Statement of

Todd Hauptli

President and CEO

American Association of Airport Executives

Before the

Subcommittee on Aviation Operations, Safety, and Security

Committee on Commerce, Science, and Transportation

United States Senate

April 23, 2015

Chair Ayotte, Ranking Member Cantwell, and members of the Senate Aviation Subcommittee, thank you for inviting me to participate in this hearing on airport issues and infrastructure financing. It is an honor for me to be here today.

AAAE is the world's largest professional organization representing the men and women who manage primary, commercial service, reliever, and general aviation airports around the country. On behalf of all our members, I would like to thank each of you for being good partners and strong advocates for airports in your states.

I am pleased to be here with Mark Reis, the Managing Director of the Seattle-Tacoma International Airport and Immediate Past Chair of Airports Council International-North America (ACI-NA). Mark is an exceptionally talented and well-respected leader in the aviation industry. It's been a pleasure to work with him and ACI-NA President and CEO Kevin Burke.

AAAE and ACI-NA have put together a number of detailed policy proposals for consideration as part of reauthorization for the Federal Aviation Administration (FAA) that we have shared with your staff. Today, I would like to discuss some of our key proposals including those pertaining to small community air service and highlight recommendations that would help airports of all sizes build critical infrastructure during the current fiscal climate.

By any measure, airports around the country need additional resources to upgrade aging facilities, accommodate rising demand, and to keep pace with evolving safety and security standards. Unfortunately, infrastructure investment in the United States is still behind other countries in the world. According to the latest Global Competitiveness report, the United States has the 12th best infrastructure in the world and the ninth best aviation infrastructure. I hope all of us would agree that ninth place simply isn't good enough.

At a time when there is enormous pressure to reduce federal spending, modernizing the local Passenger Facility Charge (PFC) is the best way to deliver additional resource to airports and make our infrastructure more competitive. That's why AAAE, ACI-NA, and a group of large hub airports that participate in the Gateway Airports Council are urging you to update the federal cap on PFCs from $4.50 to $8.50 and allow it to be periodically adjusted for inflation.

Last adjusted in 2000, a modernized PFC would help airports of all sizes. In fact, some of the most compelling calls for self-help come from small airports in communities like Manchester, New Hampshire; Sioux Falls, South Dakota; and Spokane, Washington. The following includes a more detailed discussion of PFCs as well as other financing recommendations.

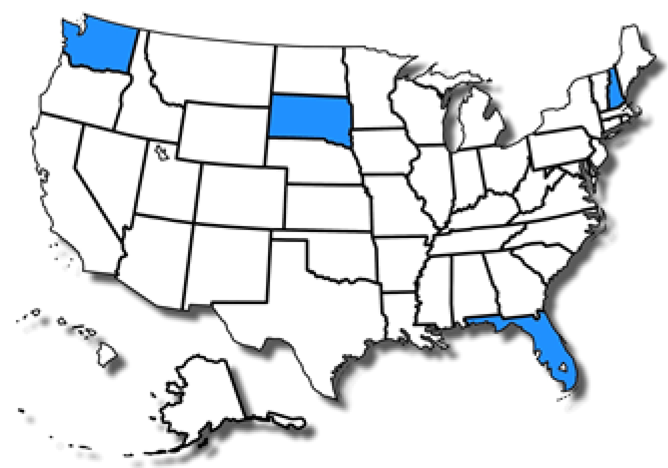
Increasing Demand and Congestion; Airport Capital Needs

Increasing Demand: Airports, airlines, and federal agencies are all expecting passenger levels to increase in the short- and long-term. Airlines for America (A4A) is predicting that air travel this spring will reach 2.2 million passengers per day and rise to the "highest level in seven years." The airlines estimate that almost 135 million passengers will fly on U.S. carriers between March 1 and April 30 – an increase of 6.6 million passengers from same two-month period in 2013.

The FAA also anticipates that passenger levels will continue to climb. The agency estimates that U.S. commercial air carrier enplanements will increase from less than 740 million in 2013 to almost 776 million this year – an increase of 36 million passengers. That's more than the combined populations of Florida, Washington, New Hampshire, and South Dakota.

36 Million More Enplanements 2013-2015: Populations of FL, WA, NH, SD*

(Sources: FAA Aerospace Forecast Fiscal Years 2015-2035; U.S. Census Bureau)



*U.S. Commerical Air Carriers

The FAA's latest Aerospace Forecast also indicates that enplanements are expected to increase to more than 800 million passengers by 2017. The agency anticipates that passenger enplanements will reach the one billion mark by 2029 – just 14 years from now. By 2034, passenger levels are expected to exceed 1.1 billion.

Another 320 million passengers is the equivalent of adding the entire U.S. population to our already constrained aviation system. That may seem like a long time into the future, and the FAA's estimates may change some. But planning, designing, and building runways and other capacity-enhancing projects can take an enormous amount of time.

Airports simply don't have the luxury of being able to flip a switch and instantly complete a new runway or some other large capacity project. The Department of Transportation (DOT) "Beyond Traffic" report points out that "building a new airport runway can easily take more than a decade…."

Airports need to begin preparing now for increasing passengers and start planning and financing time-consuming infrastructure projects. And it will be increasingly difficult for airports to fund those projects if PFCs remain artificially capped at $4.50 as they have been since 2000.

