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COMMITTEE ON COMMERCE, SCIENCE AND TRANSPORTATION,
STATE OF NATION'S AIRPORTS
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Good Morning Mr. Chairman and Members of the Subcommittee:

It is a pleasure to be here today to testify on the state of the Nation's airports and the important role the Federal Aviation Administration's (FAA) Airport Improvement Program (AIP) plays in airport development. I commend the Committee for scheduling this hearing because of the critical role airports play in our Nation's air transportation system. There has been a lot of attention paid to how air carriers are coping with the post-September 11th environment and the current economic situation--justifiably so. But it is of equal importance to examine the outlook for our country's airports. Airports are faced with meeting *both* pre-September 11th capacity challenges and post-September 11th security challenges. I must commend the airport community for how they've responded. Following September 11th, they did everything in their financial power to minimize their operating and maintenance costs, including imposing hiring freezes, reallocating staff, restructuring or refinancing debt, and considering raising discretionary charges. As a group, airports continue to take the necessary steps to improve security and their cash flow.

An understanding of the broad needs facing the airport community should inform the debate on the next reauthorization of our programs. Today I would like to provide the Committee with a brief overview of the needs of the system, discuss what happened in fiscal year 2002 as we tried to respond to the September 11th attacks, and then touch on what we see as the outlook for the future.

The FAA periodically prepares a report to Congress called the *National Plan of Integrated Airport Systems* (NPIAS). Among its functions, the NPIAS provides a five-year estimate of airport infrastructure development that is eligible for Federal aid and determined by the Secretary to be warranted or justified over the next 5 years for all segments of civil aviation. The NPIAS published prior to the enactment of the Wendell H. Ford Aviation Investment and Reform Act for the Twenty First Century (AIR-21) estimated airport capital requirements at $35 billion over the period of 1998-2002, an average of $7 billion per year and an increase of 18 percent over the previous NPIAS estimate. Infrastructure needs at the large hub airports accounted for most of this increase, with terminal projects the major source of new capital requirements. In the face of growing airport infrastructure requirements, AIR-21 increased AIP by 70 percent and raised the $3.00 cap on passenger facility charges (PFCs) to $4.50.

The most recent NPIAS, published last August, identified 3,364 existing airports that are significant to national air transportation. It estimates $46 billion in airport development needs that are eligible for Federal aid for the period of 2001-2005. This figure represents an increase of 32% over the preceding estimate, or, on an annual basis, an increase from an average of $7 billion per year to $9.2 billion per year. Every category of airport shows higher development needs, with the greatest increases at large hub, non hub, commercial service, and general aviation airports, and lesser increases at medium hub, small hub, and reliever airports.

About two-thirds of the development in the NPIAS is intended to accommodate growth in air travel, including more passengers and cargo and more and larger aircraft. Development that was proposed before September 11th will still be needed, but some of it could be deferred until activity rises to the point where it is warranted. With respect to capital development plans, as a group, most airports are continuing with current capital expansions under way, but are revisiting contracts not already let and plans not yet started. To date, we have seen little change in the projected opening dates for the new runways that are being planned at large hub airports. These are large-scale, long-term programs that involve a sequence of planning and environmental reviews, approvals, financing and construction, typically over a 10 year period, and are not particularly sensitive to short-term fluctuations in traffic. However, in some cases, airports have had to scale back or defer major capital improvements, and we suspect that some of these projects may be canceled over the 5-year horizon, but not on a wide scale. Until traffic recovers, this only makes good business sense.

About one-third of the development estimates in the NPIAS are intended to rehabilitate existing infrastructure and keep airports up to standards. This includes accelerating upgrades of all runway safety areas and projects associated with mitigation and prevention of runway incursions. The need for this development has not significantly decreased as a result of September 11th but the timing of the implementation may be affected by financial concerns of airports, particularly lower revenues and urgent security requirements.

In contrast to airfield projects, the expansion of passenger terminal buildings has slowed significantly post-September 11th, due to uncertainty about future security requirements, the temporary decline in traffic, and near-term financial problems of airlines and airports dealing with declining revenues and increased operating costs. These projects are an increasingly important area of investment, as terminals are modified, expanded and replaced to accommodate more passengers, larger aircraft and increased competition among airlines. Historically, these projects receive nominal AIP funding, with airport revenue bonds and passenger facility charges (PFCs) serving as the principal financing tools. Based on our consultations with municipal bond rating agencies, underwriters, financial consultants and airports, we project these projects will resume as air traffic achieves pre-September 11th levels.

As the Committee knows, fiscal year 2002 was a real challenge as the aftermath of September 11th continued to be a major driving force for airports and aviation as a whole. Due to new security requirements, airports needed to consider not only improvements to existing access control systems, but also changes in terminals and baggage systems to improve passenger flows through screening checkpoints and accommodate the latest generation of baggage screening systems. The projected capital cost of acquiring and installing security equipment has increased substantially since September 11th, but a full and accurate estimate is not yet available, so it is not possible to reflect the increase in the

NPIAS estimate. DOT's Inspector General recently testified that modifications to terminals could be as high as $3 billion. Clearly, the security challenges for airports were—and still are—twofold: how to meet new security requirements while at the same time preserving customer service and efficiency; and how to pay for the new requirements.

While some of the increased security measures at airports have been visible to the public, what has not been so visible is the financial strain on the airports. Their operating costs have increased, with much of the staff on extended overtime. Additionally, there have been numerous requirements for emergency contracts for security equipment and services. At the same time, revenues have declined because large airports derive most of their money from passengers, directly through charges that are collected when airline tickets are sold, and indirectly through concessions, parking, and airline rates and charges. These major airports have had the greatest ability to rebound. Absent further shocks to the system, most large commercial service airports are maintaining their credit profiles, albeit with lower financial margins and reduced flexibility. As the airport size diminishes, however, its ability to recover is also diminished. The smaller airports are feeling the effects of September 11th probably more than any other segment. Many airports, especially those that have marginal air service, were highly subsidized by local communities before September 11th and those financial difficulties are compounded by the serious traffic decline and the higher security costs.

