ALLEGHENY COUNTY AIRPORT AUTHORITY

PITTSBURGH INTERNATIONAL AIRPORT
ALLEGHENY COUNTY AIRPORT

Christina Cassotis
CEO, Allegheny County Airport Authority,
Pittsburgh International Airport

Testimony Before The U.S. House of Representatives Committee on Transportation & Infrastructure Subcommittee on Aviation

Chairman LoBiondo, Ranking Member Larsen, Chairman Shuster and Ranking Member DeFazio, Members of the Committee: Thank you for inviting me to provide testimony regarding infrastructure needs and funding challenges facing medium-size airports across our country, particularly in the heartland.

In my previous job as an airport consultant, I worked with airports around the world. Now I am lucky enough to run two of them. I am the CEO of the Allegheny County Airport Authority which owns and operates Pittsburgh International Airport and Allegheny County Airport – our region's premier General Aviation and business jet facility.

My purpose here today is to give you a snapshot of the infrastructure needs of medium-size airports and the challenges we have in funding them. The way the airline industry serves Pittsburgh and many other medium-size markets in the U.S. has gone through a transformation. Where once many of us in the Midwest were large mega hubs, we are now medium-size origin-and-destination markets served by a mix of legacy, ultra-low cost and regional carriers.

Pittsburgh, Cleveland, Cincinnati, Memphis, Milwaukee, Saint Louis, Raleigh-Durham, Nashville and others were among the airports that used to carry millions more passengers per year. Those passengers are gone because the hubs are gone, but our infrastructure remains. The Pittsburgh terminal, which was designed and sized to accommodate 32 million passengers a year, of which 70 percent were connecting, now handles 8.3 million passengers. Our facilities are aging, costly and not designed for the local passengers that make up the majority of our traffic today. For example, in Pittsburgh, our TSA checkpoint is inadequately sized. Our international arrivals facility required a security checkpoint just for people to leave and get to their car, and our parking garage is far too small for our snow-belt city. In Cincinnati, their aging roadway and curb-front infrastructure is undersized for local passenger traffic, while an outdated baggage system is not sized or configured for current operations.

Airports are capital-intensive businesses whose annual expenses are largely fixed. None of us got to declare bankruptcy after our hub airlines left our cities. We have been paying down the debt on these facilities for more than a decade and our current carriers are stuck paying for space that no one needs.

We have been good stewards of public money by prudently managing finances to prioritize debt repayment and have done everything we can to stay competitive in a global market. And yet, each of us is left with a large number of capital projects we have had to defer and infrastructure needs totaling nearly $12 billion. At Pittsburgh International, we have over $74 million of deferred maintenance projects such as replacing and rehabbing baggage handling systems, electrical switchgears, people movers, escalators, elevators, maintenance vehicles, pavement and more, most of which are more than 25 years old. And, we are not alone – St. Louis has $87 million in deferred projects including a $30 million airfield maintenance facility and a $23 million generator replacement. In Cincinnati, there is an estimated $75-80 million in deferred maintenance including terminal roofing that continues to be patched as opposed to a much needed $10 million replacement and aging elevators and escalators continue to be pieced together instead of being replaced at a cost of $15 million.

Airport infrastructure is largely funded through a combination of (1) federal grants from the Airport Improvement Program (AIP), funded entirely by aviation taxes, (2) locally imposed Passenger Facility Charges (PFCs), which are collected based on passenger volume, and (3) for the larger airports, tax-exempt municipal bonds. All three of these crucial sources of funding are under pressure. AIP grant allocations have not increased since 2001. PFCs have been capped at the same level since 2000. And Congress is considering revoking the tax-exempt status of municipal bond interest earnings, which would raise borrowing costs for municipal bond issuers.

Our cost structures have radically changed over the past two decades but federal funding mechanisms remain unchanged. To be frank, medium-size airports are getting hammered in the current funding framework. I've attached a chart that illustrates the problem.

Small airports are funded at the highest levels; large hub airports get the least because what they don't get in AIP money, they make up for in volume through PFC dollars; and medium-size airports should be in the middle, but we're not.

