THE COST OF DOING NOTHING: WHY INVESTING IN OUR NATION'S AIRPORTS MATTERS

(116–8)

HEARING

BEFORE THE

COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE HOUSE OF REPRESENTATIVES

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U.S. House of Representatives
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MARCH 22, 2019

SUMMARY OF SUBJECT MATTER

TO: Members, Committee on Transportation and Infrastructure
FROM: Staff, Committee on Transportation and Infrastructure
RE: Full Committee Hearing on "The Cost of Doing Nothing: Why Investing in Our Nation's Airports Matter"

PURPOSE

The Committee on Transportation and Infrastructure will meet on Tuesday, March 26, 2019, at 10 o'clock in HVC 210, Capitol Visitor Center, to hold a hearing titled, "The Cost of Doing Nothing: Why Investing in Our Nation's Airports Matters." The hearing will explore the state of U.S. airport infrastructure and opportunities for Congress to increase funding for projects that will rehabilitate aging infrastructure and prepare for anticipated passenger demand in the coming years. The committee will hear testimony from Cincinnati/Northern Kentucky Airport, Spokane International Airport, Tampa International Airport, the Competitive Enterprise Institute, the U.S. Travel Association, and Spirit Airlines.

I. BACKGROUND

More than 1 billion passengers enplaned at U.S. airports on domestic and foreign carriers in 2018, according to federally reported data. The Federal Aviation Administration (FAA) anticipates this number will increase. Passenger enplanements on U.S. carriers alone are expected to rise to 1 billion annually by 2028 and nearly 1.3 billion by 2038.[1] While the FAA notes that the majority of U.S. airports now have sufficient airfield capacity for current traffic levels, **the agency also notes there are a small number of the largest airports that are already consistently capacity-constrained. Such delays regularly occur with cascading effects on the entire air transportation system**.[2] The FAA has continued efforts to enhance airport capacity and reduce delays through infrastructure development and technological advancements. Nevertheless, these efforts may be insufficient to meet the unprecedented passenger growth and demands forecasted in the near and long terms.

U.S. airports have an estimated total of $128 billion in infrastructure needs to keep up with current demand and plan for expected passenger growth between 2019 and 2023 (or $26 billion per year), based on the Airports Council International-North America's (ACI-NA) infrastructure needs survey.[3] **As detailed below, this total amount far exceeds current Federal funding for airport improvement projects**. Planning, designing, and building terminals and other capacity-enhancing projects can take an enormous amount of time. Airports need to start work on infrastructure projects years in advance in order to increase capacity and accommodate rising demand. Failing to plan for and accommodate future passenger projections may have impacts on the aviation industry, which supports more than $1.6 trillion in economic activity.

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[1] FAA, *FAA Aerospace Forecast: Fiscal Years 2018–2038*, https://www.faa.gov/data__research/aviation/aerospace__forecasts/media/FY2018-38__FAA__Aerospace__Forecast.pdf.

[2] FAA, *Report to Congress: National Plan of Integrated Airport Systems, 2019–2023* (2018), at 16, *available at* https://www.faa.gov/airports/planning__capacity/npias/reports/media/NPIAS-Report-2019-2023-Narrative.pdf.

[3] ACI-NA, *Terminally Challenged: Addressing the Infrastructure Funding Shortfall of America's Airports (2019–2023)* (Mar. 2019).

II. FUNDING OVERVIEW

The United States is home to three of the world's 10 busiest airports by passenger traffic (including the busiest, Hartsfield-Jackson Atlanta International Airport),[4] as well as 19,620 others ranging in size from some of the world's busiest to small general aviation airfields. The FAA has identified 3,321 airports as public-use facilities that are important to national air transportation and consequently qualify for Federal assistance through the FAA's airport grant program, the Airport Improvement Program (AIP). Unless otherwise indicated, this summary will refer to funding and capacity issues among the 3,321 federally assisted airports that are identified in the FAA's most recent National Plan of Integrated Airport Systems (NPIAS) Report for Fiscal Years 2019–2023.[5]

Airports primarily pay for capital improvement projects from five funding sources: (1) Federal AIP grants disbursed by the FAA; (2) revenue from passenger facility charges (PFCs); (3) State grants; (4) capital contributions for infrastructure projects, such as funds from airlines and other tenants; and (5) airport-generated revenue, such as revenue generated by airline leases, landing fees, concessions, and parking.[6] Airports have several options for trying to align available capital funding and the costs of planned development, including prioritizing projects, increasing airport-generated net income, and borrowing money to fund capital projects.[7] U.S. airports typically leverage primary funding sources by issuing bonds to finance infrastructure projects, which allows them to fund projects up front and pay for their costs over a longer timeframe (i.e., after the project is constructed).[8] However, this funding approach also requires airports to pay financing costs (i.e., interest) on their infrastructure projects, although airports can issue tax-exempt bonds at lower interest rates.[9]

A. Airport Improvement Program

The *Airport and Airway Improvement Act of 1982* (P.L. 97–248) created the AIP. Funds obligated for the AIP are drawn from the Airport and Airway Trust Fund, which is primarily funded from excise taxes imposed on domestic airline tickets, cargo waybills, and aviation fuel sales. The AIP generally funds projects that are needed to enhance airport safety, capacity, security, and noise mitigation. **Congress has maintained level AIP funding of $3.35 billion annually for the past 7 years, and the *FAA Reauthorization Act of 2018* (P.L. 115–254) continues the same funding level through fiscal year 2023. By the conclusion of the current reauthorization, the Federal Government will have maintained, with few exceptions, level Federal airport funding for 12 fiscal years**.

Congress created the AIP for the purpose of issuing grants to airport sponsors—mostly cities, counties, and other local government authorities—for safety, capacity, and security improvements and for mitigating airports' environmental footprint.[10] As a condition of accepting an AIP grant, an airport sponsor must commit to certain assurances that the sponsor will not encumber airport land in a manner that constrains development, will not permit discriminatory practices with respect to users of the airport, and will maintain the airport for the public benefit, among other things.[11] Projects funded by the AIP must also meet Federal environmental and procurement requirements.

B. Passenger Facility Charge

To provide additional resources for airport improvements, the *Aviation Safety and Capacity Expansion Act of 1990* (P.L. 101–508) permitted airports to assess a charge on enplaning passengers called the PFC. **The PFC is a federally authorized user fee that an airport sponsor, subject to FAA-approval, may choose to levy on most enplaned passengers by way of the airline ticket**. In turn, PFC revenue

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[4] ACI-NA, *World's 20 Busiest Airports*, http://image.exct.net/lib/fe5e15707260027c731c/m/2/e986d03a-1848-4b5b-8fe5-8322b5188ada.pdf.

[5] *See* NPIAS, *supra* note 2. The most recent NPIAS "identifies the airports included in the national airport system, the roles they currently serve, and the amounts and types of airport development eligible for Federal funding under the Airport Improvement Program (AIP) over the next 5 years." Id. at iii. The FAA submits an updated NPIAS report to Congress every 2 years. 49 U.S.C. § 47103.

[6] *See* GAO, *Airport Funding: FAA's and Industry's Cost Estimates for Airport Development*, GAO–17–504T (Mar. 23, 2017).

[7] *See* GAO, *Airport Finance: Information on Funding Sources and Planned Capital Development*, GAO–15–306 (Apr. 28, 2015).

[8] GAO, *supra* note 6, at 10.

[9] *Id*. at 10–11.

[10] *Airport and Airway Improvement Act of 1982*, P.L. 97–248 (1982).

[11] 49 U.S.C. § 47107.

must be used for airport projects on airport property and consistent with other statutory criteria. Most commercial airports rely on PFC revenue to some extent; 363 airports collect PFCs as of February 2019, including 98 of the busiest 100 U.S. airports.[12]

PFC revenues can be used for a wider variety of purposes than AIP grants; in addition to funding AIP-eligible terminal development projects with PFC revenues, airports can apply PFC revenues toward airport noise compatibility planning, constructing gates and jetbridges, and converting airport vehicles and ground support equipment to low-emissions technology.[13] PFC revenue can also be used to secure municipal bonds for airport projects and may be used to make principal and interest payments on the debt.

Airports may impose a maximum $4.50 PFC on enplaning passengers—up to a maximum of $18 on a roundtrip ticket. The PFC is not indexed to the cost of inflation, and Congress has not increased the cap on the PFC since 2000, when the *Wendell H. Ford Aviation Investment and Reform Act for the 21st Century* (P.L. 106–181) increased the original PFC cap from $3 to $4.50. According to federally reported data, airports collected approximately $3.3 billion in PFC revenue in 2017 on the basis of a $4.50 PFC cap.[14]

C. Private Capital

According to the FAA, airports carried almost $92 billion in debt at the end of 2017. Despite this, airports generated $28.8 billion in total revenue, and after paying operating and financing expenses, they collect $4.3 billion in net income in 2017. The net income is reinvested back into the airport. This can make some, though not all, airports attractive vehicles for private investment. According to Airports Council International World, "it is an inescapable fact that private investment has been used successfully around the world to finance crucial new infrastructure to meet future demands."[15] For example, John F. Kennedy International and LaGuardia in New York, Los Angeles International, Denver International, and Paine Field in Washington, are using public-private partnerships to fund and finance terminal and other projects. Some of these airports also rely on significant local revenue to help secure private investment.

Federal law generally prohibits using airport revenue for non-airport purposes. However, the FAA's Airport Investment Partnership Program (formerly called the "Airport Privatization Pilot Program") provides a process for public airport sponsors to use airport sale or lease proceeds for non-airport purposes and for private investors to earn a return from the airport. According to the GAO, however the "privatization of an entire airport has seldom been used in the United States."[16] In fact, since the program's inception in 1997, only one U.S. airport successfully remained in the program, San Juan Luis Muñoz Marín International Airport.[17] The *FAA Reauthorization Act of 2018* made several changes to the program to increase its utilization and attractiveness, including eliminating the participation cap and expanding AIP eligibility to include predevelopment costs.

III. ESTIMATED CAPITAL NEEDS

Airport capital needs are growing and significantly exceed available Federal funding. The FAA estimates that between 2019 and 2023, AIP-eligible projects will total $35.1 billion, or $7 billion per year, an increase of $2.6 billion over the FAA's last estimate for fiscal years 2017–2021. This annual figure is more than double the $3.35 billion per year in AIP funding that Congress will provide over that same period (2019–2023), despite a one-time increase in AIP funding of $1 billion for certain small airport projects enacted last year and a $500 million supplemental for FY 2019. When combining both AIP-eligible and non-AIP-eligible projects, the total infrastructure need for U.S. airports increases to more than $128 billion between 2019 and 2023, or approximately $26 billion annually, according to an indus-

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[12] FAA, *Key Passenger Facility Charge Statistics* (Feb. 28, 2019), https://www.faa.gov/airports/pfc/monthly__reports/media/stats.pdf.

[13] 49 U.S.C. § 40117(a)(3).

[14] *See Key Passenger Facility Charge Statistics*, supra note 10.

[15] "Don't inhibit private investment in airports, ACI World warns", *International Airport Review*, June 4, 2018, https://www.internationalairportreview.com/news/70059/dont-inhibit-private-investment.

[16] GAO, *supra* note 6, at 7 n.14.

[17] FAA, *Airport Privatization Pilot Program*, https://www.faa.gov/airports/airport__compliance/privatization/.

try survey by ACI-NA.[18] When combining all sources of airport revenue, including AIP grants and PFC revenue, U.S. airports still face a funding gap of $15.6 billion each year, which would necessitate project revision, financing, or deferral.[19]

WITNESSES

- Ms. Tori Barnes, Executive Vice President of Public Affairs, U.S. Travel Association
- Mr. Ted Christie, Chief Executive Officer and President, Spirit Airlines
- Mr. Lawrence J. Krauter, Chief Executive Officer, Spokane International Airport
- Mr. Joe Lopano, Chief Executive Officer, Tampa International Airport
- Ms. Candace S. McGraw, Chief Executive Officer, Cincinnati/Northern Kentucky International Airport
- Mr. Marc Scribner, Senior Fellow, Competitive Enterprise Institute

[18] *See* GAO, *supra* note 5, at 7.
[19] *See* GAO, *supra* note 6, at 7 n.14. *See also* ACI-NA, *Terminally Challenged, supra* note 3.

THE COST OF DOING NOTHING: WHY INVESTING IN OUR NATION'S AIRPORTS MATTERS

TUESDAY, MARCH 26, 2019

HOUSE OF REPRESENTATIVES,
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE,
WASHINGTON, DC.

The committee met, pursuant to notice, at 10:04 a.m. in room HVC–210, Capitol Visitor Center, Hon. Peter A. DeFazio (Chairman of the committee) presiding.

Mr. DEFAZIO. The committee will come to order. I ask unanimous consent the chair be authorized to declare recesses during today's hearing.

Without objection, so ordered.

Before we begin today I do want to take a few moments to update the audience and anyone listening to the important work this committee is undertaking in response to the devastating Lion Air flight 610 and Ethiopian Airlines flight 302 accidents, and subsequent international grounding of the Boeing 737 MAX.

Following the Federal Aviation Administration's grounding, subcommittee chairman Rick Larsen and I launched an investigation into the FAA's certification of the MAX, which will include a rigorous evaluation of the roles and responsibilities of both FAA and Boeing during the MAX certification; how safety-critical systems that did not exist on prior 737 models were tested, evaluated, and assumed to be safe; and why the MAX was certified without requiring additional pilot training, among other things.

In addition to starting our initial investigatory work, last week we also requested the Department of Transportation inspector general perform its own investigation into the MAX's certification, which we have asked to include a comprehensive look at the FAA's evaluation of new features, including sensors and software; pilot training and manuals; and how new features were communicated to airlines, pilots, and foreign authorities.

We have also requested the inspector general provide us with a status report on any corrective actions undertaken by the FAA since the first accident, and whether pilot training is adequate before the MAX returns to revenue service.

Further, the committee now has a whistleblower webpage to serve as a resource for anyone who has information to share, so they can do so anonymously as we continue our investigation, and we are eager to hear from anyone who can help. I extend an invitation to any current or former FAA or Boeing employees who have concerns. Please feel safe and come forward.

And today we are sending a bipartisan letter to the FAA urging the agency to engage an independent, third-party review of Boeing's proposed changes to the 737 MAX and to evaluate that the manufacturer's fix is comprehensive, and that pilots have the information and training they need to fly the aircraft safely.

This must all be done before the 737 MAX is certified to return to service. The traveling public needs assurances that the FAA will only recertify the aircraft for flight if and when the FAA, outside safety and technical experts, and pilots agree the aircraft is safe to fly.

Later this week, I will submit document requests to the FAA and Boeing to drill down into key certification decisions regarding the MAX. We plan to dig deep into the issues surrounding the recent accidents over the coming weeks and months.

Tragedies like these should not happen. The Transportation and Infrastructure Committee is committed to ensuring the safety of our transportation system, and under my chairmanship we will take all steps necessary to do so. I expect that our work will shed light on any deficiencies in the certification of aircraft in the United States, and we will ensure all lessons are applied and effect changes to improve the safety of our air transportation system, and hopefully, other nations' as well. And in the not-too-distant future, once we have documents and information we need, we will be holding a hearing on these issues.

But today it is a different topic, and it is an important topic, as well. Not as life-and-death as the first, but incredibly important to the future of aviation, commercial aviation, in this country.

Back in February we held the first hearing on why our infrastructure investments can't wait. And today we will drill down more into the ever-growing capital needs of airports, and potential solutions to bridge the funding gap that exists between what airports can pay for and what they cannot.

Congestion has become the norm in our country, and it is not only on our highways. It is affecting air travel, as well: terminals clogged with passengers; runways and taxiways needing additions and rehabilitation; airplanes sitting on tarmacs across the country waiting for gates. There is no question that members of this committee and millions of other Americans who fly every week experience these issues.

Passenger terminals across the United States, many of which were constructed in the 1960s or 1970s and even 1980s, are outdated, cannot accommodate current or projected passenger growth, security needs, as they were built pre-9/11. They do not have the space or gates needed to accommodate current airline departures and arrivals, let alone welcoming new service for communities. This, in turn, affects the price that all Americans pay for airline tickets, as well as local businesses and regional economies from coast to coast.

According to the ACI, when combining all funding sources available to U.S. airports, they still face more than $15 billion—B, billion dollars—each year in unmet infrastructure needs. U.S. airports are doing the best they can to find ways to meet these ballooning needs, but this often leads to local communities paying twice as much and waiting twice as long for upgrades.

Last year this committee hammered out a long-term FAA reauthorization bill. It provides robust funding for the FAA to carry out its mission, contains numerous provisions needed to advance the industry at-large, but it failed to address the growing infrastructure needs of airports. In fact, by the time this authorization expires in 2023, funding levels for the FAA program for all the airports, the AIP, will have been flat for a total of 12 years, despite infrastructure needs growing and the cost of construction rising over the same period.

The FAA forecasts that, over the next 5 years, U.S. airports will register a need for $35.1 billion in AIP-eligible infrastructure projects alone. That amounts to more than $7 billion a year, more than double the $3.2 billion in AIP grants that are awarded each year.

So it is clear that AIP barely makes a dent in the AIP investment needs. Even when you take into account the other sources of revenue available to airports, such as State grants, airport concessions, they are still billions short. The picture is even bleaker when you factor in airports' non-AIP-eligible needs. ACI estimates over the next 5 years U.S. airports will require total investment of $128 billion, or $26 billion a year.

So what is the solution? What can Congress do? I am surely not opposed to increasing the FAA's Federal AIP grant levels. But we also need to look on the other side of the airport, and we need to increase the cap on the PFC, a locally imposed, federally authorized user fee that airports may collect or not, from the passengers to finance airport-related projects. Simply put, the PFC supports local decisions about what is best for airports and surrounding communities.

The cap has not been raised in almost 20 years. If we look back to the original authorization in 1990, the current PFC would be about $8.50 if it had been adjusted for inflation, but it has not. So it is worth about two bucks, compared to the $4.50 that Congress authorized a number of years ago.

So, you would think that the airlines would be willing to work with the airports on this. However, they are not. And they say that the airports have adequate resources and/or they can work with their incumbent airlines to fund their passenger needs. But this ultimately can be much more expensive for the passengers and, ultimately, someone has got to pay the cost. So it is going to come back on the airline leases and gates, in my opinion.

You know, when we were negotiating—we are told that they have an economist who says that two bucks on the PFC will cause millions of people to not fly again. I question the validity of that assertion. And in fact, while we were doing the FAA bill last fall, American Airlines, Delta Air Lines, JetBlue, and United Airlines all increased their bag fees by $5. But I didn't see that their passenger boardings fell off phenomenally. So, you know, I question the inelasticity of demand for tickets having to do with improving the passenger experience with a PFC, improving security throughput, having more gates, potentially having more competition at airports.

And maybe that's the real issue, is, you know, if an airport is leased out, then to build more gates—if they have to deal with the airlines, that wouldn't include a non-incumbent airline in those negotiations, would it? So I have really got to question what really is going on here.

And last year I introduced a bill with Representative Massie on this, and we had a bipartisan bill. It was not considered during the FAA authorization. The Senate previously passed an increase on this issue.

And, you know, today airports collect $3.3 billion each year in PFC on the basis of $4.50. If they doubled, they could collect nearly $7 billion annually. But a more modest increase, when combined with AIP funding, would bring them a step closer to fulfilling their capital needs, but it would not fully fund them.

[Mr. DeFazio's prepared statement follows:]

Prepared Statement of Hon. Peter A. DeFazio, a Representative in Congress from the State of Oregon, and Chair, Committee on Transportation and Infrastructure

Before we begin this hearing, I would like to take a moment to provide an update on the important work this committee is undertaking in response to the devastating Lion Air flight 610 and Ethiopian Airlines flight 302 accidents, and subsequent international grounding of the Boeing 737 MAX aircraft.

Following the Federal Aviation Administration's (FAA) grounding of the 737 MAX in U.S. airspace on March 13, subcommittee chairman Rick Larsen and I launched an investigation into the FAA's certification of the MAX, which will include a rigorous evaluation of:

- the roles and responsibilities of both the FAA and Boeing during the MAX-certification;
- how the safety critical systems that did not exist on prior 737 models were tested, evaluated, and assumed to be safe; and
- why the MAX was certified without requiring additional pilot training, among other things.

In addition to starting our initial investigatory work, last week, Chairman Larsen and I also requested that the Department of Transportation inspector general perform its own investigation into the MAX's certification, which we have asked to include a comprehensive look at the FAA's evaluation of new features on the aircraft, including:

- sensors and software;
- pilot training programs and manuals; and
- how new features were communicated to airlines, pilots, and foreign authorities.

We have also requested that the inspector general provide us with status reports on any corrective actions undertaken by the FAA since the first accident and whether pilot training is adequate before the MAX returns to revenue service.

Further, we created a whistleblower webpage to serve as a resource for anyone who has information to share so they can do so anonymously. As we continue our investigation, we are eager to hear from anyone who can help. I extend an invitation to any current or former FAA or Boeing employees who have concerns to please feel safe coming forward.

Today, we are sending a bipartisan letter to the FAA urging the agency to engage an independent, third-party review of Boeing's proposed changes to the 737 MAX and to evaluate that the manufacturer's "fix" is comprehensive and that pilots have the information and training they need to fly the aircraft safely.

This all must be done before the 737 MAX is certified to return to service. The traveling public needs assurances that the FAA will only recertify the aircraft for flight if and when the FAA, outside safety and technical experts, and pilots agree the aircraft is safe to fly.

Later this week, I will submit document requests to the FAA and Boeing to drill down into key certification decisions regarding the MAX. We plan to dig deep into the issues surrounding the recent accidents over the coming weeks and months.

Tragedies like these should not happen. The Transportation and Infrastructure Committee is committed to ensuring the safety of our transportation system, and under my chairmanship, we will take all steps that are necessary to do so. I expect that our work will shed light on any deficiencies in the certification of aircraft in the United States, and we will ensure all lessons are applied and effect changes to improve the safety of our Nation's air transportation system, and hopefully, other nations' as well.

Today, we hold the Transportation and Infrastructure Committee's second hearing of the 116th Congress on the importance of investing in our Nation's infrastructure.

In February, we kicked off this Congress by sounding the alarm bells that investing in America's infrastructure cannot wait. Today, we will drill down into the ever-growing capital needs of our airports and the potential solutions to bridge the funding gap that exists between what airports can pay for and what they cannot.

Crippling congestion has become the norm in our country. And it is not just on roads. This congestion is affecting air travel in the United States as well, with terminals clogged with passengers; runways and taxiways needing additions and rehabilitation; and airplanes sitting on tarmacs across the country waiting for gates. There is no question that members of this committee who fly each week to Washington experience these issues.

Passenger terminals across the United States, many of which were constructed in the 1960s or 1970s, are outdated and cannot accommodate current or projected passenger growth. In addition, airports do not have the space or gates needed to accommodate current airline departures and arrivals, let alone for welcoming new service for communities. This, in turn, affects the price you pay for an airline ticket, as well as local businesses and regional economies from coast to coast.

According to the Airports Council International (ACI), when combining all funding sources available to U.S. airports, they still face more than $15 billion each year in unmet infrastructure needs.

U.S. airports are doing the best they can to find ways to meet their ballooning needs, but this often leads to local communities paying twice as much and waiting twice as long for upgrades.

Last year, this committee hammered out a long-term Federal Aviation Administration (FAA) reauthorization bill that became the longest FAA reauthorization enacted in decades. While the 5-year law provides robust funding for the FAA to carry out its mission and contains numerous provisions needed to advance the U.S. aviation industry at-large, it failed to address the growing infrastructure needs of U.S. airports, despite a national consensus that airports are chronically underfunded.

In fact, by the time this authorization expires in 2023, funding levels for the FAA grant program for airports—the Airport Improvement Program (AIP)—will have been flat for a total of 12 years, despite infrastructure needs growing and the cost of construction rising over this same period.

The FAA forecasts that, over the next 5 years, U.S. airports will register a need for $35.1 billion in AIP-eligible infrastructure projects alone. That amounts to more than $7 billion a year—more than double the $3.2 billion in AIP grants awarded every year.

It is clear that AIP barely makes a dent in the total AIP-eligible investment needs each year. And even when you take into account the other sources of revenue available to airports, such as State grants and airport concessions, they are still billions of dollars short of what they need each year.

The picture is even bleaker when you factor in airports' non-AIP-eligible needs. ACI estimates that, over the next 5 years, U.S. airports will require total investment of $128 billion, or $26 billion a year.

So what is the solution? What can Congress do to solve these rising capital needs? I am surely not opposed to increasing the FAA's Federal AIP grant levels. But for starters, we can increase the cap on the passenger facility charge (PFC).

The PFC is a locally imposed, Federally authorized user fee that airports may collect from their passengers to finance airport-related projects. Simply put, the PFC supports local decisions about what is best for airports and their surrounding communities.

Unfortunately, the PFC cap has not been raised in almost 20 years. The PFC had been capped at $3 per enplaned passenger since Congress created the PFC in 1990; in the 2000 FAA reauthorization, we increased it by merely $1.50 to $4.50.

And there it has remained, capped at $4.50, not indexed to inflation, totally stagnant. Had the $4.50 PFC been indexed to inflation in 2000—the last time Congress raised the cap—the PFC would be worth about $8.50 today, if not more. In fact, over the years, construction cost inflation has severely eroded the purchasing power of PFCs. Today, the PFC is only worth just over $2.

Yet the demands on airports have grown by the year. You might think that the airlines, which want to make their customers' travel experience as pleasant as possible, would agree to the need for more investment in airport infrastructure through PFCs. But no—they have historically unleashed all their political capital to defeat any PFC increase, relying on the implausible argument that even a dollar increase in the cost of air travel will cause demand to plummet.

Somehow, though, the airlines are willing to disregard that view of the law of supply and demand when they charge bag fees. Federal data shows U.S. airlines unilaterally increased the cost of air travel for Americans by about $4.6 billion in bag fees in 2017.

Then, while Congress was negotiating the FAA reauthorization last year, several carriers (American Airlines, Delta Air Lines, JetBlue Airways, and United Airlines) had the audacity, in a matter of days, to increase their bag fees by $5. And guess what? People still flew. Therefore, I fail to see how a modest PFC increase would so dramatically affect demand for air travel.

In fact, we just need to look to the north for evidence that a higher airport fee will not dissuade travelers. Every day, U.S. Airlines fly into Canadian airports, which charge anywhere between $4 to $40 for their PFC equivalent, the "Airport Improvement Fee." For example, a flight from DCA to Toronto on one U.S. airline would include a $4.50 PFC in the United States as well as a nearly $19.00 AIF (Canadian airport fee). And I've never heard a single complaint from the airlines about those fees.

A priority for me as chairman this year will be to increase the cap on the PFC so that U.S. airports can keep pace with current demands as well as plan for expected commercial service growth in the years ahead.

We need more terminals, more runways and taxiways. And without an increase in the PFC, who bears the brunt? Passengers. They end up paying basically double for a project and wait years longer than necessary for project completion.

Last Congress, along with Republican Congressman Thomas Massie, I introduced H.R. 1265, the Investing in America: Rebuilding America's Airport Infrastructure Act, which would have removed the PFC cap, generating billions of dollars in additional investments to rebuild our airports and ensure we are prepared for the demands of the next decade, as our competitors around the world are doing.

There was bipartisan support for a PFC increase in the Senate as well. The Senate Appropriations Committee, in 2017, approved a bipartisan proposal to raise the PFC cap from $4.50 to $8.50 for originating passengers and increase AIP funding from $3.35 billion to $3.6 billion—a $250 million increase. The full committee approved the measure by unanimous consent, but the Senate failed to act.

Airports collect approximately $3.3 billion each year in PFC revenue, on the basis of a $4.50 cap. If airports doubled their current PFC levels, they could collect nearly $7 billion annually. But even a more modest increase, when combined with AIP funding, would bring them a step closer to fulfilling their capital needs. And, of course, investment in airport infrastructure, from terminals to runways and taxiways, will create jobs. Lots of jobs.

I look forward to hearing from our witnesses this morning regarding their current and growing infrastructure needs and why robust investment matters. While we missed an opportunity to truly address your predicament in last year's reauthorization, I hope we can work in a bipartisan manner this Congress to find a path forward on airport infrastructure investment, which includes raising the PFC cap. I will continue to push this as a key component in any infrastructure bill that Congress considers.

Thank you.

Mr. DeFazio. So, with that, I will yield time to the ranking member, Representative Graves.

Mr. Graves of Missouri. Thank you, Mr. Chairman. I appreciate the hearing today. And no one denies that much of our Nation's infrastructure is crumbling, but I do think aviation is a little bit different.

Tens of billions of dollars over the past few years have been poured into our airports. Last year Congress authorized nearly $4½ billion annually in airport grants, and made it easier for airports to use PFC revenues.

However, as you pointed out, more passengers than ever are going to travel through our airports this year, and demand is only expected to grow. Therefore, reviewing our airport infrastructure investments, I think, makes a whole lot of sense.

While I am grateful to today's witnesses, I am disappointed that we are not going to hear from a greater diversity of perspectives. No one at today's hearing can share the perspective of mainline, regional, or cargo airlines. Additionally, there is no one today from the finance community to discuss financing airport projects, including private capital. And finally, there is no one here who can speak to the experiences of general aviation airports. As you may know, GA airports are economic engines, and they are often the entry point into aviation for aerospace professionals. Not having these unique perspectives, I think, is a missed opportunity.

Regardless, it is important to keep in mind three key points on airport investment.

First, we have to understand what the actual infrastructure needs of airports are. A recently released survey states that airports have $128 billion in infrastructure needs over the next 5 years. The number is 70 percent higher than the same report, the very same report, 4 years ago, even though passenger traffic has increased 13 percent. We have to make sure that we are talking about infrastructure needs and not infrastructure wants.

Second, we have to make sure that private capital is a part of the solution. All commercial service airports generate revenue, and therefore have the ability to attract that private capital. Let's make sure that airports can take advantage of private investment opportunities.

And lastly, it is clear that airports and airlines continue to accuse each other of wanting more control. Lost in this arm-wrestling is accountability, accountability to the passenger, who already pays more than 20 percent in taxes and fees on every ticket, and accountability to the taxpayer, who has little say on how their airport is going to serve their community.

In my district alone, voters have been sold enough versions of a new terminal for Kansas City International Airport to make their heads spin.

In terms of infrastructure, of an infrastructure package that hopefully we are going to be discussing sooner, rather than later, all funding options are on the table. I am also skeptical, though, of any proposal that adds to the traveling public's burden, fails to fully consider the views of local communities and passengers, and lacks a full range of financing options, including private capital.

[Mr. Graves's prepared statement follows:]

Prepared Statement of Hon. Sam Graves, a Representative in Congress from the State of Missouri, and Ranking Member, Committee on Transportation and Infrastructure

No one denies that much of our Nation's infrastructure is crumbling, but aviation is different. Tens of billions of dollars over the past few years have been poured into our airports. Last year, Congress authorized nearly $4.5 billion annually in airport grants while making it easier for airports to use PFC revenues.

Those investments have paid off. Ninety-eight percent of runways at commercial service airports are in excellent, good, or fair condition and new terminals open every year. However, more passengers than ever will travel through our airports this year, and demand is expected to grow. Therefore, reviewing airport infrastructure investment makes sense.

While I am grateful to today's witnesses, I am disappointed we will not hear a greater diversity of perspectives. No one at today's hearing can share the perspective of mainline, regional, or cargo airlines. Additionally, there is no one today from the finance community to discuss financing airport projects, including with private capital. And finally, there is no one here who can speak to the experiences of general aviation airports. As you may know, GA airports are economic engines, and are often the entry point into aviation for aerospace professionals. Not having these unique perspectives is a missed opportunity.

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Second, we must make sure that private capital is part of any solution. All commercial service airports generate revenue, and therefore have the ability to attract private capital. Let's make sure that airports can take advantage of private investment opportunities.

Lastly, it is clear that airports and airlines continue to accuse each other of wanting more control. Lost in this "arm-wrestling" is accountability—accountability to the passenger, who already pays more than 20 percent in taxes and fees on a ticket, and accountability to the taxpayer, who has little say on how their airport will serve their community.

In my district, voters have been sold enough versions of a new terminal at Kansas City International to make their heads spin. An unlimited PFC would have allowed the city and airport to circumvent the voters and spend without regard to impacts on taxpayers or passengers.

In terms of an infrastructure package, all funding options are on the table. But I am skeptical of any proposal that adds to the traveling public's burden, fails to fully consider the views of local communities and passengers, and lacks a full range of financing options, including private capital.

Mr. GRAVES OF MISSOURI. And with that, I look forward to the hearing today. I want to thank all of our witnesses for being here, and I look forward to hearing each and every one of your testimonies.

And, with that, I would yield back the balance of my time.

Mr. DEFAZIO. I thank the gentleman for his brevity.

I ask UC, unanimous consent, that the following items be entered into the record of today's hearing: submissions by 57 U.S. airports detailing their planned infrastructure projects and their current funding needs; and written testimony prepared by seven different groups.

Without objection, so ordered.

[The information submitted by Mr. DeFazio for the record is on pages 87–102.]

Mr. DEFAZIO. And now I would move on to our witnesses. I would like to welcome our panel: Lawrence J. Krauter, CEO, Spokane International Airport; Ms. Tori Barnes, executive vice president of public affairs, U.S. Travel Association; Ms. Candace S. McGraw, CEO, Cincinnati/Northern Kentucky International; Mr. Joe Lopano, CEO, Tampa International Airport.

We are—oh, here we go, page 2.

Mr. Ted Christie, CEO and president, Spirit Airlines; Mr. Marc Scribner, senior fellow, Competitive Enterprise Institute.

I thank you all for being here today, and I look forward to your testimony.

Without objection, full statements will be included in the record. Your written testimony has been made part of the record.

And you know, I would encourage members of the panel to, as much as possible, interact with one another, statements made by others that they may disagree with or agree with. That would be useful. I have read the testimony, as I assume have other members of the panel. So please be interesting in your 5-minute summaries.

And with that, I would like to recognize Representative Massie to introduce Ms. Candace McGraw.

Mr. MASSIE. Thank you, Mr. Chairman, for allowing me to introduce my constituent.

Ms. McGraw has been the CEO of our airport—that is the Cincinnati/Northern Kentucky Airport, and, yes, the Cincinnati airport is in Kentucky—since 2011. She has overseen in the last 5 years a doubling of our passenger originations, and a doubling of our cargo freight there at the airport. The airport is home to DHL's North American hub, and the Amazon hub, their cargo hub there.

Ms. McGraw serves as the Airports Council International chairperson, and her airport has been recognized as the best regional airport in North America for 7 of the last 8 consecutive years.

Thanks for coming, Ms. McGraw.

Ms. MCGRAW. Good morning, Chairman DeFazio——

Mr. DEFAZIO. I think——

Ms. MCGRAW. Oops, I am sorry.

Mr. DEFAZIO. Whoa, whoa——

[Laughter.]

Mr. DEFAZIO. We are going to start left to right, or as——

Ms. MCGRAW. Oh, I am sorry.

Mr. DEFAZIO [continuing]. You sit there, right to left.

But you are introduced graciously by your Member of Congress. And, with the—with that, we would turn to Mr. Krauter for his testimony.

Mr. KRAUTER. CVG comes before GEG, so they—we got you that way, Candace.

TESTIMONY OF LAWRENCE J. KRAUTER, A.A.E., AICP, CHIEF EXECUTIVE OFFICER, SPOKANE INTERNATIONAL AIRPORT; TORI EMERSON BARNES, EXECUTIVE VICE PRESIDENT, PUBLIC AFFAIRS AND POLICY, U.S. TRAVEL ASSOCIATION; CANDACE S. MCGRAW, CHIEF EXECUTIVE OFFICER, CINCINNATI/NORTHERN KENTUCKY INTERNATIONAL AIRPORT; JOSEPH W. LOPANO, CHIEF EXECUTIVE OFFICER, TAMPA INTERNATIONAL AIRPORT; TED CHRISTIE, PRESIDENT AND CHIEF EXECUTIVE OFFICER, SPIRIT AIRLINES, INC.; AND MARC SCRIBNER, SENIOR FELLOW, COMPETITIVE ENTERPRISE INSTITUTE

Mr. KRAUTER. Good morning, Chairman DeFazio and Ranking Member Graves and members of the committee. Thank you for the invitation to appear again before this committee to discuss the infrastructure funding challenges facing our Nation's airports, particularly from my perspective, small-hub airports like Spokane.

We are the primary commercial service airport for the intermountain Northwest, serving approximately 4 million passengers a year across Washington, Oregon, Idaho, Montana, and the Canadian provinces of Alberta and British Columbia. Small-hub airports like Spokane play a very large role in the economic vitality of our surrounding regions. That is why it is so important to invest in airports to maintain these engines of economic growth.

We also operate Felts Field, a top-quality, general aviation airport with its own contract tower.

Unfortunately, Mr. Chairman, the status quo is not working when it comes to funding the infrastructure investments that our airports desperately need. The terminal renovation and expansion, or TREX, project that we are currently undertaking in Spokane, is a case in point, and brings the cost of doing nothing to life.

Doing nothing is simply not an option for Spokane, where our main terminal building dates back to the 1960s, and our facilities are operating beyond capacity in light of recent double-digit passenger traffic growth. We launched the TREX project to address these challenges by adding gate capacity to meet rising demand, and expanding our passenger screening and baggage claim facilities. The full scope of TREX is described in my written statement, and summarized in the graphic that you all have in front of you this morning.

The total cost of TREX is estimated at $190 million, but significant constraints on the three main sources of airport funding mean that we have limited options to fund this project in a fiscally prudent way.

Let me start with the passenger facility charge, a fee on each enplaning passenger that was conceived by this committee as a way to fund terminal buildings and other airport projects. The $4.50 cap on PFCs has not been adjusted in nearly 20 years, meaning that its purchasing power in today's dollars is about half of what it once was.

[Slide]

Mr. KRAUTER. The graphic that I have included in front of you shows what this means for airports like Spokane that are trying to fund significant capital improvements like the TREX project within the constraints of a $4.50 PFC: more debt and no way to fund any new improvements beyond this immediate project with PFCs, because the PFC would be extended out so far—in our case, well beyond 30 years.

As you can see across the top row of the table on the graphic that I have included, the PFC cap forces us to finance investments over a longer period of time, meaning that we ultimately pay almost as much in interest as we do for the project itself: more than $151 million in interest for a $190 million project under the scenario depicted in my graphic.

Moving down the graphic, however, you can see how modest increases in the PFC cap would substantially shorten our financing period and bring down our interest costs significantly, meaning that the PFC could be used to fund other projects that will be needed in the intermediate and longer terms to further improve safety, capacity, and efficiency on the behalf of airport users.

The bottom right-hand corner of the table shows that, with an $8.50 PFC cap and a combination of pay-go and bond financing, our interest costs would only amount to about $18.7 million over the term of the financing, or roughly one-quarter of what they would equal with the current PFC cap, as you can see in the top right-hand corner.

As airport operators, we have to ask ourselves why should we be forced to take on crushing levels of debt that also tie up and close off this locally directed user fee for the future benefit of those that pay to use the airport, when a more fiscally prudent option of adjusting the PFC cap upward is so obvious?

I focused, Mr. Chairman, on PFCs because the other two potential funding solutions commonly mentioned are even more constrained. The FAA's airport improvement program is largely focused on airside, runways and taxiways, not terminal and other improvements that are more urgently needed. In fact, in reviewing the $186 million in AIP grants Spokane has received since 1982, I could only find one grant remotely related to terminal improvements, and that was only for about $2 million, and it was out of a set-aside fund for preconditioned air units on jet bridges to reduce aircraft emissions.

In addition, capping AIP entitlement funds for terminal improvement projects that the FAA considers as relatively low-priority jeopardizes discretionary AIP funding for other projects, effectively closing off this resource.

Finally, our net operating revenues are dedicated to paying for items that do not qualify for either PFC or AIP support, things like paying to construct parking lots and aircraft hangars, buying police vehicles and shuttle buses, and building administrative space: a crushing debt load requiring the ability of the airport to generate sufficient operating revenues net of debt service to fund these important projects that are not eligible for PFC or AIP participation.

The bottom line, Mr. Chairman, is that increasing the PFC is the most viable way to increase funding for improvements to our Nation's airport infrastructure. The cost of doing nothing is simply too high, and represented by the unreasonable concessions and contortions that we must make to fit our capital improvement projects into the confines of our current funding system, as well as the many projects that never actually get off the ground.

This is not the way that a nation committed to building world-class infrastructure should fund its airports. I strongly urge this committee to come together on a bipartisan basis to properly and equitably fund our Nation's airports' infrastructure by increasing the PFC.

Mr. Chairman, I appreciate the opportunity to appear before you today, and look forward to answering questions.

[Mr. Krauter's prepared statement follows:]

Prepared Statement of Lawrence J. Krauter, A.A.E., AICP, Chief Executive Officer, Spokane International Airport

INTRODUCTION

Good morning Chairman DeFazio, Ranking Member Graves, and members of the Committee. My name is Larry Krauter and I am the CEO of Spokane International Airport. It is my privilege to appear before you a second time in this series of hearings to explain what the "cost of doing nothing" looks like for my airport and others like it across the country. Like many small airports, Spokane faces an overwhelming need for investment to maintain and improve our service to the public. Current funding availability is simply not sufficient to meet this need.

