

CRS Issue Brief for Congress

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Airport Improvement Program

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Airport Improvement Program

SUMMARY

The Airport Improvement Program (AIP) (49 U.S.C. Chapter 471) has provided federal grants for airport development and planning since the passage of the Airport and Airway Improvement Act of 1982 (P.L. 97-248). AIP funding is usually spent on projects that support aircraft operations including runways, taxiways, aprons, noise abatement, land purchase, and safety, emergency or snow removal equipment. Funds obligated for the AIP are drawn from the Airport and Airway Trust Fund, which is supported by user fees and fuel taxes.

Vision 100: Century of Aviation Reauthorization Act (P.L. 108-176) was signed into law by President Bush on December 12, 2003. The law authorizes AIP for four years. It provides AIP with \$3.4 billion for FY2004, \$3.5 billion for FY2005, \$3.6 billion for FY2006, and \$3.7 billion for FY2007. The reauthorization codifies through FY2007 the spending guarantees begun under the previous authorization Act, the Wendell H. Ford Aviation Investment and Reform Act for the 21st Century (AIR21; P.L. 106-181). AIR21 had included “point of order” provisions that were designed to assure that all trust fund receipts and interest are spent annually and increased the likelihood that AIP would be fully funded at the authorized level.

Vision 100 left most of the existing AIP programmatic structure intact, making only minor apportionment and eligibility changes. Among these changes are a 1% increase in

both the cargo airport and the airport noise discretionary program set-asides. Eligibility criteria were expanded, mostly, for small airports.

Passenger facility charge (PFC) “streamlining” provisions were included in the enacted legislation. The PFC is essentially a local tax on each boarding passenger that is levied by an airport with federal approval. The PFC program is generally seen as complementing the AIP, but with less constraining eligibility requirements. Vision 100 also establishes a pilot program to test alternative procedures for authorizing small airports to impose PFCs. Eligible cost criteria are broadened somewhat.

Vision 100 also repeals the use of AIP and PFC funding for security related airport facility improvements and security equipment purchase and deployment. The extent of use of AIP grants for such purposes, following the terrorist attacks of September 11, 2001, had led to concerns that such uses would short-change AIP’s funding of capacity, safety, and noise mitigation projects.

With the passage of Vision 100, the AIP issues for congress over the next few years will be issues of oversight of the AIP and PFC programs within the context of implementing federal airport safety, capacity, and noise policies.

MOST RECENT DEVELOPMENTS

On December 12, 2003, the President Bush signed a new FAA reauthorization act, Vision 100 — Century of Aviation Reauthorization Act (P.L. 108-176). The bill authorizes AIP at \$3.4 billion for FY2004, \$3.5 billion for FY2005, \$3.6 billion for FY2006, and \$3.7 billion for FY2007.

Currently, the AIP is operating under a continuing resolution (P.L. 108-135) that continues the FAA's appropriation through January 31, 2004.

BACKGROUND AND ANALYSIS

The Airport Improvement Program (AIP) provides federal grants to airports for airport development and planning. AIP funding is usually limited to improvements related to aircraft operations, typically for planning and construction of projects such as; runways, taxiways, aprons, noise abatement, land purchase, as well as security, safety, or emergency equipment. Commercial revenue producing portions of terminals (such as shop concessions or commercial maintenance hangars), automobile parking garages, and off-airport road construction are examples of improvements that generally are not eligible for AIP funding. AIP money cannot be used for airport operational expenses or bond repayments.

The AIP is one of five major sources of airport capital development funding. The other sources are tax-exempt bonds, passenger facility charges (PFCs), state and local grants, and airport operating revenue. Different airports use different combinations of these sources depending on the individual airport's financial situation and the type of project being considered. Small airports are more likely to be dependent on AIP grants than large- or medium-sized airports. The larger airports are also much more likely to participate in the tax-exempt bond market or finance capital development projects with the proceeds generated from PFCs.

The PFC is a local tax imposed, with federal approval, by an airport on each boarding passenger. PFC funds can be used for a somewhat broader range of projects than AIP grants and are more likely to be used for "ground side" projects such as passenger terminal and ground access improvements. PFCs can also be used for bond repayments.

This issue brief discusses the Airport Improvement Program and its complement, the Passenger Facility Charge (PFC). After a brief history of federal support for airport construction and improvement, the report describes AIP funding, its source of revenues, funding distribution, the types of projects the program funds, AIP and PFC policy issues, and the allowable use of AIP funds for airport security purposes.

Founding and Selected Legislative History

Prior to World War II the federal government limited its role in aviation to maintaining the airway system, viewing airports as a local responsibility. Some federal monies were

spent on airports during the 1930s (about \$150 million) but only as part of federal work relief activities. The national defense need for a strong system of airports during World War II led to the first major federal support for airport construction. After the war, the Federal Airport Act of 1946 (P.L. 79-377) continued federal aid under the Federal Aid to Airports Program, although at lower levels than during the war years. In the 1960s substantial funding also went to upgrade and extend runways for use by commercial jets. Congestion, both in the air and on the ground at U.S. airports, was seen as evidence by some that past federal support for airports had not been sufficient to maintain adequate airport capacity.

