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BEFORE THE

SUBCOMMITTEE ON
AVIATION

OF THE

COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRTEENTH CONGRESS

SECOND SESSION

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Committee on Transportation and Infrastructure
U.S. House of Representatives

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June 12, 2014

SUMMARY OF SUBJECT MATTER

TO:	Members, Subcommittee on Aviation
FROM:	Staff, Subcommittee on Aviation
RE:	Subcommittee Hearing on "Airport Financing and Development"

PURPOSE

The Subcommittee on Aviation will meet on Wednesday, June 18, 2014, at 10:00 a.m. in 2167 Rayburn House Office Building to consider issues related to airport financing and development. The Subcommittee will receive testimony from the Federal Aviation Administration (FAA), Government Accountability Office (GAO), and industry stakeholders on the state and future of airport financing and development.

BACKGROUND

The United States has over 19,700 airports providing important services to our aviation system, and in many communities they are key economic drivers. The National Plan of Integrated Airport Systems (NPIAS) identifies 3,330 airports that are significant to national air transportation and thus eligible to receive federal grants under the Airport Improvement Program (AIP). It also includes estimates of the amount of AIP money needed to fund infrastructure development projects that will bring these airports up to current design standards and add capacity to congested airports. The NPIAS contains all commercial service airports, all reliever airports, and selected general aviation airports. [1]

While 378 of the federally-funded airports included in the NPIAS support scheduled commercial air service, 2,952 public use landing sites support general and other aviation needs.[2] Commercial and general aviation help transport millions of passengers and move billions in revenue ton-miles of freight safely and securely all across the country. Impacts are also seen

[1] http://www.faa.gov/airports/planning_capacity/npias/
[2] http://download.aopa.org/advocacy/faa-aip-white-paper.pdf

state-by-state, where airports and air operators help connect large and small communities and create jobs and increase economic output. [3]

The FAA forecasts long term aviation growth, including increased air traffic which will require increased system capacity. [4] The current FAA forecast calls for U.S. carrier passenger growth over the next 20 years to average 2.2 percent per year.[5] One estimate, by the Eno Center for Transportation, states that in 2016 alone, the United States economy will lose out on over $6 billion in lost travel spending due to unmet demand at JFK and Newark International Airports; they estimate this figure will reach $48 billion annually by 2034.[6]

Airport Revenue

To finance daily operations, airports generate and rely on both aeronautical and non-aeronautical revenue. The primary source of aeronautical (or airside) revenue is derived from fees that airlines pay for the use and maintenance of the airport facilities, including terminal rents, landing fees, and other airport services (i.e. use of a jet bridge). [7] Non-aeronautical (or terminal and landside) revenue includes those funds generated through things such as concessions, parking and airport access, rental car operations, and land rent.[8]

Federal law sets forth requirements for the collection and permissible uses of airport revenue, including what an airport can charge airlines and others for the use of the airport. For example, the Anti-Head Tax Act (49 U.S.C. §40116) prohibits local taxation of air transportation, including imposition of unreasonable charges for use of the airport.[9] Further, as a condition of receiving AIP grants, airports must agree to (1) provide access to the airport on reasonable conditions and without unjust discrimination (49 U.S.C. §47107(a)(1)); (2) to charge air carriers making similar use of the airport similar fees (49 U.S.C. §47107(a)(2)): and (3) to maintain a rate structure that makes the airport as self-sustaining as possible (49 U.S.C. §47107(a)(13)(A)).[10]

Airport Capital

To finance capital needs, airports use a combination of federal funding (through the AIP grant program and passenger facility charges (PFCs)), tax-exempt bonds (often secured by

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[3] (http://www.faa.gov/airports/planning_capacity/ga_study/)
[4] FAA Aerospace Forecast for Fiscal Years 2013-2023
http://www.faa.gov/about/office_org/headquarters_offices/apl/aviation_forecasts/aerospace_forecasts/2013-2033/media/2013_Forecast.pdf
[5] http://www.faa.gov/about/office_org/headquarters_offices/apl/aviation_forecasts/aerospace_forecasts/2013-2033/media/2013_Forecast.pdf
[6] https://www.enotrans.org/news/thanksgiving-like-crowds-at-n-j-area-airports-will-be-more-common-and-costly-studies-say.
[7] Airports Council International-North America, Primer: Airport Financing
[8] *Id.*
[9] Testimony of Jeffrey N. Shane, Under Secretary for Policy, U.S. Department of Transportation, before the U.S. House of Representatives Committee on Transportation and Infrastructure hearing on Airport Deregulation, April 1, 2004.
[10] *Id.*

airport revenue or PFCs), state and local grants, and airport revenues.[11] While smaller airports are more reliant on AIP grants, medium and large airports more often rely on tax-exempt bonds or PFCs.[12] Each of these funding sources has various restrictions attached to how an airport can use the funds. In 2007, the GAO found that airport capital spending was financed 50 percent by bonds, 29 percent by AIP, 17 percent by PFCs, 4 percent by state and local contributions, and 4 percent by airport revenue.[13]

Airport Improvement Program (AIP)

Created in the Airport and Airway Improvement Act of 1982 (P.L. 97-248), the AIP is a major source of funding for airport development and planning. AIP funds are primarily used for improvements related to enhancing airport safety, capacity, security, and environmental concerns. Airport sponsors can also use AIP funds, in most cases, on airfield capital improvements or repairs and, in some specific situations, for terminals and hangars. The AIP is fully funded by the Airport and Airway Trust Fund, the revenue of which is derived from aviation-related excise taxes on passengers, cargo, and fuel.[14]

AIP grants are distributed by formula to four categories including primary airports, cargo service airports, general aviation airports, and Alaska supplemental funds. However, large and medium hub airports that collect a PFC of $3 or less are required to forego 50 percent of their AIP formula grants; airports that collect a PFC above $3 forego 75 percent of their AIP formula grants. Of the foregone entitlements, 87.5 percent go to a small airport fund and 12.5 percent go to the AIP discretionary funds.

Discretionary funds include any funds not distributed by formula. These grants are approved by FAA based on project priorities and include specific allocations for airport noise set-asides, the military airport program, and grants for reliever airports.

The AIP has been amended several times since its creation. Most recently, *The FAA Modernization and Reform Act of 2012* (P.L. 112-95) authorized annual AIP funding of $3.35 billion for four years from fiscal year 2012 to fiscal year 2015. P.L. 112-95 also included several airport-related finance provisions:

- Permits economically-distressed communities to be eligible for up to a 95 percent federal share of subsidized air service project costs.
- Allows small airports reclassified as medium hubs to preserve eligibility for up to a 90 percent federal share for a two-year transition period.
- Expands the airport privatization pilot program by increasing the number of airports that can participate from 5 to 10.

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[11] Tang, Rachel Y., Kirk, Robert S., Financing Airports Improvements, Congressional Research Service. December 4, 2013.
[12] *Id.*
[13] Government Accountability Office, *Airport Finance: Observations on Planned Airport Development Costs and Funding Levels and the Administration's Proposed Changes in the Airport Improvement Program*, GAO-07-885, 2007, p. 8.
[14] Tang, December 2013 CRS Report.

The NPIAS estimates $42.5 billion in AIP-eligible projects between 2013 and 2017 (or $8.5 billion per year). The Airports Council International-North America 2013 Capital Needs Survey estimates that airports have $71.3 billion in capital needs over the next five years (or $14.3 billion annually) for AIP-eligible and other non-AIP-eligible airport projects.[15]

Passenger Facility Charge (PFC)

To provide additional resources for airport improvements, the *Omnibus Budget Reconciliation Act of 1990* (P.L. 101-508), permitted an airport to collect a fee on passengers or the PFC. A PFC is approved by the federal government, collected by the airlines, and paid directly to the airport without going through the Federal Treasury. The PFC is intended to supplement, not replace, AIP funds.

Airports can use PFCs to build critical infrastructure projects at their facilities. However, unlike AIP funds, airports can use PFC revenue for gates, airline ticket areas, and debt service on bonds that airports issue to finance airport infrastructure projects. In 2013, the FAA estimated that airports collected approximately $2.8 billion from PFCs. Airports use these fees to fund FAA-approved projects for one or a combination of the following purposes:

- Preserve or enhance safety, security, and capacity of the national air transportation system.
- Reduce noise from an airport that is part of the system.
- Provide opportunities for enhanced competition between or among air carriers.

Initially, there was a $3 cap on each airport's PFC and a $12 limit on the total PFCs that are collected per round trip. In 2000, The *Wendell H. Ford Aviation Investment and Reform Act for the 21st Century* (P.L. 106-181) increased the cap (to the current levels) on the PFC from $3 to $4.50 per passenger per leg of a trip, and no passenger can be required to pay more than $18 in PFCs per round-trip.

The FAA has approved PFCs at 390 airports, and 358 are actually collecting money at this time.[16] Large and medium hub airports must apply to the FAA and demonstrate capital needs in order to impose a PFC. The airport must also provide reasonable notice to, and an opportunity for consultation with, air carriers and foreign air carriers operating at the airport. An application may not be approved unless the airport has submitted a written competition plan to the FAA with a justification of the capital projects for which the revenue will be used which includes information about the availability of gates, leasing arrangements, gate-use requirements, controls over airside and ground-side capacity, and intentions to build gates that could be used as common facilities.

The FAA Modernization and Reform Act of 2012 (P.L. 112-95) made two updates to the PFC program:

[15] http://www.aci-na.org/sites/default/files/2013_capital_needs_survey_report.pdf
[16] http://www.faa.gov/airports/pfc/monthly_reports/media/stats.pdf

- Made permanent the pilot program that authorized non-hub small airports to impose PFCs.
- Required GAO to study alternative means of collecting PFCs without including the PFC in the ticket price. (see Government Accountability Office, *Transportation: Alternative Methods for Collecting Airport Passenger Facility Charges,* GAO-13-262R, 2014).

WITNESS LIST

PANEL I

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Deputy Associate Administrator for Airports
Federal Aviation Administration

Dr. Gerald L. Dillingham
Director of Civil Aviation Issues
Government Accountability Office

PANEL II

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Mr. Todd Hauptli
President and CEO
American Association of Airport Executives

Ms. Sharon Pinkerton
Senior Vice President, Legislative and Regulatory Policy
Airlines for America

Mr. Mark Reis
Chairman, Board of Directors
Airports Council International, North America

AIRPORT FINANCING AND DEVELOPMENT

WEDNESDAY, JUNE 18, 2014

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON AVIATION,
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE,
Washington, DC.

The subcommittee met, pursuant to call, at 10:04 a.m., in Room 2167, Rayburn House Office Building, Hon. Frank A. LoBiondo (Chairman of the subcommittee) presiding.

Mr. LOBIONDO. Good morning. The subcommittee will come to order.

I would like to thank everyone for being here.

Today we look forward to hearing from the Federal Aviation Administration, the Government Accountability Office, and industry stakeholders on the current and future state of airport financing and development.

Airports serve as an important foundation—not just important, but critical, foundation of our Nation's infrastructure. They enable millions of passengers to travel throughout the United States and to destinations all over the world.

Airports are also a tremendous economic driver for many communities across the United States where airports and their air operators help connect large and small communities.

Airports support over 10 million jobs with annual payrolls of over $360 billion. They produce annual output of $1.2 trillion to our economy. Airports play an important role to stimulate local economies.

They connect our region to the Nation's transportation grid, helping to bring additional visitors and tourism dollars to the region.

Federal programs, including the FAA's Airport Improvement Program, provide funding to help enhance airport capacity, security, efficiency and safety.

Just 2 weeks ago Atlantic City International Airport, which, if you didn't know, is in my district, was able to receive nearly $1.7 million in AIP grants to help operations and dependability.

This is just one of many examples in a long-established history of South Jersey airports and stakeholders working together with the FAA to continue the standard of excellence.

Looking ahead, the FAA forecasts long-term aviation growth, including additional traffic, which may require the need for increasing system capacity. In fact, I don't see how it can not have the need to increase system capacity.

This forecast calls for U.S. carrier passenger growth over the next 20 years to average 2.2 percent per year and more than 1 billion passengers being transported in the U.S. system.

Just this past May we saw evidence to support the FAA's forecast as the majority of U.S. air carriers expanded their flying capacities in order to accommodate the increased demand of air traffic.

Given these projections, industry, FAA and Congress will need to work together and look to see what innovative approaches are out there to maintain our Nation's airports' ability to continue providing safe and efficient service.

This type of innovation is already taking place at the FAA's William J. Hughes Technical Center in my district. Research is being conducted in collaboration with industry and academia to ensure that the needs of our current and future air transportation systems are being met.

The FAA Tech Center also operates the National Airport Test Facility on its campus. This is a state-of-the-art, full-scale pavement research facility which, among many other things, provides the FAA with engineered solutions for pavement designs that improve safety at airports.

The subcommittee is very interested in hearing from the witnesses their perspectives on the funding mechanisms that exist to finance and develop airports and how Federal programs are being utilized, what could be improved, and what challenges lie ahead.

We are also very interested in hearing how industry stakeholders from airports to air carriers have found creative ways to retain or increase their ability to provide air service.

As we turn towards reauthorization in the next FAA bill, we hope to continue this dialogue on airport financing. It is important that we hear from all stakeholders and receive your input to learn what ideas work and do not work in the real world.

I look forward to hearing from our witnesses today and thank them for joining us.

Before I recognize Mr. Larsen for his comments, I ask unanimous consent that all Members have 5 legislative days to revise and extend their remarks and include extraneous material for the record of this hearing. Without objection, so ordered.

Without objection, now I turn to Mr. Larsen for your opening remarks.

Mr. LARSEN. Thank you, Chairman LoBiondo, for calling today's hearing regarding airport financing and development.

In 2013, the U.S. saw over 730 million passengers travel through its airports. And, by 2027, the FAA forecasts the number of annual domestic and international air passengers in the U.S. will reach 1 billion passengers, a 24-percent increase in domestic enplanements and a 41-percent increase in international enplanements within that increase.

Forecasts of increasing air travel may seem encouraging for the economy, but without adequate investment, passengers may experience more congestion and delays and our country may lose economic opportunities.

In a recent study, the U.S. Travel Association found that 1 in 5 of the Nation's major airports currently experience Thanksgiving-

type levels of congestion at least once a week. Unless airports add capacity, 24 of the Nation's top 30 airports will reach these levels of congestion within the next 5 years.

There are real dollar figures associated with economic losses that will occur if our airports cannot accommodate this increased future travel.

One study by the Eno Center for Transportation estimates that, in 2016 alone, the U.S. economy would lose out on over $6 billion in travel spending because of capacity constraints at just two airports and, by 2034, the center estimates this figure would reach $48 billion annually.

So the bottom line is that we can't have a big-league economy if we have Little League infrastructure. Our Nation's airports are critical economic drivers and gateways that connect travelers all over the globe to the U.S. They also connect our communities to each other across the Nation.

So we need to continue to invest in our infrastructure to remain economically competitive. At the same time, we need to make sure that we do not either overtax or overburden the aviation industry and passengers, as well as make sure that we don't put unbearable debt demands on the airports themselves.

Congress has long recognized a Federal role with respect to investing in aviation infrastructure. Two important ways the Federal Government supports the development of airports include the AIP—Airport Improvement Program—as well as passenger facility charges, or PFCs.

The FAA estimates there are $42.5 billion in AIP-eligible airport capital projects needing investments over the next 5 years, about $8½ billion annually. And a leading industry airport association estimates a capital need at about $71.3 billion over the next 5 years, or about $14.3 billion annually, in other words, a lot of money.

The FAA Modernization Reform Act of 2012 authorized annual AIP funds for $3.35 billion annually through 2015. However, even with airports' ability to raise revenue through PFCs, there is a significant gap between the available funding and the investment needed for these critical safety and capacity projects.

So as we prepare to authorize the FAA next year, this hearing is an opportunity for us to explore these issues facing our airports.

This includes examining the current needs of airports, how the industry is financing capital development with its limited resources, and the Federal Government's role to ensure adequate investment. This is no small task.

There are more than 19,000 airports in the U.S., and nearly 3,400 of those airports are designated by the FAA as part of the National Plan of Integrated Airport Systems, making them eligible for Federal funds. They range from large hubs with commercial service to small GA airports.

We have one of the greatest aviation systems in the world. Whether large or small, airports across the country have a documented economic impact on their communities as well as the ability to connect people, goods and services.

In my home State of Washington, constituents rely on airports of all sizes. In my hometown of Arlington, general aviation at the

Arlington Municipal Airport is hugely important and the annual fly-in there brings in people from all across the country.

Bellingham International Airport in northwest Washington is developing as a commercial airport and has seen double-digit growth in recent years, requiring further investments in terminal and operation infrastructure.

And my constituents rely on Seattle-Tacoma International Airport, one of the major hubs in our country's aviation system. And I am pleased that Mark Reis from Sea-Tac is with us today.

Each of these airports plays a different, yet important, role in serving the local community and the national aviation network. As this committee considers airport funding, we need to encourage investment in airports, large and small.

Mr. Chairman, as we recently discussed at our hearing regarding small community air service, maintaining a national air transportation system will require a sustained Federal commitment.

I look forward to hearing from our witnesses today about the status of our airport infrastructure and ideas for continued investment now and in the future.

And, finally, Mr. Chairman, I want to take a moment before I finish to recognize a key staff member of this subcommittee who will soon be leaving us. This will be the last hearing that we will have the wise counsel of Giles Giovinazzi.

Giles has been a great resource for myself and for my staff, and we will be losing a great deal of institutional knowledge as well.

I want to thank Giles for his many years of admirable service to this committee and wish him and his family well as they move on to new opportunities, thankfully, on the west coast. Thanks, Giles.

[Applause.]

Thank you, Mr. Chairman.

Mr. LOBIONDO. We thank Mr. Larsen. And we, too, would like to thank Giles for his years of service and his strong approach to solving problems. We wish all the best in California for you and your family.

I would now like to recognize the chairman of the full committee, Chairman Shuster, for opening remarks.

Mr. SHUSTER. Thank you very much, Chairman LoBiondo.

And let me start off by thanking Giles for all of his hard work. And although he works on the other side of the aisle, he has been somebody that I have talked to and learned from over the years. He really is an expert on the subject. California DOT is going to benefit by his wisdom and his hard work.

So we wish you well.

I had a discussion with him the other day. It sounds like we are going to see him back here in Washington occasionally—or more than occasionally.

Our door is always open to you, Giles, and best wishes to you as you move on.

Again, I want to thank Chairman LoBiondo for holding this hearing today to discuss the current and future funding and the status of airport financing and their development.

I think everybody in the room knows the importance that airports play in our aviation system and our airline system. Not only

are they the gateways to our skies, but they provide a critical role in emergency and disaster responses.

And there also are economic drivers in the communities that they are in. That is something we need to again make sure we pay close attention to.

As the chairman and the ranking member have so ably talked about the future and the forecast, we are going to see more passengers. We are going to see more cargo moving through these airports.

And in this current budget situation, we are all finding out how to do more with less. However, we need to ensure that we are making the investments in the airports and maintaining the current system to accommodate that future growth.

I think everybody is aware that the FAA authorization expires September of 2015. We have already begun to lay the groundwork at hearings like this and others that the ranking member and the chairman have held, making sure that we fully understand the situation.

Chairman LoBiondo, myself, and Congressman Graves have held already a number of listening sessions with stakeholders to find out where they are, what their thoughts are and ways we can improve.

I think we have an opportunity that doesn't come along often that we are going to be able to do something significant to improve the FAA, to reform the FAA, to change the way they do business, so that we can all benefit by efficiencies that NextGen gives us.

I look at the wall up there with all those chairmen and I think every single one of them talked about NextGen at one point when they were chairmen.

That goes back over 20 years ago, maybe even 30 years, we have been talking about it, and the time has come that we need to try to figure something out to get this done.

We are very interested in hearing all the stakeholders, getting their views, and I see a couple out there that have already had listening sessions with us. And we invite you to share your thoughts and concerns as we move forward to the next FAA reauthorization.

So, again, thank you, Mr. Chairman, for holding this hearing. I yield back.

Mr. LOBIONDO. Thank you, Chairman Shuster.

We now will welcome our witnesses. On the first panel, we have Mr. Ben De Leon, Deputy Associate Administrator for Airports at the Federal Aviation Administration; and a very frequent and welcome witness, Dr. Gerald Dillingham, Director of Physical Infrastructure Issues for the U.S. Government Accountability Office.

Mr. De Leon, you are recognized for your statement.

TESTIMONY OF BENITO DE LEON, DEPUTY ASSOCIATE ADMINISTRATOR FOR AIRPORTS, U.S. FEDERAL AVIATION ADMINISTRATION; AND GERALD L. DILLINGHAM, PH.D., DIRECTOR, PHYSICAL INFRASTRUCTURE ISSUES, U.S. GOVERNMENT ACCOUNTABILITY OFFICE

Mr. DE LEON. Chairman LoBiondo, Chairman Shuster, Ranking Member Larsen, members of the subcommittee, thank you for the

opportunity to discuss the Federal Aviation Administration's role in developing our Nation's airport infrastructure.

The FAA is committed to a safe and efficient national system of airports. Our national airport planning efforts in the administration of the Airport Improvement Program, commonly referred to as the AIP program, are targeted toward addressing the system's most pressing needs.

AIP investments will facilitate improvements in the core areas of safety, capacity, delay reduction, security and environmental sustainability. The AIP program supports a national system of airports that includes airports of all sizes located across the country.

This system is the backbone of the aviation system that is important to the success of the U.S. economy. Because demand for the AIP grant funds consistently exceeds availability, effective focusing these investments is critical to maintaining an adequate national system of airports.

To achieve that success in our airport planning investments, we collaborate with the full range of stakeholders; we carefully consider reports and recommendations from GAO and other organizations; and, we consistently review system performance to measure success and identify areas for improvement.

An area that we have identified to be in need of improvement is the ability to focus AIP resources on smaller commercial and general aviation airports. AIP grants are just one of several sources that airports use to fund capital investment. Other sources include passenger facility charges, commonly referred to as PFCs, bonds, and airport revenues. The availability of funding sources varies with the type of airport and level of activity.

For larger commercial service airports with a significant number of passengers, PFC revenues are a more flexible capital funding source. Airports with strong passenger volumes can generally issue bonds backed by future PFC revenues.

As a result, larger airports are generally less reliant on AIP grants, while smaller airports may be much more heavily reliant on AIP funding. Yet, many of those small airports are also very important to the overall system either for access or to relieve pressure on larger commercial service airports. Without them, the larger commercial service airports will need to accommodate more aircraft, which can reduce capacity and increase delays. The users of large airports depend on some of these smaller airports for overall system capacity and efficiency. Focusing AIP resources on smaller commercial and general aviation airports is a prudent and necessary investment to help the entire system.

The FAA reviews all requests for AIP funding with a careful focus on aeronautical need. The FAA's top priority is safety, and we have made runway safety a focus. AIP grants are funding runway safety area improvements, or RSAs, that provide an extra margin of safety on a runway should an aircraft overrun, undershoot, or stray from the runway.

Maintaining facilities, including runways, taxiways, and equipment, in a state of good repair is critical to the safety of the airport system. We are constantly working with airport operators to preserve existing infrastructure.

In the last 15 years, 16 new AIP-supported runways were completed at many of the busiest commercial service airports in the United States.

These projects and others decreased average delay per operation at these airports by about 5 minutes. This might sound minor, but because the delays propagate throughout the system, that degree of improvement is significant.

In closing, investment in our national airport infrastructure is crucial in maintaining the safest, most efficient air transportation system in the world. The AIP program is a vital capital funding source that works effectively with other funding sources to support the Nation's airport infrastructure.

Thank you again for providing me with the opportunity to be here today, and I will be happy to answer any questions at this time.

Mr. LOBIONDO. We thank you very much.

Now we will turn to Dr. Dillingham. I will now recognize you for your statement.

Dr. DILLINGHAM. Thank you, Mr. Chairman, Chairman Shuster, Ranking Member Larsen, members of the subcommittee.

Since 2007, there has been a significant change in the aviation industry. At many airports, aviation activity has declined and has become concentrated at larger airports.

Given the potential effect of these changes on airport infrastructure demands and finances, my statement this morning focuses on two key questions surrounding airport development: First, what are the estimated future costs of airports planned development? Second, what are the types and amounts of funding available to finance that development?

Regarding the future cost of airport development, the latest estimates from FAA and the Airports Council International—North America, or ACI–NA, both show a decline in the cost of airport planned development.

This decline is attributable to several factors, including airports choosing to defer projects due to reductions in aviation activities, which can be linked to the recent recession, airline consolidation, and higher fuel costs.

FAA's most recent estimate of airport development costs for projects which are eligible for Federal funding is $8.5 billion annually. This estimate was approximately $2 billion per year or 18 percent less than FAA's previous estimate for the 2011 through 2015 timeframe.

In addition, ACI–NA estimated another $4.6 billion for planned development that are not eligible for Federal funding. Therefore, in combining the latest available FAA and ACI–NA estimates, the total estimated annual cost of planned development is about $13.1 billion.

We plan to report on the updated estimates when they become available this fall for this committee.

Turning to our second question regarding the types and amounts of funds available to support airport development, overall, federally authorized support for airports, specifically AIP funding and PFCs, has declined in recent years while nonaviation or landside revenue sources have grown.

Specifically, annual appropriations for AIP decreased from about $3.5 billion for fiscal year 2011 to about $3.35 billion in fiscal years 2012 through 2014.

In addition, while the current House and Senate appropriations bill keeps the amount of AIP funding at or above current levels, the President's 2015 budget calls for a reduction in AIP appropriations to $2.9 billion.

With regard to PFCs, since PFCs were first approved in 1990, they have expanded to include 388 airports. However, collections are very concentrated, with almost 90 percent of all PFCs going to large and medium hubs.

Total PFC collections also declined along with passenger traffic during the last recession, but since have rebounded to $2.8 billion in 2013. The Federal cap of $4.50 for PFC has not increased since 2000.

As a result, many airports' future PFC collections are already committed to pay off debts for past development projects, leaving little room for funding new development. The President's 2015 budget has called for increasing the PFC cap to $8 while eliminating AIP for larger airports.

In response to declining Federal support for airport development, airports have sought to increase their nonaviation revenues. By focusing on other business activities to generate revenues, some airports have become involved in an increasing range of unique developments on airport properties.

For example, some airport operators generate revenues through temporary leases of airport property for uses as diverse as solar farms, oil extraction, cattle grazing and golf courses.

In addition, public-private partnerships involving airports and developers are being used to finance airport development projects, such as the planned terminal construction at LaGuardia Airport in New York.

However, these options are not available to all airports. Many airports, especially those located in smaller communities, could not survive without Federal support. These airports provide a vital link to the Nation's aviation system for those communities.

Mr. Chairman, as the committee begins its deliberations for the 2015 FAA reauthorization and the appropriate Federal support for airport developments, it will have some critical questions and information needs.

These include whether declining Federal support could negatively effect the national system of airports and the communities they serve, whether greater private investment could be encouraged at airports, and if an increase in the PFC cap is warranted.

We are currently assessing these issues for this committee and expect to report our findings out later this year.

Thank you, Mr. Chairman.

Mr. LOBIONDO. Doctor, we thank you very much.

We will now go to some questions.

For you, Mr. De Leon, with the talk about the AIP grants, and last year the FAA issued about $3.2 billion, can you walk us through the collaborative process to approve or deny an AIP grant application to get the money to the airports. How does that work?

Mr. DE LEON. Yes, sir. We like to pride ourselves in being collaborative with our airport sponsors. We work really closely with them.

We start in the neighborhood of 3 to 4 years in advance of issuing a grant during the planning stage. We work with airport sponsors to identify their critical needs today and in the future and, hopefully, lay the groundwork for future grants.

So, we start early and work with the sponsor in a transparent process. We follow the sponsor through the environmental process for that particular project. When we get to the actual construction, designing and building the project, we work closely with the sponsor to identify a funding plan that works for the FAA and the sponsor and that also meets their timeline.

Generally speaking, we collaborate with sponsors early on a lot of projects so that we don't end up denying projects. We work closely with them. It is a matter of timing on when we issue the grants to them, and we try to keep that collaboration open.

Mr. LOBIONDO. And you respond to AIP grant applications. Correct?

Mr. DE LEON. That is correct.

Mr. LOBIONDO. So you don't initiate the project? You review the projects that are presented for the grants by the airports?

Mr. DE LEON. Well, we don't initiate the actual grant application process. But before an application is received, we have already been working with them on identifying the projects that they need to meet their critical needs. So, we have already had a number of discussions before the application comes in.

Mr. LOBIONDO. But that is when the airport comes to you and starts talking about what the needs may be and you start working through with the preliminary discussions?

Mr. DE LEON. Yes, sir. Correct.

Mr. LOBIONDO. Last year, also for you, Mr. De Leon, airports spent roughly $2.8 billion on PFC projects and the FAA issued, again, $3.2 billion in AIP grants.

Can you please help us understand the fundamental difference between AIP and passenger facility charge dollars and what they can be used for.

Mr. DE LEON. Well, generally, PFC dollars follow the same eligibility as AIP project-wise, except PFC has——

Mr. LOBIONDO. Can you pull your mic closer to you.

Mr. DE LEON. I'm sorry.

Except PFC can be used for gates and boarding areas. So there are a lot of similarities. But, what we are seeing is that a lot of the larger airports that implement PFCs usually use PFCs on landside-type projects and then AIP funding is used on the airside projects. It is sort of a balance between the two.

Mr. LOBIONDO. Dr. Dillingham, could you tell us, in your view, what would be the impact on AIP entitlement and discretionary funding if the President's budget request of $2.9 billion for AIP were enacted.

Dr. DILLINGHAM. Yes, sir. According to the existing statutes, if the AIP appropriations is less than $3.2 billion, it significantly reduces the entitlement funds that are available; and, therefore, it would have a more devastating effect on small airports, since they

rely more heavily on AIP than do the larger airports. It is about formulas, sir.

Mr. LOBIONDO. OK. And we understand that the GAO is currently conducting a study that will include an analysis of potential impact of raising the passenger facility charge.

Can you tell us what issues are included in that study, when the study will be completed. And how do you think the findings of that study will be helpful to the committee?

Dr. DILLINGHAM. Yes, sir. We do have a study of PFCs underway for this committee. We are intending to look at various scenarios of the impact of raising the PFC. All airports may not decide to impose the full PFC that the Congress will grant.

I think probably one of the most important concerns is the impact on traffic. We have in the past looked at the impact of imposing the $3 security fee a couple of years ago.

And what we found was that there was a loss of passenger traffic—about 1 percent loss of passenger traffic. Over a 3-year period, that was about 26 million passengers.

