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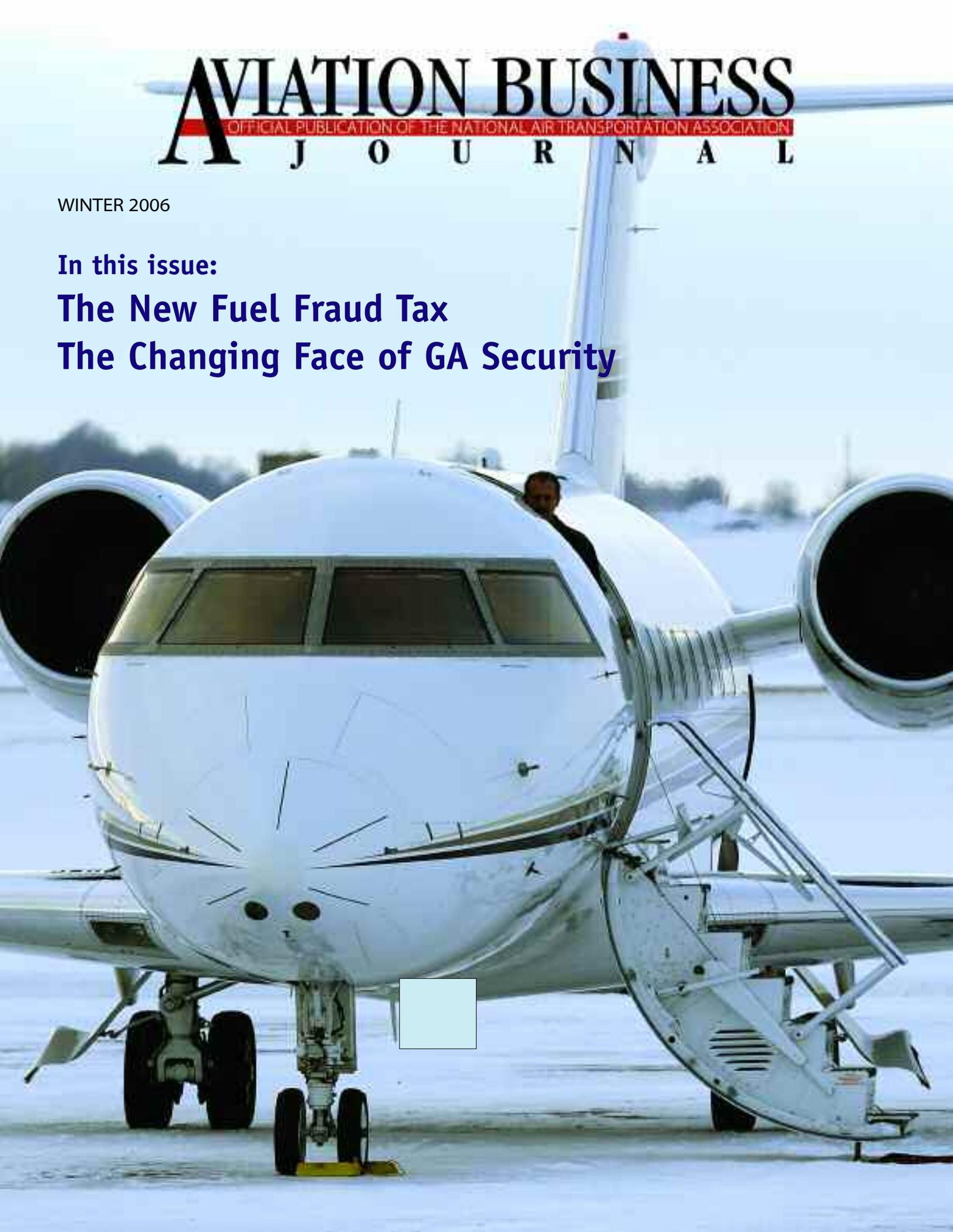
# JOURNAL

WINTER 2006

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**The New Fuel Fraud Tax**

**The Changing Face of GA Security**





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## Atlantic Aero: This Isn't Your Grandfather's FBO

*By Dan Kidder*

At the heart of every great aviation company is a desire to push the envelope. The pushing of those envelopes over the past 102 years has expanded the reach of aviation and taken us from the Wright Flyer into space and through the sound barrier. But what happens when a small, customer-service focused, full-service FBO decides that innovation in aircraft design is lacking and decides to do something about it? Atlantic Aero.

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## Unintended Consequences: Tax on Fuel Fraud Poses New Problems

A provision in last summer's Highway Bill aimed at preventing fuel fraud in general aviation not only fails the common-sense test; it also places onerous new paperwork requirements on FBOs and robs the Aviation Trust Fund of legitimate revenue.

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## The Changing Face of GA Security

*By Bob Jandebour*

In today's environment it is becoming more and more apparent that there are more dimensions to general aviation security than merely security, and the list of benefits seems to bubble to the surface daily. Considering the demand on budgets, the unsure cost of security, and the fact that TSA cannot afford funding, it helps to better understand the benefits of improved security that create a solid return on investment.

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# Has the Future Landed at Your Airport Yet?

By James K. Coyne, President

You probably have seen the famous episode of *The Twilight Zone* from 1961, *The Odyssey of Flight 33*, where an airliner mysteriously breaks through the sound barrier on a flight from London to New York and ends up lost in time. On its first approach into Idlewild (for those of you under 40, that's the old name for JFK), the crew peers through the broken layer of clouds and all they see are swamps filled with dinosaurs where Manhattan is supposed to be. On their second attempt, after supposedly re-breaking the sound barrier, their airborne time machine brings them over New York in the middle of the 1939 World's Fair. Then Rod Serling calmly reveals that Flight 33 is still up there, trying desperately to get back to 1961.

I think of that TV show even now, in 2006, especially when I've arrived at some airport that looks like it hasn't changed in decades. You know the ones: tattered wind sock on arrival, then a rough landing on a gravel-strewn runway with weeds growing in the pavement cracks. Pulling up to the weather-worn fuel sign, you swear that the hangar hasn't been painted since before the war. The FBO is staffed by someone who probably remembers when Lindbergh came by, and you expect to see an old *Saturday Evening Post* lying next to the rusted coffee pot. Could it be 1961—or even 1939?

## Flash to the Future

Fortunately, most pilots today are landing at airports of a very different era, where change is coming almost at the speed of sound. The weather sock itself is nearly an anachronism, especially when airborne computers and satellite data-links offer pilots real-time weather reports and NEXRAD displays—even weather cams—that can give you a look at the local weather when you're still hundreds of miles away. Aviation magazines typically rave about these electronic bells and whistles, and pilots dream of the latest hi-tech toys; but the biggest beneficiaries from 21st century technology aren't necessarily those in the cockpit—instead, they are people like you looking for more profit on their bottom line. That's why this issue of *Aviation Business Journal* is presenting a very different perspective on technology: how it's trans-

forming aviation businesses.

The latest new computer gadgets, coupled with the ever-growing capabilities of the Internet, customized software, and a wide variety of new digital communication devices, all give hard-nosed businessmen and women new ways to find customers, build brands, expand product lines, and optimize margins. Hi-tech also transforms even low-tech functions: computers are now embedded in every imaginable piece of equipment and machinery, enabling you to squeeze more sales from every investment and mine data from virtually every action or transaction that occurs within your enterprise.



