



Testimony

**Statement of
Robert A. Sunshine
Deputy Director**

Financing Federal Aviation Programs

**before the
Committee on Ways and Means
U.S. House of Representatives**

May 7, 2009

This document is embargoed until it is delivered at 10:00 a.m. (EDT) on Thursday, May 7, 2009. The contents may not be published, transmitted, or otherwise communicated by any print, broadcast, or electronic media before that time.

Note

Numbers in the text and tables may not add up to totals because of rounding.

Mr. Chairman, Congressman Camp, and Members of the Committee, I am pleased to appear before you today to discuss issues related to financing the activities of the Federal Aviation Administration (FAA).

My testimony today makes the following main points:

- In reauthorizing activities of the FAA, particularly modernizing and operating the air traffic control system, the Congress faces a decision about how to split the costs between users of the agency's services and taxpayers. During recent years, about 75 percent to 85 percent of funding for the FAA has come from users of the air traffic control system through various taxes, while the remaining amount has come from the general fund of the Treasury.
- Under both the Congressional Budget Office's (CBO's) baseline projections and H.R. 915, the FAA Reauthorization Act of 2009, funding for the FAA would continue to exceed aviation-related revenues if current taxes were extended. That arrangement adds to the federal deficit: For the most part, the share of costs borne by taxpayers through appropriations from the general fund represents aviation programs' effect on the deficit.
- The Airport and Airway Trust Fund (which records both receipts from relevant tax revenues and FAA's spending of those funds) is expected to have an uncommitted balance—that is, the cumulative difference between amounts credited to the fund and the budget authority provided from it—of \$0.8 billion at the end of 2009. That balance stood at \$2.4 billion at the end of 2004 and has gradually fallen over the past five years.
- In CBO's baseline projections (which assume that appropriated funding grows with inflation), uncommitted balances in the trust fund grow to \$4.9 billion by the end of 2014 (if the Congress continues to provide about one-quarter of the FAA's funding from the general fund of the Treasury). H.R. 915 would authorize higher spending than the amounts projected in CBO's baseline but lower appropriations from the trust fund; therefore, by CBO's estimates, the proportion of the FAA's funding appropriated from the general fund would be higher, as would the uncommitted balances of the trust fund.
- About 70 percent of the funding that comes from users of the system is based on various taxes imposed on the sale of tickets for commercial aviation. Under current law, the number of passengers and the fares that they pay largely determine the revenue inflows to the Airport and Airway Trust Fund. However, the operating costs incurred by the FAA, coupled with the cost of congestion borne by all users of the air traffic control system, depend on the number, location, and time of flights.

- The issues now being considered by the Congress will have important consequences for how efficiently the national airspace is used in the future. The current financing system provides limited incentives to air carriers and general aviation flyers to use the system efficiently in congested areas—but structured differently, by linking the taxes paid by users of the system to the cost of providing air traffic control services, the financing system could help to reduce the potential for increasing congestion and delays.

Funding for Federal Aviation Programs

This testimony addresses federal aviation programs that are funded through the Airport and Airway Trust Fund. Most of those programs are administered by the FAA, but they also include payments by the Department of Transportation (DOT) to subsidize air service to small communities. The FAA receives funding for most of its programs and activities—operations; air navigation facilities and equipment; and research, engineering, and development—in annual appropriation acts. The bulk of those resources are used to operate and maintain the air traffic control system. In addition, the FAA receives funding in a different form for the Airport Improvement Program (AIP), which makes grants to airports for projects to enhance safety and increase their capacity; that funding is provided in authorization acts as contract authority (a mandatory form of budget authority). Finally, DOT receives annual appropriations to make payments to air carriers to subsidize their costs to provide service to certain small communities.

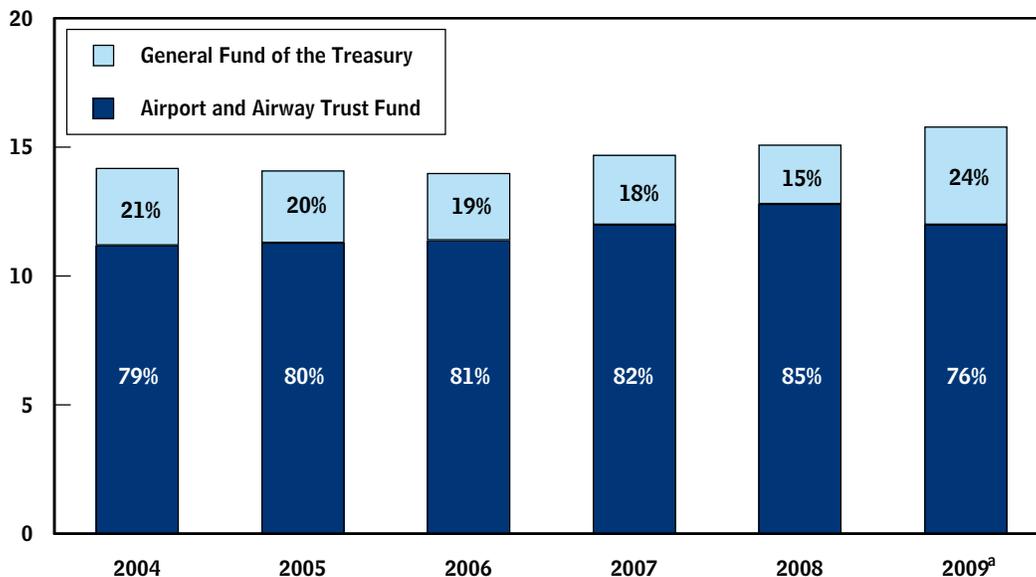
Most benefits of federal aviation programs, particularly those derived from air traffic control services, accrue to users of aviation services. Therefore, a strong case can be made that users of those services—including passenger and cargo carriers that provide scheduled service; commercial and noncommercial general aviation operators, which provide service that is not scheduled; and air passengers and other customers—should pay a substantial portion of those costs. Some benefits of aviation programs accrue to the economy as a whole because they foster commerce and employment and support flight operations of federal agencies (particularly the U.S. military) and state and local governments. That fact suggests that taxpayers in general should provide some support for those programs.

