

Questions on Future Funding of the Air Traffic Control System, Other Aviation System Components, and Related Issues

Introduction:

The Federal Aviation Administration is analyzing a range of future financing options to ensure that our revenues adequately fund future needs of the aviation system. Funding options are being thoroughly examined to determine what is workable, and we are seeking input from stakeholders and other groups. Because the funding issues largely pertain to first-line stakeholders, such as aircraft and aircraft part manufacturers, airlines, general and business aviation, and airports, we expect that they will have a primary interest in responding to these questions. We also believe that the flying public and other groups also should have the opportunity for input into the process. The questions below seek some specific input; however, feel free to make other comments as appropriate. You also should feel free to skip questions you do not believe are germane to your interests. We thank you for engaging in this frank dialogue and for your constructive recommendations.

The question of the appropriate amount of revenues needed to fund the aviation system becomes critical when examining different funding options. Over the last several years, FAA has embarked on a concerted effort to address cost control as a priority and must continue its efforts to increase cost efficiency in the agency. FAA has made measurable progress. For example, FAA's initiative to compete the provision of service for 58 flight service stations resulted in a contract to Lockheed Martin with cost savings of \$2.2 billion over ten years. FAA has centralized and consolidated its accounting offices, resulting in payroll savings of \$3.5 million per year beginning in FY 2006. In the staff organizations, over 400 overhead and non-safety staff in the Air Traffic Organization were reduced through attrition, resulting in cost savings of \$22 million in 2005. FAA is also addressing the control of lost time and productivity by strengthening management of the Workmen's Compensation program to minimize new claims and return employees to duty, resulting in \$5.4 million in avoided costs. And we are committed to ensuring that all new labor contracts are ones we can afford and reflect the level of productivity we all should expect. The questions below solicit your ideas on cost savings as well as funding options.

Providing the Right Types of ATC Services:

- Are there specific ATC services or programs that you believe users should pay for directly? If so, which ones and why?
- Are there ATC services that you currently use that you believe you could still operate safely without? Please explain why.
- Are there services and activities that you think FAA should stop providing, performing or funding altogether? If so, should those services and activities be performed by others? Are

there services or activities that you think FAA should continue providing or performing at a substantially lower cost? Please explain your response.

- What specific improvements and advances in efficiency (if any) would you like FAA and ATO to undertake and would you be willing to bear additional costs to achieve these efficiency gains?
- For years, aviation policy debates have included the possible benefits and savings of consolidating en route and/or TRACON facilities. What is your opinion on ATO facility consolidation? If you support it, can you recommend an implementation strategy?

Revisions to Current Tax System

- Should some or all elements of the current tax system be continued (e.g., fuel taxes, ticket taxes, waybill taxes, etc.)? What specific adjustments to the existing taxes would you suggest and why?
- Would you change any elements of the current tax system, such as level of taxes, differentiated segment fees, etc?
- Some in the general aviation community have recommended maintaining the fuel tax as the mechanism for recovering FAA costs from them. Do you think we could establish a mixed system that would include taxes and some other funding mechanism such as user fees, congestion pricing, bonds, to fund the aviation system?
- Do you have any feedback you would like to provide on the administrative burden associated with the current tax structure? Are there particular taxes that are more administratively burdensome than others?
- What are your thoughts on using congestion pricing at locations and times of day when demand exceeds capacity, in order to capture the economic costs of congestion?
- Is there a more efficient means to finance capital improvements than the current pay-as-you go system? Do you have recommendations about long-term financing alternatives that could be used to support modernizing the system in the U.S.? What do you specifically recommend we do, or not do?
- The final page of the ATO data package includes estimates from fiscal year 2004 that distribute tax revenues by user group. While we are confident that these are reasonable estimates, FAA would welcome any additional information that stakeholders can provide about the taxes actually paid by user groups.

Other Funding Alternatives for Cost Recovery of ATC Services and Cost Allocation:

- Some have suggested that ATC costs should be recovered in a way that is related to the use of services and that revenue should therefore be tied to cost allocation. There are many ways

that ATC system costs could be allocated among users and there are many alternatives to the current tax structure for cost recovery. What are your thoughts on the following approaches to distributing and recovering costs:

- Collect all the costs and divide by number of flights, miles, and/or hours flown.
 - Collect the costs of specific services at specific sites and distribute the costs of each service to the specific flights that use it.
 - Identify core users and “marginal users”. Identify the basic services that are used by both the core and marginal users and divide those costs evenly. Additional costs would be paid for by the core users.
 - Identify core users and marginal users. Identify the marginal users’ ability to pay for the specific services they use, and charge the remaining costs to core users.
 - For users identified as marginal for cost recovery purposes, air traffic control would handle them as marginal users for operational purposes. They would be fit in only when capacity permitted.
 - Incorporate time of day variations in costs.
 - Follow ICAO recommended guidance of recovering ATC costs via fees based on aircraft weight and distance flown.
 - Employ fuel tax as primary revenue stream with different, increased rates for jet fuel and aviation gasoline. The amount recovered by the tax rate would reflect the amount needed to recover ATC costs.
 - Comment on how fairness and equity should be factored into cost allocation and recovery.
 - Other ideas?
- Do you think the following is an appropriate segmentation of users into related groups for examining cost allocation and recovery? (These are the segments that are used in the enclosed data definitions package.) If not, what changes do you recommend and why?
 - US Commercial Carriers
 - Foreign Carriers
 - Regional Airlines Turboprop/Piston
 - Regional Airlines Jets with fewer than 60 seats
 - Regional Airlines Jets with 61 seats or more
 - Charter Flight on US Carrier
 - US Commercial Carrier Freight
 - Foreign Carrier Freight
 - Regional Airline Freight
 - Small Commercial/GA: Fractional Owner
 - Small Commercial/GA: Non-Scheduled Part 135 Passenger
 - Small Commercial/GA: Non-Scheduled Part 135 Freight
 - GA - Turbine engine airplanes
 - GA - Piston engine airplanes
 - GA - Rotorcraft
 - GA - Tax Exempt
 - Government/Military

