

HCR

3

HFIN

FILE

4/23/99

adopted

AMENDMENT

①

OFFERED IN THE HOUSE

BY REPRESENTATIVE BUNDE

To: HCR 3

Page 1, line 2, following "Airport":

Insert "on aircraft with a seating capacity of 60 or more passengers"

Page 2, line 9, following "Airport":

Insert "on aircraft with a seating capacity of 60 or more passengers"

HOUSE COMMITTEE REPORT

(11)

Date Referred to Committee: March 31, 1999

FURTHER REFERRALS:

Date of Committee Action: 4/23/99

The FINANCE Committee considered:

HCR 3

HOUSE CONCURRENT RESOLUTION NO. 3

PASSENGER FACILITY CHARGES AT ANCHORAGE

Relating to use of passenger facility charges at the Anchorage International Airport.

recommends it be replaced with the following committee substitute CS HCR 3 (FIN) the same title
 a new title

additional referral to _____ Committee
 attached amendment(s)

ADOPTS: _____ Letter of Intent

ATTACHES NEW FISCAL NOTE(S): _____ (Dept)

APPROVES PREVIOUS: _____ (Dept/Date)

fiscal note(s) _____

fiscal note(s) _____

zero fiscal note(s) _____

zero fiscal note(s) HSC Trans Com 3/31/99

SIGNING WITH RECOMMENDATIONS	DP	DNP	NR	AM
<i>Therriault</i> Therriault			x	
<i>Mulder</i> Mulder			/	
<i>Van Bleet</i> Bunde			/	
<i>Kohring</i> Kohring				x
<i>Austinman</i> Austinman				x
<i>Grossendit</i> Grossendit			x	
<i>Moses</i> Moses	x			
<i>G. Davis</i> G. Davis		x		
<i>Tostu</i> Tostu		x		

CHAIR'S SIGNATURE _____

Therriault

Mulder

Mulder

FISCAL NOTE

STATE OF ALASKA
1999 LEGISLATIVE SESSION

BILL NO. HCR 3

Title: "An Act Relating to use of passenger facility charges at the Anchorage International Airport."
Sponsor: House Transportation Committee
Requestor: (H) TRA

Dept. Affected: DOT&PF
BRU: _____
Components: _____
Serial #: _____

EXPENDITURES/REVENUES: (THOUSANDS OF DOLLARS)

OPERATING	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants, Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0
CAPITAL	0.0	0.0	0.0	0.0	0.0	0.0
REVENUE	0.0	0.0	0.0	0.0	0.0	0.0

FUNDING: (THOUSANDS OF DOLLARS)

General Fund						
Federal Fund						
Other						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

POSITIONS:

Full-Time	0	0	0	0	0	0
Part-Time	0	0	0	0	0	0
Temporary	0	0	0	0	0	0

ANALYSIS: (ATTACH A SEPARATE PAGE IF NECESSARY)

Note: This bill may imply a fiscal note because of the message it conveys (asking to establish a fee). However, the resolution itself carries no fiscal impact.

Prepared by: Ted Deats, Committee Aide
House Transportation Committee
Beverly Masek

Date: 03/03/99
Phone: 465-2679
Phone: 465-2679

FISCAL NOTE

STATE OF ALASKA
1999 LEGISLATIVE SESSION

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Prepared by: Ted Deats, Committee Aide
House Transportation Committee
Beverly Masek

Date: 03/03/99
Phone: 465-2679
Phone: 465-2679

KIP 4/23/99

BEFORE THE ALASKA STATE LEGISLATURE / HOUSE FINANCE
COMMITTEE -RE: HCR 03 -- APRIL 13, 1999

Mister Chairman and Members of the Committee:

My name is Paul Landis. I am a Vice President for Era Aviation and an Executive Board member of the Anchorage Airport Affairs Committee. The views expressed today outline the position of Era Aviation.

With respect to Passenger Facility Charges, Era Aviation has made its position clear that we oppose the implementation PFC's at the Anchorage International Airport as it is currently structured. Our chief concern revolves around the exemptions that apply to select air carriers, based on the markets they serve.

Of the three regional air carriers based in Anchorage, the collection of PFC's would fall solely on Era Aviation. With the exception of Iliamna, every Era destination would be subject to PFCs by virtue of the fact that they are connected to Anchorage either by road or the marine ferry system. The so-called "rural exemption" that is moving forward in Federal legislation exempts communities not connected to the National Highway System. This is an inequity that singles out both Era and its passengers.

The same Senate Bill also exempts carriers in Alaska from collecting PFCs aboard an aircraft having a seating capacity of less than 20 passengers. Era currently operates 18 passenger, 37 passenger or 50 passenger aircraft. Passenger loads can jump in the final hours before departure justifying an upgrade from the 18 seat aircraft to the 37 seat aircraft. The reverse is also true. There are times when we change aircraft types for our own convenience for reasons unrelated to passenger loads. In any case, it is not realistic to have a two tier pricing structure in a common market whereby passengers riding on the larger aircraft pay more than those on a smaller aircraft. It would be impossible to collect PFCs in advance, not knowing which aircraft would be on what flight. The 20 passenger seat exemption places an insurmountable burden on Era Aviation.

While Era Aviation does not question that PFC's could provide a reliable revenue stream to the Anchorage International Airport, it strikes us as terribly inefficient to first identify a source of revenue, and then propose to choke-off the funding with exemptions that have nothing to do with the movement of passengers through a terminal facility.

Beyond the area of exemptions, we are concerned over the disproportionate tax on a \$55.00 one way fare to Kenai verses a \$350.00 one way fare to Seattle. The same \$3.00 PFC would be collected for either ticket, however, on the local fare it represents just over 5% of the total value of the ticket. On the Seattle fare, the PFC represents nine-tenths of one percent of the total ticket price. Residents of the Kenai Peninsula should not be subjected to such unbalanced taxation.

With respect to regional carriers in Alaska, either *all* should be required to collect PFCs - with no exemptions whatsoever - or *all* excluded. Era Aviation clearly prefers the latter approach. However, we are willing to seek equitable alternative solutions. One approach might be for regionals to collect a PFC for Anchorage, but only if in conjunction with a downline ticket, e.g., a passenger travelling Kenai to Anchorage *and beyond*.

