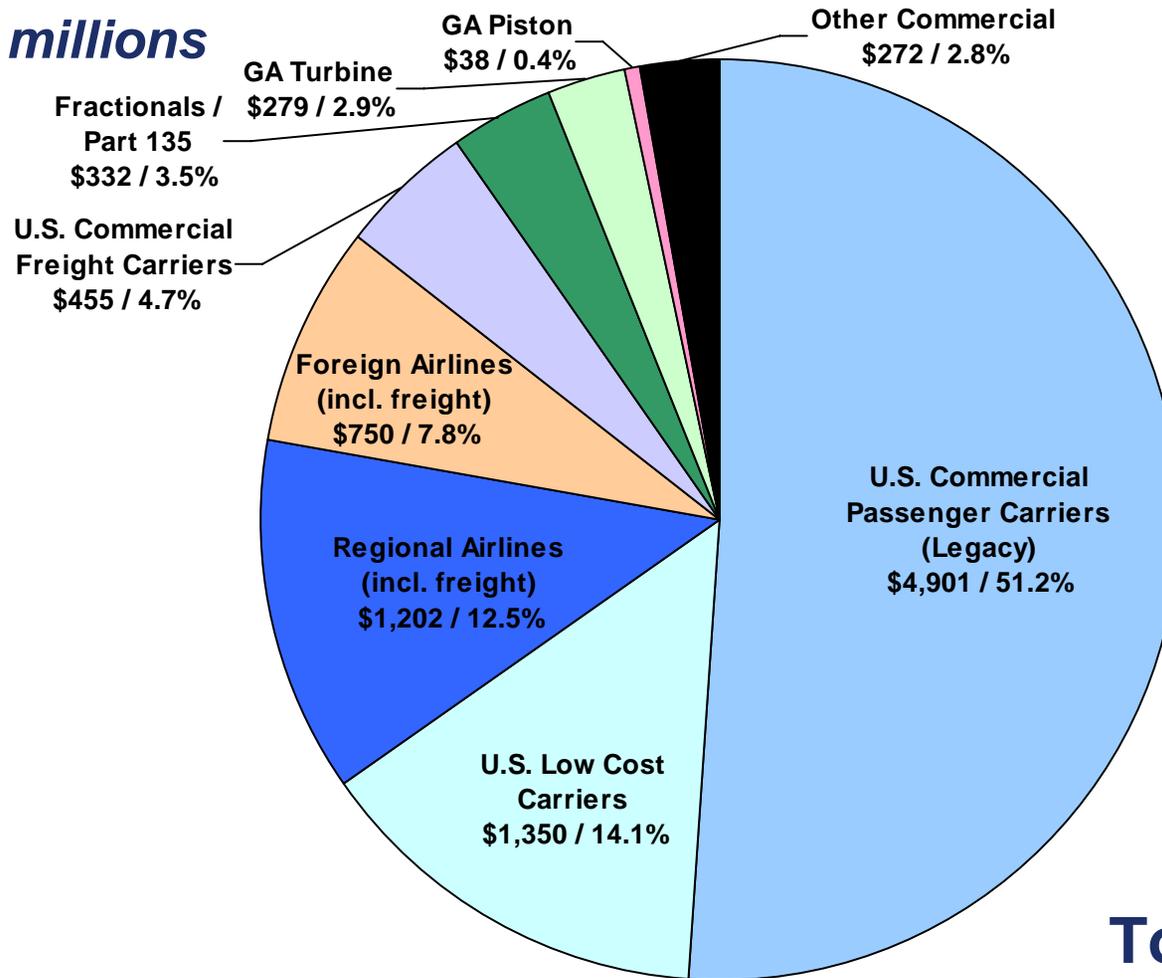
Total: \$9,579

¹Breakdown of Passenger Ticket vs. Domestic Segment, and International vs. Alaska/Hawaii is estimated by FAA. Passenger Ticket includes revenue from rural airports tax and tax on the value of third party frequent flyer miles.