## A Team Approach to Managing Change

Your biggest challenge is how to manage all this change. You will want to use this new technology to learn more about your customers, suppliers, employees, and products, but soon the sheer volume of data becomes overwhelming, leading to the proverbial garbage-in, garbage-out situation. The only real solution is to create systems that force your entire team to focus on a few essential objectives: controlling costs, finding the right customers, and understanding where profits are hidden.

Oddly enough, the greatest advantage from all this left-brain technology is how it improves the right-brain performance and productivity of your people. Assuming your team all agrees on where your company is headed, better communication and information-sharing makes getting there a lot easier. New technology also promises to revolutionize training and education. It makes reporting and control functions more accurate and less burdensome, plus it can help you find creativity and initiative in places you never imagined.

Aviation isn't entering anything like *The Twilight Zone*, but we are definitely crossing new boundaries into technology territories no one has ever explored. New electronic RFIDs will soon be

*Continued on page 8*

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## President's Message

*Continued from page 7*

on almost anything of value, and ubiquitous digital cameras will mean that if it needs to be watched, it will be. Before long, any manual job where the consequences of an error are unacceptable will see that job, or at least its oversight, transferred to a computer.

In less than a lifetime, the public has gained unprecedented familiarity with and confidence in technology. The implications of this fundamental societal transformation cannot be overstated. For example, in 1939 we wouldn't trust an elevator unless it had a human operator; by 2039, we might not trust an airplane with one!

But technology only works, as Rod Serling dramatized, if it gets us where we want to go. For most of us, that means improving our productivity and capabilities so that more Americans can use what we offer: the transportation system of the future! The good news is that this future isn't fiction at all—it's just around the corner.

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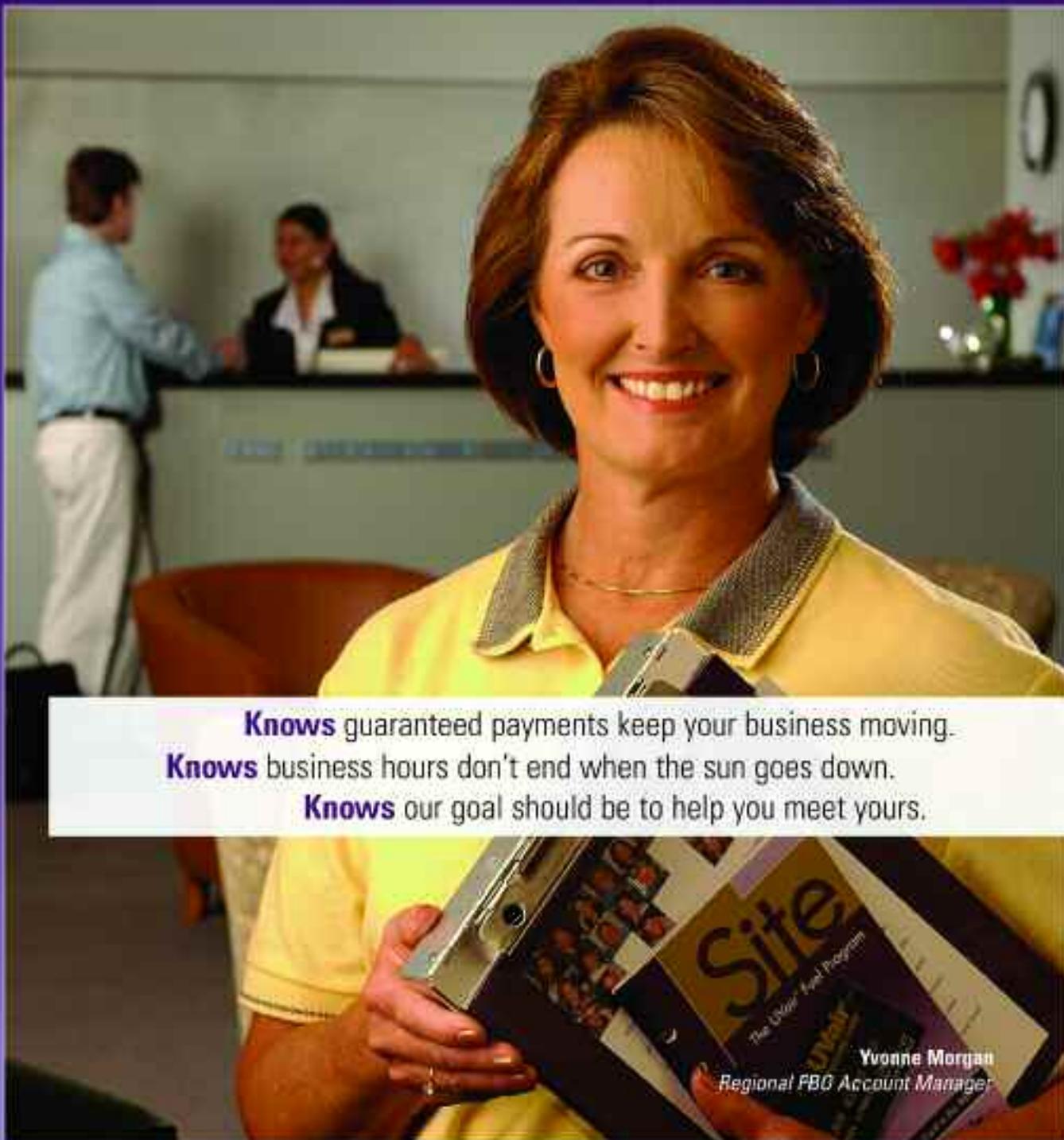


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## The New Fuel Fraud Tax:

# Damned If You Do, Damned If You Don't

By Eric R. Byer, Vice President, Government and Industry Affairs

Last summer, after months of deliberations, Congress finally agreed to what is commonly known inside the Beltway as the "Highway Bill." You have all probably read or heard of how this bill contained hundreds of legislative provisions, sometimes called "earmarks," including the now infamous "Bridge to Nowhere" in Alaska.

Out of this bill also came an onerous, unnecessary, and misguided provision that is rapidly becoming a nightmare for the FBO industry: a new tax on fuel fraud. Congress has considered the topic of fuel fraud for years, but always under the notion that it was a problem that applied to fuel that is sold tax-free to Part 121 air carriers, not to the general aviation community where the fuel FBOs receive has already been taxed. Well, last summer a couple congressional staffers on the Senate Committee on Finance shepherded language through the Highway Bill conference committee process that created a new tax on jet fuel for the entire general aviation industry. While we have not been granted the privilege of learning why this provision was included within the Highway Bill, rumor has it that a certain oil interest approached finance committee staff to describe rampant fraud taking place throughout the general aviation industry.

I don't know about you, but I certainly can see how it could happen. Let's take the mobile refueling truck (which is probably spilling JetA all over

the place and hence violating most environmental regulations according to our good friends at the EPA...but I digress) with JetA that is currently going for more than \$5.25 a gallon here on the East Coast, and drive it to a warehouse where we can secretly distill it down so that truck drivers can use it for their big rigs. By the way, diesel goes for about \$2.44 a gallon at the Exxon station right down the road from NATA HQ. All that effort to receive a product that costs more than 50 percent less at a gas station than what is paid on the ramp? No one in their right mind would go through all that trouble to NOT save money. Am I missing something here?

