Testimony of James E. Bennett
President and Chief Executive Officer
Metropolitan Washington Airports Authority

Before the Aviation Subcommittee
of the
House Transportation and Infrastructure Committee

March 28, 2007

Metropolitan Washington Airports Authority
1 Aviation Circle
Washington, DC 20001
(703) 417-8745

Chairman Costello, Ranking Member Petri, and members of the Aviation Subcommittee, on behalf of the Metropolitan Washington Airports Authority, I want to thank you for inviting me to testify today. I am Jim Bennett, President and Chief Executive Officer of the Airports Authority – the operators of Ronald Reagan Washington National and Washington Dulles International Airports.

In addition, I wear another hat today as I am serving as Chair of the Airport Legislative Alliance (ALA) Policy Roundtable. The ALA is comprised of 119 airports large and small located throughout the United States.

As the Subcommittee, the Transportation and Infrastructure Committee, and even the House of Representatives crafts and debates the FY 2008 Federal Aviation Administration Reauthorization Legislation, I would encourage you to remember that this is not about large airports and small airports, but rather about a nationwide airport system. At our two airports we have service to 95 communities of all sizes and in every part of the country. It is very important that as we frame the discussion on this very important topic that we not lose sight of the effectiveness of this integrated air transportation system and make changes to the Airport Improvement Program (AIP) or Passenger Facility Charge (PFC) Program that would negatively impact our ability to provide facilities and access to accommodate the needs of the communities served by our airports.

Last week I had the privilege of attending the Federal Aviation Administration Annual Forecasting Conference here in Washington, D.C. Amongst all the distinguished panelists and speakers who participated, I had the opportunity to hear FAA Administrator Marion Blakely, in the course of remarks, remind the 600 assembled guests, and me, that Washington Dulles was going to be one of the fastest growing commercial Airports in the United States between 2006 and 2020, with a projected growth in aircraft operations of 68% and a 112% growth rate in passenger enplanements.

I thought her remarks provided me a good segue into my participation in this hearing today.

The Airports Authority utilizes quite effectively the two airport financing mechanisms that are part of the FAA Reauthorization Legislation before the Subcommittee, namely, the AIP and PFC programs. Together, these financing tools are important components of our ability to expand and maintain our airport infrastructure to keep pace with the significant growth that Administrator Blakely referred to in her remarks last week. In that regard, any legislation or proposal that would affect either of these programs is of great interest not just to the Airports Authority, but to all airports nationwide.

As you are aware, airport capital improvements are very expensive, long duration programs, and AIP is a very useful tool for us to meet these commitments. A recent Airports Council International capital needs study suggested that United States' commercial airports have a need for $87 billion for construction over the next five years. Yet, just as the value of Passenger Facility Charges (PFC) has declined due to inflation and the increased cost of construction, AIP funding has also not kept pace with escalating construction costs. The AIP has primarily funded capacity improvements including runways, noise and safety programs and, just when we need this source of funds the most, the Authority and our industry are looking at the possibility of a one-third reduction in AIP funding for 2008.

The Airport Authority's $7 billion construction program is planned through 2016. The program is funded with $4.7 billion in bonds, $1.7 billion in PFC, and $600 million in AIP grants. The major projects included in this program are:

- The AeroTrain, a new underground automated train system at Dulles, is scheduled for completion in mid-2009. This $1 billion project will replace the mobile lounges and will provide a new security level for passenger screening.
- The new 4th runway and related projects at Dulles, a $357 million project, will be completed in October 2008.
- The new, $51 million, Air Traffic Control tower at Dulles will be commissioned in May.
- A $124 million 12-gate addition to Concourse B will open by the end of this year.

In addition to these projects, we are currently negotiating the business deal with United Airlines to replace Concourse C and D, temporary facilities built in 1985. At Reagan National we are completing a consolidated public safety dispatch center, and at both airports, we are working with TSA to find cost efficient solutions to our baggage screening security needs.

We agree with the Administration's recommendation to increase the AIP discretionary fund to $520 million to meet the need of Letter-of-Intents (LOI). LOIs are important financing tools for airports. As a matter-of-fact, in 2006 the Authority received a $200 million Letter-of-Intent from the FAA to fund construction of our much-needed 4th runway at Dulles which we plan to open in October 2008. This LOI represents approximately 56 % of a total project cost of $357 million. By having this LOI available, we are able to construct this much-needed capacity enhancement to the airport in a cost-effective manner.

Of equal importance to the Airports Authority is the issue of Passenger Facility Charges and the proposal to increase them.

Since PFCs were authorized by Congress in 1990, they have become the second largest source of financing infrastructure at the Airports Authority, behind bonds. At Dulles and Reagan National, a total of $1.5 billion has been approved for projects including the new terminal at Reagan National, and at Dulles for the expansion of the main terminal and the aforementioned AeroTrain and Concourse B expansion. Of this total, $749 million has been collected. We currently have an additional PFC application pending with the FAA for $124 million to expand the International Arrivals Building at Dulles.

