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THE CHANGING GOVERNMENT ROLES IN AIRPORTS

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Report of the Conference on the Changing Government Roles in Airports held at the National Academy of Sciences, Washington, D.C., October 22, 1987 and of a session of the same title at the Transportation Research Board 66th Annual Meeting on January 12, 1987 at the Omni Shoreham Hotel in Washington, D.C.

Both programs were sponsored by the TRB Committee on the State Role in Air Transport (A1J01), with Chairman Francis X. McKelvey presiding. TRB Air Transport Specialist, E. Thomas Burnard, provided staff assistance.

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INTRODUCTION

In view of recent and prospective major changes in the aviation legislative environment, the TRB Committee on the State Role in Air Transport, with encouragement from the Federal Aviation Administration, sponsored this Conference on October 22, 1986. These discussions anticipate consideration of intergovernmental factors during the 1987 Congressional proceedings on the continuance of the Airport and Airways Improvement Act of 1982, related tax provisions and the Airport and Airways Trust Fund.

A Conference Planning Group representing a broad spectrum of the aviation community was established to develop the agenda. Those who participated in the planning phase are listed at the end of this report.

Invitations to the Conference were extended to (a) Congressional Committee representatives, the Congressional Research Service and the Congressional Office of Technology Assessment, (b) federal departments and agencies with responsibilities or interests in the field, (c) state, regional, county and municipal government associations, (d) aircraft operator, aircraft manufacturer, and airport provider associations, and (e) financial advisers and airport consulting organizations. The Conference Registration list is at the end of this report.

This Conference was keynoted by The Honorable Janet Hale, Assistant Secretary for Budget and Programs, U.S. Department of Transportation. Three presentations were then made on the intergovernmental aspects of Airport Planning, Airport Development and Operation, and Airport Finance, by distinguished specialists in these fields. These presentations were followed by Workshops on each of these subjects, and a Plenary session at which the Workshop results were summarized.

The session on The Changing Government Roles in Airports at the TRB 66th Annual Meeting on January 12, 1987 supplemented the results of the October Conference by summarizing the October Conference and adding to the discussion.

This Circular endeavors to summarize the results of these programs and to provide the reader with the views expressed by the various speakers.

PURPOSE AND OBJECTIVES

A number of recent and current factors are focusing greater attention on the changing roles of the federal, state, regional, county and local governments in the planning, development, operation and financing of existing and future airports. These factors include:

- the ramifications of the Airline Deregulation Act of 1978;
- the effect of the Aviation Safety and Noise Abatement Act of 1979;
- the Federalism and Privatization Initiatives of the present Administration;
- the advent and fallout of the Gramm-Rudman-Hollings budget/deficit legislation of 1985;

- the Tax Reform legislation of 1986; and

- the expiration in 1987 of the Airport and Airways Improvement Act of 1982 and the related transportation tax provisions of the Internal Revenue Code and the Airport and Airways Trust Fund which is supported by those taxes.

These factors impact not only the various levels of the government, but also the financial investors, the aircraft operators and manufacturers, the airport operators, and, of course, the passengers, shippers and general public.

This conference is intended to be the first step in a process the longer range objectives of which are to:

a. Identify trends and clarify the relationship between federal, state, regional and local agencies in planning, development, operation, and financing the national airport system.

b. Improve the performance of these functions at the appropriate levels.

c. Improve the coordination of this performance among all levels.

Since these intergovernmental relationships are so broad and complex, the purpose of this one-day conference was limited to the following:

1. Identify and clarify, to the extent feasible, the principal intergovernmental issues in airport planning, development, operation and finance; and to

2. Consider strategies for addressing the intergovernmental issues so identified.

SUMMARY

A. PRESENTATIONS

Mr. K.B. Johns, Director of Technical Activities of TRB welcomed the participants and introduced the Keynote Speaker The Honorable Janet Hale, Assistant Secretary for Budget & Programs, U.S. Department of Transportation. (D.O.T.)

DOT Overview

Ms. Hale outlined what she considered to be the major issues of aviation with which the U.S. DOT is currently dealing. These include:

- The effect of Gramm-Rudman-Hollings on seeking reauthorization of the Airport and Airways Improvement Act of 1982. Secretary Dole has a strong commitment to the FAA and the reauthorization and will seek adequate resources and flexibility in its programs.

- Continuing safety and security in U.S. aviation as a top priority.

- The need for fully qualified people to handle the air traffic control functions.

- The completion of the $12 billion dollar modernization of the FAA's air traffic control system under the National Airspace Plan (NAS).

- The need for airport capacity to match airspace capacity in light of projected increases in aircraft operations: - 17 airports are congested now; 30 will be congested by 1995 and 60 will be congested by the year 2000. The allocation of dollars in the current AIP Program is being reexamined to better target funding to capacity projects to provide more flexibility with funds allocated to States, and to recognize those emerging hub airports that have the potential for relieving congestion at major airports but which need financial support.

- The structure and role of the FAA in light of the Byrd Commission and the Air Transport Association proposal to make part of FAA a federal corporation by dividing the operational and safety responsibilities.

- The effect of the "penalty clause" in the current (1982) law on the uncommitteed balances in the Airport and Airways Trust Fund. When Congress fails to appropriate the authorized amounts for FAA capital programs, these automatic "penalties" reduce the amount of FAA's day-to-day operations which can be funded from the Trust Fund. For instance, over the last six years Congress has appropriated $945 million less than the President's request for Facilities & Equipment. As a result "the general taxpayer has subsidized non-military aviation activities over the past 6 years by some $7.5 billion -- more than the uncommitteed balance in the Trust Fund". The DOT is committed to eliminating the penalty provision in the reauthorized legislation.

Planning

Mr. Lowell B. Jackson, Wisconsin Secretary of Transportation, outlined a planning hierarchy describing the relationship between top-down vs. bottom-up planning responsibilities as follows:

- "POLICY," at the top of the planning pyramid, results in a set of principles emanating from the electoral/political level.

- "SYSTEM" planning is an organized attempt to provide priorities and to describe a proper set of actions over a relatively long time horizon. (10-20 years)

- "PROGRAM" planning costs out specific projects in terms of both time and dollars consistent with System priorities and with time horizons of 5 to 6 years to cover projects to advance from concept to construction.

- "PROJECT" planning is the implementation of programs elements typically in a year or so.

He suggested that one barrier to effective public works planning at all levels may be attributed to the policymakers overlooking the need for orderly "SYSTEM" and "PROGRAM" planning by dealing directly with local governments who are more discrete-project-oriented. Additionally, the federal government is the primary collector of aviation tax revenue "but is able to do little toward identifying its future needs."

After discussing the increased role states could play in state airport planning, pavement management, tall tower regulation, land-use zoning, technical assistance and advance land acquisition, among others, he suggested that each level of government in airport development should be as follows:

- Federal government should define a national system of airports, establish standards for that system, operate and maintain the nation's airspace system, collect most of the aviation user fees, solve the financial reliability problems of the federal aviation trust fund, and administer a hub airport program.

- State governments should be more active in system planning, local technical assistance and administration of federal and state non-hub airport development programs. He suggested state-collected user fees to support this activity.

- Local governments' primary role should be to develop, maintain and operate their airport facilities to effectively serve local and national aviation needs and to protect the public investment in these facilities. Some local financial participation is appropriate to reflect local benefits.

The challenge, he concluded, is to manage the opportunity for a new direction in airport development which makes maximum use of our collective financial and human resources to provide a safe and efficient air transport system.

<u>Airport Operation and Development</u>

Mr. Robert S. Michael, General Manager, Regional Airport Authority of Louisville and Jefferson County, Kentucky, examined the relationship between (a) the airport operator and the local government, (b) the airport operator and the state government, and (c) the airport operator and the federal government. He also examined the question of airport congestion, delay and capacity and the constraints related to them.

(a) <u>Airport Operator and Local Government</u>. He suggested that this relationship has changed little in the past and seems unlikely to change much in the future if it is assumed that the airport is either an arm of city or county government or is an independent operating agency or authority. However, loss of federal revenue-sharing with local governments is resulting in a termination of, or a lower priority for, locally funded airport projects such as local highway access to the airport, airport pavement maintenance, and police and fire services previously provided by local government.

(b) <u>Airport Operator and State Government</u>. He foresees some modest changes in this relationship such as deferral of projects for improving state highway access to airports under tighter highway budgets, but a more aggressive state role in economic development or redevelopment of airports. The latter may include wider use of state bonding authority to assist specific airports with supplementary non-revenue bond financing. States may also assist local communities attract new industries.

(c) Airport Operator and Federal Government. He considers that the federal role may be increasing, especially in regard to airport congestion and delay, and increasing airport capacity.

- Congestion and Delay

Mr. Michael considers that the most critical airport operation and development issue today is the need to overcome airport congestion and delay problems, not money, as such. The existence of congestion and delay is basically the absence of capacity. These problems have led to increasing tensions and conflicts within the traditional intergovernmental relationship between the federal government, local airport operators and the airlines.

Among the issues on the congestion side is that of balancing the local proprietary rights on the one hand and the national interests on the other. A fundamental question is whether the airport operator has the right to determine its own role in the national transportation system by regulating the numbers and types of aircraft that can use the airport, by curfews, and by other restrictive methods. On the other hand, the FAA and the airlines seek to assure that undue burdens are not placed upon interstate commerce. One method of seeking this balance, he suggested is by the use of FAA's Federal Aviation Regulation Part 150 process which brings all of the major players to the table to bring about a better understanding of their respective interests. Many airlines believe that FAA should totally preempt all airport restrictions, and some airport operators question whether any federal access policy is necessary or desirable. If the federal role is increased, he noted, local governments and their citizens could raise serious questions as to whether and how important expansion should proceed.

A related issue is that of the federal government artificially limiting the number of aircraft that can land or take off at a given airport in a given period of time by selling "slots" to airlines that can be sold by the airlines to others. The question raised is whether proceeds from the sale of "slots" should be a profit to an airline or should be used to expand capacity. Mr. Michael believes that the slot is an operating right, and if there is any ownership, it belongs to the public at large. It should not be for sale, particularly by one who acquired it without any cost.

Increasing airport capacity also raises another issue in the relationship between the federal government and the airport operator. The federal government is well underway with a plan for expanding airspace control capacity which is solely its responsibility; but it is not accompanied by a plan for expanding airport capacity which is essentially a local responsibility. The airport capacity problem is not system-wide, as is the airspace system, but rather it is at the high-density airports where more capacity is needed. There are many constraints: noise, land-use, zoning, utility services, political considerations, and airline agreements, among others. But the biggest constraint is noise.