Airport and Airway Development and Revenue Acts of 1970 (P.L. 91-258)

Congress responded to the congestion problems and capacity concerns at airports by passing two Acts. The first, the Airport and Airway Development Act, dealt with the spending side of federal aid to airports. It established the forerunner program of the AIP, the Airport Development Aid Program (ADAP), and set forth the program's grant criteria, distribution guidelines, and first five years' authorization. The second Act, the Airport and Airway Revenue Act of 1970, dealt with the revenue side of airport development. This Act established the Airport and Airway Trust Fund (also known as the Aviation Trust Fund). Revenues from levies on aviation users and fuel were dedicated to the fund.

Airport and Airway Improvement Act of 1982 (P.L. 97-248)

This Act created the current AIP. Although the AIP maintained the ADAP's approach of using grants-in-aid to support an integrated national system of airports, it did make some significant changes in the operation of the program. The program differences included altering the funding distribution among the different categories of airports, extending aid eligibility to privately owned general aviation airports, increasing the federal share of eligible project costs, and earmarking a portion of total funding for noise abatement and compatibility planning.

The Wendell H. Ford Aviation Investment and Reform Act for the 21st Century of 2000 (P.L. 106-181) (AIR21)

AIR21's enactment, was the culmination of two years of legislative effort to pass a multi-year FAA reauthorization bill. The length of the effort was a reflection of the difficult issues faced. Major issues that had to be resolved included the budgetary treatment of the aviation trust fund, raising the ceiling on the passenger facility charge (PFC), as well as the amounts to be spent and their distribution.

Provisions to take the aviation trust fund off-budget or erect budgetary "firewalls" to assure that all trust fund revenues and interest would be spent each year for aviation purposes never emerged from the conference committee. Instead, the enacted legislation included a so-called "guarantee" that all of each year's receipts and interest credited to the trust fund will be made available annually for aviation purposes. The guarantee is enforced by changes made in House and Senate point-of-order rules. One rule makes it out-of-order to consider legislation that does not spend all trust fund revenues for aviation purposes. The second rule makes it out-of-order to consider legislation for funding FAA's Operations and Maintenance

(O&M) or Research, Engineering and Development (RE &D) budgets if AIP and the Facilities and Equipment (F&E) budgets are funded below authorized levels. Although these provisions are not airtight, they were sufficient to assure that the budgetary resources made available for AIP were equal to the authorized level during the life of AIR21

AIR21 did not, however, make any major changes in the structure or functioning of AIP. The big difference was the amount of money made available for airport development projects. From a funding level of approximately \$1.9 billion for FY2000, AIP's authorization increased funding by nearly 70% to \$3.2 billion for FY2001, then to \$3.3 billion for FY2002, and to \$3.4 billion for FY2003. Within the context of these increases, the formula funding and minimums for primary airports were doubled starting in FY2001. The state apportionment for general aviation airports was increased from 18.5% to 20%. The noise set-aside was increased from 31% to 34% of discretionary funding and a reliever airport discretionary set-aside of 0.66% was established.

AIR21 also increased the PFC maximum to \$4.50 per boarding passenger. In return for imposing a PFC above the \$3 level, large and medium hub airports would give back, or "forgo," 75% of their AIP formula funds. This made more AIP funding available to the smaller airports.

AIP Reauthorization¹

The FAA reauthorization act, signed by President Bush on December 12, 2003, included some significant changes to AIP but nothing of the scale or consequence of the changes made under AIR21. Both the funding increases and the programmatic changes were modest by comparison.

Vision 100: Century of Aviation Reauthorization Act of 2003 (P.L. 108-176; H.Rept. 108-334)

Funding Levels and Guarantees. Vision 100 funds AIP for four years at the following annual levels, \$3.4 billion for FY2004, \$3.5 billion for FY2005, \$3.6 billion for FY2006, and \$3.7 billion for FY2007. The law codifies the AIR21 spending "guarantees" through FY2007. The agreement does not authorize the use of AIP funds for the administration of the program.

Apportionment Changes. Vision 100 includes provisions that protect small airports from having their apportionments reduced in FY2004 because of reduced traffic levels. Cargo airports formula percentage is raised to 3.5%. The conference agreement did not include proposed changes in the primary airport formulas that would have led to a significant shift of entitlement resources toward smaller airports.

Discretionary Fund Changes. Vision 100 increased the discretionary set aside for noise compatibility projects from 34% to 35%. It increased the amount that an airport

¹ This Issue Brief was not the CRS FAA reauthorization report. For reauthorization of the FAA as a whole, see CRS Issue Brief IB10121, *Federal Aviation Administration Reauthorization*.

participating in the Military Airport Program (MAP) could receive to \$10 million for FY2004 and FY2005 but in FY2006 and FY2007 it returns the maximum funding level to \$7 million.

