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AIRPORT IMPROVEMENT PROGRAM AND OTHER AIRPORT FINANCING ISSUES

HEARING

BEFORE THE

SUBCOMMITTEE ON AVIATION

OF THE

COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION

UNITED STATES SENATE

ONE HUNDRED EIGHTH CONGRESS

FIRST SESSION

FEBRUARY 25, 2003

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CONTENTS

AIRPORT IMPROVEMENT PROGRAM AND OTHER AIRPORT FINANCING ISSUES

TUESDAY, FEBRUARY 25, 2003

U.S. SENATE,
SUBCOMMITTEE ON AVIATION,
COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION,
Washington, DC.

The Subcommittee met, pursuant to notice, at 9:40 a.m. in room SR–253, Russell Senate Office Building, Hon. Trent Lott, Chairman of the Subcommittee, presiding.

OPENING STATEMENT OF HON. TRENT LOTT, U.S. SENATOR FROM MISSISSIPPI

Senator LOTT. The Subcommittee will come to order. This is another in a series of hearings we plan at the full committee level and the subcommittee level on aviation legislation, aviation issues this year. We have already had, I believe, three hearings, and we plan to have others to make sure that all sectors of the aviation industry can be heard from. Today, this is a hearing on the Airport Improvement Program and other airport financing issues.

We are honored to have on this panel Dr. Gerald Dillingham, director, Physical Infrastructure Issues of the GAO, Ms. Woodie Woodward, associate administrator for airports, FAA, and Mr. David Plavin, president, Airports Council International.

As the Subcommittee Chairman, I have tried to start a new rule, that is hear from the witnesses first, and then the senators can make their statements and ask questions, and Senator Stevens has agreed to that process, and I hope Senator Sununu. But also in that vein, we will give senators extended time, if they need it, to make statements or ask questions.

We are pleased to have you all with us today, and we have copies of your statements available to the senators, but we would be glad for you to present those statements or an abbreviated version of them.

Dr. Dillingham, we welcome you, and we thank you for coming this morning, if you would like to proceed.

STATEMENT OF GERALD L. DILLINGHAM, DIRECTOR, CIVIL AVIATION ISSUES, GENERAL ACCOUNTING OFFICE

Dr. DILLINGHAM. Thank you, Mr. Chairman, Mr. Stevens, and Members of the Subcommittee.

Since AIR–21 was enacted three years ago, Congress has asked the GAO to undertake several studies related to aviation finance in general, as well as studies of financing infrastructure development at the Nation's airports. My testimony this morning is drawn from these studies and will be illustrated with the charts on my right, copies of which we have provided to the members.

We will address three questions. First, what are the estimated costs of planned capital development at airports? Second, how much funding have airports historically received for capital development? And if that funding continues at these levels, will it be sufficient to meet future development plans? And third, what options are available to address any potential differences between the estimated cost of planned development and available funding?

The bottom line regarding developmental cost is that although there is a general consensus that maintaining the integrity of the Nation's airport system requires continual capital investment, there is not a consensus on how much and what types of development are needed. This point is illustrated in our first chart.

This chart contrasts FAA's cost estimates for various types of development projects with estimates from the Airport Council International. The bar on the left shows FAA's estimate for the cost of airport planned development. FAA estimates the cost to be a little over $9 billion annually between 2001 and 2005. This estimate includes all types of projects, such as safety, security, capacity, and standards, all of which are eligible for Federal funding.

On the right is ACI's estimate. Their estimate includes an annual addition of $5.7 billion. This additional $5.7 billion covers a variety of types of projects, some of which are eligible for Federal funding, some of which are not. This brings the Council's total estimate to nearly $15 billion annually.

The next question is, How much money have airports historically received to fund development? This chart shows that from all sources, airports receive a little less than $12 billion annually to fund development. A variety of bonds was the largest source of funds and accounted for 60 percent of the funds airports received. The next-largest sources of funds were the AIP fund which contributed about 20 percent, and PFC collections, which contributed about 13 percent. The remaining funds came from State and local grants and airport revenues.

As the next chart shows, if past funding levels continue, there would be more than enough money to cover FAA's overall estimate of $9 billion for annual planned development. But as you can see from the figure on the right side of the chart, it would leave a gap of just over $3 billion from ACI's estimate of $15 billion annually.

The potential policy implications of this gap can be seen when you look at the analysis of how development plans and funding sources differ by airport size. When you look at the large- and medium-sized airports, ACI's estimate for development, which is shown with the bar on the right side of the chart, totals about $11.7 billion, compared with $9.4 billion in historical funding. For smaller airports, the development costs total about $3.3 billion compared with about $2.4 billion in historical funding.

As the pie chart on the left shows, this means that about 80 percent of the estimated costs for development of large-and medium-sized airports would be covered. The pie chart on the right side shows that almost 73 percent of the estimated costs for development for smaller airports would have been covered. Based on this comparison, it appears that it is more difficult for smaller airports to finance their development than larger airports.

You can see an interesting dynamic when you compare the funding situations for airports today with the situation we reported in 1998. In 1998, the funding gap for larger airports was about 20 percent. Today, the situation is pretty much the same; the gap is still about 20 percent. But there has been a significant change for smaller airports. The figure on the left shows that in 1998, their funding gap was almost 50 percent. Today, the gap has dropped to 27 percent. However, 27 percent is still a significant gap for those airports that are most dependent on Federal funds.

This finding suggests two things. First, those congressional initiatives, such as the recent increases in AIP funds, have helped close the gap for smaller airports. And second, those policies and programs that help smaller airports continue to be important.

Mr. Chairman, neither FAA nor ACI's estimate includes the cost for airport infrastructure modifications for security enhancements. The most significant of these security-related infrastructure modifications are those that will be necessary to move those large explosive detection machines out of airport lobbies and integrate them into the existing baggage operations. These modifications have been estimated to cost about a billion dollars a year for the next five years. How that expense will be funded is a major unanswered question.

There is also a real concern that funding these modifications with AIP funds will limit the ability of airports to undertake or complete other infrastructure projects. After 9/11, AIP funding for security projects increased by more than 800 percent. It went from $57 billion—or $57 million in 2001 to just over a half a billion in 2002. This increase for security projects had the effect of making less money available to fund other types of capital development projects.

Finally, as a result of our studies, we identified some options that the Congress may wish to consider to make more use of existing funds or to generate additional funding for development and security. These options include removing the cap on the PFC funds, redistributing AIP funds among types of airports, or expanding the use of letters of intent.

With regard to security, Congress might want to consider the idea that if aviation security is a matter of national security, it might be funded from a general fund rather than an aviation-specific fund. Alternatively, Congress could consider setting up a separate fund for security projects. And finally, it has been suggested that such a security fund could operate much like the AIP program, including using letters of intent to leverage funds for security requirements.

Mr. Chairman, as the Congress moves forward with reauthorizing FAA, it will have to decide on several key issues, including how to set and balance priorities of both airport development and aviation security. Many stakeholders also see this as a window of opportunity, an opportunity to prepare for the eventual rebound in the aviation industry and to do what is necessary to prevent a reoccurrence of the inefficiencies, congestion, and delays that the system experienced prior to 9/11.

Thank you very much.
[The prepared statement of Dr. Dillingham follows:]

PREPARED STATEMENT OF GERALD L. DILLINGHAM, DIRECTOR, CIVIL AVIATION ISSUES, GENERAL ACCOUNTING OFFICE

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss airport financing issues, which are particularly important as you prepare to reauthorize the Wendell H. Ford Aviation Investment and Reform Act for the 21 Century (AIR–21). Much has changed since the Congress enacted AIR–21 3 years ago. At that time, the focus was on reducing congestion and flight delays. Today, flights are being canceled for lack of business, two major air carriers are in bankruptcy, and attention has shifted from increasing the capacity of the national airspace system to enhancing aviation security. Furthermore, as the federal budget deficit has increased, competition for federal resources has intensified, and the costs of airport capital development are growing, especially with the new requirements for security. Nonetheless, analysts expect the demand for air traffic services to rebound. Until that time, the unexpected slump in air traffic creates a window of opportunity to improve the safety and efficiency of the national airport system.

My statement today is based on our ongoing and completed work on airport funding and addresses the following questions:

1. What are the estimated costs of airports' planned capital development?

2. How much funding did airports receive for planned capital development in recent years, and what were their principal sources of funding?

3. If past funding levels continue, will they be sufficient to meet estimates of planned capital development?

4. What options are available to address any potential difference between planned development and available funding?

Because our information on planned airport capital development, including the information we obtained from surveying 400 smaller airports, is preliminary, it is subject to change as we finalize our ongoing work.

In summary:

- Although there is general consensus among stakeholders that maintaining the integrity of the national airport system requires continual capital investment, estimates vary as to the type and cost of planned airport capital development required to ensure a safe and efficient system. For 2001 through 2005, FAA has estimated annual planned capital development costs of about $9 billion, while the Airport Council International (ACI), a key organization representing the airport industry, has estimated annual costs of about $15 billion for 2002 through 2006. The estimates differ primarily because FAA's includes only projects that are eligible for federal funding, whereas ACI's includes projects that may or may not be eligible for federal funding. Neither FAA's nor ACI's estimate covers the airport terminal modifications needed to accommodate the new explosives detection systems required to screen checked baggage. According to ACI, the total cost of these modifications could be $3 billion to $5 billion over the next 5 years.
- From 1999 through 2001, airports received an average of about $12 billion a year for planned capital development. The primary source of this funding was bonds, which accounted for almost $7 billion, followed by federal grants and passenger facility charges, which accounted for $2.4 billion and $1.6 billion, respectively. The amounts and types of funding also varied by airport type. Of the $12 billion, large-and medium-hub airports received over $9 billion, and smaller airports received over $2 billion.
- If airports continue to receive about $12 billion a year for planned capital development, they would be able to fund all of the projects included in FAA's estimate, but they would not be able to fund about $3 billion in planned development estimated by ACI. While this projected shortfall could change with revisions in future funding, planned development, or both, it nevertheless indicates where funding differences may be the greatest.
- Options are available to increase or make better use of the funding for airport development, and these options would benefit different types of airports to varying degrees. For example, raising the current cap on passenger facility charges would primarily benefit larger airports, while increasing or redistributing Air-

port Improvement Program grant funds would be more likely to help smaller airports.

FAA's and the Airport Industry's Estimates of Airports' Planned Capital Development Vary Substantially

The estimated costs of planned airport capital development vary depending on which projects are included in the estimates. According to FAA's estimate, which includes only projects that are eligible for Airport Improvement Program (AIP) grants, the total cost of airport development will be about $46 billion, or about $9 billion per year, for 2001 through 2005. FAA's estimate is based on the agency's National Plan of Integrated Airport Systems, which FAA published in August 2002. ACI's estimate includes all of the projects in FAA's estimate, plus other planned airport capital projects that may or may not be eligible for AIP grants. ACI estimates a total cost of almost $75 billion, or nearly $15 billion per year for 2002 through 2006. Projects that are eligible for AIP grants include runways, taxiways, and noise mitigation and noise reduction efforts; projects that are not eligible for AIP funding include parking garages, hangars, and expansions of commercial space in terminals.

Both FAA's and ACI's estimates cover projects for every type of airport. As table 1 indicates, the estimates are identical for all but the large-and medium-hub airports, which are responsible for transporting about 90 percent of the traveling public. For these airports, ACI's estimate of planned development costs is about twice as large as FAA's.

Table 1: Average Annual Planned Development Costs Estimated by FAA and ACI, by Airport Type, 2001-2006

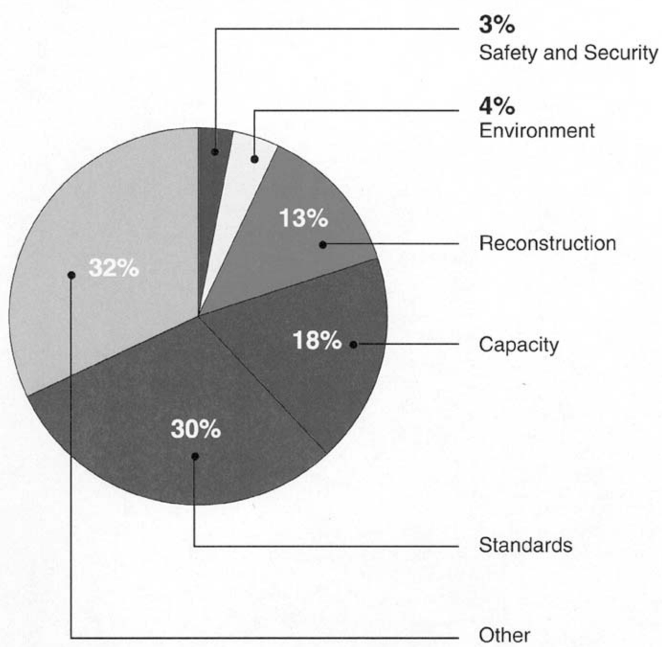
Dollars in millions

		Estimated average annual costs	
Airport type	**Number of airports**	**FAA**	**ACI**
Large hub	31	$4,855	$8,554
Medium hub	37	1,073	3,109
Small hub	71	675	675
Nonhub	280	807	807
Other commercial service	124	142	142
Reliever	260	526	526
General aviation	2,558	1,167	1,167
Total	**3,364**	**$9,245**	**$14,980**

Source: FAA and ACI.

According to FAA's analysis of the planned capital development for 2001 through 2005, airports will use 61 percent of the $46 billion for capacity enhancement, reconstruction, and modifications to bring airports up to the agency's design standards and 39 percent to fund safety, security, environmental, and other projects. See figure 1.

Figure 1: Distribution of FAA's Estimated $46 Billion for Planned Capital Development at Airports by Project Type, 2001-2005



Source: FAA.

Note: "Standards" includes projects to bring airports up to FAA's design criteria. "Other" includes projects to, for example, develop terminals to accommodate more passengers or larger aircraft and to enhance airfield capacity.

Neither ACI's nor FAA's estimate includes funding for the terminal modification projects that are needed to accommodate the new explosives detection systems required to screen checked baggage. ACI estimates that these projects will cost a total of about $3 billion to $5 billion over the next 5 years. A key reauthorization issue facing the Congress is how these terminal modification projects will be funded. In 2001, the Congress allowed FAA to use AIP funds to help pay for some new security projects; however, this use of AIP funds affected the amount of funding that was available for some development projects. Specifically, in fiscal year 2002, FAA used $561 million in AIP grant funds for security projects, or about 17 percent of the $3.3 billion available. The use of AIP grant funds for new security projects in fiscal year 2002 reduced the funding available for other airport development projects, such as projects to bring airports up to FAA's design standards and reconstruction projects. The use of AIP grant funds for security also caused FAA to defer three letter-of-intent payments totaling $28 million to three airports until fiscal year 2003 or later. [1]

Airports Recently Received About $12 Billion a Year, Mostly from Bonds and Federal Sources

From 1999 through 2001, the 3,364 airports that make up the national airport system received an average of about $12 billion per year for planned capital develop-

[1] Letters of intent represent a nonbinding commitment from FAA to provide multiyear funding to airports beyond the current authorization period. This commitment enables airports to proceed with projects without waiting for future AIP grant funds because it provides reasonable assurance of reimbursement for allowable costs.

ment. The single largest source of these funds was bonds, followed by AIP grants and passenger facility charges. (See table 2.) It is important to note that the authorized AIP funding for fiscal years 2002 and 2003 totaled $3.3 billion and $3.4 billion, respectively. However, because data for funding from other sources were not available for these years, we used the figures from 1999 through 2001, the most recent years for which consistent data were available.

