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SUBCOMMITTEE ON AVIATION
HOUSE TRANSPORTATION AND INFRASTRUCTURE COMMITTEE

HEARING ON AIRPORT FINANCING AND DEVELOPMENT
JUNE 18, 2014

STATEMENT OF
AIRLINES FOR AMERICA

We appreciate the opportunity to join you to discuss the state of airport financing and development in the United States. This is an important matter for the stakeholders represented here today. But ultimately, of course, it is the passengers and shippers, as well as the communities and the national economy that benefit from commercial aviation services that have the greatest stake in what we are discussing this morning.

From A4A members' perspective, there are three overarching considerations in evaluating airport infrastructure and financing issues.

- Airlines are dependent on adequate airside and groundside infrastructure. We, more than any other stakeholder, need sufficient resources at airports to serve our customers effectively and efficiently. We are acutely aware of that need. We work day-in and day-out with airports, large and small, on necessary capital projects. That close collaboration has been extraordinarily effective.
- U.S. airports enjoy access to a variety of sources of airport-project funding and they have consistently been able to tap those sources to pay for improvements. There thus is no current or foreseeable crisis in airport funding. On the contrary, the sufficiency of that funding is plain to see.
- The way to approach infrastructure and funding issues is first to determine at the particular airport the development needs and then to establish the necessary funding levels. This demand-focused approach has repeatedly shown that projects can be paid-for within existing financing means. There is no empirical justification to raise airport-related taxes, such as Passenger Facility Charges. That is the long and short of it.

OVERVIEW

The U.S. airline industry, in collaboration with our airport partners, has been investing hundreds of millions of dollars in airport infrastructure, not to mention new aircraft and engines, mobile technology, ground equipment and the like. These investments, accelerating in the past few years, have been made possible by our improving finances. At the same time, the industry's financial recovery has been accompanied by an increasingly healthy Airport and Airway Trust Fund, which enjoyed record-high revenues in 2013 and the highest uncommitted balance in 13 years.

All around us, things are looking up. Needed airport projects are getting funded, new aircraft are arriving, airlines are returning seats to the skies and our customers are benefiting. From our vantage point, things are moving in the right direction. The financial wherewithal to continue to make the types of prudent investments that we and our airport partners have been making, in concert with plentiful access to the bond markets, demonstrate that there is no need for a higher Passenger Facility Charge.

While many airport and FAA traffic forecasts have consistently over-projected demand, the airlines support demand-driven, ROI-justified investments that not only enhance system capacity and efficiency but also keep the airports affordable for both airlines and their customers. Clearly, we are aligned with airports and policymakers on the desire to keep air service plentiful. As the primary financial tenants of U.S. airports, we know that it is critical for us to strike the right balance of investment and affordability. Doing so is what keeps our system strong.

THE ECONOMICS OF THE AIRLINE INDUSTRY IS MOVING IN THE RIGHT DIRECTION AND CUSTOMERS ARE BENEFITING FROM IMPROVED AIRLINE PROFITABILITY

Often overlooked in discussions of airport infrastructure projects and their funding is the importance of the economic health of the airline industry. That is an indispensable consideration. A healthier airline industry helps all stakeholders. It translates into more airport activity, more economic benefits to the local community and more ability to fund needed airport projects that improve the customer experience.

Today, for a change, things are improving in the U.S. airline industry. The beneficiaries of this improvement are not only airline customers but also stakeholders represented in this hearing. U.S. airline industry capital expenditures rose 141 percent from $5.2 billion in 2010 to $12.4 billion in 2013. These expenditures are aimed at such customer-friendly initiatives as new aircraft, larger overhead bins, premium seating, airport lounges, ground equipment, mobile technology, customer kiosks at airports, in-flight entertainment and WiFi.

Thus far in 2014, the rate of capital spending in the industry remains at $1 billion per month and will include the delivery of 255 new aircraft. Moreover, carriers have invested heavily to improve baggage handling. Improved DOT consumer statistics reflect that as well as improved on-time performance, reduced denied boarding rates and even lower customer complaint levels.

These are some of the tangible benefits of a more financially secure U.S. airline industry. We are not yet where we should be in comparison to typical business performance in our national economy but we are improving. That furthers the well-being of our customers, and others that depend on us – including our colleagues in the airport community.