Historically, a combination of taxpayers and users of air traffic control services have been paying for aviation programs from the general fund of the Treasury and the Airport and Airway Trust Fund, respectively. That trust fund is an accounting mechanism in the federal budget that records receipts from certain taxes paid by users of the air transportation system—primarily excise taxes on commercial airline tickets—and cash outflows for a portion of the FAA's programs and other aviation-related activities. The fund is also credited with interest on its unexpended balances. Annual spending from the fund is not automatically triggered by the collection of tax revenues or transfers of interest earnings but is controlled by annual appropriation acts. In recent years, between 15 percent and 25 percent of the agency's funding has been appropriated

Figure 1.

Sources of Funding for Aviation Programs, 2004 to 2009

(Billions of dollars)



Source: Congressional Budget Office.

Note: Funding for aviation programs includes amounts for the Federal Aviation Administration's (FAA's) operations; the Airport Improvement Program; air navigation facilities and equipment; research, engineering and development; and the Department of Transportation's payments to air carriers to subsidize their costs to provide service to certain small communities.

a. Excludes \$1.3 billion of appropriations from the general fund provided under P.L. 111-5, the American Recovery and Reinvestment Act.

from the general fund of the Treasury, while the rest has been derived from taxes imposed on users of the services; the resulting receipts are deposited into the Airport and Airway Trust Fund and made available by the Congress from that fund (see Figure 1).

For 2009, the Congress provided \$15.8 billion in funding for aviation programs via the normal appropriation and authorizing legislation. That amount included nearly \$12 billion in discretionary appropriations provided by the Omnibus Appropriations Act, 2009 (Public Law 111-8) for the FAA's programs and related activities of DOT and \$3.8 billion in mandatory contract authority for AIP provided by the Federal Aviation Administration Extension Act of 2009 (P.L. 111-12). About 76 percent of that funding for 2009—just over \$12 billion—is derived from the Airport and Airway Trust Fund, and the balance, 24 percent of the FAA's funding—or \$3.8 billion—comes from the general fund of the Treasury. In addition to those amounts, the recent economic stimulus legislation—the American Recovery and Reinvestment Act (P.L. 111-5)—provided \$1.3 billion in general fund appropriations to the FAA. Most of those funds—\$1.1 billion—was provided to make additional AIP grants to support

capital projects at airports; the remaining amounts will be used to upgrade facilities and equipment related to the air traffic control system.

Aviation-Related Taxes

Currently, users of the FAA's services provide about three-quarters of the agency's funding. In principle, taxes that reflect the costs of producing a system encourage efficient use of it because users' choices take those costs into account. Aligning revenues and costs in the context of the air traffic control system would have two significant implications. First, users of the system, rather than taxpayers as a whole, would have to bear most of the costs of providing air traffic control services. (That largely occurs now.) Second, because costs are generated in large part by moving aircraft through the system, taxes would generally have to be more aligned with that activity than with the number of passengers or their fares. Allocating costs efficiently and fairly among different types of users presents challenges, however—especially for systems that are capital intensive, like the air traffic control system.

The Current System of Aviation-Related Taxes

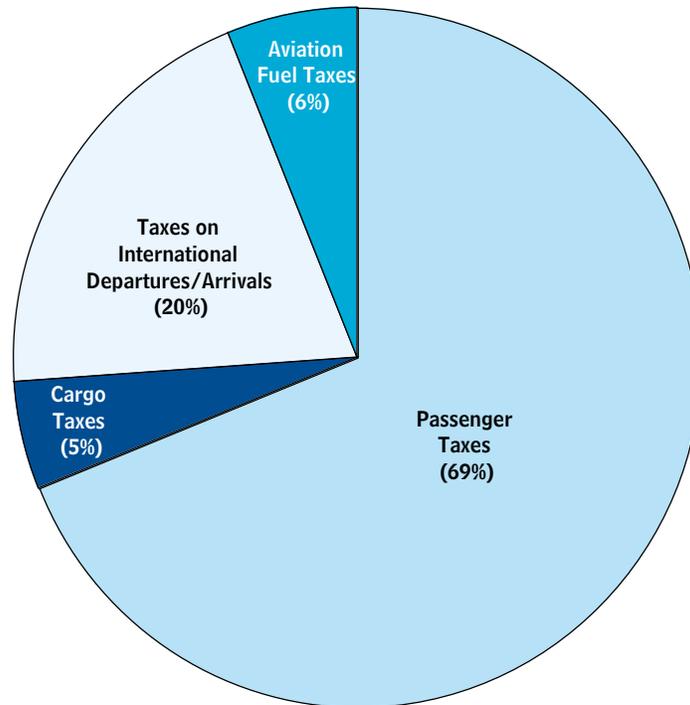
Tax revenues credited to the trust fund in 2008 totaled \$11.8 billion. About 70 percent of those tax revenues came from ticket taxes that are based on the number of commercial passengers and the fares they pay, and another 20 percent were derived from the tax on international departures and arrivals (see Figure 2).

