

**U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE**

**FULL COMMITTEE HEARING:
“THE COST OF DOING NOTHING:
WHY INVESTMENT IN OUR NATION’S AIRPORTS MATTERS”**

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Introduction

Good morning Chairman DeFazio, Ranking Member Graves, and Members of the Committee. My name is Larry Krauter and I am the CEO of Spokane International Airport. It is my privilege to appear before you a second time in this series of hearings to explain what the “cost of doing nothing” looks like for my airport and others like it across the country. Like many small airports, Spokane faces an overwhelming need for investment to maintain and improve our service to the public. Current funding availability is simply not sufficient to meet this need.

Before proceeding further with my testimony, I want to acknowledge and thank Chairman DeFazio, Ranking Member Graves and all Members of the Committee for avoiding detrimental changes in private activity bond (“PAB”) tax rules that could have harmed airports while also repealing the corporate Alternative Minimum Tax that had a negative impact on airports by reducing demand for and increasing the cost of General Airport Revenue Bonds as part of the Tax Cuts and Jobs Act.

As members of this Committee begin considering proposals to enhance our nation’s infrastructure, I urge you to adopt provisions that would help airports repair aging facilities and build critical infrastructure projects. Toward that goal, I respectfully urge you to:

1. Adjust the outdated federal cap on local Passenger Facility Charges (“PFCs”) — a move that would allow airports to finance a greater share of their projects with local user fee-generated revenue and without having to plea for approval from airlines that may be reluctant to approve facilities that allow for increased competition;
2. Increase funding for the Airport Improvement Program (“AIP”) account to enable smaller airports afford necessary upgrades; and
3. Make important policy changes within the FAA National Priority Ranking system to give higher priority to terminal renovation and expansion projects in recognition of the shift in airport infrastructure deficiencies from airside to landside facilities. Without this refinement in prioritization, an increase in AIP funding would not be effective to help airports struggling with growth-related challenges and outdated terminal buildings.

Adjusting the PFC cap and increasing AIP funding would help Spokane International Airport and other small airports around the country renovate or replace aging terminal facilities and keep up with rising

passenger growth, increasing construction needs, and construction cost inflation. Moreover, increases in commodity costs (such as steel) and shortages of construction labor are driving up the cost of capital projects for airports throughout the country. These factors are outside our control as they are driven by national policy actions.

About Spokane International Airport

Spokane is the largest city between Seattle and Minneapolis as well as between Calgary and Salt Lake City. Accordingly, we are a regional center for education, food and entertainment, finance, retail, medicine, manufacturing, transportation, and logistics for a vast area of small and rural communities. In addition, we are a popular year-round leisure destination.

Spokane International Airport is the primary commercial service airport for this region. Our market area includes Eastern Washington State, Northeast Oregon, North Idaho, Western Montana, and the southern parts of the Canadian provinces of Alberta and British Columbia. In 2018, we handled just under four million total passengers, which beat our all-time high record set in 2017 and represents an increase of approximately 37% since 2013. In the past two years, our passenger activity has increased nearly 23%. Freight activity has increased a little over 10% since 2013.

Our airport is served by Alaska Airlines, American Airlines, Delta Air Lines, Frontier Airlines, Southwest Airlines, and United Airlines, which together operate approximately 60 flights per day to 16 nonstop destinations. Scheduled cargo service is provided by FedEx and UPS. Empire Airlines provides cargo service to smaller communities in the region and feeds into FedEx at Spokane International Airport.

On the passenger side, our physical infrastructure consists of two terminal buildings: the original terminal building constructed in 1965, which has 11 loading bridge gates, and a second terminal constructed in 1999, which has three loading bridge gates and four ground-loading positions. Together, the terminals offer a total of 14 gates and four ground-loading positions.

