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Of User Fees And Taxes: The Passenger Facility Charge Is A User Fee, And It Shouldn't Become a Tax

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Airport revenue is at an all-time high, airline traffic has never been greater, and the nation's airports have tens of billions of dollars of fully-funded projects under construction or on tap. Despite these boom times for the nation's airports, various politicians have decided that it is an imperative that we double the passenger facility charge.

The FAA currently can charge passengers up to \$4.50 for each segment of a flight, with the ostensible purpose being to pay for the various costs related to operating an airport. Senator Susan Collins (R-ME) and several other members of the Appropriations Committee are making a concerted effort to increase the fee to \$8.50 on each originating flight.

That's not insignificant: a family of four going from Washington DC to Peoria (a trip my family of four does regularly) would end up end up paying over \$100 in fees alone to make this trip. As it currently stands nearly ¼ of the cost of our typical ticket back to my hometown consists of various taxes and fees, which includes a 7.5% excise tax imposed on all domestic flights, a \$4.10 fee per segment that goes to the FAA, a commercial jet fuel tax, and a federal security surcharge to fund TSA. There is also a tax on frequent flyer miles, on cargo, and additional taxes imposed on international flights as well. By one account, fees constitute over 20% of the cost of a plane ticket for a typical flight.

User fees are a good way to finance a publicly-provided good or service, and most people can appreciate the need to pay them, provided that the user fee accurately reflects the true costs of providing the service at hand.

The argument *du jure* for increasing the passenger facility charge does not dispute that--it's more along the lines that since it has not been increased since 2001 and since it has lost ground to inflation, we should bump it up.

The problem is that this logic implies that airport revenues have lagged behind inflation when nothing could be further from the truth. Not only are more people flying, which boosts the PFC, but the other sources of money for airports--the money airlines pay to use airports as well as rents paid by restaurants, retailers, and hotels, not to mention the other taxes--have been growing smartly as well. Total airport revenues have grown nearly 50% since 2000 and the PFC collections alone increased 60% (27% in inflation-adjusted dollars) during that period as well.

Not only are airport revenues growing strongly but airports have found it quite easy to borrow against its future revenues to finance new projects, and lenders have been quite eager to make such investments. There is no constraint keeping most airports from making necessary investments. If anything, we should encourage airports to do more to develop ancillary revenue sources.

That is what most other countries do; in the rest of the world airports are typically run by a private concessionaire rather than a city or regional government. The private entities pay the government an annual fee for the privilege. The arrangement gives them an incentive to generate revenue, which means making airports comfortable and maximizing the opportunity for fliers to eat, shop, or relax in a spa or hotel.

In the U.S. most airports are run by some sort of government authority, which treats airports as a way to provide political patronage first and foremost, which explains why so many airport projects seem to be a complete mess.

Meanwhile, the airport in Punta Cana, Dominican Republic--a country with an average annual income a fraction of the United States that I just passed through--provides a level of service and comfort equal to that of any U.S. airport.

While there may be bipartisan consensus to spend more on infrastructure these days, investment in airports have not been lacking in the U.S. for a few years. There have been times in the last couple of decades where airports lacked sufficient resources to update facilities, but those times are in the rear view mirror and for the last several years there are few meritorious projects that cannot be funded with a modicum of effort. To needlessly increase the passenger facilities charge and give the various airport authorities another pot of money makes little sense.

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