As you know, Mr. Chairman, there is a certain amount of price elasticity for anything that we buy. I mean, if it gets to a certain price, then we will choose not to purchase it.

Now, clearly, this may not impact certain kinds of passengers like business travelers who need to go, but it may impact the recreational traveler where you get just to that edge and they can't pay another $35 or $36 or $100.

So we are trying to develop those scenarios so that we can provide them to this committee as they make their deliberations for the 2015 reauthorization.

Mr. LOBIONDO. Thank you very much.

Mr. Larsen.

Mr. LARSEN. Thank you, Mr. Chairman.

Mr. De Leon, the President's request proposes to decrease AIP grants by about $450 million. It also proposes to increase the PFC cap.

Do you have an estimate of how much additional funding for infrastructure projects that would generate, the net that it would generate?

Mr. DE LEON. With an increase of $8, we estimate that it would add roughly about $2.5 billion extra above what the primary airports could use for airport development.

Mr. LARSEN. If the cap was increased to $8 and airports took advantage of that and large airports as well gave up AIP grants as proposed, would the FAA have any role in ensuring that airports would first invest in safety capacity, enhancing competition, as opposed to investing in revenue-producing projects?

Mr. DE LEON. Our thinking is that, even if the large airports move out of the program and return some of their entitlement dollars, that they will still have access to some discretionary dollars, particularly if we have some national safety initiatives that we want to impress on the system itself. For instance, the Runway Safety Initiative is underway right now. It is important to implement that across the country.

So, in cases where we have a special initiative, a safety initiative in particular, we would probably allow them access to some discretionary funds.

Mr. LARSEN. I hope the airports can address that a little bit as well when they are up here.

Since 2005, there have been three mergers involving six major legacy carriers in the U.S. Has FAA itself done any—or have any view of how industry consolidation has affected capital needs of airports throughout the system?

Mr. DE LEON. We have not done a formal analysis. We have seen consolidation come about. There are a lot of dynamics in the aviation system right now with consolidation, up-gauging, down-gauging. We are not sure how the actual dust is going to settle on some of the hubs, whether they will continue to operate or not. So, it is more or less kind of wait and see. We are looking at things internally, but nothing formal until things shake out on the airline side.

Mr. LARSEN. Yeah.

Dr. Dillingham, can you answer that question? Have you looked at that question?

Dr. DILLINGHAM. Yes, sir. We haven't focused specifically on that. But as part of our general monitoring of what goes on in the aviation industry, there are a couple of things that seem obvious to us.

One is that some of the—well, I agree with Mr. De Leon that you can't totally separate out the effect of consolidation, but you can look at certain elements of consolidation, like the decision to dehub an airport as part of consolidation.

You would see less activity at that airport. Activity is what takes a toll on infrastructure. You will also see, when there are things like dehubbing or consolidation, where certain airports are no longer as active as they used to be.

You will see a case where, again, airports will either decide not to invest in infrastructure or delay that infrastructure, again, related to aviation activity.

Mr. LARSEN. OK. Also, Dr. Dillingham, has GAO concluded that, at current AIP funding levels, if they continue as they are, would they be sufficient to meet planned capital development costs for the next 5 years?

Dr. DILLINGHAM. Mr. Larsen, I think it was said earlier that there is a continuous gap between planned development and available funds, and we don't expect that that will change.

We will know better when both FAA and ACI–NA come out with their new estimates and we are able to complete that work that we are also doing for this committee for the 2015 reauthorization.

But, you know, the bottom line is there is likely to be a gap. And we are careful to say planned development as opposed to needed development, because there is a difference there.

Mr. LARSEN. I like to say demand is infinite. Need you can define.

Finally, Dr. Dillingham, this question of PFC and the cap versus AIP versus the general capacity of airports to finance development, has GAO at all looked at the ability of airports to finance capital improvements through debt?

And, if you have, have you looked at the difference between, say, a public airport like a Sea-Tac, which is a Port Authority airport,

versus a privately run airport? Have you looked at that kind of issue at all?

Dr. DILLINGHAM. Generally, what we found is that airports, especially large airports, are very stable and easily obtain capital funding from the private sector in terms of bonding. But that is where about, I think, 50 percent of airport funding derives from.

A much smaller proportion of public funding through bonds is available to small airports. We see it as about 15 percent for small airports.

And part of the work that we are doing now is looking at the status and financial status of airports—we are hearing from the bond rating agencies on Wall Street that airports have excellent bond ratings.

So that should continue into the future, especially as passenger traffic increases, as was mentioned earlier.

Mr. LARSEN. Thank you.

Thank you, Mr. Chairman.

Mr. LOBIONDO. Mr. Shuster.

Mr. SHUSTER. Thank you, Mr. Chairman.

Mr. De Leon, I think you said it was $3.35 billion in AIP funds. Is that the number total?

Mr. DE LEON. Yes.

Mr. SHUSTER. What's the breakdown between the entitlement—what's been on the entitlement and what's been discretionary? What is the formula? And what——

Mr. DE LEON. Generally, the breakdown is, of the $3.3 billion, about two-thirds of it is classified as entitlement dollars. About one-third is discretionary.

Mr. SHUSTER. And looking at the challenges that the FAA faces in administering those AIP funds—and I have traveled around the country and I have talked to the airlines, I have talked to the airport. And sometimes they are not always on the same page as to what investments should be made in the airport.

When you are giving these grants out, do the airlines weigh in on what you give to an airport? Do they deem that they are the customer?

Or even the GA community that uses some of these airports significantly, they may have differences of opinion. Do they have a voice in the discretionary?

Mr. DE LEON. I would like to say yes, but it is not always the case. We like to have the airports coordinate the projects with the tenants and the community because we find that if they do that and they collaborate, the projects are easier to administer. But, that collaboration doesn't happen consistently across the country.

Mr. SHUSTER. And what are the biggest challenges you face on AIP grants?

Mr. DE LEON. I think one of the biggest challenges we have is that there are some safety initiatives that we really want to undertake, and they are good size safety initiatives.

We want to be able to use the discretionary funds towards safety, because safety is number one for the FAA. We have a lot of things going on in the safety umbrella.

We have taken care of the capacity. So the capacity is pretty good for right now, but it is not going to stay that way forever.

Mr. SHUSTER. Mr. Dillingham, it is good to see you back here again. You are a regular visitor. We appreciate it.

Dr. DILLINGHAM. Thank you, Mr. Chairman.

Mr. SHUSTER. You talked about the security fee increase and the price elasticity of it and 26 million less customers. And we see that, in the airline industry now, the demand appears to be up on seats. Their prices are inching up, which we understand that's the way it works, supply and demand.

As we see that increase—and I know there is talk—the President proposed, I think, $8. The airports have proposed $8.50, a 3.50, $4 increase.

Have you done an analysis on improving climate in the airline industry and prices going up there, as well as putting higher fees on—do you have any analysis on what kind of downturn that is going to have on passengers?

Dr. DILLINGHAM. Mr. Chairman, those questions that you ask are part of our current work that we are doing for you and the subcommittee. We expect that we will be able to report that out to you by the end of the year.

Mr. SHUSTER. Well, I thank you for that and look forward to seeing that.

And I know we have got to figure out how—airports need money. Everybody in the country has clamored for more money when it comes to especially infrastructure and transportation.

If you increase PFCs, what kind of benefit do you see for the airports? And, again, the proposal is they raise the PFCs and they eliminate AIP funds. Is that correct?

Dr. DILLINGHAM. Yes, sir.

Mr. SHUSTER. And what kind of benefit do you project? Is that something you are looking at, also?

Dr. DILLINGHAM. Yes. It is already established that, if the airports get a raise in PFCs, it would allow them to undertake more infrastructure projects.

And, also, the other side of it is that, if they impose that full PFC, then moneys are turned back to the FAA and that money becomes part of discretionary and, also, available to smaller airports.

So it is sort of a two-way street that goes there, keeping in mind that, again, on those margins, the passenger traffic could be affected.

And if the passenger traffic is affected, less tickets are sold, less money goes into the trust fund. So it is sort of a complex sort of merry-go-round that happens there.

Mr. SHUSTER. And, of course, one of my big concerns, coming from a rural area, is small airports and even medium-size airports.

The Pittsburgh airport, for example, had a significant reduction in flights to it. They fortunately, though, are one of those airports that they found natural gas on the airport.

So they have finally—instead of trying to fight the FAA wanting to spend the money in downtown Pittsburgh, they finally realized that the money has to stay on site, which I am very happy that has happened in Pittsburgh.

You mentioned other airports, golf courses and various other developmental projects to help them gain revenue. Do you consider that into the formula in the discretionary and the grants you give

in the AIP funds, is that factored in anywhere or is that not considered?

Mr. DE LEON. I would like to say that it is probably considered at some point in time. But, when we issue the grants, we are talking about their matching funds, the ability for them to put the money upfront.

A lot of times, it is not a question if they can't meet the matching funds. Rather, it is more of whether the project is eligible and ready to go and move forward.

So we don't really get too deep in the nonaeronautical side.

Mr. SHUSTER. So I guess my real question is: They are not penalized?

Mr. DE LEON. No.

Mr. SHUSTER. The Pittsburgh airport is not going to be penalized for the great fortune they had by finding natural gas?

Mr. DE LEON. No, sir.

Mr. SHUSTER. OK. I thank you.

And I yield back.

Mr. LOBIONDO. Thank you.

Mr. DeFazio.

Mr. DEFAZIO. Thank you, Mr. Chairman.

Dr. Dillingham, I know your current report is specifically on airport funding, but I want to delve back a little bit into some past work you have done.

I was the Democratic author many years ago of PFCs—because I saw inequities where, for instance, people from Vancouver are using the Portland airport and don't even pay taxes in the State of Oregon—I thought it was an inequitable way to deal with these issues.

The initial concern was abuses, off-airport uses and other abuses of PFCs. And I think, in the past, you have actually looked at those issues, what the authorized uses are and whether there has been any deviation from those.

Can you update us on that? Are PFCs being used well within the existing authority in the law and usefully?

Dr. DILLINGHAM. Mr. DeFazio, to our knowledge, PFCs are, in fact, being used for their intended purposes and, in fact, are achieving what the objectives of the legislation were.

FAA is pretty tough on revenue diversion and it is one of their priorities to ensure that those kinds of things don't happen or are minimized.

Mr. DEFAZIO. And we have documented the need for the current state of our aviation infrastructure—I mean, it is not as bad as surface, but we certainly have unmet needs. And you have gone through those numbers.

What are the—I just can't think. We have AIP, and currently we are spending less than the annual income to AIP; are we not? I mean, we see a growing balance in the trust fund?

Dr. DILLINGHAM. Yes. We do see a growing balance in the trust fund. In fact, the balance in the trust fund now—I think FAA is projecting in 2013 or 2014 that the uncommitted balance will be $4 billion plus.

Mr. DEFAZIO. And is that because they need an operating cashflow reserve for commitments that are made or does that balance far exceed those needs?

Dr. DILLINGHAM. I am probably not in the best position to answer that. Maybe Mr. De Leon can answer.

Mr. DEFAZIO. Mr. De Leon, can you answer that question?

Mr. DE LEON. I checked with the budget office this morning. We asked the same question about the trust fund balance. What we were told is that there is a current balance of roughly $13 billion in the trust fund and there is roughly between $4 billion and $5 billion that is uncommitted in the trust fund right now.

Mr. DEFAZIO. And is—you know, with highways we have a number. You can't drop below that number and meet obligations on an ongoing basis because have you a cashflow issue.

Do you know what that number is? It wouldn't be $4 billion. It would probably be substantially lower than that?

Mr. DE LEON. I do not know, sir. I will take an IOU on that.

Mr. DEFAZIO. OK. That would be a useful thing to know.

So we've got AIP. We've got PFCs. We've got rents. We've got the entrepreneurial activities. And now we have some privatization.

I can only see one of—I guess two of those potentially—I don't know. Private investors need a return. So I am not sure that that will go there. Entrepreneurial is, I guess, the only one.

But rents, PFCs and/or the financing of AIPs, should we raise the tax—all of those will be reflected in ticket prices, ultimately. Correct?

Dr. DILLINGHAM. Yes, sir.

Mr. DEFAZIO. So I guess, then—for those who don't want to raise PFCs, I guess they would say the only place airports can go would be entrepreneurial activities that wouldn't bring back a burden?

Because the privatization that—you have got to have even more return there because they need a return on their investment. So that maybe even puts a higher burden on potential charges towards passengers.

Dr. DILLINGHAM. Yes, sir. Nonaeronautical revenues are going to be the least burdensome to the taxpayer.

Mr. DEFAZIO. Right.

But how limited are those? I mean, I assume not all airports have that option. And even the airports that do have that option, how much of the unmet need do you think that can cover?

Dr. DILLINGHAM. You are correct that all airports don't have that option.

The last numbers we have—I think 2012, 45 percent of airport revenues were attributable to nonaeronautical revenues including the biggies of parking and ground transport.

That is still going to leave a gap compared to termed planned development needs.

Mr. DEFAZIO. And if you would, say, substantially raise the car rental fees or you substantially raise the parking fees, that also has some sort of a detrimental impact on consumers planning a flight because they look at what the whole thing is going to cost them?

Dr. DILLINGHAM. Yes, sir.

Mr. DEFAZIO. OK. So there is no easy way out of this?

Dr. DILLINGHAM. Exactly.

Mr. DEFAZIO. OK.

Thank you, Mr. Chairman.

Mr. LOBIONDO. Mr. Meehan.

Mr. MEEHAN. Thank you, Mr. Chairman.

And I thank the experts here for their testimony on this issue.

One point I am just trying to understand is when you are doing your projections—and these are important because they look at the long-term implications.

So I listened to Dr. Dillingham's testimony today about the impact that the economy is having on travel and, therefore, reduction in utilization. Maybe it is smaller airports. I really am not completely clear.

But then I look at the FAA's projection, and you are saying that airport is going to grow at 2.2 percent. Travel is growing at 2.2 percent a year.

How do you reconcile the differences in that? And where, really, is airport travel going to be over the course of the next 5 years?

Mr. De Leon, do you know?

Mr. DE LEON. From the AIP program perspective, yes, we have the forecasts out there that we use as one factor for evaluating how we fund projects. But, we also actually work with a sponsor and we actually look at who is using the airport today, and what type of aircraft are using the airport today.

A lot of airport sponsors have commitments from other people that: If you had a certain runway length or a taxiway, for example, we would come in and do business at your airport. That is factored into the analysis to determine AIP funding, more so than long-range forecasts.

Mr. MEEHAN. One of the issues—and I am more interested in pursuing this further, but have a limited time.

The issue that is of significant importance to me, representing an area in the Northeast in which there is a fair amount of congestion, what role does congestion play in the impact on costs associated with airports?

I am trying to find the right balance in which we are looking at improvements in things like NextGen. And there is concerns about where we are in form of the implementation of NextGen.

But, you know, do we have technologies that are going to impact the need for airport expansion or how do we measure appropriately what the right amount of airport expansion is to deal with congestion?

Mr. DE LEON. From an FAA standpoint, when we look at capacity, delays at airports, or a metropolitan area where you look at airport development on the ground, in order to maximize the development of, for example, a new runway, or a major runway extension, coupling that with NextGen technology would make the return on that investment even better.

What we are working on as we go forward, is trying to incorporate NextGen technology into our development.

Mr. MEEHAN. So even though you may be expanding the—or improving the efficiency and, therefore, the on-time arrival and, therefore, reduction in costs, there is still a critical role to be played by expanding the amount of asphalt, so to speak, to create more landing base?

Mr. DE LEON. I would say that right now, as we look at the capacity across the Nation, we are probably fine for the first decade, but there are some places that we understand are chronically delayed. I am not sure what the answer is in those locations.

You can probably guess where they are. The New York area is a very difficult place to figure out what to do on that.

Mr. MEEHAN. How do we figure that out? Because it is critical. I mean, these are things that I am struggling with because I am trying to find out the right balance to be able to ascribe who is responsible for what.

We want to promote on-time delivery because there is a point in which—the testimony here today is lost opportunity. I mean, we have people who do not get a chance to take trips because of congestion and other kinds of things. This is the testimony I am reading.

How do you find out where the right balance is between, you know, investment—well, the right balance that will help us deal with the congestion?

Mr. DE LEON. Well, I like to say that it starts, at least from the FAA standpoint, during the planning process. Working really closely with the airport sponsor to get the information upfront, and working with all of the stakeholders to finding out what the issues are, and trying to address the issues, are the best places to start. This is part of the planning process.

As you go into the environmental process, it gets a little tighter because you must address the purpose and need and balance, and the environmental impacts. But, if you do your proper planning upfront, and get all the information upfront, that really helps the process in the long run.

Dr. DILLINGHAM. Mr. Meehan, if I could.

Mr. MEEHAN. Yes, Dr. Dillingham.

Dr. DILLINGHAM. There are several initiatives on the way. I just want to relate back to your point about NextGen.

Although NextGen has been going on for 10 years, we are now beginning to see NextGen being put in place, a suite of NextGen technologies, like in the Houston Metroplex.

And so that is going to make going and coming out of that metropolitan area much smoother, much more environmentally friendly.

At the same time, the question you raised earlier with regard to sort of what else is NextGen going to do, well, we have said a number of times before this committee that NextGen is not going to be enough, that it is going to address some of our problems, but as our passenger traffic increases, we are going to need to lay some more concrete.

And FAA currently has a study underway that identifies—I think it is the third iteration of a study that identifies where that congestion is going to be and where the concrete needs to be laid.

So there are a number of avenues coming together to address the issues that you presented.

Mr. MEEHAN. When do you expect that report to be concluded? I am asking Dr. Dillingham.

Dr. DILLINGHAM. Well, he can tell you when the FACT report is going to be concluded. I just know they are doing it.

Mr. MEEHAN. When?

Mr. DE LEON. Yes, sir. The report is scheduled to be concluded by the end of summer, or beginning of fall.

Mr. MEEHAN. OK. Thank you.

Mr. Chairman, I yield back.

Mr. LOBIONDO. Mr. Capuano.

Mr. CAPUANO. Thank you, Mr. Chairman.

Thank you, gentlemen.

We are faced with another situation. People want more money than we have. Gee, how unusual. Never heard that before. And I am told that airports have plenty of money.

But am I wrong to think, Mr. De Leon, that all the major airports, all the medium-size airports, are basically publicly owned and financed? Is that a correct assumption?

Mr. DE LEON. All of the large major airports are publicly owned. Yes.

Mr. CAPUANO. Which means the taxpayer is on the hook if an airport has a financial problem. May not be a Federal taxpayer, but they are my taxpayers, too. It may be State or local or regional, but it is a taxpayer.

Mr. DE LEON. Well, the large hub airports have other funding mechanisms they can tap into.

Mr. CAPUANO. I understand that.

But those bonds and everything—if everything goes bad, who is on the hook if Logan Airport goes bankrupt? Massachusetts taxpayers.

Mr. DE LEON. That is correct.

Mr. CAPUANO. That is right.

If their bond rating goes up because they overextend themselves and something goes bad, who is on the hook?

Mr. DE LEON. The owner.

Mr. CAPUANO. Taxpayers. My constituents, my taxpayers. Now, I am not against that. I am a liberal. I don't mind taxing people for things they want.

But I want to be clear that airports are not some private entity. They are taxpayers who gather together to do something.

Private financing. I have heard some comment on that. We just went to LaGuardia on a P3 field hearing at which they told us, yes, they are going to use private financing for one reason and one reason only. Because they have to do the work, in their estimation, and they can't get the money anyplace else.

So private financing is not some panacea. Private financing is the result of not having enough money. And, yet, today I hear there is a $4 billion surplus.

Now, based on my math, on the surface transportation, which has to be somewhat relevant, approximately each billion dollars makes 30,000 jobs. We are talking 120,000 jobs are going unhad in this country today because we have uncommitted money that has been paid by taxpayers.

I come from a different universe. That strikes me as insane. Get that money to work. Put people to work. Address some of these issues so we can have an honest and legitimate discussion about where the money should come in the future.

Mr. Dillingham, has GAO ever done a study on bang for the buck relative to PFCs and AIPs?

Dr. DILLINGHAM. What we have done is we have looked at what PFCs have been used for, how those uses coincide with the statute. I am not sure——

Mr. CAPUANO. Well, the reason I ask is because there are a fair number of airports around the country that, especially the last couple of years, with contractions—we now have pretty large investments in airports that are now underutilized.

If the argument is that the expansion of airports is important to our economy, shouldn't we be spending money where the economy is best enhanced, either through passengers or delay reductions or other such items that do have a direct impact on the economy, as opposed to letting taxpayer dollars be used to—oh, I don't know—maybe put another clothing store in a mall?

By the way, have either if you gentlemen ever bought a suit at an airport?

Dr. DILLINGHAM. I can't afford them, Congressman.

Mr. CAPUANO. Very good answer.

Yet, taxpayer dollars—some of these dollars, on occasion, are used to support the expansion of airport malls. That strikes me as very bad prioritization.

Now, if an airport wants to create a mall, let them do it with their own money. Never, never—"never" for those of you who don't speak English—never allow taxpayer dollars that are meant to address safety and efficiency be used to sell a suit.

Now, I have to buy suits, too. I have never bought one in an airport. It just strikes me that our priority is wrong.

We are having this discussion prematurely. We have money in the bank not being used to do the things we need to do. We are not sure what the priority should be. Yet, there is extra demand. Well, demand for what? To have another glorious terminal?

I have never once in my entire political life had somebody call and say "I didn't like the terminal." I get lots of calls saying delays, cancellation. I get lots of calls, costs, extra fees. I have never had anybody say "Oh, the terminal wasn't pretty."

Prioritization, gentlemen. Use the money more wisely than we have, then come back to us and talk to us about increasing costs and fees to taxpayers, and the public.

Thank you, Mr. Chairman.

Mr. LOBIONDO. Mr. Farenthold.

Mr. FARENTHOLD. Thank you very much, Mr. Chairman.

I will say to the gentleman from Massachusetts, you probably haven't flown out of terminal A here at Reagan National Airport lately because that one is ugly.

But I do want to address a couple of questions to our witnesses. There has been a lot of talk about the PFC. What are some alternatives that are available to airports for funding? We have heard public-private partnerships, we have heard direct tax subsidies, both from the State, Federal, and local government. Are we missing anything in there?

I will ask both gentlemen. We will start with Mr. De Leon.

Mr. DE LEON. No, I think you have probably covered it. Privatization is one of the things we are looking at right now. It hasn't taken off in the States, as you know, but we have an approved ap-

plication in San Juan, Puerto Rico. It is pretty interesting. It looks like it is very promising.

Other than that, I think you have covered all of the other avenues that I can think of.

Mr. FARENTHOLD. Mr. Dillingham, are we missing anything there?

Dr. DILLINGHAM. No, I think you did—I think you covered it. If you included nonaeronautical revenues, land-side revenues that have been increasing at about 4 percent a year over the last few years, so to the point that they are now representing about 45 percent of airport revenues.

Mr. FARENTHOLD. Now, do these shopping malls actually make money and pay for themselves?

Dr. DILLINGHAM. I don't really know. I would assume that there is a little bit of both in terms of some make money, some don't. There is also the notion of, you know, street-level pricing, where in some cases, airports, you know, what you pay in the airport is supposed to be, you know——

Mr. FARENTHOLD. All right. I understand that is a contractual provision in some airports——

Dr. DILLINGHAM. Right.

Mr. FARENTHOLD [continuing]. That you have to be competitive in the pricing.

Dr. DILLINGHAM. Right.

Mr. FARENTHOLD. And I will on behalf of my chief of staff who left his belt at TSA was very thankful he could purchase a belt at the Houston airport when he got there and realized he left his belt in Washington.

Let's talk a little bit about PFCs. We have heard a lot of reference to them as taxes, but they sound to me more like a user fee. If airports are directly subsidized by the cities or the Federal Government, the nonflying public is paying for that, which I guess is OK because they receive the benefits of the economic activity that the airports generate, but don't you think that PFCs might be more accurately described as a user fee than a tax, Mr. De Leon?

Mr. DE LEON. I have no comment on that.

Mr. FARENTHOLD. All right, Mr. Dillingham, did you have any thoughts on that?

Dr. DILLINGHAM. Well, the point that you raised, Congressman, is a point that has been raised time and time again, and gets to be one of these, you know, you say tomato, I say tomahto kind of thing, and it depends on who is talking whether it is a user fee or a tax.

Mr. FARENTHOLD. All right, well, I appreciate you all being here.

And I yield back the remainder of my time.

Mr. LOBIONDO. Mr. Maloney.

Mr. MALONEY. I have no questions at this time, sir.

Mr. LOBIONDO. Mr. Carson.

Mr. CARSON. Thank you, Mr. Chairman.

Mr. Dillingham, Dr. Dillingham, thank you and welcome back. Please tell us, sir, more about what your study uncovered about alternative methods for collecting the passenger facility charges without really including these charges in the ticket price. Practically, what would you recommend we consider?

Dr. DILLINGHAM. Thank you, Mr. Carson. We completed that study for this committee basically, responding to the question that you posed about alternative ways to collect that PFC. We did not find any other ways at this point that was more efficient for collecting PFCs. We looked at things like smartphone apps, kiosks. All of those kinds of things had an impact on the convenience of the passenger.

So, you know, the current system was the most efficient one that we have seen. We are now looking at it again, since we finished that last study, are there ways in which that fee could be collected that is different than what we looked at before in addition to those other questions regarding PFCs in terms of, you know, what are the various scenarios that Congress should have in mind as they think about this for 2015.

Mr. CARSON. Secondly, and more generally speaking, in the great Hoosier State of Indiana, our airport directors recently briefed our delegation on their consensus about the need for Congress to raise the cap on passenger facility charges.

Now, they are being as creative as possible to finance the critical infrastructure projects needed across the State, but it is simply not enough.

First, what do you all think is possible, even realistic for that matter, for our local airports to make infrastructure improvements without raising their PFCs?

And secondly, if you agree that PFCs need to be raised, how should that be done and what do you recommend in this context?

Dr. DILLINGHAM. Well, I can just speak just a little bit about Indianapolis. Indianapolis is one of the poster-card airports for non-aeronautical revenues in terms of the unique sorts of things that they are doing.

Indianapolis, along with Denver, is one of those airports that are starting to develop solar farms to provide energy as well as sell that energy along the way. So to that extent, I mean, that is one other avenue that, you know, Indianapolis is a leading actor in.

Mr. CARSON. All right. Thank you, Dr. Dillingham.

Thank you, Mr. Chairman, I yield back.

Mr. LOBIONDO. Mr. Webster.

Mr. WEBSTER. Thank you, Mr. Chairman.

Mr. De Leon, are airports eligible for TIFIA loans?

Mr. DE LEON. No, that is a separate funding program administered by the Department of Transportation.

Mr. WEBSTER. So is that by policy or by statute that they would keep them from being eligible?

Mr. DE LEON. I would say it is statute, but I will check on that and get back to you.

Mr. WEBSTER. Dr. Dillingham, you had mentioned that NextGen potentially would exasperate the fact of a lack of facilities at particular air sites, airports because, I assume, that more efficiently and maybe even more frequently planes could land and yet there might not be a terminal to accommodate them, which would call for, I assume, more infrastructure as you put it, concrete at that location.

Is there any study that you have done on the return on investment of every dollar, let's say, is spent at an airport; is there some sort of factor like 7:1, 6:1, or anything like that?

Dr. DILLINGHAM. Congressman, we have not done any studies like that, but I am familiar with many metropolitan areas where airports are located. They have conducted those studies to talk about the economic impact of their airport and aviation to the community, and you know, and we can provide, you know, references to those if you would like, but we have not done any studies like that directly.

Mr. WEBSTER. Well, it was asked earlier, I believe, something about, you know, where do we get the bang for the buck, and where are the priorities? I think it would behoove us to know if this would be the very best investment of our infrastructure dollars maybe here. I don't know that it is, and maybe no one does, but it certainly would be nice to know.

Dr. DILLINGHAM. Yes, sir.

Mr. WEBSTER. Yield back.

Mr. LOBIONDO. Mr. Davis—Mr. Williams.

Mr. WILLIAMS. Thank you, Mr. Chairman.

I am from Texas. We have got a lot of airports there, and we appreciate you all being here today.

My first question would be to you, Dr. Dillingham. You said that airports are seeking great—more private sector partnerships. I am a big private-sector guy. I believe in the private sector, everything from construction to ownership of terminals. We talked about that. What are the implications in Federal funding for an airport with various levels of privatization, such as long-term leases and public-private partnerships?

I guess my question would be, will Federal funding still be needed or required if we really get engaged with the private sector and let the private sector move us forward on this?

Dr. DILLINGHAM. I guess the best answer is, it depends. Depending on the arrangements, the privatization type arrangement, long-term lease or full sale, those airports will still be eligible for certain Federal funds.

The airport that was mentioned, the only airport that has been privatized to date is in San Juan, and, you know, as a result of that, that airport has been upgraded.

Mr. WILLIAMS. So the more private-sector involvement would decrease the need for Federal funding?

Dr. DILLINGHAM. I think so.

Mr. WILLIAMS. That is a good thing.

Dr. DILLINGHAM. Yeah, that is a good thing.

Mr. WILLIAMS. OK, thank you for that.

Mr. De Leon, my question would be, I am glad that we got $4 billion in cash. As a small business owner that is important, cashflow is important. But my question to you with would be, and we talked about this, but the current funding stream, is it enough now to sustain all of the demands we are looking forward for? I mean, is it——

Mr. DE LEON. If you look at our NPIAS, National Plan of Integrated Airport Systems report, it implies that we are not meeting all of the demand out there. There is more demand than we have

funding for. But, as Mr. Dillingham mentioned, we are looking at what is really needed today and that is how we approach demand with our airport sponsors. We try and work with them on what is really needed today and not just plan.

We manage demand the best we can, but there is more demand than there is funding available.

Mr. WILLIAMS. We talked a lot about available funding, but as a business person, you know, you can generate cash through more business, or I guess you can raise prices which sometimes is not the best thing, or you can cut expenses.

So I guess my question to you would be, you know, since September of 2008, small business owners have really had to cut back. They have had to cut back on a lot of things to create their own cashflow and continue to do business. What are you all doing to cut expenses and pass that on to the consumer?

Mr. DE LEON. So within the FAA, what are we doing to cut the expenses? In my organization, to maximize the use of the AIP dollars as much as we can, we work with airport sponsors to possibly phase out projects over a longer time, which is not always good, but not a bad way to proceed because you have a limited amount of money.

