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 important hearing. The airport community appreciates the opportunity to explain the state of airports and our significant but changing capital needs, and it is significant that both ACI-NA and AAAE are represented here today. Our two organizations are unified in our efforts on the upcoming FAA reauthorization, particularly when it comes to airport financing, so I am pleased to share this opportunity with our partner, Todd Hauptli.

I am the Managing Director of Seattle Tacoma International Airport (Sea-Tac). I am here today in my capacity as the Chair of Airports Council International – North America (ACI-NA), and am representing the view of the airport industry on behalf of the local, regional, and state governing bodies that own and operate commercial service airports in the United States. ACI-NA member airports enplane more than 95 percent of the domestic and nearly all the international airline passenger and cargo traffic in North America. More than 350 aviation-related businesses are also members of ACI-NA.

America's commercial airports are powerful job creators. Using data from more than 272 airport economic impact studies, a 2012 study found that U.S. commercial airports support nearly 10.5 million jobs, create annual payrolls totaling $365 billion, and produce an annual output of $1.2

trillion. These jobs have an enormous impact on each community airports serve, and I can attest to that because I can see that impact at Sea-Tac every day, where the airport's activity generates 138,000 jobs, including 90,000 direct jobs.

In response to the Subcommittee's request, I would first like to offer a brief overview of airport finance, as well as the sources and uses of airport revenues. Second, I will discuss the challenges airports face in meeting our capital and operating needs, and outline some suggested approaches to address these challenges.

The airport industry today is vastly different than what it was just a few years ago. As the aviation industry becomes more of a global marketplace and we see continued consolidation of the domestic airlines, airports have had to adapt business models to keep up with those changes. With these global influences, passengers are comparing airports to their counterparts outside the United States. We have been challenged to meet customer service demands and make capacity enhancements all while trying to keep airline rates and charges as low as possible. In the wake of industry consolidation, smaller airports and their communities are struggling to retain air service or attract new service. In this environment, airports are acutely aware of the ever-increasing pressure to keep airline landing fees and rental rates down. We have been challenged to meet customer service demands and enhance our facilities, while trying to attract new air service at competitive fares. Frankly, meeting these challenges remains a struggle for our industry.

U.S. airports lack the ability to raise the revenues necessary to meet our industry's current challenges. The federal airport financing model is overly complicated and unrealistic to sustain our industry in the long-term – especially given the scale of airports' future capital needs. Since the last increase of the locally set and collected Passenger Facility Charge (PFC) user fee in 2000, airports have been doing more with less. The reality is that we have hit a wall. Innovative financing and the generation of additional non-airline revenues has been a hallmark of the airport industry for decades, but given government restrictions we can no longer provide the means necessary to keep up with the demands of our aging facilities.

As you begin the process of writing a new Federal Aviation Administration (FAA) reauthorization bill, this Subcommittee and the Congress will have a significant impact on the future of financing for the airport industry. The options are difficult at best in the current federal funding

environment. I look forward to discussing those with you today. However, it is important to look first at the current major funding sources available to U.S. airports.

Airport Financing

Airport financing is complicated at best. Airports can access different funding streams, but each has its own restrictions. The first step to understanding airport financing is to know that all revenues earned at the airport have to stay and be reinvested at the airport. The FAA mandates that airports have to run like businesses and be as self-sustaining as possible. Each funding source for airports comes with its own restrictions which are either put in place by federal or local regulation or by tenant agreements. The airport industry is proud of its track record of being well run and innovative in this highly regulated environment.

In terms of federal funding, airports have access to the Airport Improvement Program (AIP), which is funded by passengers as part of the 7.5 percent ticket tax and segment fees assessed on airline tickets. For the past few years, Congress set the AIP at $3.3 billion, which is down from the $3.5 billion level between 2007 and 2011. AIP is mainly used for projects on the airfield. This funding is distributed to general aviation airports in a flat dollar amount, and to non-, small, medium and large hubs through an entitlement formula as well as discretionary grants. AIP truly serves as a lifeline for the non-hubs, small hubs and many medium size hub airports. However, funding for the program has declined over the past decade.

Sea-Tac's complete reconstruction of our center runway is a prime example of an AIP-eligible rehabilitation project. Even though innovative maintenance operations have enabled the airport to more than double the runway's original design life, these efforts are now achieving diminishing returns. After consulting with the FAA, we have launched a $99 million runway reconstruction project in 2015 to address safety concerns and minimize future cost escalation.

