

UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON TRANSPORTATION AND
INFRASTRUCTURE

The Federal Aviation Administration's Financing Proposal
March 21, 2007

STATEMENT OF EDWARD P. FABERMAN

Executive Director

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Good morning. Chairman Oberstar, Ranking Member Mica, Subcommittee Chairman Costello, Ranking Subcommittee Member Petri, and Members of the Committee, I am delighted to be here today to talk about the future of the nation's aviation system and proposed funding mechanisms to support that system. My name is Ed Faberman and I am Executive Director of the Air Carrier Association of America ("ACAA"), an organization that represents smaller but growing low-fare carriers. As Department of Transportation ("the Department"), Federal Aviation Administration, and General Accountability Office studies have recognized, these are the carriers that are increasing market demand and generating millions of dollars in economic benefits.

The Administration's *Next Generation Air Transportation System Financing Reform Act of 2007* proposal ("Proposal") addresses critically important issues, but also raises significant questions. The ACAA's primary thoughts regarding the Proposal are:

- Funding requirements should be fairly assessed to all operators in the system and to the General Fund;
- Congestion charges must not be allowed to further block access and competition;
- Passenger facility charges should not automatically increase, as those charges disproportionately impact low fares;
- Distribution of access at capacity-strained airports like LaGuardia should promote competition and must not further limit competition; and
- The Air Transportation System Advisory Board must include a representative of low-cost carriers.

This Committee has played an active role in urging the Administration to ensure that the nation's air traffic system includes the latest technology to minimize delays, further improve safety, and expand travel options for passengers and communities throughout the country. In her remarks at the signing of the U.S.-Canada Open Skies Agreement on March 12, 2007, Secretary of Transportation Mary Peters emphasized the importance of a more flexible and efficient air transportation system, noting that it is “key to our futures” because “economic prosperity depends in large part on our ability to move goods and people as efficiently and quickly as possible.” The objective of this Proposal should be to “move goods and people as efficiently and quickly as possible” *and* at low fares! As the Committee well understands, expanding travel opportunities benefits local and national economies. We are very appreciative of all of the Committee’s efforts in this regard. The promotion of aviation and competition has opened many doors to additional competition and has expanded travel options for consumers.

The ACAA supports the efforts of the FAA and DOT in setting modernization as a priority. It is essential that the nation’s air traffic system be upgraded to meet growing demand and ensure the smooth operation of the system, while promoting maximum travel opportunities for passengers in communities throughout the country. As the system reliability and flight times improve, demand and economic benefits will continue to grow.

The Proposal cannot be viewed in a vacuum. We are not operating in an environment where costs are stable – rather, costs continue to rise. In addition to fuel costs, security and facility costs continue to increase as well. The cost for smaller airlines is higher at many airports than for other operators because smaller carriers do not have dedicated facilities and often struggle to get the facilities they need to operate efficiently. The proposed mechanisms for generating capital must allow for maximum competitive opportunities and further the dream of deregulation. The Department has taken steps to open skies around the world – now is the time for them to accomplish the same results in the United States, where many doors have not been opened.

The issues that follow are of particular concern to the ACAA.

I. Low-Fare Carriers and the ACAA

Low-fare air carriers are managing to stay successful in today's airline industry, continuing to grow and enter airports of all sizes despite the major changes and consolidation that have taken place in the industry in the past decade. The March 16, 2007 Aviation Daily noted that for the first two months of the year, "Network Carrier Total Available Seat Miles" were up less than 1%, while "Low-Cost Carrier Total Available Seat Miles" were up a full 8%. Having said that, there are a number of low-fare carriers who have gone out of business and very few new low-fare airlines have emerged in the last few years. Southwest is the largest of the low-fare airlines, but it has been in existence for several decades. Newer low-fare carriers hold about 7% of national operations.

The ACAA is dedicated to bringing affordable airfares to all American travelers. Our members include low-fare carriers and airports focused on bringing low-cost travel options to the American consumer. These efforts are taking place all across the country, but especially in small communities who reap incredible benefits when low-fare options are available in their communities.