FY04 Estimated Taxes By User Group¹

\$ in millions



Total: \$9,579

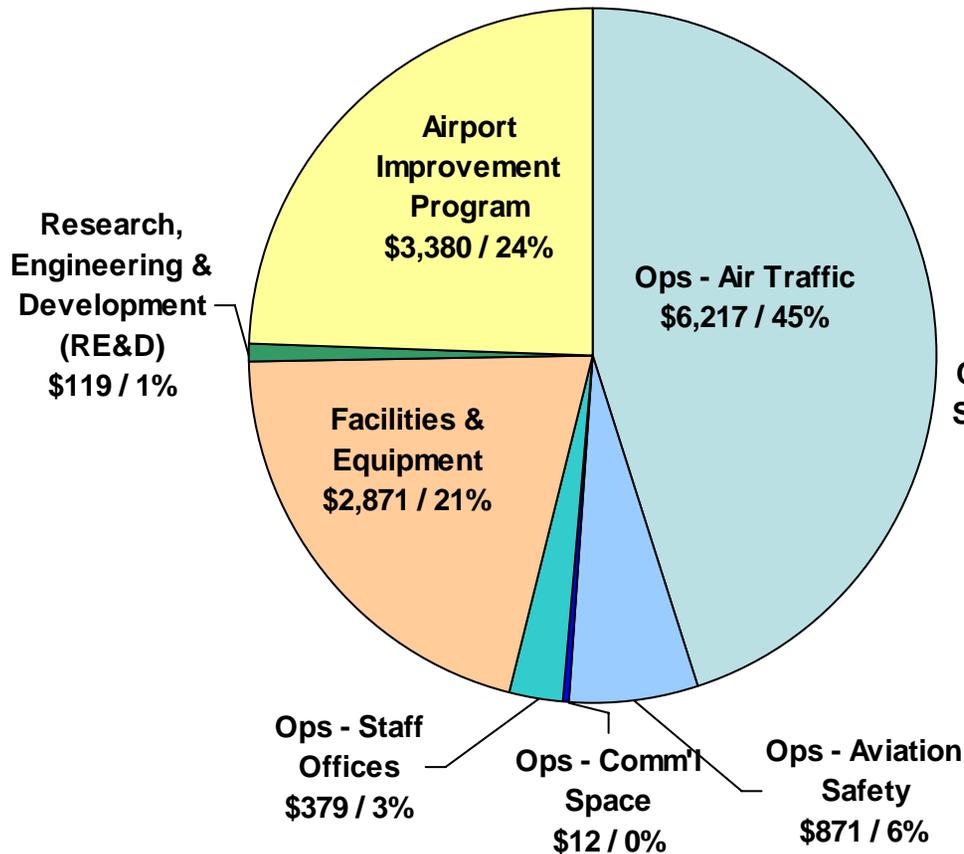
¹Some users considered general aviation by FAA are classified as commercial by IRS, and therefore pay commercial taxes rather than GA fuel taxes. They are "Fractionals / Part 135" above and in "commercial" totals in summary tables. Part 135 includes passenger and freight flights. "Other commercial" includes charters on U.S. carriers and non-ETMS commercial flights.



