



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

Hearing On

**INVESTING IN INFRASTRUCTURE: THE ROAD TO
RECOVERY**

October 29, 2008

**Before the U.S. House Committee on Transportation and
Infrastructure**

Chairman Oberstar and Ranking Member Mica, on behalf of Airports Council International-North America (ACI-NA) and our airport members and associate member companies, I want to thank you for the opportunity to submit this statement for the record. The mission of ACI-NA is to advocate policies and provide services that strengthen the ability of 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's 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.

Upgrading and maintaining our nation's infrastructure is critical to the economy of the United States. For every \$1 billion invested in transportation infrastructure, roughly 42,000 jobs are created. Airports play a vital role in providing efficient movement of passengers and cargo both domestically and internationally. According to the GAO, federal Airport Improvement Program (AIP) grants provided \$3.6 billion annually for airport infrastructure projects between 2001 and 2005. While these funds help airports make critical improvements enhancing airport safety, capacity, security and environmental protection, there remains a need to have access to additional sources of funding in order to continue these vital improvements.

ACI-NA applauds the committee for its work over the past two years to enact a long-term reauthorization of the Federal Aviation Administration (FAA) and its programs. ACI-NA particularly appreciates the committee's decision to include a provision increasing the cap on the Passenger Facility Charge (PFC) user fee to \$7.00. This cap has not been adjusted since the year 2000. During that time, consumer inflation has increased 27%. However, over that same period, construction inflation has increased a staggering 43% as measured by the RS Means Construction Cost Index. Providing an increase in the PFC cap will allow airports to keep pace with these skyrocketing costs and complete safety, security, capacity and environmental projects which are necessary to continue serving the traveling public safely and efficiently. During the first six months following approval of the PFC increase in 2000, eight airports received approvals for projects allowing their PFC user fee to be raised to \$4.50. ACI-NA believes a similar infusion of airport capital would result from increasing the PFC to \$7, injecting at least \$1.2 billion in additional airport funding in the next few months, adding an additional 42,000 jobs to the economy.

AIP Funding Will Help Spur Economic Growth

A multi-year reauthorization of the FAA is critical to the efficient administration of AIP. The AIP has been operating under several short-term extensions for over a year, spanning two fiscal years. This situation has resulted in uncertainty for airport financial managers and has caused several projects to be delayed due to the unavailability of funds. Recently, the Asheville Regional Airport in Asheville, North Carolina had to postpone a \$2.5 million airport access project because it was informed by the FAA that not all of its previous year carryover funds would be available due to the partial year authorization and appropriation of the AIP program. This project was critical to providing access to help

secure additional development on the airport. This represents a foregone opportunity to stimulate the economy through job creation and other economic activity.

It is no secret that these are difficult times for the nation's air transportation system, airports being one of the lynchpins of that system. The last year has seen extremely volatile fuel prices which have caused airlines to drastically reduce, and in some cases eliminate air service at airports across the country. Airport operators have been working tirelessly with their airline partners to find ways to reduce costs in an effort to maintain air service. This has resulted in many capital projects being delayed so that rates and charges assessed to airlines can be maintained or even lowered. Smaller airports have been particularly hard hit. Even a small reduction in the number of flights servicing their facilities can present a significant financial hardship as there are few (if any) remaining users to absorb the costs.

While delaying capital projects may help in the short-term to stabilize airline costs, each deferred project represents foregone construction jobs and economic activity which is critical during this time of economic uncertainty. As the Committee considers the proposed economic stimulus package, ACI-NA strongly urges you to include funds for "ready-to-go" airport projects. FAA has indicated there are at least \$600 million of these projects, which will create high paying construction jobs that have an immediate economic impact. Additionally, projects which are funded through AIP grants do not increase the rates and charges assessed to airlines operating at the airport.

AMT on Airport Bonds is Negatively Impacting Construction

Just as many industries and individuals have faced challenges with the current crisis in the credit market, airports have not been immune to these problems. The credit market for private activities bonds, known as PABs, has completely dried up due to the higher than normal interest rates applied to these bonds since the interest earned on them is subject to the Alternative Minimum Tax. With an increasing number of tax payers becoming subject to the AMT, the number of investors willing to directly purchase AMT airport bonds has decreased significantly. Further, in the current market environment the demand for AMT bonds has dramatically decreased with investors demanding a premium of 150 basis points or more, when bonds can be sold.

Simply put, airports cannot find buyers for construction bonds as long as the interest is subject to the AMT. With PABs accounting for two-thirds of all airport bonds, construction at many airports across the country has been put on hold. In fact, many airports have not found buyers for AMT bonds during the last month, including airports with very favorable ratings by the credit agencies. Therefore, the airport industry asks that the Committee support eliminating the AMT penalty from airport PAB bonds.

For example, Portland, Maine announced that uncertainty in the bond markets is delaying a passenger terminal expansion for the Portland International Jetport until 2010. In addition, Nashville International Airport (BNA) is delaying a consolidated car rental facility project due to the instability in the bond market. While these are just two examples; this problem is much more widespread.

As long as airport bonds are subject to the AMT, the number of buyers for these bonds will be limited. The housing industry's bonds until August of this year were also subject to the AMT until the passage of the Housing and Economic Recovery Act of 2008 (H.R. 3221), which granted these bonds an exemption from the AMT. It is my understanding that the housing bond market has already seen a positive impact from this new bond classification. In fact, the number of buyers for housing bonds is growing with savings to the bond issuer reaching as much as \$8 million for 30 year bonds. The airport industry requires similar relief from the AMT.

Furthermore, the projects that these bonds help pay for are for public goods that meet the test for public funding through AIP, or for being financed by the PFC user fee. They help fund safety and security upgrades that make our transportation and aviation systems more efficient. These airport projects also help create not only short term construction jobs, but also permanent jobs at the airport. Without relief from the AMT, airports will continue to struggle to find willing financiers of job-creating infrastructure and security improvements.

In conclusion, airports can play an important role in creating jobs through construction and infrastructure and safety improvements. Airports are part of the larger transportation system with connectivity to roads, transit, and public transportation. As the committee continues to explore ways to spur economic growth through infrastructure, I ask that you help us meet our capital needs by passing an FAA Reauthorization bill with an increase in the PFC, provide additional AIP funding, and eliminate the AMT on airport bond interest.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Gregory Principato', with a stylized flourish at the end.

Gregory Principato
President
Airports Council International- North America