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GAO

United States
General Accounting Office
Washington, D.C. 20548

Resources, Community, and
Economic Development Division

B-271805

July 31, 1996

The Honorable Mark O. Hatfield
Chairman, Subcommittee on Transportation
and Related Agencies
Committee on Appropriations
United States Senate

Dear Mr. Chairman:

This report responds to your inquiry about the potential effects of decreases in Airport Improvement Program (AIP) funding for the nation's airports. AIP funds–which help support capital development projects that enhance airports' capacity, safety, security, and noise mitigation–may decrease in the future as a result of federal budget constraints. In June 1996, you asked us to provide information on airport funding that would assist in your deliberations, focusing on the following questions: (1) What is the AIP's contribution to airport capital funding? (2) What are airports' other sources of capital funding and what is the potential to increase them? (3) What are the potential effects of AIP reductions on airports, airlines, and passengers?

As agreed with your office, we focused our efforts on primary airports, and in particular the largest such airports–those defined as large and medium hubs.[1] There are currently 29 large hub and 40 medium hub airports, which enplaned over 88 percent of all U.S. airline passengers in 1994,[2] the last year for which figures were available.

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[1]Primary airports include all airports that enplane more than 10,000 passengers annually and receive scheduled airline service. Within this group, large hub airports are those that enplane at least 1 percent of all passengers and medium hub airports are those that enplane 0.25 to 1 percent. Two other categories of smaller primary airports are also included: small hub airports, which enplane 0.05 to 0.25 percent of all passengers, and nonhub airports, which enplane less than 0.05 percent.

[2]Total U.S. enplanements include passengers enplaned at airports in American Samoa, Guam, North Mariana Isle, Puerto Rico, and the Virgin Islands.

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RESULTS IN BRIEF

AIP funds are a significant source of capital funding for large and medium hub airports, representing almost a fourth and a third of their total capital funds, respectively. However, these airports rely less on AIP than do smaller airports. Our analysis found that as the total number of passengers enplaned at an airport increases, the airport's reliance on AIP decreases.

Airports have three other major sources of capital funds besides AIP: passenger facility charges, bonds, and airport revenue. Large and medium hub airports, as a whole, could potentially increase these other sources of capital to substitute for AIP reductions. However, these funding sources are constrained for various reasons, such as statutory limits on passenger facility charge collections and federal policy on airport revenue. If the current maximum $3 per passenger fee remained unchanged, we estimate that passenger facility charges could grow at least $190 million beyond their current levels by 2010. Airports' capacity to pay for additional bond financing by passing on debt service costs to airlines or recovering them from nonairline sources such as concessions could vary substantially. Large hub airports were able to pass on debt service costs while significantly increasing bond issues between 1988 and 1994. Increasing capital funding from airport revenues such as airlines' landing fees and concession receipts is tenuous because of its variability and airline and federal limits on airport revenue.

If AIP funding declines further, airports' and airlines' costs may increase, while the effect on passenger costs are uncertain. With less AIP, airports' options include reducing capital investments, increasing other sources of funding, or adopting a combination of the two. According to FAA officials, AIP reductions would most likely affect projects related to airfields' pavement, such as runway and taxiway construction, because that is where most AIP spending occurs. If airports maintained the same levels of capital investment with less AIP funding, airport costs could increase–for example, from increased interest expense on additional airport bonds. Increased airport capital costs could mean reduced profitability for airlines or increased ticket prices for passengers. However, airlines are cautious in passing on cost increases to passengers because even a slight increase in ticket prices can result in a decline in passengers.

AIP IS AN IMPORTANT FUNDING SOURCE FOR AIRPORTS

AIP funds are made available from the Airport and Airway Trust Fund.[3] The Federal Aviation Administration (FAA) allocates most AIP funds on the basis of a legislated apportionment formula and set-aside categories earmarked for specific types of airports or projects. FAA has the discretionary authority to allocate the remaining AIP funds on the basis of needs identified by airports.[4]

Large and medium hub airports rely less on AIP than do smaller airports, but AIP nonetheless remains an important funding source. Large and medium hub airports received a total of $677 million from AIP in fiscal year 1995.[5] In 1994, AIP funds represented 24 percent and 32 percent of the large and medium hub airports' total capital funding, respectively.[6] However, these airports rely less on AIP than do smaller airports. Our analysis of the relationship between airport size and AIP funding showed that as the total number of passengers enplaned at an airport increases, the airport's reliance on AIP decreases.

