

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

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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

TABLE 1 ASSESSMENTS OF AIRPORT REQUIREMENTS

→ ACI-NA and AAAE: \$10 billion per year
→ ATA: \$5-6 billion per year
→ Coopers and Lybrand: \$7 billion per year
→ GAO: \$1.5 - 10.1 billion per year

TABLE 2 PRIMARY AIRPORT CAPITAL IMPROVEMENT PLANS, 1996-2001 (Preliminary data)

	1996 AMIS	1997 AMIS
Large Hubs	\$11.3 B	\$14.0
Medium Hubs	3.5	4.2
Small Hubs	2.9	3.0
Non Hubs	2.1	3.9
TOTAL NEED	\$19.8 B	\$25.1
Source: 1996: 421 Primary Aiport CIPs 1997: 434 Primary Airport CIPs		

members, on the whole, have a good understanding of needs at large commercial service airports. Much of the debate about needs and wants appears to be a matter of perspective. (What do airports want and airlines need, or conversely, what do airlines want and airports need?)

As Mr. Plavin correctly points out, the real issue is control. Who will decide what is built, in what time frame, and at what and whose cost? Should it be the airport community, should it be the airlines, should it be FAA? Clearly, all these parties should be involved, but what is the right balance of power and responsibility?

ATA Needs Assessments

At the present time there are five more or less independent assessments of airport system needs and capital requirements. The results of the U.S. General Accounting Office (GAO) study have just been released and presented in summary form here by Mr. Aussendorf and Mr. Chambers. Mr. Plavin has outlined the assessment carried out by the Airports Council International (ACI). Mr. Dickerson of the American Association of Airport Executives (AAAE) will present their findings following my remarks. A financial assessment of FAA, mandated by the Federal Aviation Reauthorization Act of 1996 and conducted by Coopers & Lybrand L. L. P., is now being

circulated. My presentation today is a summary of the ATA's 1996 estimates of needs at primary commercial service airports and an expanded assessment of primary commercial service airports and 2,100 additional airports (non-primary commercial service, relievers, and general aviation) conducted in 1997. (Table 1)

These several studies range widely in their estimates of capital needs. The differences are attributable to several factors: the types of airports considered, the size of the various data bases, and the types of projects included. A major goal of the GAO study was to reconcile these differences.

The 1996 ATA needs assessment examined the capital improvement plans (CIP) of 421 primary commercial service airports. These airports account for 99 percent of enplanements, 99 percent of ticket tax revenues, and 99 percent of passenger facility charges (PFC) collected. The findings were that these airports have \$19.8 billion in "scheduled" work over the five-year period 1996-2000. The estimates assume that all environmental and political hurdles have been cleared.

A criticism of the 1996 needs assessment was that it considered only primary commercial service airports. Accordingly a second assessment was made in 1997. The database was expanded from the 431 commercial service airports included in the 1996 assessment to slightly over 2,500 airports by means of the Airport Marketing Information System (AMIS) purchased from a private vendor. These additional airports consisted of approximately 2,100 other commercial service, reliever, and general aviation airports.

The 1997 ATA needs assessment found that work scheduled at primary airports amounted to about \$20 billion over the period 1992-2001. The total for projects at all other airports in the AMIS data base was about \$10 billion. Additional PFC revenues from nonprimary commercial service airports were negligible.

Recent Accomplishments

Since 1991, 13 new runways have been built with airlines assistance. The Passenger Facility Charge (PFC) has helped fund 17 new runway projects and 49 new terminal buildings or expansions. The total of all airline contributions to airfield and terminal capacity maintenance or expansion amounts to \$4.1 billion.

What Remains to Be Done?

Table 2 is a comparison of primary airport capital improvement plans for 1996-2000 and 1997-2001. Projects

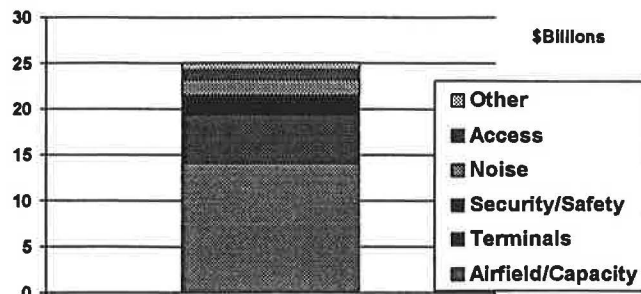


FIGURE 1 Analysis of primary airport CIPs, 1997-2001.

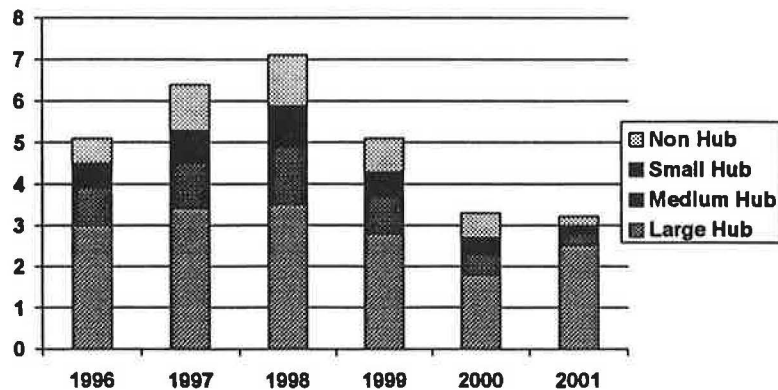


FIGURE 2 Primary airport CIPs by "State of Readiness" (1997 project).

at large hubs are estimated to be \$11.3 billion for 1996-2000 and \$14.0 billion for 1997-2001—slightly over 55 percent of the total needs of \$19.8 billion and \$25.1 billion for the two periods respectively. Most of the increase is due to new projects in Detroit and Miami (\$2 billion each).

