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STATEMENT OF JOHN A. VOLPE, SECRETARY, DEPARTMENT OF TRANSPORTATION, BEFORE THE AVIATION SUBCOMMITTEE OF THE SENATE COMMITTEE ON COMMERCE REGARDING AIRPORT AND AIRWAY DEVELOPMENT, TUESDAY, JUNE 17, 1969.

Mr. Chairman and members of the Committee:

I appreciate this opportunity to appear before the Committee to discuss the problems of airport and airway development and to review the Administration's proposals for coping with them as outlined yesterday in the President's Message.

As the Committee knows, the airport/airway "problem" has been with us for some time. Without doubt, there have been more meetings and discussions inside and outside of Government in the last three years devoted to the question of defining the problem and trying to decide what to do about it than have been devoted to any other transportation issue. While the talk has been increasing, so has the magnitude of the problem.

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.

It is obvious from these statistics that the absence of a consensus within the industry and between the Government and the industry as to the airport/airway problem has not substantially affected the growth of aviation. The signs on the horizon would indicate, however, that this will not continue to be the case. If the present rates of growth in aviation are to continue, the airport/airway <u>dialogue</u> has to be supplanted by airport/airway <u>development</u>. Each of the divergent interests involved must accept something which it considers less than ideal.

All interests apparently 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.

Since coming to office in January, the top staff of the Department has devoted a very substantial amount of time to examining the needs, the issues, and the alternatives. Our goal has been to structure an effective airport/airway 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.

The suggestions for extending some kind of Federal financial assistance to the terminal side of the airport would constitute a reversal of present policy. Also, most terminal facilities are revenue producing and more easily financed through private means so that the need for direct Federal assistance is not as compelling.

The program described in the President's Message represents the Administration's conclusions, 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 the proposed legislation 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 would 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. Also, as I indicated earlier, 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 first by the House of Representatives. Therefore, I will only 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 would be fully refunded to the air carriers.

The Administration's proposal would increase the effective tax rate on gasoline used by general aviation from the present 2 cents per gallon to 9 cents per gallon, and impose a new tax of 9 cents per gallon on other fuels used by general aviation.

Revenues of $569 million would be realized from these taxes 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.

As I indicated at the outset, Mr. Chairman, I am convinced that there is no such thing as an airport/airway bill satisfactory to everyone. Compromises are necessary. Certainly not all of the various user groups will consider this bill the "best possible" from their standpoint. However, taking into account all of the factors involved, I am convinced that this is a very good program; that it can solve the problems to which it is addressed; and that it deserves early and favorable action by the Congress.

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