Although I am commenting currently on HCR 3, I like to also express Era Aviation's support for HB 84 authorizing revenue bonds for the Anchorage International Airport.

Thank you for your consideration of Era Aviation's position on this issue. I'll be glad to answer any question that you might have.

Sponsor Statement for HCR 3

In 1990, Congress passed a law to allow publicly owned airports to collect user fees called Passenger Facility Charges. The state of Alaska owns and operates 170 airports stateswide and, to date, has not elected to participate in the PFC program. In contrast, the city owned airports of Juneau and Ketchikan have each implemented Passenger Facility Charges.

Passenger Facility Charges are a flat user fee collected at the time of ticket purchase, in most cases the fee is \$3.00. Funds collected through the PFC mechanism may only be used for specific, pre-approved projects that directly benefit airport users. All major airlines serving Anchorage International support the implementation of PFC's with the exception of ERA Aviation.

Passenger Facility Charges are being paid now by Alaskans who travel out-of-state or to Juneau or Ketchikan. In the case of travel outside of Alaska, the money collected from Alaskans goes to outside airports like SeaTac, Salt Lake, or San Francisco, all of whom collect passenger facility charges. Anchorage International is losing up to \$10,000 per day in missed PFC revenues to the benefit of many outside airports.

The current expansion of Anchorage International Airport is a prime example of a capital project that could benefit from the implementation of a Passenger Facility Charge program. While the Department of Transportation does not need direct legislative approval to implement a PFC program, HCR 3 is an important step in bringing the public into the PFC discussion.

Sample Itineraries with and without PFC's

* Indicates PFC Participating Airport

With PFC's		Without PFC's	
Departure Itinerary	PFC Collected	Departure Itinerary	PFC Collected
*Kenai	\$3.00	*Kenai	\$3.00
*Anchorage	\$3.00	Anchorage	\$0
*Seattle	\$0	*Seattle	\$3.00
*San Deigo	\$0	*San Deigo	\$0
Return		Return	
*San Deigo	\$0	*San Deigo	\$3.00
*Seattle	\$3.00	*Seattle	\$3.00
*Anchorage	\$3.00	Anchorage	\$0
*Kenai	\$0	*Kenai	\$0

Departure Itinerary	PFC Collected	Departure Itinerary	PFC Collected
*Anchorage	\$3.00	Anchorage	\$0
*Juneau	\$0	*Juneau	\$0
Return		Return	
*Juneau	\$3.00	*Juneau	\$3.00
*Anchorage	\$0	Anchorage	\$0

With PFC's		Without PFC's	
Departure Itinerary	PFC Collected	Departure Itinerary	PFC Collected
Fairbanks	\$0.00	Fairbanks	\$0.00
*Anchorage	\$3.00	Anchorage	\$0.00
*Juneau	\$3.00	*Juneau	\$3.00
*Ketchikan	\$0.00	*Ketchikan	\$0.00
Return		Return	
*Ketchikan	\$0	*Ketchikan	\$3.00
*Juneau	\$3.00	*Juneau	\$3.00
*Anchorage	\$3.00	Anchorage	\$0
Fairbanks	\$0	Fairbanks	\$0

Departure Itinerary	PFC Collected	Departure Itinerary	PFC Collected
*Anchorage	\$3.00	Anchorage	\$0
*Seattle	\$0	*Seattle	\$0
Return		Return	
*Seattle	\$3.00	*Seattle	\$3.00
*Anchorage	\$0	Anchorage	\$0



COVER SHEET

Anchorage Legislative Information Office
Office - (907) 269-0111 Fax - (907) 269-0229

To: House Finance Cmte

Atten: _____ Fax: _____ Phone: _____

From: _____ Phone: _____

Instructions: Written testimony

HCR 3 - Kathleen Stevenson

was in Anchorage LIO for canceled teleconf. 4-23

Sent: _____ Date: 4-23 Time: _____

Disposal of Original: Discard: _____ Hold for Pickup: _____

Number of Pages: 3 (counting cover sheet)

Transmitted by: [Signature]

Representatives:

I am here representing the thousands of your neighbors in Anchorage that go to work each day, volunteer endless hours a week, and with our last bit of strength come home to hug our loved ones good night. In the back of our minds we worry about the all the cut backs in jobs and community servers. We can fall asleep knowing you are probably laying awake worrying how to vote the next day. We feel assured since we only have the Daily News to keep us informed, that you will. Our Anchorage Community Councils meet once a month. What happens at the Airport is of our concern and our business. We need to be kept informed so we can let you know how we would like you to vote for us. The average Alaskan does not have a clue that cutting back is meant for us, not for pet projects.

I very concerned about this bill. Where as a facility charge would be a good source of funds for future repairs. Let it be just for that, and not to be used for the expansion debt. Just last week DOT and the Airport Expansion Team sat before you and promised to stay on budget and that the expansion would not effect ticket prices. I do feel the timing is wrong. By passing this bill now, we are sending a message that we expect the project to go over budget, so we will set up a trust fund for them. Let them show good intentions by scaling back, or echo Senator Peacre's threat to scratch the whole project.

I am weary of hearing how all the Airlines in full agreement. Five years ago we were in our glory. Travelers were enjoying record low airfares, we had competition with MarkAir in the skies. Times have changed and Air Carriers do not want to rock the plane and be outcasted later. They are counting on you to hear their silent cries. We are counting on you to put us first by getting the big picture of what is to come down the road. I urge to not let Alaska Airlines and its puppets sway your vote on this bill or HB 84. Send them a message now, so they will not be back next year. If you allow this bill to move forward, put a special limitation on where the funds can be used for.

Ask the Alaskan People what they want and they will tell you they want low airfares and competition in air carriers.

Kathleen Stevenson
8400 Pioneer
Anchorage AK
99504

TO: GENE AND MIKE RE: HCR 3
PR: KIP 266-8393

3/22/99 A. JOURNAL OF COMMERCE

approve a \$25 million bond issue for start-up construction costs.

The Federal Aviation Administration thinks the DOT may be misrepresenting to the Legislature federal funds that may be used to repay the bonds. Officials want to be sure funds disbursed as outlined in the FAA's \$48 million letter of intent to Anchorage International Airport, issued last summer, will be used for intended airside improvements, and not on the terminal project.

