

**USER FEES IN THE AVIATION INDUSTRY:
TURBULENCE AHEAD**

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USER FEES IN THE AVIATION INDUSTRY: TURBULENCE AHEAD

WEDNESDAY, SEPTEMBER 12, 2012

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The Committee met, pursuant to call, at 1:00 p.m., in room 2360, Rayburn House Office Building, Hon. Sam Graves (Chairman of the Committee) presiding.

Present: Representatives Graves, Mulvaney, West, Hanna, Schilling, Velázquez, and Schrader.

Chairman GRAVES. Good afternoon, everyone. I want to call the hearing to order and welcome everybody for joining us.

We have an excellent panel here today to examine President Obama's proposal to impose per flight user fees on aviation operators. Unfortunately, this isn't a new proposal. Previous Presidents have suggested a user fee system for aviation in addition to the current taxes and fees that are already levied as a way to bolster the Airport and Airways Trust Fund.

Fortunately, these proposals have never been enacted. And today we are going to discuss how important it is that they are never enacted.

In the fiscal year 2013 budget, President Obama proposed a \$100 per flight user fee on general aviation operators. Imposing such a plan has the very real potential to stifle the general aviation industry as a whole and harm job creation. The general aviation industry is predominantly made up of small businesses. Annually, it accounts for 27 million flight hours, carries 166 million passengers to around 5,000 communities. And according to the National Air Transportation Association, more than two-thirds of general aviation flights are for business purposes.

Overall, general aviation both operations and manufacturing employs about 1.2 million people and contributes approximately \$150 billion to our gross domestic product. The bottom line is, general aviation is a very significant part of our national economy.

The general aviation community has always contributed financially to the national air transportation infrastructure. And since the inception of the Airport and Airways Trust Fund, the general aviation community has paid its share through a 21.9 cent per gallon tax on jet fuel and a 19.4 cent per gallon tax on aviation gasoline, all without the need for a large bureaucracy to collect these taxes from hundreds of thousands of individual pilots and aircraft owners. This is a far more equitable and efficient way to address our aviation and infrastructure needs.

Imposing a \$100 per flight user fee on operators is simply the wrong approach, and the President offered very few details as to how such a system would be established and even less analysis on how it would impact the aviation industry. I believe this is very bad policy, and there is little doubt it would stifle job creation and economic growth in the United States. I would also like to remind my colleagues on the Committee of the broad and bipartisan opposition from Congress to the President's proposal. And I would ask unanimous consent that a letter that was sent and signed by 195 Members of Congress expressing concerns be submitted into the record.

Without objection, we will do that. It is so ordered. And again I want to thank our witnesses for taking the time to be with us today, and I look forward to hearing all of the testimony that we are going to hear today.

I would now yield to Ranking Member Velázquez for her opening statement.

Ms. VELÁZQUEZ. Thank you, Mr. Chairman.

Good afternoon.

The U.S. economy is as complex as it is vibrant, requiring frequent travel throughout the Nation. For small businesswomen and men, this may mean traveling at the last minute or to remote areas that are not served regularly by commercial airlines. As a result, general aviation and the flexibility it provides plays a key role in our Nation's growth. In fact, general aviation directly generated \$22.1 billion in 2009 and has an overall impact of \$76.5 billion, employing nearly half a million workers. This contribution will no doubt grow as the economy continues to recover.

With this important role in mind, it is critical that we carefully examine any potential policy that could impact this industry and the workers it employs. One such policy is the administration's proposal to levy a \$100 fee on takeoffs and landings for commercial airplanes and corporate jets. While all piston and emergency aircraft will be exempt, this new fee structure could create new burdens for the aviation community while requiring a new bureaucracy to monitor compliance. It is important to carefully consider whether the benefits of the new user fee system outweighs the cost of its implementation.

While it is sensible to talk about this user fee proposal, doing so really misses the elephant in the room today. And that elephant is sequestration and the across-the-board cuts on all Federal spending that will take effect in January. Estimates show that the FAA stands to lose \$1 billion through funding as a result. According to a study by the Aerospace Industry Association, this could force the layoff of almost 1,500 air traffic controllers, nearly 10 percent of the total, and the closing of more than 240 airport control towers around the country. Many of these closings will likely occur at smaller airports that handle less traffic, those that are most used by the general aviation community.

Additionally, passenger traffic could drop by 10 percent, causing aircraft manufacturing to fall, costing the economy another 11,000 to 22,000 jobs. So while it is important to discuss the imposition of user fees, it is equally if not more important to talk about the effects of fiscal belt tightening on the general aviation industry.

This issue is not unique to the FAA or aviation, but it will have to be addressed jointly by the government and the private citizens that rely on those specific services.

Whether it is crop insurance for farmers, loans for small businesses, entrance fees at national parks, or traffic control services for pilots and their passengers, reduced Federal funding creates difficult choices. Tough decisions will have to be made, and hearings like the one that we are having today can help us determine what the best solution is.

Ensuring that the general aviation industry remains strong in light of these current fiscal challenges is a priority for this Committee. It plays an important role in the U.S. economy particularly for areas that lack other transportation infrastructure, and it is poised to grow stronger over the next 20 years. Through its presence, it not only creates jobs but also serves as an economic anchor for many rural communities.

I would like to thank the distinguished panel of witnesses for traveling here today. And I look forward to their testimony.

Thank you, Mr. Chairman. I yield back.

Chairman GRAVES. Thanks, Nydia.

Our witnesses today.

STATEMENTS OF MARIAN EPPS, CFO, EPPS AVIATION, DEKALB-PEACHTREE AIRPORT, ATLANTA, GEORGIA, TESTIFYING ON BEHALF OF THE NATIONAL AIR TRANSPORTATION ASSOCIATION; MARTHA KING, CO-OWNER, CO-CHAIRMAN, KING SCHOOLS, INC., SAN DIEGO, CALIFORNIA, TESTIFYING ON BEHALF OF THE NATIONAL BUSINESS AVIATION ASSOCIATION; KENNETH J. BUTTON, GEORGE MASON UNIVERSITY, UNIVERSITY PROFESSOR, DIRECTOR, CENTER FOR TRANSPORTATION, POLICY, OPERATIONS AND LOGISTICS; AND DIRECTOR, AEROSPACE POLICY RESEARCH CENTER, ARLINGTON, VIRGINIA; AND BRAD PIERCE, PRESIDENT, RESTAURANT EQUIPMENT WORLD, ORLANDO, FLORIDA, TESTIFYING ON BEHALF OF THE AIRCRAFT OWNERS AND PILOTS ASSOCIATION

Chairman GRAVES. Our first witness is Marian Epps, CFO of Epps Aviation, which is a fixed base operator based in DeKalb-Peachtree Airport in Atlanta, Georgia. Marian joined the family business in 1993 in a marketing role. And in 1995, she was promoted to the position of CFO and elected to the board of directors in 2007. She manages accounting operations, information technology. She oversees charter and aircraft management, and Pilatus aircraft sales.

Ms. Epps is testifying on behalf of the National Air Transportation Association.

Thank you for taking the time to be here, Marian. We appreciate it.

STATEMENT OF MARIAN EPPS

Ms. EPPS. Chairman Graves, Ranking Member Velázquez, and members of the Committee, the National Air Transportation Association appreciates the opportunity to appear before the Committee

to discuss the detrimental impact user fees would have on the general aviation industry.

My name is Marian Epps. I am the CFO of Epps Aviation in Atlanta, Georgia. Epps is one of NATA's member companies and is located at the second busiest airport in Georgia. Our owner and founder, Pat Epps, my father, has come a long way since his father, Ben Epps, built and flew Georgia's first aircraft at the age of 19 in 1907.

Pat was the youngest boy of 10 children, eight of whom became pilots. Let's fast forward to 1965, when my father bought a small fixed base operation at the DeKalb-Peachtree Airport. For 47 years now, Epps Aviation has served the business and public aviation communities. We started with 19 employees, two hangars, on 21 acres of leased land. Today we have 145 employees, down from our pre-recession high of over 200. Our workforce includes line technicians, A&P mechanics, avionics technicians, client service representatives, and pilots. They serve U.S. and international customers 24/7, 365 days a year.

We have made improvements on our 21 acres of leased space, not with government funds but with company profits. We built a terminal lobby, maintenance facilities, five 10,000 square foot corporate hangars, 40 T-hangars, and a fuel farm. Today these facilities are home base to over 100 aircraft owners. Many of these aircraft owners are small businesses themselves that use aviation to grow their business, such as a seafood wholesaler, a lighting manufacturer, an industrial packaging company, and a chicken farmer.

These small businesses rely on aviation, just like ours, and they have felt the effects of a slower economy. They are struggling to build back to prerecession levels.

So why am I here? The administration has included a tax proposal in the deficit reduction plan that would require all air transportation providers to pay a \$100 per flight departure fee. This departure fee would kill small businesses like ours and hurt organizations around the country that depend on general aviation. Imposing a user fee would also be detrimental to the many States with little or no commercial airline service. They need general aviation for economic job growth.

Let me give you some more data on why aviation is so critically important to our economy. The industry employs 1.2 million workers and generates \$150 billion annually in economic activity. And let me tell you why user fees would negatively impact general aviation in the U.S. No doubt many operators would fly less due to the increased cost of using the National Airspace System. Less activity will have a ripple effect throughout the industry with many businesses such as ours suffering due to the lower fuel sales, maintenance, and other services. And it would be an enormous administrative burden for both the government and the aircraft operators. Just look at the countries that have a user fee system. None of these countries have the level of aviation activity of the United States. Most bill after flights are conducted for the air traffic services, and their delayed billing systems are error-prone, and they cost more to administer than what they collect.

Why build a new system when we have one that works? The current fuel tax ensures that the aviation trust fund will receive the

appropriate contribution the minute fuel is purchased, without having to wait weeks or even months for payments.

Let me wrap up by saying that Congress and the aviation industry have been in opposition to any user fee proposals on aviation. Over the past 5 years, numerous letters from the House and Senate Members of Congress, industry coalitions, and aviation associations have reiterated that per flight user fees will cripple the aviation industry and the small businesses it represents. We have seen this happen in other countries. The government's first priority should be to create an environment in which businesses can grow and make more important contributions to the national economy. A user fee is little more than a punitive tax that would have a lasting negative effect on aviation.

We all agree that fuel taxes represent the best way for the aviation industry to contribute revenue to the Federal Government and support efforts to enhance the National Air Transportation System. We look forward to working with the Committee in resolving this issue, and we are eager to serve as a valuable resource for aviation businesses during this debate.

Thank you for your time, and I really appreciate being here.

Chairman GRAVES. Thank you Ms. Epps.

Our next witness is Martha King, who is the co-owner and co-chairman of King Schools, which is a flight training school based in San Diego, California. In business for over 36 years, King Schools focuses on innovative technologies to help train pilots over a wide range of certifications. Martha is the first and only woman to hold every category and class of FAA rating on her pilot and instructor certificates.

Ms. King is testifying on behalf of the National Business Aviation Association.

Welcome to the Committee, Martha.

STATEMENT OF MARTHA KING

Ms. KING. Thank you very much.

My name is Martha King, and I am honored to be here today to represent the National Business Aviation Association, NBAA. NBAA has over 9,000 members, and all have one thing in common: they rely on business aviation to meet some of their companies' travel challenges.