PFCs have not kept pace with the rate of construction inflation. Most airports have committed their PFC authority well into the future. For example, at Dulles, our PFC authority is used through 2017. PFCs were originally authorized for airports to collect a maximum of $3 per enplanement. This increased to $4.50 per enplanement in 2001. However, because of the inflation and the increased cost of construction, for PFCs to have the buying power that Congress authorized, today they would need to be increased to $7.19.

I support the Administration's proposal to increase PFCs, but to a level of $7.50 in lieu of the $6 per enplanement which has been proposed. At a rate of $7.50, the construction buying power of the PFC will return to about the same rate as it was when it was authorized at the $4.50 level in 2001. To prevent further erosion of the buying power of the PFC, we also believe that it should be indexed to construction inflation.

The increased PFC would allow the Metropolitan Washington Airports Authority to continue its Capital Construction Program at both Washington Dulles and Reagan National Airports in a cost effective manner. Because of the tremendous growth we have experienced and will be expecting, it appears likely that as soon as we finish with our 4th runway at Dulles, we will be forced to contemplate commencement of construction of our 5th runway – and it would be extremely beneficial to have the availability of an increased PFC to assist in its funding.

The Administration's proposal recommends eliminating AIP entitlement funds for large and medium hub airports. I encourage you to make sure that airports with outstanding Letters of Intent, like we have at Washington Dulles, do not lose entitlements that have already been pledged to projects. A grandfathering provision to continue the entitlements through the period in the LOI would assure the information that was given to investors through an airport's Revenue Bond Official Statement are accurate.

I also support the Administration's proposals to streamline the PFC approval process. An *impose/report/review* process would provide efficiencies for the FAA, the airlines, and the airports. During the impose stage and to help assure involvement, a majority of the airlines serving an airport could ask that a PFC consultation meeting be held to answer any questions they may have concerning projects that are to be financed by PFCs therefore eliminating unnecessary process on the majority of non-controversial projects. The Administration's proposal to expand PFC projects to include all eligible airport capital investments, as long as it will not hinder competition, while important, needs to be approached with caution. The Administration proposes that PFCs can be expended on new projects until the FAA notifies the airport of disapproval. I suggest that the proposal be amended to eliminate a feature that reverses PFC authority retroactively, or that the legislation require the FAA to provide notice within a 30 day period if it does not expect to grant PFC authority for a project.

The report process should include an annual report to the FAA that would indicate how PFCs were expended and forecast how they expect to be used in the upcoming year. The report could serve as an amendment for approved projects and as a notice for any proposed projects. The review cycle would commence with the receipt of the reports.

In summary, I support the Administration's proposal to increase the PFC fee, but to a higher level of $7.50 to recognize the effects of prior inflation. I recommend the PFC be indexed to an appropriate construction index that will provide adequate protection of the future value of the PFC collected. I also I support their proposal to streamline the PFC approval process and suggest providing an "impose/report/review" process that will allow airport operators to manage PFCs just as they do their other sources of revenue; each according to federal laws and regulations.

One final area of airport financing which I would like to comment on is the issue of the Alternative Minimum Tax (AMT), and how it affects debt issued by airport operators and the Airports Authority.

Bonds sold through the capital markets provide airports with their single largest source of capital. The US capital markets are unique in providing governments the ability to access large sums of money for capital development while providing investors a safe source for investment income.

In 1986 the US Tax Code was changed and included provisions to define the majority of projects financed with airport bonds as Private Activity Bonds, subjecting the interest earned to the alternative minimum tax. Many middle class Americans are subject to the AMT. Because of the problems associated with the lack of indexing of the AMT, the market for airport bonds has been shrinking. The AMT penalty now costs 20 to 30 basis points on each of the Authority's bond sales which accounts for over $4 billion in debt. That AMT penalty adds nearly $10 million annually to the airlines' rates and charges at our two airports.

I am not here to ask this committee to consider changing the AMT. That is for another day and another committee. I am here, however, to ask you to consider that airports are government-like issuer of bonds and, therefore, should enjoy the same full tax-exempt status that is granted to cities, counties, and states. This could be accomplished by redefining all airport bonds as governmental. As many of you travel through airports, I am sure you see the hundreds of public safety personnel that work at our airports. More than thirty percent of the 1,300 employees at our two airports – 406 -- are either police or fire personnel. The Transportation Security Administration has over one thousand people employed at our airports. There are also air traffic control personnel, federal air marshals, and others who protect the safety of our aviation system right here at home. Clearly, airports are not purely a private activity. Eliminating the private activity label would increase the market for our airport bonds, lower the interest cost, and allow airports to advance refund any outstanding bonds when and if interest rates fall.

Chairman Costello, Ranking Member Petri, thank you again for inviting me and the Metropolitan Washington Airports Authority to testify before the Aviation Subcommittee today on these airport finance issues. We will certainly maintain a keen interest in your deliberations on these issues, and I will be very happy to answer any questions you may have.