User Fees, Rather than Tax Dollars, Can Promote Airport Efficiency and Lower Airfares

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This morning, I testified before the Transportation and Infrastructure Committee of the U.S. House of Representatives at a hearing titled, "The Cost of Doing Nothing: Why Investment in our Nation's Airports Matters." I argued in favor of strengthening the passenger facility charge (PFC), a congressionally authorized and federally regulated local user fee that serves as an important alternative to the tax-and-spend federal Airport Improvement Program. My full written testimony is here. My opening statement is below.

Chairman DeFazio, Ranking Member Graves, and Members of the Committee, thank you for giving me the opportunity to testify before you on the importance of airport development.

I'll focus on the passenger facility charge and why it should be modernized to encourage more and smarter airport investment. The PFC is a congressionally authorized, federally regulated local airport user fee. It exists as an exception to the general federal prohibition on state and local taxes and fees on air travelers, which was enacted in 1973, one year after airlines lost a major constitutional case on local user fees at the U.S. Supreme Court.

By the 1980s, this had led to growing concerns over excessive airport reliance on federal aid and reduced airline competition, leading the Reagan administration to begin developing the concept of what ultimately became the PFC in 1990.

Under current law, public airports in the U.S. can charge a maximum PFC of $4.50 per passenger enplanement for the first two enplanements of a one-way itinerary. The PFC exists alongside the Airport Improvement Program (AIP), a federal grant program funded through aviation taxes. Together, the PFC and AIP account for approximately half of total airport funding available for capital projects.

AIP funds can generally be used for airside projects, such as runways, taxiways, aprons, noise abatement, and land acquisitions. In contrast, the PFC funds can be used for AIP-eligible projects plus numerous landside projects at passenger terminals—and importantly the PFC can be used to service debt. For commercial airports with sizeable passenger volumes, these differences in flexibility have led to a strong preference for the PFC over AIP funding. Unfortunately, Congress has left the PFC cap unchanged since 2000, eroding the purchasing power of the PFC and limiting airport investment options.

Two recent research findings support the case for PFC modernization.

First, evidence suggests that PFC use has a positive effect on airport productive efficiency while AIP use has a negative effect. Legislation introduced in the previous Congress would have uncapped the PFC while proportionately reducing AIP authorized spending. This change in the PFC/AIP mix was expected to result in greater airport productive efficiency. The bill, introduced by Chairman DeFazio and Rep. Massie, would have allowed for increased total airport investment while simultaneously reducing federal spending.

That's a win-win in my book and why most leading free market libertarian and conservative organizations have supported this approach. In addition to CEI joining Democratic and Republican members of Congress, scholars and advocates from the Reason Foundation, Cato Institute, Heritage Foundation, Tax Foundation, FreedomWorks, and Citizens Against Government Waste have endorsed modernizing the PFC along the lines of the Investing in America: Rebuilding America's Airport Infrastructure Act. Support for the PFC transcends party or ideology: It's just good policy.

Second, major non-aeronautical revenue sources—namely revenue from parking and rental car fees—are facing heightened risks and declining prospects as travelers opt for new ride-hailing ground transportation services to and from airports. Since the PFC is collected from airport users regardless of their use of airport concessions, it represents low-risk, predictable, and sustainable user-based revenue.

Besides providing airports with predictable and sustainable revenue, the PFC was also designed to promote airline competition. Beginning in the 1950s, airports often turned to their airline customers to retire debt and finance airport improvements. In exchange for this financial support, incumbent airlines received long-term exclusive-use gate leases, which were then used to restrict access to new and often lower-cost entrants.

In more recent times, airports entering into long-term exclusive-use gate leases has become less common than in the past, but limited gate availability at large and medium hub airports has still been estimated to raise consumer airfares by billions of dollars every year—dwarfing total annual nationwide PFC collections.

In this way, the PFC serves as an important airport self-help tool that can dilute price-setting power by dominant incumbent airlines, thereby benefiting air travelers in the form of lower airfares, as well as improved airport facilities. Further expanding the purchasing power of the PFC by eliminating the statutory cap and with a focus on improving airline competition—especially through the expansion of common use gates available to new carrier entrants—could result in substantial airfare savings for consumers.

Thank you for the opportunity to testify before the Committee, and I look forward to your questions.

See my full written testimony for more detail. Video of the hearing, queued up to my testimony, is available here.