Balancing Access and Efficiency:

The airport industry's 'new' private-sector mindset and focus on profitability

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U.S. Commercial Airports

- Support 10.5 million jobs (7% of all U.S. jobs)
- $1.2 trillion in total economic impact (8% of total U.S. GDP)
- Projected demand to grow from 700 million passengers in 2013 to 1 billion in next 10 to 15 years
- Through 2017, will need $14.3 billion a year in airport infrastructure improvements to meet forecasted demand

Source: Airports Council International-North America

Traditional Funding Models

Residual

Airlines pay airport costs not allocated to other users or covered by non-airline sources. Results in more risk to airlines but also more control over spending decisions.

Compensatory

Airlines pay fees and rent to recover costs of facilities and services they use. Airports bear financial risk of other facilities but can also use net revenues for capital projects.

Hybrid

Costs for a portion of the airport, such as the airfield, are allocated entirely among airlines. Airports bear costs and keep revenues earned in areas not leased to air carriers.

Capital Funding Sources

- Airport and Airway Trust Fund Revenues from aviation-related excise taxes on passengers, cargo and fuel are collected, used to provide more than 70% of the FAA's funding and for grants for airport capital improvement projects
- Airport Improvement Program Grants Monies from the Trust Fund obligated for improvements to airport safety, capacity, security and environmental protection
- Passenger Facilities Charges Charge to passengers of up to $4.50 per flight leg for projects that improve safety, security and capacity, reduce noise or can increase airline competition
- Bonding Airports access the financial markets, issuing bonds or engaging in short-term borrowing programs

Decline in Revenue Streams

- Purchasing power of Airport Improvement Program grants to decline 49% by 2015 compared to peak funding in 2006
- Passenger Facilities Charge cap of $4.50 instituted in 2000 equates to purchasing power of only $2.53 today
- Between 2007 and 2016, airport construction costs are projected to increase 31%

Reduced federal and artificially capped local funding streams + cost control pressures from airlines = unsustainable airport financial model

Search for Sustainability

Cost Control

Airports operating more like private businesses, implementing efficiency measures, delaying capital improvements, reducing maintenance, and re-evaluating staffing

Entrepreneurship

Airports increasing focus on non-aeronautical revenues: airport cities, concessions, parking, hotels, etc.

What Airports Need

Increased PFC

- Locally generated fee used to address local needs
- $4.50 cap not raised since 2000
- Cap removal would allow airports to adjust charges locally in line with local airport funding needs
- Opposed: airlines, which can arguably exert greater control over airport capital spending and competition via lease agreements

Fully funded federal programs

- Strengthen federal Trust Fund
- Use AIP dollars as intended (Last year, $253 million in AIP dollars were diverted to fund FAA operations)
- Adequately staff TSA and CBP and reverse trend of shifting costs to airports
- Provide adequate funding for satellite-based air traffic control improvements to relieve congestion & enhance safety and efficiency

Motivations: Airports vs. Airlines

Airlines: **Stockholders**

- Gain maximum control over all business segments
- Lower costs/increase profits
- Reduce competition and maximize fares

Airports: **Communities**

- Manage vital public assets
- Increase air service and airline competition
- Competitive fares
- Provide services, amenities and infrastructure that meet traveler needs and reflect well on community

Bottom line issue: Who controls airport spending decisions and access to facilities

Efficiency vs. Access

Commercial Aviation

- Generates majority of Trust Fund dollars
  - Domestic ticket tax
  - International air facilities tax
  - Tax on transportation of property by air
  - Commercial aviation fuel tax
- Privately operated mass transit maximizes efficiency

General Aviation

- Broadens community access to air transportation
- Offers freedom to fly when and where you want
- Supports business activities
- Provides pilot training and experience
- Pays Trust Fund fuel tax

In Summary

- Airport financial models are shifting from overdependence on rates and charges toward increased efficiency/entrepreneurship
- Current federal programs for funding airport capital improvements are inadequate
- Airports are local assets and need more flexibility in assessing local charges to meet the community's airport goals
- While many general aviation airports might never be self-sustaining, they are vital public assets, just as roadways are, and require continued investment from the aviation community
- Airports partnering with Airports Council International, American Association of Airport Executives, U.S. Travel Association, state legislators and the Gateway Airport Coalition