TESTIMONY BEFORE THE

SUBCOMMITTEE ON AVIATION OPERATIONS, SAFETY, AND SECURITY

COMMITTEE ON COMMERCE, SCIENCE AND TRANSPORTATION

U.S. SENATE

SEPTEMBER 16, 2010

Good afternoon Chairman Dorgan and members of the Committee, my name is Lynn Hampton, and I am the President and Chief Executive Officer of the Metropolitan Washington Airports Authority serving in this capacity since May 2010. By way of background, I previously served as the Chief Financial Officer of the Airports Authority for over twenty-one years.

We appreciate the opportunity to appear before the Subcommittee today to discuss the topics mentioned in your invitation letter, including the Airports Authority's financial status, our capital investment plans, the Airports Authority's role in constructing the Dulles Corridor Metrorail Project, and our views on the perimeter restrictions at Ronald Reagan Washington National Airport.

When Congress enacted the Metropolitan Washington Airports Act of 1986, it not only consented to the creation of the Airports Authority by the Commonwealth of Virginia and the District of Columbia, but also entrusted the Airports Authority with two substantial federal assets, Ronald Reagan Washington National Airport (Reagan National) and Washington Dulles International Airport (Dulles International) and directed us to operate, improve, protect and develop these Airports in a manner befitting their status as gateways to the nation's capital to travelers from throughout the world.

We believe that over the past twenty-four years, the Airports Authority has performed the role well and has achieved many of the goals that Congress expected of it.

<u>History of the Airports</u>

Reagan National Airport was built by the federal government and opened in 1941. Today, its original geography and airfield layout are largely unchanged. Virtually all take-offs and landings are conducted on a single runway that is 6,855 feet long. Dulles International, located 26 miles west of downtown Washington, also was built by the federal government, and opened in 1962 with three runways. Today, it encompasses more than 11,000 acres and operates with four runways (averaging 10,500 feet in length) that can accommodate every commercial aircraft currently in operation.

Although built to handle most of the Washington region's projected air traffic, throughout the 1960s and 1970s Dulles International was underutilized, while most of the region's air traffic remained concentrated at an increasingly congested Reagan National.

With the federal government as the operator of two airports, one congested and the other underutilized, the U.S. Department of Transportation sought to re-establish and enforce Reagan National's role as a primarily short-haul Airport and Dulles International's role as the full-service, expansion Airport that would handle the region's long-haul and international air service, as well as the region's future air traffic growth. In 1981, the Department issued the Metropolitan Washington Airports Policy which contained several Federal Aviation Administration (FAA) rules to implement these airport roles, including rules for Reagan National that:

- Set the number of mainline air carrier flights, or "slots," at 37 per hour;
- Established an annual passenger limit of 16 million;

- Limited night time operations to only the quietest aircraft; and
- Established a perimeter of 1,000 miles beyond which non-stop flights could not fly into or out of the airport.

In 1986, then Secretary of Transportation Elizabeth Dole worked successfully with Congress to develop legislation to transfer operation of the two airports to a new independent airports authority. This decision came about for a number of reasons, but one of the most significant was the need to put the airports into the hands of an entity that could make investments the airports badly needed, but were not being made by the federal government, by accessing the bond market and issuing debt secured by airport revenue. Also, the transfer of the airports to an independent authority would allow it to be self-supporting, receive needed capital investments, and increase their contribution to the growth of the Washington region's economy.

<u>Congressional Direction to the Airports Authority</u>

The Transfer Act was enacted with the following Congressional findings:

- The federal government has a continuing, but limited, interest in the operation of the airports;
- An independent local body will facilitate timely improvements at both airports to meet growing air travel demand;
- All other major airports in the United States are operated by public entities at the state, regional, or local level;
- Any change in the status of the two airports must also take into account the interests of the nearby communities, and other interested groups, as well as the interests of the affected federal and state governments;

In the Transfer Act, Congress effectively delivered four major guidelines to the Airports Authority:

1. Construct timely infrastructure improvements at both airports to meet the region's demand for air travel;
2. Plan new facilities at Reagan National based on the FAA "High Density Rule," which limited the number of mainline air carrier operations per hour to 37, and which Congress placed in the Transfer Act, but without the 16 million passenger cap previously adopted by the FAA, which Congress elected to eliminate;
3. Plan new facilities at Reagan National to accommodate the expected passenger levels and aircraft size associated with non-stop service limited to markets within a 1,250 mile perimeter, which Congress also placed in the Transfer Act; and
4. Plan new facilities at Dulles International to accommodate short- and long-haul domestic flights, international flights and, along with Baltimore-Washington International Airport, the large majority of future growth in the Washington metropolitan region's air transportation needs.

