

The Airport and Airway Trust Fund

Over the last four decades, aviation in the United States has experienced dramatic growth and transition, due in part to industry deregulation and the establishment of a dedicated aviation account — the Airport and Airway Trust Fund (AATF). Sustained by various fees and taxes related to the use of the aviation network, the AATF provides ongoing support to a variety of projects, from air traffic control systems to runway expansion. Ongoing trust fund support will prove even more crucial over the next two decades; it is estimated that by 2030, the U.S. air-traffic system will handle an additional 49,000 flights per day and serve one billion passengers per year, an increase from about 645 million passengers in 2011.¹

Additionally, the AATF will fund a massive upgrade to the nation’s air traffic control system – known as ‘NEXTGEN’ – that will improve capacity, efficiency and safety. Of concern, however, is that spending out of the AATF has exceeded revenues by a total of \$9 billion dollars over the last 11 years.

Background and Current Policies

The AATF was created by the Airport and Airway Revenue Act of 1970. Based on experience with other federal trust funds, Congress set up the AATF to receive dedicated funding from user-fees.² Under this user-fee model, aviation-related taxes would provide for a continuous and reliable funding stream to build and maintain the nation’s aviation network. As of 2011, these aviation-related excise taxes and fees include a national ticket tax, domestic flight segment tax, international arrival and departure tax, a fee for flights between continental U.S. and Alaska or Hawaii, a frequent flyer tax, and a waybill tax for domestic cargo, mail, and overflight fees. The trust fund is also supported by commercial and general aviation fuel taxes.

Aviation Taxes³	Note	Tax Rate
PASSENGERS		
Domestic Passenger Ticket Tax	<i>Ad valorem</i> tax	7.5% of ticket price
Domestic Flight Segment Tax	"Domestic Segment" = a flight leg consisting of one takeoff and one landing by a flight	Rate is indexed by the Consumer Price Index starting 1/1/02 \$3.70 per passenger per segment as of January 1, 2011
Passenger Ticket Tax for Rural Airports*	Tax on tickets on flights that begin/end at a rural airport.	7.5% of ticket price (same as passenger ticket tax) Flight segment fee does not apply.
International Arrival & Departure Tax	Head tax assessed on passenger arriving or departing for foreign destinations (& U.S. territories) that are not subject to ticket tax.	Rate is indexed by the Consumer Price Index starting 1/1/99 Rate as of January 1, 2011 = \$16.30
Flights between continental U.S. and Alaska or Hawaii		Rate is indexed by the Consumer Price Index starting 1/1/99 \$8.20 international facilities tax + applicable domestic tax rate as of January 1, 2011
Frequent Flyer Tax	<i>Ad valorem</i> tax assessed on mileage awards (e.g., credit cards)	7.5% of value of miles
FREIGHT / MAIL		
Domestic Cargo/Mail		6.25% of amount paid for the transportation of goods by air
AVIATION FUEL		
General Aviation Fuel Tax		Aviation gasoline: \$0.193/gallon ; Jet fuel: \$0.218/gallon
Commercial Fuel Tax		\$0.043/gallon
OVERFLIGHT FEES	Charged to aircraft operators that fly in U.S.-controlled airspace, but don't touch down in the U.S.	Enroute – \$33.72 per 100 nautical miles (nm), Great Circle Distance (GCD), from point of entry into to point of exit from U.S.-controlled airspace Oceanic – \$15.94 per 100 nm, GCD
*Rural airport: <100K enplanements during 2nd preceding CY, and either 1) not located within 75 miles of another airport with 100K+ enplanements, 2) is receiving essential air service subsidies, or 3) is not connected by paved roads to another airport		

AATF revenues are distributed by Congress to the Federal Aviation Administration (FAA) through multi-year authorization bills. The legislation splits trust fund revenues primarily between the FAA’s capital and operations accounts. Congress sets the individual fiscal year (FY) appropriations from the AATF based on forecasted revenue levels calculated from historical variables such as economic growth, passenger fares, and other revenue indicators.⁴ The AATF also earns interest on this balance.

MAJOR FAA PROGRAMS SUPPORTED BY AATF REVENUES...

