

FAA Management Advisory Council  
2011-2013

# **FAA and Aviation Policy Reform: Now is the Time**

FAA Management Advisory Council  
Joint Meeting of MACs

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January 29, 2014

# The 2011-2013 MAC, Timeline of Work and Outreach

# FAA Management Advisory Council

*Membership that served three-year terms between 2011 and 2013*

## Management Advisory Council (MAC)

Public Law 104-264, The Federal Aviation Reauthorization Act of 1996, Sec 230, mandated the Council. The law was further amended by PL 106-181, Sec. 300.

*The MAC provides the FAA Administrator general advice from a broad spectrum of aviation interests. The council functions as an oversight resource for management, policy, spending and regulatory matters.*

- Juan J. Alonso, Stanford University
- David J. Bronczek, FedEx Express
- Lynn Brubaker, Consultant
- Russell A. (Chip) Childs, Skywest Airlines
- Gina Marie Lindsey, LAX
- James C. Little, TWU
- Jack J. Pelton, Cessna
- Steven Pennington, USDOD\*
- John D. Porcari, USDOT\*
- Steven Predmore, jetBlue (to 2012)
- Ramon Ricondo, Ricondo Assoc. (Chair)
- Paul Rinaldi, NATCA
- Stephen D. Van Beek, LeighFisher

*\* Note that public members do not advocate*

# The Journey of the 2011-2013 FAA MAC and its Members: 2011

*FAA MAC members target the financial issues of the AATF and FAA*

1. **MAC members briefed on understanding of current FAA initiatives and issues:**
  - **Budget:** challenges of operating and investing. Short-term disruptions possible.
  - **NextGen:** short- to medium-term implementation proceeding, but concerns about long-term implementation given budget realities
  - **Airport and Airway Trust Fund (AATF):** originally designed to provide stable revenue for FAA budget but, with fiscal challenges for general fund, it is not.

**Policy Failure: Between July 22 and August 5, in conjunction with debt-ceiling fight, FAA authority lapses with 4,000 furloughs, \$400 million of lost revenue to AATF**

2. **FAA MAC members determined to drive an industry consensus around “creating a sustainable funding future for the FAA.”** Key is to act as a champion to communicate the impacts of the budget situation on the FAA’s operations and investments.
3. **FAA MAC briefed on past efforts at reform -- Dorothy Robyn (1993), Jeff Shane (2006) and Bob Poole—lesson: challenging to upset the status-quo absent an industry consensus.** MAC members choose the pragmatic goal of fixing the budget challenge first: “creating a sustainable financial future for the FAA.”

# The Journey of the 2011-2013 FAA MAC and its Members: 2012

*The accelerating threat of policy dysfunction and service delivery failure provide the impetus for reform*

1. **MAC members reject a “status-quo” approach to fixing financial problems due to service disruptions and lack of investments, including NextGen.**
2. **MAC develops principles for “fundamental reform.” These include:**
  - Recommit to a sustainable financial system for the FAA, including industry revenues that insulate the FAA from day-to-day politics
  - Review existing spending priorities and assess the ongoing viability of the AATF’s tax structure to produce the necessary revenues
  - Create advisory and/or governing boards that provide industry consultation and input on major strategic initiatives.
3. **External interests begin hearing of the MAC’s work and members decide to prioritize engaging FAA stakeholders. Accordingly Ed Bolen (NBAA) and Craig Fuller (AOPA) were invited in to discuss their views of financial and policy reform.** Following the meeting, MAC members prioritize outreach with a focus on air traffic service delivery and NextGen (the areas of common ground).

**Policy Failure: The failure of the “Supercommittee” and the promise of sequestration and a continuing resolution creates numerous issues inside FAA.**

# The Journey of the 2011-2013 FAA MAC and its Members: 2013

*The accelerating threat of policy dysfunction and service delivery failure provide the impetus for reform*

- 1. MAC members write congressional committees to plead that sequestration scheduled for March 1, 2013 be averted and used as the impetus for aviation reform consisting of our principles:**
  - “Create a Sustainable Financial Future for the FAA
  - Establish an FAA Governing Board
  - Assess and Codify FAA Authorities and Programs
  - Charge the FAA Governing Board with Recommending a New Tax and Fee Structure for Aviation Programs”

**Policy Failure: Sequestration, causing furloughs and service disruptions in the NAS before Congress and Administration enact a decidedly short-term solution**

- 2. MAC members believe that the dysfunction of the policy-making process argues for transitioning as much as possible away from general fund support.**
  - The air traffic organization should rely on industry revenues
  - Other FAA functions such as airports and certification have cost-recovery alternatives
  - Safety and regulation require dedicated revenues as well

# The FAA MAC and Outreach

*The MAC and its members have conducted stakeholder outreach and limited advocacy*

- **Aerospace Industries Association**
- **Airbus**
- **Aircraft Owners and Pilots Association**
- **Airlines for America**
- **Airports Council International-North America**
- **American Association of Airport Executives**
- **Boeing**
- **Business Roundtable**
- **Gateway Airports/US Travel Association**
- **National Business Aviation Association**
- **Reason Foundation**
- **Transportation Research Board's Executive Committee**
- **Transportation Trades Department AFL-CIO and member unions**

## **FAA MAC Letters to Reps. Shuster and Rahall/Senators Rockefeller and Thune:**

**February 27, 2013:** "MAC members ... urge that policymakers begin a process of reforming the policy, funding and governance structure of the FAA to avoid ... [the] threats to the U.S. aviation system, which is one of our nation's leading engines for economic growth."