As shown in figure 1, AIP funding for primary airports on a per enplaned passenger basis, when viewed in constant 1995 dollars, has fluctuated since 1982. Specifically, AIP funding per enplaned passenger declined from $1.59 in

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[3]The Trust Fund was financed from taxes on domestic and international airline travel, domestic cargo transported by air, and noncommercial aviation fuels until these taxes expired on December 31, 1995. For more information, see Airport and Airway Trust Fund: Effects of the Trust Fund Taxes Lapsing on FAA's Budget (GAO/RCED-96-130, Apr. 15, 1996).

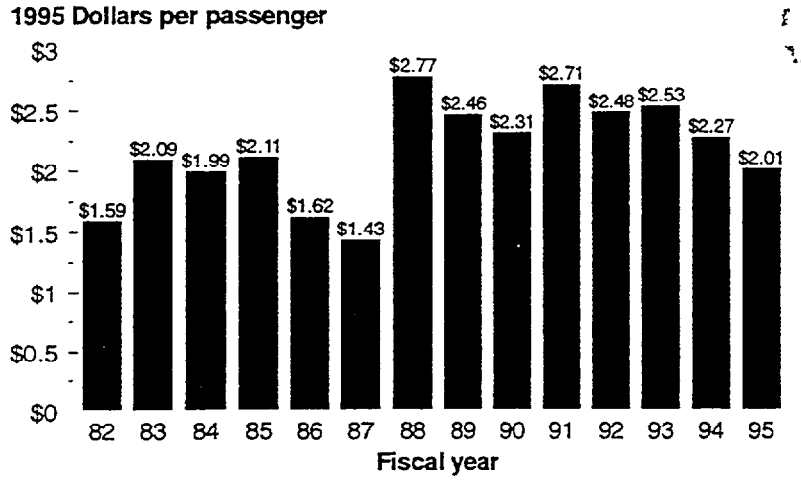
[4]For more information on the AIP funding formula, see Airport Improvement Program: Update of Allocation of Funds and Passenger Facility Charges, 1992-94 (GAO/RCED-95-225FS, July 17, 1995).

[5]See enc. I for a summary of AIP funding at primary airports in fiscal years 1982 through 1995, expressed both in actual and in fiscal year 1995 constant dollars.

[6]FAA's recent study, Innovative Approaches for Using Federal Funds to Finance Airport Development dated March 1996, found that from 1985 through 1993 AIP contributed 14 and 28 percent of large and medium hub airports' capital, respectively. Our figures differ in part from FAA's because its analysis did not distinguish between new bond financing and bond refinancing and included all airports. Our analysis was based on averages for 22 large hub and 31 medium hub airports.

fiscal year 1982 to $1.43 in 1987, rose significantly to $2.77 in 1988, and declined to $2.01 in fiscal year 1995.[7]

Figure 1: Average AIP Funding Per Enplaned Passenger at Primary Airports, Fiscal Years 1982 Through 1995



Source: GAO analysis of FAA data.

ADDITIONAL CAPITAL FUNDING SOURCES EXIST FOR LARGER AIRPORTS

Besides AIP, passenger facility charges (PFCs), bonds, and airport revenue are the three other major sources of airport capital development funds.[8] All of these could substitute to some extent for reductions in AIP. However, increased use of these funding sources could also be limited for various reasons, such as statutory limits on PFC collections and federal policy and airline agreements regarding airport revenue. Figure 2 depicts the average composition of all four sources of capital funding at 22 large and 31 medium hub airports in 1994.

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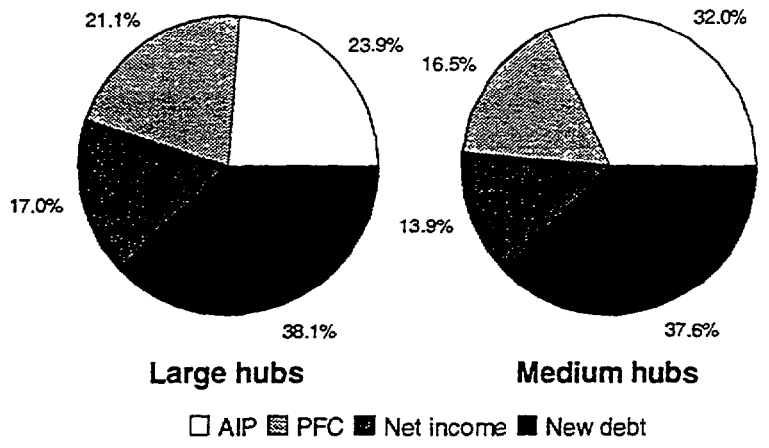
[7]This figure reflects both increases and decreases in AIP (constant 1995 dollars) and steady increases in passenger enplanements. Analyzing funding on a per passenger basis indicates the degree to which funding has kept pace with the airport system's growth.

[8]In addition, states also provide grants for airport development. However, according to our analysis and FAA officials, large and medium hub airports receive no or little state grants, which are usually provided to smaller airports.