Increasing Flight Delays, Cancellations, and Complaints: Without adequate airport infrastructure investment, increasing demand will likely translate into increasing congestion, more flight delays, more cancellations, and more customer complaints.

Airline flight delays and cancellations have been creeping back up in the past few years. According to the Bureau of Transportation Statistics (BTS), more than 21.3 percent of arrivals were delayed in 2014 – up from 16.7 percent in 2012. Travel over the busy holidays is also becoming more challenging. Twenty-two percent of flights were delayed over the Thanksgiving holiday last year – the highest percentage since 2007.

The number of cancelled flights has been rising, too. BTS indicates that U.S. carriers cancelled almost 127,000 flights last year – the most since 2008.

With increasing flight delays and cancellations, it's no wonder that passenger complaints are escalating. According to DOT Air Travel Consumer Reports, the agency received almost 5,000 complaints about flight delays, cancellations, and misconnections last year. That number is up about 25 percent from 2013.

Airport Capital Needs: With increasing passenger levels, airports are also facing significant capital needs. As part of its 2015 National Plan of Integrated Airports System (NPIAS), the FAA estimated that there are $33.5 billion in AIP-eligible projects between 2015 and 2019 or approximately $6.7 billion per year. The annual average is twice the current funding level.

The FAA's NPIAS provides a snapshot of certain airport capital needs. But it is important to note that the FAA estimate only reflects those projects that are eligible for federal funds. The FAA report does not include other necessary but ineligible infrastructure projects such as gates and certain terminal projects that airports fund with PFCs and other revenue sources.

Like the FAA, ACI-NA has a long track record of evaluating airport capital needs. The association's latest Capital Needs Survey estimates that airports will have $75.7 billion in capital needs between 2015 and 2019 or more than $15.1 billion annually for AIP-eligible and other necessary projects. This is more than twice the $6.2 billion that airports expect to receive in AIP funds and PFC revenue this year.

Recommendations for Helping Airports Finance Critical Infrastructure Projects

Airports rely on a combination of PFCs, AIP funds, bonds, state and local grants, and other airport revenue to finance infrastructure projects at their facilities. But it is important to note that unlike AIP and PFCs, bonds are not a revenue source – they are essentially loans that airports need to pay back. As one airport executive described it:

"Bonding is a stop-gap fix for a lack of funding needed for immediate projects. It is a loan, plain and simple, and is not a revenue source. Any use of bonding is simply kicking the can down the road for future passengers to pay."

In terms of additional borrowing, many airports are unable to issue new bonds because they have reached the limits of their debt capacity. Other small airports are unable to go to the bond market to finance infrastructure projects. In fact, FAA financial reports show that airports had $84 billion in debt at the end of 2013.

Ensuring that airports collectively have adequate funding to build critical infrastructure projects will require Congressional action on PFCs, AIP, and the tax-treatment of airport bonds. Needless to say, flat or reduced AIP funding will only increase pressure on airports to secure funds from other revenue sources like PFCs.

Modernize Federal Cap on Local PFCs: AAAE, ACI-NA, and the Gateway Airports Council – a group of large hub airports – are united behind a proposal to update the federal cap on local PFCs from $4.50 to $8.50 and to allow for the periodic adjustment of the cap for inflation. Modernizing the PFC cap continues to be our top priority for the next FAA reauthorization bill.

For 25 years, the PFC program has helped airports increase safety, security, and capacity; mitigate the impact of aircraft noise; and increase competition. Airports use money generated from PFCs for a variety of purposes including building new runways, taxiways, and terminals.

PFCs are local fees that must be approved locally, imposed locally, and used locally for projects approved by DOT in consultation with the airlines. There is an inherent level of accountability locally that ensures any revenues raised through the PFC are used for critical locally-supported projects.

A PFC adjustment is long overdue. The cap has not been adjusted since 2000 –15 years ago. Considering the ongoing pressure to reduce federal spending, it is now more important than ever that Congress raise the federal cap on local PFCs. Modernizing the cap would allow airports to finance a greater share of critical infrastructure projects with their own local revenues.

The $253 million cut in AIP funding that airports sustained in 2013 as part of the sequestration process underscores the need for Congress to update the federal cap on local PFCs. Modernizing the PFC cap would provide airports with the self-help they need to finance critical infrastructure projects without relying as much on scarce federal funds.

PFCs Help Increase Capacity; Enhance Competition: Airports use PFC revenue to build infrastructure projects that increase capacity, reduce delays, and enhance competition among carriers.

Port Authority of New York and New Jersey: The Port Authority of New York and New Jersey, for example, is using PFCs and other sources of revenue to reconstruct runways at John F. Kennedy International Airport. The improved runways will help increase capacity, reduce delays, and enhance safety at one of the nation's busiest airports.

The Port Authority is both widening its runways to accommodate larger aircraft and raising them by a foot for flood mitigation. In the past five years, the Port Authority has used $470 million in PFC revenue for runway widening and raising, $162 million for Runway Safety Areas, and $115 million for delay reduction. Again, this $750 million in capacity- and safety-related projects simply wouldn't be possible without local user fees.