Operations Account

- Air Traffic Control
- Safety Inspections

Capital Account

- Facilities Equipment (includes NEXTGEN)
- Research, Engineering, and Development
- Airport Improvement Program

Other

EAS Program – Essential Air Service to rural areas and remote Alaskan airports. One-quarter of EAS subsidies are supported by over-flight fees (paid when flights cross US air space, but don’t touchdown), while remaining program funding comes from annual appropriations.

The most recent authorizing legislation — “Vision 100 - Century of Aviation Reauthorization Act” (Public Law 108-176)⁵ — was adopted in 2003 and expired in 2007. Since then, Congress has passed a series of short-term extensions —22 in total⁶ —with only minor modification to the original ‘Vision 100’ legislation or the AATF’s revenue stream.⁷

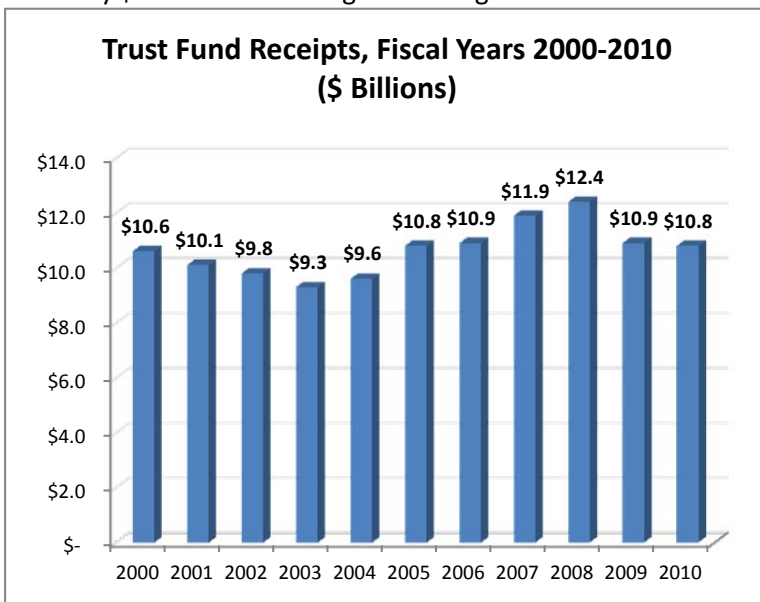
In FY 2010, AATF expenditures totaled \$15.5 billion and revenues amounted to \$10.2 billion. Since expenditures were higher than revenues, Congress covered the difference with general revenue transfers to the FAA’s operation’s account.⁸ Contrary to the AATF’s ‘user-fee’ basis, general fund appropriations accounted for 34 percent of the FAA’s total expenditures in FY 2010.⁹

Over the next seven years, the FAA is expected to dedicate considerable AATF revenues to NEXTGEN — the nation’s air traffic modernization project.¹⁰ NEXTGEN is a satellite-based navigation system to replace the existing 50-year old radar system, which is expected to result in greater safety, expanded capacity, and reduced fuel consumption. The AATF’s capital account increased by \$1.14 billion for the project in 2011 and as much as \$12 billion will be spent through 2018. The FAA estimates long-term public and private expenditures for NEXTGEN will be \$40 billion.

