



Increasing the Passenger Facility Charge is Unnecessary and Costly to American Travelers

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Since 1992, Congress has authorized most commercial U.S. airports to collect a Passenger Facility Charge (PFC) from passengers. The purpose of the PFC, which generated \$3.4 billion in 2018, is to support a broad range of infrastructural and maintenance projects at airports. Recently, airports have intensified their lobbying efforts to raise the PFC, possibly doubling the charge. This ConsumerGram shows that this increase would suppress economic activity, reduce consumer benefits, and cost thousands of jobs. On top of these harmful effects, increasing the PFC is unnecessary. PFC revenues have risen significantly faster than inflation, and America's airports are in a strong financial position, benefitting from steady passenger growth, easy access to credit, and a swelling balance in the federal aviation trust fund.

Introduction

The Passenger Facility Charge (PFC), introduced in 1992 and increased in 2001, allows commercial airports controlled by public agencies to collect a charge from every enplaned passenger. Revenue from PFCs go to fund federally-approved projects “that enhance safety, security, or capacity; reduce noise; or increase air carrier competition.”¹ As of February 2019, 361 airports around the country – including 98 of the 100 largest airports – collected PFCs.² Currently, the PFC is capped at \$4.50 per flight segment with a maximum of two PFCs charged on a one-way trip. A passenger with a round trip ticket and a layover each way could pay up to \$18 in PFCs.³

¹ “Passenger Facility Charge (PFC) Program,” Federal Aviation Administration, November 30, 2018. Available at: <https://www.faa.gov/airports/pfc/>.

² “Key Passenger Facility Charge Statistics,” Federal Aviation Administration, December 31, 2018. Available at: https://www.faa.gov/airports/pfc/monthly_reports/media/archive/2019_January/stats.pdf.

³ “Passenger Facility Charge (PFC) Program,” Federal Aviation Administration, November 30, 2018. Available at: <https://www.faa.gov/airports/pfc/>.

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For years, airports have lobbied Congress to raise the cap on the PFC, arguing that inflation has eroded its purchasing power and that revenues are lagging behind the costs of infrastructure upkeep and expansion. These arguments don't withstand scrutiny, as this ConsumerGram will show. Congress has repeatedly rejected efforts to increase the PFC, most recently in the 2018 FAA Reauthorization Act. Yet several prominent lawmakers continue to champion these higher costs for air travelers.⁴

Air Travelers are Already Cost-Burdened

When most airline passengers think of what goes into the price of their airline ticket, jet fuel, airplane maintenance, and personnel costs probably spring to mind. It might surprise them to learn that government taxes and fees account for more than one-fifth of the cost for a typical domestic flight. In fact, civilian aviation is one of the highest-taxed sectors of the American economy.

For a typical round-trip flight from Peoria, Illinois to Raleigh, North Carolina with a layover in Chicago, nearly a dozen federal taxes and fees add about \$64 to the base airline fare and account for 21.2 percent of the total cost of the ticket.⁵ In addition to the PFC, travelers pay a 7.5 percent excise tax imposed on all domestic flights, a \$4.10 fee per flight segment to fund the FAA, a commercial jet fuel tax, and a security fee to support the TSA, among others. Frequent flyer miles and international flights are subject to additional taxes.⁶ Even as base fares have declined, federal aviation taxes and fees have nearly all been increased substantially since 1992, in some cases more than tripling.⁷

Proposals being contemplated in Congress would increase the PFC cap – which could result in a family of four paying well over \$100 in PFCs alone to go on a summer vacation or reunite with family for Thanksgiving. Some are actually arguing to eliminate cap altogether, paving the way for untold billions in airport tax hikes on consumers. And that's before any other government taxes, fees, or airfare are factored into the cost of the trip.

Some supporters of a higher PFC have argued that asking passengers to pay a few more dollars per flight pales in comparison to the fees airlines charge for checked luggage, seat

⁴ Sam Mintz, "Wicker warming to gas tax," *Politico*, March 1, 2019. Available at: <https://www.politico.com/newsletters/morning-transportation/2019/03/01/wicker-warming-to-gas-tax-402339>.

⁵ "U.S. Government-Imposed Taxes on Air Transportation," Airlines for America, Accessed March 17, 2019. Available at: <http://airlines.org/dataset/government-imposed-taxes-on-air-transportation/>.