We're funded at the same discounted levels as large hub airports – only we can't make up that money in PFCs because we don't have the passenger volume. We have similar problems to large hub markets but none of the benefits. We're not asking for a federal windfall. We're simply asking for our fair share. We are getting squeezed, and here's how:

When AIP discretionary grants are distributed, priority is placed on projects that increase capacity. Historically, the FAA has set aside 50 percent of the annual appropriated discretionary funding for projects under Letters of Intent (LOIs). LOIs are only awarded for multi-year capacity enhancement projects. In some cases for medium-size airports, there are capacity needs. However, as noted earlier, we have capacity where it is not needed and AIP funding does not prioritize preserving or modernizing infrastructure.

In order to address our infrastructure needs at many of our medium-size airports, we need to right-size, modernize and upgrade our costly, inefficient, oversized and out-of-date facilities – none of which is prioritized in the current funding rules. So we can't fix our baggage system; we can't reduce costly space that is no longer needed. But, these are the things medium-size airports need to do to be right-sized and right-priced in order to attract the air service that will allow our communities to grow.

We see five areas that need to be addressed.

First, the Significant Contribution requirement must be eliminated from PFC funding criteria for medium-size airports. Under current regulations, before approving a PFC application at a level greater than $3, the FAA must make a determination that the project makes a significant contribution to improving air safety and security, increasing competition among air carriers, reducing congestion, or reducing noise impact on neighboring communities. It has been challenging, if not elusive, for large and medium-size airports, even with airline support, to convince the FAA that preserving capacity and infrastructure makes a significant contribution.

Second, medium hubs should not be required to take the same AIP haircut as large hubs. When large and medium-size airports levy a $3 PFC, they must forgo 50 percent of their annual AIP entitlement allocations while PFCs above $3 must take a 75 percent reduction. In Pittsburgh, that leaves us with $1.8 million of AIP funding annually when we could be getting $7.2 million. Medium-size airports must be grouped differently because our reality is different. In the 17 years of Pittsburgh International's PFC program, the airport has foregone roughly $95 million in AIP entitlement grants as a result of this provision.

Third, the PFC must be raised and or uncapped. It has not kept pace with inflation, leaving medium-size airports in financially-challenging situations. U.S. airports as a whole have already committed their PFC collections for the next 15 years, meaning there is little to no capacity to take on new projects. For Pittsburgh, due to the legacy airline debt from the abandoned hub, the authority has dedicated most of its PFC revenue to reduce debt service since 2001.

We understand that airlines have objected to raising the PFC in the past. However, we also understand airlines should be permitted to have meaningful input on capital expenditures, and we would be willing to figure out a way to engage the airlines to make that happen so we can all benefit from more efficient facilities.

Fourth, the FAA must discontinue its arbitrary restriction on AIP and PFC eligible projects. The types of programs that qualify for funding must be expanded to include projects such as cargo facilities and airport facility maintenance.

Lastly, regulations must be reduced. Current regulations seek a 30 percent design completion in order to leverage federal money which is an unnecessary and onerous undertaking for cash-strapped medium airports. This huge ask often leaves us unable to seek federal assistance for much-needed projects, or delays them for years.