Meanwhile, the Port Authority is moving forward with plans to replace the aging Central Terminal at LaGuardia Airport. Airport terminals – like runways and taxiways – increase capacity. Without a new terminal, LaGuardia simply wouldn't be able to efficiently accommodate four million additional passengers annually.

Almost half of the funding for the more than $3 billion Central Terminal project will come from PFCs. Raising the PFC cap to $8.50 and indexing it for inflation would allow airports like those in New York and New Jersey to invest in additional capacity- and safety-related projects on the airside and the landside.

Tampa International Airport: PFCs can help increase airline competition, and that's exactly what happened at the Tampa International Airport. The airport's international terminal in 2011 was at capacity and needed to be expanded. The airport embarked on a $27 million terminal project that would not have been possible without $8 million in PFC revenue.

As a result of the PFC investment, the airport was able to bring in three new airlines: Edelweiss Airlines, Copa Airlines, and Lufthansa. The return on investment is substantial. The airport used $8 million in PFCs, and airport officials estimate that the new service will have an annual economic impact on the region of at least $120 million.

PFCs Help Small Airports: Although large airports obviously benefit from PFCs, the local user fee is an important source of income for smaller commercial service airports, too. Small airports rely on PFCs to augment their AIP funding and to help pay the higher local matching requirement for AIP funds.

The last FAA bill reduced the federal share for projects at small airports from 95 percent to 90 percent. Doubling the local match requirement had an enormous financial impact on small airports. Adjusting the PFC cap to $8.50 would help small airports generate more local revenue to meet their higher local requirements.

Manchester Regional Airport: The Manchester-Boston Regional Airport, a small hub airport in New Hampshire, is pressing for a modernized PFC. Airport Director and AAAE First Past Chair Mark Brewer, A.A.E, said that the airport could use the increased PFC revenue to make additional payments on its existing debt service on PFC projects – a proposal that would help airlines operating at the New Hampshire airport.

"By using PFC revenue for that purpose we could reduce the debt load on airline rates and charges," Brewer told lawmakers when he appeared before the House Aviation Subcommittee in late 2013. "This is yet another example of where airports and airlines would truly benefit from a PFC increase."

Spokane International Airport: The Spokane International Airport has used PFCs to fund almost $120 million in safety, efficiency, and capacity improvements over the years. Larry Krauter, A.A.E., the Chief Executive Officer at the airport, says that some of those projects may not have been completed without revenue from the local user fee. Other projects may have taken longer to implement, cost more to complete, and required the airport to issue more debt.

The Spokane airport plans to use additional PFC revenue to finance a number of important projects such as airfield perimeter security enhancements and security access control improvements. A higher PFC cap would allow the airport to fund a needed terminal renovation and expansion project on a pay-as-you-go basis while simultaneously reducing or eliminating the need to issue more debt, which again would increase cost and time.

The Spokane airport values it relationships with its airline partners, and revenue from airline rates and charges helps pay for airport operating expenses. But like many small- and medium-sized airports around the country, airport officials are not expecting the airlines to make substantial investments in their capital projects – especially for projects that enhance competition.

"Historically, the airlines have spent very little on improvements at Spokane International Airport and do not have any intentions of spending significant amounts of capital funds to improve the passenger experience at SIA or to address other deficiencies," Krauter said. "That is why the PFC is important as well as why we support its modernization to restore the lost buying power that has eroded since it was last adjusted in 2000."

Sioux Falls Regional Airport: Because of the increasing pressure on AIP funding, some smaller airports that haven't collected PFCs in the past are turning to the local fee for help. Airport officials at the Sioux Falls Regional Airport recently explained why the small hub airport in South Dakota plans to use PFCs to finance its infrastructure projects.

"Due to the shrinking Airport Improvement Program…our ability to fund major projects is in jeopardy. We actually have two projects planned for our primary runway with costs in the multiple tens of millions," airport officials explained. "At this time, it appears that AIP will only cover a portion of that need. There is simply not enough discretionary funding to support the projects. The result is that we are forced to pursue PFC funding."

Other small commercial service and general aviation airports that don't collect PFCs also benefit from the PFC program. That's because large and medium hub airports that collect PFCs turn back up to 75 percent of their AIP entitlements, and a large percentage of those withheld funds are distributed to small airports through the Small Airport Fund. Small airports received roughly $500 million from the fund in FY15.

Construction Cost Inflation: Airport efforts to prepare for increasing passenger levels have been hampered by rising construction costs. According to the Means Construction Cost Indexes, the average construction costs for 30 major U.S. cities jumped more than 70 percent since 2000 – the last time Congress raised the PFC cap.

Unfortunately, rising construction costs have eroded the purchasing power of PFCs and AIP funds. For instance, a $4.50 PFC is worth approximately half that amount today – about $2.41 according to the Engineering News Record Construction Cost Indexes and about $2.24 according to the Means Construction Cost Indexes. Unless corrective action is taken, the value of PFCs will erode even more.

In order to keep up with construction inflation, it is necessary to raise the PFC cap to $8.50 today. Keep in mind that raising the cap to that level would only allow PFCs to keep up with construction cost inflation that has already occurred. The cap also needs to be adjusted periodically to prevent further erosion.

