

Report on Policy Session: Aviation Issues

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Whitaker: The FAA's Role

Mission: to provide the safest, most efficient aerospace system in the world.

- *operates* the U.S. air traffic control system.
- *regulates* through safety standards and rules for aircraft and flight crews.
- *funds* air traffic control infrastructure, airports, and research and development.

This is an unusual model (to do all three)!

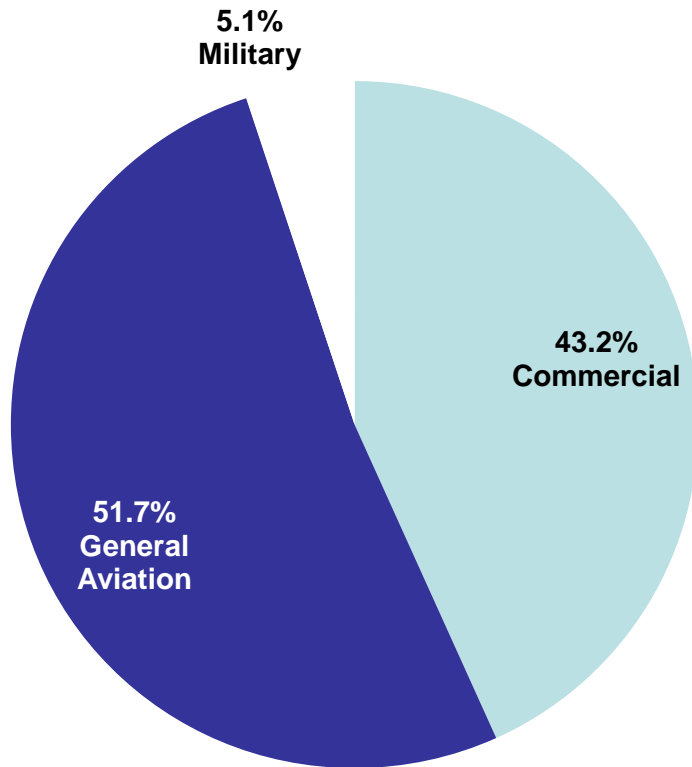
Priorities

- Make aviation safer/smarter
- Deliver benefits through tech and infrastructure
- Enhance global leadership
- Empower workforce to innovate

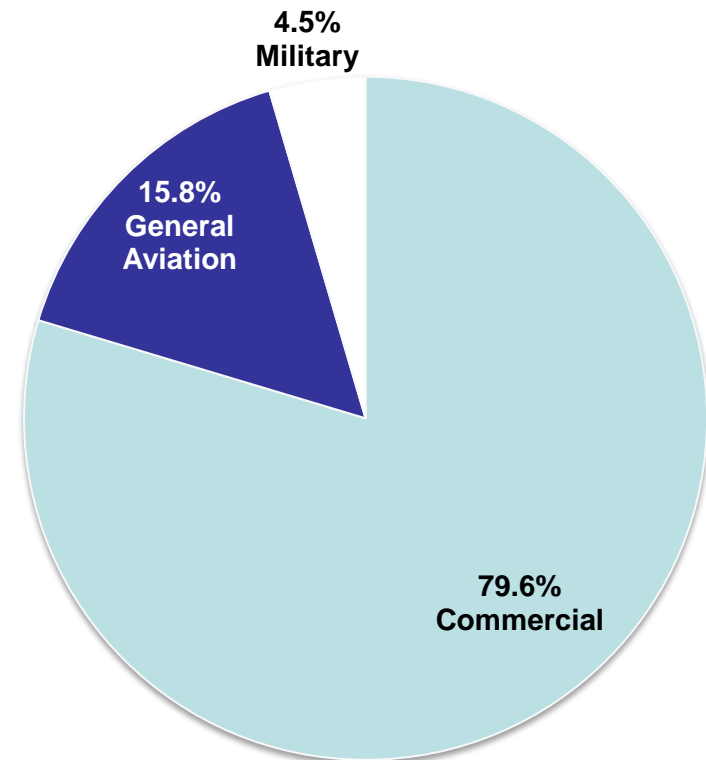
Next Gen – complete system overhaul.

Operators in the Airspace System: Is general aviation paying fair share?

