Statement of

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Chairman LoBiondo, Ranking Member Larsen, and members of the Transportation and Infrastructure Subcommittee on Aviation, thank you for inviting me to participate in this hearing on Airport Financing and Development. It is an honor for me to be back before the committee.

As you know, AAAE is the world's largest professional organization representing the men and women who manage primary, commercial service, reliever, and general aviation airports. Our organization has a long history of collaboration with this committee, and we look forward to working with you as you develop the next Federal Aviation Administration (FAA) reauthorization bill.

I am pleased to be testifying along with Mark Reis, the Managing Director of the Seattle-Tacoma International Airport and Chair of Airports Council International-North America (ACI-NA). Mark is an exceptionally talented and thoughtful leader in the aviation community. I have truly enjoyed working with him, his ACI-NA colleagues, and the association's staff including Kevin Burke, ACI-NA's new President and CEO.

Mr. Chairman, the next FAA reauthorization bill provides this committee with an opportunity to closely examine the state of the aviation industry, focus on new priorities, and consider what has changed in the aviation community and on Capitol Hill since Congress passed the last multi-year FAA bill in early 2012. It also gives you an opportunity to change course and set policy objectives based on current fiscal constraints.

At a time when federal funding is increasingly scarce, it is critical that this committee provide airports with the self-help they need to finance a greater share of infrastructure projects with local revenues. To that end, airports around the country are urging you and your colleagues to raise the federal cap on local Passenger Facility Charges (PFCs) from $4.50 to $8.50 and to index the cap for inflation.

I realize that some of our aviation partners will continue to raise objections to a PFC increase even though additional revenue for airport infrastructure projects would directly benefit them, their customers, and the economy. But raising the PFC cap is a fiscally-responsible way to ensure that airports have the resources they need to increase capacity, promote competition, and enhance safety.

The following includes a more detailed discussion of PFCs as well as other financing recommendations for you to consider as you prepare for the next FAA reauthorization bill.

Increasing Demand and Congestion; Airport Capital Needs

Increasing Demand: Airports, airlines, and the FAA are expecting passenger levels to increase in the short- and long-term. Last month, Airlines for America (A4A) reported that passenger levels are expected to rise this summer "to the highest level in six years." A4A projects that 210 million passengers will fly on U.S. carriers between June 1 and August 31 – an increase of 1.5 percent from last year.

The FAA similarly estimates that passenger levels will increase to 746 million passengers this year – up from 739 million passengers in 2013. The agency's latest Aerospace Forecast indicates that enplanements are expected to increase by more than 3 percent next year to 771 million passengers. That is a slight uptick in the short-term. However, passenger levels are expected to jump more than 55 percent over the next 20 years.

The FAA anticipates that passenger enplanements will reach the one billion mark by 2027. Three years later, passenger levels are expected to rise to 1.1 billion – an increase of almost 320 million above current levels. Adding 320 million passengers is the equivalent of adding the entire U.S. population to our already constrained aviation system. That may seem like a long time, and the FAA's estimates may change some. But planning, designing, and building runways and other capacity-enhancing projects can take an enormous amount of time.

Airports simply don't have the luxury of being able to flip a switch and instantly complete a new runway or some other large capacity project. Airports need to begin preparing now for increasing passengers to come. And it will be increasingly difficult for airports to fund those projects if PFCs remain artificially capped at $4.50 as they have been since 2000.

Increasing Congestion: Without adequate airport infrastructure investment, increasing demand will likely translate into increasing congestion. The U.S. Travel Association released a report last year that vividly describes how increasing passenger levels and reduced capacity will impact passengers. The "Thanksgiving in the Skies" report makes the point that passengers will experience Thanksgiving-like congestion at most large airports at least one day a week within the next ten years.

According to the study, one in five major airports in the United States already experiences passenger levels equal to the Wednesday before Thanksgiving at least one day a week. Within the next five years, 24 of the top 30 airports will experience those Thanksgiving-like passenger levels at least one day a week. The association predicts that just ten years from now 25 of the top 30 airports will experience Thanksgiving-like congestion two days a week.

