



**Testimony of Gregory Principato
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before the

**House Transportation and Infrastructure Committee
Subcommittee on Aviation**

“FAA Reauthorization Act of 2009”

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Chairman Costello, Chairman Oberstar, Ranking Member Petri and Ranking Member Mica, members and staff of the Subcommittee on Aviation, thank you for allowing me to participate in this important hearing. My name is Greg Principato and I am President of Airports Council International-North America (ACI-NA). Our 366 member airports enplane more than 95 percent of the domestic and virtually all of the international airline passenger and cargo traffic in North America. Nearly 400 aviation-related businesses are also members of ACI-NA, providing goods and services to airports.

As your Subcommittee begins its work to pass the Federal Aviation Administration Reauthorization Act of 2009, I want to thank you not only for your current efforts to pass this bill but for your work to include Airport Improvement Program (AIP) funding and an exemption for airport private activity bonds from the Alternative Minimum Tax in the American Recovery and Reinvestment Act of 2009. Your assistance in providing the tools for us to not only play a major role in improving transportation infrastructure, but to also help create thousands of jobs shows the important role airports play in the overall infrastructure development in the United States. Airports believe we can continue to play a role in the vigorous growth of local economies with your assistance.

Airports are tied to the fate of the airlines and air traffic on one hand, while having a responsibility to maintain facilities to meet passenger needs on the other, so our leeway in delaying projects due to financial concerns is finite. While airports must be fiscally responsible businesses that respond to the ebb and flow of market demand, they also have a responsibility to the traveling public to keep facilities safe, secure and efficient.

Because whether one plane or one hundred use an airport on a given day, we still need to maintain our facilities – runways, perimeter security, escalators, baggage carousels and elevators. Although many airports throughout the United States, in light of the recession, are facing reduced passengers, fewer flights, less competition for service and unsecure financial markets, we are committed to maintaining our facilities and preparing for the expected 25 percent growth in service that the Federal Aviation Administration (FAA) predicts our industry will face over the next eight to ten years when it is estimated that 1 billion people will take to the sky.

Some in the industry may argue that airports currently do not need additional financial tools to improve facilities. I would argue that there is no better time than right now.

Airports have to plan now for the future, while working within a financing system that is extremely complicated at best. Any one individual project at an airport can rely on funds from several different sources including bonds, Passenger Facility Charge (PFC) user fees, AIP funds and locally generated revenues from non-aeronautical sources, including parking and concessions. Airports cannot construct airside or landside improvements to meet passenger demands overnight since these projects take many years to design, finance and build. We do not have the luxury of responding immediately to market demands. Runways, terminals, taxiways, and most airport infrastructure projects generally take five or 10 years, so airports need the financing tools now to lay the groundwork for the future.

