



# PFC Program

March 2001

## NAVIGATING THROUGH CHANGES RESULTING FROM AIR-21

With the passage of the Wendell H. Ford Aviation Investment and Reform Act for the 21st Century (AIR-21) and the arrival of long-awaited increases in Airport Improvement Program (AIP) funding and passenger facility charge (PFC) levels came a variety of new formulas, project requirements, rules, and regulations. The purpose of this *Focus—PFC Program* is to assist airport operators in navigating through the important changes in AIR-21 regarding AIP and PFC funding.

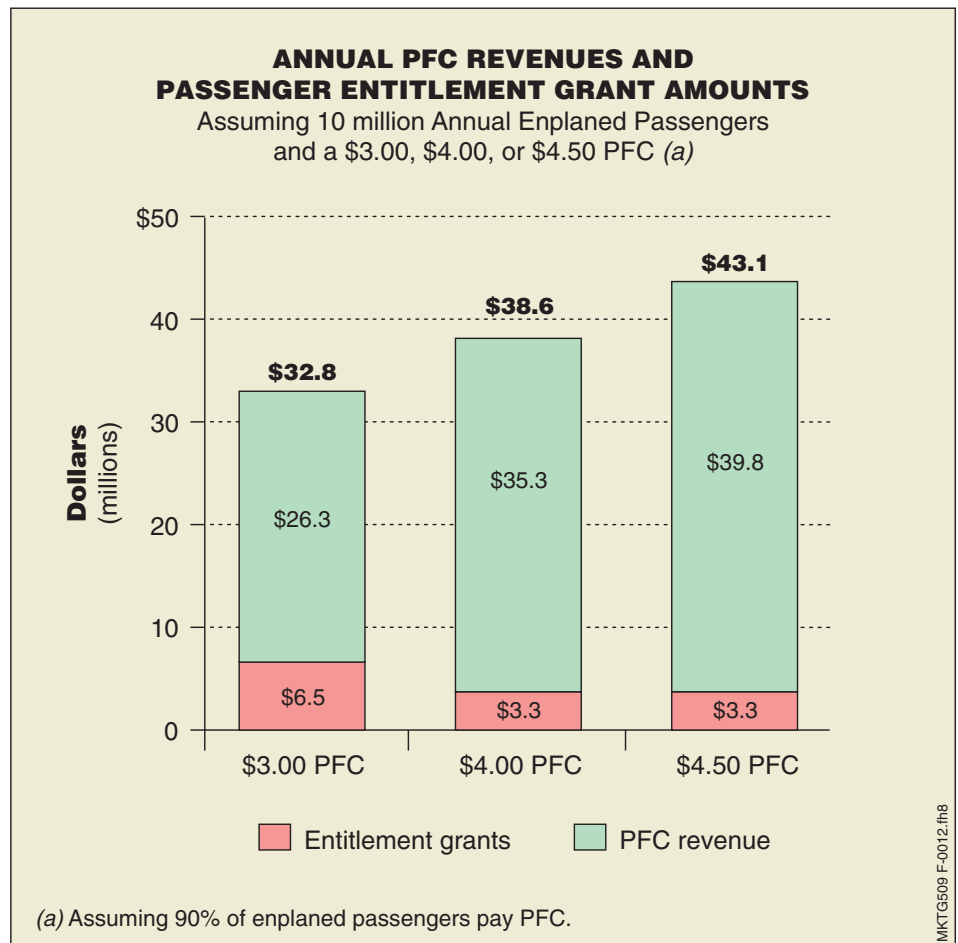
AIR-21 included authorization to charge a PFC at both the \$4.00 and \$4.50 levels for projects that meet specific eligibility requirements. One such requirement, which applies only to large- and medium-hub airports, is that a project must make a “significant contribution” to improving air safety and security, increasing competition, reducing congestion, or reducing noise (in comparison to the “adequate justification” requirement for projects at a lower PFC level). Other requirements apply to airports of all sizes. Projects that qualify for a higher PFC level are referred to as “premium” projects. Other requirements for premium projects are described below.

AIR-21 also included increased entitlement grant funding through Federal Fiscal Year (FFY) 2003 (ending September 30, 2003). For annual AIP funding at or above \$3.2 billion, passenger entitlement grant amounts have doubled (subject to a \$26 million cap for any given airport). For the operators of

large- and medium-hub airports that are approved to collect a \$4.00 or \$4.50 PFC, passenger entitlement grants will be reduced up to 75% (rather than the up-to-50% reduction associated with lower PFC levels). The figure below reflects the difference in annual passenger entitlement grants and PFC funding for an airport with 10 million annual enplaned passengers charging either a \$3.00, \$4.00, or \$4.50 PFC.