Table 2: Sources of Airport Funding

Dollars in billions

Funding source	1999-2001 average annual funding[a]	Percent of total	Source of funds
Airport bonds	$6.90[b]	59	Usually, state and local governments or airport authorities issue tax-exempt debt. Funds also include notes.
Airport Improvement Program grants	2.42[c]	21	The Congress makes funds available from the Airport and Airway Trust Fund, which receives revenue from various aviation-related taxes.
Passenger facility charges	1.59[d]	13	Funds come from passenger fees of up to $4.50 per trip segment at commercial airports.
State and local contributions	.44[e]	4	Funds include state and local grants, loans, and matching funds for AIP grants.
Airport revenue	.42[f]	4	Funds are generated from (1) "airside" revenues derived from the operation and landing of aircraft, passengers, or freight and (2) "landside" revenues derived from concessions and leases.
Total	$11.78	100	

Source: GAO, FAA, and Thomson Financial.

Note: Totals may not add because of rounding.

[a]Amounts expressed in inflation-adjusted 2001 dollars.

[b]Net of refinancing. Of this total, $1.43 billion per year represented the proceeds of special facility bonds, which are secured by revenue pledges from the indebted facility and issued on behalf of nonairport beneficiaries, such as airlines.

[c]Since the passage of AIR-21 in 2000, annual AIP funding has been at or above $3.2 billion. Before that, it was less than $2 billion.

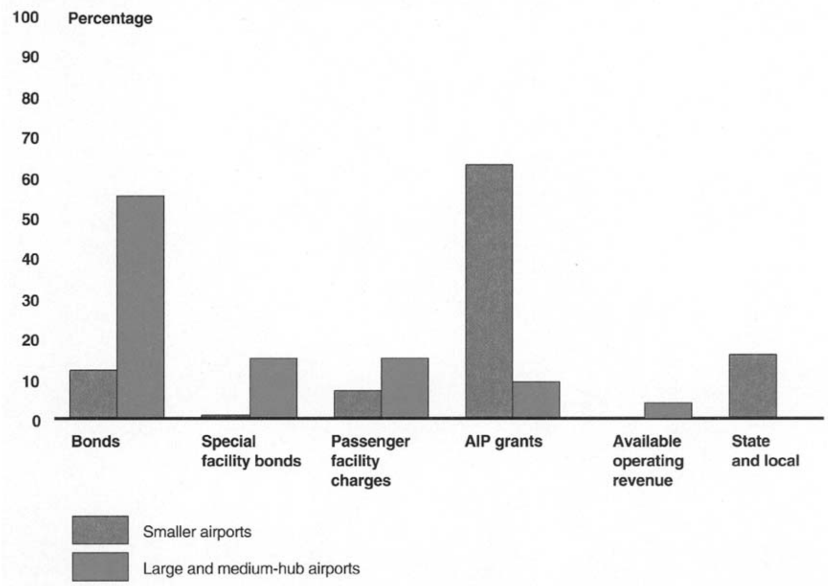
[d]Airports have been eligible to charge $4.50 since fiscal year 2001. Before that, the ceiling was $3.00.

[e]Net operating revenue in excess of a minimum coverage ratio of 125 percent of the debt service (principal and interest payments) for commercial-service airports. For general aviation and reliever airports, amounts are calculated as net operating revenue.

[f]Does not include local grants and loans for commercial-service airports because we found no data to document the amounts from these sources.

The amount and type of funding vary depending on the airport's size. For example, as shown in figure 2, the large-and medium-hub airports depend primarily on bonds, while the smaller airports rely principally on AIP grants. Passenger facility charges are a more important source of revenue for the large-and medium-hub airports because they have the majority of commercial-service passengers.

Figure 2: Distribution of Sources of Funding, by Airport Type



Source: GAO.

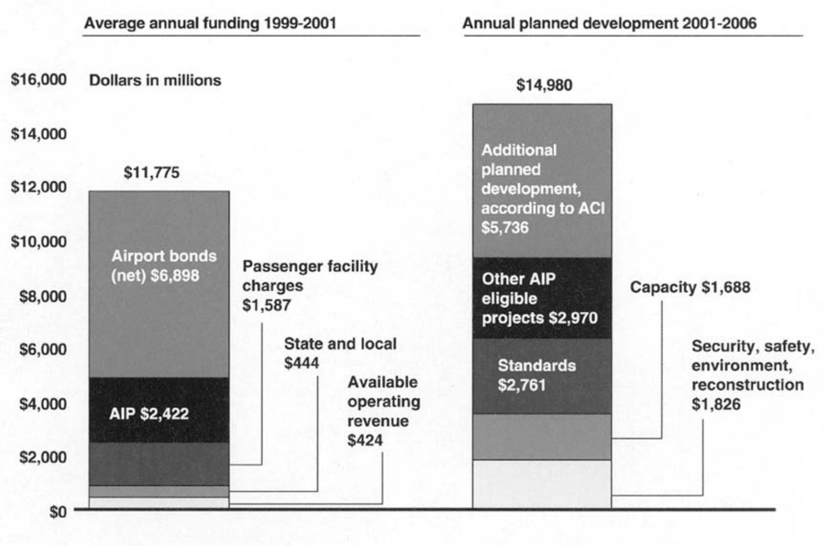
Notes: The 1999 and 2000 figures were converted to inflation-adjusted 2001 dollars.

Special facility bonds are secured by the revenue from the indebted facility for projects such as terminals, hangars, and maintenance facilities, rather than by the airport's general revenue.

Past Funding Levels Would Cover All of FAA's Planned Development Estimate but Would Fall About $3 Billion Short of ACI's Estimate

If the funding for airport capital development remains at about $12 billion a year over the next 5 years, it would cover all of the projects in FAA's estimate. However, it would be about $3 billion less per year than ACI's estimate. Figure 3 compares the average annual funding airports received from 1999 through 2001 with FAA's and ACI's estimated annual planned development costs for 2001 through 2006. This difference is not an absolute predictor of future funding shortfalls; both funding and planned development may change in the future. However, it does provide a useful indication of where funding differences may be the greatest.

Figure 3: Recent Average Annual Funding Compared with Estimates of Annual Planned Development Costs

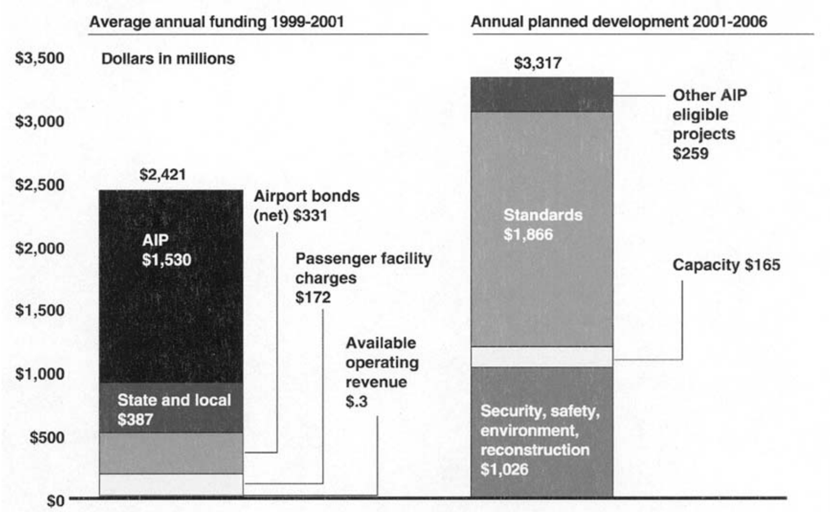


Sources: FAA and ACI (data), GAO (analysis).

Funding Difference Would Affect Smaller Airports Proportionally More Than Larger Airports

In percentage terms, the difference between recent funding levels and ACI's estimate of planned capital development is somewhat greater for smaller airports than it is for large-and medium-hub airports. From 1999 through 2001, smaller airports received an average of about $2.4 billion a year for planned capital development while large-and medium-hub airports received an average of about $9.4 billion. If these funding levels continued, smaller airports would not be able to fund about 27 percent of their planned development, while large-and medium-hub airports would not be able to fund about 20 percent of their planned development. Figures 4 and 5 illustrate the differences between recent funding levels and the costs of planned capital development projected for smaller and for large-and medium-hub airports.

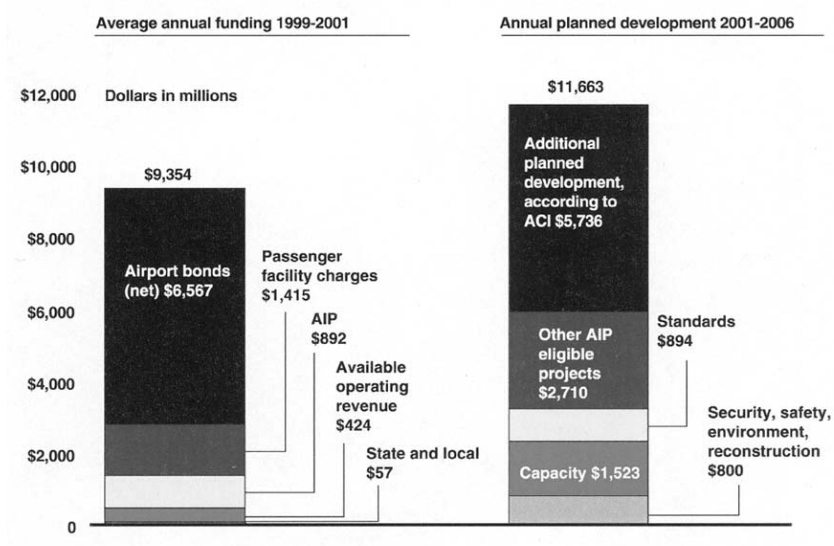
Figure 4: Average Annual Funding Compared with Estimated Annual Planned Capital Development for Smaller Airports



Sources: FAA and ACI (data), GAO (analysis).

Note: Totals may not add because of rounding.

Figure 5: Average Annual Funding Compared with Estimated Annual Planned Capital Development for Large- and Medium-Hub Airports



Sources: FAA and ACI (data), GAO (analysis).

Note: The total for average annual funding may not add because of rounding.

Ability to Fund Planned Capital Development Has Improved for Both Smaller and Larger Airports

The difference between past funding and planned development has declined over the past 5 years, and, at recent funding levels, airports would be able to fund a higher percentage of their planned capital development than they could fund in 1998. At that time, we reported that smaller airports could fund about 52 percent of their planned capital development, compared with about 73 percent today, which represents an increase of 21 percent. We also reported that large-and medium-hub airports were able to fund about 80 percent of their development and are able to fund the same amount today.[2] See figure 6.

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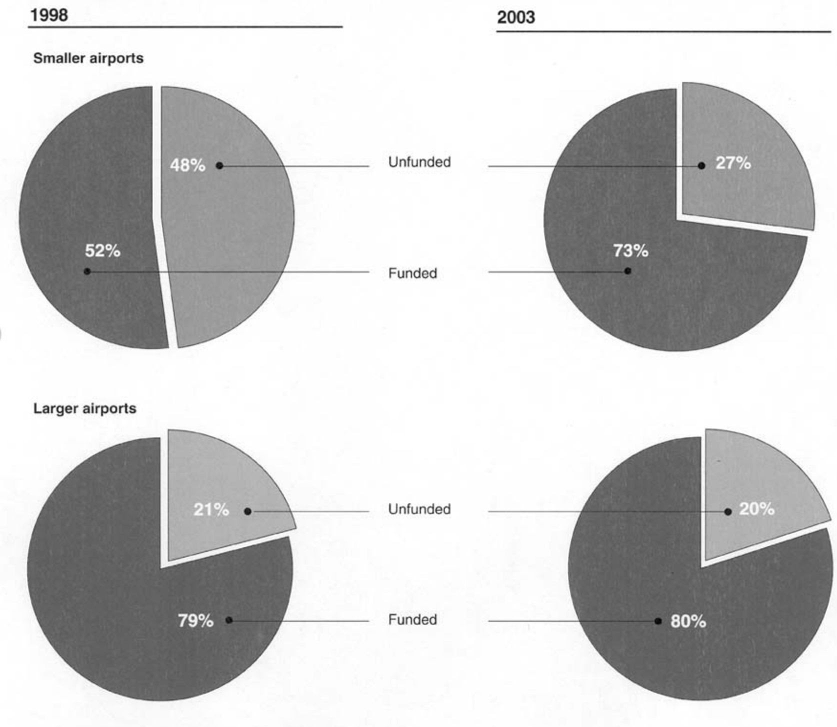
[2] U.S. General Accounting Office, Airport Financing: Annual Funding As Much As $3 Billion Less Than Planned Development, GAO/T–RCED–99–84 (Washington, DC: Feb. 10, 1999).

Figure 6: Ability of Smaller and Larger Airports to Fund Estimated Planned Capital Development in 1998 and 2003



Source: GAO.

The primary reason why smaller airports can fund more of their planned capital development today than they could in 1998 is that AIR–21 increased both the total amount of funding for AIP grants and the proportion of AIP funding that went to smaller airports. Specifically, AIR–21 increased the funding for two AIP funds that primarily or exclusively benefit smaller airports—the state apportionment fund and the small airport fund—and it created general aviation entitlement grants, which also benefit smaller airports.[3] As a result of these changes, smaller airports received almost 63 percent of the $2.4 billion in AIP grant funds that airports received each year, on average, from 1999 through 2001. Large-and medium-hub airports can also fund more of their planned development today than they could in 1998 primarily because they are able to issue more bonds and to charge a higher passenger facility fee.

Options Are Available to Address Difference between Funding and Planned Development

Options are available to increase airport funding or to make better use of the existing funding. These options, some of which were authorized or implemented as part of AIR–21, include increasing the AIP grant funding for smaller airports, increasing passenger facility charges, creating a separate fund for new security projects, and using innovative financing approaches. The various options would benefit different types of airports to varying degrees. It is also important to note that even though the airlines may be experiencing financial problems, most large air-

[3] Moreover, if we replaced the AIP figures for 1999 through 2001 with the AIP figures appropriated for fiscal year 2002 and authorized for fiscal year 2003 in our analysis, assuming no changes in the distribution of AIP funds, smaller airports would be able to cover even more of the estimated cost of their planned development because AIP grant funds for fiscal years 2002 and 2003 are about $1 billion more than the average annual AIP funding for 1999 through 2001. Because data for funding from other sources were not available for these years, we used the figures from 1999 through 2001, the most recent years for which consistent data were available.

ports have very solid credit ratings and could, if necessary, issue more debt without facing exorbitant interest rates.

To help address the difference between funding and planned development, AIR–21 provided that up to $150,000 a year in AIP grant funds be made available to all general aviation airports for up to 3 years for airfield capital projects, such as runways, taxiways, and airfield construction and maintenance projects. On February 11, 2003, we reported that since the program's inception in fiscal year 2001, general aviation airports have received about $325 million, which they have used primarily to help build runways, purchase navigational aids, and maintain pavements and airfield lighting.[4] Most of the state aviation officials and general aviation airport managers we surveyed said the grants were useful in meeting their needs, and some suggested that the $150,000 grant limit be increased so that general aviation airports could undertake larger projects. However, a number of state officials cautioned that an increase in the general aviation entitlement grant could cause a decrease in the state apportionment fund that states use to address their aviation priorities.