Before proceeding further with my testimony, I want to acknowledge and thank Chairman DeFazio, Ranking Member Graves and all members of the Committee for avoiding detrimental changes in private activity bond ("PAB") tax rules that could have harmed airports while also repealing the corporate Alternative Minimum Tax that had a negative impact on airports by reducing demand for and increasing the cost of General Airport Revenue Bonds as part of the Tax Cuts and Jobs Act.

As members of this Committee begin considering proposals to enhance our Nation's infrastructure, I urge you to adopt provisions that would help airports repair aging facilities and build critical infrastructure projects. Toward that goal, I respectfully urge you to:

1. Adjust the outdated federal cap on local Passenger Facility Charges ("PFCs")—a move that would allow airports to finance a greater share of their projects with local user fee-generated revenue and without having to plea for approval from airlines that may be reluctant to approve facilities that allow for increased competition;
2. Increase funding for the Airport Improvement Program ("AIP") account to enable smaller airports afford necessary upgrades; and
3. Make important policy changes within the FAA National Priority Ranking system to give higher priority to terminal renovation and expansion projects in recognition of the shift in airport infrastructure deficiencies from airside to landside facilities. Without this refinement in prioritization, an increase in AIP funding would not be effective to help airports struggling with growth-related challenges and outdated terminal buildings.

Adjusting the PFC cap and increasing AIP funding would help Spokane International Airport and other small airports around the country renovate or replace aging terminal facilities and keep up with rising passenger growth, increasing construction needs, and construction cost inflation. Moreover, increases in commodity costs (such as steel) and shortages of construction labor are driving up the cost of capital projects for airports throughout the country. These factors are outside our control as they are driven by national policy actions.

ABOUT SPOKANE INTERNATIONAL AIRPORT

Spokane is the largest city between Seattle and Minneapolis as well as between Calgary and Salt Lake City. Accordingly, we are a regional center for education, food and entertainment, finance, retail, medicine, manufacturing, transportation, and logistics for a vast area of small and rural communities. In addition, we are a popular year-round leisure destination.

Spokane International Airport is the primary commercial service airport for this region. Our market area includes Eastern Washington State, Northeast Oregon, North Idaho, Western Montana, and the southern parts of the Canadian provinces of Alberta and British Columbia. In 2018, we handled just under four million total passengers, which beat our all-time high record set in 2017 and represents an increase of approximately 37 percent since 2013. In the past two years, our passenger activity has increased nearly 23 percent. Freight activity has increased a little over 10 percent since 2013.

Our airport is served by Alaska Airlines, American Airlines, Delta Air Lines, Frontier Airlines, Southwest Airlines, and United Airlines, which together operate approximately 60 flights per day to 16 nonstop destinations. Scheduled cargo service is provided by FedEx and UPS. Empire Airlines provides cargo service to smaller communities in the region and feeds into FedEx at Spokane International Airport.

On the passenger side, our physical infrastructure consists of two terminal buildings: the original terminal building constructed in 1965, which has 11 loading bridge gates, and a second terminal constructed in 1999, which has three loading bridge gates and four ground-loading positions. Together, the terminals offer a total of 14 gates and four ground-loading positions.

The airport is owned jointly by the City of Spokane and Spokane County and operated by the Spokane Airport Board. In 2019, our operating budget is approximately $43 million and our capital budget is approximately $51 million. We have approximately 100 full-time employees and 50 part-time employees. We do not receive general fund support from City or County taxpayers and therefore rely on revenues generated by parking, ground leases, permit fees and concession agreements to fund our operations. Capital expenditures are primarily funded through AIP grants; Customer Facility Charges to rental car companies, the Passenger Facility Charge, and debt. A modest non-grant funded capital program is supported by available cash outside of reserves. Consequently, PFCs are crucial element of our fiscal self-sufficiency.

OUR AIRPORT'S CAPITAL IMPROVEMENT NEEDS

After 20 years without any capacity expansion, Spokane International Airport has reached a point of full saturation on both the landside and airside of the terminal facilities. On the airside, we have no additional gates to offer existing airline partners for new service or for new entrants, particularly if they want to fly at peak times. For example, one of our airlines recently added new nonstop service that filled a much needed demand. Due to lack of gates, the new route has to use one of the ground-loading positions, which forces customers to go outside in all weather conditions to board the aircraft.

Our landside facilities are equally saturated. We have a passenger-screening checkpoint in each of the terminal buildings. Both checkpoints are severely constrained as they were jammed into existing space in the terminal buildings that were not designed for the extensive physical space needed to carry out passenger screening in the post 9/11 era. Some of our baggage-claim devices are original equipment, and our maintenance staff is required to machine replacement parts from scratch in order to keep them operational. The baggage carousel that serves United Airlines dates back to the 1970s. Our legacy HVAC system is just as aged, and we have trouble keeping our passengers and workers comfortable, as our system struggles to keep up with the heating or cooling loads during peak hours of activity.

We have done an amazing job to extend the life of the terminal buildings and to make them work as best as they can; however, we now find ourselves up against both the age and capacity limits of the facility. If we do not invest now, the ability of the airport to facilitate continued economic growth of our region and to support growth of airline business will be harmed.

Spokane is not alone. Airport terminal buildings around the country are reaching the end of their useful lives and their capacity limits. Many of these airports like Spokane deferred projects after the extensive consolidation in the airline industry last decade that resulted in significant reductions in seat capacity. However, airlines eventually brought back this service to finally address the pent up demand and more recently expanded service to keep up with the growth in our economy after the Recession. As a result, we are now being challenged by the growth in demand for air travel. This circumstance is being faced across the country at airports of all sizes, but particularly challenges smaller airports that need substantial investment for which the PFC was intended but cannot afford to go into substantial debt.

It is important to note that the genesis of the PFC program goes back to the late 1980s to address the need for airports to build facilities to increase competition. The PFC is a pro-competition mechanism. With the consolidation in the airline industry, it is more important now than ever for airports to have the funding tools to provide for competition. In part I believe this is why the airline industry does not support an increase in the PFC level. In exchange for backing airport projects, airlines often demand long-term leases with preferential or exclusive rights to facilities which can have an impact of limiting access of competitors. The PFC is the best self-help mechanism for public airports to implement projects for the good of the whole and not to the just benefit the few.

That is why it is so critical that Congress raise the federal cap on local PFCs and provide airports with more federal AIP funding directed at addressing terminal renovation and expansion projects.

SPOKANE'S TERMINAL RENOVATION AND EXPANSION PROJECT ("TREX") PLAN

In my testimony from the first hearing on February 7th I described the planning process undertaken in Spokane to address the capacity and infrastructure issues that have reached the critical point. Our $190 million TREX capital improvement project focuses on our most urgent needs, including security screening checkpoint capacity and configuration, baggage claim, gate capacity, legacy HVAC, IT and security systems, as well as adequate public circulation space and areas for proper configuration of law enforcement, dispatch, operations, and administrative functions. The core components of the TREX project are outlined in *Exhibit A*.

The best solution as identified in the Master Plan would be better to abandon the existing terminals and build unified terminal building on a new greenfield site that offered substantial flexibility. The problem with that solution is would cost $400 million–$500 million, which an airport of our size cannot afford.

As a result, we decided to take a more conservative approach and make "lemonade" out of the existing terminal complex and figure out a way to renovate and expand the buildings to accommodate projected growth—the solution reflected in the TREX project. This conservative approach required us to think about ways to make the terminal buildings work better together through a series of projects that would have independent utility but would be functionally related to the whole program. Our concern was that our air service environment had been volatile and as a result we did not want to overextend our building program and end up highly leveraged in the event that we continued to experience a slow economic recovery or that the airlines did not respond to the demand in our market with sufficient seat capacity and destinations.

There are many airports across the country that are pursuing TREX-like projects that can run anywhere between $50 million or greater depending on the scope of the needed improvements. A nearby example of that is in Missoula, Montana, which is pursuing a terminal renovation and expansion project that is estimated to cost in the $100 million range. To provide a comparison, Missoula handled over 848,000 passengers in 2018, where Spokane handled nearly four million total passengers. I use this to illustrate that there is a common need for airports to renovate and expand terminal facilities in response to growth and the costs of these projects for smaller airports are in a consistent range.

FUNDING FOR TREX: THE COST OF DOING NOTHING

TREX is crucial to the future of our airport and our region. However, current federal policy with respect to AIP and PFCs creates an extremely challenging funding environment for airport development projects like this, one that unduly constrains our fiscally prudent financing options for the following reasons:

(1.) *The Airport Improvement Program* provides grant funding for mainly airfield-related improvements (e.g., runways, taxiways, aprons, and land acquisition). What most airports need now is expanded terminals, and most AIP grants cannot be used for that purpose. In addition, although the FAA reauthorization bill signed into law last year was helpful in restoring stability and predictability to aviation policy, the law fell short in maintaining level funding for AIP at $3.35 billion annually. Of that amount, airports will receive approximately $3.2 billion each year after appropriations are taken to fund FAA administration, research and development, and small community programs. This amounts to less than half of the $7 billion each year through 2023 that the FAA's own 2019 National Plan of Integrated Airport Systems ("NPIAS") says is needed for AIP-eligible projects. Even then, the NPIAS estimate does not reflect the complete capital needs of airports, which also include projects that do not qualify for AIP funding.

As AIP funding has remained flat over the past 12 years, its effective buying power in current dollars has declined to approximately $1.8 billion. In turn, the $5 million Spokane receives annually in AIP formula funds based on passenger and cargo activity for use on eligible projects has effectively declined in value to $2.25 million. The amount of this formula funding is often insufficient to address the total cost of an eligible project, so we must compete with other airports for discretionary funding from the FAA or divide a project into multiple phases, which is inefficient and costs more. We also find ourselves having to bid projects in multiple schedules to match funding constraints and ask the contractors to hold their prices from one year to the next, which is risky for them.

An example of our situation is a current grant request that we have submitted to the FAA for reconstruction work on our runway intersection related to pavement rehabilitation, paved shoulders, drainage, and signage. Our total project request for the Runway 8-26 Improvements Project is $21 million, with $18.6 million from the FAA and $2 million from the airport in matching funds (which is, in itself, considerable). If this project were funded entirely through entitlement formula, we would be looking at obligating approximately four years of funding to pay for the project. As a result, we have requested discretionary funding from the FAA. At the same time, we have a need to realign our terminal building access road and prefer to use our entitlement funding for that project. If the FAA cannot come through with discretionary funding, we will have to substantially modify the runway project and/or jump over it and prioritize the roadway realignment project. This could create a considerable disruption to our Airport Capital Improvement Program that we have worked out with the FAA. Had our AIP funding been able to keep up with need, we would be able to pursue both projects without tying up our funding for several years or introducing a disruption into our capital program.

Because AIP cannot meet our funding needs for eligible projects, it causes a cascading impact of phasing or deferral of airfield projects that ultimately results in greater cost and complexity. Another example is our project to relocate a road around the end of our primary runway that is currently within the Runway Protection Zone—one of the most critical safety areas that we are charged with protecting. This project is estimated to cost upwards of $20 million and we have been seeking funding partners at the state, metropolitan planning organization, and local level to help us leverage the relatively small amount of FAA funding that we can bring to the project. We prepared an application for a BUILD grant from the U.S. Department of Transportation for this project; however, off-airport needs in our region caused us to withdraw our application in favor of another project that was critically important to the community. This is an illustration of the way in which the diminished purchasing power of AIP funding causes airports to go in search of other sources and increases pressure on overall transportation funding sources, which are struggling to keep up with demand in their own right.

To be certain that there is no misconception about how AIP funds are directed or any inference that a plus-up to AIP without substantial policy changes on terminal building eligibility will offset the need for a PFC increase, I reviewed the AIP grant history for Spokane International Airport from 1982 to 2018. In the grant descriptions provided, I could not identify a single terminal building-related project being funded out of AIP. That means that out of roughly $186M of AIP grants made over a 36-year period, there were no terminal building projects funded. The only grant remotely linked to terminal building needs was a Voluntary Low Emissions ("VALE") program grant to install pre-conditioned air units on some of our passenger loading bridges. Since 2009, I could identify only one AIP grant involving a project not involving airfield pavement, signage, or lighting, for construction of a replacement Aircraft Rescue and Firefighting building ($7.1M).

This analysis indicates that the vast majority of AIP grants at Spokane have been directed to airfield projects at a rate that well-exceeds the 71 percent proportion for AIP grants in general. My impression is that this percentage is routinely higher for smaller airports which points out that there is current need for an increase to AIP funds for both airfield and terminal building projects at small airports. Both AAAE and ACI-NA have well-documented that condition as part of the total underfunded need at airports of all sizes throughout the country.

Another misconception about AIP relates to the current balance of the Airport and Airway Trust Fund and the idea that there is plenty of money that could be made available for airports if Congress appropriated more out of the Trust Fund. In my opinion that is a false narrative, as the Trust Fund balance represents about 5 months of the FAA's operating budget and the Trust Fund is used for many other FAA operating and capital programs other than AIP.

(2.) *Passenger Facility Charges*. In contrast to airside project focus of AIP grants, PFCs are generally used to finance landside improvements such as passenger terminals that usually aren't eligible for AIP funding. PFCs are a crucial source of support for these projects, because their proceeds may be used for a broader range of airport development projects than AIP grants and unlike AIP grants can be bonded to finance large, multiyear projects.

As with AIP grants, because the PFC cap has not been adjusted since 2000, the purchasing power in today's dollars is about half of what it was. Most airports today collect the maximum PFC amount because of the need to fund terminal infrastructure projects as well as the impact of construction inflation on project costs. While this effect varies by region, it is safe to say that average construction costs have increased considerably since 2000 when Congress last adjusted the PFC cap.

In many circumstances, including Spokane's, the PFC is serving as an offset to the stagnation of AIP funding and the erosion of its purchasing power. In fact, a quick look at our PFC programs since 1993 show approximately 11 airfield-related projects totaling a little over $37 million that would have been AIP eligible had AIP been able to keep up with need. We can throw in another $54.8 million in snow removal equipment and a snow removal equipment storage building. Over 26 years, this locally directed user fee has effectively acted as supplement to stagnated AIP funding in the amount of nearly $92 million or roughly $3.54 million on average each year. Overall, the PFC has funded nearly $150 million of projects in Spokane that would otherwise have had to compete, wait, or be cancelled due to a lack of AIP funding or would have had to have been debt financed or paid directly by the airlines.

THE BOTTOM LINE

The airport industry trade associations, the American Association of Airport Executives and Airports Council International North America ("ACI-NA"), routinely survey airports to assess their total capital needs. ACI-NA's most recent survey data indicates that annualized capital needs between 2017 and 2021 are approximately $20 billion. It is my understanding that this number will increase when the survey is next updated.

Airports collect about $3.3 billion annually in PFC revenue. Add to that the AIP funding level of $3.35 billion and we are only generating about one-third of the annual funding needed to maintain and expand our airport system. This gap acts as a significant constraint on the funding and financing options available to airports like Spokane. Could you imagine what we could do if our AIP entitlement funding was nearly doubled annually and the amount of PFC capacity that could be freed up as a result?

FUNDING FOR TREX: THE URGENT NEED FOR A PFC INCREASE

Spokane needs additional PFC funding capacity now more than ever as we head into the construction of the TREX project. This would help narrow the funding gap described above, and it would ultimately save money for the traveling public. Let me explain using the graphic in *Exhibit A*, which outlines our current and potential financing options for TREX.

Here's how a higher PFC cap would help us reduce time and costs in Spokane: The lower right quadrant of *Exhibit A* illustrates concepts of how the airport can fund the TREX project through the traditional "bond it all and build it" method and another method that we call "pay-go/borrow/bond and build." We have simplified the math to show the broad concept of the costs of doing nothing with the PFC cap and the benefits of increasing the PFC and using methods to reduce our interest costs.

If we take the current estimated cost of the TREX project at nearly $191 million and go the traditional route of bonding the full amount, the airport and its local users effectively end up paying twice for the same thing as the total project cost becomes nearly $342 million. Just for purposes of illustration, at the current PFC level of $4.50 and not counting for inflation, that would straight line to 38 years of PFC obligation if we stayed at two million enplaned passengers a year. And this is a current problem today for many airports that are extended decades out on their PFC obligation, paying off projects that they have already built so there is no capacity to fund new projects.

Moving down the table, we show the simplified effect of an increase of the PFC from $4.50 to $6.50, which reduces interest and brings down the PFC collection period from 30-plus years to 22 years. Then, on the bottom table, we show the impact of an $8.50 PFC level, which brings down the PFC collection period to 14 years. The reduced time that a higher PFC would create is relevant since the TREX improvements will likely have 15–20 years of life cycle before reinvestment. A higher PFC would also allow us to reduce our interest costs. Under this model, an $8.50 PFC would also allow us to reduce our interest costs from $151.2 million to $66.3 million. In other words, an $8.50 PFC would allow us to save approximately $85 million in interest costs.

The tables on the lower right of the quadrant on *Exhibit A* show an even better outcome if we collect an increased PFC for a short period of time and then use a combination of pay-go and debt financing (maybe even other than Airport Revenue Bonds if alternatives are attractive), and again we show these scenarios in increments of the current rate of $4.50 and a conceptual increase of the PFC to $6.50 or $8.50 per enplaned passenger. In that scenario, an $8.50 PFC would allow us to reduce our interest costs from $73.4 million to $18.7 million—a $54.7 million savings. An $8.50 PFC would also allow us to reduce the payoff for the debt financing from 20 years to just seven years.

These tables are a simplified way to express the practical impact of a PFC increase as related to reduction in total project cost. Our example includes a small escalation factor in the 2018 costs. By far, the largest impact on the project cost will be the bidding environment that exists at the time. We also used a bond amortization rate of 4.25 percent. With regard to present value impact, we assume that annual bond payments are fixed at debt issuance, discounted through interest rates at the time, and paid back with funds accumulated in future years at the fixed amount regardless of diminution due to inflation of the value of a dollar in a future year.

As airport operators, we have to ask ourselves why should our passengers pay twice for a project like TREX when a modest increase in the PFC can substantially reduce that liability? Why should the PFC continue to make up for a stagnated AIP funding level that has not kept pace with demonstrated need? Why should a PFC that has not been adjusted for nearly two decades force us into an unnecessary level of debt that we would otherwise prefer not to take on? What are the impacts of losing all of our PFC capacity for decades in terms of deferred and cancelled projects? What are the impacts to our non-grant or PFC-funded capital program that is already underfunded by about $5 million a year?

Spokane's overall financial situation provides additional context for the discussion above. Spokane International Airport is currently mostly debt free with the exception of some modest very low-interest loans that we accepted from the state to construct hangars. While this is an enviable position, we were able to get there by changing our financial models to be more business-like and entrepreneurial, but we also deferred non-grant funded capital investment. Our goal was to build up our capacity in the worst-case scenario of having to go the traditional route of bonding all of the TREX project costs and paying them off over 25–30 years, as well as be able to fund other projects that are approaching that will not be PFC- or AIP-eligible, such as expanding our parking garage.

We believe that it is in the best interest of the airport to avoid debt to the greatest possible extent, and when we need to use it, to limit it. I think we can all agree that this is a good way to operate just about any organization.

Because we have a fully residual rates and charges agreement with the airlines, they also benefit by not having to support substantial levels of debt service as part of their costs. As a result of a combination of factors, our cost-per-enplanement ("CPE") ratio in Spokane is low and fluctuates between $5.00–$6.00 per passenger. This places us in the lowest quartile of airports based on CPE. Much of our financial planning in terms of the impact of decisions on our operating and capital budgets is based on the impact to our CPE and our desire to remain within a reasonable CPE range.

Given our financial discipline and policy choice to avoid debt, the airport uses its unrestricted cash to pay for capital improvement projects that are not eligible for grant or PFC funds and, in some circumstances, to advance fund planning, environmental, or design efforts needed to keep AIP or future PFC projects on schedule. It is important to point out, however, that "unrestricted" does not mean "available." Reserves are not included in the restricted definition. We look to maintain an Operations and Maintenance Reserve and Self-Insurance Reserve (Other Post-Employment Benefits, Environmental Liability, etc.) in addition to funding the aforementioned capital projects. For accounting purposes, we define available cash as that which is on hand after reserves. At this point, I must address a popular misconception. Many groups rely on FAA Form 127 to assess airport cash balances. We believe this is an error because unrestricted cash is defined as "not restricted." This can provide an inaccurate picture of cash available for use. In reality, much smaller amounts of cash are available and in the control of management. For example, in Spokane, the FAA Form 127 indicates that the 2018 forecast amount of Days Cash On Hand ("DCOH") is approximately 385 days. In reality, the number of DCOH is 198 when reserves are applied. The reality is that the revenue we raise goes to fund our operating expenses and about $6 million–$10 million to invest in non-grant funded projects and to match AIP projects (recall the $2 million match I referred to for the Runway 8–26 Improvements earlier in my testimony).

We are not sitting on piles of cash in Spokane with six to eight months of available cash, but the good news is that we are not sitting on piles of debt, either. We have managed to this objective by limiting our non-grant and PFC-funded capital program, which is not in the long-term best interest of the facility. Airports across the country reported almost $92 billion in debt in 2017, which is more than six times the amount of unrestricted cash that they reported that year.

In our community, we would much prefer using a locally directed user fee to pay for projects than to incur debt that has the potential to stop us from being able to move forward on other important infrastructure projects that are not grant or PFC eligible or just saddles us with costs that drive up our CPE to unacceptably high levels.

Finally, I would point out that as a practical matter, our airline partners do not want to tie up their capital investment dollars in a place like Spokane and in the vast majority of smaller communities. We do not see that as a negative. I think that the airlines are pleased that we have kept our PFC capacity available to take on the cost of the TREX project. We are good partners and understand their corporate objectives and how their investments in other types of infrastructure benefits our community. We are realists, and we embrace the responsibility to develop our airport terminal facilities by using the best self-help mechanism available: the PFC. I ask this Committee to provide communities with the best possible means by which to fund airport infrastructure by supporting an increase to the PFC as part of an infrastructure bill or other legislation.

AVOIDING TRAPS AND ADVERSE CONSEQUENCES

Throughout my testimony I have attempted to demonstrate how insufficient financial resources diminish the ability of Spokane, and most other airports, to properly invest in needed infrastructure. I want to close by highlighting the way in which complex, interrelated airport funding issues can create a number of potential "traps" for airports seeking to fund infrastructure improvements. I will operationalize these traps for you using our TREX project and point out why an increase in the PFC is the best way to avoid them.

As I mentioned earlier in my testimony, the TREX project is currently estimated to cost $191M. That is on top of what we need for other AIP-eligible projects and non-grant eligible projects that are funded from net operating revenue.

When the financial implication of TREX is modeled to derive an estimated CPE, it nearly doubles the cost per enplaned passenger from our current level and extends the PFC obligation out to the late 2030s, effectively committing that revenue stream for the foreseeable future to a single project. That means any future improvements will need to be funded from other sources. As I mentioned previously, our CPE is in the lowest quartile and as a result, we and our airline partners understand there is headroom to increase the CPE to fund TREX, however, not to the extent that it doubles and places us in a potential competitively compromised position that could discourage competition and keep airfares reasonable for my community. As a result, we are forced to examine scope reductions and negotiate against ourselves to a certain extent. This is primarily due to the additional cost of debt to finance the project which means higher rates and charges for the airlines. Not only is there a scope reduction in TREX, but we must also look at redirecting as much AIP funding to the project as possible, which sets us up in a second trap with the FAA as they assign low priority to terminal buildings and when an airport directs its entitlement funds to lower priority projects, the FAA withholds discretionary funding for other projects as they prefer to see an airport use entitlement funds for their priority projects (think airfield-related projects based on the grant history I reviewed earlier). Accordingly, the AIP revenue stream, which is already inadequate is effectively shut off.

Finally, there is the third trap which is the negative impact on non-grant funded projects. These are projects that are not eligible for PFC or AIP funds that typically come from net operating revenues. Examples include building parking lots and aircraft storage hangars and acquiring equipment like police vehicles and streetsweepers and building administrative space for airport management functions. As this category of funds has to be dedicated to debt service or paying for other elements of TREX, the airport has completely run out of options to invest in capital facilities and equipment.

Each year we establish a non-grant funded capital budget and pare it down to fit into a rates and charges level that we believe will work for our airline partners. However, as a result of not having a modernized PFC collection rate, it imposes an artificial cap on this program that has resulted in an average of $6M per year of projects that we defer which means that we have an effective backlog of at least $24M of non-grant funded capital projects and are adding approximately $6M a year to that liability. This alone would equate to an approximate $3 increase to the PFC just to catch up to where we need to be.

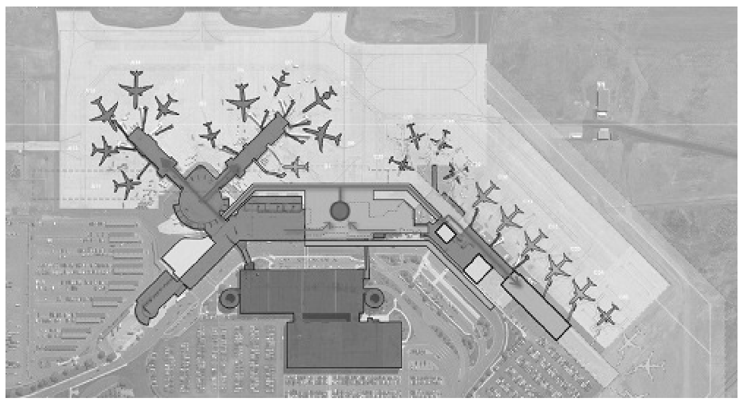
So there are 3 traps created by an insufficient PFC. The first trap being scope reductions on projects to limit impact to CPE due to debt financing as well as effectively shutting off the PFC revenue stream for decades. The second trap is to effectively reduce AIP funds by prioritizing them for terminal building projects against the heavy emphasis by FAA for their use on airfield projects. The third trap is to constrain the non-grant funded capital investment so as to require significant deferral or abandonment of projects that are not eligible for PFC or AIP funds.

All these traps work to effectively give more control of airport capital programs to the airline partners whether it is intentional or not. A healthy balance should be maintained in order to avoid these traps of diminishing returns. Modernizing the PFC, a locally-directed user fee, is the best balancing mechanism to avoid these traps and I think we have demonstrated from our own behavior that it works in a market setting.

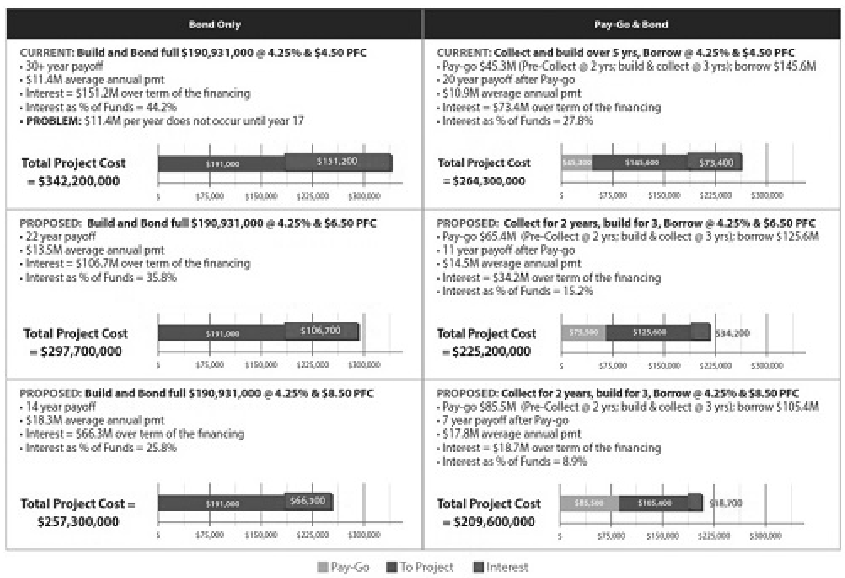
CONCLUSION

I am very encouraged that Chairman DeFazio and Ranking Member Graves are holding this hearing today to lead our country forward on addressing airport infrastructure needs. Clearly, the cost of doing nothing is high, and we are already paying for it at the risk of harming the economic well-being of our community airports by underfunding AIP and artificially limiting their ability to deliver modern and efficient facilities as a result of an outdated cap on a locally directed user fee that has proven to enhance safety, efficiency, capacity, competition, and the customer experience. I strongly encourage you to consider raising this cap to provide airports like Spokane with the broadest range of funding and financing support as we work to deliver air transportation infrastructure that the American people deserve. Providing airports the ability to flexibly and responsibly utilize a modernized locally-directed user fee is the right balancing mechanism for this time when need is so great and resources have stagnated. The PFC has proven itself as the right airport infrastructure investment policy for nearly 30 years. It is time to act. Please provide us with the necessary tools to properly invest in our airports for the benefit of our communities and business partners. The cost of doing nothing is too high to ignore. I renew my commitment to help members of this Committee as you develop an infrastructure package and future infrastructure legislation.

EXHIBIT A: TERMINAL RENOVATION AND EXPANSION ("TREX") WITH CONSOLIDATED CHECKPOINT PROJECT



Description	Approximate Area (sf)	Construction Costs (2018 $)
Central Bag Claim (Ground Level-Five Devices) ..	70,000	$33,950,000
Consolidated Checkpoint (Upper Level)	55,000	$26,675,000
Basement Under Bag Claim (Half of Ground Level Area)	35,000	$3,500,000
Terminal A/B Remodel (Old Bag Claim and SSCP)	17,500	$3,062,500
Terminal C Ticketing remodel (Old SSCP)	4,000	$700,000
Concourse C West Extension (Three Gates at End of Concourse)	50,000	$26,250,000
Concourse C West Extension (Ramp Level)	50,000	$6,250,000
Concourse C Central (East) Expansion (Three Gates Above Ground Boarding)	12,500	$7,500,000
Concourse C Central (East) Expansion (Ramp Level)	12,500	$1,562,500
Concourse Connectors	17,000	$10,200,000
Curbside Canopies	....	$7,647,000
Apron For Concourse C Extension	174,700	$12,229,000
Dual Taxiline	148,500	$10,395,000
Passenger Boarding Bridges	6	$4,500,000
Skybridge from Terminal to Parking	9,750	$5,850,000
Landside Curbside Improvements	....	$3,500,000
Mechanical and Electrical Upgrades	....	$15,000,000
Airport Operations Center	38,000	$12,160,000
Total		$190,931,000



Mr. DEFAZIO. We would move on to the next witness, which would be Ms. McGraw.

What? Barnes? Oh, sorry. Ms. Barnes, sorry. She is so anxious to go.

[Laughter.]

Ms. BARNES. Chairman DeFazio, Ranking Member Graves, members of the committee, good morning. I'm Tori Barnes, executive vice president of public affairs and policy for the U.S. Travel Association. Thank you for inviting the broader travel industry to participate in this important hearing.

U.S. Travel is the only association that represents the interests of travelers in all sectors of the travel industry: lodging companies, amusement parks, restaurants, convention managers, car rental companies, State travel leaders, and many others.

With such a broad membership, our association has a focused mission: to increase travel to and within the United States. And that is the lens through which we evaluate public policies. Simply put, will they grow travel or not? This is our approach to aviation policy, because when air travel grows the benefits exceed far beyond just airports and airlines.

In 2018 domestic air travelers spent $289 billion and directly supported 2.4 million jobs in America's travel industry. International travel to the U.S. is our Nation's second largest service export, and more than 85 percent of the spending is powered by the 51 million international visitors arriving at our airports.

Clearly, when air travel grows, our economy prospers. That means it is essential for America's infrastructure to keep pace with growing demand. As our members look at the passenger facility charge, they raised three questions.

First, are airports able to handle current demand? Travelers already face routine challenges, from delays and a frustrating passenger experience, often stuck in crowded terminals or on congested taxiways. In 2018, one in five flights was delayed or canceled. A recent U.S. Travel survey found that airport hassles caused Americans to avoid 32 million trips, which cost travel businesses $24 billion in spending, enough to support 200,000 jobs.

Second, will airports be able to handle future demand? Here there are real concerns. The FAA predicts that nine large-hub airports will not have enough airside capacity to meet demand by 2030. According to a study by Cambridge Systematics, by 2021 the top 30 U.S. airports will experience Thanksgiving-like congestion levels at least 1 day per week. So if you happen to fly on the Wednesday before Thanksgiving, just look around. It is a preview of what the average day of air travel will look like in just a few short years, if we continue down this current path.

Third, our members asked how would flyers react if Congress raises the PFC. We surveyed air travelers around the country and learned that their top three frustrations are airline fees, the overall cost of flying, and airport hassles, such as crowded terminals. Airport fees were second to last, as factors determining whether travelers actually take trips. Travelers also support projects that improve travel, and they know that these projects must be paid for. Fifty-eight percent said that they would be willing to pay up to $4 more per ticket for airport improvement projects of the kind that the PFCs fund.

That leads me to why U.S. Travel supports giving airports the choice to raise the PFC: because, one, it is optional; two, it funds projects that benefit travelers and the air travel system; and it works. As I stated, the PFC is an optional tool that airports may choose. And I emphasize "choose" to address projects of immediate need that also receive the FAA's approval.

PFCs only fund projects that benefit the entire air travel system, projects that strengthen safety and security, reduce congestion, and enhance airline competition. Travelers support such investments, and they know that they will grow travel.

Finally, the PFC works. Consider O'Hare Airport. O'Hare used PFC funds to buy out and renovate vacant gates held by a major incumbent carrier. This action helped several low-cost carriers, including Spirit, start new service. And their flights to new cities led to 2 million additional visitors and over $2 billion in increased business activity over a 7-year period.

For airports that choose it, PFCs work, and they grow travel. Giving airports the option to increase the PFC has the backing of the broad span of the travel industry, including 147 organizations that announced their support last year. These travel leaders are convinced that adjusting the PFC cap will boost, not hurt, travel.

Thank you for your leadership and ensuring a better air travel system for passengers. We look forward to working with you on this and other important issues, and I look forward to your questions.

[Ms. Barnes's prepared statement follows:]

Prepared Statement of Tori Emerson Barnes, Executive Vice President, Public Affairs and Policy, U.S. Travel Association

Chairman DeFazio, Ranking Member Graves, Members, good morning. I'm Tori Barnes, Executive Vice President of Public Affairs and Policy for the U.S. Travel Association. Thank you for inviting the broader travel industry to participate in this important hearing.

U.S. Travel is the only association that represents the interests of travelers and all sectors of the travel industry—lodging companies, amusement parks, restaurants, convention managers, car rental companies, state travel leaders, and many others. With such a broad membership, our association has a focused mission: To increase travel to and within the United States—and that's the lens through which we evaluate public policies. Simply put: will they grow travel or not?

This is our approach to aviation policy, because when air travel grows, the benefits extend far beyond just airports and airlines. According to U.S. Travel research, in 2018, domestic air travelers spent $289 billion—and directly supported 2.4 million jobs in America's travel industry. While these passengers account for only 12 percent of domestic trips, they generate 31 percent of total domestic travel spending. Add international visitors, and the effects are even greater. International travel to the U.S. is our nation's second largest service export and more than 85 percent of this spending is powered by the 51 million international visitors arriving at airports, who spent $144 billion here.[1]

Modern, efficient airports ensure we keep pace with growing travel demand, while inefficient, outdated or capacity-constrained airports limit jobs and economic growth, discourage domestic and international travel and undermine America's global competitiveness.

Clearly, when air travel grows, our economy prospers. That means it is essential for America's infrastructure to keep pace with growing travel demand.

As U.S. Travel's members look at the Passenger Facility Charge, then, they raise three questions:

First, are airports able to handle *current* demand?

Travelers already face routine challenges from delays and a frustrating passenger experience, often stuck in crowded terminals or on congested taxiways. In 2018, one in five flights was delayed or canceled.[2]

A recent U.S. Travel survey found airport hassles caused Americans to avoid 32 million trips, which cost travel businesses $24 billion in spending—enough to support 200,000 jobs.[3]

Second, will airports be able to handle *future* demand?

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[1] https://www.ustravel.org/system/files/media__root/document/Research__Fact-Sheet__US-Travel-Answer-Sheet.pdf

[2] https://www.transtats.bts.gov/OT__Delay/OT__DelayCause1.asp

[3] "Flying Worse than Five Years Ago, with Christmas the Most Frustrating Travel Season, Most Americans Say," U.S. Travel Association, December 20, 2017.

Here, there are worrying signs. The FAA predicts that 9 large hub airports will not have enough air side capacity to meet travel demand by 2030.[4]

According to a study by Cambridge Systematics, by 2021, the top 30 U.S. airports will experience Thanksgiving-like congestion levels at least one day per week.[5]

Because airports cannot fund improvements as fast—or as cost effectively—as they otherwise could with a higher PFC, in just two short years, our airports will look largely the same as they do today. So if you've ever flown on the Wednesday before Thanksgiving, you weren't just experiencing one of the busiest travel days of the year—you were getting a preview of what the average day of air travel will look like in just a few short years if we continue down our current path.

With these levels of passenger volumes on the horizon, the question posed to airports shouldn't be: "Show us a project that can't eventually be funded and built." The question should be: "Show us an airport project that *shouldn't* be completed faster and at a lower cost."

Third, our members ask, how would flyers react if Congress raises the PFC?

We surveyed air travelers around the country and learned that their top three frustrations are airline fees, the overall cost of flying, and airport hassles such as crowded terminals. Airport fees were second-to-last as factors determining whether travelers actually take trips.[6]

Travelers also support projects that improve travel—and travelers know these projects must be paid for: 58 percent said they would be willing to pay up to $4 more per ticket for airport improvement projects of the kind that PFCs fund.[7]

This leads me to why U.S. Travel supports giving airports the choice to raise the PFC, because:

- It's optional;
- It funds projects that benefit travelers and the air travel system;
- And it works.

As I stated, the PFC is an optional tool that airports may *choose*—and I emphasize *choose*—to address projects of immediate need. Improvement to terminals, runways, and taxiways are among the projects that could benefit from an infusion of PFC funds. By definition, if an airport does not need additional PFC financing it will not need to increase its PFC—and those that do, could only do so if they have a project that receives FAA's approval.

PFCs only fund projects that benefit travelers and the entire air travel system. Congress established the PFC to provide financing for projects that enhance safety and security, reduce congestion or increase capacity, enhance airline competition, or reduce airport noise. Travelers support such investments and they will grow travel. But the statutory cap on the PFC has not been lifted in 19 years. Inflation since 2000 has eaten away at its value. It is time for a change.

Finally, the PFC works. Consider, O'Hare Airport. O'Hare used PFC funds to buy out and renovate vacant gates held by a major incumbent carrier. This action helped several low-cost carriers, including Spirit, start new service—and their flights to new cities led to two million additional visitors and over $2 billion in increased business activity over a seven-year period.[8] For airports that choose it, PFCs work—and they grow travel.

Giving airports the option to increase the PFC enjoys the backing of the broad span of the travel industry, including 120 organizations that announced their support last year.[9] These travel leaders are convinced that removing the PFC cap will boost—not hurt—travel. Our members believe this financing method promises quicker results and greater flexibility.

Thank you for your leadership in ensuring a better air travel system for passengers. We look forward to working with you on this and other important issues.

Mr. DEFAZIO. Thank you. And thanks for your brevity. Now we will move on to Ms. McGraw.

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[4] https://www.faa.gov/airports/planning__capacity/media/FACT3-Airport-Capacity-Needs-in-the-NAS.pdf

[5] "Thanksgiving in the Skies: A Look at the Future of Air Travel in America," analysis conducted by CambridgeSystematics on behalf of the U.S. Travel Association, November 4, 2014. https://www.ustravel.org/sites/default/files/media__root/document/THX%202014__Executive%20Summary%20__Final%20%281%29%5B1%5D.pdf

[6] https://www.ustravel.org/sites/default/files/media__root/document/MC-Poll-Slides-V3.pdf

[7] "Travelers willing to pay more to improve flying experience," U.S. Travel Association, March 25, 2015.https://www.ustravel.org/press/survey-travelers-willing-pay-more-improve-flying-experience

[8] https://www.ustravel.org/issues/infrastructure

[9] https://www.ustravel.org/sites/default/files/media__root/document/House%20FY18%20Appropriations%20Letter__1.pdf

Ms. MCGRAW. Now? Thank you.

[Laughter.]

Ms. MCGRAW. Good morning, Chairman DeFazio, Ranking Member Graves. And thank you to Mr. Massie for the kind introduction. It is an honor to appear before you today. And before I begin I want to take a moment to thank each of you for your public service. I am here to share the story of CVG, and offer you the perspective of a medium-hub airport.

One of the most important things I hope you take away from today is that airports are running out of time for Congress to remove the outdated cap on the PFC. Our airports are aging, our terminals are woefully inadequate, relative to keeping pace with the growth in passenger demand and processing. Airports have investments to make now. We have jobs to support and create today.

The ongoing, long-suffering arm-wrestling between airports and airlines that you hear about is about one issue, alone, and that is control. Airports want to work with, not for, airlines to the benefit of our communities. Let me share with you the example of CVG, which today operates very differently than it once did.