**August 3, 2013:** "The members of the ... MAC urge that the Congress and President immediately pass and sign into law legislation eliminating or delaying the sequestration process ... [I]n the near-term, the sequester risks significant adverse effects to the FAA's operating capabilities as well as to its ability to implement NextGen."

# Background to MAC Recommendations: The Financial Picture



# The Policymaking Problem for the FAA and the NAS

*A variety of budget problems convinced FAA MAC members that the NAS was vulnerable*

1. **Partial Shutdown (FY 2011):** FAA Authority lapses, 4,000 FAA employees furloughed, \$400 million in lost revenue for the Airport and Airway Trust Fund (AATF).
2. **FAA Reauthorization (FY 2012):** H.R. 658 passes after 23 temporary extensions of authority. Status quo bill does little to resolve long-term funding issues and policy developments for the FAA.
3. **Sequestration (FY 2013):** A week of furloughs, including controllers for one day per pay-period, resulting in a loss of capacity at towers. \$253 million transferred from “protected” AIP account to fund operations.
4. **Sequestration (FY 2014 – FY2021):** Budget deal and easing of discretionary spending targets appears to head-off sequestration cuts for FY2014 and FY 2015.

**Budgetary problems fall heavily on aviation due to the expansive roles played by the FAA and the agency’s overreliance on policymakers and the General Fund**

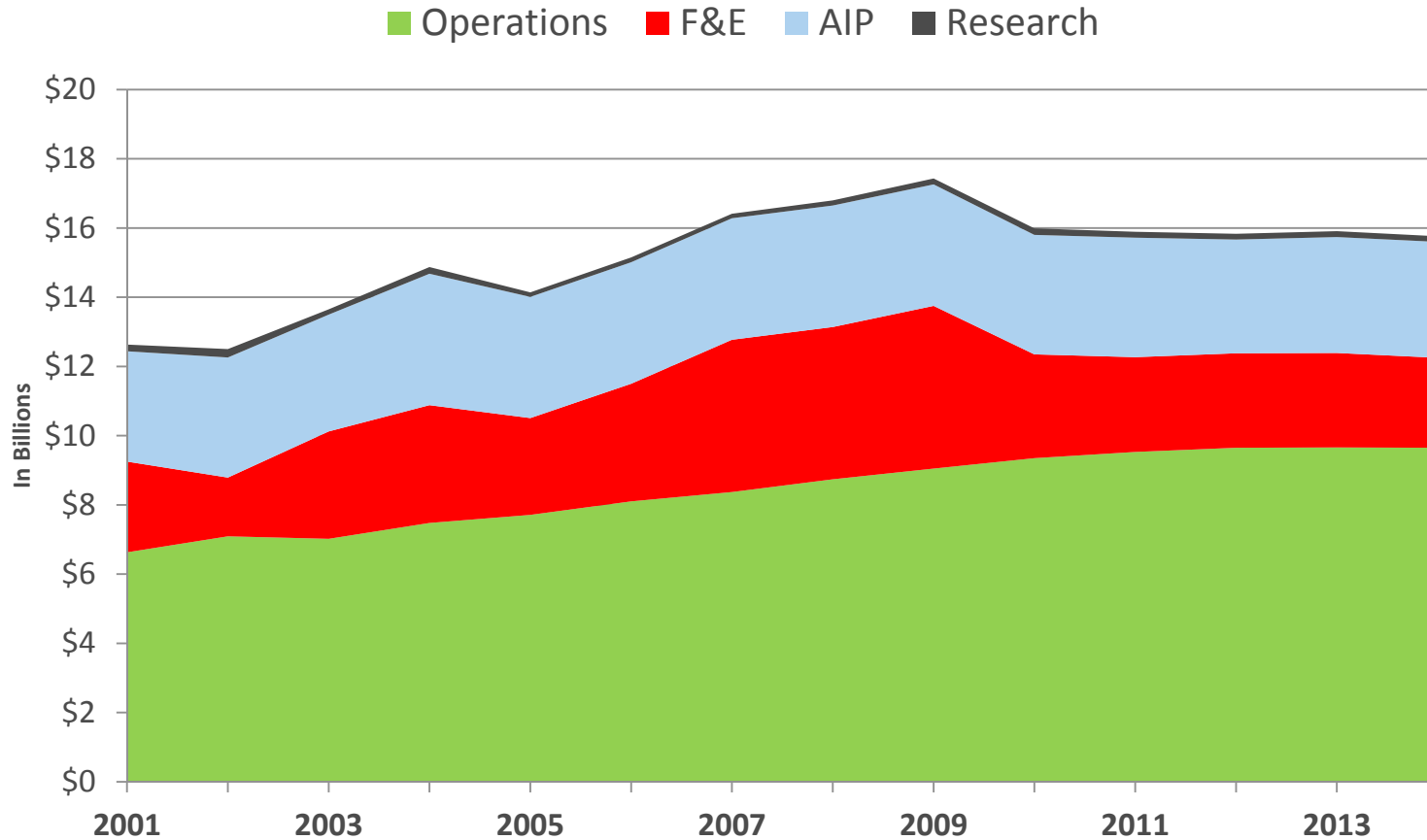
## The Funding Dilemma: The FAA & Airport and Airway Trust Fund