Eligibility Changes. Non-primary airports are now allowed to use their entitlements for revenue generating areas if the Secretary of DOT determines that the sponsor has made adequate provisions for the air-side needs of the airport. The agreement permits AIP grants at small airports to be used to pay interest on bonds used to finance an airport project. Eligibility for noise mitigation funding is expanded to include noise mitigation projects approved in an environmental record of decision for projects designated as national capacity projects (previously airports had to have completed an FAA approved noise mitigation plan to receive noise mitigation funding). The agreement makes the costs of purchasing or retrofitting low emission vehicles at airports eligible as well as other projects that improve air quality at airports. It also makes the Marshall Islands, the Federated States of Micronesia, and Palau airports eligible under AIP. Apportioned funds may be used for replacement of baggage conveyor systems.

Airport Noise Issues. Airport noise policy is linked to airport development because airport noise is a major factor in local resistance to airport capacity projects. Vision 100 includes provisions effecting the availability of AIP grants for state and local governments' land use noise compatibility plans. As mentioned earlier, the Act, raises the noise AIP set-aside to 35% of discretionary funds, and includes language to make noise mitigation projects, approved in an environmental record of decision, eligible for AIP noise mitigation funding. This appears to provide, under certain conditions, for AIP funding of projects at airports that have not submitted a noise compatibility plan, as is now required. Proceeds from the sale of land acquired as part of a noise compatibility program may now be retained by the airport to purchase non-residential property near residential property purchased under the program.

Passenger Facility Charge Issues. Vision 100 includes provisions to streamline PFC public notice requirements as well as ending the "significant contribution" project requirement on large and medium hub airports that wish to impose PFCs at the \$4 and \$4.50 level. The requirement of notice and consultation of air carriers at applicant airports is limited to carriers that have no less than 1% of the boardings at the airport, 25,000 boardings, or provides scheduled service at the airport. Vision 100 also establishes a pilot program to test alternative procedures for authorizing small airports to impose PFCs. It makes conversion of ground support equipment to low emission technology eligible for PFC funds. The Secretary of Transportation is empowered to allow the use of PFCs for debt service for indebtedness on non-eligible non-airport related projects if the Secretary finds that such project funding is necessary due to an airport's financial need. Airlines filing for bankruptcy must place PFC collections in a segregated account to prevent their loss as airport revenue. Vision 100 requires DOT to publish in the Federal Register its policy under current law on the eligibility of airport ground access projects for PFC funding.

Federal Share. Vision 100 raises the federal share from 90% to 95% for airports smaller than large and medium hub and airports in states participating in the state block grant program. It also raises from 40% to 70% the share for airports participating in the pilot program for private ownership of airports.

Privatization. For primary airports, privatization must be approved by 65% of the scheduled carriers at the airport and by scheduled or non-scheduled carriers whose aircraft landing at the airport had at least 65% of the total landed weight at the airport. For non-primary airports the Secretary of Transportation must consult with 65% of owners of aircraft based at that airport. Air carrier non-approval has to be filed within 60 days or approval would be granted.

Airport Security Project Eligibility. Vision 100 repeals the authority to use AIP or PFC funds for most airport security purposes.

Airport Improvement Program (AIP)

The structure of AIP funds distribution reflects the national priorities and objectives of assuring airport safety and security, stimulating capacity, reducing congestion, helping fund noise and environmental mitigation costs, and financing small state and community airports.

This section first discusses the source of the money used to pay for AIP grants, the Aviation Trust Fund. It then provides a history of AIP funding since 1982. Next it explains the AIP's system of project grant distribution. The section then describes AIP funding in terms of what types of projects the grants are spent on and examines grant distribution by airport size. Finally, it discusses the Passenger Facility Charge (PFC).

The Airport and Airway Trust Fund

The money that goes into the Aviation Trust Fund comes from a variety of aviation user fees and fuel taxes. These tax revenues are authorized through September 30, 2007, by the Taxpayer Relief Act of 1997 (P.L. 105-34). Revenue sources include:

- 7.5% ticket tax;
- \$3.00 flight segment tax;
- 6.25% tax on cargo waybills;
- 4.3 cents per gallon on commercial aviation fuel;
- 19.3 cents per gallon on general aviation gasoline;
- 21.8 cents per gallon on general aviation jet fuel;
- \$13.40 international arrival tax;
- \$13.40 international departure tax;
- 7.5% tax on second party sales of airline award miles (normally "frequent flyer" awards);
- 7.5% ticket tax at rural airports.

