Airport Financing Reform

Airport Improvement Program and Passenger Facility Charge Program Reforms

Presented to: Northwest Mountain Region Annual Airports Conference

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Date: April 17-18, 2006

Airport Finance – What the Data Told Us

1. **Capital Requirements are Up**
   - NPIAS up 4%
   - Probably low since it does not include “Katrina effect” on construction projects, fuel and steel cost increases
2. **Airports have recovered Financially**
   - Demand for air travel is back
   - Large, Medium hubs are financially stable
   - Small, Nonhub Airports have improved their financial position (though still reliant on AIP)

Airport Finance – What the Data Told Us

3. Wall Street favors airports that control their own financial destiny by:

- Reducing their reliance on air carriers
- Increasing non-aeronautical revenue sources
- Taking full advantage of PFCs as a stable source of revenue under local control
- Wall Street also says that PFC eligibility rules have greatly complicated airport financing, planning and flexibility

4. Federal funds must continue to support the airports that need it most and keep pace with the changing trends in aviation requirements, including:

- Safety & Standards, Capacity
- Robust system of secondary and reliever airports
- Targeted GA investment to meet evolving needs (Very Light Jets, fractional ownership, air taxis, etc)
- NextGen incentives

FOCUS OF AIRPORT FUNDING PROGRAM CHANGES

Our proposal will --

1. Keep AIP funds flowing to the airports that need them most

2. Take the non-primary entitlement to a new level by making it a strategic investment tool

3. Update statutory discretionary minimums to reflect current and future needs

4. Change the PFC program to make it work better to help airports raise capital and enhance Wall Street's confidence in PFCs

FOCUS OF AIRPORT FUNDING PROGRAM CHANGES (Cont'd)

Our Proposal will –

5. Make common sense changes to AIP eligibility rules to help enhance airport revenue for all sizes of airports, especially the secondary and reliever airports, and to help pay for unfunded mandates

6. Provide targeted incentives for airports to take an active role in the NextGen Transition

7. Help airports be better environmental stewards

8. Clarify the funding link between AIP and the taxes that support it

KEEP AIP FLOWING TO THE AIRPORTS THAT NEED IT

- **Preserve current level of passenger entitlements for small airports**
  - Eliminate the risk that passenger entitlements will be cut in half – and the minimum reduced to $650,000 from $1 million, if AIP falls below $3.2 billion
- **Preserve the dedicated small airport fund as a fixed 20 percent of AIP discretionary**
  - Small airport fund will no longer be linked to PFC collections of large airports

KEEP AIP FLOWING TO THE AIRPORTS THAT NEED IT (con't)

- **Free up AIP funds by eliminating outdated set-asides that and ensure that post 9/11 emergency subsidies that are scheduled to sunset in FY 2007 do sunset as they are no longer serving their intended purpose**
  - Military Airport Program set-aside
  - Reliever set-aside
  - 95 percent Federal share for small airports
  - Virtual primary airports
- **Together, these provisions make approximately $150 million per year unavailable for grants at a time when airport capital needs are up**

KEEP AIP FLOWING TO THE AIRPORTS THAT NEED IT (con't)

- **Phase out passenger entitlements for large airports over two years**
  - They have good access to Wall Street which won't be harmed by the loss of entitlements
  - Most are already turning back 75% of their entitlements under PFC turnback
  - Increased PFC revenue offsets this change by a factor of 3

NONPRIMARY ENTITLEMENT: MAKE IT A STRATEGIC INVESTMENT TOOL

- Prepare small airports for NexGen and emerging markets (VLJs, Air Taxis, Fractional Ownership)

- Ensure a robust system of secondary and reliever airports

NONPRIMARY ENTITLEMENT: MAKE IT A STRATEGIC INVESTMENT TOOL

- **Our proposal creates a tiered nonprimary entitlement with a net increase overall**
  - **Follows the long-established model of the primary entitlements Currently all nonprimary airports get the same $150,000 maximum entitlement – no differentiation between**
    - Size of GA airport, large or small
    - Role in system,
    - Or Capital Needs
  - **The Largest GA Airports**
    - Provide Commercial Service to smaller communities
    - Relieve congested primary airports
    - Function like small primary airports
    - Make up nearly ½ of the capital needs of the entire GA system

NONPRIMARY ENTITLEMENT: MAKE IT A STRATEGIC INVESTMENT TOOL

Current Program – 3,100 NPE airports in the NPIAS*

Approx. 2,400 receive the max $150,000
280 receive between $0 and $150,000
430 receive $0

Proposed

GA Advanced $400,000/yr	100+ A/C	540 Airports
GA Intermediate $200,000/yr	50 - 99 A/C	375 Airports
GA Basic $100,000/yr	10 - 49 A/C	1445 Airports
GA Limited Yearly Ent not Allocated	0 – 9 A/C	750 Airports

*FY06 Data

NONPRIMARY ENTITLEMENT: MAKE IT A STRATEGIC INVESTMENT TOOL

- **"GA Limited" continues to qualify for state apportionment and discretionary**
- **"GA Limited" keeps 95% Federal share, while all other GA airports revert to 90%.**

UPDATE DISCRETIONARY MINIMUMS

Our proposal sets a minimum discretionary of $520 million to target high priority safety, security, capacity, and environmental projects, including Letter of Intent commitments

- Current Minimum Discretionary is outdated
- The current minimum discretionary of $148 million was formed in the 80s
- It was established when AIP was less than ½ of current levels