Since 2000, revenues from those taxes have grown at an average annual rate of about 2.6 percent, compared with a growth rate of 4.9 percent for nominal gross domestic product (GDP) over the same time period. After falling in 2001 and 2002 as a result of economic weakness and the September 11th terrorist strikes, receipts grew at an average rate of about 5.9 percent annually over the next six years, slightly above the 5.7 percent average annual gain in GDP over the same period.

Revenues credited to the trust fund have been growing at rates similar to that for nominal GDP largely because passenger air travel, the primary source of the revenue stream, tends to increase in line with overall economic activity. Revenues credited to the fund have outpaced the government's total receipts from excise taxes because the bulk of the trust fund's revenues accrue from taxes levied as a percentage of a transaction's value, or ad valorem—whereas most excise taxes are levied per unit. Although unit tax receipts increase only as the number of items or amount sold (gallons of gas, volume of alcohol, and so forth) increases, ad valorem tax receipts also increase along with the price of the taxed items. Therefore, ad valorem taxes are linked to nominal sales levels, which tend to track general economic activity. Other major taxes providing revenues for the trust fund are levied as unit taxes but are set at rates that are indexed to inflation, which maintains a connection to both prices and economic activity.

Figure 2.

Sources of Revenues Credited to the Airport and Airway Trust Fund in 2008



Source: Congressional Budget Office based on Department of Transportation, Bureau of Transportation Statistics, *U.S. Air Carrier Traffic Statistics* (Various years).

Note: The total revenues credited to the Airport and Airway Trust Fund in 2008 were \$11.8 billion.

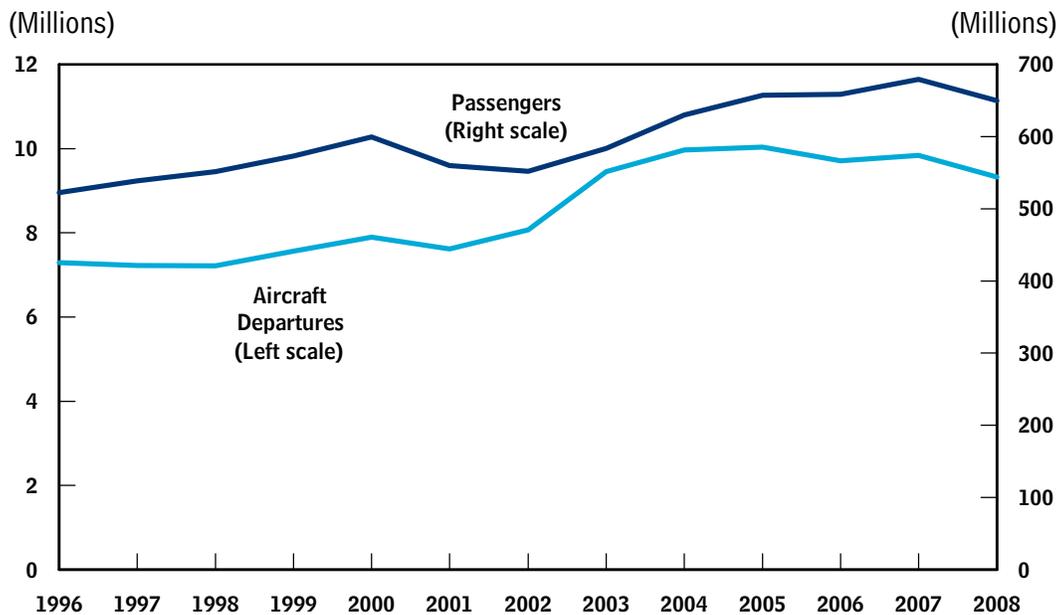
Implications of Users' Funding of Aviation Programs

The design of the funding system for the FAA and related aviation programs will affect how the air traffic control system is used in the future and ultimately how much congestion future travelers will face. Before the current economic downturn, congestion and delays had risen to record levels in the United States. Although caused by a variety of factors, delays ultimately reflect increases in the demand for air traffic control services beyond the capacity of the system. According to data from the FAA, in 2007 and 2008 about one-quarter of all commercial flights in the United States arrived at their destination at least 15 minutes after their scheduled time. Correspondingly, in 2007, about 680 million passengers boarded nearly 10 million domestic flights in the United States (see Figure 3). While both of those figures have declined somewhat from their peak, increasing demand for travel is expected to return when the economy begins to recover from the current recession.

The congestion caused by high demand for air travel has been exacerbated by how the system is used. Over the past decade, commercial air carriers have tended to substitute

Figure 3.

