U.S. HOUSE OF REPRESENTATIVES

COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE

* * *

FULL COMMITTEE HEARING:

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

MARCH 26, 2019

* * *

TESTIMONY OF CANDACE S. McGRAW

CHIEF EXECUTIVE OFFICER

CINCINNATI / NORTHERN KENTUCKY INTERNATIONAL AIRPORT (CVG)

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% 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% 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important things I hope you take away from today is that airports are running out of time for Congress to remove the outdated cap on the PFC and increase AIP funding.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.

<u>The Tale of Two Airports: CVG Then and Now</u>

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 re-build 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% 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% 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% of our passengers were connecting during our hub days, *local* passengers now account for over 90% of our activity, a record level and a 97% 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% 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%, 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.

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.

Exhibit B: Statement of *Beyond the Runway* Coalition for March 26, 2019, Hearing

Statement of the Beyond the Runway Coalition
Hearing on "The Cost of Doing Nothing: Why Investment in Our Nation's Airports Matters"
Before the House Committee on Transportation and Infrastructure
March 26, 2019

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.

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
harrahj1@nku.edu

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

		Fiscal Impacts			
Capital Investment	Total Jobs	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
$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
harrahj1@nku.edu

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 production and hires 100 new workers. This change in production will likely lead to additional impacts on 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 PFC dollars 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.

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
harrahj1@nku.edu

Statement of Airports Council International – North America
Hearing on "The Cost of Doing Nothing: Why Investment in Our Nation's Airports Matters"
Before the House Committee on Transportation and Infrastructure
March 26, 2019

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 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,	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

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.	– 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.
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?