



United States General Accounting Office

Report to the Ranking Minority Member,  
Subcommittee on Transportation and  
Related Agencies, Committee on  
Appropriations, House of  
Representatives

April 1996

# AIRPORT AND AIRWAY TRUST FUND

## Effects of the Trust Fund Taxes' Lapsing on FAA's Budget







United States  
General Accounting Office  
Washington, D.C. 20548

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**Resources, Community, and  
Economic Development Division**

B-271675

April 15, 1996

The Honorable Ronald D. Coleman  
Ranking Minority Member  
Subcommittee on Transportation and  
Related Agencies  
Committee on Appropriations  
House of Representatives

Dear Mr. Coleman:

The Airport and Airway Trust Fund (Trust Fund) was established by the Airport and Airway Revenue Act of 1970 (P.L. 91-258) to finance the Federal Aviation Administration's (FAA) investments in the airport and airway system, such as construction and safety improvements at airports and technological upgrades to the air traffic control system. The act further provided that FAA's operating cost could be financed from the Trust Fund. Since 1990, the Trust Fund has provided about \$42 billion for these purposes. The Trust Fund was financed from taxes on domestic and international airline travel, domestic cargo transported by air, and noncommercial aviation fuels until these taxes expired on December 31, 1995.

In March 1996, you requested that we provide you with information on the status of the Trust Fund, including the implications of reinstating or not reinstating the taxes on FAA's budget.

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## Results in Brief

Although the taxes that financed the Trust Fund have expired, the money available in the Trust Fund is sufficient to finance its portion of FAA's fiscal year 1996 budget as enacted. With no tax receipts, FAA estimates that the Trust Fund money available at the end of fiscal year 1996 would total \$600 million. FAA also estimates that the taxes would have to be reinstated no later than December 1996 to enable the Trust Fund to finance \$6.1 billion of FAA's \$8.1 billion fiscal year 1997 budget as requested, with the General Fund financing the remainder. For each full month beyond December 1996 that passes with no tax receipts, an additional \$550 million would be needed from the General Fund to finance FAA's fiscal year 1997 budget.

## Background

Although FAA is authorized to make expenditures from the Trust Fund through the end of fiscal year 1996,<sup>1</sup> the taxes that finance the Trust Fund lapsed on December 31, 1995. Also, the authority to transfer the tax receipts from the Treasury to the Trust Fund for FAA's use expired on December 31, 1995.<sup>2</sup> At expiration, the tax rates were 10 percent of the amount paid on airline tickets for travel in the United States, \$6 per passenger on each flight from the United States to an international destination, 6.25 percent of the amount paid to transport domestic cargo by air, 15 cents per gallon for noncommercial aviation gasoline, and 17.5 cents per gallon for noncommercial jet fuel. Receipts from these taxes have averaged about \$5 billion annually in recent years. FAA estimates that receipts would have been about \$6 billion in fiscal year 1996 had the taxes not lapsed.

## Financing FAA From the Trust Fund

In fiscal years 1990 through 1996, the Trust Fund has financed 100 percent of three FAA accounts—Grants-in-Aid for Airports (the Airport Improvement Program); Facilities and Equipment; and Research, Engineering, and Development. Also, in this period, the Trust Fund has generally financed about half of FAA's fourth account—Operations—with the remainder of this account financed by the General Fund. (See app. I for FAA's historical funding levels.)

Although the taxes expired, the Trust Fund has sufficient funds to finance its portion of FAA's fiscal year 1996 budget as enacted; the Trust Fund is providing \$5.7 billion, and the General Fund is providing \$2.4 billion. However, without tax receipts, FAA estimates that the Trust Fund's uncommitted balance<sup>3</sup> would be \$600 million at the end of fiscal year 1996.<sup>4</sup> The President requested \$8.1 billion in budget authority to finance FAA in

<sup>1</sup>26 U.S.C. section 9502(d)(1).

<sup>2</sup>Without transfer authority, the tax receipts remain in the General Fund. FAA estimates that about \$400 million in taxes levied from October through December 1995 were not received by the Treasury until after December 31, 1995, and therefore remain in the General Fund. FAA also estimates that \$200 million in receipts from October through December 1995 may be refunded to taxpayers for airline tickets purchased before January 1, 1996, for travel on or after that date.