Like my colleagues in Pittsburgh and St. Louis, CVG was historically dominated by a single carrier who operated a major connecting hub. The airport's long-term, 40-year use agreement imposed significant restrictions on what the airport could do, how decisions were made, and what funds could be spent on capital projects. Average air fares from CVG were among the highest in the country. We had little funding in reserve for operating or capital costs.

When the dominant airline reorganized under bankruptcy and merged with another in the late 2000s, CVG experienced what many of my new medium-hub colleagues have faced: a dehubbing and downsizing of operations that required us to reinvent the essence of the airport.

In the time since we have right-sized the facilities, consolidating three terminals and three concourses into a single main terminal with two concourses. We demolished our oldest facilities to free up valuable space to lower operating costs. We started developing airport property that would never be used for aviation purposes for non-aeronautical projects to diversify our revenue streams and create more jobs for our region. My team and I doubled-down on operating the airport as the business it is. We focused on diversifying our business, keeping costs low for all of our tenants and airline partners, while maintaining prudent reserves.

It is said that airports do not need increased local revenues, and should simply work collaboratively with airlines to accomplish major capital projects. CVG is one of the best examples of what can happen when an airport or any business is overly reliant on one or a handful of business partners to achieve success. For as much success as we have had with our hub carrier, artificial limitations were placed on us for spending money or in creating competition on routes. Our success today is reflective of what happens when you empower good business management, operate more effectively at a local level, and create a level playing field for all business partners to flourish.

Later this year, we will submit to the FAA our 2050 master plan, a 30-year outlook on the airport's infrastructure plan for growing and meeting capacity forecasts. The first order of items to support the master plan will be to maximize the use of the existing passenger facilities. We plan to repair, replace, and upgrade basic mechanical systems, jet loading bridges, conveyances, and baggage systems.

In addition to required airfield projects such as taxiway and runway rehabilitations, these passenger facility improvements are in urgent need of attention, not from a cosmetic standpoint, but rather to meet operational readiness and reliability objectives.

Our former hub carrier is responsible for ongoing maintenance of certain assets at the airport until the end of 2020. As of January 2021, CVG will have to assume the operating costs and responsibility for our outdated 25-year-old baggage facilities and passenger train, which were designed for connecting travelers. While 90 percent of our passengers were connecting during our hub days, local passengers now account for over 90 percent of our activity, a record level and a 97-percent increase since 2012.

CVG's current 5-year capital program shows a need for $468 million in projects by 2024, nearly 30 percent of which is PFC-eligible, about $137 million. The initial phase of our master plan is calling for approximately $500 million in additional terminal renovation and expansion costs between 2025 and 2030.

Currently, CVG has imposed a $4.50 PFC, which is the maximum level allowed. For my airport, the PFC revenues we currently and will continue to collect are almost entirely allocated to, one, reimbursing capital projects such as a runway that was constructed in the early 2000s at the request of our dominant carrier; and, two, paying down a PFC-backed bond that financed a new entrance road to accommodate increased local passenger volume.

Should the PFC cap be lifted to $8.50 and be indexed to inflation going forward, our ability to fund capital projects on a pay-go basis changes significantly. We estimate the ability to fund an additional $340 million in new PFC project costs, while still meeting debt service coverage requirements.

The next phase of our terminal improvement may be needed as early as 2027. With an increased PFC, we will be able to save about 2½ years in completing such projects. We estimate saving $83 million in interest costs alone if additional PFC revenue is available, and would thereby avoid having to pass costs onto our airline partners in their operating rate base.

Mr. DEFAZIO. If you could, quickly summarize.

Ms. MCGRAW. I will be done in one moment.

Airports are drivers of economic development for our regions, not just in direct jobs, but for the way we manage our assets to benefit communities. Unlike our airline partners, airport assets are not mobile. We are the only constants for our communities. As time has demonstrated, carriers will come and go, decide to merge, or have to dissolve.

As cited in the CVG examples, it takes years of focused strategy to rebuild if a single carrier——

Mr. DEFAZIO. OK——

Ms. MCGRAW [continuing]. Picks up and moves their operations.

Mr. DEFAZIO. I—as I——

Ms. MCGRAW. I want to thank you. I am closing now.

Mr. DEFAZIO. Yes.

Ms. MCGRAW. Thank you, sir.

[Ms. McGraw's prepared statement follows:]

Prepared Statement of Candace S. McGraw, Chief Executive Officer, Cincinnati/Northern Kentucky International Airport

INTRODUCTION

Good morning, Chairman DeFazio, Ranking Member Graves, and Members of the Committee. My name is Candace McGraw, and I am privileged to serve as CEO of the Cincinnati/Northern Kentucky International Airport (CVG). I am also in the middle of my term as chair of ACI-NA, Airports Council International-North America, which is one of our two primary industry trade groups in the United States. It is an honor to appear before you today, alongside this distinguished panel of aviation industry leaders. Before I begin, I want to take a moment to thank each of you for your public service.

Like several of my colleagues, I am here to share the story of CVG and offer you the perspective of a medium hub airport in the context of what infrastructure policy issues I would hope this Congress prioritizes. As of a recent study by ACI–NA, U.S. airports in the next five years alone have an estimated capital investment need that nears $130 billion. There are 31 medium hub airports, which account for 16 percent of all enplanements. As the ACI study illustrates, medium hub airports, like CVG, Raleigh-Durham, NC, Austin, TX, and Indianapolis, IN, have $18 billion in capital need right now. The ACI report further shows that this need for medium hubs has increased by 50 percent in the last two years alone.

This Committee is well aware of the fundamental tools airports have at our disposal to address these needs—the AIP or Airport Improvement Program, PFCs or Passenger Facility Charges, and incurring airport debt through the issuance of bonds. I would like to make the case to you for your urgent attention in unfettering the federal chains that prevent airports from making full use of these tools that, ultimately and most importantly, benefit the economies of the local regions we all serve. That's why airport issues are bipartisan issues—what is good for airports is good for all of our communities.

One of the most important things I hope you take away from today is that airports are running out of time for Congress to remove the outdated cap on the PFC and increase AIP funding. Our airports are aging; our terminals are woefully inadequate relative to keeping pace with the growth in passenger demand and processing. Airports have investments to make now; we have jobs to support and create today. Throughout my testimony, I will address several misstatements you may hear relative to these facts, for instance that airports are (1) unable to name specific projects that cannot be funded or that (2) the Aviation Trust Fund is flush with billions that can be used for airport infrastructure needs. Despite what you may hear to the contrary, modernization of the PFC and increased funding for AIP are policy actions we need your leadership on right now. The ongoing, long-suffering arm wrestling between airports and airlines is about one issue alone: control. Airports want to work with, not for airlines, to benefit our communities.

THE TALE OF TWO AIRPORTS: CVG THEN AND NOW

The CVG of today operates very differently than it once did. This is true for many airports of our size, such as Pittsburgh and St. Louis. Like my colleagues in Pittsburgh and St. Louis, CVG was historically dominated by a single carrier who operated a major connecting hub at our airport. The airport's long-term Use Agreement imposed significant restrictions on what the airport could do, how decisions were made, and what funds could be spent on capital projects. Average airfares from CVG were among the highest in the country. Our hometown travelers were leaking out to travel through competitor airports in our region. We had little funding in reserve for operating or capital costs.

When the dominant airline reorganized under bankruptcy and merged with another in the late 2000s, CVG experienced what many of my medium hub colleagues have faced—a de-hubbing and downsizing of operations that required us to reinvent the essence of the airport. The airline made the right business decision for them, so I do not begrudge them or second guess this decision. Rather, I want to note that the decision made in furtherance of their business objectives had a profound impact on my business. The airport had to react, with few tools at our disposal to do so.

In response to this airline decision, our reinvention began in earnest. We right-sized the facilities, consolidating three terminals and three concourses into a single main terminal and two concourses. We demolished our oldest facilities to free up valuable space to lower our operating costs. Demolition alone cost $27 million. We started developing airport property that would never be used for aviation purposes for non-aeronautical projects to diversify our revenue streams and create more jobs for our region.

My team and I doubled-down on operating the airport as the business it is. In 2015, a new strategic plan was rolled out. In 2016, the airport was able to implement a new Use Agreement, providing us a bit more flexibility. We worked hard to attract low-cost air carriers. We wanted to stimulate carrier competition to rebuild our air service offerings while driving down airfares for the traveling public. We focused on diversifying our business—keeping costs low for all of our tenants and airline partners while maintaining prudent reserves.

The focused business practices we have implemented have produced results for our community. In 2018, CVG served nearly nine million passengers—a 55 percent increase since 2013. For the last few years, we have been one of—if not the number one—fastest-growing passenger and cargo airport in the country. We are one of three global super hubs for DHL Express, and Amazon is building its primary air cargo hub on our campus. We are North America's eighth-largest cargo airport. In fact, about 60 percent of our landing fees come from our cargo carriers. As of 2016 estimates, CVG makes a $4.4 billion economic impact to our region, as well as the State of Ohio and Commonwealth of Kentucky, each year.

So, with this said, allow me to address a myth for you about airport needs. It is said that airports do not need increased local revenues and should simply work collaboratively with airlines to accomplish major capital projects. CVG is one of the best examples of what can happen when an airport—or any business—is overly-reliant on one or a handful of business partners to achieve success. In our hub days, we could not make our own decisions—what we felt was best for our airport and community. For as much success as we had with our hub carrier, artificial limitations were placed on us for spending money or in creating competition on routes. Our success today is reflective of what happens when you empower good business management, operate more effectively at a local level, and create a level playing field for all business partners to flourish.

CVG OF TOMORROW: FINANCING THE AIRPORT'S 2050 MASTER PLAN

The successes I've described to you are really just a beginning. Later this year, we will submit to the FAA our 2050 Master Plan Update—a 30-year outlook on the airport's infrastructure plan for growing and meeting capacity forecasts. The newest passenger facility at CVG is now 20 years old, with portions of our existing terminal building dating back to the 1970s. The first order of items to support the Master Plan will be to maximize the use of the existing passenger facilities. We plan to repair, replace, and upgrade basic mechanical systems, jet loading bridges, conveyances, and baggage systems. In addition to required airfield improvements, such as taxiway and runway rehabilitations, these passenger facility improvements are in urgent need of attention—not from a cosmetic standpoint but rather to meet operational readiness and reliability objectives.

Our former hub carrier is responsible for ongoing maintenance costs of certain assets at the airport until the end of 2020. As of January 2021, CVG will have to assume the operating costs of and responsibility for our existing, 25-year-old baggage facilities and passenger train, which were designed for connecting traveler traffic. While 90 percent of our passengers were connecting during our hub days, local passengers now account for over 90 percent of our activity, a record level and a 97 percent increase since 2012. In addition to managing new cost centers to the airport and handling basic maintenance on critical infrastructure, like baggage systems, the airport must also prepare for capital projects that accommodate for future growth (such as adding ticket counters and gates) for a transformed, multi-carrier airport environment.

CVG's current five-year capital improvement program shows a need for $468 million in projects by 2024, nearly 30 percent of which is PFC-eligible (about $137 million). The initial phase of our Master Plan is calling for an approximately $500 million in additional terminal renovation and expansion costs between 2025 and 2030.

So let me debunk another myth: to those who claim there is not a single project that airports can identify that we cannot complete and thus no urgent need for Congress to address the PFC cap: there is an estimated $1 billion in capital need at my medium hub, fiscally prudent airport alone, all of which we need to start planning, designing, and constructing as soon as possible. It takes years to design, fund, and build any capital project. We fund our projects across a variety of financial sources, with AIP funding being predominantly directed to airfield needs and PFCs primarily focused on terminal and landside projects. For the latter, increasing the total available PFCs, streamlining the process to be able to access PFCs, and expanding the types of projects eligible for PFCs enhances our ability to provide for the most efficient use of our own local revenue and minimizes overall borrowing costs.

WHY THE PFC IS CRITICAL TO THE FINANCING STRATEGY OF CVG AND OTHER MEDIUM HUB AIRPORTS

Currently, CVG has imposed a $4.50 PFC, which is the maximum level allowed. For my airport, the revenues we currently and will continue to collect are almost entirely allocated to (1) reimbursing completed projects, such as a runway that was constructed in the early 2000s at the request of our dominant carrier, and (2) paying down a PFC-backed debt service that financed a new entrance road for increased local passenger volumes. These existing obligations greatly limit how much PFC revenue is available for new projects.

However, should the PFC cap be lifted to $8.50 and be indexed to inflation going forward, our ability to fund capital projects on a pay-go basis changes significantly. We estimate the ability to fund an additional $340 million in new PFC project costs while still meeting debt service coverage requirements. The next phase of terminal improvements, called for by our Master Plan, may be needed as early as 2027. With an increased PFC, we will be able to save two and a half years in completing such projects. We estimate saving $83 million in interest costs alone if additional PFC revenue is available and would thereby avoid having to pass costs onto our airline partners in their airport operating rate base. Exhibit A shows more detail on this scenario. Imagine the collective interest savings on all airport projects and how much more quickly we could complete projects if airports are authorized to have more local control over our revenue sources.

With that, I will address another common misstatement about the PFC: if the airport is building up reserves and the Aviation Trust Fund has billions and growing, airports have plenty of funds available to them for these projects. To this, I urge you to look carefully at these financial statements. CVG now has an excess of 360 days cash on hand of true reserves in operating expenses, a metric supported by the rating agencies, to address uncertainties that may occur. Just a few years ago, our cash flow to unrestricted reserves was $0. It's just bad business to carry nothing for a rainy day. Most airport balances aggregated on FAA Form 127 as unrestricted cash are funds already designated for specific uses. The reporting mechanism does not allow for showing funds that have already been restricted. In addition, the FAA Trust Fund funds many things beyond solely airport capital projects through AIP grants. The funds are held in trust to support technological upgrades to air traffic control and to conduct safety inspections, for instance. So, to simply state there is a reserve of funds we could use for airport capital projects—but aren't—is misleading. Existing funds are designated for specific and necessary purposes. We simply need more funds into the system, and the PFC user fee is one way to accomplish that objective quickly.

THE FIERCE URGENCY OF NOW

We understand that airports are only one mode of American infrastructure this Committee is examining today, but airports provide an outsized economic impact to our communities. As noted by the statement by the Beyond the Runway coalition (a coalition that represents many trade groups and organizations that have a stake in airports' success) that I have included as Exhibit B, airports support over 11.5 million jobs around the U.S. At CVG alone, we have more than 14,000 badged employees on campus, support more than 31,000 direct and induced jobs, and are the Cincinnati region's second-largest employer.

I often tell my team that we are working in an environment where the fierce urgency of now is felt every day. And for every day, month, and year that goes by without Congress enabling meaningful reform to airport financing, our community loses out on potential economic impact. CVG collects about $16 to $17 million per year with the $4.50 PFC, but local economists project an increase to $8.50 could produce a $66 million economic impact simply in the buildout of these capital developments. An additional 237 jobs could be created on top of the existing hundreds our construction activity alone supports, and nearly $2 million in state and local revenues would be generated. See Exhibit C for additional detail.

Allow me to bust yet another myth for you. It is often said that a higher PFC user fee will negatively impact travel demand, causing airlines, and thus airports, to take a hit financially. Since 2004, airline ancillary profits, bag fees and the like, have grown 531 percent, and airlines are now in a time of record profitability. For the price of one additional cup of coffee, I am not convinced that traveler behavior would change or they would choose not to fly. However, make no mistake: no one wants the airlines to be successful more than airports; our successes are interdependent. We should be partners in our business relationship rather than subservient to airline decisions.

CONCLUSION

The last few years have been banner years for us at CVG. Our airfares are $255 less expensive than five years ago. Our operating rates and fees for airlines remain as low as we can make them. Our business strategies around land development have helped create more than 1,700 new jobs and greater tax revenues for our community in the last four years. So I remain committed to ensuring we continue this success, but I am worried about how quickly we can execute key projects to keep pace with growing demand if we are not able to use and maximize every tool at our disposal. This sentiment is shared by other airports and is reflected in the statement of ACI–NA, which you will find as Exhibit D.

Airports are drivers of economic development for regions, not just in the direct jobs we provide to people on and around our campuses, but in the way we manage these assets to benefit our communities. We are often called the front doors of our cities, states, and country—providing the first welcome to a visitor or ensuring the traveling public is connected to wherever they want to go in the world. Unlike our airline partners, our assets are not mobile. Airport assets are the only constants for our communities. As time has demonstrated, carriers will come and go, decide to merge, or have to dissolve. As cited in the CVG example, it takes years of focused strategy to rebuild if a single carrier picks up and moves much of their operation. Airports must be able to fully leverage tools, like the PFC, to allow for reacting quickly to a changing, innovating business world.

The well-being of each of our communities is tied to effective airport management, not air service alone. Both must work hand in glove as partners. My preference is not to run to Washington, D.C., every time something is needed; airports must be empowered to make our own decisions. So these decisions we make today matter; they reverberate well into the future and will influence the direction of regional business climates and quality of life of your constituents for decades to come.

To close, I again want to thank Chairman DeFazio and Ranking Member Graves for the Committee's time and attention to this issue today. My industry appreciates your leadership on this issue and will look forward to a continued collaboration for the benefit of all our country's airports and communities.

EXHIBIT A: CVG CAPITAL NEEDS AND PROJECT SCENARIO

Exhibit A: CVG Capital Needs and Project Scenario

CVG
CINCINNATI/NORTHERN KENTUCKY
INTERNATIONAL AIRPORT

Capital Needs at CVG Near $1 Billion

March 2019

Near-Term 2018-2024 Capital Improvement Program Shows $468 Million Needed

Project	Project Budget	PFC-Eligible Portion
Terminal Bag System Capacity Enhancements	$24,130,605	$6,058,675
Terminal Ticketing Expansion and Reconfiguration	$11,350,000	$11,350,000
Terminal Passenger Loading Bridges	$15,579,524	$10,465,556
Terminal Modernization/Rehabilitation	$35,669,162	$22,567,792
Terminal Common Use Systems (Phase I)	$6,923,650	$6,918,300
Terminal Passenger Train Modernization	$2,660,000	$2,303,600
Airfield Improvements (ramp, taxiway, runway rehabs)	$58,609,796	$55,969,448
Vehicles and Equipment	$17,760,795	$12,077,233
Facilities Infrastructure (roof replacements, conveyances)	$11,866,740	$3,154,352
Information Technology (CCTV, paging system, WiFi)	$5,231,250	$3,640,326
Utilities (water/sewer, glycol treatment, electrical vaults)	$13,714,239	$5,477,016
Other	$20,518,789	$3,006,695
	$224,014,551	$136,930,318

Of CVG's near-term capital needs, the select projects shown are fully or partially PFC-eligible and total about $224 million. The PFC-eligible portion of projects represents only about 30% of the total amount budgeted.

$500 Million More is Needed

Our Master Plan estimates about an additional $500 million in next-phase capital needs (2025 to 2030). An increased PFC could save about $83 million in interest costs.

$4.50 PFC	Principal	Interest	Total
PFC Pay-Go	$23,000,000	-	$23,000,000
PFC Backed Debt	$102,995,000	$98,005,000	$201,000,000
GARB Backed Debt	$374,005,000	$355,881,000	$729,886,000
Total Project Costs	$500,000,000	$453,886,000	$953,886,000

$8.50 PFC	Principal	Interest	Total
PFC Pay-Go	$110,000,000	-	$110,000,000
PFC Backed Debt	$276,701,000	$263,299,000	$540,000,000
GARB Backed Debt	$113,299,000	$107,802,000	$221,101,000
Total Project Costs	$500,000,000	$371,101,000	$871,101,000

Keeping Airline Costs Low

So long as the PFC cap remains set at $4.50, its purchasing power declines, and certain capital projects will need to be paid through airline rates and charges, increasing their cost per enplanement (CPE). To keep costs low to continue to attract and retain air service, some projects would need to be deferred, or Master Plan projects would need to be reprioritized.

At CVG, with a $4.50 PFC under the current capital plan, the CPE could increase by almost 50% on average by 2030.

With an $8.50 PFC, airlines may see, on average, just a 15% increase in CPE in that same timeframe. Costs still increase incrementally over time but would not jump dramatically.

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EXHIBIT B: STATEMENT OF THE BEYOND THE RUNWAY COALITION FOR MARCH 26, 2019, HEARING

[This statement was submitted for the record by Hon. DeFazio and is on page 95.]

EXHIBIT C: PROJECTED ANNUAL ECONOMIC IMPACT OF ACCELERATED CAPITAL INVESTMENT AT CVG (ANALYSIS PREPARED MARCH 2019)

Currently CVG is eligible to collect between $16 and $17 million per year in Passenger Facility Charge (PFC) funds. If Congress raises the cap, CVG could at least double annual collections, raising PFC annual funds from a range of $16 to $17 million to a range of $32 to $34 million per year.

Using economic impact analysis, we are able to estimate the current and potential economic impacts to the Cincinnati MSA economy at various levels of PFC supported capital construction projects. Table 1 starts at the current level of $16 million and shows potential total annual economic impacts in $1 million increments up through $35 million.

Table 1: Total Potential Annual Economic Impacts of Capital Construction Projects

Capital Investment	Output	Annual Earnings	Jobs	Value-Added
$16,000,000	$33,278,400	$10,587,200	237	$18,020,800
$17,000,000	$35,358,300	$11,248,900	252	$19,147,100
$18,000,000	$37,438,200	$11,910,600	266	$20,273,400
$19,000,000	$39,518,100	$12,572,300	281	$21,399,700
$20,000,000	$41,598,000	$13,234,000	296	$22,526,000
$21,000,000	$43,677,900	$13,895,700	311	$23,652,300
$22,000,000	$45,757,800	$14,557,400	326	$24,778,600
$23,000,000	$47,837,700	$15,219,100	340	$25,904,900
$24,000,000	$49,917,600	$15,880,800	355	$27,031,200
$25,000,000	$51,997,500	$16,542,500	370	$28,157,500
$26,000,000	$54,077,400	$17,204,200	385	$29,283,800
$27,000,000	$56,157,300	$17,865,900	400	$30,410,100
$28,000,000	$58,237,200	$18,527,600	414	$31,536,400
$29,000,000	$60,317,100	$19,189,300	429	$32,662,700
$30,000,000	$62,397,000	$19,851,000	444	$33,789,000
$31,000,000	$64,476,900	$20,512,700	459	$34,915,300
$32,000,000	$66,556,800	$21,174,400	474	$36,041,600
$33,000,000	$68,636,700	$21,836,100	488	$37,167,900
$34,000,000	$70,716,600	$22,497,800	503	$38,294,200
$35,000,000	$72,796,500	$23,159,500	518	$39,420,500

NKU Center for Economic Analysis & Development, Janet Harrah, senior director, Center for Economic Analysis and Development, Haile US Bank College of Business, Nunn Drive//BC 396, Highland Heights, KY 41099

What are the potential impacts on state and local revenues? In the absence of current data, CEAD extrapolated from a study conducted for CVG several years ago. In that study, the average Kentucky resident working at CVG paid, on average, a total of $4,025 in state, county and city taxes. These estimates may be higher or lower depending on the number of workers residing in Kentucky versus Ohio. Table 2 assumes all workers reside in Kentucky. Using these averages, Table 2 shows estimated fiscal impacts arising from the increases in jobs calculated in Table 1.

Table 2: Potential Annual Fiscal Impacts of Capital Construction Projects

Capital Investment	Total Jobs	Fiscal Impacts			
		State	County	City	Total
$16,000,000	237	$753,523	$113,751	$86,667	$953,942
$17,000,000	252	$801,214	$120,951	$92,153	$1,014,318
$18,000,000	266	$845,726	$127,670	$97,272	$1,070,669
$19,000,000	281	$893,418	$134,870	$102,758	$1,131,045
$20,000,000	296	$941,109	$142,069	$108,243	$1,191,421
$21,000,000	311	$988,800	$149,268	$113,728	$1,251,797
$22,000,000	326	$1,036,492	$156,468	$119,214	$1,312,173
$23,000,000	340	$1,081,004	$163,187	$124,333	$1,368,524
$24,000,000	355	$1,128,695	$170,387	$129,818	$1,428,900
$25,000,000	370	$1,176,386	$177,586	$135,304	$1,489,276
$26,000,000	385	$1,224,078	$184,786	$140,789	$1,549,652
$27,000,000	400	$1,271,769	$191,985	$146,274	$1,610,028
$28,000,000	414	$1,316,281	$198,705	$151,394	$1,666,379
$29,000,000	429	$1,363,972	$205,904	$156,879	$1,726,755
$30,000,000	444	$1,411,663	$213,104	$162,364	$1,787,131
$31,000,000	459	$1,459,355	$220,303	$167,850	$1,847,507
$32,000,000	474	$1,507,046	$227,502	$173,335	$1,907,883

Table 2: Potential Annual Fiscal Impacts of Capital Construction Projects—Continued

Capital Investment	Total Jobs	Fiscal Impacts			
		State	County	City	Total
$33,000,000	488	$1,551,558	$234,222	$178,455	$1,964,234
$34,000,000	503	$1,599,249	$241,421	$183,940	$2,024,611
$35,000,000	518	$1,646,941	$248,621	$189,425	$2,084,987

NKU Center for Economic Analysis & Development, Janet Harrah, senior director, Center for Economic Analysis and Development, Haile US Bank College of Business, Nunn Drive//BC 396, Highland Heights, KY 41099

DEFINITIONS

Output: Output represents the value of industry production. For manufacturers this would be sales plus/minus change in inventory. For service sectors production = sales. For retail and wholesale trade, output = gross margin and not gross sales.

Labor Income: All forms of employment income, including employee compensation (wages and benefits) and proprietor income.

Total Impacts: Multipliers break the effects of a change (or stimuli) on economic activity down into three components.

1. **Direct effects** are the changes in the industries to which a final demand change was made.For example a firm hires 100 new employees.
2. **Indirect effects** are the changes in inter-industry purchases as they respond to the new demands of the directly affected industries. For example, an auto firm expands productionand hires 100 new workers. This change in production will likely lead to additional impactson the firm's supply chain.
3. **Induced effects** typically reflect changes in spending from households as income increases or decreases due to the changes in production.
4. **Total impacts** are the sum of direct expenditures (in the case of CVG the expenditure of PFCdollars on capital construction projects) plus the indirect and induced effects.

Value Added: Total value of income generated from production. This income consists of payments to labor (compensation of employees), payments to government (taxes on production and imports), and returns on investment (gross operating surplus). It is equivalent to gross domestic product.

Data and software sources: CEAD used economic impact assessment methodology to estimate the potential economic impacts arising from increased capital investment construction. Note this analysis is limited to the impact of the construction phase. It does not reflect any increases in economic activity that may result as a result of the construction project once it is completed.

EXHIBIT D: STATEMENT OF AIRPORTS COUNCIL INTERNATIONAL-NORTH AMERICA FOR MARCH 26, 2019, HEARING

[This statement was submitted for the record by Hon. DeFazio and is on page 89.]

Mr. DEFAZIO. Yes, thank you. OK. You know, I would suggest—and at the future I am going to probably not allow people to read testimony—would be to summarize your best points and, if possible, respond to points that others have made or are going to make.

Anyway, we would move on now to Mr. Lopano with Tampa.

Mr. LOPANO. Good morning, Chairman DeFazio, Ranking Member Graves, and all members of the Transportation and Infrastructure Committee. Thank you for inviting me to participate today. I am Joe Lopano, I am CEO of Tampa International Airport.

We are the 29th largest airport in the country, and 1 of 4 large-hub airports in Florida. This past year we broke our previous passenger number record with a record 21 million travelers, and we are expected to grow to 22 million this year. This is up from 16 million in 2011, when I became CEO.

This growth would not have been possible without the passenger facility charge that has allowed us to expand the airport, while keeping our costs low and enhancing airline competition to benefit consumers.

When I was hired my board directed me to increase international service to Tampa Bay. New airlines expressed interest, but we needed to expand our international facility to accommodate them. The project cost was $25.8 million.

Our airline agreement requires any project with an investment of more than $10 million to have approval from our signatory airlines. Our incumbent carriers made it explicitly clear they had no intention of supporting a project that would bring in competitors.

Fortunately, we had access to PFC funds and a grant from the Florida Department of Transportation, bringing the airport revenue portion down to $2 million, and allowing us to proceed without airline approval. Once the project was done, we brought in new flights, increasing our international traffic by 150 percent, even before Delta starts flying nonstop service to Amsterdam. This has resulted in a $1.6 billion economic impact to our region, and nearly 18,000 jobs.

So, Mr. Chairman, to your point about summarizing, I can't give you a better example than that of a project when the airlines say—name a project that is not going to get built? I just gave you one. And it turned into 150 percent in international traffic to Tampa.

So I will yield my time, Mr. Chairman.

Mr. DEFAZIO. Didn't it also lower—bring in other domestic competition? You might summarize that——

Mr. LOPANO. OK.

Mr. DEFAZIO [continuing]. For your testimony, too.

Mr. LOPANO. Very good. Let me see if I can find it here.

Mr. DEFAZIO. Don't be traumatized by the fact that I——

[Laughter.]

Mr. LOPANO. I am trying to follow the rules. I don't come up here every——

Mr. DEFAZIO. No, no, I know. You have got a lot of time left, so——

Mr. LOPANO. OK, OK.

Mr. DEFAZIO. But that was another factor. I saw a significant decrease, as I recall, in reading your testimony, in—you had new entrants——

Mr. LOPANO. Yes.

Mr. DEFAZIO [continuing]. And domestic fees on at least one nonstop route change.

Mr. LOPANO. Yes. We have also seen growth on the domestic side, adding competition in more than half of our domestic markets, driving down fares.

We have added service to small and medium-hub airports, including Greensboro and Asheville in North Carolina; Syracuse, New York; Latrobe, Pennsylvania; and Madison, Wisconsin, to name a few. Many of these flights are on ultra-low-cost carriers who are attracted to our airport because our cost per enplanement is low, thanks to our responsible financial management and the PFC.

The PFC, as currently conceived, has reached its limit. The fee has not been modernized since 2001, and inflation has whittled away its spending power. Stuck at $4.50, it is not adequate to responsibly address the $81 billion in capital needs at the 30 large-hub airports, nationwide.

Tampa alone needs $2.2 billion in capital investment over the next 15 years. About half of that could be paid for using the PFC, but our PFC capacity is only $300 million. This has major implications for the future of the airport and our new international terminal.

I do have some information on what you are talking about. What happened was JetBlue was flying to Boston, and we brought in low-cost carriers, ultra-low-cost carriers like Spirit, and we had reduced the fare by $30 in that market. That is only one example. It happens all the time when you bring in competition. You lower the fares, you stimulate the market.

I think that the issue here is control and competition. And you said earlier it is about letting the local people make their decisions on what they need to build and how they should build it. That is what we are after with this PFC increase.

We don't come up here just because we think it is fun. We do actually need the money.

[Mr. Lopano's prepared statement follows:]

Prepared Statement of Joseph W. Lopano, Chief Executive Officer, Tampa International Airport

Chairman DeFazio, Ranking Member Graves and distinguished members of the Transportation and Infrastructure Committee:

Thank you for the opportunity to address you on the important role the Passenger Facility Charge plays in making affordable investments in airports to spur the economic vitality of our communities and provide choices to the flying public.

Tampa International Airport is a prime example of how this valuable funding tool, a user fee that can only be spent on Federally-approved capital projects in the airport where it is collected, offers airports the flexibility to increase capacity, promote competition and ensure a safe flying experience for our passengers. It is thanks to expansion using the PFC that our airport was able to attract new airlines and routes to the Tampa Bay region, resulting in a significant economic impact for our community.

When I became Chief Executive Officer of Tampa's airport in 2011, the directive from my board was to recruit international flights to our market. New carriers were expressing interest in our woefully underserved region. However, our existing international facilities had reached capacity. It was time to expand. The project cost came in at $25.8 million. Our airline agreement, similar to many other agreements in the country, requires our signatory airlines to approve any capital project funded with more than $10 million in airport revenues. Our incumbent airlines made it explicitly clear that they did not intend to support our expansion to bring in competing carriers. Fortunately, we had access to $8.6 million in PFC funds, an additional $3.4 million in PFC-backed bonds, and a generous contribution of $10.2 million from the Florida Department of Transportation to reduce the airport revenue portion of the project to $2 million and eliminate the need for airline approval.

Soon after we completed construction, international service started growing. Since 2012, we have added new flights to Switzerland, Panama, Germany and Iceland. British Airways expanded its service to London and Norwegian launched flights to London, providing new competition in the market that is benefitting passengers with lower airfares. In May, Delta will begin daily service to Amsterdam. Our international traffic has increased more than 150 percent.

These flights have delivered $1.6 billion in economic impact for our region and supported 17,800 jobs. This would not have happened without the PFC.

One daily non-stop flight to a European market creates a $154 million economic impact for our region and creates 1,200 jobs in our region. This is the equivalent of the Super Bowl every two years, over-and-over again.

Growth is not only on the international side. Overall, including international and domestic passengers, we served a record 21 million travelers in fiscal year 2018.

We have added competition in existing markets by 52 percent since 2015, lowering fares for travelers. For example, in 2016 the average fare to Boston from Tampa was $164, with JetBlue the only airline offering nonstop service there. Since then Delta and Spirit have entered the market bringing the average fare down to $133. We have also established or re-established service to 14 new markets since 2010, including service to small and medium-hub airports, including Greensboro and Asheville, North Carolina; Syracuse, New York; Latrobe, Pennsylvania; and Madison, Wisconsin.

Many of these flights are on ultra-low-cost carriers, such as Spirit Airlines, which is one of the fastest growing airlines in Tampa. Our airport is attractive to Spirit and other low cost carriers because our cost per enplanement is low, thanks to our responsible financial management and, again, the PFC. Even while completing a recent $1 billion expansion, we were able to use PFCs to lower our overall debt by $76.4 million including $5.2 million in PFC backed bonds.

We currently carry four AA ratings by the bond agencies allowing us to finance our projects at favorable interest rates—partly due to our ability to use the PFC's.

The PFC as currently conceived, however, has reached its limits. The fee has not been modernized since 2001, and inflation has whittled away its spending power. Stuck at $4.50, it is not adequate to responsibly address the $81.8 billion in capital needs at the 30 large hub airports nationwide. At Tampa International Airport alone, we have $2.2 billion in capital projects necessary over the next 15 years, including airfield maintenance and other safety-related projects. Slightly over $1.1 billion of these projects could be paid for using the PFC while PFC capacity is only $315 million, a threshold the airport meets in 2022.

One of the most important projects is a new 16-gate airside. With our community continuing to grow at a rapid pace, our FAA-approved passenger forecast shows we need to open this facility in 2024 to accommodate increased demand. Available federal Airport Improvement Program (AIP) grants amount to a tiny fraction of total costs, and availability of PFCs is limited. That means we will have to rely on bonds backed by airport revenues, assuming we can come to an agreement with our airlines on how to move forward with the project. An increase in the PFC cap—from $4.50 to $8.50—would lessen our dependence on a bond issue backed by airport revenues, and save us $250 million in interest payments by reducing our need to issue bonds and allowing us to pay back debt faster. This would keep our costs to airlines low and enable more airline competition in the market to keep airfares low.

An increase in the PFC cap does not mean the cost of every airline ticket would automatically increase. It would simply allow local airport governing boards to determine their community's fate and set the fee at a rate necessary to fund investments that, as dictated by federal law, will increase capacity, keep airports secure and increase competition. With four airlines carrying 80 percent of the nation's passengers, it is vital that we have a flexible source of funding for building gates affordably and bringing healthy competition to the aviation marketplace. Airport reserves cannot be tapped because they need to remain at certain levels to comply with bond requirements. In Tampa, we keep two months of operating funds in reserves to maintain our debt service coverage. Federal funding for capital projects has declined significantly, especially for large-hub airports. Airport revenues are too often subject to approval from airlines, who have a vested interest in limiting facilities that enable competition. We work closely with our airline partners to develop our facility plans and our annual budgets. We agree with them on many issues, ranging from the need for efficient and effective security screening to the importance of travel and tourism in our national economy. However, we disagree on who should ultimately control the destiny of our community's infrastructure. This belongs squarely in the realm of local airport governing bodies, underscoring the PFC as the most flexible, cost-effective option for airport capital investment.

There is a crying need for all types of infrastructure investment in this country—roads, bridges, trains, ports, sewage systems, power plants, communications systems. Modernizing the PFC is an effective and smart way to start making billions of dollars of investment without having any impact whatsoever on the federal budget.

The PFC was a good idea when it was created in 1990. It is a good idea now, but the existing structure limits its usefulness and the ability of airports to affordably expand and best serve consumers.

Mr. DEFAZIO. OK, thank you. I know it is not fun. And thank you all for being here and traveling here and doing your testimony.

With that, we would move on to Ted Christie, president and CEO, Spirit Airlines.

Mr. CHRISTIE. Good morning, Mr. Chairman, Ranking Member Graves, members of the committee. Thank you for the opportunity to testify today. My name is Ted Christie. I am president and CEO of Spirit Airlines.

For those of you who may not know Spirit, we are the largest so-called ultra-low-cost carrier in the U.S. We serve about 50 U.S. domestic airports and over 20 international destinations. Our total prices, including all ancillary products and services are, on average, about 30 percent less than those of other airlines in the U.S.

Corporate travelers and affluent customers have many choices in today's market. Spirit's product is designed for highly price-sensitive consumers, mainly middle-class Americans who pay for their own tickets.

Spirit strongly supports the objective of improving airport infrastructure in the U.S.

We have seen a boom in airport projects, with nearly $165 billion in projects since 2008 at the Nation's large airports. Smaller airports are also making investments. Strong passenger demand has driven airport revenues way up, and most U.S. airports are in excellent financial health.

Today airports enjoy investment-grade bond ratings in an era of historically low interest rates. Capital is cheap and looking for well-designed projects in airports. Airlines themselves have invested billions in airport projects, and that is despite the fact that most of us do not have investment-grade bond ratings, or as easy access to capital markets as most airports.

In this historically favorable environment, we don't think an increase in the PFC maximum is the best tool for funding airport infrastructure projects. Most airports, including those appearing before the committee today, may like to see an increase in PFCs. We shouldn't be surprised. But increasing PFCs by any amount, let alone doubling the current cap to $8 or more, is not the right answer to the problem we are all trying to solve.

PFCs are a consumer tax, and the traveling consumers are already punishingly taxed. Over $60 of the average round-trip fare of about $300 is the Government's taxes and fees. That is too much. Take a family of four going for a vacation. If the PFC cap is raised to $8 per segment, that increase puts the total round-trip PFC bite at $64, a real number to consider for many middle-class families. Families who must connect through big cities would see double that amount, or $128.

PFCs are a flat assessment, like most Government fees affecting travelers, based on a single leg or itinerary. They are, therefore, regressive and hit ordinary consumers the hardest, those who travel at the lower price point.

I will concede that many business travelers may not notice an increase in PFCs. They tend to travel at short notice and pay higher walkup fares. Usually, their employer is paying, anyway. But Spirit customers pays an average of about $110 each way, including all ancillary charges. So, for them, the proposed increase is material.

Our discretionary travelers have high-demand elasticity in reaction to even modest price changes. If travel prices rise, they will travel less. We believe we should be seeking ways to hold the line, or even lower the tax burden for ordinary consumers, not increase it.

A related point: Value airlines like Spirit typically use limited airport facilities more efficiently than other airlines. We run more passengers per day through each airport gate, and we occupy less terminal space for a given volume of passengers. By the way, airports and local communities appreciate that we can deliver more passengers through limited facilities. Yet each of our customers subsidizes the airport facility at the same per-person PFC rate.

PFCs' one-size-fits-all nature ignores the differentiation among our Nation's airports and their individual needs. Airports vary by size, by function in the national network, by which airlines serve them, and by the status of their improvement programs.

I want to underline that, despite some differences on the PFC issue, airlines and airports have a constructive relationship across the country. We work together to serve our communities, to improve facilities, and to invest in the consumer experience. Our challenges and priorities are shared, not separate. I would say Spirit enjoys an excellent relationship with all our host airports.

Going back to the beginning of these comments, I, like other airlines—Spirit wants to improve airport infrastructure. We stand ready to meet and work with you, Mr. Chairman and members of the committee, in finding a constructive and creative solution to this problem.

Thank you again.

[Mr. Christie's prepared statement follows:]

Prepared Statement of Ted Christie, President and Chief Executive Officer, Spirit Airlines, Inc.

Good morning Chairman DeFazio, Ranking Member Graves, and members of the Committee. Thank you for the opportunity to testify today at this important hearing about airport infrastructure needs and financing. My name is Ted Christie. I am President and CEO of Spirit Airlines.

For those of you who may not be familiar with Spirit, we are the largest so-called "Ultra Low-Cost Carrier," or ULCC, in the US. Today, we serve about 50 US domestic airports—large and small—as well as more than 20 international destinations. We fly 135 mainline aircraft and have one of the youngest fleets in the Americas.

Our total prices including all ancillary products and services are, on average, about 30 percent less than those of other airlines in the US, based on DOT data. While corporate travelers and more affluent consumers have many good choices among carriers in today's market, we have designed our product to serve highly price-sensitive consumers, mainly middle-class Americans who pay for their own tickets, and who travel for leisure or to visit friends and relatives, as well as people who work for small and medium-sized businesses.

