Passenger Facility Charge

(Written by Dafang Wu on April 10, 2015; PDF version)

This article introduces Passenger Facility Charge, discusses the strategic use of the PFC revenues, and includes some personal opinions regarding the proposed increase of the PFC level.

Passenger Facility Charge (PFC) is an airport user fee with restricted uses. A U.S. airport operator must submit a PFC application to the Federal Aviation Administration (FAA) and receive FAA approval before collecting and using the PFC revenues. Airlines collect the PFC revenues from certain enplaned passengers on the airport's behalf and remit the PFC revenues to the airport operator after deducting an administrative fee, $0.11 per collection as of April 2015. The PFC revenues can be used only for the capital costs of the approved eligible projects, with very limited exceptions as discussed below.

49 U.S.C Sec. 40117 is the PFC statute providing for the PFC collection. The CFR Part 158 is the PFC regulation and provides a detailed description of the PFC eligibility, application, collection, amendment, and closeout. The FAA is updating the 2001 PFC handbook and expects to release a draft for comments in late 2015.

Passenger Eligibility and Collection Level

As described in the CFR Part 158.9, an airport operator may require a PFC collection from revenue enplaned passengers, which further excludes (see this link for a definition of revenue enplaned passengers):

- The third boarding and beyond in a one-way trip
- Passengers with frequent flier program tickets
- Inter-island travel in Hawaii, and travel on small planes (< 60 seats) in Alaska
- Essential air service program or Department of Defense arrangements
- Enplaned passengers on any excluded carrier requested by the airport, typically air taxi commercial operations

An airport operator may request a collection level equal to or below $4.50 for each eligible enplaned passenger. The FAA provides a monthly report listing the approved PFC collections, including the location, the collection level, the amount, and the expiration dates. As of April 10, 2015, 359 approvals are active, with 340 at the $4.50 PFC level.

The FAA also provides a program-level summary, which shows a total approved collection amount of $90 billion, with $40 billion collected through 2014.

Project Eligibility and Allowed Costs

To be eligible, a project must:

1. Preserve or enhance safety, security, or capacity of the national air transportation system;
2. Reduce noise or mitigate noise impacts resulting from an airport; or
3. Furnish opportunities for enhanced competition between or among air carriers.

The CFR Part 158.15 provides a comprehensive list of eligible projects, which generally include:

1. Projects eligible for Airport Improvement Program (AIP) grants. The FAA provides an overview of the AIP on its website. The FAA central region has prepared a more detailed AIP guide, including this Introduction file. The FAA also published the updated AIP handbook in September 2014.
    1. As a rule of thumb, airfield, apron, and road access projects are generally eligible. Costs associated with public-use, non-revenue-generating areas in the terminal may be eligible. The determination of eligibility is detailed in the appendices of the AIP handbook.
2. Eligible noise-related projects
3. Terminal projects "directly related to the movement of passengers and baggage movement"
4. Other miscellaneous projects such as air traffic modernization projects and low-emission equipment and projects

For large-hub and medium-hub airports to collect a PFC at the $4.50 level, the airport operator must demonstrate that the project will make a significant contribution to the PFC objectives.

PFC revenues can be used for the allowed costs of the approved capital projects, PFC administration, and application costs, and financing costs related to the eligible projects including the debt service. PFC revenues can also be used to pay the debt service for ineligible projects based on financial needs, typically referred to as "the PIT provision." PFC revenues cannot be used for other operation and maintenance expenses.

An airport operator may issue revenue bonds and use the PFC revenues to pay eligible debt service, or issue a PFC stand-alone bond that is payable solely from the PFC revenues. Both are referred to as the "leveraged" use of the PFC revenues. Comparatively, using the PFC revenues directly for the capital expenditure is called "pay-as-you-go."

PFC and AIP

PFC has a broader eligibility than AIP because its eligibility covers terminal projects directly related to the movement of passengers and baggage. This scope expanded the use of PFC revenues to cover revenue-generating areas such as the ticket counter, baggage makeup, baggage claim, and holdroom area, if such areas are not under a long-term exclusive lease. PFC revenues can also be used as the local matching share for the AIP grants.