Another option would be to increase or eliminate the cap on passenger facility charges. This option would primarily benefit larger airports, because passenger facility charges are a function of the volume of passenger traffic. However, under AIP, large-and medium-hub airports that collect passenger facility charges must forfeit a certain percentage of their AIP formula funds. These forfeited funds are subsequently divided between the small airport fund, which is to receive 87.5 percent, and the discretionary fund, which is to receive 12.5 percent. Thus, smaller airports would benefit indirectly from any increase in passenger facility charges. In our 1999 report on passenger facility charges,[5] we estimated that a small increase in these charges would have a modest effect on passenger traffic. At that time, we estimated that each $1 increase would reduce passenger levels by about 0.5 to 1.8 percent, with a midrange estimate of 0.85 percent. Since AIR–21 raised the cap on passenger facility charges from $3.00 to $4.50, the full effect of the increase has not been realized because only 17 of the 31 large-hub airports (55 percent) and 11 of the 37 medium-hub airports (30 percent) have increased their rates to $4.50. Additionally, 3 large-hub airports and 6 medium-hub airports do not charge a passenger facility fee. The reluctance to raise passenger facility charges is likely the result of several factors, including the views of airlines, which are opposed to any increase in passenger facility charges because such an increase would raise passenger costs and reduce passenger traffic. Nonetheless, if all airports were to increase passenger facility charges to the current ceiling, additional revenue could be generated.

Recently, the head of the Transportation Security Administration suggested setting up a separate fund for security projects. Such a fund might be comparable to AIP, which receives revenue from various aviation-related taxes through the Airport and Airway Trust Fund. Having a separate fund would be consistent with the recent separation of aviation safety and security responsibilities.

FAA has introduced other mechanisms to make better use of existing funding sources, the most successful of which has been letters of intent, a tool that has effectively leveraged private sources of funding. As noted, letters of intent represents a nonbinding commitment from FAA to provide multiyear funding to an airport beyond the current AIP authorization period. Thus, the letter allows the airport to proceed with a project without waiting for a future AIP grant because the airport and investors know that allowable costs are likely to be reimbursed. A letter of intent may also enable an airport to receive a more favorable interest rate on bonds that are sold to refinance a project because the federal government has indicated its support for the project. FAA has issued 64 letters of intent with a total commitment of about $3 billion; large-and medium-hub airports account for the majority of the total.

Other approaches to making better use of existing funding resources were authorized under AIR–21. Specifically, the act authorized FAA to continue its innovative finance demonstration program, which is designed to test the ability of innovative financing approaches to make more efficient use of AIP funding. Under this program, FAA enabled airports to leverage additional funds or lower development costs by (1) permitting flexible local matching on some projects, (2) purchasing commercial bond insurance, (3) paying interest costs on debt, and (4) paying principal and interest debt service on terminal development costs incurred before the enactment

[4] U.S. General Accounting Office, Aviation Finance: Implementation of General Aviation Entitlement Grants, GAO–03–347 (Washington, DC: Feb. 11, 2003).

[5] U.S. General Accounting Office, Passenger Facility Charges: Program Implementation and the Potential Effects of Proposed Changes, GAO/RCED–99–138 (Washington, DC: May 19, 1999).

of AIR–21. FAA has provided about $31 million for smaller airports to test these innovative uses of AIP funding. According to FAA officials, the results of the program have been mixed. The most popular option for airports has been flexible matching, which has resulted in several creative loan arrangements.

In conclusion, Mr. Chairman, the aviation industry and the national economy are still struggling to recover their health. Analysts nonetheless expect the demand for air travel to rebound, and the nation's aviation system must be ready to accommodate the projected growth safely and securely. As the Congress moves forward with reauthorizing FAA, it will have to decide on several key issues, including how it wants to consider the airports' estimate of $15 billion a year for planned capital development over the next 5 years, how terminal modification projects will be funded, and what priorities it wants to set, both for development and security. Sustaining recent funding levels would allow the majority of planned airport capital development to move forward, but it would not cover all of the airports' estimated costs, and it would not address the costly terminal modifications needed to accommodate explosives detection systems. Options such as additional AIP grant funds, increases in passenger facility charges, or the creation of a separate fund for new security projects could make more funding available for airport improvements. However, the growing competition for federal budget dollars and concerns about the impact of higher charges on airline ticket sales may limit the practicality of these options.

Scope and Methodology

To determine how much planned development would cost over the next 5 years, we obtained planned development data from FAA and ACI. ACI provided its estimate to us in January 2003, and we are still analyzing the data on which the estimate is based. To determine the sources of airport funding, we obtained capital funding data from FAA, the National Association of State Aviation Officials, Thomson Financial, and our survey of 400 general aviation and reliever airports. We obtained funding data from 1999 through 2001 because these were the most recent years for which consistent data were available. We screened the planned development and funding data for accuracy and compared funding streams across databases where possible. We also clarified ambiguous development or funding source information directly with airports. We did not, however, audit how the databases were compiled, except for our own survey. However, we have not finished analyzing the results of our survey, and the results presented in this testimony are still preliminary.

We have been performing our ongoing work from May 2002 through February 2003 in accordance with generally accepted government auditing standards.

This concludes my statement. I would be pleased to answer any questions that you or other Members of the Subcommittee might have.

Senator LOTT. Thank you very much, Dr. Dillingham. Very interesting testimony, and we'll want to ask you some questions about it after we hear from the other two witnesses.

Ms. Woodward?

STATEMENT OF WOODIE WOODWARD, ASSOCIATE ADMINISTRATOR FOR AIRPORTS, FEDERAL AVIATION ADMINISTRATION

Ms. WOODWARD. Good morning, Mr. Chairman and other Members of the Subcommittee. It is a pleasure to be with you today.

I commend the Committee for focusing attention on the critical role airports play in the Nation's air transportation system. As you know, airports are faced with meeting both pre-September-11th capacity challenges as well as post-September-11th security challenges.

Following the terrorist attacks, the financial consequences for airports were substantial. In my opinion, airports did everything in their financial power to minimize their operating and maintenance costs, including imposing hiring freezes, reallocating staff, restructuring or refinancing debt, and reviewing and, in some cases, raising discretionary charges. As a group, I believe airports continue to take the necessary steps to improve security and their cash flow.

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.

Our most recent National Plan of Integrated Airport Systems, which we call the NPIAS and which Mr. Dillingham referred to, estimates $46 billion in airport development needs that are eligible for Federal aid for the period 2001 through 2005. This figure represents an increase of 32 percent over the preceding estimate, or, on an annual basis, an increase from an average of about $7 billion per year to $9.2 billion per year. We see that 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 plan 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 may be deferred until activity rises to the point where it is warranted. To date, we have seen little change in the projected opening dates for the new runways that are being planned at large-hub airports.

About one-third of the development estimates in our plan are intended to rehabilitate existing infrastructure and to keep airports up to standards. This includes accelerating upgrades of all runway safety areas and projects 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 the airports.

In contrast to airfield projects, the expansion of passenger terminal buildings has slowed significantly since September 11th due to uncertainty about future security requirements, the temporary decline in traffic, and near-term financial problems of both airlines and airports, and, in particular, the airports who are dealing with declining revenues and increased operating costs.

Historically, these projects receive nominal AIP funding, with airport revenue bonds and passenger facility charges serving as the principal financing tools. We project that these projects will resume as air traffic achieves pre-September-11th levels.

As the Committee knows, fiscal year 2002 was a real challenge. 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 to accommodate the latest generation of baggage-screening devices. 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 the new security requirements while at the same time preserving customer service and efficiency and, above all, how to pay for these new requirements.

Airport operating costs have increased as revenues have declined. However, 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, as Mr. Dillingham said. 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 declines and higher security costs.

Congress responded to this situation by making the AIP program temporarily more flexible. In fiscal year 2002, FAA applied a record level of $561 million from AIP funds to security projects. This represents, as Mr. Dillingham said, a more than 800 percent increase over the level of security funding awarded in fiscal year 2001.

Despite this record level of funding for security, the FAA was still able to fund all safety projects, including runway safety areas and runway incursion action team recommendations. We were also able to fulfill our letter-of-intent commitments, fund noise mitigation and reduction projects, and ongoing projects that were phased.

However, balancing security and capacity costs will continue to be a tough challenge in the future. Even though we will see some fruits of our past capacity infrastructure investment realized this year, with new runways becoming operational at Denver, Miami, Houston, and Orlando, the outlook for fiscal 2003 is shaping up to be similar to last year.

We expect that a level of AIP similar to that in fiscal 2002 will be used for security. Our colleagues at TSA and the FAA are fully aware of this dynamic. We will continue to work closely with them as they move to the new Department of Homeland Security, and we will commit to being a part of the examination of how these costs are to be borne in the future.

For fiscal year 2004, the good news is that with all 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 is 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 the AIP formulas to address some of the issues that Mr. Dillingham raised. One, to allow more funds to be targeted to those small airports with the greatest need and dependence on Federal assistance, while at the same time providing large airports access to Federal grants to support important projects that will benefit the airport system overall, and, finally, to make available a stable source of noise mitigation funding for communities.

We expect that with this restructuring there will be approximately $87 million more for small airports for the 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 overall, 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.

In closing, Mr. Chairman, let me say that I believe the Nation's airports have been making good progress in meeting security challenges presented by the attacks of September 11th. The airport system was harshly affected by the attacks of the 11th, but thousands of State and local officials working in cooperation with the FAA are doing a great job bolstering security, and we are well into the long process of recovery and stabilization. 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. Thank you.

[The prepared statement of Ms. Woodward follows:]

PREPARED STATEMENT OF WOODIE WOODWARD, ASSOCIATE ADMINISTRATOR FOR AIRPORTS, FEDERAL AVIATION ADMINISTRATION

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 percent 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.

Senator LOTT. Thank you, Ms. Woodward.

Mr. Plavin, the president of the Airports Council International, we would be glad to receive your testimony.

STATEMENT OF DAVID Z. PLAVIN, PRESIDENT, AIRPORTS COUNCIL INTERNATIONAL–NORTH AMERICA

Mr. PLAVIN. Thank you, Mr. Chairman and Members of the Subcommittee.

I thank Dr. Dillingham and Ms. Woodward for the introduction that they have provided, because I think they have given you an idea as to where the critical issues in our system are. And I thought it might be useful, given the name on this hearing today to talk a little bit about a broader set of issues about how the airport system gets paid for, because I believe that it is rather critical.

As with everything else, the system is not made up of magic. The passengers or the taxpayers pay. And in the aviation system, it is overwhelmingly the passengers and the shippers who pay for the system. They obviously pay fares. They pay the airlines for the airlines' costs and the things that they buy—airplanes, fuel, airport services. They pay taxes to the Airport and Airways Trust Fund to pay for air traffic control and for the AIP system. And now they pay for TSA, as well. They pay fees—customs fees, agricultural fees, immigration fees, passenger facility charges, and they pay the airport for the services they buy from airports.

The airport revenue picture for the operating side has about 50 percent of it coming from the people who do business at the airport—the airlines, the other tenants on the airport—from landing fees and rents, for example. And about 50 percent of it comes from non-aeronautical charges, charges like food and beverage, retail, parking, rental cars. So there is a sizable portion of the airport operations that is not related to the people who do business on the airports.

On the capital side, Dr. Dillingham, I think, has given you an indication of where the various pieces are over a period of time from 1999 through 2001. And as you can see from his numbers, the State and local contributions, which particularly focus on small airports, represent about 4 percent of the total annual cost of doing business. The AIP funding from the trust fund is about 20 percent. That number is considerably larger at smaller airports, and rather—much smaller at smaller—at larger airports. Everything else is generated at the airport—airport revenues and reserves, about 4 percent; passenger facility charges, about 14 percent. And as Dr. Dillingham mentioned, about 60 percent of the total is paid for by airport revenue bonds of one kind or another.

It is important that we pay attention to the fact, though, that while we have been able to cover them, that particular piece of revenue, those bond revenues, have to be repaid. And when they get repaid, they get put into the landing fees for us to then charge the people who are using our airports. So that if we add $5 billion a year to our indebtedness, we are also adding $400 million a year to our annual operating costs, and that means that over the three-year period Dr. Dillingham was looking at, our costs have been required to increase by some $1.2 billion per year in order to cover the indebtedness that the airports pick up as part of the overall cost of doing the capital program. And that means that in the kind of situation where we are today, where the airlines are in such significant financial distress, adding that level of increment to what they are going to have to pay in operating expenses, I think, is a significant burden that I hope we will be able to address as we talk about the reauthorization program.

And as Dr. Dillingham mentioned, these numbers do not include the cost of security, either the operating costs or the capital costs associated with actually putting in place a solution which is a final solution, a permanent solution, unlike the temporary solutions that TSA put in place quite successfully in order to meet the deadlines that Congress put in place for them. We estimate that the cost of doing that, of putting in these ultimate solutions, probably ranges from $3- to $5 billion, numbers that are not reflected in the numbers that we were talking about so far.

Which brings me to the question about what are the appropriate roles and responsibilities of the airports, the Federal Government, the Transportation Security Administration, the FAA, and so on. It is our view that we have moved from a situation where we have had a partnership over the years to one where the Federal Government and the organizations of the Federal Government have been getting the local governments that run airports, that are airports, to more and more relinquish the kinds of roles and responsibilities that they have had up to this point. I think the next FAA reauthorization provides airports with an opportunity to begin improving that relationship.

The written testimony talks about some of the specific things that we think are important to address as we go through the exercise. We need to provide the airports with the resources they need to meet future demand. Capacity continues to be an issue. While the passengers have not yet returned to their year-2000 levels, aircraft are increasing much more rapidly, which means that the congestion that we experienced in the year 2000 will come back long before the numbers of passengers come back. We have got smaller airplanes in the system, which means that we actually are very close to the level of aircraft operations that we were at well before 9/11.

Secondly, we believe that the capacity needs are long overdue anyway, that airports have been considerably behind their ability to meet those needs, and, as this Committee has mentioned on a number of occasions, the ability to put a capital improvement program in place, particularly with runways, is made much more difficult by the kinds of requirements that that process includes.

The FAA has done a very good job in trying to streamline that process, but it is still quite lengthy. GAO has reported that it often takes as much as 10 to 15 years to build a new runway to deal with the kind of capacity we are talking about. And ultimately, we also will need, therefore, to put additional gates in place, additional square footage of terminals, access roads, and so on, parking, at airports.

Mr. Chairman, I think the point I want to make today is that we know the difficulties that the budget includes. We understand the difficulties of trying to add additional resources to the airport, to the aviation program. But we believe that it is necessary. We believe that the airports must have additional resources in order to satisfy the requirements that have been mandated upon them.

One thing we can do, for example, is to talk about looking at the kinds of conditions that are attached to AIP grants, to PFCs, the process for getting them approved. We hope that it is possible in the future to begin to look at all of the various funding sources as being eligible to fund any lawful airport purpose. We are not suggesting that the airports take the money that they have and use it for non-airport purpose. On the contrary, we believe very strongly that that is a critical part of what makes it possible for the airports to get into the bond markets. But, at the same time, the differences between those various funding sources can be a significant obstacle to funding the specific projects that need to be done.

We believe that we need to streamline that process, and we have talked about that a number of times. We believe we need to protect passenger facility charges when airlines are in bankruptcy from being treated as just another set of funds from the State of the bankrupt airline. We would like to eliminate some of the bureaucratic restrictions now that occur in conjunction with getting the AIP program grants and the PFCs approved.

But, most importantly, we want to be recognized as the kind of partner we have been over the years for the enhancement of the aviation system and today, especially in the aviation security business. We believe that the underlying requirements for security are requirements that the airports have met for many years, are consistent with their responsibilities as local governments, and ones that we would very much like to participate in, assuming that we will be allowed to do that.

Mr. Chairman, airports stand ready to become full partners with the Federal Government. By working together, we can marshal Federal and local resources to ensure that we have the safest and most secure system possible. We can also be prepared for the increasing number of passengers who will be using our aviation system in the future.

Thank you very much.

