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On Behalf Of:
The American Association of Airport Executives/Airports Council International – North America
House Aviation Subcommittee
Financial Condition of the Aviation Trust Fund: Are Reforms Needed?
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Chairman Mica, Ranking Member Costello, thank you for the invitation to appear before the subcommittee today to offer the views of America's airports on the future of the Airport and Airway Trust Fund. I am testifying today on behalf of the American Association of Airport Executives (AAAE), Airports Council International–North America (ACI-NA), and the Airport Legislative Alliance, our joint legislative advocacy organization. AAAE represents the men and women who manage primary, commercial service, reliever, and general aviation airports. ACI-NA represents local, regional and state governing bodies that own and operate commercial airports in the United States, and Canada.

For the airport community, the importance of ensuring the financial stability of the Airport and Airway Trust Fund cannot be overstated. As you know, the Airport Improvement Program, which has proven enormously successful in building critical airport infrastructure and is one of the key methods by which airports fund capital development, is supported entirely by the Trust Fund. The FAA's Facilities and Equipment (F&E) budget, which includes funding for air traffic control modernization efforts and many important projects to increase capacity at airports, is also funded by the Trust Fund as are research, engineering, and development programs. Like AIP, these programs are critical to meeting the safety and capacity demands of the future.

Long-Term Solutions Needed to Prepare Aviation System for Future Demand

With both the user taxes that support the Trust Fund and the current authorization for Federal Aviation Administration programs set to expire at the end of fiscal year 2007, now is absolutely the right time to start the discussion on the long-term future of the Trust Fund and how we finance the nation's air transportation system. It is no surprise that this subcommittee and the Transportation and Infrastructure Committee are taking a lead role in this effort. After all, you were instrumental in shaping and passing AIR-21 and its successor legislation, VISION-100. Thanks to your leadership, federal investment in airport development has increased in recent years, enabling airports to make billions of dollars in much needed investments for runway, taxiway and apron construction and rehabilitation; airfield lighting; airfield signage; airfield drainage; land acquisition; planning studies; environmental studies; safety area improvements; airport layout plans; and airport security improvements.

Still much more needs to be done to keep pace with current demand and to prepare for the one billion passengers the FAA says will be traveling annually within the system by 2015. Looking forward, we must build on the successes of AIR-21 and VISION-100 by ensuring that adequate resources flow into the Trust Fund and that those funds, in turn, are used as promised for capital improvements based on system needs. Additionally, we must maintain the balance between Trust Fund revenue and general fund contributions to meet the diversity of FAA obligations. Nowhere is this more important than with supporting air traffic control operations, given the vital role that FAA's controllers play for our nation – both in support of commercial aviation and the military – and in light of the many benefits that each American, even those who never use the system, derives from its safe and efficient operation. Today, it is clearer than it ever has been that aviation is not just a convenience, but a necessity that protects the lives and fortunes of all Americans.

Notwithstanding these principles, it is evident that today's aviation demands are not adequately supported by Trust Fund revenue and the money that the Administration is budgeting from the general fund. Accordingly, airports support Secretary Mineta's call for a thorough review of system needs and the financing tools necessary to meet those obligations. Airports believe that any such review must include a discussion of the roles and responsibilities of government, air carriers, general aviation and airports, as well as the means by which to finance the various obligations that support the industry. We note that airports today have stepped up to help address system challenges, often financing needs traditionally borne by the FAA such as hiring environmental consultants, financing technology upgrades and replacing air traffic control towers. Undoubtedly, this will make the next reauthorization discussions extremely challenging.

Airport operators face a bewildering array of outdated economic regulations that raise the cost of doing business, particularly in planning and building new capacity. Other regulations prescribe in great detail how we may raise funds and what we may and may not do with them. These bureaucratic dictates create an enormous cost of compliance both at the airport level and with FAA staffing levels. Airports support regulations that protect the safety of the system and the integrity of the market-based aviation system, including protections against unjust discrimination and illegal revenue diversion. But bureaucratic holdovers such as competition plans need to go. The results are higher cost to airports, airlines, and passengers, and a reduced ability to serve the industry responsively. Establishing the proper regulatory and statutory framework can unleash innovation and save valuable resources.

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Some airports may even be willing to consider a broader set of options. These might include the possibility of foregoing participation in the AIP program in exchange for eliminating the artificial constraints imposed by outdated, burdensome, and counterproductive rules and regulations that make it impossible to operate in a businesslike fashion. In addition, providing unfettered local authority for the Passenger Facility Charge (PFC) program would promote better local solutions and provide more resources to the airports that rely on AIP as their sole, or near sole, source of capital development funding.

Airports have the capability to help the FAA to deploy much needed infrastructure. And, we have a number of other ideas we are eager to discuss, including proposed changes to the federal rules governing airport bonds, which are the source of the majority of overall airport capital development resources.