Per 49 USC § 47114(f), the amount of entitlement funds for large- and medium-hub airports collecting a PFC are reduced based on the PFC collection level approved for the airport. If the airport is collecting at $3.00 or less, the amount of entitlements is reduced by 50%. If the airport is collecting more than $3.00, the amount of entitlements is reduced by 75%. In Hawaii, this calculation is modified based on the percent of inter-island passengers, who are not subject to a PFC collection.

PFC Application Process

Before requiring the airlines to collect a PFC, an airport operator must go through the following procedures, detailed in the CFR Part 158 subpart B:

1. Consulting with the carriers
2. Seeking public comments
3. Preparing the PFC application
4. Submitting supplemental materials, if needed

The process, from sending out the notice to receiving the approval, may take 180 days.

Consulting with the Carriers

An airport operator must provide a written notice to any carrier with a significant business interest at the airport, defined as accounting for more than 1% of total enplaned passengers in the prior calendar year, more than 25,000 enplaned passengers and providing scheduled service. The enplaned passenger data can be obtained from the FAA online system, which is also the basis for determine the AIP entitlement grants.

The written notice should include:

1. Descriptions of projects being considered for funding by PFCs;
2. The PFC level of each project, the proposed charge effective date, and the estimated charge;
3. The excluded class of the air carrier, if any; and
4. The date and location of the consultation meeting. A conference call number is typically provided for any carrier that can't attend in person.

The airport operator shall hold the consultation meeting within 30 to 45 days after sending the written notice. At or before the meeting, the airport operator shall provide the carriers with:

1. A description of projects;
2. An explanation of the need for the projects; and
3. A detailed financial plan for the projects, including –
    1. The estimated allowable project costs allocated to major project elements;
    2. The anticipated total amount of PFC revenue that will be used to finance the projects; and
    3. The source and amount of other funds, if any, needed to finance the projects.

The carriers shall respond within 30 days with their agreement or disagreement with the proposed projects, and attach any reason to justify the disagreement.

Seeking Public Comments

The airport is also required to seek public comments regarding the proposed projects. The notice and information to the public is substantially similar to the information provided to the airlines. An airport typically posts the PFC information on the website for a period of at least 30 days, and incorporates any public comment received in the PFC application.

Preparing the PFC Application

The CFR Part 158.25 provides a detailed guide on how to prepare a PFC application. The most recent PFC forms can be downloaded at the FAA PFC webpage. The application can be impose-only, use-only, or concurrent impose and use.

Submitting Supplemental Materials

Within 30 days of receiving the PFC application, the FAA will determine whether the application is substantially complete. For a substantially completed application, the FAA will issue the final decision within 120 days after receiving the application. Otherwise, the airport must submit additional information to the FAA within 15 days, or the application will be considered withdrawn.

PFC Application for Non-Hub Airports

Non-hub airport operators can submit a PFC application under a streamlined process. In September 2012, the pilot program was made permanent in PFC update 69-12.

PFC Amendment

An airport operator may amend an approved PFC application to revise the scope, to reduce or increase the collection level, to reduce or increase the approved collection authorization, or to delete some projects. An airline consultation meeting is required if the airport operator wants to:

- Amend the approved PFC amount for a project by more than 25% if the amount was $1,000,000 or greater;
- Amend the approved PFC amount for a project to be above $1 million;
- Change the scope of a project, or
- Increase the PFC level.

The FAA will make a decision within 30 days after receiving the amendment. An airport operator may submit an amendment and a new PFC application concurrently.

Collection and Reporting

After receiving an approval from the FAA, the airport sponsor shall prepare a letter notifying the carriers to start the PFC collection. The carriers collect the PFC on each ticket sold after the effective date, and remit the PFC collection to the airport sponsor. The carriers must account for the PFC separately, hold the PFC revenues in a segregated account, and report the collection to the airport sponsor quarterly.

The airport sponsor must report the collection and use of the PFC revenues to the FAA quarterly. Many examples of the PFC quarterly reports are available online, such as the SEA report.