The Need for Local Financing Options

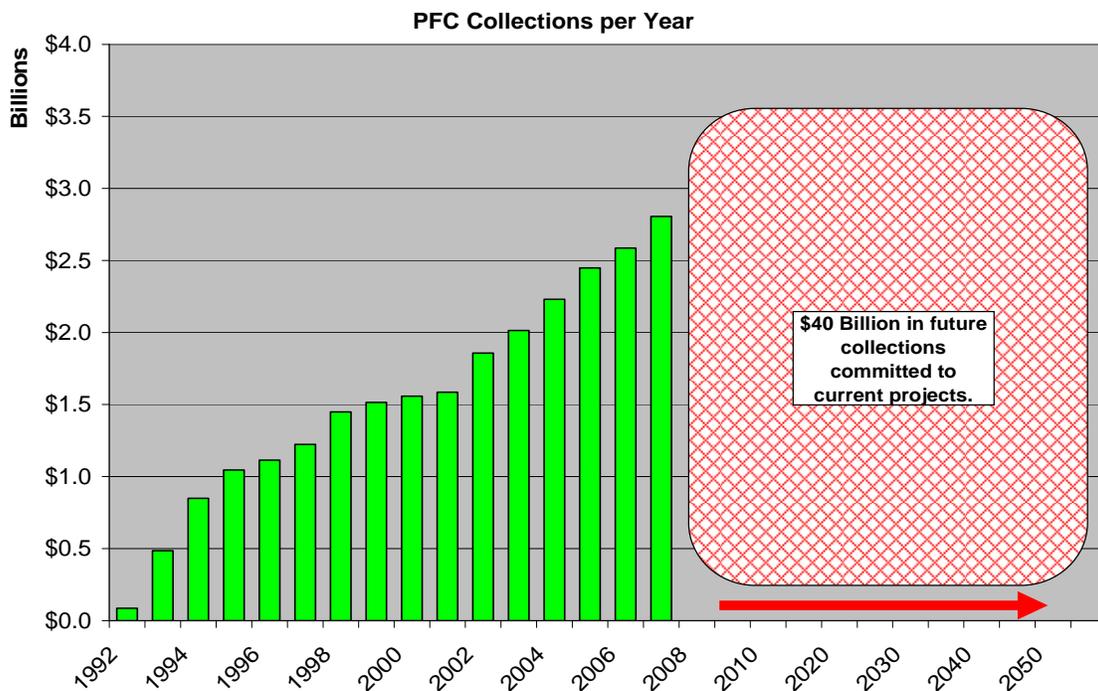
Under this Committee's leadership, airports were given a financial tool that has proved to be a model for federal-local partnerships. By granting airports the ability to generate local funding through the collection of the PFC user fee, all those who use the system have had a voice in infrastructure development in consultation with the FAA on an ongoing basis. This financing tool has allowed local communities to determine their needs and map out a plan for improvements and development at the airport in coordination with the airport users. The results speak for themselves as PFCs have been responsible for the obligation of \$64 billion in airport capital investments since being implemented in 1990. The share of U.S. airport capital investment attributable to PFCs is currently estimated to be at about 30 percent. These funds are used to support airside projects, terminal projects, access projects such as roadways, people movers or transit projects, and noise mitigation projects. Furthermore, PFCs have been used to construct new runways and other airfield improvements to significantly reduce delays at some of the most congested airports. They have also been used to build additional gates for new and expanded service, increasing airline competition and lowering fares. Over the last 15 years, these investments have allowed continued growth and have provided airports with a vital source of funds for these projects. I can think of no better example of a successful local-federal partnership with respect to aviation.

That is why ACI-NA strongly supports an increase in the PFC ceiling to at least \$7.50, and why we appreciated the inclusion of an increase in the reauthorization bill that passed the House in 2007. PFCs were first authorized by Congress in 1990 and are tied directly

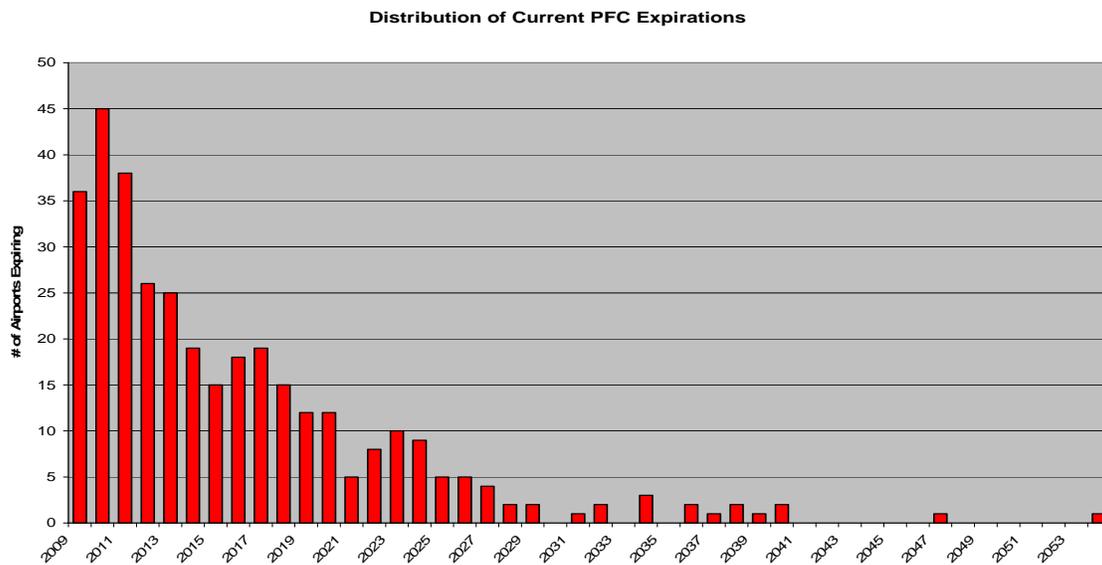
to local airport-related projects that 1) preserve or enhance safety, security and capacity of the national air transportation system, 2) reduce noise from an airport that is part of the system or 3) provide opportunities for enhanced competition between or among air carriers. PFCs cannot be used for revenue producing projects such as parking garages, terminal areas used for concessions or leased exclusively by a specific airline for more than five years, or projects that are incompatible with airport sponsor assurances agreed to with the receipt of federal grants.