[The prepared statement of Mr. Plavin follows:]

PREPARED STATEMENT OF DAVID Z. PLAVIN, PRESIDENT, AIRPORTS COUNCIL INTERNATIONAL-NORTH AMERICA

Chairman Lott, Ranking Member Rockefeller and Members the Senate Commerce Subcommittee on Aviation, thank you for inviting me to appear before your Committee to discuss airport financing. I am testifying today on behalf of Airports Council International-North America (ACI–NA) and the American Association of Airport Executives (AAAE). ACI–NA represents local, regional and state governing bodies that own and operate commercial airports in the United States and Canada. AAAE represents the men and women who manage primary, commercial service, reliever and general aviation airports.

Before I begin discussing airport financing and outlining our recommendations for the next Federal Aviation Administration (FAA) reauthorization bill, I would like to comment briefly on the current relationship between airports and the Federal Government.

One of the most thoughtful and respected leaders in the airport industry is James Wilding, the president and chief executive officer of the Metropolitan Washington Airports Authority. Mr. Wilding recently announced that he will be retiring in April after spending 43 years rebuilding Ronald Reagan Washington National Airport and building and expanding Washington Dulles International Airport.

Mr. Wilding has observed over many years that the relationship between airports and the Federal Government has deteriorated significantly. It has been moving from a partnership among federal, state and local governments to an environment where the Federal Government has forced local governments that are airports to relinquish many of their traditional roles and responsibilities. The next FAA reauthorization bill provides airports with an opportunity to begin improving that relationship.

As everyone on this Committee knows, the Federal Government, itself, plays a prominent role in the aviation industry. It regulates airline safety, operates the national air traffic control system and administers a user-financed grant program to assist with capital investment in certain types of airport facilities. The Federal Government usually performs those responsibilities exceptionally well.

The Federal Government, however, often fails to acknowledge the unique roles and responsibilities that airports have in ensuring safety, security, and capacity at their facilities, independent of the growth in federal mandates. Airports are owned and operated by units of state and/or local government. But the Federal Government increasingly treats airports as if they are private, commercial entities that need regulation in the public interest rather than local public entities.

Mr. Wilding, like airport operators around the country, would prefer a more balanced relationship between airports and the Federal Government. While there is no single legislative step that Congress can take to accomplish that goal, we ask that Members of this Committee protect and restore the traditional roles and responsibilities of airports as you consider the next FAA reauthorization bill.

Airports stand ready to become full partners with the Federal Government. By working together, we can marshal federal and local resources to ensure that we have the safest and most secure aviation system possible. We can also be prepared for the increasing number of passengers who will be using our aviation system in the near future.

Provide Airports With the Resources They Need to Meet Future Demand

Mr. Chairman, I would like to begin my comments on airport finance by thanking you and the Members of this Committee who worked on H.R. 1000, the Wendell H. Ford Aviation Investment and Reform Act for the 21st Century, also known as AIR–21. As most of you know, the last FAA reauthorization bill included record funding levels for the Airport Improvement Program (AIP).

Specifically, the law recognized the growing need for investment as it included $3.2 billion for the AIP program in Fiscal Year 2001 (FY01), $3.3 billion in FY02, and $3.4 billion in FY03—a 64 percent increase above previous levels in FY01 alone. The law also raised the cap on Passenger Facility Charges (PFCs) from $3.00 to $4.50. Together, these actions have improved safety and capacity at airports around the country.

In addition to increasing funds for the AIP program, Members of this Committee should also be commended for guaranteeing that all revenue and interest paid into the aviation trust fund will be spent on aviation. AIR–21 provides for budget points of order against any appropriations bill that either fails to spend all the trust fund receipts and interest or does not appropriate the total authorized levels for FAA's capital programs.

But much has changed since Congress passed AIR–21 almost three years ago. The downturn in the economy and the terrorist attacks on September 11 has hit the aviation industry particularly hard. The entire aviation system was shut down for the first time in history, passenger levels declined and the nation's network carriers reduced capacity.

In its Aerospace Forecast issued in March 2000, the FAA estimated that airline passenger traffic would decrease to 600.3 million enplanements in FY02. Despite this temporary reprieve, the agency expects that airline passenger traffic will increase by an average rate of 4 percent per year and reach one billion passengers by 2013—just a few years later than the agency had predicted before September 11. Given that airfield projects generally take a minimum of ten years and more to complete, we have no time to lose.

Gerald Dillingham, the Director of Civil Aviation Issues for the General Accounting Office (GAO), recently testified before the House Transportation and Infrastructure Committee about the need for additional capacity. He said, "enhancing the capacity and efficiency of the national airspace system through runway development and air traffic modernization is critical to preparing for the projected growth and demand for air travel."

Ken Mead, the Inspector General of the U.S. Department of Transportation (DOT), in recent testimony said, "building aviation system capacity and more efficient use of airspace" is one of four key issues for the next FAA reauthorization bill. Mead also suggested that it would be shortsighted for the FAA not to be "strategically positioned for when demand returns through a combination of new runways, better air traffic management technology, airspace redesign and greater use of non-hub airports."

We agree with the comments made by Dr. Dillingham, Mr. Mead, other Administration officials and Members of Congress who have suggested that we be prepared for future demand. We should use this temporary downturn to our advantage and begin building new runways now—not later when passengers experience delays and cancellations like they did in 2000 when one in four flights were delayed, cancelled or diverted, affecting some 163 million passengers. In order to be prepared for future demand, however, we need to continue making wise investments in aviation infrastructure as Congress did in AIR–21.

ACI–NA recently surveyed airports around the country about their capital needs in order to determine how much investment in aviation infrastructure is necessary in the next few years. From that survey, we estimate that capital development costs will total more than $61 billion between 2003 and 2006 at an average rate of about $15 billion per year. This estimate includes the costs of construction projects that are necessary but not eligible for AIP funds. These include parking lots, cargo buildings and terminal development, for example, at airports of all sizes.

Dr. Dillingham cited the ACI–NA survey in his recent testimony. He also estimated that the average amount that airports received for capital development from all sources was about $12 billion per year between 1999 and 2001. If that trend continues, airports would face about a $3.4 billion shortfall in capital needs and be forced to delay important safety and capacity projects every year through FY06. [Members of this Committee should know that we make every effort to coordinate the distribution of our surveys with the FAA, the DOT Inspector General and GAO.]

Ideally, AAAE and ACI–NA would prefer that Congress provide another major increase in AIP funding, take the aviation trust fund off budget and lift the federal cap on PFCs to help airports meet future demand. Considering the current fiscal climate and the financial troubles plaguing the airline industry, we realize these suggestions might seem impractical to some Members of this Committee. However, we encourage Congress to take these and other steps to ensure that airports have the resources they need to meet future demand.

Provide Modest Increase in AIP Funding: We recognize the difficulty in providing significant increases in AIP funding, but the alternative is to fall further behind. Thus, we recommend that Congress authorize AIP at $4 billion in FY04 and increase the funding levels by an additional $100 million a year. By strengthening the trust fund we would also have more money available for necessary infrastructure investment as the industry turns around. Even at the funding level, a gap would exist between funding from all sources of capital and the annual capital needs of airports.

Maintain Current Budget Protections: We also urge you to continue providing budget protections for the AIP program. The budget protections that you included in AIR–21 have worked exceptionally well. In fact, Congress has appropriated the same amount for AIP per year that it authorized in AIR–21. As you consider the next FAA reauthorization bill it is imperative that you maintain the current budget protections that have worked so well under AIR–21.

Unleash AIP Funds, PFCs and Airport Bonds

Airports rely on a number of different sources to fund their capital needs. The two that may be most familiar to Members of this Committee are AIP and PFCs. Unlike many other transportation entities, airports generate much of their capital themselves through airport bonds, special facility bonds, state and local contributions and revenue generated from airport fees, rates and charges.

One of the most important sources of funding, especially for small- and non-hub airports is AIP. Airports use AIP funds to finance a variety of capital improvements including runway and taxiway construction, navigation aids and airfield lighting. Airports, however, are strictly prohibited from using AIP funds for operational costs such as salaries, marketing plans and constructing revenue-producing terminal areas such as ticket counters and concession stands.

PFCs are another source of revenue for airports. The PFC program allows airports to impose local fees on airline passengers enplaned at their facilities in order to pay for the development of the facilities they use at that airport. Airports may use PFCs for AIP-eligible projects. Unlike AIP funds, airports can use PFCs to pay interest on airport bonds and for construction on certain revenue-producing areas of airport terminals. The FAA estimates that airports collected approximately $2 billion from PFCs in FY02. Currently, 310 airports impose PFCs proving this is a local decision.

Provide Airports with Flexibility on How They Can Use AIP funds and PFCs: As I mentioned previously, airports use revenue generated from a number of different sources. Each of these "currencies" has its own strings attached that create significant problems for airports. We believe that we should work toward an "Airport Euro," a common currency to eliminate these multiple rules and regulations and permit airports to use AIP and PFC funds for any airport capital project, provided that we retain necessary prohibitions against revenue diversion and unjust discrimination.

Under our proposal, for instance, airports would be free to use AIP funds and PFCs to acquire airline baggage systems, information technology, ground support equipment, gates and ticket counters. These measures are also responsible ways to support airline needs and strengthen competition at the same time.

Streamline the PFC Process: In addition to giving airports flexibility in how they can use AIP funds and PFCs, we think Congress can improve the PFC program. Airports believe that the PFC program would be more useful if it were treated more like airport rates and charges. This would require less federal oversight and make the PFC program more efficient. At the very least, we think the application process should be streamlined.

It can currently take more than nine months for airports to gain approval to begin collecting PFCs. This is simply too long, with no added benefits accruing. Eliminating the duplicative Federal Register comment process and the additional requirements placed upon airports applying for $4.00 and $4.50 PFCs could reduce those delays and save airports, airlines and taxpayers scarce dollars. We are encouraged by our recent conversation with FAA Administrator Blakey and her staff who suggest the FAA is seeking to streamline the PFC approval process.

Protect PFCs that Bankrupt Airlines Owe Airports: Airlines collect PFCs on behalf of airports and then remit them to airports. Two major airlines—United and U.S. Airways—have already filed for bankruptcy. Other airlines may not be far behind especially if there is a war with Iraq causing fuel prices to rise and international passenger traffic to drop off. Airports now have to resort to the legal process to recover PFCs owed to them. In December a U.S. Bankruptcy Court judge ordered United Airlines to pay Denver International Airport $4.7 million in PFCs that the airline collected. Congress should codify the principle that PFCs are held in trust by the airlines and ensure that airports receive their PFCs in a timely fashion from airlines whether they have declared bankruptcy or not.

Eliminate Unnecessary and Bureaucratic Competition Plans: Airports support almost of all of what was enacted in AIR–21. However, we hope this Committee will revisit the section on "competition plans" when it considers the next FAA reauthorization bill. AIR–21 included a provision that prevents certain large- and medium-hub airports from receiving AIP funds or collecting new PFCs unless they file competition plans with DOT.

According to the report accompanying the House version of the legislation, the purpose of that provision was to require airports to demonstrate how they would provide access to new entrant carriers and allow incumbent carriers to expand. Like the Members of this Committee, airports want more competition—not less. There isn't a day that goes by that airport operators are not thinking about how they can expand service to their community. Airports realize that competition is the key to their efforts to both develop air service and to hold fares at reasonable levels for their passengers.

The provision in AIR–21 that requires airports to file competition plans is unnecessary, burdensome and may have resulted in some unintended consequences. For example, FAA issued a revised 15-page Program Guidance Letter in November that tells airports that the agency expects detailed information on some *60 items*. The agency, for instance, requests data on "local passengers, average passenger trip length, average passenger yield, and number of city-pair markets served disaggregated by distance (distinguishing between markets of 750 miles or less and markets over 750 miles) . . . " Some airports have informed us that the FAA treats these program guidance recommendations as requirements, even though most are inapplicable to most airports.

Most of this data that DOT now collects is difficult and expensive for airports to mine for useful information. According to a recent ACI–NA survey, it took some airports more than 200 hours and considerable cost to complete their competition plans. Moreover, some airports informed us that it took the FAA nine months to review their competition plans with little or no benefit provided to the traveling public.

While we understand the goal that Congress had in mind when it created this requirement, it has led to unintended and bureaucratic consequences with no material change in the airports must do their business and not demonstrable impact on competition. The current financial straights in which U.S. airlines find themselves make such efforts even more superfluous.

We encourage you to eliminate the competition plan requirement when you consider the next FAA reauthorization bill. This is one positive provision to recognize the unique roles of airports and restore their rights, roles and responsibilities.

Reclassify Airport Bonds as Governmental: In addition to AIP funds and PFCs, airports generate revenue from bonds. Unfortunately, federal tax law unfairly classifies tens of billions of dollars in outstanding airport bonds as so-called "private activity" bonds. As a result, airport bond issuers are charged higher interest rates on their borrowing than they otherwise would pay and are unable to "advance refund" outstanding bonds to take advantage of lower interest rates. The current charges to airport users would be reduced to reflect these lower interest costs.

But, in addition, airports are public entities that serve a vital public purpose. That fact has been proven true repeatedly in the aftermath of the September 11th terrorist attacks. We believe that Congress should take steps to reclassify these airport bonds as "governmental." Doing so would save airports millions in financing costs and would allow airports to take full advantage of historically low interest rates in today's market to refinance outstanding debt. After September 11, Congress gave New York City similar authority, and billions of dollars were refinanced to the public's benefit.

Partner with Airports to Enhance Aviation Security

Chip Barclay, the President of AAAE, recently testified before this Committee on behalf of AAAE and ACI–NA regarding aviation security. During his opening comments, Mr. Barclay urged the Transportation Security Administration (TSA) to work with airports as partners rather than treat them like a privately regulated party. As he pointed out, airports are "TSA's partners with law enforcement powers and identical incentives to keep our citizens safe."

Mr. Barclay's comments go hand-in-hand with the remarks that I made at the beginning of my testimony about the need to protect and take advantage of the traditional roles and responsibilities of airports. As you begin considering the next FAA reauthorization bill, the key security recommendations that we outlined in that testimony are consistent with a partnership approach and are worth repeating.

Prevent AIP Funds From Being Drained for Security-Related Projects: DOT Inspector General Mead said that "striking a balance on how airport funds will be used for aviation system capacity, airport safety and security" will be another major issue for the next FAA reauthorization bill. He also pointed out that "continuing to use a significant portion of AIP funds and passenger facility charges (PFCs) on security projects will have an impact on airports' abilities to fund capacity projects."

We share Mr. Mead's concerns about who is going to pay for installing explosive detection systems (EDS) at airports and the potential impact that this could have on safety and security projects at airports. AAAE and ACI–NA have been making the case that airports should not be forced to choose between spending AIP funds on much-needed safety and capacity projects or on security-related projects mandated by the Federal Government. Even if we were faced with such a choice, there is simply an inadequate amount of revenue generated by the trust fund to finance EDS installation.

Unfortunately, as the GAO has made clear, current policy is forcing airports to choose between safety and capacity or security. In FY02, airports spent approximately $561 million in AIP to pay for security-related projects. This is ten times more than the $56 million that airports spent on security during the previous fiscal year. In other words, airports deferred more than $500 million in AIP funds to improve safety and capacity last year because there is not a separate source of funds available to pay for security-related construction projects. While this may have been justifiable for a year, it is not sustainable for the long-term if we prudently plan for future growth and manage current safety issues.

Congress has attempted to provide airports with at least some of the funding necessary to install EDS machines. The FY02 supplemental appropriations bill included $738 million for that purpose. Airports do not know how TSA has spent that $738 million to date, and we look forward to the results of the DOT Inspector General's review of the spending.

Even if the full $738 million were spent exactly as Congress intended, it still will not be enough to cover the costs of installing EDS machines behind the ticket counter and integrating them into baggage systems. Boeing estimates that this will cost $3 billion. Based on surveys conducted by ACI–NA, we think that cost could reach $5 billion.