AIRLINE-AIRPORT COLLABORATION HAS WORKED REMARKABLY WELL

U.S. airlines strongly support necessary airport improvement projects. We are in the midst of massive infrastructure investments across the country. This has occurred, we wish to emphasize, in close cooperation with airports.

This collaborative engagement has produced outstanding results. Since 2008, the 29 largest U.S. airports alone have started or completed over $52 billion in capital projects. They include new runways at Chicago-O'Hare, Washington-Dulles, Seattle and Charlotte airports; new international passenger facilities at Atlanta and Los Angeles airports; and new or substantially renovated terminals, including those at Miami, Las Vegas, Houston and San Francisco airports. Scores of runway and terminal projects have also been undertaken or completed at hundreds of airports in other communities – from Greenville-Spartanburg to Charleston, SC to Indianapolis to Portland, OR and elsewhere.

Also since 2008, U.S. airlines have invested more than $2 billion of their own capital in airport improvement projects, most notably at New York (JFK and LaGuardia), Los Angeles, San Francisco, Seattle, Houston and Boston, as well as at many other airports.

We have every reason to believe that this string of airport improvements will continue.

AIRPORTS ARE ALSO DOING WELL FINANCIALLY WITH AMPLE RESOURCES AVAILABLE

A variety of financial measures demonstrate that U.S. airports are doing well. They clearly have the wherewithal and the access to funding to respond to capacity demands today and in the foreseeable future.

The results are striking. U.S. airports collected nearly $24 billion in revenues in calendar year 2012, a record-high level. Airport revenues have increased 59 percent since 2000. (During the same period airline operations declined 12 percent.) This sum includes $9.5 billion in airline revenues and $7.8 billion in non-airline revenues (such as parking, food and beverage, and other retail sales). PFC collections exceeded $2.8 annually in 2013, rebounding to their highest level since Calendar Year 2007. The FAA forecasts that they will remain so in 2014. Airport Improvement Program funding, which is particularly helpful for more modest-size and general aviation airports, currently stands at $3.35 billion annually. Finally, U.S. airports have more than $10 billion in cash and unrestricted investments on their balance sheets.

These data portray a financially robust segment of the aviation industry. Firms that evaluate the airport community's financial health recognize that. Every U.S. airport that Standard & Poor's rates enjoys an investment grade rating and most are solidly in the

A- to AA+ ranges. The same, unfortunately, cannot be said of the U.S. airline industry, despite its improving condition.

A4A MEMBERS SUPPORT DEMAND-DRIVEN FUNDING AND OPPOSE PFC INCREASES

Airlines will continue to work closely with the airports at which they operate to enable funding for demand-driven, financially-justified investments that enhance capacity and efficiency but keep airports affordable for both airlines and customers. Indications are clear that existing financing capacity for such projects will remain ample.

While the financial condition of the U.S. airline industry is recovering, current passenger levels are still lower than those of 2007, the all-time high, and flight operations as noted above have declined 12 percent since 2000. Moreover the FAA's forecast as to when the industry will reach the one billion passenger mark has slid almost 20 years from 2008 to 2027.[1] And according to the FAA, the 2007 level of aircraft operations at U.S. airports is not projected to be experienced again until 2033.[2] Thus, while airport improvement projects will continue to be necessary, the airport system in the United States will not be subject to unmanageable traffic growth.

The clear implication of this situation is that although airport infrastructure projects will be ongoing, they will be sustainable within existing revenue streams. This is a key point to understand. Airports are not confronting funding shortfalls or a constriction of funding sources.

Recent discussions about PFCs all-too-often suffer from a lack of understanding of the program's origin and objective. This is a shortcoming that impoverishes many of these discussions.

Congress created PFCs in 1991 to provide airports with an *alternate* (not the prime) funding source. Understanding the context of the origin of the program is crucial. It arose at a time when airlines often had the contractual right to approve or prevent airport capital projects and associated bond funding. PFCs were not intended to be the primary or exclusive source of capital-project financing. Congress did not intend that PFCs displace then-existing funding sources.

Bonds remain the primary source of funding for airport capital projects. Indeed, historically over 50 percent of airport projects have been bond-funded and that magnitude of reliance remains today. That, of course, is very understandable: Airports enjoy investment grade ratings and therefore economical access to the vast bond market. No U.S. commercial airport to our knowledge has been prevented from securing bond funding for an airport improvement project.