Airport infrastructure investments will be challenged to continue without the inclusion of an increase in this user fee. This coupled with the devaluation of the PFC due to construction cost inflation does not allow airports the financial tools necessary to invest in improvements. Plain and simple, the purchasing power of the PFC has been greatly diminished since it is not indexed to construction cost inflation. In recent years, construction costs have skyrocketed, far surpassing consumer inflation. The current maximum PFC of \$4.50 is worth only \$2.46 today when construction cost inflation figures are applied. Fully adjusting the PFC to account for construction cost inflation would place the fee at \$8.33, which is why we have proposed indexing the PFC to construction cost inflation. Without the Committee's help in increasing the PFC, airports do not have the means of keeping up with the inflationary costs of construction. We want to continue to work with our local communities to build the infrastructure necessary to spur economic growth, but our hands are tied without a multiyear FAA reauthorization bill that will increase the PFC user fee.

Airports would not be asking for the continued support of this Committee for an increase in this user fee if it was not the lifeline of airport financing. Let me take a minute to explain. As airports look at financing options for any type of project, they review all the resources at their disposal. They first look at AIP funds that could be used, then they turn to the availability of PFC funds, airport revenue from concessions, and state grants – if available - leaving the options of bonds to fill in the balance. Bonds account for 53% of capital funding sources for all airport revenue; however, despite favorable credit ratings, airports are challenged to find buyers for their bonds. Since PFCs provide a reliable and stable revenue source, bonds backed by PFCs are viewed favorably by investors. Approximately 30% of airport bonds are backed by PFC revenues. Furthermore, as shown in the following chart, current and future PFCs are already obligated as repayment for bonds or on a PAYGO basis to fund either completed or ongoing projects.



As illustrated in the chart below, some airports have PFCs pledged to debt service for as long as 30 years out. That means at these airports, current PFC collections are already obligated to pay for in-progress or already completed construction and not for the expansion of infrastructure that would help meet expected passenger and cargo demand, support local economic growth as well as spur job creation.



Some within the airline industry have argued that airports take an “if we build it, they will come” approach to infrastructure improvements. Nothing could be farther from the truth. In fact, we have seen examples time and time again that the improvements made at airports charging PFCs have helped attract new entrants into many markets thus creating new competition and offering lower fares for our customers.

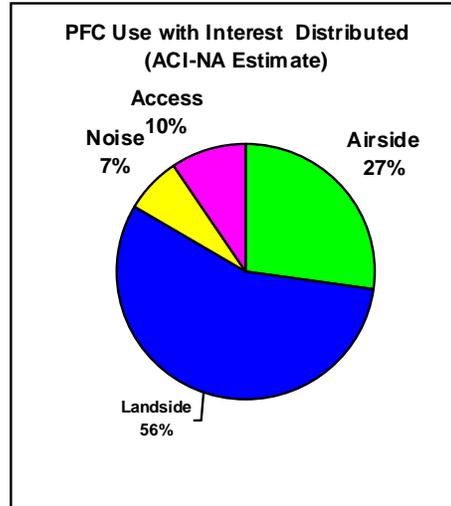
Furthermore, ACI-NA recently surveyed our membership on their capital needs. Our study is comprehensive, looking at all airport projects, not just those that are AIP eligible, as is the case with the FAA-produced National Plan of Integrated Airport Systems

(NPIAS). The ACI-NA 2009 Capital Needs study indicates that airports, including both commercial and general aviation airports, have \$94.4 billion in total projects that are considered essential by the airport and airport users. This figure reflects projects that have already secured financing as well as those that cannot proceed due to inadequate funding and are not expected to be blocked by the airline industry. As you would expect, the majority of the capital needs are at large hub airports, many of which have experienced significant congestion in recent years.