The airport is owned jointly by the City of Spokane and Spokane County and operated by the Spokane Airport Board. In 2019, our operating budget is approximately \$43 million and our capital budget is approximately \$51 million. We have approximately 100 full-time employees and 50 part-time employees. We do not receive general fund support from City or County taxpayers and therefore rely on revenues generated by parking, ground leases, permit fees and concession agreements to fund our operations. Capital expenditures are primarily funded through AIP grants; Customer Facility Charges to rental car companies, the Passenger Facility Charge, and debt. A modest non-grant funded capital program is supported by available cash outside of reserves. Consequently, PFCs are crucial element of our fiscal self-sufficiency.

Our Airport's Capital Improvement Needs

After 20 years without any capacity expansion, Spokane International Airport has reached a point of full saturation on both the landside and airside of the terminal facilities. On the airside, we have no additional gates to offer existing airline partners for new service or for new entrants, particularly if they want to fly at peak times. For example, one of our airlines recently added new nonstop service that filled a much needed demand. Due to lack of gates, the new route has to use one of the ground-loading positions, which forces customers to go outside in all weather conditions to board the aircraft.

Our landside facilities are equally saturated. We have a passenger-screening checkpoint in each of the terminal buildings. Both checkpoints are severely constrained as they were jammed into existing space in the terminal buildings that were not designed for the extensive physical space needed to carry out passenger screening in the post 9/11 era. Some of our baggage-claim devices are original

equipment, and our maintenance staff is required to machine replacement parts from scratch in order to keep them operational. The baggage carousel that serves United Airlines dates back to the 1970s. Our legacy HVAC system is just as aged, and we have trouble keeping our passengers and workers comfortable, as our system struggles to keep up with the heating or cooling loads during peak hours of activity.

We have done an amazing job to extend the life of the terminal buildings and to make them work as best as they can; however, we now find ourselves up against both the age and capacity limits of the facility. If we do not invest now, the ability of the airport to facilitate continued economic growth of our region and to support growth of airline business will be harmed.

Spokane is not alone. Airport terminal buildings around the country are reaching the end of their useful lives and their capacity limits. Many of these airports like Spokane deferred projects after the extensive consolidation in the airline industry last decade that resulted in significant reductions in seat capacity. However, airlines eventually brought back this service to finally address the pent up demand and more recently expanded service to keep up with the growth in our economy after the Recession. As a result, we are now being challenged by the growth in demand for air travel. This circumstance is being faced across the country at airports of all sizes, but particularly challenges smaller airports that need substantial investment for which the PFC was intended but cannot afford to go into substantial debt.

It is important to note that the genesis of the PFC program goes back to the late 1980s to address the need for airports to build facilities to increase competition. The PFC is a pro-competition mechanism. With the consolidation in the airline industry, it is more important now than ever for airports to have the funding tools to provide for competition. In part I believe this is why the airline industry does not support an increase in the PFC level. In exchange for backing airport projects, airlines often demand long-term leases with preferential or exclusive rights to facilities which can have an impact of limiting access of competitors. The PFC is the best self-help mechanism for public airports to implement projects for the good of the whole and not to the just benefit the few.

That is why it is so critical that Congress raise the federal cap on local PFCs and provide airports with more federal AIP funding directed at addressing terminal renovation and expansion projects.

Spokane's Terminal Renovation and Expansion Project ("TRES") Plan

In my testimony from the first hearing on February 7th I described the planning process undertaken in Spokane to address the capacity and infrastructure issues that have reached the critical point. Our \$190 million TRES capital improvement project focuses on our most urgent needs, including security screening checkpoint capacity and configuration, baggage claim, gate capacity, legacy HVAC, IT and security systems, as well as adequate public circulation space and areas for proper configuration of law enforcement, dispatch, operations, and administrative functions. The core components of the TRES project are outlined in Exhibit A.

The best solution as identified in the Master Plan would be better to abandon the existing terminals and build unified terminal building on a new greenfield site that offered substantial flexibility. The problem with that solution is would cost \$400 million–\$500 million, which an airport of our size cannot afford.