Meanwhile, flight delays and cancellations are continuing to frustrate passengers and negatively impact our economy. Just this week the U.S. Travel Association reported that nearly half of the passengers who participated in a recent survey picked flight delays and cancellations as the most frustrating aspect of commercial air travel. The findings are consistent with Department of Transportation (DOT) Air Travel Consumer Reports, which repeatedly put flight delays, cancellations, and misconnections at the top of the list for passenger complaints.

The U.S. Travel Association survey also suggests that flight delays, cancellations, and other hassles caused U.S. passengers to avoid 38 million trips in 2013. According to the report, hassle factors associated with commercial air travel cost our economy $27.2 billion in travel spending last year and cost passengers another $8.5 billion in "lost time, missed connections, and missed travel activities."

Significant Airport Capital Needs: Airports also face significant capital needs. As part of its 2013 National Plan of Integrated Airports System (NPIAS), the FAA estimated that there is $42.5 billion in AIP-eligible projects between 2013 and 2017 or approximately $8.5 billion per year. The annual average is more than twice the $3.35 billion that airports received in AIP funds in Fiscal Year 2014.

The FAA's NPIAS provides a good snapshot of certain airport capital needs. But the totals only reflect those projects that are eligible for federal funds. The FAA report does not include other necessary but ineligible infrastructure projects such as gates and certain terminal projects that airports fund with PFCs and other revenue sources.

Like the FAA, ACI-NA has a long track record of evaluating airport capital needs. The association's 2013 Capital Needs Survey estimated that airports will have $71.3 billion in capital needs between 2013 and 2017 or $14.3 billion annually for AIP-eligible projects and other necessary projects that are not eligible for federal funds. This is far more than the $5.9 billion that airports expect to receive in AIP funds and PFC revenue this year.

Recommendations for Helping Airports Finance Critical Infrastructure Projects

Airports rely on a combination of PFCs, AIP funds, bonds, state and local grants, and other airport revenue to finance infrastructure projects at their facilities. Ensuring that airports have adequate funding to build critical infrastructure projects will require Congressional action on the first three accounts. Needless to say, flat or reduced AIP funding will only increase pressure on airports to secure funds from other revenue sources like PFCs.

Raise Federal Cap on Local PFCs: AAAE, ACI-NA, and the Gateway Airports Council – a group of large hub airports – are urging Congress to raise the federal cap on local PFCs from $4.50 to $8.50 and to allow for the periodic adjustment of the cap for inflation. Raising the PFC cap continues to be our top priority for the next FAA reauthorization bill.

For almost 25 years, the PFC program has helped airports increase safety, security, and capacity; mitigate the impact of aircraft noise; and increase competition. Money generated from PFCs augments AIP funding and other sources of revenue that airports use for a variety of purposes including building new runways, taxiways, and terminals.

A PFC increase is long overdue. The cap has not been adjusted since 2000 – fourteen years ago. Considering the ongoing pressure to reduce federal spending, it is now more important than ever that Congress raise the federal cap on local PFCs. Raising the cap would allow airports to finance a greater share of critical infrastructure projects with their own local revenues.

The $253 million cut in AIP funding that airports sustained last year as part of the sequestration process underscores the need for Congress to raise the federal cap on local PFCs. At a time when there is enormous pressure to reduce discretionary spending, raising the PFC cap would provide airports with the self-help they need to finance critical infrastructure projects without relying as much on scarce federal funds.

PFCs Help Reduce Delays; Increase Capacity: Airports often rely on PFC revenue to increase capacity and reduce delays at their facilities. The Port Authority of New York and New Jersey, for example, is using PFCs and other sources of revenue to reconstruct runways at John F. Kennedy International Airport. The improved runways will help increase capacity, reduce delays, and enhance safety at one of the nation's busiest airports.

The Port Authority is both widening its runways to accommodate larger aircraft and raising them by a foot for flood mitigation. It is also using concrete instead of asphalt to increase longevity and to reduce the need for maintenance closures. In the past five years, the Port Authority has used $470 million in PFC revenue for runway widening and raising, $162 million for Runway Safety Areas, and $115 million for delay reduction. Again, this $750 million in capacity- and safety-related projects simply wouldn't be possible without local user fees.