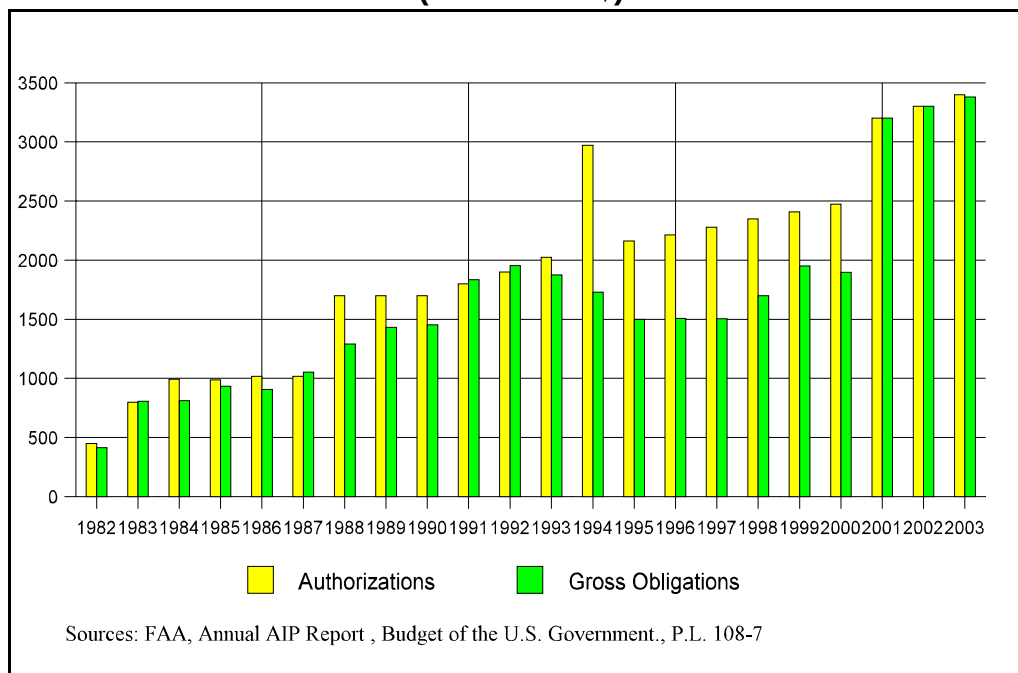
Over much of the life of the trust fund, these revenues plus interest on the trust fund's unexpended balances brought more revenue into the fund than was being paid out. This has led to the growth in the end-of-year unexpended balance in the trust fund. There are outstanding commitments against these unexpended balances, so not all of the unexpended balance would actually be available in any given year. Nonetheless, these unexpended balances (somewhat inaccurately referred to by some as a surplus) have been large enough relative to the FAA budget to make their existence controversial.

The scenario of an unexpended trust fund balance, that grows substantially larger each year, ended in FY2001. Most observers believe the drop in demand for air travel that began during 2001, due to the recessionary economy and potential passengers' fear of flying following the September 11 attacks, significantly constrained the revenues available from the trust fund. The end of year balance for the trust fund dropped from a high of \$14.5 billion for FY2001 to \$12.6 billion for FY2002. Estimated balances for FY2003 and FY2004 are \$12.3 billion and \$10.6 billion, respectively. A General Accounting Office report (GAO-03-979) projects that under either the House or Senate versions of Vision 100 the uncommitted balance will remain at roughly \$4.4 billion for FY2003 through FY2006. (For more, see CRS Report RS21321, *Aviation Taxes and Fees: Major Issues*, by John W. Fischer)

AIP Funding

AIP spending since FY1982 is illustrated in **Figure 1**. From FY1982 to FY1992 annual spending (obligations) increased from \$412.5 million to \$1,954.5 million. From FY1982 to FY1992 the obligation limits increased every year except for FY1986, when it dipped by \$28.6 million below the FY1985 level. For FY1993-FY1997 spending was reduced as part of overall deficit reduction. AIP spending declined in FY1993 and FY1994 before leveling off at about the \$1.5 billion level during FY1995-FY1997. Obligations for FY1998 rose to \$1.7 billion. The FY1999 omnibus appropriations act (P.L. 105-277) provided obligational authority for \$1.95 billion. For FY2000 appropriations, the enacted appropriations legislation (P.L. 106-69) again provided for \$1.95 billion. However, the Consolidated Appropriations Act for FY2000 (P.L. 106-113), called for an across-the-board cut of 0.38% from all

Figure 1. AIP Authorization and Obligations, FY1982-FY2003
(Millions of \$)



discretionary budget authority and obligation limitations. This allowed FAA to obligate just over \$1.85 billion for airport grants in FY2000.

For FY2001, the DOT Appropriations Act funded AIP at the authorized level of \$3.2 billion. This was an increase of nearly 70% over the FY2000 enacted funding. The Administration had proposed \$1.95 billion for AIP. Following passage of the FY2001 DOT appropriations bill, the FY2001 Consolidated Appropriations Act (P.L. 106-554) provided for a government-wide rescission that reduced the amount available for AIP by roughly \$7 million.