I would like to stress that installing EDS machines behind the ticket counter is not for aesthetic purposes as some have suggested. At many of the 429 commercial service airports, TSA temporarily installed EDS machines in crowded airport lobbies in an effort to meet the December 31, 2002 deadline for screening all checked baggage. But keeping these EDS machines in airport lobbies rather than integrating them into baggage systems behind ticket counters has created numerous problems that go well beyond aesthetics.

DOT Inspector General Mead pointed out recently that the only way you can efficiently screen 100 percent of the baggage for explosives at large airports is by integrating EDS machines into baggage systems. Second, leaving EDS machines in airport lobbies results in less productive use of machines, requires more TSA staff to operate them and causes passengers to spend longer times at ticket counters, creating unnecessary security and safety risks. Airports around the world have many years of experience with the risks associated with the concentration of large numbers of people at the front of the terminal.

On a related issue, we must also strive to reduce the so-called "hassle factor" that is exacerbated when passengers are forced to wait in several queues at the ticket counter even before they even reach the security checkpoint and the airline gate. This may seem insignificant, but the "hassle factor" is just one more reason why some passengers have simply avoided flying altogether since September 11.

Reimburse Airports for New Security Requirements: In addition to new construction costs associated with installing EDS machines, airports are now paying for new operational security costs. After the terrorist attacks on September 11, the FAA and later the TSA required airports to deploy additional law enforcement personnel, enhance airport surveillance and revalidate all airport-issued identification. For the last two years, this has resulted in a 38 percent increase in airport operational security costs.

Congress authorized $1.5 billion in FY02 and FY03 to reimburse airports for these additional security mandates as part of the aviation security bill. Unfortunately, airports did not receive the necessary appropriations. As part of the FY02 Department of Defense appropriations bill, which included emergency funding for other agencies, Congress approved $175 million to reimburse airports for new security requirements. Airports, however, submitted approximately $445 million in requests that the FAA deemed acceptable leaving about a $270 million shortfall.

Congress approved an additional $150 million in the FY02 supplemental appropriations bill to reimburse airports for their operational costs. However, Congress designated those as contingent emergency funds, and the President ultimately decided not to spend $5.1 billion in the bill including the $150 million that was slated to go to airports.

Moreover, security costs are escalating again as airports respond to a higher threat level that has been in place since February 7. The orange threat level forces some airports to close parking, conduct more random vehicle searches and deploy more law enforcement officers. It is unclear how long the higher threat level will be in place; however, it could continue for some time especially if the United States goes to war with Iraq.

Since the previous authorization of $1.5 billion expires in FY03, we encourage this Committee, as part of the next FAA reauthorization, to authorize $500 million per year to reimburse airports for new security requirements, such as deploying additional law enforcement officers. These new security requirements are federal national security mandates, and airports should be reimbursed for the cost of implementing them. Without reimbursement from the Federal Government, airports will have no other choice than to pass those additional costs on to the array of airport users, including in large part, the airlines that are facing their own financial challenges.

Require FAA and TSA to Pay for Space the Agencies Use at Airports: The FY02 omnibus appropriations bill also includes a provision that requires FAA and TSA to pay for the space the agencies use at airports. It precludes the use of space at security checkpoints that airports provide to TSA without cost. With TSA deploying some 62,000 federal screeners at airports around the country, the agency has requested significant amounts of space at airports for employee training, office space, break rooms and other purposes. It is only fair that FAA and TSA—like other airport tenants who occupy space for which airports incur the cost of construction and maintenance—should be required to pay for the space they use. In addition, we share the DOT Inspector General's view that the new Department of Homeland Security should make every effort to consolidate airport facilities with other federal tenants.

We are pleased that the Administration's FY04 budget request includes a general provision that would require FAA to pay for the space the agency uses at airports. Although Congress has supported airports on this issue in the appropriations process, we encourage this Committee to include a provision in the next FAA reauthorization bill that will require FAA and TSA to pay for the space the agencies use at airports.

Allow Airports to Make Decisions About Parking: TSA has asserted that it has the authority to determine whether vehicles should be allowed to park within 300 feet of airport terminals. This issue of the "300 foot rule" has been a source of continuing friction between TSA, airports and the traveling public.

While TSA has made some improvements recently, we strongly believe that airports are able to make their own decisions about parking near their terminals after they consult with their Federal Security Directors and with other state and local law enforcement authorities. The Federal Government does not dictate to local governments on how they protect shopping malls, office buildings, schools, museums or sports stadiums. The non-aeronautical areas of airports should not be treated any differently.

Use New Technology to Enhance Security and Expedite the Processing of Passengers: Just a few days after the terrorist attacks, DOT Secretary Norman Mineta formed two teams to examine ways to improve airport and aircraft safety. The Rapid Response Team on Airport Security recommended that new technologies should be used at airports to identify passengers, workers and crews. The team also concluded that there is an urgent need to establish a nationwide program of voluntary pre-screening of passengers, together with the issuance of "smart" credentials to expedite the processing of passengers.

We cannot run an efficient public transportation system if we try to treat all 700 million passengers a year like potential terrorists. We need a voluntary system that allows frequent travelers to provide enough information on themselves, so government and industry can agree they belong in a "low-risk" pool.

The aviation security bill that Congress passed last year called on DOT to study options for improving positive identification for passengers including the use of biometrics and smart cards. We encourage this Committee to take additional steps toward deploying new technologies when it considers the next FAA reauthorization bill.

Allow Airports to Continue to Control Perimeter Security: Airports should continue to be responsible for maintaining perimeter security. Again, this relates to the proper relationship between airports and the Federal Government that I discussed at the beginning of my statement. Providing perimeter security is inherently an airport responsibility. We strongly encourage this Committee to ensure that airports continue to control the perimeter around their facilities.

Require TSA to Conduct Regulatory Burden Tests Like Other Federal Agencies: Airports understand that there are times when TSA must issue emergency directives that don't fall under the typical Federal Register process required of other federal agencies. Nevertheless, that does not justify TSA issuing operational directives that duplicate airport-center responsibilities. At the very least, TSA should have to spell out why they need to intrude on a traditional local government, airport responsibility and share proposed operational requirements with airport operators. Too often, representatives of airports have either not been briefed or given so little time to respond that it is clear that the input was pro-forma rather than designed for true interchange among partners.

Reimburse Airlines for New Security Costs: When he testified before the Senate Commerce Subcommittee on Aviation on February 12, James May, the new President and CEO of the Air Transport Association, argued that "Congress must establish and enforce an unalterable policy that aviation security is the responsibility of the Federal Government.'' Airports, too, agree that paying for this national security need should be the responsibility of the Federal Government. Airports have a symbiotic relationship with airlines, and we want the airlines to succeed. We hope that Congress will consider authorizing funds from the general treasury to reimburse carriers for their new security costs just as we are asking you to reimburse airports for our new capital and operational security costs.

Improve Air Service to Small Communities

Since Congress deregulated the airline industry in 1978, it has been difficult for many small communities to retain and attract new commercial air service. The terrorist attacks on September 11 and the downturn in the economy have made that challenge even more difficult. Airline passenger traffic has declined, and airlines responded by cutting capacity and service to less profitable small communities.

In March 2002, the GAO reported that the total number of daily departures from airports in small communities that it studied declined by almost 20 percent between October 2000 and October 2001. Moreover, the agency found that the number of small communities served by only one airline increased to 47 percent during the same time period. The GAO pointed out that when one or more airlines pulled out of some small communities, passengers lost connecting service destinations and became more vulnerable to noncompetitive pricing.

The DOT Inspector General also found that non-hub airports have been disproportionately losing access to large airports. According to the DOT Inspector General, direct service from non-hub airports in small communities to the largest 31 airports declined by approximately 17 percent between September 2000 and September 2002. By contrast, access from medium and large airports to the largest 31 airports declined by 5 to 10 percent during the same period.

Unfortunately for many small communities around the country, it doesn't appear that it will be any easier for them to attract new commercial air service any time soon. As I noted earlier in my testimony, two major airlines have already filed for bankruptcy and other airlines may not be far behind. This would likely place even more pressure on airlines to reduce capacity and cut service to small communities.

All sizes of airports have adversely affected by the economic downturn and by the terrorist attacks on September 11. But it is clear from reports issued by the GAO and DOT Inspector General that small communities have suffered greatly. The challenge for this Committee will be to preserve air service to small communities when it considers the next FAA reauthorization bill. AAAE and ACI–NA have a few recommendations on how to improve air service to small communities.

Expand the Small Community Air Service Development Pilot Program: On behalf of small airports around the country, AAAE and ACI–NA would like to thank the Members of this Committee for creating the Small Community Air Service Development Pilot Program in AIR–21. Although that program has been up and running for less than a year, we are confident that it will help improve air service to airports that suffer from infrequent service and high airfares as Congress intended.

As all of you know, AIR–21 authorized $20 million for the program in FY01 and $27.5 million in FY02 and FY03. After Congress appropriated $20 million for the program as part of the FY02 DOT Appropriations bill, DOT selected 40 communities from 38 states to participate in the program.

The program was extraordinarily successful, reflecting the pent-up demand for creative solutions. Unfortunately, however, 139 communities that applied for funds did not receive any. As we expected, the demand for grants far exceeded the $20 million that Congress appropriated for the program in the FY02 DOT appropriations bill. The fact that DOT received 179 proposals requesting more than $142 million underscores how much interest there is in this program.

Congress should be commended for appropriating another $20 million for the Small Community Air Service Development Pilot Program in the FY03 omnibus appropriations bill. However, given the number of communities that applied for funds from this program and the continuing reduction in air service to small communities, we urge this Committee to consider making a greater investment in the Small Community Air Service Development Program. We urge you to approve a major increase in funding for the Small Community Air Service Development Program that reflects current demand.

Maintain the Essential Air Service Program: The Essential Air Service (EAS) program is another program that has helped small communities for many years. Congress created the program in an effort to ensure that certain small communities would continue to receive commercial service after it deregulated the airline industry. The EAS program has suffered in recent years from irregular funding and at times unreliable service from carriers facing higher operating costs.

We encourage Congress to improve the Essential Air Service program rather than let it die on the vine as the Administration is proposing. The Administration's budget request includes only $50 million for the EAS program—$65 million less than the amount that Congress approved for the program as part of the FY03 omnibus appropriations bill. The President's request calls on local communities to provide up to a 25 percent matching share.

Like the Federal Government, state and local governments have been hard hit by the downturn in the economy and the attacks on September 11. Some communities simply do not have the resources to come up with the local match required under the Administration's proposal. With small communities being disproportionately hit by the industry's economic declines, now is the time to step up our efforts to help small communities—not abandon them and prevent people from having access to the air transportation system simply because the live in a small community. Access is one of the most vital ingredients of the public purposes served by our national aviation system.

Invest in the FAA's Contract Tower Program: Another program that has improved service and safety at airports in small communities is the FAA's Contract Tower Program. This program, which is endorsed by the DOT Inspector General, has been in place since 1982 and currently provides for the cost-effective operation of air traffic control towers at 219 smaller airports in 46 states.

With help from this Committee, AIR–21 created the Contract Tower Cost Share Program, which allows more than 30 airports that fall slightly below the eligibility criteria to participate in the program if they provide local funds. We recommend that this Committee authorize $8 million for the Contract Tower Cost Share Program per year to allow additional airports to participate in the program and improve air traffic safety at their facilities.

Prevent Future Delays by Increasing Aviation Capacity

Two years ago, the biggest issue facing the aviation industry seemed to be a combination of diminishing capacity and increasing number of flight delays and cancellations. In 2000, one in four flights were delayed, cancelled or diverted affecting some 163 million passengers. AAAE and ACI–NA responded by developing the Expedited Airport System Enhancement (EASE)—an initiative to expedite the review and approval process for projects that would enhance capacity and reduce delays at the nation's busiest airports.

For instance, we called for a coordinated federal review of critical national airport capacity enhancement projects and recommended that the list of categorical exclusions be expanded. We also suggested that airports should be allowed to provide funds to the FAA to hire additional, project-specific staff and consultants to expedite the review of critical capacity projects.

On behalf of airports around the country, we want to thank the Members of the Senate Commerce Committee for the significant progress you have made on project streamlining in the past two years. We would particularly like to thank Sen. Hutchison and Sen. Rockefeller for sponsoring S. 633, the Aviation Delay Prevention Act. And we thank the rest of the Senate Commerce Committee for approving this bill in 2001.

I commented earlier about the need to protect the roles and responsibilities of airports. With that in mind, we urge you to reconsider a provision in S. 633 that would prevent certain airports from receiving AIP funds and collecting new PFCs if they "decline to undertake expansion." This proposed penalty is unnecessary and wrongly suggests that airports somehow desire fewer runways, less capacity and more delays. Nothing could be further from the truth.

Airports around the country are exceptionally frustrated by the fact that it often takes them 10 to 15 years to construct a new runway, and that is why we are seeking legislative assistance. We hope that this Committee will revisit this unnecessary provision in the next FAA reauthorization bill.

Despite the welcome progress that this Committee has made in the past two years on project-streamlining, Congress was unable to send a bill to the President's desk before the 107th Congress adjourned. We hope Congress will pick up where it left off last year and pass a stand-alone, project-streamlining bill soon. If necessary, we encourage Members of this Committee to include project-streamlining provisions in the next FAA reauthorization bill.

Chairman Lott, Ranking Member Rockefeller and Members of the Senate Commerce Subcommittee on Aviation, thank you for inviting me to participate in today's hearing on airport financing. All of us at ACI–NA and AAAE look forward to working with you during the 108th Congress as you consider the next FAA reauthorization bill.

Senator LOTT. Thank you very much.

Senator Stevens, I believe, has another meeting he needs to go to, so I would like to yield to him.

Now, how is the Ted Stevens International Airport doing? Is security pretty good up there?

Senator STEVENS. I just left it, and it looks good.

Senator LOTT. Good, all right.

STATEMENT OF HON. TED STEVENS, U.S. SENATOR FROM ALASKA

Senator STEVENS. I am concerned about the President's recommendation—I approve it—to target medium and small airports in the AIP funding portion of the budget this year, but I wonder how realistic that is in view of the size of these terminals at the major airports.

As I travel around the country, I have the impression that there is a contest between architects to see who can build the highest ceilings and the most garish types of airports. Why are you all funding those enormous projects, in terms of the size of these terminals?

Ms. WOODWARD. Senator, terminal projects are not eligible for funding out of the AIP program. Many airports choose to use their passenger-facility-charge-generated money for those. But certainly airport improvement grants are not used at all for those terminals.

Senator STEVENS. Are they all funded by bonds, totally?

Ms. WOODWARD. From bonds, passenger facility charges, and the airlines contribute to some of the funding; it's a combination of funding.

Senator STEVENS. You are telling me that none of the money for those large monstrosities is coming out of the money that should be going to small- and medium-sized airports?

Ms. WOODWARD. Correct. AIP money cannot be used for terminal projects.

Mr. PLAVIN. Senator, I think it is also true that the kind of costs that you have been seeing associated with airport terminals is not typically a function of the architecture; it is simply a function of the space that needs to be provided, and they are costs that are typically negotiated with the local airport tenants to be sure that they, who are ultimately going to have to pay the bill for this, are satisfied with both what it looks like and what it can provide for them.

Senator STEVENS. All right, I stand corrected, but I do not know why they have to have 50-foot ceilings in those airports. It is still something—someone is paying for it.

Mr. PLAVIN. Well, the actual cost of the increased ceilings, I think we saw an example of that when we went to look at the buildings of the Washington National Airport. That was actually modified at the request of the airlines with that kind of a criticism in mind. And it turns out it did not really save an awful lot of money to bring that down. We do need the volume to accommodate the number of passengers who are actually being accommodated, and the passenger experience, I think, has become a very important part of what people are looking for when they travel.