Meanwhile, the Port Authority is moving forward with plans to replace the aging Central Terminal at LaGuardia Airport. Airport terminals – like runways and taxiways – increase capacity. Without a new terminal, LaGuardia simply wouldn't be able to efficiently accommodate four million annual passengers.

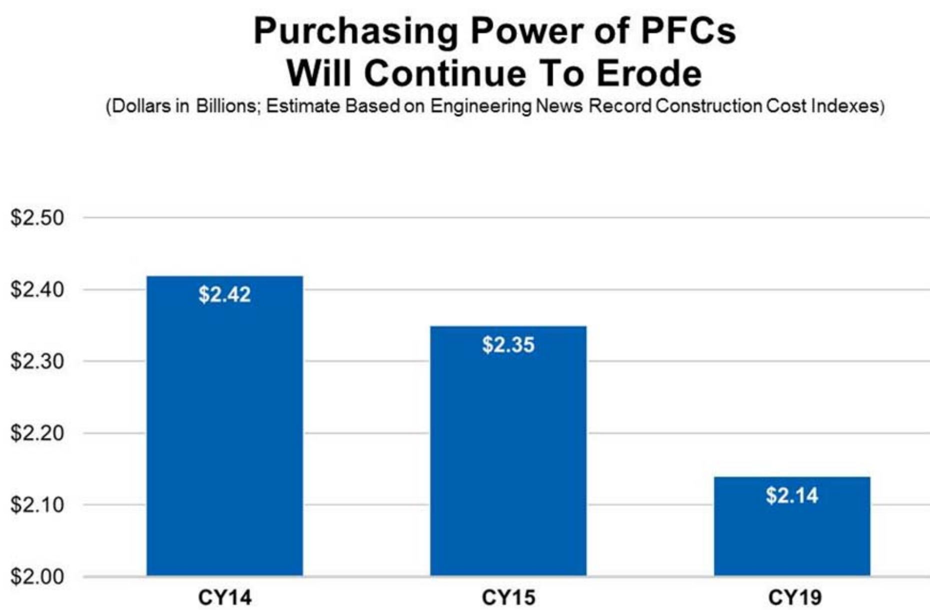
Almost half of the funding for the more than $3 billion Central Terminal project will come from PFCs. Raising the PFC cap to $8.50 and indexing it for inflation would allow airports like those in New York and New Jersey to invest in additional capacity- and safety-related projects on the airside and the landside.

Like the Port Authority, the San Francisco International Airport is using PFCs to expand Runway Safety Areas. The airport has a $4.4 billion 10-year capital plan that includes PFC-eligible terminal capacity and modernization projects as well as airfield taxiway realignments that will improve aviation safety. But without a higher PFC cap in place, the airport's debt financing would likely increase, and the additional costs would likely be reflected in airline rates and charges.

Although some airlines continue to voice their opposition to a PFC increase, carriers time and time again support specific PFC-funded projects that benefit them directly. For instance, the Salt Lake City International Airport intends to use almost $324 million in PFCs and another $557 million in PFC-backed bonds to help construct a new international terminal. It is my understanding that none of the airlines that plan to operate out of the terminal opposed the PFC-funded project.

Construction Cost Inflation: Airport efforts to prepare for increasing passenger levels that I mentioned earlier have been hampered by rising construction costs. According to the Means Construction Cost Indexes, the average construction costs for 30 major U.S. cities jumped more than 65 percent since 2000 – the last time Congress raised the PFC cap. And construction costs are continuing to rise.

Unfortunately, rising construction costs have eroded the purchasing power of PFCs and AIP funds. For instance, a $4.50 PFC is only worth less than $2.50 today. Unless corrective action is taken, the value of PFCs will erode even more by the time the current FAA reauthorization bill expires in 2015. The value of PFCs will decline to just over $2 by 2019 unless Congress acts.



In order to keep up with construction inflation, it is necessary to raise the PFC cap to $8.50 today. Keep in mind that raising the cap to that level would only allow PFCs to keep up with construction cost inflation that has already occurred. The cap also needs to be adjusted periodically to prevent further erosion of PFCs.