Unfortunately, yes. In the world of politics there is a little-known concept called "scoring" that provides Capitol Hill the ability to create taxes and project revenue off of that new tax for a select period of time. This new fuel fraud tax will provide the Highway Trust Fund an estimated \$500 million over 10 years, approximately \$50 million a year. While in the grand scheme of Capitol Hill budgeting this is small potatoes, it



*Continued on page 36*



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# FAA Releases Final Rule on Drug and Alcohol Programs

The latest final rule governing the FAA's Antidrug and Alcohol Misuse Prevention Programs was released on January 10, and those affected must be in compliance by April 10. The final rule amends 14 CFR Part 121 Appendices I and J covering drug and alcohol testing for regulated parties and their contractors. The FAA emphasized that it intends to include all employees performing safety-sensitive duties "directly or by contract (including by subcontract at any tier) for an employer." The FAA also stated that the determination of a "safety-sensitive" function is to be made by the regulated employer working with its assigned FAA principal inspector.

The regulated company is ultimately responsible to ensure that any person performing safety-sensitive functions for that company, whether directly or by contract of any tier, complies with FAA regulations. If the contractor obtains and manages its own antidrug and alcohol misuse prevention programs, "the FAA will hold the contractor company responsible for its compliance with the regulations. There may be circumstances where the regulated employer may also share responsibility for a contractor company's non-compliance."

Some regulated companies require their contractors to comply with FAA drug and alcohol program regulations by contract or may perform audits on their contractors. Although this is con-

sidered prudent business practice, "the FAA's regulations have not required auditing."

Listed below are other requirements that have been addressed by the industry and the FAA over the past several years. This is not an exhaustive list, and your Antidrug and Alcohol Misuse Prevention Program manager should review the requirements as presented in the most current 14 CFR Part 121 Appendices I and J and 49 CFR Part 40.

- A verified negative pre-employment drug test result must be received before an individual is hired for a safety-sensitive function or transferred into a safety-sensitive function from a non-safety-sensitive function.
- "Conduct another pre-employment test and receive a verified negative drug test result before hiring or transferring an individual into a safety-sensitive function if more than 180 days elapse between conducting the pre-employment test required in 14 CFR Part 121 Appendix I and hiring or transferring the individual into a safety-sensitive function, resulting in that individual being brought under an FAA drug-testing program."
- After obtaining an employee's written consent, perform a drug and alcohol testing record background check of safety-sensitive employees from DOT-regulated employers who have employed that employee during any period during the two years before the date of the employee's application or transfer to a safety-sensitive function.

If you have any questions or need assistance, as a member benefit, contact Shirley Negri or Judy Boyle at (800) 788-3210 or [info@NATAcompliance.com](mailto:info@NATAcompliance.com).



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## Contractor Questionnaire Antidrug & Alcohol Misuse Prevention Program Compliance

*Note: Safety-Sensitive Employees are categorized as those performing one or more of these functions. (Ref 14 CFR Part 121 Appendices I & J)*

1. Flight crewmember duties.	5. Aircraft maintenance or preventive maintenance duties.
2. Flight attendant duties.	6. Ground security coordinator duties.
3. Flight instruction duties.	7. Aviation screening duties.
4. Aircraft dispatcher duties.	8. Air traffic control duties.

	Y	N	Item Description
1.			Does your company have its own Antidrug and Alcohol Misuse Prevention Programs that comply with the FAA and DOT?
2.			If answer to #1 is "No," have your employees (and/or subcontractors) who perform safety-sensitive function been subject to FAA drug and alcohol testing and program requirements while employed by your company?
3.			Do you confirm that each of your employees (and/or subcontractors) received a "Verified Negative" pre-employment drug test result PRIOR TO being hired to perform a safety-sensitive function or PRIOR TO being transferred from a non-safety-sensitive function to a safety-sensitive function.
4.			Upon our request, is your company readily prepared to present a list of the employees (and/or subcontractors) assigned to work for us on contract with dates the pre-employment drug test results were received?
5.			Does your company ensure that all your safety-sensitive employees are subject to all testing listed in 14 CFR Part 121 Appendices I and J, including random drug and alcohol testing requirements?
6.			Has more than 180 days elapsed since any of your employees (and/or subcontractors) received a verified negative drug test result or been hired or transferred into a safety-sensitive function?
7.			If answer to 6 is "Yes," have the employees (and/or subcontractors) receive current verified negative pre-employment drug test results?
8.			Have you performed two-year drug and alcohol history checks on all your safety-sensitive employees?
9.			If answer to #1 is "Yes," do you confirm that your company complies with the FAA and DOT regulations covering Antidrug and Alcohol Misuse Prevention Programs?

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# Atlantic Aero: This Isn't Your Grandfather's FBO

By Dan Kidder

At the heart of every great aviation company is a desire to push the envelope. The pushing of those envelopes over the past 102 years has expanded the reach of aviation and taken us from the Wright Flyer into space and through the sound barrier. But what happens when a small, customer-service focused, full-service Fixed Base Operator (FBO) decides that innovation in aircraft design is lacking and decides to do something about it? Atlantic Aero.

From his roots as a successful FBO owner in the Midwest, John Godwin moved to Greensboro, N.C., to start up a small FBO for a group of investors. Godwin saw flight training as an investment, building a fueling, hangaring, and maintenance operation literally from the ground up by training pilots who would one day become his customers.

Today, 34 years later, more than 28 acres of Piedmont Triad International Airport (GSO) is covered with hangars and fuel farms belonging to Atlantic Aero. In the past five years, more than \$6 million has been invested in the property, including a new 10,000-square-foot interior renovation shop currently under construction. When completed, the shop will contain everything needed to completely renovate an aircraft interior, including a state-of-the-art woodshop and cabinet painting facility.

In the early 1980s, Godwin felt that modern aircraft were simply repainted versions of 1950s technology. Seeing the opportunity to apply new technology, he formed

a company to create a new concept in small two-seater aircraft design, the Questair Venture. The Venture set several world records at the time of its unveiling and still holds several speed records for its class, including 332 miles per hour over a recognized course.

Built as a kit for amateur builders, the plane was an engineering success even though it was less successful as a business venture. Roughly 25 Ventures are still flying today, including the production prototype, flown by John Godwin's son, Don, the company's chief executive officer. Prototype number 1 is housed in the EAA museum in Oshkosh, Wis.

The Questair company was sold, but the project spawned the desire to have an engineering team as a part of Atlantic Aero. The engineering division has developed more than 50 Supplemental Type Certificates (STCs) and several PMAs, mostly with the aim of increasing safety, efficiency, and performance of existing designs. To handle the demand, Atlantic Aero built and operates a separate manufacturing facility complete with computer-aided design (CAD) and computer numeric control (CNC) machines. Additionally, sophisticated laser measuring devices are used to take existing parts, precisely measure

all of the necessary points, import them into three-dimensional design software, and reproduce the part or modify and improve the design. The new design is then sent directly to the CNC machine and fabricated. Additionally, many of the parts are crafted in carbon composite, making them lighter and stronger than steel or aluminum. Atlantic Aero is also one of the only smaller engineering groups using Dassault's CATIA engineering software, the same system used by large-scale manufacturers such as Boeing.

*Continued on page 16*



## Atlantic Aero

*Continued from page 15*

Currently under development is an STC for a modified carbon composite cowling and nose for a Beech Bonanza, which potentially will improve speed and performance without modifying the engine in any way.

