

VIEWS OF AVIATION ORGANIZATIONS

A broad selection of senior executives of civil aviation organizations were invited to take part in the workshop and share their views on issues of need and financing. Summaries of their presentations are given below. The views expressed are those of individuals and do not necessarily constitute formal position statements of the organizations they represent.

AIRPORT OPERATORS' VIEWS

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At the start, I want to express my thanks to FAA for supporting and TRB for hosting this event. Today we are having a conversation that could be had only in Washington. The rest of the country, I guarantee you, has different perspectives on the issues we will discuss today. Also, GAO is to be commended for putting some order into this discussion. GAO has done a very good job of identifying the elements that account for the differences among the various needs estimates. It would not be worthwhile to spend time on the details. The report speaks for itself; it is straightforward and comprehensible.

The Presentation

Before taking up issues that are of concern to airport operators, it may be illuminating to look at factors that influence the present situation. The needs assessments that have been carried out in the past year or so by ACI, the American Association of Airport Executives (AAAE), the Air Transport Association (ATA), and several other parts of the aviation community have been prompted by congressional inquiries about existing funding sources and whether there should be new ones to replace or supplement the present airline passenger ticket tax.

The ticket tax is a revenue source that goes back many, many years to the period well before deregulation. It is a surcharge on air fares (currently 10 percent). While there is debate about the rate of taxation and whether it is airlines or passengers who pay the tax, the fact remains that it is the primary source of monies for the Airport and Airways Trust Fund.

A related problem is that the Trust Fund is not necessarily being used for the purposes for which it was intended. The Trust Fund was designed to be used for

capital improvements to the FAA-operated air traffic control system, airport development, and to the extent that there was some money left over, for certain operating expenses. Over the years, however, more and more of Trust Fund monies have been used for FAA operations, and less and less for the capital investment needs of FAA or for capital grants to airports under the Airport Improvement Program (AIP). AIP grants represent only one small part of the broader set of issues that relate to the question of what passengers are paying.

In 1990 there was a major debate that culminated in permission for airports to levy a Passenger Facility Charge (PFC). The PFC is an interesting animal because it is an exception to federal law that otherwise prohibits airports from charging passengers directly. Under federal law, the PFC is the only way that an airport can charge passengers directly.

More to the point, passengers pay for *everything* in the system—with the exception of a small contribution from the general fund, which is getting smaller and smaller.

The passenger pays the ticket tax. In one form or another the passenger pays fuel taxes, fares, and airport fees and charges. When you look at it, there is precious little that taxpayers in general pay for this. It is almost entirely a user-funded system. This is critical to understanding where we need to go in the future. The discussion we are having today really is not about needs. Everybody knows that needs, however you define them, are much beyond what federal resources including airport PFCs, could ever hope to fulfill. The sum required is many times larger than any amount ever appropriated to airports in a given year. Even if you add PFCs on top of that, we are still well short of meeting any reasonable definition of need.

What I meant when I referred to this meeting as an "inside-the-beltway" discussion is that only in Washington could an airline association present a set of numbers about airport needs and have it be given any credibility at all. In Washington, fortunately for ACI and AAAE, they even pay attention to what we say. The fact of the matter is that airlines are in no position to understand what airports need. They do not have access, they do not have the perspective, they do not have a broad view, and they do not have a long-term view. However, they will pay some of the cost, and it is not surprising that the airlines tend to understate what those needs are. Their concern is that if people think the number is really big, airports would be permitted to fund them. What a terrible thing! Airports

would actually be permitted to fund needs. This is a frightening prospect to airlines. This discussion is really not about what the needs are. It is about who pays, who decides who pays, and who controls who pays. Ultimately, that is what today's discussion is about.

Privatization Experiments

Let me step back a second. There are all kinds of things going on in parallel that relate to this. We have five airport privatization experiments that were authorized by the last authorization bill. It is important to understand that is part of the same issue that we are talking about now. The privatization experiment is basically an admission that we recognize there are needs out there we cannot pay for under present funding arrangements. Some other sources of money must be found. It also says there are some private suckers out there willing to put some money on the table. Let us see if we cannot bribe local governments to accept the idea of privatization by giving them the right to take airport money and use it for general local government purposes, a right they do not now have under any other part of federal law. So, apparently in the interest of privatization, revenue diversion is a good thing. That is what the federal statute permits and encourages. As long as it does not put the funding responsibility on Congress, let us see if we can find some other source of money to pay for the system. Privatization seems to be the ideology *du jour*.

Airports are like every other government institution in this country; they have local, state, and federal dimensions to their business. To be sure, there is no question that there is a federal interest. Airports are a part of a national aviation system that the Federal Government has an interest in maintaining. The fact that they do not feel they have an interest in paying for it is another question. But they *do* have an interest in maintaining it. Hence, the sense in Washington is that airports are indeed part of a national system and ought to be controlled as part of a national system. If there is not going to be a federal program of investment for airport capital needs, we must also recognize that we have to devise something to take its place.

Congress does not want airports to have the right to do this because they might actually raise their fees high enough to pay for these improvements. Airlines also favor legislated control on the grounds that they do not have enough market power to compete with the big airports when it comes to negotiating rates and charges. This philosophy of legislated control lies at the heart of the whole issue before us. In fact, if airlines were to

acknowledge that they have enormous market power, the whole issue would go away.