At the same time, there is concern about the absence of passenger facility charge revenues in the funding stream,

hearing early this month in Juneau.

The hearing was conducted by Transportation Committee chair Beverly Masek, R-Willow, after Transportation Sub-committee hearings by John Cowdery, R-Anchorage, who has been examining the need for passenger facility charges at Anchorage International Airport.

Masek passed the request from the House Transportation Committee to the House Finance Committee.

Among concerns of legislators, trustees for the Alaska International Airport System, are missing PFC revenues,

project, and see PFCs as a means to help defray them, and avoid increased ticket prices.

Some airlines have suggested that over the next five years, based on its track record so far, before the airport project is completed, costs will reach \$500 million.

Alaska Airlines, Reeve Aleutian Airways and Northern Air Cargo testified to a special legislative sub-committee in favor of PFCs that PFCs needs to be part of the funding stream at AIA.

FAA officials say AIA could be collecting an average of

Anchorage airport losing \$10,000 daily, FAA says

By Rob Stapleton
Journal reporter



Because it still isn't collecting passenger facility charges, Anchorage International Airport is losing as much as \$10,000 daily in revenue, according to Ron Simpson, manager of the Airports Division of the Federal Aviation Administration's Alaska Region, about the

PFCs amount to a \$3 charge for the first two and last two enplanements of a round-trip ticket, for a maximum of \$12 per ticket.

Controversy over the possible issue of \$25 million in bonds to help start construction of a \$234 million terminal expansion and renovation at AIA has forced Alaska legislators to examine the funding for that project.

According to state Department of Transportation officials, the \$25 million is not covered by a federally guaranteed \$32 million letter of credit provided by the FAA.

"This is what we all dreaded and tried to avoid," said Butch Hallford, vice president of postal operations for Northern Air Cargo. "This has all the indications of a runaway project that will eventually cost Alaska \$500 million before it is through."

AIA recently received a \$180 million bond issue for construc-

tion, approved by last year's Legislature. Initial construction plans called for a mix of bonds, funds from the FAA (including Airport Improvement Projects, Capitol Improvement Projects and Letter of Intent monies), Federal Highway Administration grants and PFCs to help pay for the project.

Legislators, the FAA and AIA airlines have testified that the airport should be charging PFCs, so that the cost of doing business around the airport will not increase. State Transportation officials have refused to apply with the FAA to receive them and are instead waiting for Congress to pass special exemptions into law. Those would exempt aircraft in Alaska with 20 seats or less, communities not on a highway or marine highway system, and cities with populations less than 10,000.

"This is absolutely unconscionable," said Dave Jensen, vice president at Reeve Aleutian Airways. "This should have been part of the original funding stream." Department of Transportation and Public Facilities Commissioner Joc Perkins promised AIA signatories that PFCs would be added to the funding stream, but now officials are stalling, Jensen said.

According to Deputy Transportation Commissioner Kurt Parkan, the department wants to avoid controversy and scrutiny from Interior airlines operat-

ing at Fairbanks International Airport, which is also part of the Alaska International Airport System. Most Fairbanks air taxis and airlines oppose charging PFCs, because the majority of their passengers live in remote villages and are without other transportation options. The Senate recently stalled the FAA Reauthorization Bill, which includes funding for qualified projects nationwide along with the PFC exemptions.

"I now doubt that the reauthorization bill, with the Alaska exemptions, will be debated this session," said Mitch Rose, chief of staff for Sen. Ted Stevens, R-Alaska.

PFCs have been the topic of debate in Juneau in the past few weeks. A special meeting was conducted in Anchorage on March 8, between Transportation and AIA officials, to consider a strategy on the implementation of PFCs for the Alaska International Airport System.

Lynn Leibovitz, a former consultant to AIA on PFCs, was among those who attended, and has been asked to work with the airport again on this issue, according to Parkan.

Transportation Department documents show that AIA drafted a PFC application in 1996, but let it expire after objections from Alaska Natives in Fairbanks. According to FAA studies,

Continued on Page 24

Passenger fees meet Interior opposition

Continued from Page 11

Alaska Natives would make up the majority of passengers who pay PFCs, on flights from villages to Fairbanks and back, averaging less than \$200. Another FAA study, in 1992, indicated PFCs could garner \$7.7 million yearly from 29 rural villages.

→ Art Warbelow, president of Warbelow's Air Ventures in Fairbanks — considered a Robin Hood by some — has campaigned against PFCs. Warbelow flew Natives from villages to Fairbanks in 1996 to testify against the issue, before state, FAA and Senate Finance Committee leaders.

"Once again we will pull out the stops and let the governor and commissioner know how people feel about PFCs here in the Interior," Warbelow said recently. "If

we have to, we will fly to Juneau and let the whole Legislature know how villagers feel about paying this fee."

Parkan recently told this newspaper that the Department of Transportation was in favor of PFCs and would apply to the FAA to collect them. But according to FAA officials, to date no communication from the department or the commissioner's office about a draft or application to authorize AIA to collect PFCs has not been received.

Rep John Cowdery, R-Anchorage, recently introduced a draft resolution to implement PFCs at AIA and to apply the funds to the current funding stream. The Legislature can put this to a vote if DOT does not make the application.

FISCAL NOTE

STATE OF ALASKA
1999 LEGISLATIVE SESSION

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Sponsor: House Transportation Committee
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FUNDING: (THOUSANDS OF DOLLARS)

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TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

POSITIONS:

Full-Time	0	0	0	0	0	0
Part-Time	0	0	0	0	0	0
Temporary	0	0	0	0	0	0

ANALYSIS: (ATTACH A SEPARATE PAGE IF NECESSARY)

Note: This bill may imply a fiscal note because of the message it conveys (asking to establish a fee). However, the resolution itself carries no fiscal impact.