This experience was instrumental in Atlantic Aero being recognized by the FAA as a Designated Alteration Station (DAS). With its STCs, PMAs, and experience in engineering and manufacturing, Atlantic Aero continued to develop a vast array of expertise. As a result of the ongoing engineering effort, Atlantic Aero was given the opportunity to support one of the most innovative aircraft designs in the world—the HondaJet.

When Honda Motor Company's Research and Development Organization planned to experiment with a proof-of-concept aircraft design, it wanted an innovative American company to sup-

Honda is currently testing its state-of-the-art HondaJet with ongoing cooperation from the Atlantic Aero engineering and fabrication team. Don Godwin is also assisting as one of the pilots for the jet.



port the design, development, and testing of its concepts. Through Atlantic Aero's FBO 20 Group affiliation, the company was introduced to the Honda team.

"Our background in engineering and certification initially



Atlantic Aero is building a new 10,000-square-foot interior renovation shop that will contain everything needed to completely renovate an aircraft interior, including a state-of-the-art woodshop and cabinet painting facility.

made us attractive to Honda," said company President James Spinder. "An additional benefit to help support the program was our breadth of operations."

Honda is currently testing its state-of-the-art aircraft with ongoing cooperation from the Atlantic Aero team. Don Godwin is assisting as one of the pilots for the jet, and the Atlantic Aero engineering and fabrication team supported Honda with various aspects of the aircraft.

Over its 34-year history, Atlantic Aero has operated line services, charter, cargo, maintenance, sales, flight training, fueling, and airline services as well as its engineering and manufacturing.

Atlantic Aero still has extensive maintenance facilities and is a primary service provider for Flexjets. The company also converts and retrofits cargo Cessna Caravans into passenger or skydiv-

ing aircraft, sells Caravans for Cessna, operates a full-service FBO, provides state-of-the-art avionics upgrades and installations, provides interior retrofits and renovations, and provides repair and maintenance for turbine aircraft and high-end recip-

rocating aircraft.

While Godwin described the FBO and fuel sales as "flat," the rest of the company is enjoying substantial growth in all other areas. The company offers an attractive terminal, stretch limo airport pickup, full-service ground support, and innovative "taxi through plane ports" for small personal aircraft customers. A comfortable pilot's lounge, complete with a Wi-Fi network, makes it hard to believe this isn't a thriving fueling and parking spot. Additionally, the four repair and maintenance shops operate 24 hours a day, 365 days a year.

Employing more than 145 people, each new-hire is given extensive training in company philosophy, safety, and Atlantic Aero processes and procedures. Each line service technician is Safety 1st certified and the company participates in the NATA Safety 1st Safety Management System for Ground Services.

As part of its innovative approach to business, Atlantic Aero believes in using technology to the utmost. Computer terminals dot the work floors where employees can access an exhaustive library of repair manuals, and an integrated internal network (Intranet) allows employ-

*Continued on page 18*

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## Atlantic Aero

*Continued from page 16*

ees to access personnel documents, file reports, handle parts ordering, and track repairs.

"We are finding employees who have the technical skills we need as well as hiring people without all of the technical skills and getting them trained to our systems," Don Godwin said.

"Technology has certainly helped us to expand our capabilities, from engineering, to parts manufacture, to STCs," Spinder said. "We lost a lot of our base customers with the downturn in the economy. In Greensboro, the primary industries were textiles, furniture, and tobacco. The furniture and textiles have gone overseas, and with all of the problems that the tobacco companies have been having...Greensboro is not a fuel stop. We are too far from

the West coast and too close to the East coast. We are seeing Greensboro's economy turn around as Dell has just opened a plant here, and other technology firms are coming here."

### Building Through Innovation

Technology has been key in helping Atlantic Aero navigate the turbulent economy. The company's innovation and diversity have allowed it to grow, even while its once-core business shrank.

Spinder himself is an example of diversity and innovation. "My mother wanted me to be a judge, so I went to law school," he said. Not long into his legal career, Spinder decided that he wanted a different future and began taking Master's courses in finance, even finishing up fulltime while his wife supported him.

After earning his MBA, Spinder

went to work for Kimberly Clark, where he said he was the oldest guy in diapers. Kimberly Clark was once heavily invested in the aviation business and offered Spinder a chance to move from diapers into airplanes. He jumped at the chance and moved to Montvale, N.J., where the company had purchased a charter/management company. During this time, Spinder moved up to general manager of transportation services, where he worked with such notables as New World Jet's Richard Van Gemert. Kimberly Clark later undertook a venture with Duncan Aviation to build a new company called Alliance Engines, and Spinder began as chief financial officer and chief operating officer until the company was sold to private investors shortly after Kimberly Clark began its divestiture of transportation services. He joined Atlantic Aero six years ago and has never once looked back at his years of law.

"I am not a lawyer," he said emphatically.

Don Godwin also demonstrates that adventurous spirit. Having modified many Cessna Caravans into skydiving planes, he finally took one of his customers up on the offer to jump for his 50th birthday. Since then, Godwin has made more than 1,400 jumps, including HALO (High Altitude Low Opening), free fall, and formation jumps.

Through it all, the company has steadily taken its place as a leader in innovative design, manufacturing, and service. Using the latest in technology, providing employees the highest levels of training, and looking at the future as a frontier to be savored rather than conquered, Atlantic Aero continues to forge ahead with new ideas and unrivaled innovations. 

In the early 1980s, John Godwin formed a company to create a new concept in small two-seater aircraft design, the Questair Venture, shown below. The Venture set several world records at the time of its unveiling and still holds several speed records for its class. Roughly 25 Ventures are still flying today, including the production prototype, flown by John's son, Don.





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# Unintended Consequences

*Yet another story about how an attempt*



*So how much JetA has your FBO sold at a 40 percent discount for use as diesel fuel to tax-evading truckers?*

*And why would somebody committing such fraud—or better yet, theft—really care about saving 2.5 cents per gallon for JetA vs. diesel when the average retail price of JetA is significantly higher than diesel?*

*to solve one problem breeds new ones.*



**S**topping this fraud was at least the premise behind legislation enacted last year that has already raised taxes on turbine aircraft fuel while at the same time imposing a significant paperwork burden on FBOs nationwide. The new law may also divert into the Highway Trust Fund \$50 million or more now paid by aircraft operators intended for the Aviation Trust Fund.

#### **How Could This Happen?**

A July 23, 2004, press release from Sen. Chuck Grassley (R-Iowa), chairman of the Senate Committee on Finance, with jurisdiction over tax policy, laid out the problem as he saw it:

“This week, prosecutors in Miami charged 19 workers at Miami International Airport with falsely classifying jet fuel as contaminated and then selling it on the sly, stealing 2.7 million gallons of fuel.