<u>Airports Authority's Stewardship</u>

The Airports Authority has consistently followed these guidelines in its operation and development of the airports.

1. <u>Master Planning</u>

In 1988, the Airports Authority adopted the National Airport Master Plan which was designed to provide for facilities that would serve the projected numbers of passengers at the airport, but would not bring about any significant increase in air traffic served at the airport. A Master Plan was adopted for Dulles International in 1987, which called for doubling the size of the Main Terminal and the addition of new midfield terminals and runways to meet the major growth in air travel demand projected for the Washington region. Over the years, the Airports Authority has amended these master plans, but maintained these basic policies.

2. Capital Improvements

Reagan National -- Since the transfer, the Airports Authority has financed approximately $1.2 billion in capital improvements at Reagan National. The most significant of these improvements was completed in 1997 with the opening of one million square feet in new terminal space, three new parking garages with over 5,000 spaces, a new roadway system and direct connections to Metrorail and the garages via two enclosed pedestrian bridges. These improvements included no significant improvements to the airfield, and, in accord with the statutory limitations, maintained the airport's 44 gates, adhering to the airport capacity that had existed at the time of the transfer.

Dulles International -- Since the transfer, the Airports Authority has financed approximately $4.7 billion in capital improvements at Dulles International. Included in these improvements are the following major projects:

- Expansion of the Main Terminal in 1996 at a cost of $322 million;
- Opening of the new Mid-field "B" Concourse at a cost of $145 million in 1998;
- Expansion of a "B" Concourse at a cost of $302 million in 2008;

- Completion of a new fourth runway and other airfield improvements at a cost of $355 million in 2008; and
- Opening of a new underground train system at a cost of $1.4 billion earlier this year.

These extensive improvements were planned, designed and constructed based on Congress's transfer guidelines that, of the two airports, Dulles International be developed to accommodate the vast majority of the growth in the region's demand for air service, especially long-distance and international flights.

3. Passenger Service

Reagan National -- Consistent with Congress's direction, largely reflected in the slot and perimeter limitations, passenger traffic at Reagan National has remained relatively stable since the transfer, though recent years have deviated somewhat from this overall pattern. From 1987 until 2001, passenger traffic ranged between 15 million and 16 million passengers a year. The events of September 11, 2001, resulted in a 22-day closing of Reagan National and a decrease in the passenger traffic for that year to 13.3 million, followed by a further decrease in 2002 to 12.9 million. Between 2005 and 2009, after the enactment of the Wendell H. Ford Aviation Investment Reform Act for the 21st Century (AIR-21) and the Vision 100 – Century of Aviation Reauthorization Act (Vision 100), passenger totals grew at Reagan National, to a high point of 18.7 million passengers in 2007. Passenger levels decreased to 17.6 million passengers in 2009.

Dulles International -- Passenger traffic at Dulles International also has been consistent with Congress's guidelines, more than doubling since the transfer, from 11 million passengers in 1987 to 23.2 million in 2009. Indeed, with the entry of a low-fare start-up airline Independence Air, total passengers at Dulles International, both domestic and international, increased to 27 million in 2005. The subsequent demise of Independence Air, coupled with rising fuel prices and the generally poor economy, resulted in the passenger total at Dulles decreasing to 23.2 million in 2009.

Domestic traffic at Dulles International has historically been more affected by economic cycles. Since the mid-1990s, domestic traffic generally ranged between 12 million and 16 million. Due to Independence Air, domestic traffic ranged between 17.6 million to as high as 18.8 million in 2007, the year prior to airlines cutting seats due to soaring fuel prices and the worsening economy. Domestic traffic dropped by a million passengers in 2008 and another 600,000 in 2009 resulting in 17.2 million domestic seats at Dulles International in 2009.

International traffic at Dulles International has grown substantially over the years. At the time of the transfer, international passengers represented approximately nine percent of the total passengers served by the Airport, and service to six international destinations was provided; in 2009, the percentage of international passengers had grown to twenty-seven percent, and the number of overseas locations to forty-five. It is essential to note that this international traffic at Dulles International is highly dependent upon the extensive array of domestic flights that enable international passengers to connect to these international flights at Dulles International. Dulles International would not have the robust international traffic it has today without this connecting domestic service.