Senator STEVENS. What do you think about the security program? As you mentioned, all three of you mentioned, we are really not dealing with that money here today. It is going through another department now, but it is going to be sizeable. I was in Nome recently, and I saw that the terminal there had been—a third of the terminal had been taken over by the security agency. They just moved the airlines aside and said, "We need space," and took it. That means that those airlines have to expand the space if they are going to continue to operate. So it does seem to me that the burden of that security program is put on the small- and medium-sized airports much more than the large airports. Have you all got a plan to figure out who is going to pay for that?

Mr. PLAVIN. Senator, the current situation does not show any Federal funding for any of those projects. That leads us to assume that the airports, once again, will have to identify the sources from within their own capabilities to fund those.

Admiral Loy suggested the last time he testified that he recognized that there was a wake that he had left as he had gone through the airports in installing the equipment necessary to meet the short-term deadlines. But I think we all agree that the long-term solution probably requires us to build new baggage capabilities somewhere behind the ticket counters so that we actually get the flow moving, so that we do not have to have the lines we have been experiencing.

And as you point out, the number of square feet that has been taken over by the need to actually screen some of those bags has been enormous. And it is not just confined to the small airports, although the small airports are the ones where it is most obvious. Fort Lauderdale, for example, reports that their lines, because they used to be in the terminal, have now actually extended outside into the roadway because of the amount of property that has been taken over, you know, for the screening purposes, and that is not atypical. That is rather common. So that—and TSA is aware of this, and they have been working with us.

Obviously, we are still trying to find the revenue, and that is one of the reasons we have been talking with them about either a letter-of-intent program or a memorandum-of-understanding program where the airports would step up and say, "We'll fund the long-term program, but we would hope that, subject to appropriation, obviously, over time, we could be reimbursed for some of those costs in the same way that we are today through the AIP's letter-of-intent program."

Senator STEVENS. Well, I come from a State where 75 percent of the travel between cities is by air. As a matter of fact, 75 percent of the cities can be reached only by air. And when you look at the small- and the medium-sized airports, they have got a much different burden today. The delays in those smaller airports are much greater than those in the larger airports throughout the—what I call the "megapolis centers" of the country. And I am very worried about how we are going to fund that. If you come into this part of the country, you can drive between cities, and there seems to be an increasing number of people taking that option. We do not have that option, and yet we seem to be at the low end of the totem pole as far as getting funding for these facilities that are demanded by the security systems.

I want to urge a review of the security systems at small airports. Intrastate security does not need to be the same as the interstate security, but today it is, and I think that is a burden on intrastate travel. So I hope we can find some way to review those costs and not put them so heavily upon the small- and medium-sized airports, particularly in States such as mine.

Thank you very much.

Senator LOTT. Thank you, Mr. Chairman. I am sure we will be talking to you further about some appropriations that might be needed on some of these issues.

Under the early-bird rule, Senator Sununu, we will be glad to take your questions or comments.

STATEMENT OF HON. JOHN E. SUNUNU, U.S. SENATOR FROM NEW HAMPSHIRE

Senator SUNUNU. Thank you, Mr. Chairman.

Mr. Plavin, you talked about the burden for the costs of a lot of these improvements and expenditures on infrastructure and the burden being carried by, I think you said the passengers and the shippers, and you tried to give a picture of how the burden was carried. But you did not really say whether that was appropriate or not.

Mr. PLAVIN. Well, I think——

Senator SUNUNU. Is——

Mr. PLAVIN.—that's a very fair question. From airport-specific point of view, since I represent airports, obviously I would like to see more of the burden picked up by the taxpayer, because it becomes increasingly difficult with the small number of players in our business to find the revenue in order to keep up with the——

Senator SUNUNU. Well, I think it is a pretty fair assumption, though, that those that are flying on airplanes, are taxpayers; those that are buying the products that are shipped on airfreight and incur the costs of airfreight, those consumers are taxpayers. So I think you should qualify that. You are suggesting it should be paid by those taxpayers that are not necessarily flying as much as the taxpayers who are flying and buying products that were shipped by air.

Mr. PLAVIN. I guess this is a sort of a classic political call and probably above my pay grade, but——

Senator SUNUNU. Well, no, it——

Mr. PLAVIN.—my sense is exactly that.

Senator SUNUNU.—it's a practical recommendation.

Mr. PLAVIN. My sense is exactly that, in fact, the taxpayers, generally, even those who do not fly, get a significant benefit out of the system. They get the benefit of having their packages delivered to home, they get the benefit——

Senator SUNUNU. But the costs incurred——

Mr. PLAVIN.—of people being able to travel.

Senator SUNUNU.—by the shippers who are using the air and whatever security that warrants, whatever the freight costs including transit, fuel, security, and overhead, it is incorporated into the cost of the product, is it not?

Mr. PLAVIN. Oh, I think that is right. And I think that the point is that at the——

Senator SUNUNU. So who is benefitting from the air system and not paying for it?

Mr. PLAVIN. I think that there are general public examples, like, for example, those people who use the roadways which would otherwise be used by people who are now flying airplanes. There are people who use the railroads, for example, or could use the railroads, who are now flying airplanes. I think there are a lot of opportunities——

Senator SUNUNU. That is good for the air industry.

Mr. PLAVIN. Well, it may or may not be good for the air industry.

Senator SUNUNU. Well, if they are paying their PFCs and their airline ticket tax, I assume it is good for infrastructure construction.

Mr. PLAVIN. I guess my sense of it is that a strong aviation system has been demonstrated to be good for the broader economy, that, as Senator Stevens pointed out, there are some parts of the country where the economy literally cannot function without a strong aviation system. And I think, generally speaking, since the passenger pays for virtually everything in the system right now, my argument would be that I think the general taxpayer probably ought to pick up some portion of the burden, especially if we are talking about national security kinds of issues, that those kinds of things are not problems only for people in the—who are on the airplanes, as we, unfortunately, saw on 9/11.

Senator SUNUNU. I agree wholeheartedly that it is important to our economy, and that is why we have supported it in the past, and that is why we will continue to support it, but it does seem to me that the costs that are borne by those that benefit from the system right now seem appropriate. What I am trying to get at is whether or not you are recommending a significant change from the current burden-sharing. And to be sure, those—what you refer to as taxpayers, but, you know, you might describe more as those that do not utilize the air transportation system right now, they are picking up a share. They are—in the AIP program, whether it's $2 billion or $3 billion.

And you, I can understand, are advocating for a bigger investment in AIP. We are going to do the reauthorization and I have a sneaking suspicion, a sneaking suspicion, in the new authorization bill, there will be more set aside for AIP than in the old authorization bill, but I do not want to go too far afield.

Mr. PLAVIN. Senator, the AIP program——

Senator SUNUNU. So, but——

Mr. PLAVIN.—is actually——

Senator SUNUNU.—but the——

Mr. PLAVIN.—funded by the passengers, as well, because the ticket tax that you pay on your ticket goes into the trust fund, which is the source of the AIP funds. That was really the point I was trying to make.

Senator SUNUNU. Okay. So those—you do not consider them to be the taxpayers—at least you use that phrase generally. You are talking about non–AIP now——

Mr. PLAVIN. Right.

Senator SUNUNU.—general fund, income taxes, find yet another source of revenue for AIP or other infrastructure. Okay. Thank you for clarifying there.

My other question may be a little bit more of a criticism, and I hope I do not hurt anyone's feeling here, but, Mr. Dillingham, you went through a presentation where you talked about the funding gap based on the perceived needs. I think the numbers came from ACI, right? The $15 billion number, although I add 9 and 5.7, and I get $14.7 billion, not $15 billion on your first chart. But I do not want to quibble over a mere $300 million.

But that is the—certainly not—so that is the anticipated need. Now, then you show, sort of a, sources or current levels, and you show an average funding level of $11.8 billion. Now, it seems to me that we are looking out toward anticipated needs in the future, and you are looking at an average funding level from 1999 to 2001. And you have got AIP grants of $2.4 billion in your summary total of $11.8 billion. But that does not seem to me to really reflect the current level of AIP or even a reasonable projection of AIP. What was the AIP funding for 2002, the actual for 2002 or the estimate for 2003?

Dr. DILLINGHAM. Senator Sununu, I think, at least I meant to say, "about" 15 billion. I was not trying to be exact.

Senator SUNUNU. Sure.

Dr. DILLINGHAM. The figures that we used represented an average—a three-year average.

And with respect to the specific question that you asked, I think AIP was around $3.4 billion. We used figures where we could get all the information, including for bonds as well, so we would have a complete picture. If, in fact, we had used the 2002 AIP, we would still have a gap. The gap would be smaller. Instead of 27 percent for smaller airports, I think our calculations were that the gap would be about 12 percent. It would be about 17 percent for large- and medium-hubs airports.

Senator SUNUNU. Thank you. And I think that is important. I understand there are still going to be needs, but we, as policymakers, are trying to make the best decisions we can based on the best information we have. And if, based on current appropriations and PFCs in the AIP program, you know, there is a gap of 12 percent versus 27 percent, that is a pretty big difference. Now, I have no fundamental issue with rounding 14.7 to 15, but I do think there is a big difference between a 12 percent funding gap and a 27 percent funding gap. Both are important, both are significant, but we may undertake some very different policy approaches to deal with it.

I think the passenger charge that you have, the average PFC, again, it was projected before we raised the ceiling up to $450 million. So PFCs right now, I think, are running about 2 billion, maybe even a little bit more than 2 billion, as opposed to 1.6 billion. You add up these differences, and I think that is how you get from a gap of 27 percent down to a gap of 12 percent.

Now, again, that is not insignificant, but we are trying to make good decisions here based on the best information available, and it just seems to me that taking 1999 and 2000 and averaging that and then comparing that to what you think we might need or want in 2002 or 2003 or 2006, that is really not the best data or the best information available.

In particular, a final point, is that all of this data comes from pre-September-11th. And things have fundamentally changed—in some good ways, in terms of funding and addressing security issues, and some very bad ways, in terms of the costs that we are incurring.

So I just did not find the, sort of, the funding comparison that you made especially helpful in looking forward and trying to address, as a policymaker, our future needs. I understand you were working with whatever information you had available, but I think it is a concern. I think we need to have information that more accurately reflects the current state of the program.

It is an important program. I very much agree with some of the thoughts expressed by Senator Stevens, where, you know, we need to make sure that we have got the right balance for the large airports and the smaller airports. And I hope and I believe we are going to have the leadership necessary to address that this year.

One final question, and I know you have been more than generous. There was some talk about the PFCs, flexibility on the PFCs, and I think that is something of real interest, what kind of requirements do we put on AIP or PFCs. What would you change, any of the panelists, if you were to add more flexibility to what the PFCs could be used for? What do you want to use them for that we do not allow you to use them for right now?

Mr. PLAVIN. Well, specifically, I think both AIP and PFC have limitations on how they can be used for things where there is revenue associated with it. So for parking, for certain kinds of terminal projects, for cargo buildings, all of those kinds of things are specifically precluded. They are general lawful airport purposes under the statute, but you are not allowed to use the PFCs or the AIP for a lot of those, and there are very significant restrictions on how you actually use them, what kind of process you use, what kind of contracting you use, what kind of procurement or solicitation you use, as well.

Senator SUNUNU. Parking garages, concessions, and—within terminals?

Mr. PLAVIN. As examples, yes.

Senator SUNUNU. Okay, thank you.

Thank you, Mr. Chairman.

Senator LOTT. I will recognize the ranking member of the Subcommittee, Senator Rockefeller.

STATEMENT OF HON. JOHN D. ROCKEFELLER IV, U.S. SENATOR FROM WEST VIRGINIA

Senator ROCKEFELLER. Thank you, Mr. Chairman.

I would just ask, I guess, Ms. Woodward, when you're thinking about the hub-and-spoke system—there has been some talk recently that that is going to disappear. I am not one of those people who believe that. I think it is here to stay and it is inevitable, it is inexorable. So when you come down to it, and you have indicated in your testimony you have passengers who are traveling somewhat less and their incomes are not doing very well; you have airlines that are traveling somewhat less, and their incomes are not doing very well; and you have a Federal budget deficit—this is all pre- whatever might happen in Iraq and rebuilding Afghanistan and the war against terrorism. With that as a background, understanding that there are not any easy ways out, I would just be interested, philosophically—do not be thrown off by this—how you look upon the role of the small airport where people are utterly dependent on it, not as dramatically as Senator Stevens, you know, where there is just no other way, but where, in effect, if you do not have a good airport, you are probably going to dry up as a State eventually, particularly if the next 10 or 15 years are as difficult as I think they are going to be.

So how do you, when you are talking about O'Hare, for example, or LaGuardia, and then you get to a place like Charleston or, you know—what happens in your head when you think about a small airport in a rural area where people have no other choice and a large airport in an urban area where they may, in fact, have another choice but there are more people? How do you balance that?

Ms. WOODWARD. I think that is a good discussion to have, too, as we approach reauthorization, because you do have small areas where airports are great economic drivers. Not only are they important to transport people in and out of those communities; but for the communities themselves, they are important economic drivers.

So first, as we look at reauthorization, we will make some proposals that are very specific, namely at ways in which we can maintain, through the formula grants, the money that the larger airports need. But we keep in mind, too, as these airports increase PFCs or collect PFCs, part of their AIP monies goes back to the pot of money to be doled out to the smaller airports. So that gives us some flexibility, and that is what we look for.

Two, we are going to look at ways, through formula changes, to increase the funding, the percentage of funding, going to those smaller airports, because we do believe that smaller airports provide unique service and unique abilities for those areas to continue to grow. So we will continue to do that.

I think also if we do, as we are going to propose, increase the discretionary money that we have, we will be able to target money to the larger projects that need to be funded, but also find that right balance to give money to the smaller airports that are critical to their communities.

Senator ROCKEFELLER. But isn't that really too comfortable an answer for you? I mean, it rolls off nicely, and I have no reason not to trust you completely, but we are in an era, I think, maybe for the next 20 years, where there is going to be absolutely brutal competition between airlines that say they can't and they have got a good case; passengers who say they can't, and they have got a good case; local folks who say they cannot, they have a good case; the Federal Government will say they can't, they have a good case. So then, philosophically, you are left with, "I guess we just can't do it." Now, you used the word—I think it was on the AIP program—about "restructuring." And that is one of those words that always makes me very, very nervous, you know, because it does not necessarily bode well for the Huntington or Charleston or Elkins, West Virginia. Essential air services have been cut and a lot of things have been cut. So I want to press you further on that.

Ms. WOODWARD. I think there are a couple of things. One, there has been funding, thanks to the Congress, in the last two years, for the small community service program, which is operated—at $20 million—it's operated by DOT to help focus attention on smaller communities that need service and to find ways to entice airlines to come there.

I think when you mentioned in your earlier comments about looking at the hub system, I think you are seeing the airlines behave differently. You are seeing de-peaking, you are seeing flying some direct service to airports they have not flown to before. For example, I go down to South Georgia, where I grew up, to visit my parents about once a month, and I used to have to go through Atlanta or Charlotte to go to Jacksonville, where I fly. And now Delta has a non-stop flight from National to Jacksonville, which makes travel much easier. So I think you are seeing behaviors by the airlines themselves that are spreading out some of that traffic.

Maybe I do sound too comfortable, but I am optimistic that this will continue and that we will not see a battle of the large versus the small. We will see more of an evening out of where the airlines will go. Maybe I am overly optimistic.

Senator ROCKEFELLER. Where does O'Hare stand?