“Sen. Chuck Grassley, chairman of the Committee on Finance, today said the arrests make a fresh case for enacting his bipartisan reforms to prevent fuel fraud...‘The allegations of widespread theft, conspiracy, and kickbacks are shocking,’ [Grassley said]. ‘What’s even more shocking is that this scene is played out all over the country, probably every day. The federal taxpayers lose \$1 billion a year to fuel fraud, and probably half of that is in jet fuel fraud. Those who steal fuel aren’t paying federal excise taxes. We pay for all of our highways and airport infrastructure with the fuel excise tax. That loss is unfair to honest taxpayers who have to make up the difference. In addition to the tax loss, it’s a national security risk for dangerous jet fuel to move around with no accountability...On September 11 [2001], after the nation’s planes were grounded, huge volumes of jet fuel use were reported even though no

*Continued on page 22*

## Unintended Consequences

*Continued from page 21*

planes were flying. That raised red flags for me and other watchdogs. My committee started investigating and working with experts in the field. The result is the anti-fuel fraud provisions pending in Congress. I hope for final approval of these provisions as soon as possible to nip the growing problem of fuel fraud in the bud.”

A year later, Grassley won approval of “bipartisan reforms to crack down on fuel tax evasion that costs taxpayers \$1 billion a year.”

### JetA = Diesel = Perceived Problem

For the technically skeptical, industry experts agree that jet fuel is only slightly different from ordinary diesel fuel. In

some cases the two are capable of interchangeable use by aviation and highway users. Excess untaxed jet fuel is being diverted from the exempt use by aircraft to evade the tax for fuels used on highways. Several different schemes have been reported, and many more opportunities for fraud identified. These include sophisticated schemes to exploit exemptions for foreign commerce, fuel distribution system re-description during transport, and illegal storage and distribution.

But what do all those schemes have to do with general aviation? “Not much,” said NATA President James K. Coyne. “We don’t believe that there is a significant fuel fraud issue among our members, which is why relief on this issue is at the top of our legislative agenda.”

When introduced in commit-

tee, the draft language of what eventually became the 2005 Highway Bill was oblique and in need of interpretation, and so it did not pose an obvious concern for general aviation FBOs, according to Stephen Beaulieu, NATA’s manager, legislative affairs.

“It was a surprise,” Beaulieu said. “We really didn’t know what the original language meant. It was drafted so poorly and so haphazardly that nobody understood the consequences of the language. It referenced other laws, never mentioning general aviation, and as a result no one, not even congressional staffers, knew what the ramifications would be or whether it would survive the conference committee with the House. Some believed it wouldn’t see the light of day, but others within the Congressional Budget

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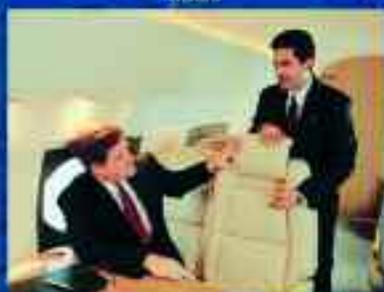
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Why would somebody committing such fraud—or better yet, theft—really care about saving 2.5 cents per gallon for JetA vs. diesel when the average retail price of JetA is significantly higher than diesel?

## Unintended Consequences

*Continued from page 22*

Office believed that there was at least \$50 million in revenue to be had, and so it survived. They needed every penny they could find to justify the high cost of the Highway Bill.”

“The idea that our members—general aviation FBOs—would sell JetA as diesel fuel for a dollar or more less per gallon than they would sell it as aviation turbine fuel, just so that truckers could avoid 2.5 cents in taxes, was something no one in our membership had on their radar,” he added.

According to Lindsey McFarren, NATA manager, research and special projects, not only did the Highway Bill address a problem that did not exist in the general aviation community, it created new ones. “Before enactment of the Highway Bill, jet fuel was taxed at the pump at a rate of 21.9 cents per gallon (CPG),” McFarren said. “While the tax on aviation jet fuel remains at 21.9 CPG, the Highway Bill mandates that all taxes on aviation jet fuel will be collected at the same rate

as the tax for highway diesel fuel—24.4 CPG—except under very controlled circumstances. In order to be reimbursed for the 2.5 CPG difference between the amount of taxes paid and the amount actually owed, either the FBO or the purchaser must complete a cumbersome registration process with the Internal Revenue Service (IRS).”

“The Airport and Airway Trust Fund stands to lose millions of dollars as the result of fraud allegations that don’t pass the common sense test,” she added. “JetA is currently selling at \$3.75 per gallon, on average, and the price spikes to \$6.79 per gallon in some areas. Compare that to the \$2.44 average price of diesel fuel, and this notion of fuel fraud in general aviation would be laughable if the implications to the Airport and Airway Trust Fund weren’t so severe.”

## New Law Means New Regulations

In the near term, the change in the collection of fuel taxes for business and general aviation operators is likely to result in a significant decline in the amount of taxes placed in the Aviation Trust Fund, as well as a de facto

tax increase for operators.

Eric Byer, NATA’s vice president, government and industry affairs, reported that beginning on October 1, 2005, the federal excise tax imposed on the removal of kerosene (jet fuel) from the terminal rack is \$0.244 per gallon.

## Aviation Funds Detoured

“This tax will be credited to the Highway Trust Fund unless it is used in aviation and refund requests are filed by FBOs, operators, and others, showing that the gallons were used in an aircraft,” he said. “The refund request is what will shift the bulk of the taxes paid over to the Aviation Trust Fund where they belong. If no refund request is filed, it is assumed that the fuel was used for highway use and the tax remains in the Highway Trust Fund by default. In short, unless 100 percent of FBOs, operators, and others file for refunds, the Aviation Trust Fund will take a big hit.”

“Only Ultimate Vendors (generally FBOs) may apply for the tax refund for fuel used in both commercial and noncommercial aviation, so it is essential that the FBOs register with the IRS as an Ultimate Vendor and make these refund requests,” Byer said. “Otherwise, the federal taxes paid for fuel used in aircraft will be allocated to the highways rather than for improvement of our airports and airways.”

Ideally, FBOs will charge the 21.9 CPG tax rate on all fuel and will then be eligible to apply for a 2.5 CPG refund for each gallon sold. However, NATA believes that some FBOs will likely choose to charge operators 24.4 CPG and the end user/operator will be responsible for applying to the IRS for the 2.5 CPG refund.

Therefore, NATA strongly recommends that sellers of fuel reg-

*Continued on page 27*

## Ultimate Vendor Application Process

**A**n FBO interested in obtaining Ultimate Vendor status could be subject to a lengthy process. Unfortunately, the process is not consistent across the country, and FBOs from different areas report substantially dissimilar experiences. FBOs seeking Ultimate Vendor status must complete and submit IRS Form 637, available at [www.nata.aero/UVRegistration.html](http://www.nata.aero/UVRegistration.html).

Most FBOs will then be contacted by their local IRS office with a request for additional documents and a visit from an IRS agent. Requested documents include corporate income tax returns of the previous two years, financial statements of the previous two years, and IRS Form 1040 tax returns for any owners of the company of the previous two years.

These are only a few of the long list of documents that have been requested of NATA-member FBOs. Many have also been asked to complete a lengthy questionnaire about the FBO's business operations, administrative and sales processes, and even customer information.

Most of the IRS visits last several hours, although some are completed in less than one hour. The FBO then waits for confirmation of Ultimate Vendor status and registration number. The wait can be days or weeks.

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## To Apply for Refunds

**A**n Application for Registration (IRS Form 637) is required to file for Ultimate Vendor status. The current activity letter for the Ultimate Vendor is "UA"; however, as the IRS revamps its forms to accommodate the new laws, it too may change. A completed and signed IRS 637 form may be submitted to Internal Revenue Service Center, Cincinnati, OH 45999.

Refund requests made by the Ultimate Vendor may be filed on a weekly basis in most cases, provided the refund request exceeds \$100.

