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Date of Meeting: March 5, 2013

Passenger Facility Charges: Background and Role

Port of Seattle Commission Briefing

February 26, 2013

Background

- Anti-Head Tax Act enacted by Congress in 1973 after Supreme Court rejected airline efforts to stop airports from charging per person rates
- FAA Reauthorization Act in 1990 amended Anti-Head Tax Act to create PFC program as exemption to earlier prohibition
- Authorized airport governing bodies to impose a PFC of $3.00 without violating Anti-Head Tax Act
- FAA Reauthorization Act in 2000 increased PFC cap to $4.50

Background

- PFCs are collected by airlines on the ticket and remitted (minus administrative fee) to airports
- Can be charged only on initial two legs of itinerary.
- Can only be used for aeronautical capital expenses
- $4.50 in 2000 dollars is worth ~$2.45 in 2013 dollars
- All 29 large hub airports collect PFCs

PFC use at Sea-Tac

- Port levied PFC in 1992 and increased it to $4.50 in 2001
- Collected $956 million to date
- PFCs have helped fund:
  - Concourse A
  - Construction of 16R / 34L
  - Noise Projects
  - Reconstruction of Satellite Transit System
- Project costs paid by PFCs are not included in airline rates

Financial Benefit

- PFCs can reduce debt issuance and/or pay for debt service
  - On pay-as-you-go basis (e.g., noise projects), PFCs can be substituted – dollar for dollar -- for debt issuance
  - If used to pay debt service (e.g., third runway), a PFC revenue stream pays debt service on projects
    - Considered most efficient due to matching PFC cash flow with life of project
    - Also serve as “additional revenue” and increase ratio of funds available vs. debt service, increasing Port debt service coverage (rating agencies use different calculation)
- Could help fund FIS, NorthStar, 16C/34C reconstruction

Current Airport Industry Concerns

- Declining value of PFCs, last increased in 2000
- Increased debt issuance
- Pressure on airline cost per enplanement
- Airport Improvement Program (AIP) funds declining; maximum appropriations in 2015 will equal half of 2006 appropriations (constant $)
- Vast majority of authorized PFCs are already committed to projects; little capacity remaining

National Airport Policy Proposal

- Airport industry has advocated since 2005 an increase in federal cap on PFC's to allow local airport governing bodies to determine best means of funding airport projects
- While FAA Reauthorization will not be considered by Congress till 2015, current search for federal spending cuts presents an immediate opportunity
- Action may take place in connection with "sequestration" (March 1); end of Continuing Resolution (March 27); Budget deadline (April 15); and debt ceiling action (late May)

National Airport Policy Proposal

- US Policy Board of ACI-NA and many large hub airports have proposed reducing federal AIP spending coupled with changes in PFC rules
  - Raise PFC cap to $8.50 for all airports and cut $1.9 billion in AIP (last quarter of entitlement spending)
  - Allow larger airports to raise their PFC further if they give up all access to AIP – saving as much as $4.4 billion in AIP (figures are over 10 years)
- Large airports reducing demand on, or leaving, AIP program will help preserve declining appropriations for smaller airports

National Airport Policy Proposal

- Congressional action would only adjust the cap on the PFC and establish lower budgets for future AIP spending
- Any actual change in PFC levels imposed at airports would be the prerogative of the local governing boards of airports
- Port staff would evaluate change in PFC level as one option in Plan of Finance, and bring recommendation to Commission

Policy Proposal

Staff requests Commission authorization for the Chief Executive Officer and Port staff to advocate for amendments to the federal statute governing the Passenger Facility Charge (PFC) program to give locally elected officials at public airports authority to increase the PFC above the current limit of $4.50.

If Congress changes the caps, Port staff would evaluate merit of changing PFC levels as part of Plan of Finance and make recommendation to the Commission.