Ms. WOODWARD. We are in the process—the airport has submitted an airport layout plan that we are currently reviewing in our Great Lakes region. We are just beginning the environmental assessment process. And they have submitted a PFC application for funding some of the work for the environmental process. So we are just beginning a very long journey with that project, I think.

Senator ROCKEFELLER. Mr. Plavin, maybe I could ask you, when you think of rural airports, and Senator Lott and I surely specialize in those, how do you think of that in the realistic national priority budget allocation mix——

Mr. PLAVIN. I——

Senator ROCKEFELLER.—in what are going to be obviously budget years? How do you really look at small rural airports?

Mr. PLAVIN. I would say that airports look at the national system of 4,000 or 5,000 airports as a system, so that—I mean, because the large airports need the small airports, as well. I mean, that is—they get passengers from those. Their interactions with those are part of what the large airports see as their function in "the system."

In my mind, I think what the means is that you recognize that the small airports probably cannot survive without significant kinds of aid out of the national system, particularly an AIP-type system. PFCs do not help a lot, because they do not have a lot of passengers to generate a lot of PFC money. So again we are looking primarily at AIP.

My perspective suggests that what that means is that you wind up letting the airports of all sizes do what they can do. So the large airports have some ability to do some things outside the Federal program. My argument would be, we ought to let them do it. We ought to give them more operational freedom, more financial freedom. Right now, they are very heavily constrained by Federal policy and law about——

Senator ROCKEFELLER. Would it be——

Mr. PLAVIN.—how they can charge, what they can——

Senator ROCKEFELLER.—would it be your view, therefore, that security funds should not come out of the AIP program?

Mr. PLAVIN. Yes, absolutely. In my view—I think we have articulated this a number of times—is as a national security matter, it really should not come out of the base that we now desperately need both to let the small airports operate it and to let the system renew itself and expand to meet capacity.

Senator ROCKEFELLER. Thank you, Mr. Chairman.

Senator LOTT. Thank you again for the testimony from all three of you.

Ms. Woodward, I have asked others from the Administration as to when we might expect the Administration's proposal so that we could consider that before we begin fully developing the legislation that we hope to move. As I look at the calendar for, really, the next 18 months, I can see that we are going to have a logjam later on this year and next year. And I also think that there is an urgency about this need for this reauthorization and things, hopefully some improvements we can include in that legislation. And therefore, we are hoping that we can move forward in March and hopefully have this on the floor before the end of May.

Senator LOTT. So when can we expect to receive the Administration's proposal?

Ms. WOODWARD. Senator, like you, we are anxious to get it out there, too, because we think there are some critical issues that need to be addressed. The word that we have is that we are shooting to have the bill up to you sometime in March, as you indicated.

Senator LOTT. Please do not delay too much, because I would be of a disposition to go forward without you——

Ms. WOODWARD. We will get it here.

Senator LOTT.—if you wait too long, because we need to get it done, and if we do not get in the front of the line, we are going to get squeezed out later on in the year. So it is not a threat, other than just we need to get this moving.

Let's see here. Dr. Dillingham, some parts of the airline industry have recommended a tax holiday, or—if there is war, for instance, they are going to be coming in right away to seek some relief, and that would be one of their proposals. And of course, that goes in the Aviation Trust Fund. Have you evaluated what effect that would have on FAA's program, such as the Airport Improvement Program?

Dr. DILLINGHAM. Mr. Chairman, we have not evaluated that issue, but I can reflect back to 1996/1997, when there was, sort of, a tax holiday. That is, the taxes were not reauthorized. And at that point in time, we were beginning to see capital improvement projects being delayed and postponed.

We have a request from your Committee to look at the effects of a tax holiday. There are so many factors that need to be considered. For example, how long would this tax holiday be?

Senator LOTT. When you——

Dr. DILLINGHAM. And what taxes would we be talking about? I mean, there are just a lot of factors that go into this to see the effect, and we hope to be able to provide you that information.

Senator LOTT. Well, that would be very helpful, and I hope you will move forward on that, because we may be faced with a decision on that also within the next month or two, and it would be very helpful if we had that information.

As you know, more than 560 million in AIP funds were used for security-related expenses in fiscal year 2002, up from only 57 million the previous year. And recently, TSA Under Secretary of the new Homeland Security Department testified that TSA would like to have, quote, "one more bite at the apple" in fiscal year 2003 to use AIP for high-priority projects. Frankly, I do not like that idea. I think we are undermining the AIP program for security costs.

Now, when you add to that, perhaps, the further limitation, high-priority security projects, maybe that is a different thing. We gave them a tough task, and they had to do it quickly, within a prescribed period of time, and I think they have done a pretty good job. Of course, they also have exceeded the money that they were allocated, and I think that maybe they in some respects gold-plated some of the things that they have done in terms of how much space they have taken over, how much money the spend, how many people they employed, and all of that. But I just think that there is a real problem with another big bite out of AIP funds for security. How do you react to that?

Dr. DILLINGHAM. We reported that, of course, there was an 800 percent increase last year on security funding. When we did our analysis, FAA indicated that they could probably provide one more allocation of money for security out of AIP without hurting funding for capacity projects. We did see some indirect effects on capacity projects. FAA says that they were able to fund their safety and security and other kinds of capacity projects, but that money that went to security also created a situation where some LOIs for airports were delayed. It also meant that there was about $140 million reduction in reconstruction projects that were not funded, and another $156 million reduction in standards projects.

Senator LOTT. If you would, what kind of environmental projects were not funded?

Dr. DILLINGHAM. Reconstruction projects, which, as you know, included fixing taxiways and runways and things like that.

So indirectly, there was an impact on capacity when with the money that was used for security could have been used for some of those capacity projects.

Senator LOTT. Over a two-year period, if you take over a billion dollars out of any program, it is going to have an impact, I would think.

How do you respond to that same question, Ms. Woodward?

Ms. WOODWARD. I agree with Mr. Dillingham. $561 million out of the program last year was a sizeable chunk. We survived because we have what we call "carryover money," which is money that airports have been allocated and they were not able to use it and they turn it back to us. So we had a "windfall" of carryover money at the end of the year, which helped us fund the security projects and still get to some of the other projects. But that will catch up with us in the end.

We have been talking with the TSA about working with them this year, and have been very clear with them that this year is it, in terms of how long we think we could tolerate this kind of bite out of the AIP. Because as you say, the AIP was not intended for that. It was intended for capacity, safety, and security projects, but, quite frankly, we all know, for more capital projects like capacity and safety.

So, as Mr. Dillingham said, we are taking the hit in some of the reconstruction projects or rehab projects the airports have planned over the years. They could probably put those off for maybe a year or so, but we cannot do that over the long haul.

Senator LOTT. Mr. Plavin, the same question.

Mr. PLAVIN. I think both Dr. Dillingham and Ms. Woodward are right, but I think there is another dimension, as well. And that is that to the extent that there were high-priority projects that would have been funded with AIP, and there were, obviously, some of those, what also happens is that the airports have to go out and borrow in the markets for additional kinds of revenue to do the kinds of things they might otherwise have used AIP money to pay for. So there is an additional cost to the system of having more indebtedness laid on it, which, of course, then raises the charges even further to those folks who are paying for the debt service.

Senator LOTT. I guess I take a little different position than I think Senator Sununu was taking. I really think State and local governments ought to bear more of the costs of airport activities. I am from a State that has been aggressively pursuing economic development. You know, we have got a Nissan plant coming in, $1.5 billion investment for the State, made a substantial investment of money, commitment, and funds from other sources that help bring that in because of the jobs. Well, a lot of these communities, a regional airport, let alone an international airport, it has a huge impact economically, and I just have a problem with the Federal Government building access roads and parking lots. I really kind of think that it is a jobs program, and the States only come up with 4 percent, State and local. I really think maybe they ought to bear a little bit more of the burden. And I am from a State that is very poor. But if you are going to get the benefit economically, you ought to put a little bit more money in there.

How do you react to that?

Mr. PLAVIN. Senator, I think in some respects the aggregation of the numbers in the GAO report, sort of, hides the fact that at smaller airports, airports smaller than, let's say, medium-hub airports, it is not at all unusual today for State and local governments to put in a sizeable amount of money in the smaller regional airports, particularly. That 4 percent, remember, is 4 percent of a total that includes all of the large airports, and those folks are probably 75 percent of the total. If you take them out, I would be real surprised if we were not talking about a much higher percentage at the smaller airports today.

Senator LOTT. Maybe I should ask you this, but I may have to come back to Dr. Dillingham, too. This average annual plan development, FAA talking 9 billion, you are talking 15 billion, what is the big difference?

Mr. PLAVIN. I think the biggest—well, first of all, the FAA number is the—what Woodie referred to as the NPIAS. That's the AIP-eligible program. There is a sizeable number of projects that airports do that are not eligible for AIP—certain kinds of terminal work, certain kinds of cargo buildings, for example, certain kinds of parking structures, for example—they are not eligible for AIP, but they are things that need to be done under any circumstances that we need to find the revenue for.

Senator LOTT. Ms. Woodward, you seem to be wanting to respond to that.

Ms. WOODWARD. I just wanted to point out what Mr. Plavin just pointed out, which is that our figure represents the Federal eligibility, those projects that are eligible for Federal funds. Their numbers represent projects above and beyond that.

Senator LOTT. All right. Well, while I have got you, Ms. Woodward, under the AIR–21, FAA was authorized to continue its innovative finance demonstration program, which gets to what Mr. Plavin was talking about a little bit, other ways, other ideas of how we can get revenue into these airport needs. And under the program, FAA enabled airports to leverage additional funds or lower development costs by permitting flexible local matching of some projects, purchasing commercial bond insurance, paying interest costs on debt, and paying principal and interest debt service on terminal development costs. What have been the results of that program?

Ms. WOODWARD. It has had very good results. We have had a number of airports that have taken advantage of this, and it has really been to their benefit. Louisville, Kentucky, comes to mind as one that was particularly strong. It has been a very good program, and I would anticipate that it would continue, because it is a very successful program.

Senator LOTT. I have not been in enough airports yet, and I want to get around to all different sizes, and I do acknowledge that in some of these airports, the baggage checking things are right out there in the lobby. But when you are dealing with security and a terrorist threat, aesthetics are not your main consideration, or even a little inconvenience. And I do think that airline passengers have been very tolerant and patient with the things we have had to do the last couple of years. But I just do not feel an overwhelming urge to add a lot more money to move those machines underground or behind the ticket counter just for appearance sake.

Now, in some airports, you suggested the smaller airports, you know, it may be a real problem. You do not have enough space. I think maybe TSA has grabbed off too much space and should be pushed back, too. I am not after TSA. I think they have done a good job of what they were told to do. But I think now we have got to evaluate how much is enough and how much space you really need and how much did you take that really you don't need. And I am not—I just do not get all that excited about moving those things.

For instance, I understand at one airport that I did visit, Lexington Airport, they put in these new conveyor belts that you put the baggage on the conveyer belts and if there is a problem, it throws the luggage off to the side. Now, they have got modern computers that show different color codes when there is a potential problem. The manager told me, there, that the money they are saving on manpower and other costs actually is going to pay for the system in two years. And they have been aggressive and innovative. It is modern at a pretty small regional airport. So why can't more of that be done?

Mr. PLAVIN. I think that is exactly where we believe we should be going. I think Lexington's a model of what we think a well-functioning system should look like. Our concern, frankly, has almost nothing to do with aesthetics. Rather, I think the concern is that in those places where we are so congested in the front of the terminal, we believe that is a safety and security issue in and of itself. And I think the Lexington model is one that, frankly, we would like to see as one for airports of all sizes. And the particular problem of having that many people aggregated in the front of the terminal in a kind of an uncontrolled fashion, I think gives us some real problems on an operating basis. Not to mention the fact that what we have got now is grossly inefficient. The ability, as you pointed out, to save the kind of money that you can save by automating the system is a remarkable improvement in what it will cost on an annual basis, and we think that not putting that kind of long-range solution in place is going to be not only a safety and security problem, but very expensive, to boot.

Senator LOTT. Okay. Mr. Plavin, you also indicated that it would be helpful if we could eliminate—I am not sure whether you said some paperwork or some bureaucracy, probably both, in the process of getting AIP funds. I do not know if I want you to necessarily give specificity now, but if you could get that information to us for the record so we could get it to FAA or if we need to do anything legislatively to help make sure that actually happens, we would like to do that.

Mr. PLAVIN. Yeah, we have it in our written testimony, Senator.

Senator LOTT. Do you? Okay.

Senator Rockefeller, do you have more questions?

Senator ROCKEFELLER. Just one.

First of all, I would like to put my opening statement in the record, Mr. Chairman.

Senator LOTT. Without objection. Yes, sir.

[The prepared statement of Senator Rockefeller follows:]

PREPARED STATEMENT OF JOHN D. ROCKEFELLER IV, U.S. SENATOR FROM WEST VIRGINIA

Thank you, Mr. Chairman, for convening this morning's hearing.

I would like to reiterate a sentiment expressed by Chairman McCain at a hearing recently: it is *imperative* that the Administration present its FAA reauthorization proposal as soon as possible.

FAA reauthorization is a top priority in the 108th Congress, and we will have to begin crafting a bill soon. I think everyone agrees that it would be preferable to have the Administration's proposal in-hand before legislation begins to move.

A blueprint from the Administration is particularly important this year because of the very difficult problems we are confronting.

By all accounts, there will be at least a $3 billion shortfall in aviation security funding next year. And there are no good options for making up those funds.

In 2002 we spent $561 million of Airport Improvement Program funds for security related projects. That is more than ten times the $56 million of AIP funds spent on security in the preceding year.

While I acknowledge the extenuating circumstances that necessitated the spending of AIP funds on security related items, I am wary of making that a long-term practice.

Over the next several years, it is essential that we continue to make progress in increasing capacity.

Therefore, perhaps our principal challenge in reauthorizing the FAA will be ensuring that there is sufficient funding for airport security *without threatening long-term airport expansion*.

One of the ways we can facilitate airport expansion is by revisiting legislation I co-sponsored last year entitled the Aviation Delay Prevention Act.

That bill, which passed out of this Committee by voice vote, seeks to address delay problems by requiring the FAA to expedite and streamline the airport construction process. I continue to believe that this is a meritorious proposal, and I hope the Committee will consider it again this year.

In the budget that the President recently submitted, however, AIP funds are flat-lined, Essential Air Service dollars are cut, and no funds are requested for the Small Community Air Service Development Program.

All of this leads me to wonder what the Administration's plans are for airport improvement in general and for small community air service in particular.

As I've said many times, I believe that decent air service is vital to job creation, economic growth and quality of life in rural communities.

There is no question but that our nation is currently facing a number of daunting challenges, both at home and abroad. Nevertheless, it would be ill-advised to threaten the future economic health of our small and rural communities by failing to invest in air service for them now.

I will not accept a bifurcated system wherein only large urban areas have commercial air service.

Mr. Chairman, it is my hope that the Administration will not keep us guessing for very much longer. I look forward to receiving its proposal for FAA reauthorization and to working with you and the rest of the Committee to get a bill passed quickly.

Thank you, Mr. Chairman. I look forward to hearing from Our witnesses.

Senator ROCKEFELLER. I would also like to, all three of you, to tell me how wonderful you think the Aviation Delay Prevention Act is.

Senator LOTT. Is that your bill?

Senator ROCKEFELLER. Yeah.

[Laughter.]

Ms. WOODWARD. It is wonderful.

[Laughter.]

Senator ROCKEFELLER. Now, you know what it does, right?

Mr. PLAVIN. Yes.

Dr. DILLINGHAM. I agree, it's wonderful.

Senator ROCKEFELLER. Okay, that is—I just need that for the record, Mr. Chairman.

[Laughter.]

Senator ROCKEFELLER. Kay Bailey and I did that one.