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[1] Federal Aviation Administration, "FAA Aerospace Forecast Fiscal Years 2014-2034", at 96 (Table 5), http://www.faa.gov/about/office_org/headquarters_offices/apl/aviation_forecasts/aerospace_forecasts/2014-2034/

[2] *Id.* at 123 (Table 32).

Furthermore, the bond market brings discipline to airport development scoping and encourages the pursuit of projects that are economically sustainable, thereby discouraging unnecessary and inefficient projects. That outcome is clearly in the public interest.

Nevertheless, airlines are sensitive about the implications of bond funding. They repay bonds that an airport procures through their rents and fees. Airlines intentionally chose this payment mechanism because, while an expense, it avoids the harmful effect on demand that additional passenger taxes and fees produce.

The foregoing does not mean that the existing funding system cannot be enhanced. For example, we urge Congress to make permanent the tax-exempt status of airport bonds. In addition, the FAA's Privatization Program successfully used at San Juan and public-private partnerships (such as those being used for the LaGuardia Central Terminal Building and Dallas Love field modernization projects) are options as funding vehicles.

HIGHER AVIATION TAXES WOULD HARM AIRLINE CUSTOMERS AND THE NATIONAL ECONOMY

No new airport-related taxes should be imposed on airlines or the customers that we serve. Incontrovertible economic considerations dictate that.

Commercial aviation is vital to our nation's economy. It enables more than 10 million U.S. jobs and five percent of our national gross domestic product.

While these numbers are impressive, they must be viewed against the backdrop of the continuing difficulties afflicting the U.S. airline industry. After losing a staggering $50 billion since 2001, the U.S. airline industry has begun to recover over the past several years but with profit margins that continue to lag the Standard and Poor's (S&P) 500 average. As a result, the nine largest carriers entered 2014 with $72 billion in debt and, with one exception, non-investment grade credit ratings. In fact, the highest rated U.S. airline ranks with the lowest rated U.S. airports, all of which as we noted previously enjoy investment-grade credit.

Nonetheless, the nascent financial recovery allowed these carriers in 2013 to pay down $7.6 billion in debt and begin to lure more equity capital by returning cash to shareholders. Moreover, there is an important human element to this recovery. After a decade of sharp workforce reductions, U.S. passenger airlines saw employment grow 1 percent and wages and benefits rise 10 percent from 2010 to 2013. This progress in reinvesting in our people and products, along with rewarding shareholders, would be under pressure if higher taxes prevailed. Taxes and fees thus represent a continuing threat to this recovery.

Airlines and their customers paid over $19 billion in special taxes and fees in Fiscal Year 2013. In Fiscal Year 2015, this amount will exceed $20 billion with the increase of the TSA passenger security fee that will become effective July 1, 2014. That increase

will mean a 125 percent increase on nonstop itineraries. Neither we nor our customers should be burdened with additional impositions.
There is nothing abstract about our opposition. A PFC increase would be a system-wide and permanent tax. Its repercussions would be substantial and ongoing. Every $1 rise in the PFC would cost passengers an additional $700 million annually; increasing the PFC to $8.00 or higher would cost in excess of $2.5 billion annually.

Increasing the PFC cap would consequently dampen passenger demand and travel and tourism, could imperil air service, particularly at small communities, and would undermine job creation in the commercial aviation industry. Like any other industry, costs – whatever their source – make a palpable difference to the airline industry. This was recently demonstrated in a February 2012 GAO report, which found that a 1 percent increase in the price of an airline ticket (including taxes and fees) would result in a 1.122 percent reduction in the quantity of airline tickets sold.[3] That is unmistakable harm.

A PFC increase would be bad economic policy and, as shown above, unnecessary to fund airport infrastructure improvements.

CONCLUSION

We have a winning formula that consistently provides needed airport infrastructure funding. It consists of close collaboration with airports; disciplined, demand-driven development of infrastructure projects; continued reliance on tried-and-true funding mechanisms; and avoiding encumbering airlines and their customers with additional taxes. We need to stick with that formula.

[3] General Accountability Office, “2012 Annual Report: Opportunities to Reduce Duplication, Overlap and Fragmentation, Achieve Savings, and Enhance Revenue”, at 310 n. 13 (Feb. 28, 2012), http://www.gao.gov/products/GAO-12-342SP.
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