*A brilliant policy innovation for decades; it no longer provides the designed stability*

- ***The Airport and Airway Trust Fund*** was created over 40 years ago to provide a stable source of funding for FAA capital needs and airport infrastructure with the remainder supporting FAA operations (together with the General Fund).
- For decades this effectively dealt with a system funded by annual appropriations and one where those charged with running the FAA lacked both a capital budget and access to the financial markets (unlike their foreign counterparts).
- As long as industry revenues kept pace with system needs (principally through system growth)-- **and taxpayer funds were available annually to fund the difference between FAA operating and capital needs and industry revenues** -- the FAA could effectively operate, plan and invest.
- Changes in the aviation industry coupled with the continuing pressures on the federal budget mean that this “funding system” no longer meets its original intent of providing stable funding.

# FAA Finances: Major Program Functions 2001-2014

*Overall Budget levels coupled with FAA Operations growth have squeezed FAA's capital accounts*

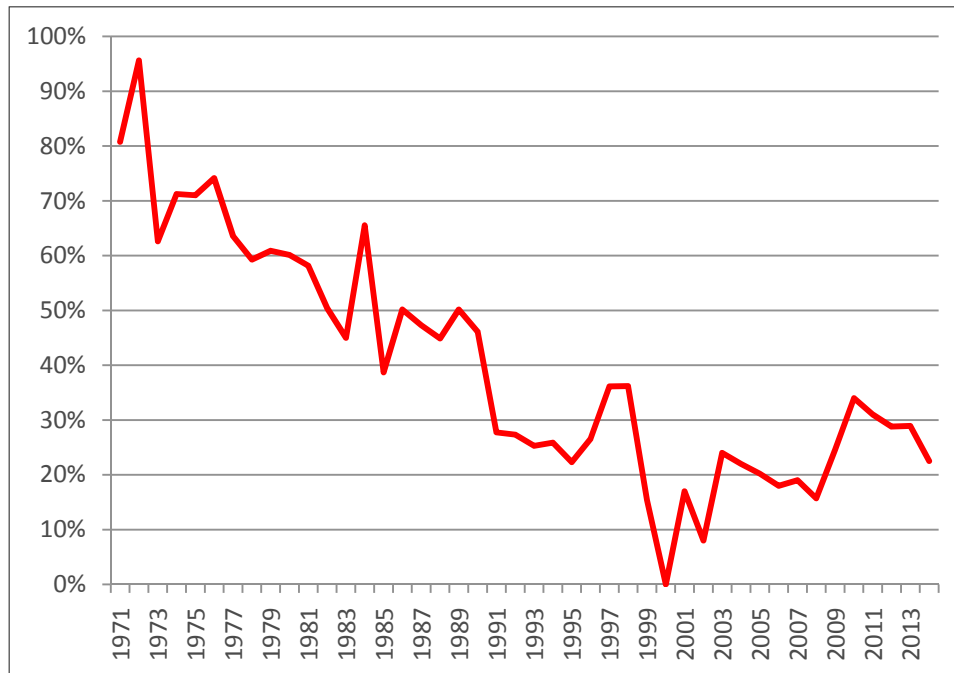


**FAA budgets have not kept pace with the current and future demands to operate and invest in the system.**

# The General Fund and the FAA: Unlikely to bridge the AATF Gap

*Other than through the Obama Stimulus Program, General Fund Trending Down*

## Taxpayers' Share of FAA Budget (1971-2014)











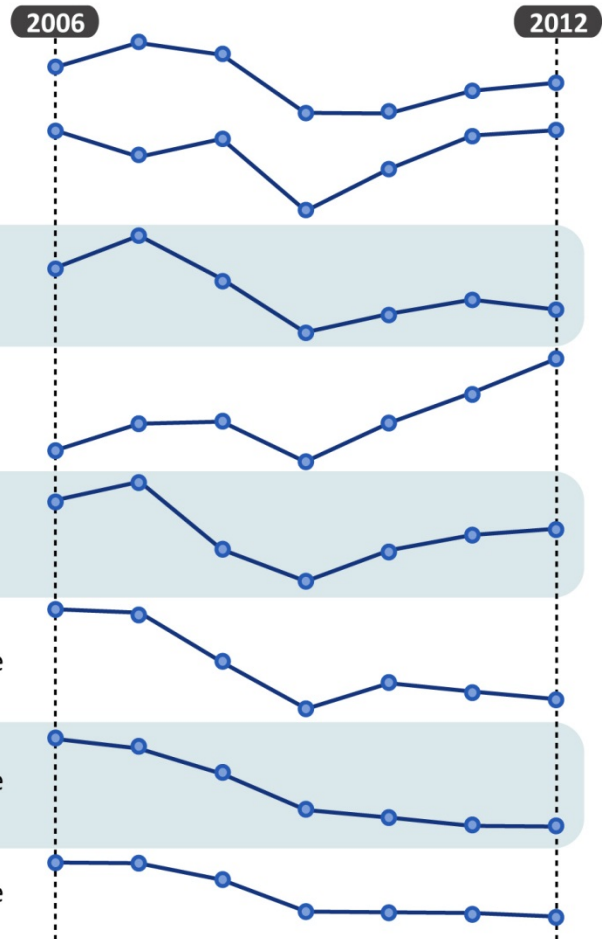
Through years of policy changes the General Fund trended downward until the stimulus program in 2009; it has resumed its trend

## Pressures on Taxpayer Spending 2014 - ?

- Large budget deficit and national debt
- Politics right now favoring “shared sacrifice” or across-the-board cuts
- PAYGO (Senate) and CUTGO (House) rules enforce discipline and pressure spending
- With Trust Fund financial issues, infrastructure spending now widely perceived as “discretionary”
- Other transportation priorities including highways, transit and rail all lack sufficient dedicated revenues (or dedicated revenues at all), requiring taxpayer funding if they are to be continued. All compete (as does housing for the same appropriations 302(b) allocation)

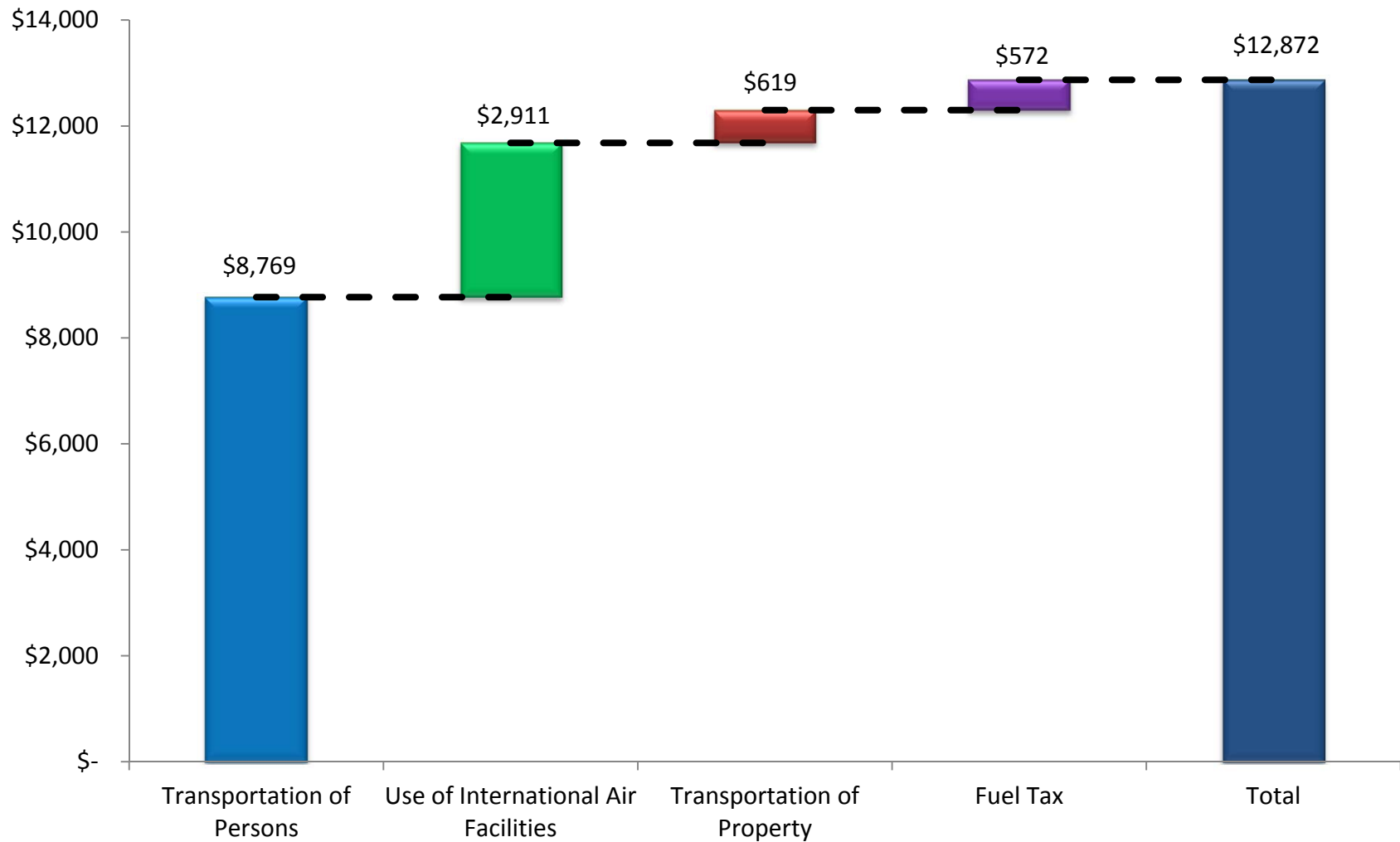
# AATF Ticket Taxes: Structure, Drivers and Trends