Figure 1 shows the distribution of proposed 1997-2001 expenditures by project type. Airfield capacity is the largest share, about \$14 billion. The estimates in the security, safety, and noise categories are subject to possible change, depending on new mandates that may come from the Gore Commission.

Figure 2 depicts the flow of project starts from 1996 to 2001 at primary airports of various size. New Project starts are forecasted to peak in 1998 and then fall off by 50 percent or more by 2001.

Capital Requirements

Primary airports will issue debt to pay for the majority of capital improvements over the five-year period 1997-2001. Projects of less than \$2 million are typically funded from

retained revenues on a "cash" basis. Projects over \$2 million are usually debt-financed over 15 to 30 years.

Assuming 20-year, five-percent, tax-exempt financing, primary airports are expected to lay out \$2.9 billion for "cash" projects and \$9.0 billion for debt service on \$22.2 billion in financed projects. This will amount to \$11.9 billion total outlays between 1997 and 2001.

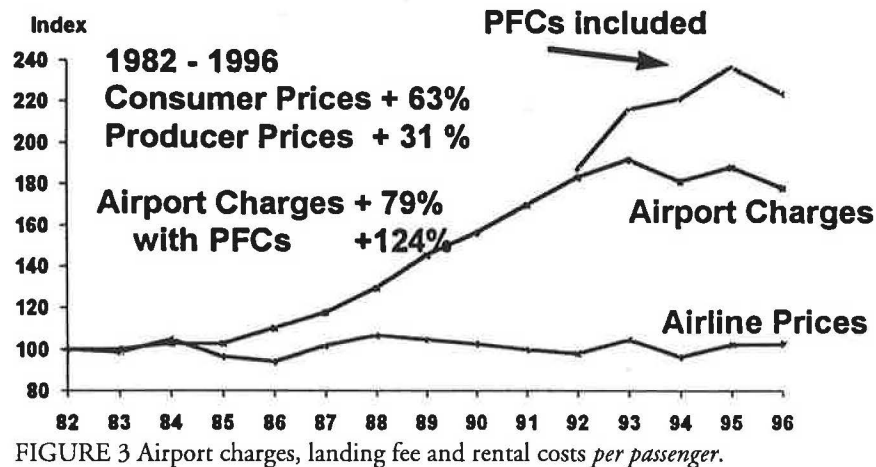
Airports have several resources they can draw on. PFCs now being collected at 270 primary airports amount to about \$1.1 billion per year. Roughly 150 other primary airports have the potential to collect an additional \$600 million annually.

The AIP program could provide somewhere between \$1.0 billion and \$1.5 billion per year for airports of all types (with the largest share probably going to primary airports).

State aid amounts to about \$300 million annually, mostly at smaller primary airports.

Concession revenues are an important source of funds, especially at larger airports. Consistent and reliable data on amounts are unavailable.

Financial markets have been traditional capital sources for airports—particularly larger airports with good



→ Revenues Available Annually:	
→ AIP	\$1.45 B
→ PFCs	\$1.1-1.7 B
→ State Aid	\$300 M
→ Airline Fees	\$1.5-2.0 B
→ Concession Revenues	\$???
→ TOTAL CASH AVAILABLE	\$4.35 - 5.45 B +
→ Actual Cash Requirement Annually:	
→ Expensed Projects:	\$400 M
→ Debt Service	\$1.8 B
→ TOTAL CASH REQUIRED	\$2.4 B

FIGURE 4 Assessment of available capital.

borrowing records and large traffic volume. Nonhubs and other commercial service airports often find it difficult to tap this source of funds.

ATA members paid \$4.1 billion to airports in 1996. Roughly half of this amount went to capital improvements. An additional \$800 million was used for other airport capital expenditures such as:

- Special facility bonds for carrier-specific maintenance base facilities, flight kitchens, etc.;
- Tenant finishes in new or expanded terminals; and
- Terminal remodeling.

Airport costs are among the fastest growing airline expenses. Figure 3 shows, on an index basis, airlines landing fees and rental costs on a per-passenger basis. In other words, how fast have airlines costs increased per passenger, taking into account growth that has occurred

since 1982. Airline prices have remained almost flat for 15 years. As a result, carriers have not been able to raise fares to cover all of their expenses.

Airline costs have gone up 79 percent since 1982. Producer prices have risen 31 percent in the same time frame. If PFCs are included, airport charges have grown to 124 percent.

Figure 4 summarizes the available capital from all sources. AIP funds, PFC revenues, and airline fees are the largest, and they are available to some degree at most primary airports. Small commercial service airports, relievers, and general aviation airports have only AIP monies and state aid for capital projects. The total revenue available is, by ATA's estimate, \$4.35 billion to \$5.45 billion, not counting concession revenues. The actual yearly cash requirement is about \$2.4 billion. This suggests that some airports, at least primary airports, can meet their cash requirements and still find some funds for capital projects.