



**ALA**  
*Representing America's Airport System*

**Testimony of  
Charles M. Barclay, A.A.E.  
President,  
American Association of Airport Executives  
on Behalf of  
the American Association of Airport  
Executives  
and the  
Airport Legislative Alliance**

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Before the  
Subcommittee on Aviation  
Committee on Transportation and Infrastructure  
U.S. House of Representatives  
March 28, 2007**

Chairman Costello, Ranking Member Petri and members of the House Transportation and Infrastructure Subcommittee on Aviation, thank you for inviting me to participate in this hearing on the Administration's proposal to reauthorize the Federal Aviation Administration's Airport Improvement Program. I am testifying today on behalf of the American Association of Airport Executives (AAAE) and the Airport Legislative Alliance (ALA).

AAAE represents the thousands of men and women who manage primary, commercial service, reliever and general aviation airports throughout the country. The ALA, representing America's airport system, is comprised of airports of all sizes from across the country that have come together to address federal legislative and regulatory matters on behalf of the industry. A roster of ALA members is included at the end of my testimony.

As we begin the debate on the next FAA reauthorization bill, I would like to thank the members of this subcommittee who played a role in the last two FAA reauthorization bills: H.R. 1000, the Wendell H. Ford Aviation Investment and Reform Act for the 21<sup>st</sup> Century (AIR-21) and H.R. 2115, Vision 100 – Century of Aviation Authorization Act. During consideration of those two bills, lawmakers agreed to increase the cap on Passenger Facility Charges (PFCs) from \$3.00 to \$4.50 and steadily increase AIP funding from approximately \$2.5 billion in Fiscal Year 2000 (FY00) to \$3.7 billion in FY07.

The aviation system has faced many challenges since Congress passed AIR-21 seven years ago. Despite the temporary downturn that occurred after September 11th, passenger levels, flight delays, airport capital needs and construction costs continue to rise. To help airports keep pace with increasing capacity and financial demands, we urge you to increase the PFC cap to \$7.50 and index it for increasing construction costs. We also urge you to increase AIP funding to \$3.8 billion in FY08, \$4.0 billion in FY09 and \$4.1 billion in FY10. By continuing the trend of increasing funding for airport capital development projects established in AIR-21 and Vision 100, this subcommittee can help to improve safety, increase capacity and reduce delays at airports around the country.

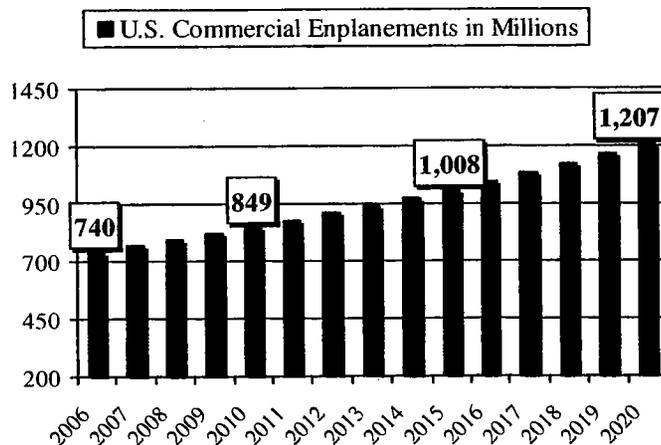
In addition to increasing funding for airport capital development projects, another top priority for AAAE and the ALA is to help small communities that are struggling to retain and attract new commercial air service. During consideration of AIR-21 and Vision 100, this subcommittee extended a helping hand to small communities suffering from infrequent air service and high airfares. We look forward to working with you to build on those successful efforts during consideration of the next FAA reauthorization bill.

### **Increasing Demand, Delays and Airport Capital Needs**

**Increasing Demand:** The FAA recently released its Aerospace Forecast for 2007 to 2020. The forecast indicates that the number of passengers flying in the United States was about 6.2% higher at the end of 2006 than it was before the terrorist attacks on 9/11. The FAA is also predicting that passenger enplanements will increase from approximately 740 million in 2006 to more than one billion passengers in 2015 and more than 1.2 billion by 2020 at average annual increase of 3.5%.

### **Increasing Passenger Demand**

(Source: FAA Aerospace Forecast 2007-2020)



These projected increases mean airports around the country must prepare for a major influx of passengers in the next several years. According to the FAA’s Terminal Area Forecast, passenger enplanements are expected to increase from by 37.2 million in 2006 to 53.6 million in 2020 at Chicago’s O’Hare International Airport – a 44.2% increase. At the Minneapolis-St. Paul International Airport, passenger enplanements are expected to increase 17.2 million to 27.4 million during the same time frame – almost a 60% increase. At the Orlando International Airport, passenger levels are expected to jump 48.2% from 16.9 million in 2006 to more than 25 million in by 2020. And the passenger levels at the General Mitchell International Airport in Milwaukee are projected to increase from about 3.5 million passengers to 6.7 million passengers – a 92% increase.

Passenger traffic between the United States and the rest of the world is also rising. Secretary of Transportation Mary Peters commented on increasing international

passenger demand at the FAA Aviation Forecast Conference, which was cosponsored by AAAE, on March 15, 2007.

“As domestic travel takes off, international traffic is growing at even faster clip, especially in the Asian-Pacific and Latin American markets,” Peters said. “While the final numbers are still coming in, we estimate that 2006 will mark the first time passenger levels on international flights to and from the United States will have surpassed pre-9/11 levels. Our forecast anticipates international passengers travel doubling by 2020 – jumping from 141.5 million passengers to an amazing 274.7 million passengers.”