Tax	Description	Adjusted?	Driver	7 Year Trend (absolute values)
Domestic Passenger Ticket Tax	7.5% of ticket price	Ad Valorem	Enplanements and Fare Price	 Flat
			Average Airfare Price (2013 Dollars)	 Flat
Domestic Flight Segment Tax	\$3.90 per segment	CPI	Domestic Segments	 Flat
Int'l Arrival and Departure Tax	\$17.20	CPI	International Passengers	 Growth
CONUS to/from Alaska or Hawaii	\$8.60	CPI	Enplanements to/from AK/HI to CONUS	 Flat
Domestic Cargo	6.25% of Freight Value	Ad Valorem	Cargo Value and Volume	 Decrease
GA Fuel Tax	Avgas: \$0.193/gallon Jet: \$0.218/gallon	No	Operations	 Decrease
Commercial Fuel Tax	\$0.043/gallon	No	Operations	 Decrease



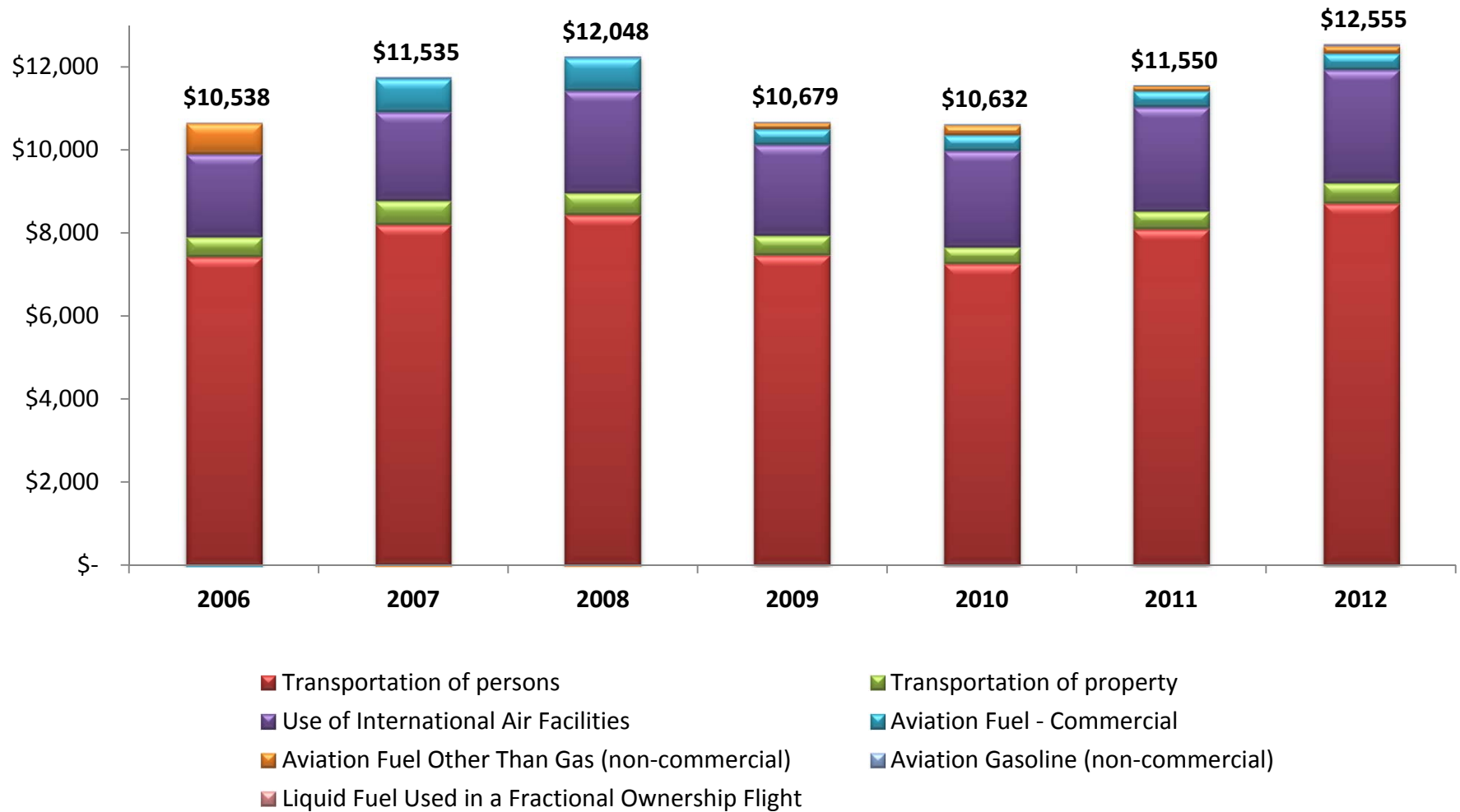
# 2013 AATF Revenue Collections – Major Drivers (millions)