Figure 2: Average Percentage of Capital Funding Sources for Large and Medium Hub Airports, 1994



Notes: These figures are based on financial data from 22 large hub and 31 medium hub airports.

The percentages for large hubs do not add to 100 because of rounding.

Source: Van Kampen Merritt database.[9]

Passenger Facility Charges

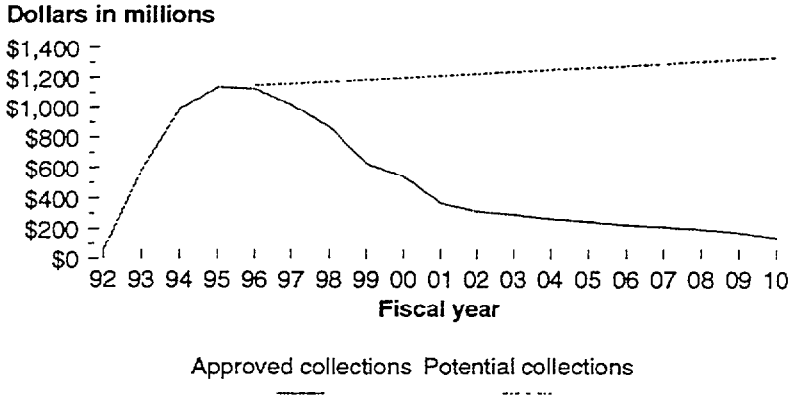
To provide airports with additional funds for development, the Congress, in 1990, gave domestic commercial service airports the ability to impose PFCs, which are levied on a per-enplaned passenger basis. Beginning in 1992, authorized airports were able to collect up to $3 per enplaned passenger to use for projects that are eligible for AIP and for certain other types of costs that are not eligible, such as debt financing. Airports must apply to FAA for the authority to collect the charges, and as of January 1996, 23 of 29 large hub and 26 of 40 medium hub airports were collecting PFCs. Large and medium hub airports that collect PFCs must return up to 50 percent of their AIP apportionment, most of which is used to provide additional funding for smaller airports.

[9]The Merritt System airport database is produced by Van Kampen American Capital Management, Inc. The database includes information from airports' audited financial statements and information on airports' credit ratings and bonds issued.

PFC funding has increased substantially since collections began in 1992, growing from $582 million (constant 1995 dollars) in fiscal year 1993 (the first full year of collections) to $1.14 billion in fiscal year 1995. Also, PFC collections exceeded AIP funding at large and medium hub airports by $344 million and $3.6 million, respectively, in fiscal year 1995.

As a capital funding source, PFC collections could grow somewhat beyond current levels at airports that now impose them even if the current maximum $3 per passenger fee remained unchanged. If all airports impose new PFCs when their current PFC expires and passenger traffic grows at 3.8 percent annually,[10] inflation-adjusted PFC collections would grow about 1 percent each year from $1.14 billion in fiscal year 1995 to $1.33 billion by fiscal year 2010. Figure 3 shows this projection of potential collections together with the approved collections that would occur if these airports did not renew existing PFCs when they expire.

Figure 3: Approved and Potential PFC Collections, Fiscal Years 1992 Through 2010



Note: Figures are in fiscal year 1995 constant dollars.

Source: GAO's estimates based on data from FAA.

PFCs also represent a substantial source of possible revenues at the 20 large and medium hub airports that currently do not impose them. As of January 1996, 6 large hub airports and 14 medium hub airports were not collecting

[10]FAA estimates that U.S. domestic and international enplanements will grow at 3.8 percent through 2005. Our analysis assumes the same rate of growth to 2010.

PFCs.[11] On the basis of 1994 passenger enplanement figures, these airports could have collected $364 million in PFCs ($254 million at the large hub airports and $110 million at the medium hub airports in 1994), assuming the imposition of PFCs would not have reduced passenger traffic. These airports have not imposed PFCs, according to FAA and credit rating agency officials, because of concerns that charging PFCs may reduce passenger traffic and increase airlines' and passengers' costs.