Activity at Airports with Air Traffic Control



En route Air Traffic



Year: 2012

Source: FAA Air Traffic Activity

Trust Fund Revenue: 70% vs. 30% General Funds

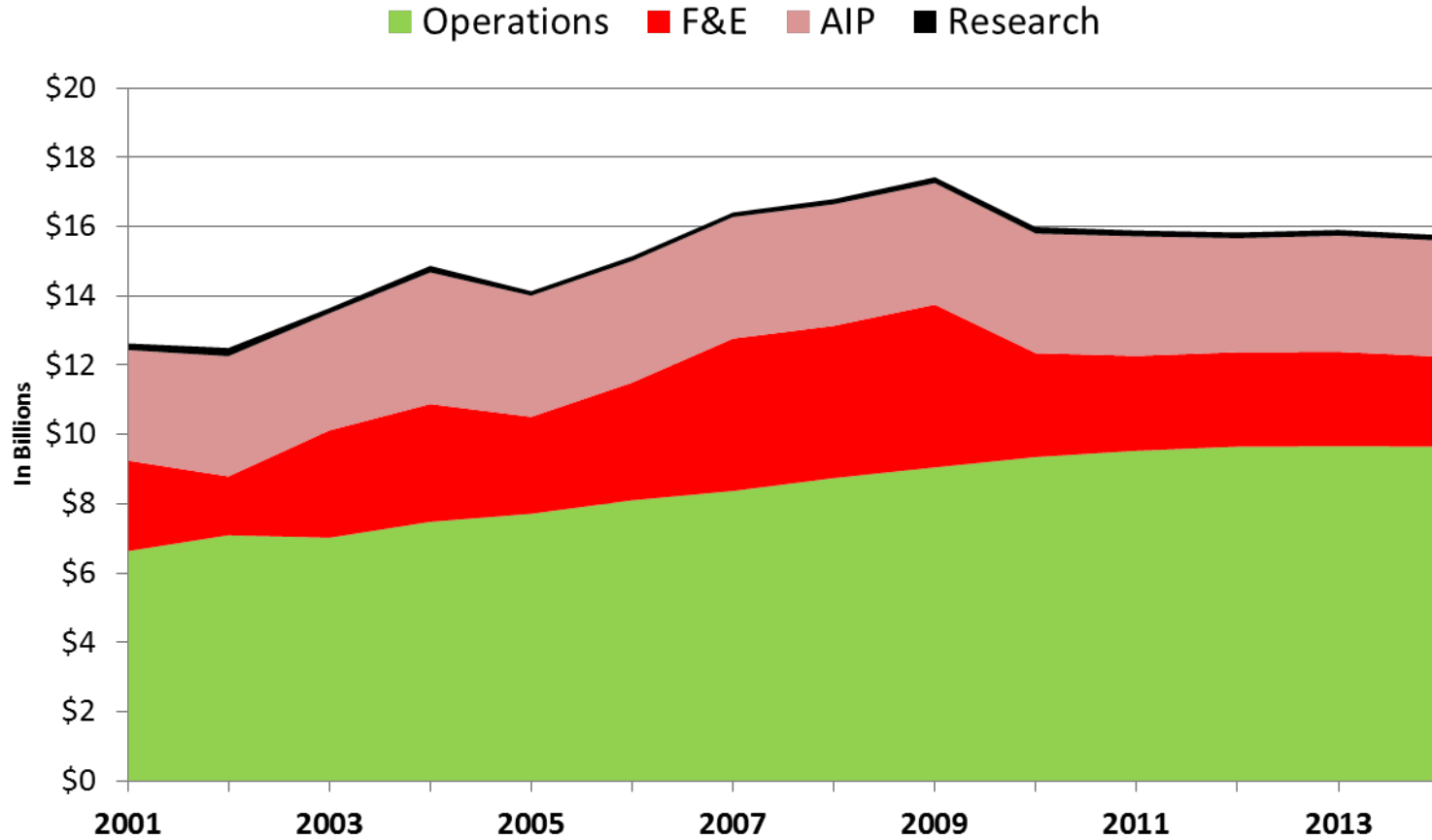
Tax Type	2012 %
Transport of persons by air <ul style="list-style-type: none">▪ Domestic ticket tax (7.5% of ticket price)▪ Domestic flight segment tax (\$3.80/segment)	70%
Use of international air facilities tax (\$16.70 per arrival/departure; \$8.40 for departures from AK and HI)	22%
Transport of property by air (6.25% of amount paid for transport).	4%
Noncommercial aviation fuel <ul style="list-style-type: none">▪ Aviation gasoline (19.3 cents/gal)▪ Other Aviation fuel (21.8 cents/gal)▪ Fractional ownership (14.1 cents/gal)	3%
Commercial aviation fuel (4.3 cents/gal)	1%

VanBeek: FAA Management Advisory Council

- Policy: Notwithstanding dramatic changes in aviation over the past 15 years (i.e., airline consolidation, globalization, more efficient aircraft), **basic policy framework has changed little.**
- Funding Capacity: **Insufficient revenues** to support FAA needs. System reliant on unpredictable taxpayer money. This reality has contributed to furloughs, loss of system capacity and inadequate investment.
- Taxes and Fees: The **tax system underlying aviation is a mess.** Myriad of fees for FAA – as well as for homeland security and customs.