As a result, we decided to take a more conservative approach and make "lemonade" out of the existing terminal complex and figure out a way to renovate and expand the buildings to accommodate projected growth — the solution reflected in the TRES project. This conservative approach required us to think about ways to make the terminal buildings work better together through a series of projects

that would have independent utility but would be functionally related to the whole program. Our concern was that our air service environment had been volatile and as a result we did not want to overextend our building program and end up highly leveraged in the event that we continued to experience a slow economic recovery or that the airlines did not respond to the demand in our market with sufficient seat capacity and destinations.

There are many airports across the country that are pursuing TREC-like projects that can run anywhere between \$50 million or greater depending on the scope of the needed improvements. A nearby example of that is in Missoula, Montana, which is pursuing a terminal renovation and expansion project that is estimated to cost in the \$100 million range. To provide a comparison, Missoula handled over 848,000 passengers in 2018, where Spokane handled nearly four million total passengers. I use this to illustrate that there is a common need for airports to renovate and expand terminal facilities in response to growth and the costs of these projects for smaller airports are in a consistent range.

Funding for TREC: The Cost of Doing Nothing

TREC is crucial to the future of our airport and our region. However, current federal policy with respect to AIP and PFCs creates an extremely challenging funding environment for airport development projects like this, one that unduly constrains our fiscally prudent financing options for the following reasons:

1. The Airport Improvement Program provides grant funding for mainly airfield-related improvements (e.g., runways, taxiways, aprons, and land acquisition). What most airports need now is expanded terminals, and most AIP grants cannot be used for that purpose. In addition, although the FAA reauthorization bill signed into law last year was helpful in restoring stability and predictability to aviation policy, the law fell short in maintaining level funding for AIP at \$3.35 billion annually. Of that amount, airports will receive approximately \$3.2 billion each year after appropriations are taken to fund FAA administration, research and development, and small community programs. This amounts to less than half of the \$7 billion each year through 2023 that the FAA's own 2019 National Plan of Integrated Airport Systems ("NPIAS") says is needed for AIP-eligible projects. Even then, the NPIAS estimate does not reflect the complete capital needs of airports, which also include projects that do not qualify for AIP funding.

As AIP funding has remained flat over the past 12 years, its effective buying power in current dollars has declined to approximately \$1.8 billion. In turn, the \$5 million Spokane receives annually in AIP formula funds based on passenger and cargo activity for use on eligible projects has effectively declined in value to \$2.25 million. The amount of this formula funding is often insufficient to address the total cost of an eligible project, so we must compete with other airports for discretionary funding from the FAA or divide a project into multiple phases, which is inefficient and costs more. We also find ourselves having to bid projects in multiple schedules to match funding constraints and ask the contractors to hold their prices from one year to the next, which is risky for them.

An example of our situation is a current grant request that we have submitted to the FAA for reconstruction work on our runway intersection related to pavement rehabilitation, paved shoulders, drainage, and signage. Our total project request for the Runway 8-26 Improvements Project is \$21 million, with \$18.6 million from the FAA and \$2 million from the airport in matching funds (which is, in itself, considerable). If this project were funded entirely through entitlement formula, we would be looking at obligating approximately four years of funding to pay for the project. As a result, we have requested discretionary funding from the FAA. At the same time, we have a need to realign our terminal building access road and prefer to use our entitlement funding for that project. If the FAA cannot come through with discretionary funding, we will have to substantially modify the runway project and/or jump

over it and prioritize the roadway realignment project. This could create a considerable disruption to our Airport Capital Improvement Program that we have worked out with the FAA. Had our AIP funding been able to keep up with need, we would be able to pursue both projects without tying up our funding for several years or introducing a disruption into our capital program.

Because AIP cannot meet our funding needs for eligible projects, it causes a cascading impact of phasing or deferral of airfield projects that ultimately results in greater cost and complexity. Another example is our project to relocate a road around the end of our primary runway that is currently within the Runway Protection Zone — one of the most critical safety areas that we are charged with protecting. This project is estimated to cost upwards of \$20 million and we have been seeking funding partners at the state, metropolitan planning organization, and local level to help us leverage the relatively small amount of FAA funding that we can bring to the project. We prepared an application for a BUILD grant from the U.S. Department of Transportation for this project; however, off-airport needs in our region caused us to withdraw our application in favor of another project that was critically important to the community. This is an illustration of the way in which the diminished purchasing power of AIP funding causes airports to go in search of other sources and increases pressure on overall transportation funding sources, which are struggling to keep up with demand in their own right.

