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

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STATEMENT OF JOHN A. VOLPE, SECRETARY, DEPARTMENT OF TRANSPORTATION, BEFORE THE HOUSE COMMITTEE ON WAYS AND MEANS REGARDING PROPOSED AIRWAY USER CHARGES, TUESDAY, SEPTEMBER 16, 1969.

Mr. Chairman and members of the Committee:

I appreciate very much this opportunity to appear before the Committee to discuss proposed aviation user charges. The specific tax proposals are set forth in Title III of H.R. 12374, the bill which contains the President's comprehensive program for the expansion and improvement of the Nation's airport and airway system.

This program has been developed to meet a very urgent need. The magnitude of that need can be demonstrated by a few statistics.

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. We estimate that by 1980 the domestic certificated airlines will enplane 420 million passengers, almost tripling the 1969 figure.

The same growth trends have been present in the realm of general aviation. The size of the fleet has increased from 85,088 to 124,237, and the hours flown annually have increased from 15.1 million to 24.1 million. The quality of this fleet -- as measured by the capabilities and capacities of the aircraft -- has also increased markedly. By 1980, we estimate that the size of the general aviation fleet will have doubled.

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Approximately \$5 billion of airfield development will be needed over the next ten years to accommodate this growth. In the same period, a minimum of \$12 billion will be needed to build, operate, and maintain our airway system. Before discussing in detail the taxes proposed to generate part of these funds, I would like to review briefly for the Committee the total program proposed in H.R. 12374.

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:

<u>First</u>: 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 hub airport areas.

<u>Second</u>: 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 for planning the development of a specific airport,

or for airport system planning to determine airport needs on an areawide 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.

Third: The bill would establish a new program authorizing grants to state aviation agencies, at an annual level not to exceed $5 million. These grants would be made to assist those agencies in carrying out state programs for airport planning and development. These funds would be apportioned to the states in accordance with an 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.

Finally, 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. A designated account is similar to a trust fund but, because a designated account is fed partially from general revenues, no interest is paid on unexpended balances.

I would like to turn now to the method of financing this ambitious but essential program. While there has been in effect for some years a 5 percent tax on passenger tickets and a tax on aviation gasoline at an effective rate of 2 cents per gallon, our Federal airway program and Federal airport aid program have been financed largely from general revenues. For example, revenues from the ticket and gasoline tax in fiscal year 1969 were approximately $260 million and $11 million, respectively, or a total of $271 million. On the other hand, Federal airport and airway expenditures for that year attributable to civil users were about $800 million.

Given the national budgetary situation and the general economic condition of the country, it would be irresponsible of the Administration to substantially increase these programs without securing a substantial increase in revenue. We have proposed, therefore, 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. We have also proposed a new tax on air freight waybills of 5 percent. With the added revenues from 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 has proposed eliminating the 2-cent refund on gasoline and increasing 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 all 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 estimated yield from existing taxes. Over the next ten years, the yield from the new taxes would be about $9 billion or an increase of about $4.5 billion over the yield from existing taxes.

The ten-year yield of $9 billion may be compared with the proposed ten-year expenditures of approximately $14 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. It should be pointed out, however, that a share of the deficit would be attributable to military users, which would come from general revenues in any event.

I realize that, in considering this tax proposal, the Committee is concerned with issues such as whether the taxes are justified, whether their impact is unduly severe, whether they are equitable, and whether alternative methods of taxation are preferable. I would like to offer a brief comment on each of these issues.

First, are the taxes justified? Certainly, the concept of user charges, wherein the direct beneficiary of a service is required to pay the cost thereof, is no longer to be seriously challenged in the transportation area. The existing fuel and ticket taxes are justified solely on this basis. According to our best estimates of revenues and expenditures during the period 1970-79, the gap between Federal airway and airport expenditures for civil users and revenues from those users will be in the order of $2.5 billion. Therefore, even with the tax increases proposed, a substantial civil deficit must be met from general revenues.

Will the impact of these taxes be unduly severe? While from the standpoint of an individual taxpayer the impact of any tax may be considered unduly severe, we do not believe the taxes proposed will significantly affect the air transportation sector of the economy. In 1968, the price of the average passenger ticket sold by the certificated air carriers was $38.41, including a 5 percent tax of about $1.80. Increasing the rate of taxation from 5 percent to 8 percent will add only $1.10 to the price of the average ticket sold. The increases due to the 5 percent waybill tax and $3.00 international ticket tax have the same relatively minor effects. Therefore, we do not believe that the imposition of these tax increases will significantly affect the demand for commercial air transportation.