*Passenger and goods travel is taxed in different ways to fund the majority of the FAA*



# Gross AATF Revenues by Fiscal Year (millions)

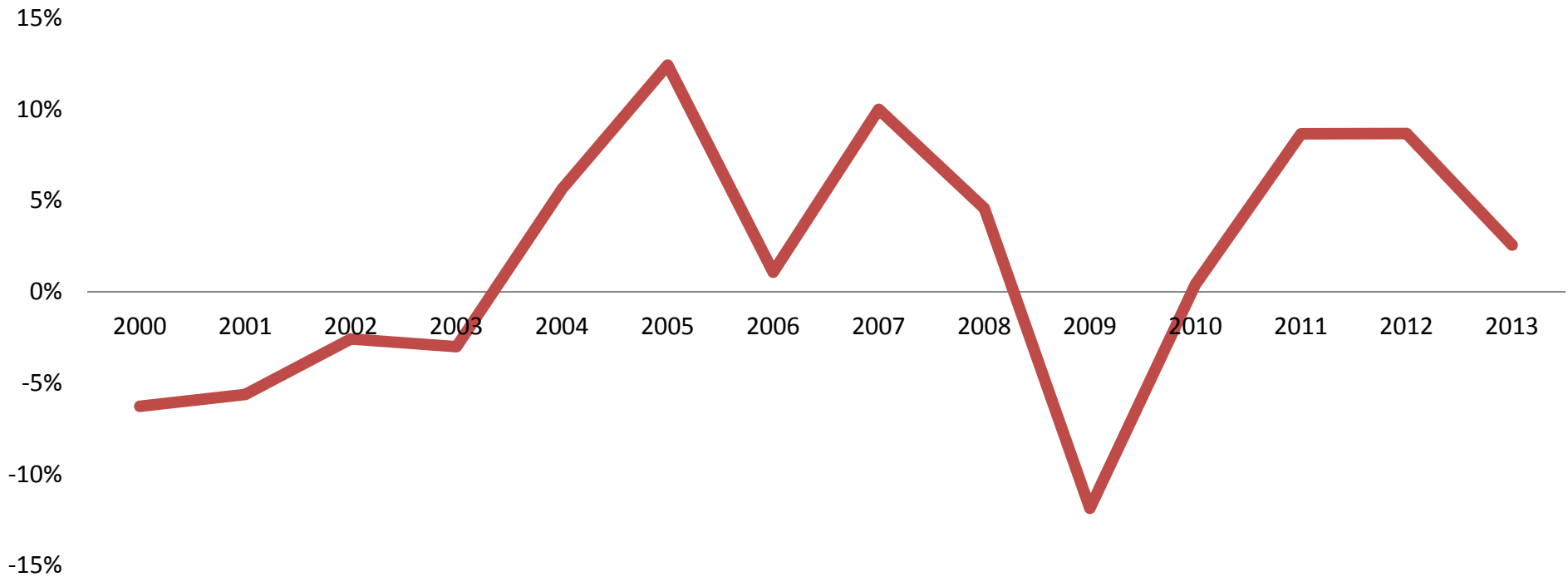
*Overall revenues correlate with industry performance not FAA costs*



Source: FAA

# Annual Percentage Change in AATF Collections

*AATF revenues in any one year vary between -10% and +10% challenging future planning*