Cargo operations at Dulles International have similarly grown over the years. At the time of the transfer, 208 million pounds of cargo was flown in and out of Dulles in 1987. In 2009, this has increased three fold to 623 million pounds.

4. Financial Management

The Airports Authority has managed its financial operations in a responsible and prudent manner.

Each year, the Airports Authority produces financial statements that are audited by external certified public accountants, and over the years we have regularly received unqualified audit opinions. Also, each year audits are performed, in accordance with OMB Circular A-133, to review the Airports Authority's compliance with requirements associated with the federal grants we receive. These audits have regularly found no significant issues of non-compliance. In addition, each year a Comprehensive Annual Financial Report of the Airports Authority's financial condition is prepared following guidelines of the Government Finance Officers Association of the United States and Canada (GFOA). For the past 20 years, the Airports Authority has received a Certificate of Achievement from the GFOA, signifying that our annual financial reports conform to the highest standards of public financial reporting.

Currently, the Airports Authority's outstanding aviation-related debt totals approximately $5.2 billion, with $4.4 billion, or 84 percent, in fixed-rate general airport revenue bonds. The Airports Authority is fortunate to have earned credit ratings on these revenue bonds which are among the highest ratings of any airport in the United States. Fitch, Moody's, and Standard and Poors each assigns a "double A" rating to the Airports Authority's aviation credit ("AA," "Aa3" and "AA-," respectively). In its most recent ratings report (July 2010), Fitch states that "the AA rating reflects the Authority's well-established role as an international gateway, historically strong financial operations, a strong and growing air trade area and the demonstrated ability of management to guide a complex capital program." In its July 2010 report, Moody's notes the "strong, conservative management of airport operations and careful long-term capital planning", and in its July 2010 report, Standard and Poors points to "an experienced senior management team overseeing financial management and capital development."

I should note that, although Fitch and Moody's have recently affirmed the Airports Authority's "double A" ratings, both agencies have modified their outlook for our airport revenue bonds from "stable" to "negative" (Standard and Poors maintained the outlook as "stable"). These "negative" outlooks do not stem from concerns over Airports Authority's management of the airports or of its finances. Rather, these outlooks reflect concerns over our near-term financial flexibility, given the modest level of projected future activity growth at the two airports. They also reflect concerns regarding the substantial increase in Airports Authority debt service that will be added to airline rates and charges, particularly at Dulles International, as major capital improvements are completed and come on line, and with associated negative trends in debt service coverage ratios and cost per enplaned passenger. For instance, average cost per enplaned passenger at Dulles International is projected to reach $27, which is high compared to similar airports. The Airports Authority is working to address these matters, including multiple steps to restrain expenditures, and the payment of increased debt service with non-airline funds.

5. <u>Regional Economic Development</u>

Both Reagan National and Dulles International have become significant economic assets for the Washington metropolitan region.

Over 7,000 individuals work at Reagan National, and 17,900 at Dulles International, including Airports Authority employees and personnel associated with the airlines, airport concessionaires and other businesses operating at the Airports. It was estimated in 2005 that the two airports created $6.5 billion in revenues for businesses supplying passenger and air cargo services at the airports.

Many businesses decide to locate in the Washington metropolitan region, in significant part, because of the quality and reach of the domestic and international air service offered at the Airports. The Greater Washington Initiative, a regional marketing and economic development organization, cites the global connectivity that is provided by the Airports as a key benefit that the region offers new businesses. The economic development and land use plans of the region's counties and cities are premised, in part, on the presence of the airports and the role they play in attracting new employers to the region. And, over the years, the Airports Authority has worked to develop close relationships with these local governments and their citizens, including by working to ensure that airport operations are compatible with neighboring communities.

6. Dulles Corridor Metrorail Project

Since the early planning for Dulles International, an important component of the overall vision for the Airport included rapid rail transit. When land was acquired in the late 1950s for the Dulles Airport Access Highway, sufficient right-of-way was acquired to accommodate a transit line to the airport. In1964, the FAA's Master Plan for Dulles International recommended that the median of the Dulles Airport Access Highway be reserved for a future transit line.

However, achieving the reality of rail to Dulles International remained elusive over the following decades. It was not until the early 2000s that efforts had progressed to the point that the Commonwealth of Virginia was able to initiate the process for applying to the Federal Transit Administration for federal funds to assist in the construction of a rail line to Dulles International. This proposed rail line would be an extension of the metropolitan Washington regional Metrorail System which has been operated since the mid-1970s by the Washington Metropolitan Area Transit Authority (WMATA), would in large part be constructed in the median of the Dulles Airport Access Highway, and would continue past Dulles International into Loudoun County.