The demand for air cargo is also growing. The FAA is predicting that total Revenue Ton Miles – or the measurement of moving one ton of cargo one mile – will increase from 39.7 billion in 2006 to 81.3 billion in 2020. This is an average of 5.3% per year. To handle that increased load, the number of cargo aircraft is expected to increase from approximately 1,000 in 2006 to 1,468 in 2020, which is an increase of 47.2%.

More regional jets and Very Lights Jets (VLJs) will be filling the skies, too. The FAA is predicting that the number of regional jets will increase from 1,687 in 2006 to 2,689 by 2020, an average annual increase of 3.4% per year. The agency also expects 350 VLJs will join the fleet next year and increase by 400 to 500 per year through 2020. In other words, approximately 5,000 VLJs will be operating by 2017.

***Increasing Operations:*** As the numbers of passengers, cargo and aircraft increase so do operations at airports around the country. During the recent FAA Forecast Conference FAA Administrator Marion Blakey said, “The looming spike in passengers that’s in our Forecast report will fuel a nationwide increase in takeoffs and landings by 2020. In turn some key hubs will see a significant ramp-up in their operations.”

Overall, the number of take-offs and landings at the nation’s towered airports will increase dramatically from 62.5 million in the current fiscal year to 81.1 million by 2020. According to the FAA’s Terminal Area Forecast, operations are expected to increase by 68.3% at Washington Dulles International Airport between now and 2020 and by 59.5% at New York’s John F. Kennedy International Airport. Operations at Los Angeles International Airport are expected to increase by 53.9%, and by 37.7% at Hartsfield-Jackson Atlanta International Airport.

“As more planes carry more passenger and cargo, FAA and contract towers will need to handle an average of 1.4 million more U.S. operations each year between now and 2020,” Secretary Peters said. “To put this number in perspective, imagine adding twice the traffic at Dallas-Fort Worth airport into the system every year.”

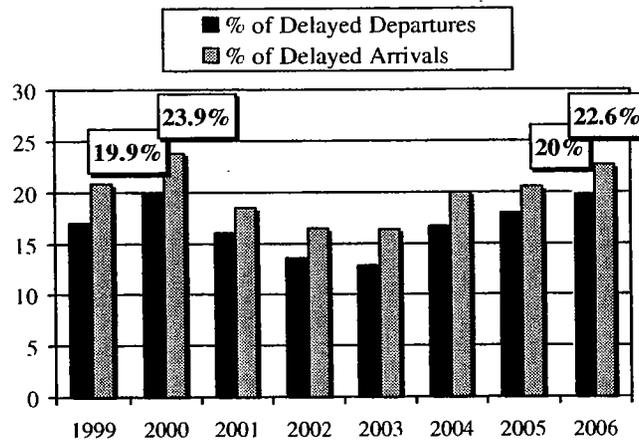
***Increasing Delays:*** Flight delays are also on the rise. According to the Bureau of Transportation Statistics (BTS), 22.6% of all flights between January and December of 2006 arrived at their gates 15 minutes or more after their scheduled arrival time. That’s a 2.1% increase from 2005, and it’s nearly as high as the record delays that occurred in 2000 when 23.86% of all flights arrived at their gates behind schedule.

“As we speak, delays are mounting due to congested airports and airspace,” Secretary Peters said. “They cost our economy \$9.4 billion in productivity as passengers wait at airports for hours.”

BTS also tracks the number of flights that leave their gates on-time. Between January and December 2006, almost 20% of all flights left their gates 15 minutes or more after their scheduled departure time. That’s more than a 2% increase from the previous year and it’s even higher than the delays that occurred in 2000 when 19.9% of all flights left their gates late. In other words, delays measured in both arrivals and departures are close to or have actually exceeded the 2000 levels when one in four flights was delayed cancelled or diverted.

### Increasing Number of Delays

(January to December/Source: BTS)



**Increasing Airport Capital Needs:** As the number of passengers and aircraft in the aviation system increase, airport capital needs continue to rise. In 2004, the FAA issued a report entitled, “Capacity Needs in the National Airspace System.” The report examined which of the busiest 35 airports in the FAA’s Operational Evolution Plan will be able to meet future demand. It indicates that plans to increase capacity at 15 airports “are not enough to keep up with projected levels of demand” by 2013. By 2020, “18 airports are identified as likely needing additional capacity.” Given the time it takes to bring airport infrastructure projects to completion, it is critical that we act now to address this situation.

Late last year, the FAA also released its National Plan of Integrated Airport Systems (NPIAS) for 2007 to 2011. The report indicates that there will be \$41.2 billion of AIP-eligible projects during the next five years – or approximately \$8.24 billion per year. This is 4% higher than the \$39.5 billion that FAA estimated for AIP-eligible construction projects for 2005 to 2009. Additionally, in its letter of transmittal of the draft bill, referring to the four percent increase over the previous report, the Administration states, “we believe that this figure is understated.”

The NPIAS identifies 3,431 airports that are eligible to receive AIP grants. According to the report, 27% of the planned development is to bring airports up to current design standards, and 21% is for capacity-related projects. Another 17% of the planned development is for replacing or rehabilitating airport facilities such as pavement and lighting systems.