"Classic Example of a User Fee"

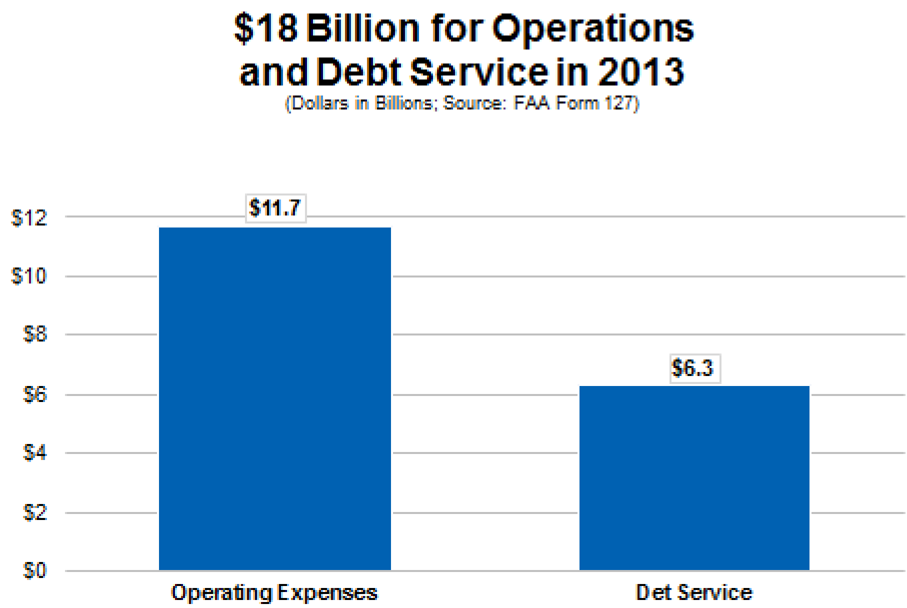
Despite claims from the airline industry, PFCs are not taxes. PFCs are local user fees charged to passengers using airport facilities to help defray the costs of building airport infrastructure. Moreover, PFCs are imposed by states or units of local government – not the federal government. PFCs are not collected by the federal government, not spent by the federal government, and not deposited into the U.S. Treasury.

The highly-respected and non-partisan Congressional Research Service agrees that PFCs are not taxes. In a January 2015 report, CRS accurately describes the PFC as "a state, local, or port authority fee, not a federally imposed tax deposited into the Treasury."

Marc Scribner from the libertarian Competitive Enterprise Institute recently described PFCs as "classic example of a user fee." He correctly pointed out that "unlike taxes, user fees can only be imposed on the service beneficiaries…The primary beneficiaries of airports are the passengers who use the airports; thus, charging them a facility user fee that will be used solely for specific, statutorily-defined airport improvements cannot constitute a tax."

A Closer Look at Airport Revenue: Our airline partners have been trying to make the case that adjusting the PFC cap isn't necessary because commercial service airports collected $24.5 billion in revenues in 2013. But they conveniently ignore the fact that there are expenses associated with operating commercial service airports. The airlines might have a point if airports could have devoted the entire $24.5 billion for capital projects. But that is most certainly not the case.

The fact is almost half of the airline's estimate – or $11.7 billion – paid for airport operating expenses such as personnel costs, firefighting and law enforcement, utilities, janitorial services, insurance, materials and supplies. According to airport financial reports, airports also had $6.3 billion in debt service costs in 2013. That's the amount of principal and interest that airports paid for long-term bonds during the year. When combined with airport operating expenses, airport non-capital costs were $18 billion in 2013 – or 73 percent of A4A's estimate.



The carriers go on to argue that they paid $10 billion in "airline rents and fees" in 2013. It is true that airports collected that much in "aeronautical revenue." But not all of it came from the airlines as A4A claims. The "aeronautical revenue" category also includes revenue from Fixed Base Operators and landing fees from general aviation and the military. The "passenger airline" portion of aeronautical revenue was $8.1 billion – almost $2 billion less than A4A's claim.

Another 25 percent of A4A's 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. According to the FAA, airports received less than $3 billion in AIP grants in 2013 and slightly less than $2.8 billion from PFCs. There's no question that $5.8 billion is a large amount of money. But revenue from those two programs would only cover 38 percent of the more than $15 billion in annual airport capital needs.

The airlines also argue that modernizing the PFC isn't necessary because airports had $11.4 billion in unrestricted cash at the end of 2013. Like many Americans and businesses around the country, airports wisely put aside revenue for unexpected emergencies. This ensures that airports are prepared in case a natural disaster happens or when incoming revenue suddenly declines such as when a carrier reduces service or pulls out of a market all together.

If airports didn't have those reserves on hand, their credit ratings would likely be downgraded. A lower bond rating would increase airport borrowing costs, which airports would be forced to pass on to airlines. It's seems 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.

In a 2012 report on rating criteria for airports, Fitch Ratings argues that "airports should have liquidity at least equal to several months of operating/debt service ready." Fitch explains why:

> "An important part of its analysis focuses on unrestricted liquidity as the airport sector is susceptible to adverse conditions, whether they come from carrier actions, macro events, or economic cycles. Metrics considered include cash to debt and days cash on hand. With healthy reserves, airports can use unencumbered funds in several ways, including weathering a likely airline bankruptcy, terrorist/health incident, or natural disaster, and also the cash funding of capital improvements or lowering the cost burden passed on to airlines or passengers."