Domestic Scheduled Air Carrier Departures and Passenger Traffic



Source: Congressional Budget Office based on Department of Transportation, Bureau of Transportation Statistics, *U.S. Air Carrier Traffic Statistics* (Various years).

higher frequency service with smaller aircraft for less frequent service with larger aircraft. As a result, the average number of seats on the aircraft per departure declined from about 130 to 120 over the past decade despite the rising demand for air travel. The shift to more frequent commercial service reflects changes in demand, including the value that lucrative business travelers place on options for departures. However, it also reflects the incentives built into the system of taxes that pay for the system. Most of the taxes are linked closely to the number of passengers and the fares that they pay and not to the number of operations. But the cost of providing the air traffic control system is driven largely by aircraft operations. Because congestion is caused by a variety of factors, several mechanisms are probably needed to address it, including better technology. But one such mechanism could be to better align the charges that pay for the air traffic control system with the costs of providing it.

Status of the Reauthorization of the FAA

The Vision 100—Century of Aviation Reauthorization Act (P.L. 108-176), the most recent multiyear authorizing legislation governing spending for aviation programs, expired at the end of fiscal year 2007. Since that time, aviation-related taxes and spending have been continued through a series of short-term extensions. The most recent such extension was the Federal Aviation Administration Extension Act of 2009,

which expires at the end of fiscal year 2009. Continuing those taxes and spending for aviation beyond that time will require the enactment of further legislation.

H.R. 915, the Federal Aviation Administration Reauthorization Act of 2009, as approved by the House Committee on Transportation and Infrastructure on March 5, 2009, would reauthorize spending for the FAA and related programs through fiscal year 2012. In general, H.R. 915 would authorize higher levels of funding than those reflected in CBO's baseline projections, particularly for air navigation facilities and equipment. In its current form, the legislation does not address the extension of the excise taxes that are credited to the Airport and Airway Trust Fund.

The Budgetary Impact of Aviation Programs

Because the aviation taxes do not cover all of the costs of federal aviation programs, the combination of those taxes and programs contributes to the federal budget deficit. In fiscal year 2008, for example, spending for the FAA and related aviation programs exceeded receipts from aviation taxes by \$3.1 billion.

By CBO's estimates, revenues generated by the current set of aviation taxes, if extended, would not be sufficient to fund aviation programs under either CBO's baseline projections or H.R. 915 (see Figure 4). Under either scenario, the combination of aviation taxes and spending for aviation programs would continue to contribute to federal budget deficits.

Revenues from Aviation Taxes

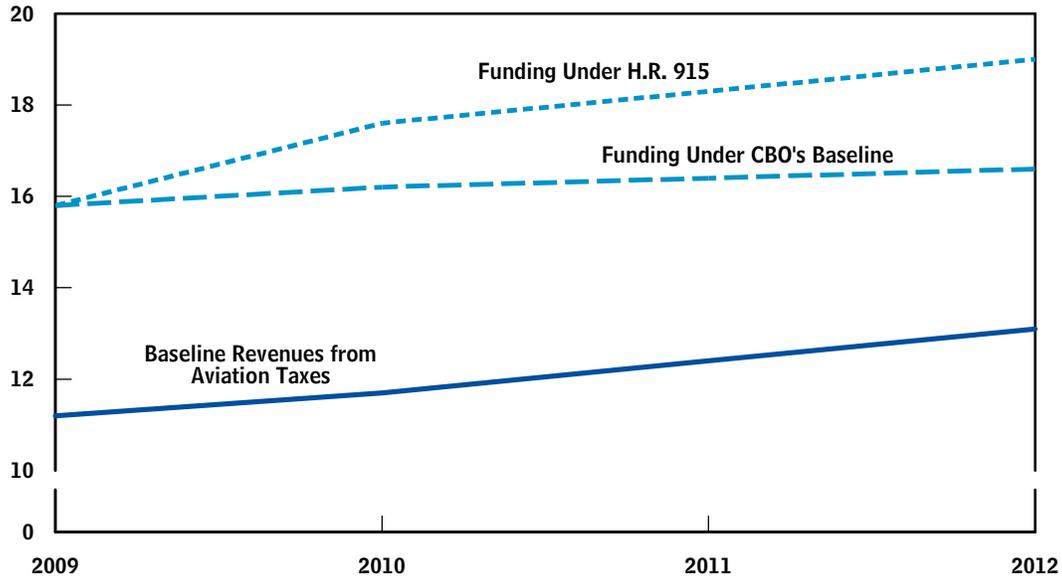
The Airport and Airway Trust Fund is credited with revenues from taxes levied on the transportation of persons and cargo by air and on jet fuel and gasoline used in both commercial and general aviation. Under current law, most of the taxes credited to the trust fund are scheduled to expire after September 30, 2009. CBO estimates that revenues dedicated to the trust fund will total \$11.2 billion in fiscal year 2009—a decrease of 5 percent from the 2008 amount—as the economic downturn is expected to cause a sharp decline in consumer and business demand for air travel. Data available from the first four months of fiscal year 2009 (that is, October 2008 through January 2009) show a drop of about 10 percent in domestic air travel compared with traffic during the same period a year earlier. With no significant change to overall ticket prices, the falloff in traffic indicates a reduction in airlines' receipts and, by extension, a decline in federal revenues.