Mr. Chairman, as you say, I am co-owner and co-chairman of King Schools, a flight training company that my husband and I started in 1975. King Schools is a member of NBAA, and I serve on the association's Associate Member Advisory Council. King Schools grew from its original two employees, my husband and myself, in 1975 to a high of 90 employees in 2007.

Like thousands of startup companies all over the U.S., we found that using a general aviation airplane made our company more efficient and more productive. It allowed us to do more in less time. It helped us survive, compete, and grow; 37 years later, we still depend on our general aviation airplane.

Mr. Chairman, as you know, general aviation is one of our Nation's most significant industries. It is one of the few U.S. industries that contributes positively to our Nation's balance of trade. It is fundamental to our Nation's manufacturing base. It employs 1.2

million Americans at a time when our country urgently needs jobs. It is an economic lifeline to thousands of small- and mid-sized American communities with little or no scheduled airline service. It helps companies of all sizes be more efficient, more productive, and more competitive. And it is vital to our Nation's humanitarian efforts.

The great recession has been devastating to the general aviation industry. By virtually any measure, our industry shrank by 30 to 60 percent. My company is down from 90 employees to 50. It is difficult to imagine how at a time when the critical American industry is struggling the way that general aviation is, people in Washington could be contemplating an onerous, regressive, and administratively burdensome new per flight tax, euphemistically called a "user fee."

A \$100 per flight tax on all turbine-powered aircraft would be devastating for thousands of small businesses like mine. And I hope that this important Committee will put an end to this nonsensical proposal once and for all.

Here are some valuable facts: Most of the business airplanes and component parts flying in the world today were built in the U.S.; 85 percent of companies that use business aviation are small- and mid-sized businesses. Most business aviation flights fly to or from airports with no scheduled airline service. And the average age of the U.S. general aviation turbine airplane fleet is over 25 years old.

Mr. Chairman, I know that there are those who try to promote a caricature of business aviation that is at odds with these facts. But the reality is that my small business is very representative of business aviation in the U.S. Our employees are instructors, technicians, sales people, and customer service representatives. And these are the people that fly on our airplanes. We do not have an army of accountants standing by to process a bunch of \$100 per flight invoices from some new Federal bureaucracy. And quite frankly, our country does not need some new "Sky-R-S," complete with auditors, billing agents, and collectors. Today business aviation pays at the pump through a per gallon fuel tax. It is simple. It is fair. It is efficient, progressive, and environmentally friendly. And it is adjustable. Congress can raise or lower the fuel tax. We do not need to establish a foreign-style system of user fees in the U.S. We have a better way. We have fuel taxes.

Make no mistake: A new \$100 per flight fee on all turbine airplane flights is a bad idea. It will hurt our economy, our transportation system, and small towns. And it will hurt small businesses like mine. We are counting on this Committee to make sure that does not happen. We are counting on you to spread the word that aviation fuel taxes work, and per flight fees destroy.

Thank you for the opportunity to be here today. And I will be happy to answer your questions.

Ms. VELÁZQUEZ. Mr. Chairman, it is my pleasure to introduce our witness, Kenneth Button.

Welcome, sir.

Let me properly introduce you to the Committee. He is a university professor of public policy at George Mason University, where he is the director of the Center For Transportation Policy, Operations, and Logistics as well as the director of the Aerospace Policy

Research Center. He has published or has in press some 80 books and over 400 academic papers in the field of transportation economics aviation policy and related subjects.

Professor Button is the editor of numerous academic journals in the fields of aviation and aerospace policy, tourism and transportation. Prior to coming to George Mason University in 1997, he served as a transportation expert for the OECD and taught at several universities around the world.

Welcome, sir.

STATEMENT OF KENNETH J. BUTTON

Mr. BUTTON. Thank you very much.

I am very grateful for you inviting me to talk. Let me give my conclusions first. There seems to be two separate issues here. First of all, whether user charges are a good thing. I actually disagree with the chairman on this. I think there should be a move towards user charges in aviation. I believe they should be genuine user charges, which I would call a price. Basically user charges are a price for doing something.

Secondly, on the issue of whether one wants to simply add an extra charge to the existing fuel charges, on whether this particular charge is an ideal way of doing it, I must confess, I do have some reservations.

The first point: Pricing is very effective for three reasons. It allocates out the facilities you have got to the people who make the best use of them. It allocates out these facilities to the people who are willing to pay and thus presumably make the largest financial return from using them. In other words, the business people are the most efficient.

Secondly, you collect revenue from this which is directly related to use. Fuel charges are not directly related to the use of the system. And this direct relationship allows the FAA and other bodies to decide where new investments are required or where certain types of facilities may be truncated.

And thirdly, it provides a stream of revenue which is independent of any form of taxation which allows the body—the FAA in this case—to actually provide additional capacity and to finance it. That is why a lot of countries have moved toward user charges.

The user charges have had some problems where they have been introduced. The reasons for this are partly the nature of the charges. They have not been imposed particularly well. There has been a certain experimentation involved. And of course, the United States has an advantage here. It can learn the lessons from elsewhere.

So I am very much in favor of user charges. I don't think they pose the problems which we sometimes hear.

These particular charges which are being proposed here I think one has to look at them fairly carefully. I think there is a need to remember that general aviation does use the infrastructure in the same way as commercial aviation. It does not pay as much for using that infrastructure. But on the other hand, it doesn't necessarily use all of that infrastructure. It doesn't need everything large commercial aircraft do. There are some issues about a flat

charge across everything because users of the system use different amounts of it.

This particular charge I think has got some issues that need to be looked at. I do agree we do have to raise some additional revenue. The air transport system does need additional money. I do believe this small debt which has been accumulated in the United States getting on for \$17 trillion has to somehow be paid down. It has to be paid down I think so it is not a burden on future generations, but also so we don't have the burden, as the economy recovers, of higher interest payments on it. Inevitably, interest rates will go up as the economy recovers. Somehow that has to be paid for.

My concern about this particular charge is, it has been floated as a form of trying to help pay off some of the national deficit. According to my calculations, if this is the sole source of money, it would take something over 13,000 years to actually pay off the national deficit, assuming there is no interest on that deficit. So I think putting it forward as a method of paying off the deficit is inappropriate.

Secondly, it has been put forward as a method of getting to greater equality. My view is, we should have equality as much between generations as between groups at the moment. Therefore, I think we need user charges which ensure the aviation industry in this country—be it large commercial undertakings, general aviation, business aviation, flying schools, or whatever—are efficient at what they do, that they have the appropriate facilities provided to them. They pay the appropriate—I will use the word again, the “appropriate” price for that infrastructure and that infrastructure has a viable method of funding.

I have some reservations therefore about this particular proposal. Although I do have considerable sympathy with the underlying idea; we have much more efficient user charges on aviation, or pricing aviation, as I like to say. I have provided some written testimony, and clearly, I have provided a very short summary of it. Thank you.

Chairman GRAVES. Rounding out our panel today is Brad Pierce, who is the president of Restaurant Equipment World, REW, in Orlando, Florida. Started by Brad's father Jerry in 1976, REW remains a family owned and operated company that sells professional grade kitchen equipment from both their showroom in Orlando and across the world online. The company currently employs approximately 50 individuals.

He is testifying on behalf of the Aircraft Owners and Pilots Association.

I want to thank you for being here today, Mr. Pierce. We appreciate it.

STATEMENT OF BRAD PIERCE

Mr. PIERCE. Thank you. Well, it is certainly an honor to be speaking with you here today. I am here today representing the Aircraft Owners and Pilots Association, also known as the AOPA. We have been an AOPA member since 1997 and are also proud to be a member of the National Business Aviation Association.

Restaurant Equipment World was founded more than 35 years ago by my father, Jerry Pierce. We provide restaurant and food

service equipment throughout the Southeast and beyond from our headquarters in Orlando, Florida. We are proud to have approximately 48 employees. And through our efficiencies, we have sold products to more than 100,000 customers in all 50 States and more than 110 countries internationally.

My testimony today will make three points: Number one, general aviation has been a critical factor for the growth of our business and has given us important competitive advantages. Number two, general aviation users pay to fund the aviation system through excise taxes on fuels. This system is effective. It is proven and should continue to be the means by which users pay into the system. Number three, user fees would be devastating to businesses like myself that depend on general aviation.

General aviation grows businesses. Restaurant Equipment World depends on it each and every day to conduct business. We currently fly a Turbo Cirrus SR 22 aircraft, and we have a deposit placed on a Cirrus Vision Jet, which will be the fourth business aircraft for our company. I consider my airplane to be one of my best employees. It has consistently allowed me to expand our boundaries and our service area because it allows me to reach our potential clients fast, even when they are located hundreds of miles away. I have personally flown our business aircraft to 49 States in an effort to maintain existing relationships, attend industry events and pursue new business for our company.

Our airplanes allows us to control our own travel schedule so we are able to stay onsite with our customers to make sure that our interactions are complete and that they are satisfied with the services that we have provided, all the while not needing to worry about cutting things short, catching a commercial flight.

As recently as 2 weeks ago, our aircraft allowed me to shift my travel schedule in order to meet a new client as well as being able to make an impromptu visit to a manufacturing partner on a way to an industry event. On more than one occasion, our planes provided us a competitive advantage of allowing us to move very, very quickly. We had a call from a potential client up in North Carolina. I was able to arrange a meeting in a matter of hours, something that would have taken me 2 full days back and forth on a commercial airliner. We arrived faster than even their local competition, and we got the contract.

Our airplane allows us to meet multiple customers in multiple cities and multiple States in a matter of a single day. We can respond quickly to our customer needs. We can build relationships with them. And we can help our customers grow their businesses. And many of our customers are small businesses themselves.

Both senior management and my rank-and-file staff members utilize our aircraft as an important tool to serving our customers' needs. And I am not alone. In my home State of Florida, for example, general aviation is associated with more than 7 million jobs and has an estimated economic impact of \$7.5 billion. That is because thousands of other business owners just like myself use general aviation to grow their companies.

The current recession has been a challenge for Restaurant Equipment World. In order to survive and thrive, we have had to be laser-focused with efficiency. We can't just throw money wildly at

problems and opportunities. We need to be there for our customers now more than ever. At a time when we have seen multiple competitors failing, we have been able to grow our business and have been able to continue hiring employees.

General aviation pays at the pump. Every general aviation operator pays to support the aviation infrastructure every time we fly through an excise tax on fuel. This tax has been an effective way of paying into the system since the earliest days of powered flight. It directly reflects how much we fly because we are taxed on the amount of fuel that we use.

The current system requires no additional bureaucracy or administrative costs for either the system users or the Federal Government, and Congress sets the tax rate. It is within your ability to adjust the rate as needed. The \$100 per flight fee would require a new system just to administer and collect this tax. And once the bureaucracy was in place, that fee could be changed at any time without congressional input or oversight. For business owners like myself, there would be an additional cost just to reconcile and pay these results and invoices.

Today's system of excise taxes works. Creating a new type of tax would increase costs and decrease efficiency for everyone involved. The proposed \$100 per flight fee would be devastating to small businesses like my own. Adding an additional \$100 to cover every flight would impact how many clients we could go and see, especially in rural areas where it just simply would not be worth stopping for that extra \$100 fee that is imposed.

Our business depends on being responsive to our clients' needs and building relationships in person. This fee would absolutely devastate that, and our value proposition would change dramatically.

In conclusion, I would like to thank you for the opportunity to testify here before you today. And I urge you to reject new taxes in the form of user fees for general aviation. General aviation has made it possible for us to grow Restaurant Equipment World from a five-person company to one with approximately 48 employees today. We want to continue to create jobs but we need general aviation to be able to do it. Allow us to continue to pay at the pump so we can focus our energy on making our business stronger instead of paying new fees. Thank you for your time.