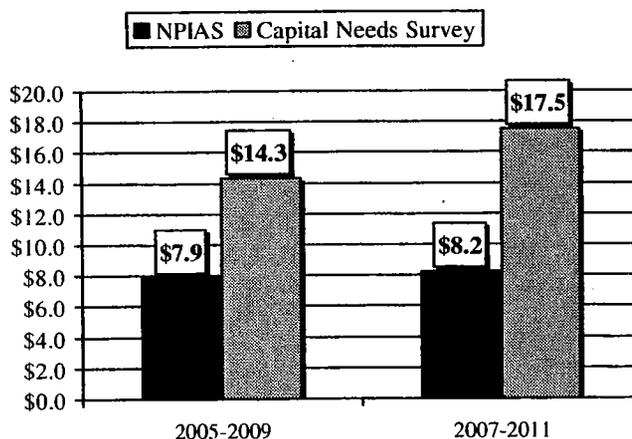
Airports rely on a number of sources for airport capital development projects. The overwhelming majority of funds come from airport bonds, AIP and PFCs. However, the FAA acknowledges in the report that “the NPIAS includes only planned development that is eligible to receive Federal grants under the AIP....It does not include development eligible under the passenger facility charge program but ineligible under the Federal grant program, such as gates and related areas.”

The Airport Capital Development Needs Survey, prepared by Airports Council International-North America (ACI-NA), also indicates that airport needs are on the rise. The preliminary results of the latest survey indicate that airports will need \$87.5 billion between 2007 and 2011 – approximately \$17.5 per year. That represents about a 20% increase from ACI-NA’s previous survey that estimated airports would need approximately \$14.3 billion per year between 2005 and 2009.

Unlike the NPIAS, the Airport Capital Development Needs Survey includes projects that are AIP-eligible *and* those that airports intend to fund with other revenue including PFCs and airport bonds. It is my understanding that the increase in the latest survey is due to increasing capital requirements and rising construction costs. According to the January 1, 2007 Means Construction Cost Indexes (CCI), the average construction costs for 30 major U.S. cities have jumped more than 24% in the past three years – at an average annual rate of more than 7.5%.

### Airport Capital Needs

(Sources: FAA NPIAS and ACI-NA Airport Capital Development Needs Survey)  
(Dollars in Billions)

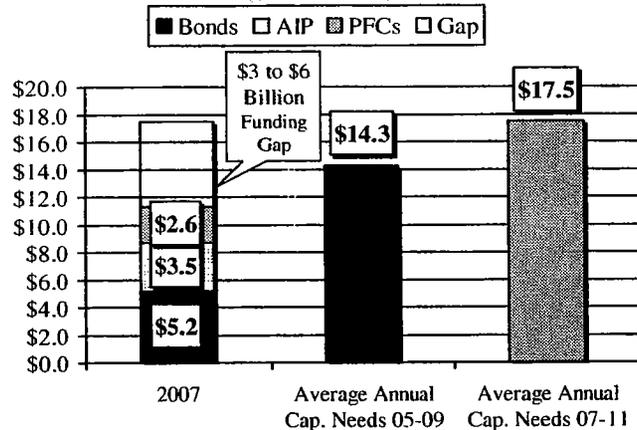


The Airport Capital Development Needs Survey also reveals that there is a sizeable gap

between airport needs and the revenue that is available for capital development projects. On average airports issued about \$5.2 billion in new bonds per year during the past five years. That amount coupled with the \$3.5 billion that Congress recently approved for AIP in FY07 and the \$2.6 billion that the FAA expects will be generated from PFCs this year totals about \$11.3 billion. The total of primary funding sources, which does not include the local match or other airport revenue, is about \$3 billion short of the previous estimate of airport capital needs for 2007 and slightly more than \$6 billion below the most recent survey.

### Primary Funding Sources vs. Airport Capital Needs

(Source for Airport Capital Needs: ACI-NA)  
(Dollars in Billions)



**The Solution: Provide Airports with the Resources They Need to Accommodate Increasing Demand and Skyrocketing Construction Costs**

The FAA and Department of Transportation (DOT) should be commended for highlighting the need for a Next Generation Air Transportation System (NextGen). Although there may be strong disagreement on how best to pay for transforming the national air transportation system, there is wide agreement on the need to move from a ground-based to a satellite-based navigation system. This is another airport priority, and I am pleased that AAEE is working closely with other aviation stakeholders to develop a plan on how to implement NextGen and avoid congestion in the aviation system.

As I mentioned previously, the passenger level is expected to increase from 739 million to 1 billion seven years from now. That is the equivalent of adding the entire population of the U.S. on to an already delayed, already constrained system. While many are understandably focusing on the need to implement a satellite-based navigation system to reduce congestion in the skies, we should not lose sight of the need to increase capacity and reduce congestion on the ground.

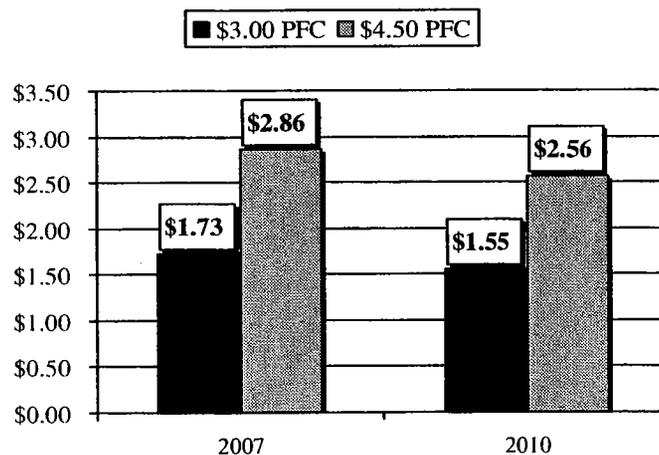
In an effort to be build the infrastructure necessary to accommodate increasing demand and to offset the impacts of skyrocketing construction costs, airport executives are urging Congress to raise the cap on PFCs, increase AIP funding and reduce the costs of airport bonds.

