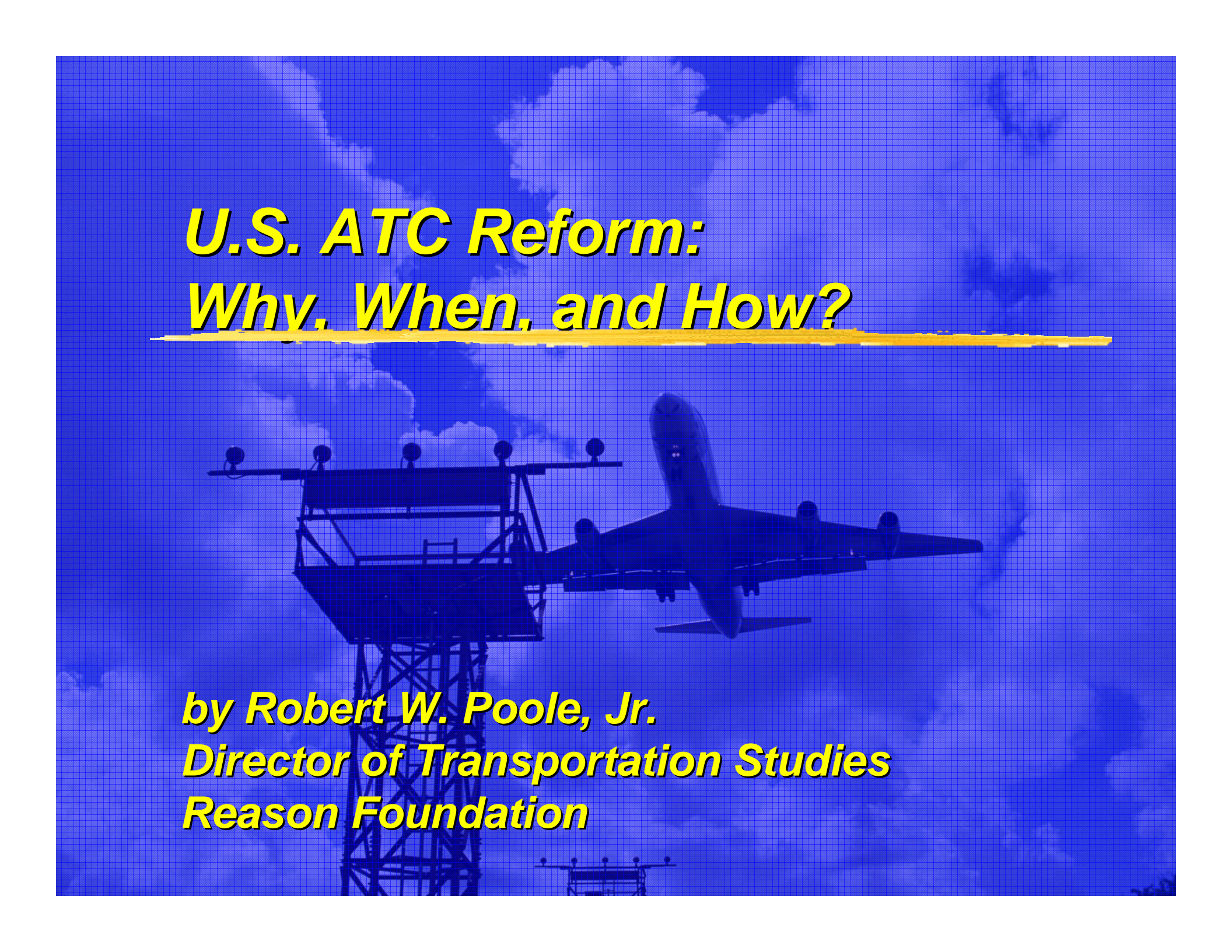


# ***U.S. ATC Reform: Why, When, and How?***

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***by Robert W. Poole, Jr.  
Director of Transportation Studies  
Reason Foundation***

A blue-tinted photograph of an airplane flying past an air traffic control tower against a cloudy sky. The tower is in the foreground, and the airplane is in the middle ground, flying from left to right. The sky is filled with white clouds.

