

**County Council of Beaufort County**  
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**AIRPORTS BOARD MEETING MINUTES**  
**OF SEPTEMBER 20, 2012**

The print media was notified in accordance with the State Freedom of Information Act.

**CALL TO ORDER**

A meeting of the Beaufort County Airports Board was held at 1:30 PM on Thursday, September 20, 2012 in the Council Chambers of the Beaufort County Government Center. Chairman Joe Mazzei called the meeting to order.

**PLEDGE OF ALLEGIANCE**

The Chairman led those present in the Pledge of Allegiance to the Flag.

**MOTION TO ACCEPT SEPTEMBER 20, 2012 AGENDA**

**It was moved by Mr. Kerr, seconded by Mr. Dopp that the agenda for the September 20, 2012 meeting be accepted. The vote was: FOR – Mr. Mazzei, Mr. Dopp, Mr. Nash, Mr. Gilbert, Mr. Sells, Mr. Buchanan, Mr. Kerr, Mr. Wirth, Mr. Smetek, Mr. Sanders, Mr. Wedler. AGAINST – None. ABSENT – None. The motion passed.**

**MOTION TO ACCEPT AUGUST 16, 2012 MINUTES**

Mr. Mazzei asked for a motion to accept the minutes of the August 16, 2012. Mr. Smetek stated that there are several anomalies in the minutes that he wanted to bring to the Board's attention. Mr. Mazzei stated that these minutes are circulated to all the members of the Board in advance of the meeting. He stated that any errors or deficiencies are asked for at that time. He asked Mrs. Wright if any errors had been received. She stated one minor one from Mr. Kerr and one from Mr. Smetek (inaudible). Mr. Mazzei stated this is the process and that was the appropriate time to do it and therefore would not take up anymore time on this. Mr. Smetek asked if there were any objections to submitting something to the secretary to point out the errors in the minutes. Mr. Mazzei stated he had no objections. Mr. Sells asked that these errors be submitted to all of them. Mr. Smetek stated he would do this.

**It was moved by Mr. Sells, seconded by Mr. Sanders that the minutes of the August 16, 2012 meeting be accepted with amendments to be made later. The vote was: FOR – Mr. Mazzei, Mr. Dopp, Mr. Nash, Mr. Gilbert, Mr. Sells, Mr. Buchanan, Mr. Kerr, Mr. Wirth, Mr. Smetek, Mr. Sanders, Mr. Wedler. AGAINST – None. ABSENT – None. The motion passed.**

**GUEST INTRODUCTIONS** – Guests attending the meeting introduced themselves.

**MEMBERS PRESENT**

Joe Mazzei - Chairman  
Graham Kerr – Vice Chairman  
Councilman Rick Caporale – Beaufort County Liaison  
Mike Nash  
Will Dopp  
Derek Gilbert  
Pete Buchanan  
Richard Wirth  
Ron Smetek  
Rich Sells  
Ross Sanders  
Carl Wedler

**MEMBERS ABSENT**

Councilman Ken Heitzke – Town of Hilton Head Liaison

**STAFF**

Paul Andres – Airport Director  
Gary Kubic – Beaufort County Administrator  
Rob McFee – Director, Eng. & Infrastructure Div.  
Joel Phillips – Beaufort Co. Airport Supv.  
Linda Wright – Admin. Asst.  
Alicia Holland, Beaufort County Controller

**GUESTS**

Councilman Stu Rodman  
Judy Elder – Talbert & Bright  
Ken Holt – Michael Baker & Associates  
Leo Brennan – Resident  
Bob Gentzler – Resident  
Joe Croley – Resident  
Jim Fisher – Resident  
Bill Coleman – Resident  
Jim Webb – Resident  
Jim Collett – Resident  
Joe Zimmerman – Resident  
Bob Richardson – Resident  
Bob Wallhaus - Resident

**PUBLIC COMMENTS**

1. Leo Brennan – Mr. Brennan, Port Royal Plantation, stated his professional background is over 40 years of experience in various industries with a concentration on procurement, supply chain management, capacity planning, and contract administration. Mr. Brennan stated he is not a pilot, but the skills and training of a pilot are not required to report on the research facts that follow. He stated that it was mentioned at the August meeting that after April 30<sup>th</sup> Horizon will be the only US airline flying the Q400, that they are based in Seattle and do not bring them east of the Rockies, that United Airlines through an arrangement with Colgan who operate Q400s out of Washington-Dulles will cease in mid-September, that Colgan is bankrupt and will terminate operations November 30<sup>th</sup>. Mr. Brennan stated that this is all correct, but incomplete. He stated that according to a May 14, 2012 news release Republic Airways Holdings entered into a tentative agreement to operate 32 Q400s under the United Express brand and that this agreement was finalized on July 20, 2012. He stated that operations are expected to commence during the third quarter of 2012. Mr. Brennan stated that last Friday he spoke with Republic's Communication Director who confirmed the agreement. Mr. Brennan stated that the Q400 is a stretch version of the present Dash 8 and has twice the seating capacity, but it is doubtful that they could operate out of the Hilton Head Island Airport. Mr. Mazzei asked Mr. Brennan to wrap up his comments as he had already given him additional minutes.
2. Bill Coleman – Mr. Coleman, Palmetto Hall resident, stated he wanted to cede his 3 minutes to Mr. Brennan. Mr. Mazzei stated that there is no provision to cede minutes, but did allow Mr. Brennan 30 seconds to wrap up his comments.

3. Bob Gentzler – Mr. Gentzler, President of Palmetto Hall Property Owner's Association, stated he represents over 500 residents, voters and neighbors of the Airport. He stated his reason for talking today relates to a very serious flaw we see in the approach to plan any actions for the expansion for the Hilton Head Island Airport. He stated the process used has ignored all input from the neighbors. Mr. Gentzler stated that in response to this unacceptable situation, Palmetto Hall has developed a position statement to better explain their questions and the reasons for their actions taken as well as those that will be taken in the future. He stated that the Palmetto Hall residents want and expect the same quality of life that they enjoyed before the Airport expansion, the tree cutting or any intrusion into their environment. Mr. Gentzler stated that they support airport operations and have no objections to continue the operations of the Airport as long as they do not threaten the best interest of the Palmetto Hall Community. He stated they plan to resist actions and expansions that threaten Palmetto Hall by all means available to them since any actions and expansions beyond the boundaries of the Airport will represent a threat to their property values and the residents' right to those quality of life values.
4. Jim Fisher – Mr. Fisher, Port Royal Plantation, stated that he would like to let the Board members as well as County Council and Town Council know that there was an outstanding presentation done by a consultant from Washington, DC yesterday at the Marriott Hotel on Hilton Head Island. He stated the meeting was to explain what it really means to provide air service and what was referred to as the catchment area. Mr. Fisher stated that they drew a circle around our area and air service and stated that this circle goes from Charleston down to Jacksonville. He stated the bottom line that came out of this presentation was that the Savannah/Hilton Head Airport and the Hilton Head Island Airport will face severe challenges because the new trend by airlines is to use bigger planes and bigger airports.

Mr. Smetek stated the website is [savannahairport.com](http://savannahairport.com).

5. Bob Richardson – Mr. Richardson, Palmetto Hall, stated he wanted to follow up on Mr. Fisher's excellent presentation about yesterday's meeting. He stated the reason they did the study was because the Savannah/Hilton Head Airport has concerns about the loss of traffic. He stated there were many discussions given as to why there has been a loss of traffic. Mr. Richardson stated that one of things he would ask the Board to consider as it reviews and goes further with approvals or comments to the Beaufort County Council is that commercial service is clearly headed to larger airplanes from hub airports which we will never be and that the Savannah/Hilton Head Airport is only considered to be a small hub.

