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Testimony
House Committee on Transportation and Infrastructure
Subcommittee on Aviation
“FAA Financing Proposal”

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First, thank you Mr. Chairman for allowing me to appear before your committee today. The discussion we are having today regarding the Federal Aviation Administration's financing proposal is probably the most important discussion in Congress this year to my district. For if the FAA proposal is adopted it would devastate the economy of Southcentral Kansas. I believe that it will have a devastating effect on the national economy as well.

Today I am going to show you that this user fee proposal should be rejected by Congress. General aviation is a vital part of our economy and is necessary for future growth. General aviation is extremely vulnerable to federal policy. Furthermore, the FAA proposal is a plan to fail, according to the FAA's own accounting. It will raise less revenue than the current system of fuel taxes and general fund contributions. In addition, this proposal will set up an IRS within the FAA, something no one should support. The effect will be that less people will fly. Finally, Congress will have less oversight of our air traffic control system.

Air Capital of the World

Today I come before this Committee as the Representative of the “Air Capital of the World.” I represent Southcentral Kansas, home to Cessna, Hawker Beechcraft, Bombardier, Boeing, and Spirit Aerosystems as well as EADS engineers, several design shops, suppliers and subcontractors, maintenance facilities and the world-class research of the National Institute for Aviation Research at Wichita State University. Thus I am deeply concerned about issues that affect the aviation community. General aviation is a diverse and vital segment of aviation that would be devastated by a user fee approach.

Kansas companies deliver over 50 percent of all general aviation aircraft. These companies provide around 32,000 well-paying jobs. In fact, 54 percent of the greater Wichita area's manufacturing jobs go into building the general aviation aircraft that would be hit hardest under a user fees system.

In 2006 the three largest Kansas-based GA manufacturers (Bombardier-Learjet, Cessna, and Raytheon) manufactured 1,708 airplanes at a value of \$5.8 billion. Of that total production, exports accounted for 537 (31%) airplane deliveries at a value of \$2.3 billion (40%).

Fortunately, despite the troubles of a few years ago, the situation for general aviation is brightening. Deliveries of all three categories of general aviation aircraft—piston, turboprops and business jets—are on the rise. Importantly, so is employment at the general aviation companies. Cessna hired 2,000 new employees in 2006 and has plans to hire another 1,000 in 2007.

But our industry is just now recovering from this post 9-11 recession and user fees will cripple the industry and discourage the use of general aviation. In addition, the proposal would dramatically slow down production, cause job loss across the industry and force subcontractors

to close their doors—sending more manufacturing jobs and work overseas.

National Importance of GA

The aviation industry is not only important to the State of Kansas but also to each and every one of your districts. Your constituents work for large and small aviation manufacturers, suppliers or repair stations, your constituents are pilots and support staff, and thousands of your constituents rely on aviation for their livelihood and those of their employees. According to economist Janet Harrah, the Director of the Center for Economic Development and Business Research at Wichita State University, activity linked to the aviation manufacturing industry totals \$142 billion in annual payroll, and 2.8 million employees in the U.S. as a direct or indirect result of the industry.

A 2005 study by the General Aviation Manufacturing Association (GAMA) places general aviation's total economic impact on the U.S. economy at over \$150 billion, including \$53 billion in wages and salaries and attributed employment of over 1.2 million people.

In 2005 more than 606,000 Americans were employed in the aviation manufacturing industry directly. Companies engaged in the manufacture and assembly of complete aircraft accounted for the largest percentage of jobs, followed by primarily engaging in manufacturing search and detection systems. Employment projections indicate that aircraft and aircraft parts manufacturing employment will increase about 8 percent over the next decade, adding more than 36,000 jobs. Total employment for all industries is expected to increase about 15 percent during the same 10-year period.

In addition to all of our constituents who work in the general aviation industry, many thousand more of our constituents count on general aviation in order to run their businesses. In fact, 70% of all general aviation flight hours are for business. Employers across the United States depend on general aviation to conduct business and enable them to compete in the 21st Century economy. Thousands of small and mid-size businesses across the nation rely on general aviation. In many rural areas, business owners simply could not survive without utilizing general aviation.

GA is a vulnerable industry

General aviation is a delicate industry, while can be an economic powerhouse during good times; it is delicate to market fluctuations and government policies. It is often said that aviation manufacturers are the first to be hit and the last to recover from a recession. We have certainly seen that cycle play out in Kansas. The number one concern in the general aviation community is that user fees will stall the recovery of this important America industry. Pilots and the companies that rely on general aviation airplanes to help them compete in the marketplace do not want the administrative burden of dealing with user fees.

Let me give you some examples of government's direct impact on the health of GA.

Before Congress enacted GARA, the General Aviation Revitalization Act of 1994, Kansas was

bleeding jobs due to increasing liability costs. A "statute of repose," GARA was designed to protect manufacturers of smaller, private aircraft (less than 20 seats) from liability for accidents involving older airplanes and/or parts. GARA bars lawsuits against the manufacturer of an aircraft or component part once that item has been in service for 18 years. If a plane has been flying for 18 years before crashing, it is safe to assume that it is not a design flaw that brought it down. This act of Congress was directly responsible for thousands of new jobs in aviation manufacturing.