II. Potential Funding Mechanisms

The ACAA urges Congress to take appropriate steps to ensure that all stakeholders fairly participate in funding the system. The modernization goals will be expensive but they are absolutely necessary to support system growth for all. However, the costs associated with these efforts cannot be borne by the air carriers alone. First, the government must consider and review all possible cost-cutting measures. Since the nation's air traffic system is a national system that benefits travelers, communities, manufacturers, the entire travel and tourism industry, and business expansion, General Fund contributions must at least be maintained at existing levels. The burden of funding the system cannot be placed only on air carriers, especially given the importance of air service to the economic development and growth of all segments of the aviation system and the industry's impact on growth of the national economy.

The ACAA is concerned about the broad authority granted in the Proposal, which would allow the Administrator to establish and increase user fees on any basis at any time. The Proposal allows the FAA to increase fees on its own initiative, with very little oversight. Therefore, we cannot endorse that approach as it currently stands. There must be oversight over any changes that will increase costs.

III. Congestion Charges

The ACAA has concerns about the implementation of a congestion charge, as neither the purpose nor the effectiveness of such a charge is clear. Congestion fees assessed must apply to all operators who use the nation's largest and most congested airports, whether general aviation or commercial aviation.

Additionally, the cost-based congestion charge in the Proposal has no restrictions and seems limitless. For example, if the FAA determines that a congestion charge should apply at LaGuardia Airport ("LGA") or Chicago O'Hare Airport (both dominated by the nation's largest carriers), would the proposed congestion charges be assessed to all carriers, even those who are limited to a handful of flights? Any congestion charge the FAA decides to issue should be imposed on those carriers actually *causing* the congestion. It would be inappropriate to charge a small carrier or any operator with a small number of flights the same charge as a carrier operating hundreds of flights at the "congested" airport. Low-cost carriers make up less than 5% operations at O'Hare, 8% at Washington Reagan National Airport ("DCA"), and approximately 10% at LGA. With such small percentages, it is clear that smaller carriers are not causing the congestion that is the subject of these charges. To address congestion issues and to place some responsibility on carriers that operate hundreds of flights at an airport (including many flights in one market), in the past the ACAA has called for the authorization of delay-free operations so those carriers who are not crowding an airport or airspace are not penalized by typical delays. Low-cost carriers are already blocked from many airports and their operations are severely restricted in others. If congestion charges are imposed on carriers with only a few operations, it may close the door to access completely.

As to general aviation costs, we are not proposing that they be increased for less congested airports or that aircraft at small, uncongested airports should face any new

charges. Additional general aviation charges should only apply at congested airports which have experienced significant increases in large corporate and private jet activity – adding to congestion, to costs, and to delays. Currently the general aviation carriers at congested airports contribute equally to congestion, but pay a great deal less in taxes and fees, as shown in Exhibit A. At congested or “closed” airports, general aviation aircraft should pay fees identical to those paid by air carriers.

IV. Passenger Facility Charges

Passenger Facility Charges (PFCs) cannot be analyzed in a vacuum, because they are not the only fees or costs the airlines must absorb. Over the past several years, the industry has seen significant increases in airport fees and security fees to fund various security systems and staffing shortages. All of these increases in fees, taken as a whole, impact the ability of carriers to provide the low fares necessary to generate system growth. Automatically increasing PFCs by more than one third (from \$4.50 to \$6 or \$7) is a large increase. This change has a greater impact on low-cost carriers, as their low fares mean this increase is an even more significant change than it is for large carriers with higher fares.

This charge essentially acts as a penalty on those operators who operate larger aircraft. Why penalize a flight with 120 passengers as opposed to a flight with 50 passengers? The increase in regional jets does help to expand options, but it also has an impact on funding. Increasing the PFCs does not solve this problem, and only pushes the burden of funding on to a limited number of operators, as shown in Exhibit B. While a minimal increase in the PFC might help improve airport facilities and operations, it also could have a very real impact on travel, because many travelers rely on low fares to travel. If low fares increase 10-20%, as they might with the proposed PFC increase and other costs, many families and other travelers will not be able to fly as frequently. This will result in less revenue for the airlines and less funding coming to the government. The ACAA also is concerned that this increase in PFCs is being taken too lightly and is becoming a trend that will only get worse in the future.