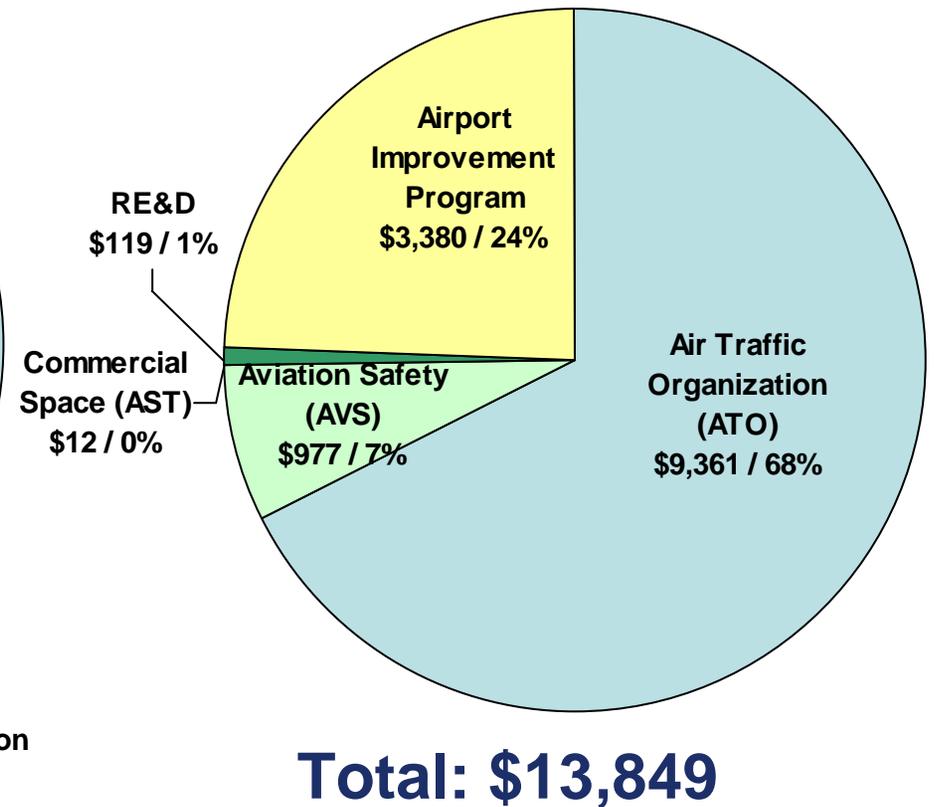
Overview of FY 2004 FAA Budget

(\$ millions)

FY2004 Funding by Account



FY2004 Funding by Line of Business



Why Change is Needed

- **Stability:** Industry trends have increased FAA workload without corresponding increases in Trust Fund tax revenue
 - Despite FAA cost control measures, there is a risk of a continued gap between Trust Fund revenues and FAA costs under the current system due to uncertain future shape of aviation industry
- **Technology:** Need to fund capital requirements of Next Generation Air Transportation System (NGATS)
- **Fairness:** Commercial airlines and their passengers currently pay a much higher share of total taxes than their share of system flights
- **Timing:** Current taxes expire on September 30, 2007