On the flip side, the terrorist attacks of September 11, 2001 were not only a blow to our psyche, but also a \$2 trillion hit to our economy. The economic impact of the attacks hit the aviation manufacturing industry more than any other and Wichita was said to be proportionally the community most affected by the ensuing economic downturn. We lost 25,000 jobs in the aviation industry alone.

GA is also vulnerable to tax policy. In 1991 Congress passed a luxury tax that had a negative effect on the industry. Beech Aircraft Corp says it lost 39 airplane sales in the first quarter as a direct result of the tax. Beech had planned to add 500 jobs in 1991 but instead laid off 20 workers. It says the 39 lost sales would have provided a year's worth of work for 255 employees. GAMA estimated that almost 1,500 jobs in 1991 alone as a direct result of the tax.

We have seen the positive effects of the accelerated depreciation adjustment in the tax code that Congress granted in the wake of the economic devastation of 9-11. Accelerated depreciation is a clear example of how government policies can affect an industry and help get it back on its feet without having to use subsidies as we did to bail out the airlines. Unfortunately, this boost is only temporary and will not sustain the industry for the future.

Finally, government regulatory policy can also have a big impact on this industry. When FAA certification officers are under funded, it delays the response time to get new products into the market. Last March, this subcommittee under the leadership of then Chairman Mica came to Wichita to hear from the manufacturers and suppliers about the challenges they face. The impact of the dearth of certification officers came up again and again.

And during this same time, international competitors such as Embraer were making headway into the market. Our government should be helping this industry compete in the global economy, not hinder its ability to do so.

The "Next Generation Air Transportation System" does NOT require User Fees

There are many fine witnesses on the panels following this one – such as Ed Bolen and Phil Boyer - who will detail the impact of the FAA proposal on the entire aviation industry. But I would like to make a couple of points about the inconsistencies in the proposed plan.

I was heartened by former Secretary Mineta's comments that he did not want the Department of Transportation to be the choke point for economic activity, and I am sure that you agree. Unfortunately, this proposal represents such a choke point.

We have, by far, the biggest, most complex and yet the safest and most efficient air traffic control system in the world. The US alone accounts for about 60% of the world's air traffic activity. Maintaining this system and preparing it for future needs is one of our most important national duties.

FAA's "Next Generation Air Transportation System Financing Reform Act of 2007" would shift billions of dollars in taxes away from the airlines and onto general aviation small businesses by imposing user fees – or as some more aptly call them, taxes.

We want to make sure the U.S. has a fully supported and efficient air traffic control system and that general aviation contributes its fair share. However, this proposal is predicated on the false assumption that a plane with 3, 30 or 300 passengers exerts the same burden on our air traffic control system. According to Aviation Daily, the average annual hours per aircraft is 3800 for a commercial jet and only 370 for a GA aircraft.

If taxes or fees are set by dividing costs by the number of flights—a method outside mainstream economic theory—then the consequences could be quite substantial. In fact, the result would likely be an unfair, dramatic, and devastating increase in the cost of operating general aviation aircraft.

This concept is based upon the belief that “a blip is a blip is a blip.” This couldn't be farther from the truth. For example, take Reagan National Airport where the government shut down general aviation following September 11, 2001, and even today it is not fully up and running again. There was no reduction in the cost for air traffic control during that time when GA was grounded.

You will hear arguments that airline passengers are paying for GA. This is not true. In areas where GA is shut down, the cost for ATC remains the same. In fact, it is the airlines that we routinely bail out with taxpayer dollars, regardless if they are passengers. After 9/11/01 we passed a bailout of \$5 trillion for the airlines. GA got nothing, and in fact was shut down. Furthermore, as an affront to the taxpayer the airlines took these taxpayer dollars and bought foreign made jets (one airline bought only Airbus jets) – at a time when we were losing 25,000 aviation manufacturing jobs in Wichita alone.

As a basic principle, no industry segment should be forced to subsidize any other segment. General aviation has always contributed to the aviation trust fund through fuel taxes that are easily collected and efficiently administered. This is a fair representation of their use of the system.

The Administration proposes the elimination of most of these excise taxes beginning in FY 2009 and proposes user fees as the replacement for this lost revenue to the Airport and Airways Trust Fund (AATF).

The FAA plan calls for a 360% increase in fuel taxes for general aviation. A 360% increase. In addition to increased fuel taxes, the FAA proposal will subject all users of the system to substantial increases in fees for: aircraft registration, airmen certificates, medical certificates,

certificates for flight schools and training centers, certificates for repair states and maintenance technical schools, designee apportionment and training. User fees would necessitate the establishment of another government bureaucracy to administer a system that, in comparison to fuel taxes, would be an inefficient mechanism to collect revenue.