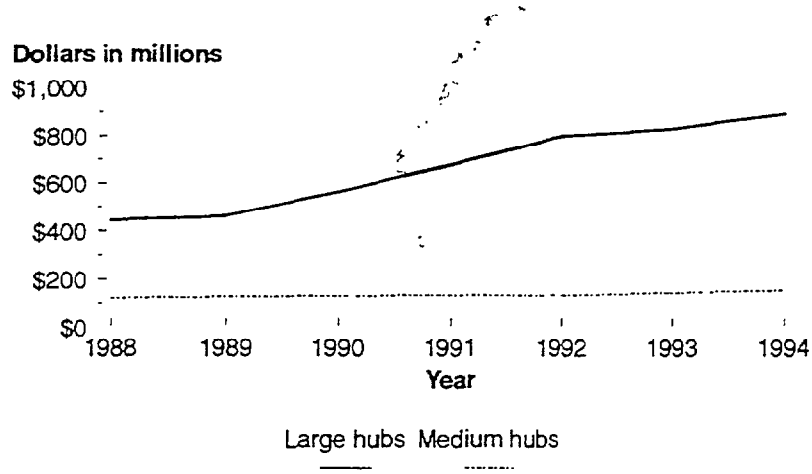
Airport Bonds

Large and medium hub airports rely heavily on debt financing to support their capital development. Most of this debt is in the form of long-term bond issues, with a maturity generally greater than 20 years. Since 1985, more than $42 billion in airport bonds have been issued to finance new development and retire old debt. Most airport bonds are secured by the airport's revenues.

From 1988 through 1994, large hub airports' average long-term debt doubled while medium hubs' average debt increased about 26 percent. The average bond debt at 22 large hub airports increased to $889 million in 1994, with a corresponding increase in debt service costs (annual principal and interest payments). In contrast, average bond debt at 31 medium hub airports increased to about $153 million during the same period (see fig. 4).

[11]As of January 1996, large hub airports not collecting PFCs include Charlotte/Douglas, Hartsfield-Atlanta, Honolulu, Houston Intercontinental, Pittsburgh, and San Francisco. Medium hub airports include Albuquerque, Anchorage, Dallas Love Field, El Paso, Greensboro/Piedmont Triad, Houston Hobby, Kahului, Louisville, Norfolk, Oklahoma City/Will Rogers, Orange County/John Wayne, Raleigh-Durham, San Antonio, and Tucson.

Figure 4: Large and Medium Hub Airports' Debt, 1988 Through 1994



Note: These figures are based on financial data from 22 large hub and 31 medium hub airports.

Source: Van Kampen Merritt database.

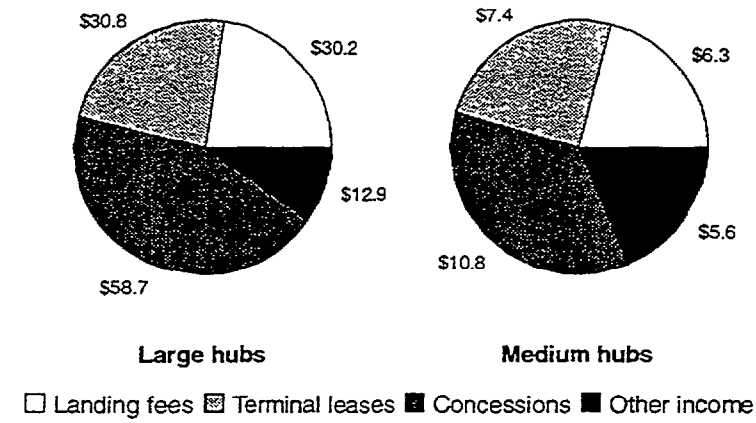
Although debt doubled at large hub airports, these airports maintained their capacity to issue additional debt, as measured by their operating ratio. (The operating ratio is operating and maintenance expenses divided by total operating revenues.) From 1988 through 1994, large hub airports' operating ratios remained relatively steady, indicating that revenues were available to pay the increased principal and interest amount. Generally, bond agreements require that the issuer establish a schedule of fees that provides a cushion above what will be required to pay operating and debt service costs. According to officials of two major bond rating agencies, large hub airports were generally able to pay for increased debt service costs by charging airlines higher fees or increasing nonairline revenue, such as concessions. However, as explained in the following sections, airports' capacity to continue to pass on increased debt costs could vary substantially.

Airport Revenue

Airports obtain revenue from four general sources: landing fees and terminal leases (both paid by airlines), concession receipts (such as parking fees), and other income (such as advertising and aviation fuel sales). Figure 5 shows how much revenue, on average, is derived from each of these sources for large and medium hub airports. Unlike other funding sources that are used for capital development, airport revenue is also used to pay for an airport's operating costs. Revenues remaining after paying operating and capital development costs are net income, which can be a source of funding for future development. Airport revenue can directly pay for development costs or be used to finance bonds.

