



**STATEMENT OF  
AIRPORTS COUNCIL INTERNATIONAL – NORTH AMERICA**

**Hearing On**

**FEDERAL AVIATION ADMINISTRATION'S PROPOSAL  
TO REAUTHORIZE THE FEDERAL AVIATION  
ADMINISTRATION- PART II**

**March 8, 2007**

**Before the U.S. Senate Committee on Commerce,  
Science and Transportation**

Mr. Chairman, on behalf of Airports Council International – North America (ACI-NA) and our United States airport members and associate member companies, I want to thank you for the opportunity to submit this statement for the record. The mission of Airports Council International - North America (ACI-NA) is to advocate policies and provide services that strengthen the ability of air carrier airports to serve their passengers, customers and communities. ACI-NA is the largest airport-based association, representing local, regional and state governing bodies that own and operate commercial airports in the United States and Canada. ACI-NA member airports enplane more than 95 percent of the domestic and virtually all the international airline passenger and cargo traffic in North America. Nearly 400 aviation-related businesses are also members of ACI-NA.

This year will be a critical year for aviation in the United States. On September 30 of this year, both the authorization for the Federal Aviation Administration's (FAA) programs and the taxes and fees that support those programs will expire. This provides an historic opportunity to make needed revisions to the way our national air transportation system is funded, developed, and operated. Many in the industry are calling this the most important reauthorization in decades, and we concur with this view.

Air transportation has recovered from the tragic events of September 11, 2001 with passenger traffic and cargo volumes now surpassing pre-9/11 levels. This places many airports at or near capacity. The FAA predicts that by 2017, only ten years away, the United States air transportation system will have to expand to accommodate 1.07 billion passengers annually.<sup>1</sup> This is a 45% increase over today's passenger levels. Cargo volume is also expected to grow at 5.2% annually, resulting in 71.7 billion Revenue Ton Miles by 2017<sup>2</sup>, which represents a dramatic 83% increase over today's volume.

Airports need to respond to the inevitable capacity strains associated with these higher traffic levels by building facilities that provide safe, secure, comfortable and environmentally compliant facilities for air travelers. With runway and other major capacity projects often taking upwards of ten years to complete, it is clear that we need to take action now to be able to accommodate increasing demand.

An assessment of airport capital needs is being completed by ACI-NA based on a 2006/2007 survey of U.S. airport operators. The preliminary results of this survey indicate that total capital development costs for all airports are approximately \$17.5 billion per year from 2007 through 2011, in current year dollars. This represents a 19.5% increase in annual capital needs from a similar survey conducted in 2005 for the period 2005-2009.

Last month, FAA released the *Next Generation Air Transportation System Financing Act of 2007*, proposing significant and challenging concepts to change the funding and investment policies of the airport and airways system and would affect our member airports throughout the United States. While the proposal provides an innovative framework to begin discussions,

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<sup>1</sup> Federal Aviation Administration, "FAA Aerospace Forecast Fiscal Years 2006-2017" <  
[http://www.faa.gov/data\\_statistics/aviation/aerospace\\_forecasts/2006-2017/media/FAA%20Aerospace%20Forecasts%202006-17.pdf](http://www.faa.gov/data_statistics/aviation/aerospace_forecasts/2006-2017/media/FAA%20Aerospace%20Forecasts%202006-17.pdf)>

<sup>2</sup> Ibid.