I'm very proud that, in 2018, Spirit ranked as one of the most on-time airlines in the US, as measured by the DOT, and we now rank high in several other reliability metrics. We're looking even better this year. We think our low prices and our operational reliability add up to a very strong value proposition for consumers on a budget.

Turning to the broader topic of this hearing, Spirit strongly supports the objective of improving airport infrastructure in the US. All airlines do. Airport investment is critical for improving outdated or inadequate facilities, for adding capacity to accommodate the secular growth in aviation traffic (particularly passenger traffic), and for supporting the powerful catalytic effect that airports and the aviation industry provide to the general economy and the communities we serve.

We all know about the dire situation of underinvestment in much of our Nation's traditional infrastructure. Yet that general shortfall masks the very vigorous activity in the airport infrastructure sector in recent years. Airport investment and development have been booming, with nearly $165 Billion in capital investment projects completed, underway or planned since 2008 at the nation's 30 largest airports. Numerous smaller airports are also making significant investments. These investments, taken together, include airfield projects, terminal projects, cargo facilities and general aviation facilities. It's really across the board—in fact, it's hard to find an American airport today that has not either recently finished with, or is in process of managing and planning, a major improvement project.

The boom in airport projects is supported by strong demand—by passengers, cargo carriers and general aviation. Airport revenues are way up, and that growth in user demand has also driven record receipts into the Airport and Airway Trust Fund, which is expected to reach an all-time high balance of $7.7 Billion by the end of this year. Most U.S. airports are in excellent financial health, holding record cash reserves.

Today, airports and airport authorities enjoy investment-grade bond ratings in an era of historically-low interest rates. Investment capital is cheap, plentiful and looking for well-designed projects in airports. And that's not only about the bond markets. Public-private partnerships and other innovative structures are also successfully developing even some very large airport projects around the country. Finally, the airlines themselves have invested billions in airport improvement projects in recent years. And that's despite the fact that most of us do not have investment-grade bond ratings or as easy access to capital markets as most airports.

Financing large infrastructure investments is always a challenge. Across the country, airlines and their airport partners work collaboratively to solve it every day. Yet in this historically favorable environment, in which airports are increasing revenues and are in a strong position to access capital, an increase in the PFC maximum seems an inefficient tool to deliver enhanced funding to airport infrastructure projects. In fact, increasing PFCs could well be counterproductive.

I'm sure that most airports, including those appearing before the Committee today, may like to see an increase in PFCs. We shouldn't be surprised, as any increasing revenue source for most organizations would be considered desirable. Asking an airport if it would like more money, especially with few strings attached, puts everyone, including airport management, in a difficult spot. In some ways, it is akin to asking a barber if you need a haircut—the answer is predictable.

But increasing PFCs by any amount, let alone doubling the current cap to $8 or more, is not the right answer to the problem we are all trying to solve. Here are some reasons why:

- PFCs are a consumer tax, and the traveling consumer is already punishingly taxed. Over $60 of the average round-trip fare of about $350 is government taxes and fees. That's too much. Take a family of 4 going for a vacation: If the PFC cap is raised to $8 per segment, that increase puts the total round-trip PFC bite at $64—a real number toconsider for many middle-class families. Moreover, travelers from smaller communities usually must connect through big cities on their trips—so that would double the PFC amount, to $128. And, remember, on top of that there's all the other taxes and fees included in the cost of a ticket.
- PFCs are a flat assessment, like many government fees affecting travelers, based on a single leg or itinerary. They are therefore regressive and hit ordinary consumers hardest, particularly those who can only afford to travel at a lower price point. I will concede that many business travelers may not change their plans because of an increase in PFCs. They often travel at short notice and pay higher "walk-up" fares, on top of which a $8 round-trip PFC increase may not seem so noticeable. And, usually their employer is paying anyway. But a customer on Spirit pays only about $110 each way, on average, including all ancillary charges, so the proposed increase will represent a material increase in the price she pays.
- Our mostly discretionary travelers have a very high demand elasticity in reaction to even modest changes in price. In other words, if travel prices rise, they will travel less, and all those new airport facilities won't be quite so full anymore. If we want to encourage travel, and the economic benefits it brings to communities, we should be seeking ways to hold the line or even lower the tax burden for ordinary consumers, not increase it.
- A related point that is specific to low-fare airlines like Spirit: Value airlines like us typically use limited airport facilities more intensively and efficiently than larger legacy airlines. We have to, in order to keep prices low, because we focus on the most price-conscious consumers. We run more passengers per day

through each airport gate, and we occupy less terminal square footage for a given volume of passengers. (By the way, airports and local communities appreciate that we can deliver more passengers through limited facilities.) Yet each of our customers subsidizes the entire airport facility at the same per-person PFC rate. By comparison, the airport rates and charges that airlines pay directly—for landings, gates and terminal space—do vary according to an airline's efficiency of use, which in our case are passed on to our customers through lower prices.

- PFCs are a "one size fits all" approach to supporting airport funding that ignores the great differentiation among our nation's airports and their individual needs. Airports vary widely by size, by their function in the national network, by which kinds of airlines serve them, and by the current status of their improvement programs—whether already completed, in-progress, or on the drawing board. Yet an indiscriminate wave of new funds from a general PFC increase—which, if approved, will certainly be implemented by every airport—will reduce valuable discipline in the financing and planning for improvement projects, based on each airport's unique circumstances.
- PFCs are used to fund airside improvements and physical facilities, among other permitted purposes. Yet the runways and other physical infrastructure at the airport are used by cargo carriers and general aviation as well. It is not fair for airline passengers to be footing bills for airport assets that are shared with non-passenger operations that do not generate PFCs.
- Finally, airports' expenditures of PFCs are subject to looser controls than most external airport financing that airlines (and, by extension, their customers) agree to cover. Eligible PFC projects include a broad set of construction, security, noise-reduction and other purposes that can escape the rigor of a cost-benefit test that other airport funds and projects must pass.

I'll pause for a second to underline that, despite our differences on the PFC issue, airlines and airports have a constructive and positive relationship with one another across the country. We work together every day to serve our communities, to improve facilities and to invest in the customer experience. Our challenges and priorities are shared, not separate. Today, Spirit serves one of the three airports appearing here today—maybe Cincinnati and Spokane someday soon—and I'd say we enjoy an excellent relationship with all our host airports.

Going back to the beginning of these comments, like other airlines Spirit wants to help improve airport infrastructure.

We stand ready to meet and work with you, Mr. Chairman, and Members of the Committee, in finding constructive and creative solutions to this problem.

Thank you again for the opportunity to speak today.

Mr. DEFAZIO. Thank you. I am told the timer isn't working down there, but you did very well. You had 44 seconds left.

[Laughter.]

Mr. DEFAZIO. And I apologize, this isn't our real hearing room. We will hopefully have one starting in May. And then also we will be able to do roundtables, and other, more flexible, things.

And with that, I would turn to Mr. Scribner.

Mr. SCRIBNER. Chairman DeFazio, Ranking Member Graves, and members of the committee, thank you for giving me the opportunity to testify before you on the importance of airport development.

Like other witnesses, I will focus on the passenger facility charge, and why it should be modernized to encourage more and smarter airport investment.

As you said, Mr. Chairman, the PFC is a congressionally authorized, federally regulated local airport user fee. It exists as an exception to the general Federal prohibition on State and local taxes and fees on air travelers, which was enacted in 1973, 1 year after airlines lost a major constitutional case on local user fees at the U.S. Supreme Court.

By the 1980s, this had led to growing concerns over excessive airport reliance on Federal aid and reduced airline competition, leading the Reagan administration to begin developing the concept of what ultimately became the PFC in 1990.

Under current law public airports in the U.S. can charge a maximum PFC of $4.50 per passenger enplanement for the first two enplanements of a one-way itinerary. The PFC exists alongside the airport improvement program, or AIP, a Federal grant program funded through aviation taxes. Together, the PFC and AIP account for approximately half of total airport funding available for capital projects.

AIP funds can generally be used for airside projects such as runways, taxiways, aprons, noise abatement, and land acquisitions. In contrast, the PFC funds can be used for AIP-eligible projects plus numerous landside projects at passenger terminals. And importantly, the PFC can be used to service debt.

For commercial airports with sizable passenger volumes, these differences in flexibility have led to a strong preference for the PFC over AIP funding. Unfortunately, Congress has left the PFC cap unchanged since 2000, eroding the purchasing power of the PFC, and limiting airport investment options.

Two recent research findings support the case for PFC modernization. First, evidence suggests that PFC use has a positive effect on airport productive efficiency, while AIP use has a negative effect.

Legislation introduced in the previous Congress would have uncapped the PFC, while proportionately reducing AIP authorized spending. This change in the PFC–AIP mix was expected to result in greater airport productive efficiency. The bill, introduced by Chairman DeFazio and Representative Massie, would have allowed for increased total airport investment, while simultaneously reducing Federal spending. That is a win-win, in my book, and why most leading free-market libertarian and conservative organizations have supported this approach.

In addition to CEI joining Democratic and Republican Members of Congress, scholars and advocates from the Reason Foundation, CATO Institute, Heritage Foundation, Tax Foundation, FreedomWorks, and Citizens Against Government Waste have endorsed modernizing the PFC along the lines of the Investing in America: Rebuilding America's Airport Infrastructure Act. Support for the PFC transcends party or ideology. It is just good policy.

Second, major non-aeronautical revenue sources—namely, revenue from parking and rental car fees—are facing heightened risks and declining prospects, as travelers opt for new ride-hailing ground transportation services to and from airports. Since the PFC is collected from airport users, regardless of their use of airport concessions, it represents low risk, predictable and sustainable user-based revenue.

Besides providing airports with predictable and sustainable revenue, the PFC was also designed to promote airline competition. Beginning in the 1950s, airports often turned to their airline customers to retire debt and finance airport improvements. In exchange for this financial support, incumbent airlines received long-term, exclusive-use gate leases, which were then used to restrict access to new and often lower cost carrier entrants.

In more recent times, airports entering into long-term, exclusive-use gate leases has become less common than in the past, but limited gate availability at large- and medium-hub airports has still been estimated to raise consumer airfares by billions of dollars every year, dwarfing total annual nationwide PFC collections. In this way, the PFC serves as an important airport self-help tool that can dilute price-setting power by dominant, incumbent airlines, thereby benefitting air travelers in the form of lower air fares, as well as improved airport facilities.

Further expanding the purchasing power of the PFC by eliminating the statutory cap, and with a focus on improving airline competition, especially through the expansion of common-use gates available to new carrier entrants, could result in substantial air fare savings for consumers.

Thank you again, Mr. Chairman, for this opportunity to testify before the committee, and I welcome your questions.

[Mr. Scribner's prepared testimony follows:]

Prepared Statement of Marc Scribner, Senior Fellow, Competitive Enterprise Institute

Chairman DeFazio, Ranking Member Graves, and Members of the Committee, thank you for giving me the opportunity to testify before you today. My name is Marc Scribner. I am a senior fellow at the Competitive Enterprise Institute (CEI), where I focus on transportation, land use, and urban growth policy issues.[1] CEI is a nonprofit, nonpartisan public interest organization dedicated to the principles of free enterprise and limited, constitutional government. CEI has supported pro-market approaches to infrastructure investment and management through analysis and advocacy during its 35-year history.

The passenger facility charge (PFC) is a congressionally authorized, federally regulated local airport user fee. Under current law, public airports in the U.S. can charge a maximum PFC of $4.50 per passenger enplanement for the first two enplanements of a one-way itinerary. The PFC exists alongside the Airport Improvement Program (AIP), a federal grant program funded through aviation taxes. Together, the PFC and AIP account for approximately half of total airport funding available for capital projects.

AIP funds generally can only be used for airside projects, such as runways, taxiways, aprons, noise abatement, and land acquisitions. In contrast, the PFC funds can be used for AIP-eligible projects plus numerous landside projects, such as passenger terminal and ground transportation improvements, and can be used to service debt. For commercial airports with sizeable passenger volumes, these differences in flexibility have led to a strong preference for the PFC over AIP funding.

Two recent research findings support the expansion of the PFC. First, evidence suggests that PFC use has a positive effect on airport productive efficiency while AIP use has a negative effect. Legislation introduced in the previous Congress would have uncapped the PFC while proportionately reducing AIP authorized spending, with this change in the PFC/AIP mix expected to result in greater airport productive efficiency. Second, major non-aeronautical revenue sources—namely revenue from parking and rental car fees—are facing heightened risks and declining prospects as travelers opt for new ride-hailing ground transportation services to and from airports.

Since the PFC charges airport users regardless of their use of airport concessions, it represents a low-risk, predictable, and sustainable revenue source.

In addition to providing airports with predictable and sustainable revenue, the PFC was also designed to promote airline competition. Beginning in the 1950s, airports turned to their airline customers to retire debt and finance airport improvements. In exchange for this financial support, incumbent airlines received long-term exclusive-use gate leases, which were then used to restrict access to new and often lower-cost entrants.

[1] My biography and writings are available at https://cei.org/expert/marc-scribner.

In more recent years, the trend has shifted. The granting of long-term exclusive-use gate leases has become less common, but limited gate availability at large and medium hub airports has still been estimated to raise consumer airfares by billions of dollars every year. In this way, the PFC serves as an important airport self-help tool that can dilute price-setting power by dominant incumbent airlines, thereby benefiting air travelers in the form of improved airport facilities and lower airfares.

A BRIEF HISTORY OF U.S. AIRPORT PASSENGER USER FEES

The debate over passenger user fees like the PFC began more than two decades before the PFC was even authorized by Congress. In the late 1960s and early 1970s, some public airports began charging passenger enplanement fees of 50 cents to $1 per passenger in an effort to recoup capital, operations, and maintenance costs from their users. Airlines filed suit against an airport authority in Indiana and the state of New Hampshire over these fees. State courts in Indiana in 1970 and New Hampshire in 1971 arrived at different conclusions on the question of whether or not these fees constituted unreasonable burdens on interstate commerce in violation of Art. I, § 8 of the U.S. Constitution. The U.S. Supreme Court granted certiorari in 1971.

In *Evansville Airport* v. *Delta Airlines, Inc.*, 405 U.S. 707 (1972), the Supreme Court ruled in favor of the airports. It held user fees for state-provided facilities were constitutional in that they were reasonably related to the costs of those facilities and did not discriminate between intrastate and interstate commerce. In response, Congress enacted the Anti-Head Tax Act as part of the Airport Development Acceleration Act of 1973 and made clear this law was in direct response to the Court's ruling a year earlier.[2] This law remains on the books today and generally prohibits airports from imposing taxes or fees on air travelers.[3]

By the mid-1980s, the Reagan administration and members of Congress were concerned that federal aviation policy was having adverse impacts on airports. Airports had become heavily reliant on federal grant funding, and this funding relationship led to reduced airline competition at large airports to the detriment of the traveling public. Rather than eliminating the Anti-Head Tax Act, supporters of increased airport self-help and airline competition sought to create a narrow exemption to the general prohibition for a federally authorized local passenger enplanement fee.

In its 1990 National Transportation Policy, known as Moving America, the Bush administration formally proposed the PFC.[4] This proposal called for "[r]elax[ing] restrictions on the ability of State and local governments to raise revenues and use them for transportation facilities and services," but ignored the competition benefits of this policy.[5] This omission was noted by Thomas Gale Moore, an economist who served as a member of the Council of Economic Advisors during 1985–1989, who wrote in 1990 that "[PFC] revenue would also make airports less financially dependent on their tenant carriers and would encourage them to provide more facilities for new carriers. . . . Competition at airports that are dominated by one or two carriers could thus be enhanced."[6]

In 1990, Congress passed the Aviation Safety and Capacity Expansion Act, which established the PFC.[7] Airports began collecting PFCs in 1992. Initially, the maximum PFC was set at $3 and airports charging the $3 PFC were required to return 50 percent of their AIP apportionments. In 2000, Congress passed the Wendell H. Ford Aviation Investment and Reform Act for the 21st Century, which increased the maximum PFC to $4.50 with an increased AIP apportionment turn-back of 75 percent for imposing PFCs greater than $3.[8] This was the last time the PFC cap was raised. Efforts to increase the cap or eliminate it entirely have been unsuccessful.

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[2] See S. Rep. No. 12, 93d Cong., 1st Sess. 12 (1973), reading in part: "The provision is in response to a situation which has been brought about by [*Evansville Airport* v. *Delta Airlines, Inc.*], upholding passenger head taxes enacted by New Hampshire and by Evansville, Indiana, for 'aviation-related purposes.' While this decision has invited state and local governments to enact head taxes or fees on air travelers, the Court decision does not provide adequate safeguards to prevent undue or discriminatory taxation."

[3] 49 U.S.C. § 40116.

[4] U.S. Department of Transportation, *Moving America: New Directions, New Opportunities—A Statement of National Transportation Policy Strategies for Action* at 57 (Feb. 1990), available at https://rosap.ntl.bts.gov/view/dot/531.

[5] Id.

[6] Thomas Gale Moore, *Good Enough for Government Work: Why Moving America Is Unsatisfactory*, 13 REGULATION 2, 15 (Summer 1990), available at https://object.cato.org/sites/cato.org/files/serials/files/regulation/1990/7/v13n2-2.pdf.

[7] Presently codified as amended at 49 U.S.C. § 40117.

[8] 49 U.S.C. §§ 40117(b)(4) & 47114(f)(1)(B).

THE PFC IS SUPERIOR TO ALTERNATIVE REVENUE SOURCES

Airports in the U.S. have a variety of aeronautical and non-aeronautical revenue sources, but the largest sources are the PFC and AIP. According to a Government Accountability Office (GAO) review of FAA data and interviews with airport officials, these two sources combined account for half of total airport funding available for capital projects.[9] The PFC is a local user fee collected by airlines and remitted directly to airports, with those funds never touching the federal treasury. In contrast, AIP is a federal grant program under the Airport and Airway Trust Fund that is funded by aviation taxes on tickets, flight segments, cargo waybills, fuel, international arrivals and departures, and frequent flyer awards.[10]

PFCs and AIP funds complement one another by supporting different classes of airport projects, which is largely a function of differences in project eligibility.[11] AIP is generally used to fund airside construction projects (e.g., runways, taxiways, aprons, noise abatement, and land acquisition). In contrast, PFCs are generally used to finance landside improvements such as passenger terminals that often are not eligible for AIP funding. This is because AIP-eligible projects are PFC-eligible projects, but not vice versa. Importantly, the PFC can be used to service debt, unlike AIP funds.[12] And because the PFC is a local user fee, federal statutory and regulatory requirements on labor and procurement that impact AIP funding do not apply to projects solely funded or financed by PFC revenue.[13] The table below provides a comparative breakdown of the use of these complementary programs:

Distribution of PFC Approvals and AIP Grants, FY2016

Type of Project	Percentage of PFC	Percentage of AIP
Airside	15.7%	71.1%
Landside	60.2%	12.3%
Noise	0.0%	4.4%
Roads/Access	2.6%	0.6%
Interest on bonds	21.4%	—
Unclassified, state block grants, misc.	—	11.7%
Total	100.0%	100.0%

Source: FAA, Airports Branch.

The flexibility of the PFC vis-à-vis AIP also has consequences for airport productivity. Recent research has found that increasing airport reliance on PFC revenue while simultaneously decreasing airport reliance on AIP revenue increases airport productive efficiency.[14] The implication is that leaving the PFC cap at the current $4.50 while increasing AIP funding by spending down the unobligated funds in the Airport and Airway Trust Fund would have a negative efficiency impact.

This also suggests that a bipartisan legislative proposal from the 115th Congress to eliminate the PFC cap, require 100-percent AIP funding turn-back for charges over $4.50, and proportionately reduce the total annual AIP authorization by $400 million would not only reduce federal spending and promote local self-help, it would raise airport productivity.[15]

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[9] Statement for the Record to the Subcommittee on Aviation Operations, Safety, and Security, Committee on Commerce, Science, and Transportation, U.S. Senate of Gerald L. Dillingham, Ph.D., Director, Physical Infrastructure Issues, Government Accountability Office at 7 (Mar. 23, 2017), available at https://www.gao.gov/assets/690/683640.pdf.

[10] See Federal Aviation Administration, *Current Aviation Excise Tax Structure*, available at https://www.faa.gov/about/budget/aatf/media/Excise__Tax__Rate__Structure__2018.pdf (last accessed Mar. 19, 2019).

[11] See Federal Aviation Administration Order 5500.1, *Passenger Facility Charge* at 12–13 (Aug. 9, 2001), available at https://www.faa.gov/documentLibrary/media/Order/PFC__55001.pdf.

[12] Rachel Y. Tang, *Financing Airport Improvements*, Congressional Research Service at 14 (May 10, 2017), available at https://crsreports.congress.gov/product/pdf/R/R43327.

[13] Federal Aviation Administration, *PFC and the AIP*, available at https://www.faa.gov/airports/central/pfc/pfc__aip/ (last accessed Mar. 19, 2019).

[14] Bo Zou et al., *US airport financial reform and its implications for airport efficiency: An exploratory investigation*, 47 JOURNAL OF AIR TRANSPORT MANAGEMENT 66 (2015).

[15] Investing in America: Rebuilding America's Airport Infrastructure Act, H.R.1265, 115th Cong., 1st Sess. (2017).

It has been claimed that airports should rely more on non-aeronautical revenue as a substitute for raising or eliminating the PFC cap.[16] Certainly, airports should examine opportunities to generate non-aeronautical revenue, as the collection of revenue from these sources generally does not impact airfares and air travel demand. In 2017, nationwide PFC collections totaled $3.29 billion.[17] In the same year U.S. commercial service airports generated $21.94 billion in total operating revenue.[18] Of that total, 46 percent came from non-aeronautical revenue sources.[19] The table below breaks down non-aeronautical revenue of the 500 reporting commercial airports:

Land and non-terminal facility leases/revenues	$760,852,386 (07.5%)
Terminal-food and beverage	$805,431,354 (07.9%)
Terminal-retail stores and duty free	$779,640,479 (07.7%)
Terminal-services and other	$483,976,328 (04.8%)
Rental cars-excludes customer facility charges	$1,855,840,802 (18.3%)
Parking and ground transportation	$4,249,127,555 (41.9%)
Hotel	$226,723,723 (02.2%)
Other	$979,542,945 (09.7%)
Total Non-Aeronautical Revenue	**$10,141,135,572 (100%)**

Source: Form FAA–5100–127 Report data (2017)

As the data show, 60.2 percent of non-aeronautical airport revenue came from rental cars, parking, and ground transportation. Yet this dominant portion of non-aeronautical revenue also carries the greatest revenue risk. In recent years, Americans have been increasingly using ride-hailing services such as Uber and Lyft to and from airports. A recent study from the Airport Cooperative Research Program found that the introduction of ride-hailing has led to an 18 to 30 percent decline in the use of shared-ride vans, a 4 to 13 percent decline in rental car transactions, and a 5 to 10 percent decline in parking transactions.[20]

While these estimates are based on a limited sample and research is ongoing, preliminary data suggest these declines in revenue are likely to exceed any new airport fee revenue generated from ride-hailing.[21] This means that as ride-hailing services continue to grow in popularity, this ground transportation net revenue decline may accelerate. Increasingly risky non-aeronautical airport revenue is not a viable substitute for proportional and predictable passenger user fee revenue.

COMPETITION BENEFITS OF THE PFC

As was noted above in the discussion of the history of the PFC, a second non-fiscal aim of the PFC was to enhance airline competition and promote lower consumer airfares. In the 1950s and 1960s, in exchange for airlines assuming existing airport debt and other financing arrangements, many airports granted incumbent airlines long-term exclusive-use gate leases. This led to a minority of gates being available for new carrier entrants.[22]

These gate access limitations harm consumers. Economists have estimated that airfares are $5.6 billion higher in 2017 dollars than they would be with adequate gate access to support new carrier entrants at large and mid-sized airports.[23] This figure dwarfs the $3.29 billion in nationwide PFC collections in 2017.[24]

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[16] See, e.g., Letter from Pete Sepp, President, National Taxpayers Union to Reps. Peter DeFazio and Sam Graves (Feb. 7, 2019), available at https://www.ntu.org/publications/detail/ntu-pens-letter-to-transportation-committee-regarding-the-passenger-facility-charge.

[17] Federal Aviation Administration, *Key Passenger Facility Charge Statistics as of February 28, 2019*, available at https://www.faa.gov/airports/pfc/monthly__reports/media/stats.pdf.

[18] Federal Aviation Administration, CATS, Form FAA–5100–127 Report data, available at https://cats.airports.faa.gov/Reports/reports.cfm.

[19] Id.

[20] Peter Mandle and Stephanie Box, *Transportation Network Companies: Challenges and Opportunities for Airport Operators*, AIRPORT COOPERATIVE RESEARCH PROGRAM SYNTHESIS 84 at 5, National Academies of Sciences, Engineering, and Medicine (2017), available at https://www.nap.edu/catalog/24867/transportation-network-companies-challenges-and-opportunities-for-airport-operators.

[21] Id. at 28, 33.

[22] Steven A. Morrison and Clifford Winston, *Delayed! U.S. Aviation Infrastructure Policy at a Crossroads*, in AVIATION INFRASTRUCTURE PERFORMANCE: A STUDY IN COMPARATIVE POLITICAL ECONOMY at 20–22, eds. Clifford Winston and Gines de Rus (2008), available at https://www.brookings.edu/wp-content/uploads/2016/06/Winston__aviation__chpt2.pdf.

[23] Id. at 22. $4.4 billion in 2005 dollars adjusted by Consumer Price Index to 2017 dollars via Bureau of Labor Statistics' CPI Inflation Calculator, https://data.bls.gov/cgi-bin/cpicalc.pl.

[24] Federal Aviation Administration, supra note 17.

That the PFC serves as a sustainable revenue source insulated from airline control is uncontroversial. Further expanding the purchasing power of the PFC by eliminating the statutory cap and with a focus on improving airline competition—especially through the expansion of common use gates available to new carrier entrants—could result in substantial airfare savings for consumers. These savings could more than counteract the modest negative marginal impact on travel demand of increased PFCs, as estimated by the Government Accountability Office, especially if airline ancillary fees were to be included in the full price unit of analysis.[25]

Thank you for the opportunity to testify before the Committee, and I welcome your questions.

Mr. DEFAZIO. Excellent, thank you. I appreciate your brevity. Let's move on now to questions.

First, to Mr. Krauter, because you have made the case about dramatic savings if you do a preemptive PFC, or if you do a PFC in conjunction with bonding. If you went the route of full bonding with the very high interest costs, how would you recapture that money? Would that have anything to do with your cost per enplanement?

Mr. KRAUTER. Thank you, Mr. Chairman. Right now the cost of fully bonding out the TREX project is a little over $342 million.

Mr. DEFAZIO. Right.

Mr. KRAUTER. We would anticipate funding that entirely with our PFC obligation authority, which right now means that that charge would go out 38 years.

Mr. DEFAZIO. OK. But what I am getting at is someone has to pay. OK? Now, if you don't do it with a PFC on the passengers, then you have got to recoup the money in some other way. And don't—you have relatively low CPEs, correct?

Mr. KRAUTER. Yes, sir, that is correct.

Mr. DEFAZIO. And that would mean—in the future, perhaps—if you expanded capacity, and a new airline like Spirit wanted to come in, would your CPEs have to go up for the new entrants?

Mr. KRAUTER. They would. And in my written testimony I talk about the fact that that serves as a trap in this conversation, because airports have limits in how high that CPE can be driven.

And, as a practical matter, if we had to finance TREX just through the airline rate base, it would drive our CPE incredibly high, well above our peer airports. Even though we are in the lowest quartile today, that would probably place us among the most expensive small-hub airports in the country.

Mr. DEFAZIO. OK, thank you.

For the three airports who are here, back in August, just before we passed the FAA bill, American, Delta, JetBlue, and United Airlines all raised bag fees by $5. Did any of those three airports see a dramatic dropoff in passengers on those airlines during that time period? Yes?

Mr. LOPANO. We are seeing our highest growth rate since I got there 8 years ago. In fact——

Mr. DEFAZIO. You don't think a $5 increase in the bag fee drove down boardings?

Mr. LOPANO. I am only going by the numbers.

Mr. DEFAZIO. OK.

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[25] Government Accountability Office, *Raising Passenger Facility Charges Would Increase Airport Funding, but Other Effects Less Certain*, GAO–15–107 (Dec. 2014), available at https://www.gao.gov/assets/670/667444.pdf.

Mr. LOPANO. We are up 10 percent.

Mr. DEFAZIO. All right. Anybody else see a decrease? I am just trying to get at this price elasticity argument.

I did study economics in undergraduate and graduate school. I am just confused about the differences, the variables in price elasticity. If it is a bag fee, you thank them. But if it is a PFC so you can get through security faster, you might have a lower price ticket, you might have more competition, you will have a better airport experience, you will never fly again.

Ms. MCGRAW. Mr. Chairman?

Mr. DEFAZIO. Yes?

Ms. MCGRAW. We are experiencing record growth at CVG, as well. There has been no decrease in passengers.

Mr. DEFAZIO. OK, interesting. So to Spokane again, Alaska says that a $4.50 increase will discourage air travel. Are they one of your incumbent airlines?

Mr. KRAUTER. Yes, sir, they are. They are the busiest incumbent airline in our market.

Mr. DEFAZIO. And they said that they—if they—if your fee went up by $4.50, that they would have no choice except to raise air fares or reduce service. Do you buy that argument?

Mr. KRAUTER. I don't. And for the same reasons that you have stated, is that we have seen ancillary fees continue to increase considerably, year after year, with no negative impact on travel in Spokane. In fact, we are setting new records for travel every year.

Mr. DEFAZIO. OK. And then, to Mr. Scribner, you had a pretty extraordinary number here. Economists have estimated that air fares are $5.6 billion higher in 2017 than they would be with adequate gate access to support new carrier entrants at large and midsize airports. Could you just expand on that a little bit?

I mean you really think that bringing in more airlines or different airlines would lower ticket prices for people?

Mr. SCRIBNER. Thank you for that question, Mr. Chairman. Absolutely. And we have seen it play out at airports across the country.

This has long been an issue, this—and this issue, in fact, predates the PFC, in part because the way we set up funding in the 1970s. And by outlawing more independent airport revenue sources, we saw them drive into the hands of the airlines and become more beholden to Federal funding and those strings attached, rather than focusing on these competitive pressures.

So I think, absolutely, if we had more freedom at the airports to make these decisions, to bring in new low-cost carriers, I think we would see lower air fares.

Mr. DEFAZIO. OK, thank you.

With that, my time has expired. I turn to—oh, you want me—OK. I will first turn to Representative Webster.

Mr. WEBSTER. Thank you, Mr. Chairman. I—let's see.

Ms. Barnes, you have—wouldn't you say your organization, the members of that, would have the—I mean you would have your—the closest ear to the ground on what is going on in traffic and travel and cost and so forth?

Ms. BARNES. Well, to answer the previous question, in a recent survey that we conducted of travelers we found the Government-issued fees such as the PFC was the second lowest of deterrence to travel. So, based on the data that we have seen, we don't see that travel would be negatively impacted.

In fact, 10 percent of travelers avoid trips as a result of hassles with airports, delays, and cancellations. So we believe that improvements to the airport and increasing the PFC to be indexed with inflation would be helpful for all of our industry. We represent almost 1,300 members, and our industry is fully supportive of increasing the PFC to help with these infrastructure needs.

Mr. WEBSTER. Would you say that—in that polling did you check the awareness of even—the awareness of the PFC?

Ms. BARNES. I don't know that we spoke exactly to the awareness, but we do have data that demonstrates when travelers understand that an increased PFC goes to help infrastructure at their airport they are even more inclined to support a PFC than just on the general question of "Do you support a PFC?" So the more they know about it, the more likely they are to support it.

Mr. WEBSTER. So if they know that this is only going to be used at that particular airport, then there is a higher desire to have maybe an increase?

Ms. BARNES. I can get back to you to know about that nuance. But that would be where the data suggests, yes.

Mr. WEBSTER. Mr. Lopano, you are in Florida, my State. You got a lot of traffic, and we depend on tourism as one of our largest revenue-producers.

Would you say that most of your flights are not pass-through flights, they are final destinations?

Mr. LOPANO. I am sorry, would you repeat the question, sir?

Mr. WEBSTER. Would you say that most of the incoming flights that you have are—they are—Tampa is their final destination?

Mr. LOPANO. Yes, we are well above 90 percent just origin, destination. We have very few connecting passengers.

Mr. WEBSTER. So for you, you are dealing in a lot of ways with people who are coming there, which would—seems like they would be maybe a little more reactionary to any kind of increase in cost. Have you done polling like the U.S. Travel, or——

Mr. LOPANO. We have not on our own, but we rely on U.S. Travel to conduct that on our behalf.

Mr. WEBSTER. So—but from the—just the results of travel itself, there has been a large increase, and that is —you feel like there would—that would continue, no matter what that cost would be?

Mr. LOPANO. Absolutely. I think that—I mean, let's put it this way. As the chairman said, someone has got to pay the bill. So you can either raise the PFC by $4 or $4.50, or we will just load the airport up with debt and increase the cost to the airlines.

And so I find it curious that the airlines want us to load up with debt, not use the PFC. The PFC would not affect their O&M cost. PFC bonds are on the side. You can either increase the PFC and not increase cost to the airlines, or you can increase cost to the airlines and make your CPE go up, which I think would be an anti-competitive result.

Mr. WEBSTER. Anyone else have an opinion on that?

Mr. CHRISTIE. Mr. Chairman?

Mr. WEBSTER. Yes.

Mr. CHRISTIE. If I may?

Mr. WEBSTER. Go ahead.

Mr. CHRISTIE. I do have a comment on that. As I mentioned in my prepared remarks, the PFC is an amount that is borne eventually by the consumer. So, while it may not be included in the cost per enplaned passenger that was referenced by the airports here, it is included in the total price paid. And so, if the cost per enplaned passenger is $5 and the CPE is $4.50, it is $9.50.

And so, as I mentioned before, we are very much in favor of airport improvement projects, but our view is that this particular fee is regressive for low-fare carriers. As I mentioned earlier, our total cost of travel is $110, one way.

And the reason we are able to offer such low fares to our consumers is asset efficiency. We are more efficient with our airplanes, we are more efficient with our own headquarters, with our hangar facility, and we are more efficient with the assets that we lease at airports. And in doing so, we actually can defray the expense in rents and charges with more volume. And that is why it is important for us that—the best way, we think the most efficient way, for financing airports improvement projects is by raising very efficient capital markets debt and passing it through to the airlines in rents and charges, which we can be more efficient with.

Mr. WEBSTER. Thank you so much.

Thank you, Mr. Chairman, and I yield back—for—and for holding this meeting. It is very, very important.

Mr. DEFAZIO. Thank you. With that it would be—oh, sorry, you would have been next, but she just came back. Are you prepared right now, Eleanor, to ask your questions?

Ms. NORTON. Not this second.

Mr. DEFAZIO. OK, then let's move on to André.

Mr. CARSON. Thank you, Chairman. I am very glad we are holding this hearing on this very important issue.

Some of my friends who oppose updating and even increasing the PFC have claimed that airports can always raise money or access money through municipal bonds. As a former member of the Indianapolis City-County Council, I am guessing these folks have never sat through a council meeting.

So to today's witnesses, how would you recommend responding to this assertion?

Mr. CHRISTIE. If I may, Mr. Chairman?

Mr. CARSON. Let's go.

Mr. CHRISTIE. Mr. Carson?

Mr. CARSON. Let's go.

Mr. CHRISTIE. While I have not sat through a council meeting, so I cannot opine, in my experience in dealing with the various investment banks that offer the assistance to the airport authorities for raising money, it has been described of late as a very liquid, a very robust, and a very inexpensive market.

And as a participant, by the way—and it was referenced earlier that Spirit may have been a beneficiary in the O'Hare Airport project that led to additional gate capacity—while we did add gate capacity at O'Hare, it is difficult to determine exactly the source of funding that produced that gate capacity, because there is a lot of money going back and forth. And there—we were actually a participant in the overall new aircraft or airline use agreement at the airport that allowed the airport to construct a completely renovated terminal, add gate capacity, but raise public funding to do so.

So, at least in that particular example, we felt like that was the right answer.

Mr. CARSON. Yes, sir.

Mr. LOPANO. Can I? May I——

Mr. CARSON. Sure.

Mr. LOPANO [continuing]. Sir? OK. So just because we have really good credit ratings and the market is liquid, that doesn't mean we don't need an increase in the PFC. The PFC is one piece of the pie. It is one tool that we use. It has been a good tool since it was introduced, and it is part of what we need to fund the future.

We like having very good credit ratings, as airports. We get good interest rates. But we get them because we have had access to the PFC. So they are interdependent.

Ms. MCGRAW. If I may, in looking at our own capital plan at CVG, if we funded it going forward with just a $4.50 PFC we would have to raise our CPE by almost 50 percent, on average, between now and 2030. And we have an extraordinarily low CPE. But nonetheless, going up 50 percent is a huge increase for the airlines.

To the point that Mr. Lopano made earlier, if it was raised to $8.50—and again, that is optional; we would look at our overall financing plan and decide if that was the right dollar amount. But say we are $8.50 under the current financing plan. The airline CPE would only increase 15 percent.

So again, it is yet another tool to balance out an airport's overall financing structure.

Mr. CARSON. Thank you.

Mr. KRAUTER. Representative Carson?

Mr. CARSON. Yes, sir.

Mr. KRAUTER. Just quickly, I have sat through a lot of city council meetings in my career. And the question that we talk about is how are you going to pay for this, because the airport is financially self-sufficient. The taxpayers do not support the airport, the users support the airport. "And so, Airport Administrator, how are you going to provide the revenue for sale of bonds to support the debt service on those bonds?"

And I think my colleagues have answered that well, but that is really what it comes down to, is that being financially self-sufficient, taxpayers do not support—generally support the airport. We have to have the user fees in order to support debt service.

Ms. MCGRAW. And one final point.

Mr. CARSON. Yes.

Ms. MCGRAW. Airlines no longer sign on to 30-year use agreements the way they did previously. So an airport incurring debt for 30 years to build a runway, terminal improvements, whatever, that carrier may not be there after 5 years or so. You know, they have mobile assets. They will decide to go elsewhere. Meanwhile, that debt is still carried on the airport's balance sheet.

Mr. CARSON. Thank you, very helpful.

Chairman, I yield back.

Mr. DEFAZIO. OK. With that, Mr. Massie.

Mr. MASSIE. Thank you, Mr. Chairman.

Ms. McGraw, would you say that competition has driven down prices at the CVG airport?

Ms. McGRAW. Yes, Mr. Massie. So in the last 4 years, because we have been able to grow the number of carriers at CVG, our average air fare is down now $255 on one ticket than it was 4 years ago.

Traditionally, using DOT rankings, we were traditionally the highest air fare airport, and now we rank about number 83 in the list of the top 100 airports, simply for the fact of competition.

Mr. MASSIE. And so, would the PFC, the fact that your airport could raise its own revenues through a PFC, would that mean more competition among the airlines, or less competition?

Ms. McGRAW. I would conjecture, sir, it would mean more competition. We would be able to fund certain projects within the terminal that would enhance competition, that would level the playing field amongst various carriers.

You know, I referenced earlier when we took over facilities that our hub carrier had been maintaining under a contractual basis, that will raise overall CPE for all carriers about $1.20. If we were able to use the PFC to improve and enhance the efficiencies, that would lower the cost overall for the carriers, and therefore, increase competition.

Mr. MASSIE. Mr. Christie, what does Spirit charge to check a bag on your airline?

Mr. CHRISTIE. Thank you, Mr. Massie. Spirit has a variety of ancillary products available, including a checked bag, a carry-on bag, and a seat assignment. And those prices vary, depending on which bag it is.

But what is more important to our consumer is the total cost of the travel. And the total cost of travel on Spirit is, on average, about 30 percent less than other airlines, and $110.

Mr. MASSIE. So could you answer my question?

Mr. CHRISTIE. It varies. It could be anywhere from $25 to $50.

Mr. MASSIE. OK. So here on the internet it says $55 for carry-on, $52 for first checked bag.

Mr. CHRISTIE. Again, if you—it depends on the time of day and when you have actually purchased the ticket at the airport, or——

Mr. MASSIE. So——

Mr. CHRISTIE. Yes.

Mr. MASSIE. OK, $50. And there is no—is there any Federal cap on what you could charge for a checked bag?

Mr. CHRISTIE. No, there is none.

Mr. MASSIE. Ms. McGraw, what are you allowed to charge to use the entire airport for a person that buys a plane ticket?

Ms. McGRAW. Currently, relative to PFC, we charge——

Mr. MASSIE. Yes.

Ms. McGRAW [continuing]. The maximum of $4.50 for those projects that have been clearly identified and approved.

And I must note that we had only gone up to $4.50 within the last several years because of the type of projects that were funded. We had traditionally been at $3.

Mr. MASSIE. So the airlines can charge $50 for a bag, and you can't charge $5 to use the whole airport.