### WHEN Can Airport Operators Begin Collecting a Higher PFC?

In general, an airport operator will not be able to begin collecting a \$4.00 or \$4.50 PFC until all PFC amounts authorized at a lower level (i.e., \$1.00, \$2.00, or \$3.00) have been collected and/or amended to a higher PFC level. Alternatively, previous PFC authority qualifying only at a lower level may be commingled—possibly with



a new application—to meet minimum threshold requirements for higher PFC

levels (described in more detail later). The earliest date on which airport opera-

tors can begin collecting a higher PFC is April 1, 2001. If the airport operator is required to submit a competition plan to the FAA, the competition plan must be submitted to and accepted by the FAA before the operator can begin collecting a higher PFC. It should also be noted that an airport operator can apply to the FAA for approval for premium projects at any time as part of the normal PFC application or amendment process.

To begin collecting a higher PFC as soon as possible, airport operators should begin the process of amending their existing PFC Records of Decision (RODs) for approval at a higher PFC level. In some cases, where \$3 PFC authority will expire in the near-term (i.e., in the time it would take to get approval for a new application), the airport operator should proceed directly to a new PFC application.

Once an airport operator is able to begin collecting a higher PFC, it can continue to do so as long as the total approved PFC amount for premium projects has not yet been collected. In rare instances, the PFC authority could be terminated by the FAA in advance of reaching approved collection levels as a result of

violations of the PFC statute or regulation by the public airport operator, although, in practice, public airport operators have an excellent record of compliance with statutory and regulatory requirements and all compliance issues to date have been resolved informally.

**WHAT Are the Requirements for Collecting a Higher PFC?**

Projects must meet general requirements for FAA approval at a \$1, \$2, or \$3 PFC level.

Projects are eligible for a higher, or “premium,” PFC (\$4.00 or \$4.50) only if the projects cannot be financed with funds reasonably expected to be available through the AIP.

Surface transportation or terminal projects are eligible for a higher PFC only if the airport operator has adequately provided for airside needs.

At large- and medium-hub airports, projects are eligible for a higher PFC level only if the project will make a “significant contribution” to improving air safety and security, increasing competition among air carriers, reducing congestion, or reducing

AIP ENTITLEMENT FORMULA FOR PRIMARY AIRPORTS (FFY 2000-FFY 2003)		
Enplaned passengers	AIP funding below \$3.2 billion	AIP funding at or above \$3.2 billion
First 50,000	\$7.80 each (max. of \$390,000)	\$15.60 each (max. of \$780,000)
Next 50,000	\$5.20 each (max. of \$260,000)	\$10.40 each (max. of \$520,000)
Next 400,000	\$2.60 each (max. of \$1,040,000)	\$5.20 each (max. of \$2,080,000)
Next 500,000	\$0.65 each	\$1.30 each
Each additional passenger	\$0.50 each	\$1.00 each
Minimum entitlement	\$650,000	\$1,000,000
Maximum entitlement	\$22,000,000	\$26,000,000

AIP AUTHORIZATIONS AND APPROPRIATIONS		
Federal Fiscal Year	AIP authorization (billions) (a)	AIP appropriation (billions) (b)
1999	\$2.410	\$1.950
2000	2.475	1.950
2001	3.200	3.200
2002	3.300	3.300
2003	3.400	To be determined

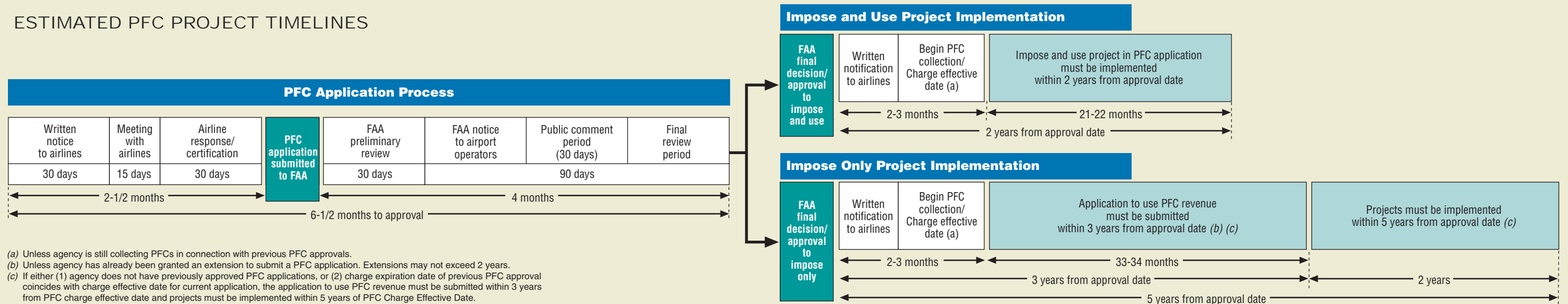
(a) Maximum amount of AIP funding that may be approved for spending, as determined by the U.S. Congress.  
(b) Amount of AIP funding that has actually been approved for spending, as determined by the U.S. Congress (following funding authorization).

the effect of aviation noise for people living near the airport (in comparison to the “adequate justification” requirement for projects at a lower PFC level).