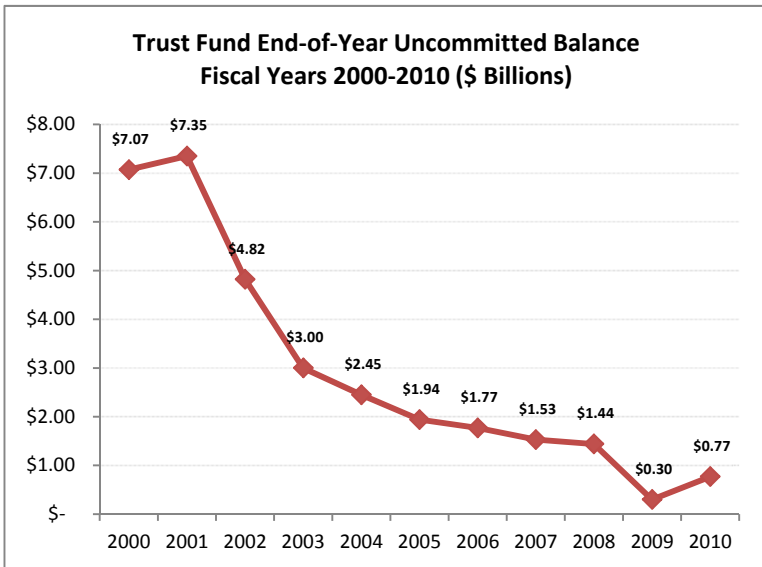
Problems with the Trust Fund

The Government Accountability Office (GAO) has expressed concern about the trust fund’s recent declining uncommitted balance.¹¹ In FY 2010 the AATF’s balance was only \$770 million. Though this is higher than FY 2009’s all-time low of around \$299 million — due largely to an infusion of general revenues — it remains far lower than past uncommitted balances (in 2001, the uncommitted balance was \$7.35 billion).

The AATF’s uncommitted balance has steadily decreased since 2001 due to 9/11’s impact on air travel, the 2008 economic recession, and poor revenue forecasting. Congress bases FAA appropriations from the AATF on forecasts of future revenues; if revenues fall short of estimates, the money has already been spent and this results in a deficit. AATF expenditures have exceeded actual revenues in 9 of the last 11 years by a total of \$9 billion. Instead of delaying obligations to the FAA’s capital program —namely NEXTGEN — to cover these shortfalls, Congress has routinely transferred general tax revenues into the AATF. Congress recently passed a temporary fix to this problem. An FAA extension bill, passed in March 2011,



contained an amendment by Sen. Tom Coburn (R-OK) requiring that for fiscal years 2012 and 2013 no more than 90 percent of projected AATF revenues (plus expected interest) be appropriated each year.



Industry stakeholders have highlighted unfair practices involving where and how aviation fuel taxes are collected.¹² Aviation fuel vendors pay the same tax rate as diesel fuel (24.4 cents per gallon), though the tax rate for aviation fuel is only 21.8 cents per gallon.¹³ To recover the 2.5 cents difference, purchasers must apply for a refund with the IRS. Furthermore, the entire 24.4 cent tax skips the AATF and is instead deposited into the Federal Highway Trust Fund. The AATF only receives the funds if and when aviation fuel vendors apply for the refund. Many aviation fuel vendors are not applying for this refund and simply passing the higher tax rate onto their consumers, which will cost the AATF approximately \$500 million

over the next ten years.¹⁴

Additionally, recent airline modifications to fare and fee structures may also be undermining the trust fund’s long-term stability.¹⁵ Since the mid-2000’s, many airlines have ‘unbundled’ their fare structures by charging separately for customer amenities such as food and drink, baggage service, and seating preferences. The GAO has found these optional fees — which are not subject to the 7.5 percent ticket tax — are making up an increasing proportion of airline revenues. These unbundled fees result in less revenue into the AATF, thus giving an unfair tax advantage to airlines that unbundle their fare structure yet receive the same benefits as those airlines that do not.¹⁶

Fixing the AATF – Options for the future...

Policy makers should keep all options on the table as they attempt to shore up the AATF. Some options:

Cap forecasted revenues: Congress could appropriate less than 100 percent of the forecasted revenues to the FAA’s budget each year, to ensure that spending does not outstrip revenues. After the actual revenues are calculated (a process that takes up to two years), any revenues in excess of spending could be transferred to the FAA. This approach would limit the FAA’s resources for the first two years until actual revenues are known, but would help ensure the long-term viability of the AATF. In March 2011, Congress adopted a measure that temporarily achieves this, limiting appropriations from the AATF to 90 percent of projected revenues for fiscal years 2012 and 2013.

A potential supplement to AATF revenues?

The Passenger Facilities Charge (PFC) is an airport user fee charged to passengers by a local airport or airport authority. PFC revenue is funneled back into the respective airport(s) to finance FAA-approved projects that enhance safety, security, or capacity.¹⁷ Congress caps the fee at \$4.50 per passenger, which hasn’t changed in over a decade. Airport officials and industry stakeholders have long complained that this is strictly a local issue and better determined by those in charge of each airport.¹⁸ Furthermore, the PFC provides an additional revenue source to the AATF for airport-related infrastructure projects. Although pending legislation includes no modification to the PFC, Congress may consider lifting the maximum cap or eliminating it all together and returning control of fees to the local level. This would generate additional local revenues to offset or supplement AATF expenditures.