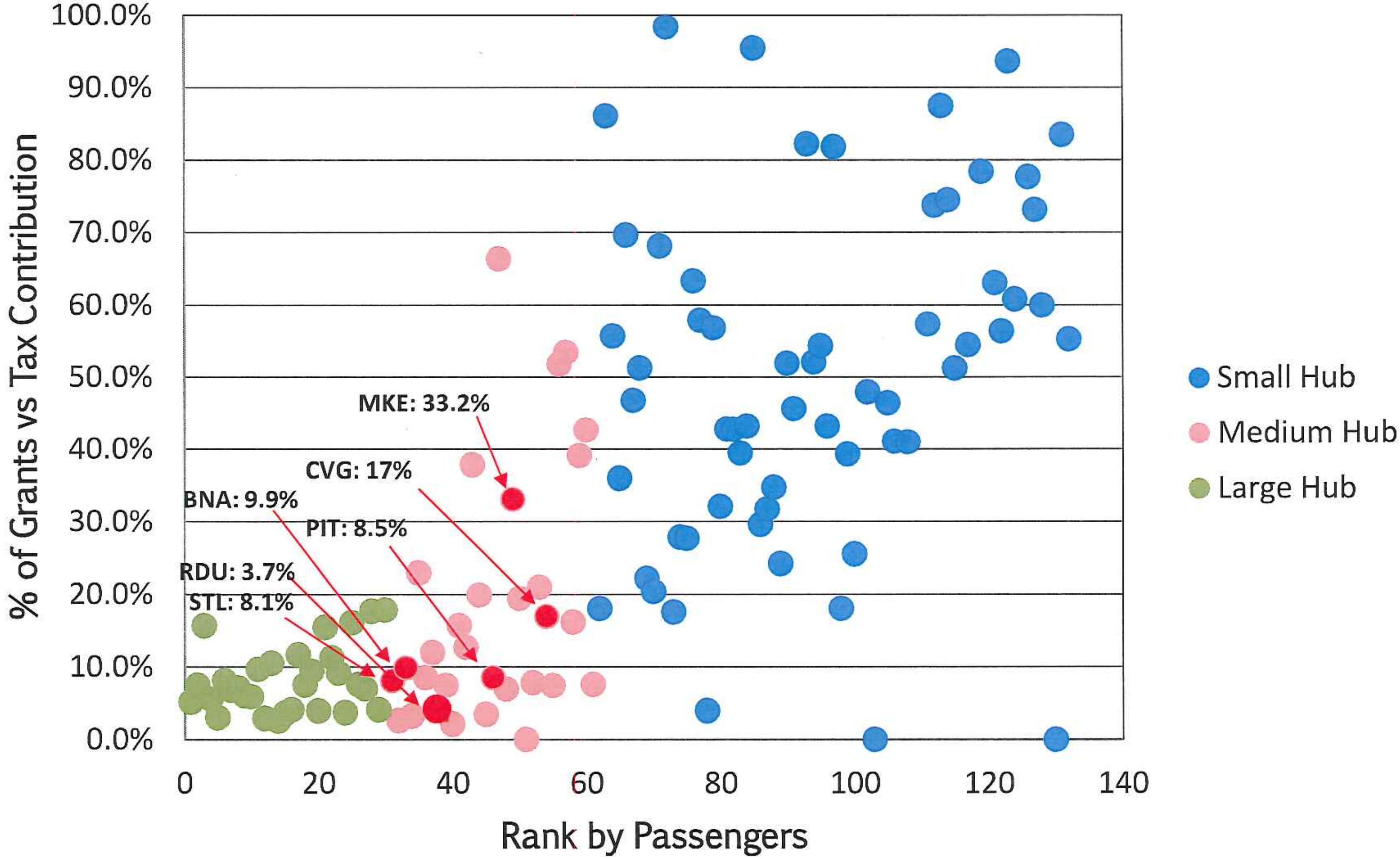
Large airports can easily afford to get to 30 percent design and therefore can present projects that gobble up federal resources. The 30 percent design rule is an expensive roadblock that must be removed.

Committee Members, airports of our size have come very far on our own, sweating our assets by increasing non-aeronautical revenue in creative and innovative ways. But we need your help to move the needle further. Investing our fair share of federal resources back into medium-size airports is a game-changer for our country's aviation system. We are in a Catch 22 here.