- How can use of the system be assigned to user groups? Are there types of ATC equipment and systems that are used primarily (or only) by a certain user category and should therefore have these costs allocated to that user category?
- If FAA were to charge user fees, the fees would be based on cost information and activity information. Currently, the activity information is supplied by the Cost Accounting System, the labor distribution system, the Enhanced Traffic Management System (ETMS) for IFR traffic and by other activity measurement systems such as the Air Traffic Activity Data System (ATADS) for tower and approach control services. Is there any additional information that FAA should use to assign costs, but is not included in these sources?
- If FAA introduced fees for service, what kind of oversight would you recommend and why?
- If user fees are implemented to support the ATC system and other FAA cost elements, what (if any) are the concerns you would have on the transition to user fees? What do you think is a reasonable time frame for transition? Would systems changes cause complications in a multi-phase transition?

General Fund Questions:

A consistent theme at the Trust Fund Forum in April was the need for a meaningful contribution from the general fund.

- What is the basis for a general fund contribution, rather than an FAA that is fully funded by user fees? What do you see as the advantages and disadvantages of relying on a General Fund contribution to finance a portion of FAA's costs?
- What FAA functions should be paid for by general fund contributions?
- How should the level of the general fund contribution be determined?

Airport Related Issues:

- Another consideration is to alter what we spend aviation trust funds on. Some airports have indicated a willingness to forgo the Airport Improvement Program (AIP) program if they were released from certain grant assurances, or at a minimum, given additional flexibility under the assurances governing airport finances and allowed to increase PFC levels to offset the loss of grants (either partially or entirely). What are your views on such a proposal?
- Some aviation specialists have recommended that some airports assume responsibility for their terminal area equipment and "purchase" FAA air traffic control operations services (staff). In this scenario, these airports would work with the users to match services with user needs. What kind of economic flexibility or economic "deregulation" might an airport need to recover these costs? What are your views on such a proposal?

- The current FAA Reauthorization, Vision 100, gave FAA the authority to accept funding for FAA staff and services that are needed to support environmental activities associated with an airport development project. Should this authority be expanded to include other areas of FAA services that are needed to support a major development activity at an airport, including, but not limited to, master planning, environmental reviews, procedures development, design reviews, construction inspection and commissioning. If so, which ones? What are your views on such a proposal?

Charging for Certification and Other FAA Services:

- There are a variety of ways the aviation industry could pay for other FAA services. Please give us your opinion on the following examples of aviation fees:
 - Annual airman certification fee charged to pilots to recover the costs associated with administering the Medical Certification and Airmen Medical Examiners programs.
 - A certification fee charged to designees to recover the costs associated with interviewing, training, and appointing designees. Fees could cover costs associated with the initial appointment as well as annual renewals.
 - An aircraft certification fee charged to manufacturers to recover the costs associated with analyzing and processing requests for design certification, production approvals, parts manufacturing authority and airworthiness certificates. Fees could cover the initial certifications as well as renewals.
 - A certification fee charged to air operators and air agencies to recover the costs associated with analyzing, processing and maintaining their operating certification.
 - Civil Aviation Registry fees charged to airmen and aircraft owners to recover the costs associated with maintaining the registry, as well as the issuance, re-issuance and renewal of airmen and aircraft registration certificates.
- Many of you have experience with certification fees in other countries. What are the pros and cons of a certification fee system? What would you say are the ideal characteristics of a user fee-based certification system?

Lessons Learned from Other Countries:

Enclosed with this package are examples of some other countries' charging practices.

- Many other countries are currently operating their air traffic control services with user fee structures following general ICAO guidance. Among other guidance, ICAO recommends basing charges upon weight and distance measures. What are your views about these countries' approaches and resulting fee structures? What ideas (if any) might be appropriate for the United States?
- There has been some concern that a user fee based system would be administratively burdensome. In your experience, have you found that user fee systems in other countries are

administratively burdensome? Please provide examples. How much time (money) do you spend verifying bills? Do you feel the dispute processes are reasonably fair and effective? What has been most and least effective in other countries' billing process?

- What is your evaluation of the way long-term capital funding requirements for airports and ATC operators are addressed outside the U.S.? Is scrutiny by stakeholders integrated well in overall investment and competition-enhancing decision-making for airports and ATC? Do you have specific recommendations, based on this experience, regarding governance?
- Should U.S. air navigation service (ANS) providers be allowed to compete with other international ANS providers to provide services to other countries for a fee?
- In countries that currently impose aviation user charges, their stakeholders have a voice in their air traffic system oversight process, including influence with respect to rates and charges, modernization plans, governance, transparency, efficiency programs, etc. What has your experience been regarding these governance issues? What system in the U.S. with respect to these matters would you suggest?
- If a board of governance were put in place to represent US aviation user interests what recommendations would you make about the composition of such a board? How many members should it have and who should be on it? What role should such a board play? For example, should they have advisory, formal recommendation or approval authority, on items like setting fees, capital investments and debt financing?