Subsequently, the Airports Authority submitted a two-part proposal to the Commonwealth: first, that the Airports Authority assume responsibility for the rail line construction line since it was to be located on Airports Authority-leased property in the median of the Dulles Airport Access Highway and since major construction activities would occur on Dulles International itself; and, second, that the Airports Authority become the operator of the Dulles Toll Road, then operated by the Virginia Department of Transportation, and use revenue from the toll road to assist in financing the construction of the rail line.

Ultimately, the Commonwealth accepted the Airports Authority's proposal and, in 2007, the two parties executed an agreement that transferred to the Airports Authority the authority to operate the Dulles Toll Road and use toll revenue to finance the rail line construction, and which placed responsibility for the construction on the Airports Authority. At the same time, an agreement was executed by Fairfax and Loudoun Counties and the Airports Authority which committed each party to share in the funding of the rail line construction. Agreement also was reached with WMATA which provided that, following WMATA's acceptance of the completed rail line, it would assume full responsibility for the line's operation and maintenance.

In March 2009, the FTA and the Airports Authority executed a Full Funding Grant Agreement which provided $900 million in federal funds for the first phase of the rail line project. This phase will run from Interstate 66, near the West Falls Church Metro station, to Wiehle Avenue in Reston. The Full Funding Grant Agreement provides federal funding for only this phase of the project.

The first phase of the rail project is currently under construction, is providing 1,624 jobs, and is approximately 19 percent completed. It is projected to reach substantial completion in the latter part of 2013. The second phase of the project, which will extend the rail line to Dulles International and beyond into Loudoun County, is projected to begin construction in 2012.

Challenges to the Airports Authority and the Two Airports

While the Airports Authority has accomplished much over the last quarter of a century, we face many challenges as we plan for an uncertain future.

The recent economic recession has had a substantial impact on the aviation industry and on the two Airports. For instance, the number passengers utilizing Reagan National in 2009 was 3.8 percent less than at the start of the recession; at Dulles International, the 2009 level of passengers was 6.3 percent less.

In 2010, the aviation industry has seen a positive turn-around. A year ago, a number of U.S. airlines were in danger of bankruptcy, while this year they are announcing profits. The International Air Transport Association (IATA) has reversed its initial projection that the industry would lose $5.6 billion in 2010, and now expects profits of up to $2.5 billion. However, much of this turn-around is due to airlines having eliminated a substantial amount of domestic flight and seat capacity over the past 24 months -- a reduction that airlines are continuing to maintain even as the economy begins to improve.

While this reduction in capacity may have been good for the airlines, it has created difficulties for airports. Airports plan capital projects many years in advance due to planning and construction lead times. Thus, projects that are now being completed were planned at a time when growth in airline capacity was anticipated; unfortunately, not only has this growth not occurred, but also in the past two years capacity has actually been reduced.

For the Airports Authority, this reduction in airline capacity presents a particular challenge at Dulles International due to the substantial investments that have made in capital projects which are now coming on line. The debt service on these completed projects is largely funded through airline operations at the Airport. However, with the reductions in airline capacity, this debt service is now effectively being assigned to reduced airline operations, resulting in higher airline costs per enplaned passenger. Moreover, this particular challenge, we believe, would be increased by the addition of beyond-perimeter flights at Reagan National that would further reduce passenger levels at Dulles International.

Perspective on the Slot and Perimeter Rules

As part of the current FAA reauthorization process, proposals have been made that would authorize an additional 42 slots (21 slot pairs or round trip flights) at Reagan

National that may fly beyond the 1,250 mile perimeter. Thirty-two of these 42 beyond-perimeter flights would be "conversions" from within-perimeter hub flights and 10 authorized from existing unused off-hour slots (from 6:00 am, 10:00 and 11:00 pm). Currently, 24 beyond-perimeter slots (12 slot pairs or round trips flights) are authorized at Reagan National. Twelve of these existing beyond-perimeter slots were authorized in 2000 by AIR-21, and twelve slots were authorized in 2003 by Vision 100. Adding 21 slot pairs to the 12 existing slot pairs, for a total of 33 slot pairs, would be the single largest increase in beyond-perimeter flights at Reagan National. This proposed change would bring Reagan National to 33 beyond-perimeter departures a day, which would be more than 50 percent of the current number of beyond-perimeter departures at Dulles International (59) and would equal the current number of beyond-perimeter departures at Baltimore Washington International Thurgood Marshall (BWI Marshall) (33).