Many airport operators that participated in ACI-NA's survey have deferred or reduced capital programs in response to the changing economy. Not surprisingly, medium and small hubs see the largest decreases of capital investment, by more than 22 percent and 8 percent respectively, among all the airport hub categories compared with the last survey conducted in 2007. This shows the prudence with which airport operators make their decisions which should debunk any "build it and they will come" arguments. Still, the impact of construction cost inflation and the reality that we still have many congested airports and unmet needs is evident by the results of our survey.

Since we know that \$1 billion in transportation infrastructure produces on average 30,000 to 47,000 jobs, if all of the \$94 billion in airport capital needs were met, the airport industry could help add 3 to 4 million jobs to our struggling economy. Again, we need your help in gaining access to the tools necessary to achieve this goal.

Mr. Chairman, there have been times when the PFC has been criticized as a means to fund land-side improvements and not air-side improvements. Although PFCs are used for terminal and other land-side development projects which are often necessary to expand capacity at the airport, or to accommodate competition, a significant portion of PFCs have been used for



airside projects. For example, the three runways that opened at Washington-Dulles International, Chicago-O’Hare International, and Seattle-Tacoma International in November of 2008 would not have been possible without the PFC. In fact, when one includes interest costs associated with issuing bonds, we estimate that 27% of all PFC revenue is used for air-side projects. Additionally, when an airport applies to implement a PFC greater than \$3.00 for a non-airside project, they must certify to the satisfaction of the FAA that all of their airside needs have been met.

FAA’s FACT II study concluded that even if all currently planned improvements are made, six airports (LGA, EWR, PHL, OAK, LGB, SNA) will still face capacity issues by 2015. By 2025, this number grows to 14 airports, again, assuming all currently planned improvements take place. Airports need additional resources if they are to expand capacity sufficiently to address the needs of the traveling public.

The importance of using the PFC to fund essential infrastructure becomes even more critical when you consider potentially reduced revenues for the Airport and Airways Trust Fund (AATF) due to declining traffic. We are also concerned about the impact of the new a la carte or unbundled ticket pricing system embraced by most U.S. airlines. ACI-NA estimates that the AATF lost almost \$48 million in forgone revenue in 2008 due to the fact that airline fees for checked baggage and seat assignment are not subject to the ticket tax. ACI-NA is concerned that under these circumstances the AATF may not be able to support current and future obligations for FAA or the aviation system.