Prepared by: Ted Deats, Committee Aide
House Transportation Committee
Beverly Masek

Date: 03/03/99
Phone: 465-2679
Phone: 465-2679



U.S. Department
of Transportation
Federal Aviation
Administration

Alaskan Region

222 W. 7th Avenue #14
Anchorage, Alaska
99513-7587

February 18, 1999

The Honorable Jerry Ward, Chair
Senate Transportation Committee
Alaska State Capitol
Room #423
Juneau, Alaska 99801

The Honorable Beverly Masek, Chair
House Transportation Committee
Alaska State Capitol
Room #432
Juneau, Alaska 99801

Dear Senator Ward and Representative Masek:

Testimony on the Passenger Facility Charge Program

I appreciate this opportunity to share our perspective on the benefits of implementing a Passenger Facility Charge program at Anchorage International Airport (ANC) in order to provide additional revenues for the terminal redevelopment project.

The Department of Transportation has requested an additional \$25 million in new revenue bonding authority from the legislature to complete the financing package for the ANC terminal redevelopment project. PFC's can be used to supplement the available financing, or fill the funding shortfall without incurring an additional \$25 million in bond debt for the State of Alaska.

By implementing PFC's, ANC will generate at least \$5 to 6.5 million in additional revenues annually. The airport will be required to give up 50% of its passenger entitlement funds; about \$1.5 million annually, however the result is a net gain of \$3.5 to 5 million in revenues annually. The foregone 50% of passenger entitlement funds would go to smaller airports, which could benefit other Alaska airports.

The FAA has supported the ANC terminal redevelopment project with a Letter of Intent (LOI), which is a long term commitment of Airport Improvement Program (AIP) discretionary funds, \$32 million for reimbursement over ten years.

ANC has committed a major portion of its AIP entitlement funds to the terminal redevelopment project. PFC's can be used in conjunction with AIP and the LOI to limit the bond debt, reduce the term of the bonds, or offset the financing charges.

The PFC application and approval process requires full public disclosure, including public hearings, consultation with the airlines and tenants, consensus with the proposed projects, and publication in the Federal Register for public comment.

PFC's are collected for projects pre-approved by the FAA and are project specific. For example, if ANC were approved to collect PFC's for only the terminal redevelopment project, when the project is complete and the bond debt is paid off, the PFC collection would be terminated. ANC would have to re-apply to collect PFC's for future projects.

The FAA encourages airports to take advantage of every available funding source when financing airport infrastructure development projects. PFC's are the most viable funding source for large airport infrastructure development projects such as the terminal redevelopment project ANC is undertaking.

Failure to implement a PFC program may impact an airport's ability to receive AIP discretionary funds, which are allocated on a competitive basis. For example, if ANC were competing for discretionary funds with another airport that has implemented PFC's and taken advantage of every available funding source, then the other airport would more likely be awarded AIP discretionary funds to complete the financing package for its projects.

There are over 300 airports approved for collection of PFC's, and more than 100 more applications currently in process. Estimated collections, based on current approvals, for January 1, 1999 through December 31, 1999, will exceed \$1.4 billion. PFC collection of \$1.4 billion annually is vastly approaching the AIP Reauthorization level of \$1.95 billion for fiscal year 1999. There are over 3500 airports eligible to compete for limited AIP funds.

Juneau International and Ketchikan International Airports are approved for PFC collection. Juneau's PFC application was approved in April and collection began in October. Ketchikan's PFC application was approved in December and collection began this February. The FAA has not received any complaints as a result of implementing PFC programs at either Juneau or Ketchikan. Prior to Juneau initiating PFC collection, Alaska was one of only two states without an airport participating in the PFC program.

Several of the AIP reauthorization proposals currently being considered by Congress include an increase in the maximum PFC's that an airport can collect (from \$3 to \$4 or \$5 per segment). If this passes with AIP reauthorization, then

large and medium hub airports that elect to raise their PFC charge to more than \$3 will likely forego 100% of their passenger entitlement funds and face new restrictions on the use of AIP cargo entitlement funds. AIP funds for large and medium hub airports will be limited to federal mandates such as meeting safety, security and environmental requirements, noise mitigation and increasing airfield capacity.

Whatever level of PFC is implemented, this legislation which has been in effect since 1990 authorizes PFC collection at the first two participating airports on the outbound trip, excluding the destination airport. On the return trip, the last two participating airports, excluding the destination airport, are authorized for PFC collection. This would remain the case with any new legislation. Airlines collect this fee as part of the ticket price and remit PFC revenues to the specific airport for which PFC collection is approved.

There are legitimate concerns regarding the impact PFC's will have on rural Alaska, where aviation is the only means of transportation. The Department of Transportation has proposed that PFC exemptions be pursued by federal legislative action, but there is no assurance that it will pass through Congress. There is strong support for - and strong opposition to - increasing the PFC limit. During the last AIP Reauthorization, all PFC provisions were dropped from the Omnibus Bill because the industry had not reached consensus on the maximum PFC limit.

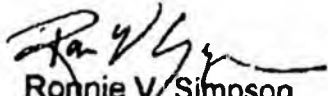
The FAA has the authority to approve PFC exemptions by administrative action. We are sensitive to the concerns about the impact PFC's will have on rural Alaska and we are willing to work with ANC to craft exemption language for their PFC application to address those concerns. Juneau requested exemptions in their PFC application for several routes to rural communities. The FAA approved Juneau's exemptions by administrative action without federal legislative direction or mandate (reference Juneau Record of Decision).

Alaskans are already paying PFC's when flying outside of Alaska. PFC's are charged on flights that connect through Seattle, Portland, San Francisco, Salt Lake City, Denver, Minneapolis, Chicago; every major airport with connections from ANC. Alaskans are paying up to \$6 dollars one way, \$12 dollars per round trip in PFC's to help finance development projects at those other airports. None of the funding remains at ANC because the airport has not applied for PFC's.

In summary, we believe that PFC's should be an integral part of the ANC terminal redevelopment financing package. We stand ready to move forward on the PFC application when we receive it, and we are willing to work with ANC to craft exemption language for its PFC application to address the concerns of rural Alaska.

If there are any questions, or if I can clarify the PFC process, please do not hesitate to contact me at (907) 271-5438.