Eliminate the fuel tax diversion: The diversion of aviation fuel taxes to the Highway Trust Fund costs the AATF an estimated \$50 million each year. Congress could fix problems with the tax collection mechanism by mandating that the IRS perform inspections of fuel vendors or shifting the refund process to aviation fuel wholesalers.

Consider new revenue streams: The GAO found if baggage fees alone had been subject to the 7.5 percent ticket tax, the AATF would have brought in \$248 million in additional revenues in FY 2010. Other unbundled fees could also be taxed. The GAO expects the amount this would bring to the AATF will grow as airlines continue to unbundle fees.

Cut wasteful programs: Eliminating certain wasteful FAA programs could save AATF revenue for use on higher priority projects and programs. For instance, the Essential Air Service program was launched in the 1970s to ease the transition to airline deregulation by subsidizing commercial flights to the nation's rural airports.¹⁹ To qualify, an airport must be more than 90 miles from the nearest medium or large hub airport and not require a subsidy of more than \$1,000 per person. What exactly constitutes "essential" about this program remains a mystery; many of the cities served by this program can be found an hour or less away from airports with unsubsidized flights. For example, the 50 minute flight from Lebanon, New Hampshire to Boston receives a subsidy of \$287 per passenger when it's only a little over an hour drive to another large airport, Manchester-Boston Regional Airport.²⁰ Eliminating this program from the FAA's budget has the potential to save \$815 million between 2012 and 2016.²¹

What's currently on the table...

As the 2003 FAA legislation continues to be extended, separate versions of the most recent replacement legislation — the FAA Air Transportation Modernization and Safety Improvement Act of 2011²² — has passed the House and Senate but differences remain. The most significant roadblock to a final deal is a labor provision, but there are other minor issues that must be resolved as well.

Specifically, the Senate's bill increases the excise tax on aviation fuel to 35.9 cents per gallon over the previous 21.8 cents for all noncommercial jet aviation and retains 4.3 cents per gallon for commercial aviation. The bill limits expenditures from the Airport and Airway Trust Fund in FY2012 or FY2013 to 90 percent of fund receipts plus interest to re-establish the trust fund's balance. The bill also makes changes to the AATF's account structure to fund NEXTGEN with a dedicated revenue stream. Under this proposal, all fuel taxes will be dedicated to a newly-established Air Traffic Control System Modernization Account, with expenditures committed to the modernization of the air traffic control system.

Recent reforms of the EAS program increased the distance a rural airport must be from a medium or large hub from 70 miles to 90 miles and eliminated subsidies for routes that require a subsidy in excess of \$1,000 per passenger (Alaska's airports were exempted). These changes disqualify 13 airports from receiving EAS subsidies and will save taxpayers around \$16 million this year, though an agreement between Congress and the Administration may block most of these savings from being realized.²³ This extension came only after the FAA shut down for two weeks in July 2011 due to Congress' inability to pass an extension or new legislation. This caused the furlough of some 4,000 employees and placed hundreds of construction projects on hold at airports across the nation, idling as many as 80,000 construction workers. In addition, the program lost \$30 million each day, as the FAA was not authorized to collect the ticket tax that funds construction projects and other FAA operations. After considerable public outcry, the Senate passed the House-sponsored extension (during August recess, with the consent of only two senators), restoring the FAA's operating and taxing authority.