Figure 5: Average Large and Medium Hub Airport Revenue by Source, 1988 Through 1994

Dollars in millions



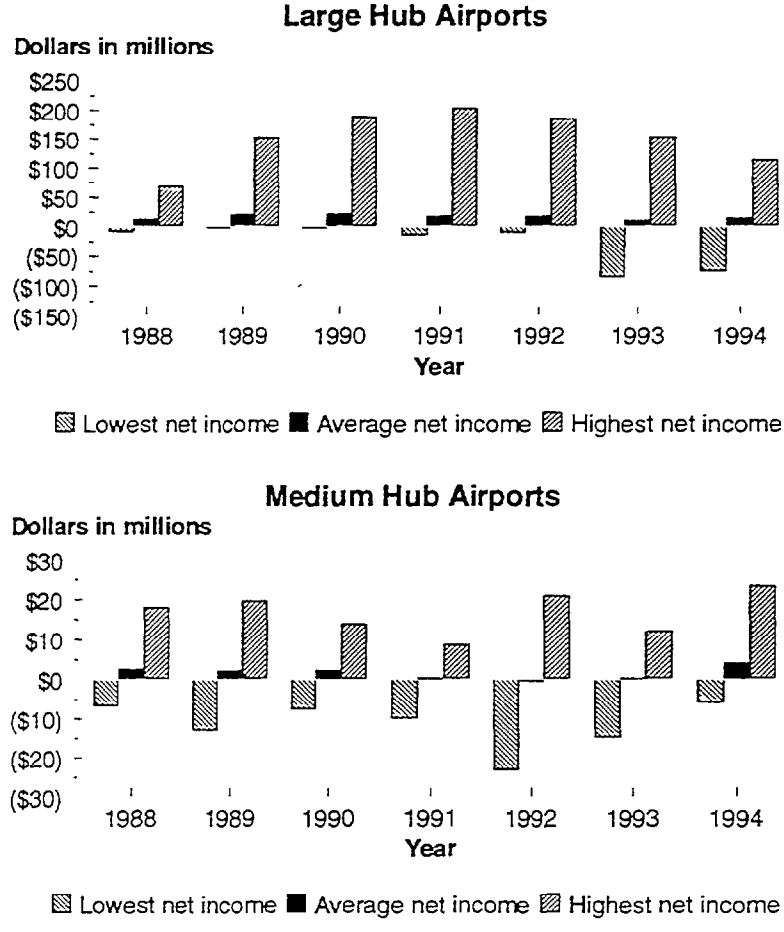
Note: These figures are based on financial data from 22 large hub and 31 medium hub airports.

Source: Van Kampen Merritt database.

The availability of airport revenue, including net income, for capital investment is affected by several factors. First, the amount of net income available for airports' capital development varies widely based on the size of the airport. Large hub airports generated higher levels of net income than did medium hub airports. The average net income for 22 large hub airports whose financial information we were able to review ranged between $10 million and $22 million during the period 1988 through 1994. By comparison, the average net

income for the 31 medium hub airports that we were able to examine ranged from a loss of $464,000 to a gain of $4 million during the same period. Also, as figure 6 shows, large hub airports had a greater range of net income gains and were less likely to incur losses than were medium hub airports.

Figure 6: Range in Large and Medium Hub Airports' Net Income, 1988 Through 1994



Note: These figures are based on financial data from 22 large hub and 31 medium hub airports.

Source: Van Kampen Merritt database.

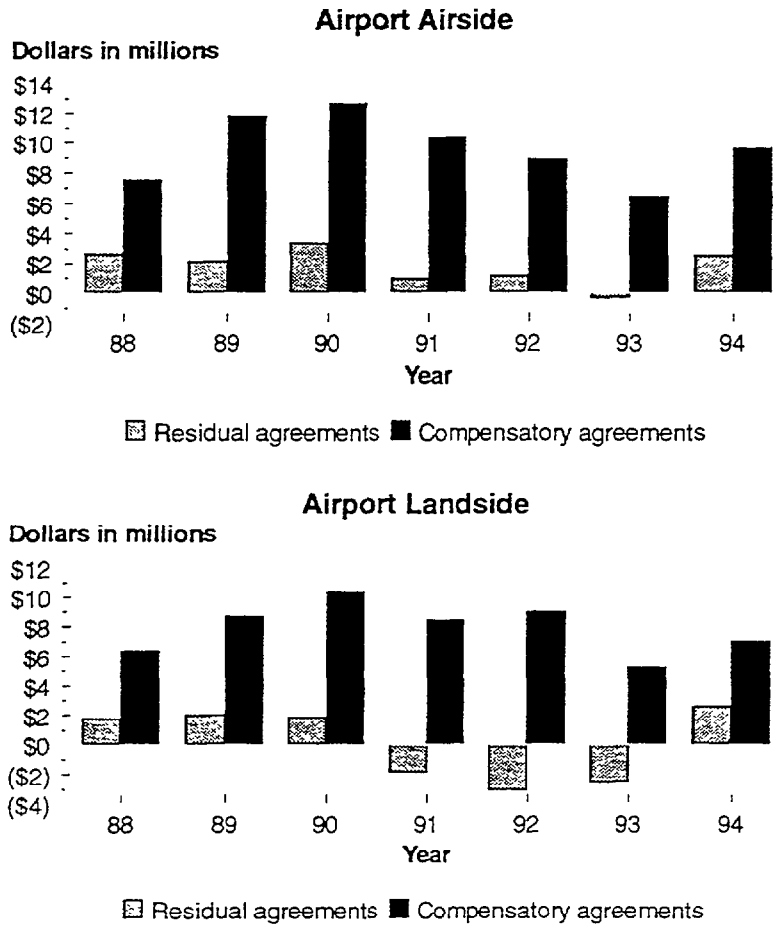
A second factor affecting the availability of revenue is the Department of Transportation's and FAA's policy regarding airport rates and charges. This policy does not allow airports to increase the landing fees they charge airlines to generate additional revenue above actual costs, including cash reserves for contingencies, unless otherwise agreed to by the airlines. Landing fees are a

