

## THE AIRPORT IMPROVEMENT PROGRAM

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The Airport Improvement Program (AIP) Division of the Office of the Associate Administrator for Airports is responsible for carrying out FAA's role in fostering a safe and efficient national airport system. The AIP Division deals with an extensive network of over 3,000 public-use airports that are owned and operated by thousands of local and state agencies. There is considerable tension between two of the Division's principal objectives. We want to keep decision-making authority concentrated at the local level, but we also want the individual airports to mesh together as a national system.

The AIP Division develops design standards and construction specifications, certifies the safety of airports that have considerable commercial activity, and monitors the current and future adequacy of the Nation's airports. The key to FAA's effectiveness in carrying out these activities has been the availability of federal aid to help finance airport improvements that are significant to national transportation. Federal aid has functioned as the proverbial carrot, encouraging local and state agencies to cooperate and conform to the uniform guidelines of a national system.

The current Airport Improvement Program is the latest in a series of federal programs that dates back over 50 years. AIP is financed by monies drawn from a trust fund supported by various user fees, including taxes on passenger tickets, freight waybills, and general aviation fuel. Until recently it was almost taken for granted that the AIP funding level would increase each year to keep pace with the growing needs of air transportation. However, budget concerns and policy considerations have changed the picture, and the AIP appropriation for FY 1995 is set at \$1.45 billion, down from a high of \$1.9 billion in 1992. The appropriation for FY 1996, which begins on October 1, 1995, is now being considered by Congress. There are differences between the appropriation bills approved by the House and the Senate, and a conference committee is scheduled to meet soon to agree on the 1996 appropriation level. It is anyone's guess what the amount will be, but it appears likely that AIP funding for FY 1996 will be close to the FY 1995 level.

The limited availability of Federal air has caused some concern. While FAA recognized a need for an

annual investment of at least \$6 billion, it has been able to supply only one quarter of this amount through AIP. Some observers fear that airport development may be held back and the growth of air transportation stifled by inadequate investment in airports. However, the situation is not that simple, and additional factors must be taken into consideration before judging the adequacy of the AIP appropriation.

### SOURCES OF FUNDING

Federal aid is only one piece of a complex funding picture. AIP provided about one third of the public capital for U.S. airport improvements when the program was at its highest level. It has now declined to about one quarter. Airports raise the remaining three quarters primarily through revenue bonds, passenger facility charges, rents and charges to airlines, income from concessions, general aviation fees, and other sources.

The decline in AIP funding since 1992 occurred at the same time that a new major source of revenue for airports was being brought on line. Airports are now permitted to collect, with FAA approval, passenger facility charges (PFCs) of up to \$3 per enplaning passenger to finance certain types of development. PFCs are being collected at over 230 airports, and the total annual collections are almost \$1 billion.

### DEPENDENCE ON FEDERAL AID

Second, dependence on federal aid varies. Some airports are in a strong financial condition and can compensate for fluctuation in federal grants with locally generated revenues and rents. The busiest commercial service airports usually have strong and reliable sources of funds that increase as traffic grows. There are obstacles to airport expansion, but they often involve local political issues and the willingness of communities to accommodate growth. That is, the obstacles are of a social or political nature, rather than a financial constraint.

For instance, there may be resistance to construction of a new runway because of concern about aircraft noise.

As a result, runway capacity continues to be limited at the busiest airports, and growth in demand requires a gradual increase in the average size of aircraft.

The overall supply of capital is usually adequate to finance major capacity enhancements at busy airports, once the necessary local, state, and federal approvals are secured.

A possible exception is development of a major new airport. Even if a proposal to build a new large airport were able to resolve environmental issues and overcome community opposition, such a project could expect to receive no more than 15 percent of its total funding from federal grants. The remaining 85 percent would have to be raised locally, largely by issuing revenue bonds. Unless the new airport serves a very strong market, it is difficult to arrange that level of borrowing. Buyers of airport revenue bonds are generally unwilling to accept much risk, nor are they willing to wait for repayment of the debt until traffic develops.

This is a notable limitation to the approach to financing airport development that is used in the United States, an approach that is geared to gradual expansion of existing airports but not well suited to bold projects that require large sums of money and involve considerable risk. On the premise that traditional airport grant programs are not likely to increase for the time being, FAA is studying options for new methods of providing federal financial support of airport development.

For example, there may well be an appropriate federal role in providing debt financing subordinated to financing acquired through the existing capital market as a way to bridge the early years of project development.

The financing question is entirely different for the hundreds of medium and small commercial service airports in the national airport system. These airports rely heavily on AIP funds for capital improvement projects. They have limited sources of income and may not be able to compensate for a reduction in federal aid. Many face a dilemma. Raising fees to add capacity can chase traffic away to busier nearby airports where lower fares are available.

Small general aviation airports have a severe problem. They have very limited revenues, and depend almost entirely on federal aid to pay capital costs and on fixed base operators to assume day-to-day management responsibility. As general aviation airports compete for a portion of a shrinking federal aid program, they do not have easy access to alternative sources of funds. This constrains expansion and upgrading programs and makes it increasingly difficult to fund the periodic rehabilitation of pavements and lighting systems.

The situation could be aggravated in the future by a shortage of fixed base operators (FBOs). More than half of the FBOs in the United States have gone out of business since 1980, and we are reaching the point that some small airports may be obliged to pay public employees to perform tasks that were previously performed by FBOs. The combined effect of reduced federal aid and loss of FBOs could raise the local cost of operating small general aviation airports to critical levels.

In urban areas reliever airports provide the base for more than 25 percent of the Nation's aircraft fleet. Relievers have long been an FAA priority, and they have received a statutory set-aside of 10 percent of AIP funds. Recently the reliever program was criticized by the U.S. General Accounting Office and the Inspector General of the Department of Transportation. As a result, the set-aside was cut in half. This criticism and reduced support reflects an opinion that delays are falling at busy commercial service airports and that there is less urgency in providing alternative facilities for general aviation. FAA has a different perspective. FAA sees a continuing need for specialized systems of airports in urban areas to serve all segments of aviation, and it is working with representatives of the aviation community to review, update, and revitalize the reliever concept.

#### **SURPLUS MILITARY AIRFIELDS**

A third factor that affects the adequacy of AIP funding is the surplus of military airfields that are now available for conversion to civil use. A few, such as Bergstrom AFB in Austin, Texas, and El Toro MCAS in Orange County, California, are well located to become major commercial service airports. Many others have the potential to serve as general aviation and reliever airports. With respect to these three types of airports (small general aviation, urban reliever, and surplus military), FAA is currently reviewing their definition and the appropriate federal role in development.

#### **SUMMARY**

FAA expects that federal budget concerns will continue to limit funding for AIP in the foreseeable future. The busiest airports should be able to compensate by developing other sources of funds, including PFCs. Medium- and low-activity airports will feel the limitation more sharply because they have few alternative sources of funds. FAA will work with Congress and the Administration to ensure that both the level and

distribution of AIP funds is adequate to meet high-priority needs and to accommodate the continued growth of Air transportation.

The national airport system has been carefully nurtured for decades by a partnership of local, state, and federal government agencies, and there is every reason to expect this cooperation will continue to be effective in the future.