Industry Restructuring

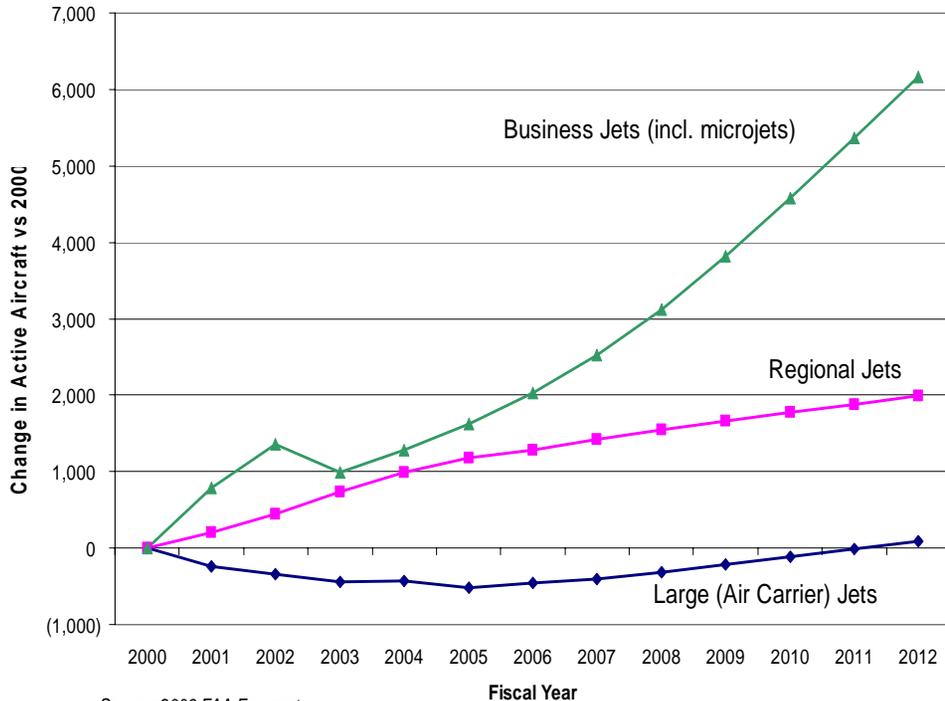
Industry Trends

Lower ticket prices, low cost carriers
Smaller aircraft, more regional jets

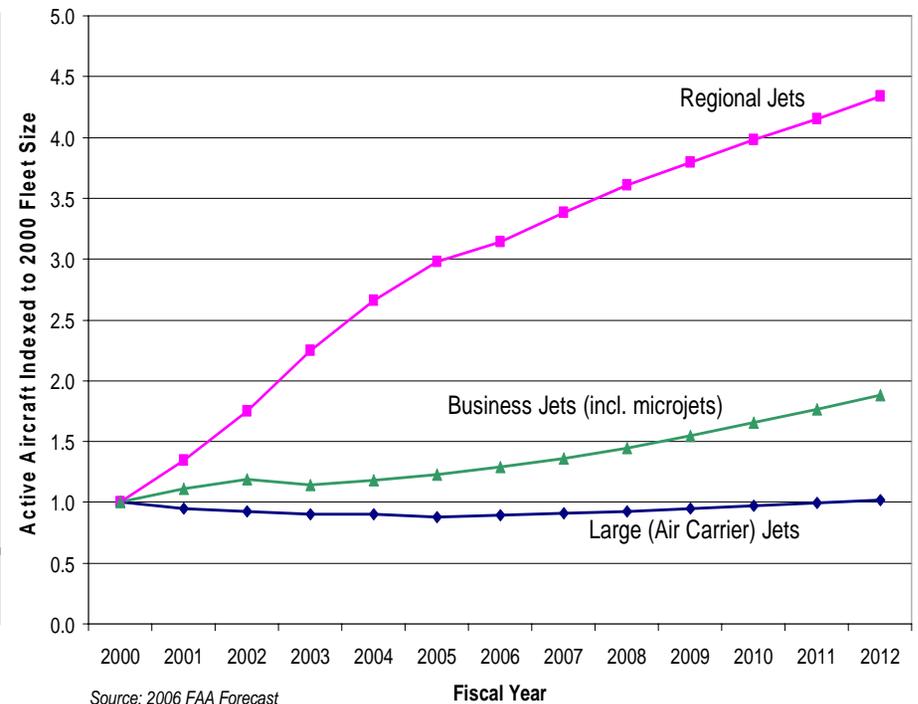
Impact

Lower Trust Fund receipts
Increased FAA workload

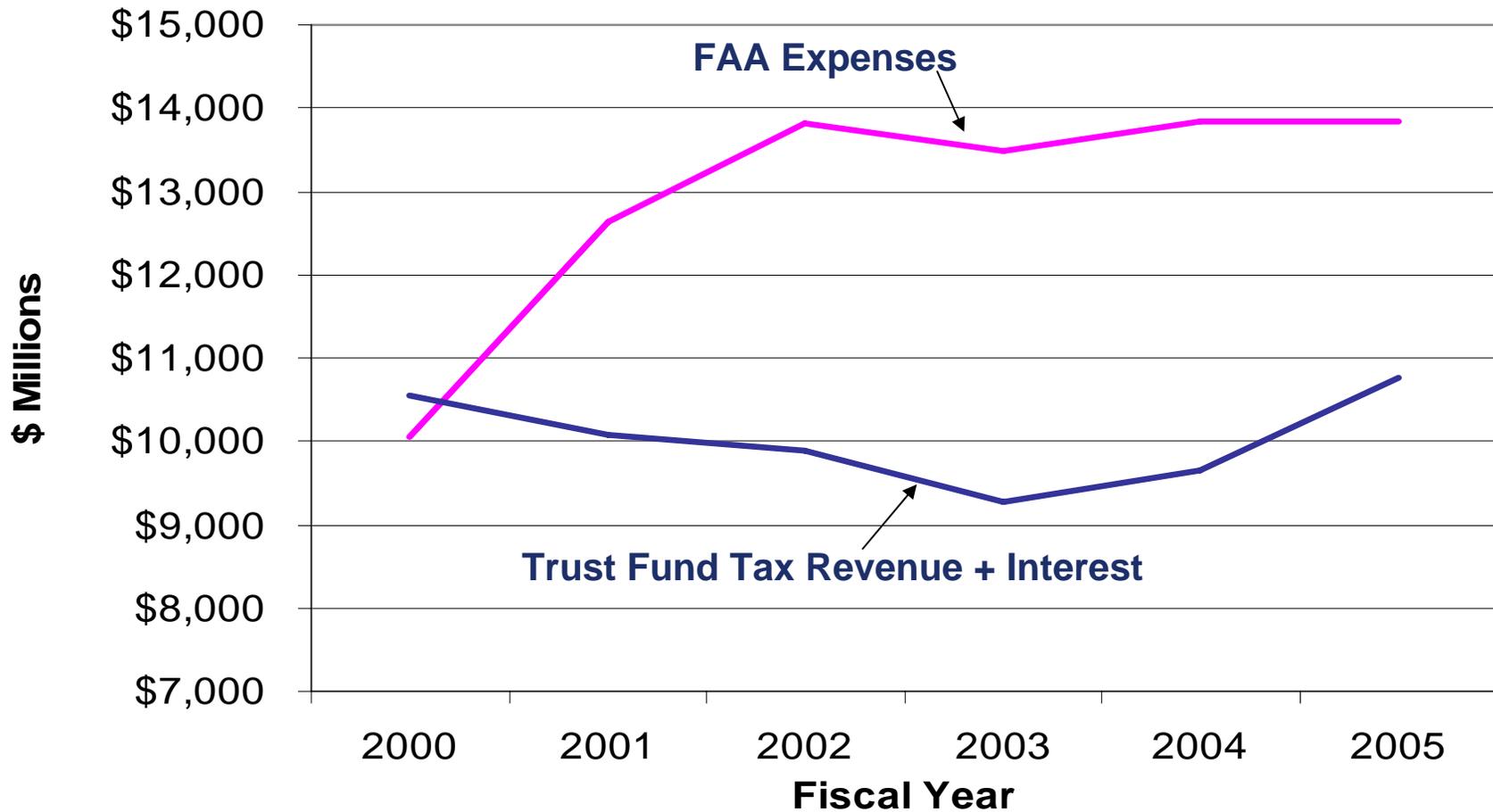