The most important source of airport funding is the Passenger Facility Charge user fee, which is set and collected at the local level but capped at the federal level. The PFC was created by Congress in 1990 to allow an airport to have a local financing option to meet the community's demands for increased airline competition and enhanced facilities. When it was established in 1990, the locally imposed PFC user fee was initially set at a maximum of $3.00 and, to date, has been increased only one time. In 2000, the PFC user fee cap was increased to $4.50. The PFC user fee has remained unadjusted for fourteen years.

These fees are paid by passengers to airlines when they purchase their ticket. The airlines then remit the fees to the appropriate airport, retaining 11 cents per PFC user fee collected. The majority of commercial service airports charge the maximum $4.50 PFC user fee. This financing tool has raised $41 billion for the entire industry since the creation of the program. PFC user fees can be used to fund terminal space used by airlines, capacity enhancements, and airside improvements. Furthermore, PFC user fees can be used to leverage bonds which are the most common vehicle by which airports finance infrastructure.

It's important to note that PFC user fees are local, not federal, funding. The federal government never touches the fees and the decision to charge a PFC is made by local airport governing bodies. While airlines and community stakeholders play a role in the PFC approval process, the decision about whether or not to charge a PFC user fee and use it as a funding source is truly a local decision. The end result industrywide is that more than 90 percent of PFC user fee applications are approved without opposition. This local financing option has worked well for the past 24 years. However, PFC user fees have not kept up with inflation. To provide airports the same PFC spending power today as we had in 2000, the PFC cap would need to be $8.50.

Sea-Tac will soon commence work on a $344 million new International Arrivals Facility, in which passengers will clear U.S. Customs and Immigration. Most of the project costs are PFC-eligible. This project is at the core of Sea-Tac's goal of doubling the number of international flights and destinations it serves. Rapid international air service growth has led to severe congestion, a situation that has become a competitive liability and barrier to future growth.

There is another important issue within airport financing that I want to highlight. In an environment of airline consolidation, the PFC user fee is necessary to allow price and service competition. Many airport-airline agreements contain provisions which give incumbent airlines the ability to delay or veto airport expansion projects. Airlines often exercise this provision when an airport seeks to create new capacity that may benefit a potential competitor. The PFC user fee was specifically developed to address this threat to competition. There are instances of the value of PFCs to facilitate airline growth and competition at airports across the country. For example, Buffalo Niagara International Airport expanded its terminal facilities to accommodate the growth of low cost carriers, a project funded by PFCs. As a result of that low cost carrier growth and the increased airline competition, air fares decreased by 28 percent.

As AIP funding has been cut in recent years and the PFC user fee has lost half its purchasing power, airports have increasingly used longer-term bond financing for projects. Bond proceeds are the largest sources of funds for airport capital needs, historically accounting for approximately 54 percent of the total capital funds. Depending on the nature of the project, airports can access municipal bonds that are fully tax-exempt, but subject to the Alternative Minimum Tax (AMT), or taxable. However, bonds must be repaid; bonds are not free money as some would lead you to believe.

Accessing the bond market requires long-term planning and is very much dependent on future revenues and reserves. Like any other municipality that issues bonds, airports must demonstrate sustainable future cash flows to repay additional debt. As part of our preparation for a new bond issue, we also must demonstrate how we will pay debt service if anticipated traffic were to decrease. Airports cannot simply access the market without careful financial planning. As a whole, the airport industry maintains excellent credit ratings. This allows us not only to access capital but also issue debt at lower rates. This translates into lower costs for our airline and other tenants and, ultimately, passengers. Make no mistake: there is a connection between credit ratings and lower costs that are passed on to the passenger.

Most airport bonds are repaid through general airport revenues or PFC user fees. In some cases, airports have PFC user fees pledged for 30 or more years to repay money being borrowed today or already borrowed. That's the case at McCarran International Airport in Las Vegas. The airport carefully planned the financing for their $2.4 billion new terminal, Terminal 3, designed to meet today's aviation demands for both domestic and international traffic. However, the unforeseen Great Recession and the downturn in traffic have limited the Capital Plan going forward that can be financed with debt.

As a result, the airport now has the PFC user fees they are collecting today pledged for the foreseeable future. Complicating the financing even further is McCarran's limited ability to include additional debt service in airline rates and charges. As a truly tourist destination market, McCarran has little leverage to pass along additional costs that would raise airline's cost per enplanement. Doing so would jeopardize the slight improvements the airport is seeing in returning service. Ultimately the fully pledged PFC user fees for debt service at McCarran offers very little flexibility to fund any new projects, including those that would enhance customer service.