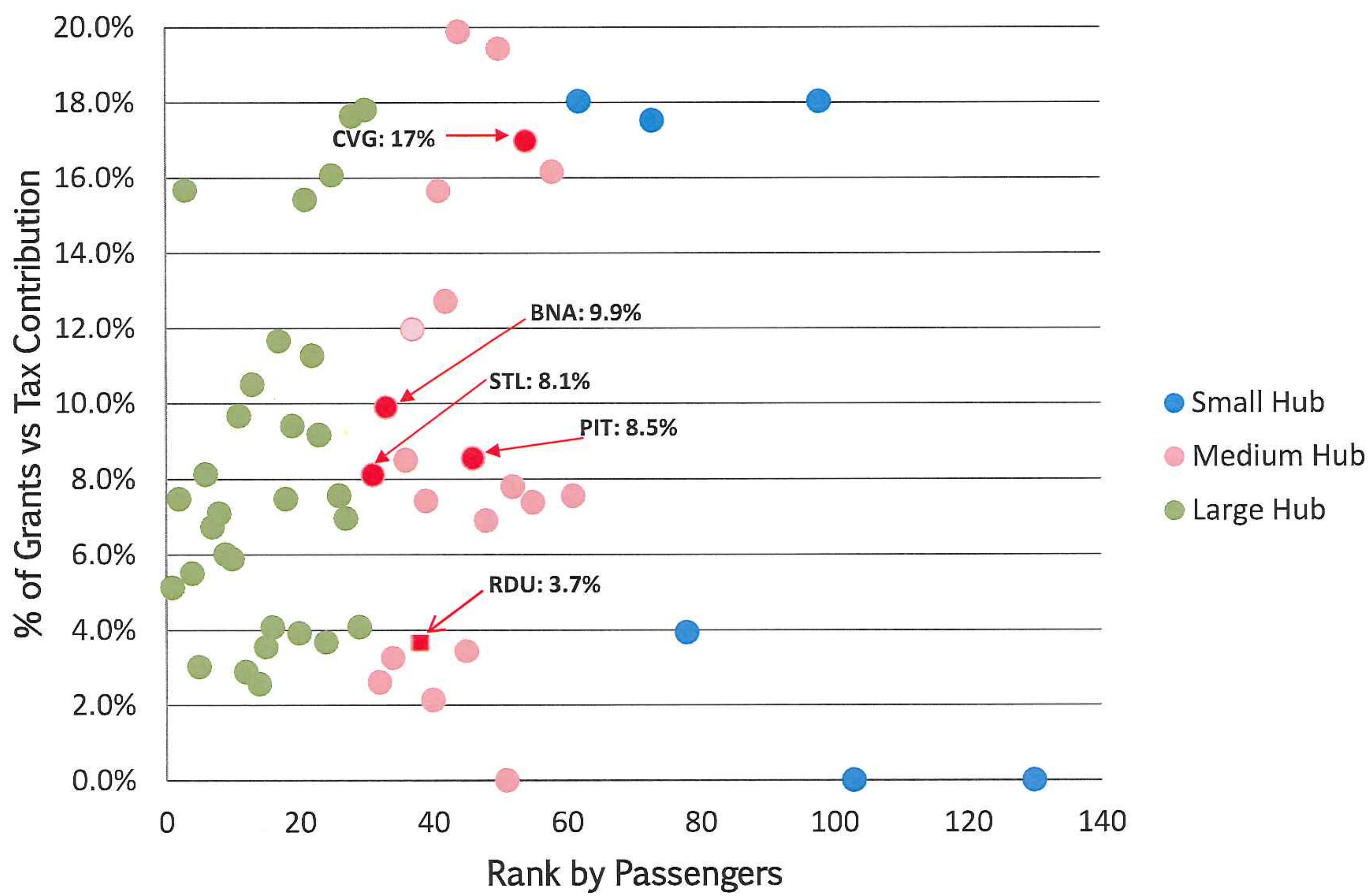
We need to invest in our facilities in order to be sure that we can offer a cost-competitive environment for airlines to grow and serve our markets so that our economies can grow. Nonstop air service matters to communities. And while we don't expect the traditional network carriers to abandon the hub and spoke structure, we do expect that any nonstop service we can support will be more appealing if it is cost efficient and our facility is appropriately sized for today's passengers and airline partners.

We've had a lot of recent success in Pittsburgh. In fact, it's so swift that it's caught the attention of the industry. In January, *Air Transport World* magazine, a respected industry publication, selected Pittsburgh as its 2017 airport of the year – the first U.S. airport to win. But Pittsburgh and airports like us can do more and must do more to stay competitive. By focusing on streamlining processes the federal government can ensure medium-size airports can stay competitive and the communities they serve can prosper.