V. Congestion Pricing at Capacity-Strained Airports Like LaGuardia

ACAA appreciates that the Proposal addresses LGA. However, it is essential that the Department be directed to put a strong focus on promoting competition and new entry. The Proposal fails to sufficiently acknowledge the importance of taking competition into consideration when allocating operating authorizations at LGA. Low-cost carriers currently have less than ten percent of the slots at LGA. Why would a carrier with so few daily departures need to pay a congestion charge? Improving the level of competition at the airport must always be a key consideration in the allocation of operating authorizations and should be discussed as more than a passing reference to the regulations. The Department should have the same open skies priorities for American travelers as for European or Canadian travelers, and the effort to improve access should be as strong domestically as it is internationally. The government has been looking at how to expand operations at LGA for several years now, yet to date few new options have been created.

VI. Air Transportation System Advisory Board

The Air Transportation System Advisory Board, while a valuable concept that appears to include representation from all parts in the industry, does not require a representative of low-cost carriers. These carriers are important players in the industry and represent an aviation interest not covered by any of the eight members described in the Proposal. It is of utmost importance that low-cost carriers be represented on the Air Transportation System Advisory Board. Furthermore, the ACAA questions how effective the Board will be if it is comprised of individuals who have no affiliation to the industry segment they represent. It should not be necessary that Board members be completely devoid of any aviation affiliation in order to serve.

VII. Conclusion

The ACAA applauds this Committee for holding these hearings and is prepared to work with the Committee and the Administration to craft a Bill that will effectively serve the airline industry and its consumers today and in the future. This Bill is critical for the future of the entire industry and the growth of the nation's economy, whose success is

closely correlated with the transportation system. It is an important beginning, but is far too indefinite to be accepted as it currently stands. There are too many questions left unaddressed and too many unknown impacts.

While our dream is to have a high tech system, the cost of that dream cannot be so high that fare choices become a nightmare. The *true* dream is to create a high tech, safe, and secure system that maximizes consumer choices and ensures that low fares are available to all. The concerns noted above, as well as those outlined by various other parties, must be thoroughly discussed and significant revisions must be made before this dream becomes a reality. The ACAA therefore applauds this Committee for holding these hearings. This is only the first step! We look forward to working with you on this and all matters.

Thank you very much.

EXHIBIT A

COMMERCIAL AND GENERAL AVIATION TAX COMPARISON

	Air Carrier	General Aviation
Passenger Capacity	138	9
Assumed Load Factor	80%	33%
Number of Passengers Carried	110	3
Average Fare	\$ 90.00	
<u>FAA FUNDING</u>		
<i>Passenger Ticket Taxes</i>		
Federal Excise Ticket Taxes	\$ 1,094.50	
<i>Fuel Excise Tax</i>		
Fuel Consumption Gallons	1,800	560
Tax Rate	\$ 0.044	\$ 0.244
Total Fuel Tax	\$ 79.20	\$ 136.44
Total FAA Funding Per Flight	\$ 1,173.70	\$ 136.44
<u>TSA FUNDING</u>		
Security Fee	\$ 2.50	
Number of Passengers	110	3
<i>Total Per Flight</i>	\$ 275.00	
Total TSA Funding Per Flight	\$ 275.00	
<u>AIRPORT FUNDING</u>		
Passenger Facility Fee	\$ 4.50	
Airport Security Fee	\$ 0.12	
Total Per Passenger	\$ 4.62	
Number of passengers	110	3
Total Per Flight	\$ 508.20	
Landing Fees	\$ 325.48	
Total Airport Funding Per Flight	\$ 833.68	
TOTAL TAX AND FEES PAID PER FLIGHT	\$ 2,282.38	\$ 136.64

EXHIBIT B

EXAMPLE COSTS OF OPERATING LARGE AIRCRAFT

	Carrier using Regional Jets	Carrier using large aircraft
Landing Fees	45,000 x \$6.45 = \$290.25	130,000 x \$6.45 = \$838.50
Excise Tax (7.5%)	30 pax x \$150 fare x .075 = \$337.50	110 pax x \$100 fare x .075 = \$825.00
PFC/Segment/(\$6.10)	30 pax x \$6.10 = \$183.00	110 pax x \$6.10 = \$671.00
Totals	Total fees = \$810.75	Total fees = \$2334.50