### **AIRPORT FINANCIAL UPDATE**

1. Lady's Island Airport: Alicia Holland
  - Ms. Holland stated that there is an increase in the accounts receivable due to FAA and State grant monies that are on their way in. She stated the accounts payable decreased. She stated that the operating revenues compared to FY-11 increased slightly by 7% which was mainly due to fuel and oil sales. There was a slight decrease of 5% in expenditures due to personnel. Mr. Holland stated that overall there was just less than a \$13,000.00 decrease in the net assets for FY-12 which included depreciation. She stated they are currently being audited for FY-12 so these numbers are preliminary. Mr. Mazzei stated they had a budget that was much higher

based on revenues and then when the revenues were reduced during the year they took action to reduce expenses. Mr. Kerr stated Mr. Phillips and the linemen should be thoroughly commended by everyone for the good job they are doing. Mr. Mazzei concurred.

2. Hilton Head Island Airport: Alicia Holland

- Ms. Holland stated there was an increase in the accounts receivable from FY-11 to FY-12. She stated that the PFC is now in place as well as the state grants. Ms. Holland stated there was a significant increase in accounts payable due to a little over \$200,000.00 of capital FAA grant funded invoices that were posted in FY-12, but not paid until July. Mr. Mazzei stated there is an accounts receivable entry for \$38,000.00 and he wanted to know if this was based upon the projected receipts. Ms. Holland stated we already received the \$38,000.00 from the PFC collections. Ms. Holland stated there is a slight decrease in the amount due to the general fund of approximately \$127,000.00. Ms. Holland stated that overall there was a decrease in net asset of \$143,000.00 which does include depreciation. She reminded the Board that since they are currently being audited these are preliminary figures.

Mr. Sells asked for an explanation of the post employment benefits obligations. Ms. Holland stated this is for health insurance and life insurance that the County is obligated to pay for retirees.

Mr. Dopp stated that in the past the PFC was an operating revenue and now it is shown as a non-operating revenue. Mr. Andres stated that passenger facility charges can only be used for previously approved capital expenditures. Mr. Dopp asked what the reimbursement was for to the Town of Hilton Head. Ms. Holland stated that it was for reimbursement of the Town's share of the Master Plan once we received the grant funding.

Ms. Holland concluded by saying that by November 1<sup>st</sup> they should have audited financial statements issued and they will be posted on the website.

## **HILTON HEAD ISLAND AIRPORT REPORT**

1. Tower Report: Paul Andres

- For the month of August 2012 there were 2,637 total flight operations of which 1,566 were conducted under IFR procedures.

2. Projects: Paul Andres

- Tree Obstruction Removal – Mr. Andres stated that the On-Airport North End Runway 21 trees have been trimmed or removed. He stated the mitigation plans have been approved by the Town's DRB. The project was bid and we received only one bid on August 8<sup>th</sup>. He stated litigation is currently pending from the St. James Baptist Church and Palmetto Hall regarding the replanting efforts. No trial date has been set in Circuit Court. Mr. Andres stated there will be a very intense and aggressive replanting of upwards of 1,300 trees in the buffer area along Beach City Road, behind the church and along Dillon Road to create a visual screening buffer, but this is on hold until the litigation is resolved.

Mr. Andres stated the attorney is still working on obtaining aviagation easements for the off-airport portion. We currently have 9 of the 17 required. The proposed mitigation plan will be the same concept as used for the on-airport portion.

Mr. Andres stated the detailed survey has been completed on the South End. We are still working on obtaining the remaining 2 easements. However, we may need only 1 easement as the other easement may not have any tree obstructions on their parcel. The tentative start date is unknown due to going back to the same appeal on the replanting on the North End project. Mr. Andres stated that he understands there will be roughly 1,500 trees impacted on the South End. Mr. Smetek asked if all of the trees have been marked on the South End that will be affected. Mr. Andres stated most of them have been marked. He said to keep in mind that they typically mark trees 6 inches in diameter whether or not they are an obstruction because they have to physically identify them.

Mr. Mazzei wanted to know if the delay in moving these projects forward has caused lost funding from the federal government of over a \$1 million. Mr. Andres stated that this year we had \$1.5 million in discretionary funds that was earmarked for the Hilton Head Island Airport to address the trees on the South End, but since we were not ready to accept that money it was withdrawn and has now been diverted to other airports throughout the Southeast. Mr. Mazzei wanted to know if it is correct that this means the Town and the litigation have cost the County the ability to spend over \$1 million in capital funds. Mr. Andres stated he would not go so far as to portray it that way, but the situation as it exists with the current litigation and the requirements that are in the Town's LMO made it so we were not in a position to accept the money this year. Mr. Smetek stated it is incorrect and there is still potential for the money in FY-13. Mr. Sells stated that the Airport Manager made the statement that the money went to other airports so we lost the money. Mr. Dopp stated that he knows this is an LMO matter, but he wanted to know if there are any efforts to have the Town modify that requirement. Mr. Andres stated he is currently having discussion about this matter with the County Attorney. Mr. Dopp stated it seems we may face this problem in the future with everything that is going back and forth.

- RSA Drainage Improvements – Mr. Andres stated the construction project is moving along nicely and it is getting very close to completion. He stated it should be wrapped up within the next couple of weeks. He stated that this week they are doing their final smooth grading and seeding. The last thing to do is the final inspection and the hauling away of excess dirt.
- Master Plan – Talbert & Bright has been asked to update the Environmental Assessment timeline chart because the timeline moving forward has now been extended because we have added the Phase III archeology work. The archeology work has to be completed before they can schedule the public hearing that goes along with the environmental assessment. Mr. Andres stated that it will probably be pushed out by several months. He stated we did receive FAA Grant #33 to fund the Phase III archeology project. This grant was just under \$500,000.00. The FAA scheduled the National Historic Preservation Act Section 106 consultation meeting with interested parties on September 5<sup>th</sup>. Mr. Andres stated that the parties that attended were the SHPO, FAA, the Mitchelville Preservation Project, Heritage

Library Foundation, Coastal Discovery Museum, Palmetto Hall, and Port Royal Plantation. He stated that the next step in this process is that the FAA and the SHPO have to go back and collectively produce a memorandum of agreement that will detail what will occur in the future with this project. He stated this will likely take several months at least from SHPO's perspective as it has to go to their headquarters in Washington, DC to be approved.

- Design Projects – Mr. Andres stated the commercial terminal improvement project is still pending. He stated he hopes they will be able to make a recommendation to move the design forward in the near future. He stated bids were received on August 30th for the runway lighted sign replacement project. Mr. Andres stated the FAA issued Grant Offer #34 which was received September 5<sup>th</sup> and County Council accepted the grant on September 10<sup>th</sup> which funds this project. Mr. Andres asked for a motion from the Board to support this project to replace the lighted guidance signs at the Hilton Head Island Airport.

**It was moved by Mr. Sells, seconded by Mr. Dopp that the Airports Board supports the project to replace the lighted guidance signs at the Hilton Head Island Airport. The vote was: FOR – Mr. Mazzei, Mr. Dopp, Mr. Nash, Mr. Gilbert, Mr. Sells, Mr. Buchanan, Mr. Kerr, Mr. Wirth, Mr. Smetek, Mr. Sanders, Mr. Wedler. AGAINST – None. ABSENT – None. The motion passed.**

- Passenger Facility Charge (PFC) Program – Mr. Andres stated that the PFC collections did start May 1<sup>st</sup>. He stated they did submit the program amendment that was discussed previously. He stated that it was approved in part by the FAA. The FAA approved the portion that was for the impose and use projects and indicated that we would need to come back with a second amendment when we are ready to switch the impose only projects to impose and use. Mr. Andres stated this is more of an administrative matter than anything else.

3. Operations Report: Paul Andres

- For the month of August 2012 there were 7 medivacs. The Airport also sustained a lightning strike which affected some of the airfield lighting which we are working to repair at this time.

4. Noise Complaints & Traffic Counters: Paul Andres

- For the month of August 2012 there were 3 noise complaints which were all from Palmetto Hall regarding commercial overflights. There were 64 after hours flights on the general aviation side.