If you tax something, you always get less of it—an important rule to remember when making policy in Washington. This is exactly what will happen to general aviation aircraft if the FAA and airlines push through a user fees regime. Consider the fact that if all general aviation planes were grounded tomorrow, the savings for air traffic control would be virtually zero. It is the larger commercial jets, whose hectic schedules at a limited number of national airports cause the huge bottlenecks that drive the cost of air traffic control in the U.S. Given these facts, a user fees system seems radically unfair to smaller planes.

Perhaps most disturbingly, Congress is being asked to approve this financing proposal and create an IRS within the FAA.

Finally, where is the modernization plan for which we supposedly need a new funding mechanism? I urge you to work to find common ground among all aviation stakeholders and move this debate from user fees to modernization of the air traffic control system.

A user fee system would be the worst kind of Washington meddling, where the supposed “cure” is far worse than the disease. When FAA officials claim that user fees are the best thing for U.S. aviation, they are focusing on an ill-deserved tax break for the airlines and turning a blind eye to the thousands of jobs we would lose in Kansas and across the United States.

Appropriations Perspective

I also come here today as an Appropriator. As an appropriator I must warn two things.

One, this new financial plan will, in fact, bring in less revenue to the system. Their own proposal shows that a user fee based system would generate \$641 million less revenue in FY08 and over \$900 million less from FY09-FY2012. This certainly does not seem wise at a time when they claim that the needs of the system will increase.

That is the best case scenario. We know that the shortfall will be even worse because less people will fly. If we are in the unfortunate situation of having another catastrophe like 9-11 or a health scare like SARS the system will collapse.

There is no need for a new stream of revenue; Congress has continued to increase funding for the FAA through an appropriation that combines funding from the Airport and Airways Trust Fund (AATF) and the general fund. Some may call for a reduction or elimination of the general fund contribution but this system has worked well for over 40 years.

In fact, the FAA’s budget has grown on average three percent a year for the last five years.

Revenue in to the Airport and Airways Trust Fund is projected to increase 71.2 percent (to \$19.2 billion) by 2016. As such, the current system of aviation excise taxes combined with a general fund contribution will be more than sufficient to support FAA's future funding needs and modernization.

And two, Congress will lose oversight of FAA operations. Instead, as their funding will be off-budget, an unaccountable outside board will make decisions about our nation's ATC, unaccountable to anyone – Congress, the judiciary, or the American people.

What would an FAA free of congressional oversight put its resources into? They already bypass congressional intent and shortchange the needs of the system as seen in the under funding of air traffic controllers. I am routinely amazed that the FAA does not seem worried about the lack of controllers in the pipeline. This is the issue they should be addressing in their vision for the "next generation" not reducing costs for the airlines.

I am also concerned that without Congressional oversight the FAA will continue to under fund important functions of their mission as they already do. Despite the fact that Congress specifically appropriated money to fund certification officers, FAA disregarded that and spent the money elsewhere – at a time when US producers are attempting to compete in an expanding global economy. Kevin Hawley, President of Aerospace Systems and Technologies in Salina, Kansas told us last year that the "workload of the FAA continues to grow while staff remains dormant or decreases." He feels the effects of that as does Finley Nevin, President of Global Engineering and Technology in Kansas who told us that because of "the problems with the manning of the local FAA" his company's project "took entirely too long, slowed delivery and therefore affected jobs." If the FAA is unresponsive to the needs of our constituents when we do have oversight, how will it behave when we don't?

The FAA currently blatantly disregards the health of the aviation sector. In the past 18 months alone, the FAA has zeroed out funding for certification officers, reduced the funding for research and development, shortchanged air traffic controllers, and is now proposing user fees that will cripple the aviation industry.

I have reintroduced the "Promotion Responsibility for Our U.S. Aviation Act" (PRO U.S. Aviation Act) and I encourage you to cosponsor this important bill. This bipartisan bill will simply restore the responsibility of promoting the aviation industry to the mission of the Federal Aviation Administration (FAA). This bill will not cost anything and will not detract from FAA's focus on safety. In fact, ensuring the health of American aviation is one of the best ways to ensure the safety of flight.

International

Finally, I want to briefly touch on the fact that the user fee approach to solving air traffic control fiscal issues has had troublesome results around the world. The United States has by far the most air traffic in the world, both commercial and GA. So in one way it is hard to compare apples and oranges. But we can see two stark warnings coming out of European user fee systems:

First, the systems are extremely vulnerable to market forces. After the attacks of September 11, 2001 decimated air traffic worldwide, and again after the Severe Acute Respiratory Syndrome (SARS) incidents also affected air travel, most nations had to turn to their governments to sustain their air traffic operations because user fees simply were not cutting it.

Second, general aviation is decimated. User fees have contributed largely to the downtrend in general aviation world wide. The number of aircraft per capita in the European Union is significantly less than the United States, and this is partly to explain for their struggle to compete in the global economy.

These examples from other nations show us that user fees are not the answer.

Conclusion

This year you will take up the daunting task of the FAA reauthorization bill. You are entrusted with ensuring the future safety and efficiency of the air traffic control system. I hope I have convinced you that user fees will not do so. They will instead weaken the system and, even more troubling, destroy general aviation in this country.