Our organization is not streamlining people, retiring people, if that is what you are leading to. We work with the AIP program as best as we can to maximize the return on it.

Mr. WILLIAMS. But are there costs you can cut that would turn into cashflow and turn into giving people more service and better service? Every business has a surplus of whether it be people, or costs. I mean, every business needs to be able to cut costs and that was my question. I mean——

Mr. DE LEON. I don't think I could answer the question in terms of cutting costs. We are trying to improve efficiencies on what we have.

Mr. WILLIAMS. OK.

Mr. DE LEON. As a business you try to maximize your efficiency as best as you can. We are looking at ways to become more efficient in the way we administer the program.

Mr. WILLIAMS. OK, thank you very much.

I yield back.

Mr. LOBIONDO. Mr. Davis.

Mr. DAVIS. Thank you, Mr. Chairman, and thank you, Dr. Dillingham, and Administrator De Leon for being here today.

I just have one question for both of you. The American Association of Airport Executives is represented on the next panel and in their testimony, they cite a study that says in the next 5 years, 24 of the top 30 airports will experience Thanksgiving-like passenger levels at least 1 day a week, and as a passenger who travels during the holidays, I know that can be daunting.

Can both of you address this statistic and then what is being done now and what more could be done to prepare for such passenger levels at those airports?

Dr. DILLINGHAM. Mr. Davis, I can't refute or support the AAAE's numbers, however, you know, over time the delay factor for airports has declined. It used to be one in every four flights was delayed. FAA has made significant improvements on that.

Going forward, I think we are all relying on the implementation of NextGen and the procedures that are associated with it, both on the ground, and the technology associated with GPS. I think that's where our hope is at this point, and, what we are talking about today in terms of having the appropriate infrastructure to handle that predicted increase in traffic is also an element going forward that hopefully will address those issues that AAAE has raised.

Mr. DAVIS. OK. Administrator De Leon.

Mr. DE LEON. As Dr. Dillingham mentioned, we are completing the future airport capacity task force study known as FACT3. It is going to come out in later summer, or early fall. When you look at that report there is not going to be any surprises. It is going to look forward at operations at the airports for 2020 and 2030.

It considers all of the improvement that is in the pipeline for these airports, and also considers NextGen technology that will be on board at that point in time. When you look at it, you will see that for the first decade, the hub system overall is in fine condition.

When you look at 2030, there are many unknowns because of all of the things that are happening in the aviation industry right now, so we can't predict with certainty what is going to happen in 2030. As we move to 2030, our thought is that we are going to approach that cautiously in the planning process and keep an eye on the system going forward.

Mr. DAVIS. All right, well thank you both for your time today.

I yield back Mr. Chairman.

Mr. LOBIONDO. Mr. Duncan.

Mr. DUNCAN. Well, thank you very much, Mr. Chairman.

Dr. Dillingham and Mr. Capuano mentioned that he and I and several others met yesterday with some of the top people from Wall Street, and they said that they were finding more interest and receiving many more phone calls about public-private partnerships in regard to infrastructure than ever before, in fact, they were surprised by the amount. Do you think that—and many other—most other developed or developing countries have been going more in that direction than we have.

Do you think that we will be seeing much more of that? We met after the meeting with the Wall Street people. We met with the LaGuardia officials yesterday afternoon and they told us some of what they were doing. Do you see more of that in the future and then secondly, in a related part of that, why do you think there was so little interest to the privatization pilot program that we had in the 1996 law? You mentioned the San Juan Airport, and you said that that has been very successful, but it has not gone beyond that. Now, why do you think that is? I guess two questions there really.

Dr. DILLINGHAM. Thank you Mr. Duncan.

Yes, I would predict that we would see more private-sector involvement in infrastructure development. In the LaGuardia case, as was said earlier, it was the most efficient and easy way to get the job done in terms of waiting on the availability of Federal funds, or other funds.

The privatization program, FAA's airport privatization program has been available for more than a decade. It had a space for 10 airports of different sizes to participate in the program. There have

been 10 applicants over that time period, and they have withdrawn those applications to the point that we only have the San Juan example.

Part of the problem that we are seeing, again, this is another study that is ongoing for this committee. But part of the problem that we are seeing is that privatization of airports is a really complicated process in the United States, as opposed to in other countries where you don't have as many stakeholders that you need to deal with.

When we asked Wall Street about privatization, they said they are competing interests among all of the stakeholders. The airlines need something, the airport need something, the private investor needs something. So you know, it has just been a difficult slog.

All of that is a really complicated issue that has made it very difficult, but you know, again, we are trying to look to see what are those barriers? What are those barriers that prevent this from working, and bring that back to this committee so that if necessary the committee can make whatever adjustments in the statute that they think are appropriate to increase the possibility of having privatization.

Mr. DUNCAN. All right, well thank you.

Of course you already have—maybe part of it is that you already have so many private businesses operating at the airports in the commercial real estate business and fixed-base operators and so forth. But thank you very much.

Thank you Mr. Chairman.

Mr. LOBIONDO. Mr. Ribble.

Mr. RIBBLE. Thank you, Mr. Chairman.

One of the thing that we need more than anything is accuracy and in the projections and in the data so that we can actually evaluate how we are going to go ahead and either modify or provide current financing.

Dr. Dillingham, in your written testimony I am quoting from page 5, you say: "In addition, according to the most recent FAA forecast air traffic demand is projected to increase 2.7 percent per year from 2014 through 2034. Funding for both AIP and PFCs is linked to passenger activity. In this way, Congress aims to direct funds to where it is needed most."

Have you done any analysis to determine whether the projections from, or the forecast from FAA are accurate?

Dr. DILLINGHAM. We have looked at some of FAA's forecasts in various arenas and as you know, the further out you go with the forecast, the less reliable it becomes.

So in the case of FAA's forecast for infrastructure needs, the fact that they do it over a 5-year period with a relook every other year, makes it a lot more—as accurate as you can be under the circumstances and, you know, if there are no, you know, unforeseen circumstances, like we don't have another recession, we don't have another SARS epidemic or something like that, you know, we are pretty confident at least a year or two out in terms of FAA's forecast and with the revisions, you know, it is probably as good as can be expected under the circumstances.

Mr. RIBBLE. Well, Mr. De Leon, let me give you some data. In 2001, FAA forecasted U.S. airlines would carry 1 billion passengers

by 2012. In 2008 the agency pushed that milestone to 2016, in 2010, it was postponed to 2023, and finally this year it was postponed to 2027.

What methods do you use in your forecast and is there a problem in the methodology? If the forecasts are that far off, are they still a useful measurement for the Congress to use?

Mr. DE LEON. I am sorry, I will have to get back to you on the methods of forecasting. That is not in my area, but I will get back to you on the methods used——

Mr. RIBBLE. Thank you. I would appreciate that, thank you. With that then, not really knowing how you are going about that, it is not particularly helpful at this time, but I can tell you that we can't make decisions when the data is so far off.

Actual passengers in 2012, by the way, were 730 million so the FAA missed that projection by roughly one-third. It creates a real problem for us and so the data that is being provided is really critical for us to make the right decisions.

So, Mr. Chairman I yield back.

Mr. LOBIONDO. OK, any further questions for this panel?

Dr. Dillingham, Mr. De Leon, we thank you very much and the first panel is excused.

We will now take just like a 30-second recess for the second panel to get in place.

Dr. DILLINGHAM. Thank you, Mr. Chairman.

[Recess.]

Mr. LOBIONDO. Everybody ready? OK, we will reconvene.

I would like to welcome our second panel. The second panel includes Mr. Mark Baker, president and CEO of Aircraft Owners and Pilots Association; Mr. Todd Hauptli, president and CEO of American Association of Airport Executives; Ms. Sharon Pinkerton, senior vice president of legislative and regulatory policy for Airlines for America; AND Mr. Mark Reis, chairman of the board of directors of Airports Council International—North America, and managing director for Seattle-Tacoma International Airport.

So we welcome you, and Mr. Baker, we are waiting for your statement.

TESTIMONY OF MARK BAKER, PRESIDENT AND CEO, AIRCRAFT OWNERS AND PILOTS ASSOCIATION; TODD HAUPTLI, PRESIDENT AND CEO, AMERICAN ASSOCIATION OF AIRPORT EXECUTIVES; SHARON PINKERTON, SENIOR VICE PRESIDENT, LEGISLATIVE AND REGULATORY POLICY, AIRLINES FOR AMERICA; AND MARK REIS, CHAIR, AIRPORTS COUNCIL INTERNATIONAL—NORTH AMERICA, AND MANAGING DIRECTOR, SEATTLE-TACOMA INTERNATIONAL AIRPORT

Mr. BAKER. Thank you leadership and the Members. I represent the Aircraft Owners and Pilots Association, and as an experienced aviator who has had the opportunity to land in over 50 States in this beautiful country, I also represent a business background in making decisions about things that go on in and around aviation communities.

AOPA has over 350,000 members nationwide, is a nonprofit, individual membership organization. AOPA's mission is to effectively represent the interests of its members as aircraft owners and pilots

concerning the economy, safety, utility and the popularity of flight of general aviation aircraft. As pilots flying in the United States, we are fortunate to have access to the safest and most efficient air transportation system in the world. The aviation network of over 5,200 public-use airports complemented by more than 13,000 privately owned landing facilities is a unique national resource. General aviation is a significant economic engine that contributes $150 billion to the annual gross domestic product and approximately 1.2 million jobs in communities nationwide. Each year 170 million passengers fly using personal aviation, the equivalent of one of the Nation's largest airlines, almost 20 percent of all airborne passengers.

In addition to directly creating jobs, the general aviation airports attract businesses to the communities where they are located, delivering economic benefits far outside the airport boundaries. They may serve as a reliever airport in congested metropolitan areas offering aircraft, including airliners, a safe place to land in the event of an emergency.

America's airports are the true backbone of aviation, and without a robust network, aviation cannot continue to grow. It is important to note that all of the new technologies and capabilities under discussion with NextGen will be underutilized unless pilots have a place to take off and land. America's GA airports foster air transportation and link many communities to our aviation system in many ways that cannot be achieved by the reliance on a few hundred primary airports. Of the 3,300 airports included in FAA's National Plan of Integrated Airport Systems—NPIAS—only 499 support scheduled, commercial air service.

For many other aviation needs, Americans rely on the other 2,563 public-use landing sites to link America's vast rural expanses to the larger world.

GA airports support a wide range of other vital activities including agriculture, law enforcement, emergency medical transportation, firefighting, pipeline patrol, environmental monitoring, package delivery, wildlife management, and tourism.

The broad range of humanitarian and charitable activities also rely on general aviation airports. Small general aviation airports are frequently used to deliver humanitarian aid following natural disasters such as hurricanes or earthquakes. In addition, general aviation aircraft operating from small airports are routinely used by charities to connect wounded veterans to their families, bring patients specialized medical care, and perform dozens of other humanitarian and charitable services.

Airports are critical to the aviation transportation system, similar to the on-and-off ramps of our Federal highway system. Congress has wisely recognized that a Federal aviation network is only possible by using tax revenues from various parts of the system for financial support. To illustrate how similar this is to other modes, if Federal highways had been built in only those States that have contributed since 1956, the interstate and U.S. highway system would only exist in 15 States. Drivers in those States have in essence "subsidized" Federal-aid highway construction in the other 35 States and the District of Columbia.

AOPA strongly supports the financing approach of using the time-tested systems of passenger transportation and aviation fuel

taxes in combination with the general fund tax revenues to support the FAA and the aviation system.

Funding for the Airport Improvement Program—AIP—comes from the FAA's Airport and Airway Trust Fund, which receives revenues from a series of excise taxes paid by users of the National Airspace System, including taxes on aviation fuels. The trust fund was designed to finance investments in the airport and airway system, and to the extent funds were available, cover the operating costs of the airway systems as well.

However, no general fund revenues are appropriated to support AIP. The Airport Improvement Program provides grants to public agencies, and in some cases, to private airport owners for the planning and development of public-use airports that are included in the NPIAS, which is developed by the FAA and submitted to Congress every 2 years. The AIP grants for planning, development, or noise compatibility projects may go to these federally identified public use airports including heliports and seaplane bases. For small primary, reliever, and general aviation airports, the grant covers 90 percent of eligible costs.

Projects eligible for AIP grants include improvements that enhance the airport safety, capacity, and security, or meet environmental needs.

Without the assistance of Federal funding, many small airports could not perform the necessary maintenance projects to ensure runway safety, provide airport lighting, or offer essential services like hangars and tie-downs.

The FAA's most recent NPIAS report to Congress indicates that America's airport infrastructure needs are significant. Over the 5 years from 2013 to 2017, FAA estimates that airports will require $42.5 billion to meet all AIP-eligible infrastructure demands; significantly more than the authorized level in the AIP funding for that period. Despite the growing need, AIP funding remained at annual levels of roughly $3.5 billion since fiscal year 2005, until it took a slight drop to $3.35 billion. Based on these numbers, it is clear that the need and the annual funding levels are out of balance, and all the while projects continue to manifest.

In conclusion, general aviation airports play a vital role in the life of this Nation. The need for infrastructure, security, environmental improvements, and safety are important and continues to grow. On behalf of more than 350,000 members of AOPA, we appreciate your leadership in addressing the funding concerns of general aviation so our national transportation system can continue to serve the economic, social, and humanitarian needs of this Nation. Thanks for the opportunity to contribute.

Mr. LOBIONDO. Thank you.

Mr. Hauptli.

Mr. HAUPTLI. Mr. Chairman, thank you for the opportunity to be here today. It is always good to be back before the committee.

I have two fundamental points I would like to make this morning. One: Airports need more resources. As frequent travellers, you all know that the airports are teaming with people in the terminals and on the tarmacs. There are facilities that need upgrade and upkeep. Many of these facilities designed and constructed at the dawn of the jet age.

Do any of us in this room really believe there will be less traffic in the future than there is today in an already constrained environment? I think not. Near-term Band-Aid approaches aren't going to serve the long-term needs of the passengers, our communities, or future generations, and we have neglected infrastructure investments across all modes of transportation for too long. Good enough for now isn't good enough. My members have an obligation to plan for tomorrow.

Point two: The passenger facility charge is the best mechanism to deliver this additional resource in today's current budget environment. In the absence of increased Federal funding, the best way to close down this airport infrastructure development gap is to increase the passenger facility charge, to give the airports the self-help they need to get the job done. The Federal cap on local PFCs was last increased in the year 2000, 14 years ago and to the Members on this side of the dais, I would say in light of tomorrow's vote, I would observe that in light of tomorrow's vote for the majority leader and the majority whip positions, the last time Congress increased the passenger facility charge it was under the watchful eye of Dick Armey as majority leader leader and Tom DeLay as majority leader whip, two conservative Republican Members who understood the difference between a tax and a user fee, like all of this committee does intuitively, and Mr. Farenthold mentioned that earlier this morning.

In the intervening 14 years, the purchasing power of the PFC has diminished dramatically from $4.50, to less than $2.50. We are asking this committee to increase the passenger facility charge to $8.50 with periodic indexing for inflation. That will simply restore the purchasing power of the PFC that has been lost over the years, and remember, PFCs are locally imposed, locally justified, locally collected, and locally spent in their communities to meet the pressing needs for future growth.

Now, we recognize that an increase in the passenger facility charge is opposed by our colleagues in the airlines, who contend that infrastructure needs are being met and that an extra $4 in fees would significantly decrease demand for air travel. Well, just this morning in the newspaper I saw that in the last month alone, airline fares increased 6 percent, the single largest increase in the past 15 years and if you looked at May 2013 to May 2014, fares have increased by 5 percent.

Now, under the airline logic, where they say that for every dollar, or for every 1-percent increase in fares there is a greater than 1-percent decrease in demand for air travel, if that were to be true, clearly we should see a greater than 5-percent decrease in air traffic as a result of the past year. However, traffic hasn't gone down. Demand hasn't gone down. It has gone up and so it is time to lay to rest this elasticity of demand argument as it relates to the passenger facility charge and we haven't even mentioned of course the issue of bag fees and a $25 or $30 bag fee and its impact on travel.

Mr. Chairman, there is clearly a difference of opinion between airports and our airline partners on the status of airport financing in the path forward. I believe that difference can best be explained by the fact that the airlines view the world in a 90-day increment. What is the next financial statement for their shareholder report.

Airports have an obligation to look to the future. It takes 2 years and 3 years and 5 years and sometimes 10 years and longer to build major infrastructure projects in this country. An airport has to look out for the long-term interest of its community. The tension between these two positions, between the airports and the airlines is understandable, but we need you as policymakers to recognize the difference between these two viewpoints, and make decisions that are in the long-term, best interest of the country.

Again, two simple points: One, we need more resources. And two, the passenger facility charge is the best mechanism to deliver those additional resources. Thank you.

Mr. LOBIONDO. Thank you.

Ms. Pinkerton.

Ms. PINKERTON. Thank you, Mr. Chairman, and Mr. Ranking Member, I appreciate the opportunity to be here today to discuss the state of airport financing.

From A4A members' perspective there are three overarching considerations in evaluating airport infrastructure and financing needs. First, airlines need infrastructure. We more than any other stakeholder must have sufficient resources to be able to meet the needs of our customers efficiently and effectively. We work in close collaboration with airports large and small in order to make sure that necessary capital projects are funded.

Second, U.S. airports enjoy consistent and reliable access to ample and an enviable variety of financial resources to pay for airport projects. There is no current or foreseeable crisis in airport funding, in sharp contrast to the issues you are dealing with the Highway Trust Fund today.

And third, funding policy should be driven by airport development needs. This demand focused approach has repeatedly demonstrated projects can be paid for within existing financing means. There is simply no empirical justification to raise airport-related taxes, especially when revenue from other resources is so abundant.

The U.S. airline industry in collaboration with our airport partners has been supporting investing in billions of dollars of airport infrastructure. These investments have accelerated in the past few years and are made possible by our improving finances in places such as JFK, Miami, San Diego, Houston, and other areas.

A financially healthily airline industry also translates into an especially healthy airport trust fund which has enjoyed record-high revenues from commercial sources. We had a record-high $12.7 billion in revenue in 2013 and the highest uncommitted balance in over 13 years. That is $5 billion at the end of 2013 and it is projected to be $6 billion in 2014.

Airline airport collaboration has worked well. U.S. airlines enthusiastically support necessary airport improvement projects. In fact, we are in the midst of massive infrastructure investments across the country as seen in some of the slides above. This has occurred in close collaboration with airports and has yielded results we can all be proud of. Since 2008 the largest 29 airports alone have started or completed $52 billion worth of capital projects. That is new runways, new international passenger facilities, and

new or substantially renovated terminals at both large and small airports.

Let's talk about how airports are doing. In 2013 airports collected nearly $24 billion in revenues. A record-high level, part of that is the PFC, $2.8 billion. Part of that is the AIP program, $3.35 billion. That is especially helpful for smaller GA airports, and then U.S. airports actually have $10 billion on hand in cash in investments. All of these numbers point to a financially strong airport community. Standard & Poor's gives every single airport it evaluates investment grade credit ratings. Airports and airlines have been able to take advantage of those credit ratings to secure affordable funding for demand-driven financially justified projects that increase capacity and efficiency.

Let's talk about air travel for a moment. The current number of operations today is still lower than what we had in 2007 and the FAA projects that we won't be back to those 2007 level of operations until 2033. So while airport projects will continue to be necessary, the airport system in the United States does not have to build to accommodate rapid or unmanageable growth. Improvement projects can be paid for with existing revenue streams with no need to pursue an increase in the PFC.

Bonds remain the primary source of funding for airport capital projects. Historically, and even today where 50 percent of all projects are funded through bond funding. Airports enjoy access to bond financing at very good rates because of their good investment credit ratings. No U.S. airport to our knowledge, has been unable to secure bond funding for an airport improvement project.

Another reason not to increase the PFC is that U.S. airlines and their customers already pay over $19 billion in taxes and fees, soon to be $20 billion once the TSA fee goes into effect next month. We are already taxed at a rate higher than alcohol and cigarettes, products that are taxed to discourage their use. We have heard every dollar in the PFC means $700 million cost to the passenger. Raising the PFC cap hurts demand, hurts traveling tourism, and negatively impacts small community service. While it is intuitive that raising the cost of something results in less of it, the GAO has also found in 2012 that increasing ticket taxes in the price by 1 percent results in 1 percent—greater than 1 percent fewer tickets being sold.

In conclusion, today we have a win/win formula, that provides for needed infrastructure, funding, and consists of close collaboration with airports, disciplined demand-driven development of infrastructure projects, continued reliance on tried and true funding sources, and avoiding punishing the traveling public with additional taxes. We need to stick with that formula.

Thank you.

Mr. RIBBLE [presiding]. Thank you.

And Mr. Reis, you can go ahead with your testimony.

Mr. REIS. Thank you, Mr. Chairman and Ranking Member Larsen and members of the subcommittee. Thank you for inviting me to participate in today's hearing.

The airport community appreciates the opportunity to explain the state of airports and our challenging capital needs. The significance that both ACI–NA and AAAE are representing here today

are two organizations are unified in our efforts on the upcoming FAA reauthorization particularly when it comes to airport financing. So I am very pleased to have the opportunity to speak today with our partner Todd Hauptli.

I am the managing director of the Seattle-Tacoma International Airport, and I am here today in my capacity as chairman of Airports Council International—North America. In addition to my testimony today please accept my written statement which offers a fuller overview of the complexities of airport finance, the sources and uses of airport revenues, and the financial challenges airports face today.

As has been established, airports are hubs for economic growth within local communities across our Nation, U.S. airports, though, lack the ability to raise the revenues necessary to meet our industry's current and future challenges. The Federal component of our funding model which relies most heavily on the underfunded Airport Improvement Program, and the undervalued passenger facility charge user fee is antiquated complicated, tightly regulated, and not sustainable as we plan for the future.

In the United States, the average airport facility is more than 40 years old, it is growing increasingly difficult for us to balance maintenance costs and expansion plans with limited financing options. We have identified more than $71 billion in capital improvements for security, safety, rehabilitation and facilitation needs that are essential over the next 5 years. Examples include a $95 million runway safety area at Oakland, and a $100 million runway reconstruction project at Sea-Tac.

The limited AIP and PFC funding capacity available is only a fraction of our overall need. Especially with so much of future airport revenues including the PFC user fee already pledged to existing debt service. The challenge for Congress, the airports and our airline partners will be to find a so luck that addresses the need in a practical and a sustainable way. We believe that restoring the purchasing power of the PFC user fee to $8.50, and indexing it to inflation is the best solution but it is not the only possible solution to this challenge.

Congress could increase AIP funding to go meet the urgent infrastructure needs of America's airports, but that would require at least a doubling of the annual AIP appropriation. So while increasing AIP is certainly an option in theory, we understand the congressional focus on decreasing Federal spending and its lack of interest in increasing Federal aviation taxes makes this option unrealistic.

The U.S. aviation industry faces a global challenge. U.S. airports need to stay competitive. Airports in Canada, in partnership with their airline customers have implemented passenger user charges known as the airport improvement fees otherwise called AIF, in order to fund needed airport construction and improvements. But unlike the PFC, these fees are not capped by the Canadian Federal Government. The AIF at some Canadian airports is as high as $30 per passenger. While this is another alternative, we believe the PFC can be updated for a fraction of the Canadian AIF by restoring its purchasing power and periodically adjusting it for inflation.

Which brings us back to what I indicated previously to the best alternative. By restoring the spending power of the PFC user fee, this Congress can craft a solution that will allow us to meet the critical infrastructure of Americans airports and do it cost effectively for airports, airlines, and our passengers. Updating the PFC user fee also increases local control and puts decisions into the hands of local authorities who are best able to determine the level of user fee which is appropriate for their community. By raising the cap of the PFC, this Congress can ensure that our airports continue to be engines of economic growth in their respective communities and across the country.

This subcommittee will have a significant impact next year on the future of airport financing. The airport community remains committed to working alongside you and other aviation shareholders to develop a sustainable means to satisfy the demands of 21st-century traveling public.

I look forward to your questions.

Mr. RIBBLE. Well, thank you all for your testimony.

By the way, my name is Reid Ribble. I represent Wisconsin's Eighth Congressional District. So it has Appleton and Green Bay, Wisconsin.

Thanks for your testimony.

Mr. Baker, I am going to start with you if I could. Could you give us an idea of the cost of general aviation to the pilots? What types of fees are they paying, and what is the work that goes into being a general aviation pilot and the costs related to that?

Mr. BAKER. First, the cost of acquiring a pilot's license would be where most people start. We graduated about 22,000 pilots last year. Some will head off into commercial aviation. Some are just training for recreation or business aviation. We think about the basic license of a private pilot today running anywhere from $7,000 to $10,000 just to get your first primary license. If you are advancing all the way up into a commercial pilot's license, you can expect to pay between $80,000 and $100,000 to gain that education and experience today. So it is very expensive.

And the fees associated with flying today are fuel taxes, which we think are a very efficient way, by the way, to pay into the system. The more you fly, the more you pay, and this is the best model for general aviation.

But there are other fees and taxes that are starting to creep into the system. In many cases there are landing fees, service fees, and a host of other costs associated with using a facility at a general aviation airport.

In many cases, we have a choice to avoid those additional expenses and go to smaller airports which don't charge those fees, and I think you are starting to see a population of pilots that move in that direction.

Finally other costs for services, such as getting your weather and getting your mapping, are required purchases for most pilots. Whether one uses either a service online, or buys physical maps and charts, currently it can be $1,000 or more a year.

Mr. RIBBLE. Thank you very much.

Mr. Hauptli——

Mr. HAUPTLI. Yes, sir.

Mr. RIBBLE. Look at the PFC cap, you advocate raising the cap to $8.50, and then indexing it. How is that cap actually assessed? Let's say someone like me flies from Green Bay, Wisconsin, to Chicago, and then from Chicago to Houston.

You have got a takeoff in Green Bay, a landing in Chicago, a takeoff in Chicago, landing in Houston; and then return, takeoff in Houston, landing in Chicago, takeoff in Chicago, landing in Green Bay. How many times is that fee assessed?

Mr. HAUPTLI. Not more than twice in each direction.

Mr. RIBBLE. OK, so not more than twice in each direction——

Mr. HAUPTLI. That is correct.

Mr. RIBBLE. Or twice in each direction?

Mr. HAUPTLI. Yeah, it would depending on whether or not the airport had a PFC imposed at that airport.

Mr. RIBBLE. OK, in this case, O'Hare and Houston International, and Austin Straubel in Green Bay.

Mr. HAUPTLI. In the case that you cited, now that Houston, in fact, has a PFC in place which it did not for many years, there would be a PFC imposed in Green Bay for taking off there, and then again in Chicago——

Mr. RIBBLE. OK.

Mr. HAUPTLI [continuing]. On the way. And then on the way back it would be in Houston and then again in Chicago.

Mr. RIBBLE. In Chicago. All right, thank you. Do you have an opinion, or would you agree that there is elasticity of price in the marketplace? Do you make decisions of purchasing based on price?

Mr. HAUPTLI. Yes, in a conceptual way I agree there is an elasticity argument to be made, conceptually.

Mr. RIBBLE. OK.

Mr. HAUPTLI. And if I may——

Mr. RIBBLE. Yeah, Please do.

Mr. HAUPTLI [continuing]. And I am glad that the chairman is back because he raised this issue earlier this morning.

Mr. RIBBLE. We are all glad that the chairman is back.

Mr. HAUPTLI. He asked about elasticity of demand and the airlines contend that for every 1-percent increase in fare prices, there is a greater than 1-percent decrease in demand for air travel. However, in the past year from May of 2013 to May of 2014, airline fares increased 5 percent.

Now, you would expect based on this elasticity of demand argument that they put forward, that there would be at least a 5-percent reduction in demand for air travel. However, what we have seen over the past year is an increase, not a decrease, but an increase in air travel, so that elasticity of demand argument doesn't work very well, at least in that example.

Mr. RIBBLE. Ms. Pinkerton, how do you answer that?

Ms. PINKERTON. I'm happy to answer that. Thank you.

First of all, it is not the airlines that argue about price elasticity. It is every economist that studied the topic that acknowledges that there is, definitely, when you increase the cost of something, people buy less of it. So it is interesting what Todd is discussing about airfares going up.

First of all, it is important to remember, since 2000, in real terms, airfares have actually dropped 10 percent. That is when ad-

justed for inflation. So in the big picture airfares are affordable and they are a real value. Yes, airfares have gone up in 2013, 5 percent. That is a good thing. It is a good thing because when carriers are able to recognize revenues from a route, what do they do with that revenue? They plow it back into the route. So they may increase service, which I know all of you are interested in increasing service to your community. They may upgauge the plane, et cetera.

In terms of the elasticity of demand, our fares have gone up a bit. The demand has probably not gone up as much as it would have. In other words, there is still an impact, yes. There may be increasing demand, but it is not going up as much as it would have, had there not been increased costs.

The important thing to remember here though is, the difference between an increase in an airfare, and an increase in a PFC. So the PFC is a mandatory and systemwide increase in the cost. The airfare, on the other hand, is a flexible tool when the economy softens, or fuel goes over the roof, airfares can be pulled back down, and they often are pulled back down. But when you increase the PFC, I can guarantee you it will never go back down.

Mr. RIBBLE. I am going to, one last question for you, Ms. Pinkerton, and then I'm going to turn it over to the ranking member. But the majority of PFC applications by airports are submitted to the FAA without airline objections. Can you explain why airlines are generally supportive of specific projects, but are opposed to raising the cap?

Ms. PINKERTON. Sure I can. I think what I have tried to lay out in my testimony, is that what we see is airports have a toolbox of tools for funding airport infrastructure. And there is an abundance of resources right now. By the end of 2014, there is going to be $6 billion of uncommitted trust fund balance. So PFCs were created as one tool in the toolbox and as I said, and I showed the $52 billion with the projects that we have supported over the past 5 years, we do support infrastructure projects. We need those projects, and we work collaboratively with airport partners on PFC projects.

So while we do work collaboratively with them, what we are seeing is that going forward because of the resource situation that we are in right now with a $6 billion uncommitted balance, with all-time record revenues from commercial carriers and their passengers, all-time record revenues for nonairline revenues, there is really no point in increasing the PFC. You would simply be punishing the passenger who is already paying $19 billion, soon to be $20 billion while there is an abundance of resources available to fund needed projects.

Mr. RIBBLE. All right, thank you.

With that I yield to the ranking member, Mr. Larsen.

Mr. LARSEN. Mr. Reis, thanks for making the trip. I understand you have to leave about 1 o'clock.

Mr. REIS. Well, 1:30 is probably good.

Mr. LARSEN. Oh, OK, great. Maybe it is me that has to leave at is 1 o'clock. I forget.