FAA Finances: Major Program Functions 2001-2014

Overall Budget levels and FAA operations growth has squeezed FAA's capital accounts



User Fee Example: EUROCONTROL Enroute Charge January 2011

Brussels to Copenhagen: **More rational formulas exist**

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
Total Charge =							€ 619.01

Unit charges available at:

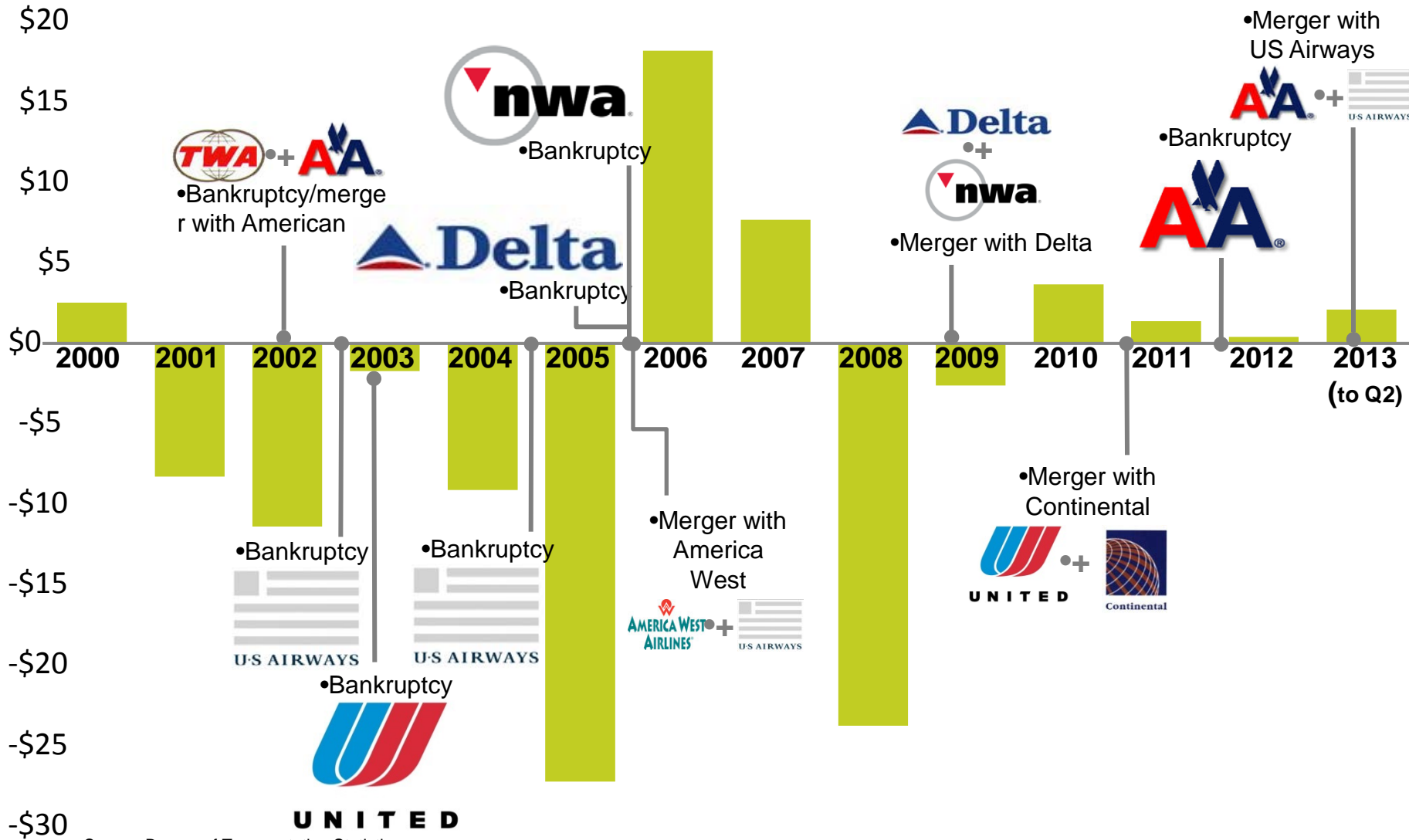
http://www.eurocontrol.int/crco/public/standard_page/information_circulars.html

MAC Recommendations

1. *Create a sustainable financial future for the FAA:* Dedicated and user-fee based funding.
2. *Separate a new commercialized Air Traffic Organization (ATO) from the FAA:* Separate air traffic from the FAA and appoint a board consisting of users and aviation stakeholders to oversee its work.
3. *Assess and codify FAA Authorities and programs:* Simplify statutes, regulations and policy by reviewing existing rules and procedures and eliminating redundant regulatory oversight.
4. *Reform the tax structure:* Eliminate the current mix of 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.

Berry: A view from the airlines

Nearly every major airline merged or declared bankruptcy or both!