# ***Underlying ATC Problems***

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- ⌘ **Airspace congestion a serious long-term problem.**
- ⌘ **Modernization chronically over budget and behind schedule.**
- ⌘ **ATC funding doesn't keep pace with aviation growth.**
- ⌘ **Civil-service and union constraints reduce flexibility.**
- ⌘ **Too many bosses (Congress, DOT, OMB); customers don't call the shots.**
- ⌘ **Safety regulation and service provision in same entity is conflict of interest.**



# ***Objectives of Reform (Mineta Commission)***

- ⌘ **Separate ATC service business from gov't regulatory function.**
- ⌘ **Make ATC self-supporting via fees and charges.**
- ⌘ **De-politicize ATC: make users the customer, not Congress.**
- ⌘ **Use revenue bonds to fund modernization.**
- ⌘ **Develop user-responsive corporate culture.**
- ⌘ **Ensure timely transition from ground-based ATC to free-flight ATM.**
- ⌘ **Increase air safety.**



# ***ATC Reform Is Global Trend***

- ⌘ **ICAO required separation of safety regulation from service provision as of 2004.**
- ⌘ **40 countries have created ATC corporate entities, separate from transport ministry.**
- ⌘ **Most ATC corporations are government (like USPS); but several are partly or wholly private.**
- ⌘ **Most ATC corporations fully self-supporting from ATC fees and charges, paid by their customer.**
- ⌘ **All but a handful of tiny/poor countries use ATC fees rather than taxes to fund ATC.**



# ***Corporate Structure Alternatives***

## **Government Corporation**

- ⌘ **Australia, New Zealand, Germany, etc.**
- ⌘ **Proposed USATS (1995)**

## **Nonprofit, User-Controlled Corporation**

- ⌘ **ARINC**
- ⌘ **Nav Canada**

## **For-Profit Corporation**

- ⌘ **NATS (UK, 51% govt)**
- ⌘ **Contract Tower program**

**ATO is none of the above**



# ***The Air Traffic Organization (ATO): A Partial Reform***

- ⌘ **Congress created separate organizational structure, but ignored funding and governance reform.**
- ⌘ **ATO still locked into federal budget process; cannot issue bonds to speed modernization.**
- ⌘ **Safety regulation not really at arms-length.**
- ⌘ **ATS Committee is advisory; not a board of directors.**
- ⌘ **Thus, ATO is a long way from what Mineta Commission recommended.**



# ***Impending ATO Budget Crisis***

- ⌘ **Main funding source is ticket tax—but long-term yield trend is downward.**
- ⌘ **Passenger growth being carried by smaller aircraft (narrow-bodies, RJs, air taxis, bizjets)—meaning more traffic in the system.**
- ⌘ **Current tax-based revenue model not sustainable—disconnect between traffic growth and revenue growth.**
- ⌘ **JPDO's Next-Gen system will require \$25 billion over next 20 years over and above projected ATO revenue.**



# ***Alternatives to Address the Funding Crunch***

**Increase the airline ticket tax?**

**Increase the general fund contribution?**

**Shift to ATC fees and charges?**





# ***Advantages of ATC Fees***

- 1. Make ATO self-supporting, at funding level driven by aviation needs, not federal budget.**
- 2. Provide a reliable revenue stream, against which long-term bonds can be issued.**
- 3. Target investment to those projects most desired by customers.**
- 4. Provide incentives for customers to equip planes with new technologies (e.g., CPDLC).**
- 5. Increase fairness in paying for ATC (e.g., bizjets).**
- 6. Develop a customer-focused corporate culture.**



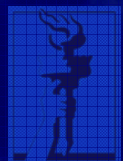
# ***How would ATC fees ease airline cost burden?***

## **Near-term impact:**

- ⌘ **Shift to bonding produces annual revenue savings during transition years.**
- ⌘ **\$3B/year bonds over 8 years = \$24B program.**
- ⌘ **Debt service over 8 years = \$9.4B**

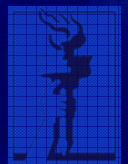
## **Longer-term cost savings from:**

- ⌘ **Facility consolidation**
- ⌘ **Shift to net-centric technology**



## ***Why Not Bond Just F&E?***

- ⌘ **Modernization (Next-Gen) is not just replacing old equipment.**
- ⌘ **Modernization is about changing the M.O.—it changes Ops as much as F&E.**
- ⌘ **ATO has brought Ops and F&E together; a separate F&E entity would undo this.**
- ⌘ **Separate F&E is inconsistent with Next-Gen plans for 3X capacity.**