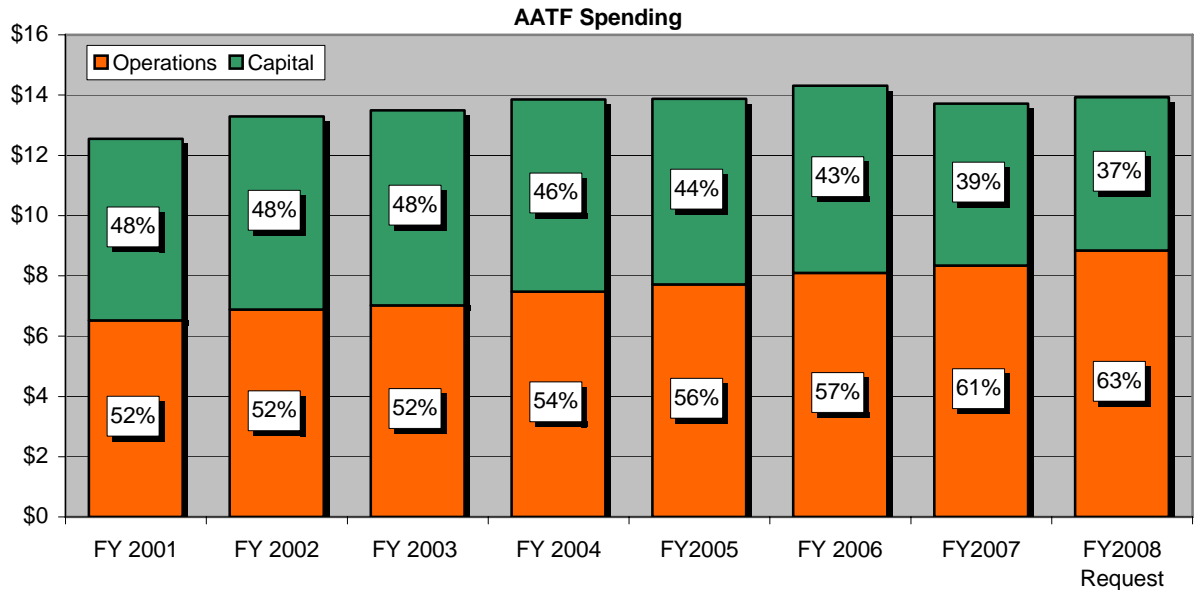
more work is necessary to ensure that funding for airports is properly conceived so that it meets growing demands for passenger and cargo service. ACI-NA and the airport community firmly believe that the five provisions below are critical for the future of U.S. airports and, therefore, must be included in any final FAA reauthorization bill enacted by Congress.

- The FAA and its programs should be funded by a stable and predictable revenue stream that provides sufficient resources for capital investments in the air traffic system. Additionally, fees and/or taxes targeted to capital investment accounts should be protected for their intended investment use.
- The FAA should be bolstered by a strong, guaranteed General Fund contribution.
- The Passenger Facility Charge (PFC) ceiling must be increased to \$7.50.
- The PFC application process must be streamlined and eligibility rules aligned with airport needs.
- The Airport Improvement Program (AIP) needs to be simplified and funded at or above today's level.

#### Stable, Predictable Funding Stream

FAA proposed changes to the current system of taxes and fee to a structure largely based on user fees that will require thorough explanation and justification. While ACI-NA has not taken a position on whether to retain the current system or to implement a user fee based system, we believe this discussion is appropriate as we must ensure that adequate funding is in place to pay for its capital programs, including AIP and an overdue program for air traffic modernization through the Facilities and Equipment, or F&E, budget account. As can be seen in the Figure 1, in recent years the strains on the Airport and Airways Trust Fund (AATF) combined with increases in FAA operational costs have put downward pressure on both AIP and the F&E capital accounts.

**Figure 1**



The Administration’s reauthorization proposal also includes a complete overhaul of the FAA’s funding structure as follows:

- By FY 2009, most of the current excise taxes on passengers and cargo would be eliminated, in favor of a system largely based on new user fees.
- Along with this change, the proposal also includes a restructuring of how the FAA classifies its obligations or accounts.
- Rather than having a single large, multipurpose AATF, the FAA would have separate accounts for the Air Traffic Organization, Safety and Operations, and a smaller AATF for traditional AIP and RE&D accounts.