Can you help us understand a little bit about this question of bonding capacity, how it is used, and clearly, it has to be financed. It is not just you have got bonds and you are given the free money and you never have to pay anything back. You have to have a

source of revenue to pay that back, presumably PFCs are included in that package of sources of revenue.

But if you are limited at $4.50, or if an airport like McCarran as you rolled out in your written testimony, and said they pretty much maxed out their ability to use PFCs to finance anything more. They have to go to other sources. What other sources are there and kind of where do those burdens fall?

Mr. REIS. Thank you. Just like most everything else, life is complicated and there is not a single answer, and of course, what is true and possible at Sea-Tac Airport, which is one of the fastest growing airports in the country where we have airlines very interested in coming to Seattle and increasing their activity at Seattle, is not going to be true at a smaller airport which has lost air service in another part of the country and does not have access to necessarily all of the same tools.

So I will talk about it from Sea-Tac's point of view and then elaborate a little bit about other airports. So you are absolutely right, Mr. Larsen, that the acquisition of funds from a bond issue is just a first step in a way to fund a construction program. It doesn't have anything to do with the ability to pay it back. So for us to borrow the money, we have to convince the bankers and the rating agencies that we have a long-term stable source of cash to pay back that money.

It is going to come from essentially one of three places. We can put the debt service for the bond repayment into the airline rate base, which of course will drive up airline costs at the airport. We can utilize nonairline net income to the degree we are able to generate that, and we can use PFCs to pay debt service and we, of course, could also use PFCs to pay for a project on a pay-as-you-go basis, but the most efficient way to use PFCs is to use it to pay debt service.

Mr. LARSEN. So nonairline net income would be parking fees, concession fees——

Mr. REIS. Exactly.

Mr. LARSEN [continuing]. The $10 that I pay for a coffee there versus the $5 I pay outside of the airport.

Mr. REIS. I think we have had this conversation before. At Sea-Tac Airport, unlike some airports, we do have a street pricing point of view. So you are going to pay the same price at Sea-Tac inside the airport.

But the net income after you pay the operating expenses for any of those things like concessions and parking, et cetera, is one of sources, and it presumably is included in the number that Ms. Pinkerton noted, the $24 billion. Well at Sea-Tac, for example, we have 36 competitors for our parking operation. We are making more than 10 percent less in parking now than we did prior to the last recession as a result of the competition.

So all of these numbers don't just go up, and of course, the airlines don't want us to put increased debt service in their rate base because that causes their costs to up.

Mr. LARSEN. And just to clarify, that the rate base—so you have PFCs, which you hear a lot about, but you have flexibility to negotiate with airlines on other fees, landing fees, and what else?

Mr. REIS. Exactly. Landing fees, terminal rents of various sorts.

And each airport has a different relationship legally, contractually, from an agreement point of view, with airlines. So the ability of an airline or airlines to approve or to veto an investment is different, depending on the airport.

So coming back to the PFCs, we have a $2½ billion capital program scheduled for the next 10 years. We anticipate having to borrow well above $1.5 billion of that $2.5 billion. At the moment our PFCs are almost completely maxed out, meaning fully allocated to existing debt service.

So when Ms. Pinkerton says that we have lots—"abundant," I think, is the word—of funding sources, I would—even at an airport that is growing, that is in a very vibrant city where a lot of airlines want to fly, I would dispute that we have abundant sources.

We are seeing slow growth in nonairline revenue. We are maxed out in terms of dedication of our PFCs to existing debt service, and we will see the airline fees have to go up dramatically to pay for some of this capital program.

Mr. LARSEN. I am going to have to go into detail at a different time, not in this hearing.

But a recent announcement about the international arrival facility, Sea-Tac and, presumably, Delta are partnering on financing that?

Mr. REIS. Well, Sea-Tac will be financing it completely. Delta is very supportive of it because it is important to their growth as an international gateway in Seattle. But that is one of the major projects of this $2½ billion program.

What is also quite interesting is neither Delta nor Alaska Airlines are particularly excited about growing the PFC. That said, we have about a $450 million terminal or concourse redevelopment project ahead of us that will be fully occupied by Alaska Airlines.

We have an international arrivals facility, about a $350 million project, that Delta will certainly be just one of many airlines using it, but it will have more flights there than any of the other airlines.

They are arguing over how we allocate the limited PFCs that we have available to the payment of those two projects. So they don't like the PFC, in general, but they like it when it will allow them to decrease their terminal rent.

Because that is, in fact, the real benefit to the airlines, is we do not include the cost of debt service in a rate base if it is paid for by the PFC. If it is not paid for by the PFC, we then charge the airlines for that debt service.

Mr. LARSEN. Another set of questions for Ms. Pinkerton.

And I am not asking this to be snarky. It might sound like it—because I am never snarky—because it has to do with bag fees—baggage fees, which is a huge source of revenue—a relative source of revenue for airlines, generally——

Ms. PINKERTON. Six percent.

Mr. LARSEN [continuing]. And this issue of elasticity.

So is there a price elasticity to bag fees? Have the airlines found that?

Ms. PINKERTON. So I certainly understand the question on bag fees, but let me just start with this.

Mr. LARSEN. Start with the answer to my question.

Ms. PINKERTON. OK. Bag fees—when we fly, we have an option about checking bags.

Mr. LARSEN. Right.

Ms. PINKERTON. You don't have an option about whether or not to use an airport.

Mr. LARSEN. Right.

Ms. PINKERTON. So the unbundling——

Mr. LARSEN. I am getting to the question about dedicating that revenue and where that revenue goes.

Ms. PINKERTON. Right.

Mr. LARSEN. But have you found fewer bags, as a result of bag fees, going on airplanes are being checked? I have seen the overhead bins. If there is price——

Ms. PINKERTON. There was a change initially, but now it has actually evened out.

Mr. LARSEN. Leveled out?

Ms. PINKERTON. Yes.

Mr. LARSEN. So the next question I have is: With that revenue or any other revenue from airlines, does all that go into airline operations, airplane purchases, or is there—given this question about P3 financing and so on, do airlines look at that as a source of revenue to help then on the development side of infrastructure of airports?

Ms. PINKERTON. It is a great question.

Mr. LARSEN. See, I told you I was getting to a nice place.

Ms. PINKERTON. Yes.

And so what you have seen since 2010, since airlines have started to make small margins, you have seen us plowing that money back into planes.

So we have got 255 planes that are going to be delivered in 2014. That is good for customers. Half of those are Boeing planes.

Most importantly, we are starting to hire people. During the last decade, when we lost $60 billion, we laid off a third of our employees. That was traumatic for all of us. But since 2010, we have started to build back up our employee base.

In the last nine quarters, we have consecutively every quarter added seats. So that is exactly the kind of thing we are doing. We are investing back in CAPEX, is what we call it, $12 billion a year in capital expenditures.

So that is for planes, for WiFi, in-flight entertainment, again, our employees, training, baggage systems. We have invested, Delta, Alaska. We have invested in baggage systems and, as a result, we have a much lower mishandled bag rate today than we ever did before.

Mr. LARSEN. You see what I am getting at in terms of trying to figure out what are the sources or ideas out there regarding investment——

Ms. PINKERTON. Absolutely. And I think that the $52 billion that we have shown that we have invested over the last 5 years demonstrates that, when we are able to make small margins, we reinvest it back in airport infrastructure.

Mr. RIBBLE [presiding]. Mr. Meehan.

Mr. MEEHAN. Thank you, Mr. Chairman.

Mr. Reis, I am particularly interested in your experiences in Washington because, obviously, in busy airports, we are looking for ways to support the growth, but, also, to make sure that the resources that are coming in are going to where they are most needed.

Explain to me the percentages, so to speak, when you talk about these other fees that are out there, parking, terminal rents, landing fees, concessions, rental cars. I mean, there is a whole series of other kinds of things.

And I always get concerned—maybe it is the cynic in me—when I see these sort of big municipal airports. There is a lot of fat in there. There is a lot of jobs and other kinds of things, not performing jobs, but people that are on—how do you take parking fees and assure that it is, you know, an efficient price?

I pay a lot to park. You know, people are paying $25, $30 a day to park. Concessions. My colleague from Massachusetts was concerned about, you know, a lot of money going in to build stores that you don't see much traffic in. How are they supported?

So where are the decisions made to assure that the dollars that are being raised are actually being put back in where it needs to be, which is a significant cost to airline, you know, infrastructure improvement?

Mr. REIS. Well, thank you for the question. It is a very appropriate one.

Let me first reinforce perhaps a little bit more clearly than what was stated in the previous panel. We, as airports, are not able to use any AIP or PFC money to build any nonairline revenue-producing facilities. So no AIP or PFC money is ever used for facilities at a terminal in which a retail or a dining facility will go. It is just prohibited.

Mr. MEEHAN. Well, how is that funded, then?

Mr. REIS. It is funded through nonairline revenue.

Mr. MEEHAN. What is nonairline revenue? And how do we know that the moneys aren't getting diverted into that kind of a thing when we need that money to go into the ability to put down more concrete?

Mr. REIS. You are absolutely right.

Congress has been very clear on the subject. The FAA is quite clear on the subject.

We go through an annual audit, not just a financial audit, but a complex comprehensive audit that is done for any airport that collects a PFC or an AIP.

Those are the kinds of questions that are asked to make sure that no money is diverted from an aeronautical use to a nonaeronautical use.

So our garage, fully funded from different nonaeronautical purposes, the debt service on that has to be paid back from nonaeronautical services.

When we build a new facility—I mentioned the reconstruction of this concourse—or of our north satellite concourse—we will have to demonstrate to the bond community and to the FAA what percentage of that reinvestment will be for aeronautical purposes, and we have to be very careful to not use any money that is associated

with the airlines paying us back by contract or Federal money or PFC or the——

Mr. MEEHAN. So the bottom line is I can look at an audit to determine whether there is efficiency with regard to those things?

Mr. REIS. Absolutely.

Mr. MEEHAN. Thank you.

Ms. Pinkerton, I also serve on Homeland Security. And I know you are going to be getting a pretty hefty fee coming up, almost a billion dollars in new increases because of the pay for TSA. I think it has gone from 250 to 650.

If you include that, you know, the security tax and other Federal taxes and fees that are currently paid, how much of the fees go to Uncle Sam as opposed to the airport?

Ms. PINKERTON. Well, there is $3 billion in PFCs that go to the airport and then, of course, the $3.35 billion in AIP that goes to the airports as well. So that is $6 billion out of the $20 billion.

With the TSA fee increase, passengers and carriers will be paying $20 billion in taxes—special aviation taxes every year. And so $14 billion goes to Uncle Sam and $6 billion goes to——

Mr. MEEHAN. Is this going to have an increase? Do you think it is going to have an impact on flight utilization demand because of these increases?

Ms. PINKERTON. Yeah. I mean, as we discussed before, GAO, every other economist that has studied the issue acknowledges that, when you increase the price of something, you get less of it. There is no doubt about that.

Mr. MEEHAN. My time has expired.

Mr. Chairman, thank you. I yield back.

Mr. RIBBLE. Mr. DeFazio.

Mr. DEFAZIO. Thank you, Mr. Chairman.

Mr. Chairman, I found the discussion of elasticity enlightening, having been an economics major in college until one day I woke up and realized it wasn't a science.

And, you know, I would say that the discussion of elasticity sort of leads us there. I just have to follow up a little bit. I am sorry.

But, Ms. Pinkerton, you mentioned average fares are down. Does that calculation include—I think the time you quoted was when 88 percent of the passenger costs were fares. Now it is 71 percent are fares. Does that average include the baggage fees?

Ms. PINKERTON. Yes, it does. Because if I hadn't included them, fares would be down 15 percent. Including them, they are down 10 percent.

Mr. DEFAZIO. Yes. But, of course, remember, it is an average fare and it is not evenly distributed. Some regions and/or airports have seen increases. Others where there is more competition have seen decreases.

Ms. PINKERTON. True.

Mr. DEFAZIO. Now, I am trying—you know, again, as the author of the PFC, I am not for indiscriminate raising of fees.

And as you know, since I am sponsoring the transparency bill with the chairman, I went on that because I was upset that one of the last budget deals just threw an additional nominal cost that is supposedly going to security onto passengers.

So I believe in having that full disclosure on both sides of the ledger, both with the airlines and with the Government fees.

But I think here that—on PFCs, someone raised the point that, for the most part, airlines have not objected to the specific imposition of PFCs for many projects. Is that is correct——

Ms. PINKERTON. Yes.

Mr. DEFAZIO [continuing]. For the most part?

So, essentially, there are projects that are good that utilize PFCs. We had Dr. Dillingham say they haven't been abused, which was why the first iteration went away and why we rebirthed them with a whole different set of restrictions that have been, I think, pretty good.

But hearing from Mr. Reis, wouldn't you agree that, at some point, an airport, which has used PFCs with support of the airlines to do meritorious things that improve the customer experience in the airline operations, may have bumped against the ceiling, may not have other options, and maybe you need some flexibility to go a little higher in those cases with the PFC?

Ms. PINKERTON. Well, I don't think you were here for my testimony. But we indeed support airport projects. Sea-Tac, we were very supportive of the international runway, the international facility.

What we are arguing, Congressman DeFazio, is, yes, we have supported these PFC projects, but there is abundant funding available, whether it is AIP or bonding, in particular——

Mr. DEFAZIO. I read your testimony and I caught some of that, if I could just interrupt. But he also pointed out the limitations of that, and we don't——

Ms. PINKERTON. But he is moving forward with the projects.

Mr. DEFAZIO [continuing]. Live in the world of abundant theory, which I know is a theory out there: If we all think positive thoughts, it will happen. But——

Ms. PINKERTON. But he is moving forward with his projects.

Mr. DEFAZIO. Right.

Ms. PINKERTON. They are moving forward. Nothing has been——

Mr. DEFAZIO. But there may be cases.

What I am getting at is the objection of the airlines to an increase in the PFC because you think it will be indiscriminately applied once it becomes available across the industry; and, therefore, virtually everybody is going to raise their fee and they are going to do discretionary things that they could have done with other money, or they wouldn't have done given their limits, that don't benefit passengers and operations. Is that the concern?

Ms. PINKERTON. No. The objection is that passengers are already paying too much and there is——

Mr. DEFAZIO. But "too much" is the whole experience——

Ms. PINKERTON [continuing]. $6 billion in a slush fund available.

Mr. DEFAZIO [continuing]. The whole ball of wax.

Ms. PINKERTON. So you have other ways of doing it. The PFC is not the sole source.

Mr. DEFAZIO. But if there are cases where there isn't another way to do it and we need to discuss——

Ms. PINKERTON. But there are——

Mr. DEFAZIO. Now, Ms. Pinkerton, please, you know the procedures here. And I am being very nice to you. So you have got to not be quite so argumentative.

We are talking about total costs, total burden, on the consumers. And if we add a dollar for baggage, that is a buck more. If we add a dollar for PFC, it is a buck more.

I could argue that, if I added a dollar for PFC that got me out of some incredibly congested, problematic security area in some airport, my passenger experience is much more enhanced than paying an extra dollar—well, I don't pay it because of my frequent flyer status, and I never check bags except twice a year, maybe, but people who have to pay the extra dollar.

So, you know, it is coming out of their pocket one way or another. The same elasticity is going to apply because it is the total cost.

So, I guess what I am trying to get at here: Is there a way of just taking the existing PFC with restrictions and saying, "OK. Anybody can go up this much," or saying, "Well, maybe we could add an increment" or, "Maybe we could index it for inflation" and they could add at least that increment?

Is there something you could agree to that might be beneficial to operations and passengers that might otherwise not happen without that flexibility or do you just think there is always going to be another way to pay for these things?

Ms. PINKERTON. There has always been another way.

Mr. DEFAZIO. OK. Forget that.

Ms. PINKERTON. All projects are being funded.

Mr. DEFAZIO. Mr. Hauptli, would you respond to that.

Mr. HAUPTLI. Yes. Mr. DeFazio, we disagree on that.

Mr. DEFAZIO. OK. Well, good. But could you expand briefly.

Mr. HAUPTLI. You used the example of a $1 here or a $1 there. Would that it would only be that much. In the case of a bag fee, the total experience, $25——

Mr. DEFAZIO. No. I just meant increases. I was talking about increases.

Mr. HAUPTLI. All right. So, no, I think we have—as Mr. Reis pointed out, there are limitations in our ability to do what we need to do. There is an infrastructure investment gap that exists today that is incontrovertible.

And I think it is highly unlikely—as much as this committee would like to authorize funding levels at dramatically increased levels from where we are today, that seems very unlikely, given the budget environment we are in.

So I believe and I think airports across the country believe that the best way of providing the necessary infrastructure investment is the self-help of allowing airports to impose a higher fee locally.

Mr. DEFAZIO. Mr. Chair, if I could. I know I am over time.

I just want to say—and, again, I used it briefly at the beginning. There is another issue which is an equity issue. It first came up where I live in Springfield, Oregon.

Eugene, Oregon, was going to build a new airport and they were going to bond it and all the taxpayers in Eugene were going to pay for it. And I said, "Well, I use the airport more than anybody in Eugene. That is not fair." That was part of the genesis.

And the other was an interstate issue, which is Portland airport serves Vancouver, Washington, and those people don't pay any taxes in the State of Oregon and I felt it was fair to be able to put some of the costs on them.

I think everyone agreed the program has worked. I think we disagree over whether there are other options and whether it is adequate for the future and whether there are ways we could massage it. And I would love to continue that discussion in a more productive way than we can here.

Thank you, Mr. Chairman.

Mr. RIBBLE. Thank you. Chairman Shuster.

Mr. SHUSTER. Thank you, Mr. Ribble. And thank the panel for being here.

Sorry, I have been in and out, so I didn't hear much of what you said; but certainly if I ask a question or repeat myself, I hope you will bear with me.

I think this issue is obviously a tough issue. We have got, you know, airports got to keep doing things to make sure they are staying fresh and the customers are coming and are going to take care of them. You have got an airline industry that is just now starting to make profits for the first time in years; and when you look at the last 30 years, I think it is fair to say you haven't made any money and that is difficult.

So when I started with my opening statement before I asked a question, doing something different at the FAA, trying to figure out how we can get an airline industry, and I think they have finally, someone argued they have downsized too far. I think they have right-sized; and I think we are going to see an industry that is profitable, and you know, when you look around at the transportation industry, what the railroads have done over the years, and it is different; but it is still, there is a profitable industry that is paying for its own infrastructure, not relying on the Federal Government. I don't know that that is ever going to be possible, but it is reducing relying on the Government for paying for its infrastructure which I think should be the goal.

When we again talk about PFCs, Mr. Reis, if you were to increase your PFCs, what kind of projects are you going to be able to move forward with? I know you are doing some projects now. What will you be able to move forward with, what types of things?

Mr. REIS. Well, we have a $2 billion and a $2.5 billion program. We anticipate having to borrow $1.5 billion to $2 billion of that $2.5 billion. So we have got reconstruction of two 45-year-old concourses that have effectively not been touched in most of that period of time. We have a new international arrivals facility, reconstruction of one of our three runways that will be a $100 million project. You don't think about little things like vertical circulation.

Mr. SHUSTER. What was that?

Mr. REIS. Vertical circulation. It is a fancy word for elevators and escalators. We have about 60 escalators. Many of them are 50 years old. So as an airport expands, the airport was last completely redone in 1973, at which point there were 5 million passengers and an anticipation of 25 million passengers. We are now at 35 million. So we have got everything from infrastructure no one will ever see,

electrical systems, all the way through brand new international arrivals facility and sort of everything in between.

Mr. SHUSTER. Let me ask you the converse of that. What aren't you doing because you don't have the funding?

Mr. REIS. This is a plan, and the question is how do we fund it. Now, we are very lucky, unlike many of our colleagues, both large airports and especially small airports, in that our airline agreement, the contract we have with our airline partners, does not provide the airlines a veto over our decisions. Many of my colleagues do not have that luxury.

So when you talk about the PFC as a funding mechanism, in many ways what we are really talking about is control. Will the local governing body, because they have adequate PFC resources, be able to make the decisions for what is good for their community and their airport, or will the airlines be able to veto the desires of the local community.

The PFC, because it is locally imposed, locally decided upon, provides local governing bodies whether it be a city council or an authority board like ours, the ability to make those decisions. If it is, the PFC is inadequate, and the only option is to have the airlines pay for those costs, pay that debt service, then in many instances, the airlines have the ability to say, no, community, we don't agree with your priorities, you can't make that investment. That happened to us recently on a cargo project. The airlines voted it down. Now, luckily all we had to do is wait 6 months and do it; but in many communities they would not be able to do it because the airlines vetoed it.

So in many ways a PFC increase, so that it stays up with inflation, is a way to let local communities make decisions about what is good for their airport as opposed to letting the airlines dictate it.

Mr. SHUSTER. Mr. Hauptli, on that question, the broader airport association, what projects aren't getting done. It sounds like SeaTac is doing a lot. Can you talk about other places in the country that we are not seeing it happen?

Mr. HAUPTLI. Sure. Just let me just circle back very quickly to a point that you just made a couple of moments ago about the reliance on Federal funding. What we are asking for is exactly that. We are asking to be less reliant on the Federal Government. We are asking for the self help to let us get out of the Federal Government controlling these decisions. That is the beauty of the passenger facility charge. In a constrained Federal budget environment that we are in today, this allows for the needed infrastructure investment without the reliance on Federal funding.

On the issue that you raise, Mr. Chairman, an example would be in the city of Chicago, where up to a point the city of Chicago and the airlines have negotiated what they mutually agree is necessary to be built for that airport. However, there remains other parts of that modernization program that the airlines don't agree need to be funded and the city of Chicago has baked into their financing plans an increase in the passenger facility charge in order to complete that project.

Again, a difference of opinion about what the need is, what the scope is, how far into the future you should look, a legitimate dis-

agreement of opinion, but an example where the community is looking out further out into the future than the carriers that are currently operating at that facility are looking.

Mr. SHUSTER. Right. What about places like Pittsburgh and Kansas City, and I guess Cleveland now has been what they call dehubbed?

Mr. HAUPTLI. I don't have examples for you, from those, Mr. Chairman.

Mr. SHUSTER. Ms. Pinkerton, it appears from the forecasting we are going to have lots more people, and we are also going to have a lot more people in this country. In the next 20 years we are going to have over close to 400 million people. If we continue to see that kind of additional funds building infrastructure, where do they come from? What are your thoughts on that?

Ms. PINKERTON. So, first of all, I think what you have heard from me is violent agreement, that airlines and airports need to work together on needed infrastructure, and we have demonstrated that we are willing to do that and we will continue to do that. The disagreement comes in how we do that; and the case I am making is that there are record revenues in PFCs; there are AIP fundings; there is record airline rents, and there is record private funding. There is a $6 billion uncommitted balance in the aviation trust fund, something very different than what you are facing in the Highway Trust Fund.

And so we are not arguing that things don't need to be built. They do, and we agree with that. We just don't think you need to tax passengers to build those projects. We think bond funding is available. All of the projects that Mr. Reis talked about, they are going forward. They are moving forward.

Mr. SHUSTER. And when they are bond funded or financed, airlines are paying that in the rent factor?

Ms. PINKERTON. Exactly. We have made a policy decision. We would rather pay for it in our rents and fees than seeing passengers taxed, especially when there is a $6 billion uncommitted balance in the trust fund.

Mr. SHUSTER. Right. And then finally, Mr. Baker, I understand this is your first time before the committee. Welcome. I know you are ably staffed back there. Your team, you have got a good team that know a thing or two about this committee.

Mr. Ribble asked a question, and you may have answered and I may have missed it, of the various different costs for the general aviation community. Really the cost I am looking for is what do you pay to land or take off, whatever they pay? I know it is different in other places, but can you give me a sense of what a general aviation operator is paying in taking off and landing fees.

Mr. BAKER. It is all over the map. This past weekend, I was in Ocean City, Maryland, and it was $40 to land my little airplane there, and another $40 to park it overnight for that facility, for one-time use. It is a great facility. It is well used. It is a great way to see the Jersey shore.

I have travelled through your great State and used reliever airports around Pittsburgh a number of times; and certainly Appleton and other places are great airports you can use. It is up to the discretion of each individual airport. In some cases you really don't

know until you get there how much they are going to charge you for their service fee. Some cases are waived, if you buy fuel. In other cases there is an overnight fee for parking your aircraft outside.

For the most part, they are reasonable and you have the choice once you have gained that knowledge if you want to use that airport or a different airport that may have a lower cost. And we see the fuel tax as a primary way we pay our part of our deal.

Mr. SHUSTER. What do they range? You said they are all over the map. What are they from $20 to, I mean, a place like Teterboro, would you pay a high fee to have to land there?

Mr. BAKER. Oh, yeah. As an example, if you go into Boston, you will pay $300 to $400 to land at Logan. If you go into Appleton, it is free at the moment. So it is all over the map.

Mr. SHUSTER. OK. All right. Again, I appreciate you being here today. I appreciate all of you being here today, and hopefully you are all going to go to Tarkio, which is the center of the world for GA, in July. I think you are going to be there, Mr. Baker. I encourage everyone to check it out. I have to say that commercial for Mr. Graves. It is his air show, or not his air show, but he is very involved in it.

Again, I appreciate all of you being here, and again I think we have had all of you, Mr. Reis and I know Mr. Hauptli; and, Sharon, somebody from your organization has been to one of our listening sessions and I don't know if we have had the GA. No, we are going to do the GA community listening session out in Tarkio.

But it is important that we figure a way forward. I know these issues, funding is always a struggle, but making sure that we have an airline industry, an aviation industry, that is strong and viable because I think from all corners of the globe we are under attack, whether it is the mideastern air carriers or the manufacturers who are producing parts and aircraft for the GA community, if we don't have an FAA that functions more efficiently than it does today, we are going to slowly start to see our number one status in the world deteriorate; and that is something that I think all Americans should pay attention to and not let happen.

So again, I appreciate you all being here today. I appreciate the exchange of information, ideas, and opinions, and we look forward to continuing working with you. Thank you.

Mr. MEADOWS [presiding]. And the Chair thanks the chairman of the full committee for his insightful questions and really in illuminating that. The Chair would recognize itself for a couple of very brief questions.

Mr. Reis, AIP funding has been talked about today. Are there different restrictions on that funding based on the size of the airport?

Mr. REIS. Mr. Chairman, I am not sure there are differentiations between size, although I will not claim to be an expert on that field. For small airports, very small airports, GA airports get a certain dollar amount every year as an entitlement, unlike larger airports which get it as a percentage of the total amount available. There is a fixed amount, and they can use it with a great deal of discretion at the very small end.

But once you get into the commercial service airport, certainly small, medium and large, I think we all have to live by the same

rules. The key thing is really competition for the discretionary dollars. The FAA does a very good job of looking at the amount of money that is available on a discretionary basis and saying what is going to make the greatest contribution to the objectives that Congress might have put into statute or that the FAA has put into their own guidance; and the projects, no matter which airport it is, that are going to make the greatest contribution to the benefit of the overall system are going to end up competing better than another project that might be technically qualified but may not make as great a contribution to the system.

Mr. MEADOWS. But wouldn't that inherently disadvantage smaller, more rural airports, because if you do that then based on traffic flow and everything else, all the Federal dollars will go to the major cities, and it will continue to do that. Is there not a better way to give greater flexibility to smaller rural, and I just happen to represent a small rural airport is why I would ask?

Mr. REIS. Right. Well, in round numbers, and again I am not a real expert on this really complex system; but of the $3.3 billion program, about $3.1 billion is actually made available to airports or some other stuff that is done off the top and of the $3.1 billion or so, somewhere in the $3 to $700 million range is discretionary money. The rest of it is allocated on an apportionment or an entitlement basis, and so an airport is going to get a certain amount of money based on their size. But you are absolutely right.

In terms of the discretionary amount, whatever that might be in any given year, a large airport has a much better chance of making the case that its project is making a contribution to the overall system for that discretionary amount than a smaller airport would.

That is one of the reasons why we as large airports who can take the greatest advantage of a PFC increase because we have a lot of enplanements and thus more PFCs, recognize that we have to see in the future that the AIP really needs to be preserved for the smaller airports and that if a PFC is adequately sized, I think you will find that most if not all very large airports are going to recognize that a decrease in AIP for large airports is part of the benefit to the overall system.

Mr. MEADOWS. I will go ahead and yield to Mr. Larsen so he can do a followup question.

Mr. LARSEN. Different issue actually. I am trying to understand, Ms. Pinkerton, your comments about the unobligated balance in the trust fund of $6 billion or so.

Much like other unobligated balances in accounts in the Federal Government, administrations current and past use those to mask the size of the actual deficit not allowing the full spend-down of those dollars. For instance, we had a problem with the Harbor Maintenance Trust Fund recently, and we fixed that through the WRDA bill, Water Resources Development Act that says we are going to start spending down unobligated balances because there are limits on doing that, limited by what we have actually authorized.

So I am curious about this unobligated balance in the trust fund, is it not limited by what we have actually authorized to be spent, and therefore it is not really yet accessible to be spent down?

Ms. PINKERTON. No. I believe the reason we have seen an increase in the balance is in the last reauthorization bill, you did change the way the money is spent out; so I suppose in a way the answer is yes.

The money is spent based partially on a forecast of what is going to come in versus what does come in. So I think what has happened is we have had, again, record amounts of money coming in that weren't anticipated, and thus the balance is built up.

Mr. LARSEN. And therefore not able to be spent out as a result?

Ms. PINKERTON. Right.

Mr. LARSEN. So we would have to?

Ms. PINKERTON. Change that.

Mr. LARSEN. Change that in order for those dollars to be accessible?

Ms. PINKERTON. The formula, correct.

Mr. LARSEN. It is not a matter of saying it is sitting there; why aren't airports using it? The answer is they can't?

Ms. PINKERTON. Correct. It is a policy decision written in the bill.

Mr. REIS. I just want to make sure that we recognize that this is the Airport and Airway Trust Fund. It is not all designed for AIP. The Congress is facing a very large bill for NextGen, and the F and E, the facilities and equipment budget, comes out of that as well. So I would not imagine that it is all going to be available to airports.

Mr. LARSEN. Right. Right. Sure. I got it. Thank you.

Mr. MEADOWS. Thank you. One followup question, Mr. Reis, when you talked in April at a hearing, you talked about small and rural communities and the cost per enplanement and talked about the relationship, I guess, between the cost per enplanement and air service and different financing options.

How would those financing options actually lower an airport's cost of enplanement? And that is a followup to your April testimony.

Mr. REIS. Right. Well, for small airports, they have many fewer options to finance than large airports do.