•Source: Bureau of Transportation Statistics

...and a very different industry has emerged

•Major airlines
by 2014



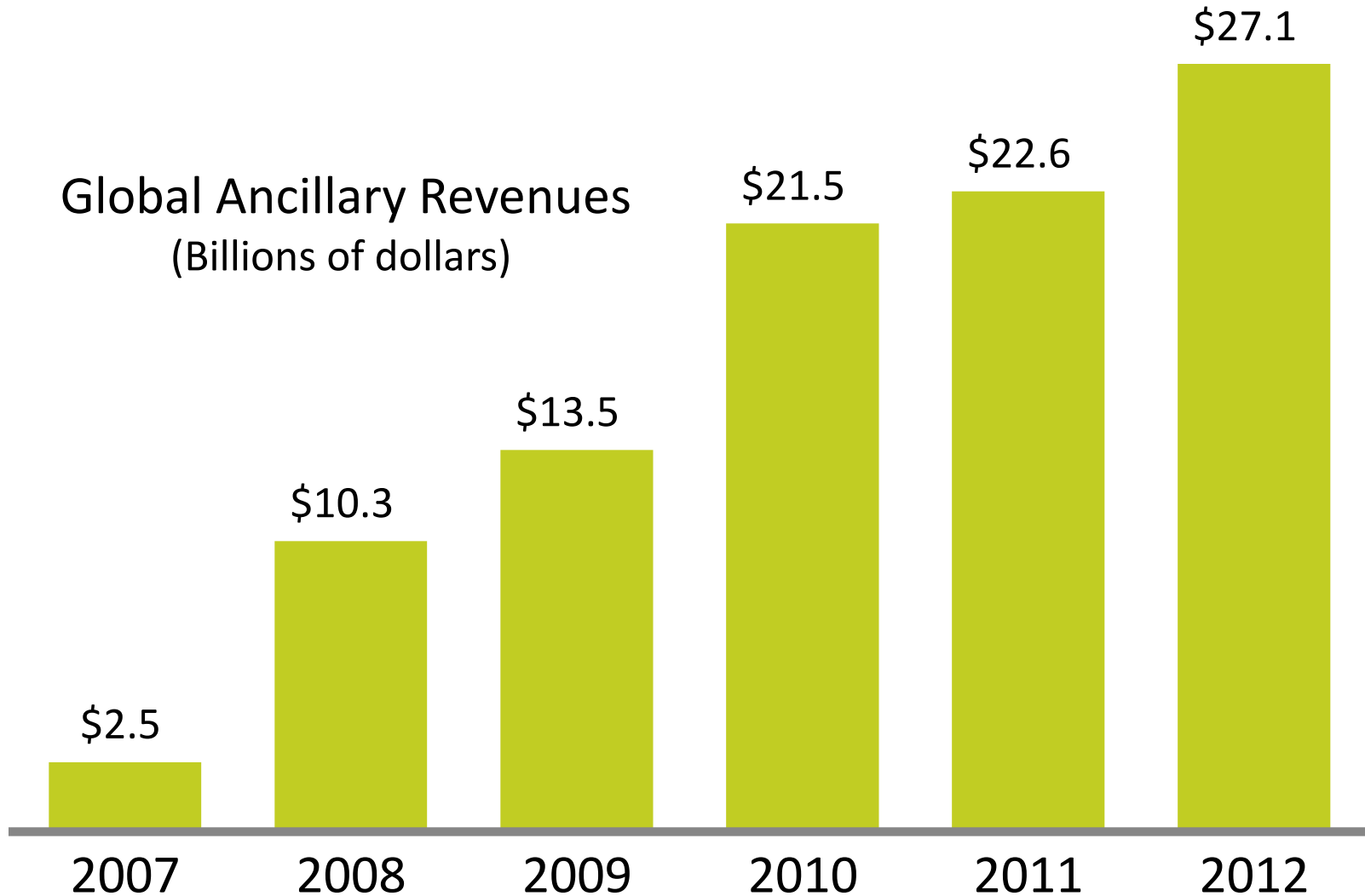
•Niche