In Short-Term, Congress Must Reject Massive Cuts to AIP, ATC Modernization Efforts

While we look forward to a discussion of future financing options, our more immediate concern is funding for FAA capital programs in fiscal year 2006. As you know, the Administration's proposed budget calls for only $3.0 billion in funding for AIP, a nearly $500 million reduction from the FY 2005 enacted level and a $600 million reduction from the amount authorized in FY 2006. The proposed cut to AIP is one of the five biggest in all of the federal government. The F&E account also has been targeted for a major reduction in funding for the second year in a row.

The Administration's proposed cut to AIP defies logic given the program's success as verified by the Office of Management and Budget and in light of the FAA's own forecasts, which show traffic levels increasing dramatically in the years ahead. According to data released by the FAA recently as part of its annual forecast conference, U.S. commercial air carriers are expected to carry more than one billion passengers annually by 2015, up from less than 700 million passengers in 2004. Cargo and general aviation activity are also projected to grow significantly.

With an additional 300 million people expected to be added to our already crowded aviation system over the next decade, it is critical that we make the necessary investments in airport infrastructure today. Runways, which can increase capacity at an airport by 30 to 60 percent according to the FAA, can take a decade or longer to plan and build. Other infrastructure projects similarly can take years to develop. Thus, the effect of funding reductions now may not be fully felt until years down the road, just as those hundreds of millions of additional travelers crowd the aviation system.

In a June 2004 report entitled "Capacity Needs in the National Airspace System," the FAA looked at the future of airport capacity at 35 of the busiest airports in the country as well as nearly 300 other commercial service airports in more than 200 metropolitan areas. Not surprisingly, the study found that there are a handful of airports in desperate need of additional capacity now and many more that will need capacity in the relatively near future. One of the key conclusions of the report was that "[t]he predominant trend over the next two decades largely will be the expansion of existing airports to meet forecast demand. Because of the long lead times necessary to bring large complex runway projects on line, current improvement plans must move forward to keep pace with demand forecast for 2013. If the planned improvements do not occur for any reason, the number of airports experiencing capacity shortages will grow sharply."

Simply put, if we don't plan, finance, and start building these projects today, our economy, the industry, and travelers will suffer in the years ahead. Instead of helping to meet this demand, the FAA will be attempting to manage airside, terminal and ground congestion at almost every large airport in the nation.

Beyond necessary capacity enhancements, a $500 million to $600 million cut to AIP could seriously affect the ability of airports – particularly smaller facilities – to tackle much needed safety and security upgrades and other pressing projects. AIP cuts disproportionately impact smaller airports that do not have ready access to capital markets or other resources for key infrastructure projects. For a number of airports, AIP is the life blood for capital projects that allows them to keep their facilities operational and up to FAA standards.

The only possible explanation for a proposed cut of this size is budget gamesmanship. Senate Transportation Appropriations Chairman Kit Bond (R-MO) hit the nail on the head with the assessment he offered during a recent hearing on the DOT budget:

> **"While I respect and support the efforts of the Administration to reduce the deficit, I do not believe that it is appropriate to balance the Federal books on the back of critical transportation infrastructure programs. For example, the Airport Improvement Program is slated for one of the largest reductions in the entire fiscal year 2006 budget request, despite a proven track record that enhances airport safety, capacity, and security. After the program received high marks in the OMB PART process, I am at a loss to understand why this program remains in the sights of the budget gnomes."**

Mr. Chairman, we have all invested too much of our time and resources to turn back the clock to the days before the passage of AIR-21 and VISION-100. As you recall, AIP and other FAA capital programs were routinely held captive in those days to the artificial constraints of the federal budget process and were dramatically under-funded despite a steady stream of user paid revenues and despite promises made to those system users that their taxes would be used for investments in the aviation system. The disastrous summer of 2000 – when one in four flights were delayed or cancelled – is part of the unfortunate legacy of that period. Today, we have again reached the passenger levels of that year, and aircraft scheduled for the summer of 2005 have already surpassed the numbers of flights scheduled in 2000. We set the stage for repeating those mistakes for the foreseeable future unless we act now to invest in the nation's airports and aviation system.

Why has this happened?

Over the last decade, more and more of the Trust Fund has been depleted by a regular and systematic addition of operations funding despite the original intent of the fund, which was to support airport and airways investments. As the revenues in the fund have not grown as projected, the squeezing out of investment funding has accelerated. The effect becomes even more dramatic as the Administration proposes to cut $1.6 billion from the general fund contribution to FAA operations funding, reducing the level of FAA's general fund support from an FY 2005 level of 19.4 percent to 8 percent in FY 2006. The missing general fund support is made up by draining the unobligated balance of the Trust Fund to nearly zero, a risky proposition.