PFCs are not taxes. PFCs are local user fees charged to passengers using airport facilities to help defray the costs of building airport infrastructure. Moreover, PFCs are imposed by states or units of local government – not the federal government. PFCs are not collected by the federal government, not spent by the federal government, and not deposited into the U.S. Treasury.

Provide Adequate AIP Funding: AAAE and ACI-NA are urging Congress to maintain adequate funding for airport infrastructure projects in the next FAA reauthorization bill and to protect AIP funding from additional cuts in the sequestration process. No general fund revenues are used for AIP grants. The AIP program is supported entirely by users of the aviation system through various taxes and fees that are deposited into the Airport and Airway Trust Fund.

AIP is a critical source of funding for airports of all sizes and especially smaller airports around the country that don't generate as much PFC revenue or have access to the bond market. Large and medium hub airports also depend on AIP funding – particularly money distributed through the Letter of Intent Program – to help pay for large capacity-enhancing projects.

Even before the first round of sequestration last year, flat AIP had not been nearly enough to cover all eligible projects. As members of this committee know, the FAA Modernization and Reform Act of 2012 authorized $3.35 billion for AIP annually – down from the $3.515 billion that Congress appropriated for AIP in Fiscal Year 2011. Airports received approximately $3.1 billion in Fiscal Year 2013 after the diversion of $253 million to pay for FAA operations. Overall funding ticked up slightly to $3.35 billion in FY14.

Downward Pressure on AIP
(Dollars in Billions)

*Includes $253 million cut.

Opportunity to Recalibrate AIP: Raising the PFC cap and periodically adjusting it for inflation could potentially open the door for recalibrating the AIP program. With a PFC increase firmly in place, you could focus limited federal funds on smaller airports that need AIP funds the most. Many large airports are willing to give up their AIP entitlements in exchange for the right PFC increase. But again, any effort to modify the AIP program must begin by raising the PFC cap and indexing it for inflation.

The Administration is proposing to raise the PFC cap to $8 and reduce AIP from $3.35 billion to $2.9 billion – saving about $450 million annually. The Administration is also simultaneously proposing to eliminate entitlements for large hub airports. But the Administration has rightfully made it clear that its proposal to reduce AIP funding is contingent upon raising the PFC cap.

The Administration's plan represents a step in the right direction. However, airports are calling on Congress to raise the PFC cap slightly higher to $8.50 and to index it for inflation. Once that happens, you could potentially recalibrate the AIP program and focus limited federal funds on smaller airports. But a number of steps would be required to ensure that small communities are kept whole should AIP funding dip below $3.2 billion as the Administration is proposing.

Preserve and Restore Tax Exempt Financing for Airport Bonds: While it isn't under the Transportation and Infrastructure Committee's direct jurisdiction, airports urge you to work with your colleagues on the Ways and Means Committee to help finance infrastructure projects with bonds. Specifically, we are urging Congress to retain the tax exemption for municipal bonds and to eliminate the tax burden of the Alternative Minimum Tax (AMT) on airport private activity bonds.

AAAE and ACI-NA have long argued that federal tax law unfairly classifies the vast majority of bonds that airports use as private activity even though they are used to finance runways, taxiways and other facilities that benefit the public. Since private activity bonds are subject to the AMT, airport bond issuers traditionally have been charged higher interest rates on their borrowing.