**BEAUFORT COUNTY AIRPORT REPORT**

1. Fuel Sales: Joel Phillips

- For the month of August 2012 there were a total of 948 operations. The total flow of fuel was 4,848 gallons (2,616 gallons of AvGas and 2,232 gallons of Jet fuel). Mr. Phillips stated the figures are about even from the same time period time last year.

Mr. Sells wanted to know what the process involves to obtain new customers. Mr. Phillips stated that this is uncharted territory for Beaufort County. He stated people

need hangars and the Airport has plenty of property with some of it slated for hangar development. He stated that in these economic times the Airport cannot afford to build these hangars so he is pushing for a public/private venture. Mr. Phillips stated this could possibly be done through a land lease. He stated the neighboring airports are doing this process. He stated he thought this would be a win/win for the County and the customers.

2. Projects: Paul Andres

- Tree Obstruction Removal – The FAA is getting close in resolving the SCE&G power pole issues and we should hear from them any day now. There are over 600 tree obstructions that remain in the approach and side slope at the Airport on the South End that will need to be addressed in the future. Mr. Andres stated the problem here is that once again we have litigation from the property owners. He stated we are waiting for the court to schedule the trial dates for those properties. Mr. Andres stated the State sent an inspector down to inspect the Lady's Island Airport and found no discrepancies. He stated they did shoot the approach and found that at least the approach itself was clear to a 20:1 slope on his inclinometer, but the FAA has mandated that we clear to 34:1 anyway.

Mr. Andres stated we also had the Part 139 Inspection at the Hilton Head Island Airport in August that resulted with no discrepancies.

- Master Plan – Mr. Andres stated there was a joint presentation back in January of this year and the consultant provided his response. As reported by Mr. Kerr at the last Board meeting, the Beaufort City Council approved the Master Plan on August 14<sup>th</sup>. He stated that he spoke with Mr. Kubic and they hope to have this on a future County Council meeting to have them address the Master Plan in hopes of moving it forward.

## **COMMITTEE REPORTS**

1. Lady's Island Airport Operations: Pete Buchanan

- Mr. Buchanan stated that part of the structure of the Lady's Island Airport Master Plan is a revision to the Airport Layout Plan. He said it mentions frequently the private/public use of the land that is to be privately funded which would be an obvious choice for increased revenue, but we cannot go forward without knowing if the revised ALP is acceptable. Mr. Mazzei stated that the County Administrator said that the County Council may be looking at this October 1<sup>st</sup>.

2. Hilton Head Island Airport Operations: Will Dopp

- Mr. Dopp stated movements are down only .5% from this time last year. The total passenger count for this year compared to last year is up 3%.
- Mr. Dopp stated Signature Flight Support reported revenues of \$3,300,000.00 for the first 8 months of this year which is an increase of about 9%. The County's share has almost doubled because of the new agreement in which fuel fees went up from 3% to 6%. He stated the County has received \$177,000.00 versus \$90,000.00 one year ago. He stated Signature has paid the \$9,400.00 that had not been paid earlier. Fuel revenues were up 11%, \$2,800,000.00 versus \$2,500,000.00 last year. The gallons

were 492,000 gallons which are up 5% over the same time period last year.

- Mr. Dopp stated there is one new hangar tenant in one of the T-hangars, but there is one T-hangar vacant which may be a sign of the times. He stated they are going down the tenant waiting list, but they do not have one yet.
- Mr. Dopp stated we are not due any revenue from Republic Parking until they reach \$100,000.00 in revenue which probably will not be until October.
- Mr. Dopp stated the owner of the repair station, Exec Air, has sold the business. They are still operating under the same name, but it was bought by a father and son, Mr. Ed Howe and Mr. Trey Howe.
- Mr. Dopp stated that US Airways sought a new contractor for ground support services which is the desk and baggage handlers. This had been handled by Piedmont, but the successful bidder was Air Wisconsin.

## **NEW BUSINESS**

### 1. FAA AIP Funding: Joe Mazzei

- Mr. Mazzei stated that people have written letters to the newspaper and have made comments about the use of tax dollars by the Airport. He stated people need to understand that the revenues are derived from aviation related excise taxes on passengers, cargo, fuel and air freight. He stated the money collected goes back to the FAA to be redistributed back to the states.

Mr. Smetek stated a lot of these resources are coming from someone other than the general aviation industry. He referred to 2011 report entitled The Airport and Airway Trust Fund that states the declining balances raise concerns over the ability to meet future demands. He stated that he would submit a copy of this for the record. He added that it would be useful to determine the actual figures instead of the statistics of \$0.19 per gallon. Mr. Smetek stated he would submit this for the record so that it provides a slightly amplified and slightly different picture than what Mr. Mazzei's presentation shows (see Attachment "A").

Mr. Sells stated he wanted to go on record saying that the funds are declining and we lost \$1.5 million dollars. Mr. Smetek stated we deferred \$1.5 million. Mr. Sells stated no, the funds are declining and we lost \$1.5 million.

### 2. FAA Response to Hilton Head Island Airport Master Plan Correspondence: Joe Mazzei

- Mr. Mazzei stated Mr. Andres received a letter from the FAA that talked about one of the recent white papers that had been forwarded to them. Mr. Mazzei stated the Master Plan is complete and approved and that we are currently in the phase of implementing projects within the master plan. He stated we are not debating, discussing or gathering data on the master plan. He stated the FAA letter states we are in the stage of implementing the 5,000' Phase I portion of the Master Plan. He stated the environmental assessment that is being conducted was to look at whether that particular project met the environmental and economic standards for a project. It is not to go back and reexamine the Master Plan. Mr. Mazzei stated the FAA letter



very clearly and concisely says exactly where we are at. He stated a conclusion was reached and supported by the local governmental bodies, approved by the FAA and we are moving forward.

## **UNFINISHED BUSINESS**

### 1. Accommodations Tax: Will Dopp

- Mr. Dopp stated we are in the process of finalizing the application for the Hilton Head Island Accommodations Tax request. He stated the committee consisted of Mr. Andres, Mr. Mazzei and himself. He stated the application has to be submitted to the Town by September 28<sup>th</sup>. He stated we are applying on the basis that we are looking for unreimbursed funds that both the TSA and the FAA require for providing fire, rescue and police service at the airline terminal. Mr. Dopp stated the application request is in excess of \$100,000.00.

### 2. Airport Funding Initiatives: Paul Andres

- Mr. Andres stated they are always looking at ways to improve the bottom line to generate additional revenue. He said the PFC and the revised FBO Agreement have been approved and are in place. He stated this represents close to \$400,000.00 per year in additional revenue and will escalate over the next several years. He stated the County Council has rejected the elimination of the construction debt on the hangars at Hilton Head. Mr. Andres stated that the accommodation tax application should be in excess of \$130,000.00 for half of the unreimbursed expense multiplied by the percentage of tourist which is approximately 76% of all of the arriving passengers at the Airport. He stated at some point in the time the County's Finance Committee will take up the discussion on the aircraft and hangar property taxes. He stated they have already indicated that they were in favor of offsetting the Mosquito Control subsidies that occur at the Lady's Island Airport. He stated he has not seen the budget transfer or adjustments yet, but they said they were in favor of this. Mr. Andres stated that at some point in time the Lady's Island/St. Helena's Fire Department will relocate to a new facility. He stated our request to receive fair market value ground rent for that property was denied by Council, however once the fire department moves the Airport may be able to take that particular property (a little over 2 acres) to our advantage for potential other revenues for the Lady's Island Airport.

Mr. Kerr stated that at the last meeting there was a discussion about a need for a better liaison with both the Air Station and the City on matters that impact them. Mr. Kerr stated he has talked to the Executive Officer at the Air Station, but he has only talked to the City informally.

Mr. Andres stated that at the previous meeting he was asked to research passenger information with US Airways. He stated that request was made and they indicated that they do not keep the requested information. He said that over the last several weeks that starting around 10:00 AM until late afternoon, US Airways asks for 3 to 5 passengers per flight to give up their seat with compensation due to their weight restrictions during that timeframe. He stated the vouchers range from \$250.00 to \$500.00 per flight.