Chairman GRAVES. Thanks, Mr. Pierce.

I will now go with questions. And I am going to turn to Mr. West to start us off.

Mr. WEST. Thank you, Mr. Chairman and ranking member.

And in full disclosure, I want to say that the wings on my lapel are representative of the fact that I failed the Army aviation test. So I got into the line to be a paratrooper. That was a lot simpler.

Now, with that being said, Dr. Button, you said something in your oral testimony. You said that fuel charges are not directly related to use. So, I mean, to me, you have got to have fuel for an aircraft to take off. So fuel charges have to be directly related to use. So, in a way, we are already talking about a user fee that is being paid by these users of the aviation assets. Why do we need to go to a \$100 user fee?

And you just debunked the whole thing about the debt and deficit. So can you explain to us, is there something wrong with the

Airport and Airway Trust Fund where we need to change the system by which we are supposed to be replenishing it?

Mr. BUTTON. Yes. Thank you for the question. I think there is an issue here about what pricing does. And I think the American economy is built upon market principles and pricing. The importance of direct pricing is that it basically, as I said, it allocates what you have got. It indicates where you need more or less. And it provides resources for doing so. The fuel tax is a tax. There is no direct link between the fuel charge and the actual use of the system. In a sense, depending on how far you fly, where you fly and so on, that is not directly linked to the actual cost of providing air traffic control services at airports. There is a linkage. I agree with you. But the linkage is a little bit akin to the fuel tax on roads. The fuel tax on roads is the same per gallon irrespective of whether you are driving in the sense of congested Washington or out in the middle of West Virginia. The charge is the same. It does not reflect the cost of the system you are using. And by affecting the cost of what you are using, you are making sure resources are properly deployed.

My view on the charging is the whole thing needs to be looked at, so we move forward to a system where you have direct charging for what you use. This is gradually taking place in the road services where we have tolls and so on which are beginning to actually reflect the use made of the system and the quality of the system. You are going to pay more to go on the Beltway at 70 miles an hour and possibly even in Texas, you can drive at 85 miles an hour if you pay enough. That may be a little extreme. But the fact is, you have got the people using it—

Mr. WEST. Well, that is State, like the Florida Turnpike, the New Jersey Turnpike, Pennsylvania. You are talking about something that is Federal now.

Mr. BUTTON. May I ask you a question then, sir, what is the difference economically between a federally supplied facility and a State supplied facility?

Mr. WEST. Well, what I am trying to ascertain is, what is broken with this trust fund system that we need to go from what we have with a fuel based system, where we can initiate legislation. I am sure that we can raise the taxes on the fuel in to this \$100. And I would also like to know, who came up with \$100?

Mr. BUTTON. The answer to your second question is actually also posed in my written evidence. I mean, it is a number. It could be \$95, \$250. There doesn't seem to be any rhyme or reason to go with that particular number.

Mr. WEST. That is my problem. There is no rhyme or reason. Someone in the Federal bureaucracy just came up with a dollar amount. I don't—did they consult with any of the users out there? I think that is what we are talking about. We are talking about a problem going around looking for a solution.

Mr. BUTTON. But what you do have I think is a need for additional revenue for the FAA. And perhaps you do need some form of an additional charge. I would personally remove the fuel charge and in some way have a direct user charge, which may amount to a combination of the two sums of money. It may not. But different types of aviation use the system in different ways. And that should

be reflected. It should be reflected in the price they pay. I take the point that general aviation and business aviation is important. I have done work on the small airports in Virginia and it is quite clear they contribute significantly to the local economy. So I don't disagree at all with any of my colleagues here. It is very, very important. But it is also important to use it wisely and sensibly.

You have got to remember small businesses use general aviation and business aviation, but they also use commercial aviation. I imagine the bulk of small businesses in this country actually use commercial aviation. And you have to have the appropriate balance between the two to benefit small business in its entirety in this country and not simply look at the suppliers of aviation services.

Mr. WEST. Real quickly, what would this do to your profit margins if we went to this \$100—

Ms. EPPS. Our profit margins would just diminish. It really would kill the general aviation community. Pilots already shop around for the cheapest fuel price they can get because it is a commodity. And when you whop a \$100 departure tax—it is just going to add incrementally to your cost and drive people away from using aviation. And once people are driven away from using aviation, jobs are lost and revenues for example, at our county airport—are going to just fall off a cliff.

Mr. WEST. Thank you, Mr. Chairman.

I yield back because I am over time.

Chairman GRAVES. Ms. Velázquez.

Ms. VELÁZQUEZ. Thank you.

Mr. Button, clearly, there is a large difference in prices that commercial airlines and corporate jets pay for using the same level of air traffic services. Do you believe that this is—that this difference is too great and should be reduced whether through fuel taxes, user fees, or some other mechanism?

Mr. BUTTON. I believe it should be reduced. I don't think they necessarily should pay the same because I think that commercial aircraft demand additional facilities not required by general aviation or business planes. So I don't think they necessarily pay the same, but I think the differential is extremely large. I think one reason for this is the commercial air business in a sense generates more revenue and, therefore, is seen as a mechanism for raising more money, which is not necessarily the most efficient way of allocating resources. So I certainly think they should be closed. By how much I think requires a serious study. But there should be some closing of that gap in some way or the other.

Ms. VELÁZQUEZ. Thank you. It appears that both the current system of fuel taxes and the proposed user fees do not result in accurate prices. If you were to design a pricing system from the beginning and did not have any constraint in doing so, would you build off the current fuel tax system or start fresh based on a user fee approach?

Mr. BUTTON. I would go to a user fee approach. I think there may be reasons for taxation on aviation to do with the environmental implications, which we are not talking about here, I don't think. But for using the system, I think people should pay for what they use. That is quite common in virtually every other part of the economy.

Ms. VELÁZQUEZ. Given the concerns that were raised by the witnesses here regarding a user fee that is too onerous, that it creates another bureaucracy, that compliance will create a problem for them, what is your reaction to that?

Mr. BUTTON. Well, the reaction to the latter one on the administration is, I would get rid of the fuel surcharge and the takeoff fee and have one simple charging mechanism, which could be metered on the aircraft and you get a bill like your telephone bill. I think that is not beyond the wisdom of man, and we do it on the tollways anyway. This mechanism is there. So the actual administrative charge is once and for all and a not very large change in the mechanism in my view.

Ms. VELÁZQUEZ. Let's talk about sequestration for a moment. You know, it is slated to begin in January, and the FAA stands to lose \$1 billion from its budget. It has been estimated that air traffic services will have to be curtailed significantly. If this does occur, how would you recommend the FAA go about determining where it should reduce air traffic control services?

Mr. BUTTON. Well, my problem is with the current system of charging; we have got no indicator of where the best parts of the system are. The charging system doesn't actually tell you where the largest demands are. So you have got no mechanism. I could sit down and do some econometric work. I am by training an econometrician. But I imagine my results would be far off the mark. These analyses are. They have a major problem finding \$1 billion. And I think how you actually cut it back, I think that probably the best way would simply be to ask the guys at the FAA who have every day contact with the industry, and you get a rough and ready answer.

Ms. VELÁZQUEZ. Thank you.

Ms. EPPS, I gathered from your testimony that you support raising fuel taxes instead of user fees, given the fact that it hasn't been raised for quite a while.

Ms. EPPS. Ranking Member Velázquez, they have not been raised in over 20 years. And the current system of collecting the tax in the fuel is the most efficient system. It would eliminate any additional administrative costs.

Ms. VELÁZQUEZ. Okay. If we have a shortfall and sequestration takes effect, would you support raising fuel taxes?

Ms. EPPS. That would be the preference over a new user fee.

Ms. VELÁZQUEZ. Thank you.

Ms. KING. Yes, absolutely that would be the preference.

And I disagree with Dr. Button that fuel charges are not related directly to the use of the system because the more an aircraft flies and the more sophisticated it is, and the more it needs the airline type airports, the more fuel it is going to use and the more tax it will pay.

Ms. VELÁZQUEZ. Dr. Button, would you like to respond?

Mr. BUTTON. I don't disagree with that. But I would like to have a much closer correlation between the two. It is absolutely true, as I said, that there is some correlation. The correlation I think is not particularly clear. And I think that needs clarifying. And I think the charges should be closer to the costs.

Ms. VELÁZQUEZ. Thank you.

Mr. Pierce, what is your position regarding, if we face a shortfall, how would we be able to make it up?

Mr. PIERCE. If there is a shortfall and Congress votes to raise these fees and the fees are coming in some form or another, then I would prefer it to be in a fuel tax. In our case, we pay quite a bit of taxes into the system. I fly, as I mentioned, into 49 States. I fly extensively. Therefore, I am paying a lot more than the people who would fly locally.

Ms. VELÁZQUEZ. What you are stating is that you would support raising the fuel tax?

Mr. PIERCE. I would support the—if a tax is voted on and is approved by Congress, that then, at that point, I would prefer the tax—

Ms. VELÁZQUEZ. So that is a “yes” to my question?

Mr. PIERCE. I do not specifically advocate that we—without knowing the facts and knowing what this amount is, I can’t blanket say that we should or should not raise a specific tax.

Ms. VELÁZQUEZ. My question was a simple one. If we are out of money, how are we going to make up for the shortfall? Either we impose a user fee, or we raise fuel taxes.

Mr. PIERCE. I think that it is more complex in looking at how people use the system. When the system is built for the airline industry, we may need to raise their taxes at a different rate than we raise general aviation taxes is my personal opinion. But I think that it is more complex.

Ms. VELÁZQUEZ. Mr. Chairman, thank you.

Chairman GRAVES. For the record, I think all of the organizations here were in full agreement with an increase in aviation fuel taxes when we went through the last round of taking a look at that in the Transportation Committee.

Mr. Hanna.

Mr. HANNA. Thank you, Mr. Chairman.

In the interest of disclosure I am an AOP member, a pilot. I have watched your videos. Ms. King, you are actually good on videos but great here today. Thank you for being here, everyone.

If the assumption is—and that doesn’t bias me. I think it gives me certain input and insights. Although it may bias me, I am also an airport owner. It is kind of the law of the bigger fool theory. I bought one, lost a lot of money, and sold it to another guy who had more money than me. And I am happy about it.

But what possible reason, Dr. Button, do you have to think that money collected nationally, \$100 at one airport or another, will make it distributed more fairly or more properly, as you put it? There is not a lot of evidence—I mean, if you take, for example, the transportation bill, which is very much underfunded, we have a formula. The formula doesn’t necessarily go. So I question your major premise that that would be an outcome.

Mr. BUTTON. First of all, I agree with you entirely about the allocation of the transportation bill. It is not an ideal mechanism. In this case, I am very much in favor of assuming—and this is a strong assumption—the FAA acts sensibly and rationally. And the FAA is a public agency, which is to serve the public. It is getting revenue in. It knows where the revenue is coming from. Therefore, it should direct its investments to areas where there is a large

amount of revenue. And there is clearly a demand for the services in that area. That is a rather strong assumption I would agree with.