Our proposal sets a minimum of $300 million for state apportionment, calculated independently of nonprimary entitlements to allow states to meet strategic priorities within their state

- There is no minimum level for State Apportionment
- Current State Apportionment is calculated after the individual nonprimary entitlements are allocated out of the 20% apportionment for states

PFC – A LOCAL FINANCING TOOL FOR AIRPORTS: A Three Part Reform

Step 1, Raise the PFC Ceiling to $6.00

- Brings an additional $1.5 Billion per year for Capital Improvements
- Inflation has eroded the value of the PFCs
  - PFC ceiling has not been raised since 2000
  - Inflation and construction cost increases have eroded much of the PFC value
- Airports and the financial markets support the increase

PFC – A LOCAL FINANCING TOOL FOR AIRPORTS: A Three Part Reform

Step 2, Expand PFC Eligibility to include all pro-competitive airport capital development projects

- Lets airports increase self-reliance and financial self-sufficiency
- Treats PFC more like other local airport revenue

Step 3, Streamline the PFC Application and Approval Process

- Administrative review process is greatly simplified and will be very fast without sacrificing the scrutiny needed for controversial projects

PFC Administrative Streamlining

- We want to treat airports PFC program like a continuing program, not a series of applications
- Replace application system with a Report and Implement system
- Airport must file an annual report with FAA and carriers outlining how PFCs were used in prior year and how airport plans to use their PFCs in coming year
- Reporting Requirement – applies if no new projects proposed for funding
  - Annual report to FAA, carriers describing how PFCs were spent in prior year and plans for upcoming year.

PFC Administrative Streamlining

Single annual report will replace current system of individual amendments, extensions

- Expense and delay for airports of processing almost 250 administrative changes to PFC application will be eliminated

Once report is filed with FAA, airports may implement their plan for upcoming year, as described in the report

ADDITIONAL PROCEDURES FOR NEW PROJECTS/PFC LEVEL

Airport must consult with carriers and provide for local public comment on any new projects or PFC increase included in the plan for the coming year

- Requirement for consultation meetings eliminated.

FAA will not approve new project or new PFC level.

- Opponents of project may file an objection with the FAA, after airport files the annual status report proposing the new project of PFC level.

Airport may start collecting on project while FAA considers objection

- If FAA sustains objection, any PFC funds spent on contested project will have to be returned to PFC account

PFC Intermodal Funding Requirements

We're expanding eligibility for intermodal rail ground access projects to include projects directly and substantially related to air transportation

- Eliminates exclusive-use requirement and treats PFCs more like airport revenue
- Eliminates requirement for airport ownership of the system.
- We're keeping the prior approval requirement for this single category of projects
  - Intermodal ground access projects are controversial
  - Coordination with other DOT modes required

Eligibility Changes to Enhance Self-Sufficiency and Fund Federal Mandates

- **Revenue Producing project eligibility at GA airports broadened –**
  - Credit card reading pumps for aviation fuel (saves personnel costs)
  - Hangar rehabilitation made eligible
    - Current eligibility limit to new construction prevents AIP funding for lower cost alternative.
  - Fuel spill containment for airport fuel trucks
- **Adding flexibility to the noise land disposal assurance**
  - Permitting additional uses of Federal share of proceeds

OTHER CHANGES

- **The proposal includes several non-controversial changes**
  - Unintended penalties when airports grow from nonhub to small hub or small hub to medium hub have been addressed
  - All of the terminal development language has been moved to one section (from multiple sections now)
  - Definitions for things like “general aviation airport” have been added and adding the new Veteran’s Preference definition (which adds the Afghanistan/Iraq war vets)
  - Reporting requirements for the AIP Annual Report and the NPIAS report have been updated to reflect current programs and priorities

Helping Airports Meet the NextGen Challenge

Specific incentives to airports and states to encourage active participation in the NextGen transition

- Broadening AIP eligibility to include installing ADS-B ground stations in markets that FAA cannot reach in the F&E program
- Terminal Navaid Takeover Pilot Program – offering 10 large airports the chance to charge an extra dollar of PFCs (to $7.00 total) in exchange for taking over ground based terminal navigational and weather equipment at their airport.

Helping Airports Improve Their Environment

Proposing specific environmental initiatives to improve airports' environments

- Changing the way that the Environmental set-aside is calculated to 8 percent of AIP, rather than 35% of discretionary
  - Currently, the set aside is calculated <u>after</u> all the apportionments are taken off, including carryover.
- Broadening AIP eligibility for the environmental set-aside to include other types of environmental mitigation
- Dedicating an additional $5 million to environmental research
- Creating a new environmental research implementation program that takes research that is ripe for the market out of the laboratories and into the field, funded out of the environmental set-aside

Clarify the funding link between AIP and the taxes that support it

- **AIP will be financed from two single dedicated aviation excise taxes.**
  - 13.6 cent tax on aviation fuel
  - $6.39 per international passenger
  - These taxes will also finance the essential air service (EAS) program and the FAA's Research and Engineering budget
  - Projected Tax Revenue will grow to cover year-to-year increases in AIP proposed for remainder of bill:

FY09	FY10
$2.90B	$3.05B

Airport Privatization Program

- **Increase program from 5 to 15 airports**
- **Eliminate airline supermajority approval requirement for use of sale proceeds off airport and for fee increases above inflation**
  - Requirements give airlines effective veto power over transaction
  - Sale or lease price could not be added to carrier rate base by new owner/operator