Sincerely,



Ronnie V. Simpson
Manager, Airports Division

cc: Joseph Perkins, P.E., Commissioner DOT&PF

TESTIMONY OF
CLIFFORD T. ARGUE
ALASKA AIRLINES
BEFORE THE
ALASKA STATE LEGISLATURE
JOINT HEARING
SENATE TRANSPORTATION COMMITTEE
AND
HOUSE TRANSPORTATION SUBCOMMITTEE
February 18, 1999

Mr. Chairmen and Members of the Committees:

My name is Clifford Argue. I am Staff Vice President of Properties and Facilities for Alaska Airlines and also serve as Chairman of the Anchorage/Fairbanks Airlines Airport Affairs Committee, an organization representing the some 25 airlines who have signed operating agreements at and serve the two airports. My comments today reflect the position of Alaska Airlines as well as several other members of the committee including Reeve, Delta, Northwest, Fed Ex, United and American, some of whom you will also be hearing from directly.

I would like to commend your committees for your interest in Passenger Facility Charges (PFC's), and for holding this hearing today.

We support the imposition and use of PFC's, at the \$3 amount, as an appropriate funding source for airport projects which meet the statutory and regulatory criteria of safety, security, capacity, noise mitigation, or enhancement of competition AND which have been otherwise reviewed and approved by the airlines as necessary. There is a very well defined airline consultation process set forth in the PFC law and regulations which must be followed by the airport operator separate and apart from any approval required in the airline/airport operating agreements.

The Terminal Expansion Project at Anchorage International Airport is certainly one for which PFC funding makes sense. Most of the airlines would endorse the imposition and use of PFC's to help fund this project, either through direct capital payments or to help offset debt service on the \$179 million in revenue bonds already issued or the forthcoming additional \$25 million to be issued in the near future to bridge the FAA Letter of Intent.

Further, there are various other projects at Anchorage and some at Fairbanks as well that would be worthy candidates for PFC funding to reduce the impact on airline rates, fees, and charges paid to the airports. These projects include planned airfield, ramp, and terminal work at both locations.

You have heard and will continue to hear that Alaskans are already paying PFC's everytime they travel out-of-state, and none of this money benefits State DOTPF airports. This is very true. In the rest of the country, some 300 airports serving all sizes of communities have PFC's in place with a total collection estimated at more than \$23 BILLION over the next 20 - 25 years. ANC and FAI are among the only airports of their size not collecting PFC's. In state, passengers departing Juneau and Ketchikan airports are now paying \$3 PFC's.

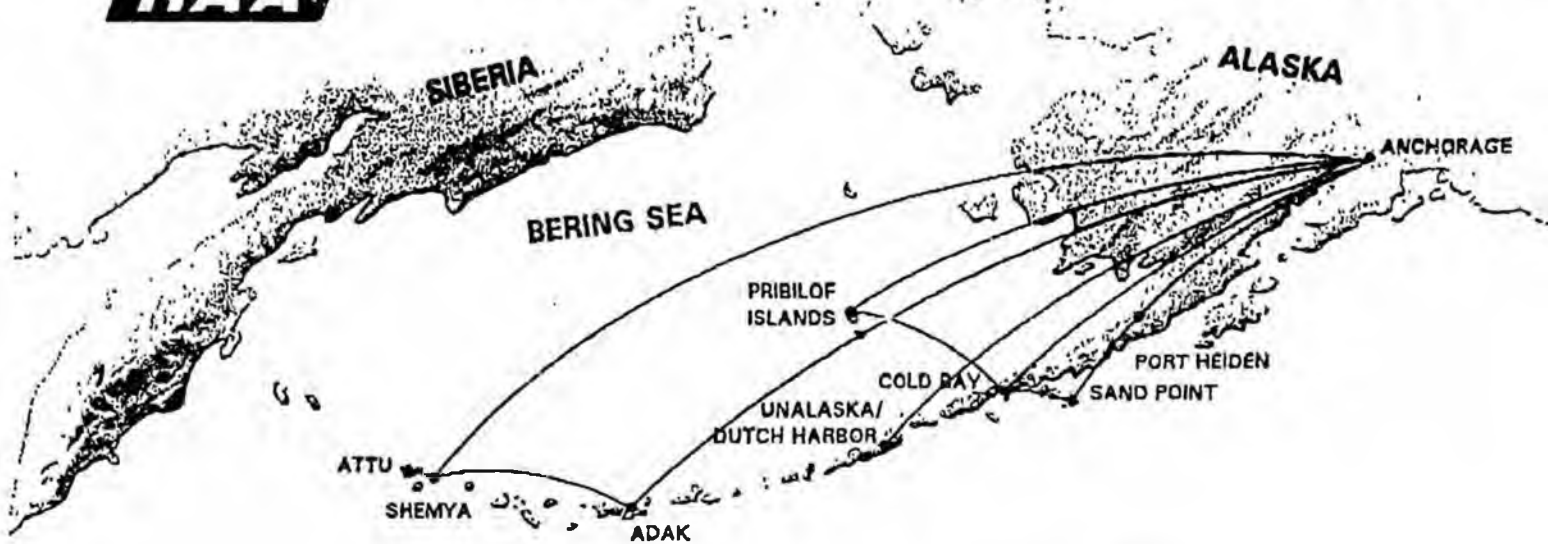
Despite initial concerns by some airlines and communities, there has been no hard evidence that the addition of PFC's to the ticket cost has made any difference in air travel demand, even in those markets where the personal auto, bus, or train are reasonable transportation alternatives.

PFC's, at the current \$3 level, used correctly and with prudence, are a good funding source for justified airport projects, allowing the user - the passenger - to pay directly for the facilities enjoyed. PFC's were contemplated in the process of developing the plan for the Anchorage Terminal Expansion. Now is the time to begin the formal application process with the airlines and FAA to get PFC's in place as quickly as possible.

Thank you for the opportunity to offer these comments. I'll be glad to answer any questions you may have.



Reeve Aleutian Airways



SENATE TRANSPORTATION COMMITTEE AND
HOUSE TRANSPORTATION SUB-COMMITTEE

FEBRUARY 18, 1999

SENATORS, REPRESENTATIVES, LADIES AND GENTLEMEN

My name is David Jensen. I am the Administrative Vice President of Reeve Aleutian Airways. Reeve Aleutian is Alaska's oldest airline. Throughout our history, Reeve Aleutian has always supported Alaska's growth and we have enjoyed Alaska's economic successes. We support Gateway 2000 and the Anchorage Terminal Expansion but, there is a problem.

