



Highlights of [GAO-06-973](#), a report to Congressional Committees

## Why GAO Did This Study

The Federal Aviation Administration (FAA), the Airport and Airway Trust Fund (Trust Fund), and the excise taxes that support the Trust Fund are scheduled for reauthorization at the end of fiscal year 2007. FAA is primarily supported by the Trust Fund, which receives revenues from a series of excise taxes paid by users of the national airspace system (NAS). The Trust Fund's uncommitted balance decreased by more than 70 percent from the end of fiscal year 2001 through the end of fiscal year 2005. The remaining funding is derived from the General Fund. This report focuses on the portion of revenues generated from users of the NAS and addresses the following key questions: (1) What advantages and concerns have been raised about the current approach to collecting revenues from NAS users to fund FAA, and to what extent does available evidence support the concerns? (2) What are the implications of adopting alternative funding options to collect the revenues contributed by users that fund FAA's budget? (3) What are the advantages and disadvantages of authorizing FAA to use debt financing for capital projects?

This report is based on interviews with relevant federal agencies, including FAA, the Office of Management and Budget, and the Congressional Budget Office. GAO also obtained relevant documents from these agencies, other key stakeholders, and academic and financial experts.

[www.gao.gov/cgi-bin/getrpt?GAO-06-973](http://www.gao.gov/cgi-bin/getrpt?GAO-06-973).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Gerald Dillingham at (202) 512-4830 or [dillinghamg@gao.gov](mailto:dillinghamg@gao.gov).

## AVIATION FINANCE

# Observations on Potential FAA Funding Options

## What GAO Found

Some stakeholders support the current excise tax system, stating that it has been successful in funding FAA, has low administrative costs, and distributes the tax burden in a reasonable manner. Other stakeholders, including FAA, state that under the current system there is a disconnect between revenues contributed by users and the costs they impose on the NAS that raises revenue adequacy, equity, and efficiency concerns. Trends and FAA projections in both inflation-adjusted fares and average plane size suggest that the revenue collected under the current funding system has fallen and will continue to fall relative to FAA's workload and costs, supporting revenue adequacy concerns. Comparisons of revenue contributed and costs imposed by different flights provide support for equity and efficiency concerns. The extent to which revenues and costs are linked, however, depends critically on how costs are allocated. Thus, to assess the extent to which the current approach or other approaches aligns costs with revenues would require completing an analysis of costs, using either a cost accounting system or cost finding techniques to assign costs to NAS users.

The implications of adopting alternative funding options to collect revenue from NAS users and address concerns about the current excise tax system vary depending on the extent to which users' revenue contributions reflect the costs those users impose on FAA. This report considers six selected funding options, including two that modify the current excise tax structure and four that adopt more direct charges to users. Given the diverse nature of FAA's activities, a combination of alternative options may offer the most promise for linking revenues and costs. Switching to any alternative funding option would raise administrative and transition issues. Some stakeholders who support the adoption of direct user charges also support a change in FAA's governance structure, but GAO found no evidence adoption of direct charges requires this.

Authorizing FAA to use debt financing for capital projects would have advantages and disadvantages. Some stakeholders identify debt financing as attractive because it could provide FAA with a stable source of revenue to fund capital developments, while at the same time spreading the costs out over the life of a capital project as its benefits are realized. Debt financing raises significant concerns, however, because it encumbers future resources, and expenditures from debt proceeds may not be subject to the congressional oversight that appropriations receive. Concerns regarding borrowing costs, oversight, and encumbering future resources are particularly important in light of the federal government's long-term structural fiscal imbalance.

The Departments of Transportation and Treasury provided comments and technical clarifications on a draft of this report which we have incorporated or responded to as appropriate. DOT's comments focused on governance reforms required to adopt a user fee approach, and whether we accurately described the status of FAA's accounting system. Treasury's raised concerns about the level of analytical development for the options and associated issues. Data was not available to conduct the analysis Treasury suggested, and we agree necessary. However, we believe the report provides useful information to facilitate debate on the options.