PFCs Benefit Small Airports

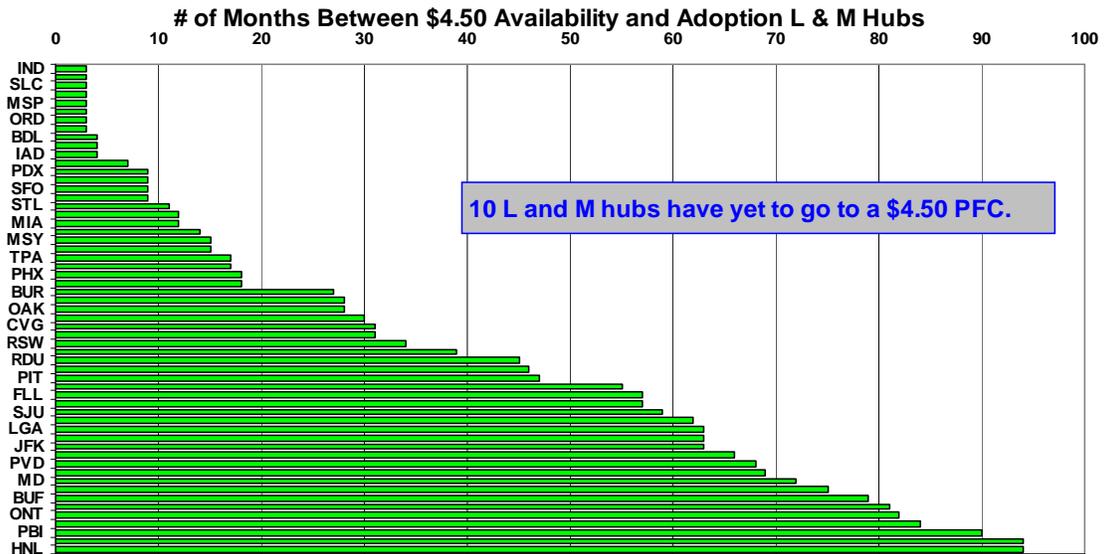
The PFC and AIP are often seen as competing, but in reality, however, they are complementary. When a large or medium hub airport implements a PFC, they must forego either 50 or 75 percent of their AIP entitlements to the FAA (depending on the level of the PFC). The “Small Airport Fund” is the recipient of 87.5 percent of these forgone entitlements with the remaining 12.5 percent going into the AIP discretionary program. In FY2007, the PFC turnback resulted in almost \$467 million additional dollars for small airports.

The current structure of the PFC has the fee assessed at the time of a ticket sale and collected by the airline. The airlines keep 11 cents of every PFC collected to cover administrative costs; this is an increase from the 7 cents allowed when the PFC was established in 1990. In 2007, airlines received \$87 million in total from all of the PFCs

collected. This number does not include the amount the airlines earned on interest from the PFC revenues collected before they distributed it to the airports.

The system Congress set up before a PFC could be implemented or raised at an airport provides local input on this fee. The airport must consult with the local community as well as all airlines providing service before a PFC can be approved by the FAA. The fact that historically 95 percent of all PFC applications submitted to the FAA are done so without objections from airlines shows that the consultation process required works. Because extensive consultation is required PFC approval does not happen overnight.

As the chart below shows, airports do not automatically move to a higher PFC level just because it is available. They work with their local communities and airline partners to determine the appropriate level that addresses their specific needs.



The bottom line is that some airports will not choose to begin the process for an increase in the PFC because it might not make financial sense to do so. In fact, after the last increase was authorized it took airports on average three years to implement increases in the PFC. This shows the prudence of airport managers and the fact that PFCs are raised only when needs are identified.

It is true that airports are deferring capital improvement projects in light of the recession. However, these projects will eventually have to be completed in order to ensure current infrastructure is maintained as well as to accommodate the expected increase in traffic over the next several years. Since this Committee is looking at a multi-year reauthorization bill, the time for an increase to \$7.50 or more is now, with indexing for construction cost inflation. We are simply asking the Committee to provide us with the financial tools we need to meet both the current and future needs of the traveling public.

Airport Improvement Program

AIP funding plays an important role in airport financing and will continue to do so in the future. The current incarnation of the AIP was established by the Airport and Airway Improvement Act of 1982 (Public Law 97-248). Since then, AIP has disbursed over \$45 billion to airports to enhance the safety, security, capacity and environmental compliance of the nation's airports. AIP also plays a crucial role in financing airport construction, especially at small airports.

A balanced capital investment strategy for a system of airports requires a strong AIP program. AIP must be reauthorized at higher levels to ensure that adequate funding is available, especially for those airports that depend on this program to fund important infrastructure improvements. Unfortunately, without a multi-year FAA reauthorization bill, despite the best efforts of this Committee in the last Congress, many airports have received only 35 percent of their anticipated funds from AIP. This has forced delays in essential infrastructure projects as airports have been unable to make the investments necessary to improve safety and security at their facilities as well as those needed to relieve passenger delays and congestion. We must have a multi-year reauthorization so this won't happen again.

As you know, the AIP Program has received \$3.5 billion in funding for the past several years without a new authorization. Although AIP is slated to receive additional dollars under the Stimulus bill, the FAA has said there are over \$5 billion in AIP-eligible projects that it could fund over the next two years alone. Since unfortunately the amount of additional funding in the Stimulus will likely not enable all of these projects, an increase in AIP funding could go a long way in ensuring these ready to go projects are funded.