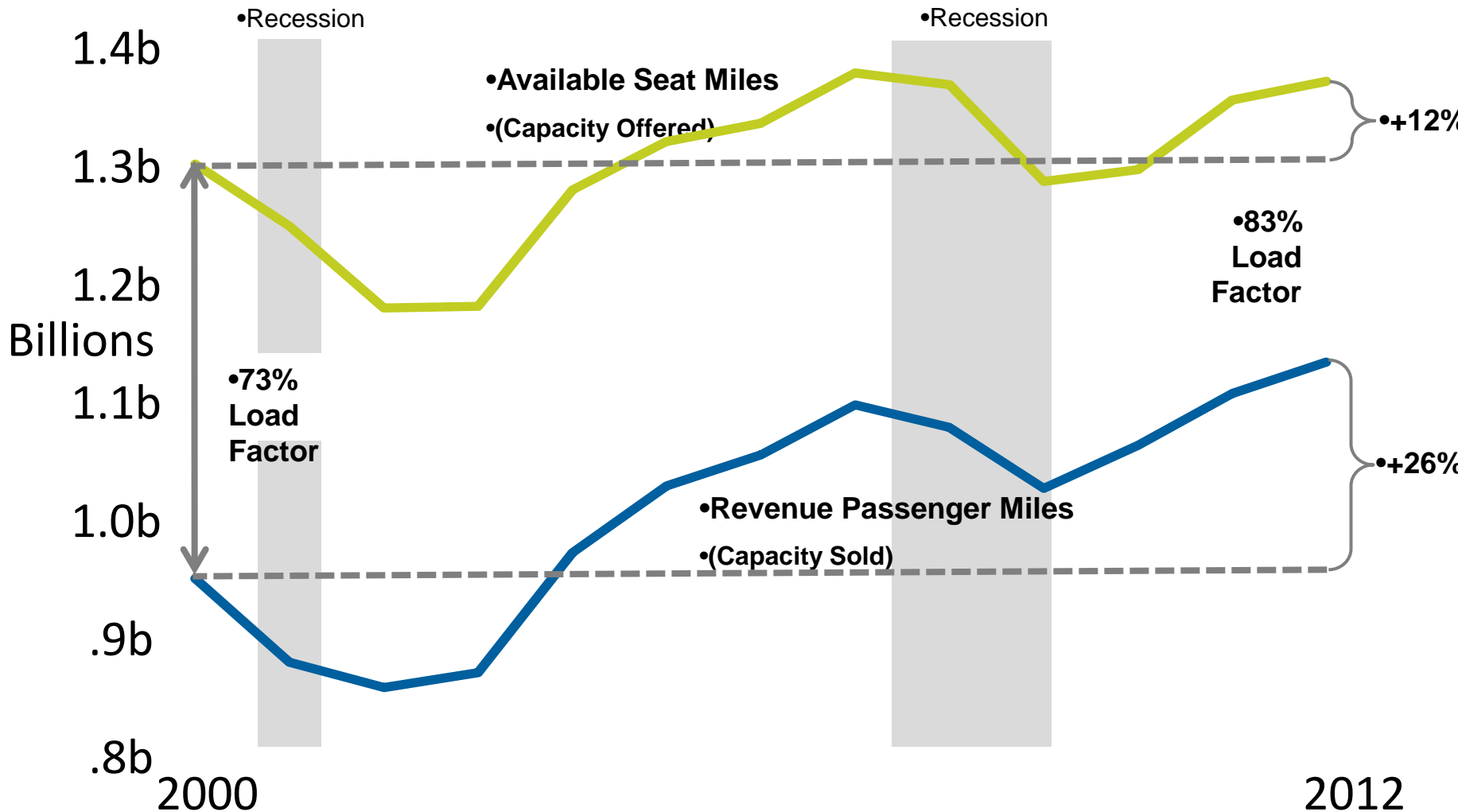
•Ultra Low Cost



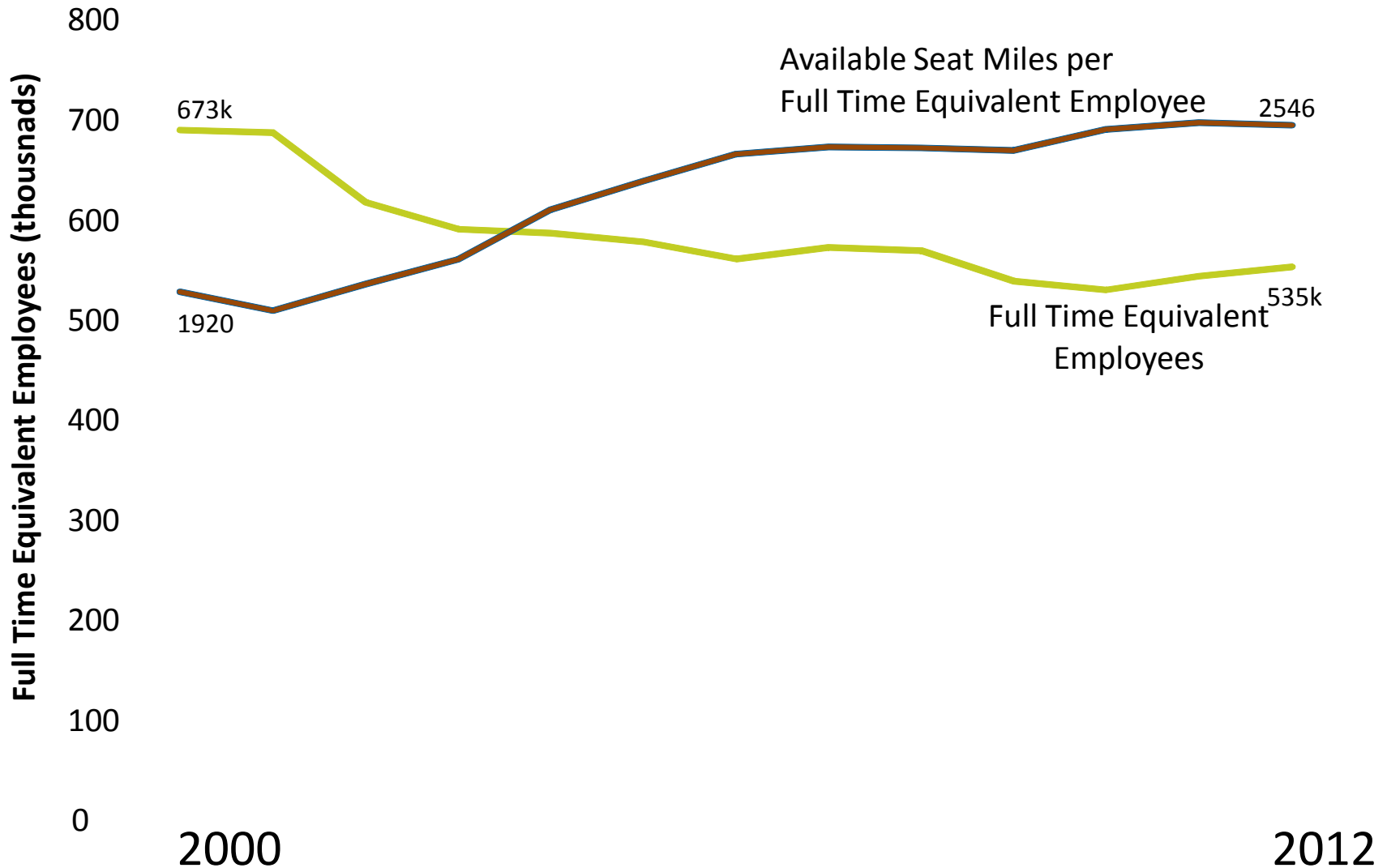
...by unbundling its product...
(we pay for bags, taxes NOT assessed!)