The table below describes the current account structure, the new account structure, and the revenue sources that would support each after transition is completed:

<b>Old Account</b>	<b>New Account</b>	<b>Revenue Source</b>
Operations	Air Traffic Organization (ATO)	User Fees, Gasoline Taxes and General Fund
Facilities & Equipment	Air Traffic Organization (ATO)	User Fees, Gasoline Taxes and General Fund
N/A	Safety and Operations	Inspection, Registration and Certification Fees, Gasoline Taxes and General Fund
AIP	Revised AATF	International Arrival and Departure Taxes, Gasoline

		Taxes and General Fund
Research, Engineering & Development (RE&D)	Revised AATF	International Arrival and Departure Taxes, Gasoline Taxes and General Fund

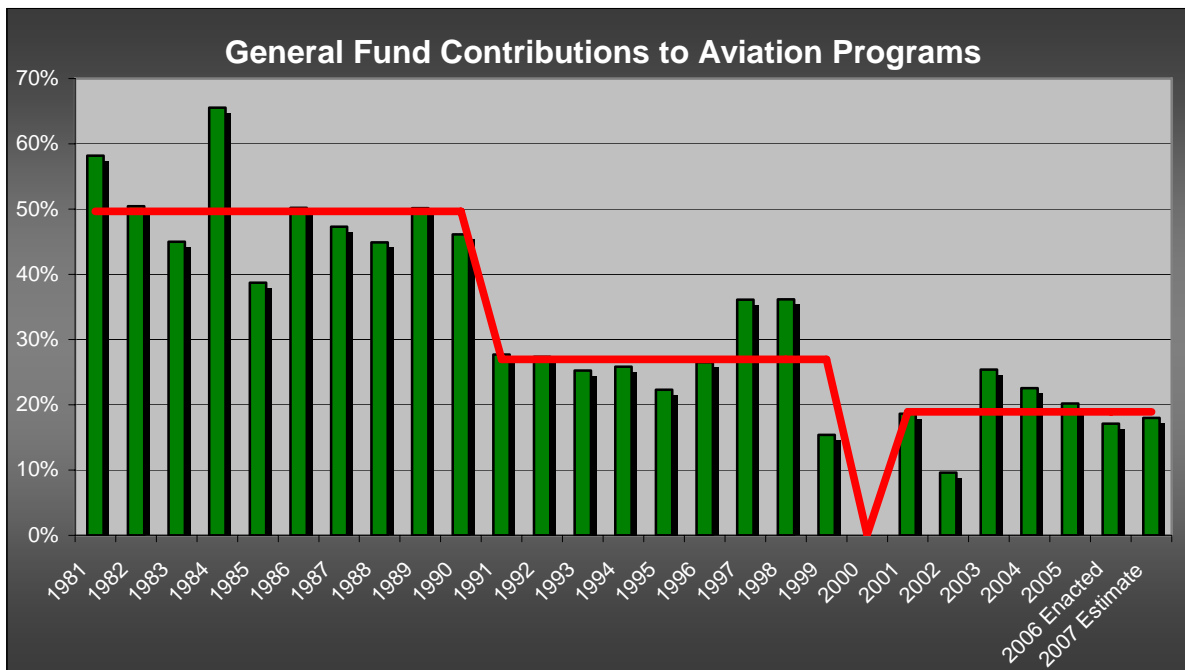
User fees collected from commercial airlines would be deposited into the new ATO account which would pay for most of the operating and capital costs of the ATC system. However, operating and capital expenditures appear to be interchangeable uses of the accounts and this may raise concerns, given that the growth of Operations has already been crowding-out funding for the capital equipment required for modernization.

A 70.0 cents/gallon fuel tax to be paid by general aviation, 13.6 cents/gallon commercial fuel tax, a variable general fund contribution and \$6.39 per person international arrival/departure tax are proposed as the revenue sources for the revised AATF, which would fund AIP and a host of other FAA needs. ACI-NA is very concerned about the ability of this system to fund a robust AIP, as well as FAA's other programs proposed to be financed from this account. We are currently evaluating the financial viability of this proposal using an AATF simulation and forecasting model ACI-NA has developed in preparation for the reauthorization debate.

Strong, Guaranteed General Fund Contribution

Over the past 25 years, the General Fund contribution to the FAA has been unpredictable year-to-year, and steadily declining in the long term (Figure 2). ACI-NA is concerned that the proposed General Fund contribution contained in the Administration's proposal does not adequately reflect these benefits to the general public and should be significantly increased.