To increase capacity, the FAA, in 1982, created an Industry Task Force on Airport Capacity Improvement and Delay Reduction which made numerous recommendations. Even if they were all doable, he said, new capacity hasn't been added -- "we're simply doing a better job with what we've got."

Part 150 studies, economic impact studies, continued reductions in jet engine noise, and other efforts are being made; but we're really not getting anywhere, he said. "There are no new initiatives in so far as major increases in capacity are concerned, and there needs to be."

- Suggested course of action

Given this situation, he concluded, the time is ripe for a whole new level of intergovernmental cooperation -- between the Federal government that owns and operates the vast resources of the airspace, and local governments that own and operate their limited resource airports. Although it is fundamentally the community responsibility to decide the role it wishes to play in the national air transportation system, the federal government is in a much better position to explain the role that quality air transportation plays in the welfare and future of the communities of this country. The FAA should "sell" the national air transportation system to the public perhaps with a new "Deputy Administrator for Promotion" with a small staff of marketers.

Financial Aspects

Mr. Richard Harris, Manager of Transportation Group and Principal, Morgan Stanley & Co. Inc. said that, from his perspective, we have three categories of airports: The Haves, The Have Nots, and the Middle Group. The Haves are financed through the bond market; the Middle Group rely heavily on federal and state aid with some bond market issues; and the Have Nots rely almost solely on public financing. He suggested that the state agencies can play a significant role in the funding of small hubs and general aviation airports.

From a bond market viewpoint, how an airport is managed is the most critical factor -- particularly management's approach to cost management. Under the "residual" cost approach the airlines make up any deficiency in airport operations, whereas under the "compensatory" cost approach the airport is run as a business and the airlines are charged on the basis of the space they occupy and their utilization of the airport. The management approach used helps determine the airports' potential for accumulating retained earnings, the airlines' role in making airport capital investment decisions, and the length of airline/airport lease agreements.

79% of the Large Hubs have residual cost approaches and 67% of the Medium Hubs are also residual. At "residual" large hub airports 93% have airline leases that run in excess of 20 years, and at medium hubs it is 76%.

At "compensatory" large hub airports, only 60% have airline leases of 20 years or longer; and at medium hubs it is 40%.

Mr. Harris noted that capital requirements for airports run about 3% of the national annual infrastructure expenditures. This compares with 46% for highways, 15% for transit, 15% for waste water treatment and 5% for water supply.

Estimated annual demand for capital by Large and Medium Hub airports runs between $650 million and $1 billion dollars and "about half of that is for new capacity."

The Federal share of airport investment currently represents about 33%, but has ranged from 20% to 85%. State airport investment has remained stable at about 11%. Local and private sources make up the other 55%.

Financially strong airports can sell airport revenue bonds; weaker ones rely on general obligation bonds. From 1978 to 1982 strong airports raised three times more dollars through the bond market than by federal grants.

Financial health is rated by Standard & Poors (S&P) and Moody's Investor Service. S&P emphasizes business travel in its rating criteria. Moody's looks at statistical measures.

The Tax Reform Act is not likely to change much from the airport view point, he said, because they are financed with tax exempt bonds provided they meet the "public airport" criteria. Retail shops, industrial parks, office building, etc. are excluded from tax-exempt bond financing. Also prohibited are earnings from investing unexpended bond proceeds in securities with a substantially higher yield. Airport bonds are also subject to the alternative minimum tax and other limitations by purchasers.

He concluded that from a bond market perspective, financing airports is going to be more expensive in the future, and that there is concern over the ability of airport management to effectively control their destiny should defederalization occur.

B. WORKSHOPS

Workshops on Airport Planning, Airport Operation and Development, and on Airport Financing were formed after the presentations. Workshop participants were self-selected according to their interests, and some participated in more than one Workshop. Reports were given to the full Conference after approximately four hours of Workshop discussions. The findings and conclusions of these Workshops may be summarized as follows:

Planning

The Workshop on Intergovernmental Issues in Planning was chaired by William F. Shea, Chairman, Aviation Department, Center for Aerospace Sciences University of North Dakota and former FAA Associate Administrator for Airports. He also summarized the findings of this Workshop at the TRB 66th Annual Meeting in January 1987.

The Workshop examined the roles of (1) the Federal government in developing the National Airspace Plan (NAS) and the National Plan of Integrated Airport Systems - 1984 to 1995 (NPIAS); (2) the States in developing State System Plans and identifying airport needs; (3) the county and regional organizations in developing their plans; and (4) the local airport plans for airport master planning and updating airport layout plans. Some of the Workshop findings were as follows:

- Federal role

The NAS Plan for airspace utilization and control will only succeed if there is a viable airport system. The NPIAS does not guarantee a system of airports to meet future needs but only identifies the need and the estimated costs for the 10 year period. A longer range look is needed for major new airport development an places such as Chicago, New York, and Boston, among others.

The Airport Improvement Program (AIP) under the Airway and Airport Improvement Act of 1982, which is funded from user fees, will expire in 1987 unless reauthorized and extended. It is expected that consideration will be given in the reauthorization process for large airports to opt out of the program ("defederalization").

The Workshop considered other issues relating to the federal role which include:

- Greater civil use of low-use or excess military airfields;

- Adequate funding for both the NASP and the AIP programs;

- Increased effort to expand long range airport capacity;

- Creation of a land-bank revolving fund of $250 to $300 million dollars from the trust fund for interest free loans to assure future airport capacity;

- Near term improvements in: (1) ATC separation criteria; (2) runway separation criteria for simultaneous IFR approaches; (3) microburst/windshear identification and reporting research; (4) weather reporting; (5) unrealistic departure/arrival schedules at congested large-hub airports; (6) reduced wing tip vortices; (7) triple simultaneous approaches; (8) microwave landing systems (MLS) to facilitate curved approaches; and (9) forecasting capability for airport capacity/access planning.

- Possible change in ownership of elements of the FAA under a proposal by the Air Transport Association for a National Aviation Authority

For the future, the Workshop also considered the need for a national annual review process to monitor aviation planning activity. This would include: (a) graphic presentations of future requirements; (b) implementation schedules; (c) financial resources; (d) relevant technical, economic and environmental issues; and (e) long range planning beyond the present 10-year time horizon to include supersonic and possibly interplanetary air transportation.

There was also strong support for the FAA to increase its role in promoting civil aviation on a national basis and to assist state and local government in educating the public to the benefits that accrue from it. Basic research in aviation and aerospace is also considered to be the role of the federal government.

- Federal/State/Local Relationships

The Workshop recognized the need for adequate funding of reliever and general aviation airports and suggested that investment incentives to small airport operators and small airlines should be encouraged by federal and state programs.

The county and municipal representatives emphasized the importance of the FAA and the industry communicating the benefits of air transportation to local officials.

State representatives urged that the FAA delegate more flexibility to the states in administering the federal Airport Improvement Program for those airports smaller than the top 140 airports (which would retain the present relationship with the FAA).

Operation and Development

The Workshop on Intergovernmental Issues in Airport Operation and Development was chaired by James T. Murphy, Vice President, (Airports), Air Transport Association of America.

The Workshop concluded that two premises should be assumed, namely, that

(1) The current airline route patterns of "hub-and-spoke" will continue into the foreseeable future; and that

(2) one or two major air carriers will provide the dominant service (up to 85%-90%) at some very large-hub airports.

The discussion of these assumptions led to the conclusion that the greatest impact on the airport system will result from: (a) continued dramatic growth of air transportation; and (b) the constraints resulting from aircraft noise and from ground access limitations at large hub airports. These and other potential constraints on the system led to a discussion of some of the intergovernmental issues related to them.

- Federal Role in Aircraft Noise

The Workshop felt that federal preemption of the noise problem was the best theoretical solution to the jurisdictional issues of aircraft noise. This position was based upon the premise that since the federal government, through the FAA, owns and manages the national airspace system and certifies the aircraft as well as the aircraft operator for safety, it is in the best position to determine whether locally imposed restrictions are acceptable or not. The Workshop concluded, however that this was not politically feasible so the participants examined alternatives.

The noise constraint arises, they felt, because citizens adversely affected by aircraft noise bring pressure on local elected representatives who then seek to impose restrictions on aircraft operations at the airport. Seldom do spokesmen for the beneficiaries of air transportation -- the airport workforce, the constant air passengers, the local businesses dependent upon air transportation, or public officials representing these interests -- make a case against the restrictions. Some participants felt that greater use should be made of the Federal Aviation Regulation Part 150 procedure which creates a local forum for voicing public opinions, analysis of technical factors, and the development of mitigating measures so that a balance can be found between the needs of the community and the needs of aviation. The Workshop concluded that the Part 150 process should be more aggressively promoted by the FAA.

- Promotional Role of FAA

A related conclusion of the Workshop was that the FAA should amplify its promotional role for aviation not only to educate and involve local officials and communities with the benefits of air transportation in connection with the aircraft noise problem, but also to encourage increased capacity with new and extended runways, and new and expanded airports.

The Workshop suggested that a high level FAA official should have the responsibility for such promotion and might be called an "Associate Administrator for Promoting Aviation." His role would be to meet with local officials and opinion makers to stress the importance of aviation both to the local economy and to the national air transportation system.

- Ground Access to Airports

The relationship between the airport location and the available ground access to the airport involves numerous intergovernmental relationships between and among the municipal, county, state and federal governments. Highways, rail and transit facilities are too frequently planned and built with out regard to airport location or airport user needs, the Workshop found.

The Workshop urged greater cooperation between and among the local and state governmental units, the relevant federal agencies (FAA, FHWA, FRA, UMTA), and the local/state units. In addition, it was suggested that the Airport Improvement Program be amended to make eligible to an airport operator with a critical ground access problem, funds to be used "outside the fence" to provide to necessary access facilities.

- Tall Structure Location

The height and location of radio and TV broadcasting towers and of tall buildings in or near the approach path to airport runways affect not only safety but IFR minimums as well.

The Workshop found that there is a lack of coordinated criteria and requirements between local building codes, local zoning provisions, and state laws and regulations at that level; between the Federal Communications Commission and the Federal Aviation Administration at that level; and between the federal agencies and the state and local agencies.

Finance

The Workshop on the Intergovernmental Issues in Airport Financing was chaired by John J. Corbett, Partner, Spiegel and McDiarmid, and former Vice President for Governmental Affairs of the Airport Operators Council International. He was also a speaker on this subject at the TRB Annual Meeting in January 1987.
(For his expanded version see p.32)

The Workshop found that between surplus money in the Aviation Trust Fund and the ability of most Large and some Medium hub airports to finance much of their development through bonds, the principal intergovernmental issue in airport financing is not so much the amount that's available as it is how to get it where it's most needed.