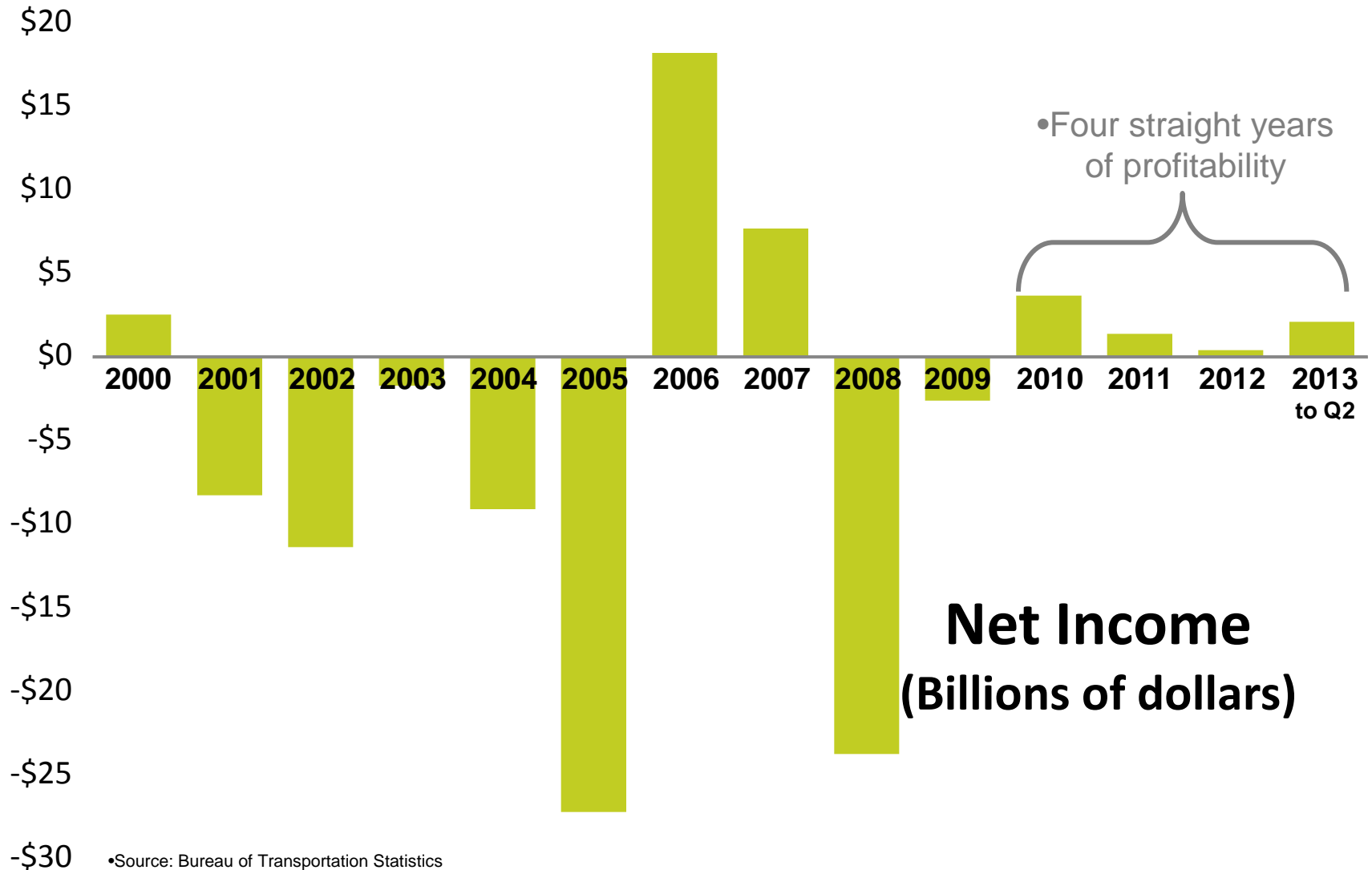
...while exercising capacity control... (yes, planes more crowded)



