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AIRPORT AND AIRWAY TRUST FUND

Financial Outlook Is Positive, but the Trust Fund's Balance Would Be Affected If Taxes Were Suspended

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Highlights

Highlights of GAO-03-979, a report to the Senate Committee on Commerce, Science, and Transportation and its Subcommittee on Aviation

Why GAO Did This Study

The multibillion dollar Airport and Airway Trust Fund (Trust Fund) provides most of the funding for the Federal Aviation Administration (FAA). The Trust Fund relies on revenue from 10 taxes, including passenger ticket, fuel, and cargo taxes. Concerns about the financial outlook of the Trust Fund have emerged recently given the downturn in passenger air travel, requests from the airlines to suspend some of the Trust Fund taxes, and the need to reauthorize FAA's major programs in 2003. GAO was asked to determine (1) the projected financial outlook of the Trust Fund and (2) how a 1-year suspension of various taxes accruing to the Trust Fund (i.e., a tax holiday), would affect its financial status. We were asked to assess five potential tax holidays that would have begun on April 1, 2003, and ended on April 1, 2004.

GAO used a model developed by FAA that made financial projections for the Trust Fund using expenditure assumptions that were based on (1) the Senate Committee on Commerce, Science, and Transportation's May 2, 2003, and the House Subcommittee on Aviation's May 15, 2003, reauthorization proposals authorizing over $34 billion and (2) the President's proposal authorizing almost $38 billion from the Trust Fund. For each of these proposals, GAO asked FAA to model the effects of five different tax holidays.

www.gao.gov/cgi-bin/getrpt?GAO-03-979.

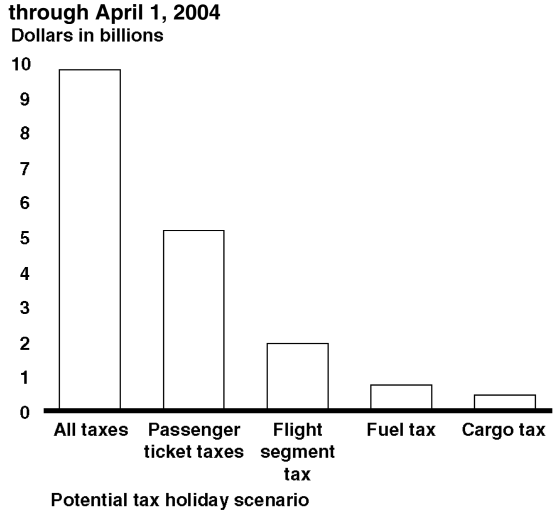
To view the full product, including the scope and methodology, click on the link above. For more information, contact Gerald Dillingham at (202) 512-2834 or dillinghamg@gao.gov.

What GAO Found

Over the next 3 years, with no change in tax rates and assuming that FAA's passenger traffic and airfare projections are valid, the Trust Fund is expected to continue to have sufficient revenue to cover authorized spending and end each year with a surplus, or an "uncommitted balance" as it is usually called, under each of the three expenditure scenarios we analyzed. For fiscal years 2004 through 2006, the potential uncommitted balances would range from over $4.4 billion (if Congress adopted either the House or the Senate proposal) to $1 billion, if the President's proposal were adopted.

Suspending some or all of the taxes that accrue to the Trust Fund for 1 year would reduce or eliminate the Trust Fund's uncommitted balance. As depicted below, if all taxes accruing to the Trust Fund were suspended, effective April 1, 2003, almost $10 billion in tax revenue would be forgone and the uncommitted balance would be eliminated by October 2003. The status of the Trust Fund would also differ according to the reauthorization proposal adopted and the taxes suspended. For example, suspending the passenger ticket tax and adopting either the House or Senate proposal would reduce the uncommitted balance to $1.8 billion and $2 billion, respectively, in 2006. However, suspending the same tax and adopting the President's proposal would eliminate the uncommitted balance by October 2003. The budgetary consequences of the remaining potential tax holidays would vary substantially. FAA officials stated that under the President's proposal, a passenger ticket tax holiday might require spending cuts to its capital programs, while a cargo tax holiday would require few if any spending cuts to its programs. In its comments on a draft of this report, FAA agreed with the report's findings and provided some clarifying comments that we incorporated where appropriate.

Amount of Forgone Tax Revenues under Five Potential Tax Holiday Scenarios, April 1, 2003, through April 1, 2004



Source: FAA.