significant source of airport revenue, on average accounting for about 20 percent of large and medium hub airports' revenue stream.

Finally, the nature of the airports' agreements with airlines, which can vary from airport to airport, can also affect the degree to which airports can generate additional revenue. The airports' long-term operating agreements with their tenant airlines generally divide into two basic types–compensatory and residual. Under compensatory agreements, the airport assumes the financial risk of any losses and retains the revenue that exceeds costs. Under residual agreements, signatory airlines must cover any airport losses but retain revenue that exceeds costs through decreased landing fees or rates for the use of facilities. Frequently, residual agreements prohibit airports from undertaking certain capital expenditures without the airlines' approval. Separate agreements generally govern the airside, such as airline landing fees, and the landside, such as terminal lease payments.

As figure 7 shows, airports with compensatory agreements had a higher average net income on both the airside and landside than airports with residual agreements. As nonairline revenues (such as concession receipts) have grown, credit rating agency officials told us that airports, especially the largest ones, have generally come to prefer compensatory agreements that allow them to retain revenue that exceeds costs. However, for many airports the opportunity to change to a compensatory agreement is limited because their residual agreements do not expire until after 1998.

Figure 7: Airports' Airside and Landside Average Net Income Under Compensatory and Residual Agreements, 1988 Through 1994



Note: These figures are based on financial data from 85 airports.

Source: Van Kampen Merritt database.

WITH LESS AIP FUNDING AIRPORTS' AND AIRLINES' COSTS MAY INCREASE, WHILE THE EFFECT ON PASSENGERS' COSTS IS UNCERTAIN

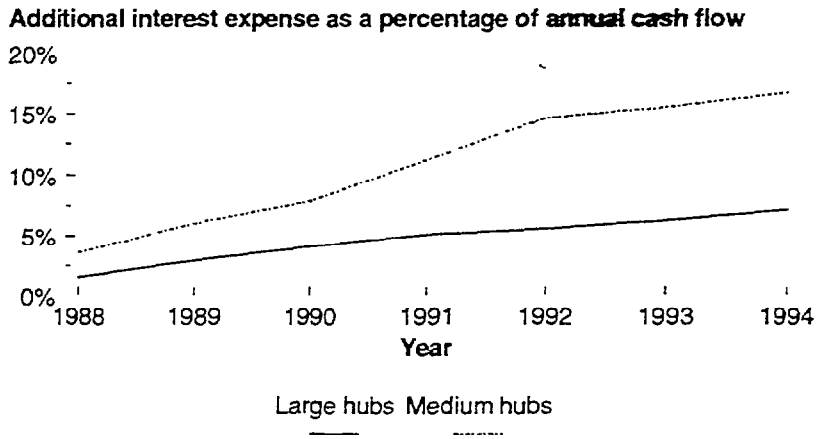
With less AIP funding, airports' options include reducing capital investments, increasing other sources of funding to make up the difference, or adopting some combination of the two. Credit rating agency officials told us that the degree to which airports scale back their capital investment would depend on their ability to generate additional revenue, which is generally easier for larger airports. According to FAA officials, because most AIP funding is for projects related to airfields' pavement, such as runway and taxiway resurfacing or

construction and land acquisition, these projects would be most affected by AIP funding cuts. From 1982 through 1994, about 68 percent of AIP funding was used for such projects.

Maintaining the level of investment with less AIP funding would require substituting other sources of capital funding. For example, if some portion of large and medium hub airports' AIP funding were to be replaced by issuing bonds, these airports would incur increased debt service costs. To provide some indication of the potential effect of additional debt, we performed an analysis, assuming that all AIP funding were eliminated and fully replaced by bond debt, to determine how interest expense would have increased at 53 large and medium hub airports.[12] Our analysis found that, on average, large hub airports would be better able to service these additional debt-related costs than would medium hub airports. As figure 8 shows, for the period 1988 through 1994, financing the additional cumulative interest expense would have consumed about 7 percent of the average cash flows of large hub airports after 7 years compared with about 17 percent for medium hub airports.