In its baseline projections, CBO assumes that those taxes will be extended indefinitely at current rates. (The rules governing those projections specify that excise taxes dedicated to a trust fund, if expiring, should be assumed to be extended.) On that basis, by CBO's projections, trust fund revenues will increase by 5 percent, to \$11.7 billion, in 2010 and grow at a similar rate in subsequent years as economic conditions improve. If the current system of taxes remains in place, average annual revenues are projected to grow by 5.3 percent from 2009 to 2014—slightly higher than the 4.2 percent

Figure 4.

Projections of Aviation-Related Revenues and Funding Under CBO's Baseline and H.R. 915, the FAA Reauthorization Act of 2009

(Billions of dollars)



Source: Congressional Budget Office.

Note: Funding for aviation programs includes costs of the Federal Aviation Administration's (FAA's) operations; the Airport Improvement Program; air navigation facilities and equipment; research, engineering and development; and the Department of Transportation's payments to air carriers to subsidize their costs to provide service to certain small communities.

average annual growth rate projected for nominal GDP—reaching \$14.5 billion by 2014 (see Table 1).

Projected Spending for Aviation Programs Under Assumptions in CBO's Baseline

CBO's baseline provides a benchmark for considering future levels of spending for aviation and related programs. The agency calculates the baseline projections of discretionary spending by inflating the most recent enacted amounts of funding for future years and estimating the outlays that would result. Pursuant to rules that govern the calculation of the baseline for certain expiring mandatory programs—such as contract authority for AIP—the baseline assumes mandatory funding for that program in 2010 and future years will remain at the 2009 level of just over \$3.8 billion.

Under CBO's baseline, total funding for the FAA and related activities by DOT will grow with inflation and reach \$17.0 billion in 2014; estimated outlays for aviation programs will total \$15.7 billion in 2009 and grow to \$16.9 billion by 2014. Under those assumptions, outlays will exceed revenues from aviation taxes by \$4.5 billion in

Table 1.

Historical and Projected Revenues from Aviation Taxes Credited to the Airport and Airway Trust Fund

(Billions of dollars)

| | Average, Actual | | Projected | | | | | |
|--|-----------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | 2005-2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
| Passenger Taxes | 7.6 | 8.2 | 7.7 | 8.1 | 8.6 | 9.0 | 9.5 | 10.0 |
| International Departure/Arrival Taxes | 2.0 | 2.3 | 2.3 | 2.3 | 2.4 | 2.6 | 2.8 | 2.9 |
| Aviation Fuel Taxes | 0.8 | 0.7 | 0.7 | 0.7 | 0.8 | 0.8 | 0.8 | 0.9 |
| Cargo Taxes | 0.5 | 0.5 | 0.5 | 0.6 | 0.6 | 0.6 | 0.7 | 0.7 |
| Total, Revenues Credited to the Airport and Airway Trust Fund | 10.9 | 11.8 | 11.2 | 11.7 | 12.4 | 13.1 | 13.8 | 14.5 |

Source: Congressional Budget Office based on Department of Transportation, Bureau of Transportation Statistics, *U.S. Air Carrier Traffic Statistics* (Various years).

2009 and by declining amounts in subsequent years. By 2014, that difference shrinks to \$2.4 billion (see Table 2).

Projected Spending Under H.R. 915, the FAA Reauthorization Act of 2009

H.R. 915 would authorize appropriations for the FAA's major programs and provide contract authority for AIP in amounts that exceed the funding projected in CBO's baseline by \$5.7 billion over the 2010–2012 period.¹ To project funding through 2014 under H.R. 915 (for purposes of comparison with the baseline), CBO assumes that funding for 2009 will remain at the enacted level, that amounts for 2010 through 2012 will be provided as specified in the bill, that discretionary appropriations will grow with inflation after 2012, and that AIP's contract authority will remain fixed in subsequent years at the bill's proposed 2012 level.

By CBO's estimates, funding under H.R. 915 would increase from the 2009 level of \$15.8 billion to \$17.6 billion in 2010 and grow to \$19.5 billion in 2014—about \$2.5 billion (or 15 percent) above the baseline level for that year. Outlays would increase from \$15.7 billion in 2009 to \$17.1 billion in 2010 and reach \$19.5 billion in 2014. Under those assumptions, outlays for aviation programs would exceed revenues from aviation taxes by between \$5 billion and \$6 billion a year over the 2010–2014 period (see Table 2).

1. Although H.R. 915 would authorize additional spending for other aviation activities to be implemented by DOT and other agencies, these estimates reflect the bill's provisions that apply to DOT's payments to air carriers and the FAA's major programs: operations (including estimated costs for proposed changes to the FAA Personnel Management System and specified increases for aviation inspectors and airspace design); AIP; facilities and equipment; and research, engineering, and development.

Table 2.