The Airports Authority believes that such an expansion of beyond-perimeter slots at Reagan National will have adverse impacts at both airports. We are already preparing for an increase in passengers at Reagan National later this year. Delta and JetBlue flight schedules for this fall, while not increasing the number of flights at Reagan National, will be utilizing larger aircraft, thus increasing the number of available seats by as much as eight percent.

At Reagan National, our primary concern is the effect that additional beyond-perimeter flights will have on passenger wait times at Transportation Security Administration (TSA) security screening locations. An expansion of 42 beyond-perimeter flights a day will, we believe, increase the number of passengers arriving at and departing from Reagan National by slightly more than one million a year. This would represent a 5.7 percent increase over the Airport's 2009 level of passengers and would occur primarily in the peak, or busiest, periods of passenger activity. Our preliminary analysis suggests that a passenger increase of this level will lengthen passenger wait time at some security screening locations.

This concern is heightened by the deployment of Advanced Imaging Technology (AIT) screening machines at Reagan National security screening locations. With current facility constraints and current passenger traffic, we only have space to accommodate four AIT machines at the Airport. Two of our four security screening areas, absent major facility alterations, cannot accommodate any AIT machines. Greater passenger levels will make deploying more AIT machines even more of a challenge. The Airports Authority intends to work with TSA to increase the deployment of these machines to ensure that Reagan National maintains the highest level of passenger security.

Additionally, with increased beyond-perimeter activity, Reagan National is likely to experience an increase in connecting passengers. Baggage handling facilities have been developed since the Transfer Act primarily to handle departing and arriving passengers. Creating more of a "hub" at Reagan National could require significant investment in new baggage handling facilities and equipment.

Equally, if not more, significant is our concern regarding the impact that 42 new beyond-perimeter flights at Reagan National may have on Dulles International. (Impacts are also expected to be experienced at BWI Marshall. Our preliminary analysis indicates that these new flights would carry on the order of 1.6 million passengers a year, and that many of these passengers, were it not for these new flights at Reagan National, would be flying into and out of Dulles International or BWI Marshall. That analysis also indicates that Dulles International could lose approximately 700,000 passengers a year, and BWI Marshall could lose 500,000 passengers a year as a result of the new beyond-perimeter Reagan National flights.

Such a loss of passengers would, we believe, adversely affect a number of airlines operating at Dulles International, by increasing their cost per enplaned passenger. For many airlines, the cost of operating at Dulles International has recently grown substantially as debt service associated with the construction of the Airport's new fourth runway and underground automated train system -- projects whose capital cost totaled over $1.8 billion -- has been added to the landing fees and other charges assessed the airlines. Our clear concern is that the decline in Dulles International passengers prompted by the new beyond-perimeter flights at Reagan National, and the resulting impact this passenger loss may have on the net revenue and cost per enplanement associated with airlines operating at Dulles International, will only serve to exacerbate the financial difficulty that operating at the Airport now presents for many airlines, thereby putting into question the viability of their continued presence at Dulles International.

Conclusion

Prior to the transfer of Reagan National and Dulles International to the Airports Authority, the federal government took decisive action on a number of occasions to establish airport facilities in the Washington metropolitan region that would provide the nature and quality of air transportation service that the region would require. In the course of taking those actions, decisions were made and policies were developed that assigned different roles and functions to these airports and represented a conscious balancing of competing airport-stakeholders' interests.

At the time Reagan National and Dulles International were transferred to the Airports Authority, Congress provided a clear roadmap for the Airports Authority to follow, and a set of guidelines to govern its journey. We believe that, over the years, the Airports Authority has acted in accordance with that roadmap and those guidelines, and has served as a good steward of the airport assets with which it was entrusted. It is in that role as steward that we wish to convey our view that altering the slot and perimeter rules applicable to Reagan National, along the lines now proposed, will have undesired consequences on these important airport assets.

We do understand the interest of air carriers to serve destinations outside the Reagan National perimeter, and we believe we have provided excellent facilities at Dulles International for them to provide that service. It is, therefore, our recommendation that Congress not alter the slot and perimeter rules, thereby adding beyond-perimeter flights and passengers to Reagan National, without regard to, and certainly without a full and accurate understanding of, the ability of Reagan National to absorb the consequences of the slot and perimeter rule changes, the impact these changes would have on the traveling public and neighboring communities, and the consequences the changes would have on the economic sustainability of Dulles International and BWI Marshall.