Finally, A4A's estimate also doesn't take into account the amount of debt that airports have outstanding. Airport financial reports show that airports had more than $83 billion in outstanding debt in 2013. Without a PFC increase, airports will have to issue even more debt to finance their infrastructure projects. Modernizing the PFC cap and paying for more projects on a is a fiscally responsible approach that helps airports and airlines

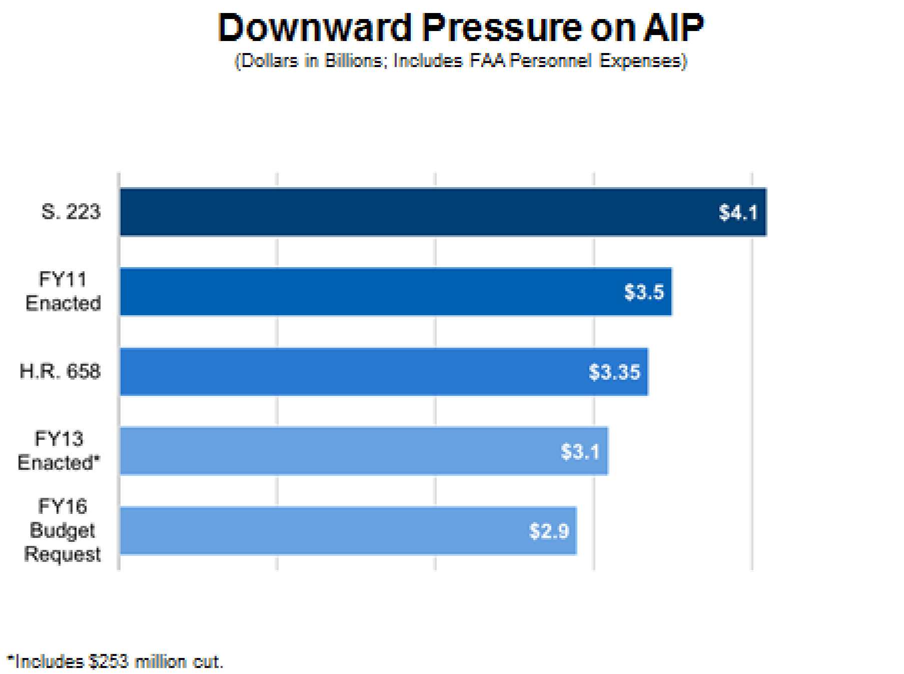
Provide Adequate AIP Funding: AAAE and ACI-NA are also urging Congress to maintain adequate funding for airport infrastructure projects in the next FAA reauthorization bill. No general fund revenues are used for AIP grants. The AIP program is supported entirely by users of the aviation system through various taxes and fees that are deposited into the Airport and Airway Trust Fund.

AIP is a critical source of funding for airports of all sizes and especially smaller airports around the country that don't generate as much PFC revenue or have easy access to the bond market. Large and medium hub airports also depend on AIP funding – particularly money distributed through the Letter of Intent Program – to help pay for large capacity-enhancing projects.

Unfortunately, AIP funding has been trending downwards. S. 223, the Senate-passed version of the last the FAA reauthorization bill proposed $4.1 billion for AIP in FY11. However, the final version of the legislation (H.R. 658) ratcheted funding back to $3.35 billion annually.

The AIP program received approximately $3.1 billion in Fiscal Year 2013 after the diversion of $253 million to pay for FAA operations. Again, it is important to point out that not all AIP funding actually goes toward airport capital projects. In FY13, for instance, slightly more than $100 million of AIP went to the FAA to operate the program. Only about $2.9 billion actually went to airport infrastructure projects.

Overall AIP funding ticked back up to $3.35 billion in FY14 and in FY15. However, AIP funding levels have not been nearly enough to cover the FAA's estimated $6.7 billion in annual AIP-eligible projects. Like the stagnant PFC cap, flat AIP funding has lost ground to construction cost inflation over the years.



Opportunity to Recalibrate AIP: Raising the PFC cap to $8.50 and periodically adjusting it for inflation could potentially open the door to recalibrate the AIP program. With a PFC increase firmly in place, limited federal funds could be focused on smaller airports that need AIP funds the most. Many large airports are willing to give up their entitlements in exchange for a sufficient PFC increase. But again, any effort to modify the AIP program must begin by modernizing the PFC cap and indexing it for inflation.

The Administration has proposed to raise the PFC cap to $8 and reduce AIP from $3.35 billion to $2.9 billion – saving about $450 million annually. The Administration is also simultaneously proposing to eliminate entitlements for large hub airports. But the Administration has rightfully made it clear that its proposal to reduce AIP funding is contingent upon raising the PFC cap.

The Administration's plan represents a step in the right direction. However, airports are calling on Congress to update the PFC cap slightly higher to $8.50 and to index it for inflation. If our proposal were adopted, the AIP program could also be recalibrated to focus limited federal funds on smaller airports. But a number of steps would be required to ensure that small communities are kept whole if AIP funding dips below $3.2 billion because of formulas in current law.