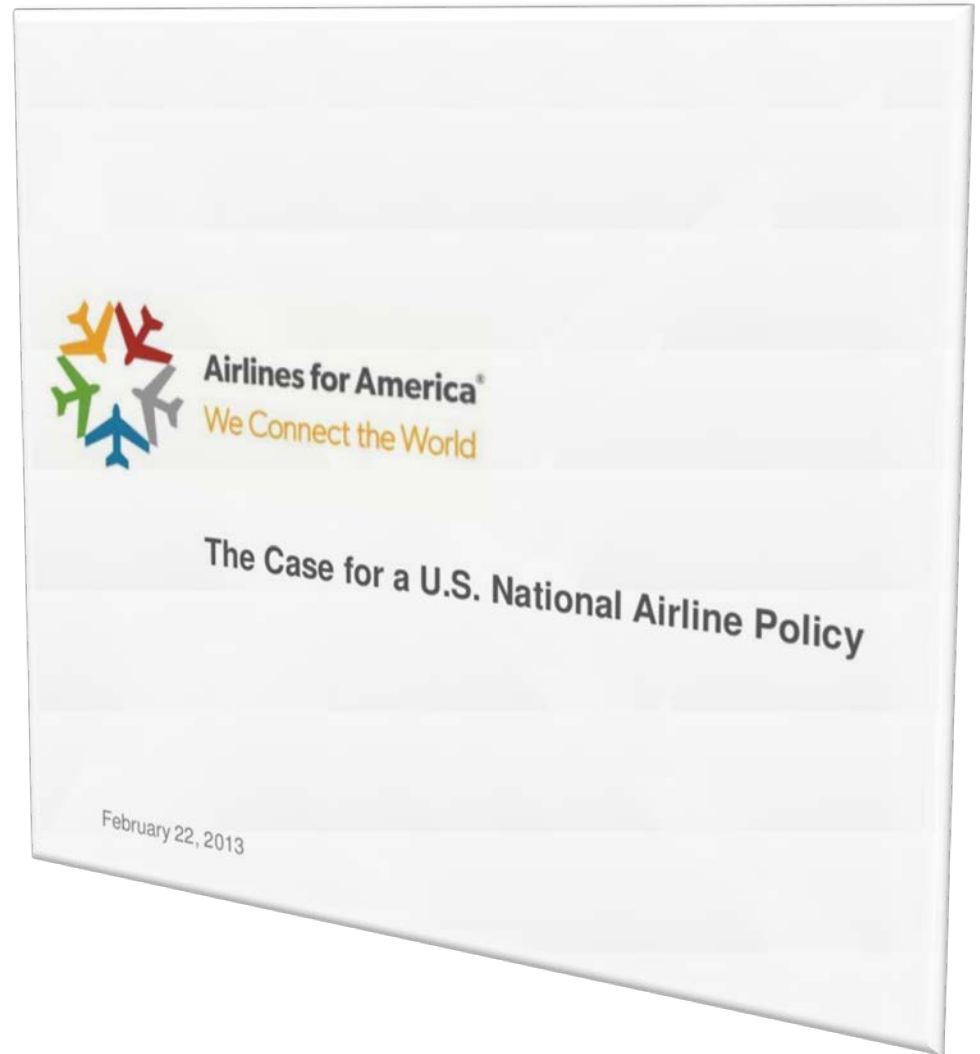
...and improving labor productivity... (yes, staff working harder)