The Budgetary Impact of Aviation-Related Taxes and Spending Under CBO's Baseline and H.R. 915, the FAA Reauthorization Act of 2009

(Billions of dollars)

| | Actual 2008 | Estimated 2009 | Projected | | | | |
|---------------------------|----------------|-------------------|-----------|------|------|------|------|
| | | | 2010 | 2011 | 2012 | 2013 | 2014 |
| Aviation-Related Revenues | 11.8 | 11.2 | 11.7 | 12.4 | 13.1 | 13.8 | 14.5 |
| CBO's Baseline | | | | | | | |
| Funding | 15.1 | 15.8 | 16.2 | 16.4 | 16.6 | 16.8 | 17.0 |
| Outlays | 14.9 | 15.7 | 16.1 | 16.3 | 16.4 | 16.6 | 16.9 |
| Net Effect on Deficit | 3.1 | 4.5 | 4.4 | 3.9 | 3.3 | 2.8 | 2.4 |
| H.R. 915 | | | | | | | |
| Funding | n.a. | 15.8 | 17.6 | 18.3 | 19.0 | 19.2 | 19.5 |
| Outlays | n.a. | 15.7 | 17.1 | 18.0 | 18.8 | 19.2 | 19.5 |
| Net Effect on Deficit | n.a. | 4.5 | 5.4 | 5.6 | 5.7 | 5.4 | 5.0 |

Source: Congressional Budget Office.

Notes: n.a. = not applicable.

Funding for aviation programs includes costs of the Federal Aviation Administration's (FAA's) operations; the Airport Improvement Program; air navigation facilities and equipment; research, engineering and development; and the Department of Transportation's payments to air carriers to subsidize their costs to provide service to certain small communities.

Funding provided to the FAA by the American Recovery and Reinvestment Act is not included in the figures presented here.

The Airport and Airway Trust Fund

In addition to considering broader net impacts of aviation-related taxes and spending on the federal deficit, stakeholders—including the Congress, members of the aviation community, and the FAA—often focus on balances of the Airport and Airway Trust Fund.

The status of the trust fund is generally assessed by projecting uncommitted balances, which represent the cumulative difference between amounts credited to the fund and budget authority provided each year from the fund. The amounts credited to the fund include interest on its cash balances, which are intragovernmental transactions and do not have any net impact on the budget deficit. Because the FAA spends appropriations over a period of several years, the fund's cash balance is larger than the uncommitted balance at any particular point in time.

Over the 2004–2008 period, deposits to the fund (including interest) were not sufficient to cover total spending for aviation programs, and between 15 percent and

Table 3.**Income Credited to the Airport and Airway Trust Fund and Funding for Aviation Programs, 2004 to 2009**

(Billions of dollars)

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 ^a |
|---|-------------|-------------|-------------|-------------|-------------|-------------------|
| Trust Fund Deposits (Revenues and interest) | 9.7 | 10.7 | 11.1 | 11.5 | 12.4 | 11.4 |
| Funding from the Airport and Airway Trust Fund | | | | | | |
| FAA Operations | 4.5 | 4.9 | 5.5 | 5.6 | 6.4 | 5.2 |
| Airport Improvement Program ^b | 3.6 | 3.7 | 3.1 | 3.7 | 3.7 | 3.8 |
| Facilities and equipment | 2.9 | 2.5 | 2.6 | 2.5 | 2.5 | 2.7 |
| Research, engineering, development, and other ^c | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| Subtotal | 11.2 | 11.3 | 11.4 | 12.0 | 12.8 | 12.0 |
| Funding from the General Fund of the Treasury | | | | | | |
| FAA Operations | 3.0 | 2.8 | 2.6 | 2.7 | 2.3 | 3.8 |
| Total Funding for Aviation Programs (From trust fund and general fund) | 14.2 | 14.1 | 14.0 | 14.7 | 15.1 | 15.8 |
| End-of-Year Uncommitted Balances in the Trust Fund | 2.4 | 1.9 | 1.8 | 1.5 | 1.4 | 0.8 |
| Memorandum: | | | | | | |
| Trust Fund's Share of Total Funding (Percent) | 79 | 80 | 81 | 82 | 85 | 76 |

Source: Congressional Budget Office.

Note: FAA = Federal Aviation Administration.

- Estimated. Excludes \$1.3 billion of appropriations from the general fund provided under P.L. 111-5, the American Recovery and Reinvestment Act.
- The figures for the Airport Improvement Program represent contract authority.
- Includes appropriations to the Department of Transportation for payments to air carriers to subsidize their costs to provide service to certain small communities.

21 percent of the FAA's funding was drawn from the general fund of the Treasury. Uncommitted balances in the trust fund stood at \$2.4 billion at the end of fiscal year 2004 but have gradually fallen since then (see Table 3).

Trust Fund Balances Under CBO's Baseline

The Airport and Airway Trust Fund's uncommitted balance at the end of 2008 was just over \$1.4 billion. According to CBO's estimates, revenues and interest credited to the fund in fiscal year 2009 will total \$11.4 billion. Of the \$15.8 billion in funding provided to the FAA this year (with stimulus funding excluded), \$12.0 billion was derived from the trust fund. Assuming that no additional funds are appropriated from the trust fund for the current year, CBO estimates that uncommitted balances at the end of 2009 will total just under \$800 million.

Table 4.