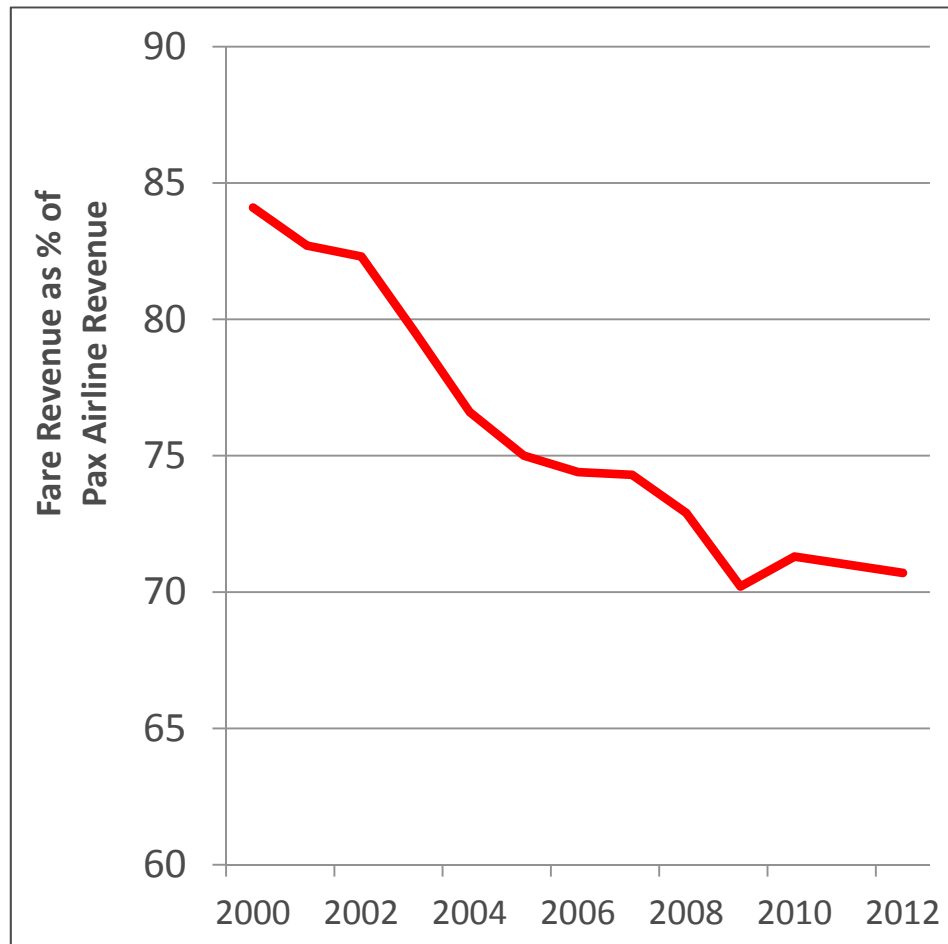


**The current AATF structure is not providing the degree of stability in funding envisioned by its creators—especially with the nation’s fiscal issues. This imperils the goal of creating a financially sustainable FAA capable of operating and investing in NextGen and airports**



## Airline ticketing practices constraining FAA revenue collections: Fares as a Percentage of Airline Revenue (2000-2012, BTS)

*Drop in taxed proportion of airline revenues further jeopardizes AATF revenue growth*



- Ancillary fees growing at >15% per year.
- The drop in taxed airline revenue costing the NAS >\$500m annually
- Airline ticketing practices, rather than system use, increasingly determining how much airlines provide for NAS capital needs, AIP and other needs.
- Airlines such as Southwest and jetBlue which have more of their tickets taxed are discriminated against by existing policy.
- Even with modest system growth, AATF revenues will grow more slowly due to the relative decline of fare revenue.

# The Work of the FAA MAC

# Contrasting Perspectives on AATF Taxes and Other Government Assessments

*Public statements connote disagreements about the current system of funding the NAS and aviation*

## Stop Air Tax Now

... Think about what you buy—milk, electronics, clothing, etc. None of these goods is taxed at a rate of 20 percent... Airlines are taxed as a sin, at a higher rate than alcohol, tobacco and firearms. Yet we are not a sin ...

(Jeff Smisek, President and CEO, United Airlines, *Hemispheres*, November 2011)

## Confusing 'Sin' Taxes and Fixed Costs

... The federal ticket tax and segment fee go almost entirely to running the FAA and the air traffic control system, the airlines' equivalent of other industries' "production line" ... If the airlines built and operated their own airports and air traffic control system and still paid 21% in special taxes that went into the U.S. Treasury and local governments' general funds, they would have a point, but they don't ...

(Chip Barclay, President AAEE, *Aviation Daily*, May 27, 2010)

# The MAC's view of the Viability of the Current System

*Taking a step back helps to pinpoint the problem and what is necessary to solve it*

## 1. **Funding Sufficiency/Sustainability:**

Does the system enable long-term capital planning and provide the \$\$ to operate and upgrade the system? **No. Draconian choices have limited operations and investment and pushed the problem into the future.**

## 2. **Tax Incidence:**

How does the burden of taxes and fees fall upon the users of the system (i.e. airlines with different business models, general aviation users)? **Unfairly. System is not equitable even for similarly situated users (and getting worse).**

## 3. **Market Signals:**

Does the method of revenue collection provide the “proper” incentives for the system to operate effectively (e.g., efficiency, maximize capacity, equity)? **No. Market signals not used.**