# ***Advocates of ATC User Fees***

**Air Transport Association (1985, 2006)**

**Aviation Safety Commission (1988)**

**Transportation Research Board (1991)**

**Congressional Budget Office (1992)**

**Baliles Commission (1993)**

**National Performance Review (1993)**

**DOT's Executive Oversight Group (1994)**

**Mineta Commission (1997)**

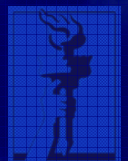


# ***Governance: Ensuring Value for Users' Money***

**Today, budget process provides oversight by Congress, GAO, IG**

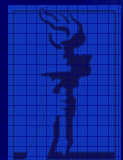
**Self-supporting ATO would have two new forms of oversight:**

- ⌘ Stakeholder board (all aviation sectors)**
- ⌘ Wall Street's due diligence re bond issues**



# ***Possible Stakeholder Board***

- ⌘ **4 seats: commercial airlines**
- ⌘ **3 seats: general aviation**
- ⌘ **1 seat: airports**
- ⌘ **1 seat: employees**
- ⌘ **2 seats: government (DoD and DOT)**
- ⌘ **3 seats: general public, chosen by above**
- ⌘ **CEO, chosen by above.**



# ***Paying for Rest of FAA***

**Safety regulation:** general revenue

**Flight Service Stations:** general revenue

**Airport Improvement Program:**

- ⌘ **If kept at \$3.4B, a 1% ticket/waybill tax plus other small excise taxes (intl. arr/dep, etc.)**
- ⌘ **If downsized, no need for 1% tax—PFCs take up the slack.**



# ***Dealing with General Aviation***

- ⌘ **Support FSS out of general FAA revenues, as safety service.**
- ⌘ **Keep fuel tax for piston GA, to support AIP.**
- ⌘ **Offer annual membership fee for piston & turboprop GA for IFR operations.**
- ⌘ **Charge transaction-based ATC user fees only for jet-powered GA aircraft**

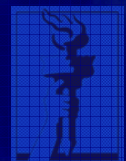




# *Why all jets must be included in the ATC fee system*

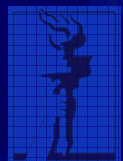
<b>Aircraft Type</b>	<b>2002 fleet</b>	<b>2017 fleet*</b>
<b>Air carrier jets</b>	<b>4,118</b>	<b>5,481 +33%</b>
<b>Cargo jets</b>	<b>1,056</b>	<b>1,345 +27%</b>
<b>Regionals jets</b>	<b>1,038</b>	<b>2,819 +171%</b>
<b>GA &amp; air taxi jets</b>	<b><u>8,355</u></b>	<b><u>17,270 +107%</u></b>
<b>Total Jet Fleet</b>	<b>14,567</b>	<b>26,915</b>

\*FAA forecast



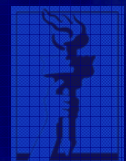
# ***Taxes vs. Fees***

- ⌘ **Tax goes to Treasury; funds appropriated via federal budget process.**
- ⌘ **Fee goes to ATO (like landing fee goes to Dulles); not part of budget process.**
- ⌘ **Fees provide predictable, bondable revenue stream; taxes may not.**
- ⌘ **Fees make ATO accountable to its customers (user pay = user say)**
- ⌘ **Ticket tax, fuel tax are not cost-based.**



# *Today's Window of Opportunity*

- ⌘ **ATO needs to become customer-focused—and paying customers is the best way to motivate that.**
- ⌘ **Current taxes expire in FY2007—so Congress must address.**
- ⌘ **JPDO Next-Gen plan needs \$25B in new funding.**
- ⌘ **Commercializing ATO reduces risks in implementing Next-Gen plan.**
- ⌘ **One-time opportunity for dramatic productivity gains, due to controller retirements.**



# ***DC Airports: A Useful Precedent***

**Dulles and National were part of FAA budget in 1980s:**


- ⌘ Starved of capital investment**
- ⌘ Micro-managed by Congress**

**1986 legislation gave control to new airport authority:**

- ⌘ User-fee funding**
- ⌘ Revenue bonds for modernization**
- ⌘ Large-scale improvements at both**

**ATO is analogous case.**





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