Projected Income Credited to the Airport and Airway Trust Fund and Funding for Aviation Programs Under CBO's March 2009 Baseline

(Billions of dollars)

| | 2009 ^a | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|-------------------|-------------|-------------|-------------|-------------|-------------|
| Trust Fund Deposits (Revenues and interest) | 11.4 | 11.9 | 12.6 | 13.3 | 14.1 | 14.9 |
| Funding from the Airport and Airway Trust Fund | | | | | | |
| FAA Operations | 5.2 | 5.4 | 5.5 | 5.6 | 5.7 | 5.8 |
| All other programs ^b | 6.8 | 6.9 | 6.9 | 6.9 | 6.9 | 7.0 |
| Subtotal | 12.0 | 12.3 | 12.4 | 12.5 | 12.6 | 12.8 |
| Funding from the General Fund of the Treasury | | | | | | |
| FAA Operations | 3.8 | 3.9 | 4.0 | 4.1 | 4.2 | 4.2 |
| Total Funding for Aviation Programs (From trust fund and general fund) | 15.8 | 16.2 | 16.4 | 16.6 | 16.8 | 17.0 |
| End-of-Year Uncommitted Balances in the Trust Fund | 0.8 | 0.4 | 0.6 | 1.4 | 2.8 | 4.9 |
| End-of-Year Cash Balances in the Trust Fund | 9.3 | 9.2 | 9.6 | 10.6 | 12.2 | 14.5 |
| Memorandum: | | | | | | |
| Trust Fund's Share of Total Funding (Percent) | 76 | 76 | 76 | 75 | 75 | 75 |

Source: Congressional Budget Office.

Note: FAA = Federal Aviation Administration.

- a. Excludes \$1.3 billion of appropriations from the general fund provided under PL. 111-5, the American Recovery and Reinvestment Act.
- b. Includes appropriations to the Department of Transportation for payments to air carriers to subsidize their costs to provide service to certain small communities.

There is no clear method for projecting uncommitted balances in the Airport and Airway Trust Fund because activities such as the FAA's operations historically have received a varying mix of funding from the trust fund and the general fund. Many alternative combinations of funding levels from those sources could provide the FAA with the total funding levels projected in CBO's baseline, and the magnitude of the contribution from the general fund to the FAA's programs will be a key factor in the trust fund's long-term solvency.

One simple method for estimating uncommitted balances assumes that the amount of funding provided from the general fund for the FAA's operations remains at the 2009 enacted level plus inflation (see Table 4). Under that assumption, which CBO incorporates in its baseline, the general fund would provide about one-fourth of the FAA's

funding in future years, and uncommitted balances in the trust fund would fall to \$400 million in 2010 but then increase to \$4.9 billion by the end of 2014.²

Alternatively, rather than allow uncommitted balances in the trust fund to grow, the Congress could provide a greater percentage of the agency's funding from the trust fund, thereby reducing the contribution from the general fund needed to make up any shortfall. Until 2007, a provision of the FAA's authorizing legislation effectively required the Congress to maximize appropriations from the trust fund. The law specified that amounts in the trust fund should be used first to fully fund the FAA's capital programs (AIP and air navigation facilities and equipment) and research activities. Excess amounts in the trust fund were to be used to support the FAA's operations—particularly for salaries and expenses related to operating the air traffic control system. The provision also authorized appropriations from the general fund for the balance of the FAA's operating costs.

If total funding is maintained at baseline levels, policymakers could use the growing income to the trust fund from extending the current aviation taxes to gradually increase, from 76 percent in 2010 to 87 percent in 2014, the portion of the FAA's funding derived from the trust fund. Another approach would be to maintain, at about 76 percent, the proportion of the agency's funding derived from the trust fund and dedicate future revenues and interest credited to the trust fund (along with increasing general fund contributions) to support whatever level of total spending is possible. By CBO's estimates, extending the current aviation taxes would initially support about 2 percent less spending than the baseline level of funding for 2010, but by 2014 would permit funding about 10 percent more—under an assumption of a 76 percent share funded by the trust fund. In either case, CBO has assumed that uncommitted balances in the trust fund remain fixed at \$800 million—the estimated amount for the end of 2009.

Estimates of uncommitted balances in the trust fund in future years are uncertain, however. Actual balances will be affected by economic conditions, the amount of funding that the Congress provides for aviation programs in the future, and the structure of aviation taxes.

Trust Fund Balances Under H.R. 915

H.R. 915 would establish a new formula for allocating amounts credited to the trust fund so as to reduce the chance that overly optimistic revenue estimates could cause the Congress to provide funding from the trust fund that exceeded actual deposits credited to the fund (as has happened in recent years). Specifically, for the first two years following enactment, that is, 2010 and 2011, only 90 percent of the revenues and interest anticipated to be credited to the fund in those years would be authorized to be appropriated for the FAA's programs. Excess amounts credited to the fund in

2. Funding provided to the FAA by the American Recovery and Reinvestment Act is not extrapolated in CBO's baseline.

those years would accumulate as uncommitted balances. Starting in 2012, the bill would authorize appropriations totaling 90 percent of the anticipated deposits for that year plus any excess amounts that were credited to the fund in 2010 but not appropriated.

According to CBO's estimates, revenues and interest credited to the fund under H.R. 915 would total \$11.9 billion in 2010 and grow to \$14.9 billion in 2014. Total funding for the FAA and related programs would increase from \$17.6 billion in 2010 to \$19.5 billion in 2014. Under the allocation formula specified in the legislation, uncommitted balances would increase by about \$1 billion in each of fiscal years 2010 and 2011, causing an increase in interest credited to the fund. Funding provided from the trust fund in 2010 would total \$10.9 billion, leaving a shortfall of \$6.7 billion—or about 38 percent of total funding—that would need to come from the general fund. The share of appropriations from the general fund would fall to 30 percent in 2012, when the bill's formula would authorize the appropriation of excess revenues credited to the fund in earlier years. After 2012, anticipated growth in deposits would outpace projected increases in funding, further reducing the contribution required from the general fund to about 25 percent of the FAA's total spending by 2014. Under H.R. 915, CBO estimates, uncommitted balances would increase from \$800 million at the end of 2009 to \$3.3 billion by the end of 2014 (see Table 5).

