Senate Commerce Committee – Aviation Subcommittee Hearing
FAA Reauthorization: Airport Issues and Infrastructure Financing
April 23, 2015

Congressional:
Aviation Subcommittee Chairman Kelly Ayotte (R-NH)

- American aviation system consists of 19,000 airports ranging from facilities that handle millions of passengers per year to grass landing strips – of those, 3,300 are eligible for federal funding assistance (through AIP, PFC's, bonds and state/local sources)
- The system depends on adequate infrastructure, but demand is now growing and we must update
- While needs go beyond air-side components, FAA reports show decline in capacity investment needs through 2030 as compared to prior projections
    - This looks at what investments are needed for airports to operate without delays
- This does not mean we should stop investing in aviation infrastructure but it should inform us on funding mechanisms and the need for them to be tailored to projected needs
- Funding sources:
    - AIP (provides federal grants to airports for safety and capacity projects) with $3.35b set aside for the program in 2015
    - PFC's (federally authorized local fees on each passenger) cap is $4.50 with airports seeking to collect high PFC's foregoing portion of AIP funding.
- Obama FY16 budget proposal calls for hiking the cap to $8 while lowering AIP funding to $2.9b which has generated feedback from stakeholders/FAA
- We must strike the right balance in changing AIP/PFC funding and it is easy to see that there are disputes between airports and airlines but Committee needs to focus on policies that strengthen infrastructure, keep us safe and reduce burdens/costs on travelling public
- We have to promote efficient financing mechanisms
- Contract towers represent a wise investment, particularly in our resource-constrained federal budget environment. DOTIG audit of the program showed that FAA contract towers provide cost-effective and safe air traffic control services, operate at a lower cost than similar FAA-operated ones
    - IG also found that contract towers cost $1.5m less per tower than FAA towers and 80% of contract tower controllers are veterans
- Lost, stolen badges/credentials – TSA does not maintain record of and turns it back to the airports saying they are responsible but don't notify TSA (risk-based assessment/problem)
    - Hauptli states that ASAC has come out with 28 recommendations (5 immediate actions to be taken including additional recurrent vetting) and airport community is supportive of the effort
    - If a threshold is reached of lost/stolen credentials, it triggers rebadging everyone
    - This is multi-layered risk-based effort that needs to be taken to decrease breach risks
- Contract Towers – IG audit of program states that contract towers provide cost-effective and safe air traffic control services and operate at a lower cost than FAA towers; cost $1.5m less

per tower. FAA is in process of revising cost-benefit methodology in a way that could skew the analysis of a contract tower's value, potentially threatening their operation

- Hauptli states that contract tower program handles 28% of the operations in this country yet only cost 14% (= tremendous cost-savings involved), safety is very effective program and we believe should serve as model for other areas of government (related to partnership)
- Concerned that the FAA is looking at revising the cost-benefit analysis and a concern is early indications are that they are looking too much on the cost side but not the benefits (once cost-benefit analysis of tower is done, that should be it but the FAA wants to do repetitive cost-benefit analysis at these facilities…concerned that in administration's efforts to save money, this is one area where they have not shown their appreciation for the program)

Aviation Subcommittee Ranking Member Maria Cantwell (D-WA)

- Our airports come in all shapes and sizes but each one is critical to the community it serves and helps to support the local and national economy (reflect needs of community)
- Impact of air service on our nation cannot be overstated – airport is indispensable to community development and connects communities across the nation and world
- Airport infrastructure needs are different at every airport – some have been able to keep pace with the growing needs while others have fallen behind
- PFC's were created to fund airport infrastructure investment and are locally levied user fees that are invested back into the airport
  - while PFC's are critical component of airport funding, it is one of the several funding streams available to airports, including AIP, tax-exempt bonds, and state/local government grants
- As Congress debates on whether to increase PFC's to keep pace with economic growth, we must consider how airports will invest these dollars and hopes to improve passenger experience and keep commerce moving
- Airports have different businesses models aimed at putting economic benefits back into the infrastructure so this must be reviewed as we look at the demand on that infrastructure over the next several decades (how much growth have to meet and how to approach meeting it)
- NextGen implementation across airport/aviation system and how we help with saving and make investments back into the infrastructure
- Contract towers provide a level of safety back into the NAS
- Moving forward – airlines oppose increase of PFC's because PFC's are included in the total ticket price and they argue that that impacts the passenger demand, and also there is ample funding of PFC's ($2.9b in 2014). How dealt with this at SEATAC (since airports can obtain revenue from non-aeronautical operations)?
  - Reis states that at SEATAC, half of net income from non-airline sources is used to reduce rates/charges of airlines (in lease agreement with airlines). Each airport and airlines that serve it have a lease agreement (or operating agreement) and the provisions of all those vary