- Federal/Local Issues

Aircraft Noise. The Workshop noted that the airport operator is currently held legally liable for excess aircraft noise in neighboring communities but the federal government has access to the funds and to the legal authority for controlling most of the factors relating to aircraft noise. This federal authority includes control of the airspace, certification of the aircraft both for safety and for noise, and certification of the flight crews and of the operating procedures of the air carriers. The Workshop concluded that serious consideration should be given to using part of the Aviation Trust Fund balance to resolve or ameliorate the aircraft noise constraints at existing, expanded, and new airports, thereby increasing capacity.

Defederalization. A related issue is whether some of the larger airport operators will prefer to opt out of the federal program if the conditions of federal grants for airport expansion involves more control over their management and proprietor prerogatives. If they do not accept AIP funds they want the right to charge "head taxes".

Access Slots. Another federal/local issue relates to the ownership and control of the air access "slots" which the FAA has "sold" to the air carriers who, in turn, can buy and sell them. This also has an impact upon the ownership and control of the airport gates. If these valuable public assets are controlled by the private sector then access to the air transportation market for new entrants is seriously affected. It also raises questions of the proprietary rights of the airport operator in relation to those of the federal government.

Differential pricing by airport operators to control demand for both air slots and grounds gates was discussed as an alternative, but no conclusion was reached.

- Federal/State/Local Issues

State Role. The Workshop was advised by the state aviation officials of their position with regard to expanding the role of state governments in the distribution of federal Airport Improvement Program (AIP) funds as well as an increased role in the zoning and planning functions. Further consideration was deferred pending receipt of the official position of the National Association of State Officials being readied for Congressioal hearings on AIP.

Metropolitan airport complexes. Another intergovernmental issue involving all three levels of government relates to the ownership, financing and operation of large air carrier airports, air carrier reliever, and general aviation airports in the same metropolitan area. These are frequently owned by different political entities and have vastly different financial mechanisms and needs. Further study of this situation was suggested.

Essential Air Service. Whether "Essential Air Service" to small communities should continue to be subsidized by the federal government was debated. Some of the group thought that the ten-year trial period has been long enough; others felt that it should be continued, and others felt that this is a proper role for the states if they consider the service to be justified.

PRESENTATIONS

KEYNOTE SPEAKER

THE CHANGING GOVERNMENT ROLES IN AIRPORTS;
OVERVIEW OF MAJOR ISSUES

Janet Hale, Assistant Secretary, U.S. D.O.T.

The topic in front of us today has been discussed for years at the Department, and particularly in recent months in preparation for Congressional action on the reauthorization of the Airways and Airport Improvement Act. I'd love to be here two months from now when we will have more nearly final answers. We're in the process of asking the questions now as we review the reauthorization and its impacts on all of us. I'd like to go over some of the questions with you.

To put the reauthorization in context, the issues include Gramm-Rudman-Hollings' effect on the federal deficit, where we stand, and what part of the pie FAA and DOT can have.

Congress has just gone home. One of the last actions they took was to pass the Reconciliation Bill which helped to reduce the deficit and to pass appropriations bills with a target -- between the two of them -- of having deficits of about 144 to 154 billion dollars. That's the target.

So we fit into a time period when we have deficit targets because of Gramm-Rudman of $144 billion in 1987 and $108 billion in 1988. So, it's a tough year for us to go in for reauthorization with those kind of numbers facing us.

Looking at the recent accomplishments such as transferring the Washington airports to a regional commission and selling Conrail, we were very pleased with the last couple of weeks. In each of these issues, we have been looking at the federal government's responsibilities -- where we wanted to spend the money, and how it was best done. With these accomplishments behind us, we're looking to the future.

Elizabeth Dole has submitted her budget to OMB. Obviously, at this time, I can't talk much about that. The Secretary has a very strong and, I believe, a very effective commitment to the FAA and the reauthorization. I think, much to the surprise of OMB, the Secretary came in with a strong program and one which she will fight hard for in the next few months. As she finalized the budget proposal, she looked at the crucial issues, and we had some battles on the Hill this year that helped focus those issues.

Although the subject today is airports, let me touch briefly on some related issues.

The first issue is the number of air traffic controllers in the towers and centers. I think that we got hung up this last year talking about the numbers and the individual people we were going to hire. We spent a year talking about whether we were going to rehire fired controllers rather than talking about the real issues. The issue is not the numbers of controllers, and it's not the individual people we're hiring, but, from my perspective, it's the training and whether we have fully qualified people to handle the positions. We hope, in the next year, to have the money and the resources to deal with training. Our focus should not be to meet some artificial goals set by Congress, but to look behind that number to be sure we have enough trained and qualified individuals to ensure the safe operation of the airway system. It doesn't do us any good to have number on top of number, whether it be 15,000 or 15,306, without the trained people behind the numbers. We want to spend a lot of time in the next few months looking at the training program and being sure that we're getting people through the Academy and into the towers and centers as quickly as possible. However, we will not just respond to outside pressures that try to drive us to a number which would mean we're promoting controllers faster than they are ready. We are very concerned and spending a lot of time on the air traffic control problem.

The second issue we're also spending a lot of time on is safety and security. That impacts each one of us. The Secretary's Safety Review Task Force has completed its aviation safety work and is presently looking at the procedures and the operations of both domestic and international airports to be sure that they are secure and that we will have the means and the mechanisms to keep them that way. We want to be sure that there are adequate resources and flexibility to follow-up in each of those areas.

We have also spent a lot of time on the NAS Plan, which involves big dollars and reflects a major commitment to retooling the FAA's ability to control the traffic. The modernization and productivity that can come from the $12 billion dollars worth of modernization that the NAS Plan provides will have major payoffs in the future. I think that's on track, although we've had some slippage in some of the programs. The slippage is not because of money but because of technological design and issues such as whether to pursue one procurement strategy or another.

But the NAS Plan is only one part of the system. It facilitates the movement in the airways, but it cannot fix the the airport capacity problem by itself. Significantly increasing airport capacity will be one of the issues confronting us in the reauthorization process. That obviously ties back directly to the subject of your conference today.

The Secretary is committed to providing sufficient resources to assure that the airport capacity is there. We've got airport after airport with delays. While the primary cause of the delays is weather, lack of concrete may become a major factor in the future.

You are all familiar with the statistics on delays and the number of airports. We estimate that operations at FAA tower airports will increase 52% by the year 2000 and the commercial jet aircraft fleet will grow by about 30%. But these increases won't be spread uniformly across all airports. Passenger enplanements at large hub airports will increase 71% by 2000; enplanements will double at medium hubs. 17 airports are congested now; 30 will be congested by 1995; 60 will be congested by 2000. There are limited opportunities to physically expand some of our most congested airports such as Boston and La Guardia.

We are looking very carefully at the hubbing concept and whether the capacity of the system can best be expanded by increasing the capacity of some of the medium hub airports. One of the crucial roles we see for the federal government is to recognize those emerging hub airports which have the potential to increase systemwide capacity but that don't now have the infrastructure or the ability to finance the necessary development without the federal dollars. We're taking a long look at how the airport grant fund are allocated. Is there a better way to target our resources to get them where they need to be?

We are also looking at the grant funds that are apportioned to primary commercial service airports and to the states. We want to be sure that we don't have too tight a control over the State Funds, that we allow the flexibility that's needed there. But our primary concern is to enhance airport capacity in a way that enhances the capacity of the entire airspace system.

Another major issue that we're facing this year is the ATA's Federal Corporation proposal. I think it will be the cornerstone of a lot of the debates about the federal role. Should we just flat out reauthorize the FAA in its current structure? Would we consider looking at alternatives? Is there another way that might be better? I think Elizabeth Dole is open to a better idea; but we don't think that the ATA proposal for a Federal Corporation is the way to go. We're terribly concerned about the division between operational responsibilities and safety. I'm not sure you can set up a structure that splits those two. Is it the best way to go to allow the airport grant money to go through the federal corporation, but retain responsibility for regulatory review in FAA, as in the ATA proposal? We view the ATA proposal as having a lot of disadvantages. The proposed "NAA" has complete operating authority, but the government is left with the financial liability because of the way the liability insurance provision is written. You can't have control in one with responsibility in the other. We think that the duplication and the cost, and more importantly just the structure, wouldn't benefit the airways and the issues that are important to all of us.

One of the criticisms of the current structure that leads to proposals like ATA's for a major change is that the federal budget process has caused a high trust fund balance. We understand that concern, but the balance is not the Administration's doing. It is the result of the so-called "penalty" clauses in current law. When Congress makes available less than the authorized amount for the airport grant program and the Facilities and Equipment account, the amount of the appropriation for Operations that can be recovered from the Trust Fund is reduced. Over the last 5 years, Congress has appropriated some 19%, or more than $900 million, less than the President requested for Facilities and Equipment. As a result of the penalty provisions in the 1982 law, the general taxpayer has subsidized non-military aviation activities over the past 6 years by some $7.5 billion -- more than the uncommitted balance in the Trust Fund.

We are committed to eliminating the penalty provisions in reauthorization of FAA's programs because they are unfair to the general taxpayer who must pay the "penalty". The penalty provisions fail to recognize that it's impossible, in writing authorizing legislation, to accurately predict funding needs 5 and 6 years into the future. The penalties are based on the authorizations in the 1982 law, but, for example, technical difficulties associated with the complex airspace modernization have resulted in lower funding needs than we projected at that time.

We'll look forward to continuing the debate on the future of the FAA. We'll all have an opportunity to discuss it in the reauthorization process and also with the Byrd Commission that Congress passed in the waning hours. In its nine month review, the Byrd Commission will evaluate the structure and organization of the FAA. As Congress goes home, we are in the process of making recommendation to the White House on appointments to the Commission to be sure it's set up and that the members will be appointed quickly. The Byrd Commission will allow dialogue in another forum and will give an independent view on all of this.

That is a brief overview of the major issues for us.

Thank you for the opportunity to be with you today. I look forward to talking with you in the next few months as we continue the debate on the federal government's role and the reauthorization of the Airways and Airports legislation.

INTERGOVERNMENTAL ASPECTS OF AIRPORT PLANNING

Lowell B. Jackson, Wisconsin Department of Transportation

Introduction

Although the prospectus for this seminar suggested that speakers be long on issue identification and short on specific solutions, it is only fair to warn you that my viewpoint on solutions will be thinly masked - if at all. I will position problems at issue within the framework of the following two questions:

1) Should the states, through the mechanisms of their state aviation agencies, assume a much more substantial role in the planning and programming of local airport improvements in support of the national system of airports?

2) Can the institutional barriers to accomplish that end be overcome, and should strong and collective attempts to do so be mounted toward the goal of expanded "federalism" in airport planning and development as has been accomplished in the highway mode.

In identifying problems at issue in intergovernmental relations which support a national system of airports, a few planning principles to guide the discussion are in order.