But if I am treating it as a private business, a private business—many air traffic control systems in the world in airports now are corporatized or, in the British case, are semi-privatized, they have signals from the fees they get where the investment is needed, required—

Mr. HANNA. Professor, I appreciate that. But let's be honest—it is subjective. And there is very little evidence about—throughout this country that every dollar we collect from the States we send back, if they are lucky, some much smaller percentage of it. This won't change this. We have a mechanism that works perfectly well that is, as Ms. King said, bigger planes that require more runway, more everything, they burn a hell of a lot more fuel. There is not necessarily a relationship between the number of times you take off and land and the amount you actually use. But there is a much more direct correlation with the fuel in that regard.

Mr. BUTTON. Well, it is true. But you may expend more fuel taking off and landing, but are you incurring the same proportional change in infrastructure which is needed? That is the question.

Mr. HANNA. But that is a question that that doesn't necessarily answer. I mean, you can still—the fuel tax can still take that, can still account for that. And we know where fuel is collected. So we also have a system to do exactly what you want to do, which is recognize how much money was collected at what airport, and they can allocate it already without this additional bureaucracy. I can tell you within—give me a day, and I can tell you how much fuel is burned at every airport in America.

Mr. BUTTON. Yes. I can do that as well.

Mr. HANNA. But the point is that you have the ability to allocate it now.

Mr. BUTTON. We do have. But you have also got to link this to cost. At the moment, the allocations are not done that way. If you take a large jet into an airport, you sure as heck burn a lot more fuel and collect more revenue. But the costs of that jet landing are not the same as a smaller jet coming in which burns less fuel. You collect less money from the smaller jet, it takes up the same length of runway. It takes up basically the same amount of air traffic control time.

Mr. HANNA. You are actually wrong about that. It doesn't take up the same length of runway.

Mr. BUTTON. You are right. It is a shorter amount. But that is my point, by the way, in response to the earlier question. You would have a differential rate for different types of aircraft. They would not be bought together. There would be a gap.

Mr. HANNA. I am listening carefully to you. And I believe you believe this. Having flown a lot in my life, I frankly find no benefit to adding this additional bureaucracy and no added ability to allocate differently or more thoughtfully. And just the opportunity, though, to eat up a bigger piece of revenue through bureaucracy that we don't have yet.

Mr. BUTTON. Well, I would simply substitute—I would simply get rid of the existing charges and have a direct user charge with one bureaucracy—

Mr. HANNA. So you want to eliminate the gas tax?

Mr. BUTTON. Eliminate it, I think you should pay for what you use in a society. And in that sense, you tend not to get over-spending too often. You don't run up large deficits too often.

Mr. HANNA. I yield back.

Thank you, sir.

Chairman GRAVES. Mr. Schrader.

Mr. SCHRADER. Thank you, Mr. Chairman.

It seems like we are off into academic exercises and thoughtfulness, and that is excellent. I guess one thing I would take from this is that at some point—hopefully sooner rather than later—it will be interesting to have general aviation and the FAA and others participate in some sort of thoughtful discussion and/or study of, is there a better way to allocate the costs of general aviation? And I think that would be fine. I don't know enough about—I am a pilot, but I am a four- to six-seater plane, so I am not even going to pay any of these things at the end of the day. So maybe I should be favor of the new fee.

But general aviation, obviously, has come out in favor of not doing this. And based on the ranking member's questions, they are inclined—if there has to be a fee, that they prefer to do the fuel tax. And so I guess I am just a country doctor from western Oregon, and if that is what the industry wants and they are willing to pay for it, regardless of perceived inequities, in order to balance our budget and help things go forward—we have a problem right now. A sequester would be horrible. But we have a debt and deficit problem right now.

And while I think Dr. Button has good points, we are not going to balance the budget on the aviation industry. If everyone pays a teeny little bit, which I think Americans are willing to do their fair share, I think we would come a long way to fixing our country's problems.

So that is just a comment more than a question, Mr. Chairman. I think the industry itself has come up with a reasonable solution. It seems like most of the panel is moderately interested in that solution. I think most of us are interested in that solution. Maybe that is a suggestion we can make to the administration to not cause a problem, but let's help the industry do what it does best, which is fly people around, create jobs, and be market and job builders for our great country and just have it where we do some adjustment of a gas fee and the jet fuel fee for right now. And then let's study the problem and figure out if we have a better long-term solution.

So just a comment, Mr. Chairman.

I yield back.

Chairman GRAVES. Mr. Schilling.

Mr. SCHILLING. Thank you, Chairman.

A couple of things. I don't fly at all. I have a few friends that fly. I do make a pretty mean pizza—at least that is what they tell me. But one of my concerns is the fact that this will create another government agency when we already have a system in place.

And I guess this question is to Dr. Button. The analogy of the bigger plane—or just the statement on the bigger plane landing on the runway versus the smaller plane. The bigger is going to use a lot more fuel; therefore, it will pay more in taxes. I don't believe that they do make the same impact on the airports when they are landing or taking off—specifically, I guess, it would be taking off. It would be like saying the Ford Escort versus the semitruck using the road. It is kind of that idea.

But the one thing that I look at is, you know, we have got pretty much everybody here agreeing that they are willing to pay more in the fuel tax, just like Mr. Schrader said. So one of my concerns, again, also is the fact that you were going to start out with a number out of the hat, \$100. Where does it go? And I do have a young man that—and I guess, what do I tell the 18-year-old kid that is trying to get his, as he is starting to fly, and that every time he is going to take off or land, it is going to cost him a couple hundred bucks? I think we are discouraging new pilots for long term down the road. That gets pretty expensive, especially for some young folks that are out there. But when I go back home this weekend, what do I tell this 18-year-old pilot with the \$100 fee? How do I sell that to him?

Mr. BUTTON. Me? Well, first of all, we would need him to tell him to enroll in a new degree we are going to have at George Mason, where you can get credits for acquiring a pilot's license, so you can get a plus from that. I think the point is very much—I am the academic here. Therefore, I am putting forward the academic perspective because I think we have sort of a consensus without me here. But I also do believe, though, in user charges. From a pragmatic short-term point of view, you may want to raise fuel taxes. The administration is saying that is easy. That does not avoid the arbitrariness of the system, though. You are talking about \$100 being arbitrary. How much are you going to raise the fuel tax by? What amount? That is equally arbitrary.

Mr. SCHILLING. No, it is not.

Mr. BUTTON. But why isn't it? If you want to raise a certain sum of money, then you can—

It is arbitrary in the sense, if you push up the fuel tax, you are going to raise a sum of money. You have a target sum of money you want to raise, you raise the fuel tax to get that target sum of money. So you have got to have the target sum of money. Ditto when you have \$100, you have got a target sum of money, \$1.2 billion, I believe. That is a target. So the target is there whichever way you go. Both are arbitrary.

As for your son, I think you ought to say he has a great future in aviation, that the aviation industry is growing. And in the longer term, if the economy picks up, there will be a lot of opportunities for flying, and he will be earning a large salary, perhaps producing pizzas and flying them around. I don't know.

Mr. SCHILLING. Next question.

Mr. Pierce, the small business you are in, being a small business, the one thing that is very frustrating is we work on fractions. You are running this business, you are paying utilities, rent, what have you. The government continues to come in and wants to take another piece of that fraction. Between the regulations and every-

thing going on, I mean, do you find that that is a big problem within your business?

Mr. PIERCE. Absolutely. The social cost of doing business is perhaps one of our largest challenges. The economy has obviously hurt our industry and a lot of my competitors, as I have mentioned. And you are so focused on trying to just to work to serve your customers and to do what you need to do to take care of your employees and allow them to have good places to come to work and grow as individuals and care for their families. And more and more regulations just tend to keep kind of poking their nose in where more and more time is spent, not only looking at the regulations but also determining what costs to allocate in terms of budgetary items for accountants and lawyers and everybody else to make it so that a small businessperson, like myself, can understand all of these new charges and regulations and how to properly comply with them. And I think that when we look at things like the administrative cost of this new proposal, this would add to that burden in addition to the other social costs we are already incurring.

Mr. SCHILLING. Does your food service company absorb that cost? Or do you pass it on to your customers?

Mr. PIERCE. We have absorbed to some degree as much as we can. You take part of the pain, and eventually you figure out that if you take all the pain, you are going to go out of business yourself. So that has been passed along to our end user customers and has increased, obviously, their costs for equipment and their cost for services, which is then revenue that they can't use to pay to grow their own companies.

Mr. SCHILLING. That they pass on to their customers also.

Mr. PIERCE. Absolutely.

Mr. SCHILLING. So the bottom line is, all of these fees go down to the hardworking people of the United States of America.

With that, I yield back.

Mr. PIERCE. Thank you, sir.

Chairman GRAVES. A couple points of clarification.

In the hearings about the proposed user fee, the \$100 user fee that the administration is putting forth, what it is is revenue mining, plain and simple. There is no indication whatsoever that this money is going to go to the airport trust fund. There is none. It goes into general revenue. An increase in fuel taxes however or fuel taxes going into the general aviation trust fund to pay for infrastructure that we use on our airports. What this is is revenue mining on the administration's part. And it would cripple aviation.

But I do have a question for Dr. Button. In terms of paying for what you use or making it equitable, how you are going to do it. And you would have a different fee structure for different aircraft. But if you take two different daily operations and you take a crop duster out there that is flying an air tractor, which is a turbine, and he makes 50 takeoffs and 50 landings in one day but never exceeds 200 feet above ground level, and you have got a King Air that takes off from point A to point B, and he pays that \$100 fee, whatever it is, and that crop-duster pays that \$100 fee for all 50 of those operations, how is that equitable when that crop duster never accesses the system nor does he use the air traffic control system?

And how can you argue that that is an equitable system but a fuel charge is not?

Mr. BUTTON. I entirely agree with you. I don't think that is equitable. I think the issue is that there should be a charging system to reflect the fact one chap is doing 50-odd trips. The charge would probably not be that large because he is not using air traffic control facilities in that sense. Those that fly higher do; therefore, their fees would be higher.

And that would be, you know, based on the actual cost of using the system. The problem with any fixed charge is that it is largely arbitrary, and this is true of the \$100. It is an arbitrary number. The cut-off point for what aviation types pay and don't pay is also arbitrary. So there is a certain arbitrariness about that.

I am very much in favor of a general user charge. How much does it cost for that plane in terms of the costs imposed on the FAA and the other providers in the air transport infrastructure? The airports, it may be zilch in the case of a crop-duster taking off from a field, or it may be large in the case of a large commercial aircraft. They should pay for the appropriate cost of using the airport and the air traffic control system. Just like if we go and purchase anything else, we pay the cost of producing it and if we—a lot of us want it, the price goes up, and the supplier supplies more. There are signals in the pricing mechanism. That is the way the American system works. Apple uses it pretty well, and they are the most successful company in the world.

Chairman GRAVES. Then how do you account for the rest of the general aviation out there, the non-turbine aircraft, the piston-tire aircraft, the weekend flyers.

Mr. BUTTON. I think it is like anything else, there should be an appropriate charge for them if they use any publicly provided facilities. If they use a private air field, that is their own cost. If they don't use any form of an air traffic control facility, that is not a cost to the Nation. But if they do, they should pay.

Chairman GRAVES. Well, my question, you mentioned, you know, that you just meter this by that takeoff and you get a bill in the mail for that takeoff. How on earth are you ever going to police something like this, and put a bureaucracy in place to try to account for that and decide who is taking off from the private field, who is not taking off from a private field, when you have aviation fuel taxes that pretty much account for that?