And the final thing is that AIP—I see AIP in a very special light, because I have watched our airports in West Virginia. And when the AIP came on the scene, it was like all of a sudden they began to change their mentality. And actually, we started to learn this when some of us went down and looked at the Shenandoah Airport, which obviously, is in Virginia, it's a very small catchment area, but they have done a superb job in marketing the airport, which is their money, and having success. We used to have a rather large percentage of our people drive to Cincinnati or Columbus to get on a cheaper airport, a jet, not a propeller. That has now almost been eliminated out of our major cities, because the airports are marketing themselves. They do not see themselves as static pieces of runway and infrastructure. They have to reach out to the public and pull the public in and tell them that they are getting a good deal.

In that context, would you just give me a quick summation of how you think regional jets, which, more than anything, take a rural State, like Mississippi and West Virginia, and give passengers and businesspeople who are looking at expanding and investing a whole new view.

A regional jet is a class act. I am not saying that the things that takes me three days to get my spine straightened out are not good, but we will take what we can get. I have to get to Washington. But a regional jet is an unbelievably important psychological lift, just as AIP was. What is the status of regional jets? What is going on now with them?

Mr. PLAVIN. The airlines have made a significant number of commitments to regional jets. In fact, a huge proportion of the aircraft that they are buying these days are regional jets. One of the things that is obviously a limitation from the airline's point of view is they still have to deal with the various contractual scope clauses that they have with their pilots that determine how many regional jets they will actually be allowed to fly and in what kind of markets.

Senator ROCKEFELLER. Isn't there a backlog on orders?

Mr. PLAVIN. There is absolutely a backlog in orders.

Senator ROCKEFELLER. Now, how do you describe that backlog in such a compressed economic situation?

Mr. PLAVIN. I think what it reflects is the fact that the number of passengers has fallen off significantly in the system as a whole. We are down probably 10 to 15 percent on the passenger side. We are actually no longer able to compete, or the airlines are no longer able to compete, simply by putting more seats in the market. So what they have been doing is reducing the number of seats in some of the major markets and actually adding frequencies to make that number up, which is why I made the point before that for large airports, regional jets can be something of a problem, because they are now back to the number of aircraft movements or closer to the number of aircraft movements they were at before, but with a lot few seats in the market. Now, the airlines hope that that will force the fares up to a level that is economic. That is obviously an issue for them.

For the smaller airports, you are really on the exact reverse side of the coin. A new system, higher level of service, larger number of seats per takeoff and landing, but the problem is they still have to have a place to land at the other end of their trip. And that is the kind of balance that I think for a long time we have tried to figure out how to accommodate, being sure that there is access to the larger airports from the smaller communities and, at the same time, not allow the congestion levels at those larger airports to resume with so many fewer seats for capacity.

Senator ROCKEFELLER. Mr. Chairman, I thank all of our witnesses, and I thank you.

Senator LOTT. I thank the witnesses for your time and for your testimony, and we look forward to working with you as we develop the legislation this year.

The Subcommittee is adjourned.

[Whereupon, at 10:50 a.m., the hearing was adjourned.]

A P P E N D I X

PREPARED STATEMENT OF HON. ERNEST F. HOLLINGS,
U.S. SENATOR FROM SOUTH CAROLINA

Good Morning. Today's hearing provides a valuable opportunity for the Commerce Committee to assess the outlook for airports in the U.S., and the impact that their needs and the Airport Improvement Program (AIP) will have on the pending reauthorization of the Federal Aviation Administration (FAA). The world has changed greatly since Congress last considered FAA reauthorization during the 106th Congress, and these changes have had a particularly dramatic effect on the nation's aviation industry. The terrorist attacks of September 11, 2001, coupled with the slumping American economy, have put our airlines in their worst financial shape ever. As a result, we are faced with increased competition for dwindling federal funds while the national debt has begun to grow again. It is under these difficult conditions that we must move forward with the crafting of legislation that continues to make progress on the safety, security, efficiency and the environmental friendliness of our nation's air transportation system.

While the aftermath of September 11, 2001, has presented a monumental challenge to all facets of aviation, the decline in passenger traffic has provided an opening for us to reassess the industry as a whole. Congress has already acted to institute a major overhaul of the aviation security system, and now, we have an opportunity to ensure the safety and efficiency of the national airport system until the demand for air travel resurfaces. With the need for reauthorization of the FAA's programs, we should take a close look at the estimated costs of planned capital development at airports in the U.S. and the availability of funding to cover these costs. It is essential that Congress provide balanced AIP funding that will best meet the needs of all Americans that seek the benefits of using our air transportation system.

Safety and security considerations must remain paramount to our thinking, and we must continue to develop approaches that ensure we do not shortchange the traveling public on these two fronts. It will not be easy. Department of Transportation Inspector General (DOT IG) Ken Mead recently testified before this Committee that the costs of making necessary modifications to the nation's airportsfor the implementation of Explosive Detection Systems (EDS) at all commercial facilities could cost as much as $3 billion. Last year, the AIP was tapped to cover a significant piece of the security costs, and the FAA did an admirable job of making these security needs fit into their budget framework. In the future, using the AIP to fund major security costs must be carefully considered to ensure that we do not pay for security upgrades at the expense of safety needs or the viability of the system.

Prior to September 11, 2001, our focus was centered on improving capacity, and concerns over future demand will again become an issue as our security needs are more completely addressed. The FAA's Terminal Area Forecast maintains that enplanements in the U.S. are expected to increase by roughly 50 percent over the next decade, with as many as 1 billion passenger boardings annually by 2013. We must be prepared for this increase by planning and making the necessary facility upgrades now. Investing in our Air Traffic Control (ATC) system, and adding runways will provide a needed boost for our National Airspace System (NAS) as the system continues to grow.

There have been numerous suggestions for improving the current system of funding our airports and each of these will have to be carefully considered. I believe the Aviation Investment and Reform Act for the 21st Century (AIR–21) served us extremely well during a very difficult period, and we should recognize that. Congress has to accept the need for further progress and fully fund the Airport Improvement Program (AIP) at levels above and beyond the last FAA reauthorization bill, but any sweeping changes to AIP or other matters under the reauthorization proposal should be cautiously studied before taking action. For example, requirements for certain airports to file competition plans with DOT before receiving AIP funding or collecting new PFCs have been questioned as a burden by some, but many in Congress and the Administration feel this mandate has served a valuable purpose by providing useful information about key facilities where questions of accountability had been raised. Larger plans to vastly restructure the airport grant process also raise concerns, and we must make certain that they will improve the entire system and not be detrimental to safety before proceeding.

We have an opportunity to move into the 21st Century with legislation that can make a tremendous difference to the future of our nation's air transportation system. I know that the Chairman is anxious to get us all moving, so let the debate begin and let us move forward expeditiously in order to fund these critically important programs.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. JOHN MCCAIN TO GERALD L. DILLINGHAM

Question 1. Some parts of the airline industry have recommended a "tax holiday" for taxes they pay into the aviation trust fund. What would be the effect of such a "holiday" on the FAA's programs—especially the Airport Improvement Program?

Answer. The impact of a tax holiday on FAA's ability to continue to fund its programs would vary depending on the type of tax that would be suspended. For example, suspending all of the taxes accruing to the Trust Fund for a year would require (1) suspension of accounts related to the Airport Improvement Program, Facilities and Equipment, and Research and Engineering Development from September 2003 through April 2004, (2) create significant termination costs, and (3) require additional general fund support to keep air traffic control system functioning. In contrast, suspending the fuel tax or cargo waybill tax would have the least affect on FAA's ability to fund its programs. FAA's projections indicate that suspending the fuel tax would deplete the uncommitted balance of the Trust Fund by October 2006 while suspending the cargo waybill tax would reduce the uncommitted balance of the Trust Fund to under $100 million in 2008.

Question 2. If substantial amount of AIP funds are used once again during FY 2003 for security, is it possible to determine what type of projects will not receive the amount of funding that they normally would?

Answer. In October of 2002, we reported that standards and reconstruction projects experienced the largest reductions and that certain letter-of-intent payments were deferred, resulting in delays in capacity projects at three airports.[1] If AIP funds continue to be used at a similar level for security in 2003 as in 2002, and if other factors remain relatively unchanged, we can probably expect that some of the projects that were not funded in 2002 may not be funded in 2003.

Question 3. In your testimony you note that one big uncertainty in the whole airport funding picture is estimating the cost of fully integrating explosive detection systems into the airport baggage systems. Why is it so difficult to develop such an estimate? Which Federal agency should be responsible for developing such an estimate and are they developing one?

Answer. Developing an estimate of the cost of integrating explosive detection systems into airport baggage systems is challenging, in part, because it is not clear whether TSA has finalized all the security requirements that will be part of the explosive detection system (EDS) approach. Additionally, FAA's requirement that TSA must approve the EDS approach at each airport before FAA will fund any part of it inhibits airport planning for EDS. The lack of certainty about security requirements and funding approvals may also be discouraging airports from making EDS-related final estimates and decisions and may be contributing to a lack of information about EDS systems. TSA said that while certain airports—such as Dallas and Boston—have estimated costs and even planned for the integration of EDS into airport baggage systems as part of long-term security solutions, it has not systematically tracked these efforts and does not know what the overall costs would be.

Because TSA is the agency responsible for ensuring the installation of EDS systems, it would probably be the appropriate agency for developing an overall estimate of what EDS systems will cost. TSA does not currently have estimates of the costs to install EDS at airports.

Question 4. In your testimony, you discuss options to make up the spending shortfall for capital improvements. You discuss the benefits of some options to larger airports and the benefits of other options to smaller airports. In your opinion, if we have to make a choice, which group has greater need?

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[1] U.S. General Accounting Office. *Airport Finance: Using Airport Grant Funds for Security Projects Has Affected Some Development Projects.* GAO–03–27. Washington DC: October 15, 2002.

Answer. In our view, deciding which group has a greater need is a policy question. However, in making this decision, Congress should be aware of several factors. First, small airports receive the majority of their funding from federal programs, such as AIP. Second, larger airports receive the majority of their funding from the bond market. Finally, there is little consensus among airlines, airports, and FAA as to what constitutes an airport "need". As such, when comparing estimates of available funding with estimates of airport planned development, not all planned development may not qualify as needed development.

Question 5. Have you reviewed the Administration's proposals for changes in the funding formula structure of the AIP program? What is your opinion on that?

Answer. The Administration's proposal was not released until March 25, 2003. As a result, we have not had a chance to review it in detail.

Question 6. Have you reviewed the Administration's proposed changes in the EAS program? What is your opinion on that? Do you believe that the EAS program has been effective? What about the Small Community Air Service Development Program?

Answer. We have reviewed neither the Administration's Essential Air Service (EAS) proposal nor the Small Community Air Service Development Pilot Program in detail, so we are unable to express unqualified opinions. However, we have completed recent work on the EAS program, and have concluded that it has not provided an effective transportation solution for passengers at many EAS-subsidized communities. Passengers often prefer to drive to an alternate airport, even if that facility might be several hours' drive away. We reported in August 2002 [2] on several options to enhance the long-term viability of the EAS program. We are encouraged that the Pilot Program funded innovative approaches to air service development at several communities, and look forward to learning how effective they were.

Question 7. One of your charts shows that small airports have been the biggest beneficiaries of the large increases in AIP funding under AIR 21. Is it therefore fair to state that they will also be the most affected by the FAA's plan to spend almost $500 million in AIP funding on security this year?

Answer. In our October 2002 report, we noted that the increase in AIP funding for security affected the distribution of grant funds by airport type. Large and small hub airports experienced increases in AIP funding while all other airports, including non-hub, general aviation, and relievers, experienced decreases in FY 2002. According to FAA officials, the increase in AIP funding to large hub airports can be attributed to their higher security needs and the decrease in funding to non-hub airports was because their security needs were much lower than those of large hub airports.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. JOHN MCCAIN TO WOODIE WOODWARD

AIP Funding for Security

Question Your testimony indicates that the FAA intends to use a substantial amount of AIP funding for security related projects in 2003. Who decided this would be the case? What is your time frame for making these grant awards? Will these be discretionary or formula grants?

Answer. The FAA has committed to make available for security related projects an amount roughly equal to the $561 million spent for security projects in FY 2002. The decision was made collaboratively among the FAA, TSA and senior officials within the Department of Transportation. The decision was made in consideration of both the continuing need for substantial investment in airport infrastructure for security and on the impact of higher levels of security funding on the rest of AIP. Specifically as to need, the costs of modifying airport infrastructure to accommodate installation of EDS equipment is substantial and far exceeds TSA resources available for this purpose. As to AIP impacts, spending on security at the FY 2002 level still permitted the FAA to fund all identified safety and security requirements; meet all commitments to fund ongoing capacity projects—including letter of intent commitments; and meet statutory requirements to fund noise compatibility projects and projects at military airport program airports and relievers. The security funding was accommodated by modest reductions in the shares of AIP going to rehabilitation, reconstruction and standards projects.

The FAA and TSA are currently reviewing proposed security project candidates for AIP funding at the national level to optimize the combination of AIP and TSA

[2] U. S. General Accounting Office. *Options to Enhance the Long-term Viability of the Essential Air Service Program.* GAO–02–997R. Washington, D. C.: August 30, 2002.

funds available for financing security-related airport infrastructure projects. Once a spending plan has been developed for the use of AIP funds, the FAA will begin processing grants. We intend to allocate the $561 million between discretionary and entitlement funds in roughly the same proportion as in FY 2002, i.e. approximately $199 million in entitlements and $362 million in discretionary funds.

PFC Streamlining

Question Will the Administration consider "streamlining" the process for approval of PFC applications, as David Plavin has suggested in his testimony?

Answer. I am pleased to report that the Administration's FAA reauthorization bill contains a number of provisions to streamline the PFC application and approval process. These proposals are based on the result of a comprehensive study of the history of the PFC program which identified opportunities to simplify or eliminate elements of the PFC application and approval process without sacrificing the benefits to the public interest in the Federal PFC review process. First, the Administration bill would make the Federal Register comment process discretionary, rather than mandatory, for each PFC application. However, airports would be required to provide an opportunity for public comment at the local level. Second, the bill would reduce the burden of the carrier consultation requirement by limiting the requirement for individual carrier consultation to those carriers that have a significant presence at the airport. The airport could rely on general notice for those carriers with limited activity at the airport. Third, the administration bill would eliminate the substantial contribution test for imposition of a $4.50 PFC at medium and large hub airports and allow projects to be approved under the adequate justification test applicable to all other airports. Our experience showed that the bifurcated test did not enhance the qualify of projects being submitted for $4.50 PFC approval at medium and large hub airports because those projects were already of the highest caliber under the adequate justification test, but the bifurcated test greatly complicated the application and review process. Finally we are proposing a pilot program for non-hub airports that would permit them to impose a PFC based on the filing of a simplified written notice to the FAA. Following submission of the notice, the airport could impose the PFC unless the FAA objected.

Current Airport Infrastructure Needs

Question The FAA recently revised estimates of when its passenger traffic will reach pre-September-11 levels. Do you believe there is a real need for immediate infrastructure investments?

Answer. At its recent Conference on Aerospace Forecasts, the FAA announced that it expects the period of recovery for the aviation industry to extend by one or two additional years over what was forecast last year, to 2005–2006. Airport investment decisions, by their very nature, must take a long-term perspective. Although traffic fluctuates in the short term as we are now experiencing, I am confident that the demand for air travel will continue its long-term growth. It takes many years to build new runways and other airport infrastructure. I believe airports should be constructed or expanded to accommodate the long-term growth of air traffic, and that it is prudent for airports to continue working toward accommodating long term needs even during short-term down turns in traffic as we are currently experiencing.

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