⁶ Ike Brannon, "Of User Fees And Taxes: The Passenger Facility Charge Is A User Fee, And It Shouldn't Become a Tax," *Forbes*, January 26, 2018. Available at: <https://www.forbes.com/sites/ikebrannon/2018/01/26/of-user-fees-and-taxes-the-passenger-facility-charge-is-a-user-fee-and-it-shouldnt-become-a-tax/#44c6af8d35c4>.

⁷ "U.S. Government-Imposed Taxes on Air Transportation," Airlines for America, Accessed March 17, 2019. Available at: <http://airlines.org/dataset/government-imposed-taxes-on-air-transportation/>.

changes, and other perks. This is a spurious comparison. The fees airlines charge are linked to the direct costs of providing a specific service. Competition between airlines is fierce and a carrier that chooses to set prices too high will quickly lose market share. Similarly, airlines that charge too little will sustain financial losses. Market rivalry benefits consumers by keeping prices low, expanding options, and encouraging airlines to differentiate their services.

By contrast, the PFC is not subject to the same competitive pressures. Since most air travelers, particularly in rural areas, only have access to one airport, they have no choice but to pay the PFC if they wish to fly. As a result, consumers are captive to the PFC rate. In other words, airline fees are competitive, and consumers have choice, but the taxes and fees consumers face for using an airport are not optional.

While advocates of increasing the PFC have tried to couch it as a “user charge” rather than a tax, this is a distinction without a difference. No matter the terminology, the economic effects and end result are the same: higher hidden costs on consumers.

Impact on Consumer Welfare

Demand for airline travel is very price sensitive, and an increase in the PFC would not go unnoticed by already cost-burdened travelers. One study collected 254 econometric estimates from 21 studies and found the median price elasticity for air travel to be 1.122 -- meaning that a 1 percent increase in airfare leads to a 1.1 percent decrease in airline passengers.⁸ Accordingly, an increase in PFCs from \$4.50 to \$8.50 per flight segment would increase flying costs, reduce the number of airline passengers and, consequently, the number of airline flights. In effect, higher fares will reduce passenger benefits and satisfaction, as measured by consumer welfare.

To illustrate this point, under the assumption that all U.S. passengers pay \$3 more on their one-way flights, we estimate the number of passengers to decline by 7.5 million in 2019 and total annual consumer welfare to drop by \$3.1 billion, or nearly \$25 for the average American household.⁹ For those who use air travel frequently, the welfare loss could be much greater. The bottom line is that the increase in PFCs will raise consumer prices, suppress market demand, and reduce consumer welfare.

⁸ David W. Gillen, William G. Morrison and Christopher Stewart, “Air Travel Demand Elasticities: Concepts, Issues and Measurement,” Wilfred Laurent University, Waterloo, Canada.

⁹ These data were taken from TranStats, Bureau of Transportation Statistics, U.S. Department of Transportation (DOT), including the number of passengers for all carriers and all airports, as well as average domestic air fares for the latest four quarters as a proxy for price. Since the \$4.00 increase in passenger facility charges may only be imposed on the first segment of a flight, we reduced the effective air fare increase to be \$3.00, thereby reducing our welfare estimates.

In addition, the decline in consumer demand will negatively impact the economy. Specifically, the loss in passengers will reduce the number of flights, which will directly and indirectly reduce economic output. Analysis by the International Air Transport Association suggests that a higher PFC could reduce GDP by \$5.1 billion and cost more than 52,000 jobs.¹⁰

Do Airports Need More Infrastructure Funding?

Supporters of increasing the PFC claim that America's airports are struggling to fund critical infrastructure and serve consumer needs. And while it's tempting to assume that the funding shortfalls plaguing America's roads and bridges mirror similar problems at our nation's airports, that comparison misses the mark. In reality, with air traffic up and reserve funds growing, U.S. airports are thriving.

In the last decade alone, more than \$165 billion has been dedicated to capital projects that have been completed, are underway, or have been approved at America's 30 largest airports, and existing revenues will continue to support robust investments in the future.¹¹ U.S. airports collect \$6.7 billion in annual taxes from the aviation industry and its customers.¹² In 2017, airport revenues broke records, reaching nearly \$30 billion, an 87 percent increase since 2000. This growth in revenues outstripped the growth in flights, passengers, and inflation.¹³

Rising revenues have allowed airports to accumulate a significant pot of money for capital needs. With \$14.7 billion in unrestricted cash and investments on hand (a 49 percent increase since 2010), U.S. airports could finance their infrastructure needs for more than a year without collecting a penny in taxes.¹⁴ The same cannot be said for other parts of the transportation industry.