Ms. McGraw. No, sir. And those are the same bags that—they are going through an outdated bag system that needs to be updated.

Mr. Massie. That you have to start maintaining in 2020?

Ms. McGraw. Yes, sir.

Mr. Massie. Wow. So one of the oppositions that I hear to allowing airports to charge a higher PFC is that you will build amusement parks or something, or things that you don't need, or that you don't have a list of things that you would actually do.

What are a couple of things that you would spend the money on?

Ms. McGraw. Well, first order of business, we would update the baggage system. We would overhaul our mechanical systems. Our HVAC system, things like that, are well over 25 years old in the newest part of the terminal. We have portions of our terminals that date back to the 1970s. So some of those basic, behind-the-wall things need to be taken care of, first order of business. Then we would look to other things, additional ticket counters, et cetera.

As to building Taj Mahals, I would say if a PFC were to be increased to—say the maximum cap would be $8.50. It would be incumbent upon good airport management, with their airport boards, to look at what the appropriate projects were. That does not mean that all airports would go to $8.50. It is optional, as Ms. Barnes had said.

Mr. Massie. Right. Ms. Barnes, I want to ask you a question. I have been at city council meetings, and I have had to sit through that. In fact, I was a county executive. And once I heard a story from a constituent. It was very compelling, of why I should intervene against his neighbor. And the county attorney came to me, who was also a family court lawyer, and said, "Remember, there are three sides to every story. There is his side, her side, and the truth in a family court hearing."

So, Ms. Barnes, I think you are here to represent the truth, because I trust the airports are going to represent their side, and the airlines will represent their side. I trust them to act in their own best interest. But you are acting in the interest of people who make money from the travel, and of the travelers. So can you comment on your opinion on PFCs?

Ms. Barnes. Sure. So we find that there are 32 million trips that are being avoided due to airport hassles right now—long lines, flight delays, cancellations—that is, you know, on average, 2 to 3 trips per year, $24 billion in lost spending, and a 10-percent reduction in demand.

So we feel that, you know, an increase of the PFC to the, you know, $8.50 would significantly help the traveler want to get on that plane, want to go to that airport. And we think that that is, obviously, best for the 1,300 organizations that we represent. But most importantly, improving the traveler experience is critical.

Mr. Massie. My time has expired. I don't want to get you in trouble, so I will yield back.

[Laughter.]

Mr. DeFazio. I thank the gentleman. Next on our side would be Representative Norton.

Ms. Norton. Thank you, Mr. Chairman, and I appreciate this hearing. But I am curious. And actually, this is a question for the three State airports that are here. The Congress just passed—just last year—a 5-year FAA reauthorization bill. So I am curious, 1 year later, why are the airports back asking for an infrastructure package?

Mr. KRAUTER. I can start the response.

Ms. NORTON. Yes, please.

Mr. KRAUTER. Congresswoman Norton, AIP has been flat for about 12 years, in terms of appropriations from Congress. At $3.35 billion annually, the airports are receiving $3.2 billion after expenses are removed off the top of the program to actually run the AIP program at FAA, and a few other items. The effective buying power of AIP because of that is only about $1.8 billion. So, in Spokane, we receive approximately $5 million of AIP entitlement funding a year. Those entitlement funds are really only worth about $2.25 million.

So for us to make up the ground that we would need to make up from AIP, I just estimated, based on what I use in PFC money to supplement for a lack of AIP, I could support another $1.77 in PFC charge alone, just to try to make up for what I am forced to try to subsidize now because of the lack of AIP funding.

Ms. NORTON. Yes. It sounds like you say you need annual funding.

Mr. KRAUTER. Well, we certainly do. And we believe that the most efficient way to do that is actually through an increase in the passenger facility charge.

Ms. NORTON. OK. Yes?

Ms. MCGRAW. Well, thank you. There is definitely the need to infuse additional money into the aviation system. We are appreciative of the AIP funding. As Mr. Krauter said, though, that has been level for a number of years. This is one tool, the PFC, that would allow more funding into and making airport improvements.

So I think, while we are appreciative of AIP, it doesn't go far enough, and the infrastructure needs are great. So this is one tool with the PFC that we are seeking assistance with.

Ms. NORTON. Wasn't there another State airport that——

Mr. LOPANO. Yes, Congresswoman. The—I will give you an example. We just completed a $1 billion phase 1 master plan project, which included an automated people-mover and improvements to the terminal, and so on. And, of the $1 billion, only $3 million was from AIP.

Ms. NORTON. Yes.

Mr. LOPANO. It is just de minimis.

Ms. NORTON. Yes. Well, it sounds to me what you are saying is you need another source of funding.

Mr. LOPANO. Exactly. And that source—the most effective source would be an increase in the PFC.

Ms. NORTON. Thank you, Mr. Chairman. I yield back.

Mr. DEFAZIO. OK, I thank the gentlelady. Oh, OK, we are changing the order.

OK, Mr. Perry?

Mr. PERRY. Thank you, Mr. Chairman.

Folks, I appreciate your time coming to Washington, DC, and testifying, answering questions. I think we can all agree that investment in our airports is critical to safe and secure operations.

And along that line I would like to ask about another critical issue with potential impact to normal airport operations, and that is about drones. They seem like they could be an important tool for security, for monitoring FOD on the runway, what have you.

But there has been reports about alleged drone sightings that have prompted what is characterized in my question here as brief runway closures, although I imagine, if you are running the airport, or if you are sitting on the taxiway waiting to take off, there is nothing brief about it, even if it is for a minute—and it hasn't been brief in that regard.

But would remote identification requirements solve a lot of these problems, in your opinion? And would it allow law enforcement to quickly identify and address any drone that is in the area, but also determine whether or not a drone is even present?

And I will just say, from my point, standpoint, I was disappointed to see this week that the FAA pushed back the date it plans to publish a remote identification proposal, and especially for the airport executives. Can you explain the importance, if you think there is one, to this policy? And regarding the FAA's actions on the delay, and how that might impact your operations?

And I would appeal to the first three or four witnesses, but certainly——

Mr. LOPANO. Congressman, let me——

Mr. PERRY [continuing]. Anybody can answer——

Mr. LOPANO [continuing]. Try to answer that one for you.

Mr. PERRY. Sure.

Mr. LOPANO. At Tampa we have just installed antennas that can detect Chinese-manufactured drones, which is about—a certain Chinese manufacturer—about 80 percent of the drones. And it can tell us exactly where it is, where the operator is, and we can have law enforcement respond to exactly the location.

But I think the broader point that you are making is that, since the—this PFC has been adjusted in 2000, a lot of things have happened, like 9/11. The security environment is completely different. We now have cybersecurity issues that could be funded by PFCs. We now have active shooter issues, where we have to constantly train for active shooters. The world is completely different. Biometric exit and entry. All these technologies didn't exist when the PFC was envisioned, so that is even more reason for modernizing it and changing it and moving it up.

Mr. PERRY. Can I ask where you—you know, how much does something like that cost? Where did you get the technology? And is that proprietary?

I mean, you know, we are looking for the FAA's rule on this thing. And while we are waiting on that, you know, as you said, the world keeps moving forward.

But just to inform members of the committee, you know, you still—you have still got to run your airport, so how did you go about that?

Mr. LOPANO. There is a lot of technical issues in that answer, and I am not ready to answer it here, but I would be happy to send you all the information.

Just suffice it to say that it is an entirely different world now, and there are things that we never envisioned. And we definitely need funding for safety. And the PFC was intended to fund safety projects.

Mr. PERRY. OK. Anybody else?

Mr. KRAUTER. Thank you, Representative Perry. I would just echo Mr. Lopano's comments, in the sense that I believe that airports have not been given a significant-enough role in crafting and participating into the regulatory process, because a lot of this is, obviously, local-driven.

And I think, as Mr. Lopano points out, if we could have more local tools to help us in dealing with this potential threat of how drones could be used against airports, I think that would be very helpful.

I think that there are many communities around the country—mine, included—that are looking for strong signals from the Federal Government on how they should go about enforcing, adopting. And they are looking to the airports as subject matter experts to help them figure out that policy. So I am awaiting that action just as eagerly as you are, sir.

Mr. PERRY. OK. Anybody else?

Yes, ma'am?

Ms. BARNES. I would just add that we believe strongly that you cannot have travel without strong security. So I echo the comments of my colleagues up here.

One of the positive impacts of the increase in the PFC are just the benefits that the security systems can—the strength of the security systems, and how those improvements are so critical to the traveler. Thank you.

Mr. PERRY. Thank you, Mr. Chairman. I yield back the balance.

Mr. DEFAZIO. I thank the gentleman.

Ms. Titus?

Ms. TITUS. Thank you, Mr. Chairman. And I apologize for being somewhat redundant, but when we just have one question before us, these things tend to repeat themselves.

I represent Las Vegas, so you can imagine how important travel and tourism are to us. We have in my district, also, McCarran Airport. And although it is not the hub of any airline, it is the seventh-busiest airport in the country. I see a lot of Spirit Airlines there, as a matter of fact, in any weekend when I am home.

We had almost 50 million visitors through McCarran last year, so we are experiencing a lot of growth. We are at 85 to 90 percent capacity. We have got new resorts coming online. We have got new direct flights internationally. And, God forbid, we got the Raiders coming. So it is going to be a lot going on in my district.

PFCs have really been critical to the expansion of McCarran. They helped build the new terminal, they built the airport connector tunnel. We really depend on them. And—because now we are using them to pay off the bonds.

I would just—I cochair the Travel and Tourism Caucus, and I would say that I am—don't want to do anything that is going to hurt tourism, because it is such a key to our economy.

So I wanted to ask you, Ms. Barnes. We know what people don't like in an airport. Often they have these lists of airports around the world. Seldom do U.S. airports make the list of good-experience airports. In some of your polling or some of your research, do you know what people do like about airports that can be funded with PFCs to make that travel experience better?

Ms. BARNES. Well, we know, especially to the international traveler, how critical what their experience is when they land in the United States. And we know that when international travelers come to the U.S. they shop in our stores, they visit an attraction, they stay at a hotel. But that is actually an export. International travelers spend, on average, $4,000 per visit; $7,000 is what Chinese travelers spend, on average. So, encouraging those folks to come and to continue to come to our airports is critical.

To your point, not 1 of the U.S. airports is in the top 25 airports in the world, and we have got the needs of—I think 65 percent of infrastructure needs are actually needed within the 30 hubs where the international travelers arrive.

So it is really critical, because when international travelers come here, they go home, they talk to their family about their experience. And if they have an unwelcome experience that is, you know, crowded lines and delays and issues with infrastructure, then that is going to discourage them from continuing to come back and spend that money here in the U.S.

So we know that they like upgrades, we know that they don't want to wait in lines, and that they want to have a welcome experience.

Ms. TITUS. Anybody else want to comment?

Yes, sir?

Mr. LOPANO. Thank you, Congresswoman. Yes, the project that I referenced earlier, which was the project for international airside F, which allowed us to bring in competitors and was rejected by the airlines, we were able to fund it with PFCs.

And we have a brandnew, international arrivals area that is spectacular. People can move through it very, very easily, and the passengers really, really appreciate it. And we are seeing record load factors on our carriers, because the PFC allowed us to create a customs area that is actually proper, that you can be proud of, as an American.

Ms. TITUS. You know, we have seen—I think it is American Society of Civil Engineers who rates our infrastructure. We always get a bad grade on that. But they say we are missing $45 billion, in terms of just catchup in our airports around the country.

The airlines say that they have spent $115 billion since 2010. I have seen some of that going into the cabin of the aircraft and to mobile technology. Those of you who represent airports, how much do the airlines really spend on the airports?

Mr. KRAUTER. Thank you, Representative Titus. I am not aware, as a smaller airport, small-hub airport, of any joint ventures or proposals from airlines to share significant expenses of capital projects with the airport operators.

Ms. MCGRAW. Ma'am, in the last almost 10 years that I have been at CVG, the airlines have invested almost zero dollars in capital improvements at my airport. As a matter of fact, it has sort of been a disinvestment. They have moved assets elsewhere.

Ms. TITUS. How about Tampa?

Mr. LOPANO. Yes. We have—over the last 5 years we have had airlines invest in our main terminal expansion program. So, of the

$1 billion project, about $100 million was the main terminal expansion, and that was funded by the airlines.

Ms. TITUS. OK. So either very little or nothing. Is that right? Is that the——

Mr. LOPANO. Pretty much.

Ms. TITUS. All right. Thank you, Mr. Chairman, I yield back.

Mr. DEFAZIO. Now we turn to Mr. Davis.

Mr. DAVIS. Thank you, Mr. Chairman. I appreciate the witnesses. And, you know, I am glad a few of our colleagues ago, Mr. Massie, mentioned that there is usually three sides to every story. And it is pretty clear that the airports and the representatives here today favor an increase in the PFCs. It is pretty clear that the airlines don't.

My question is, you know, how do we come up with a principal compromise? I am afraid both sides are going to get dug in, that we are not going to be able to move this issue forward at all.

We all want airport improvements. Frankly, as Mr. Massie said, some delays I have had, I would like an amusement park at one of our local regional airports.

[Laughter.]

Mr. DAVIS. I don't think that is going to happen, but it might pass the time well.

But as we look ahead, we want to improve airports, we want to have more airlines serving our regional airports. We want to have more competition within the airline industry. We all have the same goals. How do we get there?

So, Ms. Barnes, since you were kind of separated out by my colleague, Mr. Massie, earlier to answer a question, since you represent many of our fellow air travelers, what would you say would be the best compromise in this situation?

Ms. BARNES. We think that, you know, it is really important to increase the PFC and index it to inflation. I know that that doesn't sound like a compromise, but the fact is that the PFC hasn't been raised in over 19 years, and that is just not enough. I think that the chairman mentioned that that would be about $2 today.

And, quite frankly, in a lot of the survey results that we—in all the survey results that we have seen, the increase in the PFC really isn't a negative impact to the view of travelers. What travelers want is to have a better travel experience. They want less delays, they want less cancellations, and they just want a better overall environment.

So we think that the—you know, anyone who has flown in, for example, to 35X at DCA knows that that is a terrible flight—a terrible gate to fly——

Mr. DAVIS. As one who flew into it yesterday, I am well aware.

Ms. BARNES. But increasing the PFC, for example, at $4.50 would take 30 years to repay the work that needs to happen at that gate. Financing would be a total cost of about 50 percent. Increasing the PFC to $8.50 would only take 11 years to repay, the financing would be 26 percent, and that saves $132 million. And that is $132 million that can be used for further investment.

So we really think that that is a benefit to the traveler. So I would—I am all for compromise, but I think in this particular instance, because we haven't seen an increase in the PFC in 19 years—and to the point on security and all of the things that our country is seeing now—the PFC increase is critical.

Mr. DAVIS. Well, I appreciate your viewpoint. I was hoping for something a little more than just one side, with the compromise. Ma'am, go ahead.

Ms. MCGRAW. Well, if I may, sir, we are not asking to increase the PFC to $8.50. What we are saying is giving the airports the ability to do that if there are projects that merit an increase. And when you identify those projects, there is a consultation process by which you have to sit down with the carriers and go through those projects. They currently even have the ability to object to the FAA if they object to any of those particular projects.

So we are not saying to increase the cap to $8.50, we are saying give the airports the ability to do that. And there is a dialogue that does occur with the carriers over that process.

Mr. DAVIS. Well, thank you. And, you know, I agree with both sides on this issue, which is why it is frustrating to me, as a policymaker, that we can't find that sweet spot. And I think we missed a golden opportunity with last year's FAA reauthorization to do so. There were some other major proposals in that bill that I think could have been utilized to come up and find that sweet spot.

I got a few seconds left. Anybody else have any comments?

Yes, sir?

Mr. SCRIBNER. Thank you. I think the compromise actually starts with the bill that Chairman DeFazio and Representative Massie introduced last year. What that would have done, it would have eliminated that cap. But it also would have required airports going over $4.50 in a PFC to return 100 percent of their AIP funding. And then it would have proportionately reduced AIP spending authorization by $400 million a year. I think that is a compromise, and that is why you had a lot of fiscally conservative organizations supporting that, along with airports and those who wish to see a PFC increase.

Mr. DAVIS. Well, thank you. I am out of time. I yield nothing back.

[Laughter.]

Mr. DEFAZIO. No, Rodney, you had 2 seconds.

Mr. Payne?

Mr. PAYNE. Thank you, Mr. Chairman. And you know, I am glad to follow my colleague. I think he stated it best, and I agree with both sides. It is a bit of a dilemma to be in this position.

But you know, as the committee has noted, more than, you know, 1 billion passengers enplaned at U.S. airports on domestic and foreign carriers in 2018. The Federal Aviation Administration anticipates this number will increase. Passenger enplanements on U.S. carriers alone are expected to rise 1 billion annually by 2028, and to 1.3 billion by 2038.

U.S. airports have estimated a total of $128 billion in infrastructure needs to keep up with the current demand and plan for expected passenger growth between 2019 and 2023. This need outweighs the current projected Federal spending for airport improvement projects.

Passenger facility charges, or PFCs, are not the only source of airport infrastructure funding, nor were they created for that purpose. Airports' largest source of revenue comes from fees that they control: landing fees, airline changes, and revenue from concessions, parking rental, car rentals, and other services. And raising these fees could be done easily without an act of Congress.

So finally, here is my question. Why is there such a focus on increasing PFCs? Can airports find other ways to raise revenue that will limit the financial impact on the most important participant in this whole system—and that is the passenger?

Yes, sir?

Mr. LOPANO. Thank you, Congressman. We do have the ability—I mean the airports are basically run by user fees. Landing fee is a user fee. So when you land on a runway we charge you a certain amount. A parking fee is a user fee, because you used concrete overnight, and you stored your car. So we set those fees. The passenger facility charge is a fee on passengers who use our facilities, and it is paid by all passengers.

We want the people who fly in from Cleveland and the people from Chicago and the people from New York who fly into Tampa to pay their fair share. If I raise the parking rate, then only the people in Tampa are paying for that. I think it is incumbent on the passengers who use the facility to pay their fair share. And that is why I think the increase in the PFC is right.

Mr. PAYNE. Anyone else?

Mr. KRAUTER. Representative Payne, I would just echo what Mr. Lopano said.

It surprises people sometimes when we talk about how our airports earned revenue. And in Spokane, which I think is representative of many small airports, airline fees only amount to about 30 percent. So we are already out there, maximizing all of the non-airline, or non-aeronautical revenues that we possibly can. And the reason for that is to keep costs lower to the airline partners. So we really work hard to maximize those non-airline revenues.

And I would also say, as Mr. Lopano pointed out, is that the PFC is a very elegant fiscal sustainability mechanism, because it divides the cost of running the facility across those who use it, and not just limits it to, for instance, the taxpayers of a certain municipality that may be the sponsor of the airport.

So in Spokane, our market area is very large, as I mentioned in my opening remarks: two provinces of Canada, several States, probably over 1.3 million people. So it would be disproportional for the taxpayers of Spokane County, or the city of Spokane, to pay the entire cost associated with capital programs at Spokane International Airport, when it serves a large area like that, and that many people.

Mr. PAYNE. OK. Thank you, and I will yield back, Mr. Chairman.

Mr. DEFAZIO. I thank the gentleman.

Mr. Katko?

Mr. KATKO. Thank you, Mr. Chairman, and thank you, Ranking Member, for this hearing today. I think it is very important. Air travel is going to be increasing 30 to 40 percent in the not-too-distant future. On top of the current infrastructure needs we have, there is a conversation that we must have.

Mr. Lopano, you said something that we really haven't talked much about today, and I am going to concentrate on that a little bit, because it is an important component of the airports' futures, and that is security and antiterrorism measures.

I led a congressional delegation to Europe and we stood in the very spot in the Brussels airport where a terrorist brought in bags and detonated them and killed all those people. And the non-secure area of airports is a huge vulnerability for all airports. And that is an infrastructure concern, as well as an antiterrorism measure. And getting the throughput from the non-secure side to the secure side is critically important.

And that is why any time I see long lines at TSA—and I was a TSA subcommittee chair for 4 years, so I saw it, all the problems in Chicago a few years ago, for example. So getting that throughput is very important.

And also, considering the fact that, in the terrorism realm, the technological advances by the bad guys are frightening. When you have a bomb the size of this cell phone that can take down an airplane, you need to have the technology at the airports and the wherewithal to find that needle in the haystack. And, quite frankly, we are way behind.

And one of the things we did was—we are going to—TSA is going to the next generation of scanners, which are 3D scanners. We need them now. We needed them last year. And right now those machines are about $300,000 a machine. We need 2,500 machines at the tune of about $750 million for the machine itself, not to mention all the infrastructure improvements that need to go along with these new machines.

And also, you know, the bin returns that speed up the process, as well, is important. These machines would allow the screener to only look at the bag when the machine alerts to the bag. So, in other words, it is a lot quicker throughput with bags, which is a very good thing.

So that is an area that we are not talking about, but I know that Mr. Lopano, I think, said that the PFCs are or were intended to fund security-side measures. So I just want to hear from you folks as to what other attendant costs are there, not just with upgrading to the 3D scanners, which we have to have now—and we got to figure a way to fund them now—but also everything else that goes along with it?

Mr. LOPANO. Yes, Congressman. When the law was introduced, one of the main tenets of the law was to improve security. It was also about environmental and competition, but security was part of it. And that was long before 9/11. It was adjusted in the year before 9/11 up to $4.50, and it hasn't been touched since.

And I think your point is perfect: We are far behind, far behind others around the world in the ways that they use security and the ways that they use their bin devices. And now you can get through security so much easier; it is almost an embarrassment, when you think about it.

Mr. KATKO. I just want to interrupt you quickly, 1 second, because when we were in Brussels—and this is where the whole thing started with me, this is when I really got on it—there was 3D scanners there—this was several years ago now—and automatic bin returns, and everything. They are American-made. We are so far behind with that, so you are absolutely right.

So please, go ahead.

Mr. LOPANO. That is what happens when you don't touch a fee for 20 years. You end up with not having the money to do the things that you really know are right. A lot of people really know what to do, we just don't have the money. That is why we come here and testify before you.

That doesn't even mention the cybersecurity. We get hit every day with thousands of tries to penetrate our system. And if you take down an airport system, one or two airport systems, you have taken down the whole aviation in the country. And so these are things that we have to really focus on, they are things that we didn't envision. But we now know they are true, so let's raise the PFC to help us become more secure.

Mr. KATKO. So if I hear it correctly, you are saying it is not just the bricks and mortars we are talking about here, we are talking about the security component. And I am the ranking member on the Committee on Homeland Security Subcommittee on Cybersecurity, Infrastructure Protection and Innovation. And it is frightening, the attacks that are happening every day, and the attempted attacks, and the vulnerabilities that we have. And cyber hygiene is of critical importance. That is not cheap, but it has to be done at the airports, and it has to be done now.

So anybody else want to add to that?

Ms. MCGRAW. Well, if I may, the newest portion of our airport is our security screening building. It was built in 2000. It was built at a time when we had 90 percent connecting traffic. So, as you can imagine, since our local passengers are now about 90 percent of our mix, it is woefully undersized. There are very long lines. That is one of our projects that we would like to do, and move it up more quickly in the queue, is to increase the—just the size of the brick and mortar.

And to your point, our bag system, again, I referenced was outdated. It does not accommodate the new screening mechanisms that, even if they were provided to us, even if we could secure them, they do not fit with our existing infrastructure. We have to be able to fund those in some way, and the PFC increase would allow us to do that more quickly.

Mr. KATKO. I believe I am out of time, Mr. Chairman, thank you very much.

If anybody else has any input on this, I would appreciate you just providing it in writing to us, because it is important that I hear about this. Thank you.

Mr. DEFAZIO. Well, I just want to say that was an excellent—and you made an excellent point, which is there is two sides. The Feds should be paying for the machines; the airports have to pay to accommodate the machines. And Congress, in its wisdom, is diverting, as you know, we are charging passengers money for security that is being diverted who knows where outside.

And I believe you are a cosponsor on the FASTER Act to spend that money on security.

Mr. KATKO. You are exactly right, sir. Thank you.

Mr. DEFAZIO. Thank you. With that we would move to Representative Stanton.

Mr. STANTON. Thank you very much, Mr. Chair. This is a very important hearing. I appreciate the testimony of all the witnesses here today.

I, before joining this committee, before joining Congress, I was mayor of Phoenix, Arizona. So we had to run Phoenix Sky Harbor Airport, one of the largest airports in America, almost 45 million passengers each year, and growing. I represent one of the fastest growing communities in the United States of America.

We did utilize the passenger facility charge in very responsible ways, including adding 15 new gates to terminal 3 at Phoenix Sky Harbor Airport, which we recently named after Senator John McCain, and honored him and his service to country.

We did fund a people-mover system that will take thousands and thousands of cars away from the airport and make it, the passenger experience, so much more efficient and pleasant to be able to come to and from the airport, by getting those buses and cars off the road, and allow the people-mover system to deliver thousands of people each day to our car rental facility.

In the past we have used the PFC for runway, security improvements, community noise reduction program. And yet, despite the proper use of that, we are not keeping up with demand. We are not even keeping up close to demand. We have got $1.75 billion in infrastructure needs, just at that airport.

I also represent portions of the city of Mesa now, and Phoenix-Mesa Gateway Airport also saw a record year for passengers, as well. And they are just growing leaps and bounds, and they need the support.

I can also tell you that ideas that we would use general obligation bonds of a city at the airport is not realistic. We are a very efficiently run city, just like the cities that are represented here at the table. And those airports—we use those resources for police and fire, and parks, and libraries, and other needs of the community. And they are bursting at the seams, as well.

So, realistically, the citizens of my community expect that aviation projects and infrastructure projects at airports are going to be funded at the airport, and through fees at the airport.

And I was struck during the initial testimony about the seeming difference between Ms. Barnes, the representative of the U.S. Travel Association, and Mr. Christie, the CEO of Spirit Airlines, about whether or not looking at this PFC and increasing the cap, giving the opportunity for local airports or local governments to make their own decision about whether to raise them or not, whether that would result in an increase in air travel or a decrease in air travel. It seemed like there was a polite disagreement. And I want to understand the difference.

And Mr. Christie, in particular, I don't know if that was just under the unique model of Spirit Airlines, or are you disagreeing with Ms. Barnes that this would result in an overall decrease in travel in domestic airlines?

Mr. CHRISTIE. Thank you, Congressman. I would say, specifically as it relates to the Spirit model, our customers are very price-sensitive. We are the lowest fare in the marketplace. And so a fixed fee increase on a per-passenger basis is, in a lot of ways, quite regressive on those types of customers. And so we can say that they would be regressive and probably destimulative to the model for Spirit.

Mr. STANTON. So therefore you are not disagreeing, I guess, with Ms. Barnes, who is making the case that, given this option to cities and airports around the country to utilize this money for infrastructure spending, important infrastructure spending across the country, would result in an overall increase in air travel in America.

Mr. CHRISTIE. Well, I don't have any data, one way or the other. All I can tell you is that the current financing structure to use either public debt, taxable or non-taxable, and finance that debt with rates and charges on the airlines tends to favor efficiency. And in our case, because we are a more efficient carrier, we can defray that expense better.

Mr. STANTON. Thank you.

Please, Ms. Barnes.

Ms. BARNES. Congressman, we know that airline fees are the top travel frustration, based on survey results that we have done, and the Government fees range second to last. And only 2 percent of travelers say that a $17 PFC would be a top frustration.

To do the math on the bag fee, for example, from Spirit Airlines, the gentleman noted that it would be $64 round trip for a family of four for a PFC. But, quite frankly, an even $26 checked-bag fee for a family of four, that is $104. Using the numbers that Mr. Massie used it would be over $200 in checked bag fees and/or carry-on bag fees.

So, you know, based on the research and the data that we have from travelers, we don't believe that a $4 increase per passenger will negatively impact the travel experience. And, quite frankly, we are seeing that 10 percent of folks don't travel as a result of cancellations, delays, and frustrations, and we think that is another $24 billion of spend that could go back into the economy if those folks decided to take their trips.

Mr. STANTON. I think the larger question is what is the reasonable alternative. I can only tell you an airport like Sky Harbor in a fast-growing city like Phoenix in the Phoenix metropolitan region, it is the number-one economic engine for the entire region. The more we can use that PFC to increase gates, that is great for the local and national economy.

Thank you, Mr. Chairman.

Mr. DEFAZIO. OK. With that, Representative Babin?

Dr. BABIN. Yes, sir. Thank you, Mr. Chairman and Ranking Member.

Mr. Christie, I have a little different perspective on the PFC. I want to thank you all and all of your fellow folks sitting down there as witnesses. I appreciate you being here. I want to ask you about the passenger facility charge.

In my district, which is Texas 36, almost everyone in my 9-county district uses either Houston Bush, or Houston Hobby Airport as their primary airport. But the governing board for those airports is mostly controlled by the elected—and accountable only to Harris County and Houston voters. And while those and our other eight counties are not technically Houstonians, they and others from the surrounding counties make up a huge share of the passenger volume and revenue, as well, at these airports every day. And I am one of them, because I don't live in Harris County in my district.

This is about protecting the hard-working taxpayer. And so how is that not taxation without representation, for a local government to have complete authority over the collection and use of the PFC fee revenue when their actions affect the pocketbooks of the entire region that relies on these airports?

I understand it has been in effect for years, but here we are essentially thinking about doubling this tax. So what can be done to ensure that these decisions are made with the input and consent of all of the folks in that region, not just one county or city where that airport happens to be located? Can you give me your perspective on that?

Mr. CHRISTIE. Thank you, Mr. Congressman. Yes, you know, the PFCs, while there are positive uses for the PFCs—and again, as I stated earlier on, airport infrastructure is important, and the construction around that is an important issue that we all solve for.

But what needs to be done is to make sure that the burden borne by that—that airport infrastructure work is done fairly and in accordance with what you would expect for the people who are traveling through that airport. And we think that rates and charges do that more efficiently, and actually do it in a way that probably is more akin to what you are alluding to, which is use, those people using the facilities, as the ones who actually pay for it.

Dr. BABIN. Yes, OK. And if anyone else out there on the panel would like to chime in, I would sure appreciate it.

Yes, sir?

Mr. SCRIBNER. Yes, thank you. First, I would say the PFC isn't a tax, and it meets all the criteria that establish it as a user fee. The fact that the only people who are paying it are those using those airport facilities, and then those dollars raised from them are going back to benefit those facilities, that is a classic example of a user fee. So I don't like calling it a tax.

But I think, really, what we should be getting at is what the PFC cap is. And I think it is an arbitrary Government price control. Here we have Congress, since 2000, has left it in place, not allowing local communities—and specifically local airports—to make their own investment decisions. And that has driven—academic research has found that this is a problem, and this is driving airport inefficiencies across the country.

So if we want to see our airports be more efficient like they are in other countries, we have got to get these arbitrary Federal restrictions out of the way.

Dr. BABIN. Thank you. It is Mr. Scribner, right?

Mr. SCRIBNER. Correct.

Dr. BABIN. Yes, sir. Thank you for that slant that you have on that, your idea.

Does anybody else want to——

Ms. MCGRAW. Well, sir, if I may?

Dr. BABIN. Yes, ma'am.

Ms. MCGRAW. Also relative to having input in PFC projects, once an airport develops its list of PFC projects, it takes it to its local board. Those are open, public meetings. Anybody can attend. It is submitted to the FAA, has to meet its list of published criteria. The

FAA reviews that, and there is a local consultation process with carriers. So it is a wide range of consultations with respect to the imposition of that user fee.

Dr. BABIN. OK, thank you very much. I guess I will yield back, unless somebody else has some perspective on that.

I will yield back, Mr. Chairman. Thank you.

Mr. DEFAZIO. Thank you. With that, Mr. Allred.

Mr. ALLRED. Well, thank you, Mr. Chairman, and thank you all for coming up to DC and taking the time out. I read your written testimonies and really appreciate it.

You know, there is a tension here between increasing the cap for PFCs and our needed investments in our airports, which those of us who are on this committee see in every area of infrastructure now. You know, it is—we need to combat congestion, we need to invest in the future. Someone is going to have to pay for it. How are we going to do that? You know, that is the kind of tension that we are facing here.

And, you know, we have a couple of great airports that service my district in Dallas, in North Dallas, in north Texas. DFW and Love Field, great airports. Great, also, airlines at those airports, American and Love, that have done incredible things for our community. So, like a lot of my colleagues here, you know, we are having a hard time, I think, trying to figure out what is the right balance.

But Dallas has also become a tourist attraction. And I am really proud of that. And I want us to continue to be an attraction, Ms. Barnes. And I know I have met with some of your folks, and I think we are doing well there. In 2017, 27 million people visited Dallas, spending $4.7 billion, and generating a total economic impact of $8 billion for us. And it also supports tourism, supports 61,000 jobs, and brings millions of dollars to our local revenue.

And so I want to talk about future demands, because I am hoping that our travelers increase to Dallas, we get more. And in your testimony, your written testimony, you talk about what might happen if we don't keep up with the demands, and how that might impact our travel. And I was wondering if you could talk about that a little bit more, and what you see, from your industry side, the impact of us not investing and being ready for this increase in travel.

Ms. BARNES. Sure, thank you. And our folks really enjoyed spending time with you down in your district recently.

You know, we are seeing that there are 32 million trips that are avoided due to airport hassles each year. And what we think that will look like is that, you know, by 2021, the top 30 airports will experience Thanksgiving-like congestion 1 day per week. And by 2030 there will be at least nine airports that will not have enough airside capacity to meet demand.

And so, you know, that is the reason that we support an increase in the PFC—again, an optional increase for airports to use at their discretion, and with FAA approval. Because, as I noted when Congresswoman Titus mentioned the importance of international travelers coming to the U.S., we want to encourage more international travelers to come here, to spend their money here at places, at restaurants, and attractions, and hotels, and that is an export, and that is a benefit to the economy.

So we think that increases at infrastructure—we know that there is about 32 million, as I said, folks not taking trips. That is $24 billion, so—that is not happening in the economy. And we think that those folks will go ahead and take a trip if we see these improvements, if we see shorter wait times and better security and other strengthened opportunities.

So thank you for your question.

Mr. ALLRED. Yeah, and we talk about the top, you know, 30 hubs. I mean, DFW is the fourth largest. So we would be one of those. And I am a big believer in competition, and I want to find the right ways to increase competition.

Mr. Krauter, though, you mentioned in your written testimony there has been a shift in airport infrastructure that we need to be looking at, from airside to landside facilities.

Dallas Love serves my district, as I said. There is only one entry from a heavily used city street. The intersection at the airport entrance is consistently congested. And Dallas Love is closest to where I live, so I take it a lot. Due to the high volume of traffic—and that is magnifying the need for an alternate entry. And I am—would love to talk to you about how the PFC is more flexible for those kinds of investments.

Mr. KRAUTER. I am going through that right now, Congressman Allred, in Spokane. Same issue, where we have congested access road, and we are trying to use AIP money to try to fund that. But we have run into so much redtape, and so many road blocks in that process. And we need to move more quickly. We need to build that road this year.

And so—and then it is also a game of diminishing returns with how you want to use that AIP money, because we are putting it on a lower priority. It is not an airfield priority, so that means we cut ourselves off from discretionary funding with the FAA.

So we really have to look at the PFC as being that flexible funding source that could help us move at the speed at which we need to move in order to service this demand.

And the other thing I would say, just going back to your comment about tourism, really for just a second, is that we all want to see increased tourism in our communities. My community wants to go to Dallas. And the issue becomes can we get a gate there.

Mr. ALLRED. Right.

Mr. KRAUTER. And I think, for all intents and purposes, what we are hearing more and more often from larger metro areas is—and from airlines—is that, well, we know that there is demand, but we don't have enough gates. And I think that is a big issue, in terms of your district. And I think that is, again, where the PFC comes in to allow airports the ability to build those gates to allow additional access for smaller communities.

Mr. ALLRED. Thank you.

Mr. KRAUTER. Thank you.

Mr. ALLRED. I have heard that.

Thank you, Mr. Chairman. I yield back.

Mr. DEFAZIO. Thank you.

Garret Graves?

Mr. GRAVES OF LOUISIANA. Thank you, Mr. Chairman, and thank you for holding this hearing. This has been very informative, and I appreciate all of you being here.

You know, this issue is somewhat complex, and there are good arguments on both sides. On the one hand, I am not a big fan of taxes and fees, and so I struggle a little bit with increasing it. But at the same time, as the chairman has been very vocal about, watching some of the fees being raised by airlines on seats and baggage and other things, and the PFC not keeping pace, there is an argument to be made there.

On the other side, watching the airlines make their own investments—and I think, in the last 10 years, the airlines have made about $120 billion in investments out of their own pockets to help improvement aviation infrastructure. And so that is something important to keep in mind. They are making investments where there is a return on investment. We are sure that these investments are going to provide payoffs, and these are not being funded by taxpayers.

Another interesting point here is that you have in this case the Federal Government telling our local governments what they can do, and I have concerns about that, and about not giving more local government control. And having worked in State government for an infrastructure agency, I have seen in the past where government agencies have made bad investments. They have invested dollars, I think, poorly, in some cases.

We haven't talked much about some of the largest revenue streams, like landing fees, like concessions, car rentals. I know I have paid $4 for a bottle of water more than once, and certainly there is money to be made there, parking, airline charges, and other revenue streams there.

And I also know that we invested $1 billion in AIP supplemental funds. Mr. Krauter, I believe you just talked about the—perhaps the inefficiency or dysfunction with the AIP program. That is something that we need to work on. I would love to hear your thoughts on that.

Mr. Christie, a number of airports have talked about how the cost per enplanement is something that, by making PFC investments, they can help to bring that down. For Spirit, where does that metric fall for you? Does that determine where you have flights? Or where does that fall in your overall calculation?

Mr. CHRISTIE. Thank you, Congressman. Yes, the cost per enplaned passenger is a very important component of our cost structure. As I said, it is the lowest fare entry point in the marketplace. Those dollars can add up quickly for our consumer. And they are a very elastic consumer.

So cost per enplanement is a very important metric, and the passenger facility charge, as I said earlier, is just an added amount on top of that cost per enplaned passenger.

Mr. GRAVES OF LOUISIANA. Yes, but is that your primary motivation, of where you can get the lowest cost per enplanement?

Mr. CHRISTIE. No, there are a number of reasons we look to get into an airport. We are looking at prevailing demand, we are looking at opportunity, we are looking at available gate facilities. All of those are important. But the cost of operating the airport is key, as well.

Mr. GRAVES OF LOUISIANA. Thank you.

Mr. Lopano, Mr. Scribner talked about how the TNCs, the transportation network companies—Uber, Lyfts, and others—are affecting revenue for airports. One credit rating agency actually found that airports have been able to stabilize their income, as a result of some of the changes that TNCs' entries into the market—and the change that they have caused.

What are you seeing at your airport? Are you seeing revenues go down? Have you been able to stabilize? What have you all done at Tampa?

Mr. LOPANO. Yes, it has affected our parking revenues. And we were able to enact a fee to use the roadways to pick up passengers. And that fee has generated some money back to the airport, but not enough to offset the loss in parking.

But I think your point is a really good one, is that our revenue streams are changing. Our revenue streams are being challenged. And the PFC has always been a reliable source of revenue for us. And this is not one that we can afford to let become weakened by inflation. It is one that we should try to strengthen.

Mr. GRAVES OF LOUISIANA. Thank you.

Last question, Mr. Christie. I recently met with one of the other airlines who indicated they had recently invested $3 billion of their own money in a terminal at one of the airports. How do you decide, as an airline, how do you decide where to make those investments? What motivates your strategy?

Mr. CHRISTIE. Well, there is going to be a number of inputs, obviously. We are a smaller airline, compared to the other airlines you may be referring to. So access to capital for us is not as routine and easy as it may be for a larger airline. But we would look to speed for those airports that are looking to add capacity, where we can partner with them, and increase the speed that capacity comes online. That is definitely going to be a consideration, as well.

Mr. GRAVES OF LOUISIANA. Great, thank you. I yield back all 3 seconds.

Mr. LARSEN [presiding]. Representative García is recognized for 5 minutes.

Mr. GARCÍA. Thank you, Mr. Chairman, and to all the members of the panel who have shared their experience and wisdom.

I hail from Chicago, the home of O'Hare International Airport and Midway Airport, which is near my home. Together, O'Hare, being the busiest airport in the country, and—together they host over 105 million passengers every year.

This past week, while back in town I convened several meetings on infrastructure to hear what people in my district are thinking, and what they are hoping for, in terms of infrastructure investment. One story that I heard was from a member of a trade union, the building trades, in Chicago, who said he recently visited China and was quite struck by their investment in their airports system. And he was pretty disheartened by the stark contrast here, at airport facilities at home.

So I think that is a real shame, and more reason why we need to consider investing in airport infrastructure to address the issue of increased capacity, reduced congestion, implement technologies, and keep us safe and our systems efficient and accessible.

Having said that, a couple of questions. Back to Mr. Scribner.

In your testimony you go into significant detail about the historical application of AIP and PFC funding. At O'Hare, like other airports presently, including Memphis, LAX in L.A., there are multimillion-dollar projects underway. Chicago is about to kick off an $8.5 billion modernization program.

First, can you describe to me the different types of projects that are eligible for AIP and PFC funds, and where those eligibilities diverge in practice?