Mr. MEADOWS. So it really wouldn't lower the cost?

Mr. REIS. I don't know that an increased PFC for an airport that does not have very many enplanements is not going to generate a lot of money.

Mr. MEADOWS. So the financing option is for the bigger airports.

Mr. REIS. I think that is correct. A smaller airport has got very few options.

Mr. MEADOWS. If there are no further questions, I want to thank the witnesses for your testimony, the Members obviously for their participation; and this subcommittee stands adjourned.

[Whereupon, at 12:40 p.m., the subcommittee was adjourned.]

STATEMENT OF BENITO DE LEON, ACTING ASSOCIATE ADMINISTRATOR FOR AIRPORTS, FEDERAL AVIATION ADMINISTRATION, BEFORE THE COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE, SUBCOMMITTEE ON AVIATION, ON AIRPORT FINANCING AND DEVELOPMENT, ON JUNE 18, 2014.

Chairman LoBiondo, Ranking Member Larsen, Members of the Subcommittee:

Thank you for the opportunity to appear before you today to discuss the Federal Aviation Administration's (FAA) role in developing our nation's airport infrastructure. This is my first time testifying before the Subcommittee as I recently assumed the position of Deputy Associate Administrator for Airports. I am succeeding Kate Lang, who I am sure many of you know well. I also am currently serving as Acting Associate Administrator for Airports as the agency looks forward to Eduardo Angeles coming onboard as the newly appointed Associate Administrator for Airports. It will be my pleasure to get to know you as I serve in these positions.

The FAA is committed to continuing to ensure that we have a safe and efficient national airport system. Airports require extensive high-precision infrastructure, which in return requires careful attention to engineering and construction standards. Airfield, terminal, landside facilities and supporting infrastructure like drainage and utility systems all require constant vigilance as well as periodic rehabilitation and reconstruction. These processes take years of careful planning so that the work does not compromise airport safety or capacity, or cause congestion that may be reasonably avoided.

For FY 2014, the FAA will issue approximately $3.2 billion in grants-in-aid to state and local airport sponsors through the Airport Improvement Program (AIP). These investments will facilitate eligible airport improvements in the core areas of safety, capacity and delay reduction, security, and environmental sustainability, and will contribute to addressing the most pressing

needs of the national airport system. I would like to update the Subcommittee on how we assess the airport system's needs, the specific areas where we have focused to address those needs, and where we see opportunity to improve flexibility that would enable investment to be more effectively targeted to meet the needs of the system and its users.

The AIP program supports a network of airports of all sizes, throughout the country, which provide critical functions to our national economy while serving the needs of regional and local communities. They are the backbone of an aviation system that plays a key role in the success, strength, and growth of the U.S. economy. The integrated system of airports also provides a crucial safety net. Aircraft of all sizes and types, commercial and non-commercial, have to make unexpected landings due to passenger medical emergencies, mechanical issues, or other reasons. The nationwide network of airports is fundamental to the safety and efficiency of the national air transportation system.

In addition to the airports that serve commercial air carrier transportation, the AIP program supports the safety and capacity of airports that serve general aviation (GA) needs. This includes flight training, emergency preparedness and response, aeromedical flights, agricultural support, and a host of other functions that cannot easily be accommodated at larger, commercial service airports. Collaboration with the full range of stakeholders is vital to the success of our airport planning and strategic investments. We work closely with aviation users as well as local communities. We also carefully consider reports and recommendations from the Government Accountability Office and other organizations, and consistently review system performance to measure success and identify areas for improvement.

The principal planning tool the FAA uses for assessing system-wide development needs is the National Plan of Integrated Airport Systems (NPIAS), which the FAA publishes every 2 years. The NPIAS details the projected 5-year capital needs of airports of all sizes that are identified as significant to the air transportation system. The NPIAS cost estimate reflects only AIP-eligible improvements and provides a consistent framework within which to evaluate proposed projects.

We most recently published the NPIAS in September 2012. The report addressed the development needs of more than 500 commercial service airports and approximately 2,800 general aviation airports for the five-year period from FY 2013 through 2017. For FY 2013-2017, the report found the average annual AIP-eligible development need to be about $8.3 billion. The FAA will publish an updated NPIAS report for FY 2015-2019 later this year. The update will also reflect our ongoing coordinated efforts with members of the aviation community to assess the role that GA airports play in our national airport system, as reported in the May 2012 General Aviation Airports: A National Asset (ASSET) report and a March 2014 follow-up report.

All development projects identified in the NPIAS report are eligible for AIP funding. However, demand for AIP grant funds consistently exceeds availability. Each year, funds appropriated from the Airport and Airway Trust Fund are distributed between formula grants (entitlements) and discretionary grants. We review all requests for AIP funding with a careful focus on demonstrated aeronautical need, including both actual and reasonably forecast aviation activity levels. When we consider projects for AIP discretionary funding, investment decisions are made

using structured selection criteria that helps identify critical development needs that can be supported within associated AIP funding levels. Our bottom line is to ensure the most critical needs of the airport system are met. Even after we issue a grant to an airport sponsor, we continuously review airport layout plans and monitor the airport sponsor's compliance with grant assurances to ensure the project is carried out to benefit the system, and the airport maintains and operates their facility in a safe and efficient manner.

AIP grants are just one source of funding that airports use to fund capital investment. Other funding sources include passenger facility charges (PFCs), state and local grants, bond proceeds, airport-generated funds (landing and terminal fees, parking, and concession revenues), and tenant and third-party financing. Qualified airports may collect a PFC in an amount up to the statutory cap of $4.50 on each paying passenger boarding an aircraft. PFCs are local funds rather than federal but, like AIP grants, the PFC is a federally approved source of funding. The FAA still reviews proposed projects for PFC funding, and that review process includes seeking public and airline industry comments on both the collection amounts and the specific projects. PFC collections total approximately $2.8 billion each year.

There are 3,330 airports out of the approximately 19,000 landing facilities in the U.S. and its territories included in the NPIAS. What we've found is that the availability of funding sources and their adequacy to meet these airport's needs varies with type of airport and level of activity. For larger commercial airports with significant numbers of passengers, PFC revenues are a more flexible capital funding source that does not depend upon annual appropriations. Moreover, airports with strong passenger volumes can generally issue bonds backed by future PFC

revenues. As a result, larger airports are generally less reliant upon AIP grants, while smaller airports, generally with markedly less access to other funding sources, may be much more heavily reliant on AIP funding. Yet, many of those smaller airports are also very important to the overall system, either for access or to relieve pressure on larger commercial airports. Without them, the larger commercial service airports would need to accommodate far more smaller and slower aircraft, which could reduce capacity and exacerbate delays. A proper balance is critical to the efficiency of the system. The users of the large airports depend upon some of the smaller airports for overall system capacity and efficiency. The President's FY 2015 budget proposal for the AIP program is based in part on focusing AIP resources on the smaller commercial and general aviation airports while providing larger airports with additional PFC resources. By focusing federal grants on supporting smaller commercial and general aviation airports that do not have access to additional revenue or other outside sources of capital, the proposal allows larger airports to increase non-federal passenger facility charges, thereby giving larger airports greater flexibility to generate their own revenue.

Safety is the FAA's top priority, while planning for capacity and delay reduction is also critical to the future of the airport system. I would like to highlight where the FAA has placed its focus regarding these two core AIP priorities. The AIP program is delivering measurable benefits, some of which I will also share.

SAFETY

The FAA has made runway safety a focus. The Office of Airports works closely with other FAA program offices, including the Air Traffic Organization (ATO) and the Aviation Safety Organization, to ensure a comprehensive and cohesive runway safety strategy. Investments through AIP grants are funding runway safety area improvements (RSA); reducing the risk of runway incursions; and contributing to the state of good repair of critical facilities, including runways.

The FAA is on-track to meet its key safety initiative to accelerate and make all practicable improvements to runway safety areas (RSA) at certificated airports. Standards for RSAs are designed to minimize damage to aircraft and injuries to occupants when an aircraft loses braking or directional control or otherwise overruns, undershoots, or strays from the runway during a landing or aborted takeoff. The RSA standards provide an area around the runway, free of structures or significant grade changes, which can provide an extra margin of safety to ensure the consequences of incidents are less likely or severe. We continue to support the installation of Engineered Materials Arresting Systems (EMAS) at airports that do not have enough space for standard RSAs. These EMAS systems have already safely stopped nine overrunning aircraft with no fatalities or serious injuries and little damage to the aircraft.

Objects that are required to be in the RSA because of their function, such as runway lights or signs, must be able to break away easily if struck by a passing aircraft. By the end of calendar

year 2015, through collaborative efforts of the FAA with the nation's certificated airports, we expect all RSAs at certificated airports will meet standards to the extent practicable.

Additionally, a reduction in the number and severity of runway incursions remains one of the FAA's top priorities. Many airport sponsors have received AIP grants to make improvements that help reduce runway incursions caused by vehicle and pedestrian deviations, or by pilot error due to confusing geometry. This includes certain ground surveillance systems technology to increase pilot situational awareness. A key FAA initiative is to mitigate the risk of runway incursions by reconfiguring confusing or non-standard taxiways and installing perimeter service roads to reduce the number of runway crossings needed.

Maintaining facilities, including runways and taxiways, systems, and equipment in a state of good repair, is also critical to the safety of the airport system. We are constantly working with airport operators to preserve existing infrastructure. Through the use of AIP grants, we ensure that 93 percent of runways at more than 3,300 airports in the NPIAS are in fair, good, or excellent condition. As of FY 2013, over 97 percent of the runways met the criteria.

CAPACITY

Runways and taxiways must be adequate to handle anticipated aircraft operations safely and efficiently. Over the last 15 years, AIP supported projects have included 16 new runways, 3 major taxiways, 1 major runway extension, and 2 major airfield reconfigurations at 22 of the busiest 35 commercial service airports in the United States. Those projects and others have

provided these airports with the potential to accommodate more than 2 million annual operations, and decrease average delay per operation at these airports by about 5 minutes. This may sound minor in isolation, but because delays propagate throughout the system, that degree of improvement is very significant. The total cost of these projects is about $8.5 billion, of which about $3 billion was AIP funded. These investments have been highly successful at achieving their operational goals, but some of the busiest airports remain highly congested and delay-prone, and those delays drive up operational costs and environmental impacts for the entire system.

We routinely assess system performance and capacity needs, and have developed an ongoing series of reports, known as Future Airport Capacity Task (FACT) report, to assess the future capacity of the Nation's airports and metropolitan areas. The FAA is currently in the final stages of a third FACT assessment (FACT 3), developed in conjunction with airport operators, MITRE, and multiple FAA offices including NextGen and ATO. The study will identify airports that are expected to be congested by 2020 or 2030, taking into consideration the capacity improvements since FACT 2, including anticipated airfield capacity improvements. We expect to release the FACT 3 report by fall 2014.

In summary, investment in our nation's airport infrastructure remains crucial to maintaining the safest and most efficient air transportation system in the world. The Airport Improvement Program has evolved over the decades into a vital and carefully targeted capital funding source that works effectively with other funding sources to support the nation's airport infrastructure. Thank you again for this opportunity to provide an update on the FAA's recent efforts to provide

leadership in planning and developing a safe and efficient national airport system. I look forward to working with you as we move forward, and I will be happy to answer your questions at this time.

United States Government Accountability Office

GAO

Testimony

Before the Subcommittee on Aviation, Committee on Transportation and Infrastructure, House of Representatives

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AIRPORT FUNDING

Aviation Industry Changes Affect Airport Development Costs and Financing

Statement of Gerald L. Dillingham, Ph.D., Director, Physical Infrastructure Issues

June 2014

AIRPORT FUNDING

Aviation Industry Changes Affect Airport Development Costs and Financing

GAO Highlights

Highlights of GAO-14-658T, a testimony before the Subcommittee on Aviation, Committee on Transportation & Infrastructure, House of Representatives

Why GAO Did This Study

U.S. airports are important contributors to the U.S. economy, providing mobility for people and goods both domestically and internationally and often contributing to the economic success of the communities served. Since 2007 when GAO last reported on airport funding and its sufficiency to meet planned development of airport infrastructure, there have been significant changes in the aviation industry. During this time, federal support for airport development has declined. As deliberations begin in advance of FAA's reauthorization in 2015, Congress will consider the most appropriate type, level, and distribution of federal support for development of the national airport system.

This testimony discusses trends in (1) aviation activity at airports since 2007, (2) costs of airports' planned development, and (3) federal funding and airport revenues that may be available to finance development costs. This testimony is based on previous GAO reports on aviation from June 2007 through June 2014, updated through June 2014 with interviews with key FAA and trade association officials and FAA airport funding data from 2005-2013. GAO shared the information it used to prepare this statement with FAA and incorporated its comments as appropriate.

What GAO Found

Since 2007, economic pressures—including high fuel prices, the financial crisis, and the ensuing recession of 2007–2009—contributed to airline restructuring which has resulted in reductions in the number of commercial flights at airports, especially at medium- and smaller-sized airports. General aviation activity, which includes all forms of aviation except commercial and military, has also declined over the last decade. Because many sources of airport funding, including federal support and locally generated revenue, are tied to aviation activity, for many airports these trends mean less funding available for infrastructure development.

According to Federal Aviation Administration's (FAA) estimates, airports' total costs of planned infrastructure development eligible for federal support from FAA's Airport Improvement Program (AIP) grants are about $42.5 billion for the 2013 through 2017 period, or about $8.5 billion per year on average which was down 18 percent from $52.2 billion for the 2011 through 2015 period. FAA attributed the decline to airports' choosing to defer projects due to reductions in aviation activity or having identified other funding sources, among other factors. Airports in the national airport system receive AIP entitlement grants for eligible projects, generally those that enhance capacity, safety, or environmental conditions. The U.S. airport association, Airports Council International—North America, estimated costs of other planned development not eligible for federal support, such as parking structures, totaled $4.6 billion per year for the 2013 through 2017 period. Therefore, the total costs of planned development for the most current period are estimated to be approximately $13.1 billion per year.

To fund infrastructure development, some airports, especially smaller sized airports, rely on AIP funds which have averaged a little over $3 billion in annual grants and have decreased in recent years. In addition, federally authorized Passenger Facility Charges (PFC) collections by airports totaled about $2.8 billion in 2013, more than $100 million less than the peak in 2006, prior to the recession. PFCs have been capped at $4.50 per flight segment since 2000. To finance more than $7 billion in airports' planned development costs not covered by AIP and PFCs, airports seek to generate more revenues. Growth in passenger related non-aviation revenue, for example from parking and concessions, has grown over 4 percent on average each year since 2004. Airports are also exploring more innovative options to boost revenue, including commercial retail and leisure enterprises, hotels and business centers, medical facilities, and specialized cargo handling and refrigerated storage facilities, among other developments. Airports have also sought private sector participation to finance airport development projects. For example to demolish old terminals and to construct, partially finance, operate, and maintain a new terminal at LaGuardia Airport in New York, the private sector will provide financing in return for a share of the airport's revenues. However, many smaller airports may find it difficult to access private capital markets.

View GAO-14-658T. For more information, contact Gerald L. Dillingham, Ph.D. at (202) 512-2834 or dillinghamg@gao.gov.

Chairman LoBiondo, Ranking Member Larsen, and Members of the Subcommittee:

I am pleased to be here today to discuss airport funding as you begin considering reauthorization of the Federal Aviation Administration (FAA). U.S. airports are important contributors to our economy, providing mobility for people and goods both domestically and internationally, and often contributing to the economic success of the communities served.

Since 2007, when we last reported on airports' funding and its sufficiency to meet airports' planned development costs,[1] aviation activity has slowed or even declined at many airports, while activity has become more concentrated at larger airports. This has affected the demands on infrastructure at these airports, as well as their finances. Also, federal support for airport development has declined during this period. In response, airports have leveraged their expected future revenues and have sought to increase their non-aviation revenues to finance past or current development. To meet future planned development costs, airports have sought an increase in the cap on Passenger Facility Charges (PFC), which are added to ticket prices along with federal taxes. However, airlines strongly oppose an increase because higher ticket prices could reduce passenger demand and therefore airline revenues.

My statement today focuses on funding for airport development. Specifically, this statement discusses trends in (1) aviation activity at airports since 2007, (2) costs of airports' planned development, and (3) federal funding and airports' revenues that may be available to finance development costs.

This statement draws from our body of work, completed from June 2007 through June 2014 examining airport and aviation-industry trends. Specific products from this work are cited throughout the statement. The products cited contain explanations of the methods we used to conduct this work. We have updated this work through June 2014 with interviews with key FAA and trade association officials and updated FAA airport funding data from 2005 through 2013. We also reviewed the President's 2015 budget proposal for FAA and obtained updated information about

[1]GAO, *Airport Finance: Observations on Planned Airport Development Costs and Funding Levels and the Administration's Proposed Changes in the Airport Improvement Program*, GAO-07-885 (Washington DC: June 2007).

FAA program activities based on public sources. In addition, we have ongoing work examining airports' funding and planned development, alternative PFC collection methods, and FAA's airport privatization pilot program, on which we plan to issue reports later this year.

The work on which this statement is based was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

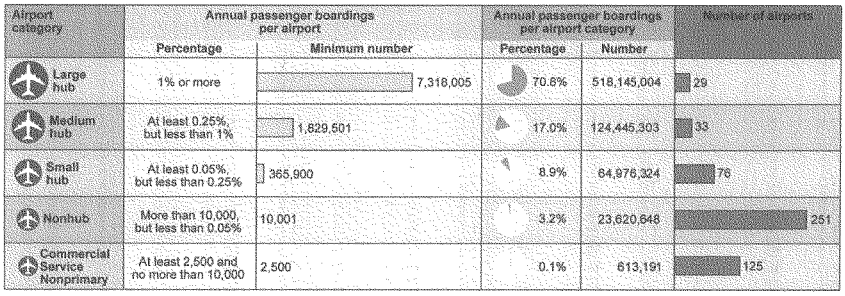
Background

The United States has the largest, most extensive aviation system in the world with over 19,000 airports ranging from large commercial transportation centers transporting millions of passengers annually to small grass airstrips serving only a few aircraft each year. Of these, nearly 3,400 airports are designated as part of the national airport system and thus are eligible for federal assistance. The national airport system consists of two primary types of airports—commercial service airports, which have scheduled service and board 2,500 or more passengers per year, and general aviation airports, which have no scheduled service and board fewer than 2,500 passengers. FAA divides commercial service airports into primary airports (boarding more than 10,000 passengers annually) and commercial service nonprimary airports. The 389 primary airports are arranged into various types of hub airports—large, medium, and small hub, and nonhub—based on passenger traffic (see fig. 1).[2] Passenger traffic is highly concentrated: 88 percent of all passengers in the United States boarded at the 62 large or medium hub airports in 2012.[3]

[2]49 U.S.C. § 40102 (29), (31), (42).

[3]The division of airports into categories is based on the previous year's boardings at that airport as a percentage of the total number of boardings in the United States.

Figure 1: Commercial Airport Categories Based on 2012 Boardings of U.S. Passengers



Source: GAO presentation of FAA data. | GAO-14-658T

Note: The term "hub" is defined in federal law to identify primary commercial service airports as measured by passenger boardings. These airports are grouped into four categories—large, medium, and small hubs and nonhub. (49 U.S.C. § 40102).

More than 2,500 airports in the national airport system are designated as "general aviation" (GA) airports. These airports range from large business aviation and cargo-shipment centers that handle thousands of operations a year to small rural airports with fewer operations per year but which provide vital access to the national transportation system for their communities.

Since 1946, the federal government has sponsored a grant program to fund airport development. Today, those monies come from Airport Improvement Program (AIP) grants. AIP is supported by the Airport and Airway Trust Fund (trust fund), which is funded in part by airline ticket taxes and fees.[4] General aviation flights also contribute to the trust fund through a tax on noncommercial jet fuel. Airports in the national airport system may receive AIP entitlement grants based on the number of passengers and amount of cargo carried and may also compete for AIP

[4]In total, the trust fund collected $12.8 billion from various taxes in fiscal year 2013. The manner in which the trust fund is funded has not changed significantly since it was established in 1970, although attempts have been made, unsuccessfully, to implement a user fee system.

discretionary grants. FAA selects grantees for discretionary grants according to national priorities and objectives.[5] AIP grants can only be used for eligible projects, generally those that enhance capacity, safety, or environmental concerns, such as runway construction and rehabilitation, airfield lighting, and airplane noise mitigation. AIP appropriations totaled $3.35 billion in fiscal year 2013. The grants require a local match ranging from 5 to 25 percent, depending on the size of the airport and type of project.

FAA's tool for identifying future airport capital projects that are eligible for AIP grants is the National Plan of Integrated Airport Systems (NPIAS). FAA relies on airports, through their planning process, to identify individual projects for funding consideration. Federal law[6] and FAA's rules establish which types of airport development projects are eligible for AIP funding. Generally, most types of airfield improvements, such as runways, lighting, navigational aids, and land acquisition are eligible, while hangars and interest expense on airport debt are not. AIP-eligible projects for airport areas serving travelers and the general public—called "landside development"—include entrance roadways, pedestrian walkways and movers, and space within terminal buildings, such as waiting areas that do not produce revenue and is used by the public. AIP-ineligible landside development projects include revenue-producing terminal areas, such as ticket counters and concessions, parking lots, and interest on construction bonds. Because the estimated cost of eligible airport projects greatly exceeds the available grant funding, FAA uses a priority system based on the type of airport and type of project to ration the available funds. The Airports Council International—North America (ACI-NA), a trade association for airports, also estimates future airport capital projects by surveying its airport members in the U.S.

PFCs, a federally authorized source of funding for airport development projects, are an airport-imposed fee of up to a maximum of $4.50 per boarded passenger per flight segment. A passenger may be charged no more than two PFCs on a one-way trip or four PFCs on a round trip (with a maximum charge of $18). The fee is collected by the airline on the passenger ticket and remitted to the airports (minus a small administrative fee retained by the airline). PFC collections can be used for the same

[5]General aviation airports receive a maximum entitlement of $150,000.

[6]49 U.S.C. § 47102 (3).

types of projects as AIP grants, but are also allowed to pay interest costs on debt issued for those projects. The $4.50 maximum PFC was last increased in 2000. Collections totaled $2.8 billion in calendar year 2013. According to FAA, 388 commercial service airports were approved to collect PFCs as of April 2014.

Airports also fund development projects from revenues generated directly by the airport. Airports generate revenues from aviation activities such as aircraft landing fees and terminal rentals, and non-aviation activities such as concessions, parking, and land leases. Aviation revenues are a traditional method for funding airport development; however, because Department of Transportation (DOT) regulations generally limit aviation charges to the recovery of historical airport costs—rather than replacement costs—they may not fully fund new investment.

Generally, the level of aviation activity—whether commercial passenger and cargo or general aviation business and private aircraft—drives airport development and the monies that finance it. While only three new major airports have been built in the United States over the last three decades,[7] billions of dollars have been invested in building new capacity and maintaining and upgrading existing airport infrastructure during that time. In addition, according to the most recent FAA forecast, air traffic demand is projected to increase 2.7 percent per year from 2014 through 2034. Funding for both AIP and PFCs is linked to passenger activity. In this way, Congress aims to direct funds to where they are needed most. Similarly, airport-generated revenues are also tied to aviation activity and the number of passengers who use airport-related services. These revenues are typically used to finance the issuance of local debt such as tax-exempt bonds, which for larger commercial airports constitutes more than half of their funding. Because of the size and duration of airport development—for example, planning, funding and building a new runway can take more than a decade and several hundred million dollars to complete—long-term debt is used to help finance these types of projects.

While almost all airport sponsors in the United States are states, municipalities, or public authorities, there is a significant reliance on the private sector for finance, expertise, and control of airport assets. For

[7]Denver International Airport in Denver, CO; Northwest Arkansas Regional Airport in Bentonville, AR; and Austin-Bergstrom International Airport in Austin, TX.

example, the majority of airport employees are employed by private sector entities, such as vendors and baggage handlers, and private companies also own and operate some airports. Under congressional authorization, since 1996, FAA has piloted an airport privatization program that relaxes certain restrictions on the sale or lease of airports to private entities.

Aviation Activity at Airports Has Slowed or Declined Since 2007

Since 2007, economic pressures—including record-high fuel prices and the recession of 2007 through 2009—helped spark a wave of consolidation across the airline industry. For instance, Delta acquired Northwest in 2008, United and Continental merged in 2010, Southwest acquired AirTran in 2011, and US Airways and American Airlines received U.S. District Court approval for their proposed merger in April 2014.

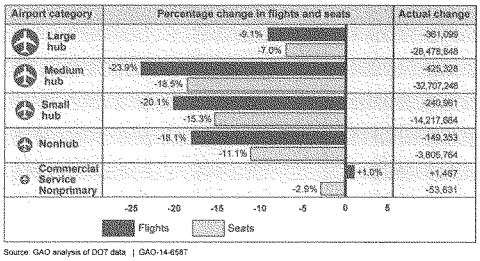
As part of this restructuring and a more general focus on capacity decisions, U.S. airlines have reduced the number of flights they offer passengers in certain markets. We found in June 2014, based on our analysis of DOT data, that there were 1.2 million fewer scheduled domestic flights at large, medium, and small hub, and nonhub airports in 2013 than during 2007.[8] The greatest reduction in scheduled flights occurred at medium hub airports,[9] which decreased nearly 24 percent from 2007 through 2013, compared to a decrease of about 9 percent at large hub airports and about 20 percent at small hub airports over the same time period. Medium hub airports also experienced the greatest percentage reduction in air service as measured by available seats (see fig. 2).[10]

[8] GAO, *Airline Competition: The Average Number of Competitors in Markets Serving the Majority of Passengers Has Changed Little in Recent Years, but Stakeholders Voice Concerns about Competition*, GAO-14-515, (Washington, D.C.: June 11, 2014).

[9]The declines at medium hub airports can be partly attributed to closing hubs following recent airline mergers. For example, Memphis, Cleveland, and Cincinnati airports, all experienced significant loss of traffic after a merger.

[10] GAO-14-515.

Figure 2: Percentage Change in Number of Flights and Available Seats by Commercial Airport Category, 2007–2013



Source: GAO analysis of DOT data | GAO-14-658T

However, because airlines are now better able to match capacity to demand, planes are fuller than they have ever been. As a result, passenger boardings did not fall as much as either the number of flights or available seats. According to our analysis of DOT's data from 2007 through 2012,[11] passenger boardings decreased approximately 17 percent at medium hub airports and about 2 percent at large hub airports, but increased more than 4 percent and about 3 percent at small hub and nonhub airports, respectively. [12]

In addition, this April, we testified before this Committee that air service to small communities has declined since 2007 due, in part, to higher fuel costs, airline consolidation, and reduced demand both from declining populations in those communities and as a result of some passengers' opting to drive to larger markets with more attractive service (i.e., larger airports in larger cities).[13] A 2013 Massachusetts Institute of Technology (MIT) study of domestic air service trends reported similar results and

[11]Currently, 2013 boarding data are not yet available.

[12]FAA forecasts that total passenger boardings will have fully recovered by 2015, exceeding the previous peak in 2007 of 765.3 million boardings.

[13]GAO, *Commercial Aviation: Status of Air Service to Small Communities and the Federal Programs Involved*, GAO-14-454T (Washington, D.C.: Apr. 30, 2014).

found that the prolonged economic downturn, high fuel prices, and capacity restraint contributed to a reduction in service.[14] The study also concluded that airlines have been cutting back on capacity to medium hub and small hub airports far more than at the nation's large hub airports.

A significant decline in general aviation activity affects airports, especially those that rely on general aviation for revenue. For GA airports—which generate revenues from landing fees, fuel sales, and hangar rents—the loss of traffic can have a significant effect on their ability to fund development. A 2012 MIT study[15] that examined historical trends for GA operations at towered airports across the country indicates that annual operations have fluctuated since the late 1970s but that total GA operations dropped 35 percent from 2000 to 2010. According to the MIT study, the number of annual hours flown by GA pilots, as estimated by FAA, has also decreased during this period.[16] Numerous factors affect the level of GA operations and include high fuel prices, the costs of owning and operating personal aircraft, and the total private pilot and GA aircraft populations. We recently found that the supply of future GA pilots is changing as fewer students enter and complete collegiate pilot-training programs and fewer military pilots are available than in the past.[17]

[14]Michael D. Wittman and William S. Swelbar, *Trends and Market Forces Shaping Small Community Air Service in the United States*, Massachusetts Institute of Technology International Center for Air Transportation (May 2013).

[15]Kamala I. Shetty and R. John Hansman, *Current and Historical Trends in General Aviation in the United States*, Massachusetts Institute of Technology International Center for Air Transportation (Aug. 2012).

[16]Unlike commercial service aviation, GA operators are not required to report flight activity to FAA. FAA estimates GA flight hours on the basis of estimates derived from its annual survey of GA operators—the General Aviation and Part 135 Activity Survey. We found in 2012 that the survey has long suffered from methodological and conceptual limitations, even with FAA's efforts to improve it over the years. See: GAO, *General Aviation Safety: Additional FAA Efforts Could Help Identify and Mitigate Safety Risks*, GAO-13-36 (Washington, D.C.: Oct. 4, 2012).

[17]GAO, *Aviation Workforce: Current and Future Availability of Airline Pilots*, GAO-14-232 (Washington, D.C.: Feb. 28, 2014).

Airports' Planned Development Costs Have Declined

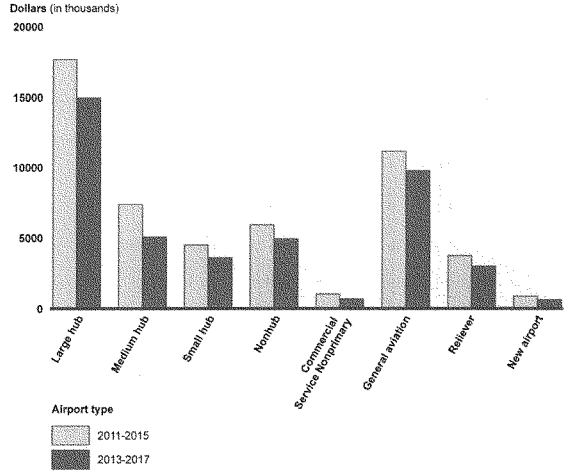
FAA estimates that the annual costs of planned airport development projects that are eligible for AIP grants will average about $8.5 billion (2011 dollars) from fiscal years 2013 to 2017.[18] In 2012, FAA estimated $42.5 billion (2011 dollars) in total 5-year costs of eligible development for fiscal years 2013–2017. This figure was down 18 percent from the estimated $52.3 billion (2009 dollars) costs for fiscal years 2011—2015 or $10.5 billion annually.[19] FAA attributed the decline to several factors, including airport sponsors choosing to defer projects due to reductions in aviation activity, having identified other funding sources for projects, and projects' having been completed. In developing the estimate, FAA reviewed approximately 23,000 existing projects at the five categories of commercial airports, GA airports, reliever airports,[20] and new airports and adjusted, deferred, or removed from consideration approximately 3,700 projects (16 percent). FAA estimated that eligible development costs for all airport categories decreased between the two time periods, with the largest nominal decreases for large hubs ($2.7 billion, a 15 percent decrease) and medium hubs ($2.3 billion, a 31 percent decrease) (see fig. 3).