In addition, despite no increase in the PFC in nearly two decades, strong passenger growth has caused PFC revenue to reach an all-time high of \$3.29 billion in 2017, more than double the amount collected in 2001. Though final figures for 2018 are not yet available, the FAA estimates that PFC revenues last year totaled \$3.43 billion and will climb to \$3.57 billion in

¹⁰ "Economic Impact from Hiking Passenger Facility Charges in U.S.," International Air Transport Association, December 2017. Available at:

https://www.iata.org/publications/economics/Reports/US_PFC_charge11Dec2017.pdf.

¹¹ "Myth vs. Fact," Airlines for America, Accessed March 18, 2019. Available at:

<https://www.stopairtaxnow.com/myth-vs-fact>.

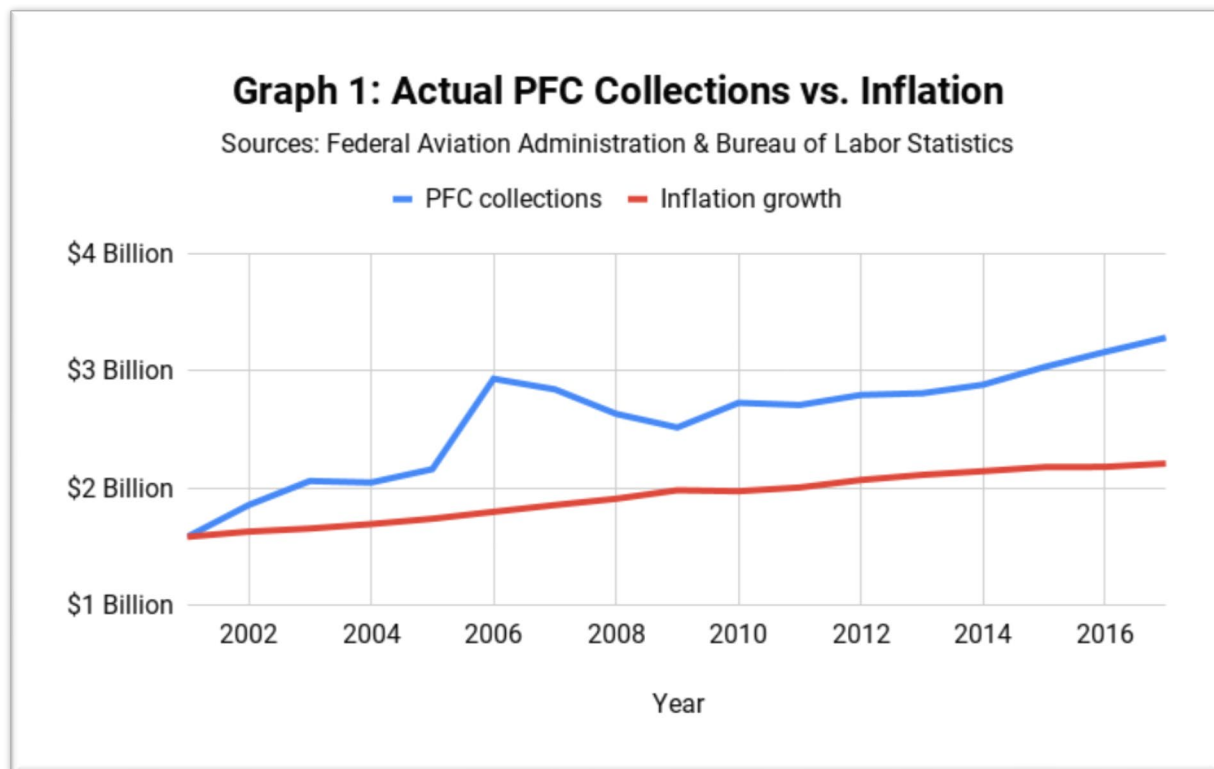
¹² Ibid.

¹³ Michael Palicz, "ATR Opposes the Passenger Facility Charge Airfare Hike," Americans for Tax Reform, March 1, 2019. Available at: <https://www.atr.org/atr-opposes-passenger-facility-charge-airfare-hike>.

¹⁴ Form 127, Federal Aviation Administration, 2010 & 2017. Available at:

<https://cats.airports.faa.gov/Reports/rpt127Totals.cfm>.