As PFC and AIP spending power has eroded so significantly, airports have had to increase their reliance on two other sources to repay the debt required to fund necessary airport infrastructure. We are increasing our airline rates and charges – landing fees, terminal rents, etc. – which account on average across the industry for about 45 percent of airport revenue. We are also increasingly using the net income derived from non-aeronautical revenue sources like dining and retail concessions, parking, property leases, and other services.

Most airport projects are financed through a combination of funding sources. For a large hub like Sea-Tac, an AIP-eligible project will not be financed entirely by AIP. Many of those projects are simply too large. First, there is a local match that requires another source of funds. Second, for large projects, actual AIP funding received is far less than the full share eligible for federal funding. Therefore, we have to look at using a variety of funding sources.

As a large hub, we have more flexibility to work directly with our airline partners to meet their needs. At Sea-Tac, for example, we currently project we will spend as much as $2.5 billion on capital improvements over the next ten years. This program includes renovation of 40-year old concourses, seismic improvements, vertical circulation, additional gates, expansion of basic infrastructure, as well as the runway reconstruction and the new International Arrivals Facility I mentioned earlier. We will have to issue substantial new debt, but we have very limited incremental PFC capacity left. As a result, we will pay for that debt through higher airline rates and charges and spending down our cash reserves to the minimum we believe required.

The flexibility we have at Sea-Tac is not always afforded to my colleagues who run small airports. Small airports have similar costs to maintain their runways and taxiways like larger airports, but with fewer passengers, the costs of making those improvements and the constant need to modernize and keep up with building and facilities maintenance can be much more difficult to finance. That is why the AIP program has been a lifeline for small airports. However, as both the PFC spending power and the AIP program funding has declined, larger airports could seek more AIP discretionary funding and less could be available for small airports. U.S. airports were designed to operate as a system, where airports of all sizes work together to collectively meet the needs of the flying public. As you begin your work on FAA reauthorization, the airport industry requests that you provide both larger and smaller airports the means of meeting their financial needs.

Investing in Our Airports

According to a comprehensive capital needs study undertaken by ACI-NA which examined all projects, regardless of funding source eligibility, the airport industry as a whole has an estimated $71.3 billion in airport infrastructure needs over the next five years. This is a very large number, so it is important to break it down and explain the changing trends within the airport community. Capital needs included in this $71.3 billion are diverse and varied. They cover safety, security, rehabilitation and congestion-alleviating projects.

Airports need to spend an average of $13.4 billion every year. For the past few years, AIP has provided $3.2 billion, while PFC user fees equaled $2.8 billion in 2012. Together, AIP and PFCs provide airports roughly $6 billion a year to fund capital projects. U.S. commercial airports' annual debt service expense is $5.6 billion alone, far exceeding the $2.8 billion of PFC user fees collected in 2012.

Airlines argue the airports are flush with cash and, therefore, do not need the PFC user fee cap to be raised. That is simply not the case. A total of 388 U.S. commercial airports have $10.6 billion cash on hand. More than half of that amount, however, is tied to operating reserve funds, coverage accounts, contingency funds, and working capital needs. The remaining amount is committed to match AIP grant funding or to fund other projects. As a comparison, the four largest U.S. airlines alone reported a total cash balance of $22 billion at the end of 2013. I am not making a comparison of the airport and airline figures or questioning the appropriateness of the airlines' cash balances. My point only is that one cannot simply suggest a cash balance is too high without understanding its strategic purpose.

Allow me to provide several examples of the diverse array of projects that make up the $71.3 billion capital needs at airports.

In addition to the current six major "capacity enhancement" projects (critical airfield projects that contribute to the overall national airspace system), airports are modernizing terminal facilities to accommodate airline route and frequency growth, promote competition, expand baggage systems to meet current needs, and update facilities that were built as much as 50 years ago.

In the United States, the average airport facility is at least 40 years old. In order to keep costs down, airports have been taking a Band-Aid approach to facilities. Just as is true for highways,

airports can only apply so many Band-Aids to aging facilities. Furthermore, we are seeing increasing demands on airport infrastructure by the modernization of aircraft fleets as they increase size and move to more efficient technologies. Our old facilities, in many cases, have just not kept up with changing technology. Updating facilities is not cheap. For example, Dallas/ Fort Worth International is currently undergoing a $2 billion terminal renovation project to update 39 year old facilities to meet the demands of domestic and international passengers. And it has recently announced that it is projected that DFW will need to add yet another terminal to keep up with passenger and airline demands.

Runways and taxiways must meet FAA's appropriately high standards to maintain safe landing and takeoff surfaces for aircraft. Filling potholes is not an option. The basic maintenance of runways or taxiways is captured within the overall airport system's capital needs. In addition, the FAA has mandated the creation or extension of Runway Safety Areas (RSAs) to handle an overrun landing or rejected takeoff. At Oakland International Airport, a $94.6 million project is underway to enhance RSAs to comply with FAA regulations. This project is another part of that $71.3 billion in airport capital needs.

