

**Statement of Commissioner Nuria I. Fernandez City of Chicago, Department of  
Aviation Before the U.S. House of Representatives Committee on Transportation  
and Infrastructure, Subcommittee on Aviation**

**March 28, 2007**

Good Morning, Chairman Costello, Ranking Member Petri, and members of the House Transportation and Infrastructure Committee, Subcommittee on Aviation. Thank you for the opportunity to appear before this Subcommittee today to testify about the Airport Improvement Program and airport funding in general as it relates to the Administrations' FAA Reauthorization proposal.

Before I continue with the discussion regarding the Administrator's proposal, I would like to take this opportunity in appearing before you to thank this honorable body for your support to the Chicago Airport System on our efforts to modernize O'Hare and Midway Airports.

I am here, not only to represent the interests of the City of Chicago, and our two airports, O'Hare, and Midway, but also to represent the interests of other large airports; airports that are facing similar challenges on how to upgrade aging infrastructure and to keep pace with growing demand.

In the coming years it will take billions of dollars to maintain vital airport infrastructure and billions more to increase capacity. Now include the FAA's need to modernize the air traffic control system and you will understand that robust and dependable funding for the air transportation system is an urgent national priority.

Airport financing is a key element to meeting the needs of the growing demand for air travel. The FAA has projected that air traffic will reach the one billion enplanement-per-year level by 2015. Moreover, by FAA's own forecasts, O'Hare International Airport is expected to increase in traffic from 37 million enplanements in 2006 to 53 million in 2020. Similarly, Midway International also anticipates dramatic increases in air traffic. In 2006, Midway airport experienced 8.9 million enplanements and current forecast will double that traffic by 2020 to 16.3 million enplanements. Without the proper financing for capacity-increasing projects, it will be difficult for airports to safely and efficiently accommodate this substantial growth in air traffic. The ability of airports to find a reliable source for their capital needs will be critical to the future of aviation.

The O'Hare Modernization Program or "OMP" is a prime example of how crucial the different funding mechanisms are and how they are being used to finance capacity enhancing projects. Over 35% of the funding for Phase One of the OMP is comprised of AIP Grants and PFC funding. As we work towards Phase Two, AIP and PFC will again play a significant role in funding the completion of the OMP.

First, I'd like to discuss the importance of the PFC provision in the Reauthorization proposal. We believe that the FAA's decision to increase the cap on the PFC to \$6.00 is a step in the right direction, but it does not go far enough. We recommend that the

Congress set the PFC cap at \$7.50 and index it to inflation. The ravages of inflation have diminished the power of the existing PFC to fund needed airport projects and airports will need access to a source of fund that can stand the test of time.

The time value of money, along with the increase in construction costs necessitates not only an increase in the PFC, but also an indexing of the PFC in order to preserve its buying power over time. When PFC's were initially authorized in the Aviation Safety and Capacity and Expansion Act of 1990, airports discovered a new way to augment their capital financing needs. The PFC's also provided a relief in the tug of war between large airports and small airports for capital dollars.

However, in the last 17 years, inflation and the dramatic rise in construction costs have contributed to the erosion of the PFC's original impact. If you factor in the time value of money, along with the inflation in the construction industry, a \$4.50 PFC in 2000 would have to be adjusted to \$7.20 in order to merely preserve the buying power.

Please note that an increase in the PFC cap is merely that - a ceiling limit. It does not require all airports to adopt the \$7.50 PFC, but rather, gives each airport the flexibility to decide. Market principles and agreements with the airlines will determine the level of PFC that will be imposed. Lifting the cap will only increase the flexibility of each airport's ability to tap a financing source.

We appreciate that the FAA was receptive to the concerns of airports that the existing PFC application process is overly bureaucratic and burdensome to the airports. The process was not only arduous, but also caused unnecessary delays and expenses. We are grateful the FAA has proposed new measures that will streamline the PFC application process.

Second, a balanced capital investment strategy for airports requires a strong AIP program. AIP is important to airports of all sizes. We were encouraged that the Administration included an increase in the AIP discretionary account and that all existing AIP Letter of Intent commitments will be honored.

For large airports, a robust AIP discretionary program is vitally important. These are the funds that airports such as O'Hare use to implement critical safety and capacity enhancing projects. The first phase of the OMP is applying \$300 million in AIP discretionary funding to its implementation. At Midway, the vast majority of funding for the Engineered Material Arresting System (EMAS) at the end of the runways is being financed through AIP discretionary grants. AIP discretionary funds are also an important component that fund environmental programs at airports. The residential and school sound insulation programs that make airports compatible with the surrounding communities are dependant on discretionary funding. So is the environmental grant program that helps airports fund air quality improvement projects.

Additionally, we are concerned with the potential decrease in the AIP match percentage for certain airport projects. FAA's required contribution percentages should be

maintained. This will provide better incentive to protect from future unfunded or minimally funded federal mandates.

Contained in the Administration's proposal contains two provisions that Chicago has concerns with. They both pertain to federal control of access to airports. In the Administration's proposal to introduce a user fee system there are provisions to charge higher fees for aircraft operating at hub airports. This proposal requires the FAA to consult with the airlines but no specific language requiring the consultation of the airport. Airports work hard to control costs so that they remain cost competitive. Airport fees structures are managed by local officials that are trying to strike the proper balance charging fees that can attract additional air service while still maintaining airport facilities that enhance the travel experience. With this proposal, the federal government will now have significant influence on the economics of an airport and could potentially throw airport financing and competition out of balance.

The same issues are repeated in the Administration's proposal for congestion management. The Administration's proposal calls for a "pilot" program whereby airports can implement congestion management or the FAA can force congestion management onto an airport. Any congestion management scheme has to be given serious consideration before it is implemented and the final determination on if and how it is implemented absolutely must be a decision of the local airport operator.

Market-based mechanisms such as congestion pricing schemes or auctions can be anti-consumer, anti-competitive, and can hurt the ability of the airport to control the pricing for its landing fees. Small communities are particularly at risk for negative impacts because they are abandoned for more lucrative, larger markets when slots become valuable, scarce resources. The City requests that the airport retains control over any congestion management program and that proceeds from the program go directly to the airport for use in capacity enhancing projects.

We fear that the future growth at airports may be stunted by congestion constraints. As it is today, O'Hare is constrained by flight caps, which only serve to make slots a scarce commodity, which can be sold by the airlines and practically act as a barrier to entry for new airlines in the O'Hare market.

The existing rule capping flights at O'Hare will expire just prior to the commissioning of the first new runway at O'Hare in 30 years. We expect that the flight caps will not be renewed by the FAA for once the north runway is commissioned; O'Hare will see a reduction in delays and improve the airport's on-time performance. We plan on returning to an open aviation market that reinvigorates competition and provides unrestricted access to economic growth for the Chicago region.

Again, I would like to express my gratitude to this Subcommittee for the opportunity to share my views on these important issues. I would also like to acknowledge the FAA for being responsive to the needs of airports, and look forward to working further with

Congress and FAA officials on a plan that would help airports meet the financing needs to be prepared for the future air travel demand.