Following September 11th, because airport operating costs were significant, Congress provided that any security-related cost, including operational and maintenance costs, could be funded using AIP funds. However, this authority was provided for one year only. Likewise, to make sure that airports did not default on loans, grant authority was broadened to help prevent any defaults. It was believed that by giving a temporary ability to fund these costs in the near term, airports would be able to absorb these costs in the future as traffic increases and the system recovers. In addition, Congress provided an additional $175 million to be used to offset direct operating costs for new security requirements placed on airports due to September 11th. This funding has been important especially to our nation's smaller airports.

In response to the emergency triggered by the attacks of September 11th, the FAA applied a record level of $561 million from AIP funds to security projects in fiscal year 2002. This represents a more than 800 percent increase over the level of security funding awarded in fiscal year 2001 of $57 million, and exceeded the previous record of $99 million, awarded in FY 1991, by more than $450 million. Despite this record level of funding for security, the FAA was still able, through innovative program management, to fund all safety projects, including runway safety areas and runway incursion action team recommendations; letter of intent commitments; noise mitigation and reduction projects, and ongoing phased projects. In addition, in part due to record levels of carryover entitlements, which the FAA converted into discretionary funds, we were able to fund some new start projects for capacity, rehabilitation and standards at the end of the year.

As a percentage of AIP investment, capacity, rehabilitation and standards projects showed the greatest declines in fiscal year 2002 compared with fiscal year 2001. As a one-year phenomenon, a reduction in spending in these areas did not have significant adverse consequences for the aviation system. In fact, there was a bright side to this scenario. Because of past investment in additional runways and improved technology, and in light of the temporary decline in air traffic activity, flight delays were down in 2002, with an annual on-time arrival rate of 82 percent—compared to 76 percent in recent years. Balancing security and capacity costs will continue to be a tough challenge in the future. The FAA and the Transportation Security Administration (TSA) are fully aware of this dynamic. We have been working closely with TSA, and will continue to do so as they move to the new Homeland Security Department. FAA will be a part of the examination of how these costs are to be borne in the future.

As for the short-term future of AIP funding, the outlook for fiscal 2003 is shaping up to be very similar to last year—we expect that a level of AIP similar to fiscal year 2002 will be used for security this year. We have experienced some delays due to the lateness of the fiscal year appropriations process, but now that the President has signed the omnibus appropriation bill for this year, we expect that we will be able to process pending grant applications by early spring. Even though safety and security have always been and will continue to be our number one priority, I assure you that we have not lost sight of the fact that once traffic recovers and grows—and it will—the tremendous pressure to expand capacity will return. In fact, we will see some of the fruits of our past capacity infrastructure investment this year. New runways will become operational at Denver, Miami, Houston, and Orlando.

As for the outlook for the longer term, there are considerable challenges for our grant program. Namely, how can we help meet the needs of the airport system as a whole and do so in a way that focuses on national priorities but still recognizes the dependence of smaller airports on AIP grants? One way is to ensure that our program has the necessary flexibility to provide smaller airports the resources they need, provide large airports access to Federal grant dollars to support important projects that will benefit the airport system overall, and make available a stable source of noise mitigation funding to communities. To this end, for fiscal year 2004, the good news is that, with all of the other demands on the Federal budget, the President's Budget provides for a continuation of the healthy funding level of AIR-21 for AIP of $3.4 billion. I think it's worth highlighting this feature of our budget because preserving that level of support in the current budget environment speaks volumes about how important the President, Secretary Mineta and Administrator Blakey believe Federal aid is to the Nation's airports. We also propose a restructuring of AIP formulas to allow more funds to be targeted to those smaller airports with the greatest need and dependence on Federal assistance. We expect that, with this restructuring, there will be approximately $87 million more available for small airports than in fiscal year 2003, while still increasing discretionary grant funds to enable us to target those projects that serve national objectives and achieve the greatest system benefits, regardless of airport size. Details of how we would restructure AIP formulas will be provided by our reauthorization proposal that the Secretary expects to submit to you next month. The Administration's comprehensive bill will not only restructure and simplify AIP formulas but will also redesign the noise set-aside to provide a more stable source of Federal funding for environmental mitigation relating to airport development projects.

Finally, I should note that, in addition to the AIP program, grants from state and local governments, bond financing, and their own rates and charges, airports also have additional source of funding available from PFCs. As of January 2003, FAA has approved 338 airports to collect PFCs for eligible projects. Estimated collections for calendar year 2003 are projected to be $2.1 billion, up from an estimated $2.0 billion in calendar year 2002. This reflects the implementation of the $4.50 PFC level authorized by AIR-21 by a growing number of airports. Currently 170 airports (including 29 of the 68 large and medium hubs) have requested and received authority to collect PFCs at the $4.50 level.

In closing, Mr. Chairman, let me say that I believe the nation's airports have been making good progress in meeting the security challenges presented by the attacks of September 11th and, at the same time, increasing airfield capacity at major airports. The airport system was harshly affected by the attacks of September 11th but thousands of state and local officials, working in cooperation with the FAA and TSA, are doing a great job of bolstering security and we are well into the long process of recovery and stabilization. We know that the financial consequences for airports have been substantial. With Congress' support and guidance, I assure you that we will continue to work hard to assist the Nation's airports in meeting these challenges through a strong and flexible airport improvement program.

That concludes my testimony. I would be happy to answer any questions you or Members of the Subcommittee may have.

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