Cumulative U.S. Jet Fleet Growth



Relative U.S. Jet Fleet Growth



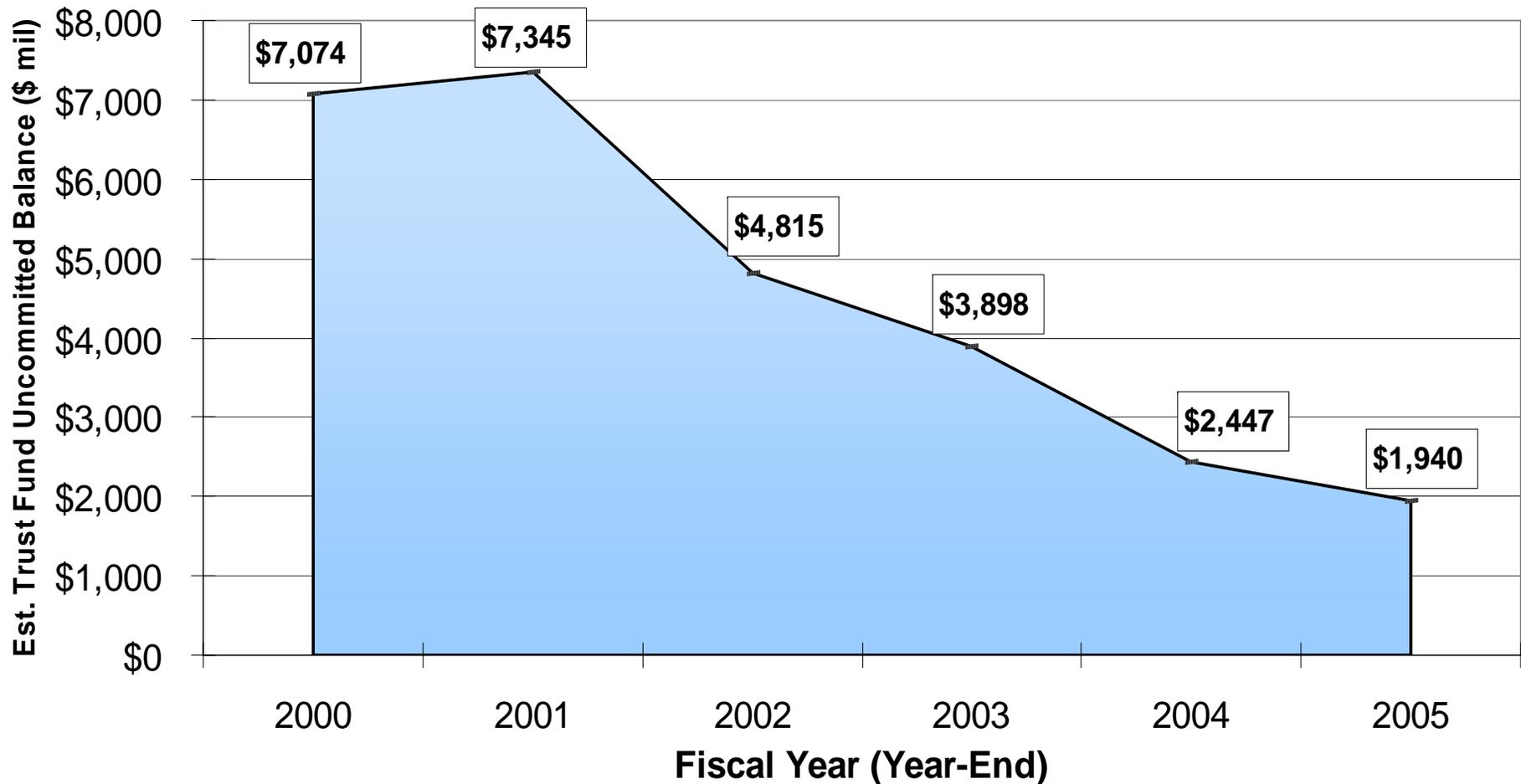
Gap Between Revenue and Costs



Note: Tax Revenue = Income Statements; Expenses = FAA Appropriations



Trust Fund Uncommitted Balance



Cost Cutting Measures

What we're doing...