Mr. BUTTON. Well, the aviation fuel taxes. If you take—why are you paying an aviation fuel tax if you are taking off from your own field? You are not using up any controlled air space. I mean, why should you pay the government for that facility which you are not using. I have got some sympathy, I think you know, in the case of general aviation taking off from a private field, landing and flying through uncontrolled air space. You are not using any national resources. I would sympathize there should be no payment for that.

Chairman GRAVES. Okay, let's take out private air fields and just talk about smaller air fields.

Mr. BUTTON. Small air fields if they are privately owned, the private company owning them presumably would pay an appropriate take-off landing fee.

Chairman GRAVES. Very, very, very few—I am talking about municipal airports. The vast majority of airports in this country, municipal county-owned.

Mr. BUTTON. Well, presumably the airport, which someone has to pay for that airport somewhere along the line. Why not pay directly for the facilities used? We do this in virtually every other thing we do in society. Certainly, we don't do it perfectly. Let's. You know I am not——

Chairman GRAVES. It is effective. But isn't that exactly what fuel charges do is pay directly for the use of that——

Mr. BUTTON. It is paid directly for the fuel you use, but you may have a runway of a certain length, which two aircraft of slightly different sizes use, one burning more fuel than the other; therefore, one pays more tax than the other one, but they are using exactly the same facility.

Chairman GRAVES. Well, see, then you get right back into the situation in which you are going to have to put a bureaucracy in place which is going to cost money just to be able to determine if, you know, how much a Stinson 108 uses as opposed to a Gulfstream, how much runway they are going to use.

Mr. BUTTON. I accept there is a bureaucratic cost. I think I would get rid of the existing charges, which would reduce the burden of that. But the other charges do not involve actually the Federal systems, the point and factor over here, because a lot of the airports are owned by States or municipal authorities, and the airport themselves, presumably, should act commercially in the way they set their fees. The air traffic control, which is, as far as I can see, is the primary issue, which is the FAA——

Chairman GRAVES. Before we have a vote—we have a series of votes coming up and I would like to ask you if you would like to weigh in at all, anyone else on what I have asked?

Ms. King.

Ms. KING. Yes, I would like to address the fact, Dr. Button's position was taken by the head of the FAA equivalent in Australia, and what they did is pursue exactly that philosophy that if you are out in the outback and you are not coming into town, why should you be paying fuel taxes? We will get rid of the fuel taxes, and we will put in user fees at all of the towered airports. They did that. It has been devastating. The airports—the philosophy was that with the user fees, the pilots using the airport will have an incentive to control the costs that are being charged to them. But the power is so unequal between the government and an individual pilot, that that is not an effective mechanism. It did not work. And I don't believe that it will work. And it has been devastating to flight training organizations in areas like Sydney and many other places up and down the east coast where they did flight training. What is left in Australia has moved inland, away from the air traffic system.

The point is that air traffic is a national transportation resource and even the air tractor that is flying out of a crop-duster field and not taking off and landing from an airport with a tower, that pilot trained somewhere. The aircraft was built and certified by the FAA. There is a whole lot of FAA cost and national cost involved in it. And I think that the national fuel system is the best way to pay for it. The issue of the runway and, a big airplane versus a

small airplane landing on it, the runway is the length that it is, the longer length in smaller towns, because they want the bigger business aircraft there. And so they pay more to essentially compensate the municipality for being willing to finance that big of a runway.

Chairman GRAVES. I apologize to Mr. Mulvaney for not getting to your questions. I want to apologize for the vote series that we have. It is going to probably take, because we have got a motion to recommit in there. It is probably going to take about an hour, so unfortunately, I am probably going to go ahead and adjourn the hearing so you all don't have to sit around and wait on us to do our job.

But I want to thank all of our witnesses for being here today.

It is very evident to me, and 195 of my colleagues which signed the letter opposing the per flight user fee on operations in the aviation industry, is a very bad policy. It is going to add to an already massive federal bureaucracy, and it is going to create a lot of unnecessary financial and regulatory burdens on small businesses. My job and the job of this Committee is going to be watched very carefully what happens when we do an omnibus spending bill at the end of the year, to make sure that user fees are not in that particular piece of legislation, and to watch when it comes to sequestration, which we will have a hearing in this Committee on sequestration this week, in fact tomorrow, and we will have another hearing next week, and another hearing on the financial cliff that is coming.

But we are going to do everything we can to make sure that user fees are not included in any end-of-the-year spending measures.

And with that, I would ask unanimous consent that members have 5 legislative days to submit statements and supportive materials for the record.

Without objection, that is so ordered. And with that, the hearing is adjourned. I appreciate very much all of the witnesses for coming today.

[Whereupon, at 2:09 p.m., the committee was adjourned.]



4226 King Street, Alexandria, VA 22302
P 703-843-9000 F 703-845-8176
www.nata.aero

**Statement Marian Epps, CFO
Epps Aviation**

for the

National Air Transportation Association

before the

Committee on Small Business

U.S. House of Representatives

Hearing on

User Fees in the Aviation Industry: Turbulence Ahead

September 12, 2012

**2360 Rayburn House Office Building
Washington, DC**

Chairman Graves, Ranking Member Velazquez and members of the Committee, the National Air Transportation Association (NATA) appreciates the opportunity to appear before the Committee to discuss the detrimental impact user fees would have on the general aviation industry.

My name is Marian Epps, and I am chief financial officer of Epps Aviation in Atlanta, Georgia. I am here today to speak on behalf of the National Air Transportation Association (NATA). NATA, the voice of aviation business, is the public policy group representing the interests of aviation businesses before the Congress, federal agencies and state governments.¹ NATA's 2,000 member companies own, operate and service aircraft. These companies provide for the needs of the traveling public by offering services and products to aircraft operators and others such as fuel sales, aircraft maintenance, parts sales, storage, rental, airline servicing, flight training, Part 135 on-demand air charter, fractional aircraft program management and scheduled commuter operations in smaller aircraft. NATA members are a vital link in the aviation industry providing services to the general public, airlines, general aviation and the military.

Epps Aviation is the south's premier corporate and general aviation facility. Owner and founder Pat Epps has come a long way since the aviation pioneer days when his father, Ben T. Epps, the first pilot in Georgia, built and flew his first aircraft in 1907. Ben's six sons and two of his three daughters all became pilots. In 1965, Pat bought a small fixed base operation at DeKalb-Peachtree Airport (PDK) and began Epps Aviation. Through the years, Epps Aviation continued to grow. Today, more than four decades later, Epps Aviation employs more than 160 team members and operates on a total of 21 acres at Georgia's second busiest airport. The facility consists of the original main hangar, a terminal lobby, two maintenance/avionics hangars totaling 54,000 square feet, five corporate aircraft hangars, 40 T-hangars, and its own fuel farm. The breadth of Epps' aviation sales and services include fueling, storage, maintenance, avionics, new and used aircraft sales, and charter.

Epps Aviation, like many small businesses supporting the aviation community, has felt the effects of a slower economy and is working to build business back to pre-recession

¹ NATA is the leading national trade association representing the legislative, regulatory and business interests of general aviation service companies and provides education services and benefits to our members to help ensure their long-term economic success.

levels. However, the administration included a tax proposal in their deficit reduction plan that would require all air transportation providers (commercial airlines and general aviation operators) to pay a \$100 per-flight departure fee. This departure fee would decimate small businesses and organizations around the country that depend on general aviation. In a time when general aviation businesses are looking to spur economic and job growth, the imposition of a user fee would also be detrimental to the many states with little or no commercial airline service where general aviation plays an integral economic role.

Background

The general aviation industry is critically important to the economy. The industry employs 1.2 million workers and generates \$150 billion annually in economic activity. General aviation, small airports and related businesses provide access to a host of important services and resources, including medical care, law enforcement, disaster relief, mail delivery, fire fighting and flight training. We believe that the current system of aviation excise taxes is the most stable, efficient and equitable source of funding for the Airport and Airways Trust Fund.

User fees, on the other hand, would significantly impede general aviation in the United States for a variety of reasons including:

- **Reduction in general aviation activity:** User fees would undoubtedly result in many operators flying on a much less frequent basis due to the increased costs of using the national airspace system. Less activity will have a large ripple effect throughout the industry, with many businesses suffering due to fewer fuel sales, maintenance projects, and other services.
- **Imposition of an administrative burden:** Virtually all countries that utilize a user fee system have adopted a method of billing users of the system after their flight for the air traffic services used. None of these countries, however, have the level of general aviation activity of the United States. A system of “after the fact” bills would result in a massive administrative burden for all general aviation pilots. Companies would have to employ significant resources for verifying the bills and ensuring their accuracy. With thousands of bills being generated daily, there is a great likelihood that a significant number of these bills will be erroneous, leading to endless red tape to correct errors. The current fuel tax ensures that the aviation trust fund will receive the appropriate contribution the minute the fuel is purchased, without having to wait weeks or even months for payment.

Unified Message to the White House

Congress and the aviation industry have been unanimously opposed to the imposition of aviation user fees. Over the past five years, numerous letters from Members of Congress in the U.S. House of Representatives and the U.S. Senate, industry coalitions, and aviation associations have been sent to the administration to reiterate that per-flight user fees will cripple the aviation industry and the small businesses it represents. The government's first priority should be to create an environment in which business can grow and make important contributions to the national economy. A user fee is little more than a punitive tax that would have a lasting negative effect on an industry that contributes significantly to the nation's economy and its exports. Moreover, imposition of a user fee would create a federal collection bureaucracy that would require significant funding and manpower.

Conclusion

Concerns are high about the ramifications the proposed user fee would have on the aviation industry and the small businesses that form our core. All those impacted by this fee recognize that fuel taxes for general aviation have not been raised in more than 20 years and that some increase is warranted. We all agree that fuel taxes represent the best way for the aviation industry to contribute revenue to the federal government and support efforts to enhance the national air transportation system. However, the costs associated with user fees far outweigh any benefit to deficit reduction.

We look forward to working with the committee in resolving this onerous issue and are eager to serve as a valuable resource for aviation businesses during this critical debate.



**STATEMENT OF
MARTHA KING
KING SCHOOLS, INC.**

**REPRESENTING THE
NATIONAL BUSINESS AVIATION ASSOCIATION**

**BEFORE
THE COMMITTEE ON SMALL BUSINESS
U.S. HOUSE OF REPRESENTATIVES**

REGARDING

**USER FEES IN THE AVIATION INDUSTRY:
TURBULANCE AHEAD**

SEPTEMBER 12, 2012

Mr. Chairman, Ranking Member Velazquez and members of the Committee, thank you for the invitation to appear before you today.

My name is Martha King, and I am honored to be here today to represent the National Business Aviation Association (NBAA). NBAA has over 9,000 members. I am proud that my company is one of them, and I'm equally proud to serve on NBAA's Associate Member Advisory Council. All NBAA Members have one thing in common: they rely on business aviation to meet some of their company's travel challenges. I am also a proud member of the Aircraft Owners and Pilots Association (AOPA).

Mr. Chairman and members of the Committee, I am a co-founder, co-owner and co-chairman of King Schools, a flight-training company my husband and I started in 1975.

Our company produces, CD-ROM, DVD and web-based training courses for pilots. We launched our business out of our home nearly forty years ago. Today, I say with some pride that it has been estimated that nearly every pilot has taken one of our courses during his or her flying career.

In addition to being type rated in our company airplane, a Dassault Falcon 10, I also hold every category and class of FAA rating on my pilot and instructor certificates. I regularly fly everything from jet and piston airplanes and helicopters to powered parachutes. I also pilot blimps from time to time.

