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AirportsUnited

PASSENGER FACILITY CHARGE

MYTHS VS. FACTS

MYTH

The Passenger Facility Charge (PFC) is a tax levied on passengers.

FACT

PFCs are locally collected user fees paid by passengers when they use airport facilities to help defray the costs of building airport infrastructure.

DEBUNKING THE MYTH

PFCs are a classic user fee – paid only by those who use the airport and spent only on FAA-eligible projects at that airport with input from airlines and local communities. While Congress has set a PFC cap, the federal government does not collect PFCs, nor does the federal government spend PFC dollars. As such, PFCs are local user fees that represent the passengers' direct investment in airport infrastructure.

The highly-respected and non-partisan Congressional Research Service (CRS) agrees. In a January 2015 report CRS accurately describes the PFC as "a state, local, or port authority fee, not a federally imposed tax deposited into the Treasury."

MYTH

If Congress updates the PFC cap, demand for travel will go down.

FACT

Modernizing the PFC to restore its purchasing power would not have a significant impact on demand as the airlines claim.

DEBUNKING THE MYTH

At a time when the airlines are charging passengers $25 to check a bag and $200 to change their tickets, the argument that eliminating the outdated the PFC cap would somehow dramatically impact demand does not hold up. In fact, airfares have increased more than 22 percent since 2009. Revenue from bag fees and other ancillary fees have also increased dramatically in recent years, with both baggage and reservation change collections increasing in each of the past four years. But rather than going down, enplanements have actually *increased*.

ACI NORTH AMERICA AIRPORTS COUNCIL INTERNATIONAL

AMERICAN ASSOCIATION OF AIRPORT EXECUTIVES

MYTH

Due to their sterling credit ratings, airports can simply fund all necessary projects through bond financing.

FACT

Bonds are not a source of revenue, but rather a financing mechanism that must be repaid.

DEBUNKING THE MYTH

Airports are proud of their financial prudence and strong credit ratings. As the Government Accountability Office (GAO) has stated, though, bonds are not a source of revenue but rather a financing mechanism that must be repaid. Airports must have a source of revenue to repay the bonds, and PFCs are a very important mechanism to do so. Moreover, many airports are unable to go to the bond market or issue new bonds to finance their capital projects. Many airports have reached the limits of their debt capacity and simply cannot finance new projects with more bonds. That is why it is critical that Congress eliminate the outdated PFC cap.

MYTH

Airports have “ample resources” such as unrestricted cash reserves to fund needed improvement projects.

FACT

Reserve funds help airports be prepared to cover loss of revenue when a carrier terminates service or declares bankruptcy.

DEBUNKING THE MYTH

Like most Americans and businesses around the country, airports wisely put aside cash reserves in a contingency fund in case of an emergency. Such reserve funds help airports be prepared to cover loss of revenue when a carrier terminates service or a natural disaster strikes. And cash reserves are often required or encouraged by bond rating agencies. Complying with the rating agencies’ guidance on reserves helps airports maintain their strong credit ratings and preserve access to lower interest rates, which benefit airlines and travelers.

Reserves that are required by financing agreements cannot simply be spent or the airport loses the financing benefits of having the reserves. These reserves have helped keep financing costs down on the almost $88 billion debt airports reported at the end of 2015.

MYTH

Airlines have invested and will invest in all necessary airport infrastructure improvements.

FACT

Carriers tend to support those infrastructure projects that they believe will advance their own interests.

DEBUNKING THE MYTH

In some instances airlines do directly invest in infrastructure, but incumbent carriers tend to support those infrastructure projects that they believe will advance their own interests, such as expansion of facilities to expedite their own operations. Often times, though, they oppose funding projects that benefit their competitors or bring in new competition. Yet from the airport, community, and air passenger perspectives, such investments are important because they help reduce or hold down airfares and provide more alternatives for air travelers. Airlines cannot stifle competition by vetoing PFC projects.

MYTH

The current PFC provides airports with all the resources they need to make needed infrastructure upgrades.

FACT

The purchasing power of the PFC has declined over the years due to inflation in construction costs.

DEBUNKING THE MYTH

In 2015, airports collected $3 billion in PFC revenue. According to ACI-NA's latest Capital Needs Survey, airports of all sizes need more than $15 billion annually in infrastructure improvements to fix aging runways and terminals, relieve congestion and delays, enhance security, and spur new airline competition. That is up from ACI-NA's previous estimate, and it is more than twice the $6.2 billion that airports received from both PFCs and the Airport Improvement Program (AIP) last year.