In the aftermath of the September 11 terrorist attacks on New York and Washington, \$175 million in FY2001 supplemental appropriations (available until expended), included in the Department of Defense Appropriations Act (H.R. 3338; H.Rept. 107-350), were made available for AIP to help reimburse airports for the costs of post-September 11 security mandates imposed by law or DOT. The FY2002 DOT Appropriations Act (P.L. 107-87) provided for the fully authorized funding of \$3.3 billion for AIP. The FY2003 Consolidated Appropriations Resolution (P.L. 108-7) provided for the fully authorized \$3.4 billion less the 0.65% across-the-board rescission (roughly \$20 million). The House-passed FY2004 Consolidated Appropriations Conference Report (H.Rept. 108-401) provides \$3.4 billion, less a 0.59% across-the-board rescission). The AIP, is operating under a continuing appropriations resolution (P.L. 108-135) which funds the program through January 31, 2004.

Vision 100, as mentioned earlier, authorizes \$3.4 billion for FY2004, \$3.5 billion for FY2005, \$3.6 billion for FY2006, and \$3.7 billion for FY2007. The law also codifies the spending guarantees included in AIR21 through FY2007. (For more see CRS Report RL31808, *Appropriations for FY2004: Department of Transportation and Related Agencies*, coordinated by David Randall Peterman and John Frittelli).

AIP Funding Distribution

The distribution system for AIP grants is complex. It is based on a combination of formula grants (also referred to as apportionments) and discretionary funds. Each year formula grants are apportioned automatically to specific airports or types of airports including primary airports, cargo service airports, general aviation airports, and Alaska airports.

Formula and Discretionary Funds.

Formula Funds. Sometimes referred to as apportionments, these funds are apportioned by formula or percentage. Formula funds may generally be used for any eligible airport or planning project. Formula funds are divided into four categories, primary airports, cargo service airports, general aviation airports, and Alaska supplemental funds. Each category distributes AIP funds by a different formula. Most airports have up to three years to use their apportionments. Non-hub commercial service airports (the smallest of the primary airports) have up to four years.

Primary Airports. The apportionment for primary airports is based on the number of passenger boardings made at the airport during the prior calendar year. The amount apportioned for each fiscal year is equal to double the amount that would be received according to the following formulas:

- \$7.80 for each of the first 50,000 passenger boardings;
- \$5.20 for each of the next 50,000 passenger boardings;
- \$2.60 for each of the next 400,000 passenger boardings;
- \$0.65 for each of the next 500,000 passenger boardings; and
- \$0.50 for each passenger boarding in excess of 1 million.

The minimum formula allocation is \$1 million. The maximum is \$26 million. New airports receive the minimum for their first fiscal year of operation.

Cargo Service Airports. 3.5% of AIP funds subject to apportionment are apportioned to cargo service airports. The allocation formula is the proportion of the individual airport's landed weight to the total landed weight at all cargo service airports.

General Aviation Airports. 20% of AIP funds are to be apportioned for use at general aviation and reliever airports. From this share, all airports, excluding all non-reliever primary airports, receive the lesser of:

- \$150,000; or
- one fifth of the estimated 5-year costs published in the most recent National Plan of Integrated Airport Systems (NPIAS) to a maximum of \$200,000 per year.

Any remaining funds would be distributed based on state-based population and area formulas.

Alaska Supplemental Funds. Funds are apportioned to Alaska to assure that Alaskan airports receive at least twice as much as they did under the ADAP in 1980.

Forgone Apportionments. Large and medium hub airports that collect a passenger facility charge of \$3 or less have their AIP apportionments reduced by an amount equal to 50% of their projected PFC revenue for the fiscal year until they have forgone (sometimes referred to as a "give back") 50% of their AIP formula grants. In the case of a fee above the \$3 level the percentage forgone is 75%. The implementation of the reduction is not imposed until the first fiscal year following the calendar year in which the PFC is first imposed.

A special *small airport fund* gets 87.5% of these forgone funds. The discretionary fund gets the remaining 12.5%.

Discretionary Funding. The discretionary fund (49 U.S.C. sec. 47115-47117) includes the money not distributed under the apportioned entitlements as well as, the forgone PFC revenues that were not deposited into the Small Airport Fund. Discretionary grants are approved by the FAA based on project priority and other selection criteria, including congressional directives in appropriations legislation. Despite its name, the discretionary fund is subject to three set-asides and certain other spending criteria. The three set-asides are:

Airport Noise Set-Aside. At least 35% of discretionary grants are set-aside for noise compatibility planning and for carrying out noise abatement and compatibility programs.

Military Airport Program (MAP). At least 4% of discretionary funds are set-aside for conversion and dual use of current and former military airports. 15 airports may participate.

Grants for Reliever Airports. There is a discretionary set-aside of 2/3 of 1% for reliever airports in metropolitan areas suffering from flight delays.

The Secretary of Transportation is also directed to see that 75% of the grants made from the discretionary fund are used to preserve and enhance capacity, safety and security at primary and reliever airports, and also to carry out airport noise compatibility planning and programs at these airports.