Often, airport capital needs are thought of as the needs of just the large or medium hubs. The need, however, extends to smaller airports as well. For example, Greenville-Spartanburg International Airport is currently undergoing a $125 million improvement project that will help modernize its facilities to accommodate new service entrants and the changing nature of the aviation industry to provide better service for the local community.

At my own airport, we are in the process of undergoing a major update of our baggage system, which will not only improve efficiency but also enhance security. Sea-Tac's current baggage system consists of six separate systems which have been added one to the other over the past fifty years. It is inefficient and requires duplicative Transportation Security Administration (TSA) baggage screening systems. The $317 million optimization program is an important step in building a single processing facility that will allow the airport to address current challenges, allow us to handle the anticipated 50% growth in passengers within the next decade, and very substantially reduce the cost of baggage screening by the TSA.

Meeting Airports' Needs and the Role of Congress

If we can all agree that we must address the need to provide adequate and sustainable airport capital funding – and surely we should all be able to agree that we cannot ignore the well-documented needs of such a critical component of our nation's infrastructure – then our focus should be on finding the solution.

Like so many other problems facing our country, the challenge for this Congress, airports, and our airline partners will be to find the solution that addresses the needs ***AND*** the solution that is practical and attainable in this environment. While modernizing the PFC user fee by restoring its purchasing power to $8.50 and indexing it to inflation is a possible solution, and indeed the one we believe is the best, most practical solution, it is not the only possible solution to this challenge.

If we do not modernize the PFC user fee, we could increase AIP funding. Increased AIP funding could be used to meet the urgent infrastructure needs of America's airports. While increasing AIP is certainly a theoretical option, we recognize the realities of the current budget situation facing this Committee and this Congress. We understand that it is simply not realistic for us to expect an increase in AIP funding sufficient to close the capital funding gap. Given the greatly diminished balance of the Airports and Airways Trust Fund, an adequately funded AIP program would require far greater use of general fund monies or a sizable increase in airline taxes. We recognize that not only is there little appetite or ability to significantly increase AIP funding, but that also the trend has been – as it is with many other federal programs – to see a decrease in federal spending.

To find the best solution to a challenge we must look beyond our borders and to the experience of other countries and other airports for ideas that could work here in the United States. For example, Canadian airports have implemented Airport Improvement Fees (AIFs) in order to fund needed airport construction and improvements. Similar to the PFC user fee, the fees are collected at time of ticketing and are reflected in the additional charges portion of the passenger's fare. However AIFs, unlike the PFC user fee, are uncapped, and the amount is locally controlled and set to meet a specific airport's needs. As a result, some airports in Canada charge upwards of $30 per ticket for each passenger. While adopting a model similar to the Canadian system is one alternative, we believe the PFC user fee can be modernized for a fraction of that cost.

By simply raising the PFC user fee cap by $4.00 and adjusting it to inflation, we can provide the lowest cost solution to keep American's airports modern and competitive. Modernizing the PFC user fee also provides the added benefit of increasing local control and putting decisions into the hands of local authorities. These local governing bodies are the entities most appropriate to determine what level of user fee is appropriate in their community. By choosing to modernize the PFC user fee, this Congress can ensure that our airports continue to be part of the engine of economic growth in communities across the country.

In Conclusion

Our colleagues in the surface transportation community struggle with financing projects because of a deficient trust fund. The airport industry does not want the aviation trust fund to be next. The Airport and Airway Trust Fund simply cannot handle the $71.3 billion in airport infrastructure needs. Airport infrastructure needs are real and significant. It is a looming crisis that Congress must address.

We realize that you face many challenges with respect to both funding and policy decisions as you begin working on a new FAA reauthorization bill. For the past 14 years, airports have done more with less, but we're at a breaking point. Continuing in that trend would mean many airports – especially the smaller ones and the fast-growing ones – may be unable to fund the projects critical to their communities. Furthermore, as your colleagues on other committees consider tax legislation, airports face losing access to low cost debt through possible changes in municipal and private activity bonds' tax-deductibility. With many airports maxed out with debt, increasing the PFC user fee is the only solution.

Airports need a modernized PFC that will help maintain our facilities, improve safety, and be able to offer our communities the lowest-cost service options. This, coupled with adequate funding for AIP, will put the airport industry back on track to meet service demands and to serve as economic engines for communities across the country. We look forward to working with the members of the Aviation Subcommittee and our industry partners to ensure a strong airport and aviation system.