- A Planning Hierarchy

Consider a four-level hierarchy which describes the relationship between top-down vs. bottom-up planning responsibilities. The top of the planning pyramid is "POLICY" planning. This results in a set of general principles which have evolved under the eye of, or have been explicitly mandated by, policy-makers at the electoral/political level.

The next level of planning - "SYSTEM" planning in adherence to the superior "POLICY" plan - is an organized attempt to describe a proper set of actions - say an "Airport System Plan" over a relatively long time horizon of perhaps a dozen to twenty years. The inability of political bodies to deal effectively with time frames longer than two-year tenures, or perhaps four-year authorizations, has and will create large gaps in effective system planning.

The third level, "PROGRAM" planning, is a very important one at which a set of specific projects are costed out in terms of both dollars and time, consistent with priorities established in the "SYSTEM" plan. The collective intermediate-term impact on the expected outcome of POLICY is provided by the program plan, and should cover a period of time roughly equivalent to that required for projects to advance from concept to construction - say five or six years.

The bottom level of the planning hierarchy is "PROJECT" planning - demonstrably the easiest for those at the implementation level to do since they have so much experience at this level compared to the other three. A project typically is implemented in a short-term construction period - say one year.

Barriers To Effective Planning

One barrier to effective public works planning and implementation at all levels of government may be attributed to the policy-makers in the congress overlooking the need for orderly "SYSTEM" and "PROGRAM" planning and attempting to deal directly with the local governments in their districts who are naturally more discrete-project-oriented. This process, call "place-naming", is often driven by the "grease the squeaky wheel" principle. What's needed is a wider recognition by the funders of the Federal Aviation Agency and its mission that something's missing and that a program driven from the bottom up by short-term projects will not lead to a well-integrated, timely available, effective national system of airports.

For its part, the Federal Aviation Administration (FAA) has directed its other than air traffic control resources heavily toward developing and implementing facility standards and single-year funding plans. Its efforts have centered on producing its annual "National Plan of Integrated Airport Systems", (which is really much more a "program" than a "system plan") and on the "Plan's" implementation through an active role in passing judgment on minute details of the design, construction and financing of projects authorized by the plan. With this emphasis, FAA has been unable to develop and execute long range system planning and programming direction. Clearly the FAA has many other responsibility areas to maintain and enhance, such as Research and Development, Facilities and Equipment, and the Air Traffic Control System. In these latter areas FAA is eminently qualified to use its resources to provide for a safe and efficient aviation system and is doing so rather well in difficult circumstances.

With its airport system development emphasis focused on project related matters, the long range planning of the system has suffered. At the same time the huge surplus in the aviation trust fund continues to grow, the federal government appears to be failing to plan or program for expenditures beyond each current year. Hence, the continued development of the system stumbles more than even the modest funding rates provided by Congress should allow. If the funds provided are to be most expenditiously used, a long range plan for alleviation of the most critical deficiencies of the airport system fundable under current appropriations is indeed in order.

Increased State Planning

So there's the rub - the federal government is the primary collector of aviation tax revenue, but is able to do little toward identifying its future needs. A new direction is needed. Though many in FAA may resist impending change within the agency, that barrier is not absolute. In fact, one important planning change has already occurred. The Airport Improvement Program has provided funding to the states for the so-called "Continuous State Airport System Planning Process." Used effectively, the continuous system planning process can develop that state involvement necessary to assure funding of the most urgent needs of the nation's airport system. This can put the states in proper position to coordinate effectively local and regional plans for the long-range development of the states' airport system.

It is up to the states to accept the challenge of becoming a key implementation mechanism for the nation's airport system development. However, states have varying abilities to react to such a challenge at this time. Nevertheless, most currently have many of the needed basic planning, analysis, and development skills avilable to them through their Departments of Transportation in the highway, mass transit and rail modes. Another opportunity afforded the states in this challenge is the chance to truly become intermodal by integrating the programs of the various modes, a goal that has currently not been well achieved at the federal, state or local levels. As a practical matter such integration is far more likely if orchestrated by a comprehensive state transportation agency.

It is the state and local governments that understand the issues of their regions, have the political, social, economic, and demographic incentives to implement solutions, and are close enough to the problems to effectively monitor progress and discover when a new emphasis may be required. States should be able to mesh the traditional tools of planning with new analytical tools (such as pavement management programs) to better identify to all levels of government the needs of their systems.

-- Pavement Management

Pavement mangement, for example, is being used by many states to identify to federal, state and local decision makers the most efficient use of resources to maintain the pavements of our airports, just as for our highways. The ability to put this type of planning tool to work delineates the capabilities of state and federal governments. In the highway mode, the states, not the federal governments, are understood to have the primary responsibility to plan, build, improve, and maintain the national system of highways.

-- Tall Tower Regulation

The states are the governmental bodies with authority to enact legislation that provides for implementation of local plans to protect the public's investment in its air transportation facilities. In Wisconsin, for example, the state has the statutory authority and responsibility to regulate tall tower construction through its tall towers permit authority. The state government has also provided local airport owners with overlay zoning authority which allows public airport owners to limit the construction of potential obstructios within three miles of their airport.

-- Land Use Zoning

Wisconsin has also recently provided its local airport owners with additional authority in the land use zoning area. When a rezoning of land (often toward residential development) is proposed in the airport-affected area, the municipality must notify the airport owner. If non-compatible land use is proposed, the airport owner may file a protest petition and a two-thirds vote by the zoning authority is then required to grant the proposed rezoning over the protest.

-- Technical Assistance

Along with the ability of the states to legislate goes the responsibility to provide the local governments with technical assistance in legislated matters. Wisconsin and many other states have traditionally taken this technical assistance responsibility seriously in order to help local units of government protect the investments in their airports. An active state aviation agency with the resources available to provide this assistance is imperative if local units of government are expected to take the coordination seriously.

-- Fund Channeling

The State of Wisconsin has had a channeling act for 40 years which requires local airport owners to petition the state's Secretary of Transportation for state and federal aid for airport improvements. Federal funds for these improvements must be passed through the state DOT. Through this channeling requirement, Wisconsin's DOT has maintained an active involvement in the airport development process. One of the results of this involvement has been our ability to program our general aviation apportionment funds.

-- Programming

A more active role by state aeronautical agencies will foster and require a more active local role as well in airport planning, if programming of projects for future years is to be realized. A requirement of local airport owners in Wisconsin is that they notify the state DOT on a biennial basis of their intentions to request state and federal aid within the next six years. These notifications, combined with the list of projects already petitioned provides the Department with the pool of projects necessary to biennially prepare an updated Six-Year Airport Improvement Program.

Submitted projects in conformance with federal, state and local plans are prioritized and programmed based on our best estimate of federal, state, and local funds avialable. The resulting program provides our Bureau of Aeronautics with the programming document needed to prepare environmental statements, hire consultants to prepare plans and specs, and to acquire land in anticipation of a federal aid or state aid project.

-- Advance Land Acquisition

A program Wisconsin has found very useful is its advance land acquisition loan program. Public airport owners are granted low interested loans to purchase land well in advance of a construction project. The intent is to complete the rigorous land acquisition procedure before a federal grant is secured so that once a federal grant is received, construction can begin immediately rather than having to wait two years or more for inflated-value land acquisition to be completed while the funds available for construction are eroded by inflation. The airport sponsor is required to fund 20 percent of the land-acquisition amount plus the interest, and the remaining 80 percent can be repaid with federal grant funds.

The NASAO Proposal

The role of the states and federal government in airport development is now at a crossroads. With the current airport development enabling statute, the Airport Improvement Program, expiring in 1987, there is a golden opportunity to recast the direction the nation's airport development program should take in the future.

One proposal that should be thoroughly considered was recently presented by the National Association of State Aviation Officials. This proposal recognized that the development and preservation of a balanced air transportation system which is responsive to the needs of all sectors of the nation is the combined responsibility of federal, state, and local governments. The federal government's primary responsibilities are identified as substantial user-fee revenue collection and the establishment and maintenance of uniform standards that affect safety of airport operations. The state's primary function would be to promote and develop airport systems based on plans that are integrated and coordinated with othertransportation systems and plans. Local government's role, as identified by NASAO, is to develop and maintain its airports to meet the needs identified collectively by local, state and federal governments, utilizing funding and technical assistance provided by state and federal governments.

The thrust of this proposal is that the cooperative efforts of all levels of government should result in a more clearly defined and forward looking National Plan of Integrated Airport System. (NPIAS). This plan will be based primarily on coordinated state, regional and metropolitan airport system plans that are continuously updated as events change and new information becomes available.

This proposal would have the states administer the federal airport improvement program for all EXCEPT the 149 busiest airports, the system hubs. These hub airports have substantial national and even international significance. The need to focus direct federal involvement on these airports is obvious. However, it is proposed that the states should assume a greater role in the administration of programs for the remaining airports, that is airports in the non-hub commercial service, reliever and general aviation categories. This would allow states the flexibility to focus resources on state and interest of the nation as well.

Personnel Implications

With ever-increasing demands on the Federal Aviation Administration resources, it is apparent that some shift in the intergovernmental relationship between the states and FAA is appropriate. A shift in role of the states in the administration of the airport development program to much the same arrangement as the states have with the Federal Highway Administration in highways will put airport development at the lowest level of government that can reasonably handle the program. This will allow some important needed changes in the program, such as the varying of participation rates according to the type of work being accomplished, a goal that is difficult for FAA to accomplish with its decreasing staff complement. By vary the 90 percent participation rate, the scarce federal resources available can be spread to more projects, admittedly increasing the collective administrative workload, but resulting in greater improvement of the airport system.

Trust Fund Limitations

The General Accounting Office (GAO) is projecting an unsued balance of $12.4 billion in the Airport and Airway Trust Fund by the beginning of Fiscal 1991 at the current rate of collection and spending. Taxes collected from system users and placed in dedicated trust funds should be promptly and fully used to accomplish the purposes for which they were collected. In addition, interest which accrues to trust fund monies is an integral part of that trust fund and should be kept in the fund. While it is imperative that we attend to the federal deficit, the fact is that Trust Funds should not be held hostage to the Unified Budget problem. Under the present budgetary process, trust funds are subject to the annual budget resolution approved by the Congress. They are also subject to an expenditure ceiling device used to limit the overall budget levels.

Consequently, the capital improvement programs envisioned and used as the basis for enacting the user fees in the first place have suffered from substantially reduced financing. Aviation and highway interests are urging Congress to remove these dedicated funds from the Unified Budget process. Those who pay user fees should be guaranteed that the revenues are allocated and used on the programs for which they are intended, without artificial financial restriction. The U.S. Treasury Department still has to borrow just as much to pay the bills, whether the trust fund monies are impounded or not.