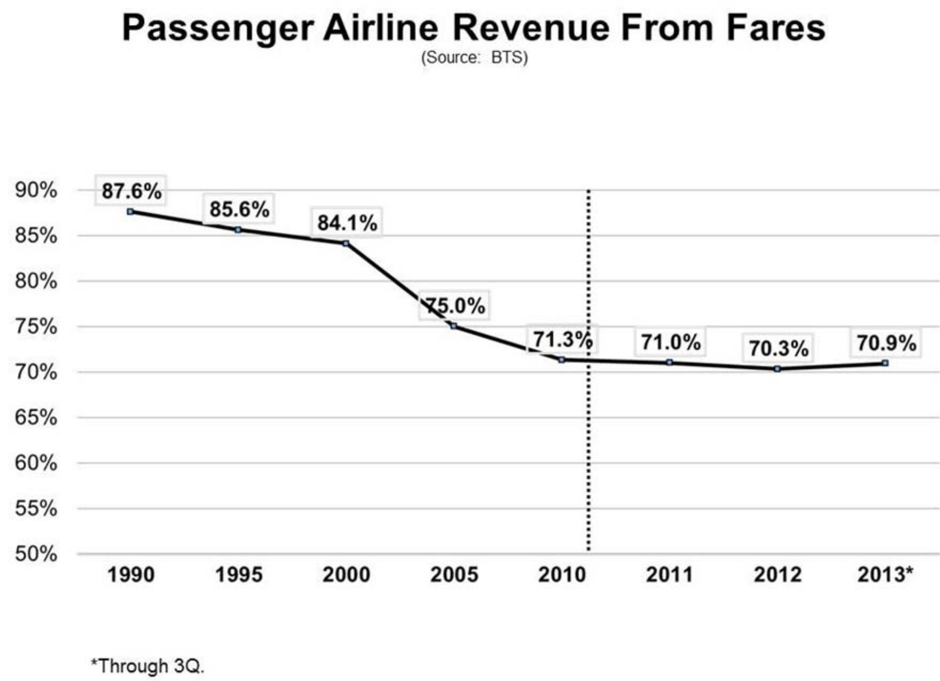
A permanent AMT fix would help airports to reduce their borrowing costs, allow them to invest in more infrastructure projects, and support more jobs. Moreover, it would reflect the fact that airports use private activity bonds on projects that benefit the traveling public and should not be subject to the AMT in the first place. Since reducing borrowing costs would benefit airports and their customers, this is one airport infrastructure financing proposal that airports and airlines will likely continue to agree makes sense.

Tax Airline Bag Fees: While airports and airlines may agree on the need for AMT relief, we continue to have a fundamental disagreement over the airlines' increasing reliance on checked baggage fees and other ancillary charges. AAAE is recommending that those fees be subject to aviation excise taxes like base air fares and that the revenue be deposited into the Airport and Airway Trust Fund.

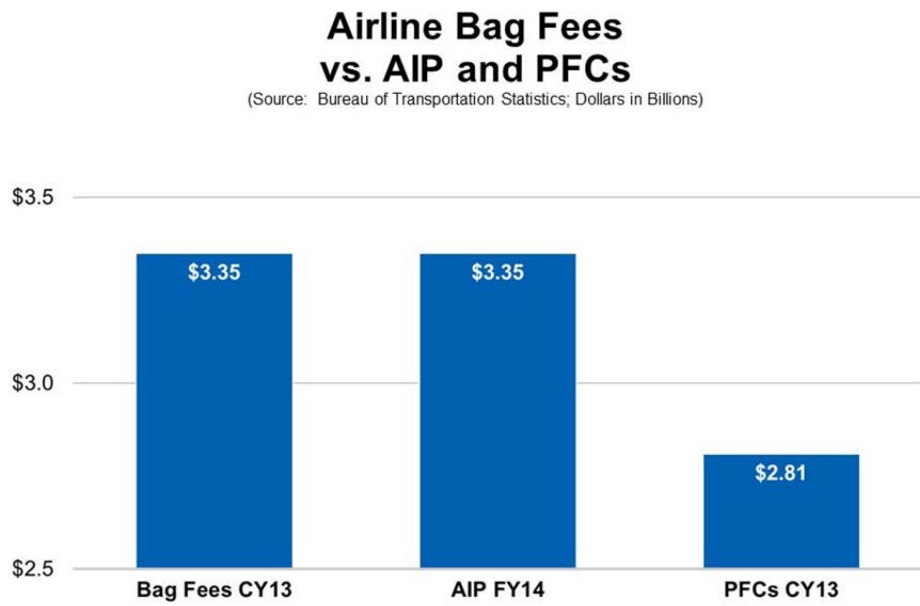
Airport operators respect our airline partners and the highly competitive nature of the commercial airline industry. However, at a time when federal funding for airport infrastructure projects is declining, and the purchasing power of PFCs is eroding, the airlines' current business model simultaneously reduces funds available for airport infrastructure projects and air traffic control modernization.