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- ¹ "Hearing Statement of Sen. Max Baucus (D-MT) Regarding the Status of the Airport and Airway Trust Fund" U.S. Senate Committee on Finance, February 3, 2011. <http://finance.senate.gov/imo/media/doc/Baucus%20Hearing%20Statement%20Regarding%20the%20Status%20of%20the%20Airport%20and%20Airway%20Trust%20Fund1.pdf>
- ² "Airport and Airway Trust Fund (AATF)" Federal Aviation Administration, February 2, 2011. http://www.faa.gov/about/office_org/headquarters_offices/apl/aatf/
- ³ "Simplified Tax Table" Federal Aviation Administration, January 20, 2010. http://www.faa.gov/about/office_org/headquarters_offices/apl/aatf/media/Simplified_Tax_Table%20Updated%20JAN%202010.xls
- ⁴ "Airport and Airway Trust Fund: Declining Balance Raises Concerns over Ability to Meet Future Demands" Government Accountability Office, February 3, 2011. <http://www.gao.gov/products/GAO-11-358T>
- ⁵ "VISION 100—CENTURY OF AVIATION REAUTHORIZATION ACT" Government Printing Office, December 12, 2003 http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=108_cong_public_laws&docid=f:publ176.108.pdf
- ⁶ As of September 2011.
- ⁷ Congress' most recent FAA extension (the 21st since 2007) — H.R. 2553 — will extend FAA programs and excise taxes through September 16th, 2011.
- ⁸ "H. R. 1105 Omnibus Appropriations Act" Government Printing Office, 2011. <http://www.gpo.gov/fdsys/pkg/BILLS-111hr1105enr/pdf/BILLS-111hr1105enr.pdf>
- ⁹ See note 4.
- ¹⁰ *Ibid.*
- ¹¹ *Ibid.*
- ¹² "FAA Reauthorization Legislation" National Air Transportation Association, 2011. <http://www.nata.aero/data/files/gia/2011whitepapers/2010faareauthorizationlegislationwp.pdf>
- ¹³ In the early 2000's, there were claims of highway truckers purchasing aviation fuel (taxed at 21.8 cents per gallon) and mixing it with diesel fuel (taxed at 24.4 cents per gallon) to avoid paying the higher motor fuel tax. In response, Congress included a provision in the nation's 2005 surface transportation legislation that changed how aviation fuel taxes are collected. See "H.R. 3 – Safe, Accountable, Flexible, Efficient Transportation: Legacy for Users - Summary of Tax Title" U.S. Committee on Ways and Means, July 28, 2005. <http://waysandmeans.house.gov/media/pdf/taxdocs/072805highwaysummary.pdf>
- ¹⁴ "Unintended Consequences" Aviation Business Journal, Winter 2006. <http://www.nata.aero/data/files/abj/06abj-q1.pdf>
- ¹⁵ "Commercial Aviation: Consumers Could Benefit from Better Information about Airline-Imposed Fees and Refundability of Government-Imposed Taxes and Fees" Government Accountability Office, July 14, 2010. <http://www.gao.gov/products/GAO-10-785>
- ¹⁶ Poole, Bob. "Reform Irrational Aviation Funding" National Journal Transportation, Expert Blogs, July 26, 2010. <http://transportation.nationaljournal.com/2010/07/should-airline-fees-be-taxed.php#1608266>
- ¹⁷ "Passenger Facility Charge (PFC) Program" Federal Aviation Administration, September 16, 2010. <http://www.faa.gov/airports/pfc/>
- ¹⁸ Joe Sharkey, "Airports Say They Need To Raise Fees," The New York Times, June 13, 2011. <http://www.nytimes.com/2011/06/14/business/14road.html>
- ¹⁹ "Essential Air Service Program" Office of Aviation Analysis, August 19, 2010. http://ostpxweb.dot.gov/aviation/x-50%20role_files/essentialairservice.htm
- ²⁰ *Ibid.*
- ²¹ "Green Scissors - Cutting Wasteful and Environmentally Harmful Spending" Friends of the Earth, Heartland Foundation, Public Citizen, Taxpayers for Common Sense, August 2011. http://www.foe.org/sites/default/files/Green_Scissors_2011.pdf
- ²² "FAA Air Transportation Modernization and Safety Improvement Act" Library of Congress, May 9, 2011. <http://thomas.loc.gov/cgi-bin/bdquery/z?d112:h.r.658>
- ²³ "Non-Alaska" Office of the Assistant Secretary for Aviation and International Affairs, U.S. Department of Transportation, May 2010. http://ostpxweb.dot.gov/aviation/x-50%20role_files/100501nonalaska.xls

All charts generated from data provided by the following source: Airport and Airway Trust Fund (AATF)" Federal Aviation Administration, February 2, 2011. http://www.faa.gov/about/office_org/headquarters_offices/apl/aatf/