AAAE, ACI-NA, U.S. Travel Response to Misleading A4A Claims
November 2017

Claim: **S. 1655, the Fiscal Year 2018 Transportation, Housing and Urban Development, and Related Agency Appropriations Act "nearly doubles the Passenger Facility Charge (PFC) tax from $4.50 to $8.50."**

Rebuttal:

- No matter how many times A4A repeats it, PFCs are not taxes. PFCs are local user fees that airports rely on to repair aging facilities, improve aviation safety, and accommodate rising demand.

- The bipartisan proposal in S. 1655 backed by Senators Susan Collins and Jack Reed would simply allow airports to increase their local PFC if they have meaningful projects and determine that the PFC is the best mechanism for paying for those projects; it does not require that they pursue an increase.

- PFCs are imposed by states or units of local government. PFCs are not collected by the federal government, not spent by the federal government, and not deposited into the U.S. Treasury. They are collected by the airlines on behalf of airports and remitted directly to the airports on a monthly basis minus a handling fee of $0.11 that the airlines keep.

- A4A conveniently fails to point out that the proposed PFC increase in the Senate bill is an option that would apply only to originating passengers. The $4.50 limit on connecting passengers would remain intact – a provision aimed at ensuring that passengers who live smaller communities are not disadvantaged by the airline hub and spoke system.

Claim: **A PFC increase will hurt the economy and small communities.**

Rebuttal:

- If an airport is concerned that a change in the local PFC would be disadvantageous in any way, it does not have to pursue an increase. Again, PFCs are determined locally. They are not mandated taxes – despite repeated claims by A4A to the contrary.

- Building more infrastructure would allow airports to increase capacity, reduce delays, support more jobs, and help our economy – not hurt it. The American economy simply cannot afford more delays and increased costs in making these much-needed infrastructure improvements at our airports.

- Absent an influx of federal funding, which is unlikely, additional PFC flexibility represents one of the only avenues available to provide smaller airports additional resources for critical infrastructure investment – a clear benefit to local airports and economies.

- The Senate proposal also limits any potential PFC increase to originating passengers only. This modest plan address concerns that have been raised regarding travelers from smaller and less populated communities who are often forced to change planes at connecting airports.

- Additionally, the Senate bill would recalibrate the federal Airport Improvement Program (AIP) so that large airports that choose to increase their PFC would forgo some AIP funding to the direct benefit of smaller airports. That's why this is a fair and balanced approach that would benefit large and small airports alike.

***Claim:* "The Federal Aviation Administration (FAA) recently revealed that taxes collected from airline passengers – exceeding $14 billion."**

Rebuttal:

- The airlines would have a point if all the revenue collected from aviation excise taxes including airline passengers and general aviation users went to help airports repair aging infrastructure and accommodate rising passengers. But revenue from aviation excises taxes helps to fund the entire FAA – not just airport infrastructure.

- The fact is the vast majority of revenue from aviation excise taxes goes toward FAA Operations and other agency functions. Almost $8 billion from the Airport and Airport and Airway Trust Fund went to FAA Operations in FY16. The agency's Facilities and Equipment account received another $2.9 billion during the same year.

- It's ironic that the airlines often complain about being "over-taxed" even though they continue generate increasing amounts of revenue from $25 bag fees and $200 reservation change fees. Last year, airlines collected almost $4.2 billion from bag fees and almost $2.9 billion from reservation change fees for approximately $7.1 billion in one year alone.

- Between 2008 and the second quarter of 2017 (the last quarter available), the airlines collected more than $31.1 billion in bag fees and $24.4 billion from reservation change fees for a total of approximately $55.6 billion.

***Claim:* "The Airport and Airway Trust Fund (AATF) has an unobligated balance of almost $6 billion in FY2017."**

Rebuttal:

- The Airport and Airway Trust Fund may currently have a healthy uncommitted balance. But that doesn't mean that AIP provides "ample funding to airports" or that Congress is going to suddenly appropriate substantially more funding for airport infrastructure projects.

- To the contrary, AIP only covers a fraction of airport capital needs. The FAA estimates that airports have $6.5 billion in AIP-eligible projects annually. That's more than double the amount that Congress appropriated for airport improvements in FY17. ACI-NA estimates that airport infrastructure needs – including AIP-eligible and non-eligible projects – is approximately $20 billion annually.

- According to ACI-NA, Airports have over $100 billion in infrastructure needs over the next 5 years. Sixty percent of those projects are on the terminal side, which are not eligible for funding under the federal AIP grant program. That is why airports need control over their own local user fees to pay for these essential terminal projects

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

- The bag fee tax loophole alone costs the Trust Fund more than $300 million annually. Between 2008 and the second quarter of 2017 (the last quarter available), the airlines collected nearly more than $31.1 billion in bag fees.