Thus, under H.R. 915, spending on aviation programs would be higher than under the assumptions in CBO's baseline, but the uncommitted balance in the trust fund would grow over the next few years because spending from the general fund of the Treasury would rise and the system's users would pay a smaller share of its costs.

The Accuracy of CBO's Revenue Forecasts

The amount of revenues that would be generated if current aviation taxes are extended is a key factor in assessing the resources that will be available from the Airport and Airway Trust Fund over the next few years. The projections of aviation revenues face a number of uncertainties, however. Air travel is very sensitive to economic conditions, and the economy can grow faster or more slowly than expected. Oil prices, an important input into air transportation costs, are especially volatile and can rise or fall more than expected. Other factors more specific to the air transportation sector can significantly affect revenues, as occurred after the terrorist attacks of September 11, 2001.

Revenue projections have tended to overestimate actual outcomes in recent years, but the estimates produced after 2001 have generally been more accurate than those produced in 2001 and immediately before. Revenues fell substantially with the recession in 2001 and following the terrorist attacks, and they did not rebound as quickly as expected thereafter. From 1999 through 2005, CBO's forecasts of revenues produced at the beginning of each calendar year (covering the fiscal year in progress plus the subsequent three years) exceeded actual revenues over that period by an average of

Table 5.

**Projected Income Credited to the Airport and
Airway Trust Fund and Funding for Aviation Programs
Under H.R. 915, the FAA Reauthorization Act of 2009**

(Billions of dollars)

| | 2009 ^a | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|-------------------|-------------|-------------|-------------|-------------|-------------|
| Trust Fund Deposits (Revenues and interest) | 11.4 | 11.9 | 12.6 | 13.4 | 14.2 | 14.9 |
| Funding from the Airport and Airway Trust Fund | | | | | | |
| FAA Operations | 5.2 | 3.2 | 3.7 | 5.1 | 5.8 | 6.5 |
| All other programs ^b | 6.8 | 7.7 | 7.8 | 8.2 | 8.2 | 8.2 |
| Subtotal | 12.0 | 10.9 | 11.5 | 13.3 | 14.0 | 14.7 |
| Funding from the General Fund of the Treasury | | | | | | |
| FAA Operations | 3.8 | 6.7 | 6.8 | 5.7 | 5.2 | 4.8 |
| Total Funding for Aviation Programs (From trust fund and general fund) | 15.8 | 17.6 | 18.3 | 19.0 | 19.2 | 19.5 |
| End-of-Year Uncommitted Balances in the Trust Fund | 0.8 | 1.8 | 2.9 | 3.0 | 3.2 | 3.3 |
| End-of-Year Cash Balances in the Trust Fund | 9.3 | 10.9 | 12.4 | 12.8 | 13.0 | 13.0 |
| Memorandum: | | | | | | |
| Trust Fund's Share of Total Funding (Percent) | 76 | 62 | 63 | 70 | 73 | 75 |

Source: Congressional Budget Office.

Note: FAA = Federal Aviation Administration.

Although H.R. 915 would authorize additional spending for other aviation activities implemented by the Department of Transportation (DOT) and other agencies, these estimates reflect estimated authorizations for FAA's major programs—operations (including estimated increases for the agency's personnel management system, and specified increases for aviation inspectors and airspace design); the Airport Improvement Program; facilities and equipment; and research, engineering, and development—and DOT's payments to air carriers to subsidize their costs to provide service to certain small communities.

- a. Excludes \$1.3 billion of appropriations from the general fund provided under PL. 111-5, the American Recovery and Reinvestment Act.
 - b. Includes appropriations to the Department of Transportation for payments to air carriers to subsidize their costs to provide service to certain small communities.
-

about 7 percent.³ Although forecasts produced starting in 2002 have become progressively more accurate, they still have overestimated actual revenues by about 4 percent on average. The forecast covering the most recent four-year period, 2005 through 2008, overestimated revenues by 2 percent.⁴

With the current forecast of trust fund revenues (excluding interest earnings) totaling about \$48 billion over the 2009–2012 period, each 1 percent deviation of projected revenues from the actual values would amount to a difference of almost half a billion dollars over the period. Given the depth of the current recession, the difficulty in projecting when and how rapidly the economy will turn around, and the normal variability in the myriad other factors that affect the price and volume of air travel, the current revenue forecast is particularly uncertain.

3. CBO has been independently projecting aviation revenues only since 2006, previously relying on the FAA to use its models incorporating CBO's economic forecast. None of the four-year periods cited contain CBO's independent projections. CBO's recent forecasts using its own models have been very similar to those produced by the FAA, suggesting that the historical track record may have been similar if CBO had independently produced the projections.

4. All of those projections were adjusted for the estimated effects of new legislation enacted after the forecast was produced, which such forecasts are not intended to capture.