To be certain that there is no misconception about how AIP funds are directed or any inference that a plus-up to AIP without substantial policy changes on terminal building eligibility will offset the need for a PFC increase, I reviewed the AIP grant history for Spokane International Airport from 1982 to 2018. In the grant descriptions provided, I could not identify a single terminal building-related project being funded out of AIP. That means that out of roughly \$186M of AIP grants made over a 36-year period, there were no terminal building projects funded. The only grant remotely linked to terminal building needs was a Voluntary Low Emissions (“VALE”) program grant to install pre-conditioned air units on some of our passenger loading bridges. Since 2009, I could identify only one AIP grant involving a project not involving airfield pavement, signage, or lighting, for construction of a replacement Aircraft Rescue and Firefighting building (\$7.1M).

This analysis indicates that the vast majority of AIP grants at Spokane have been directed to airfield projects at a rate that well-exceeds the 71 percent proportion for AIP grants in general. My impression is that this percentage is routinely higher for smaller airports which points out that there is current need for an increase to AIP funds for both airfield and terminal building projects at small airports. Both AAE and ACI-NA have well-documented that condition as part of the total underfunded need at airports of all sizes throughout the country.

Another misconception about AIP relates to the current balance of the Airport and Airway Trust Fund and the idea that there is plenty of money that could be made available for airports if Congress appropriated more out of the Trust Fund. In my opinion that is a false narrative, as the Trust Fund balance represents about 5 months of the FAA’s operating budget and the Trust Fund is used for many other FAA operating and capital programs other than AIP.

2. Passenger Facility Charges. In contrast to airside project focus of AIP grants, PFCs are generally used to finance landside improvements such as passenger terminals that usually aren’t eligible for AIP funding. PFCs are a crucial source of support for these projects, because their proceeds may be used for a broader range of airport development projects than AIP grants and unlike AIP grants can be bonded to finance large, multiyear projects.

As with AIP grants, because the PFC cap has not been adjusted since 2000, the purchasing power in today’s dollars is about half of what it was. Most airports today collect the maximum PFC

amount because of the need to fund terminal infrastructure projects as well as the impact of construction inflation on project costs. While this effect varies by region, it is safe to say that average construction costs have increased considerably since 2000 when Congress last adjusted the PFC cap.

In many circumstances, including Spokane's, the PFC is serving as an offset to the stagnation of AIP funding and the erosion of its purchasing power. In fact, a quick look at our PFC programs since 1993 show approximately 11 airfield-related projects totaling a little over \$37 million that would have been AIP eligible had AIP been able to keep up with need. We can throw in another \$54.8 million in snow removal equipment and a snow removal equipment storage building. Over 26 years, this locally directed user fee has effectively acted as supplement to stagnated AIP funding in the amount of nearly \$92 million or roughly \$3.54 million on average each year. Overall, the PFC has funded nearly \$150 million of projects in Spokane that would otherwise have had to compete, wait, or be cancelled due to a lack of AIP funding or would have had to have been debt financed or paid directly by the airlines.

The Bottom Line

The airport industry trade associations, the American Association of Airport Executives and Airports Council International – North America ("ACI-NA"), routinely survey airports to assess their total capital needs. ACI-NA's most recent survey data indicates that annualized capital needs between 2017 and 2021 are approximately \$20 billion. It is my understanding that this number will increase when the survey is next updated.

Airports collect about \$3.3 billion annually in PFC revenue. Add to that the AIP funding level of \$3.35 billion and we are only generating about one-third of the annual funding needed to maintain and expand our airport system. This gap acts as a significant constraint on the funding and financing options available to airports like Spokane. Could you imagine what we could do if our AIP entitlement funding was nearly doubled annually and the amount of PFC capacity that could be freed up as a result?