Last year at this time the debate and discussion before us revolved around Anchorage International Airport and Gateway 2000. This proposed project was designed to accommodate six million passengers who are anticipated by 2005 according to projections. The project adds new jet gates, regional aircraft positions, associated lounges, ticketing areas, baggage facilities, and enhanced access to the terminal. Legislation passed last session with your support.

All of you are aware that the build up to supporting the Terminal Expansion began with a vote of signatory airlines. Pursuant to the Airport Airline Operating Agreement, 22 of the 25 signatory airlines voted. Twelve airlines voted disapproval and ten voted to approve the project. A simple majority of airlines did not approve the project. However, according to the Agreement, a two-thirds vote is required for disapproval. Hence the project was approved by ballot, but with less than a majority of airlines approving.

On behalf of Reeve Aleutian Airways, I voted to disapprove the project. However, we noted that with passenger facility charges (PFCs) included in the funding stream for bonds redemption that Reeve would change its position to approve the Anchorage Terminal Expansion project.



Arising from discussions and meetings with state DOT officials, wherein I asserted Reeve's firm position that PFCs were essential for our support. I came to the belief that PFCs should and would be a part of the funding for the Anchorage project in 1999. Based on my belief, Reeve Aleutian Airways joined with members of the Airline Transport Association supporting Gateway 2000 and the Anchorage Terminal expansion.

Before you today, I again restate my support for the terminal expansion at Anchorage International Airport. But, consistent with my position from the beginning, PFCs must be included in the funding stream for redemption of bonds. Alaska Air Carriers operating today are collecting PFCs at Anchorage and at rural Alaska airports, as we speak, for Seattle and virtually every airport in the Continental United States. It would be unconscionable to continue to collect PFCs in Alaska for out-of-state airport projects and not collect PFCs for the Anchorage airport expansion.

The State of Alaska should propose a PFC for Anchorage Terminal Expansion. A consultation and approval process with the FAA needs to happen as soon as possible. PFCs should be factored into the bond amortization schedule, now.

I ask your support for PFCs. Thank you.

REEVE ALEUTIAN AIRWAYS, INC.
4700 W INTERNATIONAL AIRPORT ROAD
ANCHORAGE, AK 99502

NATIONAL BANK OF ALASKA
ANCHORAGE, AK
88-5/1252

057373

CHECK DATE	CONTROL NUMBER	CHECK AMOUNT
03/11/98	057373	\$*****1518.40

PAY One Thousand Five Hundred Eighteen and 40/100 ----- dollars

ORDER OF SEA-TAC INT'L AIRPORT
ATTN PFC COLLECTIONS; DEPT#201
PO BOX 34249-1249
SEATTLE WA 98124-1249

REEVE ALEUTIAN AIRWAYS, INC.
GENERAL ACCOUNT


AUTHORIZED SIGNATURE

SECURITY FEATURES INCLUDED. DETAILS ON BACK.

⑈057373⑈ ⑆125200057⑆0006851665⑈

⑆0000151840⑆

Testimony of Northern Air Cargo
(before the joint Senate & House Transportation
Committee on the subject of PFC's at ANC)
February 18, 1999

Good Afternoon Mr. Chairman, committee members etc. My name is Butch Hallford. I am Vice President of Northern Air Cargo and a member of the Alaska Int'l Airport Affairs Committee.

The question of whether the Alaska Int'l Airport System should be authorized to impose PFC's has been asked before. The arguments for and against PFC's were many and both sides arguments still hold great merit. Now however, there is a new element to the equation in the form of a nearly quarter Billion \$, (and yes, that's billion with a "B") terminal expansion.

The approval for this 1/4 Billion dollar undertaking was predicated on the agreement of the signatory air carriers that serve ANC and FAI to pay for it. I'm sure you will remember that that agreement was far from unanimous but it did carry never-the-less. Several of the carriers that supported the project did so conditionally based on promises both written and verbal on the part of the AK DOT that new and additional sources of income, specifically including Passenger Facility Charges, would be sought to pay for the terminal. Among the questions asked and answered was confirmation that PFC's could be applied for after the fact and still applied to this project. The DOT argued that the commencement of the project was so urgent, that it would create an overwhelming hardship not only on the airport but also on the citizens and visitors of Alaska, were they to delay the project until PFC's could be approved in advance.

The reason for the approval on the part of at least some of the carriers that voted to approve, was the honest belief that as soon as it was physically possible to do so, the DOT would begin the process to implement PFC's. It is now that time.

I testified last year that approximately 1/3 of the cost of the terminal expansion would be born by the cargo carriers that operate to and through the ANC and FAI airports. I was then and now remain concerned that to impose even only a fraction of a 1/4 billion dollars on cargo carriers, carriers incidentally that derive absolutely no benefit whatsoever from the greatly improved terminal, adds a level of expense

that could potentially damage Alaska's ability to compete in the global market. The promise of PFC's, the promise of transferring at least portion of that expense back to the passengers that actually use the terminal, provided in many cases just enough rationale on balance to allow them to approve the project.

I understand that there are many good arguments for both sides of the PFC issue as it affects Alaskan's. I don't know or understand them all. I do know however, that my customers that live in Kotzebue, or Nome, or Bethel, or Emmonak, or Hooper Bay are going to have to pay a portion of the cost of that terminal in every loaf of bread or gallon of milk they buy, whether or not they get to fly through ANC ever again. They may never set eyes on that 1/4 billion dollar terminal as long as they live, but they will be paying for it every day.

That the cost of a project this size must be spread across a broad base of payers is clear and easily understood. The least that can be done however is to minimize the amount of cost born by people that never use the terminal. Have the people that actually use the facility pay for it. The PFC program is not without it's problems and there are some fairness questions within it as well. There is however, no fairer way to pay for something, anything, including this 1/4 billion dollar 1st stage of terminal expansion, than to have the people that use it, be the ones to bear the greatest share of the burden of paying for it.

In summary, there are admittedly problems with the PFC program with respect to Alaskans. The exemptions being contemplated will no doubt address many or most of the inequities. Never the less, whatever fairness issues the PFC program present, pale next to the unreasonable share of the burden born by cargo carriers at ANC & FAI airports. This coupled with the question of retaining PFC's already being collected and remitted out of state make this a "no-brainer." Thank You.



