

11746

1500

su)

U. S. DEPARTMENT OF TRANSPORTATION
OFFICE OF THE SECRETARY
WASHINGTON, D. C. 20590

Copy # 2

STATEMENT OF JOHN A. VOLPE, SECRETARY, DEPARTMENT OF TRANSPORTATION,
BEFORE THE HOUSE COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE REGARDING
AIRPORT AND AIRWAY DEVELOPMENT, MONDAY, JULY 21, 1969.

Mr. Chairman and members of the Committee:

This is my first appearance before the Committee on Interstate and Foreign Commerce. I am especially pleased to appear since the matter before the Committee -- airport and airway development -- is one of our most urgent transportation problems. As the President stated in his Message to the Congress of June 16 concerning airport and airway development:

"The challenge confronting us is not one of quality, or even of technology. Our air traffic control system is the best in the world; our airports among the finest anywhere. But we simply do not have the capacity in our airways and airports ample to our present needs or reflective of the future."

Over the past five years, the air carrier fleet has increased from a substantially piston fleet of 2,079 aircraft to an almost completely jet fleet of 2,586 aircraft. In terms of capacity, the seat miles flown have increased from 94.8 billion to 216 billion. Within months we will see the introduction into service of the jumbo jets.

The same growth trends have been present in the realm of general aviation. The size of the fleet has increased from 85,088 to 120,167, and the hours flown annually have increased from 15.4 million to 24.2 million. The quality of this fleet -- as measured by the capabilities and capacities of the aircraft -- has also increased markedly.

I know of no one associated with aviation, in Government or industry, who would not agree that there is a need to expand the capacity of the airport/airway system. As the Committee knows, however, there is disagreement as to the techniques for expanding capacity; as to the allocation of costs; as to the nature and amount of taxation; and as to the type of Federal assistance which is appropriate or required.

Dup 71-03632 S

The program described in the President's Message, and introduced by Chairman Staggers as H.R. 12374, represents the Administration's conclusions on these issues, taking into consideration the magnitude of the needs, the various interests of the users, the fiscal position of the Federal Government, and the proper role of the Federal Government vis-a-vis state and local governments. I would like now to review H.R. 12374 in some detail.

The bill would establish a Designated Account into which all user tax receipts would be deposited. Funds could be appropriated from the account only for the purpose of airport development and airway development, operation, and maintenance. To the extent user receipts were insufficient to meet these development requirements, monies would be appropriated to the Designated Account from the general fund of the Treasury.

User receipts should draw near to expenditures in the later years of the program. But, given the total deficit which will occur over the life of the program, any fears that monies received through user taxes will be diverted to non-aviation purposes are more theoretical than real. To the extent these fears are real, the establishment of a Designated Account should completely allay them.

With respect to airways, the bill states it to be the sense of Congress that the annual obligational authority for the acquisition, establishment, and improvement of air navigational facilities should not be less than \$250 million a year. This would establish the Federal Government's commitment to a ten-year airway program with a new facility investment of \$2.5 billion. The research and development effort underpinning this investment would be on the order of \$600 million. Some of these latter funds would be used to plan for the 1980's.

With respect to airports, the bill would repeal and reenact the Federal Airport Act of 1946 with some significant amendments:

First: The bill would establish a Federal commitment to a ten-year, \$2.5 billion grant-in-aid program. It would authorize \$1.25 billion over the next five years, starting with \$180 million in fiscal year 1970 and \$220 million in fiscal year 1971. Special authorizations would be established for air carrier and general aviation airport development, and a special apportionment would be established for the large hubs.

Second: The bill would establish a planning grant program, at an annual level not to exceed \$10 million. These grants would be of two types. They could be made to areawide planning agencies designated under the Demonstration Cities and Metropolitan Development Act of 1966 for the purpose of airport system planning. They could also be made to any public agency for planning the development of a specific airport. The purpose of the airport system planning grants would be to encourage areawide planning agencies to determine their airport needs on an area-wide basis and in conjunction with the total transportation system planning for the area. The Secretary of Transportation and the Secretary of Housing and Urban Development would be required to develop joint procedures to preclude the duplication of their respective planning assistance activities.

To improve national airport system planning, the bill would require the Secretary to publish and revise at least every two years a plan setting forth our national airport requirements for the following ten years. The present National Airport Plan is a five-year plan and

identifies requirements only in those areas eligible for Federal financial assistance. A broader plan is being proposed. It would continue to identify all types of development eligible for Federal aid but would be expanded to include also the terminal area development considered necessary to provide for the efficient accommodation of persons and goods on the airport, and for the conduct of functions in operational support of the airport.

Third: The bill would establish a new grant program to state aviation agencies, at an annual level not to exceed \$5 million, for the purpose of assisting those agencies in carrying out state programs for airport planning and development. These funds would be apportioned to the states in accordance with the area-population formula.

Fourth: Because of the lack of a generally acceptable methodology for allocating airport and airway costs, the bill directs the Secretary of Transportation to conduct a cost allocation study, in consultation with the users, and report back to the Congress within two years from the date of enactment of the bill. Based upon the findings in this study, any appropriate adjustments in the tax levels could be made. This study would also address the issue as to whether other FAA operating costs, such as the safety regulatory program, should be recovered through the revenue sources proposed in the bill.