Funding for TREX: The Urgent Need for a PFC Increase

Spokane needs additional PFC funding capacity now more than ever as we head into the construction of the TREX project. This would help narrow the funding gap described above, and it would ultimately save money for the traveling public. Let me explain using the graphic in Exhibit A, which outlines our current and potential financing options for TREX.

Here's how a higher PFC cap would help us reduce time and costs in Spokane: The lower right quadrant of Exhibit A illustrates concepts of how the airport can fund the TREX project through the traditional "bond it all and build it" method and another method that we call "pay-go/borrow/bond and build." We have simplified the math to show the broad concept of the costs of doing nothing with the PFC cap and the benefits of increasing the PFC and using methods to reduce our interest costs.

If we take the current estimated cost of the TREX project at nearly \$191 million and go the traditional route of bonding the full amount, the airport and its local users effectively end up paying twice for the same thing as the total project cost becomes nearly \$342 million. Just for purposes of illustration, at the current PFC level of \$4.50 and not counting for inflation, that would straight line to 38 years of PFC obligation if we stayed at two million enplaned passengers a year. And this is a current problem today for many airports that are extended decades out on their PFC obligation, paying off projects that they have already built so there is no capacity to fund new projects.

Moving down the table, we show the simplified effect of an increase of the PFC from \$4.50 to \$6.50, which reduces interest and brings down the PFC collection period from 30-plus years to 22 years. Then, on the bottom table, we show the impact of an \$8.50 PFC level, which brings down the PFC collection period to 14 years. The reduced time that a higher PFC would create is relevant since the TREX

improvements will likely have 15–20 years of life cycle before reinvestment. A higher PFC would also allow us to reduce our interest costs. Under this model, an \$8.50 PFC would also allow us to reduce our interest costs from \$151.2 million to \$66.3 million. In other words, an \$8.50 PFC would allow us to save approximately \$85 million in interest costs.

The tables on the lower right of the quadrant on Exhibit A show an even better outcome if we collect an increased PFC for a short period of time and then use a combination of pay-go and debt financing (maybe even other than Airport Revenue Bonds if alternatives are attractive), and again we show these scenarios in increments of the current rate of \$4.50 and a conceptual increase of the PFC to \$6.50 or \$8.50 per enplaned passenger. In that scenario, an \$8.50 PFC would allow us to reduce our interest costs from \$73.4 million to \$18.7 million — a \$54.7 million savings. An \$8.50 PFC would also allow us to reduce the payoff for the debt financing from 20 years to just seven years.

These tables are a simplified way to express the practical impact of a PFC increase as related to reduction in total project cost. Our example includes a small escalation factor in the 2018 costs. By far, the largest impact on the project cost will be the bidding environment that exists at the time. We also used a bond amortization rate of 4.25%. With regard to present value impact, we assume that annual bond payments are fixed at debt issuance, discounted through interest rates at the time, and paid back with funds accumulated in future years at the fixed amount regardless of diminution due to inflation of the value of a dollar in a future year.

As airport operators, we have to ask ourselves why should our passengers pay twice for a project like TREX when a modest increase in the PFC can substantially reduce that liability? Why should the PFC continue to make up for a stagnated AIP funding level that has not kept pace with demonstrated need? Why should a PFC that has not been adjusted for nearly two decades force us into an unnecessary level of debt that we would otherwise prefer not to take on? What are the impacts of losing all of our PFC capacity for decades in terms of deferred and cancelled projects? What are the impacts to our non-grant or PFC-funded capital program that is already underfunded by about \$5 million a year?

Spokane's overall financial situation provides additional context for the discussion above. Spokane International Airport is currently mostly debt free with the exception of some modest very low-interest loans that we accepted from the state to construct hangars. While this is an enviable position, we were able to get there by changing our financial models to be more business-like and entrepreneurial, but we also deferred non-grant funded capital investment. Our goal was to build up our capacity in the worst-case scenario of having to go the traditional route of bonding all of the TREX project costs and paying them off over 25–30 years, as well as be able to fund other projects that are approaching that will not be PFC- or AIP-eligible, such as expanding our parking garage.