**Increase the PFC Cap:** The Aviation Safety and Capacity and Expansion Act of 1990 included a provision that has allowed airports to impose a local fee of up to \$3 on passengers boarding aircraft at their facilities. AIR-21, which Congress passed in 2000, included a provision that allowed airports to increase that amount to \$4.50. Money generated from PFCs augments AIP funding and other sources or revenue that airports use for a variety of purposes including building new runways, taxiways and terminals as well as paying for debt service.

Last year, airports collected about \$2.4 billion from PFCs. Unfortunately, however, the value of PFCs has eroded over time due to inflation and increased construction costs. When you factor in the Consumer Price Index, a \$3.00 PFC in 1990 is expected to be worth only about \$1.86 in 2007, and a \$4.50 PFC in 2000 is expected to be worth about \$3.10.

The picture gets even worse when you examine the increasing construction costs, which provides you with a more accurate picture of the costs associated with airport construction projects. In that case a \$3.00 PFC in 1990 is expected to be worth only about \$1.73 in 2007, and a \$4.50 PFC in 2000 is expected to be worth only \$2.86 in 2007. Unless corrective action is taken, the value of PFCs will erode even more by 2010 when a \$3.00 PFC is expected to be worth only \$1.55, and a \$4.50 PFC is expected to be worth only \$2.56.

### Erosion of PFC Value Due to Increasing Construction Costs



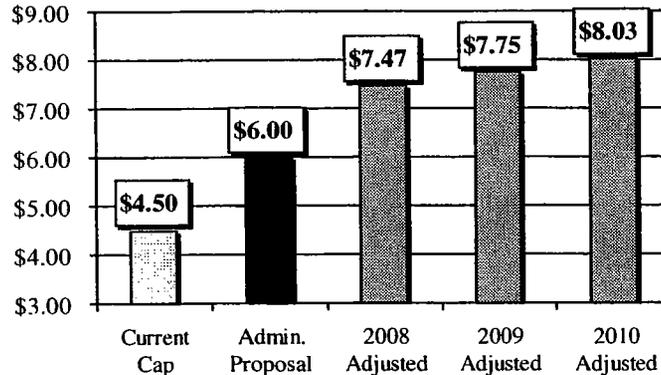
Conversely, a \$3 PFC in 1990 would need to be adjusted to \$4.77 in 2007 to offset the impact of inflation, and a \$4.50 PFC in 2000 would be need to be set at approximately

\$6.58. If adjusted for increasing construction costs, a \$3 PFC would need to be set at \$5.21 in 2007, and a \$4.50 PFC would be \$7.20.

Airport executives commend the Administration for calling for a PFC increase. Its proposal to increase the cap to \$6.00 is an encouraging step in the right direction. According to the FAA, raising the cap by an additional \$1.50 could allow airports to generate an additional \$1.2 billion per year. That would help close at least some of the gap between airport capital needs and the amount of revenue that is currently available for airport capital development projects. But it is not enough.

It is not enough to close the funding gap especially when the Administration is simultaneously proposing to cut AIP spending by almost \$1 billion from the authorized level. And it is not enough to keep up with inflation or increasing construction costs. By 2010 – the final year in the Administration’s FAA reauthorization proposal – a \$4.50 PFC would need to be raised to \$7.14 to keep up with expected inflation and to \$8.03 to keep up with the anticipated increase in construction costs.

### **Administration’s Proposal vs. Adjusting PFCs for Increasing Construction Costs**



Airport executives are asking Congress to take the next step and raise the PFC cap to at least \$7.50. That would be enough to offset the expected impact of inflation over the next three years and the projected increased construction costs in 2008. To prevent further erosion of PFCs, we also ask you to include a provision in the next FAA reauthorization bill that would index PFCs to account for increasing construction costs.

Some may suggest that raising the PFC cap by \$3.00 is too much of an increase at one time. However, I would point out that this committee and the House of Representatives approved a proposal to raise the PFC cap from \$3.00 to \$6.00 in 1999 – a \$3.00 increase – almost eight years ago during consideration of AIR-21. Unfortunately, the Senate version of the bill did not include a similar increase, and the final version of FAA reauthorization bill only increased the cap to \$4.50. If the \$6.00 cap had been enacted

into law and had that cap been adjusted for increased construction costs during the past seven years, the PFC cap would be more than \$8.00 today.

Mr. Chairman, I know some members of this committee have expressed concerns about how much PFC revenue airports are using for airside capacity-related projects. According to the FAA, approximately 32% of PFCs approved in FY06 are going to be used for airside projects. This is about \$1.4 billion that airports will use for capacity projects such as building new runways, taxiways and aprons.

Airports – including the 35 busiest airports in the FAA’s Operational Evolution Plan – rely on PFCs for airside projects to enhance capacity at their facilities. Airports also use PFC revenue for debt service on those airside projects. The Hartsfield-Jackson Atlanta International Airport, the world’s busiest airport, opened its fifth runway last year. According to the FAA, the airport used about \$542 million in PFC revenue and another \$341 million in PFCs for debt service for its runway project. The airport issued a press release in 2005 that said the new runway is “expected to save the airlines about \$5 million per week in operating costs by cutting aircraft delays at Hartsfield-Jackson in half.”

Chicago’s O’Hare International Airport used \$651 million in PFCs for the first phase of its modernization program and another \$600 million in PFCs in debt service for a total of \$1.25 billion for that huge capacity project. The Minneapolis-St. Paul International Airport used \$444 million in PFC revenue to construct its new runway, which opened in 2005. The airport also used another \$135 million in PFCs for debt service. Overall, almost 80% of the revenue for that runway project came from PFCs.