February 26, 1999

Senator John Cowdery
716 W. 4th Avenue, Suite 320
Anchorage, AK 99501-2133

Dear Senator Cowdery:

I regret I was unable to attend the Senate Transportation Committee and House Transportation Subcommittee meeting to testify in regard to Airline Passenger Facility Charges (PFC's) being implemented at the Anchorage International Airport (AIA).

FedEx supports the collection of PFC's at the Anchorage International Airport. We also recommend that the consultation and the approval process with the FAA begin as quickly as possible. FedEx has made a sizeable commitment to the State and the City in support of growth at the Anchorage International Airport.

We have supported Gateway 2000 and the Anchorage Terminal Expansion project from its inception. As a signatory of the Airport Operating Agreement, we voted for approval of the project last year. FedEx, an express cargo operator at the airport, realized we would *not* directly benefit from:

- The addition of new jet gates
- Regional passenger aircraft positions
- Ticketing areas
- Lounges
- Baggage handling capabilities
- Improved passenger access and flows

However, from an industry standpoint, improvements to existing passenger facilities are the right things to do.

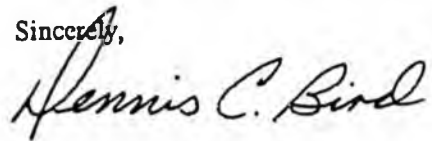
Capturing PFC funds to support this growth is also the right thing to do for all concerned. Last year, during the process to gain approval for the AIA Expansion Project, there were numerous discussions between state DOT officials and the airlines regarding PFC implementation and their use toward funding that project in 1999. I came away from those discussions with the perception that PFC's would be pursued in 1999 and the funds applied to that project.

PFC's are being collected today at the Anchorage International Airport. It would seem unreasonable to collect these charges in Alaska, but not pursue PFC authority from the FAA allowing the State to use its share of these funds for the Anchorage International Airport Terminal expansion.

PFC's for AIA, cont.

I request your support for PFC implementation.

Sincerely,

A handwritten signature in cursive script that reads "Dennis C. Bird".

Dennis C. Bird
Managing Director
Alaska Operations

cc: Teri Kerichenko, FedEx Airport Relations
Doug Buttrey, FedEx Government Affairs

DCB/cb



Era Aviation

6160 Carl Brady Drive
Anchorage, Alaska
99502

February 18, 1999

Representative John Cowdery
Alaska State Legislature
State Capitol, Room 204
Juneau, Alaska 99801-1182

Dear Representative Cowdery,

It is my understanding that you are leading a special Transportation subcommittee charged with reviewing Passenger Facility Charges (PFCs) at the Anchorage International Airport. Era Aviation has expressed opposition to PFCs based on a number of inequities to our passengers, and to the company in general. Following are the key points to our opposition:

1) The community of Kenai is Era's largest passenger market. We have served Kenai for over 15 years and have seen six other air carriers come and go in that timeframe. More than any other market we serve, Kenai is highly price sensitive and currently Era is their only air carrier. Our biggest competition is the new and improved roadway that has cut driving time to Anchorage by approximately one hour.

Era's full "walk-up" fare between Anchorage and Kenai is \$55.00. Included in that amount is an 8% transportation tax. The reason for 8% (rather than 7.5%) is because Kenai is within 75 miles of Anchorage International Airport which is considered a "non-rural airport." Due to this unfortunate proximity, Era must also collect an additional Tax in the form of a \$2.00 "segment fee" from each passenger. That increases the out-of-pocket fare to \$57.00. To saddle Kenai passengers with yet another tax in the form of a \$3.00 PFC would mean that approximately 15% of each full fare is pure tax. Obviously, that tax percentage increases with discounted and advance purchase fares. The PFC alone would constitute just over 5% of the airfare. On long haul flights to Seattle and beyond, PFCs are well below 1% of the total airfare. Residents of the Kenai Peninsula should not be subjected to such unbalanced taxation.

2) Among regional air carriers based in Anchorage, Era would carry a disproportionate share of the load in collecting PFCs. Senator Stevens office has confirmed that language is currently moving in a Senate Bill whereby communities with a population of less than 10,000 and not connected by a land highway or vehicular way to the land-connected National Highway System within

Representative John Cowdery
Alaska State Legislature
February 18, 1999
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a State are exempted from collecting a PFC. In effect, this means that Anchorage based carriers such as Reeve and PenAir would not be required to collect a PFC on local airfares. With the exception of Iliamna, every Era destination would be subject to PFCs by virtue of the fact that they are connected by either road or the marine ferry system. This is an inequity which singles out both Era and its passengers.

3) The same Senate Bill referenced above also exempts carriers in Alaska from collecting PFCs aboard an aircraft having a seating capacity of less than 20 passengers. Era currently operates 18 passenger, 37 passenger or 50 passenger aircraft in the Kenai and Homer markets. Passenger loads can jump in the final hours before departure justifying an upgrade from the 18 seat aircraft to the 37 seat aircraft. The reverse is also true. There are times when we change aircraft types for our own convenience for reasons unrelated to passenger loads. In any case, it is not realistic to have a two tier pricing structure in a common market whereby passengers riding on the larger aircraft pay more than those on a smaller aircraft. It would be impossible to collect PFCs in advance, not knowing which aircraft would be on what flight. The 20 passenger seat exemption places an insurmountable burden on Era Aviation.

4) An interesting situation exists in Cordova, a market served by both Era Aviation (as a subcontractor to Alaska Airlines), and by Alaska Airlines with their jet equipment. According to FAR 158.9 subparagraph (a), Alaska Airlines cannot collect a PFC because they also collect an EAS (Essential Air Service) subsidy for Cordova. Era does not share in the EAS subsidy, and therefore must collect a PFC. This puts Era in an immediate price disadvantage in a common market with our own partner, Alaska Airlines.

5) While no one questions that PFC's can provide a reliable revenue stream to the Anchorage International Airport, the question that must be answered is whether or not the push for PFCs is an attempt to mask the known cost overruns on the terminal expansion project. Before we apply a band-aid, we must first address the wound. Era withdrew its objections to the terminal expansion and has not changed that position, however, *as the second largest carrier of passengers to and from the Anchorage International Airport* it is our desire to seek other solutions before we disproportionately shift the burden onto our passengers.