- Infrastructure funding and rate base as an alternative – thinking about constituents and consumer (airline ticket purchase, PFC)
    - Pinkerton states that this boils down to a choice between forcing passenger to pay on the ticket (disproportional impact on local communities due to connections) or putting in rate base and having airlines pay. Loss in passengers flying has turned around and carriers being able to make modest margins, we have tons of planes on order and we are reinvesting back into airports.
    - Reis states that it is frankly bad to say that airlines don't pass costs onto consumers – fees are implemented to passengers by airlines. Additional incremental average to consumers over a certain period, you would find a large number associated with costs to consumer. TO say that an increase in PFC will have a negative impact on the flying public is not looking objective at the data of the flying public over the last years. Then the question becomes if the airlines say they want to put this in rate base as opposed to the PFC, it comes down to control and who makes the decision on how to finance a project. There are certain decisions that should be made by the local government. With an increase in PFC, a local governing tools will have a tool (they don't have to raise PFC's but have the opportunity to use it for a project if want to)
- Airports are stewards of our economy and represent economic tool. There is always someone accountable for everything – airports have to look globally on economic development an airport represents and plan for economic commerce, expansion and serving

Senator Richard Blumenthal (D-CT)

- Money airlines earn on ticket fares and ancillary costs is not subject to federal excise taxes (so government is losing out on revenue that could go to airports and improving their economic contribution to the nation). Shouldn't there be federal excise taxes on funds that are raised through these fees?
    - Hauptli agrees and states that the airlines have collected billions in baggage fees that have not been subject to taxes by the government and billions could have been collected from those fees to fund NextGen investments, infrastructure investments throughout the country
    - Pinkerton states that the purpose of the hearing is to get needed projects done, not supporting taxing bag fees. What is happening is aviation resources (not like highway trust fund) is that we are at all-time record highs of revenue in trust fund ($13.6b last year). We don't have a revenue problem and we are committed to moving forward on these airport projects that need to be done within existing resources ($6b from trust fund, $11b in bank) so additional taxes on airports or airlines are not needed. Do you want to increase the cost of travel or have it go into the rate base (airlines say yes)?
- Wouldn't fees be reduced if this tax were imposed and thereby improve the travel experience and provide revenue for infrastructure?
    - Pinkerton states we don't need another source of revenue since there are so many robust sources of revenue out there now and adding a tax will only increase cost

- Reis states that there is an assertion that airports have a large pot of cash that can be used to fund projects. For an airport, a large amount of cash is a cheaper way to issue bonds and does not cost the airlines anything – reduces airline rates/charges
- Minerva states that the airlines are not asking airports to spend down their cash. Airlines do ask an airport to fund a project through a bond and will pay the debt service on those bonds. Airport and airlines talk together to agree on scope/pace of a project then talk about financing (main source – airport bond financing)

Senator Steve Daines (R-MT)

- Converting federal contract tower (under program) to FAA federal tower – there needs to be a mechanism for the agency to right-size federal towers to the busiest airports and contract towers to the slower/smaller airports. Suggestions on how to best address this?
  - Hauptli states that the FAA needs to develop criteria for the conversion of contract to federal, they don't have criteria to deal with that issue and that the committee can include provisions in FAA reauthorization bill
- Client and airport operations at most airports and how to address growing infrastructure and funding needs at airports
  - Dillingham states that in terms of smaller airports that are growing, the way the current federal funding is organized where there is a cross-subsidy from the AIP program to the smaller airports that that is one of the best ways to ensure smaller airports can acquire the kind of funds they need for infrastructure development along with the contract tower program also allows for smaller hubs to be more efficient. We need "the spokes in the wheel" to go to the major hubs and those smaller airports make up part of that national airspace/airport system
- Projects that have not moved forward because there has not been a PFC increase? Raising ticket prices through PFC's is not an option (expense to public; hub connections). What isn't getting funded at airports and why we need to see an increase in PFC's?
  - Hauptli states that airlines say you don't need PFC increase because things are getting built which is true a lot of the time, but they are taking much longer to get built and it costs more and is less efficient. Airports have many projects that they would like to see competed through PFC
  - In last reauthorization bill, Congress doubled the requirement for local communities to come up with their share in order to get FAA grants…very expensive/hard for small communities to come up with that and an increase in PFC's will allow for the local communities to use them as part of their local matching share in order to be able to build some of these projects