King Schools has grown from its original two employees—myself and my husband—and general aviation has been critical to that growth. Like thousands of small start-up companies all over the United States, we found that utilizing a general aviation airplane made our company, King Schools, more efficient and more productive. It allowed us to do more in less time. It helped us survive. It helped us compete. It helped us grow.

Thirty-seven years later, we are still working to survive. We are still working to compete. We are still working to grow. And, we still depend on our general aviation airplane.

Mr. Chairman and members of the Committee, as you know, general aviation is one of our nation's most significant industries. It is one of the few U.S. industries that contributes positively to our nation's balance of trade. It is fundamental to our nation's manufacturing base. It employs 1.2 million Americans, at a time when our country urgently needs jobs. It is an economic lifeline to thousands of small and mid-size American communities with little or no scheduled airline service. It helps companies of all sizes be more efficient, productive and competitive. And, it is vital to our nation's humanitarian efforts.

The great recession has been devastating to the general aviation industry. By virtually any measure, our industry shrank by 30 to 60 percent, and while things have stabilized

somewhat, we have yet to approach anything near our 2007 or 2008 levels. King Schools has not been spared from the impact of the recession: our business, which reached a high of 90 employees in 2007, is today down to 50 employees.

It is difficult to imagine how, at a time when a critical American industry is struggling the way general aviation is, people in Washington could be contemplating an onerous, regressive and administratively burdensome new per-flight tax euphemistically called a "user fee."

A \$100 per-flight tax on all turbine powered aircraft would be devastating for thousands of small businesses like mine. I hope this important committee will put an end to this nonsensical proposal once and for all.

Mr. Chairman, you and your colleagues on this Committee are very familiar with business aviation. But for anyone who isn't, here are a few informative facts, in addition to those I've previously shared with you:

- Business aviation is a U.S. industry. Most of the planes and component parts flying in the world today were built in the United States.
- Eighty-five percent of the U.S. companies that utilize business aviation are small and mid-size businesses.
- Most business aviation flights fly to or from airports with no scheduled airline service.
- The average age of the U.S. general aviation turbine airplane fleet is over 25 years old.

Mr. Chairman and members of the Committee, I know there are those who try to promote a caricature of business aviation that is at odds with these facts. But the reality is that my small business, King Schools, is very representative of business aviation in the United States.

We fly a business jet that was built in 1974. Our 50 employees at King Schools depend on us to be strategic, efficient and productive. Our employees are instructors, technicians, sales people and customer service representatives.

We don't have an army of accountants standing by to process a deluge of new \$100 per-flight invoices from some new federal bureaucracy. And quite frankly, our country doesn't need some new "Sky-R-S," complete with auditors, billing agents and collectors.

Today, business aviation pays at the pump through a per-gallon fuel tax. It is simple. It is fair. It is efficient. It is progressive. It is environmentally friendly. And...it is adjustable.

Congress can always raise or lower the fuel tax. We never need to establish a foreign-style system of user fees in the United States. We have a better way. We have fuel taxes.

Mr. Chairman and members of the Committee, over the past year, Republican and Democratic Governors have written letters in opposition to the \$100 per-flight user fee. Over 100 mayors, Republicans and Democrats, from virtually every state in the Union, have written in opposition to the \$100 per-flight fee. As you know, a bipartisan group of 195 House members have written in opposition to aviation user fees. Mr. Chairman, we thank you and the Committee members who signed that letter.

In addition, local news networks in towns in from Arkansas, to New Hampshire, to Indiana, to South Dakota and Idaho have reported on the danger a \$100 per-flight fee represents to their communities and their local airports.

Make no mistake about it. A new \$100 per-flight fee on all turbine airplane flights is a bad idea. It will hurt our economy. It will hurt our transportation system. It will hurt small towns. And it will hurt small businesses like mine. We are counting on this committee to make sure that doesn't happen. We are counting on you to spread the word: aviation fuel taxes work. Per-flight fees destroy.

Thank you for the opportunity to be here today. I'll be happy to answer your questions.

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User Fees in the Aviation Industry: Turbulence Ahead

Evidence to the House of Representative’s Committee on Small Business

Kenneth J. Button PhD, AcSS, FCILT, FCIHT

University Professor

School of Public Policy

George Mason University

Room 2360 of the Rayburn House Office Building

September 12, 2012

In my comments I would like to address two related, but separate issues; (1) the desirability of aviation user charges and (b) whether the proposed mandatory \$100 flight fee is likely to prove a good user fee. The broad conclusion is that in principle user charging has merit in terms of ensuring better use of existing infrastructure and in facilitating better decisions regarding its capacity, but that a \$100 surcharge per flight on users is confusing and probably not helpful in moving towards genuine economic user fees.

USER FEES

There have been important changes taking place around the world in terms of the ways that air transportation infrastructure is organized, financed and regulated. In general, and although the details vary considerably, there has been a greater emphasis on using market mechanisms to finance and manage airports and air navigation services (ANS)¹. This

¹ K.J. Button, 'The Implications of the commercialization of air transport infrastructure', in D. Lee (eds). *The Economics of Airline Institutions, Operations and Marketing 2*, Elsevier, Oxford, 2007, pp. 171-192.

27 brings aviation infrastructure more in line with the institutional structures under which
28 users and suppliers of other forms air transportation hardware (e.g. air frame and engine
29 manufactures) and software (e.g. global distribution systems) function, as well as the
30 commercial airline industry.

31 The US economy has traditional grown because of its reliance on the Anglo-Saxon
32 economic philosophy that one leaves things to market forces and market pricing unless it
33 can clearly demonstrated that government intervention provides a superior outcome. The
34 market may not be perfect, but it has to be shown that government supply or its exercise
35 of controls over prices is actually better than a broad reliance on the market. The Airline
36 Deregulation Act of 1978, and the liberalization for air cargo markets the preceding year
37 provided evidence, not only of the benefits to air transportation users of adopting market
38 principles², but acted as a catalyst to other sectors, including the railroads and trucking,
39 that followed suit with considerable economic gains accruing.

40 While user fees have limitations, no system is perfect, some of the particular criticisms
41 that have been voiced regarding their application in air transportation infrastructure
42 provision are misguided. A common one is that in times of economic recession the air
43 navigation service providers (ANSPs) will suffer from diminished revenue flow as
44 commercial airline traffic declines. This in turn, because ANSPs have high fixed costs,
45 would force the providers to push up fees, and thus depress air traffic further. Exactly
46 what is not required. At the extreme, as they build up debt, airlines may apply for Chapter
47 11 bankruptcy protection leaving other carriers and users to bear the financial burden of
48 the infrastructure.³ While this superficially has some validity, and particularly so in the
49 context of a badly structured institutional situation, the type of circumstances outlined is
50 common to many other forms of business that have well tried mechanisms for handling it.

51 Businesses confronted with high fixed costs, for example, tend to carry more financial
52 reserves and ensure that they have lines of credit to carry them over periods of reduced

² See for example, Bailey, E.E. (2010) Air-transportation deregulation, in J.J. Seigfried (ed) *Better Living Through Economics*, Harvard University Press, Cambridge, MA.

³ See for example, D. Jenkins, *Turbulence Ahead: How User Fees Could Ground the FAA*, 2005.

53 revenue; they are not totally myopic but are well cognizant of the situation. In the
54 extreme, companies with high fixed costs in the private sector file for Chapter 11
55 bankruptcy and essentially have their costs (*de facto* debt) written down. The risks of the
56 undertaking are borne by those owning it and not but taxpayers⁴. In the event of default,
57 the infrastructure remains but is taken over and operated under a new financial structure.
58 In other words, owners take measures that provide insurance against what they consider
59 the worst downturns in cash flow, and there are institutional structures that ensure smooth
60 transitions to new business forms in the extreme cases where this is not adequate⁵.

61 There have been admitted problems with user fees in air transportation in other countries,
62 but these have been largely the result of the poor institutional arrangements in which they
63 were established, combined with extreme events. For example, NAV CANADA, the non-
64 profit corporatized Canadian ANSP had liquidity issues after the happenings of 9/11 but
65 this was seriously exasperated because of the legal requirement to match costs and
66 revenues in the very short term; essentially annually⁶. This is not a good business model.
67 Capital-intensive suppliers need to be able to hold adequate reserves, and to use them to
68 tide them over periods of reduced revenue. The UK “privatized” its ANSP as NATS in
69 2001, also just in time to be hit a major downturn in traffic. It did require injections of
70 public and private money, but this was into a business that many had feared was
71 undercapitalized in the first place⁷.

72 The main advantages of having a more commercial approach to managing ANSPs, with a
73 move to prices closer to those found in markets, and the opportunity to have access to a

⁴ This is not the case, however, when government bailouts are provided. This, because of moral hazard considerations, puts the risk, or part of it, at the door of the taxpayer.

⁵ American Airlines is still operating at the time of writing under Chapter 11 bankruptcy with no significant impact on its customers.

⁶ Air Canada went bankrupt in 2003 owing \$44 million to NAV CANADA and its chairman complained that high user fees had harmed the airline (CBC News (Canada) report, December 4, 2003 , www.cbc.ca/stories/2003/01/milton_030411)), but this should be taken in the context of the number of US carriers that received post 2001 aid from the government or themselves went bankrupt despite the publicly funded, non-user fee regime in place.

⁷ A wider discussion of the various approaches to making ANSPs more commercially oriented is found in, K.J. Button and G. McDougall, Institutional and structural changes in air navigation service-providing organizations, *Journal of Air Transport Management*, 12, 2006, 236-252

74 more diverse range of funding sources, is the stimulus this gives to efficient decision-
75 making. Market prices based user fees do three main things⁸:

- 76 • They allocate what is available to those who benefit most from using them the
77 most. They rise when there is shortage of any good or service thus giving priority
78 to those who will pay most and fall when there is a surplus. The classic short term
79 advantage is that they make more efficient use of infrastructure by differentiating
80 between periods when there is heavy demand for facilities and when demand is
81 lighter, by allocate capacity in the former to those most willing to pay for it, and
82 encourage other potential users to switch their activities to the latter.
- 83 • They provide indicators of where additional or modified capacity is needed, or
84 conversely where capacity should be reduced. If prices continually rise, this is an
85 indication that more should be provided; people are basically voting with their
86 wallets to have more or more useful infrastructure available.
- 87 • They provide funds to finance new capacity. Revenues from user fees provide a
88 direct source of funds for investment, and provide an incentive for financial
89 markets to invest. There is also a degree of accountability in terms of the returns
90 earned to help ensure efficiency in how the investment is used.

91 There are many forms of market failures, just as there are many forms of government
92 failures, that may make user fees much less efficient, or impractical⁹. In particular, is
93 often cited that ANS are public goods and thus not suited to user fees¹⁰. This confuses
94 public ownership or financing that may occur for many reasons, with the nature of a
95 public good. A public good was initially defined 50 years or so ago by the Economics

⁸ These features, together with, a discussion of the taxation approach to financing the FAA's activities are discussed in more detail in K.J. Button, *Taxing the US Airline Industry – A Time for Change*, 2005, www.aerlines.nl.

⁹ For a wider discussion see, C. Winston, *Government Failure versus Market Failure*, Brookings Institution, Washington DC, 2006

¹⁰ This seems to be the explicit rationale behind Australia's subsidizes service to some regional areas under the Location-Specific Tower Subsidy Program, see US Government Accountability Office, *Air Traffic Control - Characteristics and Performance of Selected International Air Navigation Service Providers and Lessons Learned from Their Commercialization*, GAO-05-769, 2005.

