STATEMENT OF THE
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HEARING ON
THE FEDERAL AVIATION ADMINISTRATION'S FINANCING PROPOSAL
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- I want to welcome everyone to the second of our hearings on the Federal Aviation Administration (FAA) reauthorization. This hearing focuses on the FAA's financing proposal. Tomorrow, the Subcommittee will give consideration to FAA's Operational and Safety Programs.

- On February 14, the FAA submitted its Reauthorization Proposal to Congress. The FAA's proposal includes a new financing plan to transform the FAA's current excise tax financing system to a hybrid cost-based user fee system. The FAA has cited the need to finance a major new air traffic control modernization initiative, the Next Generation Air Transportation System ("the Next Generation system"), as a primary reason for reforming the current tax structure.

- After careful review of the FAA's proposal, I do not believe that the FAA has made a strong case for its proposed changes. Last September, I stated that, based on Congressional Budget Office (CBO) projections, the current tax and financing system probably could support the requirements of the Next Generation system. Today, the Government Accountability Office (GAO) will testify that, in fact, the FAA's current tax and financing structure has kept up with demand for many years and <u>can</u> provide funding to cover development and implementation of the Next Generation system.

- In addition, at the February 14th hearing I noted that, based on the Administration's own cost assumptions and data, the FAA's proposal will hypothetically yield approximately $600 million less in FY 2008 than maintaining the current tax structure and over $900 million less from FY2009 to FY2012. The GAO will also testify today that the FAA has not taken into account changes in demand that could happen with an increased fuel tax, and that this could result in <u>even less</u> revenue collected by the fuel tax than anticipated.

- While the FAA states that we need an entirely new funding system to cover the capital costs of the Next Generation system, the FAA's estimated cost requirements for its major capital programs are actually lower than what they were four years ago.

- The FAA's estimated total requirements for facilities and equipment and the Airport Improvement Program in its new three year proposal are approximately $380 million and $1.5 billion less, respectively, than what it requested for the first three years of its last reauthorization proposal – the *Centennial of Flight Aviation Authorization Act.* In my opinion, this new proposal's lower funding levels for capacity enhancing capital programs further weakens the FAA's argument that radical financing reform is necessary.

- But more importantly, I believe that the FAA's proposal is bad for consumers, namely airline passengers and other airspace users. The FAA believes that its proposal will make it operate like a business. I disagree. The truth is, the FAA will never really be able to compare itself to a business. Whereas most businesses have competition to spur efficiency, the FAA has no competition. It is a monopoly. As I noted in February, airline passengers and airspace users either get services from the FAA or they stay on the ground.

- Because the FAA is a monopoly, it is not in the public's interest to give the Agency near unilateral authority to raise its fee rate to match whatever costs are incurred. I believe that linking a new user fee rate to the air traffic control (ATC) modernization program, in particular, could reduce incentives for the program to be carried out efficiently. The pressure for efficiency will be much less if FAA can require airline passengers and system users to bear the burden of any cost overruns or delays. While FAA argues that airline passengers will pay less under its proposal, I believe that, in fact, they could ultimately wind up paying more if user fee rates grow unchecked and airlines pass those costs on to their customers.

- The Department of Transportation Inspector General (DOT IG) has reported that the FAA's major acquisitions have experienced billions of dollars cost growth and years of schedule delays directly traceable to overly ambitious plans, complex software development, changing requirements, and poor contract management. The GAO has listed ATC modernization as a high risk program for the last 12 years.

- It is true that, in the last three years, the FAA has met its acquisition cost and schedule performance targets - that is, at least 80 percent of its acquisitions have been on schedule and within 10 percent of budget. However, at least some of the FAA's recent success is due to the rebaselining of certain major modernization programs. When an acquisition is restructured in this manner, its historical cost overruns may not be fully reflected in the FAA's performance measures.

- The DOT IG has noted that the FAA's Next Generation effort will, without question, be a high risk endeavor and that there is considerable potential for cost growth, schedule slips, and performance shortfalls, particularly with regard to new software intensive automation systems. The FAA should not be able to pass such potential cost growth directly onto consumers, through its fee rate, without Congressional oversight and approval.

- In addition, I believe that there are some very significant unknowns in this proposal that have not been addressed. For example, the FAA has not fully explained the potential administrative costs associated with tracking and billing 14 million flights a year.

- What we do know, as the Administrator pointed out last week, is that time is not on our side. I believe that fact argues strongly in favor of working within the current tax and financing structure.

- With that, I want to again welcome the FAA today and I look forward to the testimony.