[18]AIP projects are also eligible for PFC funds, but some PFC uses (such as debt service) cannot be funded with AIP.

[19]We did not adjust FAA's estimates to a common dollar year. Doing so would result in a larger percent decrease from the 2011-2015 estimate to the 2013-2017 estimate than the difference between the unadjusted estimates.

[20]Reliever airports are airports designated by the Secretary of Transportation to relieve congestion at commercial service airports and to provide improved general aviation access to the overall community. 49 U.S.C. § 47102 (23). These airports may be publicly or privately-owned.

Figure 3: FAA's Estimates of AIP-Eligible Planned Development Costs by Airport Category, Fiscal Years 2011–2015 and Fiscal Years 2013–2017



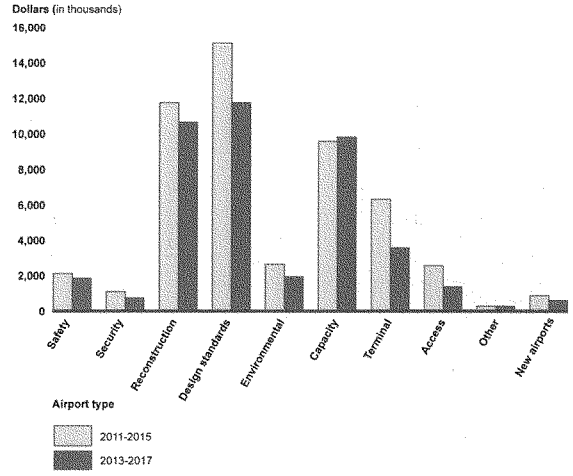
Source: GAO presentation of FAA data. | GAO-14-658T

Note: 2010 dollars for fiscal years 2011–2015 costs and 2012 dollars for fiscal years 2013–2015 costs.

Based on FAA's estimates, the largest category of eligible planned development is to bring existing airports up to current design standards (28 percent), followed by reconstruction (replacement or rehabilitation of airport facilities, mostly pavement and lighting systems) (25 percent), and increasing airfield capacity (23 percent). Compared to fiscal years 2011–2015, FAA's estimates of planned development for fiscal years 2013–2017 decreased across every development category except capacity, which saw a slight increase of 2.5 percent (see fig. 4). While large hubs were the only airport category that experienced an increase in the cost of planned capacity projects (from about $6.8 billion to about $8.1 billion, a 19 percent increase), this increase was greater than the corresponding decrease for all other airport categories (from about $2.7 billion to about $1.7 billion, a 37 percent decrease). FAA is currently compiling the

estimated planned development costs for the fiscal years 2015–2019 period, due to be published in fall 2014.

Figure 4: FAA's Estimates of AIP-Eligible Planned Development Costs by Project Category, Fiscal Years 2011–2015 and Fiscal Years 2013–2017



Source: GAO presentation of FAA data. | GAO-14-658T

Note: 2010 dollars for fiscal years 2011–2015 costs and 2012 dollars for fiscal years 2013–2015 costs.

ACI-NA also estimated airports' costs of planned development for the fiscal years 2013–2017 period for projects eligible for federal funding as well as those not eligible. The total estimated costs of planned development for fiscal years 2013–2017 are $68.2 billion (2012 dollars) or approximately $13.6 billion per year on average.[21] This is about a 10

[21]According to ACI-NA, the $68.2 billion estimate if adjusted for inflation would be $71.3 billion. Because FAA estimates are not inflation adjusted, we present ACI-NA estimates in a similar context.

percent decline from ACI-NA's prior estimate of $75.6 billion (2010 dollars) for the prior fiscal years 2011–2015 estimating period.[22] ACI-NA attributed the decline to several factors, including the recent recession and challenging economic conditions, airline consolidation and capacity reductions, and projects' having been completed or postponed beyond 2017. ACI-NA's estimates of eligible development decreased between the two time periods for all airport categories except medium hubs, which saw a 5 percent increase. The largest decreases were for large hubs ($2.3 billion, a 6 percent decrease) and small hubs ($2.1 billion, a 27 percent decrease).

ACI-NA's estimate of airport planned development costs is considerably larger than FAA's because it is based on a broader base of projects and other factors. For example, ACI-NA's estimate includes projects that are not eligible for AIP grants, while FAA's estimate includes only AIP-eligible projects[23] (see table 1). ACI's estimate of the annual cost of planned airport development for the 2013—2017 period that is not eligible for AIP grants is $4.6 billion (2012 dollars). We combined this with FAA's estimate of the annual cost of planned airport development that is AIP-eligible for the same time period—$8.5 billion—to estimate that the total annual costs for airports' planned development is $13.1 billion. When comparing just the AIP-eligible portions of the respective estimates, ACI-NA's estimate is 6 percent greater than FAA's ($2.6 billion in total or $0.5 billion annually).

[22]We did not adjust ACI-NA's estimates to a common dollar year. Doing so would result in a larger percent decrease from the fiscal years 2011-2015 estimate to the fiscal years 2013-2017 estimate than the difference between the unadjusted estimates.

[23]In addition, there are other differences in the way FAA and ACI-NA estimate airport planned development costs. First, while FAA's estimates cover projects for every airport in the national system, ACI-NA surveyed its member airports in the U.S. (117 of which responded, consisting mostly of large, medium, and small hub airports) and then extrapolates a total based on cost-per-boarding calculations for large, medium, and small hub airports that did not respond. Second, FAA data are based on planned project information taken from airport master plans and state system plans, minus projects that already have an identified funding source, while ACI-NA includes all projects, whether funding has been identified or not. Third, FAA data includes only the portion of a project that is eligible for AIP, while ACI-NA estimates the total value project cost. Fourth, ACI-NA and FAA estimated planned development costs for the same 5-year time period, but the estimates were made at different times—the ACI-NA survey was completed in 2012, while FAA's estimate is based on information available through 2011. Lastly, FAA's estimates use 2011 dollars, whereas ACI-NA's estimates use 2012 dollars.

Table 1: Comparison of FAA's and Airports Council International-North America's Estimates of Airport Planned Development Costs

		Estimated costs, fiscal years 2013—2017	
Airport type	Number of airports	FAA (2011 dollars in millions)	ACI-NA (2012 dollars in millions)
Large hub	29	$14,941	$35,449
Medium hub	36	5,055	8,869
Small hub	74	3,589	5,525
Nonhub	239	4,906	4,906[a]
Commercial Service Nonprimary	121	670	670[a]
General aviation	2,563	9,777	9,777[a]
Reliever	268	2,996	2,996[a]
New airports	25	610	-
Total	3,355	$42,545	$68,192

Source: FAA and ACI-NA.

[a] ACI-NA's estimates for these categories of airports are drawn directly from FAA's estimate.

Federal Support for Airport Development Declined, While Alternative Revenue Sources at Airports Have Grown

Federal Support for Airport Development Has Declined

Regarding AIP grants, annual appropriations decreased from about $3.5 billion for fiscal years 2007 through 2011 to about $3.4 billion for fiscal years 2012 through 2014.[24] In addition, the actual amount of AIP grants awarded annually has decreased 9.6 percent since 2007 from $3.3 billion in fiscal year 2007 to $3 billion in fiscal year 2013. Excluding grants to GA airports, AIP grants on a per-passenger basis have also decreased, from $3.80 per passenger in 2007 to $3.40 per passenger in 2012. Since then Congress transferred $253 million in unobligated funds from AIP to FAA operations to reduce furloughs for air traffic controllers in legislation passed in March 2014.[25] Airport association representatives told us that these funds had been reserved for airport development.

The President's 2015 Budget calls for a reduction in AIP appropriations to $2.9 billion. The Wendell H. Ford Aviation Investment and Reform Act for the 21st Century of 2000 legislates that if AIP appropriations fall below $3.2 billion and that provision is not changed, AIP entitlement grants will be reduced by half; the funds from the entitlement grant reductions would instead flow to AIP discretionary grants[26] giving FAA greater decision-making over which airport projects receive funding.

With regard to PFCs, the federal PFC cap of $4.50 has not increased since 2000 and thus has not kept pace with inflation. According to FAA data, PFCs collections peaked in 2006 at $2.93 billion and then fell during the recession before rebounding to $2.81 billion in 2013. According to FAA, as of (April 2014, 388 commercial service airports (including of the largest 100 airports by passenger boardings) imposed a PFC. According to FAA, more than 90 percent of PFC collections go to large and medium hub airports, but large and medium hub airports collecting PFCs must

[24]For fiscal year 2009, in addition to the base appropriation of $3.5 billion, AIP received a supplemental appropriation of $1.1 billion under the American Recovery and Reinvestment Act of 2009 (Pub. L. No. 111-5 123 Stat. 115, 205) for a total appropriated amount of $4.6 billion. The appropriated amount for each fiscal year includes amounts for AIP grants to airports as well as for other components of the AIP program. For example, of the $3.5 billion appropriated for the AIP program in fiscal year 2010, $3.4 billion was for AIP grants, $93.4 million was for administrative expenses of the FAA's Office of Airports, $22.5 million was for the Airport Technology Research Program, $15 million was for the Airport Cooperative Research Program, and $6 million was for the Small Community Air Service Development Program.

[25]Pub. L. No. 113-9, § 2, 127 Stat. 443 (2013).

[26]49 U.S.C. § 47114.

return a portion of their AIP entitlement grants, which are then redistributed to smaller airports.[27] In addition, we have found that many airports' future PFC collections are already committed to pay off debt for past projects, leaving them little future PFC collections for new development. For example, at least 50 airports have leveraged their PFCs through 2030 or later, according to FAA data.

The President's 2015 Budget and airports have requested an increase in the PFC cap to $8—which they say takes into account inflation that has occurred since 2000 and eliminating AIP entitlements for large hub airports.[28] Airlines have generally opposed any increase in ticket taxes or fees, including PFCs, arguing that if an increase in taxes or fees is passed onto the consumers through an increase in ticket prices, it could reduce demand for air travel. For example, in December 2013, Congress approved allowing the Transportation Security Administration to raise the security fee currently applied to each ticket from $2.50 to $5.60 and to eliminate the cap on the number of fees that can be collected on a flight itinerary. Airlines opposed that increase based on concerns that it would hurt travel demand. We concluded in 2012 that a $3.00 increase in the security fee to $5.50 would reduce passenger boardings by about 1 percent based on a review of passenger demand literature.[29] We are currently assessing the impact of increases in the amount of the PFC on passenger demand, airport investment, and aviation users and plan to report our findings later this year.

While airports have primarily supported the current collection method, some told us they might consider using an alternative method if it allowed them to remove the PFC cap. In 2013, we examined alternative collection mechanisms, such as airport kiosks and internet-enabled devices such as

[27]Medium and large hub airports return 50 percent of their AIP entitlement funds if their PFC level is $3.00 or less and 75 percent of their entitlement if their PFC level is above $3.00 (49 U.S.C. § 47114(f)). FAA's Small Airport fund—for use by small hubs, nonhubs, general aviation, and reliever airports—receives 87.5 percent of the total returned amount, and the other 12.5 percent goes toward AIP discretionary funds (49 U.S.C § 47116).

[28]Airport trade associations ACI-NA and the American Association of Airport Executives have made prior proposals to raise the PFC cap to $8.50 with periodic adjustments for inflation.

[29]GAO, *2012 Annual Report: Opportunities to Reduce Duplication, Overlap, and Fragmentation, Achieve Savings and Enhance Revenue*, GAO-12-342SP (Washington, D.C.: Feb. 28, 2012).

smartphones that could be used to collect PFCs separately from the ticket. We found that none of these alternatives was better than the current method. Specifically, we determined that each of the alternatives negatively affected the passenger experience and the transparency of fees relative to the current method.[30]

Although support for airport development from AIP and PFCs has declined in recent years, so have planned development costs. In addition, we have not yet determined how much funding has recently been generated by the other major source of revenues for airport development—municipal bond proceeds, backed primarily by airport revenues. Therefore, the extent to which the gap between airport funding and planned airport development costs has changed since we last reported on this in 2007 is unknown. As discussed above, for the 2013 through 2017 period, the total estimated annual costs for airports' planned development projects is about $13.1 billion, $8.5 billion of which is eligible for AIP grants and PFCs. However, annually only about $6 billion in support has been available from AIP grants and PFC collections. The remaining $7 billion in annual planned development will need to be funded by locally generated revenues or deferred. In 1998, 2003, and 2007, we found a funding gap between the 5-year airport planned development costs and historical funding. In 2007, the total gap was $1 billion annually. This gap has been most acute for smaller airports that may have less access to capital markets.[31] We are currently assessing whether this gap has grown or declined in light of declining federal funding and planned development and will report our findings to this Committee later this year.

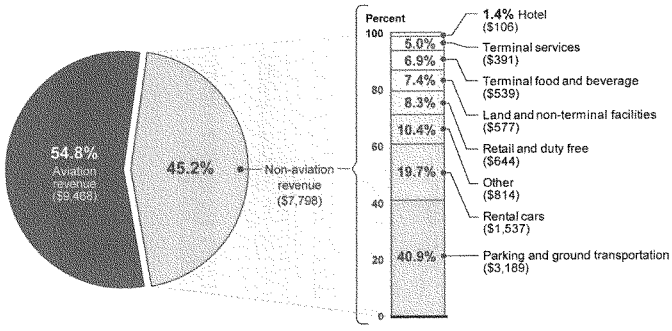
[30]GAO, *Alternative Methods for Collecting Airport Passenger Facility Charges*, GAO-13-262R (Washington, D.C.: Feb. 14, 2013).

[31]GAO, *Airport Finance: Observations on Planned Airport Development Costs and Funding Levels and the Administration's Proposed Changes in the AIP*, GAO-07-885 *(Washington, D.C.: June 29, 2007)*; *Airport Finance: Past Funding Levels May Not Be Sufficient to Cover Airports' Planned Capital Development*, GAO-03-497T (Washington, D.C.: Feb. 25, 2003); and *Airport Financing: Funding Sources for Airport Development*, GAO/RCED-98-71 (Washington, D.C.: Mar. 12, 1998).

Alternative Revenue Sources at Airports Have Grown

To help fund airport development, some commercial service airports have increasingly relied on non-aviation revenues. According to ACI-NA, non-aviation revenue has grown, on average, over 4 percent each year since 2004, compared to a 1.5 percent increase in passenger boardings over the same period. In 2012, according to FAA data, non-aviation revenue accounted for approximately 45 percent of airports' total operating revenues. Parking and ground transportation accounted for the greatest portion (41 percent) of passenger-related non-aviation revenue, followed by terminal concessions (20 percent) and revenue from rental car facilities (20 percent) (see fig. 5).[32]

Figure 5: Total Revenue and Non-Aviation Revenue for All Airports (2012, Dollars in Millions)



Source: GAO analysis of Airports Council International—North America data. | GAO-14-658T

Notes: 2012 is the latest full fiscal-year data available in FAA's CATS database.
Terminal Concessions include Retail & Duty Free, Food & Beverage and Terminal Services.

In addition to traditional commercial activities to generate non-aviation revenue, some airports have developed unique commercial activities with stakeholders from local jurisdictions and the private sector to help

[32]Airports Council International—North America, *2013 (FY12) Benchmarking Survey, ACI-NA* (Washington, D.C.: Oct. 17, 2013).

develop airport properties into retail, business, and leisure destinations.[33] An increasing range of unique developments on airport property have contributed to non-aviation revenues, including high-end commercial retail and leisure activities, hotels and business centers, medical facilities, and specialized cargo handling and refrigerated storage facilities, among other developments (see fig. 6). For example, Miami International Airport was named one of the world's top-10 airports for retail shopping, and the $1.7 billion international terminal at Los Angeles International Airport, which is currently under construction, will contain 140,000 square feet of premier dining, retail, and club lounges. By acting more like businesses than public utilities, airports have increasingly become more competitive with one another, providing services, including hotels and conference space, to attract and retain business travelers who might otherwise stay in a downtown hotel off airport property. For example, Dallas/Fort Worth International Airport owns a Grand Hyatt hotel inside Terminal D, Denver International Airport is building an attached Westin Hotel, and Hartsfield-Jackson Atlanta International Airport is considering an airport hotel inside or connected to its domestic terminal. Also, in an effort to generate revenue by leasing cold storage space to freight forwarders and businesses that transport low-volume, high-valued goods, including pharmaceuticals, produce, and other time-sensitive or perishable items, airports in Denver, Miami, and Indianapolis have built—or plan to build—cold storage facilities on airport property.

[33]Airport-centric development—development at and around airports, in part, to generate non-aviation revenue and stimulate regional development—has taken place at airports around the world. This form of development has also been referred to as aerotropolis or airport-city. For more information on factors that may support this form of development, see: GAO, *National Airspace System: Airport-Centric Development*, GAO-13-261 (Washington, D.C.: Mar. 28, 2013).

Figure 6: Examples of Expanded Services Offered in Some Airport Terminals



Passengers at Dallas/Ft. Worth International Airport use large touch-screen display to locate food and beverage options at the airport.

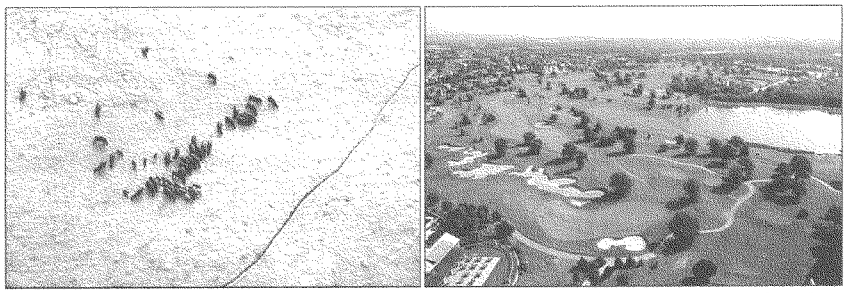
Source: Dallas/Fort Worth International Airport. | GAO-14-658T

In addition, airports can fund airport improvements with private sector participation. Public-private partnerships, involving airports and developers, have been used to finance airport development projects without increasing the amount of debt already incurred by airports. FAA's noise land disposal program, for example, allows airports to sell or lease land that had been used in the past for noise abatement purposes and is no longer needed for noise abatement. FAA also allows airports with excess available land to use the land for certain types of commercial development, pending approval by the FAA.[34] Airport operators must

[34]FAA restricts certain types of land use on or near airport properties and also restricts lease or sale of airport-owned land. Such restrictions are established in grant assurances that airports accept as a condition of receiving federal land or funds. Airport operators must obtain FAA's concurrence to lease airport land or facilities to developers if the operator has obtained grants from FAA. Local planning officials have also affected particular land uses near airports through planning policies related to noise, environmental quality (air, water, wetland, species protection), and zoning restrictions.

obtain FAA's concurrence prior to leasing airport land or facilities to private developers to help ensure, among other things, that the developer's plans will be compatible with airport operations and that the airport receives fair market value for the use of its property. The ability to lease airport land has allowed some airport operators to generate revenue through temporary leases of airport property for manufacturing, warehousing, and freight-forwarding operations while also reserving the land for future aviation needs. For example, solar farms have been built on airport land in Indianapolis and Denver; officials at Dallas/Fort Worth International Airport have leased a portion of the airport property for oil extraction; and land at Alliance Airport near Ft. Worth, Texas, has been leased for agricultural uses, such as cattle grazing and a golf course (see fig. 7). In addition, Miami International Airport entered a $512 million public-private partnership to develop 33 acres of airport property. The developer will finance construction and pay rent and a percentage of the revenues to the airport in return for a 50-year lease.

Figure 7: Examples of Development Efforts on Airport Property Outside of Terminals



Land at Alliance Airport (near Fort Worth, Texas and Dallas/Fort Worth International Airport) has been leased for agricultural use or converted recreations uses, such as a golf course and walking route.



By moving the airport rental car facility off airport property, Miami International Airport officials freed up space for new development and connect to a larger intermodal facility-with rental cars and a link to the metro system-via the MIA People Mover.

Sources: Alliance Airport and Dallas/Fort Worth International Airport. | GAO-14-658T

Privatization of airports is another option that some public sector airport owners have considered to obtain private capital for airport improvement and development, among other things. However, FAA's Airport

Privatization Pilot Program (APPP), which was established in 1996 to reduce barriers to airport privatization has not led to many privatizations.[35] Only one airport—San Juan Luis Muñoz Marín International Airport in Puerto Rico –has been privatized, and currently there is only one active applicant in the program.[36] Nonetheless, airports are using the private sector to finance airport development or manage airports outside of the APPP. For example, the Port Authority of New York and New Jersey has recently received responses for its request for proposals for the private sector to demolish old terminal buildings and construct, partially finance, operate, and maintain a new Central Terminal Building for LaGuardia Airport in New York City in return for a share of terminal revenues. In addition, Gary/Chicago International Airport in Gary, Indiana, outside Chicago has entered into a public-private partnership with a private sector firm to both operate the airport and economically develop off-airport property. We are currently examining airport privatization and the APPP and plan to report our findings later this year.

In conclusion, this year commemorates one century since the first commercial airline flight,[37] and in that relatively short time span, commercial aviation has grown at an amazing pace to become a ubiquitous and mature industry in the United States. While commercial aviation still has many exciting prospects for its second century, it also faces many challenges, chief among these are ensuring that airports can continue to accommodate millions of flights and hundreds of millions of passengers every year. Maintaining and upgrading this vital infrastructure will require the combined resources of federal, state, and local governments, as well as private companies' capital and expertise. Effectively supporting this development involves focusing federal resources on the FAA's key priorities of maintaining one of the world's safest aviation system and providing adequate system capacity, while allowing maximum flexibility for local airport sponsors to maximize local

[35]GAO, *Airport Privatization: Issues Related to the Sale or Lease of U.S. Commercial* Airports, GAO/RCED-97-3 (Washington, D.C.: Nov. 7, 1996).

[36]Stewart Airport in New York was privatized in 1999 under a 99-year lease to a private sector operator, but in 2007, the Port Authority of New York and New Jersey assumed the lease after the private sector operator ceased to operate airports.

[37]On January 1, 1914, the St. Petersburg-Tampa Airboat Line became the world's first scheduled passenger airline service, operating between St. Petersburg and Tampa, Fla. It was a short-lived endeavor—only 3 months.

investment and revenue opportunities. In deciding the best course for future federal investment in our national airport system, key considerations for Congress will be to balance the interests of all aviation stakeholders, including airports, airlines, and most importantly passengers and shippers, to help ensure a safe and vibrant aviation system.

Chairman LoBiondo, Ranking Member Larsen, and Members of the Subcommittee, this concludes my prepared statement. I would be pleased to respond to any questions that you may have at this time.

GAO Contacts and Staff Acknowledgments

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Before the Aviation Subcommittee
Committee on Transportation and Infrastructure
United States House of Representatives

AIRPORT FINANCING AND DEVELOPMENT

Statement of
Mark Baker
President and CEO, Aircraft Owners and Pilots Association

June 18, 2014



Statement Highlights:

1. General Aviation (GA) airports play a critical role in the national transportation system. They serve as economic engines for their communities, centers of public benefit activities, and vital transportation links.
2. General Aviation airports rely on Airport Improvement Program (AIP) funds to execute a wide range of maintenance, expansion, and improvement projects that address safety, capacity, and environmental concerns.
3. The need for such projects is high and any discussion of airport financing should recognize the importance of maintaining at least the current level of commitment to providing federal airport funding.

The Aircraft Owners and Pilots Association (AOPA) has more than 350,000 members nationwide. As a not-for-profit individual membership organization, AOPA's mission is to effectively represent the interests of its members as aircraft owners and pilots concerning the economy, safety, utility, and popularity of flight in general aviation (GA) aircraft.

General Aviation airports play a critical role in the transportation system

As pilots flying in the United States, we are fortunate to have access to the safest and most efficient air transportation system in the world. The aviation network of 5,200 public-use airports, complemented by the more than 13,000 privately owned landing facilities is a unique national resource. General aviation is a significant economic engine that contributes approximately $150 billion to the annual gross domestic product and approximately 1.2 million jobs in communities nationwide. Each year, 170 million passengers fly using personal aviation, the equivalent of one of the nation's major airlines.

In addition to directly creating jobs, general aviation airports attract businesses to the communities where they are located, delivering economic benefits far beyond the airport boundaries. They may serve as reliever airports in congested

metropolitan areas and offer aircraft, including airliners, a safe place to land in the event of an emergency.

America's airports are the true backbone of aviation, and without a robust airport network, aviation cannot continue to grow. It is important to note that all of the new technology and capabilities under discussion with NextGen will be underutilized unless pilots have a place to take off and land. America's GA airports foster air transportation and link many communities to our aviation system in ways that cannot be achieved by reliance on a few hundred primary airports.

Of the 3,330 airports included in the FAA's National Plan of Integrated Airport Systems (NPIAS), only 499 support scheduled commercial air service. For many other aviation needs, Americans rely on the other 2,563 public-use landing sites, which link America's vast rural expanses to the larger world.

GA airports support a wide range of other vital activities, including agriculture, law enforcement, emergency medical transport, firefighting, pipeline patrol, environmental monitoring, package delivery, and wildlife management.

A broad range of humanitarian and charitable activities also rely on general aviation airports. Small general aviation airports are frequently used to deliver humanitarian aid following natural disasters such as hurricanes or earthquakes. In addition, general aviation aircraft operating from small airports are routinely used by charities to connect wounded veterans to their families, bring patients to specialized medical care, and perform dozens of other charitable and humanitarian services.

General Aviation airports rely on AIP funds

Airports are as critical to the aviation transportation system as on- and off-ramps are to our federal highway system. Congress has wisely recognized that a federal aviation network is only possible by using tax revenues from various parts of the system for financial support. To illustrate how this is similar to other modes, if federal highways had been built in only those states that have contributed since 1956, the Interstate and U.S. highway system would exist in only 15 states! Drivers

in Wisconsin, New Jersey, Tennessee, California, Missouri, Florida, Ohio, Georgia, Michigan, South Carolina, North Carolina, Oklahoma, Indiana and Texas have "subsidized" federal-aid highway construction in 35 other states and the District of Columbia.

AOPA strongly supports the financing approach of using the time-tested system of passenger transportation and aviation fuel taxes in combination with general fund tax revenues to support the FAA and the aviation system.

Funding for the Airport Improvement Program (AIP) comes from the FAA's Airport and Airway Trust Fund, which receives revenues from a series of excise taxes paid by users of the national airspace system, including taxes on aviation fuels. The Trust Fund was designed to finance investments in the airport and airway system and, to the extent funds were available, cover the operating costs of the airway system as well. However, no general fund revenues are appropriated to support AIP.

The Airport Improvement Program provides grants to public agencies and, in some cases, to private airport owners for the planning and development of public-use airports that are included in the NPIAS developed by the FAA and submitted to Congress every two years.

AIP grants for planning, development, or noise compatibility projects may go to these federally identified public-use airports, including heliports and seaplane bases. For small primary, reliever, and general aviation airports, the grant covers 90 percent of eligible costs.

Projects eligible for AIP grants include improvements that enhance or improve airport safety, capacity, and security, or meet environmental concerns. Without the assistance of federal funding, many small airports could not perform necessary maintenance projects to ensure runway safety, provide airport lighting, or offer essential facilities like hangars and tiedowns.

The need for infrastructure improvements is extensive

The FAA's most recent NPIAS Report to Congress indicates that America's airport infrastructure needs are significant. Over the five years from 2013 to 2017, the FAA estimates that airports will require some $42.5 billion to meet all AIP-eligible infrastructure development demands, significantly more than the authorized level of AIP funding for that period. Despite the growing need, AIP funding remained at an annual level of roughly $3.5 billion since fiscal year 2005 until it took a slight drop to $3.35 billion. Based on these numbers, it is clear that the need and annual funding levels are out of balance, and all the while projects continue to manifest.

Maintaining at least the current funding level is vital

The passage in April 2000 of the Wendell H. Ford Aviation Investment and Reform Act for the 21st Century (AIR-21) introduced a new funding source for general aviation airports: non-primary entitlement. Non-primary entitlement funds are specifically for general aviation airports and 121 Non-primary Commercial Service airports listed in the latest published National Plan of Integrated Airports (NPIAS), that show needed airfield development. GA airports with an identified need are eligible to receive annually the lesser value of 20% of the 5-year cost of their current NPIAS value or $150,000. A funding condition of non-primary entitlement is that Congress must appropriate $3.2 billion or more in AIP for that fiscal year.

Because of the many services provided by general aviation airports, the high level of infrastructure needs, and the restrictions on non-primary entitlement, it is essential that the current level of AIP funding be maintained in any future airport funding plans.

Conclusion

In conclusion, general aviation airports play a vital role in the life of this nation. The need for infrastructure, safety, security, and environmental improvements is vast and continues to grow. General aviation airports rely heavily on AIP and non-

primary entitlement funds to make necessary improvements and maintain requisite levels of safety.

On behalf of the more than 350,000 members of AOPA, we appreciate your leadership in addressing the funding concerns of general aviation airports so our national transportation system can continue to serve the economic, social, and humanitarian needs of the nation.

Thank you for the opportunity to appear before this subcommittee.

Statement of

Todd Hauptli

President and CEO

American Association of Airport Executives

Before the

Committee on Transportation and Infrastructure

Subcommittee on Aviation

U.S. House of Representatives

June 18, 2014

Chairman LoBiondo, Ranking Member Larsen, and members of the Transportation and Infrastructure Subcommittee on Aviation, thank you for inviting me to participate in this hearing on Airport Financing and Development. It is an honor for me to be back before the committee.

As you know, AAAE is the world's largest professional organization representing the men and women who manage primary, commercial service, reliever, and general aviation airports. Our organization has a long history of collaboration with this committee, and we look forward to working with you as you develop the next Federal Aviation Administration (FAA) reauthorization bill.

I am pleased to be testifying along with Mark Reis, the Managing Director of the Seattle-Tacoma International Airport and Chair of Airports Council International-North America (ACI-NA). Mark is an exceptionally talented and thoughtful leader in the aviation community. I have truly enjoyed working with him, his ACI-NA colleagues, and the association's staff including Kevin Burke, ACI-NA's new President and CEO.