## CONTINUATION OF PUBLIC COMMENTS

1. Bob Wallhaus – Mr. Wallhaus, Palmetto Hall, stated he has a Ph.D. in industrial engineering with a specialization in operations research from the University of Illinois, a visiting professor at the University of Michigan and the University of Colorado, and he is consulting in the general cost benefit analysis. He stated that he has flown on approximately 1,000 different commercial flights and some private flights. He stated he has never piloted a private aircraft. He stated he would limit his comments to economic impact studies and benefit cost analysis so he did not see this as a severe restriction on his ability to speak to the Board. Mr. Wallhaus stated that with regard to the phase we are now in, the benefit cost analysis, basically the consultant has only provided a couple of numbers. He stated they have no idea how these numbers were derived and hoped that answers to their questions will be forthcoming. Mr. Wallhaus stated he believes the estimate of the economic impact is at least a factor of four too large and the benefit cost ratio may be less than one.
2. Jim Fisher – Mr. Fisher wanted to know if a response date was available for questions to the consultant on the cost analysis. He stated he thought that 2 years ago there was a different economic model and now the consultants are saying that everything airlines are doing is based on fuel cost. Mr. Fisher stated the trends are reducing the number of flights, reducing the number of aircraft and filling every seat on a plane. He wanted to know what that means for us? He stated they are retiring flights everywhere in order to make a profit. He stated the trend is for bigger planes at bigger airports. Mr. Fisher stated that in wrapping up his comments, he would really challenge Ms. Elder, if she is our consultant, if she disagrees with any of the trends of larger aircraft, larger airports, fill all the seats and how does this affect our Airport. He stated he thinks our community deserves this information.
3. Bob Richardson – Mr. Richardson, Palmetto Hall, stated he wanted to follow up on the comment about the legal actions holding up the South End work and that this has caused the loss of \$1.5 million. He stated he heard this a couple of months ago and he took the opportunity to talk to the LMO people at the Town of Hilton Head. He stated that if the design was totally complete, if the design had been submitted to the Town for its approval, if the Town had submitted it to the Design Review Board for its approval, the Design Review Board had approved it and then sent it to the Town to issue the permit then one could argue that there can't be 2 programs going at the same time. Mr. Richardson wanted to know if the design is done, have all the surveys been completed, has the job been put out to bid, are the contractors selected, has it been applied through the permits, do you have the DRB approval, and are we on the verge of getting a building permit from the Town. Mr. Richardson said if all of this has been done and legal action is in affect then there might be an argument that the Airport is losing \$1.5 million. He stated that he would like answers to some of these questions.

Mr. Smetek stated he wanted to add one more thing to the presentation that was made by the consultants on the Savannah/Hilton Head Airport. He stated that the consultant said that the biggest impact to commercial aviation in our area is going to be the potential merger of US Airways and American Airlines. He stated the results of this are undetermined, but that it will have a huge impact. Mr. Mazzei stated he heard yesterday that American Airlines is going ahead with their restructuring.

Mr. Sells stated there was some discussion from Hilton Head about a meeting at the Marriott yesterday and a consultant. He wanted to know if the Board was informed of this or was it private. Mr. Mazzei stated it was in the paper. He stated that the Savannah/Hilton Head Airport is a member of the Hilton Head Island Chamber of Commerce because approximately 40% of the people who come to Savannah come to Hilton Head.

### **FUTURE MEETINGS**

The next meeting of the Airports Board will be held on Thursday, October 18, 2012 at 1:30 PM in the County Council Chambers of the Beaufort County Government Center.

### **ADJOURNMENT**

With no further business to discuss, the meeting was adjourned at approximately 3:00 PM.

**GAO**

Testimony  
Before the Committee on Finance,  
U.S. Senate

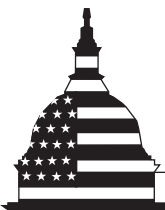
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For Release on Delivery  
Expected at 10:00 a.m. EST  
Thursday, February 3, 2011

# AIRPORT AND AIRWAY TRUST FUND

## Declining Balance Raises Concerns over Ability to Meet Future Demands

Statement of Gerald Dillingham, Director  
Physical Infrastructure



**G A O**

Accountability \* Integrity \* Reliability

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Mr. Chairman and Members of the Committee:

We appreciate the opportunity to participate in today's hearing on the status of the Airport and Airway Trust Fund (Trust Fund). Established in 1970, the Trust Fund helps finance the Federal Aviation Administration's (FAA) investments in the airport and airway system, such as construction and safety improvements at airports and technological upgrades to the air traffic control system, as well as FAA operations, such as providing air traffic control and conducting safety inspections.<sup>1</sup> FAA, the Trust Fund, and the excise taxes that support the Trust Fund (which are discussed later in this statement) must all be periodically reauthorized. The most recent reauthorization expired at the end of fiscal year 2007.<sup>2</sup> Proposed reauthorization legislation was considered but not enacted in the 110th and 111th Congresses, although several short-term measures were passed to extend the authorization of aviation programs, funding, and Trust Fund revenue collections. The latest of these extensions—the Airport and Airway Extension Act of 2010, Part IV—was enacted on December 22, 2010, extending FAA programs, expenditure authority, and aviation trust fund revenue collections through March 31, 2011.<sup>3</sup> The financial health of the Trust Fund is important to ensure sustainable funding for a safe and efficient aviation system without increasing demands on general revenues.

My statement today provides an update on the status of the Airport and Airway Trust Fund, including the current financial condition of the Trust Fund, anticipated Trust Fund expenditures for planning and implementing improvements in the nation's air traffic management system that are expected to enhance the safety and capacity of the air transport system, and options for ensuring a sustainable Trust Fund. This statement draws on our body of work on these issues, supplemented with updated information on the Trust Fund from FAA and the Congressional Budget Office.<sup>4</sup> All dollars reported in this statement are nominal, unless otherwise noted.

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<sup>1</sup>Airport and Airway Revenue Act of 1970, Pub. L. No. 91-258, 84 Stat. 236 (1970).

<sup>2</sup>Vision 100—Century of Aviation Reauthorization Act (Vision 100), Pub. L. No. 108-176, 117 Stat. 2490 (2003).

<sup>3</sup>Pub. L. No. 111-329, 124 Stat. 3566 (2010). While the majority of the extensions expire March 31, 2011, certain authorities were extended until April 1, 2011, or June 30, 2011.

<sup>4</sup>*Commercial Aviation: Consumers Could Benefit from Better Information about Airline-Imposed Fees and Refundability of Government-Imposed Taxes and Fees*,

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## Background

### Sources of Trust Fund Revenues

The Trust Fund provides the primary source of funding for FAA and receives revenues principally from a variety of excise taxes paid by users of the national airspace system. The excise taxes are imposed on airline ticket purchases and aviation fuel, as well as the shipment of cargo. Revenues deposited in the Trust Fund are subject to congressional appropriations. In addition to Trust Fund revenues, in most years, General Fund revenues have been used to help fund FAA operations.

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**Table 1: Trust Fund Excise Tax Revenue Sources**

Source	Rates effective as of January 1, 2011
Domestic passenger ticket tax	7.5 percent
Domestic flight segment tax (excluding flights to or from rural airports)	\$3.70 per passenger per segment; indexed to the Consumer Price Index
Tax on flights between the continental United States and Alaska or Hawaii (or between Alaska and Hawaii)	\$8.20 per passenger; indexed to the Consumer Price Index
Tax on international arrivals and departures	\$16.30 per person; indexed to the Consumer Price Index
Tax on mileage awards (frequent flyer awards tax)	7.5 percent of value of miles
Domestic commercial fuel tax	\$0.043 per gallon
Domestic general aviation gasoline tax	\$0.193 per gallon
Domestic general aviation jet fuel tax	\$0.218 per gallon
Tax on domestic cargo or mail	6.25 percent on the price paid for transportation of domestic cargo or mail

Source: GAO presentation of FAA and IRS data.