### Scenario-Based Guidance for FBOs and Operators

#### Fuel strictly for commercial use (i.e., a Part 135 or 91 (K) operation)

If FBO charges commercial user .219

- Operator waives the right to claim .025 refund by signing a certificate. Example below.
- FBO must be registered as an Ultimate Vendor, using IRS Form 637.
- FBO applies for .025 refund on IRS Form 8849 Schedule 2. (IRS is currently revising.)
- Operator continues to claim .175 credit on fuel used for commercial aviation on Form 720 quarterly excise tax filing.

If FBO charges commercial user .244 (See note below)

- Operator claims .175 credit on fuel used for commercial aviation on Form 720 quarterly excise tax filing.
- Operator applies for .025 refund on IRS Form 8849 Schedule 2 on fuel used for commercial use only.

#### Fuel partly for commercial and partly non-commercial use (i.e., a mixed Part 135 & 91 operation)

If FBO charges user .219

- Operator waives the right to claim .025 refund by signing a certificate.
- FBO registers as an Ultimate Vendor, using IRS Form 637.
- FBO applies for .025 refund on IRS Form 8849 Schedule 2.
- Operator tracks the amount of fuel used for commercial aviation and the amount for non commercial.
- Commercial operator claims .175 credit on fuel used for commercial aviation on Form 720 quarterly excise tax filing.

If FBO charges user .244 (See note below)

- Commercial operator claims .175 credit on fuel used for commercial aviation on Form 720 quarterly excise tax filing.
- Operator tracks the amount of fuel used for commercial aviation and the amount used for non-commercial.
- Operator applies for .025 refund on fuel used for commercial aviation ONLY on IRS Form 8849 Schedule 2.
- Operator may not apply for a refund of .025 for fuel used in non-commercial aviation.

**Note: The FBO is the ONLY entity permitted to apply for the .025 refund on non-commercial sales.**



*“Doesn't the FAA understand that they're going to lose revenues for the Aviation Trust Fund? Why isn't the FAA going crazy over this?”*

*—Bill Greenwell, Frederick Aviation*

## Unintended Consequences

*Continued from page 24*

ister as an Ultimate Vendor with the IRS, if possible. Unfortunately, under today's rules commercial operators (air charter operators) are the only end users eligible to apply for the 2.5 CPG refund, and they may only receive a refund on fuel that was used for commercial purposes. The FBO is the ONLY entity permitted to apply for the 2.5 CPG refund on non-commercial sales. As a result, the portion of taxes collected from non-commercial use fuel would remain in the Highway Trust Fund, instead of being transferred to the Airport and Airways Trust Fund if FBOs do not register.

“We hope that we can get an alternate, better system in place,” Beaulieu said. “We do not understand why people would go out of their way to buy aviation fuel for trucks, but Congress seems to

think that there's a problem somewhere, so now there's a law.”

### FBOs Face Laborious Process

“The easiest system, in theory anyway, is for all FBOs to register as Ultimate Vendors (see sidebar) and charge all customers taxes of 21.9 CPG,” McFarren said. “The FBO would then be eligible for the 2.5 CPG refund on every gallon of fuel sold. Unfortunately, it's not that simple in practice.”

“It's difficult to secure Ultimate Registered Vendor status from the IRS,” Byer said. “FBOs must secure this approval base-by-base. We've had members call to tell us that the IRS forms aren't updated fully and that the applications are lengthy. The IRS must visit the FBO and conduct what amounts to a mini-audit, which takes weeks, and there's a backlog of registration applications. It's not their fault; the IRS was just handed this law, as we were. They

have little experience with aviation. And there wasn't much time between when the bill was passed July and implemented in October. The IRS implemented the program with an informal grace period, but now that period has expired, and our members are finding it even more difficult to achieve Ultimate Registered Vendor status. The harder the IRS makes this approval process, the more likely FBOs will opt to not participate in the refund process. Who can blame them for not putting up with the hassle?”

### First Approved

Among the first approved as an Ultimate Vendor and to qualify for the rebate is Frederick Aviation, in Frederick, Md. Bill Greenwell is the company's CFO.

“It's been quite a process,” Greenwell said about gearing up to qualify and account for the rebate. Greenwell is gratified that

*Continued on page 28*



from the IRS. Interestingly, the same auditor from the Baltimore field office that approved Frederick as an ultimate vendor had also audited Frederick's books in the prior year.

### Educating the IRS

"They were not up to speed on the new fuel tax regulations," Greenwell said. "Their first questions were, 'Why did you file this application? Why do you think you are an ultimate vendor?' Through NATA's website, I had the information to help educate them."

"As a charter operator, in order to determine the correct refund amount, we had to go back and contact all the FBOs we've visited nationwide last fall to find out how much in taxes they've charged us," Greenwell said.

"Most FBOs haven't clearly identified the amount of the fuel tax paid on their invoices. Administratively, that effort was

extraordinary. All FBOs need to clearly identify taxes paid. We now have our pilots asking if they don't indicate."

"As an FBO, we identify taxes paid right on our receipts," he added. "That reduces work for us as we don't have to answer questions."

"The FBO side of it is much more straightforward," he said. "You know all the fuel you bought. When we do inventory reconciliation, it's relatively easy to account for, conditioned on whether you are prepared

to take the 2.5 cents."

But there's a bigger issue at stake than just the 2.5-cent refund, according to Greenwell. "If all FBOs don't file for the refund, the Aviation Trust Fund will be denied 17.5 cents per gallon of jet fuel sold, which really is the biggest injustice to the aviation industry," he said. "Congress has placed a significant burden on the industry, and some FBOs will not be able to comply with the new regulations, so a lot of dollars will be lost to the Highway Trust Fund forever. Some FBOs just don't have the knowledge or staff or wherewithal to collect the data or file the refund, so the Aviation Trust Fund will be out a lot of money."

"That's robbery," he said. "Doesn't the FAA understand that they're going to lose revenues for the Aviation Trust Fund? Why isn't the FAA going crazy over this?"

### NATA Seeks More Practical Solution

"The hassle of complying with the new IRS regulations means that not everyone will participate in the rebate program," Coyne said. "We fear many will just pass their costs on to their customers and the Highway Trust Fund will reap what rightly are Aviation Trust Fund revenues. Over time, that's a huge amount of money."

"Congress must act to rescind this provision and restore fairness to the general aviation industry. We have a lot of sympathy on the Hill, but sympathy doesn't always win the day," Coyne said. "At the very least, the current collection procedures should be immediately suspended until the IRS and industry can come up with a more consistent and practical solution." 

For more information on this issue, visit the NATA website at [www.nata.aero](http://www.nata.aero).

*"In short, unless 100 percent of FBOs, operators, and others file for refunds, the Aviation Trust Fund will take a big hit."*

—Eric Byer, National Air Transportation Association

### Unintended Consequences

*Continued from page 27*

the IRS forms were recently modified to reflect the new taxes. It took him a little more than two months to secure the approval, which included an onsite audit

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# The Changing Face of GA Security



*By Bob Jandebour*

## Where Are We Now?

In today's environment, it is becoming more and more apparent that there are more dimensions to general aviation (GA) security than merely security, and the list of benefits seems to bubble to the surface daily. Traditionally, security has been thought of as a barrier to the AOA from the public, a measure against theft, and since 9/11, as a deterrent to terrorist activities.