Mr. SCRIBNER. Right. So, under the law, AIP is generally eligible for the airside projects, the taxiways, runways, aprons, land acquisition, and so forth. PFC projects are—those are the—AIP, all of those, are PFC-eligible, but PFC has the added bonus of allowing for more terminal projects. And that is where we see the advances.

But even if we don't—you know, say we had a question about a ground approach, ground access, a new road on airport property to the terminal. That is eligible under AIP and under PFC. But the PFC, importantly, unlike AIP, can be used in financing, can be used to service debt. That is something AIP can't do.

So this flexibility—and this gets down to the fundamental benefit of the PFC over AIP—it is more flexible, it allows for different types of funding and financing options that AIP just can't have, and that means that you are going to see more efficient airport investment and resulting operations.

Mr. GARCÍA. So in cases like O'Hare, where carriers argue that airports' capital needs can be met largely by private investment, are there types of projects that only AIP or PFCs address that airline carriers may inadvertently neglect, or lack the incentives to robustly fund?

Mr. SCRIBNER. So I think this gets at the very—a long-term debate between airports and airlines. From either perspective, the airlines are going to want to maximize their control over airport decisions, and airports are going to want to minimize any airline involvement in those decisionmaking—and then you have all these types of practices in between.

But as we have seen with—beginning in the 1950s and in more recent history, when the airlines say "We are going to finance something for you," they are not doing that out of the goodness of their heart. They are going to want something in return. And often what that has meant is they are going to get long-term, exclusive-use gate leases, or preferential gate leases, and they use those to keep out lower cost competitors, such as Spirit. And that is a problem. That raises air fares for consumers. So that is another benefit of the PFC over turning to airline customers.

Mr. GARCÍA. OK. Thank you. As I only have about 20 seconds, I yield back, Mr. Chairman.

Mr. LARSEN. Thank you, Representative García.

Representative LaMalfa, 5 minutes.

Mr. LAMALFA. Thank you. So what we have seen is that—when we talk about the gas tax around here, we see that, effectively, it is staying par, going down. And so what we see differently with the PFC, its all-time high of $3.3 billion of revenue brought in. Airports have raised $30 billion. And you would see that—on a basis of per-passenger, that has outpaced inflation at a rate of 47 percent.

So bottom line, that means approximately 20, 21 percent of a ticket cost per passenger is already just taxes and fees, which is basically reaching sin tax level, and that kind of, to me, connotes bringing the Green New Deal into it, since that is treating airline travel as a sin, with what its goals are in the new deal. So why is it that it seems justifiable to have so much be built into fees, when passengers, again, they are having such a big burden of their ticket in these fees?

And I want to bring it back home to, with all the available opportunities there is for airports, airlines to raise revenue—and it has been talked about a couple times here, but why is it we want to use congressional action to cause PFC increases instead of the available tools that they have?

When Congress does it, it becomes pretty—it is a higher burden to put it in place, and then a change, once it has passed, when there is other, more local options with more local input. They have that authority locally to raise—via those other sources. Why does it have to be a congressional action? That is right to the panel.

Mr. LOPANO. If I may, Congressman, I think it shouldn't be in the hands of Congress. I think it should be locally controlled. We make more money in parking than we make from PFCs. But we don't have to come to Congress when we raise our parking rates.

So we are pretty responsible. We know how to run these businesses. And we have been coming up here for 19 years fighting this fight. And I would love to get local control of it, because we have a board of directors that controls us. It is not like the airport director is just running around, doing what he wants to do. We have a board that is appointed by our Governor. So we have oversight and we have accountability.

Ms. MCGRAW. I wanted to address the topic of other sources, of the ability to raise revenue. You talk about landing fees. At most airports the airfields are done in a residual cost basis. So whatever it takes to operate that airfield is how you set your landing fees. If airports collect an excess at the end of the year, that money is rebated to the carriers on a prorated basis on how they use that airfield.

So there aren't any additional fees, there aren't any additional costs that are built in, other than what is captured truly.

In terms of the concession revenues you had discussed, most airports now have—similar to Cincinnati—something where we work out an agreement with the carriers that if we exceed a certain revenue threshold within the terminal, that certain monies are rebated back to the carriers.

So——

Mr. LAMALFA. I am talking concessions, food, and things that are——

Ms. MCGRAW. Exactly.

Mr. LAMALFA. Yes.

Ms. MCGRAW. Exactly, right? So after, you know, all of our expenses, et cetera—if we have an excess of revenue, as we have agreed with the carriers, that money is rebated to the carriers.

There are limitations that are already in existence on what fees, what user fees we can impose upon our passengers. The TNC fees are set locally. It is driven by market condition. The parking revenues are set locally, based on market condition. PFCs should be similarly set, based on local market condition. We know what our markets will bear, it is economics 101, it has worked for Adam Smith, you know, throughout the centuries. Local control would be better served—airports would be better served by local control, with governing boards, airport directors, and local officials weighing in on it.

Mr. LAMALFA. Go ahead, sir.

Mr. SCRIBNER. Thank you, Congressman. Just real quick, I would say eliminating the cap or increasing the cap on the PFC wouldn't be—this wouldn't be the Federal Government stepping in. This would be the Federal Government backing out.

You recall, as I said in my testimony, that the only reason the PFC exists is because it is a narrow exception to the general Federal prohibition enacted in 1973 on local user fees for air travelers. So that was a decision Congress made in the 1970s. The PFC is an exemption. I would like to see that exemption expanded. But it would not be Congress stepping in if it were to increase that cap, or eliminate it.

Mr. LAMALFA. Thank you.

Mr. KRAUTER. Congressman, just one last quick word. When we are talking about increases, I just think it is important to note that the RSMeans Construction Cost Index increased 84 percent from 2000 to 2018, as well, for context.

Mr. LAMALFA. Eighty-four percent.

Mr. KRAUTER. Yes.

Mr. LAMALFA. All right, thank you.

Mr. LARSEN. Larry, just because you are from Washington State, doesn't mean you get to talk over my gavel.

[Laughter.]

Mr. KRAUTER. Yes, sir, Mr. Larsen.

Mr. LARSEN. Representative Craig from Minnesota for 5 minutes.

Mrs. CRAIG. Thank you so much, Mr. Chairman. I want to address my question to Mr. Krauter here this morning—or, I guess it is already afternoon. Thank you for bearing with us, it has been a long, long morning.

Mr. Krauter, I come from a district in Minnesota that has access to a large metropolitan airport that flies to many regional hubs around the country. There is a misconception that the PFC is only helpful for large-hub airports. Would an increase still help smaller-hub airports that don't have the high traffic volumes that large hubs have?

And can you discuss how the current hub-and-spoke system constrains regional air travel, and how more gates in major hubs could help smaller communities?

Mr. KRAUTER. Thank you, Congresswoman. The issue is how much smaller airports right now depend on the PFC, and for a number of different reasons. One is that net operating revenues, cash flows, are usually fairly low at smaller airports. It doesn't really support that much in what we call non-grant-funded capital programs.

As a result, smaller airports tend to have a significant reliance on airport improvement program funding, and—which we have talked about, that—is that because it has been flat, and because of inflation, it doesn't buy as much.

And the other issue is that most airports our size are at the $4.50 PFC for a reason. It is not—it is because they need that capacity.

So, going back to the reliance on that is that in order for them to provide that infrastructure for their community, on the reverse side there has got to be PFC capacity for those larger airports, as I talked with Mr. Allred about, in terms of your access into the national air transportation system.

And as we talk about, it is economic development for your community, as well, because what people don't focus on enough is how important it is to be able to get people from out in the world to your community, ideally with one stop. Because if you can do that, you can unlock the economic development, you know, potential of your community so much more, especially in this global economy.

So I think that access is critical, and it is just not access at the small airports, it is access for smaller communities at the larger connecting airports.

Mrs. CRAIG. Thank you very much.

Ms. McGraw, I wanted to just direct the next one to you. One of the statutory uses for PFCs is the—for capacity projects to increase competition, unlike the AIP program. Can you tell us a little bit how the PFC has enabled airports to attract more service, and provide customers more options, lower fares, et cetera?

Ms. MCGRAW. As I mentioned, we have been able to grow our passenger base, our local passenger base, 97 percent, and increase competition. We were able to do that because we used PFCs to renovate certain gates that had been sitting dormant. When we were able to do that, our other carriers other than our dominant carrier at the time were able to expand and increase. Therefore, greater competition, lowering airfares $255 per ticket.

Mrs. CRAIG. Thank you so much. And then I will finish out with Mr. Christie.

Spirit Airlines is increasing competition in regions around the country. That is great. As Spirit seeks to continue expanding and creating new hub-and-spoke pathways, would the PFC be helpful in your company's effort to serve more small communities?

Mr. CHRISTIE. Thank you, Congresswoman. No. Our view is that the PFC is actually, as I mentioned earlier, a bit regressive in our model. Our fares are at the absolute lowest in the industry, and so the PFC, in some ways, artificially shifts the burden to low-fare-paying customers.

What probably is more efficient is a broader discussion around competition at broader airports, and what has happened with consolidation and the use of the facilities at that—airports, which is something that is much, much deeper than just a discussion around a PFC.

Mrs. CRAIG. Thank you very much.

Mr. Chairman, I yield the remainder of my time.

Mr. LARSEN. Thank you. I now call on Mr. Mitchell of Michigan.

Mr. MITCHELL. Thank you, Mr. Chairman.

A quick question for anybody that could answer for the airports: What was the interest rate on the last tranche municipal bonds you issued for development? Anybody have an answer to that?

Mr. LOPANO. It was about 3 to 5½ percent.

Mr. MITCHELL. Well, it can't be 3 to 5½. What was it, sir?

Mr. LOPANO. Different maturities have different rates.

Mr. MITCHELL. Most recent issuance is, what, 3 percent?

Mr. LOPANO. It went from 3 to 5½ percent, depending on maturities.

Mr. MITCHELL. I just—OK. I don't think I got the detail I would like. I would like all of you to provide, for the record, the maturities—the interest rates of various maturities of bonds you have, please. I would like to see it, if we could.

I want to go back to the $128 billion in airport capital figures—the needs have been detailed—and unpack that math for a bit, because I think it is important.

Let me start by saying the Airports Council International indicates that 10 percent of that need is at one airport, LAX. More than one-third of that need is at only 10 airports. Yet we want to uncap the PFC, or increase it substantially, depending on your perspective, across the country.

My concern is—we are also talking about—is $128 billion in a 5-year period. Now, frankly, I don't think you can build $128 billion in 5 years, but we are also talking about financing it in 5 years. Now, do any of you have your homes financed in 5 years? Are any of your maturities in 5 years? The answer to both of those, we know, is not. But it does create the gap you are seeking to demonstrate that you need more in the PFC.

Airports have talked about lowering interest payments by increasing the PFC, but clearly there is not unmet need. I have asked multiple airports, including mine, Detroit Metro, to tell me one thing they can't do because they can't access private capital, and they did not have a response for the question.

If we want to uncap this—it is a hidden tax. You can call it a user fee. We can call it a tax. I am an economist, we can debate it as long as you want, sir. My question is what metric should Congress use to determine whether airport funding is insufficient, besides simply saying we need more?

Because I just left the House Armed Services Committee, and that is the discussion over there, too. Pretty predominant around here. Anybody have any good answer for that, other than saying it hasn't increased?

Mr. LOPANO. Congressman, I had—I gave an example earlier, where we had a number of international airlines who wanted to fly to Tampa, and we wanted to accommodate them, and it would have been a north of $25 million project.

So, according to our airline agreement, we have to ask the airlines if they are willing to pay for that, or if they are willing to approve that, and they said, "No, we don't want that competition." And so that is a project that wouldn't have gotten done, had we not accessed the PFCs to use to lower that amount, so that the airlines would not have to approve it.

Mr. MITCHELL. Exactly my point, though. You did access the PFC, you were able to build it, you were able to finance it. You weren't limited by lack of PFCs. In fact, there is $7 billion in the airline trust fund, right, the airport trust fund now.

So you have indicated my exact point, which is—you made a point, Mr. Lopano, you made a good—you made an excellent point earlier, and I agree with you. You make more money—you get more revenue, let me put it that way—from your parking fees than you do from the PFC. I agree wholeheartedly local control. So what do you say we eliminate the PFC, and airports raise the funds they need to raise through whatever mechanisms they have: parking fees, some people have fees on access in the airport, concession fees. If you want local control, why don't we do that?

Mr. LOPANO. Those are options. What I am advocating for here today is increasing the PFC because it is one of the tools that we have had for 20 years, and it has allowed us to grow the airports that we have, and grown to the levels that we see today.

Mr. MITCHELL. Well, just because we——

Mr. LOPANO. And we——

Mr. MITCHELL. Just because we have done something for 20 years doesn't mean it is the right thing to do, we should continue it or expand it.

Mr. LOPANO. Well, it has been eaten up by inflation, and it hasn't been adjusted. So it has less power, less ability for us to build.

Mr. MITCHELL. Well, there is $7 billion sitting in the trust fund. I am not sure there was a right number to begin with, sir, to say it was based on the original-based number, and that was the number, I mean, and therefore we should get more, which is the argument, sir.

So help me understand. There is $7 billion in the airport trust fund. You indicated you built out, for international, additional gates at $25 million, and were able to do that. Were you delayed in doing it? Were you unable to accomplish that?

[Pause.]

Mr. MITCHELL. I guess the answer is no. My point is that I support airport development. I think you should pay for it by telling people, when they come in the door, what it is going to cost them, rather than hiding it in airline fees. And that is hidden. If we went in an airport and asked anybody what their PFC was, if they knew what it was, they would look at you like you had lost your mind. Let's be transparent with folks.

And I exceeded my time, and I apologize, Mr. Chair. But thank you very much.

Mr. LARSEN. You actually had 3 seconds left, Mr. Mitchell. You can't have it back.

Representative Malinowski from New Jersey.

Mr. MALINOWSKI. Thank you. Just to follow on on that, parking fees have gone up in the last 20 years, correct? I seem to have noticed that in my travel, right? So there are other options, but they have actually been employed, whereas the PFC has been capped all this time. So I think that is an important difference.

Mr. Christie, let me ask you a few questions. You said in your testimony that you are concerned that increasing the PFC by $4 could lead to a decrease in travel because demand is elastic. Well, I went online last night to see if I could book a ticket on Spirit from

Newark to Orlando because, you know, I have heard the weather is pretty good down there.

Mr. CHRISTIE. You should head down.

Mr. MALINOWSKI. And the price of the ticket was—it was around $170, which is pretty good for the day before travel. But then there were the add-ons, and we have talked a little bit about this already: 30 bucks for the first checked bag; $35 to bring a carry-on on the flight—and I have never flown in my entire life for business, pleasure, family, without bringing a carry-on.

And so let me just ask you this directly. Do you think that a $35 carry-on fee decreases flight use more or less than an extra $4 would? I mean address the price elasticity point with respect to all of these fees.

Mr. CHRISTIE. Thank you, Congressman. I think it is a great point. The point is that our model is designed in an unbundled manner, which is different than what other airlines may use. But the total cost of that travel is still considerably less than what you would pay on other airlines.

So, even with a very low fare and a bag and a seat, you are still going to pay 30 percent less than you will pay on other airlines. That is the stimulative effect of our model. And each additional amount that is not related to the model itself is going to destimulate that model over time. Each additional dollar of taxes or fees would naturally have the impact on destimulation.

Mr. MALINOWSKI. Well, it is not just low-cost airlines these days. I think you may be driving this trend. You know, United is charging now to use the overhead bin if you are in so-called basic economy.

And I got to say I speak to folks who I represent, and have some sense of what they are angry and frustrated about in life, and I have heard quite a bit about not just the added cost, in their minds, of these fees, but something that is maybe less tangible, but even more powerful: the indignity of a world in which we are constantly dividing and subdividing our fellow Americans into different classes, better or worse; the idea that we have to pay extra for even the most basic things, not just in airline travel.

But certainly in the case of airline travel, when—another member mentioned—if you are a family of four, these things adding up the cost, the indignity, that is a complaint I have heard again and again and again. I think it does depress airline travel.

I have never once heard anybody complain about a small user fee at an airport—and yes, people do know, I know, I look at my ticket, and I know that they are adding these things, and I ask—if we know that it is dedicated to improving airport facilities and security.

So I just—my experience in life, I have to disagree with your assessment.

Mr. CHRISTIE. Well, as I said earlier, we treat every customer the same. There are no—every customer has the option to buy the services that we offer. In fact, it may not be clear, but we do offer a bundled service, as well, for those people who want to make sure that everything is included, upfront.

But we think that is a very democratic approach to travel, is people pick and choose what is important to them. That is what drives low prices and stimulation. And we think that is an important part of the model, actually. And our entry into new markets does stimulate more and more travel.

Mr. MALINOWSKI. Well, I—that said, I don't believe that most Americans feel like we are all being treated the same by our airlines.

Thank you, I yield back.

Mr. CHRISTIE. You are welcome.

Mr. LARSEN. Thank you. I will turn now to Representative Balderson for 5 minutes.

Mr. BALDERSON. Thank you, Mr. Chairman. Thank you all for being here today.

My first question is directed to Ms. Barnes. Thank you for being here and, you know, for this important testimony. You mentioned that the airport hassle has caused Americans to avoid 32 million trips in 2017, costing the U.S. economy more than $24 billion. I think I can say with confidence that my friends on this committee and I fully understand and appreciate many of those frustrations.

Aside from issues that are beyond the control of airports and airlines, such as weather delays, what do you believe are the most inconvenient hassles and problems Americans experience when flying?

Ms. BARNES. Thank you, Congressman. Based on surveys of travelers that we recently conducted, we found that the top three frustrations of travelers are, number one, airline fees; number two, the overall cost of traveling; and, number three, airport hassles. And flight delays are also at the top. Those are the top three reasons that folks are frustrated.

Mr. BALDERSON. A followup to that—thank you for your answer—have you seen any specific examples in recent years of airlines or airports changing policies to promote more customer-friendly approaches to flying?

And, Mr. Christie, you may feel free to also answer.

Ms. BARNES. We do see that when folks are less frustrated, that they do increase travel. I think I noted in my testimony that the 32 million trips that are avoided due to airport hassles, that is travelers avoiding 2 to 3 trips per year. But when they do feel a welcome environment, when there are less—there are shorter lines, when there is a better travel experience, when there is a better facilitation, that folks do travel more, and they travel more frequently.

I think that it is—you know, 9 airports won't have enough airside capacity to meet demand by 2030, and the top 30 airports will experience Thanksgiving-like congestion 1 day per week. Those are just not sustainable, and those don't make folks want to fly. So that is, you know, one of the reasons that our members support an increase in the PFC, to help better the environment and ensure that travelers have the experience that they need.

Mr. CHRISTIE. Thank you, Congressman. I think, as Ms. Barnes mentioned, one of the things that frustrates travelers the most is the cost of travel. And in that respect, Spirit and its model is designed to address that very concern. And while it is easy to make generalizations about people who travel on airplanes, the truth of the matter is the vast majority of people on Spirit are low- or middle-income individuals who have not had the opportunity to travel before. And our low fares and the ability for them to customize their travel stimulates that activity.

And so, in that respect, I think we have been directly addressing the issues that consumers are complaining about.

Mr. BALDERSON. Thank you for your answers. My last question is for Ms. McGraw and Mr. Krauter.

Good to see you again, sir. I appreciate the need for the committee to discuss the PFC and the AIP. However, while we have you, I also want to touch on the status of the development and implementation of safety and technology updates for our runways and taxiways. I have heard concerns from air traffic controllers at the John Glenn Columbus International Airport, that they still do not have access to ASDE–X technology, posing potential safety risk on the runways.

As we discussed why investment in our airports and aviation is so urgent, can you discuss the needs of your respective airports as it relates to safety and emergency equipment?

Mr. KRAUTER. Thank you, Representative Balderson. Good to see you again, too, sir. We share the same concerns with those controllers, particularly in a small airport environment, where the cost of an ASDE system is estimated at something like $40 million.

And if you look at some of the statements that were made earlier—I think by Mr. Mitchell—that there is a surplus in the aviation trust fund, I think what is instructive is that the aviation trust fund is used to fund a number of different accounts, not just the airport improvement program, but also facilities and equipment, a very, very important part of the FAA budget, and that even at $7 billion a year, that is only about 5 months of FAA operating authority, based on their most recently approved fiscal year budget.

And so it is really not a lot of financial resources, and I think that is what the controllers are basically signaling to you.

In airports our size, we have looked at a number of potentially low-cost surveillance systems, but that program was actually discontinued by the FAA, and we were very disappointed not to see another generation of that coming up through the FAA. So we share that concern with those controllers.

Mr. BALDERSON. Ms. McGraw, I will put you on hold, because the chairman has someone from Washington that left Ohio to go to Washington. So I yield back, Mr. Chairman.

[Laughter.]

Mr. LARSEN. Thank you for your indulgence, Representative Balderson, I appreciate that.

Representative Carbajal from California, 5 minutes.

Mr. CARBAJAL. Thank you, Mr. Chair. And thank you to all of you for being here today.

Ms. Barnes, in your testimony you mentioned a recent U.S. Travel survey which found that airport hassles caused Americans to avoid 32 million trips and cost travel businesses $24 billion in spending, enough to support 200,000 jobs.

My district includes three community airports, and relies heavily on tourism. A recent visitor profile survey found that tourism injects $1.9 billion into Santa Barbara's economy, and $1.7 billion into San Luis Obispo's economy.

Two questions: one, how would increasing the passenger facilities charge, PFC cap, benefit communities that rely heavily on tourism; and two, will increasing the PFC cap increase travel? And I apologize for a little bit of the redundancy here, but I always like to hear it twice.

Ms. BARNES. Thank you, Congressman. And we do feel that increasing the travel experience will help encourage folks to fly. We know that, based on the data that you just presented, that that is a—that the hindrance of 32 million—the 32 million trips avoided is a 10-percent reduction in demand. So, based on economics, a 10-percent increase would be what we would see, at a minimum, if we know that our infrastructure upgrades are intact.

Quite frankly, for the travel and tourism industry, we know that the welcome matters. Welcoming international visitors, for example, is critical when folks come from an international space to California—in particular, from Asia. International travelers such as the Chinese spend, on average, $7,000 more than the domestic traveler. We want them to keep coming back. And the better their experience is when they arrive at the airport and the less delays they have when they go home will help ensure that they come back.

So I think I answered both of your questions in there, but we think the travel experience is very important, and it absolutely will help increase demand to increase the PFC and ensure the infrastructure needs are intact to continue to improve the experience.

Mr. CARBAJAL. Thank you very much.

Mr. Krauter, in your testimony you mentioned the airport improvement program, AIP. You recommended that Congress increase the funding for this program to allow smaller airports to pay for necessary upgrades.

Why is there still a need, then, to increase the passenger facility charge, PFC? And two, what are some of the airport needs that are not being met by the AIP grant program?

Mr. KRAUTER. Let me talk about that in reverse, Congressman, if I can, first talk about the needs that aren't being met, because that is a significant impediment for the use of AIP versus PFC funds.

AIP funds, as we have talked about, tend to be prioritized by the FAA towards airfield projects. So those are the runways and taxiway projects, apron projects. They have a much lower priority ranking for terminal buildings. And right now in our history, based on all the things we have talked about today and our tremendous growth, we have a very significant need across the country in airports of all sizes for terminal building projects.

So it is counterproductive to want to move your AIP into terminal projects, because the FAA doesn't reward that with additional discretionary money. They reward that when you move those AIP dollars into airfield projects. So that would be one answer.

The other answer is that when you look at the stagnation of AIP, the amount of money that would have to be increased to actually make up for two things—one is inflation, and then the other is the fact that the program elements themselves—again, on eligibility—are such that airports end up using PFCs to actually supplement

AIP projects. And we have done that in Spokane, and—as a result of either having to move more quickly or having to have more flexibility.

So I hope I have answered your questions, at least in two parts there.

And so the last part of your question was why do we need an increase in the PFC. And really, the reality is that those needs are so extensive at airports our size, we really depend on that PFC program, again, to supplement the lack of AIP, plus to try to fund the projects that we need. And in the case of our project, a $191 million terminal project, AIP is not going to come anywhere close to being able to fund that.

Mr. CARBAJAL. Thank you very much.

Mr. Chair, I yield back my time.

Mr. LARSEN. Thank you, Representative Carbajal.

Representative Palmer for 5 minutes.

Mr. PALMER. Thank you, Mr. Chairman.

Ms. Barnes, I had to step out, so some of this may have already been covered. But like my friend from California, redundancy is not a bad thing.

Raising the PFC will increase competition, that has been said many times in the hearing. Other than adding more gates, are there other PFC-funded improvements that you think would increase competition?

Ms. BARNES. To increase competition? I mean we think that improving the overall experience is critical. You know, we do think competition is important. But we leave that to the airlines and the airports. We are in the mindset of the traveler, and feel that the experience is important.

I would note one of the issues that has come up across the board here is the security element. Without security, you cannot have travel. And having a strong security at all of our airports is really important. And Mr. Lopano noted that, and we had a robust conversation earlier. So PFCs could go to increase security upgrades at airports, and that is something outside of, you know, just the building itself that would be——

Mr. PALMER. Well, that is one of the things I want to talk to—and this is for Mr. Krauter and Ms. McGraw and Mr. Lopano—is that most people don't realize that TSA's responsibility for security at the airport begins at the point you go through security. Everything outside of that is local: ticketing area, baggage claim, dropoff, pickup, all of that.

And Mr. Katko and I have had this discussion, it has been going on for about 3 years now, that we have been talking about the need for local authorities to do more to provide security, whether it is—I am—technology is great, but I am a proponent of canine units, which—just the visible presence of a canine unit is a deterrent. Is that one of the things that you foresee being done, if you get the increase in the PFC?

Mr. KRAUTER. I'll take that first, Representative Palmer, thank you. It is a great question. And the terminal renovation and expansion project that we have planned for Spokane International Airport is all about that. The primary element of the project is a consolidated security screening checkpoint that, in part, when that is done, will make us eligible for canine teams.

So I think that—going back to what you have talked about with Representative Katko, we are very interested in being able to have an increase in the PFC, and increased flexibility to make sure that we can fully equip these checkpoints to have the maximum capability that they need, both in processing, also in deterrence, as you point out.

So the increase in the PFC is very, very important to the proper deployment of technology and other resources for that layered approach to aviation security.

Mr. PALMER. I think that should be one of your main points in arguing for an increase in the passenger facility charge, because, as Ms. Barnes points out, people want to feel secure when they go there.

And the instance that Mr. Katko mentioned in Belgium, I think, could have been avoided if they had had that perimeter security. You can't guarantee that. And I don't think technology is—technology is great for detecting explosives, and things like that, but it won't tell you where it went, where a dog will. And I have talked with other colleagues about the potential of using retired military dogs, and you have got retired military personnel that could be deployed, but we need to figure out a way to expand our security perimeter outside of where TSA begins.

Ms. McGraw, Mr. Lopano, if you all want to add anything to that——

Ms. MCGRAW. Yes, thank you, Mr. Chairman. Our——

Mr. PALMER. I am not the chairman, but thank you.

Ms. MCGRAW. Oh, I am sorry, Mr. Palmer.

Mr. PALMER. Well, I am the chairman of a Republican committee, but not here. But thank you for the promotion.

[Laughter.]

Ms. MCGRAW. Well, thank you, Mr. Palmer. Our security checkpoint was built in 2000, pre-9/11. It is undersized, it is woefully inadequate to address our local passenger needs now. So one of the things we would like to do with our PFC is to increase the footprint.

I agree wholeheartedly with you. As my policy chief constantly reminds me, you have to have a multilayered approach to security, be it the right-sized facility, be it the right equipment in place, and certainly, I think, the canine units. We are blessed to have three canine units. We would love to have more. They do a lot for us, relative to security. So I agree with you. And PFCs would help go for that purpose.

Mr. PALMER. I think they need to be outside the building, as well as inside the building. Because just having them outside the building is a visible deterrent.

Mr. Lopano?

Mr. LOPANO. Yes, Congressman. We do have—we have just acquired a specially trained dog that can smell the detectives—I mean smell bombs from a long distance. And we deploy them outside, on the curbsides. The cost of doing that, though, eats into our ability to fund capital projects. So an increase in the PFC would help ease that.

Mr. PALMER. My time has expired. I yield back.

Mr. LARSEN. Thank you, Representative Palmer. Representative Johnson of Georgia.

Mr. JOHNSON OF GEORGIA. Thank you, Mr. Chairman. And I want to thank the witnesses for being here. I know you were hoping that no other Representative walked in. It has been a long morning for you. But bam, here I am. It is such an important topic that I knew I needed to be here.

Airports are essential to our national infrastructure. They boast a national economic impact of $1.4 trillion, and contribute roughly 7 percent of the U.S. GDP. They are the incubators of travel, whether domestic or abroad, business or pleasure. Passenger and cargo traffic through airport facilities continues to grow rapidly, and it is imperative that airports be outfitted to meet the needs of customers and local businesses.

My home State of Georgia houses the world's busiest airport, Hartsfield-Jackson International Airport. And I want to ensure that it remains a globally competitive facility that manages high volumes of traffic with efficiency.

The only way we can continue to be a worldwide leader on aviation is by seriously addressing airport infrastructure needs. I am hopeful that this hearing has shed some light in our plan of action, moving forward.

If I ask any questions that have already been asked, I am sorry. If you could please answer—and this one is for Mr. Krauter, Mr. Lopano, and Ms. McGraw.

For the last 7 years Congress has maintained level funding, $3.35 billion, for the FAA's airport improvement program. The FAA Reauthorization Act of 2018 keeps it at that same level for another 5 years. How do you anticipate that this maintenance of level funding, as it had been for, I think, 12 years prior, how will that maintenance of this level funding affect ongoing airport infrastructure projects?

Mr. KRAUTER. Representative Johnson, Larry Krauter from Spokane. Thank you for that question.

We have talked about that in the context of a couple of things. One is that the flat funding really doesn't stay flat, it gets eaten up by inflation. So that $3.35 billion annual flat funding is really worth about $1.8 billion. So the $5 million that Spokane gets in airport entitlement funds through the AIP every year is really worth about $2.25 million now. And that is just, obviously, going to decline.

As a result of that, we only have two other choices to try to backfill that liability. One is to use PFC funds for projects that would otherwise be funded by AIP. And in my testimony in February I went into great detail about how about $92 million of the $153 million that we have collected in PFCs in Spokane has actually been used for AIP-eligible projects.

And so I think it points out that there is a significant deficit, in terms of how—that is created by flat AIP. That is also exacerbated by a flat PFC rate. And so one of the things that we think is really important is to talk about how an increase in PFC is really important to funding the projects, because we don't see the ability for Congress to significantly increase AIP.

Mr. JOHNSON OF GEORGIA. All right, thank you. That is a good segue to Mr. Christie.

Mr. Christie, in your opening remarks you speak to the potential danger in raising the PFC cap, citing that consumers are already "punishingly taxed." Consumers most certainly are subject to exorbitant fees on their airline tickets, but how do you balance the burden of lifting the PFC cap for consumers against the weight of the fees that airlines charge consumers such as the bag and cancellation fees that Spirit and other airlines charge?

Mr. CHRISTIE. Thank you, Congressman. What is most important to the traveling public is the total cost of travel. And on Spirit that is considerably less than you would find on other airlines, even when you include ancillary items like bags and seat assignment. So we have driven a model around asset efficiency that drives lower fares, which stimulates more activity. And the fear is that, by increasing a fixed fee amount—in this case, the PFC—you will, in effect, destimulate and artificially burden lower-fare-paying customers.

Mr. JOHNSON OF GEORGIA. Do you think there will be passenger pushback if the PFC cap is lifted?

Mr. CHRISTIE. Well, in effect, it is an increase in the cost of travel. And we manage our supply and demand mix every day, and you can see what happens when the cost of travel goes up, less people travel.

Mr. JOHNSON OF GEORGIA. Thank you. I yield back.

Mr. LARSEN. Thank you, Mr. Johnson.

So I am not trying to drag this out, but I know some—there is maybe some other Members coming, but I have a few questions. But I do note Mr. Christie does have a 1 o'clock hard stop, no matter how long this goes.

You are free to leave at 1 o'clock. I want to be sure——

Mr. CHRISTIE. Thank you.

Mr. LARSEN. Yes, absolutely, only because you asked earlier. If anyone didn't ask earlier, I can't be responsible for that.

[Laughter.]

Mr. LARSEN. So I will ask a question for—of Mr. Christie.

So you noted your support, generally, for airport investment. Cincinnati has testified that if they don't get a PFC increase, they could end up raising the cost per enplanement 50 percent. But if a PFC was increased, it would be only 15 percent for the CPE. So, as an airline, how do you all make a choice between the cost of enplanement cost versus a PFC, if you are choosing between a 50-percent increase for a CPE compared to a 15-percent increase to CPE?

Mr. CHRISTIE. Thank you. Thank you, Mr. Chairman. I think what is missing in that math is the actual PFC itself. So while—I am not sure how the math works out——

Mr. LARSEN. Sure.

Mr. CHRISTIE [continuing]. But an increase in 50 percent in CPE excludes the existing PFC. And if you instead increase the PFC, you would have to only increase CPE by the amount to finance that PFC-related debt.

So I think the funds are fungible. And so what we are talking about is an increase in fees and taxes on the traveling public to finance infrastructure. What my testimony was earlier is that it is our belief that we can more efficiently deliver low fares with more efficient use of assets. And so when the cost of the infrastructure is delivered in the form of rents and landing fees, our model in and of itself makes that more efficient to the customers on Spirit Airlines. And that is what is most important to us.

Mr. LARSEN. Trying to be clear. Did you call it the CPE? Did you allude—did you say that was a tax on the traveling public? Is that what you meant to say?

Mr. CHRISTIE. No, I am saying that that is a cost to the traveling public, because it is a part of our core cost structure. That is correct.

Mr. LARSEN. Ms. McGraw, do you have a—something to say about—on that? OK, great.

So, Mr. Krauter, there was a discussion earlier about bonds and whether or not you should have more bonds, or they have a 5-year timeframe, or some other timeframe. Can you just remind us how you all repay any bonding?

Mr. KRAUTER. Right now that is through the PFC. And that is the way that we have put together our chart that was submitted to the committee to illustrate that the PFC would be committed at the current $4.50 to a total project cost of $342 million, which effectively would take that PFC out almost 38 years. So if you are 18 years old, going through my terminal building, you will be paying that until you are about 56 years old.

Mr. LARSEN. All right. Back to Mr. Christie.

I just want to use you while you are here. So a few weeks ago I visited BWI. And several years ago BWI used PFC funds to invest in a high-capacity baggage screening system that was created specifically to help Spirit expand. It seems like they are a great example of lower cost airlines directly benefitting from PFCs to expand capacity.

Is that—so is there an inconsistency with your—with generally the airlines not supporting PFC increases, when you directly benefit from those—from the uses of those projects? Or how would you help me understand that?

Mr. CHRISTIE. Sure. Thank you for the question. While there are instances, no doubt, where PFC funding did create additional facility space for carriers like ourselves to expand, the PFC, in and of itself, because it is a fixed amount and charged on every passenger, is a one-size-fits-all approach. And we think that there can be more dynamic looks at how you create more capacity at airports. And as I alluded to in an answer earlier, I think that introduces a much broader conversation around competition at airports.

With the mergers, over the last decade, we now have four airlines that control 80 percent of the capacity in the United States. And I think that is a much more complex issue that a PFC, in and of itself, does not address.

Mr. LARSEN. Maybe worth exploring in the future, as well.

So I want to thank the witnesses for their testimony. Your comments have been very helpful. Thank you for sharing your comments, thank you for being patient with the Members coming and going, as well. We are all very busy and trying to get as much information on this particular issue as possible.

I don't see any further questions, but I am not going to look up to look.

[Laughter.]

Mr. LARSEN. In closing, I would ask unanimous consent the record of today's hearing remain open until such time as our witnesses have provided answers to any questions that may be submitted to them in writing, and unanimous consent that the record remain open for 15 days for any additional comments and information submitted by Members or witnesses to be included in the record of today's hearing.

Without objection, so ordered.

I would like to thank our witnesses again for your testimony today. And if no other Members have anything to add, which they do not, the committee stands adjourned.

[Whereupon, at 12:52 p.m., the committee was adjourned.]

Submissions for the Record

Prepared Statement of Hon. Rick Larsen, a Representative in Congress from the State of Washington, and Chair, Subcommittee on Aviation

INTRODUCTION

Thank you, Chairman DeFazio for calling today's hearing on "The Cost of Doing Nothing: Why Investing in our Nation's Airports Matters."

Each of the Nation's airports plays a different, yet vital, role in serving local communities and the global aviation network.

Small, medium and large airports across the country serve as epicenters of commerce, travel and job creation.

As chair of the Aviation Subcommittee, I recognize the importance of robust investment in airport infrastructure to ensure safety, foster innovation, improve U.S. competitiveness and enhance the air travel experience for passengers.

While the Federal Aviation Administration (FAA) Reauthorization Act of 2018 positively impacts aviation and aerospace, the bill fell short in addressing the growing capital needs of U.S. airports.

Despite many efforts, the bill holds flat federal infrastructure investment in airports over the next 5 years.

Congress must act to address these growing infrastructure needs.

AIRPORT INFRASTRUCTURE NEEDS

Airport infrastructure investment is especially important for Washington State, where transportation means jobs.

In northwest Washington, my constituents rely on Arlington Municipal Airport in my hometown and Paine Field in Everett, which recently began commercial service.

Sea-Tac in Seattle serves as a major hub in the country's aviation network, and Bellingham International Airport, a developing commercial airport, has seen double-digit growth in recent years, requiring further investments in terminal and operations infrastructure.

Forecasts show the Puget Sound region will grow by an estimated 1 million people by 2035, increasing demand at local airports.

Like many airports nationwide, Washington State airports face significant infrastructure challenges which can jeopardize their ability to meet passenger growth and remain globally connected.

According to the Association of Washington Business, Washington State alone needs an estimated $12.6 billion in aviation infrastructure investment.

For instance, Sea-Tac needs to expand and modernize the North Satellite terminal to update the 45-year-old facility and add eight new gates.

In addition, a new 450,000-square-foot international arrivals facility would improve the airport's baggage claim system, customs processing and passenger connections between terminals.

Here in the other Washington, I recently visited Baltimore-Washington International (BWI) Thurgood Marshall Airport with my colleague, Rep. Sarbanes, to learn about its capital investment needs.

During my visit, I learned BWI has a number of critical infrastructure projects in need of funding, including the C-D Connector, which will provide a link to all of its terminal concourses and address multiple customer service, capacity and security elements that will help it accommodate growing passenger traffic in the next several years.

BWI is also planning a five-gate extension project, which will accommodate larger aircraft, provide additional and public operational space, improve loading bridges and ensure a safer and more efficient circulation of people and goods.

Further, the airport plans to install a new inbound and outbound baggage handling system with a capacity of over 3,500 bags per hour, which will help improve efficiency and reduce operational cost.

The United States has one of the most robust commercial passenger air service markets in the world. Airports need an influx of new capital to keep up with current capacity constraints and to plan for and build to accommodate future passenger growth.

SUPPORT PASSENGER FACILITY CHARGE (PFC) INCREASE

You do not need to be an economist to see federal infrastructure investment in airports falls far short of meeting growing needs.

However, there is an easy solution to closing this gap.

The passenger facility charge (PFC) is a federally authorized local fee that airports can collect on most passengers that travel to and from their airports. The current cap on the PFC is $4.50.

The value of the PFC is outdated and has not kept up with inflation, which has resulted in airports committing their PFC for anywhere from 5 to 30 years, halting progress on much needed capital projects.

Congress needs to update or lift the cap of what airports can charge.

This change does not even require federal investment.

In today's dollars, the PFC adjusted to inflation would be $10. This would double the amount of revenue airports could use to invest in critical infrastructure projects.

Adjusting the federal cap on PFCs would allow airports to take control of their own investment decisions and become more financially self-sufficient.

For instance, at Sea-Tac, increasing the PFC cap to $8.50 would allow the airport to access an additional $2.5 billion in infrastructure financing capacity.

To that end, I am pleased that we have witnesses today to highlight the impact of infrastructure investment, on airports, passengers and the overall aviation system.

I would like to personally introduce Larry Krauter, the CEO of Spokane International Airport, from my home State of Washington.

Mr. Krauter will testify today from the perspective of a small hub airport in the Pacific Northwest about his airport's capital needs, and how a simple change to the PFC could significantly improve the airport's ability to maintain and modernize safe infrastructure and plan for the future.

AIRPORT IMPROVEMENT PROGRAM (AIP)

Another key infrastructure investment source for airports across the country is the FAA's Airport Improvement Program. AIP funding can be used to enhance airport safety and security, improve capacity, strengthen environmental protection efforts.

Last year, Washington State airports received $98.7 million in AIP funding, which has supported runway rehabilitation at Arlington Municipal Airport, noise mitigation efforts at Seattle-Tacoma International, and taxiway improvements at Spokane International—among other essential development projects.