Summary

In summary, each level of government's role in airport development is changing and becoming more complex. The federal role should be to define a national system of airports, establish standards for that system, operate and maintain the nation's airspace system, collect most of the aviation user fees, and administer a hub airport program.

The states should take a more active role in system plannning, local technical assistance, and administration of federal and state non-hub airport development programs. This will require, in many cases, a first-time involvement for some states in many aspects of airport planning and development. State-collected user fees are appropriate to support this activity.

The primary role oflocal governments should be to develop, maintain, and operate their airport facilities so as to effectively serve local and national aviation needs and to protect the investment of public funds in these facilities. Some local financial participation is appropriate to reflect a high level of local benefits.

Many of the airport problems at issue, such as proper pavement management, tall tower regulation, land-use zoning, technical assistance to local airport owners, advance land acquisition, and filling gaps in longer-range system and program planning should be responsive to an increased level of state-managed solutions. Only Congress can solve the financial reliability problems of the federal aviation trust fund support for airport development.

Clearly, the opportunity for a new direction in airport development is available to us today. For those in government, the challenge is to manage this change so as to make maximum use of our collective financial and human resources in providing a safe and efficient air transportation system for the nation.

INTERGOVERNMENTAL ISSUES IN AIRPORT DEVELOPMENT AND OPERATION

Robert S. Michael, Regional Airport Authority of Louisville and Jefferson County

When asked to make a presentation in this general area of the intergovernmental aspects of airports, with emphasis, in my case, on operations and development, I began to think in terms of how an airport owner/operator interrelates with such other entities as local, state and federal governments. I asked myself, "What seems to be changing - in fact, is there anything changing?"

Airport Owner/Operator and Local Government

As I thought about the matter, starting with the relationship between the airport owner/operator and local government, I began to believe that not much has really changed in the past several years, nor does it seem likely that much will change in the future - at least on a broad brush basis. This presumes, of course, that the airport is either an arm of city or country government, or the airport is an independent operating agency as is the regional airport authority of Louisville and Jefferson county, with which I am associated. There are, of course, distinct and relatively fixed relationships established at the local level. But insofar as how those roles may be changing, I repeat that I see not much in the way of new trends.

For example, dollars are very hard to find at the local level. Due to the very direct impact of the loss federal revenue sharing dollars, both county and municipal governments simply have less money to spend on things other than basic municipal services. For that reason, if the airport operates out of the general fund, some airport improvements that might have come directly from the local general fund either become second priority or lower, but in any event, do not get undertaken. A good example might be a local roadway network by which the community accesses the airport which might be in some state of disrepair and ought to be improved, or widened. Or again, some other aspect of the airport's infrastructure which either needs upgrading or expanding might be put on the back burner in favor of upgrading the municipal sewer system or continued trash pick-up. There is a whole litany of local financial demands that, when looked at by either the Mayor or the City of Council, will invariably obtain a higher priority rating than improvements at an airport. All the more so if the airport happens to be self-sustaining or turns a surplus on a cash basis. A reverse pressure may sometimes be present and under current trends, may intensify. Being members of the general fund, certain airports may find that some municipal services heretofore received "for free" may now have to be paid for in the future. I refer to services provided to the airport by the parent city or county such as police or fire personnel, or the services of the personnel or purchasing or law departments. As I stated a moment ago, I see no new trends in this regard - only an intensified one brought about by a difficulty of securing local dollars.

<u>Airport Owner/Operator and State Government</u>

Moving to the relationship between the airport owner/operator proprietor and state government, I see perhaps a little bit more in the way of change but nothing fundamental. Using roadways for an example, state highway funds have come under increasing pressure due to falling levels of monies flowing into state highway trust funds, all of which have a direct impact on the degree to which the state improves its roadway system. Many highways that lead to airports are state highways and to the extent they need to be widened or improved to handle additional capacity, those improvements may be deferred to a later date in the state's transportation improvement program. Certainly the loss of the federal highway program, even if temporary, contains its own negative impact. While most states have DOT's or aeronautics commissions, there seems to be little new in the relationship between these agencies and local airports. However, I <u>do</u> <u>see</u> some states moving perhaps more aggresively into an area where they may have been only minor players in the past. This has to do with economic development.

- Economic Development

A number of metropolitan areas and even regions took it on the chin in the early 80's due to a severe economic recession. Some airports have been particularly hard hit as a combination of that recession and the developing effects of deregulation. My community is somewhat typical of those -- a manufacturing community hard hit by the recession of the early 80's at the same time when deregulation was taking its toll as characterized by fewer flights on a nonstop basis to fewer destinations.

In communities such as mine, economic development or redevelopment is <u>the</u> buzz phrase and I do not intend to denigrate the word buzz in these activities. A great deal of effort is being spent in my community by the county <u>and</u> the city <u>and</u> the state in attempting to turn around the economic fortunes of a community whose unemployment has only recently begun to descend from double-digit levels.

Insofar as the airports in these locations are concerned, I see the distinct possibility that states may become more directly involved, not so much in the standard mold of "having an airport in every county," or having a grant program, or a loan program, or to foster the development of airports on a state-wide basis, but more on the order of pin-pointed economic development activities and incentives.

More specifically, we may see wider use of state bonding authority to help specific airports with specific projects, notwithstanding the limitations of the Tax Reform Act of 1986. As an example, the state of Kentucky assisted my airport by providing us with a 10.5 million dollar economic development bond, at market rates, to be sure, but on an unsecured basis, which means that there was not coverage or additional reserve fund required, and the debt does not figure in the debt service calculation for any other airport revenue bonds that might be then or in the future outstanding. All of this makes the state assistance very advantageous for us, and I suspect other airports are similarly situated. In fact, we look for additional assistance in the very near future to help us continue and build an airside terminal building.

What may be even newer, however, is the degree to which a state might assist local efforts to acquire major new industries or service companies and in so doing, provide a direct economic infusion to the adjacent airport in order that the new company or economic activity may achieve the growth and/or air service that it forsees as necessary. Airports are becoming relatively more important to the economic viability of an entire region, and states are coming to recognize this fact.

A specific example that occurred in Louisville may illustrate my point. When United Parcel Service made overtures a few years ago to the state of Kentucky, both our local jurisdictions, and our agency, it sought to establish a major overnight parcel hub and saw what it considered a major future impediment. Our principal runway was not long enough to launch some fully loaded aircraft to west coast destinations. While there are many nuances to this story, the Air National Guard, through the Adjutant General of the State of Kentucky, was pursuaded by a coalition of interests -- including ourselves and UPS -- that it ought to pay two third's of the cost of a 2200 ft. runway extension, which it did, to the tune of some $4,000,000. Next, as UPS sought to minimize future landing fees, it got the state to induce the airport authority to modify the landing fee formula, which had the net result of a loss in cash flow to us. To lessen the blow, the state substantially reduced the semi-annual payment on the aforementioned economic development bond. In effect, the state became a dues-paying partner in the establishment of UPS in Louisville.

I would submit that this is a direct effort on the part of state government to insure that the benefits of a major new element to the economic base of a community, one in which it had a direct hand in generating in the first place, are not lost. I would further submit that while these may be somewhat unique examples at the moment, they may be less so in the future as efforts to improve the economic welfare of those communities continue on an accelerated basis.

Airport Owner/Operator and Federal Government

On balance, however, the major relationship between an airport and any jurisdiction has been and continues to be that established with federal government, and given the plethora of regulations and the grant-in-aid program, I see little prospect that this will change. In fact, there are some very strong reasons to believe that the role to be played by the federal government is increasing and will continue to increase in the years to come. As an aside, I find certain irony in the existence of this trend, because if it does in fact exist, it comes at a time when there may still be some residual momentum in this city of "get the federal government off of the backs of the people." Should that philosophy be applied to local airports, one would think there will be a diminishing role between the federal government and locally owned and operated airports, and yet the trend does seem to be in the opposite direction.

There are numerous and varied topics within the scope of this presentation whose timlessness belies their importance. Part 139, Tall Towers, maintenance of on-airport navaids, control towers to mention a few. However, in view of the limited amount of time, I will concentrate the balance of my remarks on airport congestion and delay on the one hand, and increasing capacity on the other.

- Airport Congestion and Delay

Perhaps the most critical airport development and operation issue facing us in the short run is the need to overcome airport congestion and delay problems. Many of us on the airport side of this issue believe that it will be the greatest problem facing aviation for a number of years to come. Airport delays averaged 1496 in September, 1986 compared to 935 a day during the same month the preceding year.

We believe deregulation has been the root cause of much of the problem and although it has created new opportunities for new and existing airlines and air travelers, it has also compounded the inability of the airport infrastructure to meet those demands. FAA's own traffic projections show the problem will only get worse. In 1985, passenger enplanements exceeded one million per day and at the end of this decade, enplanements may well reach 645 million, with commuter and regional carriers adding another 55 to reach some 700 million annually or nearly 2 million passengers per day. At high volume airports, the congestion/delay problems have led to increasing tensions and conflicts within the traditional intergovernmental relationship between the federal government, local airport operators and the airlines. Absent these problems, many of those debates would fade, if not disappear.

The problem, stripped to its essentials, is fairly simple and straight forward. If you will permit me the luxury of an oversimplified definition, one might say that the existence of congestion/delay is the absence of capacity. If so, it follows that an addition of capacity means a reduction in congestion/delay, and enough of the former will eliminate the latter. No doubt the brilliance of this observation will set tongues to wagging, but I sense that the elementary relationship between the two tends to get lost as we dig way down deep into efforts to overcome specific situations.

-- Proprietary Rights

There are a number of subsets within the congestion/delay side of the overall issue, high on the list of which must be the issue of local proprietary rights on the one hand and the national system of airports or the national interest on the other. Clearly there can be no question that this country has a national system of airports, irrespective of how one defines the system or how loose it is. Just as clearly, a relevant section of the United States Constitution lends certain protections to interstate commerce meaning, most simply, that states and their subdivisions may not unduly infringe upon interstate commerce. Anyone who is a student of the developmental history of metropolitan areas in this great country knows full well the importance of adequate, if not superior, transportation to and from that community; and today long distance transportation means airlines, airplanes and airports. Yet there are a number of communities who, for reasons sufficient to themselves, are not only unwilling to become a greater player in the national system, but seek to downplay their role.

The fundamental question in this subset might be phrased as follows: Does the owner/operator of an airport (usually a city or a county, or combinations of these) have the right to make its own determination as to the role, if any, its airport will play in the national airport system? Asked another way, does that community have the right to determine it will accept no more air service, less air service, or even in an outside case no air service at all? There are those who will argue strongly that every community does indeed have that right explicit or implicit, and yet are those who, with a national perspective, would argue otherwise and certainly, the airlines would come down on that side of the argument -- at least in a philosophical sense.