96 Nobel Laureate Paul Samuelson¹¹ as being a good or service that is non-excludable (i.e.
 97 you cannot prevent people from having or using it) and non-rival (i.e. one's person's
 98 consumption of it does not affect that of others; basically you do not get congestion.).
 99 The existence of these conditions prevent user fees being charged, people would simply
 100 not pay them, why should they if use cannot be prevented, and thus public financing and
 101 other forms of funding are required. Since it is possible to both exclude people from
 102 using ANS services, and the system periodically suffers from manifest congestion, they
 103 are private goods in the economic sense and thus case for user fees can be made.

104 This is not to say that there are not problems in applying the user charge approach to
 105 many types of goods and services, although user charges are by far the most common
 106 approach to allocating and financing goods and services in the US. In the context of ANS
 107 several practical issues involving user charges seem of particular relevance:

- 108 • There are indivisibilities and considerable "jointness" in the provision of many air
 109 navigation services. In particular, large commercial aircraft generally require, and
 110 also make use of more facilities than do non-commercial aircraft, i.e. general and
 111 business aviation. Under the current structure of non-user based charging, for
 112 example, a large commercial aircraft would pay between \$1,300 to \$2,000 in
 113 taxes for a flight from Los Angeles to San Francisco while a corporate jet flying
 114 the same route and using the same FAA ANS would pay about \$60 in taxes. The
 115 "distortion" however, is likely to be less than these crude figures imply. Whether
 116 the corporate jets uses or need to use the same ANS services is the point at issue;
 117 the system is largely designed for the larger, commercial aircraft and executive
 118 jets may well elect not use them if they had to pay the full costs.

119 This is an undeniable practical problem and one that is unlikely to produce any
 120 ideal outcome; but in the words of the Scottish philosopher, Carveth Read,
 121 "Better to be vaguely right than precisely wrong." The current system is
 122 wrong and fees more attuned to costs would provide better signals to users

¹¹ P.A. Samuelson, The pure theory of public expenditure, *Review of Economics and Statistics*, 36,1954, 387-389.

123 of the economic implications of their flights. While the exact calculation and
124 collection of user fees may be difficult, they would seem better than the
125 current regime that is some way from offering signals to ANS users about the
126 economic costs of their actions or indicating where new systems capacity
127 may be required.

128 • There are problems in collecting user fees. The administrative costs of collecting
129 fees or taxes are no small consideration in terms of business efficiency. The
130 current approach of partially funding aviation infrastructure from fuel excise
131 duties and other taxes, such as the international arrival and departure tax, has
132 relatively low administrative costs and is easy to collect. There are arguments that
133 user fees would pose more serious administrative challenges. This ignores two
134 considerations; first, fuel duties, while crudely related to flight distance, are not
135 closely tied to the ANS that are used and thus are costly in terms of providing no
136 incentive for efficient use of ANS services, and second, since flight plans have to
137 be filed and controlled airspace is just that, mechanisms for levying user fees
138 should not prove too intractable.

139 Other countries that have user fees adopt a variety of methods of collection, many
140 levy fees on the number of flights airlines make and the types of plane that are
141 flown. This is far from perfect, although cheap to operate, but is more kin to costs
142 than the almost ad hoc US system of taxes and duties. Given modern information
143 systems, there is an incentive to develop better collection mechanisms that
144 combine economy in fee collection and a linking of fees more closely to the
145 market.

146

147 THE SUGGESTED \$100 TAKE-OFF FEE.

148 In 2011 proposals emerged to establish a mandatory additional fee of \$100 per flight to
149 be paid by aviation operators who fly in controlled air space¹². There are some
150 exemptions to the proposal, notably Canada-to-Canada flights, aircraft flying outside of
151 controlled air space, air ambulances, military aircraft, public aircraft, recreational piston
152 aircraft, and air ambulances. The revenue generated, estimated at \$1.2 to \$1.3 billion,
153 much would depend on the elasticity of demand for use of controlled air space and the
154 general state of the economy, would go to the Federal Aviation Administration, and
155 would, according to US Treasury Department's Bureau of Public Debt calculations,
156 increase air traffic service fees above current structure levels by about 13%.¹³

157 The objective of the charge would be to assist in reducing the national deficit (the US
158 National Debt in September 2012 was \$16.02 trillion; an annual revenue of \$1.2 billion is
159 about 1/13,333th of the current Debt) and to make equitable the share of costs borne
160 across the aviation user community. There has, not surprisingly been some opposition,
161 not least from those who would have to pay the surcharge, to the proposal.

162 This approach misses a vital element in pricing; namely the efficiency with which
163 services, such as ANS, are used. There are opportunity costs of all sorts in making
164 aviation space, some clearly financial as in the case of the FAA hard and software
165 involved, but some involving the congestion caused to other users (or potential user) of
166 air space. Efficiency in the use of a system is not the same as fairness in charging or
167 using revenues from fees as a contribution to pay off national deficits.

168 In terms of efficiency the proposed surcharge has a number of limitations:

- 169 • It is an arbitrary, admittedly round, sum that seems unrelated to any notion of the
170 actual user costs imposed by the various groups making use of ANS. There has
171 been no firm articulation of why the sum was arrived at, the administrative costs
172 of its collection, or the likely impact on consumption of ANS.

¹² US Office of Management and Budget, *Living Within Our Means and Investing in the Future*, Washington DC, 2011.

¹³ An alternative of a fee of \$115 to \$125 per flight would raise \$1.5 billion annually.

- 173 • The underlying rationale behind the charge is confusing. If it is simply a
174 sumptuary sales tax imposed on grounds of fairness or equity then this should be
175 made transparent and the reasons behind it. There are also differences between
176 user fees that are meant to foster better use of a system, and taxes that are
177 intended for macroeconomic purposes of handling the costs of public
178 expenditures more generally.
- 179 • A takeoff fee is a poor indicator of the actual costs imposed by users of ANS
180 services, just as a fuel tax is. Flights are of different lengths and make use of a
181 variety of ANS, of which the terminal costs are only part. It may be a better proxy
182 to the economic costs of a flight, and thus have some attributes of a genuine user
183 fee, but it is a long way from ideal.

184 What the exact impact of takeoff surcharge will be on the various users of ANS is
185 difficult to say; in particular, evidence on the relevant elasticities of demand is lacking.
186 We have little information on the effects of such a proportionately large fixed cost
187 increase on air travel. Indeed, there is limited rigorous analysis of a technical kind of the
188 demand elasticities for many aspects of air transportation outside of the large commercial
189 sector.

190 Arguments certainly have been raised that a \$100 fee would be prohibitive and limit
191 many forms of general and business aviation activity, and possible commercial services
192 on very thin routes. In this context, comparisons with Europe, and in particular, the UK,
193 where many airports currently have higher takeoff fees for general aviation than the US,
194 have been made¹⁴. It is observed that there is much less general aviation in Europe, but
195 this sort of comparison is not really that useful. There are major physical and human
196 geography differences between the US and Europe, and there are other institutional
197 difference between them in terms of such things accesses to airports and competing
198 surface modes, that limit the validity of such international comparisons

199 Overall, in terms of the \$100 takeoff surcharge, the emphasis when it was initially
200 mooted was in terms of its potential role in enhancing the fairness of the way ANS is

¹⁴ T. A. Horne, FAA Funding debate: Euro-fees fears, *AOPA Pilot Magazine*, 50, 2007

201 financed and helping to reduce the national deficit, but this seems somewhat misguided.
202 Given the scale of the Nations' overall deficit, and that from experience we can expect
203 the annual fiscal burden will increase as interest rates rise in the future if the economy
204 moves from recession, the aggregate sums involved in the surcharge are miniscule.
205 Regarding fairness, there is insufficient consideration of the efficiency effects in the
206 detail of the charge. In the long-term, small and large businesses are only likely to
207 prosper if the US economy is globally efficient, and resources used productively; user
208 charges are designed to do this rather than be focused fairness that has many dimensions
209 including that between generations.

Statement of
Brad Pierce, President of Restaurant Equipment World
Before the
Committee on Small Business
U.S. House of Representatives
Concerning
User Fees in the Aviation Industry: Turbulence Ahead
September 12, 2012

My name is Brad Pierce, and I appreciate the opportunity to be here today and to represent the Aircraft Owners and Pilots Association (AOPA). I have been a member of AOPA since 1997. The company I lead, Restaurant Equipment World is also a member of the National Business Aviation Association (NBAA).

Restaurant Equipment World (A Pierce Sales Company, Inc.) was founded more than 35 years ago by my father, Jerry Pierce. We provide equipment to restaurants and foodservice establishments throughout the Southeast and beyond from our headquarters in Orlando, Florida. Today we are proud to have approximately 48 employees and offer top quality foodservice equipment, layout services, and installation to clients that includes independent and chain restaurants, hospitals, corporate cafeterias, correctional facilities, and exports to establishments in foreign countries. We currently have sold products to over 100,000 customers in all 50 states and more than 110 countries internationally.

My testimony today will make the following key points:

1. General aviation has been a critical factor in the growth of our business and gives us an important competitive advantage.
2. General aviation users pay to fund the aviation system through excise taxes on fuel. This system is effective, proven, and should continue to be the means for users to pay into the system.
3. User fees would be devastating to my business and others like it that depend on general aviation daily.

General aviation grows business

Restaurant Equipment World depends on general aviation to conduct business. We currently fly a Turbo Cirrus SR-22 and have placed a deposit on a Cirrus Vision Jet. Our current aircraft is the third airplane that we have utilized to grow our business.

I consider my airplane to be one of my best employees. It has consistently allowed me to expand the boundaries of our service area because we can

reach potential clients fast, even when they are located hundreds or thousands of miles from our Orlando headquarters. I have personally flown our aircraft to 49 states. We utilize our aircraft to maintain existing relationships, attend industry events, and pursue new business for our company. And because the airplane allows us to set our own travel schedule, we can stay on site to make sure our business interactions are complete and our clients are satisfied; we don't have to worry about catching a flight. As recently as two weeks ago, our aircraft allowed me to shift my schedule in order to meet with a new client as well as being able to make an impromptu site visit with our manufacturing partner on my way to an industry event.

On more than one occasion, our airplane has provided the competitive advantage we needed to secure a contract. When we had a call from a potential client in North Carolina, I was able to arrange a meeting less in a matter of a few hours, something that would have taken a full day of travel each way utilizing a commercial airliner, not to mention the added hotel, rental car, meals and other expenses which would have been incurred. We got there even before the local restaurant supplier, and Restaurant Equipment World got the business. The client was impressed with our ability to respond to their needs quickly which gave them the confidence we were the best choice to complete their project on time without excuses.

The airplane allows me to meet with multiple customers in multiple cities and multiple states in a single day. It allows me to respond quickly to customer needs. And it allows me to build personal relationships with clients I might otherwise never be able to meet face to face. These things are critical for growing and maintaining my business. Our airplane has also allowed our staff members and managers to accompany me on trips in order to meet their counterparts at client locations. This has helped to build stronger bonds throughout our organization with our customers.

And I am not alone. In my home state of Florida, for example, general aviation is associated with more than 7 million jobs and it has an estimated economic impact of \$7.5 billion. That's because thousands of business owners like me use general aviation to support and grow their companies.