Environmental Improvement Efforts

ACI-NA applauds the Committee for its work to help the aviation industry reduce emissions, improve energy efficiency, and reach environmental goals. While the industry's contribution to greenhouse gas emissions is relatively small, forecasts continue

to predict robust growth in aviation. ACI-NA member airports are working proactively to address this issue on a local, regional, national, and international level. Recognizing that the industry's main contribution to global warming - emissions from the operation of aircraft - is outside the control of any individual airport, our members are doing their part to minimize impacts to climate change just as with other environmental impacts such as water quality, noise, and local air quality.

Greenhouse gas emission reduction strategies employed by airports have included: investing in and promoting the use of alternative fuel and low emission vehicles and energy saving equipment; recycling building and construction materials, waste and water; improving the operational efficiency of the airfield and landside system; acquiring green power; and providing emissions-reducing services for aircraft at the gate. ACI-NA greatly appreciated the Committee's recognition of this work in the last bill and looks forward to continuing to work with you to pursue the reduction of greenhouse gas emissions.

In order to enhance the environment by encouraging the proactive adoption of best environmental practices, ACI-NA asks the Committee to again include the establishment of a pilot program of not more than 10 public-use airports where airport sponsors could use AIP funds to plan, design and construct new terminal facilities or retrofit existing terminal facilities with equipment, systems or other means of reducing adverse environmental impacts in the FAA Reauthorization bill.

Sustainability programs and Environmental Management Systems (EMSs) are also becoming increasingly widespread at airports across the U.S as mechanisms to minimize their environmental footprint. Sustainability has been described as a holistic strategy that strives to balance the needs of the present without compromising the ability of future generations to meet their own needs. Within the airport context, sustainability has broad implications throughout the entire system, including energy consumption, environmental impacts and overall facility life-cycle costs. This typically addresses operating costs such as airport infrastructure, transportation fleet, utilities and a full range of social issues such as employee retention programs and community outreach.

Sustainability has become a way of doing business at many airports such as Chicago-O'Hare, which has developed a Sustainable Design Manual to guide its entire Modernization Program. Several airports, including Miami International, Westchester County airport and Denver International, have also implemented EMSs - a set of processes and practices that enable an organization to reduce its environmental impacts and increase its operating efficiency. We would appreciate your continued support for expanding AIP eligibility for the development and implementation of EMSs, including small airports which are not currently eligible for this funding assistance.

The ability of airports to use AIP funds for operational flight procedures will provide benefits to airports, airlines and for airspace capacity, which will ultimately reduce the impact of noise on those living near airports. For instance, the implementation of a Continuous Descent Approach has been shown to save fuel while reducing noise below

the flight path. Implementation of such procedures, where, appropriate, should be facilitated. We would appreciate the inclusion of this provision in your bill for the 111th Congress.

While the FAA has effective Traffic Flow Management programs in place that allow aircraft being delayed to avoid extensive airborne holding that wastes fuel and produces air pollutants, there is no comparable program for aircraft on the airfield. Each year hundreds of thousands of aircraft are given clearance to taxi, only to spend time idling in long queues or penalty boxes while awaiting their place at the head of the runway. By establishing a pilot program at up to five airports to develop Traffic Flow Management tools, methodologies, and procedures, controllers will be able to manage the flow of taxiing aircraft on the ground. The inclusion of this provision in the FAA Reauthorization bill will help to avoid excessive backups on the ground and thus reduce emissions.

Aircraft Rescue and Fire Fighting (ARFF)

ACI-NA remains concerned about proposals to mandate specific airport rescue and fire fighting standards. In fact, the proposed standards may actually result in decreasing safety and increasing risk for passengers. Further, mandating specific measures that have not been evaluated by FAA would dramatically increase equipment and staffing requirements for airports around the country. The resulting expanded operating costs would make it difficult for small airports to retain and attract new commercial air service in the communities they serve. The FAA Aviation Rulemaking Advisory Committee

(ARAC), which included airports, firefighters and other industry stakeholders, prepared a report on the proposed ARFF requirements and has recommended a rulemaking on many of the critical issues. The report is complete and will be brought to the ARAC for consideration at its June meeting. ACI-NA supports FAA initiating the rulemaking process.

