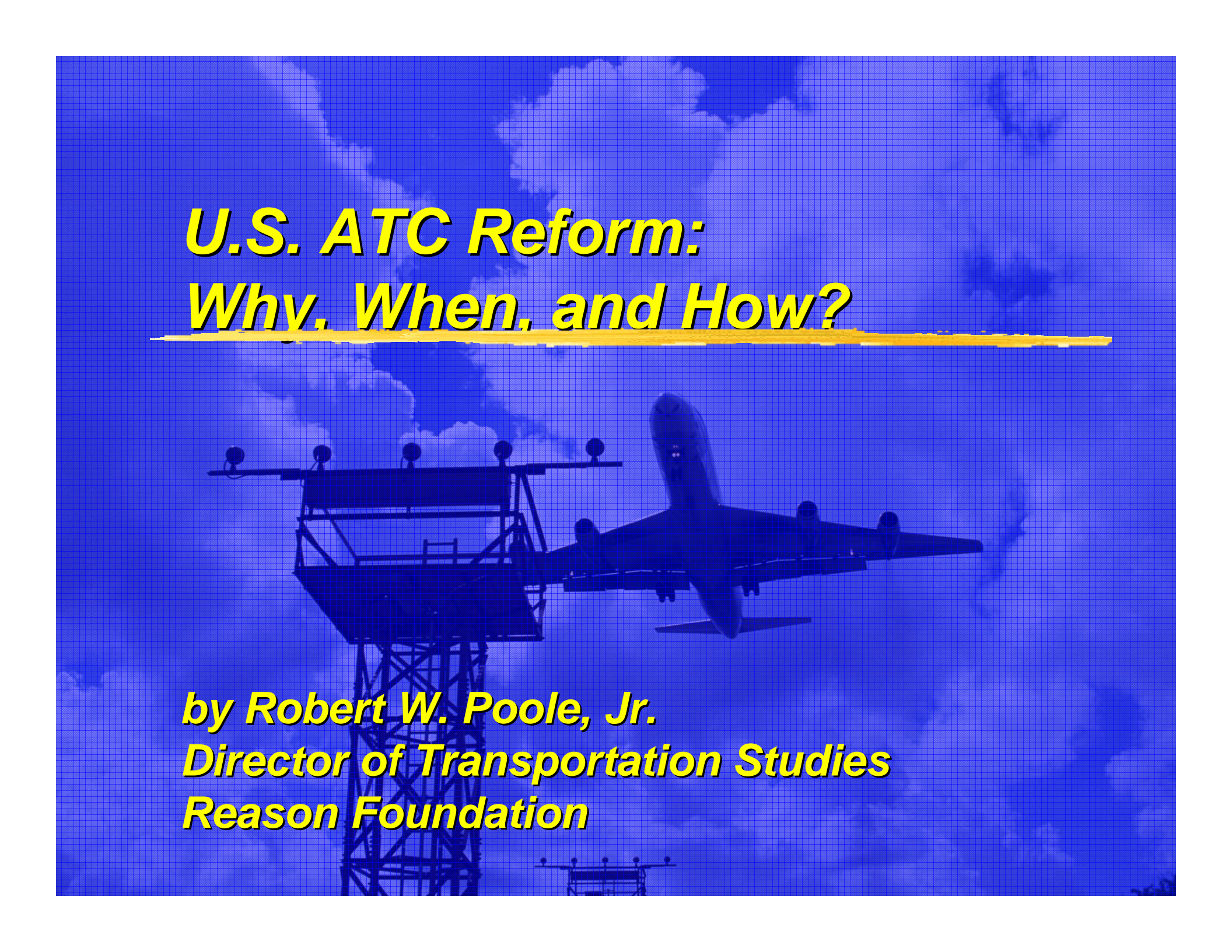


U.S. ATC Reform: Why, When, and How?

***by Robert W. Poole, Jr.
Director of Transportation Studies
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The background of the slide is a blue-tinted photograph. It shows an air traffic control tower in the foreground on the left, with an airplane flying past it towards the right. The sky is filled with white clouds. The entire image has a fine grid pattern overlaid on it.

Underlying ATC Problems

- ⌘ **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.**



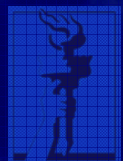
How would ATC fees ease airline cost burden?

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**

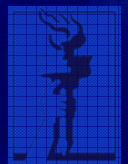
Longer-term cost savings from:

- ⌘ **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)

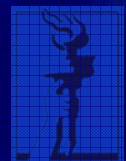


Governance: Ensuring Value for Users' Money

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

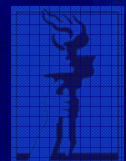
Self-supporting ATO would have two new forms of oversight:

- ⌘ 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

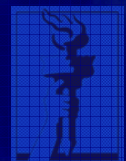
- ⌘ **Support FSS out of general FAA revenues, as safety service.**
- ⌘ **Keep fuel tax for piston GA, to support AIP.**
- ⌘ **Offer annual membership fee for piston & turboprop GA for IFR operations.**
- ⌘ **Charge transaction-based ATC user fees only for jet-powered GA aircraft**



Why all jets must be included in the ATC fee system

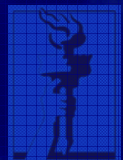
Aircraft Type	2002 fleet	2017 fleet*
Air carrier jets	4,118	5,481 +33%
Cargo jets	1,056	1,345 +27%
Regionals jets	1,038	2,819 +171%
GA & air taxi jets	<u>8,355</u>	<u>17,270 +107%</u>
Total Jet Fleet	14,567	26,915

*FAA forecast



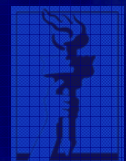
Taxes vs. Fees

- ⌘ **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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