-- Balancing the Public Interest

Recognizing, therefore, that the national interest does exist and that there are protections against the undue burdening of interstate commerce, the question really becomes how do we balance the national interest (however one might define those two words) with rights perceived to belong to the community owning and operating the airport.

It seems to me that the federal government's interest and role in this matter, as expressed through the FAA, has slowly picked up speed in the recent past. Whereas before FAA was content to cite the commerce clause if communities wanted to control the amount, timing and duration of operations at its airport, it has nevertheless acquiesed in some instances by permitting curfews in cases where they believe the fundamental protection called for by the interstate commerce clause has not been violated.

As an example, witness the substantial curfew that exists at San Diego Lindbergh Field -- hardly an insignificant player in the national air transportation system. A similar curfew exists at an airport of considerably less importance - Pitkin County airport in Aspen, Colorado. These curfews came to pass largely because the residents of those communities petitioned their local governments to impose these curfews in order to make their night hours less noisy. Since there was little fundamental user opposition to curfews in these particular locations, FAA allowed them. The decision was noncontroversial and has withstood the test of time. I dare say, however, a ruling by the FAA would be considerably different if the community representing Standiford Field and Louisville, Kentucky sought to impose a similar curfew. As mentioned before, United Parcel "Hubs" in Louisville, much the same as Federal Express hubs in Memphis, with dozens of arrivals and departures in the early morning hours. Can you imagine the FAA acquiesing to a local curfew (conventionally overlooking for the moment the sheer preposterousness of this eventuality in light of my comments about economic development and jobs?).

Thus it seems that the problem works itself down to how to accommodate the conflicting objectives of federal government, as represented by the FAA, and the airlines who desire to protect and promote interstate commerce on the one hand, and the airport owner/operator who has his own series of conflicting priorities, economic development and a need for a liveable environment on the other.

One method of dealing with this conflict is the FAA's Part 150 study process, which seems to be coming more popular. Although only a limited number (some 14, I believe), noise compatibility programs have been approved by FAA, there are numerous others underway. The attempt to bring all the major players in a given airport situation to the table to generate a full understanding of the needs of each of the other. To the extent that rational heads can prevail, accommodations can be reached. Not that they are entirely satisfactory to any of the parties, but as is often the case in any difficult negotiating session when all parties concerned feel that the other side got the better of the deal, it may well be a workable solution.

- Airport Access

Another closely related subset under the general issue of congestion/delay/delay and capacity has to do with the growing conflict between federal and local roles with respect to airport access. There is clearly a trend toward FAA assuming an increased role in determining decisions about local airport landside and land use matters, such as requiring that landside capacity be developed in a timely enough fashion and in amounts adequate to meet airside capacity -- the old notion of balance -- and determining the appropriateness of airport use restrictions.

Many airlines believe FAA should totally preempt all airport restrictions. FAA's response is an airport access proposal that assumes a need to establish an explicit federal policy that clarifies the differing roles and responsibilities of federal government and airport operators in overall development and capacity issues, stopping short of outright premption or prohibition. For example, FAA views most airport use restrictions as being invalid if they interfere at all with the efficiency or the operation of the air transportation system, unless they are used as a "last resort method" and are fully and totally justified to the FAA as necessary. Witness FAA's refusal to allow Minneapolis to divert certain general aviation activities from its busy airline airport to its several General Aviation airports, or FAA's serious thoughts about appealing a Federal District Court's ruling that LaGuardia's perimeter rule is a valid exercise of proprietor's rights.

While airlines push for federal premption, airport operators question whether an access policy is either necessary or desirable. If so, can it be written in a manner to accommodate the conflicting interest of the major parties (FAA, airlines, airports and communities)?

Is it possible that a consensus can be reached among the parties to achieve a meaningful and workable policy and/or guidelines and future relationships, or will the advancement of this proposed policy put the FAA on a collision course with airports and their communities who may see it as unnecessary federal encroachment and thus do even more damage to existing relationships. If, for example, it means a stronger FAA involvement in local decisions, does it automatically reduce local proprietary powers and rights? How will it affect relations among local governments, their communities and airport operators, and their ability to reach agreement among themselves on airport capacity and expansion programs? These questions represent issues that are more than straws in the wind. They signal an impending change in governmental roles and truly meet the spirit of the title of this session.

-- Slots and Buy/Sell

Lastly, at this juncture, let me say a word about slots and buy/sell. Still an issue very much unresolved -- at least so far as Congress and airport operators are concerned -- slots and buy/sell represent specific and workable short-term solutions to congestion/delay. Congestion and delay are reduced substantially by the technique of artificially limiting the number of aircraft that can land or take off at a given airport in a given period of time. The technique of scheduling committees also works. Their effectiveness on the short-term is not the issue -- it's their long-term implications.

I do not quarrel with the notion that certain airlines have "rights" at certain airports, with some having greater "rights" at any given airport than others. After all, they have spent years and dollars (and presumably making some dollars) serving that city. As a matter of equity, it is not fair to those airlines to take all of the slots and, as some suggest, toss them all in the lottery hat for redistribution by chance. By retaining some large precentage - 75 or so - of each carrier's pre-slot activity, historical relationships and market shares are basically preserved, and new entrants and commuters can be accommodated. No, what really bothers me is the notion that the airline owns the slot in the sense that it can be bought or sold like any other private asset. I believe the slot is an operating right, and if there is any ownership, it belongs to the public at large. It should not be for sale, particularly by the one who happens to have acquired that particular operating right without cost whatsoever. To draw a parallel, does anyone believe that air Louisville flight 123, which normally leaves Louisville for Washington at 7:30 A.M. daily, owns the IFR clearance and airspace at that time, and can sell it to the highest bidder? Why is the end of that flight -- the Washington National slot -- any different?

- Increasing Capacity

Turning now to the other side of this issue - the provisions of more airport capacity, one finds another trend in the evolving relationship between the federal government and the airport proprietor, only this one is perhaps a bit more subtle. On the one hand, air space capacity, the subject of intense scrutiny and developmental work for the past several years, will increase substantially in the near future, thanks to the federal government's adopted and well underway national airspace well underway National Airspace Plan (NAS). On the other hand, airports, where all the action begins and ends, will be hard pressed to keep pace with the capacity gains to be achieved through the NAS Plan. Given the fact that the airspace is under the sole purview of the federal government while airports are, for the most part, in the hands of local proprietors, what role should the federal government play, if any, in balancing those two elements.

It is well recognized that the 22 large hub airports in this country handle more than 55% of all domestic traffic. Given that fact, how best can we target our total resources and efforts to insure that adequate capacity at these critical elements of the national system be provided? Should we focus on the airport system as a whole, that is, should we spend our resources more or less equally throughout, or should we concentrate them principally on the key trouble spots?

Going back to my earlier brilliant observation -- more capacity means less congestion -- there is simply no question that we need more capacity, but not on a system-wide basis. The majority (in raw numbers) of airports across the country are operating nowhere near their capacity. The problem exists where everyone says it exists -- at the present high density and slot controlled airports, and those that threaten to join this questionably elite status. They should be the focus of our efforts. Collectively, we simply must come up with an answer. The answer is providing more capacity.

-- Constraints on Increasing Capacity

It is, of course, impossible to talk about airport capacity (or the lack thereof) without talking about the principal constraints to providing more, and they are numerous. In any given situation, there are a number of impediments that can act to block growth. Some are real and some are artifical. Aside from noise, there are many legitimate environmental concerns. There are land use constraints, zoning constraints, concerns over the ability of the community to provide the basic infrastructure and utility services, political considerations, airline agreements that may contain majority-in-interest clauses, and the list goes on.

Notice I did not mention money. But the biggest impediment is clearly noise. The overriding reason that capacity cannot be readily added in most locations is the public perception that airports are too noisy and that increases in either the size or the capacity of the airport will do nothing more for them than increase the noise. And while it has become fashionable to talk about the severity of this problem in recent years, it really goes back a long way. How long?

Some of you in this room may not know that as early as the mid 1950's, airport capacity in the New York area was a highly visibility issue. After extensive study by the-then PNYA, a new site was selected in the New Jersey meadows just across the Hudson from Manhattan. It was ultimately rejected by the people on environmental grounds, including noise. This was, I believe, the first such rejection. Since then, increased community resistance, the National Environmental policy Act, other legislation, and more recently, the added impact of deregulation with its developing emphasis on hubs and spokes, have made it nearly impossible to add capacity where it's needed.

-- Efforts To Increase Capacity

What is or are the answers? How can we provide more capacity? It's not like the industry hasn't been trying. FAA, to its credit, created the Industry Task Force on Airport Capacity Improvement and Delay Reduction in 1982. Ably chaired by Don Reilly of AOCI, it made numerous recommendatios which, when taken together, could produce valuable gains in the overall capacity of the system. Some may not be doable for safety reasons, others for cost/benefit reasons, yet others due to missing R & D. But even if they were all doable, we really haven't added new capacity - we're simply doing a better job with what we've got.

What else can we do? Part 150 studies may be part of the answer. Economic impact studies are certainly helpful. Continued reductions in jet engine noise thought cut-offs of Stage II engine production and implementation of Stage IV technology will help even more, but they take time -- too much time -- and the delays continue to build. As Sig Poristky noted here at TRB's Annual Meeting in January 1985, "There are no quick answers." We continue to limp along, collectively wringing our hands over the prospect of more and more costly delay, so while there is much going on, it seems to me in a broad and very real sense we are stalemated - getting nowhere. We nibble around the edges, we tinker, we develop new black boxes, but we're really not getting anywhere. There are no new initiatives insofar as major increases in capacity are concerned, and there need to be.

Need For Stronger Federal Promotional Role

If this is a given, then it seems to me the time is ripe for a whole new level of intergovernmental cooperation - between the federal government that owns and operates the vast resources of the airspace, and local governments who own and operate their limited resource airports. Aside from safety issues, there is little real long-term value in increasing the capacity of the space between high density airports if we can't use that increase at one or the other end. All too often, local airport officials, while able to present the very same facts and figures about the need to their communities, are seen as self-serving, presenting a biased position, and representing only the administration in power at the moment, or even the airlines. While I firmly believe that it is fundamentally up to a community to decide on a policy basis the direction it wishes to go in terms of participating in the national air transportation system, I also believe that the federal government is in a much better position to explain the role that quality air transportation plays in the welfare and future of the communities of this country. It's emphasis in these situations should be on maintaining a well defined national air transportation system, explaining the value of having a major role in the national transportation system to that community, and serving as a resource to community leaders grappling with the issue.