However the vast majority of GA airports and FBOs don't see terrorists as a huge concern at their facilities, and the cost of a security system is difficult to justify by the typical amount of theft with which they deal. Considering the demand on budgets, the unsure cost of security, and the fact that TSA cannot afford funding, it would help to better understand the benefits of improved security that create a solid return on investment.

## And the Survey Says...

The findings in a recent national survey of airport managers and FBO operators show the following:

- 90 percent of respondents believe a physical security system is necessary for operation,
- 86 percent said current customers would feel more secure and see the added value with a security system in place,
- 74 percent said that promoting an efficient and well maintained security system would help gain new business, and
- 74 percent wanted a fully integrated web-based system.

## Key Factors for Investing in Security

So what are the factors supporting an increased investment in security? One reason that is growing steadily in the industry is demand from customers, starting with corporate customers and expanding to most all high-end aircraft owners. In these times, they want some assurance that their assets, staff, and passengers are protected both at home and away. It seems inevitable that this trend will continue to trickle down to most all aircraft owners in the future. "A complete security system is essential in attracting and maintaining the high-end client," said Steve Lassetter, president of Sun Air Jets in Camarillo, Calif.

Another factor is loss mitigation. What kind of losses? The most prevalent is misclaimed damage to transient aircraft—the elusive hangar rash and the conundrum of who did it. Even worker's comp claims are difficult to defend without witnesses to verify the cause or whether procedures were properly followed. And of course the matter of theft continues. Finally, following a track record of reduced losses resulting from the benefits of installing complete security systems, the industry should gain lower insurance costs and, with fewer claims, less deductible costs from safer operations.

Safety will be enhanced by nearly all aspects of improving security, from limiting and controlling access to the AOA to the awareness generated via video surveillance of hangars, ramps, and fuel

*Continued on page 30*

## GA Security

*Continued from page 29*

farms. Improved security will shed a new light on GA safety, which makes for an impressive win-win scenario.

Is that all there is? Actually no. Increasingly, it is becoming apparent across the country that customers are willing to pay a share of having a more secure aviation facility, and that willingness can be utilized to either mitigate the cost of a system or in some cases potentially generate revenues. Even the marketing of a secure facility or airport can be seen as a sales tool and adds to the return on security investment.

Another important point is that the overall value of a professionally designed system offers a much better payback and cost benefit than a low-end option or one from a company whose experience does not include general aviation.

### The Solution of New Integrated Technologies

The typical GA security system consists of several elements, ranging from tried and true physical security methods to the new web-based and IP technologies and the many fringe benefits they

offer. Thanks to recent and rapidly improving technologies, we are now converging IT and security through web-based systems, and the ramifications are tremendous.

### Cameras and Digital Video Recorders

The technology for video recordings has vastly improved in recent years. Whereas analog cameras and cumbersome VHS tapes were the staple in the past, today we have sophisticated systems that are user-friendly, record digitally, can be searched rapidly, and can be viewed remotely and securely from any computer.

Remote viewing is merely the tip of the iceberg. You can network multiple facility locations, give selective camera access to individual tenants or monitor a remote fuel farm, and interconnect cameras wirelessly where trenching is impractical.

### Access Control

Through the process of selectively controlling and restricting access, clients and authorized personnel are not unduly hindered from using facilities and the AOA, and a safer environment is provided.

This control takes the form of securing gates and doors by using proximity cards or biometrics (i.e., fingerprint recognition) in areas where the highest levels of security are desired. These systems can now be integrated into the video system allowing an event (e.g., door or gate entry) to alert a camera to pan and zoom for additional details and then send alerts, including a JPG image, to appropriate parties (even local authorities), with delivery to laptops or PDAs.

Another facet of access control is ID badging. NATA Compliance Services has long been recognized as the premier resource for vetting and badging GA personnel. It appears the time is now right to take this existing program one step further and utilize it as a means of entry at access control points. This would create a simple means of standardizing a solution that could then be offered up to TSA as the GA "TWIC" (National ID Badge) solution and without federal or state funding.

### Lighting Enhancements

Airport lighting is frequently overlooked as a means of security due to its simplicity. Cameras and human eyes function better in areas that are well lit, which inherently improves security and safety. Lighting should illuminate necessary areas without causing glare to either pilots or tower personnel.

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## Fencing and Gates

Adequate fencing has always been a staple of airport security at airports that are able to arrange funding. Fencing provides at least some deterrent to entry by people, but it can also help keep debris and wildlife from wandering onto the field. Fencing's major drawback is the cost associated with the massive runs typically found at GA airports.

## Other Components

High-speed Internet and the migration to secure wireless connectivity enable everything from public WiFi hot spots to wireless automated fuel trucks to facilitate quick and accurate fuel data. On the horizon is video surveillance integrated with intelligent video software that can recognize behavior and distinguish between objects in its field of view.

## System Integration

Beyond these specifics, there are a number of other important points to consider when applying the latest technologies to create the best security system solution. To maximize efficiency, a system needs to be fully integrated, allowing all of its components to function as a unit rather than separately.

Secondly, look for software-based systems that can eliminate the rapid obsolescence of hardware-based products. Third, seek a solution that is fully scalable, allowing additions as necessary without having to replace hardware in the future. And lastly, a security solution should have the ability to utilize the advantage of wireless components in the areas where they make sense.

## The Internet Benefit

One of the side benefits of web-based security solutions results in the availability of internet service to the airfield. This is an increasingly desirable feature and in many cases one that can be resold to tenants, thereby reducing cost while simultaneously providing the benefit.

## The Collective Effort

As the future of GA security unfolds and the pressure from all levels of government continues, cooperation between airport authorities and tenants to develop solutions is imperative. By designing an airport-wide system that allows for the mutual utilization of assets, we not only reduce costs but also bring about a consensus of all parties who will benefit from such a joint effort. "The reality of today's environment means we have to

put a higher priority on an immediate solution—a 'security umbrella' that would include system monitoring and coordinated response and would be custom-designed for each GA facility," said Gary Schmidt, director of reliever airports at MSP.

Finally, it is incumbent on the GA community to be proactive in the ongoing process of security and safety. By learning from companies dedicated to GA security and allying with our trade associations, GA will be able to stay ahead of Congress and TSA, direct its own future in the security arena, and avoid the possibility of arbitrarily mandated requirements and their associated costs.

Truly the future of GA security is in our hands. We now have the opportunity and resources to make a positive impact and to chart the course. 

*Bob Jandebour is founder and president/CEO of Tulsa, Okla.-based Navigance Technologies Group. He is a former FBO owner and pilot and serves on the Oklahoma Aeronautics Commission, NATA Airports Committee, NBAA Security Council, and AAAE GA Committee. He has been a featured speaker at numerous aviation conferences.*



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the odds. In 28 of the past 30 years, the USAIG plan has paid nearly \$45 million in good experience returns, averaging 19.26%. The Phoenix Program, which started a few years ago, just earned its first good experience return in 2005. That's what we call making Workers Comp . . . workable.

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# What's New in Security Technology?

By Kelly Creamer

In today's world, it is unbelievably easy for hackers and other crooks to steal information and/or property from companies, and many of the businesses being victimized are woefully unprepared. Companies must take the time to make sure they are doing everything possible to remain safe, secure, and out of harm's reach. One important step is to consistently look for better security technology and products to help protect the business. *Aviation Business Journal* has uncovered some items that can help you make your company less vulnerable.

