



November 13, 2017

The Honorable Orrin Hatch
Chairman
Committee on Finance
United States Senate
Washington, DC 20510

The Honorable Ron Wyden
Ranking Member
Committee on Finance
United States Senate
Washington, DC 20510

Dear Chairman Hatch and Ranking Member Wyden:

As the Senate Committee on Finance prepares to consider comprehensive tax reform legislation, Airports Council International—North America and the American Association of Airport Executives write to express both **our strong support for the preservation of the tax exemption for Private Activity Bonds (PABs)** in the Senate draft unveiled last week and **our strong opposition to a provision in the measure that would prevent advance refunding of municipal bonds.**

PABs and the ability to refund municipal bonds in advance of their call date are crucial, cost-effective mechanisms used extensively to finance improvements in our nation's commercial service airports. Proposals to change current law applicable to PABs and advance refunding would significantly impede jobs and economic activity tied to thousands of infrastructure projects across the country. At a time when Congress and White House have indicated a desire to pursue a large infrastructure package, eroding the effectiveness of bonds would be steps in the wrong direction.

Commercial service airports represent a partnership between airport operators, airlines, and private companies that deliver facilities, services, and products to the flying public. Our work together creates a vibrant business climate that benefits both the commercial sector at the airport and the local economies of the communities in which we operate. This unique structure impacts the mechanisms that can be used to finance airport capital improvements. While tax-exempt governmental (general obligation) bonds can be used to finance construction of public purpose elements of an airport (i.e., the runways, moving walkways, and electrical systems), PABs must be used to finance parts of the airport that serve a public purpose but provide a

benefit to a private entity that conducts operations in the facility (i.e., terminals, maintenance facilities, and parking garages). Since they were defined in the Internal Revenue Code in 1968, PABs have proven to be the most cost-efficient financing mechanism for airport capital projects involving a private beneficiary, far surpassing the efficacy of tax-credit bonds, public/private partnerships, and bank loans.

Sixty percent of bonds issued to finance airport capital projects are issued as PABs. Currently, PABs carry a cost of financing that is 70 to 100 basis points lower than their taxable equivalent. In 2016, airports issued \$12.4 billion in governmental bonds to finance airport capital projects, and \$6.1 billion of this amount was issued as PABs. Further, it is estimated that more than \$100 billion in airport capital improvements are needed between 2017 and 2021 to renovate, expand, and modernize airports to meet the needs of increased passenger loads and security and safety requirements. Changes to the tax treatment of interest paid on PABs could increase costs to the airport industry for these improvements by \$3.2 billion over the life of the bonds (\$1.9 billion in present value). In addition, restricting the ability of issuers to take advantage of lower interest rates through refunding mechanisms will further increase the overall cost of airport construction and renovation. Faced with these increased costs, some airports may have no choice but to delay or cancel these projects—and abandon the jobs and increased economic activity airports provide to communities across the country.

We appreciate the recognition of the importance of PABs in the Senate tax reform proposal released last week and urge you to reconsider provisions to repeal advance refunding for municipal bonds. Taken together, PABs and the ability to use advance refunding for municipal bonds provide benefits to all commercial airports—and all issuers—involved in financing, constructing, and renovating the first-in-class airport infrastructure that the flying public expects and deserves.

Sincerely,



Kevin M. Burke
President and CEO
Airports Council International—North America



Todd Hauptli
President and CEO
American Association of Airport Executives

CC: Majority Leader McConnell
Democratic Leader Schumer