## 4. **Public vs. Private Roles and Benefits:**

How are the public benefits of aviation captured in the funding model? Should they be captured with a public contribution knowing that this will insert Congress into at least parts of the FAA's business? **Taxpayers (sometimes) pay the difference between FAA's budget request and AATF revenues--no rationale for public contribution.**

## 5. **Governance Reform:**

Is it necessary and/or advisable to link funding reform with the possible FAA reform? **According to users it is the only way.**

# FAA MAC: Four Reform Principles for Aviation Policy

## *Industry Members of the FAA MAC Unanimously Agree on this Future Path*

- 1. *Create a sustainable financial future for the FAA:*** The most important goal is to establish a funding system that provides dedicated and sufficient user-based revenues to pay for FAA obligations. MAC members believe that general fund support for the aviation industry should be phased out as soon as possible in order to insulate the agency and the provision of user services from day-to-day politics.
- 2. *Separate a new commercialized Air Traffic Organization (ATO) from the FAA:*** Modeled after other Air Navigation Service Providers (such as NAV CANADA), separate the service-oriented ATO from the FAA and appoint a board consisting of users and aviation stakeholders to oversee its work. MAC members strongly believe that ***ATO reform must be accompanied by overall aviation policy reform*** due to the links between policy and funding decisions.
- 3. *Assess and codify FAA Authorities and programs:*** Simplify statutes, regulations and policy by reviewing existing rules and procedures and eliminating redundant regulatory oversight. MAC members believe that this process will result in significant savings to the FAA and will obviate the need for a near-term increase in user revenues after the phase-out of general fund support.
- 4. *Reform the tax structure:*** Eliminate the current mix of AATF taxes and fees and replace it with transparent schedules of cost-based fees that provide sufficient funding for services such as air traffic control and aircraft certification. MAC members believe that new schedules should be (1) “revenue neutral” and (2) flexible in their administration in order to gain the confidence of stakeholders and facilitate the transition to a new system.

# Organizational Models for ATO/FAA Reform

*The variety of ANSP models offer examples for the constituent elements of reform*

Nation	Air Navigation Service Provider	Ownership	Funding (Charges)	Access to Markets	Comments
Australia (1995)	Airservices Australia	Government Corporation	User Fees	yes	Minister of Transport appoints board
Canada (1996)	NAV CANADA	Private, non-profit, non-share corporation	User Fees	yes	Unions appoint 2 board members, balance by airlines, airports, government
France (2005)	Direction des services de la navigation aeriennne	Government Department	User Fees	yes	Most like the FAA, only user fees and access to markets really distinguish
Germany (2007)	Deutsche Flugsicherung GmbH	Government Corporation	User Fees	yes	Uses ICAO principles of cost recovery for fees
Netherlands (1993)	Luchtverkeersleiding Nederland	Independent Government Agency	User Fees	yes	Receives some government support for services exempt from fees
United Kingdom (2001)	National Air Traffic Services, Ltd.	Public private partnership	User Fees	yes	Government owns 49%, balance owned by airlines, airports, employees
United States (2004)	FAA Air Traffic Organization	Government Department	Taxes	no	Uncertain funding results in inability to confidently invest

## A Simpler Cost-Recovery System for ATC is Possible: EUROCONTROL Enroute Charge for A-319 from Brussels to Copenhagen

*Cost of collection 0.3%, Recovery at 99% +*

Sector	Distance Factor		Weight Factor		Rate 2010	=	Charge (Euro)
Belgium	0.29	X	1,18	X	€ 76.59	=	€ 26.21
Netherlands	3.03	X	1,18	X	€ 65.81	=	€ 235.30
Germany	2.19	X	1,18	X	€ 71.99	=	€ 186.04
Denmark	2.14	X	1,18	X	€ 67.90	=	€ 171.46
<b>Total Charge =</b>							<b>€ 619.01</b>

January 2011, Unit charges available at:

[http://www.eurocontrol.int/crco/public/standard\\_page/information\\_circulars.html](http://www.eurocontrol.int/crco/public/standard_page/information_circulars.html)

## The Birth of NAV CANADA: An Example of Industry Consensus for Policy Change?

*From "Air Traffic Control Commercialization Policy: Has It Been Effective" mbs ottawa, inc. (2006)*

**In 1991, Canada associations representing airlines, business aviation, pilots and air traffic petitioned the government to change the organizational arrangements for air navigation services:**

“... the present air traffic control system is not serving the interests of the traveling public, pilots, the aviation industry and is creating a progressively higher level of frustration in employees working the system who wish to perform a professional service.... We believe that these issues reflect fundamental deficiencies in Canada’s current organizational arrangements for air navigation. Stress on the system would be reduced in an environment where managers had greater operational freedom and access to revenue that allowed them to respond to changing requirements.”

**Over the last three years, FAA MAC members, representing a similar cross section of the USA industry, have come to believe that similar reforms are necessary here. The reaction to our industry outreach has been very positive.**