## Avalon Fortress Security Corporation Worldwide

Avalon Security Corporation provides a variety of executive protection services to FBOs, airports, corporations, and individuals. Avalon employs security guards who have successfully completed 40 hours of classroom training and fulfilled a thorough FBI background check. The company also performs security design and management by conducting security inspections on client property to propose new security plans. Avalon can provide an on-duty patrol officer to act as key-holder representative for your company and respond to all burglar and fire alarms. Avalon can also provide executive protection, security escort services, and special operation teams to offer help with a special security emergency situation.

Avalon Fortress Security Corporation Worldwide  
(763) 767-9111, [www.avalonsecurity.com](http://www.avalonsecurity.com)  
Prices vary by service; call for quote.

## AircraftLogs.com

AircraftLogs.com is a new form of online record-keeping storage service that helps businesses organize important records and keep them in one easy-to-use place. AircraftLogs.com works off of an automated program where pilots and/or maintenance suppliers can track flights taken, airplane maintenance records, "squawks," expense reports, other documents, and the subscriber's account information.

If pilots want to see how many hours they have flown or mechanics want to warn owners that their airplanes need maintenance, this program communicates that vital information.

"All financial information related to aircraft ownership is neatly packaged, so owners can

more easily utilize tax advantages available to them," said Doug Stewart, president of AircraftLogs.com. "At the same time, they save accounting fees because their tax records are compiled and ready for their CPA."

AircraftLogs.Com  
(614) 503-4584  
[www.aircraftlogs.com](http://www.aircraftlogs.com)

This service is comprised of three subscription packages: Basic Pilot, Piston, and Turbine. Prices start at \$96 an annual subscription.

## Supreme Pro Earmuffs

These electronic muffs were recently given a 4.42 rating out of a possible 5.0 rating by the National Tactical Officers Association, for their sound quality protection and volume control. The electronic

*Continued on page 34*

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## Security Technology

*Continued from page 33*

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## FlameGard UV/IR Flame Detector

The FlameGard UV/IR Flame Detector is designed to identify hydrocarbon fueled fires and flames and also makes frequent checks for ultraviolet (UV) or infrared (IR) radiation.

It is typically used in aircraft hangar facilities or around fuel pumping and storage locations. Once any kind of radiation has been spotted, the unit can send a signal to any fire alarm or alarm system to then warn of a possible leak or fire. Some models have a built-in test function that can intermittently test the air quality.



FlameGard UV/IR Flame Detector by MSA  
[www.easterncontrols.com](http://www.easterncontrols.com)

\$2,400/each; \$1,900/each without the built-in test function

## E Security DVMRe Triplex

The DVMRe Triplex combines a device for transferring film into video and a digital video recorder in one unit. It records video feed from up to 16 cameras at one time and stores the video and audio into its internal 600 gigabyte hard drive.

The Triplex enables users to watch live and recorded images on a particular monitor while still being able to record present video feed. Video clips can be searched in an area to find motion, and the dual multi-screen monitor displays live viewing and playback. Additionally, it has an Ethernet local-area or wide-area (LAN or WAN) network capability for remote viewing and operation on the web. Users can also access the recordings from a computer and can email the digital images or transfer and save them to a CD-ROM.

GE Security DVMRe Triplex (DVMRE-16CT-600A)  
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\$10,200/each

## Bosch ReadykeyPRO System

ReadykeyPRO, from Bosch Security Systems, is a new access and area control system that features system administration, various access card formats, and alarm monitoring controls.

ReadykeyPRO is a certified product for Microsoft Windows 2000 and connects with databases, ID card printers, video cameras, and networks.

ReadykeyPRO features and functions include the following:

- Complete access control with 255 time zones, 255 access levels, 255 holidays per segment,
- Area controls (global anti-passback, two-man rule, and occupancy limits),
- Alarm monitoring control,
- Alarm masking control,
- Elevator control with tracking up to 128 floors,
- Closed circuit television option,
- Various access card formats,
- System administration and identification management with badge design and printing, and
- Up to nine-digit PIN numbers.

The ReadykeyPRO can connect with virtually any local-area or wide-area network. The operating system requires customers to work with Windows 2000 Professional or Windows XP Professional (5.9 or higher).

Bosch ReadykeyPRO System  
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\$3,000/each – Price is dependent on the number of doors within the system. 

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## Inside Washington

*Continued from page 11*

was big enough for congressional staff on the tax committees to realize that it could offset some of those pork-barrel projects included in the Highway Bill.

### General Aviation Takes the Hit

So who loses? The fixed-based operator community and the industry as a whole. As you have probably read by now, this new tax states that the entire 24.4 cent tax charged at the pump is dumped immediately into the Highway Trust Fund. The FBO, or "Ultimate Registered Vendor" as stipulated in the law, may then file for a refund of the 2.5 cents per gallon (CPG) difference between the 24.4 CPG highway diesel rate and the 21.9 CPG JetA rate. Only when the FBO applies for the 2.5 CPG refund does the remaining 21.9 cents transfer from the Highway Trust Fund to the Aviation Trust Fund. If the Ultimate Vendor doesn't apply, all of the tax collected stays in the Highway Trust Fund.

Oh, and by the way, did I mention the incredibly laborious process that the FBO must undergo with the Internal Revenue Service so that it may become an Ultimate Vendor, apply for the refund, and trigger the transfer money back into the Aviation Trust Fund? The process is so onerous that many FBOs are understandably not applying to become Ultimate Vendors. Those tax dollars simply become a bonus for the Highway Trust Fund.

Who then suffers? Yep, you guessed it: the entire GA community because now it is being robbed of \$50 million per year that could go to infrastructure improvements at general aviation airports but instead will be used toward the naming of highways in honor of members of Congress. For the FBOs it truly becomes a case of "damned if you do, damned if you don't."

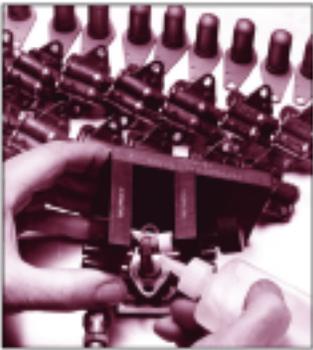
Sadly, after meeting with dozens of legislators on this issue, they too shake their heads and wonder why something this ludicrous was included in a bill they passed and President Bush signed into law. Even more amazing is how such a provision could be approved by a Republican Congress and President when it has such a dramatic effect on a sizable segment of the small business community. And all to address a problem that simply doesn't exist.

### NATA Mobilizing Its Membership

However, this new policy is a reality that this association is currently battling, and we will not rest until it is resolved. As I write this piece, efforts are underway to rescind, or at least dramatically delay, this provision. Complicating matters is that 2006 is an election year, and there are very few legislative vehicles that can remove this fuel fraud provision. Thus it is more important than ever for NATA members to take a few minutes after reading this article to contact their federal legislators to describe how damaging this provision is to their businesses. All you need to do is head to NATA's website, [www.nata.aero](http://www.nata.aero), and click on the "Fuel Fraud" button on the right of the page. There you will get the latest information on the fuel fraud tax and the Action Call that members can use in contacting their U.S. Representatives and Senators. Doing so could very well be just what is needed to help right is wrong. 

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