Air carriers are relying on revenue generated from checked baggage fees and other ancillary charges and less on funds from base airline tickets. Unlike airline tickets, baggage fees and some other ancillary charges are not subject to a 7.5 percent excise tax. In other words, the airlines' a la carte pricing model allows carriers to avoid paying aviation excise taxes for services that were once included in the price of traditional airline tickets.

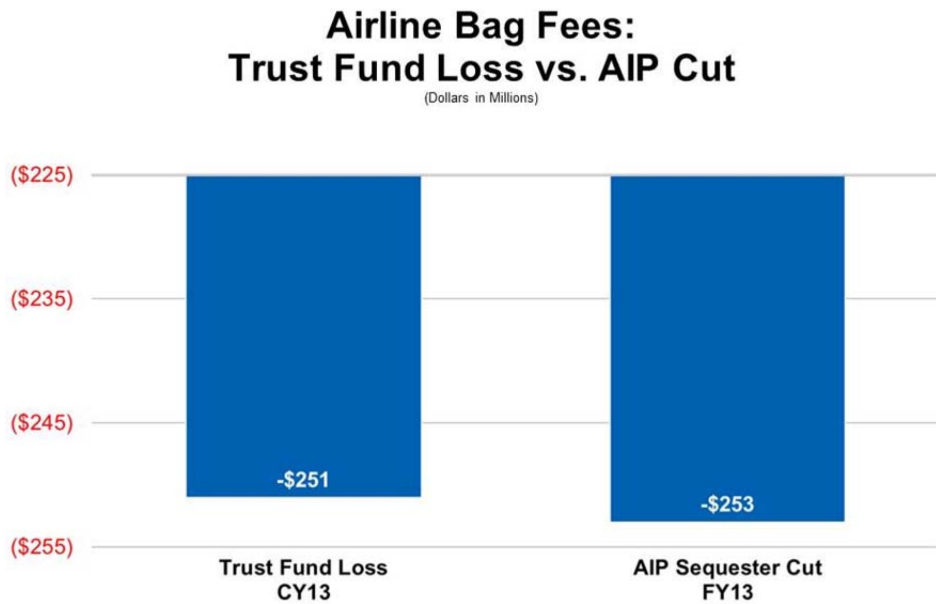
The airlines' reliance on baggage fees and the shrinking percentage of revenue from base fares has been a growing trend in recent years. According to DOT's Bureau of Transportation Statistics (BTS), the percentage of airline revenue from base ticket sales has dropped from almost 88 percent in 1990 to less about 71 percent in the first three quarters of 2013.



BTS recently reported that U.S. airlines collected almost $3.35 billion in baggage fees in 2013 – about the same amount that carriers collected in the previous year. Those figures are for bag fees alone and do not include revenue that the carriers generate from other ancillary charges. The airline bag fee revenue is almost the same amount that Congress approved for AIP in FY14.



The airlines' use of ancillary fees shortchanges the Airport and Airway Trust Fund of revenue that would otherwise support airport infrastructure projects, air traffic control modernization, and other aviation system improvements. **Taxing baggage fees at the same 7.5 percent would have generated approximately $250 million last year – about the same amount of AIP cuts that airports sustained last year. Since the beginning of the 2009, a 7.5 percent excise tax on bag fees would have generated more than $1 billion.**



We appreciate the airlines' responsibility to answer to their shareholders. And airports want our airline partners to be successful. But the ancillary fee loophole should be closed. Closing the loophole would generate an additional $250 million for AIP and NextGen annually. It would also help the nation meet the long-term needs of our aviation system.

Conclusion

Chairman LoBiondo, Ranking Member Larsen, and members of the Transportation and Infrastructure Subcommittee on Aviation, thank you again for inviting me to participate in this hearing on airport financing and development. I look forward to working with you as you continue preparing for the next FAA reauthorization bill.