- Reduced staffing by over 16 percent since 1992
- Completed largest outsourcing effort in government
- Consolidated accounting and personnel functions
- Renegotiated costly MOUs with our labor unions

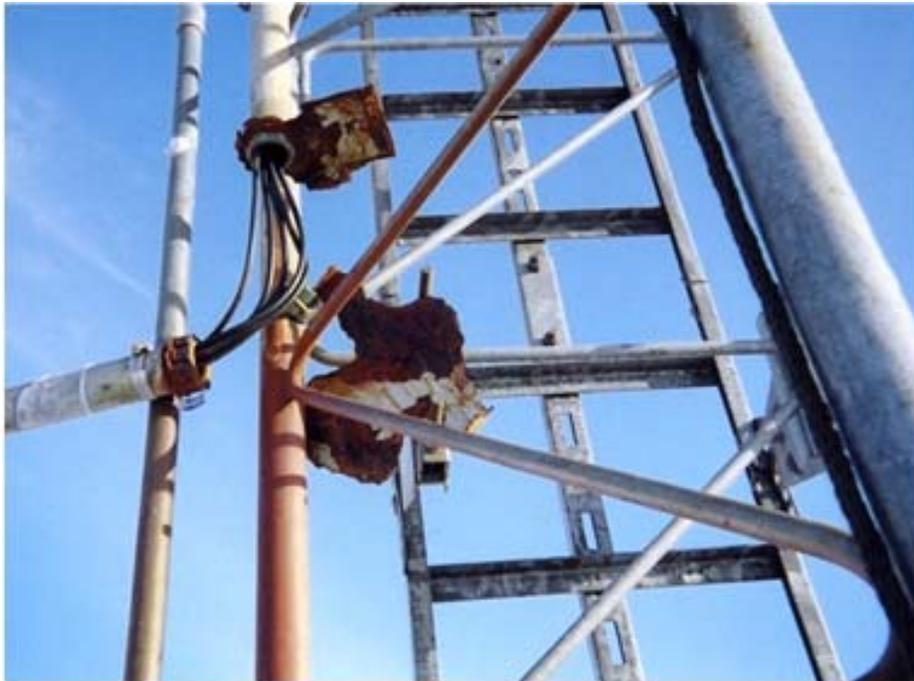
What may be done...

- Consolidation (regional offices, TRACONS, staff)
- Reduce hours at some facilities (towers with low traffic)
- Discontinue some redundant Navaids (non-directional beacons)
- Eliminate some runway approach procedures
- Steps to lower labor costs and improve employee productivity



Aging FAA Infrastructure

- Average en route facility condition index (FCI) currently rated “poor” and getting worse every year



Age*

31	Towers
35	TRACON Facilities
28	Primary En Route Radars
17	Primary Terminal Radars
27	Secondary Radars
41	En Route Control Centers
21	Flight Service Stations

*Average Age in Service

Next Generation System

- FAA must fund the “Next Generation” Air Traffic System
 - Need to handle projected aviation growth
 - Strong user support for next generation system
 - Necessary to provide capacity, reduce delays, and lower costs both for users and for FAA
- Substantial capital needs are difficult to support through current system
 - Mismatch between the timing of FAA appropriations and capital funding requirements
 - Mismatch between user payments for new capital investments and benefits from those investments
 - Uneven funding from year to year
 - Federal deficits limit funding flexibility
 - Price of airline tickets not connected to capital spending needs



Timing

- Existing Trust Fund taxes expire at the end of Fiscal Year 2007 (September 30, 2007)
- Due to low Trust Fund balances, it is critical that a new funding mechanism be in place before the expiration of the existing tax structure
- If substantial changes are included in the financing reauthorization, lead time will be necessary to set up required collection mechanisms



Bottom Line...

- **FAA and system users need a more stable, more equitable funding system that can also finance the Next Generation aviation system**