Fifth: With respect to terminal area development, we recognize that a very substantial requirement exists (on the order of \$3.5 billion over

the next ten years) for new and improved terminals, parking lots, and other passenger handling facilities. The possibility of establishing some form of Federal assistance for these types of facilities was carefully considered. On balance, we concluded that it would be inappropriate to expand Federal activity into this area at a time when we ought to be encouraging and developing state and local capabilities. Moreover, these types of facilities are usually good revenue producers and capable of being financed by revenue bonds.

Where concession revenues are not adequate, we believe it would be entirely appropriate for the airport operator to impose small charges directly on the airline passengers using the airport facility. Such charges should be imposed only where there is agreement with the airlines serving the airport that the improvements to be financed by the charges are necessary to provide services to the passengers. The bill contains an expression of the sense of Congress that, under these conditions, airports are encouraged to use this approach in providing for their terminal area needs.

Mr. Chairman, that is the substance of the Administration's airport/airway proposal. I think it represents a sound approach and will provide an entirely adequate and orderly program for the development of our Nation's airport and airway system. I might add that we view the airway and the airport as two important parts of a single system. They are inseparable and must be treated together.

The revenue side of the Administration's proposal is a matter to be dealt with by the Committee on Ways and Means. However, I will

review briefly the nature and level of the taxes being proposed by the Administration so that this Committee will have before it some indication of the relationship between the revenue and expenditure proposals.

The Administration has proposed increasing the existing passenger ticket tax from 5 percent to 8 percent and imposing a new tax of \$3.00 on passenger tickets for most international flights beginning in the United States and for flights between the contiguous 48 states and Hawaii, Alaska, or outlying possessions of the United States. It has proposed a new tax on air freight waybills of 5 percent. In view of these additional passenger and property taxes, the existing gasoline tax of 4 cents per gallon, 2 cents of which is presently refunded, would be fully refunded to the air carriers.

With respect to general aviation, the Administration's proposal would eliminate the 2-cent refund on gasoline and increase the rate from the present 4 cents per gallon to 9 cents per gallon. A new tax of 9 cents per gallon would be imposed on other fuels used by general aviation.

Assuming these taxes had been in effect on July 1, revenues of \$569 million would be realized in FY 1970, an increase of \$274 million over the yield from existing taxes. Over the next ten years, the yield from the new taxes would be \$9.1 billion or an increase of \$4.5 billion over the yield from existing taxes.

The total yield of \$9.1 billion may be compared with the total expenditures of approximately \$14.5 billion for the airport aid program and for the development and operation of the expanded airway system. Therefore, even with these sizeable increases in existing taxes, very substantial amounts must still be provided from general revenues, particularly during the early part of the program.

In developing this total revenue and expenditure package for airport and airway development, numerous approaches were considered and rejected. I would like to review briefly our reasoning.

Our goal, of course, is to structure an effective program on a sound fiscal basis. Given the national budgetary situation and the general economic condition of the country, this means that certain types of assistance have to be ruled out and that certain other conditions have to be met.

The single most important condition is that any increase in expenditure has to be largely offset by an increase in revenue. We must, therefore, levy new charges on those who will primarily benefit from system improvement -- its users. If there must be an increase in the tax burden, that increase should fall on the primary beneficiaries -- particularly where, as in this case, the beneficiaries are fully capable of bearing the increased burden.

Certain forms of financial assistance are not acceptable to the Administration under any circumstances. Loan guarantees of tax-exempt securities, for example, are simply not in the best interest of the Government. The studies indicate that the revenue losses to the U.S. Treasury from the tax-exempt privilege are greater than the interest savings to the community.

A direct loan program was suggested by the previous Administration as a substitute for loan guarantees but we have not found much interest in the aviation community for such a proposal.

There is a good deal of interest in a debt-service form of Federal aid. The virtue in the debt-service approach is that it permits a large amount of construction for a relatively small initial payout. Given the very strong inflationary pressures in our economy today, however, this virtue becomes a vice. Because it is inflationary, and because it creates a very long-term commitment for the Federal Government, the Administration does not favor the debt-service approach.

Finally, we considered various suggestions for extending some kind of Federal financial assistance to the terminal side of the airport. This would constitute a reversal of the present policy of concentrating Federal aid on landing areas and safety-related facilities. Since most terminal facilities are good revenue producers, we concluded that the need for direct Federal assistance was not as compelling.

In summary, the Administration's proposal, H.R. 12374, represents a very careful analysis of the problem and weighing of the issues. I am convinced that it provides a sound legislative base for dealing with the challenge of airport/airway capacity and deserves early and favorable action by the Congress.

In closing, Mr. Chairman, some mention must be made of our air traffic controllers. There are about 43,000 FAA employees within the Department of Transportation, some 21,000 of whom man our control centers, towers and flight service stations. The vast majority of these employees are hard-working, sincere, and dedicated. We appreciate that some of these people are in operations where pressure is heavy. Last year, Congress enacted

legislation providing for an additional 2,000 air traffic controllers. Our fiscal year '70 budget provides for 2,800 more. We have paid special attention to the problems that arise in this most specialized type work. However, we do agree that more needs to be done. Over the past two months, we have been working diligently on proposals and are hopeful that in the near future we will have recommendations to make to the Congress.

This concludes my prepared statement. I shall be happy to answer any questions the Committee may have.