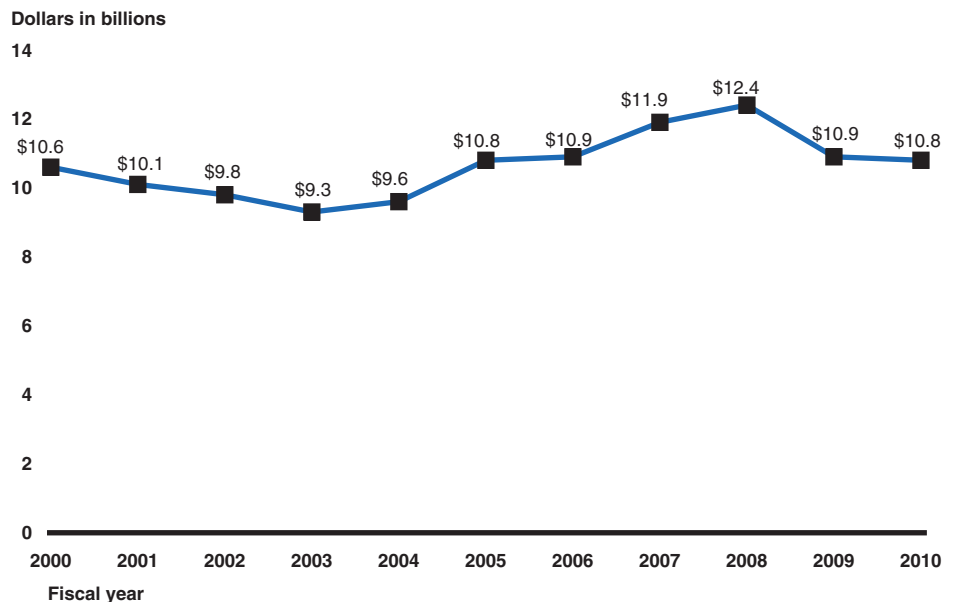
Note: The Trust Fund also earns interest on its cash balance along with refunds or credits, such as refunds of taxes on aviation fuel other than gas (noncommercial) and refunds of taxes on aviation gasoline (noncommercial).

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[GAO-10-785](#) (Washington, D.C.: July 14, 2010); *Next Generation Air Transportation System: FAA Faces Challenges Responding to Task Force Recommendations*, [GAO-10-188T](#) (Washington, D.C.: Oct. 28, 2009); *Commercial Aviation: Airline Industry Contraction Due to Volatile Fuel Prices and Falling Demand Affects Airports, Passengers, and Federal Government Revenues*, [GAO-09-393](#) (Washington, D.C.: Apr. 21, 2009); *Next Generation Air Transportation System: Status of Systems Acquisition and the Transition to the Next Generation Air Transportation System*, [GAO-08-1078](#) (Washington, D.C.: Sept. 11, 2008); *Aviation Finance: Observations on Potential FAA Funding Options*, [GAO-06-973](#) (Washington, D.C.: September 29, 2006); and *Airport and Airway Trust Fund: Preliminary Observations on Past, Present, and Future*, [GAO-05-657T](#), (Washington, D.C.: May 4, 2005).

As figure 1 shows, Trust Fund revenues have fluctuated since fiscal year 2000.<sup>5</sup> A number of factors, such as external events and general economic conditions, contributed to this fluctuation in revenues because they affect the number of tickets purchased, the fares paid by passengers, the amount of fuel purchased, and the value of air cargo shipped. For example, revenues declined early in the decade because of a series of largely unforeseen events, including the September 11, 2001, terrorist attacks, that reduced the demand for air travel, resulting in a steep decline in airline industry revenue. Similarly, during the recent recession, Trust Fund revenues declined from \$12.4 billion in fiscal year 2008 to \$10.9 billion in fiscal year 2009, in part because of the 7 percent decline in domestic passenger traffic during that period.

**Figure 1: Trust Fund Receipts, Fiscal Years 2000 through 2010**



Source: GAO analysis of FAA data.

Note: Taxes related to passenger tickets, including the ticket tax, made up about 65 percent to 69 percent of the revenues going into the Trust Fund in fiscal years 2000 through 2010.

<sup>5</sup>Although figure 1 shows Trust Fund receipts fluctuating, these receipts are in nominal dollars; if the numbers were adjusted for inflation, the value of receipts in fiscal year 2010 would be considerably lower than the value of the receipts in fiscal year 2000.

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## Uses of Airport and Airway Trust Fund Revenues

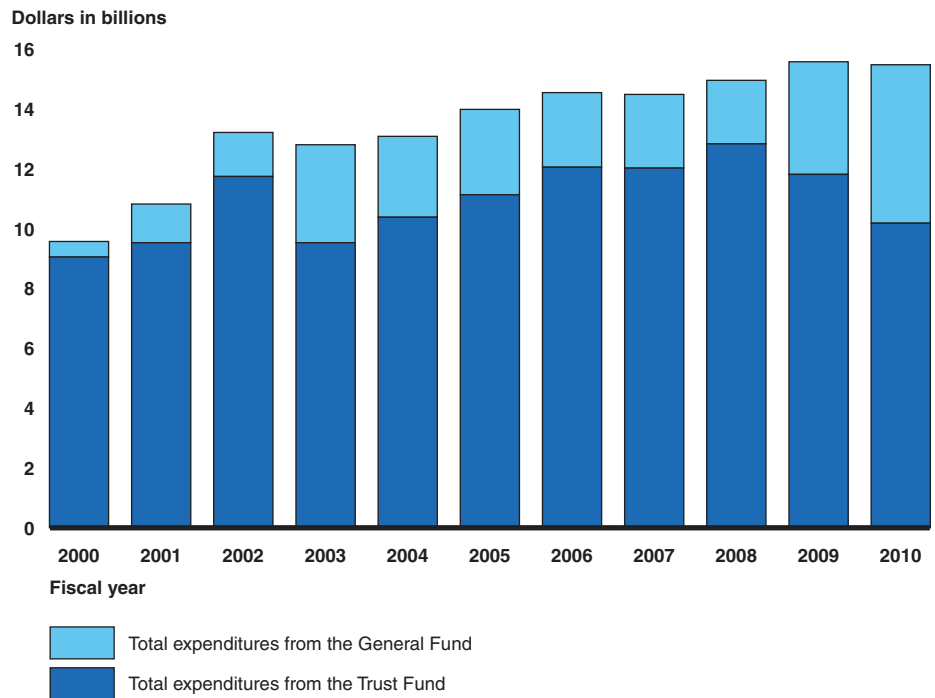
The Trust Fund is the primary source of funding for FAA's capital programs and also provides funds for FAA's Operations account. The capital accounts include (1) the Facilities and Equipment (F&E) account, which funds technological improvements to the air traffic control system, including the modernization of the air traffic control system, called the Next Generation Air Transportation System (NextGen); (2) the Research, Engineering, and Development (RE&D) account, which funds research on issues related to aviation safety, mobility, and NextGen technologies; and (3) the Airport Improvement Program (AIP), which provides grants for airport planning and development. In addition, the Trust Fund has provided all or some portion of the funding for FAA's Operations account, which funds the operation of the air traffic control system and safety inspections, among other activities. Finally, the Trust Fund is used to pay for the Essential Air Service (EAS) program.<sup>6</sup> In fiscal year 2010, FAA's expenditures totaled about \$15.5 billion, with Trust Fund revenues covering about \$10.2 billion, or 66 percent, of those expenditures. As figure 2 shows, while total FAA expenditures grew about 60 percent from fiscal year 2000 through fiscal year 2010, the Trust Fund's revenue contribution only increased 12 percent, while the contribution of general revenues from the U.S. Treasury has increased to cover a larger share of FAA's operations expenditures. We discuss this change in more detail in the next section of this statement.