The FAA estimates a total need of $35.1 billion in federal AIP grants alone over the next 5 years. However, according to a leading industry airport association, AIP grants are not generally used for terminal projects, which account for 60 percent of total airport infrastructure needs.

Although the FAA Reauthorization Act of 2018 funds the AIP at $3.35 billion annually through FY2023, this is the same level of federal airport funding for the last 12 fiscal years.

AIP grants are an important tool, but do not come close to significant funding shortfall to help airports meet growing capacity and passenger.

BONDS

With AIP grants covering a fraction of total infrastructure costs and limited PFC availability, most airports rely on bonds backed by airport revenues to finance capital needs projects.

According to an industry trade group, airports raised an estimated $17.4 billion in 84 bond issues last year, an increase over the $14.7 billion raised in 116 bond issues in 2017.

Bonds allow airports to fund projects upfront and pay for costs over a longer period of time. However, this approach also requires airports to pay financing costs, such as interest on their infrastructure projects.

Which is why a PFC increase is so important. An increase in the PFC cap would reduce airports' dependence on bonds and allow them to pay back debt in a shorter timeframe.

CONCLUSION

Thank you again to Chairman DeFazio and today's witnesses.

As this committee considers airport funding, we need to encourage investment at airports of all sizes.

I look forward to hearing about the status of the nation's airport infrastructure and how Congress can help to ensure robust investment now and into the future.

Fifty-seven Airport Passenger Facility Charge Projects, Submitted for the Record by Hon. DeFazio

The following items are retained in the committee files:

Airport Passenger Facility Charge Projects—Table of Contents

1. Albany International Airport (ALB)
2. Asheville Regional Airport (AVL)
3. Austin-Bergstrom International Airport (AUS)
4. Baltimore-Washington International Thurgood Marshall Airport (BWI)
5. Boise International Airport (BOI)
6. Boston Logan International Airport (BOS)
7. Bradley International Airport (BDL)
8. Charles M. Schulz-Sonoma County Airport (STS)
9. Chicago O'Hare International Airport (ORD)
10. Cincinnati/Northern Kentucky International Airport (CVG)
11. Denver International Airport (DEN)
12. Des Moines International Airport (DSM)
13. Detroit Metropolitan Wayne County Airport (DTW)
14. Fort Wayne International Airport (FWA)
15. Fresno Yosemite International (FAT)
16. Gerald R. Ford International Airport (GRR)
17. Hector International Airport (FAR)
18. Hollywood Burbank Airport (BUR)
19. Huntsville International Airport (HSV)
20. Indianapolis International Airport (IND)
21. Jackson-Medgar Wiley Evers International Airport (JAN); Hawkins Field Airport (HKS)
22. John Glenn Columbus International Airport (CMH)
23. John Wayne Airport, Orange County (SNA)
24. Juneau International Airport (JNU)
25. Lansing Capital Region International Airport (LAN)
26. Los Angeles International Airport (LAX)
27. Louisville Muhammad Ali International Airport (SDF); Bowman Field (LOU)
28. Minneapolis-St. Paul International Airport (MSP)
29. Monterey Regional Airport (MRY)
30. Norfolk International Airport (ORF)
31. Oakland International Airport (OAK)
32. Orlando International Airport (MCO)
33. Pittsburgh International Airport (PIT); Allegheny County Airport (AGC)
34. Portland International Airport (PDX)
35. Portland International Jetport (PWM)
36. Raleigh-Durham International Airport (RDU)
37. Redding Municipal Airport (RDD)
38. Reno-Tahoe International Airport (RNO)
39. Ronald Reagan International Airport (DCA)
40. Sacramento International Airport (SMF); Long Beach Airport (LGB)
41. Salt Lake City International Airport (SLC)
42. San Antonio International Airport (SAT)
43. San Diego International Airport (SAN)
44. San Francisco International Airport (SFO)
45. San Jose International Airport (SJC)
46. San Luis Obispo Regional County Airport (SBP)
47. Santa Barbara Municipal Airport (SBA)
48. Savannah/Hilton Head International Airport (SAV)
49. Seattle/Tacoma International Airport (SEA)

50. Southwest Florida International Airport (RSW)
51. Spokane International Airport (GEG)
52. St. Louis Lambert International Airport (STL)
53. St. Pete-Clearwater International Airport (PIE)
54. Tampa International Airport (TPA)
55. Tucson International Airport (TUS)
56. Waterloo Regional Airport (ALO)
57. Wilmington International Airport (ILM)

Statement of the American Council of Engineering Companies, Submitted for the Record by Hon. DeFazio

Thank you for holding this important hearing on airport infrastructure as you develop and advance what we hope will be a comprehensive infrastructure package that includes new investments in the nation's airports. This is a particularly vital component of the infrastructure agenda because the movement of people and goods through the aviation network and the related commercial activity at airports is a key driver of local economic prosperity and job creation. Additional federal support is needed to provide airports the resources they need to meet growing demand and continue to invest, grow, and create good jobs in local communities.

America's airports are a fundamental component of our nation's transportation infrastructure. According to our partners in the Beyond the Runway Coalition, in 2017, 1.8 billion passengers and 31.7 million metric tons of cargo traveled through U.S. airports. With a national economic impact of $1.4 trillion, airports contribute more than seven percent to the U.S. gross domestic product and support over 11.5 million jobs around the country. ACEC member firms are involved in nearly every component of airport planning, design, and construction of airside projects such as runways, taxiways, and aprons, as well as terminal projects and other facilities.

Airports need to make substantial new investments to meet the capacity demands of the future with safe, efficient, and modern facilities that passengers and businesses expect. Unfortunately, existing federal law underfunds key programs and inhibits the ability of airports to self-fund these important terminal, runway, and ground-access projects. ACEC was pleased to support the five-year FAA Reauthorization Act enacted into law last year, because it provided stability to federal aviation programs, advanced commercial utilization of unmanned aircraft by engineering firms and other users, and enhanced procurement rules for architectural and engineering services. However, the bill was a missed opportunity in terms of airport infrastructure investment, withflat funding for the Airport Improvement Program (AIP) and the failure to increase the cap on Passenger Facility Charges (PFCs) collected by airports.

Congress must address this unfinished business and provide the necessary investments and financing tools to update aging facilities, relieve congestion, and enhance safety. In addition to annual AIP funding, which has not been increased in more than a decade, we urge you to give airport authorities the option to adjust the cap on PFCs in order to finance needed improvement projects. The PFC is an essential tool for funding and financing these projects—a user fee collected and reinvested to serve travelers and local businesses that rely on airports for their livelihood. Lifting the cap on PFCs would equip airports to finance projects without raising taxes and without spending additional federal funds. It would put our members to work designing terminal expansions and other eligible projects that enhance competition and improve the customer experience.

While passenger and cargo traffic through airport facilities continues to grow at a record pace, our outdated aviation infrastructure is not keeping up with demand. As a result, far too many airports around the country are overcrowded and cramped, which hinders commerce and business opportunities for thousands of companies. In fact, according to a recently updated report from Airports Council International-North America, our nation's airports require well over $128 billion in infrastructure upgrades over the next five years. Outdated airport infrastructure that fails to meet the growing needs of local businesses and tourists puts in jeopardy the continued economic growth of American cities, states, and regions.

We urge this committee to take a leadership role in addressing the needs of U.S. airports by increasing AIP funding and lifting the cap on PFCs to address the backlog in critical infrastructure and security projects at America's airports.

Statement of Airports Council International-North America, Submitted for the Record by Hon. DeFazio

Chairman DeFazio and Ranking Member Graves, Airports Council International-North America (ACI-NA)—the trade association representing local, regional, and state governing bodies that own and operate commercial airports throughout the United States—thanks you for holding this important hearing today to examine the infrastructure needs at America's airports.

Last month ACI-NA released a new report detailing the significant infrastructure needs of America's airports. With America's airports facing more than $128 billion in new infrastructure needs across the system and a debt burden of $91.6 billion from past projects, the sad reality is that our airports are falling further behind in their effort to upgrade their facilities and improve the overall experience of their customers.

It is time to find the means to rebuild our nation's aviation infrastructure and improve the passenger experience for millions of travelers, as the current airport-infrastructure investment system is failing to keep pace with a growing economy. The cost of doing nothing is further paralysis of the aviation system. We are eager to work with you and this committee to advance a meaningful funding plan that will finally address the growing infrastructure needs our country's airports.

AIRPORTS ARE TERMINALLY CHALLENGED

America's airports are a fundamental component of our nation's transportation infrastructure. In 2017, 1.8 billion passengers and 31.7 million metric tons of cargo traveled through U.S. airports. With a national economic impact of $1.4 trillion, airports contribute more than seven percent to the U.S. gross domestic product and support over 11.5 million jobs around the country. To meet the capacity demands of the future with safe, efficient, and modern facilities that passengers and cargo shippers expect, airports need to make new investments to maintain and modernize our nation's airport infrastructure.

While passenger and cargo traffic through airport facilities continues to grow at a record pace, our outdated aviation infrastructure is not keeping up with demand. As a result, far too many airports around the country are overcrowded and cramped. ACI-NA's most recent infrastructure-needs survey shows that America's airports require more than $128 billion in infrastructure upgrades over a five-year period, with over 50 percent of those needs coming within airport terminals.

Inadequate airport infrastructure that fails to meet the growing needs of local businesses and tourists puts in jeopardy the continued economic growth of American cities, states, and regions. From established metropolitan areas to burgeoning growth regions to small communities, sustained economic growth depends on the expansion of, and investment in, local airports. As the U.S. economy has recovered from the significant economic downturn experienced during the Great Recession, the national unemployment rate has decreased and personal discretionary spending has increased. As such, enplanements nationwide have dramatically improved, growing at a compound annual growth rate of 3.8 percent between 2013 and 2017, putting further pressure on our already overloaded airport facilities.

Airport investment also promotes much-needed competition in the airline industry. New investments in airports can be valuable tools in helping local communities attract new air carriers, which increases competition and leads to lower airfares for passengers. Airports need additional resources to build the terminals, gates, and ramps necessary to attract new air carriers and entice existing ones to expand service. The traveling public gets more choices and lower airfares when airports can build the facilities that provide more airline options and more service alternatives.

In addition to the impact on local economies, deferred airport investment over the past two decades has challenged the ability of airports to deal with the evolving threats posed to aviation security. We live in vastly different times than when most U.S. airports were built, and the airports we have today simply were not designed and outfitted for a post-9/11 world that requires us to maximize both efficiency and security.

THE BEST WAY TO ADDRESS AIRPORTS' INFRASTRUCTURE-FUNDING SHORTFALL

With America's airports facing over $128 billion in infrastructure needs across the system, it is time to find the means to rebuild our nation's aviation infrastructure and improve the passenger experience for millions of air travelers.

It is a common misconception that airports are funded with taxpayer dollars or a general tax on all citizens. In reality, though, infrastructure projects at U.S. airports are funded primarily with federal grants through the FAA's Airport Improvement Program (AIP), a local user-fee called the Passenger Facility Charge (PFC), and airport-generated revenue from tenant rents and fees. Airports often turn to private-capital markets to debt-finance projects, using both PFC-revenue and airport-generated revenue to repay the bonds.

Traditionally AIP grants—which prioritize safety improvements—have been used on airfield projects, while PFC user fees—with greater funding flexibility—have gone towards terminal, ground-access, and major-runway projects. Both are essentially reimbursement programs used to pay for past or existing projects. In the case of PFCs, airports often have committed this revenue-stream for years or decades into the future to repay past projects, meaning they have no new money coming into the system to fund future projects. Federal law requires airports to be self-sustaining, yet it also artificially distorts and constrains the very funding mechanisms designed to ensure market competition and airport-infrastructure growth, as the federal cap on the PFC has been in place since 2000, and federal grants through the AIP have remained stagnant for over a decade.

Thus, under the industry's current financing-funding model airports lack stable, predictable funding sources that keep pace with travel growth, rising construction costs, and inflation for these intensive capital projects. The PFC cap—last adjusted twenty years ago—has seen its purchasing power eroded by 50 percent in the past two decades. And federal airport grants through the AIP have been stagnant for a decade, and will remain so for another five years under the recently enacted FAA reauthorization legislation. Moreover, many airports—even those with sterling credit ratings—have reached their debt capacity and either cannot finance new projects or have had to phase in their projects over a longer timeframe, increasing the costs and delaying the benefits for passengers.

Fortunately, we can rebuild America's airports without raising taxes or adding to deficit spending by modernizing the federal cap on the PFC. Modestly adjusting the anti-competitive federal cap on local PFCs would allow airports to take control of their own investment decisions and become more financially self-sufficient. Airports could build the appropriate facilities—terminals, gates, baggage systems, security checkpoints, roadways, and runways—to meet the travel demands and customer expectations of their community.

It is important to note that PFCs are not taxes—they are local user fees determined locally and used locally to help defray the costs of building airport infrastructure that benefits customers by improving the passenger experience and spurring airline competition. PFCs are imposed by states or units of local government; so they are not collected by the federal government, not spent by the federal government, and not deposited into the U.S. Treasury. Instead, PFCs go directly to fund local airport projects approved by the FAA, with input from airlines and local communities.

At a time of mounting pressure on our federal budget, modernizing the federal government's cap on the PFC is the simplest and most free-market option for providing airports with the locally controlled self-help they need to fund vital infrastructure projects. It would give airports more flexibility to self-finance and leverage private investment without the need for additional taxpayer dollars, thereby allowing airports of all sizes to generate more local revenue for terminals, gates, runways, and taxiways that would increase capacity, stimulate competition, enhance safety and security, and improve the overall passenger experience. Ultimately, modernizing the PFC is the best way to meet the travel demands of today and challenges of tomorrow.

DUE TO FUNDING SHORTFALLS AIRPORTS FINANCE CRITICAL INFRASTRUCTURE PROJECTS WITH BONDS

With limited federal funds available and an outdated federal cap on local user fees, airports often turn to the bond market to help finance their projects to construct and renovate terminals, maintenance facilities, parking garages, and other facilities. These bonds must be repaid with a reliable revenue stream, which is why PFC collections are so important to airports.

Over the past decade, about 60 percent of bonds issued to finance airport capital projects were issued as Private Activity Bonds, a special type of municipal bond that is issued to finance a facility that serves a public purpose for the benefit of a private user like an airline. Without access to cost-efficient financing many airports will be unable to undertake many needed infrastructure-improvement projects—and as a result, the anticipated job creation and economic activity from these activities will not be realized.

To help lower airport borrowing costs, Congress must ensure that airports can continue to finance critical infrastructure projects with tax-exempt municipal bonds and private activity bonds and eliminate the alternative minimum tax penalty on airport private activity bonds. Therefore, the airport industry asks Congress to maintain the tax-exempt status of municipal bonds and private activity bonds; exclude airport private activity bonds completely from the alternative minimum tax; and allow advance refundings on all municipal bonds, including private activity bonds.

CLOSE THE AIRLINE BAG FEE LOOPHOLE THAT SHORTCHANGES THE AIRPORT AND AIRWAY TRUST FUND

Air carriers are increasingly relying on revenue generated from checked baggage fees and other ancillary charges and less on base airline ticket fares. Unlike airline tickets, baggage fees and some other ancillary charges are not subject to a 7.5-percent excise tax to support the Airport and Airway Trust Fund (AATF), which helps fund FAA investments in the AIP and the air traffic control system. 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.

According to the Bureau of Transportation Statistics, the airlines collected more than $37 billion in bag fees and nearly $28 billion in reservation-change fees between 2008 and the third-quarter of 2018. The airline bag fee loophole alone has cost the AATF approximately $3 billion in foregone revenue during that period, and the annual loss is now about $350 million.

It is time to close the airline bag fee loophole by subjecting bag fees charged by the carriers to the same aviation excise taxes as base airfares. Doing so would ensure that the airlines properly deposit their fair share into the AATF in support of airport-infrastructure projects, air traffic control modernization, and other FAA functions, not the airlines' bottom line.

SEPARATING FACT FROM FICTION ON THE PFC

Finally, below we seek to correct the record on numerous misstatements being made about the current state of U.S. airports. While the airlines continue to charge whatever they want for every little thing, airports merely seek a modest adjustment to the outdated federal cap on their local user fee because they now face $128 billion in backlogged infrastructure needs thanks in large part to airline opposition to the PFC. The bottom line is that modernizing airport facilities, growing air service options, cultivating new economic prospects, and improving the passenger experience is the best interest of each and every local community.

Allegation	Fact
Airports are not able to justify the need to increase taxes on travelers: Airports can't identify a single project nationwide that is not getting done due to a lack of resources. Not one!	ACI-NA's latest Infrastructure Needs Report [https://airportscouncil.org/intelligence/airport-infrastructure-needs-study/] shows that America's airports require more than $128 billion in infrastructure upgrades by 2023, with more than 56 percent of the needs inside our aging terminals.
The Aviation Trust Fund is at record levels and growing: While other modes of transportation face funding shortfalls, the aviation trust fund has a more than $6 billion surplus. That is money sitting unused, just waiting to be spent. In fact, CBO projects the trust fund to reach an all-time high of $7.7 billion this year, and soar to $47.7 billion by 2029.	The big airlines fall short of actually saying the unobligated balance in the Airport and Airway Trust Fund should go to airports. The trust fund—which is used to fund AIP grants, FAA facilities and equipment, and the air traffic control system—may enjoy a healthy balance today, but that has not always been the case. It would be irresponsible to bankrupt a trust fund that is so important to all of FAA's activities.
Travelers and airlines are already providing billions for airport infrastructure: Customers already pay $6.7 billion per year in airport taxes, helping airport revenues to soar to a record of nearly $30 billion. PFC revenues have doubled to $3.3 billion since 2000 and are growing at twice the rate of inflation. With $165 billion already invested and $14.5 billion cash on hand, airports can't spend their considerable resources fast enough.	The cost of operating an airport is high. After airports cover their daily operating expenses there is little left for capital intensive infrastructure projects. In addition, airports are required to hold large cash reserves because they must over utilize the bond market to fund projects. Airports face almost $92 billion in debt right now to pay off past projects, and the borrowing costs are excessive thanks to a restricted PFC.

Allegation	Fact
Airports are diverting billions of dollars: Airports are so flush with cash, they diverted $5.4 billion over the last 10 years. That's money already collected from travelers—the same ones on whom they now want to hike taxes—siphoned away from airports to pet projects off-airport instead of putting toward infrastructure needs.	This is missing a lot of context. Congress has exempted 12 ''port authorities'' from the FAA's revenue diversion rule because of the complexity of bond issuances for the 15 affected airports. In the case of these airports, it is the authority, state, or city that actually issues the bond, rather than the airport itself. Changing this standard—even for this small group of impacted airports—would have significant negative implications on the authorities as bond holders and could jeopardize billions of dollars of construction projects and thousands of jobs.
Higher taxes won't fly with consumers: All-in airfares adjusted for inflation are at historic lows; investment in our airports is at an all-time high; and the pot of money airports have to fund projects continues to grow. Consumers should not be left holding the bag for a tax hike airports do not need.	No matter how many times the airlines say it, PFCs are not taxes. They are local user fees paid by airport users that go directly to local projects to repair aging facilities, improve aviation safety, accommodate rising demand, and improve the passenger experience. The money never comes to Washington. Meanwhile, between 2008 and the third quarter of 2018, the big airlines collected more than $37 billion in bag fees and almost $28 billion from reservation change fees for a total of more than $65 billion. And while airports can account for the direct passenger benefit for every PFC dollar, can the same be said for airline bag fees?

Letter of March 25, 2019, from Sean O'Neill, Vice President, Congressional Relations and Infrastructure Advancement, Associated General Contractors of America, Submitted for the Record by Hon. DeFazio

MARCH 25, 2019.

Hon. PETER DEFAZIO
Chairman

Hon. SAM GRAVES
Ranking Member
Committee on Transportation and Infrastructure, U.S. House of Representatives, Washington, DC 20515

RE: Hearing on "The Cost of Doing Nothing: Why Investment in Our Nation's Airports Matter"

CHAIRMAN DEFAZIO AND RANKING MEMBER GRAVES,

On behalf of the Associated General Contractors of America (AGC), I thank you for holding this very important hearing looking at our nation's airport infrastructure needs. AGC members are commercial contractors who, among other things, build and renovate America's airports.

These airport projects represent a significant market segment for our industry. In 2018 alone, local, state and federal governments invested over $21 billion in renovating and improving America's airports. These infrastructure investments support more than 250,000 construction jobs. Airport improvement projects also support another 250,000 jobs in the broader economy. Even with these current investments, the needs of our airports continue to grow due to increases in both passenger and cargo traffic.

Because of such growth, far too many airports around the country are overcrowded, outdated and cramped. Over the next five years, America's airports will require over $128 billion in infrastructure upgrades. With needs so great, we urge Congress to explore all funding options for airport infrastructure, including adjusting the Passenger Facility Charge and providing additional funding for the Airport Improvement Program.

AGC stands ready to work with members of this committee to ensure that the infrastructure needs of America's airports are met.

Sincerely,

SEAN O'NEILL
Vice President, Congressional Relations and Infrastructure Advancement,
Associated General Contractors of America

Statement of the American Society of Civil Engineers, Submitted for the Record by Hon. DeFazio

INTRODUCTION

The American Society of Civil Engineers (ASCE)[1] appreciates the opportunity to submit our position on the importance of long-term, strategic investment in our nation's aviation infrastructure systems. ASCE also wants to thank the U.S. House of Representatives Committee on Transportation and Infrastructure for holding a hearing on this critical issue. ASCE is eager to work with the Committee in the 116th Congress to find ways to further improve our airport infrastructure.

ASCE has long been an advocate for maintaining and modernizing the nation's infrastructure. ASCE's *2017 Infrastructure Report Card*[2] rated the overall condition of the nation's infrastructure with a "D+", and a $2 trillion 10-year investment gap. Additionally, our aviation infrastructure received the grade of "D," with an investment gap of $42 billion.

Historically, our nation invested in infrastructure projects with long-term benefits, such as our nation's airports, that strengthened the economy while the project was being designed and built, and for generations to come. ASCE has sought to raise awareness of the nation's pressing infrastructure challenges, and some incremental progress has been made since ASCE released its first Infrastructure Report Card in 1998.

These past successes inform us that the next major investment in American infrastructure will require bold vision coupled with thoughtful planning. If we are to achieve lasting progress for our airports and infrastructure system, the federal government must commit to not only financing infrastructure programs but to funding them. This funding must supplement—rather than replace—long-term solutions, regular appropriations, and scheduled reauthorizations. Further, all levels of government and the private sector must do their part to increase this investment in order to restore America's world-class infrastructure.

FAILURE TO ACT: CLOSING THE INFRASTRUCTURE INVESTMENT GAP FOR AMERICA'S ECONOMIC FUTURE

Infrastructure is the foundation that connects the nation's businesses, communities, and people, serves as the backbone to the U.S. economy, and is vital to the nation's public health and welfare.

In 2016, ASCE released *Failure to Act: Closing the Infrastructure Investment Gap for America's Economic Future*[3]. In this report, it was found that the average annual investment gap for airports through 2025 is expected to decrease from $4.6 billion to $4.2 billion. However, by 2040, the cumulative gap is expected to slightly increase from a per year average of $3.3 billion to $3.5 billion in 2015 dollars—leaving a total investment gap of $88 billion. By 2025 these projected infrastructure investment short falls may cause the loss of nearly 257,000 jobs and $337 billion in lost GDP.

Fundamental Criteria for Future Infrastructure Investment

ASCE believes that aviation assets, and all infrastructure programs and projects, supported by infrastructure investment legislation must meet the following fundamental criteria:

- Investments must provide substantial, long-term benefits to the public and the economy;
- The cost of a project over its entire life span—including designing, building, operating, and maintaining the infrastructure—must be taken into account;
- Projects should be built sustainably and resiliently; and
- Federal investment should leverage state, local, and private investment, not replace these other critical sources of infrastructure funding.

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[1] ASCE was founded in 1852 and is the country's oldest national civil engineering organization. It represents more than 150,000 civil engineers individually in private practice, government, industry, and academia who are dedicated to the advancement of the science and profession of civil engineering. ASCE is a non-profit educational and professional society organized under Part 1.501(c) (3) of the Internal Revenue Code. www.asce.org,

[2] https://www.infrastructurereportcard.org/

[3] Failure to Act: Closing the Infrastructure Investment Gap for America's Economic Future. (2016) www.asce.org/failuretoact

As the nation looks to rebuild our airports and aviation systems, ASCE urges the House Committee on Transportation and Infrastructure to focus first on prioritizing key programs that can make our aviation system fit for the 21st century.

PASSENGER FACILITY CHARGE

U.S. airports serve more than two million passengers every day. The aviation industry is marked by technologically advanced and economically efficient aircraft; however, the associated infrastructure of airports and air traffic control systems is not keeping up. Congestion at airports is growing; it is expected that 24 of the top 30 major airports may soon experience "Thanksgiving-peak traffic volume" at least one day every week.

Because of an outdated, federally mandated cap on how much airports can charge passengers for facility expansion and renovation, airports struggle to keep up with investment needs, creating a $42 billion 10-year funding gap. Raising or eliminating the cap on the Passenger Facility Charge (PFC) will allow airports a much-needed revenue boost and the ability for long-term planning and modernizing of our aviation system for the 21st century.

PUBLIC PRIVATE PARTNERSHIPS

Revenue to fix our aviation infrastructure needs to come from all levels of government, which includes strong federal leadership as well as state and local grants. In ASCE's 2017 Infrastructure Report Card, a key recommendation to raise our aviation infrastructure grade is to explore innovative third-party funding such as privatization, public-private partnerships (P3s) and others. As public budgets continue to be squeezed; P3s allow planners and policymakers more breathing room to invest. P3s can be an effective financing mechanism through tools such as municipal and private activity bonds, private tolls, or asset recycling. These partnerships can then take many forms including Operation and Maintenance P3s, Design-Build P3s, Design-Build-Operate P3s, and Design-Build-Operate-Transfer P3s.

Although there are positive financing opportunities provided by P3s, they do not replace the need for public funding of infrastructure projects and are not a one-size-fits-all model. There are no standard criteria for awarding and implementing P3s and many financiers are unattracted by the return on investment, which can lead to investment not based on need but on financial return. Simply put, P3s are a tool in the toolbox that doesn't replace direct funding but is part of a multi-investment approach. As our nation's airports continue to look for innovative revenue options to meet growing needs, we must ensure that financing does not replace funding.

NEXT GENERATION AIR TRAFFIC CONTROL SYSTEM

The promise of the Next Generation Air Traffic Control System (NextGen) has been a long time coming, designed to increase efficiency and flexibility, while offering environmental benefits by using better technology to plot and guide flight paths. NextGen is currently due for implementation across the United States in stages to be completed by 2025. NextGen improvements, including a reliance on the Global Positioning System (GPS), enhanced collaboration in the air traffic environment, use of digital visual and voice communication with aircraft operators, delivery of tailored weather information, and improvements to air traffic control equipment and processes, are expected to improve the use of available airspace and make better, faster dissemination of critical information.

Essentially, NextGen transforms air traffic control from a radar-based system to a satellite-based one. Radio communications will be increasingly replaced by data exchange and automation will reduce the amount of information the air crew must process at one time. Enhanced technology will be used to increase routing efficiency, which will shorten routes, save time and fuel, reduce traffic delays, increase capacity, and permit controllers to monitor and manage aircraft with greater safety margins. Implementation is costly, and will require airlines to make expensive investments, but will increase flight efficiency and safety in the process.

RESILIENCE

Resilience is critically important to the overall health of our nation's infrastructure network. Resilience is also one of the eight key criteria used for assessment in our Infrastructure Report Card. ASCE's 2017 Infrastructure Report Card emphasizes the importance of preparing for the future by utilizing new approaches, materials, and technologies to ensure our infrastructure is more resilient and sustainable. This goal can be achieved by:

- Developing active community resilience programs for severe weather and seismic events to establish communications systems and recovery plans to reduce impacts on the local economy, quality of life, and environment;
- Considering emerging technologies and shifting social and economic trends when building new infrastructure, to assure long term utility;
- Improving land use planning at the local level to consider the function of existing and new infrastructure, the balance between the built and natural environments, and population trends in communities of all sizes, now and into the future; and
- Supporting research and development into innovative new materials, technologies, and processes to modernize and extend the life of infrastructure, expedite repairs or replacement, and promote cost savings.

Building infrastructure that is designed to meet future needs and withstand future hazards often comes with a higher initial price. However, it is a worthwhile investment that pays for itself down the road. In January 2019, the National Institutes for Building Science (NIBS) issued the Natural Hazard Mitigation Saves: 2017 Interim Report. The Institute's project team looked at the results of 23 years of federally funded mitigation grants provided by the Federal Emergency Management Agency (FEMA), U.S. Economic Development Administration (EDA) and U.S. Department of Housing and Urban Development (HUD) and found mitigation funding can save the nation $6 in future disaster costs, for every $1 spent on hazard mitigation.

By becoming a more resilient nation, we can ensure our infrastructure is built for the future and our nation's limited federal resources are spent wisely, with mitigation and preparedness in mind. Therefore, we urge Congress to support and include resiliency goals in all infrastructure related legislation to ensure we are preparing for the future and limiting our long-term costs.

CONCLUSION: A 21ST CENTURY VISION FOR AMERICA'S INFRASTRUCTURE

ASCE thanks the Committee for holding this hearing on a topic that affects the quality of life and livelihood of every American.

In the 21st century, we see an America that thrives because of high quality infrastructure. Infrastructure is the foundation that connects the nation's businesses, communities, and people—driving our economy and improving our quality of life. For the U.S. economy to be the most competitive country in the world, we must have a first-class infrastructure system: transport systems that move people and goods efficiently, at reasonable cost by land, water, and air; transmission systems that deliver reliable, low-cost power from a wide range of energy sources; and water systems that drive industrial processes as well as the daily functions in our homes.

We must commit today to make our vision of the future a reality—an American infrastructure system that is the source of our prosperity. ASCE and its 150,000 members look forward to working with the House Committee on Transportation and Infrastructure to improve America's infrastructure so that every family, community, and business can thrive.

Statement of the Beyond the Runway Coalition, Submitted for the Record by Hon. DeFazio

Chairman DeFazio and Ranking Member Graves, the 93 members of the Beyond the Runway Coalition would like to thank you for holding this important hearing on airport infrastructure. We wholeheartedly agree that investing in our nation's airports matters, as the poor condition of America's infrastructure is having a negative effect on economic prosperity and job creation. It is time to move forward with a robust investment plan to address our country's growing infrastructure needs.

Our coalition has come together specifically to urge Congress to make a true commitment to America's infrastructure improvement by investing in our nation's airports. The industries, businesses, and infrastructure groups represented in our coalition rely heavily on aviation infrastructure to support economic growth. Providing airports the opportunity to make new investments in their facilities in order to meet growing demand would help our industries continue to invest, grow, and create good jobs in our local communities.

America's airports are a fundamental component of our nation's transportation infrastructure. In 2017, 1.8 billion passengers and 31.7 million metric tons of cargo traveled through U.S. airports. With a national economic impact of $1.4 trillion, airports contribute more than seven percent to the U.S. gross domestic product and support over 11.5 million jobs around the country. To meet the capacity demands of the future with safe, efficient, and modern facilities that passengers, businesses, and cargo shippers expect, airports need to make new investments to maintain and modernize our nation's airport infrastructure. Unfortunately, existing federal law inhibits the ability of airports to self-fund these important terminal, runway, and ground-access projects.

While passenger and cargo traffic through airport facilities continues to grow at a record pace, our outdated aviation infrastructure is not keeping up with demand. As a result, far too many airports around the country are overcrowded and cramped, which hinders commerce and business opportunities for thousands of companies. In fact, America's airports require well over $128 billion in infrastructure upgrades over the next five years. Outdated airport infrastructure that fails to meet the growing needs of local businesses and tourists puts in jeopardy the continued economic growth of American cities, states, and regions. From established metropolitan areas to new growth centers to traditionally rural areas, sustained economic growth depends on the expansion of, and investment in, local airports.

As you move forward with infrastructure legislation this year, we ask that you take into account the urgent needs of U.S. airports, and explore meaningful funding options to address the over $128 billion backlog in critical infrastructure and security projects at America's airports.

Chicago Midway International Airport and Chicago O'Hare International Airport: Positive Impacts of a Passenger Facility Charge Increase, Submitted for the Record by Hon. DeFazio

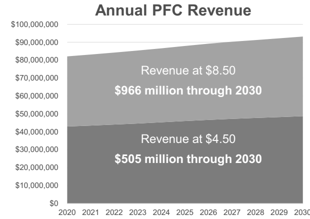
Chicago Midway International Airport

Positive Impacts of a Passenger Facility Charge Increase

CDA
CHICAGO DEPARTMENT OF AVIATION

- The City of Chicago is fortunate to have support from its airline partners; it receives significant funding approval for capital programs. However, an increase in the Passenger Facility Charge (PFC) collection rate could provide a significant funding source for capital projects.
- Annual PFC at Midway is approximately $40 million. However, this revenue is committed to fund debt service on existing projects.
- An increase in the PFC collection rate from $4.50 to $8.50 per eligible enplaned passenger would result in approximately $38–$45 million annually.
- This additional revenue could be used to lower airline landing fees, to provide a decrease in terminal rental rates, and to free up PFC revenue to be used towards additional airport projects, providing even more improved infrastructure to passengers and increasing job opportunities, including the potential for more disadvantage business enterprise contracting.

Annual PFC Revenue



A PFC rate increase from $4.50 to $8.50 would result in approximately **$38–$45 million additional revenue.**

Project Example: Passenger Security Checkpoint Expansion

- The following example has been approved by the airlines. However, for demonstration purposes only, this project example does not assume any previous debt service or PFC obligations.
- The Passenger Security Checkpoint Expansion (Project) will expand the passenger bridge that traverses South Cicero Avenue, connecting the Landside Terminal (pre-security screening) on the east side of South Cicero Avenue to the Airside Terminal (post-security) on the west side.
- The western end of the existing bridge contains the Transportation Security Administration (TSA) security screening checkpoint that all passengers and airport employees must clear to enter the secure airside terminal.
- The existing pedestrian bridge accommodates 19 TSA passenger and employee security screening lanes, as well as the airport's exit path for arriving passengers. The new bridge space will provide: up to 27 fully equipped TSA security lanes, including a separate employee lane; TSA pre-check lane(s); Americans with Disabilities Act (ADA)–accessible lanes; additional queue space; additional exit path space; additional public corridors; additional TSA processing area space; additional composure space; and new retail space.

Total Project Construction Cost (2018 $): **$89.2 Million**

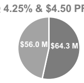
PFC Eligible Costs: **$64.3 Million**

Bond Funded[1]

Build and Bond Full $64.3 million @ 4.25% & $4.50 PFC

- 3-year payoff
- $4.2 million average annual debt service payment
- Interest $56.0 million
- Interest as % of funds = 44%

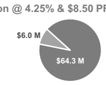
Total Project Cost: $120.3 million



Build and Bond Full $64.3 million @ 4.25% & $8.50 PFC

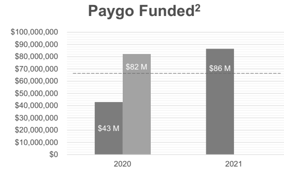
- 2-year payoff
- $4.2 million average annual debt service payment
- Interest $6.0 million
- Interest as % of funds = 5%

Total Project Cost: $70.3 million



The Project could cost **$50 million less** with a $4 PFC rate increase.

Paygo Funded[2]



- Collect & Build over 3 years @ $4.50 PFC
- Collect & Build over 2 years @ $8.50 PFC

Total Project Cost: $64.3 million

The Project could be fully funded in 2 years at an $8.50 collection rate.

Notes:
1. For demonstration purposes only. This example does not account for existing PFC-eligible debt that could be funded with incremental PFC revenue. Financing assumptions include: 4.25% interest rate, no capitalized interest, 30-year level payment debt.
2. PFC Paygo is a pay-as-you-go basis. For demonstration purposes only. This example does not account for existing PFC-eligible debt that could be funded with incremental PFC revenue.

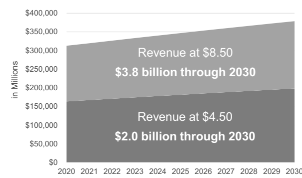
Chicago O’Hare International Airport

Positive Impacts of a Passenger Facility Charge Increase

CDA
CHICAGO DEPARTMENT OF AVIATION

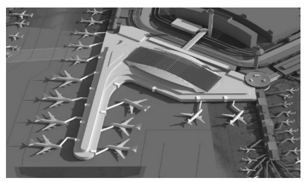
- The City of Chicago is fortunate to have support from its airline partners; it receives significant funding approval for capital programs. However, an increase in the Passenger Facility Charge (PFC) collection rate could provide a significant funding source for capital projects.
- Annual PFC revenue at O’Hare is approximately $160 million. However, this revenue is committed to fund debt service on existing projects and to pay for approved projects on a Paygo[1] basis.
- An increase in the PFC collection rate from $4.50 to $8.50 per eligible enplaned passenger would result in approximately $150–$180 million annually.
- This additional revenue could be used to lower airline landing fees, to provide a decrease in terminal rental rates, and to free up PFC revenue to be used towards additional airport projects, providing even more improved infrastructure to passengers and increasing job opportunities, including the potential for more disadvantage business enterprise contracting.

Annual PFC Revenue



A PFC rate increase from $4.50 to $8.50 would result in approximately **$150–$180 million additional** revenue.

Project Example: O’Hare Global Terminal



Total Project Construction Cost (2018 $):
$1.5 Billion

Estimated PFC Eligible Costs: [2]
$1.3 Billion

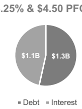
- The O’Hare Global Terminal (OGT) will replace O’Hare’s existing Terminal 2 with a new terminal building and attached concourse that will integrate with the existing Terminal 1, historic Rotunda, and Terminal 3.
- The OGT will provide 14 to 20 aircraft parking positions, depending on type of aircraft, and it will provide a full range of terminal functions, including check-in facilities, security screening, baggage claim, baggage handling systems, baggage makeup areas, Federal Inspection Services, passenger holdrooms, and circulation space.
- O’Hare’s airline partners have approved funding for the OGT, and the project is anticipated to be fully funded with airport revenue bonds.
- However, modernizing the PFC maximum rate of $4.50 would be beneficial to reduce the cost of the project by avoiding financing costs and providing funding capacity for future projects.
- A $4.00 increase to the PFC could result in an additional $2.0 billion in funding available for the OGT through 2030.

Bond Only[3]

Build and Bond Full $1.3 billion @ 4.25% & $4.50 PFC

- 30+ year payoff
- $98 million average annual debt service payment
- Interest $1.3 billion
- Interest as % of funds = 44%
- **PROBLEM** $98 million per year does not occur until 19 years after issuance

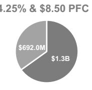
Total Project Cost: $2.4 billion



Build and Bond Full $1.3 billion @ 4.25% & $8.50 PFC

- 14 year payoff
- $98 million average annual debt service payment
- Interest $850.0 million
- Interest as % of funds = 29%

Total Project Cost: $1.9 billion



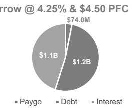
The OGT would cost **$449 million less** with a $4 PFC rate increase.

Paygo Collection for 5 Years + Bonds[4]

Collect and Build over 5 Years, Borrow @ 4.25% & $4.50 PFC

- $74 million Paygo + Bonds
- 28-year payoff after Paygo
- $93 million average annual debt service payment
- Interest $1.2 billion
- Interest as % of funds = 44%
- **PROBLEM** $93 million per year does not occur until 19 years after issuance

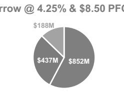
Total Project Cost: $2.3 billion



Collect and Build over 5 Years, Borrow @ 4.25% & $8.50 PFC

- $850 million Paygo + Bonds
- 10-year payoff after Paygo
- $33 million average annual debt service payment
- Interest $220 million
- Interest as % of funds = 22%

Total Project Cost: $1.5 billion



The OGT would cost **$1 billion less** with a $4 PFC rate increase when combined with PFC Paygo.

Notes:
1. PFC Paygo is a pay-as-you-go basis.
2. Estimated for the purpose of PFC funding.
3. Analysis includes existing PFC debt obligations. Financing assumptions include: 4.25% interest rate, no capitalized interest, 30-year level payment debt. Totals may not sum due to rounding.
4. The $4.50 PFC project scenario assumes PFC debt funding. The $8.50 PFC project scenario assumes 5 years of Paygo collection and the remainder issued as PFC debt. Financing assumptions include: 4.25% interest rate, no capitalized interest, 30-year level payment debt. Totals may not sum due to rounding.

Statement of the National Asphalt Pavement Association, Submitted for the Record by Hon. DeFazio

Dear Chairman DeFazio, Ranking Member Graves, and esteemed members of the Transportation andInfrastructure Committee:

On behalf of the National Asphalt Pavement Association, we submit the following statement for the record.

The National Asphalt Pavement Association (NAPA) representing asphalt pavement material producers and paving contractors recognizes the need for increased investment in airport infrastructure that promotes safety, greater mobility, and productivity.

While NAPA applauds Congress for passing a five-year Reauthorization of the Federal Aviation Administration (FAA) representing the longest funding period for FAA programs since 1982, H.R. 302 does not lift the $4.50 federal cap on the Passenger Facility Charge (PFC), which would have generated more revenue for critical airfield construction.