The current recession has been a challenge for all businesses, Restaurant Equipment World included. In order to survive and thrive, we have had to have a laser focus on efficiency. We are a small company. We can't throw unlimited resources at challenges and opportunities. But we need to be there for our customers, now more than ever. At a time when we've seen multiple competitors failing, we've been able to grow our business and continue hiring employees.

Current System of Excise Taxes Work

The United States has the largest, safest, most efficient air transportation system in the world—a system developed and funded by simple, efficient taxes on aviation fuel, passenger tickets, and air cargo.

About two-thirds of the funding for the FAA's Aviation Trust Fund comes from a variety of excise taxes. Currently, avgas users pay 19.3 cents/gallon in fuel tax, while noncommercial Jet A users pay 21.8 cents/gallon. GA users have agreed to an increase in the fuel taxes in lieu of user fees, ensuring that GA pays its "fair share" of costs. Because fuel taxes are included in the amount charged for fuel they are directly remitted to the federal government. These taxes are easy to collect and provide an equitable distribution of costs—if you fly farther, you use more fuel and pay more in taxes. Similarly, the Highway Trust Fund is collected at the pump.

Other parts of the world have user fee systems that are far more complex and require a large bureaucracy to manage. Take for instance Australia. In order to fly general aviation, you'll need to know your deemed max takeoff weight, how far you'll fly, how many full-stop landings and instrument approaches you'll make, the rate per ton assessed at your planned destination—and if you'll be arriving during normal business hours. Plus, take a guess at whether you'll fly more or less than last year, because the government could give you an option to estimate your charges. If it's less than \$500, you might be off the hook. If not, pay up.

(http://www.airservicesaustralia.com/wp-content/uploads/standard_contract_oct2011.pdf)

Of course, this elaborate pay scheme requires people to measure your flights, count your landings, check your math, and collect your money. So a lot of the money you pay into the system won't even go toward providing ATC services or keeping the airspace system safe.

The burden of similar fees in the United States would destroy flight schools, decimate the pilot population, put manufacturers and FBOs out of business, and kill off some of the 1.2 million jobs that now depend on GA.

General aviation pays at the pump

Every general aviation operator pays to support the aviation infrastructure every time we fly through an excise tax on fuel. This tax has been an effective way of paying into the system since the earliest days of powered flight. It directly reflects how much we fly because we are taxed on the amount of fuel we use. Currently, Avgas users pay 19.3 cents/ gallon in fuel tax while non-commercial Jet A users pay 21.8 cents/gallon.

Our current system requires no additional bureaucracy or administrative costs either for system users or for the federal government.

And Congress sets the tax rate. It is within your purview to adjust the rate as needed.

A \$100 per flight fee would require a new system just to administer and collect this new tax. And once the bureaucracy was in place, the fee could change at any time without Congressional input or oversight. For business owners like myself, there would be additional costs just to reconcile and pay the resulting invoices, making the added burden of this new tax even greater.

Today's system of excise taxes works. Creating a new type of tax, with the necessary administrative bureaucracy, would increase costs and decrease efficiency for everyone concerned.

User fees would devastate small businesses

Without question, a \$100 per flight user fee would be catastrophic to general aviation, will not create jobs, will depress economic prosperity for the hundreds of thousands of businesses that rely on general aviation to move their goods and is nothing more than an additional regulatory burden and harassment to our nation's small businesses and communities that rely on general aviation as a means of livelihood.

Such a proposal, if enacted, would be devastating to small businesses like mine. Adding an additional \$100 to the cost of every flight would have an impact on how many clients we could reach. Shorter flights would make less economic sense, and we would not be able to visit multiple cities in a day if every stop meant an additional \$100 fee.

For a business like mine that depends on being responsive to client needs and building relationships in person, the proposed fee would be devastating. Our travel costs would rise and the value proposition would change. The administrative burden of tracking and reconciling invoices and paying them would also add to our expenses.

Conclusion

I thank you for the opportunity to testify here today and I urge you to reject new taxes in the form of user fees for general aviation. General aviation helped to make it possible for us to grow Restaurant Equipment World from a five-person operation to a company with approximately 48 employees. We want to continue to create jobs, and we need general aviation to do it. Allow us to continue to pay at the pump so we can focus our energy on making our businesses stronger instead of on paying new fees.

09/14/2012 12:45

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TO: MEMBERS OF THE HOUSE COMMITTEE ON SMALL BUSINESS
FROM: ED OBERHOLTZER
SUBJECT: PROPOSED GENERAL AVIATION USER FEE
DATE: 9/14/2012
CC:

To the honorable members of the House committee on small business:

This message is to deliver my objection of the proposed \$100 per flight user fee on general aviation flights. My objection however, is not focused on the user fee itself.

As a group, your committee boasts an impressive level of experience with small businesses. For that, I am grateful and thank each of you for your public service. Because of that experience, I expect the committee to have an acute understanding of government's *inability* to operate any sort of administrative function efficiently and effectively! Accordingly, proposals that include the need to expand an existing government agency administratively or create a new one should be met by an objection from the committee. I understand that it is not that simple but I hope the point is made.

In the case of the proposed user fee, implementation would require an administrative agency of extraordinary complexity when an existing mechanism for collecting revenue already exists --federal tax on aviation fuel. The *thought process* that lead to a revenue increase idea that requires a new administrative solution when an existing revenue collection mechanism already exists concerns me greatly. I fear that is endemic of an ideology that believes that more government jobs is a desirable outcome. I could not disagree more strongly!

Ideology aside, as a business man and a pragmatist, there is simply no evidence supporting the notion that an expanding government produces sustained positive economic impact. Quite to the contrary, governments are "overhead" that absorb capital and should be kept as small as possible.

As small business owners, operators and advocates, you should understand well my position. Which of you could have successfully operated *your* business if you ran it like the government would?!

It is my opinion that so many of your congressional colleagues are either far removed from life in the private sector or have never worked in the private sector, that your small band, this committee, is the group that 300+ million people in the U.S. depend on to help shape and maintain congressional perspective on what the federal government is and is not! Perhaps it is ironic that a single, not particularly earth shaking issue involving a proposed user fee so effectively encapsulates an issue that I believe is seminal to the "culture" of our federal government but I believe that it does just that!

I hope that I have made a cogent point that resonates with this committee and that you will promote the point with your colleagues. The current economic and political trajectory of the country is not positive. Adjusting the "user fee" mindset of Congress will help make adjustments.

Cordially,

Ed Oberholtzer
Norwalk, CT

Congress of the United States
Washington, DC 20515

March 1, 2012

The Honorable Barack H. Obama
President of the United States of America
The White House
1600 Pennsylvania Avenue NW
Washington, DC 20500

Dear President Obama:

We are writing to express our strong opposition to the proposed \$100 per flight fee on commercial and general aviation in your fiscal year 2013 budget proposal.

Aviation user fees have been proposed several times by different Administrations, both Republican and Democrat. Congress has repeatedly and overwhelmingly rejected them.

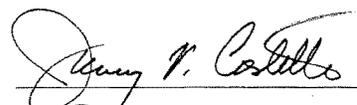
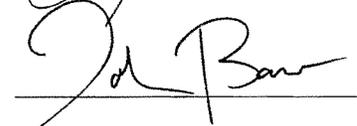
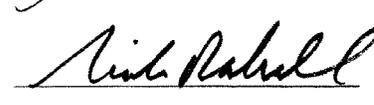
Commercial and general aviation, including aviation manufacturing, are vital industries in our nation, providing millions of jobs and making important contributions to our economy. We should work together to support policies that encourage job growth and strengthen U.S. economic activity. Imposing a \$100 per flight fee on commercial and general aviation is the wrong approach, and we respectfully request that you abandon this idea once and for all.

We appreciate your consideration of our strong concerns.

Sincerely,




MO-6

The Honorable Barack H. Obama
March 1, 2012
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Mark Amodeo

T. Helen

Ben Young

Dan Burton

John G. Dingens

Peter W. T. King

Leonard L. Caswell

Steve Southerland II

David J. Bonior

Bill Johnson

Robert A. Bold

Ron Paul

Michelle T. McComb

Frank Scott

Robert H. Hammer

Kevin Schneider

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Frank Cost

Shirley Hully

Alan Hastings

Fowers

Mr Brooks

Huan

Stanton

Jaime Herrera Beutler

A. Willy

Madeline J. Rodallo

Carol C. P.

Donald Mangillo

Tanphus

Eleana Holmes Fort

Howard Coble

Rush Holt

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Shelley Berkley

CPA

My Tompo

Jim Sankman

Lamar Smith

Frank A. LoBiondo

Melinda Watt

Carina Brown

Paul A. Gosar

Tim Huelskamp

Bill Rosey

Blake Farnthold

Ryan A. Latta

Joseph Courtney

Charles Stenfelz

Charles F. Bass

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<u>Jack Kingston</u>	<u>Michael Chrysos²²⁷</u>
<u>Joe Wilson</u>	<u>T. McElther (MI-11)</u>
<u>Alan W. Bishop Jr.</u>	<u>K. M. Mull Long</u>
<u>Adrian Smith</u>	<u>Lois</u>
<u>Joseph</u>	<u>Lou Barletta</u>
<u>Ann</u>	<u>David P. Ke</u>
<u>Brett Mathews</u>	<u>John R. Coater</u>
<u>Samir B. Mittal</u>	<u>Mark Ryan (CA-2)</u>

The Honorable Barack H. Obama
March 1, 2012
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Paul Brown

C.K.

John Lewis

Frank R. Wolf

Cardinal Patrick

Melanie Stroman

Kristina

Allyson Blackburn

Joe Courtney

Allyson

Pick Lasser

Rob W. Brady

[Signature]

Mark Y. Amodeo

[Signature]

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March 1, 2012
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Joe [unclear] Mary Bono Mack

Carrie Mack Ed Pastor

[unclear] [unclear]

[unclear] JSL JL-19

[unclear] Shelley Moore Capito

Jeis Lis Bob Goodlatte

David Price [unclear]

Quinn Black Eddie Bernice Johnson

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March 1, 2012
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Blair Irfanaga

Dan Linn

Dave Luback

Frank Johnson

Kim Ryan

Ron Kind

Tim Giff

Ermond Meindt

Andrew H. Anderson

Sam Kinell

Sean Flannery TX-17

Pamela Neff TX-19

Mary K. Hines

John R. ...

...

Rob Hays WI-02

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Larry Bush

Lynn Jenkins

Mr. F

Louella Sanchez

Candice S. Miller

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Tom Graves

Carroll Shae

Tom Dabham

Fate Sessom

Gregory W. Meeks

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Walter B. Jones

[Signature]

John Klein

Tom Schmidt

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Jo Bomer

Wm. Lacy Clay

Mac Wherry

Sharron Angle

Virginia Foxx

Jenny Rellens

MST

Bill Pascrell Jr

Clubs W Out

Steve Cohen

M. M.

Vicky Hart Tyler

Gynthia P. Lummis

Pat Tiberi

Fr. Bony

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Mark Pete Stauber

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Scott R. Taylor

Vern Buchanan

Donis J. Mahri

Amos Hunt

Sue Myrick

Tim Bj

D. D. D.

W. J. L.

Anti-Scott

Gregg Harper

Bill Johnson

W. Ed O.

Stoff Davis

John W. Olliv

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General Beckstrom

John F. Tierney
James R. Lott

Ralph M. Hall

Mary Wall

Eric Lipton

Col. David Kuppersterg

Col. P. Hoff

Mike Coffey

Mike Fitzgerald

Chris

Allen Black

Key George

Letter to President Opposing Aviation User Fees
March 1, 2012

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