Senate Commerce Committee Ranking Member Bill Nelson (D-FL)

- Gun issue at ATL

Senator Roger Wicker (R-MS)

- In industry and Congress, CTP is viewed as one of the most successful government-industry partnerships and contract towers handle 28% of all tower aircraft operations but account for 14% of the spending
- AIP – Obama proposes $2.9b for fy16 but the $3.2b AIP threshold – all direct appropriationments would be cut for non-designated airports and entitlements to airports with primary designation being reduced. What types of airports are most reliant on AIP funding? Who would lose most if AIP continues to be cut?
    - Hauptli states that while all sized airports benefit from AIP, the smaller the airport the greater the reliance on federal funding stream represented through AIP. We believe in AIP program ($7b in eligible projects) there is more justification for a higher PFC. Support robust funding for AIP funding in the future to guarantee revenue stream to protect smaller airports
    - Small/medium sized airports in favor of modernizing PFC - counterintuitive that some smaller airports favor increase in program because in last round of FAA reauthorization, Congress agreed with a suggestion and lowered percentage that the federal government would support in what the match would be for a smaller airport (requirement for small airports to come up with 10% matching share – hard) and an increase in PFC would allow for small airports to come up with that local matching share and also an increase in PFC's at smaller airports are necessary function for them to build some projects that the airlines wouldn't be supportive of (greater autonomy in deciding what gets built)
    - unit of government closest to the people should make the decisions, not us in DC

Senator Cory Gardner (R-CO)

- PFC negotiations for things at airports with airlines – if PFC caps were to be lifted, what changes would you like to see in oversight and where money would be spent?
    - Minerva states that there isn't a problem that a higher PFC would solve and that we would urge the committee to look at examples of projects not being done; focus should be on which projects are and are not being done (under existing rate)
    - current system drives a lot of airport/airline consensus, decision should be made at local level and by airport directors but it is best made in conjunction with airlines on unilateral basis
    - you get better projects when airports and airlines work together

Senator Amy Klobuchar (D-MN)

- We need more certainty provided by a long-term reauthorization bill. How important is this in planning for the future of airport investments?
    - Reis states that extensions in last reauthorization were unnerving – could not issue grants so for small airports that need grants on an annual basis, it required delays of projects and loss of construction time due to reauthorization
- Reforming ATC system – airport perspective on proposals that would put AIP program in discretionary funds and remove it from trust fund. What would it do to the program?

    - Hauptli states that we want to make sure that whatever happens with ATC modernization that AIP piece remain within aviation trust fund as we need the stable and predictable funding stream supported by the users of the system rather than subject AIP funding to the vagaries of the federal budget process and general revenues
- Small Community Development Program and EAS crucial to keeping rural areas thriving and connected
    - Dillingham states that GAO has recommended that Congress look at extending eligibility for SCDP and said that EAS, although controversial, is necessary for some communities. Also recommended that we should be thinking intermodally (bus or air taxi to another hub)
    - work suggested that we have a national system that needs to be connected by the most efficient means available

Senator Cory Booker (D-NJ)

- Newark/La Guuardia/JFK - bad on on-time arrivals due to congestion, etc and are ranked last in amount of federal improvement grants per passenger
- Investments have not kept pace with what's needed, is there some investments being made in NY/NJ region to help with airport capacity and on-time arrivals?
    - Hauptli states that there are many projects, including expanding/raising runways to address safety concerns…PFC's vital element in that project going forward
    - Pinkerton agrees and thinks that what is holding back some projects in that area is that the Governor decided to wait to pick a public-private partner; also, revenue-diversion airports and money that goes off of the airport…wants the area to be modernized but do you want to raise rate base or do you want to increase taxes?
- Urgency needed, spending less on AIP investments (than in 2007), but money does not get where it is needed, do need to raise fees or better allocate what we already have? Growing number of passengers, worried that his area gets the least AIP-appropriated funds per passenger. PFC's to be adjusted to inflation – what steps airlines taking to ensure proper investment in our airport infrastructure to allow for the growing demand?
    - Pinkerton states that right now, AIP funding mostly goes to small/medium hub airports (support 4% passenger traffic; ga airports getting a large amount); airlines investing their own money into these airports – not just PFC or AIP

Senator Brian Schatz (D-HI)

- Accommodating for travelling public/tourisms and capacity constraints – what infrastructure improvements need to be to ensure airports are globally competitive?
    - Dillingham states that important thing we need to focus on is the implementation of NextGen and its capabilities it is forecasted to bring (efficiencies at airports and in air) to make/keep U.S. competitive in international travel
    - Pinkerton states that customs lines are a big deal and continue to work on entry process and infrastructure at gateway airports (for which airlines are investing their own money)