2019.¹⁵ Even adjusting for inflation, PFC collections have grown steadily, and the pace has accelerated in recent years, as Graph 1 shows.¹⁶



It is also important to recognize that PFCs are just one of a diverse mix of airport revenue streams. In 2015, the Government Accountability Office (GAO) reported that PFCs accounted for just 18 percent of airport capital spending.¹⁷ Other sources of funding include bonds, which airports use extensively thanks to their excellent credit ratings. Airports also generate significant revenue through leases with airlines, landing fees, terminal concessions, parking fees, and local and state government grants.¹⁸ Airlines, which have a vested interest in maintaining state-of-the-art airport facilities, also contribute to capital upgrades. For example, American Airlines has invested \$1.6 billion to renovate two terminals at Los Angeles International Airport.¹⁹

¹⁵ “Key Passenger Facility Charge Statistics,” Federal Aviation Administration, December 31, 2018. Available at: https://www.faa.gov/airports/pfc/monthly_reports/media/archive/2019_January/stats.pdf.

¹⁶ General inflation is measure by the Consumer Price Index for all items and is available at www.bls.gov.

¹⁷ “Information on Funding Sources and Planned Capital Development,” Government Accountability Office, April 2015. Available at: <https://www.gao.gov/assets/670/669870.pdf>.

¹⁸ Ibid.

¹⁹ Elijah Chiland, “American Airlines Starts \$1.6B Renovation Project at LAX,” *Curbed Los Angeles*, October 17, 2018. Available at <https://la.curbed.com/2018/10/17/17990528/american-airlines-lax-terminals-people-mover>.

The federal government provides another major source of airport revenue through the Airport and Airway Trust Fund (AATF). The AATF, in addition to providing most of the FAA's operating budget, provides funding to airports through three major accounts: the Airport Improvement Program (AIP), Facilities and Equipment (F&E), and Research, Engineering and Development (RE&D).²⁰ AIP grants, which are mainly used to support projects related to aircraft operations such as runways and taxiways, represent 33 percent of capital spending at airports -- nearly double PFC contributions.²¹

In the years ahead, infrastructure funding through the AATF is expected to grow substantially, based on economic forecasts by the nonpartisan Congressional Budget Office.²² The Joint Committee on Taxation estimates that the AATF will have an uncommitted balance of \$7.7 billion by the end of 2019, up from \$6.1 billion in 2018. The fund's uncommitted balance is projected to reach \$47.7 billion by the end of 2029.²³ These AATF surpluses, which Congress could use to address airports' capital needs, far exceed the projected revenue gains from lifting the PFC cap.²⁴

Overall, analysts are optimistic about the economic future of U.S. airports:

*"Moody's Investors Service is maintaining its positive outlook for the US airport sector for 2019, reflecting strong enplanement growth driven by continued economic expansion and additional seat capacity added by US airlines. Growth in enplanements – the number of passengers using an airport to depart on a flight – generally translates into higher parking and terminal concession revenue."*²⁵

As America's airports enjoy record levels of revenue, growing reserve accounts, and signs of strong growth for the foreseeable future, raising the PFC on air travelers is unjustified and unnecessary.

²⁰ Rachel Y. Tang and Bart Elias, "The Airport and Airway Trust Fund (AATF): An Overview," Congressional Research Service, January 31, 2017. Available at: <https://fas.org/sgp/crs/misc/R44749.pdf>.

²¹ "Information on Funding Sources and Planned Capital Development," Government Accountability Office, April 2015. Available at: <https://www.gao.gov/assets/670/669870.pdf>.

²² "The Budget and Economic Outlook: 2019 to 2029," Congressional Budget Office, January 28, 2019. Available at: <https://www.cbo.gov/publication/54918>.

²³ "Overview Of Selected Internal Revenue Code Provisions Relating To The Financing Of Public Infrastructure," Joint Committee on Taxation, March 4, 2019. Available at: <https://www.jct.gov/publications.html?func=startdown&id=5168>.

²⁴ "Information on Funding Sources and Planned Capital Development," Government Accountability Office, April 2015. Available at: <https://www.gao.gov/assets/670/669870.pdf>.

²⁵ "Moody's: 2019 outlook for US airport sector remains positive," *Moody's Analytics*, December 6, 2018. Available at: https://www.moody's.com/research/Moodys-2019-outlook-for-US-airport-sector-remains-positive--PBC_1153424.