**Figure 2**

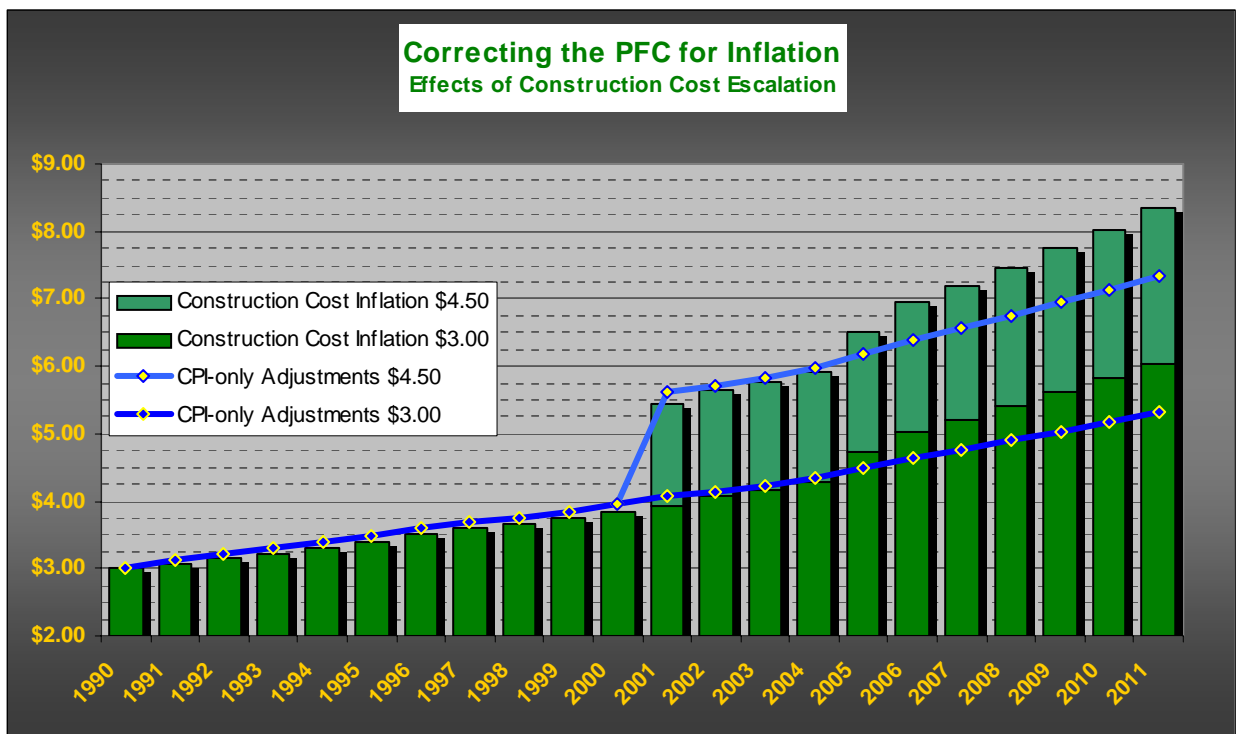


### PFC Ceiling Must Be Raised to \$7.50

The current PFC ceiling of \$4.50 has not been raised since 2000. In that time, construction cost inflation has stripped the PFC of much of its value. While the Administration recommends that the PFC ceiling be adjusted to \$6.00, that level is not sufficient to offset the combined effects of (1) the deflated value of the current PFC, (2) the proposed elimination of AIP passenger entitlements at large-hub and medium-hub airports, and (3) increased capital needs faced by airports.

Analysis conducted by ACI-NA shows that the \$4.50 PFC is worth only \$2.86 in 2007 when the effects of construction cost inflation are applied. In order to recapture the lost value of the PFC, the ceiling must be raised to \$7.50 and indexed to prevent future erosion. Figure 3 shows the effects of construction cost inflation when applied to the PFC.