Over the next five years, airports will require more than $128 billion to improve infrastructure to prevent passenger delays and congestion. Direct federal funding through the Airport Improvement Program (AIP) covers only a fraction of the total infrastructure projects required to upgrade and maintain our aviation system. Increasing the PFC would provide airports the locally controlled self-help they need to finance critical infrastructure projects without relying on federal funds.

The current PFC cap of $4.50 has not been adjusted since 2000, however rising construction costs have eroded the purchasing power of the PFCs by about 50 percent. NAPA supports modernizing the federal cap on the locally set PFC and indexing it for inflation to allow airports to raise the funds necessary to address airport infrastructure needs, ensure passenger safety, prevent delays and congestion without raising taxes or increasing federal spending.

We urge the committee to consider legislation that modernizes airport infrastructure investment by lifting the outdated cap on the PFC to strengthen economic output while supporting jobs through protecting existing funding mechanisms, such as the Airport Improvement Program.

NAPA looks forward to working with the committee on legislation that addresses airport infrastructure investments gaps, in addition to the long-term solvency of the Highway Trust Fund.

Statement of Ed Bolen, President and CEO, National Business Aviation Association, Submitted for the Record by Hon. DeFazio

Chairman DeFazio, Ranking Member Graves and members of the Committee on Transportation and Infrastructure, thank you for holding this hearing to address the importance of investment in our Nation's Airports. On behalf of the National Business Aviation Association's (NBAA's) 11,000 members, we are pleased to provide this testimony.

NBAA's members rely on business aircraft to meet some portion of their transportation needs. The majority of business aircraft are operated by small businesses and in large part provide access to airports supporting communities that aren't served by the commercial airlines. While the airlines serve only around 500 airports, business aviation can reach 5,000 public use airports across the United States. These airports are also economic engines for the cities and towns they serve and our members and the general aviation community have great stake in their viability and accessibility.

The United States leads the world in having the most robust and diverse airport infrastructure capabilities, providing a critical foundation for general aviation to thrive. Transporting people and equipment, supporting natural disasters, providing air medical flights for organs and patients, offering a place for flight training and a base for inspiration and inception of career paths essential for all sectors of aviation—general aviation relies on the network of airports. The cost of doing nothing is too great and without continued investment in airport infrastructure the future of our country is grim.

Demands for investment in airport infrastructure are great. It is estimated that annual airport capital project needs are at approximately $7 billion, with Airport Improvement Funding (AIP) only fulfilling half of that need at slightly over $3 billion annually. State grants and access to the capital market can fill a small portion of the gap, however continued federal investment in airports is critical so that they can not only fulfill today's demands, but also handle tomorrow's requirements as well.

General aviation relies on facilities of all sizes. Federal investment in airports ensures their viability in multiple ways. Federal dollars allow for airports, especially smaller facilities, to remain affordable to general aviation use. Without this vital investment many local municipalities would not be able to maintain the infrastructure that links their community to the rest of the country and to the world. Aviation users would not be able to fund the costs to sustain these facilities through rents and fees alone.

Additionally, federal investment in airports protects our national aviation infrastructure from being shuttered. Unfortunately, there have been a number of communities that have made attempts to impose restrictions limiting access, such as curfews, weight and noise limits, on their airports attempting to gain local control of what is part of a national aviation-transportation system. Federal grant obligations play an important role in preventing these local patch-quilt operational restrictions and even complete closures.

Coleman A. Young Municipal Airport in Detroit, Michigan is one of examples of airports falling victim to disrepair without federal funding, struggling to maintain its runways and taxiways on its own. The East Hampton Airport at the eastern end of Long Island has made a conscious effort to forego federal funds and is threatening closure when its grant assurances expire in 2021. In the meantime, the Town of East Hampton, despite charging high landing fees, has not invested in maintaining the airport, jeopardizing safety. Despite the need for investment in maintenance, Santa Clara County, has chosen the same fate for the Reid-Hillview Airport, choosing to no longer accept federal grants for a facility that is a reliever in the San Jose, California area and plays an important role in flight training and aviation education as part of the program administered by San Jose State University, starting the clock to run-out grant obligations by 2031.

On the other hand, airports that have made commitment to federal grants are benefiting greatly. Not only are these airports able to maintain their facilities to meet FAA's standards, many are expanding their runways and are acquiring land for development to meet growing demand and to maintain efficiency, procure latest equipment and technology and are complying with federal regulations, providing unrestricted access to all users.

In 2018 alone, over 40 airports have extended their runways using AIP funding. Ormond Beach Municipal Airport, a general aviation reliever, in Ormond Beach, Florida has received a grant to rehabilitate and extended its runway by 1,000 feet and to renew the runway lighting. City of Gooding, Idaho and Jeffersonville, Indiana have benefited from a $1 million in AIP funding to extend their runways. Turners Falls Airport, Montague, Massachusetts acquired snow equipment with the help of AIP funding, while Black Hills Airport—Clyde Ice Field in Spearfish, South Dakota used the money to conduct wildlife hazard assessments. These are just five of thousands of examples of airports across the country benefiting from federal investment in their infrastructure.

NBAA strongly supports continuing the commitment to investing in a strong national system of airports to meet the current needs and projected growth. We must maintain a healthy funding mechanism for airports of all sizes to meet changing demand and important safety and efficiency improvements.

We commend the Committee for recognizing the importance of our Nation's airports and look forward to collaboratively working to address the funding challenges of our Nation's greatest assets—its airports. The investment in general aviation airports, the backbone of our air transportation system, is critical in ensuring success of general aviation in the near term and for future generations. Thank you again for holding this important hearing.

Statement of the National Precast Concrete Association, Submitted for the Record by Hon. DeFazio

On behalf of more than 900 member companies in all 50 states that contribute to the building of our nation's infrastructure, the National Precast Concrete Association would like to thank Chairman DeFazio, Ranking Member Graves and the members of the Transportation and Infrastructure Committee for holding today's hearing on the critical topic of infrastructure rebuilding.

Air travel is by every measure the safest form of travel, but the aging of our nation's airports continues to put more strain on the system. It is estimated that America's airports require well over $128 billion in infrastructure upgrades over the next five years to meet growing demand, maintain their stellar safety record and continue to meet the needs of the traveling public. With 1.8 billion passengers and more than 31 million metric tons of cargo traveling through our airports every year, airports obviously play a central role in our nation's infrastructure.

While many airport officials recognize the need to upgrade their overcrowded, rundown facilities, unfortunately, these officials are hamstrung by federal law that inhibits the ability of airports to self-fund needed terminal and runway repairs and upgrades.

The National Precast Concrete Association has worked closely with the FAA over the past several years, providing technical assistance in updating the FAA Advisory Circular specifications that cover more than 19,000 airport authorities. The newly approved circular lays the foundation for rebuilding airport infrastructure with modern building materials and the latest construction techniques. What's needed next is the funding to meet the extensive backlog of work to repair and upgrade the aviation system.

The reauthorization of the Federal Aviation Act last fall sent a strong message of the importance Congress places on the health of our aviation system. We hope that was just the beginning. As you address the pressing needs of crafting infrastructure legislation this year, please consider additional methods of funding the $128 billion backlog in infrastructure and security projects at our nation's airports.

Statement of the National Stone, Sand and Gravel Association, Submitted for the Record by Hon. DeFazio

Dear Chairman DeFazio, Ranking Member Graves, and esteemed members of the Transportation and Infrastructure Committee:

On behalf of the National Stone, Sand and Gravel Association (NSSGA), we submit the following statement for the record. NSSGA is the leading voice and advocate for the aggregates industry. Its members—stone, sand and gravel producers and the equipment manufacturers and service providers who support them—produce the essential raw materials found in homes, buildings, roads, bridges, public works projects and airport infrastructure. During 2017, NSSGA member companies represented more than 90 percent of the crushed stone and 70 percent of the sand and gravel consumed annually in the U.S., and there are more than 10,000 aggregates operations across the United States. Nearly every congressional district is home to an aggregate facility. Production of aggregates in the U.S. in 2017 totaled 2.2 billion metric tons at a value of $22.7 billion.

Our members recognize there is a need for increased investment in airport infrastructure because they employ tens of thousands of workers in good-paying jobs that are directly and indirectly connected to terminal, parking, ramp, apron, runway, and taxiway construction. Providing airports the opportunity to make new investments in their facilities in order to meet growing demand would help our industry continue to invest, grow, and create good jobs in our local communities. In fact, the "D" grade given by the American Society of Civil Engineers to our nation's Aviation system, actually ranks slightly lower than the "D+" grade for American infrastructure overall.

A study recently released by Airports Council International-North America suggests that airports infrastructure upgrades will require $128 billion over the next four years. Failure to meet this investment need threatens our nation's economic growth and puts jobs at risk. Investment in airport infrastructure strengthens the economy by supporting existing jobs and the creation of new ones.

Airports are struggling to keep up with necessary maintenance projects with current revenue mechanisms that leave scarce resources for expansion and maintenance efforts. This comes at a time when airports are experiencing record levels of traffic and aviation safety both in the air and on the ground remains the central priority of the overall passenger experience. Unfortunately, existing federal law inhibits the ability of airports to self-fund these important terminal, runway, and ground-access projects.

In closing, in order to ensure that U.S. airports have the resources they need to modernize their infrastructure, improve the passenger experience, and continue to put passenger safety first, the NSSGA supports committee efforts to update the funding options available to airports. Specifically, NSSGA urges the committee to consider legislation that eliminates the cap on the Passenger Facility Charge (PFC) and protect and increase other funding mechanisms like the FAA's Airport Improvement Program (AIP).

NSSGA thanks the Committee for holding a hearing on this critical topic and are proud to be part of building and maintaining America's airports. Failing to invest in airport infrastructure will have a detrimental impact on the economy, jobs, and airport congestion and safety. NSSGA looks forward to working with the Committee in the coming months to improve and modernize U.S. infrastructure overall, including our nation's airports.

Norman Y. Mineta San José International Airport: Impacts of an Increase of the PFC, Submitted for the Record by Hon. DeFazio

IMPACT OF AN INCREASE OF THE PFC AT SAN JOSÉ AIRPORT

New Terminal to Bring Airport up to 40 gates

- When the Norman Y. Mineta San José International Airport (SJC) built its current Terminal B in 2010, the long-term plan included a Terminal C extension to increase the Airport to a total of 40 gates and the accompanying support infrastructure (i.e. baggage screening system, baggage claim, passenger screening, etc.).

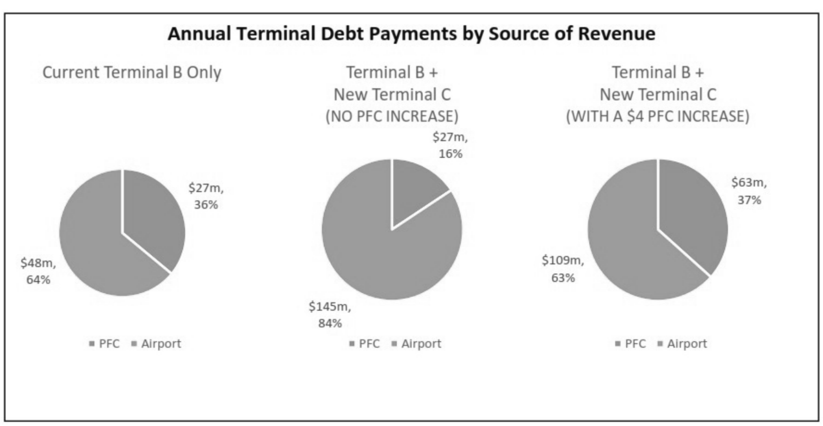
- Current airline activity now warrants the planning and construction of this next phase of terminal construction.
- While the construction of the new project will take years of planning and construction, the financing of the project is the largest obstacle.
- Current financial commitments by the Airport include:
  - $1.3 billion in bond debt
  - $94 million per year in annual debt service payments
  - PFC revenue is dedicated to debt service payments until 2047

Direct Benefits of a Potential PFC Increase to SJC—A New Terminal

- Increasing the PFC would dramatically ease the ability of the Airport to advance the construction of a new Terminal C, bringing the Airport up to a potential total of 40 gates
- The new Terminal C is needed to alleviate gate shortages and to support the massive growth of passengers at SJC.
  - Passengers at San José Airport grew from 9.8 million passengers in 2015 to 14.3 million in 2018
  - Even at modest growth rates of 2–3 percent, SJC would need to continue to add 1 gate every other year to accommodate this increased traffic.
  - The current Terminals are already exceeding design capacity
  - The current support infrastructure, which includes passenger screening, baggage screening, and baggage claim, is exceeding design capacity
- SJC starts most days with over 40 aircraft parked overnight but with only 30 gates to service these planes. Airline and airport staff are constantly towing and reconfiguring aircraft locations to accommodate the current operations.

IMPACT OF A $4 PFC INCREASE VS STATUS QUO

- *Cost of a New Terminal*—The cost of a new Terminal is estimated to be $1 billion.
  - If the Airport has to completely *debt finance* the Terminal, this will:
    - Add $97 million in an annual debt service expense to the Airport
    - Interest payments alone would add an $1.3 billion to the cost of the debt.
    - Decreases the value of the PFC to only 16 percent of the debt services payment
    - Increases the Cost Per Enplanement (CPE) by 73 percent or by $8
  - If the Airport *used debt financing, combined with a $4 increase in the PFCs*, this could:
    - The Airport could raise an extra $36 million/year to put towards financing the expansion
    - Cut the annual debt service by a third
    - Maintains the PFC source of funding for the debt services at slightly more than one-third of the annual debt services payment



Statement of Airlines for America (A4A), Submitted for the Record by Hon. Graves of Missouri

On behalf of Airlines for America (A4A) and the passengers and customers we serve, thank you for the opportunity to submit written testimony to a hearing that is specifically designed to drive an agenda favorable to raising taxes unnecessarily on American families and the traveling public. The witness panel—which overwhelmingly consists of well-funded airports and their advocates—will attempt to make the case for a tax increase in the Passenger Facility Charge (also called the Airport Tax); it is important for the actual facts surrounding airport investment to be part of the record.

If you take one thing away from this testimony, it's that airlines strongly support necessary investments in airports across the country. Airline collaboration has paved the way for widespread airport investment without unnecessarily increasing taxes on passengers.

Airlines believe airport investments are critical in ensuring that our aviation system is developed in a way that supports the incredible economic benefits the aviation industry delivers. The facts clearly show airport development is blossoming—and it is doing so within a multi-tool financing system that easily allows for investment without taxing passengers. If you strip away the airport rhetoric, you will find that there is an overwhelming abundance of available capital at U.S. airports. In reality, airports are collecting record levels of revenue and are well positioned to fund necessary projects. For example:

- Airport revenues are soaring. U.S. airports collected nearly $30 billion in 2017 including:
  - Record high $11.8 billion in airline rents and fees.
  - Record high $10.1 billion in non-airline revenues (e.g., terminal food and beverage, retail and duty free; rental cars; parking and ground transportation; and hotels).
  - Nearly $3.4 billion from the Federal Aviation Administration's (FAA) Airport Improvement Program (AIP).
  - Interest/other income of $1.4 billion.
- These numbers should be staggering to the Committee, and they do not even take into account that PFC collections also set a new record in 2017 at $3.3 billion, the highest level in the history of the program. As travel grows, PFC revenue continues to expand and reach new levels. The FAA estimates that PFC collections in 2018 will set a new record of $3.427 billion and another record high in 2019 of $3.6 billion.
- The Airport and Airway Trust Fund (AATF) has an uncommitted balance over $6 billion which is expected to grow year-over-year reaching $9.9 billion in FY2020 alone. It is important to note, and the point can be lost when discussing budget nuances, that the uncommitted balance refers to the balance of funds in excess of what has been appropriated by Congress in a given year. Airlines support spending those excess funds in lieu of increasing taxes.
- The AIP program was given an additional $1 billion from the General Fund as part of the FY2018 Omnibus and another $500 million in the most recent THUD bill. The FAA is swimming in federal cash for airport investment, yet we are discussing increasing taxes on the traveling public.
- The story does not end there. U.S. airports are flourishing; airport revenues far outpace inflation. From 2000 to 2017, U.S. airport revenues per passenger grew 47 percent, exceeding inflation. (The U.S. Consumer Price Index rose 42 percent.)
- Airports are also in strong financial positions, according to their own financial reports filed with the FAA, U.S. airports ended 2017 with a record $14.5 billion of unrestricted cash and investments on hand or 381 days of liquidity.
- Airports have asserted that they want a PFC increase to secure long-term funding. PFCs are not, and were never intended to be, the primary funding source for airport projects versus bonds and, to our knowledge, no U.S. airport has been unable to secure bond financing for necessary projects. In fact, the private sector capital markets are quite viable, and all U.S. airports rated by Standard & Poor's and Moody's enjoy investment-grade credit ratings, which ensure ample access to the bond market at preferred rates.
- U.S. airport development is astounding with nearly $165 billion of capital investment at the nation's thirty largest airports, the majority currently underway or yet to begin. These include, for example: new, expanded or modernized terminal facilities at Atlanta, Boston, Chicago (ORD), Dallas (DFW), Denver, Las Vegas, Miami, Honolulu, Houston (IAH), Los Angeles, Newark, New York (JFK and LGA), Orlando, Phoenix, Portland, Salt Lake City, San Diego, San

Francisco, Seattle and Washington (DCA). Along with 27 airfield capacity projects at 23 major airports including new runways at Fort Lauderdale, Chicago (ORD), Charlotte, Seattle and Washington (IAD).

- The rate of development is also robust at smaller airports, including, for example, airfield projects at Anchorage, Columbus, Des Moines, El Paso, Manchester, Providence and Sioux Falls and terminal projects at Bangor, Dallas (DAL), Eugene, Grand Rapids, Greenville-Spartanburg, Kansas City, Nashville, New Orleans, Oakland, Pasco, Reno-Tahoe, San Antonio, San Luis Obispo and Wichita.
- Airport investment is similarly strong at cargo facilities including projects in Louisville, Lafayette (Louisiana), Indianapolis, Miami, Newark, Ontario, Rockford and Memphis.

The truth of the matter is that aviation is already overburdened with 17 unique taxes and fees imposed by the federal government. In FY2018 alone, U.S. commercial aviation taxes and fees exceeded $25 billion. Federal taxes and fees account for approximately 21 percent ($64) of the total cost of a $300 domestic one-stop roundtrip ticket, putting air travel in the same tax bracket as so-called "sin products" which are taxed to discourage use.

The inconvenient truth for the airport community is that aviation infrastructure funding is solvent, and aviation infrastructure funding is burgeoning. There is absolutely no need to raise passenger taxes by any amount. With record-high revenues, unfettered access to bond markets, a robust AATF and plenty of cash, airports have more than ample funding to address capital needs without an increase in the PFC or any other tax for that matter.

Further to this point, the practice of revenue diversion should be abolished. The fact that over $5 billion has been diverted from airports in the past decade is an indication that localities have other priorities. Before increasing passenger taxes, Congress should spend down the trust fund and put an end to revenue diversion.

Make no mistake; a PFC increase would be a system-wide and permanent tax increase with real repercussions:

- The Government Accountability Office (GAO) has previously pointed to the fact that "Economic principles and past experience dictate that any increase in the price of a ticket—even if very small—will have an effect on some consumers' decisions on whether to take a trip or not. For example, an increase in the price by a few dollars may not affect the decision of a business flyer going for an important business meeting but could affect the decision of a family of four going on vacation."
- Not to be outdone, the Congressional Budget Office (CBO) and the Joint Committee on Taxation (JCT) determined that an increase in the PFC will, if enacted, reduce federal tax receipts, putting such a proposal in violation of budget rules, both internal to Congress and external via the statutory "PAYGO" process.

Finally, the proverbial ink is barely dry on what was a historic five-year FAA reauthorization bill that provided significant, consistent and stable funding for airports. Just months into that five-year FAA bill, airports are demanding more money under that auspices of "infrastructure reform"—hinged on the concept that they share the same infrastructure challenges as surface transportation on other modes.

Nothing could be further from the truth, per the Congressional Research Service (CRS). Based on current law, a future five-year highway bill would need to cover a projected $68 billion shortfall, and a six-year bill would need to cover and $89 billion shortfall. In an era of multibillion-dollar highway shortfalls, the stark contrast between yearly highway deficits versus robust and annual multibillion-dollar unobligated AATF balances should be eye-opening to the member of this Committee and Congress as a whole.

We will conclude like we began, airlines strongly support necessary investments in airports across the country. We are committed to airport infrastructure projects and believe they can easily be done without increasing taxes. Despite the hyperbole, the facts clearly show there is not a funding crisis at our nation's airports, and the "Cost of Doing Nothing" will be stable and robust airport investment without increasing taxes on the traveling public.

Letter of March 26, 2019, from Steven D. Hill, CEO and President, Las Vegas Convention and Visitors Authority, Submitted for the Record by Hon. Titus

MARCH 26, 2019.

Congresswoman DINA TITUS
2464 Rayburn House Office Building, Washington, DC 20515

DEAR CONGRESSWOMAN TITUS:

As CEO and President of the Las Vegas Convention and Visitors Authority, it is my priority to protect our top industry—travel and tourism. It is critical to ensure Southern Nevada remains an easily accessible destination for our airline partners and the millions of business and leisure travelers who visit our community each year.

Las Vegas welcomed 42 million visitors in 2018, generating approximately $60 billion for our local economy and supporting 41 percent of Southern Nevada's workforce. For the past 25 consecutive years, Las Vegas has had the distinct honor of being named the No. 1 trade show destination in North America, according to Trade Show News Network.

Our unique partnership with McCarran International Airport to proactively approach carriers for non-stop and easy one-stop service both domestically and internationally is a key factor to Southern Nevada's travel and tourism success. In 2018, during its 10th year of operation, McCarran celebrated its busiest year in the airport's history welcoming 49.7 million arriving and departing passengers. In addition to the new annual record, McCarran posted multiple all-time-high months throughout the course of the year. McCarran was also ranked No. 1, along with Orlando, in passenger satisfaction among Mega Airports in the J.D. Power 2018 North America Airport Satisfaction Study.

On behalf of the travel and tourism industry, I urge you to support a Passenger Facility Charge (PFC) cap increase inclusive of a caveat allowing the individual airports flexibility to, at their discretion, increase the fee within the range of the cap. Currently, the PFC Program allows the collection of PFC fees up to $4.50 for every enplaned passenger at commercial airports controlled by public agencies. Increasing the PFC cap would accelerate investments in airport infrastructure that improve the passenger experience, facilitate growth in air travel, and make America's economy more globally competitive. Meanwhile, giving the individual airports the discretion at which to increase the fee within the range of the cap protects their individual business models.

Air traveler spending in the United States generates significant economic activity, supports millions of American jobs, and improves our nation's quality of life. Over the next decade, air travel is forecast to grow from 776 million to 926 million enplanements per year, which could add an additional $224 billion in annual travel spending and support 750,000 new American jobs. Unfortunately, this growth can only be realized if our airports have the financial resources to modernize and promote competition.

Too many of our nation's airports are outdated, congested and unable to handle passenger demand. The FAA predicts that travel demand will exceed capacity at many of the nation's largest airports within the next 15 years, unless airports achieve sustainable levels of capital investment.

Again, I encourage you to support a Passenger Facility Charge (PFC) cap increase inclusive of a caveat allowing the individual airports flexibility to, at their discretion, increase the fee within the range of the cap. Thank you for your continued leadership to revitalize America's airports and improve the travel experience. We look forward to working with you on this and other important travel-related policies.

Sincerely,

STEVEN D. HILL
CEO and President, Las Vegas Convention and Visitors Authority

Letter of April 12, 2019, from Maurice J. Gallagher, Chairman and CEO, Allegiant Travel Company

APRIL 12, 2019.

Congressman PETER DEFAZIO (OR–4TH)
Chair
Committee on Transportation and Infrastructure, U.S. House of Representatives, 2134 Rayburn Office Building, Washington, DC 20515

Congressman SAM GRAVES (MO–6TH)
Ranking Member
Committee on Transportation and Infrastructure, U.S. House of Representatives, 1135 Longworth HOB, Washington, DC 20515

Re: Hearing: "The Cost of Doing Nothing: Why Investment in our Nation's Airports Matters"

DEAR CHAIRMAN DEFAZIO AND RANKING MEMBER GRAVES,

The purpose of this correspondence is to, once again, register Allegiant's opposition to any change in law that would allow airports to increase to the Passenger Facility Charge (PFC). While we certainly understand your position on this issue, we feel it appropriate to explain the rationale behind our strong opposition, and also address specific concerns that were raised in the March 26th hearing, "The Cost of Doing Nothing: Why Investment in our Nation's Airports Matters."

At the outset, it is important to note that a PFC increase is, at its core, the most regressive type of tax, as it disproportionately impacts lower and middle-income families. The wealthy, the 1%ers, and those traveling on expense accounts will likely not notice an $8.50 PFC ($17 roundtrip) on their airfare. However, to lower and middle-income families, for whom a weekend vacation is a luxury, this represents a substantial increase and a significant impediment to travel. These travelers are our customers. Make no mistake—they fly because of affordable fares. This is why we fight so hard to keep fares low. In fact, the average one-way domestic gross fare on Allegiant is a mere $83, compared to $212 on larger carriers.[1]

As far as the hearing is concerned, we would like to correct some of the misrepresentations and misconceptions.

First—there were several attempts by members of the Committee to equate baggage fee increases with an increase to the PFC. Members may have concluded if airlines can raise baggage fees by $5 and not see a decrease in traffic, then increasing the PFC by $4 also will not have an impact on consumer demand. This analogy mistakenly conflates an optional fee subject entirely to consumer discretion, with a tax the consumer is compelled to pay. In the case of a baggage fee, the consumer always has the option to either purchase or not purchase a bag. Once a PFC is implemented, however, the consumer no longer has any choice in the matter. If airports were willing to make PFCs optional for every consumer, none of the airlines would object to eliminating the PFC cap. Let the consumer decide whether or not to pay the airport's PFC, just as the consumer decides whether or not to purchase a bag.

Demand for air travel and ancillary items associated with air travel is absolutely elastic. DOT studies going back to the early days of Southwest Airlines conclude that as the price of air travel decreases, demand increases. Years ago, DOT dubbed this phenomenon the "Southwest Effect." Today, as we have seen at numerous airports across the country, this would more appropriately be called the "ULCC Effect." Ultra-low-cost-carriers are lowering airfares across the nation—and more people are flying because of it.

Second—Ms. Barnes from the US Travel Association noted in her remarks that the second highest source of frustration among air travelers (according to their survey) is the overall cost of travel. Increasing the PFC directly results in higher fares and higher costs—exactly what consumers do not want. Unfortunately, this point was buried in other rhetoric designed to make it look as though the PFC has universal support among travel and consumer associations. It most certainly does not.[2]

Ms. Barnes also noted airline fees came in as the highest source of frustration among air travelers. However, while consumers may have reported airline fees as their highest source of frustration, consumers have voted with their wallets. ULCC

[1] Based on publicly-available DOT data, courtesy of DIIO, YE Q3–2018; excludes other ULCCs & LCCs such as Frontier, jetBlue, Spirit, & Sun Country. Gross fare includes government taxes and fees.

[2] See Travelers United: "No Reason to Slam Passengers with more Airport Taxes" https://www.travelersunited.org/no-more-airport-taxes/. See also: Liam Siguad—"An Unnecessary Increase in Airport Passenger Fees would Hurt Consumers" https://thehill.com/opinion/finance/437290-an-unnecessary-increase-in-airport-passenger-fees-would-hurt-consumers.

carriers are the fastest growing airlines in the country—growing at 18 percent per year since 2007, compared to just 0.3 percent per year for legacy airlines. Travelers love our low fares and appreciate the opportunity to pay only for the items they want. More than 30 percent of our customers purchase airfare only—they choose not to buy any ancillary items, including baggage or priority seating. Just 4 percent of our customers purchase an "all-in" ticket.

Lastly—the panelists and members spent a significant amount of time arguing a PFC increase will allow airports to build more gates, which will in turn, provide more opportunities for ULCC competition. We categorically reject this argument. First, there is absolutely no guarantee increased PFC funds will result in any new gates—and even if new gates are built with such funds, there is no guarantee those gates will be assigned to ULCC carriers. Second, ULCCs currently serve more than 170 unique airports in the United States. Many of those airports have two and some even three ULCC carriers. The notion that a lack of adequate gate/holdroom space is preventing ULCCs from serving the traveling public is simply not true. In fact, there are fewer departures in the United States today than there were in 1985.

Increasing the PFC will not enable more airline competition. To the contrary, it will erode the competitive cost advantage ULCCs currently have over larger carriers, as a $4 increase to the PFC is much more easily absorbed by the business traveler traveling on an expense account than a family of four paying with their own hard-earned dollars. Assuming a PFC cap at $8.50, that family of four could pay $136 just in PFCs. With ULCC airfares at roughly $83 per one-way ticket, that's $136 on $664 of airfare, or 20.5 percent of the total cost. This would be in addition to the excessive fees and taxes already levied on airfare. For lower and middle-income families, this represents a substantial tax burden.

Rest assured—airlines support prudent airport investments in infrastructure and modernization and we work with our airport partners all over the country every single day to achieve that end. That said, we strongly believe we should not place a greater tax burden on the backs of the traveling public, particularly when airports are flush with cash, enjoying record revenues and investment grade bond ratings, and sitting on more than $7B in unencumbered funds in the Airport and Airway Trust Fund.

There are more efficient ways and means available to support airport infrastructure than simply raising taxes—particularly when that increased tax burden disproportionally impacts middle class families and budget-conscious travelers. We look forward to discussing this matter further with you and your staff.

Respectfully,

MAURICE J. GALLAGHER,
Chairman and CEO, Allegiant Travel Company

Appendix

Questions from Hon. Eddie Bernice Johnson for Lawrence J. Krauter, A.A.E., AICP

Question 1. One of my airports in Dallas has their PFCs constrained until 2025 and the other airport has their PFCs constrained until 2038. This means those airports can't leverage new PFC dollars for new projects until that time. Can you explain what it means to have your PFCs constrained, and what it means to my airports in Dallas?

Answer. In my written testimony, I discuss the implications created by the need for extended time commitments of PFC collection as a financial trap for airports. This trap is created by two primary elements. The first element is that the current PFC collection rate is capped at $4.50 and has not been adjusted for construction inflation for nearly 20 years, therefore the effective purchasing power of the PFC is approximately half of what it was when last adjusted by Congress. The second element is that airports such as those in Dallas, have substantial unmet capital improvement needs, the cost of which has risen dramatically due to inflation. The increased cost of capital improvements projects and a stagnated user fee combine to create very long term commitments of the PFC in order to pay for these projects and in many cases forces airports into long-term debt that further constrains the ability to fund other projects as financial resources are directed to interest payments instead of to building projects. What it ultimately means is that the PFC, due to the current cap, is effectively eliminated as a funding source for ongoing capital improvement projects and therefore, airports are forced to cancel, modify or defer critical infrastructure projects.

Question 2. The airports in Dallas are connecting hubs for major airlines, what do their terminal conditions/gate availabilities mean for small airports like Spokane in providing service to small communities?

Answer. Gate availability at hub airports is among the greatest challenges and limitations that small communities face in connecting their economies to the global marketplace. One of the foundational aspects of the Passenger Facility Charge is its ability to allow airports to construct gates to foster competition and to provide new capacity for community access. Spokane, among many smaller communities, has heard numerous times from airlines that they recognize that in many situations the community can justify more air service to a hub airport, however they do not have the gate space to accommodate additional flights. That is why it is critical for airports of all sizes to have additional PFC resources to construct gates that will increase access for small communities across the country. We cannot maximize the benefits of air service to regional economies without adequate gate capacity at hub airports. Modernizing the PFC to at least $8.50 and indexing it to construction inflation is the best possible policy solution to this challenge.

Questions from Hon. Garret Graves for Tori Emerson Barnes

Question 1. Even though a PFC isn't an airline fee or a tax, it still adds to the overall cost of flying. From the passenger's perspective, how do increases in the overall cost of flying affect their willingness to travel?

Answer. Thank you for the question, Congressman Graves. U.S. Travel's surveys and research have consistently found that most passengers would be willing to pay more to fund airport improvements and that a PFC increase would boost air travel demand. In a 2015 survey conducted by ResearchNow, nearly six in ten Americans (58 percent) said they would be willing to pay to at least $4.00 more per flight for airport improvements. Similarly, a 2014 survey conducted by ResearchNow asked respondents how a $4.00 PFC increase would impact their willingness to fly. While 7 percent of passengers said they would fly less, 4 percent said they would fly more and 83 percent said it would have absolutely no impact at all.

If the PFC cap were increased, any potential decrease in demand due would be overwhelmingly offset by the substantial increase in demand spurred by airport improvements. As I referenced in my testimony, airport hassles caused Americans to avoid 32 million trips in 2016, which cost travel businesses $24 billion in spending and reduced air travel demand by more than 8 percent. Moreover, a 2017 survey of U.S. adults conducted by Morning Consult found that 44 percent of Americans said they would take more leisure trips by air if airport hassles could be reduced.

The U.S. Travel Association's mission is to increase travel to and within the United States. Adjusting the PFC cap will ensure that airports can quickly and cost-effectively fund improvements that enhance the passenger experience and accommodate growing demand for travel. We look forward to working with you towards our shared goals of ensuring that the overall cost of flying remains market-based and that airport user fees are adequate to keep America's airport and the broader travel industry globally competitive.

Question 2. In your testimony you note that "the PFC is an optional tool that airports may choose" to apply. If 98 of the top 100 airports currently collect a PFC, will all those airports likely raise their PFCs if the cap is lifted?

ANSWER. Thank you for the question, Congressman Graves. While the PFC is an essential financing tool that nearly every airport uses, PFC rates are set on an airport-by-airport basis and each airport has the option to set its rate at or below the statutory cap. Given the varied investment and financial needs of each airport, the time it takes to complete and approve a PFC application, and the flexibility that each airport has to set its PFC rate, it is extremely unlikely that *all* major airports would increase their PFC if the cap were raised. History has shown as much. After Congress enacted the last PFC cap increase in 2000, it took almost a decade until the vast majority of major airports were collecting the maximum $4.50 PFC. And even today, nearly 20 years after Congress increased the PFC cap, there are still several airports that are collecting a PFC below the $4.50 maximum.

The U.S. Travel Association and its membership look forward to working with you to ensure that PFC rates are based on financial need and adjusted on an airport-by-airport basis.

Question 3. Would your non-airport members would be supportive of a PFC-like tax on their products and services since they receive benefits from the airport? The consumer advocacy group Travelers United has suggested that airline passengers are already overburdened with taxes—therefore other entities that benefit from travelers should be taxed to pay for airport infrastructure. Given your broad membership—would U.S. Travel support a tax or fee, specific for airport infrastructure, on industries that benefit from airport business, such as retailers, hotels and businesses surrounding airports?

ANSWER. In limited instances, the U.S. Travel Association and its membership have supported increased *user fees*, but only in cases where:

- The increase is paid only by those travelers who directly use a particular government service;
- The revenue is reinvested back into the costs of providing or improving that service; and
- The increase is justified and necessary to accommodate or spur growing travel demand.

A PFC cap increase meets each of these criteria. However, levying a tax or fee for airport infrastructure on businesses that do not directly use airport services, even if those businesses receive indirect benefits from those services, would not meet these criteria. Therefore, the U.S. Travel Association and its membership would oppose such taxes or fees.

The U.S. Travel Association and its membership look forward to working with to prevent unreasonable taxes and fees on travelers and travel businesses.

QUESTIONS FROM HON. EDDIE BERNICE JOHNSON FOR CANDACE S. MCGRAW

Question 1. One of my airports in Dallas has their PFCs constrained until 2025 and the other airport has their PFCs constrained until 2038. This means those airports can't leverage new PFC dollars for new projects until that time. Can you explain what it means to have your PFCs constrained, and what it means to my airports in Dallas?

ANSWER. Passenger facility charges (PFCs) are a funding source that airport sponsors may use as pledged revenues to back borrowings for PFC-approved projects. For instance, at CVG, certain Terminal and airport improvements were capital projects that were originally paid for with PFCs, and thus our current PFCs are pledged as committed or constrained to paying down the borrowing on those projects until 2023.

For U.S. airports, like those in Dallas, if the airport charges a PFC up to the current cap of $4.50, given the decreasing value of money over time and the number of outstanding projects that have already been financed using PFCs, this means that an airport can count on fewer and fewer dollars being available for additional projects. If the PFC cap is not increased and is not indexed to inflation going forward, airports could see scenarios where nearly all of their PFC collections, for many years, are already committed to existing projects—forcing airports to needlessly issue debt for projects that could be financed on a pay-go basis or simply delaying projects until PFC collections can be committed to new projects.

QUESTIONS FROM HON. EDDIE BERNICE JOHNSON FOR JOSEPH W. LOPANO

Question 1. One of my airports in Dallas has their PFCs constrained until 2025 and the other airport has their PFCs constrained until 2038. This means those airports can't leverage new PFC dollars for new projects until that time. Can you explain what it means to have your PFCs constrained, and what it means to my airports in Dallas?

ANSWER. Constrained PFCs mean collections are not keeping up with the need for new infrastructure to meet passenger demand. That's because the airport PFC revenue stream is already committed to existing projects or paying debt service on PFC-backed bonds. This is caused by the lost value of the PFC due to inflation, increased construction costs and needs driven by aging infrastructure and a growing number of passengers. If the PFC is not modernized to address those issues, airports will forego some projects and issue more debt on others, spending more on interest instead of reinvesting that money into our airports. The PFC has been at the same level since 2000 and has not kept up with inflation. We are being asked to do more with half of the funding. For your airports and mine, a PFC increase gives us the ability to make investments at the spending level intended in 2000 to improve safety, increase capacity, decrease congestion and promote competition among airlines.

QUESTIONS FROM HON. GARRET GRAVES FOR MARC SCRIBNER

Question 1. You testify that an increased PFC will lower airfares by increasing competition through expanded capacity. How can you be sure that airports will actually increase capacity when so many projects are only designed to maintain or in some cases reduce capacity?

ANSWER. With respect to competition, my testimony highlighted two points. First, according to the article from Thomas Gale Moore, a transportation economist and former member of President Reagan's Council of Economic Advisors, the PFC was designed specifically for the dual purposes of reducing airline reliance on federal grants and increasing competition by reducing airline reliance on tenant air carriers for capacity improvements.

Second, the empirical findings of Zou et al. (2015) that found PFC use positively correlates with airport productive efficiency while AIP use correlates negatives suggest a mechanism: PFC authorizations do not require airline approval. Given that airlines generally drive AIP use to airside projects, the PFC—which mostly funds landside improvements such as gates—increases the likelihood that efficiency-enhancing passenger terminal projects will take place.

Federal law does not require that any of the PFC program goals established by Congress, including improved carrier competition, are assessed by the FAA after initial authorization. On this issue, there could be future improvement by Congress. However, the fact that PFC funds continue to be disproportionately spent on passenger terminals—facilities from which most potential competition benefits to consumers would be derived—suggests the PFC is broadly working as envisioned by Congress.

Question 2. In your testimony you note that by eliminating the statutory cap on PFCs, there would be an improvement in airline competition. What correlation does an increase in a user fee have to improving airline competition? Do the revenues from the user fee have to be spent on certain kinds of projects? What are other barriers to new entrants at airports?

ANSWER. It is not the user fee itself that drives competition among air carriers; rather, it is the revenue from the user fee serving as a substitute for financial support with tenant air carriers. Under federal law, airports are greatly constrained in the types of revenue they are able to collect and what that revenue may fund or finance. In this setting, airports would often turn to their airline customers for financial support. In exchange for the carrier funding a needed airport improvements, the carrier would often demand a long-term exclusive use gate lease. These exclusive-use or preferential-use gate leases, as opposed to common use gates, were then used to deny competitors access to the airport. As I noted in my testimony, Morrison and Winston (2008) found that limited gate availability at large and medium hub airports resulted in reduced carrier competition that led to increased airfares of billions of dollars per year.

As I explained in my testimony, the PFC largely shares eligibility requirements with AIP. Unlike AIP, the PFC can be used in debt service and issuance and are free from airline manipulation. Due to this added flexibility, PFC funds are more likely to be spent on landside projects—from which most potential competition benefits to consumers would be derived—than airside projects. The main benefit of the PFC with respect to competition is its substitutability with incumbent carrier financial support.

With respect to other barriers to new carrier entrants at airports, the general federal aviation framework is anti-competitive. The strict and narrow requirements on possible airport revenue and project eligibility impose a straightjacket on major passenger airports that prohibits them from behaving more as the businesses they are. Quality of service predictably suffers. Outright repeal of the Anti-Head Tax Act of 1973, from which the PFC provides a narrow exemption, would free these airports to behave more as businesses. In addition, the existing supermajority carrier approval requirement under the Airport Investment Partnership Program could be reduced to a simple majority to increase the likelihood of airport public-private partnerships. These public-private partnerships could reorient airports to be customer-focused businesses, with a main focus being adequate carrier competition and choice for passengers.

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