We believe that it is in the best interest of the airport to avoid debt to the greatest possible extent, and when we need to use it, to limit it. I think we can all agree that this is a good way to operate just about any organization.

Because we have a fully residual rates and charges agreement with the airlines, they also benefit by not having to support substantial levels of debt service as part of their costs. As a result of a combination of factors, our cost-per-enplanement (“CPE”) ratio in Spokane is low and fluctuates between \$5.00–\$6.00 per passenger. This places us in the lowest quartile of airports based on CPE. Much of our financial planning in terms of the impact of decisions on our operating and capital budgets is based on the impact to our CPE and our desire to remain within a reasonable CPE range.

Given our financial discipline and policy choice to avoid debt, the airport uses its unrestricted cash to pay for capital improvement projects that are not eligible for grant or PFC funds and, in some circumstances, to advance fund planning, environmental, or design efforts needed to keep AIP or future

PFC projects on schedule. It is important to point out, however, that “unrestricted” does not mean “available.” Reserves are not included in the restricted definition. We look to maintain an Operations and Maintenance Reserve and Self-Insurance Reserve (Other Post-Employment Benefits, Environmental Liability, etc.) in addition to funding the aforementioned capital projects. For accounting purposes, we define available cash as that which is on hand after reserves. At this point, I must address a popular misconception. Many groups rely on FAA Form 127 to assess airport cash balances. We believe this is an error because unrestricted cash is defined as “not restricted.” This can provide an inaccurate picture of cash available for use. In reality, much smaller amounts of cash are available and in the control of management. For example, in Spokane, the FAA Form 127 indicates that the 2018 forecast amount of Days Cash On Hand (“DCOH”) is approximately 385 days. In reality, the number of DCOH is 198 when reserves are applied. The reality is that the revenue we raise goes to fund our operating expenses and about \$6 million–\$10 million to invest in non-grant funded projects and to match AIP projects (recall the \$2 million match I referred to for the Runway 8-26 Improvements earlier in my testimony).

We are not sitting on piles of cash in Spokane with six to eight months of available cash, but the good news is that we are not sitting on piles of debt, either. We have managed to this objective by limiting our non-grant and PFC-funded capital program, which is not in the long-term best interest of the facility. Airports across the country reported almost \$92 billion in debt in 2017, which is more than six times the amount of unrestricted cash that they reported that year.

In our community, we would much prefer using a locally directed user fee to pay for projects than to incur debt that has the potential to stop us from being able to move forward on other important infrastructure projects that are not grant or PFC eligible or just saddles us with costs that drive up our CPE to unacceptably high levels.

Finally, I would point out that as a practical matter, our airline partners do not want to tie up their capital investment dollars in a place like Spokane and in the vast majority of smaller communities. We do not see that as a negative. I think that the airlines are pleased that we have kept our PFC capacity available to take on the cost of the TREX project. We are good partners and understand their corporate objectives and how their investments in other types of infrastructure benefits our community. We are realists, and we embrace the responsibility to develop our airport terminal facilities by using the best self-help mechanism available: the PFC. I ask this Committee to provide communities with the best possible means by which to fund airport infrastructure by supporting an increase to the PFC as part of an infrastructure bill or other legislation.

Avoiding Traps and Adverse Consequences

Throughout my testimony I have attempted to demonstrate how insufficient financial resources diminish the ability of Spokane, and most other airports, to properly invest in needed infrastructure. I want to close by highlighting the way in which complex, interrelated airport funding issues can create a number of potential “traps” for airports seeking to fund infrastructure improvements. I will operationalize these traps for you using our TREX project and point out why an increase in the PFC is the best way to avoid them.

As I mentioned earlier in my testimony, the TREX project is currently estimated to cost \$191M. That is on top of what we need for other AIP-eligible projects and non-grant eligible projects that are funded from net operating revenue.