Other OEP airports that have built runways recently include the Cincinnati-Northern Kentucky International Airport, which used \$106 million in PFCs for a new runway and an additional \$145 million in PFCs for debt service for a total of \$251 million. According to the FAA, the Lambert-St. Louis International Airport used \$330 million in PFCs for its runway that opened last year. It also used an additional \$427 million in PFCs for debt service for a total of \$757 million. Overall, 15 OEP airports have used more than \$4.6 billion in PFCs to help build new runways and increase capacity.

It is true that airports use PFC revenue for landside projects and for noise mitigation. It is important to note, however, that terminal-related projects are often necessary to accommodate increasing passenger loads and to increase capacity on the landside. Airports also use PFC revenue on the landside for security-related projects and to increase competition by building more gates. Increasing competition among air carriers has been a fundamental tenant of the PFC program since it was created. Reducing noise has also been a primary purpose of the PFC program, and it is directly related airside capacity. Airports often use PFCs to mitigate aircraft noise in order to receive approval to build new runways and other capacity enhancing airside projects at their facilities.

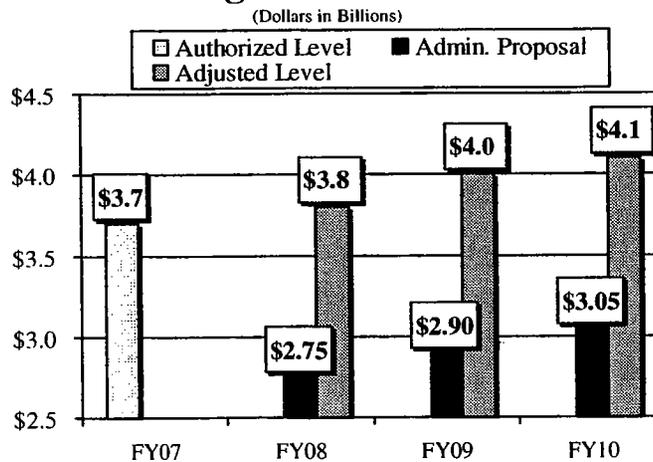
***Increase AIP Funding:*** In addition to raising the PFC cap, airport executives are asking Congress to increase AIP funding. AIP is an important source of funding for all sizes of

airports. According to the FAA, AIP funding counted for 51% of capital expenditures for small hub airports in FY03, 94% for non-hub airports and 89% for nonprimary commercial service airports. Large and medium hub airports also depend on AIP funding -- particularly money distributed through the Letter of Intent Program (both entitlement and discretionary funds) to help pay for large capacity projects.

Given the increasing demand, inflation and construction costs, airport executives are dismayed that the Administration is requesting only \$2.75 billion for AIP in FY08. This is approximately \$1 billion less than the amount Congress authorized in FY07 and \$765 million less than the appropriated level. The Administration is proposing to increase AIP to \$2.9 in FY09 and \$3.05 in FY10. However, even the highest proposed level would be \$150 million less than the amount that Congress authorized for AIP six years ago. We cannot afford to take such an enormous step backward in terms of critical AIP funding.

We urge this subcommittee to reject the Administration's proposal to drastically cut AIP funding and roll back the progress made in AIR-21 and Vision 100. Instead we urge you to continue to increase AIP funding as Congress did in the previous two FAA reauthorization bills. At the very least, we urge you to increase AIP funding so that the program will keep up with increased construction costs. Doing so would translate into \$3.8 billion for AIP in FY08, \$4 billion in FY09, \$4.1 billion in FY10, and \$4.3 billion in FY11.

### Administration's Proposal vs. Adjusting AIP for Increasing Construction Costs



**Reclassify Airport Bonds:** The largest source of funding for capital development projects at airports is generated from airport bonds. Large airports particularly rely on the bond market to finance capital development projects at their facilities. In 2006, airports used approximately \$3.9 billion in new bonds to finance capital development projects at their facilities. Over the past five years, airports issued an annual average of \$5.2 billion in new bonds.

Unfortunately, federal tax law unfairly classifies more than 60 percent of airport bonds as private activity bonds even though they are used to finance runways, taxiways and other critical facilities that benefit the public. Since private activity bonds are subject to the Alternative Minimum Tax (AMT), airport bond issuers are usually charged higher interest rates on their borrowing. Depending on market conditions, AMT requires issuers to pay investors anywhere from 10 to 30 basis points (0.10% to 0.30%) higher interest costs on long-term fixed rate bonds. This can significantly increase overall project costs.

In addition to being subject to the AMT, private activity bonds that airports use to finance critical capital development projects cannot be advance refunded. Unlike homeowners who have the opportunity to refinance their home mortgages, airports typically are unable to refinance their debt and take advantage of lower interest rates for at least 10 years after issuing their bonds. By contrast, most governmental bonds can be advance refunded one time.

In general, airports are owned and operated by state and local governments, and airports serve a vital public purpose. We encourage you to include a provision in the next FAA reauthorization bill that would reclassify those private activity bonds that airports use to finance AIP- and PFC-eligible projects as public purpose. This would save airports in financing costs by allowing them to take advantage of lower interest rates and advance refund the bonds they use for AIP- and PFC-eligible projects. It would also free resources for additional projects.

### **AIP and PFC Modifications**

The Administration is proposing major reforms for the AIP and PFC programs. It is clear from the Administration's reauthorization proposal that FAA staff dedicated a lot of time and energy toward coming up with a plan to simplify and improve both of these programs. We support many of the concepts outlined in the Administration's plan such as increasing the cap on PFCs. We may disagree with some of the Administration's specific proposals, and we may recommend modifying a few others. But we share the same goal of empowering local airports and truly appreciate FAA's efforts.