Mr. Chairman, the next FAA reauthorization bill provides this committee with an opportunity to closely examine the state of the aviation industry, focus on new priorities, and consider what has changed in the aviation community and on Capitol Hill since Congress passed the last multi-year FAA bill in early 2012. It also gives you an opportunity to change course and set policy objectives based on current fiscal constraints.

At a time when federal funding is increasingly scarce, it is critical that this committee provide airports with the self-help they need to finance a greater share of infrastructure projects with local revenues. To that end, airports around the country are urging you and your colleagues to raise the federal cap on local Passenger Facility Charges (PFCs) from $4.50 to $8.50 and to index the cap for inflation.

I realize that some of our aviation partners will continue to raise objections to a PFC increase even though additional revenue for airport infrastructure projects would directly benefit them, their customers, and the economy. But raising the PFC cap is a fiscally-responsible way to ensure that airports have the resources they need to increase capacity, promote competition, and enhance safety.

The following includes a more detailed discussion of PFCs as well as other financing recommendations for you to consider as you prepare for the next FAA reauthorization bill.

Increasing Demand and Congestion; Airport Capital Needs

Increasing Demand: Airports, airlines, and the FAA are expecting passenger levels to increase in the short- and long-term. Last month, Airlines for America (A4A) reported that passenger levels are expected to rise this summer "to the highest level in six years." A4A projects that 210 million passengers will fly on U.S. carriers between June 1 and August 31 – an increase of 1.5 percent from last year.

The FAA similarly estimates that passenger levels will increase to 746 million passengers this year – up from 739 million passengers in 2013. The agency's latest Aerospace Forecast indicates that enplanements are expected to increase by more than 3 percent next year to 771 million passengers. That is a slight uptick in the short-term. However, passenger levels are expected to jump more than 55 percent over the next 20 years.

The FAA anticipates that passenger enplanements will reach the one billion mark by 2027. Three years later, passenger levels are expected to rise to 1.1 billion – an increase of almost 320 million above current levels. Adding 320 million passengers is the equivalent of adding the entire U.S. population to our already constrained aviation system. That may seem like a long time, and the FAA's estimates may change some. But planning, designing, and building runways and other capacity-enhancing projects can take an enormous amount of time.

Airports simply don't have the luxury of being able to flip a switch and instantly complete a new runway or some other large capacity project. Airports need to begin preparing now for increasing passengers to come. And it will be increasingly difficult for airports to fund those projects if PFCs remain artificially capped at $4.50 as they have been since 2000.

Increasing Congestion: Without adequate airport infrastructure investment, increasing demand will likely translate into increasing congestion. The U.S. Travel Association released a report last year that vividly describes how increasing passenger levels and reduced capacity will impact passengers. The "Thanksgiving in the Skies" report makes the point that passengers will experience Thanksgiving-like congestion at most large airports at least one day a week within the next ten years.

According to the study, one in five major airports in the United States already experiences passenger levels equal to the Wednesday before Thanksgiving at least one day a week. Within the next five years, 24 of the top 30 airports will experience those Thanksgiving-like passenger levels at least one day a week. The association predicts that just ten years from now 25 of the top 30 airports will experience Thanksgiving-like congestion two days a week.

Meanwhile, flight delays and cancellations are continuing to frustrate passengers and negatively impact our economy. Just this week the U.S. Travel Association reported that nearly half of the passengers who participated in a recent survey picked flight delays and cancellations as the most frustrating aspect of commercial air travel. The findings are consistent with Department of Transportation (DOT) Air Travel Consumer Reports, which repeatedly put flight delays, cancellations, and misconnections at the top of the list for passenger complaints.

The U.S. Travel Association survey also suggests that flight delays, cancellations, and other hassles caused U.S. passengers to avoid 38 million trips in 2013. According to the report, hassle factors associated with commercial air travel cost our economy $27.2 billion in travel spending last year and cost passengers another $8.5 billion in "lost time, missed connections, and missed travel activities."

Significant Airport Capital Needs: Airports also face significant capital needs. As part of its 2013 National Plan of Integrated Airports System (NPIAS), the FAA estimated that there is $42.5 billion in AIP-eligible projects between 2013 and 2017 or approximately $8.5 billion per year. The annual average is more than twice the $3.35 billion that airports received in AIP funds in Fiscal Year 2014.

The FAA's NPIAS provides a good snapshot of certain airport capital needs. But the totals only reflect those projects that are eligible for federal funds. The FAA report does not include other necessary but ineligible infrastructure projects such as gates and certain terminal projects that airports fund with PFCs and other revenue sources.

Like the FAA, ACI-NA has a long track record of evaluating airport capital needs. The association's 2013 Capital Needs Survey estimated that airports will have $71.3 billion in capital needs between 2013 and 2017 or $14.3 billion annually for AIP-eligible projects and other necessary projects that are not eligible for federal funds. This is far more than the $5.9 billion that airports expect to receive in AIP funds and PFC revenue this year.

Recommendations for Helping Airports Finance Critical Infrastructure Projects

Airports rely on a combination of PFCs, AIP funds, bonds, state and local grants, and other airport revenue to finance infrastructure projects at their facilities. Ensuring that airports have adequate funding to build critical infrastructure projects will require Congressional action on the first three accounts. Needless to say, flat or reduced AIP funding will only increase pressure on airports to secure funds from other revenue sources like PFCs.

Raise Federal Cap on Local PFCs: AAAE, ACI-NA, and the Gateway Airports Council – a group of large hub airports – are urging Congress to raise the federal cap on local PFCs from $4.50 to $8.50 and to allow for the periodic adjustment of the cap for inflation. Raising the PFC cap continues to be our top priority for the next FAA reauthorization bill.

For almost 25 years, the PFC program has helped airports increase safety, security, and capacity; mitigate the impact of aircraft noise; and increase competition. Money generated from PFCs augments AIP funding and other sources of revenue that airports use for a variety of purposes including building new runways, taxiways, and terminals.

A PFC increase is long overdue. The cap has not been adjusted since 2000 – fourteen years ago. Considering the ongoing pressure to reduce federal spending, it is now more important than ever that Congress raise the federal cap on local PFCs. Raising the cap would allow airports to finance a greater share of critical infrastructure projects with their own local revenues.

The $253 million cut in AIP funding that airports sustained last year as part of the sequestration process underscores the need for Congress to raise the federal cap on local PFCs. At a time when there is enormous pressure to reduce discretionary spending, raising the PFC cap would provide airports with the self-help they need to finance critical infrastructure projects without relying as much on scarce federal funds.

PFCs Help Reduce Delays; Increase Capacity: Airports often rely on PFC revenue to increase capacity and reduce delays at their facilities. The Port Authority of New York and New Jersey, for example, is using PFCs and other sources of revenue to reconstruct runways at John F. Kennedy International Airport. The improved runways will help increase capacity, reduce delays, and enhance safety at one of the nation's busiest airports.

The Port Authority is both widening its runways to accommodate larger aircraft and raising them by a foot for flood mitigation. It is also using concrete instead of asphalt to increase longevity and to reduce the need for maintenance closures. In the past five years, the Port Authority has used $470 million in PFC revenue for runway widening and raising, $162 million for Runway Safety Areas, and $115 million for delay reduction. Again, this $750 million in capacity- and safety-related projects simply wouldn't be possible without local user fees.

Meanwhile, the Port Authority is moving forward with plans to replace the aging Central Terminal at LaGuardia Airport. Airport terminals – like runways and taxiways – increase capacity. Without a new terminal, LaGuardia simply wouldn't be able to efficiently accommodate four million annual passengers.

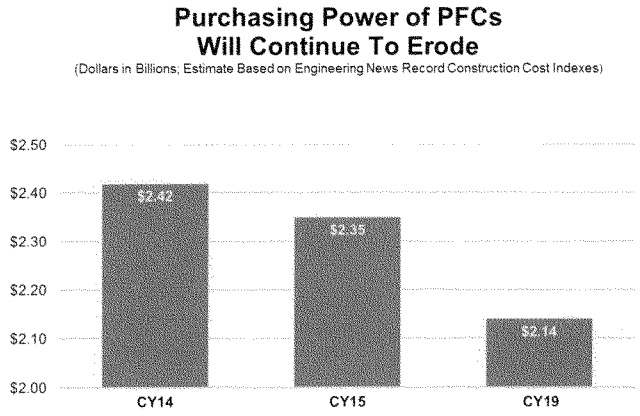
Almost half of the funding for the more than $3 billion Central Terminal project will come from PFCs. Raising the PFC cap to $8.50 and indexing it for inflation would allow airports like those in New York and New Jersey to invest in additional capacity- and safety-related projects on the airside and the landside.

Like the Port Authority, the San Francisco International Airport is using PFCs to expand Runway Safety Areas. The airport has a $4.4 billion 10-year capital plan that includes PFC-eligible terminal capacity and modernization projects as well as airfield taxiway realignments that will improve aviation safety. But without a higher PFC cap in place, the airport's debt financing would likely increase, and the additional costs would likely be reflected in airline rates and charges.

Although some airlines continue to voice their opposition to a PFC increase, carriers time and time again support specific PFC-funded projects that benefit them directly. For instance, the Salt Lake City International Airport intends to use almost $324 million in PFCs and another $557 million in PFC-backed bonds to help construct a new international terminal. It is my understanding that none of the airlines that plan to operate out of the terminal opposed the PFC-funded project.

Construction Cost Inflation: Airport efforts to prepare for increasing passenger levels that I mentioned earlier have been hampered by rising construction costs. According to the Means Construction Cost Indexes, the average construction costs for 30 major U.S. cities jumped more than 65 percent since 2000 – the last time Congress raised the PFC cap. And construction costs are continuing to rise.

Unfortunately, rising construction costs have eroded the purchasing power of PFCs and AIP funds. For instance, a $4.50 PFC is only worth less than $2.50 today. Unless corrective action is taken, the value of PFCs will erode even more by the time the current FAA reauthorization bill expires in 2015. The value of PFCs will decline to just over $2 by 2019 unless Congress acts.



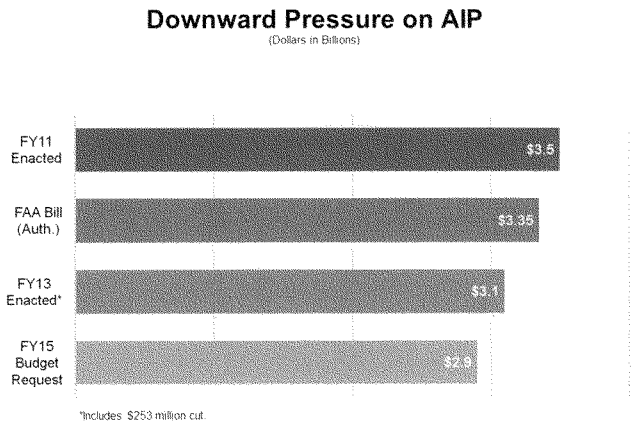
In order to keep up with construction inflation, it is necessary to raise the PFC cap to $8.50 today. Keep in mind that raising the cap to that level would only allow PFCs to keep up with construction cost inflation that has already occurred. The cap also needs to be adjusted periodically to prevent further erosion of PFCs.

PFCs are not taxes. PFCs are local user fees charged to passengers using airport facilities to help defray the costs of building airport infrastructure. Moreover, PFCs are imposed by states or units of local government – not the federal government. PFCs are not collected by the federal government, not spent by the federal government, and not deposited into the U.S. Treasury.

Provide Adequate AIP Funding: AAAE and ACI-NA are urging Congress to maintain adequate funding for airport infrastructure projects in the next FAA reauthorization bill and to protect AIP funding from additional cuts in the sequestration process. No general fund revenues are used for AIP grants. The AIP program is supported entirely by users of the aviation system through various taxes and fees that are deposited into the Airport and Airway Trust Fund.

AIP is a critical source of funding for airports of all sizes and especially smaller airports around the country that don't generate as much PFC revenue or have access to the bond market. Large and medium hub airports also depend on AIP funding – particularly money distributed through the Letter of Intent Program – to help pay for large capacity-enhancing projects.

Even before the first round of sequestration last year, flat AIP had not been nearly enough to cover all eligible projects. As members of this committee know, the FAA Modernization and Reform Act of 2012 authorized $3.35 billion for AIP annually – down from the $3.515 billion that Congress appropriated for AIP in Fiscal Year 2011. Airports received approximately $3.1 billion in Fiscal Year 2013 after the diversion of $253 million to pay for FAA operations. Overall funding ticked up slightly to $3.35 billion in FY14.



Opportunity to Recalibrate AIP: Raising the PFC cap and periodically adjusting it for inflation could potentially open the door for recalibrating the AIP program. With a PFC increase firmly in place, you could focus limited federal funds on smaller airports that need AIP funds the most. Many large airports are willing to give up their AIP entitlements in exchange for the right PFC increase. But again, any effort to modify the AIP program must begin by raising the PFC cap and indexing it for inflation.

The Administration is proposing to raise the PFC cap to $8 and reduce AIP from $3.35 billion to $2.9 billion – saving about $450 million annually. The Administration is also simultaneously proposing to eliminate entitlements for large hub airports. But the Administration has rightfully made it clear that its proposal to reduce AIP funding is contingent upon raising the PFC cap.

The Administration's plan represents a step in the right direction. However, airports are calling on Congress to raise the PFC cap slightly higher to $8.50 and to index it for inflation. Once that happens, you could potentially recalibrate the AIP program and focus limited federal funds on smaller airports. But a number of steps would be required to ensure that small communities are kept whole should AIP funding dip below $3.2 billion as the Administration is proposing.

Preserve and Restore Tax Exempt Financing for Airport Bonds: While it isn't under the Transportation and Infrastructure Committee's direct jurisdiction, airports urge you to work with your colleagues on the Ways and Means Committee to help finance infrastructure projects with bonds. Specifically, we are urging Congress to retain the tax exemption for municipal bonds and to eliminate the tax burden of the Alternative Minimum Tax (AMT) on airport private activity bonds.

AAAE and ACI-NA have long argued that federal tax law unfairly classifies the vast majority of bonds that airports use as private activity even though they are used to finance runways, taxiways and other facilities that benefit the public. Since private activity bonds are subject to the AMT, airport bond issuers traditionally have been charged higher interest rates on their borrowing.

A permanent AMT fix would help airports to reduce their borrowing costs, allow them to invest in more infrastructure projects, and support more jobs. Moreover, it would reflect the fact that airports use private activity bonds on projects that benefit the traveling public and should not be subject to the AMT in the first place. Since reducing borrowing costs would benefit airports and their customers, this is one airport infrastructure financing proposal that airports and airlines will likely continue to agree makes sense.

Tax Airline Bag Fees: While airports and airlines may agree on the need for AMT relief, we continue to have a fundamental disagreement over the airlines' increasing reliance on checked baggage fees and other ancillary charges. AAAE is recommending that those fees be subject to aviation excise taxes like base air fares and that the revenue be deposited into the Airport and Airway Trust Fund.

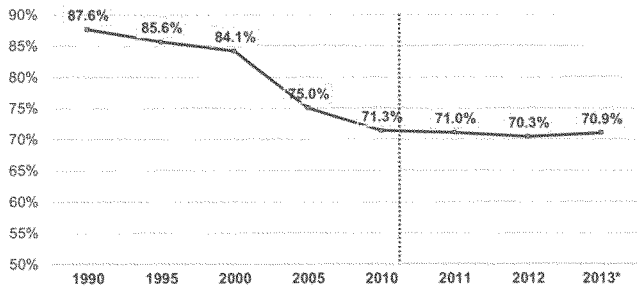
Airport operators respect our airline partners and the highly competitive nature of the commercial airline industry. However, at a time when federal funding for airport infrastructure projects is declining, and the purchasing power of PFCs is eroding, the airlines' current business model simultaneously reduces funds available for airport infrastructure projects and air traffic control modernization.

Air carriers are relying on revenue generated from checked baggage fees and other ancillary charges and less on funds from base airline tickets. Unlike airline tickets, baggage fees and some other ancillary charges are not subject to a 7.5 percent excise tax. In other words, the airlines' a la carte pricing model allows carriers to avoid paying aviation excise taxes for services that were once included in the price of traditional airline tickets.

The airlines' reliance on baggage fees and the shrinking percentage of revenue from base fares has been a growing trend in recent years. According to DOT's Bureau of Transportation Statistics (BTS), the percentage of airline revenue from base ticket sales has dropped from almost 88 percent in 1990 to less about 71 percent in the first three quarters of 2013.

Passenger Airline Revenue From Fares

(Source: BTS)

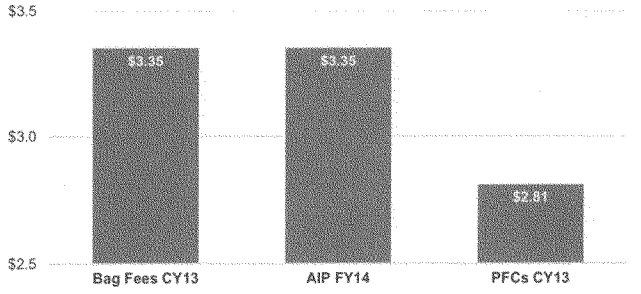


*Through 3Q.

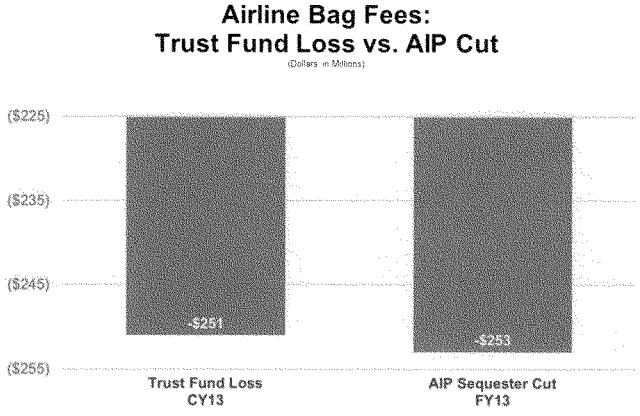
BTS recently reported that U.S. airlines collected almost $3.35 billion in baggage fees in 2013 – about the same amount that carriers collected in the previous year. Those figures are for bag fees alone and do not include revenue that the carriers generate from other ancillary charges. The airline bag fee revenue is almost the same amount that Congress approved for AIP in FY14.

Airline Bag Fees vs. AIP and PFCs

(Source: Bureau of Transportation Statistics, Dollars in Billions)



The airlines' use of ancillary fees shortchanges the Airport and Airway Trust Fund of revenue that would otherwise support airport infrastructure projects, air traffic control modernization, and other aviation system improvements. **Taxing baggage fees at the same 7.5 percent would have generated approximately $250 million last year – about the same amount of AIP cuts that airports sustained last year. Since the beginning of the 2009, a 7.5 percent excise tax on bag fees would have generated more than $1 billion.**



We appreciate the airlines' responsibility to answer to their shareholders. And airports want our airline partners to be successful. But the ancillary fee loophole should be closed. Closing the loophole would generate an additional $250 million for AIP and NextGen annually. It would also help the nation meet the long-term needs of our aviation system.

Conclusion

Chairman LoBiondo, Ranking Member Larsen, and members of the Transportation and Infrastructure Subcommittee on Aviation, thank you again for inviting me to participate in this hearing on airport financing and development. I look forward to working with you as you continue preparing for the next FAA reauthorization bill.

SUBCOMMITTEE ON AVIATION
HOUSE TRANSPORTATION AND INFRASTRUCTURE COMMITTEE

HEARING ON AIRPORT FINANCING AND DEVELOPMENT
JUNE 18, 2014

STATEMENT OF
AIRLINES FOR AMERICA

We appreciate the opportunity to join you to discuss the state of airport financing and development in the United States. This is an important matter for the stakeholders represented here today. But ultimately, of course, it is the passengers and shippers, as well as the communities and the national economy that benefit from commercial aviation services that have the greatest stake in what we are discussing this morning.

From A4A members' perspective, there are three overarching considerations in evaluating airport infrastructure and financing issues.

- Airlines are dependent on adequate airside and groundside infrastructure. We, more than any other stakeholder, need sufficient resources at airports to serve our customers effectively and efficiently. We are acutely aware of that need. We work day-in and day-out with airports, large and small, on necessary capital projects. That close collaboration has been extraordinarily effective.
- U.S. airports enjoy access to a variety of sources of airport-project funding and they have consistently been able to tap those sources to pay for improvements. There thus is no current or foreseeable crisis in airport funding. On the contrary, the sufficiency of that funding is plain to see.
- The way to approach infrastructure and funding issues is first to determine at the particular airport the development needs and then to establish the necessary funding levels. This demand-focused approach has repeatedly shown that projects can be paid-for within existing financing means. There is no empirical justification to raise airport-related taxes, such as Passenger Facility Charges. That is the long and short of it.

OVERVIEW

The U.S. airline industry, in collaboration with our airport partners, has been investing hundreds of millions of dollars in airport infrastructure, not to mention new aircraft and engines, mobile technology, ground equipment and the like. These investments, accelerating in the past few years, have been made possible by our improving finances. At the same time, the industry's financial recovery has been accompanied by an increasingly healthy Airport and Airway Trust Fund, which enjoyed record-high revenues in 2013 and the highest uncommitted balance in 13 years.

All around us, things are looking up. Needed airport projects are getting funded, new aircraft are arriving, airlines are returning seats to the skies and our customers are benefiting. From our vantage point, things are moving in the right direction. The financial wherewithal to continue to make the types of prudent investments that we and our airport partners have been making, in concert with plentiful access to the bond markets, demonstrate that there is no need for a higher Passenger Facility Charge.

While many airport and FAA traffic forecasts have consistently over-projected demand, the airlines support demand-driven, ROI-justified investments that not only enhance system capacity and efficiency but also keep the airports affordable for both airlines and their customers. Clearly, we are aligned with airports and policymakers on the desire to keep air service plentiful. As the primary financial tenants of U.S. airports, we know that it is critical for us to strike the right balance of investment and affordability. Doing so is what keeps our system strong.

THE ECONOMICS OF THE AIRLINE INDUSTRY IS MOVING IN THE RIGHT DIRECTION AND CUSTOMERS ARE BENEFITING FROM IMPROVED AIRLINE PROFITABILITY

Often overlooked in discussions of airport infrastructure projects and their funding is the importance of the economic health of the airline industry. That is an indispensable consideration. A healthier airline industry helps all stakeholders. It translates into more airport activity, more economic benefits to the local community and more ability to fund needed airport projects that improve the customer experience.

Today, for a change, things are improving in the U.S. airline industry. The beneficiaries of this improvement are not only airline customers but also stakeholders represented in this hearing. U.S. airline industry capital expenditures rose 141 percent from $5.2 billion in 2010 to $12.4 billion in 2013. These expenditures are aimed at such customer-friendly initiatives as new aircraft, larger overhead bins, premium seating, airport lounges, ground equipment, mobile technology, customer kiosks at airports, in-flight entertainment and WiFi.

Thus far in 2014, the rate of capital spending in the industry remains at $1 billion per month and will include the delivery of 255 new aircraft. Moreover, carriers have invested heavily to improve baggage handling. Improved DOT consumer statistics reflect that as well as improved on-time performance, reduced denied boarding rates and even lower customer complaint levels.

These are some of the tangible benefits of a more financially secure U.S. airline industry. We are not yet where we should be in comparison to typical business performance in our national economy but we are improving. That furthers the well-being of our customers, and others that depend on us – including our colleagues in the airport community.

AIRLINE-AIRPORT COLLABORATION HAS WORKED REMARKABLY WELL

U.S. airlines strongly support necessary airport improvement projects. We are in the midst of massive infrastructure investments across the country. This has occurred, we wish to emphasize, in close cooperation with airports.

This collaborative engagement has produced outstanding results. Since 2008, the 29 largest U.S. airports alone have started or completed over $52 billion in capital projects. They include new runways at Chicago-O'Hare, Washington-Dulles, Seattle and Charlotte airports; new international passenger facilities at Atlanta and Los Angeles airports; and new or substantially renovated terminals, including those at Miami, Las Vegas, Houston and San Francisco airports. Scores of runway and terminal projects have also been undertaken or completed at hundreds of airports in other communities – from Greenville-Spartanburg to Charleston, SC to Indianapolis to Portland, OR and elsewhere.

Also since 2008, U.S. airlines have invested more than $2 billion of their own capital in airport improvement projects, most notably at New York (JFK and LaGuardia), Los Angeles, San Francisco, Seattle, Houston and Boston, as well as at many other airports.

We have every reason to believe that this string of airport improvements will continue.

AIRPORTS ARE ALSO DOING WELL FINANCIALLY WITH AMPLE RESOURCES AVAILABLE

A variety of financial measures demonstrate that U.S. airports are doing well. They clearly have the wherewithal and the access to funding to respond to capacity demands today and in the foreseeable future.

The results are striking. U.S. airports collected nearly $24 billion in revenues in calendar year 2012, a record-high level. Airport revenues have increased 59 percent since 2000. (During the same period airline operations declined 12 percent.) This sum includes $9.5 billion in airline revenues and $7.8 billion in non-airline revenues (such as parking, food and beverage, and other retail sales). PFC collections exceeded $2.8 annually in 2013, rebounding to their highest level since Calendar Year 2007. The FAA forecasts that they will remain so in 2014. Airport Improvement Program funding, which is particularly helpful for more modest-size and general aviation airports, currently stands at $3.35 billion annually. Finally, U.S. airports have more than $10 billion in cash and unrestricted investments on their balance sheets.

These data portray a financially robust segment of the aviation industry. Firms that evaluate the airport community's financial health recognize that. Every U.S. airport that Standard & Poor's rates enjoys an investment grade rating and most are solidly in the A- to AA+ ranges. The same, unfortunately, cannot be said of the U.S. airline industry, despite its improving condition.

A4A MEMBERS SUPPORT DEMAND-DRIVEN FUNDING AND OPPOSE PFC INCREASES

Airlines will continue to work closely with the airports at which they operate to enable funding for demand-driven, financially-justified investments that enhance capacity and efficiency but keep airports affordable for both airlines and customers. Indications are clear that existing financing capacity for such projects will remain ample.

While the financial condition of the U.S. airline industry is recovering, current passenger levels are still lower than those of 2007, the all-time high, and flight operations as noted above have declined 12 percent since 2000. Moreover the FAA's forecast as to when the industry will reach the one billion passenger mark has slid almost 20 years from 2008 to 2027.[1] And according to the FAA, the 2007 level of aircraft operations at U.S. airports is not projected to be experienced again until 2033.[2] Thus, while airport improvement projects will continue to be necessary, the airport system in the United States will not be subject to unmanageable traffic growth.

The clear implication of this situation is that although airport infrastructure projects will be ongoing, they will be sustainable within existing revenue streams. This is a key point to understand. Airports are not confronting funding shortfalls or a constriction of funding sources.

Recent discussions about PFCs all-too-often suffer from a lack of understanding of the program's origin and objective. This is a shortcoming that impoverishes many of these discussions.

Congress created PFCs in 1991 to provide airports with an *alternate* (not the prime) funding source. Understanding the context of the origin of the program is crucial. It arose at a time when airlines often had the contractual right to approve or prevent airport capital projects and associated bond funding. PFCs were not intended to be the primary or exclusive source of capital-project financing. Congress did not intend that PFCs displace then-existing funding sources.

Bonds remain the primary source of funding for airport capital projects. Indeed, historically over 50 percent of airport projects have been bond-funded and that magnitude of reliance remains today. That, of course, is very understandable: Airports enjoy investment grade ratings and therefore economical access to the vast bond market. No U.S. commercial airport to our knowledge has been prevented from securing bond funding for an airport improvement project.

Furthermore, the bond market brings discipline to airport development scoping and encourages the pursuit of projects that are economically sustainable, thereby

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[1] Federal Aviation Administration, "FAA Aerospace Forecast Fiscal Years 2014-2034", at 96 (Table 5), http://www.faa.gov/about/office_org/headquarters_offices/apl/aviation_forecasts/aerospace_forecasts/2014-2034/

[2] *Id.* at 123 (Table 32).

discouraging unnecessary and inefficient projects. That outcome is clearly in the public interest.

Nevertheless, airlines are sensitive about the implications of bond funding. They repay bonds that an airport procures through their rents and fees. Airlines intentionally chose this payment mechanism because, while an expense, it avoids the harmful effect on demand that additional passenger taxes and fees produce.

The foregoing does not mean that the existing funding system cannot be enhanced. For example, we urge Congress to make permanent the tax-exempt status of airport bonds. In addition, the FAA's Privatization Program successfully used at San Juan and public-private partnerships (such as those being used for the LaGuardia Central Terminal Building and Dallas Love field modernization projects) are options as funding vehicles.

HIGHER AVIATION TAXES WOULD HARM AIRLINE CUSTOMERS AND THE NATIONAL ECONOMY

No new airport-related taxes should be imposed on airlines or the customers that we serve. Incontrovertible economic considerations dictate that.

Commercial aviation is vital to our nation's economy. It enables more than 10 million U.S. jobs and five percent of our national gross domestic product.

While these numbers are impressive, they must be viewed against the backdrop of the continuing difficulties afflicting the U.S. airline industry. After losing a staggering $50 billion since 2001, the U.S. airline industry has begun to recover over the past several years but with profit margins that continue to lag the Standard and Poor's (S&P) 500 average. As a result, the nine largest carriers entered 2014 with $72 billion in debt and, with one exception, non-investment grade credit ratings. In fact, the highest rated U.S. airline ranks with the lowest rated U.S. airports, all of which as we noted previously enjoy investment-grade credit.

Nonetheless, the nascent financial recovery allowed these carriers in 2013 to pay down $7.6 billion in debt and begin to lure more equity capital by returning cash to shareholders. Moreover, there is an important human element to this recovery. After a decade of sharp workforce reductions, U.S. passenger airlines saw employment grow 1 percent and wages and benefits rise 10 percent from 2010 to 2013. This progress in reinvesting in our people and products, along with rewarding shareholders, would be under pressure if higher taxes prevailed. Taxes and fees thus represent a continuing threat to this recovery.

Airlines and their customers paid over $19 billion in special taxes and fees in Fiscal Year 2013. In Fiscal Year 2015, this amount will exceed $20 billion with the increase of the TSA passenger security fee that will become effective July 1, 2014. That increase will mean a 125 percent increase on nonstop itineraries. Neither we nor our customers should be burdened with additional impositions.