- Minerva states that we need to look at what's happening on an airport-by-airport basis and looking at what the needs of each airport are. Look at each airport to figure out growth of airport will be and how to handle it
- Dillingham states that GAO recommendation that if Congress determines in (201) baggage fees and ancillary fees would be useful for the trust fund, they could consider amending the IRS codes and move forward with that

Senator Dan Sullivan (R-AK)

- Aviation infrastructure risks – risks are closer to home, particularly our own government and when talking about financing and projects. Regulatory red tape (always looking for more dollars, but not always looking to make permit efficient) and how to do this better.
  - Hauptli states that we are always looking for ways to streamline processes but they only grow and require more money and take more time
  - Reis states that, in taking 15 years to build (and permit) a runway at SEATAC, it is not necessarily the outcome but the process to get to the outcome that is debilitating

Industry:

Gerald Dillingham (Director, Civil Aviation Issues – GAO)

- Focus on two aspects of airport funding:
  1. What is known about the potential scope and cost of planned airport development
     - FAA says overall airport capacity needs (scope of infrastructure needed to help airports operate without significant delays) has generally improved
     - In 2004, FAA projected that 41 airports would be capacity-constrained by 2020 unless additional investment occurred, but in its 2015 report FAA projected only six airports would be capacity-constrained by 2020
     - FAA's latest five-year estimate for future development costs is $33.5b, 20% decline from its previous estimate, but the airport associations total estimated costs of planned development for that same five-year period is $72.5b (6.2% increase from their prior estimate and more than twice the FAA estimate)
     - These differ because the FAA estimate consists of only projects eligible for federal airport grants while the airports estimate also includes projects not eligible for federal airport grants as well as projects for which financing as already been identified
  2. What are the available sources of funding to finance that development
     - Overall, federal funding for airport development has decreased, while reliance on debt and alternative revenues has grown
       - Annual appropriations for AIP decreased by $150m since 2011 and Obama's 2016 budget proposal calls for a continued reduction in AIP appropriations from $3.4b to $2.9b in conjunction with the increase in the PFC cap
     - Federal PFC cap ($4.50 per flight segment) has not increased since 2000, and thus has not kept up with inflation

- As vast majority of airports already have a PFC, total collections have remained flat in recent years
- When GAO analyzed the potential impact of increasing the PFC (per Obama 2016 budget proposal and airport organizations requests), we found that it would increase airport revenues, slightly slow growth of passenger traffic and therefore growth of trust fund revenues
- Partially in response to the declines in federal support for airport development, airports have thought to increase their non-aviation revenues (account for $5b at commercial airports, almost as much as their aviation revenues and far more than the PFC's collected at these airports)
    - But generating non-aviation revenues may not be available to all airports (smaller airports)
- In determining the best course for future federal investment in our national airspace system, Congress has the way to interest all aviation stakeholders – airports, airlines, passengers – to help ensure that we maintain safest system in the world but maintaining a system capable of handling the projected growth

Sharon Pinkerton (Senior Vice President, Legislative and Regulatory Affairs – Airlines for America)

- A4A supports airport infrastructure investments critical in ensuring aviation system is developed in a way that meets the needs of passengers, encourages travel/tourism, helps support the benefits across economy (including services to small/medium/large communities)
    - Issue is not whether to invest, but how investments are financed
- As airlines have become more financially stable, they have reinvested profits back into adding service, hiring back employees, buying aircraft, and investing money into airports - all aimed at improving customer experience
- Given the plentiful and robust variety of funding sources for airport financing, raising PFC's is not the best way to move forward – airport credit ratings give them easy access to cheap financing (#1 way airport projects have always been funded)
- Airlines and airports have a history of partnering together on significant improvements
- Airports are currently in a strong financial condition and already received billions from passengers and government alike – several tools to finance airports and PFC's is only one tool
- Airports are flush with cash and have numerous available pools of funding for financing projects without raising taxes
- While Congress is trying to fix a bankrupt highway trust fund, aviation trust fund is full of cash ($6b unobligated balance) – highest level since 2001

Todd Hauptli (President and CEO – AAAE)

- We are underinvesting in infrastructure in the US and this lack of investment in infrastructure across the board is having a negative impact on our domestic and international competitiveness. We need to deal with this for ourselves and next generations
- In this economic, fiscal, political environment we are in, we don't believe the federal government alone can solve this problem.