- Since airline bag fees are not subject to the 7.5 percent aviation excise tax, the Trust Fund has lost more than $2.3 billion in foregone revenue – funding that could have been used to pay for airport infrastructure projects, NextGen, and other FAA program. And that figure doesn't include the foregone revenue from other airline ancillary charges.

Claim: **"….over $100 billion of airport projects are underway or have been completed at the since 2008 at the top 30 airports alone."**

Rebuttal:

- Airports have invested billions of dollars in airport infrastructure projects during the past several years. It is no secret that airports have used PFCs and other revenue to build runways, terminals, and other critical infrastructure projects.

- But completing a runway here and a new terminal there doesn't mean that our work is done. Airports still need to repair aging facilities and continue to invest in necessary safety, security, and capacity projects that benefit airports, airlines, and our passengers.

- According to ACI-NA's latest Airport Infrastructure Needs Survey, airports of all sizes require $20 billion annually to fix aging runways and terminals, relieve congestion and delays, and spur new airline competition. The estimate is more than three times the $6.4 billion that airports received in AIP funds and PFC revenue last year.

Claim: **"In 2016, U.S. airports collected a record $28.8 billion including $11.4 billion in airline rents and fees, $3.2 billion in existing in existing PFCs, $9.7 billion in non-airline revenues (restaurants and other concessions) and $3.4 billion from the FAA's Airport Improvement Program (AIP)."**

Rebuttal:

- The airlines argue that it isn't necessary to adjust the PFC cap because airports collected $28.8 billion in 2016. The airlines might have a point if airports could have used all of that revenue for capital projects. But airports used most of that revenue to cover day-to-day operating expenses.

- The fact is the lion's share of the airline's estimate – $20.2 billion – paid for airport operating expenses. Airports used operations revenue for personnel; firefighting; law enforcement; janitorial services; utilities like electricity, water, and heating and cooling.

- Even our airline friends would have to admit that it's hard to run an airport without any employees to clear runways, without any firefighters available to respond to an emergency, without any law enforcement personnel, and without any electricity.

- A4A's claim that indicates that airports received $3.4 billion is also misleading because airports didn't actually receive that full amount for their capital projects. Of the $3.35 billion that Congress appropriated for AIP in that fiscal year, less than $3.2 billion was designated for airport capital projects.

- We realize that it is highly unlikely that Congress will appropriate a massive increase in federal spending for airport infrastructure projects. We're merely asking that Congress allow airports to generate more local revenue themselves so they can build the safety, security, and capacity projects they need to accommodate rising demand.

***Claim:* Airports have a "record high amount of cash reserves, reaching $14.2 billion in FY2017 and "low-interest bond capabilities."**

Rebuttal on Cash Reserves:

- Airports are often required to have uncommitted reserves for bond covenants. If airports didn't have those reserves on hand, their credit rating would likely be downgraded. A lower bond rating would increase airport borrowing costs, which airports would be forced to pass on to airlines and other tenants.

- It's odd for the airlines to suggest that airports should have <u>less</u> unrestricted cash, since doing so could result in <u>higher</u> borrowing costs and ultimately <u>higher</u> fees for the airlines themselves.

- Airports often use some of their unrestricted cash to begin building infrastructure projects while they are waiting for the FAA to distribute AIP funding. This temporary source of revenue was particularly important when AIP funding was held up as a result of repeated short-term extensions and government shutdowns.

- Like many Americans and businesses around the country, airports also wisely put aside revenue so they have resources on hand in case of an emergency. Reserve funds allow airports to prepare for natural disasters and for times when incoming revenue suddenly drops such as when a carrier unexpectedly terminates service.

- What the airlines don't highlight is the fact that airports also had approximately $88 billion in debt 2017 – far more than the amount of unrestricted cash.

Rebuttal on Bond Capabilities:

- The airlines seem to suggest that airports should simply take on more debt and issue more low-interest bonds to meet their growing infrastructure development needs. Airports are already highly leveraged with debt, and it is possible that airport bond financing costs may rise dramatically soon.

- The House-passed version of the Tax Cuts and Jobs Act calls for completely eliminating tax-exempt Private Activity Bonds (PABs) and advance refunding bonds. If enacted into law, these two proposals would dramatically increase costs for airports that issue bonds to finance their infrastructure.

- For instance, one large hub airport estimates that the bond provisions would cost it approximately $1.4 billion, and another estimates that the PAB proposal would cost it $550 million over the next five to seven years. In other words, the bond proposals could increase costs for just two airports by approximately $2 billion.

- Regardless of what happens with the tax reform bill, many airports are unable to issue new bonds because they have reached the limits of their debt capacity. Other small airports are simply unable to go to the bond market to finance infrastructure projects.

- The modest proposal to raise the PFC cap by $4 for originating passengers would help large and small airports finance more projects on a pay-as-you-go basis and take on less debt.