[12]Even if all AIP funding were eliminated, some amount less than that would have been replaced by additional debt. Because AIP has no debt service costs, while debt does, airports could be expected to reduce their capital investment to some extent.

Figure 8: Average Large and Medium Airports' Additional Cumulative Interest Expense if AIP Had Been Debt, 1988 Through 1994



Note: These figures are based on financial data from 22 large hub and 31 medium hub airports.

Source: Van Kampen Merritt database.

If some portion of additional debt costs were passed on to the airlines in the form of higher landing fees or terminal rents, the effect on passengers is uncertain. Although airport costs, according to airline data, represent only about 6 percent of the airlines' total costs, airline officials point out–and our prior work shows[13]–that until 1995, airline profit margins were relatively low. Therefore, even small cost increases for airlines could mean the difference between a profit or loss in a given year. However, airlines are cautious in passing on cost increases to passengers because airline passenger traffic is very sensitive to changes in ticket prices. Studies have found that for passengers, most notably leisure travelers, a 1-percent increase in ticket prices would result in more than a 1-percent decline in passenger traffic.[14] Therefore, airlines may not be able to fully pass on cost increases to passengers.

[13]See Airline Competition: Industry Competitive and Financial Issues (GAO/T-RCED-93-49, June 9, 1993).

[14]A group of these studies is summarized in FAA's Report to Congress: Child Restraint Systems, U.S. Department of Transportation, Federal Aviation Administration (May 1995).

How reductions in AIP funding are made could also affect the allocation of remaining AIP funds among airports in several ways. For example, across-the-board reductions in AIP would make meeting outstanding AIP letter of intent commitments more difficult.[15] As of July 1996, FAA has $703 million in letter of intent funding commitments for fiscal years 1997 through 2005. Over half of these commitments are scheduled to be paid in fiscal years 1997 and 1998. If FAA manages to meet all letter of intent commitments, funding for other airport development projects would be limited. Alternatively, targeting reductions to just large and medium hub airports would also mean reductions for smaller airports because large and medium hub airports that collect PFCs are required by statute to return up to half of their AIP apportionments, most of which is used to fund projects at smaller airports. In 1994, large and medium hub airports' returned apportionments totaled over $103 million, of which about $65 million was to be allocated to small and nonhub airports.

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To respond to your questions, we obtained financial and other databases from FAA and private sources such as the Van Kampen Merritt System of airport operating and financial data. We performed a series of financial and statistical analyses of these databases, including two correlation analyses of AIP funding relative to other sources of capital for airports based on the size of the airports, as measured by passenger enplanements. Much of the financial analysis is based on the detailed financial statements of 85 airports. A more detailed discussion of our data sources and analytical methodology is contained in enclosure II. We did not audit the accuracy of the databases but did perform some limited cross-checking of information to assess their reasonableness. We conducted our work from March through June 1996 in accordance with generally accepted government auditing standards. We also spoke with officials of credit rating agencies, debt insurance companies, airport and airline organizations, and FAA to discuss our findings.

We provided a draft of this report to the Department of Transportation and Federal Aviation Administration for their review and comments. Officials,

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[15]FAA can award a letter of intent stating its intent to reimburse an airport in the future for eligible costs incurred on a current improvement project. In doing so, FAA establishes a schedule for reimbursing the airport over several years, as funds become available.

including the Chief, Economic Studies Division, and the Acting Manager, Airports Financial Assistance Division, provided clarifying comments and information which we included as appropriate.

We are sending copies of this report to the Secretary of Transportation and the Administrator, Federal Aviation Administration. We will also make copies available to others on request. Please call me at (202) 512-3650 if you have any questions about this report. Major contributors to this report included Paul Aussendorf, Charles Chambers, Sara Ann Moessbauer, Mark Premo, David Robinson, Stan Stenerson, and Randy Williamson.