What's more, the purchasing power of the PFC has declined over the years due to inflation in construction costs. Construction cost inflation also negatively impacts AIP funding, which has been stagnant in recent years.

It is time to get Washington out of the way of local airport infrastructure investment decisions. Modernizing the PFC cap now is a good, fiscally-responsible way to ensure that airports have the resources they need in the future to increase capacity, promote competition, and enhance safety and security without burdening the federal budget.

MYTH

The Airport and Airway Trust Fund (AATF) has $5.7 billion in uncommitted funds that can be used to pay for airport improvement projects.

FACT

The uncommitted balanced helps maintain the liquidity of the trust fund.

DEBUNKING THE MYTH

If the government were to spend the uncommitted balance, it would bankrupt the AATF, essentially turning it into another Highway Trust Fund. Moreover, the AATF is used for much more than just airport infrastructure projects. The AATF funds a host of other modernization initiatives like air traffic control modernization (NextGen), as well a majority of FAA operational costs.

Despite an increasing AATF balance, AIP funding has been reduced from $3.515 billion in FY11 to $3.35 billion in FY15 – about a 5 percent cut. Moreover, rising construction costs have chipped away at the purchasing power of both AIP funding and the $4.50 PFC. To make matters worse, Congress diverted $253 million in AIP funds to pay for FAA operations during the first round of sequestration in 2013.

While AIP is an important source of funding for airport infrastructure projects, Congress did not increase AIP federal funding for airports in the recent transportation spending bills despite the high uncommitted balance in the Trust Fund. Considering the downward pressure on federal funding and rising airport capital needs, it is now more important than ever that Congress eliminate the outdated PFC cap and provide airports with the self-help they need to finance a greater share of infrastructure projects with local revenues.

MYTH

Revenues in the Airport and Airway Trust Fund (AATF) have been growing and will continue to grow.

FACT

The future of the AATF may be a little murky because the airlines are relying increasingly on bag fees and other ancillary charges, which—unlike base fares—are not subject to aviation excise taxes.

DEBUNKING THE MYTH

The uncommitted balance of the AATF tends to fluctuate, as it dipped to just $300 million in 2009. The future of the AATF may be a little murky because the airlines are relying increasingly on bag fees and other ancillary charges, which—unlike base fares—are not subject to aviation excise taxes.

Since 2008, airlines have collected almost $27 billion in baggage fees and approximately $22 billion in ticket change and cancellation fees. That total of almost $50 billion in baggage and ticket change fees does not include other airline ancillary charges such as pet transportation, sale of frequent flyer award miles to airline business partners, or standby passenger fees. These amounts are rising steadily as airlines collected more than $3.8 billion in baggage fees during 2015, the highest amount of any year to date, and they collected another $3 billion in reservation change or cancellation fees, also the highest yearly figure to date.

Additionally, because bag fees are not taxed at the same 7.5 percent excise tax rate applied to base airline tickets, the Airport and Airway Trust Fund lost $285 million in foregone revenue in 2015 alone. Since 2008, the more than $25 billion in bag fees that are not taxed have cost the Trust Fund more than $2 billion in lost revenue. Those are funds that could have otherwise been spent on needed airport and air traffic control upgrades.

MYTH

There is no need to modernize the PFC.

FACT

The PFC is a crucial component of airport financing, allowing airports to utilize local resources to meet growing infrastructure needs.

DEBUNKING THE MYTH

Unfortunately, the federal government's arbitrary cap on local PFCs has not been adjusted in 16 years, leaving airports with a limited ability to address critical safety, security, and capacity-enhancing projects necessary to upgrade aging facilities and to serve an ever-growing population of air travelers.

Enplanements this year are expected to meet or exceed pre-recession traffic levels, and the FAA estimates that enplanements will increase from 786 million in 2015 to almost 840 million in 2017 – an increase of more than 50 million in just two years.

In addition, airlines are often using larger aircraft and achieving higher load factors than in previous years, which means certain airport facilities are being stressed by an increasing concentration of passengers. This includes passenger screening areas, which can be improved with PFC funding. Therefore, terminals often need to be expanded or rehabilitated, and airfield facilities need to be updated and reconstructed to maintain safety and security and to accommodate higher passenger levels. Eliminating the outdated PFC cap will provide airports with the resources they need to finance increasing capital needs and stimulate much-needed competition in the airline industry.