STATEMENT OF MICHAEL J. MINERVA
VICE PRESIDENT, GOVERNMENT AND AIRPORT AFFAIRS
AMERICAN AIRLINES

BEFORE THE U.S. SENATE COMMITTEE ON COMMERCE, SCIENCE AND TRANSPORTATION
SUBCOMMITTEE ON AVIATION OPERATIONS, SAFETY AND SECURITY

FAA Reauthorization: Airport Issues and Infrastructure Financing

April 23, 2015

Good morning Chairman Ayotte, Ranking Member Cantwell, and members of the subcommittee. Thank you for opportunity to testify today about airport issues and infrastructure financing. My name is Michael Minerva and I serve as Vice President of Government and Airport Affairs for American Airlines. I am particularly pleased to be speaking with you since airport funding at the 225 domestic airports American serves is an everyday part of my job. I am responsible for negotiating with airports over lease agreements and capital projects in addition to state and local government affairs.

I would like to talk to you today about what I experience firsthand —when airports and airlines sit in rooms and hash out how projects should be financed. I'll make two basic points. First, airport by airport, airlines and airports are reaching agreements on capital spending and will continue to do so without any change in the statutory PFC scheme. Second, there is no lack of funding for airport improvement projects. Any gaps that exist between an airport's current conditions and desired conditions result from the lead times and complexity involved in completing airport projects and not from any lack of funding.

If your only exposure to the PFC issue was at the national level, you might reasonably assume that arguing about PFCs dominates airport and airline discussions. That's not the case. The airline-airport relationship does not play out on the national stage. It's handled on an airport-by-airport basis with the airlines working directly with airport directors. Airports and airlines generally work together very effectively and have been doing so for years. The relationship is not simply one of landlord-tenant. We and our airport counterparts consider ourselves business and civic partners. Neither of us can exist without the other.

From a funding perspective, when you look at airports on an individual basis, as I do with over 225 domestic airports, you will not see the funding shortfall that is often claimed in Washington. Airports are funded by their users and not from general revenue—not even of the city, county or state where the airport is located. The agreements between the airlines and airports are structured so that the airlines protect the airport from any cost overruns and revenue shortfalls without accessing any taxpayer funds. If an airport brings in less money than it spends, the airlines make up the difference. Any cost certainty the airlines have comes from the managerial acumen of the airport staff. That's one reason we care so passionately about how airport projects are designed, managed and funded.

Many of our nation's airport terminals and systems are nearing the end of their useful lives. The airlines not only support projects to repair and improve airport infrastructure, we demand it, and we are willing to pay for it. At the nation's large hub airports generally, there are $70 billion in projects completed, underway or approved. If the PFC tripled tomorrow, the incomplete projects would not move faster. That's because the pacing item for airport improvement projects is not a lack of funding. It is simply the lengthy process required to complete such complex projects, even when done exactly right.

For example: the Charlotte airport wants to build a new runway to be online in the early 2020s to handle future demand. The airlines will pay for it—even though the PFC in Charlotte remains at 2/3 of the current statutory maximum. The airport, which has a strong history of executing projects efficiently, is starting the process in 2015 because the runway will take seven years to build—with half of that time needed just to prepare for and complete the environmental review process. The two-mile paving project—and that's all it is—will take a total of seven years because of the complexities of planning for, designing and building a project on an active airfield. That's just how long it takes—it has nothing to do with funding availability.

Terminal improvement projects face timing, not funding, challenges as well. An example of that is DFW, where the $2.7 billion fully funded Terminal Repair and Improvement Program, or TRIP, is underway. If you visit Terminal C at DFW, you see an old terminal. But if you visit the low Terminal A gates, you see a brand new one. That's because the TRIP program must be completed in small phases across the airport. A project like this takes a considerable amount of time, because only a few gates can be closed at a time, which means the project has to move slowly. The limiting factor is not funding.

These examples are not exceptions. They are the norm and they illustrate that increasing PFC funds today will not translate into changes tomorrow due to complexities inherent in airport improvements.

It's no surprise that airports would welcome the extra cash from an increase in PFCs. Often, airports are under local pressure to undertake projects that are not urgent or necessary. This is not a sufficient reason to fundamentally alter the existing dynamic that encourages airports and airlines to reach consensus on airport improvements. Despite airport protestations to the contrary, this dynamic is generating tens of billions in new project dollars at the current PFC levels.

As I've stated, airlines and individual airports address their capital needs without arguing about the PFC issue. But the fact remains that there is a lot of misinformation out there about PFCs. Here are some facts:

- Indexing PFCs to inflation is not needed because airport rent has well outpaced inflation. That is giving airports money to spend at a rate that increases faster than inflation and faster than ticket prices.
- Local officials and airport directors want airlines to keep fares competitive. Increasing the PFC makes it more costly for the public to fly.
- Airports have great access to financing for capital improvements since their basic cost structures are guaranteed by the airlines.

Counter arguments to all these points were made three years ago as part of the last FAA reauthorization debate. Yet since that time, airlines and airports have agreed to fund tens of billions of dollars of new projects. The same will continue to happen if the PFC remains at its current rates. That is because airlines believe in and support spending for airport infrastructure.

In closing, please consider that the airports and airlines agree on the scope, pace, and funding of airport capital improvement projects almost without exception, and with the current laws and PFC structures in place. Those capital improvements are coming—often not as fast as we would like, but only because airport improvement projects take so long despite the best efforts of everyone involved.

More PFC taxes simply will not deliver airport improvements any sooner. The airports as a group want significantly increased PFC funds they can spend on projects without the inconvenience of having to negotiate with the airlines that pay for airport facilities. The airlines prefer our current system whereby we and the airports continue to work collaboratively to determine how billions of our dollars are spent to improve the nation's airports.

I'll be happy to address any questions from committee members.