Airport Revenues Are Prone to Diversion and Waste

Over the years, Congress has shown itself willing to divert revenue intended to support airport operations to other unrelated programs. For example, the September 11 Security Fee (which costs flyers \$5.60 per one-way trip) is intended to support the mission of the Transportation Safety Administration (TSA) to keep air travelers safe. In fact, at the time the fee was created, Congress specifically required that the revenue generated be used to provide civil aviation security services. But in 2013, the Bipartisan Budget Act diverted more than \$1.2 billion per year (\$12.6 billion over a decade) in September 11 Security Fees to the general fund of the U.S. Treasury, where it was used to offset other government spending programs.²⁶ In 2018, Congress did it again, using another \$3.3 billion in security fees for non-aviation related purposes.²⁷

In the past, lawmakers have also repurposed billions of dollars from the AATF, collected from air travelers, for various other federal programs.²⁸ Congress should not consider another rate hike on American air travelers without first returning the money that has been diverted from aviation. It is not beyond the realm of possibility that at some point in the future, lawmakers could similarly siphon the additional revenue from an increase in the PFC away from airports in favor of other spending programs.

In addition, the local government entities that oversee nearly all commercial airports have a long history of using revenue meant to support airport infrastructure to fund other projects. Since 2008, an estimated \$5.4 billion in taxes and fees collected from air travelers has been siphoned away and absorbed into city and county budgets. In 2014, for example, an investigation at Los Angeles' LAX airport revealed that officials had improperly used more than \$8 million in LAX revenues between 2006 and 2012, most of it for the city's policing services.²⁹

²⁶ "Billions in TSA 9/11 Security Fees Diverted by Congress for Other Causes," Judicial Watch, January 31, 2019. Available at: <https://www.judicialwatch.org/blog/2019/01/billions-in-tsa-9-11-security-fees-diverted-by-congress-for-other-causes/>.

²⁷ "TSA Airline Passenger Security Fees Intended for Security Not Deficit Reduction," U.S. Travel Association, Accessed March 16, 2019. Available at: https://www.ustravel.org/system/files/media_root/document/FACTSHEET_TSA_Airline_Passenger_Security_Fees.pdf.

²⁸ Charles Crumpley, "Blame it all on Congress," *The Oklahoman*, August 13, 2000. Available at: <https://newsok.com/article/2707694/blame-it-all-on-congress>.

²⁹ "L.A.'s Ongoing History of Airport Revenue Diversion Sidetracks Public Safety," Los Angeles Airport Peace Officers Association, April 1, 2014. Available at: <https://laapoa.com/2014/04/l-a-s-ongoing-history-of-airport-revenue-diversion-sidetracks-public-safety/>.

In 2006, an audit at the Greater Orlando Aviation Authority showed that the City of Orlando had diverted \$1.7 million over a five-year period.³⁰

More recently, the FAA sharply criticized the Port Authority of New York and New Jersey for lacking a transparent process for assessing the fees it charges to airlines, and found airport funds were being diverted for other purposes, such as building roads elsewhere New Jersey.³¹ The FAA found “no established, consistent, clear and fully justified method” for setting airport fees, which one airline cited as being 75 percent higher than a neighboring international airport.³² Until airports stop these practices and better utilize the infrastructure revenue they already collect, they cannot credibly claim that they need additional funding.

These examples raise valid concerns over how airports use PFC revenues and the accountability measures currently in place to prevent waste and diversion. While federal law requires FAA approval to use PFC collections for specific projects, Congress and taxpayers have no say in the process. FAA officials often rubber stamp airport requests without adequate scrutiny or prioritization. The lack of strong federal oversight gives airports the power to unilaterally decide how to spend PFC revenues, shutting out other stakeholders.

Conclusion

Thanks to strong revenues and significant cash reserves, America’s airports have ample resources to meet their infrastructure needs today and in the future. In light of the evidence, adding to travelers’ financial burdens by increasing the PFC is unnecessary. Unlike airline fees which are subject to free market pressures that help to contain prices, the PFC is an inflexible, uncompetitive cost on travelers. A PFC hike would raise the cost of flying for millions of Americans, reducing consumer welfare by \$3.1 billion per year, suppressing economic output, and destroying thousands of jobs. Any increase in the PFC is anti-consumer and represents bad public policy.

³⁰ David A Dobbs, “The Use of Airport Revenues by the Greater Orlando Aviation Authority,” Federal Aviation Administration - Office of Inspector General, August 3, 2006. Available at: <https://www.oig.dot.gov/sites/default/files/OrlandoFinalReport8-3-06.pdf>.

³¹ Justin Bachman, “FAA Blasts Newark Airport for How It Charges Airline Fees,” *Skift*, November 20, 2018. Available at: <https://skift.com/2018/11/20/faa-blasts-newark-airport-for-how-it-charges-airline-fees/>.

³² *Ibid*, p.2.