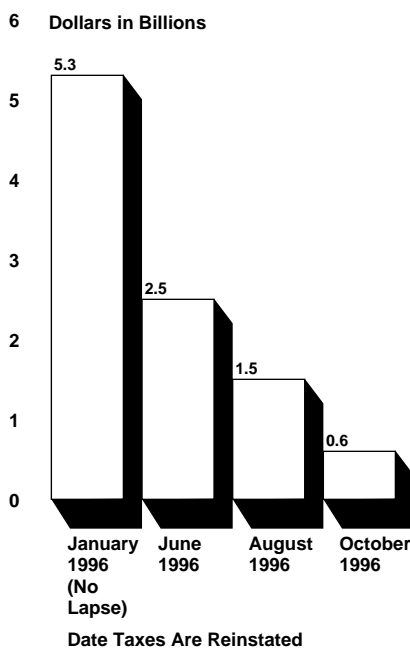
<sup>3</sup>The Trust Fund's uncommitted balance represents money against which there is no outstanding budget commitment in the form of budget authority or authority to spend. This balance, subject to congressional approval, is the amount available in the Trust Fund to finance FAA in future fiscal years.

<sup>4</sup>FAA's estimate of the Trust Fund's end-of-fiscal-year-1996 uncommitted balance does not include \$764 million in contract authority for the Airport Improvement Program that the Congress could rescind and return to the Trust Fund's uncommitted balance. This amount is the difference between the program's fiscal year 1996 obligation limitation level of \$1.45 billion and contract authority level of \$2.214 billion.

fiscal year 1997, including \$6.1 billion from the Trust Fund<sup>5</sup> and \$2 billion from the General Fund. Therefore, if the Congress approves this budget and no taxes are collected, FAA's fiscal year 1997 budget would have to be financed almost entirely from the General Fund.<sup>6</sup>

If the taxes were reinstated by December 1996, FAA estimates that the Trust Fund could finance \$6.1 billion of FAA's fiscal year 1997 budget as requested. FAA also estimates that for each full month beyond December 1996 that passes with no taxes, an additional \$550 million would be needed from the General Fund. Any revenue shortfalls may require additional financing from the General Fund. Figure 1 shows the Trust Fund's end-of-fiscal-year-1996 uncommitted balance if the taxes were reinstated by various dates. (See app. II for an analysis of how various tax reinstatement dates would affect the Trust Fund's uncommitted balance in future fiscal years.)

**Figure 1: Trust Fund's Estimated Uncommitted Balance at the End of Fiscal Year 1996 If the Taxes Were Reinstated by Various Dates**



Source: FAA.

<sup>5</sup>The President's budget assumed that the Trust Fund would finance 75 percent of FAA's fiscal year 1997 budget.

<sup>6</sup>S. 1239 and H.R. 2403, "Air Traffic Management System Performance Act of 1995," were introduced in the 104th Congress. These bills set forth a process that could permit FAA to charge user fees for the services it provides.

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## Agency Comments

We provided copies of a draft of this report to Department of Transportation and FAA officials. We met with these officials for their review and comment, including the Director, Office of Aviation Policy and Plans, and the Director, Office of Financial Services. The officials reviewed the draft report and provided us with oral comments, including clarifying information, which we incorporated into the text as necessary.

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## Scope and Methodology

We obtained information for this report from documents obtained from FAA and interviews and discussions with various FAA officials. For our analysis of the implications of reinstating the taxes, we used the rates in effect as of December 31, 1995, when the taxes lapsed. For FAA's funding levels, we used the agency's enacted fiscal year 1996 budget and the President's fiscal year 1997 budget request for FAA, which includes future funding targets through fiscal year 2002.

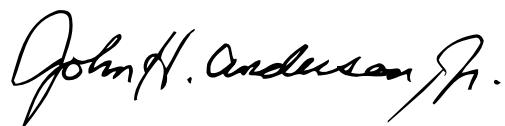
For our analysis in appendix II on how reinstating the taxes by various dates would affect the uncommitted balance of the Trust Fund in fiscal years 1997 through 2002, we assumed the Trust Fund would contribute either 70 percent, 75 percent, or 85 percent of FAA's budget. The 70-percent and 75-percent levels are based on FAA's recent funding levels from the Trust Fund, as provided by the Congress. The 85-percent level is based on studies by FAA that show this level represents the costs for the agency to serve nongovernment users of the aviation system.