The Airport Role in NextGen

Airports are supportive of development and deployment of Next Generation Air Transportation System (NextGen) improvements. These improvements—which are being developed and evaluated both within the FAA and by the Joint Program Development Office (JPDO)—include new flight procedures, air traffic separation standards, airport design standards, and operational capabilities that will have direct impacts on how airports plan and manage their facilities. These procedures and standards will also have direct effects on airport environmental impacts including noise and emissions.

As noted in the report, *Next Generation Air Transportation System: Status of Systems Acquisition and the Transition to the Next Generation Air Transportation System*, published in September 2008 by the Government Accountability Office, “With regard to airport infrastructure, a transition to NextGen will also depend on the ability of airports to handle greater capacity.” As this report notes, airports will play a critical role in implementing infrastructure and procedural enhancements needed to meet identified capacity needs, such as runway and taxiway enhancements. Airports will also be on the

front line in providing additional airport terminal and roadway capacity commensurate with the airfield and airspace capacity increases NextGen will provide.

ACI-NA applauds the efforts on the part of the FAA and the JPDO to involve airports in NextGen development. These efforts include the ongoing work of the JPDO's Airports Working Group and the recent creation of a NextGen Task Force under the leadership of RTCA. Continued funding for these important efforts is essential to successful realization of NextGen's capacity, safety, and efficiency goals.

However, ACI-NA would like to see more organizational clarity in the FAA's JPDO's efforts, which at present are quite confusing. We would also like to see expansion in their role and involvement in setting NextGen priorities and evaluating NextGen capabilities. Of particular interest in this regard is the identification of technologies and procedures that will be ready for implementation in the near term future (i.e., within five years), the infrastructure and equipage requirements associated with them, and quantification of their operational and environmental impacts. Airports are also very interested in early identification of revised design standards and operational requirements associated with NextGen improvements—including likely future parallel runway separation standards.

With regard to airport infrastructure, a transition to NextGen will also depend on the ability of airports to handle greater capacity. One way the FAA is endeavoring to increase airport runway capacity is its High-Density Terminal and Airport Operations initiative,

which the agency has just begun to implement. Under this initiative, aircraft arriving and departing from different directions would be assigned to multiple runways and safely merged into continuous flows despite bad weather and low visibility. To guarantee safe separation between aircraft, these airports would need enhanced navigation capabilities and controllers with access to increased automation. Under this initiative, aircraft would also move more efficiently on the ground, using procedures that are under development to reduce spacing and separation requirements and improve the flow of air traffic into and out of busy metropolitan airspace. Although the implementation of this initiative is in the early stages, FAA has identified the research and development needed to move it forward. FAA has also identified runway safety technologies for accelerated implementation.

The increases in capacity expected from the High-Density Terminal and Airport Operations initiative are not likely to be sufficient to handle the expected increases in traffic. As a result, new or expanded runways will likely be needed. FAA has developed a rolling 10-year plan for capacity improvements at the nation's 35 busiest airports, and several airports are building new runways. However continued efforts in this regard are critical since the FAA's FACT II study indicates at least 14 airports will still need new runways to meet projected capacity needs, even with NextGen implementation. As all of you know, building these new runways will require considerable effort to not only develop the necessary funding, but also address the environmental and engineering challenges associated with them.

Airports are ready to work with the FAA and Congress in making NextGen a reality. We are willing to provide the infrastructure on the ground that will help make NextGen work, but again we need your help to ensure that we have the financial resources to do so.

In conclusion, airport capital needs are growing and we must act now if we are to meet the future needs of the traveling public. Increased airport capacity is critical for a safe, efficient and successful aviation system. Congress, in reauthorizing FAA, has an excellent opportunity to improve and modernize the public-private system for funding airport infrastructure. In order for that to be a success, the FAA reauthorization bill must include the financial tools that airports need to move in this direction. We look forward to working with you to pass a multi-year FAA Reauthorization bill during the 111th Congress.