**Figure 3**

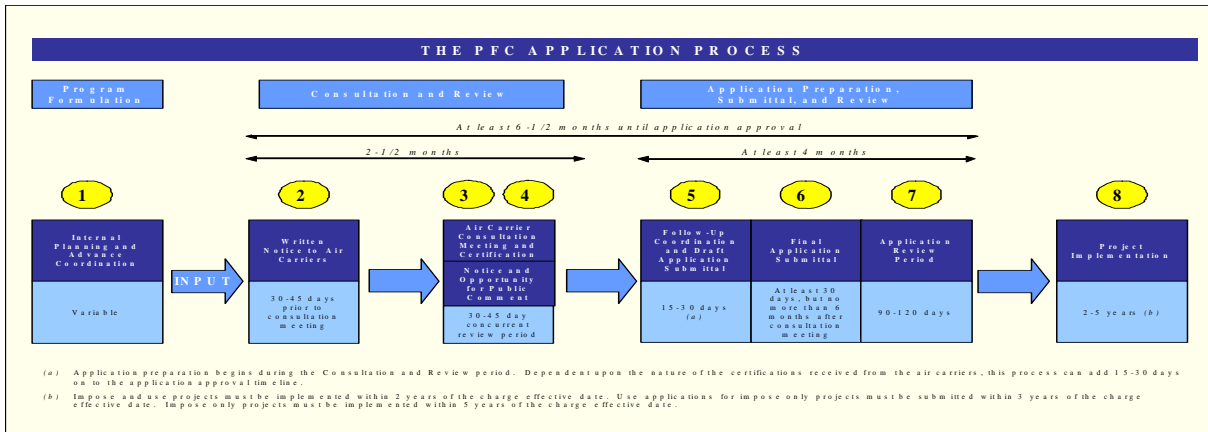


### Streamline the PFC Process and Clarify Eligibility Rules

PFCs were enacted by Congress in 1990 and over the last 16 years, they have become a cornerstone of airport capital programs. Many of the administrative procedures governing the original program are now obsolete and burdensome given that the PFC program has fully matured and is an essential element of airport financial planning. The current application process takes at least six months and countless FAA and airport staff hours to complete (Figure 4).

Similar to ACI-NA's "Impose, Report and Review" recommendation for streamlining the PFC

Figure 4



application process, the Administration proposes to allow airports to notify carriers and their local community of initiatives under their PFC program and then begin collecting a PFC. An annual report on both ongoing and new projects would be required, laying out costs, intended uses, and estimated PFC collections. This proposed system would also ensure that FAA could stop a collection if such action is warranted under Federal regulations.

PFC eligibility rules must also be clarified and simplified. Today's eligibility rules leave much to the discretion of the various FAA offices leading to a patchwork set of rules leading to differential treatment in FAA's regions. This has resulted in added costs and confusion as to how PFC eligibility is determined. A project or project element in one region may be deemed eligible, while a similar project in a neighboring region may be deemed ineligible. Such a discretionary system does not serve the traveling public.

The Administration proposes to treat PFC revenues more like airport capital, expanding eligibility considerably and simplifying what can be a lengthy and tedious process to determine eligible from non-eligible uses (especially in a passenger terminal) and ACI-NA supports these proposed changes. To clarify the new process, the FAA is proposing a reasonable system that if the project is an eligible use of airport capital and it is not anti-competitive, then the project would be eligible to be funded by PFCs. This promotes local decision-making and allows airports to meet local needs. The new eligibility rules would also eliminate the different eligibility criteria for PFC levels above \$3.00, which is widely supported by the airport community.