This report does not discuss the implications of the Trust Fund taxes' lapsing on the federal budget deficit and debt. We performed our review in March and April 1996 in accordance with generally accepted government auditing standards.

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As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 7 days from its issue date. At that time, we will send copies to the Secretary of Transportation and the Administrator, Federal Aviation Administration. We will also make copies available to others on request. Please call me at (202) 512-2834 if you have any questions about this report. Major contributors to this report are listed in appendix III.

Sincerely yours,

A handwritten signature in black ink, reading "John H. Anderson, Jr." with a stylized flourish at the end.

John H. Anderson, Jr.  
Director, Transportation and  
Telecommunications Issues

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Abbreviations	
FAA	Federal Aviation Administration
GAO	General Accounting Office





# FAA's Funding History, Fiscal Years 1990-96

Dollars in millions

FAA account	Fiscal year						
	1990	1991	1992	1993	1994	1995	1996
Operations	\$3,824	\$4,036	\$4,360	\$4,530	\$4,580	\$4,572	\$4,643
(General Fund)	(3,017)	(2,033)	(2,250)	(2,251)	(2,285)	(2,122)	(2,420)
(Trust Fund)	( 807)	(2,003)	(2,110)	(2,279)	(2,295)	(2,450)	(2,223)
Percentage from the Trust Fund	21%	50%	48%	50%	50%	54%	48%
Airport Improvement Program (Obligation Limitation)	\$1,425	\$1,800	\$1,900	\$1,800	\$1,690	\$1,450	\$1,450
Facilities and Equipment	\$1,721	\$2,095	\$2,409	\$2,302	\$2,055	\$1,960	\$1,875
Research, Engineering, and Development	\$170	\$205	\$218	\$230	\$254	\$252	\$186
<b>Total</b>	<b>\$7,140</b>	<b>\$8,136</b>	<b>\$8,887</b>	<b>\$8,862</b>	<b>\$8,579</b>	<b>\$8,234</b>	<b>\$8,154</b>
(General Fund)	(3,017)	(2,033)	(2,250)	(2,251)	(2,285)	(2,122)	(2,420)
(Trust Fund)	(4,123)	(6,103)	(6,637)	(6,611)	(6,294)	(6,112)	(5,734)
Percentage from the Trust Fund	58%	75%	75%	75%	73%	74%	70%

Note: Figures represent budget authority adjusted for obligation limitations and rescissions.

Source: FAA.

# Trust Fund’s Estimated Uncommitted Balance If the Taxes Were Reinstated, Fiscal Years 1997-2002

Dollars in billions

Fiscal year	FAA’s budget	Trust Fund provides 70 percent of FAA’s budget			Trust Fund provides 75 percent of FAA’s budget			Trust Fund provides 85 percent of FAA’s budget		
		End-of-fiscal-year uncommitted balance if the taxes were reinstated by:			End-of-fiscal-year uncommitted balance if the taxes were reinstated by:			End-of-fiscal-year uncommitted balance if the taxes were reinstated by:		
		June 1996	Aug. 1996	Oct. 1996	June 1996	Aug. 1996	Oct. 1996	June 1996	Aug. 1996	Oct. 1996
1997	\$8.1	\$ 3.7	\$ 2.6	\$ 1.5	\$ 3.2	\$ 2.2	\$ 1.1	\$2.4	\$1.3	\$0.2
1998	8.1	5.2	4.0	2.9	4.3	3.2	2.0	2.6	1.5	0.3
1999	8.0	7.2	6.0	4.7	5.9	4.7	3.4	3.3	2.1	0.8
2000	8.0	9.7	8.4	7.1	8.0	6.7	5.3	4.4	3.1	1.8
2001	8.3	12.6	11.2	9.8	10.3	8.9	7.5	5.7	4.3	3.0
2002	8.6	15.8	14.4	12.9	12.9	11.5	10.0	7.2	5.8	4.3

Note: The uncommitted balances do not include \$764 million in unobligated contract authority for the Airport Improvement Program. Also, the uncommitted balances reflect some spending on non-FAA programs, including Essential Air Service and rent to the General Services Administration. Finally, the uncommitted balances vary from those contained in the President’s budget because FAA used more conservative interest assumptions.

Source: FAA.

# Major Contributors to This Report

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