    - AIP (principal construction program for airports) – FAA says that there are $7b/year in eligible projects yet Congress funds that program just over $3b/year
    - This is why it is imperative to modernize PFC program last addressed in Congress 15 years ago
    - PFC's lost half of its purchasing power due to inflation and rising construction costs – giving airports the self-help they need to build these projects because the federal government can't do it alone
    - It's time for Congress to get out of the way and let airports build what needs to be built if you can't provide us the resources to do that
- Airports and airlines have been discussing PFC's for the past 25 years – about money, control, and perspective
    - Airlines look at the world in 90-day increments of time while airports look at long-term year-window of time because that is how long it takes to build necessary infrastructure
    - Airports are stewards of the community and try to provide the best opportunities for competition and enhanced service (airlines can pull out of airport if unhappy)
    - Interests as local government align with interests of federal government – this issue needs to be pushed down to the lowest level of government where it belongs and requests support of modernization of PFC program

Mark Reis (Managing Director, Aviation Division – Port of Seattle)

- SEATAC is good representative of challenges airports across the country are currently facing – to fund projects
- SEATAC will need to service 30m more passengers than 2014 and add on additional gates to accommodate for the need and will cost $10b
- To fund the investments, will need to borrow a lot of money and the questions is how to pay back the borrowed capital – for which a lot will have to be paid from the airlines and could change airline perspectives of operating at SEATAC and affect economy as they make decisions affecting their (airline) profit/loss statements
- Non-aeronautical revenues – agreement requires airport to use half of the net income to reduce airline rates while the other half will be needed to fund dining/retail infrastructure, parking and roadways (not eligible for grants, PFC's) leaving AIP/PFC's
- SEATAC can't get sufficient AIP grants (under cap) to make a meaningful dent in its $10b program
- AIP grants support projects general aviation and non/small (med) hub airports and they are feeling the pinch of the programs not keeping up with inflation
- PFC's – This is the only funding sources that aligns with the passengers who will use the new facilities needed to meet the requirements of both our economy in our region and the airspace system (PFC = locally approved user fee, it is not a tax and the federal government never touches it and the decision to charge a PFC is made by local airport governing bodies)
- If Congress would modernize the PFC by making its current spending power equivalent to the cap imposed in 2000, the Port of Seattle Commission could then approve the appropriate PFC level which could support up to $3b in master plan investments

- PFC increase claims not needed by A4A:
    - The claim that an increase of PFC's would decrease public's willingness to fly is false – at SEATAC, airfares and passenger volumes have increased over five years (same as national data)
    - It is also asserted that PFC increases are not needed because airlines will pay the costs of new facilities, a different message from what is being done in Seattle (encouraging PFC's be used for beneficial projects to them so they don't have to pay for them through rates/charges) – so saying here PFC funding is unnecessary but opposite in Seattle
- Seattle relies on SEATAC to match airport capacity with our economy's needs and that SEATAC needs a modernized PFC to fulfill that responsibility

Michael Minerva (Vice President, Government and Airport Affairs – American Airlines)

- When airports and airlines sit down together to determine how projects should be financed:
    1. they are reaching agreements on capital spending and will continue to do so without any change in the statutory PFC scheme
    2. there is no lack of funding for AIP projects and any gaps that exist between an airport's current conditions and the desired conditions result from the lead times and complexity involved in completing airport projects and not from any lack of funding
- Airlines support projects to repair/improve airport infrastructure, AA is willing to pay for it
- If the PFC tripled tomorrow, the incomplete projects would not move faster because the pacing item for airport improvement projects is not a lack of funding but it is the lengthy process required to complete such projects (even when done right)
- Increasing PFC funds today will not translate into changes tomorrow due to the complexities inherent in airport improvements
- No surprise that airports welcome the extra cash due to the increase in PFC's, often airports are under local pressure to undertake projects that are not urgent or necessary and this is not a reason to fundamentally alter the existing dynamic that encourages airports and airlines to reach consensus on airport improvements
- Despite airport protestations to the contrary, this dynamic generates billions of airport funding projects at the current PFC level; PFC facts:
    1. Indexing PFC's to inflation is not needed because airport rent has well outpaced inflation – giving airports the money to spend at a rate that increases faster than inflation and faster than ticket prices
    2. Local officials and airport directors tell airlines that they want us to keep fares and their communities competitive and increasing the PFC makes it more costly for the public to fly
    3. Airports have great access to financing through capital improvements since their basic cost structures are guaranteed by the airlines – if an airport takes in less money than it spends, the airlines make up the difference
- Airports and airlines agree on the scope, pace, and funding of airport capital improvement projects almost without exception and with the current PFC structures in place