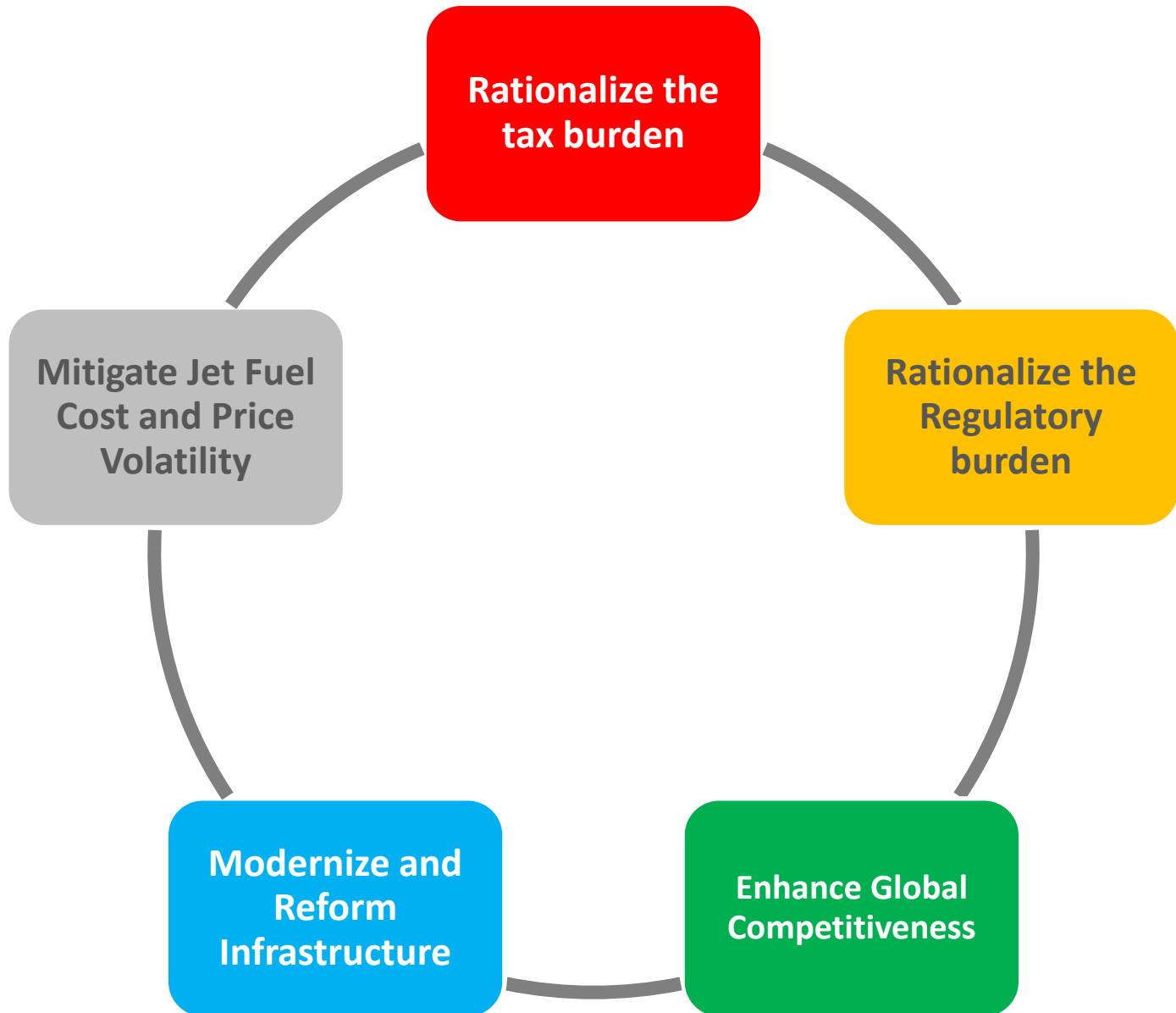


... poised for its fifth straight year of profitability (but not much)



And asking for a
National Airline
Policy
(favorable to them
re: regulations, \$,
global competition)





Hamiel: a view from the Airports

- Support 10.5 million jobs (7% of all U.S. jobs)
- \$1.2 trillion in total economic impact (8% of total U.S. GDP)
- Projected demand to grow from 700 million passengers in 2013 to 1 billion in next 10 to 15 years
- Through 2017, will need \$14.3 billion a year in airport infrastructure improvements to meet forecasted demand

Traditional Funding Models

•Residual

- Airlines pay airport costs not allocated to other users or covered by non-airline sources. Results in more risk to airlines but also more control over spending decisions.

•Compensator

- Airlines pay fees and rent to recover costs of facilities and services they use. Airports bear financial risk of other facilities but can also use net revenues for capital projects.

•Hybrid

- Costs for a portion of the airport, such as the airfield, are allocated entirely among airlines. Airports bear costs and keep revenues earned in areas not leased to air carriers.

Funding an issue here as well

Reduced federal and artificially capped local funding streams + cost control pressures from airlines = unsustainable airport financial model

And some perverse incentives: Parking brings in lots of \$, federal law prohibits spending \$ off-site on transit

Is privatization an answer?

Unique role of airports – welcome to community; project values

In Summary: Common Themes

- Funding model broken, needs reform for a sustainable system;
- System not tied to use (cross-subsidizing rural systems, major carriers, general aviation, etc.);
- Does not create right market incentives;
- Result of competition with other underfunded transport modes: “cage match”
- Solutions depend on stakeholder perspective

Did not hear this

- Path for reform – no clear consensus on policy approach that will bring disparate groups seeking reform together;
- Next Gen/FAA do not appear to consider impacts to infrastructure and operations of climate change – extreme weather, SLR
- Role for TRB?
 - Making more transparent funding model/issues;
 - Comparison with other systems;
 - Noting need to consider future impacts