We should take a lead from the Canadian book and acknowledge that there is a market out there. Market power exists *throughout* the aviation system. Let us see how market forces determine the outcome. Maybe deregulation of airlines should be extended to airports. We will have to see if there is really a need to regulate because of the Federal Government's continued interest. The Canadians made the determination that government interest alone is not a sufficient reason for regulation with respect to airports and the air traffic control system.

The Airport Improvement Program

Let us come back to AIP because that is really where we began on this issue. AIP is the federal investment program that provides grants to airports of all sizes and types: big commercial airports, small general aviation airports, and everything in between. AIP has been authorized in recent years at levels approaching \$2 billion. Last year, the airport community was fortunate in being able to persuade Congress that we needed to stop slashing airport grants and to come out of the process with an authorization of \$1.5 billion.

The President's budget this year says that airport capital funding has to be cut. The discretionary portion of the budget is being squeezed, and AIP funding must be reduced to the level of \$1 billion. The question is, what is Congress going to do with that? In order to put any money back into the airport system, some other part of the transportation appropriations package will have to be used to replenish AIP. If no new money becomes available for airports, the appropriations package comes with a message that says in effect: "Let's make it \$1.2 billion. Airport operators ought to be happy that it is not as low as what the Administration put forward. Go away, don't bother us, we're busy balancing the budget."

It is not going to happen that simply. Airport needs continue to grow. We saw that in the discussion about airport needs in the GAO presentation earlier today. The only quarrel I have is not a major one. It is a subtle one about what is characterized as infrastructure improvement, airport capacity, a lot of expansion to meet airport standards, and safety and security programs.

The point is that even though there are references to allocating roughly 30 percent for capacity enhancement and an additional 30 percent for meeting FAA standards, those programs truly are the reason that the federal government is in the business in the first place, i.e., protecting the safety and security of passengers and other

users of the airport system. Protecting the safety and security of the system is the federal interest here.

Questions about what happens in the rest of the airport allocation have obviously already been decided. Congress has decided that, even if we do not let airports fund it, it is still the airport operators' responsibility.

Definition of Needs

The issue about how you derive needs is a very tricky one because it will differ from one airport to another. Mr. Chambers and Mr. Aussendorf alluded to this in their comments. It is very simple to sit here and say here is a \$10 billion annual need or a \$60 billion six-year need, or any other number that you want to come up with. In fact, however, nobody but the people in the community running the local airport facility can make an intelligent judgment as to what the needs are for that facility. They really cannot accede to someone else's notion of what is needed.

We know that over a long period of time, the volume of activity in our airspace has been growing. The number of airport facilities that can accept that volume is not. It seems unlikely that during our lifetime we will see any significant number of new airport facilities being built in the United States. Today's airport facilities will grow only at the margins. We will be able to add a piece of a runway here, a new runway there, and one or two decommissioned Air Force bases close enough to major communities to represent an effective increase in new capacity. We are not going to see any significant new capacity in the United States in the near future.

Projects take a long time because there is a *process* associated with them. There is the environmental process, there is the community consultation process, there is the airline consultation process, there is the federal approval process, and then design and construction. It is not unusual for a major project to take 10 years from the time it is first decided to go forward, until it actually is ready to provide service to passengers. In that time we are likely to be faced with an entirely new industry. We are talking about new types of demand, about airlines that have come and gone, about communities that have grown or shrunk. In fact, it is not possible to be sure that the system of today is going to exist in the same form 10 years from now. That will obviously not be the case across the board. Individual airports will find themselves in very different circumstances. To aggregate them misses the point.

Finally, there's the issue about how these needs manifest themselves. With growing demand, with growing activity in the system, and without increased capacity, we are facing a reduced level of service. I am not

talking about just runways, acceptance rates, and air traffic control systems. I refer to the capacity of the system as a whole. The whole question of capacity is really a function of what level of service to the public we are ready to provide. We can accommodate more and more and more in this bag. The problem is that we already have seven pounds in this three-pound bag. And soon we will have to accommodate more.

Facing Reality

When I first joined the Port Authority of New York and New Jersey as Director of Aviation, I was told that the three major metropolitan area airports were long since out of capacity. In fact, the number of passengers and the amount of cargo shipped through these airports continues to grow. What that means, however, is that in airports across the United States, the quality of service and the level of service, continue to deteriorate, producing congestion, delays, and all kinds of problems that passengers and shippers experience, in trying to use these facilities. This will continue to be the case, and it will get worse. This is also the piece that the Federal Government will wash its hands of. This is the piece where the Federal Government will claim that it has no interest. It will be up to agencies at the local level to deal with these needs.

The bottom line here is that it is time to face reality. The Federal Government is not going to play a significant financing role. The balanced budget squeeze will guarantee that. It is time to deal with the fact that we have to let the system do what it can do. That is to function as a commercial system. The government will have to allow the aviation system and airports to function as the commercial entities that they are and to move rapidly in that direction. We cannot be in a situation where we put our heads in the sand, enpanel commissions and demand answers we already know. To continue in the way we are now headed will put us in a position of desperately falling further and further behind in meeting the needs that everybody agrees are already manifest and growing.

THE AIRLINES' PERSPECTIVE

Thomas Browne
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Introduction

I wish to thank Mr. Plavin for his rather provocative remarks. However, I do take exception to the assertion that airlines do not know what airports need. ATA