THE STATUS OF THE AIRPORT AND AIRWAY TRUST FUND

The Congress of the United States
Congressional Budget Office

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NOTES

Unless otherwise indicated, all years referred to in this report are fiscal years.

Details in the text and tables of this report may not add to totals because of rounding.

CBO baseline projections are as of November 1988.

Cover photograph from the files of the Federal Aviation Administration.

PREFACE

The Airport and Airway Trust Fund has been a focal point for controversy surrounding the current congestion in the aviation system and the level of federal support for aviation programs. The existence of an accumulated surplus in the fund has led some to question whether users of the aviation system are receiving their fair share of government spending given the aviation excise taxes they pay. At the request of the Senate Budget Committee, this study examines the Airport and Airway Trust Fund, analyzes the sources and implications of the current accumulated surplus in the fund, and provides some options the Congress might consider for the future financing of aviation programs. In keeping with the mandate of the Congressional Budget Office to provide objective analysis, the report makes no policy recommendations.

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SUMMARY

The Airport and Airway Trust Fund has accumulated a substantial surplus since it was established in 1971. Some see this accumulated surplus as evidence that the federal government is not spending enough on capital development for aviation and that it has been hoarding the aviation excise taxes imposed to finance that capital spending. The accumulated surplus in the trust fund does not, however, provide a good indicator of either the financial status of the aviation system or the system's investment needs.

The purpose of the trust fund is to account for the receipt and expenditure of revenue from aviation excise taxes earmarked for spending on aviation programs. Much of the current controversy surrounding the trust fund concerns whether this spending should include all of the costs of the aviation system or only its capital requirements. The trust fund currently finances more than the capital costs of the aviation system, but it does not finance all of the costs that private-sector users impose on the system.

The accumulated trust fund surplus, therefore, does not necessarily indicate that system users have been denied benefits from their payment of aviation excise taxes, nor does it indicate that investment in aviation infrastructure has been insufficient. All it represents is the excess of aviation excise tax revenue and interest income over the portion of aviation program expenses that have been funded by the trust fund.

This study examines the history of trust fund income and spending; the degree to which the public sector has subsidized private-sector use of the aviation system; and alternative interpretations of trust fund balances based on capital-only and full user-pay approaches to trust fund accounting. The analysis is then extended to the 1989-1994 period under baseline projections of the Congressional Budget Office (CBO). These projections show that, under current policy, the subsidy of private-sector users of the aviation system by general taxpayers would continue and, in fact, increase.

HISTORY OF THE TRUST FUND

The Airport and Airway Revenue Act of 1970 created the trust fund and provided that it would finance investments in the airport and airway system and, to the extent funds were available, cover the operating costs of the airway system as well. Proposals by the Nixon Administration in 1971 to restrict capital spending from the trust fund, while fully funding Federal Aviation Administration (FAA) operations from it, led the Congress to restrict trust fund spending to only the capital costs of the aviation system.