Subject to these limitations, the three set-asides, or priority directives from the appropriation committees (referred to by some as “place naming”), the Secretary, through the FAA, has discretion in the distribution of grants from the remainder of the discretionary fund.

The Federal Share of AIP Matching Funds. For AIP development projects, the federal government share differs depending on the type of airport. The federal share, whether funded by formula or discretionary grants, is as follows:

- 75% for large and medium hub airports (80% for noise compatibility projects);
- 95% for other airports; and
- “not more than” 95% for airport projects in states participating in the state block grant program;
- 70% for projects funded from the discretionary fund at airports receiving exemptions under section 47134, the pilot program for private ownership of airports;

The airports themselves must raise the remaining share from other sources. Unlike federal aid to highways, AIP grants generally go directly to airports rather than through the states. This federal share regime means that smaller airports do not pay as high a percentage of AIP project costs as large and medium airports do. These are fixed percentages with the above mentioned exception of the state block grant states.

Distribution of AIP Grants by Airport Size. The appropriateness of the distribution of grants among airports of different size has, at times, been a source of debate (for airport definitions see CRS Report RL30096, p. 11). It is important to keep in mind that although smaller airports’ individual grants are much smaller than the grants going to large and medium hub airports, the smaller airports are much more dependent on AIP to meet their capital needs. Based on 1996 data, a GAO report (GAO/RCED-98-71) found that about 10% of large and medium airports’ capital funding comes from AIP, contrasting with just over 50% for airports smaller than medium hub. (For graphic presentations of airport funding sources, see U.S. General Accounting Office (GAO). *Airport Financing: Funding Sources for Airport Development*, GAO/RCED-98-71. 1998. 52 p.) A recent GAO report (GAO-02-283) found, for the years FY1996 through FY1999, grants to small airports (small hub and smaller) grew 56% while grants to large and medium hub airports grew only 24%, indicating that AIP was becoming increasingly important to small airports.

AIR21's provisions also raised the percentage share for smaller airports. This is because, beginning with AIR21, large and medium hub airports have to forego 75% of their AIP formula funds in return for the ability to impose PFCs at the \$4.50 level.

Passenger Facility Charges (PFCs)

During the late 1960s a number of airports began collecting a local "head tax" (the precursor of the PFC) on each paying passenger boarding an aircraft. There was severe criticism of the passenger charges, by both airlines and passengers. The complaints included: administrative problems for the airlines in collecting the charge; passenger inconvenience; and, especially, the diversion of head tax revenue for off-airport projects and projects not aviation related. In 1973, the Airport Development Acceleration Act banned the imposition of state and local passenger charges.

In 1990 expected tight budgets, resulting from the federal deficit, led to a reconsideration of head taxes. Concerns that the Aviation Trust Fund and other existing sources of funds for Airport development would be insufficient to meet national airport needs led to the legislation that developed the passenger facility charge (PFC). The PFC was seen as being complementary to AIP funding. The Aviation Safety and Capacity Expansion Act of 1990 (P.L. 101-508) allowed the Secretary of Transportation to authorize public agencies that control commercial airports to impose a passenger facility fee of \$1 or \$2 or \$3 on each paying passenger boarding an aircraft at the airports. The money was to be used to finance eligible airport-related projects and, unlike AIP funds, could be used to make payments for debt service or indebtedness incurred to carry out the projects. There was a \$3 cap on each airport's PFC and there was a \$12 limit on the total PFCs that a passenger could be charged per round-trip. Large and medium airports had their AIP apportionments reduced by 50% of their projected PFC revenues until they had forgone 50% of their apportionments. Although the FAA oversees the PFC program, the agency does not impose the fee. The PFC is a state, local, or port authority fee, not a federally imposed tax. Because of the complementary relationship between AIP and PFCs, PFC legislation is generally folded into the AIP provisions of FAA reauthorization legislation. The legislative origin of the PFC itself is Title IX of the Omnibus Budget Reconciliation Act of 1990 (P.L. 101-508).

AIR21 increased the PFC ceiling to \$4.50. To impose a PFC over the \$3 level an airport has to show that the funded projects will make significant improvements in air safety, increase competition, reduce congestion or noise impacts on communities and that these projects could not be funded using of AIP funds. Large and medium hub airports imposing PFCs above the \$3 level forego 75% of their AIP formula funds. Beginning in FY2001, PFCs at large and medium hub airports could not be approved unless they had submitted a written competition plan to the FAA. The competition plans include information such as, the availability of gates, leasing arrangements, gate-use requirements, patterns of air service, controls over air- and ground-side capacity, intentions to build gates that could be used as common facilities, and airfare levels compared to other large airports.