AIP Funding and ATC Reform: As Congress considers proposals to reform the nation's Air Traffic Control system and transform how the FAA is financed, we urge you to keep the fundamental structure of the federal AIP program intact. While some may say the Air Traffic Control modernization process is broken, most would agree that the AIP program is not.

The AIP program has a decades-long, demonstrated record of success in building critical infrastructure at airports of all sizes. Maintaining a solid federal program with sufficient funds for large and small airports is essential to the long-term viability of airports around the country and the entire aviation system.

As you consider proposals to transform the FAA, we urge you to maintain a sufficient and stable revenue stream to support capital projects at large and small airports. Airport operators strongly believe that they should continue to receive revenue from a dedicated airport trust fund rather than the less predictable general fund as some have proposed.

Preserve and Restore Tax Exempt Financing for Airport Bonds: While it isn't under this committee's jurisdiction, airports urge you to work with your colleagues on the Senate Finance Committee to help finance infrastructure projects with bonds. Specifically, we are urging Congress to retain the tax exemption for municipal bonds and to eliminate the tax burden of the Alternative Minimum Tax (AMT) on airport private activity bonds.

AAAE and ACI-NA have long argued that federal tax law unfairly classifies the vast majority of bonds that airports use as private activity even though they are used to finance runways, taxiways and other facilities that benefit the public. Since private activity bonds are subject to the AMT, airport bond issuers traditionally have been charged higher interest rates on their borrowing.

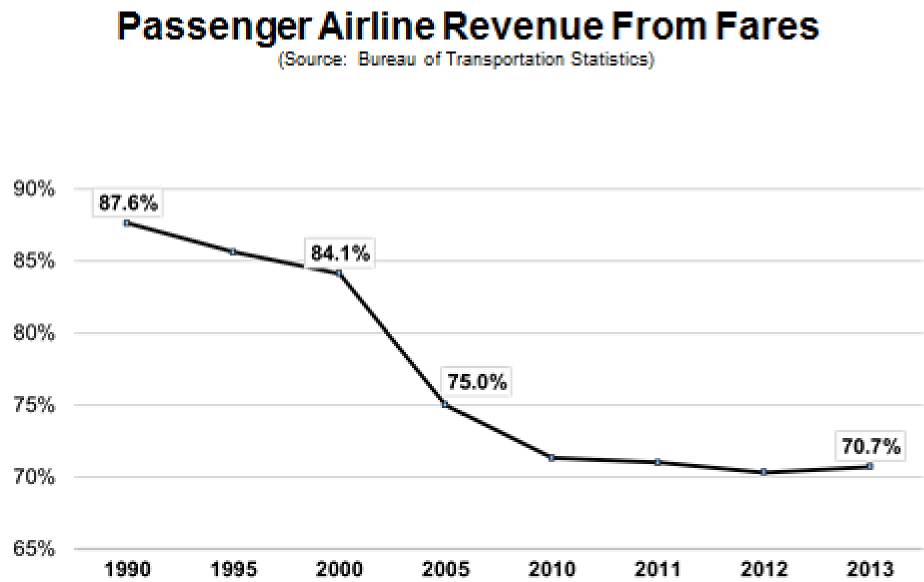
A permanent AMT fix would help airports reduce their borrowing costs, allow them to invest in more infrastructure projects, and support more jobs. Since reducing borrowing costs would benefit airports and their customers, this is one airport infrastructure financing proposal that airports and airlines will likely continue to agree makes sense.

Close Bag Fee Loophole: While airports and airlines may agree on the need for AMT relief, we continue to have a fundamental disagreement over the airlines' increasing reliance on baggage fees and other ancillary charges. Airports are recommending that those fees be subject to the same aviation excise taxes as base air fares and that the revenue be deposited into the Airport and Airway Trust Fund.

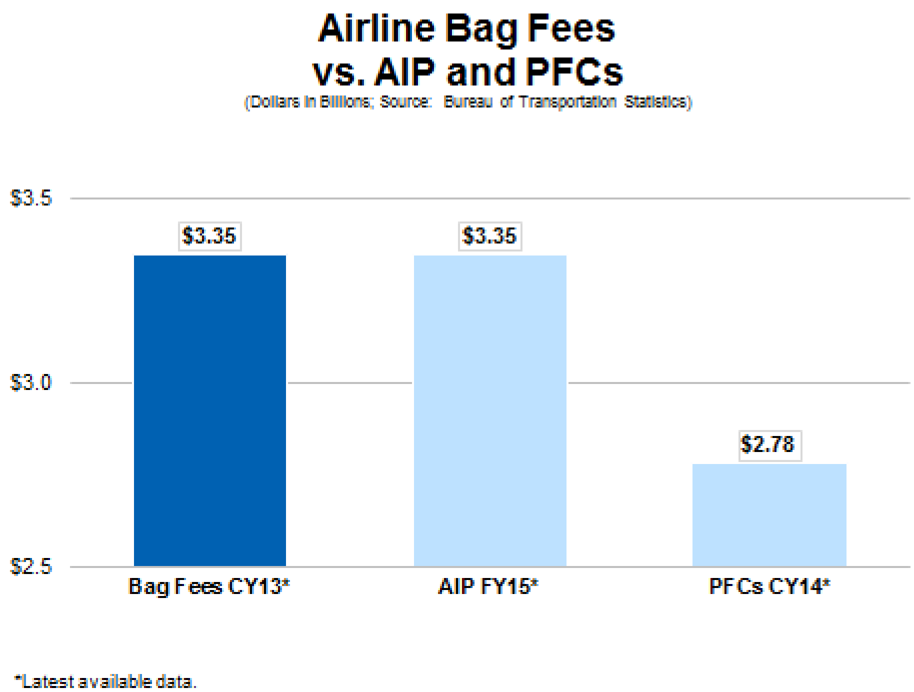
Airport operators respect our airline partners and the highly competitive nature of the commercial airline industry. However, at a time when federal funding for airport infrastructure projects is stagnant, and the purchasing power of PFCs is eroding, the airlines' current business model simultaneously reduces funds that could be used for airport infrastructure projects and air traffic control modernization.