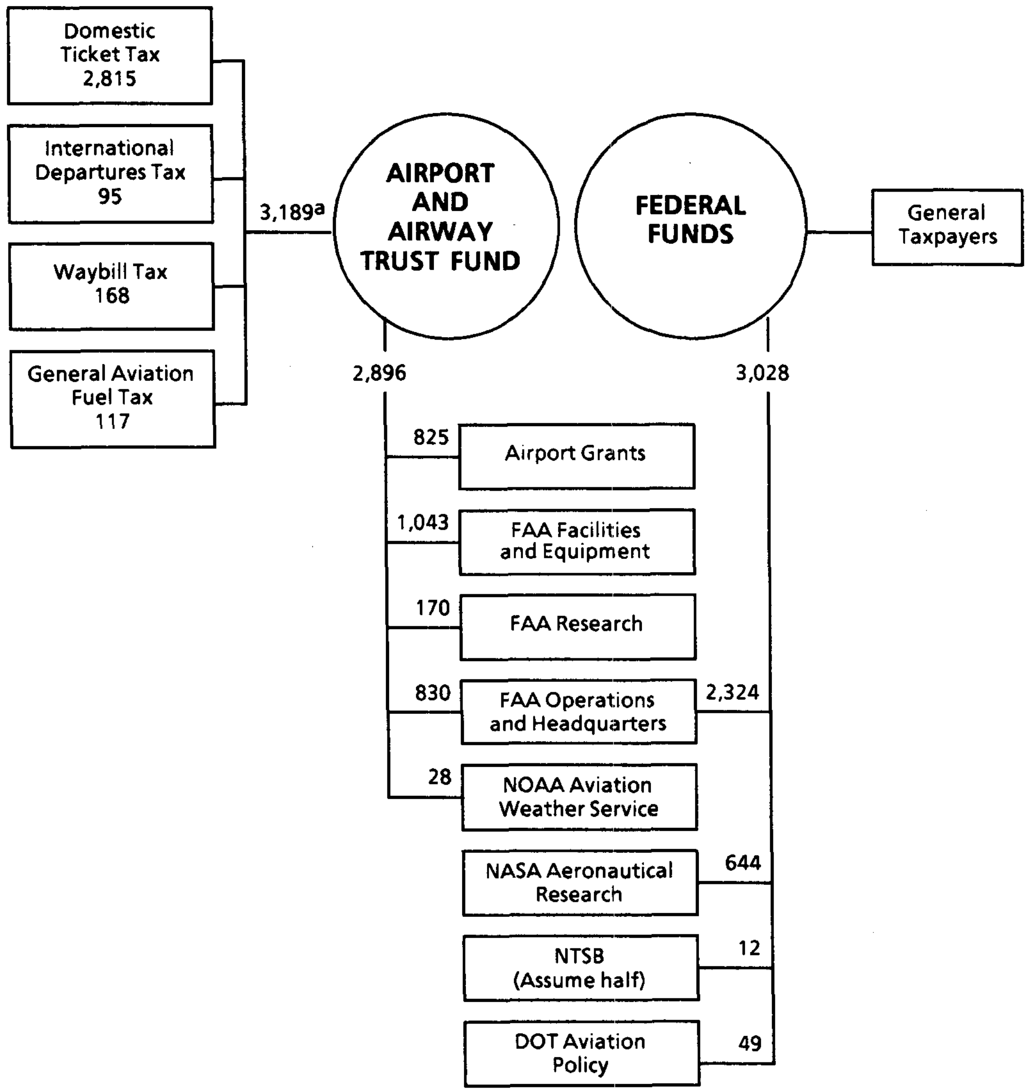
Beginning in 1977, the trust fund was authorized to fund again a portion of FAA operations spending in addition to aviation capital requirements, but this funding was limited to about 15 percent of FAA outlays for operations through 1980. The reauthorizations of aviation programs in 1982 and 1987 continued trust fund financing of FAA operations but limited the amount by tying it to funding of aviation capital programs. These limits have restricted the trust fund to financing an average of only 27 percent of FAA operations since 1980. As a result of this restriction, the general fund of the Treasury finances nearly half of total FAA spending for the aviation system.

STATUS OF THE TRUST FUND

The trust fund is currently financed by a system of aviation excise taxes levied on domestic and international airline passengers, air cargo, and general aviation fuel. Current spending from the trust fund covers all capital and research expenditures for the airway system, finances grants-in-aid to airports, and funds a small portion of FAA operations. The Summary Figure shows trust fund tax revenues and outlays and general fund spending on aviation programs for 1988. The trust fund had an unexpended balance of over $11 billion and an accumulated surplus of $5.8 billion at the end of 1988 (commitments against the cash--or unexpended--balance totaled $5.3 billion).

Under provisions of the Airport and Airway Capacity Expansion Act of 1987, aviation excise tax rates on domestic passenger tickets, air cargo, and general aviation fuel are to be cut in half in January

Summary Figure.
Federal Outlays for Airports and Airways in 1988
(In millions of dollars)



SOURCE: Congressional Budget Office, based on federal budget data.

NOTES:
FAA = Federal Aviation Administration.
NOAA = National Oceanic and Atmospheric Administration.
NASA = National Aeronautics and Space Administration.
NTSB = National Transportation Safety Board.
DOT = Department of Transportation.

a. Excludes tax refunds of $6 million.

