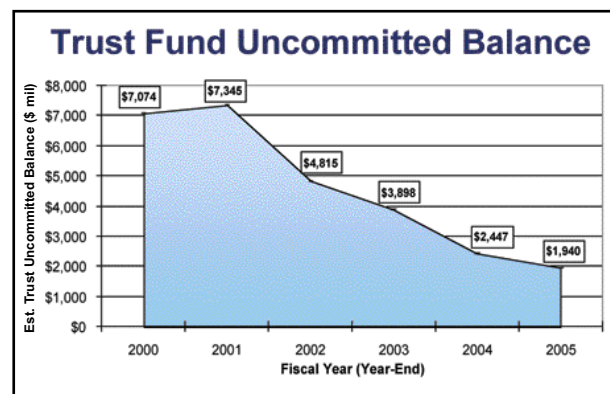
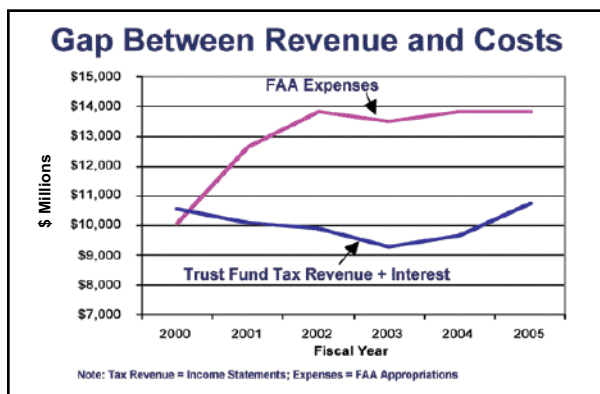




TRUST FUND TAXES SET TO EXPIRE IN 2007. THE FAA NEEDS A STABLE REVENUE STREAM FOR THE FUTURE

There is a problem with the aviation trust fund.

- ◆ The trust fund pays a large share of the bills for the FAA to operate the national airspace system.
- ◆ A troubling gap has grown between the revenue that comes in and what it costs to run the FAA.
- ◆ This has sharply driven down the Trust Fund's uncommitted balance.



The taxes and fees that support the Trust Fund expire in 2007.

- ◆ During the last reauthorization of the tax structure in the mid-90's, the debate lasted nearly two years. The taxes and fees expired and cost the aviation system roughly \$5 billion, which was never recovered.
- ◆ Today, there's little cushion. You would have to go all the way back to 1977 to find a lower balance in a year when taxing authority did not expire.
- ◆ Because we no longer have significant reserves in the Trust Fund and today's higher appropriation levels, the expiration of the taxes without replacement would mean that the Fund's balance would soon go below zero.
- ◆ We can't allow that to happen.

What is causing the problem?

- ◆ The aviation industry has changed dramatically.
- ◆ In prior years, relatively higher ticket prices helped keep the trust fund solvent, enabling the FAA to make investments for the future while operating the world's safest transportation system.
- ◆ Low-cost carriers now are the most significant driver of industry pricing. Because over half of Trust Fund receipts come from the 7.5 percent tax on airline tickets, these lower fares decrease Trust Fund revenue—without any corresponding reduction in FAA workload.
- ◆ The airlines are taking many more deliveries of smaller aircraft. By 2010, the U.S. regional jet fleet will be four times the size it was in 2000.
- ◆ The U.S. business jet fleet will be approximately 65 percent larger than its 2000 levels.
- ◆ This means more aircraft but decreased revenue per aircraft using the air traffic control system.

Without a solution, certification of new airlines and products will be delayed.

- ◆ To date, there are 16 airlines waiting in the queue for certification, which will mean increased duties for the inspectors, who also must oversee the additional pilots, planes and crew.
- ◆ To keep the system as safe as it is, the FAA cannot afford to take on new projects at the expense of those we currently oversee.
- ◆ The increased workload is further compounded by the next generation of UAVs and very light jets.

Without a solution, we cannot move to a more cost-efficient Next Generation Air Transportation System

- ◆ The safe but aging aviation infrastructure carries replacement costs of \$32 billion and this doesn't address the looming need to develop the Next Generation System with more capacity and lower unit costs.
- ◆ In December 2004, Secretary Mineta launched the plan for America's next generation air transportation system. It aligns the resources and plans of seven government agencies to develop the aviation system for 2025. The Trust Fund as it is cannot pay to make the capital investments needed for the future.

The FAA must become more efficient.

- ◆ The FAA is embracing a variety of aggressive cost control measures. But, cost cutting alone will not enable us to close the existing gap between the revenue stream into the trust fund and FAA costs.
- ◆ A long-term solution is the only real fix.
- ◆ However, we have taken dramatic steps to cut costs at the FAA:
 - We consolidated human resource management and accounting functions.
 - We reduced 1,300 staff in our air traffic control operations ATO alone.
 - We contracted out the network of automated flight service stations for a projected savings of \$2.2 billion.

The Department of Transportation is pushing hard to be ready.

- ◆ Transportation Secretary Norman Mineta and FAA Administrator Marion Blakey convened a forum on the Trust Fund in April, 2005.
- ◆ More than 150 leaders from government, the industry, and Wall Street gathered to discuss the issues and make recommendations.
- ◆ While the proposals on how to solve the matter varied, the group agreed that the issue needs to be addressed.
- ◆ We recognize that whatever system is put in place, it must be fair and there must be equitable treatment of all stakeholders.

What happens if we maintain the status quo?

We simply cannot afford to. There is a significant gap between costs and revenues, and aviation is too important to the American economy to allow it to decline. However, if we don't act, there is an unattractive list of options:

- ◆ Cutting services, such as air traffic control, certification, and inspection.
- ◆ Retaining and maintaining the aging infrastructure, instead of buying new equipment when we need it.

There are those who say there isn't a problem.

- ◆ They say our revenues will increase as passengers make their way through the turnstiles more than ever before or that the general fund can contribute more.
- ◆ But unfortunately, the funding gap is very real and the FAA's recent revenue forecasts have been too optimistic.
- ◆ Given the deficit and the other national and international demands competing for the general fund resources, we can't plan that a greater slice of that pie will solve our problems.
- ◆ The Administration supports the use of the general fund for part of the system costs—and has so consistently over the last several years. However, this is not the solution to our long-term funding needs.

What's the answer?

- ◆ We don't know yet. However, we do know that the FAA needs a consistent, stable revenue stream that is not tied to the price of an airline ticket but rather reflects our actual cost to provide service.
- ◆ The FAA is not at this point endorsing new taxes or user fees, but we must address the gap that exists between our costs and our revenues.
- ◆ We are looking for an equitable solution, and we are reaching out to all of our stakeholders for their input.