Taxpayers, travelers win with a modernized airport facility charge

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Everyone from typical travelers to President Trump has decried the sorry state of American airport infrastructure. Airports would like to have the freedom to impose higher per-passenger charges to finance needed investments. Unfortunately, airlines have consistently opposed airport self-help user fees, leading to increasingly airport reliance on federal taxpayers and anti-competitive quid pro quo arrangements with airlines.

The passenger facility charge (PFC) allows airports to impose a small fee on airline passengers who use their facilities. The fee has been capped at $4.50 since 2000 for a maximum of two charges per trip, so the most any one-way passenger can currently be charged by airports is $9. For over two decades, it has raised revenue effectively to fund airport improvements, although inflation has now eroded its buying power by half. However, a proposed PFC cap increase has pitted airports and free-market advocates against airlines and their political allies, who are wrongly portraying it as a tax increase. If they get their way, passengers will have to endure subpar airport facilities for much longer.

As my organization, the Competitive Enterprise Institute, has long pointed out, the PFC is not a tax. Its status as a user fee is based upon the fact that PFC revenues are collected locally by airports to finance narrow, statutorily defined airport facility improvements.

Were the PFC a tax, as opponents claim, revenue generated from it could be directed toward uses that don’t directly benefit the fee-paying passengers, such as food stamps or an airport in another city. But the PFC fee revenue is raised locally, stays locally, and can only be used to improve the airport for which the paying passenger uses. And it has been used successfully in the two-plus decades since it was first implemented.

The PFC was first authorized under the George H.W. Bush administration, with bipartisan congressional support. The PFC idea was first developed during the Reagan administration, which was troubled by the then-increasing federal control over airport investment.

In 1973, Congress had outlawed local airport user fees at the request of major airlines. This made commercial airports increasingly reliant on federal airport grants funded by aviation taxes, primarily those imposed on ticketed airline passengers. The Reagan administration correctly recognized the harms caused by federal micromanagement of local infrastructure investment and proposed the PFC to reduce federal power over airports.

The Senate Appropriations Committee recently proposed to increase the PFC cap to $8.50 for the first segment, which means the maximum charge a passenger could face per trip would be $13 rather than $9. In response, the airline industry has been aggressively lobbying against the proposed increase, while misrepresenting the PFC as a tax in an effort to rally anti-tax conservatives to their cause.

This bait-and-switch has won over one group, the National Taxpayers Union (NTU), to the airline industry's position. Unfortunately, while NTU's heart may be in the right place in seeking to oppose tax increases, their portrayal of the PFC betrays a severe misunderstanding of the issue.

NTU argues that airports are sitting on billions of dollars in cash and therefore don't need the additional cash flow from higher PFCs. But those cash reserves are rainy day funds and are required by credit rating agencies to maintain investment-grade credit ratings. As any business owner knows, it would be fiscally irresponsible to raid rainy day funds to fund predictable business activities. Were airports to dig into their rainy day funds, lenders would respond to the heightened credit risk by increasing interest rates and reducing credit lines. In fact, under the current PFC cap last raised in 2000, many airports are now reaching their debt limits. Travelers would have to suffer longer at obsolete airport facilities because of increased upgrade costs.

Worse, PFC opponents often fail to acknowledge a central, non-fiscal purpose of the fee as designed by the Reagan administration: increasing airline competition. Airline opposition to the PFC has little to do with the fees collected, which are dwarfed by other taxes and the baggage fees that airlines charge passengers. Rather, the airlines have used artificial political constraints on airport revenue collection to extract from airports favors that benefit large airlines' bottom lines but drive up consumer airfares.

Because of constrained funding under the current PFC cap, airports must often turn to their major airline customers to finance needed facility improvements. In exchange for their financial support, major airlines often demand long-term, exclusive-use gate leases. This empowers big airlines to keep low-cost competitors from entering their dominant airports.

Economists estimate that limited gate access at U.S. airports drive up airfares by at least $4.4 billion annually in 2005 dollars, a figure more than twice the additional revenue a modestly increased PFC could raise nationwide every year (though the actual total may be higher).

In an effort to combat the anti-PFC misinformation campaign, on November 30, the Competitive Enterprise Institute, FreedomWorks, Citizens Against Government Waste, and Taxpayers Protection Alliance submitted a coalition letter to House and Senate appropriators highlighting key myths and facts on the PFC. Other free market organizations, including the Reason Foundation, Tax Foundation, Cato Institute, and Heritage Foundation, have also recognized the PFC as an anti-tax, local airport self-help tool, rather than the "backdoor tax" claimed by opponents.

To date, the Senate Appropriations Committee appears committed to advancing its sensible PFC modernization proposal, but the airline industry won't give in without a fight. We hope airport financing facts can still triumph in a post-fact political environment.