I believe FAA should abandon its passive stance and aggresively use its forecasts to go out and "sell" the national air transportation system. Not in a negative sense -- not by threatening to withhold funds or any other form of federal intimidation -- rather by honest-to-goodness old-fashioned selling and promotion. How about a new Deputy Administrator with a small staff of marketers (all new to FAA?) with appropriate technical support.

We all laugh at the line "I'm from the government and I'm here to help." Why not make that a meaningful line? We've got to do something to unlock the capacity stalemate. While there may be no quick solutions, It's clear we have to start doing something different. It's not that we don't have the answer. What we may not have is the right approach.

FINANCIAL ASPECTS OF THE INTERGOVERNMENTAL ROLES FOR AIRPORTS

Richard Harris, Morgan Stanley Company

I'm probably the only person that you'll hear from this morning that is not intimately involved in public policy. My perspective is very narrow. I'm a bond man, I finance transportation projects. I started out in airports and financed a lot them. I've financed highway projects for the Arizona Department of Transportation, and the State of Connecticut. We are senior manager for the New York Metropolitan Transportation Authority, which has an $8 billion bonding program. So my knowledge in the bond markets is deep. My knowledge in public policy is fairly shallow. But let me take a crack at talking about the airport system, and I'd like to begin by concurring with what Bob Michaels said. I don't think that money is the problem.

In this country we have 71 large and medium sized airports. We have 489 small airports, and over 2600 general aviation airports. I think the point that has gone unmentioned today is that we really have three broad categories of airports. We have the "haves", the "have nots", and then we have a group of airports in the middle to whom a federal and or state aid is critical. I deal principally with the "haves", they're the people who go to the bond market. And occasionally we get some middle level issuers who, with the support of the state can get into the bond market.

Relationship of Airport Management Philosophy To Bond Financing

How airports are managed from a bond market point of view, it seems to me is the critical criteria, and that, in looking at management, takes you immediately to the comparison of "residual" cost approaches versus "compensatory" cost approaches.

Residual cost is a system in which the airlines make up any deficiency in operations, whereas under a compensatory approach the airport manager runs the airport as a business enterprise and the airlines are charged on the basis of the space that they occupy and the utilization of the airport. These two approaches will take on added significance because there are going to be less dollars available in the future, probably in an absolute sense, but certainly in a relative sense, and because they're important, these two approaches are important to the bond market. The type of system management chooses will help determine an airport's potential for accumulating retained earnings, the nature and the extent of the airline's role in making airport capital investment decisions, and the length of use and lease agreements between airlines and airports.

Retained earnings obviously strengthen the credit-worthiness of the airport. A residual cost approach guarantees that an airport always break even, and basically doesn't guarantee anything other than that. A compensatory approach, while it lacks the built-in security afforded by airline guarantees, permits surpluses to be used to reduce airlines' rates and charges, and those same surpluses can be used for capital development. To give you an idea or how residual cost approaches are used, almost 80 percent of Large Hubs have residual cost approaches, whereas at Medium Hubs 67 percent are residual and 33 percent are compensatory.

The airline's control over capital projects at the airport is reflected in use and lease agreements in the form of "majority-in-interest" clauses which give the airline the opportunity to review and approve, or disapprove, capital projects that would entail significant increases in airline rates and charges. While extremely controversial, from a bond market point of view, even where airline approval is not formally required, investors in airport revenue bonds would be very wary of bonds issued for a project lacking airline approval.

Finally, as to the term of the use agreements, while the rating agencies are de-emphasizing the length of the use agreement, it continues to be a very important consideration to rating agencies. At residual airports, with leases of 20 years or more, 93 percent of the large hubs have use agreements that run in excess of 20 years; at medium hubs it's 76 percent. At a compensatory airport the leases tend to be shorter. At large hubs 60 percent run 20 years or longer, and 40 percent for medium hubs. And, incidently, a significant number of large hubs have no use agreements at the moment.

Airport Capital Financing Magnitude and Sources

Capital requirements for airports although very important to all of us in this room, run about 3 percent of annual infrastructure expenditures; highways represent about 46 percent, transit about 15 percent, waste water treatment about 15 percent, and water supply 5 percent. Of the capital expenditures which will be required, the estimated annual demand for capital by a Large and Medium Hub airports, depending upon the estimate, runs somewhere between $650 million and a billion dollars a year. About a half of that is for new capacity.

The federal share of airport investment over the recent past has ranged from 20 to 85 percent and currently represents about 33 percent. The large swings in the federal share are not due to changes in federal outlay, which have remained fairly stabled since about 1970, but from extreme changes in the mix and volume of total airport investment. State airport investment has remained fairly stable at about 11 percent; about 55 percent of total airport investment that has to come from some area other than the feds, or from the state.

Where do airports turn for private capital? Well, as I mentioned at the beginning, the "haves", and some of the people in the "middle" ground turn to the bond market. As in any enterprise, the ability of an airport to access private capital is entirely a function of financial performance. Purchasers of bonds look for assurances that an airport can generate net revenue sufficient to pay interest and principal or bonds. Financially strong airports can sell airport revenue bonds. Financially weak airports, to the extent that they access the bond markets, have to rely on general obligation bonds. For example, financially strong airports raised through the bond market 3 times more dollars than federal grants in the 1978 to 1982 period. At small airports federal grants were double bond proceeds for that same period.

Determining Financial Health of an Airport

How is financial health determined? Financial health is something that is measured by the two rating agencies in New York that deal most often with bond issue: Standard and Poors (S&P), and Moody's Investors Service. Standard and Poors takes a slightly different approach than Moody's.

Standard and Poors, prior to deregulation was concerned only with whether airports had long term use and lease agreements with the airlines. Since deregulation S&P has begun to look at the underlying air traffic. They are concerned with the demand in the local area. They are concerned with the mix of origination traffic and connecting traffic. If the largest airline serving the airport represents more than 50 percent of the traffic, that's considered to be a negative. If the two largest airlines produce more than two-thirds of the traffic, that's also considered to be a negative. S&P is also concerned with business versus recreational travel. The thinking is that business travel during times of recession declines, but not nearly as much as recreational traffic, and so it is a more stable source of revenue.

In addition, airport utilization trends are important; e.g. local enplanements versus national trends. The local economic health and its future projections are important. The rating agencies look at population growth, employment growth, the mix of industry in a local community, the cyclicality of a local community's economic performance, and wealth measures. Use-agreements continue to be important because they establish the procedures by which the airports generates revenues. They guarantee, to a certain revenues, and they provide protection in the eyes of the rating agencies for the investor. The airport-airline interrelationship is also viewed as being very important. The mix of carriers and the financial health of the carriers, is becoming increasingly important.

Moody's Investors Service, on the other hand, looks at statistical measures. They look at five measures: two are ratios which measure the amount of revenues available to cover operating expenses. One ratio measures debt relative to total assets, the remaining two ratios measure the net revenues after operation and maintenance expense available to service debt.

Finally, there are other criteria that both agencies look at with respect to airports. These include: the size and purpose of the financing; the need for additional financing; a diversity of the revenue stream; rate flexibility; and historic coverage of debt service.

Effect of Tax Reform on Airport Financing

With regard to the effect of the new Tax Reform Legislation on airports, the good news is that from an airport point of view not much changes under the tax bill. Airports that are "publicly-owned" are deemed exempt facilities and may be financed with tax exempt bonds in the future as they have been in the past. Airports are "publicly-owned" if the leasees at the airport irrevocably elect not to claim depreciation or any investment tax credit, if the lease term with the airlines and other concessioners is not more than 80 percent of the reasonably expected economic life of the property, and if the leasee has no option to purchase the property other than at fair market value.

Facilities that cannot be financed include lodging facilities, retail shops in excess of a size necessary to serve passengers and persons who accompany the passengers, as well as employees of the airport, retail facilities other than parking for passengers or the general public located outside the terminal, for example rental car lots, nongovernmental office buildings, and industrial parks or manufacturing facilities.

The bill contains prohibitions against anyone earning arbitrage, not just airports. Airports may not intentionally invest bond proceeds, or funds replaced by bond proceeds, in obligations other than tax exempt obligations which produce a yield over the term of the issue which is materially higher than the yield on the airport bond issue. In the past airport operators have taken the unexpended bond proceeds and invested them in government securities at substantially higher yields than the borrowing costs on the bond issue, thus producing significant interest income over the life of the construction (such as debt service reserve funds) over the life of the bond issue. That's no longer permitted.

These changes will make bond issues and projects more expensive. Airport bonds will be subject to the alternative minimum tax of 21 percent on individuals and 20 percent on corporations. Property and casualty insurance companies, the largest buyers of airport bonds, will be required to reduce deductions for loss reserves by 15 percent of the tax exempt interest income for obligations acquired after August 7th, 1986, reducing the demand on the part of those investors for airport revenue bonds which are not subject to the limitations on other governmental bonds.

Financial institutions, such as banks, will be prohibited from deducting 100 percent of the amount of interest attributable to purchasing or carrying tax exempt obligations acquired after August 7th, 1986, making banks much smaller buyers of not just airport revenue bonds but of all tax exempt bonds subject to that limitation.

So, it seems to me that, from a bond market perspective financing airports in the future is going to be more expensive.

Effect of Defederalization and Passenger Charges

Defederalization is a growing concern to participants in the bond market. The question of management control at an airport, and the management of the airport, conflicts with existing lease arrangements so that, were the largest airports to defederalize, there is some concern as to the ability of management to effectively control their destiny.

The question of the passenger facility charge is of interest to the bond market. It is a source of revenue, it's a source of equity for airports and makes airports that much more attractive.

General Aviation Airport Financing

The last question, the one that Lowell Jackson touched on, is what to do with small and general aviation airports from a development and funding point of view. It seems to me that the state agencies can play a very significant role in the future funding and development of those airports.

INTERGOVERNMENTAL ISSUES IN AIRPORT FINANCE

A presentation at the 66th Annual Meeting of the TRB, January 12, 1987

John J. Corbett, Partner, Spiegel & McDiarmid

Airport Finance in Context: Of the total funds that would be needed for the nation's public infrastructure during this decade, the Congressional Budget Office has estimated that public airports would need some 3% of the total, and that airways development would justify another 3%. In contrast, highways would eat up 52% of the total, public transit 15%, and sewer and water systems about 13% each. So airport dollar needs are modest, at least relatively.

Source of Funding: Historically, Uncle Sam generates a third of the funds from aviation user taxes through the Airport and Airway Trust Fund; state governments add in about 11% of the total according to the National Association of State Aviation Officials (NASAO); and local airport sponsors make up approximately 56%.