The Case for Fully Funding AIP at $3.6 Billion

While we firmly believe that the debate on AIP and other FAA capital programs this year has more to do with macro budget politics than the merits of individual programs, we are compelled to respond to some of the arguments the Administration has presented in trying to justify its proposed cuts to AIP.

<u>FAA's NPIAS Report</u>: First, Administration officials have suggested that an AIP funding level of only $3 billion is acceptable in light of decreased capital needs. First, it is important to remember that the National Plan of Integrated Airport Systems accounts for <u>only a select portion of AIP-eligible projects</u> and does not account for any projects funded by PFCs nor the majority of airport projects funded by revenue bonds. For example, it does not account for the close to $1 billion airport tunnel and people mover program which is long overdue to enhance inter-terminal access for passengers underway at Dulles International Airport.

The NPIAS, in fact, measures only AIP-eligible projects for which airports have not designated a funding source and that the FAA (not the airport) deems warranted and believes will be built between 2005 and 2009. For this cycle, the NPIAS estimated that $39.5 billion in AIP-eligible infrastructure development would be needed to meet all of the needs of civil aviation, a figure that is nearly 15 percent lower than the preceding report, issued in 2002. In general, AIP-eligible capital project estimates for large hub airports decreased while estimates at smaller airports increased when compared to the previous report. While many airports certainly postponed some projects after 2001 and 2002 – especially terminal and ground-side projects as airports prudently waited to see how the new security mandates would work out – airport development has since taken off as frequent visitors to airports know.

ACI-NA is in the process of finalizing its own periodic airport capital development need assessment. Based on in-depth surveys with nearly 80 of our members representing 77 percent of total U.S. passenger activity, our preliminary work shows that the $39.5 billion figure used by the FAA in the NPIAS represents a figure that is at least 25 percent below actual capital needs. I would hasten to add that ACI-NA has conducted similar surveys since 1990 and that our work has repeatedly been cited as an important source by the Government Accountability Office (GAO) and the Department of Transportation Inspector General.

Part of the difference between FAA's findings and those of ACI-NA is timing. The FAA's NPIAS data was compiled in November of 2003, meaning that it was actually collected well before that time – right in the midst of the post 9/11 low point. ACI-NA launched our capital needs survey in November of 2004 and the majority of the data we have received was submitted in the first three months of this year. We appreciate the FAA's willingness to sit down with us and attempt to reconcile our different estimates of AIP-eligible projects. We will use the information we learn from those meetings to help with the estimate of all capital needs. We have also met with the GAO on our estimates and look forward to their helping us reconcile the different estimates.

Given the dramatic changes in the aviation industry over the past year to 18 months, it is not surprising that our findings would be different than those of the FAA. Airports, which had initially put some projects on the back burner given the uncertainties that followed the 2001 downturn, have begun more aggressive planning in the face of anticipated increases in demand as verified by FAA forecasts. Some airports, such as Washington Dulles airport with the arrival of Independence Air, have seen dramatic increases in capital needs over that time period that are not accounted for in the FAA's NPIAS work.

It is also worth noting that construction costs in general have increased dramatically over that time period and are likely to continue climbing. These increases are documented in the *Engineering News Record's* costs indexes, which show in 2004 a 7.8 percent increase in construction costs, a 9.7 percent increase in building costs, and a 20.3 percent increase in materials costs. In every area of the country, the cost of steel, land, fuel, and other materials has risen substantially, a fact that adds to the discrepancy since the FAA NPIAS does not account for project cost inflation.

Regardless of what the final estimates are for NPIAS and overall capital needs, it is evident that cumulative AIP funding over that same period will not even pay for those $39.5 billion in NPIAS-identified needs, even under the most optimistic of assumptions. A program funding level of $4 billion over those years would still leave a funding gap of nearly $20 billion.

While some airports do have access to other sources of capital such as airport bonds in addition to AIP funds to help "fill" that gap, turning increasingly to those options does come at a cost to travelers and to our airline partners, who can least afford it now given their tenuous financial footing. It is also important to note that the $39.5 billion figure does not include a host of non-AIP eligible items such as parking, hangars, air cargo buildings, and the revenue producing portion of passenger terminal buildings that airports must find a way to pay for as well.

“Untapped PFCs”: FAA has also attempted to justify its reduction in AIP funding, in part, on the assertion that there exists a substantial untapped PFC capacity available at airports. This is among the most creative and flawed arguments to justify a budget request in many years. The FAA’s primary evidence of this assertion is that one airport system operating a large hub airport (Houston) does not have a PFC and that an additional handful of airports have not yet received approval for the maximum allowable PFC charge level of $4.50. Therefore, the FAA argues, that this financial capacity is “available” to airport needs. This assertion is flawed in a number of ways.