Medium-size US airports should receive a higher proportion of federal grants



Medium-size airports are treated similarly to large airports



Rank	RO	ST	Locid	City	Airport Name	S/L	Hub	CY 2000 Enplanements	CY 2015 Enplanements	Change in Enplanements
32	CE	MO	STL	St. Louis	Lambert-St Louis International	P	M	15,288,493	6,239,248	-9,049,245
53	SO	KY	CVG	Cincinnati International	Cincinnati/Northern Kentucky International	P	M	11,223,966	3,054,991	-8,168,975
47	EA	PA	PIT	Pittsburgh	Pittsburgh International	P	M	9,871,995	3,890,681	-5,981,314
46	GL	OH	CLE	Cleveland	Cleveland-Hopkins International	P	M	6,269,516	3,916,922	-2,352,594
41	WP	CA	SJC	San Jose	Norman Y Mineta San Jose International	P	M	6,170,384	4,822,480	-1,347,904
38	CE	MO	MCI	Kansas City	Kansas City International	P	M	5,903,296	5,135,127	-768,169
36	WP	CA	OAK	Oakland	Metropolitan Oakland International	P	M	5,196,451	5,506,687	310,236
39	SO	NC	RDU	Raleigh	Raleigh-Durham International	P	M	5,191,077	4,954,735	-236,342
43	SO	PR	SJU	San Juan	Luis Munoz Marin International	P	M	5,135,591	4,233,638	-901,953
37	SW	LA	MSY	Metairie	Louis Armstrong New Orleans International	P	M	4,936,271	5,329,711	393,440
35	SO	TN	BNA	Nashville	Nashville International	P	M	4,479,909	5,715,205	1,235,296
33	SW	TX	HOU	Houston	William P Hobby	P	M	4,354,609	5,937,990	1,583,381
42	WP	CA	SMF	Sacramento	Sacramento International	P	M	3,979,043	4,714,729	735,686
40	WP	CA	SNA	Santa Ana	John Wayne Airport-Orange County	P	M	3,914,051	4,945,209	1,031,158
48	GL	IN	IND	Indianapolis	Indianapolis International	P	M	3,833,975	3,889,567	55,592
54	NE	CT	BDL	Windsor Locks	Bradley International	P	M	3,651,943	2,926,054	-725,889
34	SW	TX	AUS	Austin	Austin-Bergstrom International	P	M	3,648,600	5,797,562	2,148,962
31	SW	TX	DAL	Dallas	Dallas Love Field	P	M	3,596,052	7,040,950	3,444,898
45	SW	TX	SAT	San Antonio	San Antonio International	P	M	3,528,955	4,091,434	562,479
49	GL	OH	CMH	Columbus	Port Columbus International	P	M	3,441,286	3,312,496	-128,790
59	WP	CA	ONT	Ontario	Ontario International	P	M	3,197,795	2,089,801	-1,107,994
58	SW	NM	ABQ	Albuquerque	Albuquerque International Sunport	P	M	3,148,780	2,323,883	-824,897
50	GL	WI	MKE	Milwaukee	General Mitchell International	P	M	3,089,592	3,229,897	140,305
51	WP	HI	OGG	Kahului	Kahului	P	M	2,999,863	3,220,753	220,890
52	SO	FL	PBI	Beach	Palm Beach International	P	M	2,928,658	3,113,591	184,933
55	SO	FL	JAX	Jacksonville	Jacksonville International	P	M	2,616,211	2,716,473	100,262
44	SO	FL	RSW	Fort Myers	Southwest Florida International	P	M	2,574,322	4,159,215	1,584,893
56	AL	AK	ANC	Anchorage	Ted Stevens Anchorage International	P	M	2,503,138	2,525,893	22,755
57	EA	NY	BUF	Buffalo	Buffalo Niagara International	P	M	2,140,002	2,336,431	196,429
60	CE	NE	OMA	Omaha	Eppley Airfield	P	M	1,861,057	2,046,179	185,122

% Change
-59.19%
-72.78%
-60.59%
-37.52%
-21.84%
-13.01%
5.97%
-4.55%
-17.56%
7.97%
27.57%
36.36%
18.49%
26.35%
1.45%
-19.88%
58.90%
95.80%
15.94%
-3.74%
-34.65%
-26.20%
4.54%
7.36%
6.31%
3.83%
61.57%
0.91%
9.18%
9.95%