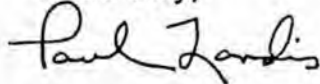
Representative John Cowdery
Alaska State Legislature
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Page 3 of 3

It is important to note that approximately 75% of Era's passenger traffic is local in nature, meaning that they travel only on Era flights. These are not passengers who's PFC money "now wings its way south." In actual fact, these are passengers who did not necessarily need the expanded terminal project in the first place, but will certainly be forced to carry a disproportionate share of the load if PFC legislation is enacted...particularly those from the community of Kenai.

With respect to regional carriers in Alaska, either *all* should be required to collect PFCs - with no exemptions whatsoever - or *all* excluded. Era Aviation clearly prefers the latter approach. However, we are willing to seek equitable alternative solutions. One approach might be for regionals to collect a PFC for Anchorage, but only if in conjunction with a downline ticket, e.g., a passenger travelling Kenai to Anchorage *and beyond*.

Thank you for your consideration of Era Aviation's position on this issue.

Yours truly,



Paul Landis
Vice President

Cc: Senate Transportation Committee
House Transportation Committee
Commissioner Joe Perkins, DOT&PF

ALASKA HOUSE OF REPRESENTATIVES

John J. Cowdery

House Rules Committee, Chair
Transportation Committee - Legislative Council
World Trade and State & Federal Relations

PASSENGER FACILITY CHARGES FAQ

1. What is a Passenger Facility Charge?

It's a user tax. You are paying it each time you buy an airplane ticket involving a takeoff from Juneau, Ketchikan or someplace outside of Alaska. The money is dedicated to pay for airport improvement projects pre-approved by the FAA.

2. How much am I paying?

You pay up to \$6 on a one way ticket and up to \$12 on a round trip ticket.

3. What am I getting in return for this tax?

Airports are being improved in Seattle, Portland, San Francisco, Los Angeles, Salt Lake City, Denver and virtually every other major airport within two stops of Anchorage, but not Anchorage.

4. Aren't Alaskan airports receiving improvements from this tax; if not, why not?

No, Alaska's state owned airports, including Anchorage and Fairbanks, receive no benefits from this tax because the Governor won't apply for participation in the program. The Juneau Airport receives benefits because it's a municipal airport and their local government applied for the program. Every time someone in Anchorage flies roundtrip to Juneau we pay Juneau a \$3 tax to improve their airport. If we extend our roundtrip to Seattle then we also pay Seattle's airport \$3. The total tax is \$6 but we get zero for Anchorage's airport.

If Anchorage International Airport was part of the program, then on the outbound trip, Anchorage would get the first three dollars, Juneau would get the second three dollars and Seattle would get zero. On the return trip, Seattle would get the first three dollars, Juneau would get the second three dollars and Anchorage would get zero. We would capture \$3, i.e., twenty-five percent, of the taxes paid for Anchorage.

5. That doesn't seem very good. We pay 100% of the tax and only get back 25%.

Our capture is greater when only state operated airports are included in the itinerary. For example, if Fairbanks and Anchorage are part of the program, and the itinerary is from Fairbanks to Anchorage and Anchorage to Seattle, then on the outbound trip Fairbanks gets \$3, Anchorage gets \$3 and Seattle gets zero. On the return trip, Seattle would get \$3, Anchorage would get \$3 and Fairbanks would get zero. We capture 75% of the tax for

Alaskan airports with this itinerary. But, remember, people from outside Alaska flying to destinations beyond Anchorage also pay the tax that benefits Anchorage.

The operative rule is that on the outbound trip, the tax is collected by the first two participating airports, excluding the destination airport. On the return trip, the tax is collected by the last two participating airports, excluding the destination airport.

6. How much could we get if the state participated in the program?

FAA estimates that Anchorage would receive about \$5 million per year. I don't have an estimate for Fairbanks. Bear in mind that we are already paying most of that tax. We're just not getting any benefits from it.

7. What do you mean, "we're paying most of the tax already?" Will we be taxed more if the governor applies for the program?

Some travelers who do not presently pay the tax, would have to start paying. For example, a round-trip traveler from Dillingham to Anchorage would have to pay three dollars that would be collected by Anchorage International Airport.

8. Can rural Alaska get any benefits from this tax or does all the money stay in Anchorage?

The program is probably not economic for very small airports. But FAA will allow the state to pool revenue from several airports. This needs to be studied. But there is still no reason why Anchorage shouldn't proceed right away. Remember Anchorage International Airport services the whole state, not just Anchorage.

9. Outside of Anchorage where else is this Passenger Facility Charge being implemented?

Juneau started in July 1998. Ketchikan (city operated) is scheduled to start this month. Kenai is inquiring into the application process. In the lower 48 there are more than 300 airports already participating and more than 100 applications in process. Anchorage International Airport is the only airport of its size that is not participating. We are way behind the curve. But, we are first in exporting the highest percentage of our PFC revenue to other states.

10. How long would it take to start Anchorage participating in the process?

FAA estimates about six months. We have to show them how we plan to spend the money. But, approval is virtually guaranteed. Incidentally, the program is retroactive. It allows us to pay ourselves back for some expenditures we made since 1990.

11. How would the state spend the money at the Anchorage airport?

We just sold \$180 million in bonds to finance new improvements. The governor wants to borrow an additional \$25 million. FAA and most legislators think PFC money should be used to pay off the debt.

12. Is anybody against collecting PFC's at Anchorage?

Other than the governor, only ERA Aviation has expressed opposition to this program. Virtually every other airline operating in Anchorage is in favor of it.

13. What about the rumor that we'll lose other federal funds for airport development if we implement PFC's?

FAA tells me that if that were true, no airport in the country would participate in the program. The rumor is a mischaracterization of the fact that half of Anchorage International Airport's money from FAA's Annual Entitlement Program would be displaced by the PFC revenue. This amounts to about \$1.5 million. Anchorage is the only airport affected by this decrease. The decrease is offset by the \$5 million from PFC's. Also, the displaced funds would go into a national small airport grant program to help those airports that are too small to implement PFC's. The state could apply for these funds on behalf of small rural airports.