1990 if spending for aviation capital programs does not reach certain levels in 1988 and 1989. Under CBO baseline projections, these levels would not be met, and the tax rate reductions would take effect. The result would be a $10.1 billion reduction in taxes for private-sector users of the aviation system. In spite of this tax rate reduction, the unexpended balance in the trust fund under the CBO baseline projection would exceed $12 billion in 1994 and the accumulated surplus, while declining, would still exceed $3.6 billion.

WHO PAYS FOR AVIATION SPENDING?

The Federal Aviation Administration has estimated that private-sector users are responsible for about 85 percent of FAA's spending for aviation programs and that the public sector is responsible for the remainder. Private-sector users of the aviation system, through their payment of aviation-related excise taxes, have not financed this share of FAA spending. Instead, they have received a general fund subsidy of $17 billion, which is equal to the difference between the private-sector share of FAA spending and aviation-related excise taxes since the start of the trust fund.

From the viewpoint that sees the trust fund as a capital-only account, aviation-related excise tax revenue has been more than sufficient to cover all FAA capital spending. If the trust fund had not also financed some FAA operations spending, both the unexpended and uncommitted balances in the trust fund would have been $13.5 billion higher at the end of 1988. From the viewpoint that sees the trust fund as a full user-pay system, tax revenue has not been sufficient to cover the full private-sector share from the start of the trust fund. Therefore, if the fund had financed the full private-sector share, it would have had large and negative unexpended and uncommitted balances by the end of 1988.

Under CBO's baseline projections, the general fund would continue to subsidize private-sector users of the aviation system through 1994, and this subsidy would grow significantly as a result of the projected tax rate reduction in 1990. Without the tax rate reduction, the subsidy would total $8.8 billion between 1989 and 1994; with the tax rate reduction, the subsidy would total $18.9 billion in the same period. Under CBO baseline projections, the public sector would pay nearly four times its share of $6.4 billion for aviation spending during the 1989-1994 period.

OPTIONS FOR TRUST FUND SPENDING AND FINANCING

This study presents four options that represent different policy directions for the trust fund. The first option would be to maintain current policy. Under CBO's baseline projections, the general fund subsidy for private-sector users of the aviation system would continue and increase. This option also would result in less than full funding of FAA capital spending from aviation-related excise tax revenue, would increase slightly the unexpended balance in the trust fund, and would reduce the accumulated surplus by only about one-third.

A second option would be to eliminate the tax rate reduction that would occur in January 1990 under CBO's baseline projections, while leaving FAA spending and trust fund accounting unchanged. Relative to the CBO baseline, this option would increase aviation-related excise tax revenue by $10.1 billion in the 1990-1994 period and would decrease the federal budget deficits over the same period by a cumulative $7.6 billion.

A third option would be to restructure the trust fund as a purely capital account. Under this option, aviation-related excise taxes would be set to equal FAA budget authority for capital programs. Relative to CBO's baseline projections, this option would increase tax revenues by $5.7 billion and decrease federal budget deficits by $4.3 billion over the 1990-1994 period.

A fourth option would be to restructure the trust fund by canceling the current surplus and raising excise taxes so that private-sector users paid their full share of the costs of the aviation system. It would recognize that the accumulated surplus in the trust fund is the result of past general fund subsidies and is not in fact owed to private-sector users of the system. Relative to CBO's baseline for the 1990-1994 period, this option would increase aviation excise tax revenue by $19.2 billion, thus reducing federal budget deficits by $14.4 billion, and would divide aviation system financing more equitably between private-sector users and general taxpayers.

CHAPTER I

INTRODUCTION AND HISTORY OF THE TRUST FUND

The Congress has periodically faced the problems of growing congestion, capacity constraints, and public concern about safety in the nation's aviation system. From the Federal Aviation Act of 1958 through the Airport and Airway Safety and Capacity Expansion Act of 1987, growth in air travel has recurrently bumped up against institutional and physical constraints on the system's ability to handle that growth. Each time, the Congress has authorized changes in programs, taxes, and/or spending in an effort to increase the system's capacity. It established the Airport and Airway Trust Fund (trust fund) in 1970 to provide a dedicated source of funding for the aviation system independent of the general fund.[1] The trust fund would act as a repository for aviation excise tax revenue from which the capital investment needs and operating costs of the system would be met. By establishing a trust fund with its own dedicated sources of funding that would increase in step with the use of the system, timely and long-term commitments to capacity increases could be assured.