Bond Accounting of PFC Revenues

When an airport sponsor receives the FAA approval to use the PFC revenues for eligible debt service, its bond authorizing document will dictate the recognition of the PFC revenues:

- PFC revenues as an offset to debt service. In this situation, the PFC revenues used for debt service are deducted from the calculation of debt service, which is a preferred treatment, leading to higher calculated debt service coverage. The bond-authorizing document may include language such as:
    - Available PFC Revenues. For example, the definition of Annual Aggregated Debt Service Requirement in the Hawaii 2010 OS is "... the Debt Service Requirement for such period net of (i) the amount of Available PFC Revenues deposited or irrevocably committed to be deposited..."
    - Set-aside. For example, the definition of Principal and Interest Requirements in the MIA 2014AB OS excludes, among others, "... if all or a portion of the principal or Amortization Requirement of or interest on bonds is payable from funds set aside or deposited for such purpose ... such principal, amortization Requirement or interest shall not be included in computing Principal and Interest Requirements..."
- PFC revenues as Revenues. Sometimes, the bond-authoring document does not allow the PFC revenues as an offset to debt service. In that case, PFC revenues can typically be included as the defined term Revenues. For example, the definition of Revenues in the SFO 2014AB OS includes the PFC revenues if "all or a portion thereof are designated as Revenues by the Commission." Sometimes, the definition of Revenues broadly includes any money deposited into the Revenue Fund, such as in the SMF 2010 OS, although the County has not exercised that option.

Rating agencies calculate a cash-flow-based debt service coverage, where they add the PFC revenues for debt service to the Revenues, and eliminate the credit of the PFC revenues to debt service. The cash-flow-based coverage provides a fair comparison, eliminating the difference caused by the bond-authorizing documents.

Strategic Use of the PFC Revenues

Depending on the airport operator's preference, the PFC revenues can be used to implement a capital project that cannot be implemented otherwise, reduce airline rates and charges, or improve the airport's financial situation:

- Under a residual ratemaking methodology (see this link for a detailed explanation), use of the PFC revenues will reduce the rate for the cost center to which the PFC revenues are applied, and potentially the landing fee rate.

  Under a compensatory ratemaking methodology, if the airport operator uses the PFC revenues for the projects in:

  - Non-airline cost center: the airport operator would be able to keep 100% of the PFC amount used, which would improve the airport's financial situation.
  - Terminal cost center: the airlines will enjoy a lower terminal rental rate, and the airport operator would be able to keep the portion related to vacant airline space and the concession space. The PFC is effectively split between the airlines and the airport operator.
  - Airfield cost center: the airlines would enjoy 100% of the benefits.

An airport's ratemaking methodology may change over time. Therefore, an airport operator may consider using the PFC revenues for roadway projects or terminal projects, which would provide much more flexibility for future years.

The 2014-2015 PFC Debate

In 2014, the airline industry and the airport industry started a debate about whether the PFC level shall be increased to $8 per eligible enplaned passenger or higher. The maximum PFC level was increased to $4.50 in 2000, and has not been adjusted since. The airport industry included the proposed increase of the PFC level as one of the major initiatives for the FAA reauthorization, arguing that an $8 PFC would recoup the lost purchasing power. The airline industry argues that it is a tax increase, an additional burden on the airline industry.

User Fee vs. Tax

This article provides a detailed explanation of a user fee vs. tax. To sum it up, a user fee is "a voluntarily incurred governmental charge in exchange for a benefit conferred on the payer, which fee should somehow reasonably approximate the payer's fair share of the costs incurred by the government in providing the benefit."

PFC is clearly a user fee, since (a) it is collected from each ticket allowing the passengers to use the airport, and (b) the collection is used to pay certain capital project costs at the airport where it is collected. The PFC revenues cannot be used for any projects other than the approved projects, or at any other locations unless both airports are operated by the same airport sponsor.

Impact to Airfare

The airline industry argues that the proposed PFC increase would increase the cost of air travel, which may not necessarily be the case. If the PFC level is not increased, an airport sponsor may choose to fund the capital projects using a combination of internal cash and bond borrowing, and allocate all or a portion of such costs to the carriers, which may pass the costs to the travelers. In this case, the airfare will remain virtually the same.

If the airport sponsor decides not to, or cannot afford to, implement the capital project, the airfare under the existing $4.50 PFC level may be lower, everything else being equal. However, that implies that the traveler will not be able to enjoy the benefits of the proposed capital projects.

Conclusion

Eventually, the PFC debate is about control of the capital projects. The airlines have different degrees of control over the capital projects, depending on the specific airline use agreement negotiated, but do not have any control over the PFC-funded projects. Even if all carriers disapprove a PFC project, the FAA may still approve the PFC application if the underlying project is eligible for the PFC, such as the terminal at SMF or the automated people mover project at MCO. Therefore, the airline industry is against any increase of the PFC level.