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<sup>6</sup>EAS was established when the airline industry was deregulated in 1978. Airline Deregulation Act of 1978, Pub. L. No. 95-504, § 33(a), 92 Stat. 1705, 1732-39 (1978) (codified as amended at 49 U.S.C. §§ 41731—41748). Since then, the program has subsidized air service to eligible communities that would otherwise not have scheduled service.



**Figure 2: Trust Fund Expenditures, Fiscal Years 2000 through 2010**



Source: GAO analysis of FAA data.

Note: These expenditures exclude the general revenues provided under the American Recovery and Reinvestment Act of 2009, Pub. L. No. 111-5, 123 Stat. 115 (2009).

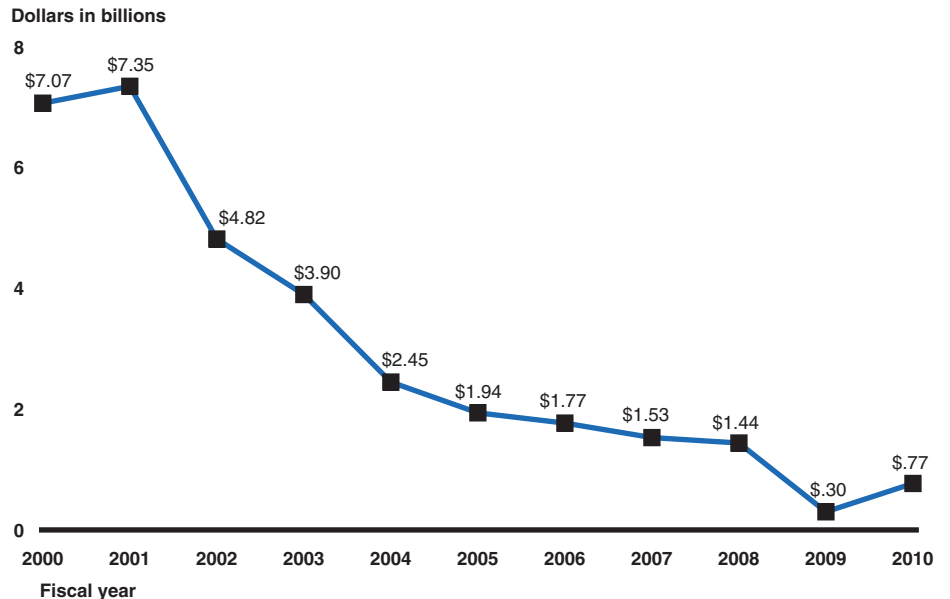
## The Financial Condition of the Trust Fund Has Deteriorated over the Last Decade

Since the Trust Fund's creation in 1970, revenues have in the aggregate generally exceeded spending commitments from FAA's appropriations, resulting in a surplus.<sup>7</sup> This surplus is referred to as the Trust Fund's uncommitted balance—the balance in the Trust Fund that remains after funds have been appropriated from the Trust Fund and contract authority has been authorized. As of the end of fiscal year 2010, the Trust Fund's uncommitted balance was about \$770 million (see fig. 3).<sup>8</sup>

<sup>7</sup>FAA considers the committed balance to include appropriations from the Trust Fund and authorized contract authority, whether or not obligated.

<sup>8</sup>GAO annually audits the excise tax contributions to the Trust Fund, and the most recent audit was published in November 2010. See GAO, *Applying Agreed-Upon Procedures: Fiscal Year 2010 Airport and Airway Trust Fund Excise Taxes*, [GAO-11-120R](#) (Washington, D.C.: Nov. 4, 2010).

**Figure 3: Trust Fund End-of-Year Uncommitted Balance, Fiscal Years 2000 through 2010**



Source: FAA.

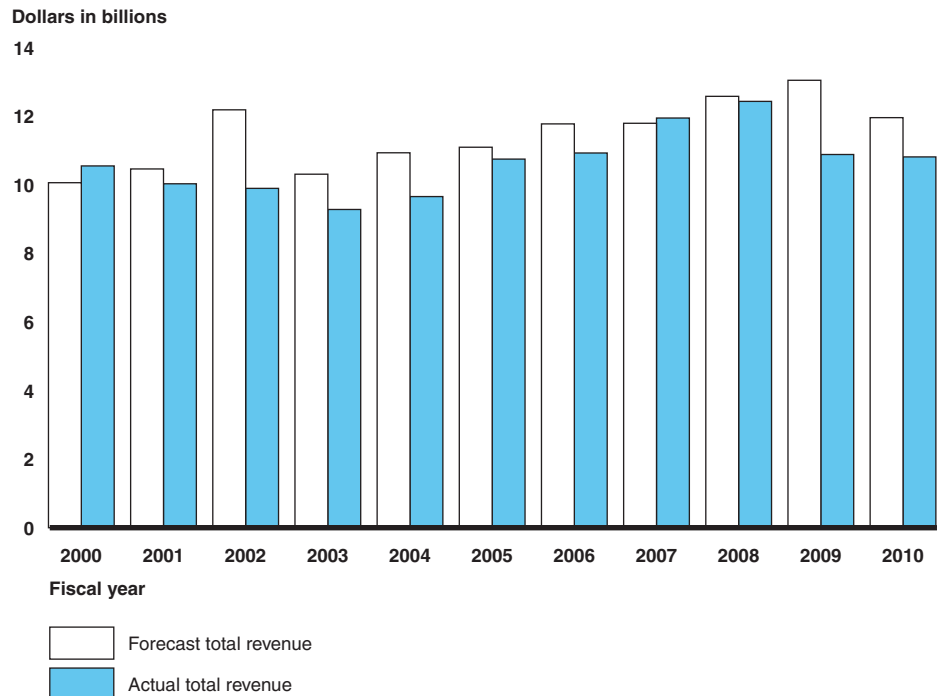
As figure 3 shows, the Trust Fund’s uncommitted balance has declined since reaching \$7.35 billion in fiscal year 2001. This decline is largely a result of how Congress determines the amount of appropriations that should be made from the Trust Fund. Starting with the Wendell H. Ford Aviation Investment and Reform Act of the 21st Century (AIR-21)<sup>9</sup> in 2000 and continuing with Vision 100,<sup>10</sup> Congress has based FAA’s fiscal year appropriation from the Trust Fund on the forecasted level of Trust Fund revenues, including interest on Trust Fund balances, as set forth in the President’s baseline budget projection for the coming fiscal year. Each year’s forecast, and accordingly FAA’s appropriation, is based on information available in the first quarter of the preceding fiscal year. For example, the revenue forecast for fiscal year 2011 is prepared in the first quarter of fiscal year 2010. These revenue forecasts can be uncertain because it is difficult to anticipate, a year in advance, events that may significantly affect the demand for air travel or fuel usage, the fares that passengers pay, and other variables that affect Trust Fund revenues. In

<sup>9</sup>Pub. L. No. 106-181, 114 Stat. 61 (2000).

<sup>10</sup>Pub. L. No. 108-176, 117 Stat. 2490 (2003).

fact, as figure 4 shows, FAA’s forecasts of Trust Fund revenues (including both tax revenues and interest earned by the Trust Fund’s cash balance) have exceeded actual Trust Fund revenues (including interest) in 9 of 11 years, and in aggregate, these forecasted revenues have exceeded actual tax revenues by over \$9 billion over that period.<sup>11</sup> Accordingly, appropriations from the Trust Fund, which are based on these revenue forecasts, have also exceeded actual revenues, thus drawing the uncommitted balance lower over the course of the last decade.

**Figure 4: Forecast Trust Fund Revenues and Actual Trust Fund Revenues Received, Fiscal Years 2000 through 2010**



Source: FAA.