Sincerely yours,

Gerald L. Dillingham
Associate Director, Transportation Issues

AIP FUNDING BY PRIMARY AIRPORT CATEGORY, FISCAL YEARS 1982 THROUGH 1995

Dollars in millions

	Primary airport category				
Fiscal Year	**Large hub**	**Medium hub**	**Small hub**	**Nonhub**	**Total**
1982	$ 99.0 (152.6)	86.0 (132.6)	80.9 (124.6)	46.3 (71.4)	$312.3 (481.2)
1983	$165.6 (245.3)	129.1 (191.3)	119.1 (176.4)	51.2 (75.9)	$465.0 (688.9)
1984	$172.5 (244.8)	146.7 (208.1)	115.3 (163.5)	68.6 (97.3)	$503.2 (713.7)
1985	$228.6 (312.2)	198.1 (270.6)	139.8 (190.9)	56.7 (77.5)	$623.1 (851.2)
1986	$208.8 (276.9)	140.3 (186.1)	123.3 (163.6)	67.4 (89.4)	$539.7 (715.8)
1987	$196.0 (252.6)	159.0 (204.9)	100.2 (129.1)	70.6 (91.0)	$525.9 (677.6)
1988	$370.2 (460.5)	345.2 (429.3)	217.6 (270.7)	149.2 (185.6)	$1,082.2 (1,346.0)
1989	$428.0 (509.0)	253.9 (301.9)	173.4 (206.1)	153.0 (182.0)	$1,008.4 (1,199.0)
1990	$495.7 (565.2)	218.5 (249.1)	149.9 (170.9)	148.5 (169.3)	$1,012.6 (1,154.5)
1991	$438.6 (480.3)	306.1 (335.3)	274.1 (300.2)	195.6 (214.2)	$1,214.3 (1,330.0)
1992	$454.1 (483.1)	307.8 (327.4)	207.1 (220.3)	236.8 (251.9)	$1,205.8 (1,282.8)
1993	$519.6 (539.6)	247.4 (256.9)	294.2 (305.6)	231.6 (240.4)	$1,292.8 (1,342.4)
1994	$548.3 (558.4)	267.0 (271.9)	264.6 (269.5)	235.0 (239.3)	$1,315.0 (1,339.1)
1995	$452.8 (452.8)	224.2 (224.2)	220.5 (220.5)	271.0 (271.0)	$1,168.5 (1,168.5)

Notes: Figures in parenthesis are in fiscal year 1995 constant dollars.

Some figures do not add to total because of rounding.

Source: GAO analysis of Federal Aviation Administration data.

METHODOLOGY

To determine the Airport Improvement Program's (AIP) contribution to total airport funding, we analyzed the Federal Aviation Administration's (FAA) AIP database and records. FAA maintains a database of AIP funding dating back to fiscal year 1982. We also performed two statistical correlation analyses that compared AIP funding relative to other sources of capital for airports based on the size of the airports, as measured by passenger enplanements. We first analyzed 85 airports' financial statements for the period 1988 through 1994 to measure each capital component–AIP, passenger facility charges (PFC), new debt, and net income–as a percentage share of total airport capital funding. These 85 airports are part of the Van Kampen American Capital Management Merritt System of airport financial and operating data. We then measured the association between AIP's percentage share and airports' size, as measured by passenger enplanements, for each year and overall. However, because the range of airports in the sample tended to be narrow and skewed toward larger airports, we performed a second correlation analysis for all airports using AIP, PFC, and total debt issuance databases for the period 1985 through 1994. The second correlation analysis, while it included more airports, lacked information on the income for the airports and did not differentiate between bonds issued as new debt and bonds issued to refinance existing debt. Nevertheless, the results of the second analysis corroborated the results of our first analysis.

To identify other sources of funding and the potential to increase them, we analyzed FAA's PFC data and airports' financial statements and bond issuance data. FAA maintains a list of approved PFC applications, including total planned collections and the period during which the funds will be collected. To estimate collections on a fiscal-year basis, we estimated average monthly collections over the life of each application and then totaled the monthly averages for each fiscal year. Actual collections may be somewhat greater or less than the estimate. To project future fiscal year PFC collections, we assumed fiscal year 1995 collections would increase at FAA's forecasted passenger enplanement growth rate. Future collections were deflated using Congressional Budget Office projections of growth in gross domestic product. To analyze airport revenue, income, and financial characteristics, we assessed various trends and financial ratios from the Merritt System database for 85 large, medium, and small hub airports. The ratios we selected are the same as those used by credit rating agencies and airport analysts. We discussed our findings with officials from credit rating agencies and debt insurance companies who confirmed our results.

To assess the potential effects of AIP reductions on airports, airlines, and passengers, we performed financial analyses of airports and airlines, reviewed airline price elasticity studies, and discussed our findings with airport, airline, and credit rating agency officials. To assess the potential effect of AIP reductions for airports, we performed a pro forma financial analysis of 22 large and 31 medium hub airports financial condition for 1988

through 1994, assuming that AIP had been replaced by debt. The interest expense on this additional debt was assumed to be the average interest rate paid on all debt for that year for that category of airport. Additional interest expense was measured relative to average annual cash flows that are needed to pay the debt to assess and compare relative magnitude. We also reviewed FAA budget data to assess the effect of reductions on the allocation of AIP funding. To assess the potential effect of increased airport costs on airlines and their passengers, we obtained airline expense information for 1982 through 1995, reviewed airline price elasticity studies, and discussed our findings with airline and airport industry representatives.

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