Air carriers are increasingly relying on revenue generated from checked baggage fees and other ancillary charges and less on funds from base airline tickets. Unlike airline tickets, baggage fees and some other ancillary charges are not subject to a 7.5 percent excise tax. In other words, the airlines' a la carte pricing model allows carriers to avoid paying aviation excise taxes for services that were once included in the price of traditional airline tickets.

The airlines' reliance on baggage fees and the shrinking percentage of revenue from base fares has been a growing trend in recent years. According to BTS, the percentage of airline revenue from base fares has dropped from almost 88 percent in 1990 to slightly less than 71 percent in 2013 – the last full year currently available.

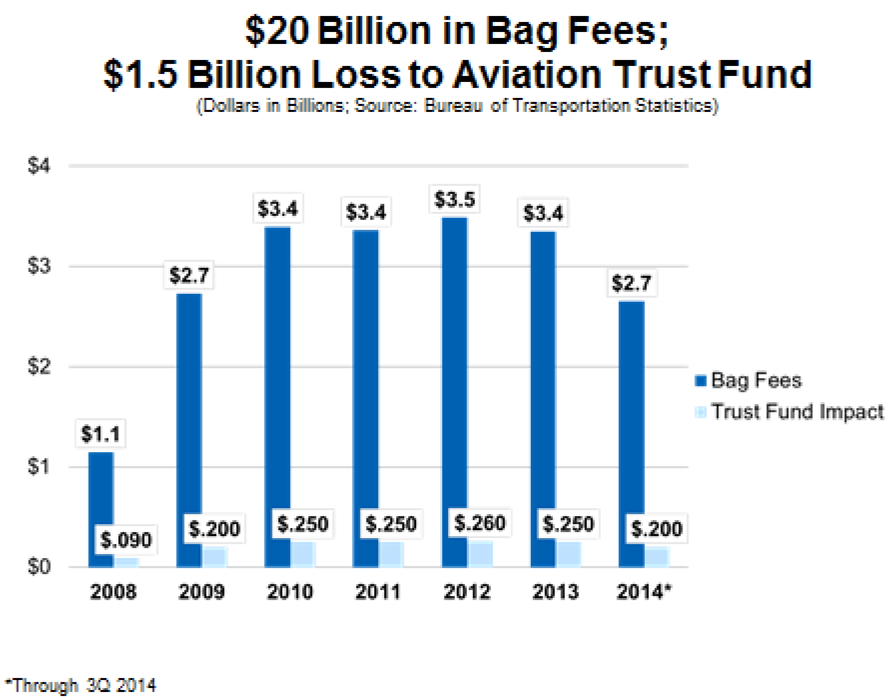


According to BTS, U.S. airlines collected slightly more than $3.35 billion in baggage fees in 2013 – and the carriers were on track to collect at least that amount in 2014. Those figures are for bag fees alone and do not include revenue that carriers generate from reservation change fees and other ancillary charges. The 2013 airline bag fee revenue is almost the same amount that Congress approved for AIP in FY14 and FY15. It's also more than airports collected in PFC revenue last year.



The airlines' use of ancillary fees shortchanges the Airport and Airway Trust Fund of revenue that could otherwise support airport infrastructure projects, air traffic control modernization, and other aviation system improvements. Between 2008 and the third quarter of 2014, the airlines raked in more than $20 billion in revenue from bag fees.

Closing the baggage fee loophole and charging the same 7.5 percent as base fares would have generated approximately $250 million in 2013 – about the same amount of AIP cuts that airports sustained that year to fund FAA operations. From 2008 through the third quarter of 2014, the bag fee loophole cost the trust fund $1.5 billion. Again, that's revenue that could be used to pay for NextGen and airport infrastructure projects.



We appreciate the airlines' responsibility to answer to their shareholders. And airports want our airline partners to be successful. But the ancillary fee loophole should be closed. Doing so would generate about $1 billion every four years that could be used for AIP and NextGen. It would also help the nation meet the long-term needs of our aviation system.

Recommendations for Helping Small Communities

This Committee has a long bipartisan track record of looking out for small communities and supporting programs that ensure people who live and work in rural areas have access to our aviation system. As you consider the next FAA bill, we urge you to maintain funding for small community programs and protect the cost-effective Contract Tower Program.