PURPOSE OF THE TRUST FUND: CAPITAL ACCOUNT VERSUS USER FINANCING

The trust fund has two principal functions. First, it serves to keep track of excise taxes paid by aviation system users that are specifically earmarked for spending on aviation programs. Second, it accounts for how those earmarked tax revenues are spent. Much of the controversy about the trust fund and the accumulation of a surplus in it concerns how the trust fund tax revenue is intended to be spent. Disagreements over the proper uses of excise tax revenue lead to different interpretations of the fund's cash balance and accumulated surplus.

1. The general fund receives government receipts that are not earmarked for specific purposes and is charged with expenditures from those receipts.

From the start, two views of the trust fund have developed based on differing opinions about the proper use of the fund's receipts. The first view, which may have predominated in recent Congressional action and trust fund accounting, is that the fund is primarily a capital account. As a capital fund, its main purpose would be to assure stable and adequate investment in aviation capacity. Aviation taxes paid by users of the system would be accumulated in this fund and form the source of replacement capital and new investment to meet the current and future capacity needs of these users. Any uses of trust fund resources beyond capital replacement and expansion would be secondary and would be made only after the capital needs of the system have been met.

Alternatively, the trust fund could be considered a part of a user financing system, in which users finance both the capital and operating costs of the aviation system. This second view, reflected in proposals by successive administrations since 1971, sees the trust fund as a broader mechanism for financing all aviation programs. In this view of the trust fund as a full financing system, the fund should pay for all the costs of the system attributable to private users.

Current trust fund accounting reflects the trust fund as neither a pure capital account nor a true user-pay account, but rather as a hybrid of the two. At various times since 1971, the fund has been more nearly a pure capital account. At other times, it has come closer to being a full user-pay system. In order to preserve aviation tax revenue for financing the capital needs of the aviation system, the Congress has enacted various provisions that restrict the amount that can be spent from the fund for Federal Aviation Administration (FAA) operations. As a result, the operation and maintenance of the aviation system have been primarily financed by the general fund. These provisions reflect the Congress' view that the trust fund and aviation excise taxes are primarily sources of capital investment and research spending.

Since aviation excise tax rates have not been tied to aviation spending, restraints on such spending can produce excess aviation tax revenue that can be indirectly used to finance spending for other programs in the federal budget. The trust fund is credited with this aviation excise tax revenue and earns interest on the unspent balance in the fund which, in effect, is loaned to the general fund to finance other programs, including FAA operations. Those who view the trust fund as primarily a capital account see this as an incentive for the FAA to limit capital spending in order to use, in effect, aviation tax revenue to finance FAA operations; they regard this as an unwarranted hoarding of funds that were collected to finance capital requirements. They view the answer to congestion in the aviation system and to the growing uncommitted balance in the trust fund as relatively simple and straightforward: stop hoarding trust fund income to finance other programs, and increase capital spending from the fund.

The FAA and the various administrations since 1970 have taken a different view of the trust fund. They see excise taxes as broad user taxes that should be used to cover not only the capital requirements of the aviation system but its operating and maintenance costs as well. In this view, no hoarding is taking place. The tax revenue collected each year is either spent for trust fund programs and debited to the trust fund, or is available to support other federal spending. This other spending includes the operation and maintenance expenditures made by the FAA, so whether it is accounted for as having been spent or not, the effect is still the same. Rather than reduce the accumulated surplus in the trust fund only through higher capital spending, they would prefer to see the method of accounting for aviation spending altered so that all user-imposed costs are fully accounted for by a user-financed trust fund.

LEGISLATIVE HISTORY OF THE TRUST FUND

The growth and development of the aviation system in the last 30 years have been marked by periods of recurring congestion. The Congress has periodically responded to these pressures on the aviation system with legislation designed to enhance capacity and air safety through new or reorganized aviation programs and policies, and by increased funding for the aviation infrastructure.