First, their estimate does not include those PFC applications that are pending at the FAA. Those applications should be processed expeditiously so airports can proceed with their needed investments. Since the number was calculated, additional airports have applied for the $4.50 PFC. In fact, only one airport system that operates large hub airports doesn’t have a PFC (Houston).

Second, the FAA does not discount the monies that a local airport will forego if they raise their PFC. When an airport moves from no PFC to $3.00, that airport loses 50 percent of its AIP entitlement. Once an airport moves from a $3.00 PFC to $4.50, the airport loses 75 percent of its original AIP entitlement.

Third, PFC revenues are local and are not portable. Airports are not permitted nor do they have the incentive to spend locally-raised PFC revenues at another airport operated by a different authority. Kansas City, Missouri, which has not increased its PFC from $3.00 to $4.50, for example, cannot increase its PFC level and give the money to Chicago to pay for the needed improvements to the airfield at O’Hare International.

Fourth and most critical, a decision by an airport operator on PFCs and other rates and charges are and must remain local decisions, determined by the airport operator together with its community of airlines. This consultation approach is exactly what is encouraged in the FAA’s own process for approving PFCs. It is in no way appropriate to view them as federal funds to offset reductions in federal funding.

All Capacity Needs Can Be Met in FY 2006: Finally, some Administration officials contend that the $3 billion level proposed by the President will allow FAA to fund all capacity related programs in FY 2006. While it is clearly not possible that cuts of more than half a billion dollars will have no effect on airport capacity projects in FY 2006, the bigger question perhaps is what the cut might mean in future years if it is allowed to stand.

As every member of this subcommittee is aware, funding the program at only $3 billion in FY 2006 will effectively make that figure the program baseline and render it extremely difficult to gain funding beyond that level in future years. With the authorized program levels at $3.6 billion and $3.7 billion respectively for FY 2006 and FY 2007, appropriated funding levels at only $3 billion in those years would translate into a cut of $1.3 billion and would likely lead to further reductions in future years. You cannot, in other words, consider this year’s budget proposal in a vacuum.

Proposed Budget Would Reduce Entitlement Funding to Individual Airports

Before closing, I would be remiss if I did not highlight for the subcommittee the impact that funding at $3 billion could have on the amount of entitlement funds flowing to individual airports across the country. As you know, Congress as part of AIR-21 approved a number of AIP formula changes that are contingent upon AIP being funded at a minimum of $3.2 billion. Under AIR-21, funding at the $3.0 billion level would dramatically reduce funding to commercial service airports, small commercial and non-commercial airports, and certain airports in Alaska. The following offers a glimpse at what this would mean for specific airport categories:

Commercial Service Airports: Under current law, primary airports – those airports with more than 10,000 annual passenger enplanements – receive an AIP entitlement based on the number of enplaned passengers they have in a given year, with a minimum entitlement of $650,000. When AIP is funded at $3.2 billion or higher – as has been the case since FY 2002 – those entitlements double and the minimum entitlement is increased to $1 million. Unless AIP is funded at a minimum of $3.2 billion in FY 2006, entitlements to primary airports could effectively be cut in half from fiscal year 2005 levels and the minimum entitlement paid to nearly 200 airports across the country could be reduced from $1 million to $650,000. Additionally, the overall $600 million cut in program funding would reduce discretionary funding that FAA uses for high-priority projects across the country. It is important to note that these primary airports would see a reduction even if Congress does approve the legislative language the Administration has requested because of separate provisions that proposes to reduce primary entitlements in order to increase the FAA discretionary fund.

Small Commercial and Non-Commercial Airports: Current law also provides grants of up to $150,000 to smaller, non-primary airports in years where the program is funded at $3.2 billion or higher. In FY 2005, more than 2,700 airports received funding under this entitlement. **Funding AIP at $3.0 billion could result in the elimination of the non-primary entitlement in FY 2006.** Additionally, the pool of funding for smaller airports through the Small Airport Fund would be reduced by more than $100 million. Certain airports in Alaska that receive a separate entitlement would also be seriously impacted by a reduction below $3.2 billion.

Conclusion:

Mr. Chairman, as the experiences of this year are proving once again, making the capital investments necessary to prepare our already overwhelmed aviation system for the challenges of the future will not be easy. Also, with globalization, air transportation has become one of the most important engines for economic development and growth contributing an estimated $548.6 billion (Department of Commerce, BEA estimate) to the U.S. economy. A healthy national airport system is vital to our nation's competitiveness.

Airports continue to believe in the fundamental principle that revenues raised by aviation users must be used to pay for aviation system improvements. At the same time, we recognize that increasing budget pressures call for innovative approaches to future system financing, and we are eager to participate in broader discussions about the roles and responsibilities of everyone engaged in the aviation enterprise. We are actively pursuing new approaches to financing airport development, and we look forward to working closely with you and the subcommittee as the debate moves forward.