***PFC Pilot Program for Large Airports:*** The Administration's FAA reauthorization proposal would create a new pilot program that would allow up to 10 medium or large hub airports to charge a \$7.00 PFC if they agree to operate and maintain terminal area navigational equipment, such as instrument landing systems and approach lighting systems. Again, airports strongly believe that the PFC cap should be raised to at least \$7.50. Some large and medium hub airports might be willing to participate in such a pilot program if it allowed them to increase their PFC by an additional dollar above the \$7.50 level and if they received adequate liability protection.

***PFC Streamlining:*** Airports support the Administration's proposal of streamline the PFC application process. The FAA points out in its section-by-section analysis of the bill that "current law requires an application and approval of each PFC project (or

amendment to a project) that sometimes involves prolonged reviews and delays.” We agree with the FAA’s assessment and strongly support its proposal to streamline the PFC process, which currently takes several months to complete.

Airports work closely with our airline partners to reach consensus on PFC-funded projects and will continue to do so if Congress endorses the Administration’s streamlining proposal. For instance, airports would continue to provide a reasonable notice and comment period for carriers operating at their facilities. However, airports would be allowed to impose a new PFC earlier in the process and avoid months in unnecessary delays. Should a carrier file an objection, DOT would have the authority to terminate the airport’s authority to collect PFCs for the new project if the agency concurred with the objection.

***AIP/PFC Flexibility:*** The Administration’s proposal would also allow small airports to use AIP funds for more purposes. For instance, it would allow nonprimary airports to use AIP funds for mobile fuel truck containment systems and allow them to use entitlements for revenue-producing aeronautical support facilities such as new fuel farms and hanger buildings. Small airports welcome the increased AIP flexibility, and airport executives are interested in learning more about how the Administration’s proposal to expand PFC flexibility would impact their facilities.

***The Federal Match for AIP Projects:*** A number of airport executives have expressed opposition to the Administration’s proposal to reduce the federal share for certain airport projects. For instance, the Administration is calling for reducing the government’s maximum share for airfield pavement and rehabilitation projects for runways and taxiways at large and medium hub airports from 75% to 50%. Decreasing the federal share would significantly increase the local cost of runway and taxiway projects at busy airports at a time when we should be trying to provide airports with more money to pay for critical infrastructure projects – not less.

Vision 100 included a helpful provision that increased the federal share for small hub and smaller airports from 90% to 95% through FY07. The Administration’s FAA reauthorization proposal would allow that provision to expire and return the federal share to a maximum of 90% for many small airports. Small communities around the country often find it difficult to come up with a 5% percent local matching share. Increasing their required contribution to 10% might prevent certain small airports from moving forward with planned construction projects.

Airport executives oppose both proposals to reduce the federal share for airport projects. We would also argue that neither reduction is necessary if Congress rejects the Administration’s proposal to cut AIP funding by almost \$1 billion from the current authorized level.

***AIP Funding for Small Airports:*** We have strong concerns about the impact that the Administration’s proposal could have on small airports around the country. Its reauthorization plan would replace the Small Airport Fund, which is directly supported

by those entitlements that are withheld from large and medium hub airports that impose PFCs, with a new Small Airport Set-Aside. This new set-aside would use 20% of discretionary money to fund projects at small hub, nonhub, nonprimary commercial service, reliever and general aviation airports.

We question the wisdom of replacing the Small Airport Fund, which has successfully linked small and large airports together on AIP and PFC issues, with a new Small Airport Set-Aside. Moreover, the Administration's suggested formula change coupled with its proposal to cut the AIP funding to \$2.75 billion would cost small airports approximately \$430 million in FY08. Even if Congress endorsed the formula changes and provided \$3.5 billion for AIP next year, it appears that small airports would still lose approximately \$70 million. Rather than cutting funds for those airports that rely on AIP the most, we should ensure that small airports are "held harmless" by any proposed formula changes.

***Nonprimary Apportionment:*** The Administration's proposal also calls for replacing the the maximum \$150,000 apportionment for nonprimary commercial service, general aviation and reliever airports with "tiered funding levels based on airport size and aviation activity." The new entitlements would allow some of the larger nonprimary airports to receive up \$400,000. On the surface, providing more money to busier nonprimary airports approach make sense, and a number of general aviation airports have expressed support for increased funding levels. However, we would reserve judgment until we learn more about how this proposal would impact all nonprimary airports.

***Land Acquired for Noise Compatibility Purposes:*** The Administration's proposal would make a grant assurance change regarding the sale of land that an airport initially acquired for a noise compatibility purpose but not longer needs. Current law requires that the proceeds proportional to the federal government's share of the land acquisition be returned to the aviation trust fund. The reauthorization proposal would allow DOT to reinvest the government's share of the proceeds in another project at that airport or another airport. However, airport executives are concerned that the Administration's proposal does not resolve the question about what happens if an airport leases land initially acquired for a noise compatibility purpose. We would like to work with this subcommittee to address that omission.

### **Funding of FAA Programs**

***Provide A Stable Funding Stream for AIP:*** It is critical that enough money goes into the aviation trust fund to pay airport construction projects. The Administration's FAA reauthorization proposal would dramatically change how the AIP program is funded. Funding for airport improvements would still come from the Airport and Airway Trust Fund. However, money going into the trust fund would come from an increase in commercial and general aviation fuel taxes and revenue generated from international departure and arrival taxes.

The Administration is proposing to increase the general aviation taxes from about 20 cents per gallon to 70 cents per gallon. Of that amount, 13.6 cents per gallon would be used to fund AIP, RE&D and the Essential Air Service (EAS) Program. The remaining amount would be used to finance general aviation's share of the air traffic control system. The proposal also calls for raising the commercial fuel tax from 4.3 cents per gallon to 13.6 cents per gallon and reducing the international arrival and departure tax from \$14.50 to \$6.39. All the revenue from these two taxes would be used for AIP, RE&D and the EAS.

