AAAE, ACI-NA, U.S. Travel Response to Americans for Tax Reform

March 2016

Claim: "According to 2013 financial reports filed with the FAA, US airports had almost $11.4 billion in unrestricted cash and investments on hand, which equates to 357 days of liquidity."

Rebuttal:

- Airports are often required to have uncommitted reserves for bond covenants. If airports didn't have those reserves on hand, their credit rating would likely be downgraded. A lower bond rating would increase airport borrowing costs, which airports would be forced to pass on to airlines and other tenants.
- It's odd for the airlines to suggest that airports should have less unrestricted cash, since doing so could result in higher borrowing costs and ultimately higher fees for the airlines themselves.
- Airports often use some of their unrestricted cash to begin building infrastructure projects while they are waiting for the FAA to distribute AIP funding. This temporary source of revenue was particularly important when AIP funding was held up as a result of repeated short-term extensions and government shutdowns.
- Like many Americans and businesses around the country, airports also wisely put aside revenue so they have resources on hand in case of an emergency. Reserve funds allow airports to prepare for natural disasters and for times when incoming revenue suddenly drops such as when a carrier unexpectedly terminates service.
- What the airlines don't highlight is the fact that airports had more than $83 billion in debt 2013—far more than the $11.4 billion in unrestricted cash.

Claim: "Additionally, the Airport and Airway Trust Fund (AATF) is at its highest level in over 15 years, with an uncommitted balance of $6 billion."

Rebuttal:

- The Airport and Airway Trust Fund may currently have a healthy uncommitted balance. But that doesn't mean that AIP provides "ample funding to airports" or that Congress is going to suddenly appropriate substantially more funding for airport infrastructure projects.
- To the contrary, AIP only covers a fraction of airport capital needs. The FAA estimates that airports have almost $7 billion in AIP-eligible projects annually. That's more than double the amount that Congress appropriated for AIP in FY16. And ACI-NA estimates that airport capital needs—including AIP-eligible and non-eligible projects—tops $15 billion annually.
- Despite a growing uncommitted balance, AIP funding has been reduced from $3.515 billion in FY11 to $3.35 billion in FY16—about a 5 percent cut. Moreover, AIP was forced to absorb a $253 million hit in 2013 during the first round of sequestration.
- The uncommitted balance of the Trust Fund tends to fluctuate. It dipped to just $300 million in 2009. The future of the Trust Fund may be a little murky because the airlines are relying increasingly on bag fees and other ancillary charges, which—unlike base fares—are not subject to aviation excise taxes.

- The bag fee tax loophole alone costs the Trust Fund approximately $250 million annually. Between 2008 and the 3Q of 2015 (the last quarter available), the airlines collected nearly $24 billion in bag fees.
- Since airline bag fees are not subject to the 7.5% aviation excise tax, the Trust Fund has lost almost $1.8 billion in foregone revenue—funding that could have been used to pay for airport infrastructure projects, NextGen, and other FAA program. And that figure doesn't include the foregone revenue from other airline ancillary charges.

Claim: "FAA reports show that U.S. airports brought in over $24 billion in 2013 alone, a 52 percent per passenger increase from 2000. This included record highs of $10 billion from airline rents and fees and $8.2 billion from non-airline revenues such as retail and food and beverage."

Rebuttal on $24 billion claim:

- The airlines frequently argue that it isn't necessary to adjust the PFC cap because airports collected $24.5 billion in 2013. The airlines might have a point if airports could have used all of that revenue for capital projects. But most of that was operational revenue that airports used to cover day-to-day operating expenses.
- The fact is more than 73 percent of the airline's estimate—$18 billion—paid for airport operations ($11.7 billion) and debt service ($6.3 billion). Airports used operations revenue for personnel; firefighting; law enforcement; janitorial services; utilities like electricity, water, and heating and cooling.
- Even our airline friends would have to admit that it's hard to run an airport without any employees to clear runways, without any firefighters available to respond to an emergency, without any law enforcement personnel, and without any electricity.
- Another 25 percent of the airline estimate—or $6.2 billion—came from AIP funds and PFCs. And that estimate is misleading because airports didn't actually receive the full $3.4 billion in AIP grants as the airlines claim.
- According to the FAA, airports received less than $2.8 billion from PFCs and less than $3 billion in AIP grants in 2013. There's no question that $5.8 billion is a large amount of money. But it only covers 38% of the more than $15 billion in annual airport capital needs.
- We realize that it is highly unlikely that Congress will appropriate a massive increase in federal spending for airport infrastructure projects. We're merely asking that Congress allow airports to generate more local revenue themselves so they can build the safety, security, and capacity projects they need to accommodate rising demand.
- And the airlines would prefer that airports issue even more debt to finance their infrastructure projects. A small adjustment in the PFC cap would help airports pay for more projects on a pay-as-you-go basis is a more fiscally responsible approach.
- PFCs are not taxes as some claim. They are local user fees. PFCs are imposed by states or units of local government—not the federal government. PFCs are not collected by the federal government, not spent by the federal government, and not deposited into the U.S. Treasury.

Rebuttal on $10 billion claim:

- Airports collected $10 billion in "aeronautical revenue" and $8.2 billion in "non-aeronautical revenue" for a total of $18.2 billion in operating revenue in 2013. But let's be clear: Airports used virtually all of it—about $18 billion—to cover their operating expenses for the year.
- Airports rely on operating revenue to pay for their day-to-day operations like personnel costs, firefighting, law enforcement, and janitorial services. They also use operating revenue to pay for utilities like electricity, water, and heating and cooling. Certainly even the airlines would agree that it's hard to run an airport without electricity.
- Although airports collected almost $10 billion in "aeronautical revenue," not all of that revenue came from the airlines as they claim. The "aeronautical revenue" category also includes revenue from Fixed Base Operators, security reimbursement from the Federal Government, and landing fees from general aviation and the military.

Claim: "Air passengers are already overburdened by government taxes and fees—taxes make up 21% of the cost of an average domestic flight, and passengers paid $20.5 billion in taxes in 2014 alone."

Rebuttal:

- Our airline partners and their allies frequently argue that they are "overburdened with government-imposed taxes and fees." The airlines would have a point if they operated their own airports and air traffic control system and if revenue generated from all government-imposed taxes and fees went directly to the U.S. Treasury.
- But that's simply not the case. Aviation excise taxes and PFCs finance the very aviation system and airport infrastructure that the airlines use to operate. These are not "sin taxes" meant to discourage consumption. These are fees that fund the very infrastructure that the airlines need to operate.
- It's ironic that the airlines and their allies argue that they are overburdened with government-imposed taxes and fees while they generate increasing amounts of revenue from their own growing list of airline-imposed fees and are shortchanging the Airport and Airway Trust Fund by not paying their fair share of taxes.
- Frequent travelers know that many airlines charge passengers $25 to check a bag and $200 to change a ticket. Since 2008, the airlines have collected roughly $25 billion in bag fees and another $20 billion in reservation changes fees. And that doesn't include revenue from numerous other airline-imposed fees.
- By comparison, a $2 PFC increase for some passengers is a very modest adjustment especially since PFC revenue goes toward building airport infrastructure projects that directly benefit the airlines and our passengers.

Claim: "Not only would an increase in the PFC be wholly unnecessary, it is also unpopular. A recent study found that 82 percent of voters opposed efforts to double the PFC in recent years. Just 14 percent of voters favored increasing the PFC."

Rebuttal:

- Let's be clear: The study referenced by the Americans for Tax Reform was not some fair, unbiased, and independent analysis. The fact is, the study was sponsored and paid for by the Airlines for America to help promote its own anti-PFC agenda.
- The Department of Transportation has conducted its own impartial research on passenger complaints. The agency's Air Travel Consumer Reports repeatedly indicate that by far the top source of passenger complaints is flight delays, cancellations, and misconnections—not local fees.
- Adjusting the PFC cap would help to mitigate flight delays and cancellations—the biggest complaint that passengers have with commercial air service today.