With respect to the impact of the proposed fuel tax on general aviation, it might be useful to point out the effect of the tax as a percent of operating costs on some typical undepreciated general aviation aircraft. For example, the present 2 cents per gallon tax on aviation gasoline represents less than 1 percent of the total expense of operating most single-engine piston aircraft and less than 1/2 of 1 percent of operating most two-engine piston aircraft. Increasing this tax from 2 cents per gallon to 9 cents per gallon would result in an increase in total operating expense of about 3 percent for most single-engine piston aircraft and about 2 percent for most two-engine piston aircraft. The imposition of the 9 cents per gallon tax on jet fuel would result in an increase of about 5 1/2 percent in the total operating expense of a small two-engine jet aircraft. In absolute amounts, the total costs per mile of operating a single-engine piston aircraft, a twin-engine piston aircraft, and a small twin-engine jet aircraft are approximately 20 cents, 60 cents, and 90 cents, respectively. Thus the added cost per mile of the fuel taxes being proposed would be only 7/10 of 1 cent, 1 cent, and 5 cents per mile. Since most general aviation flying is business-connected and hence a deductible expense, the actual out-of-pocket costs per mile would be substantially less than these in most cases.

Are the taxes equitable? The issue of equity involves essentially the issue of fairly allocating costs among the users. As the Committee knows, based on the hearings it held in August 1966, the FAA has in the past allocated airway costs on a "unit of use" basis. By this method the airline, general aviation, and military user groups are allocated costs in proportion to their relative use of airway facilities and services. There is no agreement among the users that this is the correct or best allocation method. Because it is essential that we avoid overcharging any user group, the Department has proposed a two-year study to determine the best method of allocating costs.

Recognizing the lack of agreement on cost allocation, the argument has been made that there should be no increase in taxes pending completion of the study; or, in the alternative, there should be only a modest increase. We emphatically reject both of these arguments. The unit of use method of allocation now favors the commercial airlines because the number of their aircraft operations is increasing more slowly than the operations of general aviation. But even if we used the unit of use method of allocating airway costs (applying the ratios for the last year they were computed) and allocated only 75 percent of the airport funds available for air carrier and reliever airports to the air carriers, for the fiscal years 1970 and 1971 the costs allocable to the air carriers would be about $1.2 billion and the revenues received about $1.1 billion. In other words, even with assumptions favorable to the air carriers, there would be a deficit over the next two years.

With respect to general aviation, the revenues for fiscal years 1970 and 1971 would be about $113 million at a 9 cent per gallon tax rate. During those two years, $50 million would be available for general aviation airports and some percentage of $320 million would be available for general aviation reliever airports. In addition, some substantial percentage of the $1.6 billion attributable to civil use of the airways for those two years would be allocable to general aviation. If that figure were as high as 40 percent, which is possible on a unit of use basis, their share would be about $600 million. If that percentage were as low as 3 percent (an absurd figure under any conceivable cost allocation method), the total airport and airway costs attributable to general aviation for the fiscal years 1970 and 1971 would still exceed the $113 million in estimated revenues.

For these reasons, we believe the tax increases proposed are equitable and should not be lowered or deferred pending completion of the cost allocation study. If that study shows that inequities will develop in the future unless the tax structure is changed, the Congress will have ample time in which to act.

Are there alternative methods of taxation preferable to those proposed by the Administration? Here, I would like to stress at the outset that the overriding concern of the Administration is the amount of revenue received. We believe it is essential to the integrity of the total program put forth by the President that in the first two full years of the program the total amount of revenue received from the users be no less than that which would be realized from the tax rates proposed by the Administration. In fiscal year 1971, for example, this amount would be about $567 million from commercial users and about $59 million from general aviation users.

The alternative tax most frequently suggested is the substitution of an airline fuel tax for the ticket and waybill taxes. We believe that the ticket and waybill taxes are preferable to an airline fuel tax for the following reasons:

- Any tax on the air carrier is in fact a tax on the air carrier passenger or shipper. If a fuel tax were imposed on the air carrier, the passenger and shipper would pay that tax in the long run just as surely as they pay the ticket or waybill tax.

- The ticket tax exists. If a new fuel tax were imposed on the carriers, this would have to be translated into fare and rate increases by the Civil Aeronautics Board.
- A fuel tax would be deductible by the carriers for income tax purposes so it would take a very high fuel tax to derive on a net basis the yield derived from the ticket tax.

To sum up, Mr. Chairman, we believe the tax proposal before the Committee is equitable, justifiable, and economically sound. In closing, I would like to emphasize the views of the President as set forth in his Message to the Congress of June 16, and I quote:

> "The revenue and expenditure programs being proposed are mutually dependent and must be viewed together. We must act to increase revenues concurrently with any action to authorize expenditures; prudent fiscal management will not permit otherwise."

I shall be happy to answer any questions the Committee may have.