Airport executives understand the need for a rational and stable financing system for the FAA. However, airport executives would strongly oppose changing the current financing system in such a way that resulted in *less* money for airports to maintain safe and secure facilities and prepare for increasing demand. Airport executives want a stable and predictable funding stream for AIP, too. Frankly, they are not convinced that relying on a tripling of general aviation taxes to help pay for airport improvements would provide enough revenue or a stable source of funds.

Under the Administration's proposal, the 7.5% domestic passenger ticket tax and the domestic flight segment fee, which currently fund about 70% of the aviation trust fund, would be eliminated. Asking domestic passengers to help pay for capital development projects at airports through the AIP program has been a key component of the aviation trust fund since Congress helped to create it more than 30 years ago. Many airport executives would strongly oppose eliminating that funding source because they argue that domestic passengers should continue to directly contribute to the aviation trust fund just like international passengers, commercial aviation and general aviation.

The Administration is recommending that commercial and general aviation fuel tax increases go into effect in 2008 and be adjusted for inflation beginning in 2010. However, it is unclear whether the FAA has determined the price elasticity of its fuel tax proposal or precisely how the agency would make up any potential shortfall if the fuel taxes generated less revenue than expected. Moreover, it is uncertain whether Congress would be willing to increase AIP funding or even reject the Administration's proposal to cut AIP funding if doing so translated into even higher gas taxes on general aviation.

***Strengthen Budget Protections:*** Whether Congress decides to keep the current excise tax system in place or call for some new user fees, it is critical that the next FAA reauthorization bill include budget points of order to protect AIP funding. AIR-21 included an airport executive-supported provision that requires all receipts and interest credited to the aviation trust fund to be spent on aviation. It also makes it difficult for Congress to appropriate less than the full amount authorized for AIP.

Those budget points of order have worked reasonably well over the past several years, and we encourage you to strengthen or maintain them in the next FAA reauthorization bill. Absent these protections, we are concerned that we would return to the days before 2000 when the gap between the amount authorized for AIP and the amount appropriated was routinely quite large.

**General Fund Contribution:** The Administration's FAA reauthorization proposal calls for not more than \$2.6 billion in taxpayer revenue to pay for aviation in FY08 – or about 18.6%. That funding level would decline to \$2.5 billion in FY09 and FY10. During the past 20 years, the General Fund contribution has been as high as 48% and has averaged about 27%. In recent years, however, the General Fund contribution has steadily declined. We strongly believe that Congress should increase the General Fund contribution to 25%.

### **Improve Service to Small Communities**

Although overall passenger levels are continuing to rise, many small communities around country are struggling to retain and attract new commercial air service. In 2005, the General Accountability Office reported that service to large- medium- and small-hubs has largely rebounded since 9/11. However, non-hub airports had 17% less service in July 2005 than they did in July 2000.

In May, 2006, the DOT Inspector General also reported that scheduled flights at small communities for the first 3 months of 2006 were 17% lower than the number of flights scheduled in the same period in 2000. At non-hubs, the number of flights was down 29% from the first 3 months of 2006 when compared to the same period of 2000.

Many lawmakers have repeatedly pointed out that many small communities have suffered since the airline industry was deregulated almost 30 years ago. Congress, the Administration and all of us in the aviation industry should work together to find ways to address this problem and to ensure that people who live in rural areas have access to the aviation system.

**Increase Funding for the Small Community Air Service Development Program:** It is disappointing that the Administration's FAA reauthorization proposal does not include any funds for the Small Community Air Service Development Program. Small airports around the country are grateful that Congress helped to create what is now known as the Small Community Air Service Development Program in AIR-21. Since its inception this program has helped small communities that suffer from insufficient air service or unreasonably high fares.

Over the past four years DOT has awarded 150 grants, which have typically ranged from \$20,000 to nearly \$1.6 million. Last year, the department received 75 proposals from communities in 37 states requesting more than \$32 million "to support new and ongoing air service development projects." However, the demand for federal assistance far exceeded the approximately \$10 million that Congress approved for the program in the FY06. In August, DOT announced that it had awarded grants that will benefit 28 communities in 22 states.

Considering the number of communities that apply for funds from this program and the continuing pressures on small communities, we urge this subcommittee to consider making a greater investment in the Small Community Air Service Development Program.

Specifically, we urge you to authorize \$50 million for the Small Community Air Service Development Program per year -- \$15 million more than Congress authorized for the program per year in Vision 100.

***Maintain the Essential Air Service Program:*** We also encourage Congress to maintain adequate funding for the EAS program and to take steps to improve the program as Congress tried to do in Vision 100. Unfortunately, the Administration's FAA reauthorization would limit funding for the EAS Program to just \$50 million per year -- \$60 million less than the amount Congress approved for FY07. The plan would also cut communities out of the program by limiting service to those: 1) that currently participate in the EAS program; 2) that are more than 70 miles from a large- or medium-hub airport; and 3) where the per passenger subsidy does not exceed \$200 if the community is less than 210 miles from a large- or medium-hub airport.

***Invest in the FAA's Contract Tower Cost Share Program:*** Another program that has improved service and safety at airports in small communities is the FAA's Contract Tower Program. This program has been in place since 1982 and currently provides for the cost-effective operation of air traffic control towers at 233 smaller airports in 46 states. Without the Contract Tower Program many simply would not have any air traffic control services at their facilities.

AIR-21 included a provision that created the Contract Tower Cost Share Program, which currently allows 26 airports in 22 states that fall slightly below the eligibility criteria to participate in the program if they provide local funds. We recommend that this subcommittee authorize \$8.5 million for the Contract Tower Cost Share Program in FY08 and increase the amount by \$500,000 per year. Doing so would keep the existing towers operating and allow additional airports to participate in the program.