Generally speaking, airport development is supported by user taxes and charges (such as a Federal passenger ticket taxes, Federal and state fuel taxes, local airport landing fees and terminal concession fees). At least larger airline-served airports are supported by tax levies on those who don't fly. And, frankly, that's why a 40-cent doughnut costs 95 cents at airports.

Future Airport Capital Development Needs: Airport capital financing is generally estimated at about $2.5 to $3 billion dollars a year for the next half-decade, with most of that total being spent for projects that the Airport and Airway Trust Fund doesn't and won't finance. Based on historical patterns, the Trust Fund would provide about $1 billion each year and local governments and their air travellers would finance most of the remainder, generally through the issuance of long-term tax-exempt bonds.

Major Findings from October 1986 TRB Seminar

1. Raising funds for airport development is not a systemic problem.

The major finding from the TRB Workshop on Airport Finance was, that civil aviation doesn't have a money problem and that more funds won't produce agreed-upon solutions to those issues that the Workshop participants focused on: aircraft noise as a limit on airport capacity; finding an appropriate role for State Governments in civil aviation; and the pros and cons of defederalization larger commercial airports.

Civil aviation is used and supported by a relatively affluent sector of the economy and there are no indications that civil aviation users as a group can't -- systemwide -- pay their way or at least their "fair share."

2. Wall Streets's tax-exempt bond market can provide as much capital funds as larger airline-served airports need at reasonable interest rates because airports have great credit ratings.

The Congress rejected the Administration's proposal in the Tax Reform Act of 1986 to deny to local governmental airport sponsors the lower interest costs that historically had been available for airport development financed through tax-exempt bonds. The President wanted virtually all airports bonds to be taxable and thus more expensive for airport sponsors to finance (and airlines and airport customers to pay off). Congress not-so-simply said "No".

Traditionally, only larger airports (Large and Medium hubs) finance their capital development with revenue bonds. Other, smaller airports would be financed with the proceeds of general obligation bonds backed by the full faith and credit of the governmental issuer (most likely a city or county) but not necessarily with revenues generated by the airport.

Studies have shown that airports have excellent credit ratings and obtain interest rates from Wall Street that are substantially lower than for other public enterprises. Over the 1978-1982 period, for example, interest rates for airport revenue bonds were about 3/4 of a percentage point lower, on average, than for all public enterprises revenue bonds.

3. Freeing up Airport and Airway Trust Fund monies that have been raised for aviation development is an "intragovernmental" problem of continuing concern.

The swollen Aviation Trust Fund surplus (estimated at $4 to 5 billion) attests to the fact that Uncle Sam raises money better than other level of government. However, the Congress and the Executive Branch have agree -- intragovernmentally -- that they don't want to spend on a current basis all the money that's been raised for aviation programs. They prefer to help hide some of the non-aviation Federal deficit in these days of Gramm-Rudman-Hollings by using the Trust Fund surplus. Airways modernization in fact has already been slowed down by these pressures.

Looked at mathematically, however, the Federal Government has done more for airports than for most Federal domestic programs in recent years. For example, between 1980-1985, the Federal Government increased its total expenditures by 23%, when Defense was increased by 34% and interest on the national debt increased by 86%. During this same period, overall Federal grants to state and local governments decreased by 8.3%, but funds to airports increased substantially.

Although the situation could change at any time, the Federal Government's bark has been worse than its bite for the Airport Improvement Program that was established in 1982. The President's Budget to Congress for 1986 and 1987 threatened to reduce airport grants in the future from $1 billion annually downto $500 million starting next year. However, the actual Budget for next year, submitted to Congress just last week, proposes to keep airport funding at the $1 billion annual level at least through 1989.

4. Aviation's major problems call more for changes in intergovernmental relationships than for new dollars.

The discussions at the Workshop focused on a number of chronic aviation policy issues that have fiscal as well as intergovernmental aspects.

Aircraft Noise

Aircraft noises was considered as a factor causally limiting the growth of airline airport capacity.

The historical FAA position is that restrictions imposed by major airport sponsors on airline aircraft operations are shrinking the capacity of the system or were at least preventing its growth. By contrast airport operators and community officials complaining that airports (not the FAA and not the airlines) have the legal liability for excessive noise thus leaving the communities to solve the noise problem on their own.

Participants at the Workshop exhibited great frustration at the noise issue. Two component problems were identified. The good news is that dollars would be at least a partial fix on one problem. First, FAA could increase the chances of getting local approval of some needed new runways in major hub areas by preempting the liability for the operations of some airline aircraft and using part of the Trust Fund surplus to that end. Or by spending Trust Fund monies to prevent noise problems from developing at medium hub-sized airports.

However, money or financing won't solve other parts of the noise problem. Communities want airports, prisons, trash dumps but only in the other guy's neighborhood. It's a local political or "my quality of life" issue, not a "legal liability" issue that money could solve.

Congress may ultimately hae to legislate on the ultimate intergovernmental issue: Can the Federal Government force airport growth on an unwilling local governmental sponsor? Which is the more compelling governmental interest: that of the local government trying to protect its citizens from clearly excessive levels of aircraft noise or the national interest in fostering air commerce?

Two questions raised in conjunction with the Airport and Airway Trust Fund reauthorization process are these:

(a) Does it make sense to keep offering more AIP funds to larger airports for additional landing area capacity if money for runways isn't the constraining factor at those airports?

(b) Does it make sense not to spend Trust Fund money for partial preemption if this would reduce one constraint?

Role of State Governments

A sizable number of the participants at the October Workshop on Airport Finance were state aviation directors who were visiting the Nation's Capitol to complete development of a policy position for the National Association of State Aviation Officials (NASAO). Although the NASAO policy was not completed, many of the state directors commented that it would cover many of the problem areas we had discussed.

That NASAO policy paper has since been completed and disseminated and, according to reports, the Administration's draft legislation to extend the Airport and Airway Improvement Act has adopted at least some of NASAO's recommendations.

The NASAO position paper is, indeed, a comprehensive approach but time will prevent my summarizing more than the intergovernmental implications of its recommendations for the post-1987 airport grant program. These proposals themselves are considerable.

As to project eligibility, NASAO would, for the first time, make airport maintenance costs eligible for funding from the Aviation Trust Fund "since the total airport system is reaching maturity". Traditionally, the Administration has been opposed to funding maintenance for mass transit or airport facilities or highways and currently limits its airport expenditures to "rehabilitation" projects.

Certain ground transportation access projects would also be made eligible, a revolving loan program would be established for advance land acquisition, and a new "critical capacity and safety fund" would be set up to promote new capacity in the airport system.

- State Programming of AIP Grants for All But 149 Airports

Most controversial of the NASAO positions likely will be its proposal to reorient the Federal AIP program into separate National and State Systems and to have a separate AIP project selection mechansims for the FAA and for each participating state aeronautics agency or state DOT. In contrast to current law and practice (in which the FAA selects all airport projects to be funded with Federal funds), state agencies under the NASAO proposal would program all Federal funds other than for the largest 149 primary airports, and the special setaside programs.

In FY'88, the states would program $540 million in AIP funds to some 400 smaller primary and commercial service airports used by the airlines, some 225 reliever airports in metropolitan areas and bout 2500 general aviation airports. In contrast, FAA would obligate $860 million, of the total $1.4 billion FY'88 program.

Is the NASAO proposal a "grab for power" by the states and, at the same time, a way for the Federal Government to "bail out" of AIP administrative duties since the remaining larger airports in the "National" system already have some in-house capability for project management?

Alternatively, the NASAO proposal can be viewed in intergovernmental terms as merely a block grant program that provides for decentralization of project selection, and then mostly for projects in which the national interest is low. Or some would say "nil."

Project eligibility criteria wouldn't be decentralized or weakened below FAA standards, no Federal funding sources would be turned over to the states, and disgruntled local airport sponsors could no longer blame Congress or bureaucrats in Washington, D.C., for insensitivity to localized concerns and needs within each state. According to the literature of intergovernmental relations, pressures for responsiveness to citizens increase as decentralization increases.

Among the more likely areas of Congressioal inquiry are these:

Should states be allowed to program funds to reliever airports in metropolitant areas since there's still a strong national interest in reliever development?

Should Congress require pre-approval by a state's legislature of its participation in the state's AIP programming option so local communities can express their views within the state?

Airport Defederalization

According to the Administration's budget submission to Congress last week, its legislation to extend the Airport and Airway Trust Fund, due on Capitol Hill by January 28th, will provide for a voluntary program of airport defederalization. To the extent that an airport opts out of further AIP eligibility, its entitlement from the Trust Fund would lapse and those funds would stay in the Trust Fund surplus.

Reports circulate that an airport that opts to be defederalizated or "defunded" would be allowed to impose a passenger facility charge or "head tax." Any local charge by airport providers directly on passengers is currently prohibited by the Federal Aviation Act and Congress would have to act to make any such future charges legal.

It's probable that the Administration legislative draft won't flesh out any details of the passenger facility charge option but will leave that to Congress, if the idea takes hold.

In aviation policy terms, the proposed defederalization proposal is fascinating. Participants at the TRB Workshop Session on airport finance in October were supportive of the "voluntary" defederalization option although there was some concern that political support for any airport grant program could be weakened if a lot of larger airports opted out.

Opposition to the Administration proposal would be expected from the scheduled airlines. ATA members historically have been opposed to local airports being able to charge passengers directly because airline influence over the resulting revenues could be lost; charges could be excessive; and collection procedures could increase airline operating costs.

From an intergovernmental relations perspective, the proposal for voluntary defederalization with a passenger service charge option is a mixed bag. Local governments would impose charges on passengers locally and choose the projects that would be financed -- equal to the full "political decentralization" of local funding sources and local selection of local projects that is favored by many theorists.

However, air travellers flying into airports collecting "head taxes" would pay twice to support airport development: the 8% Federal passenger ticket tax which now supports the airport grant program would not be reduced for those who pay a "head tax." They would pay twice, although admittedly the Federal excise tax also pays for airways facilities and a safe airport at the other end of the flight.

Then, again, if a passenger facility charge could be imposed only on originating and departure passengers and not transiting passengers, there would be a sense of fiscal discipline imposed on the airport because its own taxpayers would be paying.

Before considering the approval of any passenger facility charge scheme, the Congress might ask: What protections could be built in to prevent abuse, including excessive charges and use of proceeds for non-aviation purposes? Could airline computers be easily programmed to reduce the Federal ticket tax percentage on any ticket coupon on which a "head tax" was also to be imposed?

Conclusions

The October 1986 TRB Conference on the Changing Government Roles in Airports was thought-provoking. It suggested that funding is not a major systemwide problem in achieving airport capacity, and that aircraft noise, states rights' and local proprietors' rights are chronic issues that might be looked at anew by the 100th Congress from an intergovernmental relations perspective as it takes up the Airport and Airway Trust Fund extension.

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