Until recently, FAA generated a forecast for the President’s budget using models based on historical relationships between key economic variables, such as the growth rate of the economy, and aviation measures, such as passenger traffic levels and passenger fares, that affect Trust Fund revenues. The responsibility for forecasting Trust Fund revenues shifted

<sup>11</sup>As previously noted, the Trust Fund also earns interest on its cash balances.

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from FAA to the U.S. Department of the Treasury (Treasury), which already had responsibility for other federal excise tax revenue forecasts, in fiscal year 2010. We have recently been asked by the Senate Commerce, Science, and Transportation Committee to examine the Trust Fund revenue forecasting process and how it might be improved; we expect to begin our review this year.

The Trust Fund's uncommitted balance, which exceeded \$7.3 billion at the end of fiscal year 2001, dropped to \$299 million at the end of fiscal year 2009—the lowest balance over the past decade. One of the greatest declines in the uncommitted balance occurred in 2002 following the sudden drop-off in aviation activity after the terrorist attacks of September 11. In addition, the declines in passenger traffic and aircraft operations and reduced fuel consumption in 2009 resulted in actual revenues to the Trust Fund that fell significantly below forecasted levels in fiscal year 2009 and an uncommitted Trust Fund balance that approached zero.<sup>12</sup> In response, the fiscal year 2009 omnibus appropriation increased the general revenue contributions to FAA's operations and decreased FAA's appropriation from the Trust Fund by approximately \$1 billion compared with what was originally outlined in the President's fiscal year 2009 proposed budget for FAA.<sup>13</sup> These additional general revenues kept the Trust Fund's uncommitted balance from going negative, thereby avoiding budgetary challenges for FAA. As a result, general revenues accounted for 24 percent of FAA's expenditures in fiscal year 2009 and reached 34 percent in fiscal year 2010 (see fig. 2).<sup>14</sup>

If the uncommitted balance is nearly depleted and actual Trust Fund revenues continue to fall below forecasted levels, there is a risk of overcommitting available resources from the Trust Fund—meaning revenues could be insufficient to cover all of the obligations that FAA has

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<sup>12</sup>Some of the decline in Trust Fund revenues could also be attributed to a decline in tax revenues from cargo and general aviation.

<sup>13</sup>Omnibus Appropriations Act 2009, Pub. L. No. 111-8, div. I, title I, 123 Stat. 524, 918-19 (2009).

<sup>14</sup>FAA's general revenue contribution can also be presented in relation to FAA's appropriation. Although the numbers for general revenue contributions in relation to expenditures and in relation to appropriations are not necessarily the same, these numbers are very similar.

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the authority to incur.<sup>15</sup> A low uncommitted balance signals to FAA that limited revenues are available to incur new obligations while still covering expenditures on existing obligations and increases FAA's challenge in moving forward with planned projects and programs. FAA officials have noted that they closely monitor the Trust Fund's available cash and FAA's obligations to ensure that enough cash and budget authority are available to cover FAA's expenditures and obligations. In the short term, if there were a risk of overcommitting Trust Fund resources, FAA officials noted that they might delay obligations for capital programs if the Trust Fund did not have adequate revenues to cover those obligations without additional funding authorized and appropriated from the General Fund. According to FAA officials, they would first defer some capital program obligations so they could continue to fund operations, such as air traffic control and safety inspections. These actions would ensure that the agency did not incur obligations or expenditures in excess of the Trust Fund's cash balance, which could potentially lead to a violation of the Antideficiency Act.<sup>16</sup> Later this month, in the President's budget, the administration will release its newest estimate of the Trust Fund's fiscal year 2011 year-end uncommitted balance.

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<sup>15</sup>An obligation is an action that creates a legal liability or definite commitment on the part of the government to make a disbursement at some later date. FAA's fiscal year appropriations and authorization provide the legal authority for FAA to incur obligations and make payments out of the Trust Fund (through the Treasury).

<sup>16</sup>The Antideficiency Act prohibits an officer or employee of the federal government from incurring an obligation, or making an expenditure, in advance or in excess of an appropriation or fund. 31 U.S.C. § 1341(a)(1). However, FAA's aviation programs are partly funded with contract authority, which is an exemption to the Antideficiency Act and authorizes FAA to incur obligations in advance or in excess of an appropriation. This authority permits FAA to incur obligations in excess of the revenue in the Trust Fund. However, FAA must receive an appropriation from the Trust Fund in order to liquidate these obligations. If there is not adequate revenue in the Trust Fund, the obligation cannot be liquidated. Because of the uncertainty in forecasting, the addition of revenues into the Trust Fund throughout the fiscal year, and the mix of FAA programs funded through contract authority and through regular appropriations, it may be difficult for FAA to determine at what point it would violate the Antideficiency Act. Accordingly, FAA must carefully manage its obligations and expenditures so that it can take action before it reaches the point where it could potentially incur an Antideficiency Act violation.

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## Anticipated Future Expenditures for NextGen

Congress may choose to increase FAA's authorized funding level in the near term to allow FAA to further develop NextGen, the new satellite-based air traffic management system that is designed to replace the current radar-based system. NextGen improvements include new integrated systems, procedures, aircraft performance capabilities, and supporting infrastructure needed for a performance-based air transportation system that uses satellite-based surveillance and navigation and network-centric operations. These improvements are intended to improve the efficiency and capacity of the air transportation system while maintaining its safety so that it can accommodate anticipated future growth. FAA has generally identified the NextGen capabilities that it plans to implement in the near term to midterm, through 2018. FAA's capital investment is expected to be \$11 billion to \$12 billion through 2018. This cost does not include research, the airport and associated airfield improvements, or the aircraft equipage that is necessary to realize all benefits. In addition to FAA's capital investment costs, FAA estimates that the equipage necessary to realize significant capabilities implemented through 2018 will cost in the range of \$5 billion to \$7 billion. Decisions about the long-term direction for NextGen (beyond 2018) have yet to be made, and two key planning documents—the NextGen Integrated Work Plan and Enterprise Architecture—contain a wide variety of possible ideas and approaches. Therefore, the costs of the system over the long term are uncertain, but have been estimated to be in the \$40 billion range (combined public and private investment in ground infrastructure and avionics). FAA's proposed budget for NextGen activities is \$1.14 billion in fiscal year 2011, up from the \$700 million spent in fiscal year 2009 and the \$868 million spent in fiscal year 2010. In addition, as we have previously reported, NextGen's ability to enhance capacity will partly depend on how well airports can handle greater capacity.<sup>17</sup> FAA's plans call for building or expanding runways at the nation's 35 busiest airports to help meet the expected increases. However, even with these planned runway improvements and the additional capacity gained through NextGen technologies and procedures, FAA analyses indicate that 14 more airports will still need additional capacity, which could require additional Trust Fund resources.

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<sup>17</sup>[GAO-08-1078](#).

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Additionally, the Future of Aviation Advisory Committee<sup>18</sup> recently proposed to the Secretary of Transportation that the federal government undertake a significant financial investment to accelerate efforts to equip aircraft and train staff to use key NextGen technologies and operational capabilities, including performance-based navigation (PBN), automatic dependent surveillance—broadcast (ADS-B), ground-based augmentation system (GBAS) and data communications. The amount of investment required will depend on how any financial incentives are structured. Financial assistance can come in a variety of forms, including grants, cost-sharing arrangements, loans, loan guarantees, tax incentives, and other innovative financing arrangements. One financing option proposed by the NextGen Midterm Implementation Task Force<sup>19</sup> to encourage the purchase of aircraft equipment is the use of equipage banks, which would provide federal loans to operators to equip their aircraft. Another financing option, proposed in various forms by a variety of stakeholders, would involve setting up an equipage fund using private equity backed by federal loan guarantees. While the details of different proposals vary, they would all allow operators who purchase equipment through the fund to defer payments on the equipment until FAA makes improvements required for the operators to benefit from the equipment. As we have previously reported, prudent use of taxpayer dollars is always important; therefore, any financial incentives should be applied carefully and in accordance with key principles.<sup>20</sup> For example, mechanisms for financial assistance should be designed so as to effectively target parts of the fleet and geographical locations where benefits are deemed to be greatest, avoid unnecessarily equipping aircraft (e.g., those that are about to be retired), and not displace private investment that would otherwise occur. Furthermore, it is preferable that the mechanism used for federal financial

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<sup>18</sup>On March 24, 2010, the Secretary of Transportation authorized the establishment of a Federal Advisory Committee to address aviation issues. The Future of Aviation Advisory Committee (FAAC) was set up to develop information, advice, and recommendations to the Secretary of Transportation on ensuring the competitiveness of the U.S. aviation industry and its capability to address the evolving transportation needs, challenges, and opportunities of the global economy. On December 15, 2010, the committee presented its recommendations to the Secretary of Transportation.