### **Other Recommendations**

***Require FAA to Continue to Pay for Space the Agency Uses at Airports:*** Airport executives strongly believe that the FAA should continue to pay for the space that the agency uses at their facilities just like other airport tenants. Airports do not object to providing land to the FAA for Air Traffic Control facilities without cost. However, they believe that the FAA should continue to pay reasonable rates for space that the agency occupies in airport-owned facilities. For smaller airports, the potential loss of rental revenue – even at below market rates – could have a significant impact on their financial situation. We encourage Congress to include a provision in the next FAA reauthorization bill that would require to FAA to continue to pay for the space that the agency uses at airports. This would provide a permanent fix on this issue, which has been addressed annually in the DOT appropriations bill.

## **Conclusion**

Chairman Costello, Ranking Member Petri and members of the House Transportation and Infrastructure Subcommittee on Aviation, thank you for inviting me to appear before your committee to discuss the Administration's FAA reauthorization proposal. This subcommittee has a strong track record of increasing funding for airport capital development projects. We urge you to continue to help airports keep pace with increasing passenger demand and skyrocketing construction costs by raising the cap on PFCs and increasing funding for AIP. These actions would help to improve safety, increase capacity and reduce delays at airports around the country.

## **2007 Airport Legislative Alliance Members**

### **Large Hubs**

Baltimore/Washington International Thurgood Marshall Airport  
Chicago Department of Aviation  
Cincinnati/Northern Kentucky International Airport  
Dallas/Fort Worth International Airport  
Denver International Airport  
Detroit Metropolitan Wayne County Airport  
Hartsfield-Jackson Atlanta Int'l Airport  
Massachusetts Port Authority  
Metropolitan Washington Airports Authority  
Miami International Airport  
Philadelphia International Airport  
Phoenix Sky Harbor International Airport  
Salt Lake City International Airport  
San Diego International Airport  
San Francisco International Airport  
Seattle-Tacoma International Airport  
The Port Authority of New York and New Jersey

### **Medium Hubs**

Albuquerque International Sunport  
General Mitchell International Airport  
John Wayne Airport  
Kansas City International Airport  
Lambert St. Louis International Airport  
Louisville International Airport  
Manchester - Boston Regional Airport  
Memphis International Airport  
Norman Y. Mineta San Jose International Airport  
Pittsburgh International Airport  
Port Columbus International Airport  
Portland International Airport  
Reno-Tahoe International Airport  
Rhode Island Airport Corp.  
Tucson International Airport

### **Small Hubs**

Atlantic City International Airport  
Bangor International Airport  
Baton Rouge Metropolitan Airport

Billings Logan International Airport  
Birmingham International Airport  
Dayton International Airport  
Des Moines International Airport  
Fresno Yosemite International Airport  
Gerald R. Ford International Airport  
Greenville Spartanburg International Airport  
Harrisburg International Airport  
Huntsville International Airport  
Jackson-Evers International Airport  
Lexington Blue-Grass Airport  
Long Beach/Daugherty Field Airport  
Metropolitan Knoxville Airport Authority  
N.W. Arkansas Regional Airport Authority  
Newport News/Williamsburg International Airport  
Quad City International Airport  
Santa Barbara Municipal Airport  
Sarasota Bradenton International Airport  
South Bend Regional Airport  
Springfield/Branson National Airport  
Tallahassee Regional Airport  
Tulsa International Airport  
Will Rogers World Airport

**Non Hubs/General Aviation**

Abilene Regional Airport  
Addison Airport  
Asheville Regional Airport Authority  
Aspen/Pitkin County Airport  
Bert Mooney Airport  
Bismarck Municipal Airport  
Capital City Airport (MI)  
Centennial Airport  
Charlottesville-Albemarle Airport Authority  
Chattanooga Metro Airport  
Cherry Capital Airport  
Delaware County Airport Authority  
Dothan Regional Airport  
Durango LaPlata County Airport  
Elmira-Corning Regional Airport  
Evansville Regional Airport  
Fernandina Beach Municipal Airport  
Fort Wayne International Airport  
Friedman Memorial Airport Authority  
Gallatin Field Airport

Glacier Park International Airport  
Glynco Jetport  
Greater Peoria Regional Airport  
Greenbrier Valley Airport  
Hector International Airport  
Inyokern Airport  
Kalamazoo Battle Creek International Airport  
Killeen-Fort Hood Regional Airport  
Kissimmee Gateway Airport  
Klamath Falls Airport  
Laredo International Airport  
Laughlin/Bullhead Int'l Airport  
Mahlon Sweet Field  
Marana Regional Airport  
McAllen-Miller International Airport  
Melbourne International Airport  
MidAmerica St. Louis Airport  
Monterey Peninsula Airport District  
Morristown Municipal Airport  
Nantucket Memorial Airport  
Napa County Airport  
Nut Tree Airport  
Provo Municipal Airport  
Redding Municipal Airport  
Roanoke Regional Airport  
Salina Municipal Airport  
San Bernardino County/Needles Airport  
San Luis Obispo County Regional Airport  
Santa Maria Public Airport  
Snohomish County Airport/Paine Field  
Southern Illinois Airport Authority  
Southwest Oregon Regional Airport  
Springfield Airport Authority  
Toledo Express Airport  
Tri-Cities Airport  
Tri-Cities Regional Airport, TN/VA  
Valdosta Regional Airport  
W.K. Kellogg Airport  
Wilkes-Barre/Scranton International Airport  
Williams Gateway Airport  
Wilmington International Airport