Vision 100, as mentioned in more detail earlier, included a number of relatively minor changes to the PFC program. Some of the changes are designed to streamline the process that leads to the imposition of a PFC. The law includes a pilot program to test procedures for authorizing small airports to impose PFCs. The Secretary of Transportation is also given the flexibility to allow PFCs, under certain circumstances, to pay for debt service on non-

eligible projects. Airlines filing for bankruptcy must segregate their PFC collections in a segregated account to prevent their loss as airport revenue.

PFCs are a significant source of capital improvement revenue for large, medium, small hub, and non-hub commercial airports. The PFC percentage of airport development funding in FY1996 by airport size is as follows: large hub, 19.9%; medium hub, 14%; small hub, 16.9%; nonhub commercial, 9.7%; and other commercial service, 0.5%. Under the AIP the corresponding percentages are: large hub, 9.7%; medium hub, 12%; small hub, 42%; non-hub commercial, 71%; and other commercial service, 76%. (These percentages were extrapolated from charts [FY1996 figures] in, GAO, *Funding Sources for Airport Development*, pp. 44-48.) As of December 1, 2003, 316 airports were collecting PFCs and 341 had received PFC approval. A substantial portion of PFC revenues are used to make interest payments on bonds.

Airports have used PFC revenues for a broad range of purposes. Unlike AIP grants, of which almost three-quarters have gone to airside projects (runways, taxiways, aprons, and safety related projects) PFC revenues have been distributed more equally between airside and landside projects. The PFC statutory language lends itself to a broader interpretation of "capacity enhancing" and the implementing regulations are less constraining than those for AIP funds. Also the airlines, who historically have preferred funding be dedicated to airside projects, only have to be notified and provided with an opportunity for consultation about PFC funding requests and are therefore somewhat less involved in the PFC project planning and decision-making process than with AIP projects. The difference in the pattern of project types may also be influenced by the difference in project spending patterns between the larger airports, that collect most of the PFC revenue and have more substantial landside infrastructure, versus the smaller airports that are much more dependent on AIP funding.

The Aviation and Transportation Security Act of 2001 (P.L. 107-38) required that FAA expedite the processing and approval of PFC requests for security projects and for reimbursement of costs of DOT security mandates. Vision 100 repealed the authority to use PFC revenues for most security purposes.

AIP Funding of Airport Security

The September 11 attack increased interest in what kinds of security spending could qualify for AIP funding and some confusion as to how airport security projects rate against other priorities in the program. In the aftermath of September 11, FAA advised its field offices that the policies that restricted AIP funding were being temporally lifted. FAA could now approve discretionary funding for security projects and airports could use their formula funds for equipment and facilities of any security project approved by the Civil Aviation Security Field Office. The projects could include security activities for the protection of persons, baggage, and cargo at an airport as well as security activities on board aircraft parked at an airport. Personnel, training, and uniform costs, as well as maintenance and operational costs remained ineligible due to statutory limitations. Security projects, along with safety projects, are considered the highest priority projects.

On November 19, 2001, President Bush signed the Aviation and Transportation Security Act (ATSA) (P.L. 107-71). Section 119 of the act expanded AIP eligibility for FY2002 to cover any "additional security related activity required by law or by the Secretary after

September 11, 2001, and before October 1, 2002.” For non-primary airports located in the confines of enhanced class B airspace, funds apportioned in FY2002 and FY2003 could fund any activity, including operational activities, if the activity was carried out when any restriction in the Notice to Airmen FDC1/0618 was in effect. Also eligible, in FY2002, were payments for debt service on indebtedness incurred by an airport sponsor or at a privately owned or operated airport passenger terminal financed by indebtedness incurred by the sponsor if the Secretary of DOT determined that such payments are necessary to prevent a default on the indebtedness. The federal share for these purposes was 100%.

This elevation of security activities as high priorities has led to a proportional decline of AIP resources dedicated to air-side projects. The findings of a recently released General Accounting Office (GAO) report (GAO-03-27) bear this out. The report found that 17% of the \$3.3 billion in AIP appropriations for FY2002 are being awarded for security projects. The average for AIP through FY 2001 was less than 2%. The \$561 million awarded for security purposes for FY2002 was an 800% increase over the \$57 million awarded for FY2001. GAO also found that there were reductions in AIP funding awarded for non-security projects for FY2002 from the award levels of FY2001.

Vision 100, as mentioned earlier, included a provision that repealed the language of the Federal Aviation Reauthorization Act of 1996 (P.L. 104-264) that permitted the use of AIP and PFC funds for security related improvement of facilities and the purchase or deployment of equipment for security purposes.

Congressional Issues

The safe operation of airports is, by statute, the highest aviation priority. Other priorities include minimizing noise impacts, increasing capacity to the maximum feasible extent, and encouraging efficient service to state and local communities. AIP legislation also links increasing capacity to increasing efficiency and safety.

Budgetary Treatment of the Aviation Trust Fund

AIR21 included language that made it “out of order” in the House of Senate to consider legislation that does not use all aviation trust fund receipts and interest annually. A second capital priority “point of order” provision made it out of order to consider legislation for any fiscal year through FY2003 for RE&D or O&M if the sum of the obligation limitation for AIP and the appropriation for F&E are below their authorized levels. (See CRS Report RS20177, *Airport and Airway Trust Fund Issues in the 106th Congress*, by John W. Fischer.)