There is nothing abstract about our opposition. A PFC increase would be a system-wide and permanent tax. Its repercussions would be substantial and ongoing. Every $1 rise in the PFC would cost passengers an additional $700 million annually; increasing the PFC to $8.00 or higher would cost in excess of $2.5 billion annually.

Increasing the PFC cap would consequently dampen passenger demand and travel and tourism, could imperil air service, particularly at small communities, and would undermine job creation in the commercial aviation industry. Like any other industry, costs – whatever their source – make a palpable difference to the airline industry. This was recently demonstrated in a February 2012 GAO report, which found that a 1 percent increase in the price of an airline ticket (including taxes and fees) would result in a 1.122 percent reduction in the quantity of airline tickets sold.[3] That is unmistakable harm.

A PFC increase would be bad economic policy and, as shown above, unnecessary to fund airport infrastructure improvements.

CONCLUSION

We have a winning formula that consistently provides needed airport infrastructure funding. It consists of close collaboration with airports; disciplined, demand-driven development of infrastructure projects; continued reliance on tried-and-true funding mechanisms; and avoiding encumbering airlines and their customers with additional taxes. We need to stick with that formula.

[3] General Accountability Office, "2012 Annual Report: Opportunities to Reduce Duplication, Overlap and Fragmentation, Achieve Savings, and Enhance Revenue", at 310 n. 13 (Feb. 28, 2012), http://www.gao.gov/products/GAO-12-342SP.



Statement of
Mark Reis
Managing Director,
Seattle-Tacoma International Airport
and Chair,
Airports Council International-North America
Before the
Committee on Transportation and Infrastructure
Subcommittee on Aviation
U.S. House of Representatives
June 18, 2014

Chairman LoBiondo, Ranking Member Larsen, and members of the Transportation and Infrastructure Subcommittee on Aviation, thank you for inviting me to participate in this important hearing. The airport community appreciates the opportunity to explain the state of airports and our significant but changing capital needs, and it is significant that both ACI-NA and AAAE are represented here today. Our two organizations are unified in our efforts on the upcoming FAA reauthorization, particularly when it comes to airport financing, so I am pleased to share this opportunity with our partner, Todd Hauptli.

I am the Managing Director of Seattle Tacoma International Airport (Sea-Tac). I am here today in my capacity as the Chair of Airports Council International – North America (ACI-NA), and am representing the view of the airport industry on behalf of the local, regional, and state governing bodies that own and operate commercial service airports in the United States. ACI-NA member airports enplane more than 95 percent of the domestic and nearly all the international airline passenger and cargo traffic in North America. More than 350 aviation-related businesses are also members of ACI-NA.

America's commercial airports are powerful job creators. Using data from more than 272 airport economic impact studies, a 2012 study found that U.S. commercial airports support nearly 10.5 million jobs, create annual payrolls totaling $365 billion, and produce an annual output of $1.2

trillion. These jobs have an enormous impact on each community airports serve, and I can attest to that because I can see that impact at Sea-Tac every day, where the airport's activity generates 138,000 jobs, including 90,000 direct jobs.

In response to the Subcommittee's request, I would first like to offer a brief overview of airport finance, as well as the sources and uses of airport revenues. Second, I will discuss the challenges airports face in meeting our capital and operating needs, and outline some suggested approaches to address these challenges.

The airport industry today is vastly different than what it was just a few years ago. As the aviation industry becomes more of a global marketplace and we see continued consolidation of the domestic airlines, airports have had to adapt business models to keep up with those changes. With these global influences, passengers are comparing airports to their counterparts outside the United States. We have been challenged to meet customer service demands and make capacity enhancements all while trying to keep airline rates and charges as low as possible. In the wake of industry consolidation, smaller airports and their communities are struggling to retain air service or attract new service. In this environment, airports are acutely aware of the ever-increasing pressure to keep airline landing fees and rental rates down. We have been challenged to meet customer service demands and enhance our facilities, while trying to attract new air service at competitive fares. Frankly, meeting these challenges remains a struggle for our industry.

U.S. airports lack the ability to raise the revenues necessary to meet our industry's current challenges. The federal airport financing model is overly complicated and unrealistic to sustain our industry in the long-term – especially given the scale of airports' future capital needs. Since the last increase of the locally set and collected Passenger Facility Charge (PFC) user fee in 2000, airports have been doing more with less. The reality is that we have hit a wall. Innovative financing and the generation of additional non-airline revenues has been a hallmark of the airport industry for decades, but given government restrictions we can no longer provide the means necessary to keep up with the demands of our aging facilities.

As you begin the process of writing a new Federal Aviation Administration (FAA) reauthorization bill, this Subcommittee and the Congress will have a significant impact on the future of financing for the airport industry. The options are difficult at best in the current federal funding

environment. I look forward to discussing those with you today. However, it is important to look first at the current major funding sources available to U.S. airports.

Airport Financing

Airport financing is complicated at best. Airports can access different funding streams, but each has its own restrictions. The first step to understanding airport financing is to know that all revenues earned at the airport have to stay and be reinvested at the airport. The FAA mandates that airports have to run like businesses and be as self-sustaining as possible. Each funding source for airports comes with its own restrictions which are either put in place by federal or local regulation or by tenant agreements. The airport industry is proud of its track record of being well run and innovative in this highly regulated environment.

In terms of federal funding, airports have access to the Airport Improvement Program (AIP), which is funded by passengers as part of the 7.5 percent ticket tax and segment fees assessed on airline tickets. For the past few years, Congress set the AIP at $3.3 billion, which is down from the $3.5 billion level between 2007 and 2011. AIP is mainly used for projects on the airfield. This funding is distributed to general aviation airports in a flat dollar amount, and to non-, small, medium and large hubs through an entitlement formula as well as discretionary grants. AIP truly serves as a lifeline for the non-hubs, small hubs and many medium size hub airports. However, funding for the program has declined over the past decade.

Sea-Tac's complete reconstruction of our center runway is a prime example of an AIP-eligible rehabilitation project. Even though innovative maintenance operations have enabled the airport to more than double the runway's original design life, these efforts are now achieving diminishing returns. After consulting with the FAA, we have launched a $99 million runway reconstruction project in 2015 to address safety concerns and minimize future cost escalation.

The most important source of airport funding is the Passenger Facility Charge user fee, which is set and collected at the local level but capped at the federal level. The PFC was created by Congress in 1990 to allow an airport to have a local financing option to meet the community's demands for increased airline competition and enhanced facilities. When it was established in 1990, the locally imposed PFC user fee was initially set at a maximum of $3.00 and, to date, has been increased only one time. In 2000, the PFC user fee cap was increased to $4.50. The PFC user fee has remained unadjusted for fourteen years.

These fees are paid by passengers to airlines when they purchase their ticket. The airlines then remit the fees to the appropriate airport, retaining 11 cents per PFC user fee collected. The majority of commercial service airports charge the maximum $4.50 PFC user fee. This financing tool has raised $41 billion for the entire industry since the creation of the program. PFC user fees can be used to fund terminal space used by airlines, capacity enhancements, and airside improvements. Furthermore, PFC user fees can be used to leverage bonds which are the most common vehicle by which airports finance infrastructure.

It's important to note that PFC user fees are local, not federal, funding. The federal government never touches the fees and the decision to charge a PFC is made by local airport governing bodies. While airlines and community stakeholders play a role in the PFC approval process, the decision about whether or not to charge a PFC user fee and use it as a funding source is truly a local decision. The end result industrywide is that more than 90 percent of PFC user fee applications are approved without opposition. This local financing option has worked well for the past 24 years. However, PFC user fees have not kept up with inflation. To provide airports the same PFC spending power today as we had in 2000, the PFC cap would need to be $8.50.

Sea-Tac will soon commence work on a $344 million new International Arrivals Facility, in which passengers will clear U.S. Customs and Immigration. Most of the project costs are PFC-eligible. This project is at the core of Sea-Tac's goal of doubling the number of international flights and destinations it serves. Rapid international air service growth has led to severe congestion, a situation that has become a competitive liability and barrier to future growth.

There is another important issue within airport financing that I want to highlight. In an environment of airline consolidation, the PFC user fee is necessary to allow price and service competition. Many airport-airline agreements contain provisions which give incumbent airlines the ability to delay or veto airport expansion projects. Airlines often exercise this provision when an airport seeks to create new capacity that may benefit a potential competitor. The PFC user fee was specifically developed to address this threat to competition. There are instances of the value of PFCs to facilitate airline growth and competition at airports across the country. For example, Buffalo Niagara International Airport expanded its terminal facilities to accommodate the growth of low cost carriers, a project funded by PFCs. As a result of that low cost carrier growth and the increased airline competition, air fares decreased by 28 percent.

As AIP funding has been cut in recent years and the PFC user fee has lost half its purchasing power, airports have increasingly used longer-term bond financing for projects. Bond proceeds are the largest sources of funds for airport capital needs, historically accounting for approximately 54 percent of the total capital funds. Depending on the nature of the project, airports can access municipal bonds that are fully tax-exempt, but subject to the Alternative Minimum Tax (AMT), or taxable. However, bonds must be repaid; bonds are not free money as some would lead you to believe.

Accessing the bond market requires long-term planning and is very much dependent on future revenues and reserves. Like any other municipality that issues bonds, airports must demonstrate sustainable future cash flows to repay additional debt. As part of our preparation for a new bond issue, we also must demonstrate how we will pay debt service if anticipated traffic were to decrease. Airports cannot simply access the market without careful financial planning. As a whole, the airport industry maintains excellent credit ratings. This allows us not only to access capital but also issue debt at lower rates. This translates into lower costs for our airline and other tenants and, ultimately, passengers. Make no mistake: there is a connection between credit ratings and lower costs that are passed on to the passenger.

Most airport bonds are repaid through general airport revenues or PFC user fees. In some cases, airports have PFC user fees pledged for 30 or more years to repay money being borrowed today or already borrowed. That's the case at McCarran International Airport in Las Vegas. The airport carefully planned the financing for their $2.4 billion new terminal, Terminal 3, designed to meet today's aviation demands for both domestic and international traffic. However, the unforeseen Great Recession and the downturn in traffic have limited the Capital Plan going forward that can be financed with debt.

As a result, the airport now has the PFC user fees they are collecting today pledged for the foreseeable future. Complicating the financing even further is McCarran's limited ability to include additional debt service in airline rates and charges. As a truly tourist destination market, McCarran has little leverage to pass along additional costs that would raise airline's cost per enplanement. Doing so would jeopardize the slight improvements the airport is seeing in returning service. Ultimately the fully pledged PFC user fees for debt service at McCarran offers very little flexibility to fund any new projects, including those that would enhance customer service.

As PFC and AIP spending power has eroded so significantly, airports have had to increase their reliance on two other sources to repay the debt required to fund necessary airport infrastructure. We are increasing our airline rates and charges – landing fees, terminal rents, etc. – which account on average across the industry for about 45 percent of airport revenue. We are also increasingly using the net income derived from non-aeronautical revenue sources like dining and retail concessions, parking, property leases, and other services.

Most airport projects are financed through a combination of funding sources. For a large hub like Sea-Tac, an AIP-eligible project will not be financed entirely by AIP. Many of those projects are simply too large. First, there is a local match that requires another source of funds. Second, for large projects, actual AIP funding received is far less than the full share eligible for federal funding. Therefore, we have to look at using a variety of funding sources.

As a large hub, we have more flexibility to work directly with our airline partners to meet their needs. At Sea-Tac, for example, we currently project we will spend as much as $2.5 billion on capital improvements over the next ten years. This program includes renovation of 40-year old concourses, seismic improvements, vertical circulation, additional gates, expansion of basic infrastructure, as well as the runway reconstruction and the new International Arrivals Facility I mentioned earlier. We will have to issue substantial new debt, but we have very limited incremental PFC capacity left. As a result, we will pay for that debt through higher airline rates and charges and spending down our cash reserves to the minimum we believe required.

The flexibility we have at Sea-Tac is not always afforded to my colleagues who run small airports. Small airports have similar costs to maintain their runways and taxiways like larger airports, but with fewer passengers, the costs of making those improvements and the constant need to modernize and keep up with building and facilities maintenance can be much more difficult to finance. That is why the AIP program has been a lifeline for small airports. However, as both the PFC spending power and the AIP program funding has declined, larger airports could seek more AIP discretionary funding and less could be available for small airports. U.S. airports were designed to operate as a system, where airports of all sizes work together to collectively meet the needs of the flying public. As you begin your work on FAA reauthorization, the airport industry requests that you provide both larger and smaller airports the means of meeting their financial needs.

Investing in Our Airports

According to a comprehensive capital needs study undertaken by ACI-NA which examined all projects, regardless of funding source eligibility, the airport industry as a whole has an estimated $71.3 billion in airport infrastructure needs over the next five years. This is a very large number, so it is important to break it down and explain the changing trends within the airport community. Capital needs included in this $71.3 billion are diverse and varied. They cover safety, security, rehabilitation and congestion-alleviating projects.

Airports need to spend an average of $13.4 billion every year. For the past few years, AIP has provided $3.2 billion, while PFC user fees equaled $2.8 billion in 2012. Together, AIP and PFCs provide airports roughly $6 billion a year to fund capital projects. U.S. commercial airports' annual debt service expense is $5.6 billion alone, far exceeding the $2.8 billion of PFC user fees collected in 2012.

Airlines argue the airports are flush with cash and, therefore, do not need the PFC user fee cap to be raised. That is simply not the case. A total of 388 U.S. commercial airports have $10.6 billion cash on hand. More than half of that amount, however, is tied to operating reserve funds, coverage accounts, contingency funds, and working capital needs. The remaining amount is committed to match AIP grant funding or to fund other projects. As a comparison, the four largest U.S. airlines alone reported a total cash balance of $22 billion at the end of 2013. I am not making a comparison of the airport and airline figures or questioning the appropriateness of the airlines' cash balances. My point only is that one cannot simply suggest a cash balance is too high without understanding its strategic purpose.

Allow me to provide several examples of the diverse array of projects that make up the $71.3 billion capital needs at airports.

In addition to the current six major "capacity enhancement" projects (critical airfield projects that contribute to the overall national airspace system), airports are modernizing terminal facilities to accommodate airline route and frequency growth, promote competition, expand baggage systems to meet current needs, and update facilities that were built as much as 50 years ago.

In the United States, the average airport facility is at least 40 years old. In order to keep costs down, airports have been taking a Band-Aid approach to facilities. Just as is true for highways,

airports can only apply so many Band-Aids to aging facilities. Furthermore, we are seeing increasing demands on airport infrastructure by the modernization of aircraft fleets as they increase size and move to more efficient technologies. Our old facilities, in many cases, have just not kept up with changing technology. Updating facilities is not cheap. For example, Dallas/ Fort Worth International is currently undergoing a $2 billion terminal renovation project to update 39 year old facilities to meet the demands of domestic and international passengers. And it has recently announced that it is projected that DFW will need to add yet another terminal to keep up with passenger and airline demands.

Runways and taxiways must meet FAA's appropriately high standards to maintain safe landing and takeoff surfaces for aircraft. Filling potholes is not an option. The basic maintenance of runways or taxiways is captured within the overall airport system's capital needs. In addition, the FAA has mandated the creation or extension of Runway Safety Areas (RSAs) to handle an overrun landing or rejected takeoff. At Oakland International Airport, a $94.6 million project is underway to enhance RSAs to comply with FAA regulations. This project is another part of that $71.3 billion in airport capital needs.

Often, airport capital needs are thought of as the needs of just the large or medium hubs. The need, however, extends to smaller airports as well. For example, Greenville-Spartanburg International Airport is currently undergoing a $125 million improvement project that will help modernize its facilities to accommodate new service entrants and the changing nature of the aviation industry to provide better service for the local community.

At my own airport, we are in the process of undergoing a major update of our baggage system, which will not only improve efficiency but also enhance security. Sea-Tac's current baggage system consists of six separate systems which have been added one to the other over the past fifty years. It is inefficient and requires duplicative Transportation Security Administration (TSA) baggage screening systems. The $317 million optimization program is an important step in building a single processing facility that will allow the airport to address current challenges, allow us to handle the anticipated 50% growth in passengers within the next decade, and very substantially reduce the cost of baggage screening by the TSA.

Meeting Airports' Needs and the Role of Congress

If we can all agree that we must address the need to provide adequate and sustainable airport capital funding – and surely we should all be able to agree that we cannot ignore the well-documented needs of such a critical component of our nation's infrastructure – then our focus should be on finding the solution.

Like so many other problems facing our country, the challenge for this Congress, airports, and our airline partners will be to find the solution that addresses the needs ***AND*** the solution that is practical and attainable in this environment. While modernizing the PFC user fee by restoring its purchasing power to $8.50 and indexing it to inflation is a possible solution, and indeed the one we believe is the best, most practical solution, it is not the only possible solution to this challenge.

If we do not modernize the PFC user fee, we could increase AIP funding. Increased AIP funding could be used to meet the urgent infrastructure needs of America's airports. While increasing AIP is certainly a theoretical option, we recognize the realities of the current budget situation facing this Committee and this Congress. We understand that it is simply not realistic for us to expect an increase in AIP funding sufficient to close the capital funding gap. Given the greatly diminished balance of the Airports and Airways Trust Fund, an adequately funded AIP program would require far greater use of general fund monies or a sizable increase in airline taxes. We recognize that not only is there little appetite or ability to significantly increase AIP funding, but that also the trend has been – as it is with many other federal programs – to see a decrease in federal spending.

To find the best solution to a challenge we must look beyond our borders and to the experience of other countries and other airports for ideas that could work here in the United States. For example, Canadian airports have implemented Airport Improvement Fees (AIFs) in order to fund needed airport construction and improvements. Similar to the PFC user fee, the fees are collected at time of ticketing and are reflected in the additional charges portion of the passenger's fare. However AIFs, unlike the PFC user fee, are uncapped, and the amount is locally controlled and set to meet a specific airport's needs. As a result, some airports in Canada charge upwards of $30 per ticket for each passenger. While adopting a model similar to the Canadian system is one alternative, we believe the PFC user fee can be modernized for a fraction of that cost.

By simply raising the PFC user fee cap by $4.00 and adjusting it to inflation, we can provide the lowest cost solution to keep American's airports modern and competitive. Modernizing the PFC user fee also provides the added benefit of increasing local control and putting decisions into the hands of local authorities. These local governing bodies are the entities most appropriate to determine what level of user fee is appropriate in their community. By choosing to modernize the PFC user fee, this Congress can ensure that our airports continue to be part of the engine of economic growth in communities across the country.

In Conclusion

Our colleagues in the surface transportation community struggle with financing projects because of a deficient trust fund. The airport industry does not want the aviation trust fund to be next. The Airport and Airway Trust Fund simply cannot handle the $71.3 billion in airport infrastructure needs. Airport infrastructure needs are real and significant. It is a looming crisis that Congress must address.

We realize that you face many challenges with respect to both funding and policy decisions as you begin working on a new FAA reauthorization bill. For the past 14 years, airports have done more with less, but we're at a breaking point. Continuing in that trend would mean many airports – especially the smaller ones and the fast-growing ones – may be unable to fund the projects critical to their communities. Furthermore, as your colleagues on other committees consider tax legislation, airports face losing access to low cost debt through possible changes in municipal and private activity bonds' tax-deductibility. With many airports maxed out with debt, increasing the PFC user fee is the only solution.

Airports need a modernized PFC that will help maintain our facilities, improve safety, and be able to offer our communities the lowest-cost service options. This, coupled with adequate funding for AIP, will put the airport industry back on track to meet service demands and to serve as economic engines for communities across the country. We look forward to working with the members of the Aviation Subcommittee and our industry partners to ensure a strong airport and aviation system.

NBAA

Statement of Ed Bolen
President and CEO

National Business Aviation Association

Before The
Subcommittee on Aviation

Committee on
Transportation and Infrastructure

U.S. House of Representatives

June 18, 2014

Statement of Ed Bolen
President and CEO
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Chairman LoBiondo, Ranking Member Larsen, members of the subcommittee, on behalf of the more than 10,000 Member Companies of the National Business Aviation Association (NBAA), I am pleased to provide our views for this important hearing on "Airport Financing and Development."

Before detailing my comments about America's airport system, it might first be useful to describe what business aviation is, and the role airports play not only for NBAA Member Companies, but for the nation as a whole.

As the members of this subcommittee know, the aviation system is made up of three, fully integrated segments, each critical to the success, strength and growth of our economy. Those are:

- The passenger airlines;
- Military operations, and;
- General aviation.

As part of the general aviation segment, business aviation is a term defined by the Federal Aviation Administration (FAA) as the use of any general aviation aircraft – piston or turbine – for a business purpose. This includes a diversity of operations, from small and mid-size businesses, to companies that are household names.

The business aviation fleet is dominated by pistons and turboprops, with over 80 percent of the business aircraft in the U.S. having cabins about the size of an SUV, and flying on average less than 1,000 miles per leg. The vast majority of these operators use small aircraft that seat no more than eight people. Supporting these aircraft, and the organizations that rely on them, are Fixed Base Operators (FBOs), maintenance technicians, suppliers and service providers.

Business aviation is a vital link in our transportation system, and a powerful engine for job creation and economic growth. The industry contributes more than $150 billion to annual U.S. economic output, and directly or indirectly employs more than one million people.

Most business aircraft operating around the world are manufactured and/or completed in the U.S., and the industry's strong American manufacturing and employment base contributes positively to our nation's balance of trade.

A Vital Lifeline for Main Street

In communities across America, business aviation is an essential tool that enables businesses to thrive, grow and create jobs in their hometowns. That's because in many instances, there are few or no other transportation options that meet their needs.

Many small and mid-size businesses are located in areas with little or no scheduled airline service. Businesses of all sizes require in-person travel for such operations as sales, technical support and other types of customer service. Such trips may call for multiple stops in a short period of time, or travel to remote locations. Frequently, the distances are too long to drive, or airline service is not available. And often, workers need to optimize the productivity of their travel time, even including sustained contact with colleagues at headquarters while in flight. And when these and other needs must be addressed, business aviation provides the solution.

A Competitive Tool for American Businesses

For example, a survey of business aviation pilots and passengers, conducted for NBAA and the General Aviation Manufacturers Association by Harris Interactive, concludes that managers, technical teams and other employees are the typical passengers on business aircraft – not senior executives. The business airplane gives these employees the ability to have an in-person presence that is often fundamental to a company's success.

Respondents to the Harris survey also reported that employees use their time onboard company aircraft more effectively and productively than when they are on airline flights. Workers can meet and collaborate, and on many aircraft, communications technologies let passengers stay in contact with the home office while in flight. Some passengers even estimate that they are more productive on the company aircraft than they are in the office, because of fewer distractions.

Multiple studies have shown that America's most innovative and admired companies, and the nation's best corporate citizens and most-trusted brands, are business aviation users.

Simply put, the use of a business airplane is the sign of a well-managed company – like a Smartphone or a tablet device – business aviation helps companies be more efficient, productive and successful.

A Lifeline in Emergencies

Business aviation is not only essential to communities and companies – it also provides critical assistance to individual citizens in crisis.

The people and companies in the industry have snapped into action when there's a need to confront hurricanes in the Southeastern U.S., floods or tornadoes in the Midwest, fires in the West, or a host of other natural disasters. The business aviation community – working mostly on a volunteer basis – has always been quick to help assess damage, rescue those affected by these disasters, and carry in life-saving support and supplies to the affected regions.

For example, in the days and weeks following Hurricane Katrina, hundreds of thousands of pounds of supplies were transported into small airports throughout the Gulf Coast region aboard business aircraft. These aircraft also were used to transport victims out of harm's way.

The industry's humanitarian efforts even extend beyond our own shores. Hundreds of business aircraft operators, including a number of NBAA Member Companies, coordinated to deliver thousands of passengers and over a million pounds of supplies to and from Haiti after the devastating earthquake there. In fact, Congress passed a resolution commending business aviation for its response to the crisis.

Beyond the support business aircraft operators bring to crisis-response initiatives, the people and companies using the aircraft also provide lift for a host of standing organizations dedicated to helping individual citizens on a daily basis. Here are just three examples:

- The Corporate Angel Network, which counts NBAA Member Companies among its supporters, arranges free air transportation for cancer patients traveling to treatment using the empty seats aboard business airplanes.

- Angel Flight America's seven member organizations and 7,200 volunteer pilots arrange flights to carry patients to medical facilities.

- Veterans Airlift Command uses business airplanes and unused hours of fractional aircraft ownership programs to provide free flights for medical and other purposes for wounded service members, veterans and their families.

Clearly, business aviation is an essential industry in America today. From creating growth opportunities and global connectivity for America's small towns and rural areas, to supporting the nation's productivity, to providing lift for humanitarian initiatives, business aviation plays a critical role in the nation's aviation system, and the country's broader transportation network.

An Industry That Understands The Importance of Airports

We commend the members of the subcommittee for your continued commitment to our nation's aviation system. Aviation is critical to our economy – it is the backbone for our domestic and international commerce, contributing to our economy, our mobility and our ability to compete around the globe.

As the members of this subcommittee are well aware, airports are a key component in our aviation system, and they are a very important element in business aviation operations. There are about 5,000 public-use airports in the U.S., and business aircraft are able to fly into most of them. Business aviation relies heavily on secondary and tertiary airports. In fact, business aircraft flights account for just a single-digit percentage of the total traffic at the busiest airports used by the commercial airlines.

It's worth noting that these smaller airports don't just benefit business aviation. Local airports serve a critical role in supporting flights for schools, universities, agricultural services, emergency medical services, postal services, fire and rescue teams, law enforcement, and other services.

The airports are also local economic engines, bringing people and goods from communities to national and global markets, stimulating local economic growth.

The airports even provide an important homeland-security function. As the members of this subcommittee well remember, small airports were essential in the government's work to get all aircraft safely and quickly on the ground in the immediate aftermath of the terrorist attacks of September 11, 2001.

So, we in business aviation know first-hand that a continued investment must be made in our nation's airports, to ensure they have not only the capacity and other capabilities to meet today's needs, but to handle tomorrow's requirements as well. That's why NBAA and its Members appreciate this subcommittee's decision to conduct this hearing, focused on airport financing and development.

Supporting Airports: Three Key Points

We want to raise three essential points when discussing our nation's airports:

1. First, we must maintain a healthy funding mechanism for airports of all sizes to meet changing demand, aircraft size, and important safety and efficiency improvements.

2. Second, we must ensure our system of airports meets critical national objectives, including a productive national economy and other priorities.

3. Third, and finally, we must continue supporting all airports, at the federal level, as part of a single, national aviation-transportation system, and oppose any attempts to impose locally driven restrictions that would impede businesses, economic growth and other priorities in the national interest.

To the first point: In order to ensure the future of general aviation, we need to make certain that our robust, national investment in our world-leading airport system continues. It's an investment that provides an incredible return – after all, the U.S. has the largest and most diverse system of general aviation airports in the world. It was created and is maintained because of the strong federal commitment through the Airport Improvement Program (AIP).

The concept of a federally funded airport development program has been around since the end of World War II, meaning that our nation has a proud history, tracing back more than 65 years, of understanding the need for federal investment in airport development.

AIP's broad objective, like that for its predecessor programs, is to ensure an ongoing investment in a nationwide system of public-use airports adequate to meet the current needs and the projected growth of civil aviation.

To meet its broad objective, AIP provides grant funding for airport planning and development projects at airports included in the National Plan of Integrated Airport Systems (NPIAS), and is a means to advance major national goals, equalize income and services among people and localities, and provide an effective, efficient means for administering services. Through a healthy AIP, federal, state and local governments have invested in a safe and efficient system of airports. We strongly support continuing that commitment.

Let me turn to my second point: ensuring that our system of airports meets national objectives, including economic growth and other priorities. As all of you know, transportation systems are created to connect communities, people, and businesses, which supports not just commerce, but other critical functions as well.

Like other modes of transportation, airports big and small are economic engines for communities, encouraging business investment and creating opportunities for economic growth. Unfortunately, in certain regions of the country, critical airport infrastructure is being shuttered, or attempts are being made to close important airports, even when federal investments and assistance have been provided to ensure these airports meet national economic and other priorities. That can't be allowed to happen: the American taxpayers have paid for those investments, through the Airport and Airway Trust Fund. Funding commitments are made based on an established understanding that a given airport will remain in operation, and such a commitment needs to be upheld.

More broadly, we should not be disinvesting in our overall aviation infrastructure at a time when the FAA estimates that the national cost of airport congestion and delays was almost $22 billion in 2012. Instead, we strongly believe FAA and Congress should take all necessary steps to protect and maintain both general aviation and commercial service airports in our aviation system, particularly airports that are critical to the transportation system and which help air transportation contribute to a productive national economy and international competitiveness.

And, given that we view our system as a national one in terms of funding decisions, it also stands to reason that we should view it as a national one when it comes to operational matters. Simply put, we must continue supporting all facilities, at the federal level, as part of a single, national aviation-transportation system.

We strongly believe that airports should be good neighbors and should work with communities to maintain a balance between the needs of aviation, the environment and the surrounding residences. However, over the years, attempts have been made to create new restrictions and impediments for aviation users through airport curfews and other local initiatives to restrict access to airports.

Specifically, curfews and other restrictions have the significant potential to impede business mobility. How? Consider the notion of a curfew, applied to a very typical scenario, in which entrepreneurs and companies arrive on business airplanes from other countries, into an airport, like California's Burbank. Those flights often have departure times imposed upon them from authorities outside the U.S. and therefore, do not have complete control over their arrival times. Even domestically, departure and arrival times are often subject to weather delays, holding patterns and other developments that can impact schedules.

Unfortunately, such scenarios could have easily become realities if a congressional noise-curfew amendment, introduced for implementation at Burbank earlier this month, had become law. While the outcome of the vote on the amendment affirmed the need to keep all airports operating as part of a national system, the proposal was a reminder that there are ongoing attempts from local interests to compromise the national nature of our aviation system. It is imperative that all airports be operated as part of a single, national aviation-transportation system, not a patchwork quilt of operating policies, based on isolated local issues.

Conclusion

When thinking about the importance of our nation's airports, a couple of realities are clear. We must continue to invest in our airports, so that they can meet the needs of today and tomorrow, and that means funding must be available to make that investment, through the AIP. We must ensure our system of airports meets critical national objectives, including a productive national economy and other priorities. And, we must continue to recognize that all airports are part of a national

system that requires a national approach to funding and operational policy – not an approach based on local interests or pressure groups.

One of our nation's greatest strengths is the size, diversity, efficiency and safety of our aviation system, and the members of this subcommittee understand the central role of America's national airport network in that system. NBAA and its Member Companies thank the subcommittee for recognizing the importance of this asset, and for conducting this hearing today to ensure that our airports continue to be a national priority.

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