When the financial implication of TREX is modeled to derive an estimated CPE, it nearly doubles the cost per enplaned passenger from our current level and extends the PFC obligation out to the late 2030s, effectively committing that revenue stream for the foreseeable future to a single project. That means any future improvements will need to be funded from other sources. As I mentioned previously,

our CPE is in the lowest quartile and as a result, we and our airline partners understand there is headroom to increase the CPE to fund TREX, however, not to the extent that it doubles and places us in a potential competitively compromised position that could discourage competition and keep airfares reasonable for my community. As a result, we are forced to examine scope reductions and negotiate against ourselves to a certain extent. This is primarily due to the additional cost of debt to finance the project which means higher rates and charges for the airlines. Not only is there a scope reduction in TREX, but we must also look at redirecting as much AIP funding to the project as possible, which sets us up in a second trap with the FAA as they assign low priority to terminal buildings and when an airport directs its entitlement funds to lower priority projects, the FAA withholds discretionary funding for other projects as they prefer to see an airport use entitlement funds for their priority projects (think airfield-related projects based on the grant history I reviewed earlier). Accordingly, the AIP revenue stream, which is already inadequate is effectively shut off.

Finally, there is the third trap which is the negative impact on non-grant funded projects. These are projects that are not eligible for PFC or AIP funds that typically come from net operating revenues. Examples include building parking lots and aircraft storage hangars and acquiring equipment like police vehicles and streetsweepers and building administrative space for airport management functions. As this category of funds has to be dedicated to debt service or paying for other elements of TREX, the airport has completely run out of options to invest in capital facilities and equipment.

Each year we establish a non-grant funded capital budget and pare it down to fit into a rates and charges level that we believe will work for our airline partners. However, as a result of not having a modernized PFC collection rate, it imposes an artificial cap on this program that has resulted in an average of \$6M per year of projects that we defer which means that we have an effective backlog of at least \$24M of non-grant funded capital projects and are adding approximately \$6M a year to that liability. This alone would equate to an approximate \$3 increase to the PFC just to catch up to where we need to be.

So there are 3 traps created by an insufficient PFC. The first trap being scope reductions on projects to limit impact to CPE due to debt financing as well as effectively shutting off the PFC revenue stream for decades. The second trap is to effectively reduce AIP funds by prioritizing them for terminal building projects against the heavy emphasis by FAA for their use on airfield projects. The third trap is to constrain the non-grant funded capital investment so as to require significant deferral or abandonment of projects that are not eligible for PFC or AIP funds.

All these traps work to effectively give more control of airport capital programs to the airline partners whether it is intentional or not. A healthy balance should be maintained in order to avoid these traps of diminishing returns. Modernizing the PFC, a locally-directed user fee, is the best balancing mechanism to avoid these traps and I think we have demonstrated from our own behavior that it works in a market setting.

Conclusion

I am very encouraged that Chairman DeFazio and Ranking Member Graves are holding this hearing today to lead our country forward on addressing airport infrastructure needs. Clearly, the cost of doing nothing is high, and we are already paying for it at the risk of harming the economic well-being of our community airports by underfunding AIP and artificially limiting their ability to deliver modern and efficient facilities as a result of an outdated cap on a locally directed user fee that has proven to enhance safety, efficiency, capacity, competition, and the customer experience. I strongly encourage you to consider raising this cap to provide airports like Spokane with the broadest range of funding and financing support as we work to deliver air transportation infrastructure that the American people

deserve. Providing airports the ability to flexibly and responsibly utilize a modernized locally-directed user fee is the right balancing mechanism for this time when need is so great and resources have stagnated. The PFC has proven itself as the right airport infrastructure investment policy for nearly 30 years. It is time to act. Please provide us with the necessary tools to properly invest in our airports for the benefit of our communities and business partners. The cost of doing nothing is too high to ignore. I renew my commitment to help members of this Committee as you develop an infrastructure package and future infrastructure legislation.

EXHIBIT A

Terminal Renovation & Expansion (“TREX”) with Consolidated Checkpoint Project