**IMPORTANT PFC AND AIP CHANGES**

- \$4.00 and \$4.50 PFC levels and associated project eligibility requirements were added.
- For operators of large- and medium-hub airports where a \$4.00 or \$4.50 PFC is collected, entitlement grants are reduced by 75% of projected PFC revenues or 75% of entitlement grants, whichever is lower (compared to a 50% reduction associated with lower PFCs).
- Operators of large- and medium-hub airports where one or two airlines enplane more than 50% of all passengers must submit a competition plan to, and have it accepted by, the FAA in order to participate in PFC and AIP programs.
- For annual AIP funding (FFY 2000-FFY 2003) below \$3.2 billion, minimum entitlement grant amounts are \$650,000. (Prior to FFY 2000, the minimum amount was \$500,000.)
- For annual AIP funding (FFY 2000-FFY 2003) at \$3.2 billion or above, (1) minimum entitlement grant amounts are \$1 million, (2) maximum entitlement grant amounts are \$26 million (prior to FFY 2000, the maximum amount was \$22 million), (3) the general apportionment formula is doubled, (4) state apportionments increase to 20.0% from 18.5%, and (5) eligible nonprimary and general aviation airports now qualify for up to \$150,000 in annual entitlement funding.
- Cargo entitlements increase from 2.5% to 3.0% of total AIP funds.
- Noise set-aside amounts increase from 31% to 34% of discretionary funds.

**ESTIMATED PFC PROJECT TIMELINES**



## HOW Do Airport Operators Apply for an Increased PFC?

Airport operators may apply for an increased PFC for (1) new projects through a new PFC application, and (2) previously approved PFC applications through a "Type B" amendment (an amendment submitted under 14 CFR Part 158.37(b)).

## HOW Will the PFC Level Be Determined?

Single-project PFC application: The PFC level will be set at the rate for which the project qualifies.

Multiple-project PFC application: The FAA can authorize a higher, uniform PFC amount so long as certain "minimum threshold shares" are met. If the amount of requested PFC funding for qualifying premium projects is 33% or more of total PFC funding requested in the application (e.g., if one of three \$10 million projects in an application meets the requirements for premium projects), then the FAA could authorize a \$4.50 PFC for the whole application. If the amount of PFC funding for eligible premium projects is 25% or more of total PFC funding (but less than 33%), then the FAA could authorize a \$4.00 PFC for the whole application. If the 33% or 25% threshold is not met, the FAA may approve a higher PFC level for the portion of the application that qualifies for a higher PFC.

Multiple PFC Records of Decision: Airport operators may request that a higher, uniform PFC level be established for a series of existing RODs through amendment actions, but possibly incorporating a new application. Generally, the FAA will make its determination on an application-by-application basis. However, some individual RODs may not meet the necessary minimum share for the higher PFC level. In this case, an airport operator may request that the FAA combine one or more existing

RODs into a consolidated ROD in which the combined share of premium projects meets the necessary threshold, thus assuring continuous collections at the higher PFC level for the affected projects.

Airport operators seeking a higher PFC for outstanding approvals or a new appli-

cation should consult with the appropriate FAA Airports District Office.

*Note: Please see the amended 14 CFR Part 158 regulation, the FAA guidance letter on implementing PFCs above \$3, and the AAAE summary of the FAA guidance letter.*

For further information on the topic:

### FAA PASSENGER FACILITY CHARGE BRANCH

<http://www.faa.gov/arp/530home.htm>

PFC regulations, forms, applications, statistics on collections and approved projects, audit guides, advisory circulars, guidance on higher PFC levels, etc.

### AMERICAN ASSOCIATION OF AIRPORT EXECUTIVES

<http://airportnet.org>

Information on AIR-21 and other aviation legislation, guidance on higher PFC levels and PFC audits, and other industry reports.

### LEIGH FISHER ASSOCIATES

<http://www.leighfisher.com>

[Click on Publications and Presentations. Then, at the bottom of the page, download the PDF of *LFA Focus: PFC Financings*]

Information on leveraging PFC revenues, historical stand-alone PFC bond issues, different approaches to leveraging PFC revenues, FAA termination waiver provisions, and the first lien sufficiency test.

Leigh Fisher Associates has assisted airport operators with developing and managing PFC programs, preparing PFC applications (including applications for higher PFC levels), structuring PFC-supported financings, and preparing FAA-required competition plans.

LFA employs 60 consultants with extensive practical experience in all the disciplines necessary for the planning and management of airports, including facilities planning and design, traffic engineering, financial analyses and planning, economics and air traffic forecasting, commercial and concession planning, airport management and operation, noise and other environmental analyses, operations research, and systems analysis. The consulting staff is supported by dedicated staff who provide computer-aided design, simulation modeling, video animation, editing, and administrative services.

***Please contact Cindy Nichol or Phil Hill for additional information about PFC-related topics.***

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