Following the passage of AIR21 an ongoing issue was the strength of the Act’s spending “guarantees” and point-of-order enforcement provisions. For example, points-of-order can be waived. There were, however, no serious challenges to the point-of-order enforcement provisions. Vision 100 codified the AIR21 spending guarantees through FY2007.

Airport Capital Needs Debate

The federal government's interest in the needs debate is broader than just dealing with capacity constrained airports. It also deals with implementing federal safety, security, and noise policies. The needs estimates produced by airport and airline interests reflect their business perspectives. Congress has both national interests and local concerns to consider when making decisions on the federal role in airport finance.

Record delays and cancellations during the summers of 1999 and 2000 has led to increased calls for airport capacity improvements, especially for new runway construction. A congressional oversight issue will be whether the increased AIP spending under AIR21 at the major congested airports will increase capacity on the air-side (e.g. new runways, aprons, taxiways, etc.) at congested airports. A related issue is whether the decline in demand for air passenger air transportation, that coincided with the economic recession that began in 2001 and was exacerbated by the impact of the September 11 terrorist attacks, will lead to a delay in capacity enhancing airport projects. Also, will congestion in the security lines lead to a redirection of AIP spending toward security needs at airport terminals.

In a recent examination of airport capital needs the FAA estimated that just over \$9 billion per year would be needed to meet the costs of projects that would be eligible for AIP grants. Airports Council International estimated that just under \$15 billion per year would be needed for projects that may or may not be AIP eligible. (See, U.S. GAO. *Airport Development Needs*. GAO/RCED-97-99. April 1997, and *Airport Finance: Past Funding Levels May Not Be Sufficient to Cover Airports' Planned Capital Development*. GAO-03-497t February 25, 2003)

Noise Mitigation

During the reauthorization debate the immediate issue for Congress was what level to set the noise set-aside in AIP reauthorization legislation. In the longer-term the issue is maintaining noise abatement spending at levels that assure that noise abatement projects reflect their status as high AIP priority. Noise policy is linked to airport capacity policy because airport noise levels are a major factor in local resistance to airport expansion or improvement projects.

AIP discretionary funds are the primary source of noise mitigation projects. AIP formula funds, PFCs, or bond funding are less often used for noise mitigation projects. Small commercial and general aviation airports generally do not have alternative sources of funding for noise mitigation.

Vision 100 raised the noise set-aside from 34% to 35%.

“Place Naming” in Annual Appropriations Legislation

Historically, Congress has not earmarked AIP funds in the manner typical to transit appropriations where specific projects have specific dollar amounts designated in the language of the appropriations bills. Instead of earmarking, AIP funds are subject to “place naming.” Under place naming the appropriations committees direct FAA to give priority

consideration to discretionary grant applications at airports named in the appropriations bill report language. Prior to FY2001, the dollar amount for each named airport was generally not specified. In FY2000 the number of airports named in the report language of the House, Senate, and conference agreement increased significantly. The enacted FY2001 conference agreement (H.Rept. 106-940) place named 158 airports and also specified dollar amounts to be awarded. The language was also more directive. The report directs FAA to “provide not less than the following funding levels, out of available discretionary resources.” The FY2002 appropriations bill conference report (H.Rept. 107-308), place named 101 airports, set the dollar amounts, and directed FAA to provide “not less than” the listed totals. The FY2003 Consolidated Appropriations Resolution (P.L. 108-7) place named 164 airports. The report language of the FY2004 Consolidated Appropriations Conference Report (H.Rept. 108-401) place named, with dollar amounts, nearly 150 airports for airport projects totaling just under \$258 million. At issue is the appropriate scope of place naming and the impact it has on FAA’s grant application process.

LEGISLATION

P.L. 108-135, H.Rept. 108-334 (Young)

Vision 100 — Century of Aviation Reauthorization Act. Authorizes AIP at \$3.4 billion for FY2004, \$3.5 billion for FY2005, \$3.6 billion for FY2006, and \$3.7 billion for FY2007. President Bush signed the Act into law on December 12, 2003.

H.Rept. 108-401 Conference Report

Consolidated Appropriations Act, FY2004. Provides an FY2004 obligation limitation for AIP of \$3.4 billion subject to an across-the-board rescission of 0.59%. The conference agreement has passed the House and awaits Senate action in early 2004. The Act’s agencies are currently operating under a continuing appropriations act (P.L. 108-135) which expires on January 31, 2004.

FOR ADDITIONAL READING

CRS Report 98-579. *Airport Finance: A Brief Overview.*

CRS Issue Brief IB10032. *Transportation Issues in the 108th Congress.*

CRS Issue Brief IB10121. *Federal Aviation Administration Reauthorization.*