The Federal Aviation Act of 1958 was a response, in part, to the fact that growth in air transportation proceeded without commensurate and orderly growth in airway and airport capacity, or in centralized control and expansion of the air traffic control system. This act centralized federal responsibility for aviation safety and control over the airway system in the Federal Aviation Administration (then Agency).

The Airport and Airway Development and Revenue Acts of 1970

The rapid introduction of jet aircraft in the 1960s, in conjunction with sporadic funding for improving airport and airway capacity, led to further congestion in the airport system and concern for the ability of the airway system to handle growth while expanding and modernizing its control facilities. The Airport and Airway Development Act of 1970 (Title I of Public Law 91-258) authorized an expanded and long-term commitment to airport development and to capital improvements in the air navigation and traffic control system. This act authorized minimum levels over a five-year period for airport development grants and for airway facilities expenditures.

The Airport and Airway Revenue Act of 1970 (Title II of Public Law 91-258) was enacted in conjunction with the Airport and Airway Development Act. This revenue act established both a system of aviation excise taxes to finance spending on aviation programs, and the Airport and Airway Trust Fund in the Treasury into which these taxes were to be deposited. Through these excise taxes, aviation spending was to be directly linked to the level of use the system received. As use of the system increased over time, so would tax revenue in the trust fund. In addition to airport grants and development of airway facilities, the trust fund was also authorized to finance research and development as well as spending for FAA operations. Linking federal aviation spending to aviation taxes was a principal purpose of the act. Those who benefited from aviation programs were to bear most of the burden for their financing. In return, they would be assured that funds would be available to finance increases in capacity.

Just before the Airport and Airway Revenue Act of 1970 was enacted, aviation-related excise taxes consisted of a 5 percent tax on passenger tickets for domestic flights, a tax on aviation gasoline of 2 cents per gallon, and taxes of 10 cents per pound on aircraft inner tubes and 5 cents per pound on aircraft tires; the gasoline, tire, and tube taxes were deposited into the Highway Trust Fund. The Airport and Airway Revenue Act increased the gasoline and ticket taxes and established additional taxes so that all users of the aviation system paid a portion of its costs. The resulting aviation excise taxes were: an 8 percent tax on the value of domestic passenger tickets; a new departure tax of $3 per person on international flights; a new 5 percent waybill tax on the value of air cargo shipments; a 7 cents per gallon tax on gasoline used by general (noncommercial) aviation and a new 7 cents per gallon tax on other fuels (jet fuel, or kerosene) used by general aviation; a new annual aircraft registration tax of $25 plus 2 cents per pound for each pound over 2,500 for piston-powered aircraft and 3.5 cents per pound for turbine-powered aircraft; and the 10 cents per pound inner tube tax and 5 cents per pound tire tax. These new taxes and higher rates on existing taxes were authorized through fiscal year 1980. Table 1 shows tax rates from the start of the trust fund through those projected for 1990.

These new or increased excise taxes were intended to charge all users of the airways and airports in relation to their use of these systems. General aviation users paid the fuel, registration, and tire and tube taxes. Air carriers, and through them passengers and air freight shippers, paid the ticket, departure, waybill, registration, and tire and tube taxes. In addition, the Department of Transportation was instructed to study the revenue contribution of the different classes of users of the aviation system and to determine the appropriate share of aviation funding that each should bear.

The Congress and the Administration came into conflict in the first year that the new system was in use. While the Congress in enacting the trust fund considered it to be primarily a capital fund, the Nixon Administration from the start viewed it as a user-pay system. Since the fiscal year 1971 appropriation request had already been made before the 1970 acts were passed, the Administration first proposed spending under these laws in a supplemental appropriation request for fiscal year 1971. In that request and in its fiscal year 1972 appropriation request, the Administration asked for much less than the $530 million minimum amount authorized in the law ($280 million for airport grants and $250 million for airway facilities). In addition, the 1972 budget request proposed that the balance in the trust fund be used to finance the FAA's operations cost. The result would have been funding of 70 percent of FAA operations from the trust fund--about $700 million, or more than the total spending for