Essential Air Service: Congress created the Essential Air Service (EAS) program as part of the Airline Deregulation Act of 1978 to ensure that small communities could maintain a minimal level of scheduled air service. Since then, this program has successfully allowed people who live in rural and less populated areas to have access to the national aviation system. According to DOT, 160 communities participate in the EAS program including 44 in Alaska.

Commercial air service is not just a matter of convenience for leisure travelers. It is also critical to economic development efforts in communities around the country. Without reliable commercial air service made possible by the EAS program, it would be difficult for many small communities to retain and attract businesses that create jobs.

The last FAA bill included a number of EAS reforms. For instance, the bill eliminated service to communities with fewer than 10 enplanements a day except those communities more than 175 miles from a large or medium hub airport and those located in Alaska and Hawaii. The bill also left intact a provision to eliminate service to communities with more than $1,000 per passenger subsidy – a proposal that Congress approved as part of a previous short-term extension.

Small Community Air Service Development Program: AAAE and ACI-NA have been long-time proponents of the Small Community Air Service Development Program. Since Congress created the program as part of H.R. 1000, the Wendell H. Ford Aviation Investment and Reform Act for the 21st Century, it has helped numerous small communities suffering from insufficient air service or unreasonably high fares.

DOT Assistant Secretary for Aviation and International Affairs Susan Kurland told House lawmakers last year that small community grants "fund a wide range of projects, including various kinds of financial incentives to airlines, intermodal solutions such as shuttle services to the airport, leakage studies, cutting edge marketing techniques, and start-up cost offsets."

It is worth noting that small communities that participate in the program bring significant local funds to the table. According to Assistant Secretary Kurland, more than half of grantees contributed at least 20 percent of the costs, and 12 percent paid at least 50 percent of the costs.

Small airports around the country face numerous challenges including a consolidated airline industry and regional airlines that terminate service because they say there is a shortage of commercial pilots. Since many small communities are struggling to maintain and attract new commercial service it is now more important than ever to fund this program.

Vision 100 authorized $35 million per year for the Small Community program. Congress reduced that level to $6 million annually in the last FAA reauthorization bill. We urge you to authorize at least $6 million annually for this program in the next FAA bill.

We also urge you to make a technical change to the program. Under current law, only those airports that were classified as a small hub airport or smaller in calendar year 1997 are eligible to participate in the Small Community program. That requirement unfairly excludes a handful of small airports from participating in the program because they were classified as a medium hub in 1997 even though they are classified as a small hub today.

Airports that have dropped out of the medium hub category in recent years should be eligible to participate in the Small Community Air Service Development Program just like other small airports. Allowing all current small hub and non-hub airports to be eligible to participate in this program would be a welcome technical fix that could help more small airports suffering from insufficient air service or unreasonably high fares.

Contract Tower Program: On behalf of the 252 airports in 46 states that participate in the FAA Contract Tower (FCT) Program, we would like to thank members of this Committee for your long-standing and critical support of this program. We are grateful that so many of you led the charge to keep 149 Contract Towers open during the first round of sequestration in 2013.

As a result of this 33-year government/industry partnership, the FCT Program enhances aviation safety at airports that otherwise would not have a tower. It also plays a key role in connecting smaller airports and rural communities with the national air transportation system. It is interesting to note that approximately 80 percent of all contract controllers are veterans.

Before an airport is admitted into the contract tower program, the FAA performs a rigorous cost benefit analysis to ensure that the safety benefits will outweigh the economic costs. This has worked well. But now the agency is in the process of revising its cost benefit methodology in a way that could put the thumb on the cost side of the scale and against the clear safety benefits these towers provide the national air transportation system. This means that some airports may lose their contract tower or have to pay an onerous portion of the costs.

AAAE and its affiliated organization – the U.S. Contract Tower Association – are asking this Committee to consider taking a handful of steps in order to keep a fair and balanced cost benefit analysis intact. We look forward to working with all of you to ensure that FCT continues to be a cost-effective and proven way to enhance air traffic safety at smaller airports across the country.

Pilot Shortage: A number of small communities have experienced commercial air service reductions in the past year, in part, because carriers say that there are not enough qualified pilots to operate their flights. Not surprisingly, airport operators around the country are concerned about possible short- and long-term repercussions.

Mainline carriers often tap pilots from the regional airlines that provide service to smaller communities. So a number of airport directors at small- and medium-sized facilities are concerned that this situation could make it more challenging for them to attract and retain commercial air service.

To complicate matters, a large number of pilots are also expected to retire in the next several years. InterVistas Consulting Group estimates that 16,000 pilots at the big four U.S. carriers will retire between now and 2022. In 2013, Boeing estimated that the airlines around the world will need to hire almost 500,000 pilots by 2032 -- or about 25,000 annually.

Airports would like to work with you and other aviation stakeholders to ensure that there are enough pilots in the pipeline to accommodate rising demand and to fill the seats of those who are expected to retire. Working together we can also ensure that people who live in smaller communities continue to have access to our national aviation system.

Conclusion

Chair Ayotte, Ranking Member Cantwell, and members of the Senate Aviation Subcommittee, thank you again for inviting me to participate in this hearing on airport issues and infrastructure financing. I look forward to working with you as you continue preparing for the next FAA reauthorization bill.