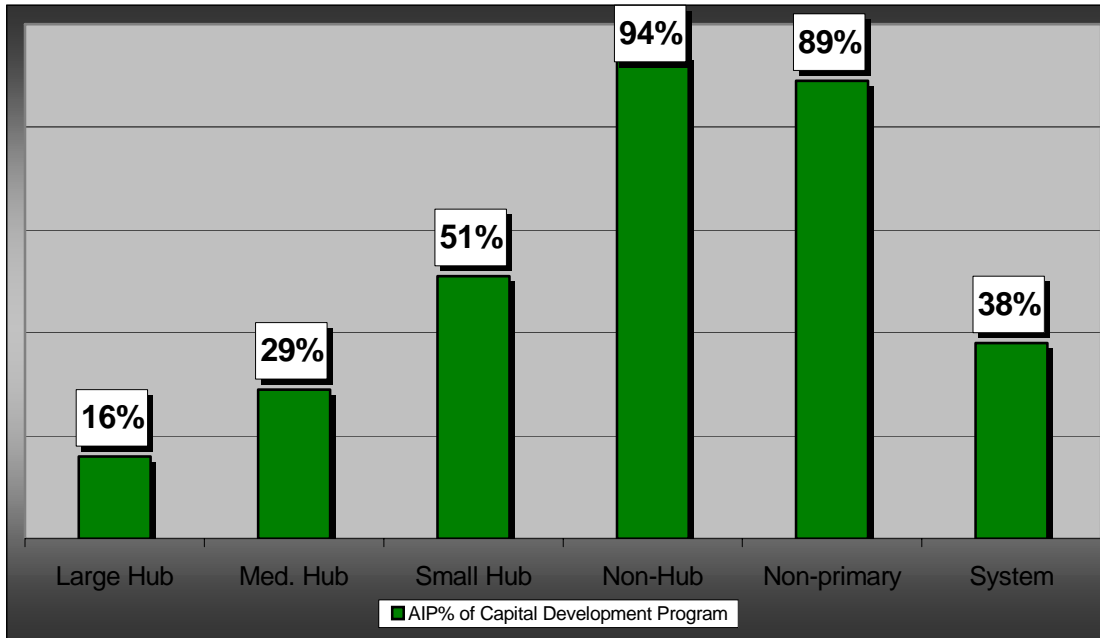
**Strengthen and Increase AIP**

A balanced capital investment strategy for a system of airports requires a strong AIP program. Therefore, the Administration's recommended funding levels for the next three years of \$2.75B (FY 2008), \$2.90B (FY 2009) and \$3.05B (FY 2010) are not adequate. AIP must be reauthorized at current or higher levels to ensure that adequate funding is available, especially for smaller airports that depend on this program to fund important infrastructure improvements.

ACI-NA is pleased that the proposed new AIP structure will provide a more direct approach to providing additional funding to the smaller airports that need it most (Figure 5), with more predictability of funding. The new structure also is designed to ensure that as AIP funding

grows, more funds would be available in the discretionary fund for FAA’s letter-of-intent program, which ACI-NA believes should grow significantly, as well as for other important projects that expand capacity and improve safety in the national airport system.

Figure 5



FAA proposes to eliminate the Small Airport Fund, which has been funded by PFC “turnbacks” from large and medium hubs, replacing it with a Small Airport Discretionary Fund. This Fund, providing a 20% small airport discretionary fund set-aside for all airports below the level of medium-hub, would be smaller than the old Small Airport Fund under the funding levels proposed in the Administration’s bill. However, the approach would provide a more predictable funding source since the only variable affect the funding amount is the size of the annual AIP appropriation, rather than the choices of larger airports and their PFC programs. Small airports would also still be able to compete for the project funding in the other, now increased, discretionary fund.

While large and medium airports are willing to forego AIP entitlements in Fiscal Year 2010 if an increased PFC ceiling is approved, there is concern that a small increase in passenger traffic- as little as one flight a day- would result in a small hub airport being re-designated as a medium hub and losing AIP entitlements. Therefore, Congress should amend this provision to require that the designation of medium hub airport be effective for three years prior to the airport being required to forego AIP entitlements.

FAA also proposes to repeal the “\$3.2 billion trigger”, the program currently in place to provide airport below the level of medium hubs a fixed, formula-based entitlement each year. ACI-NA supports this change as primary airports would no longer annually face the risk of a 50% reduction in entitlements and non-primary airports would not lose all entitlements should the appropriated level of AIP fall below \$3.2 billion in any particular year. This provides more predictability when airports are planning their capital programs.

ACI strongly supports the proposed increase in the minimum amount in the Discretionary Fund. Under the Administration proposal, that amount would be raised to \$520 million. The previous minimum was \$148 million plus an amount calculated based on Letter of Intent (LOI) payments prior to 1996. ACI-NA believes that the proposed elimination of passenger entitlement funds at large-hub and medium-hub airports should be balanced with a corresponding increase in discretionary funds thereby allowing these funds to facilitate those projects that make the greatest contribution to improving system capacity for the benefit of all stakeholders.

In conclusion, airport capital needs are growing and we must act now to meet these demands. 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 five critical elements discussed above.

Respectfully submitted,



Gregory Principato  
President  
Airports Council International – North America