<sup>19</sup>Recognizing the importance of near-term and midterm solutions, FAA requested that RTCA, Inc.—a private, not-for-profit corporation that develops consensus-based recommendations on communications, navigation, surveillance, and air traffic management system issues—create a NextGen Midterm Implementation Task Force to reach consensus within the aviation community on the operational improvements that can be implemented between now and 2018. The Task Force issued its recommendations in September 2009.

<sup>20</sup>[GAO-10-188T](#).

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assistance result in minimizing the use of government resources (e.g., some mechanisms may cost the government more to implement or may place the government at greater risk than others).

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## Options for Ensuring a Sustainable Trust Fund

Given the uncertainty inherent in forecasting revenues and the decline in the uncommitted balance of the Trust Fund, we have suggested that Congress should work with FAA to develop alternative ways to reduce the risk of overcommitting budgetary resources from the Trust Fund.<sup>21</sup> Better matching of actual revenues to the appropriation from the Trust Fund would help to ensure that Trust Fund revenues are sufficient to cover all the obligations that FAA has the authority to incur, thereby reducing the risk of disruptions in funding for aviation projects and programs. One approach would be to appropriate less than 100 percent of the forecasted revenues, especially until a sufficient surplus is established to protect against potential disruptions in revenue collection. This change would reduce the likelihood that FAA would incur obligations in excess of the cash needed to liquidate these obligations and thus reduce the risk of delaying or terminating projects. The House of Representatives' FAA reauthorization bill proposed in the 111th Congress includes a provision that would limit the budgetary resources initially made available each fiscal year from the Trust Fund to 90 percent, rather than 100 percent, of forecasted revenues for that year; then 2 fiscal years later, when actual revenues would be known, any amount that exceeded 90 percent of forecasted revenues in the second previous year would be appropriated from the Trust Fund to FAA.<sup>22</sup> Congress would need to provide additional general revenues in the first 2 years to make up the difference. Another approach would be to target a minimum level for the Trust Fund's uncommitted balance and base appropriations on the goal of maintaining that target level. This change would make it more likely that uncommitted resources would be available to FAA in the event that actual revenues fell short of forecasted revenues in a future year. Either approach would result in fewer Trust Fund resources available for FAA for some period of time, requiring additional general revenues to make up the difference, unless FAA's overall resources are reduced.

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<sup>21</sup>[GAO-09-393](#).

<sup>22</sup>This provision is contained in H.R. 915, 111th Cong. (2009), introduced on February 9, 2009, but was amended from 95 percent to 90 percent on March 5, 2009. H.R. 2881, 110<sup>th</sup> Cong. (2007), which was introduced two sessions ago, passed in the House on September 20, 2007, and included a provision to limit FAA's budget authority to 95 percent.



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In the longer term, future Trust Fund revenues under the current tax structure may be lower than previously anticipated. For example, in January 2011, the Congressional Budget Office forecast about \$25 billion less in Trust Fund revenues over the next 6 years (through fiscal year 2017) than it forecast in 2007 for that same time period. Given the decline in expected future revenues, appropriations from the Trust Fund under current law will be lower in future years than previously projected unless new revenue sources are found. To maintain appropriations consistent with what earlier revenue forecasts would have afforded, Congress could take action such as increasing general revenue contributions or increasing Trust Fund revenues. For example, we suggested that if Congress determines that the benefit of added revenue to the Trust Fund warrants taxation of optional airline service fees, such as baggage fees, then it should consider amending the Internal Revenue Code to make mandatory the taxation of certain or all airline-imposed fees and require that the revenue be deposited in the Trust Fund.<sup>23</sup>

The Future of Aviation Advisory Committee also recommended that the Secretary of Transportation commission an independent study of the federal aviation tax burden on passengers, airlines, and general aviation to determine if existing levels of taxes and fees sufficiently balance the Department's statutory mandates to "encourage efficient and well-managed air carriers to earn adequate profits and attract capital...;" "promot[e], encourag[e], and develop civil aeronautics and a viable, privately-owned United States air transport industry;" and "ensur[e] that consumers in all regions of the United States, including those in small communities and rural remote areas, have access to affordable, regularly

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<sup>23</sup>As we reported in [GAO-10-785](#), while fares have decreased, airlines have imposed fees for a variety of passenger services, most notably for a first or second checked bag, for which separate charges did not previously exist. Fees have also been imposed for early boarding, seat selection, and meals, among other services. Under governing Treasury regulations and Internal Revenue Service (IRS) guidance, charges for services beyond those mandatory charges necessary to transport passengers, such as checked baggage, are not subject to the 7.5 percent excise tax, and consequently, those revenues are not deposited into the Trust Fund. See Rev. Rul. 73-508, 1973-2, C.B. 366. See also Rev. Rul. 80-31, 1980-1, C.B. 251; Priv. Ltr. Rul. 118216-09 (Sept. 28, 2009); 26 C.F.R. §§ 49.4261-7, 49.4261-8. To the extent that airlines continue to rely on revenues from optional services, such as baggage fees, the Trust Fund will not benefit because many of these additional fees, in accordance with Treasury regulations and IRS guidance, are not included in the tax base. If baggage fees alone had been subject to the 7.5 percent excise tax in fiscal year 2010, the Trust Fund would have received approximately an additional \$248 million in revenues. This amount is expected to grow in future years if airlines continue to shift toward more fee revenue relative to fare revenue.

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scheduled air service.”<sup>24</sup> The committee recommended that the study address the following questions:

- How do the federal taxes imposed on the U.S. aviation industry compare to those imposed on other modes of transportation?
- Is the existing level of aviation taxes and fees levied efficiently and effectively for the services provided by the federal government?
- Are there more efficient ways to collect and administer existing aviation taxes and fees that would save taxpayer and aviation industry dollars?
- Would regular consultation between those departments and agencies that administer aviation taxes and fees prior to implementing any changes to tax rates and policies result in (1) a more efficient and rational aviation tax system and (2) the desired industry and social outcome?
- What is the appropriate balance between General Fund financing and Trust Fund financing of capital and operating costs of the national aviation system, recognizing the significant role commercial and general aviation play in fostering economic growth and development?

Based on the results of the study, the committee recommends that the Secretary pursue appropriate legislative and regulatory actions that may be needed to ensure that existing and any new aviation taxes and fees applied to passengers, airlines, and general aviation are effective and collected efficiently, appropriately recognizing the role commercial and general aviation play in fostering economic growth and development.<sup>25</sup>

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Thank you, Mr. Chairman, that concludes my statement. I will be pleased to answer any questions that you or other Members of the Committee might have.

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## Contacts and Staff Acknowledgments

For future questions about this statement, please contact me at (202) 512-2834 or [dillinghamg@gao.gov](mailto:dillinghamg@gao.gov). Individuals making key contributions to this report were Paul Aussendorf, Assistant Director; Amy Abramowitz; Jessica Bryant-Bertail; Lauren Calhoun; Carol Henn; Bess Eisenstadt; Heather Krause; Hannah Laufe; Maureen Luna-Long; and Andrew Von Ah.

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<sup>24</sup>49 U.S.C. § 40101(a).

<sup>25</sup>The committee’s recommendations are currently under consideration by the Secretary of Transportation.

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