
For Release
on Delivery
Expected at
10:00 a.m. EDT
Tuesday
June 19, 1990

Airline Competition: Passenger Facility Charges
Can Provide An Independent Source of Funding for
Airport Expansion and Improvement Projects

Statement for the Record by

Kenneth M. Mead
Director, Transportation Issues
Resources, Community, and Economic
Development Division

Before the
Subcommittee on Aviation
Committee on Public Works and Transportation
House of Representatives



Mr. Chairman and Members of the Subcommittee:

We appreciate the opportunity to testify on whether airports need to have the option of assessing a direct charge on passengers in order to engage in airport expansion and promote a more competitive environment. Such direct charges, called passenger facility charges or PFCs, are currently prohibited by the Airport Development Acceleration Act of 1973. Proposals for PFCs have called for relatively modest amounts, such \$1, \$2, or \$3 to be included in the ticket price collected by airlines, the same way the federal ticket tax is collected. However, PFC funds would be remitted directly to the airports, rather than going to either the airlines or to the federal government.

Our statement will focus on whether there is a need for legislation authorizing PFCs and on ways to ensure that PFC funds would be used for airport capacity expansion and not diverted to other uses. Our analysis is based on a series of previous and ongoing GAO reviews on competition in the airline industry that have examined how changes in the airline industry since deregulation have affected airline fares, the ability of new firms to enter the industry, and the ability of existing airlines to enter new markets. In summary, our findings are as follows:

- PFCs could help shift more control over airport expansion decisions from airlines back to airports by reducing airports' need for airline approval of capital projects. A PFC could be especially useful at airports where one or two airlines control most of the traffic or most of the gates and other essential facilities through restrictive leases. PFC funds could also help fill the gap between airport capital needs and federal funding. However, a PFC would not be a panacea, because a lack of independent

funding is not the only problem faced by airports trying to expand capacity or promote competition.

- Potential problems, such as the diversion of PFC funds to nonairport uses, can be avoided if the authorizing legislation includes adequate safeguards. Specific safeguards could ensure that PFC funds are used only for airport projects to expand capacity and competitive access and that potential entrant airlines have access to PFC-funded facilities. Without such safeguards, there is a risk that PFC funds collected from the traveling public could be used in ways that would ultimately reinforce airline dominance.

Attachment I to our testimony contains results from our survey of 183 airports showing current airport capital project funding patterns, the extent of leases and contracts between airports and airlines that limit access for potential competitors, and the wide range of factors that could limit or delay airport expansion in the near future. Attachment II contains a list of selected GAO reports and testimonies on airline competition issues.

PFCs COULD HELP AIRPORTS FUND NEEDED PROJECTS
TO INCREASE CAPACITY AND ENHANCE COMPETITION

Many airports need additional capacity to reduce congestion and delays and encourage greater competition. Additional capacity could not only provide for growth by the airlines already serving an airport but could also make room for potential competitors to begin service. However, airports are often unable to add needed capacity because of agreements that give incumbent airlines significant control over airport expansion decisions. These agreements have the effect of discouraging expansion and reducing competitive access at many of the nation's 66 largest airports. In

our September 1989 testimony before this Subcommittee, we offered a number of options that could increase competition in the airline industry, including a PFC.¹ While a PFC could help solve the funding problems that prevent airport expansion and reduce the airports' need to enter into restrictive agreements with airlines, the PFC would not be a panacea for all of the capacity and competition problems faced by airports.

Incumbent Airlines Exercise Significant Control Over Many Airports' Development Decisions

Our work shows that incumbent airlines now exercise significant control over airport expansion and suggests that a PFC could help shift more control over expansion decisions back to airports. Airports have entered into two major types of agreements that give airlines control over development decisions. The first type of agreement, called a majority-in-interest agreement or MII, gives airlines with a majority of the airport's operations a voice in airport decisions. MIIs give these airlines the right to approve airport budgets or capital projects that would affect the airlines' pre-existing commitments to cover payments on outstanding airport bonds. Under the second type of agreement, called residual funding, airlines agree to pay sufficient fees to cover all of the airport's expenses that are not covered by other revenues, such as revenues from concessions and parking. In return, the airlines get the right to approve airport decisions that would increase airport expenses. Both types of agreements help airports get lower interest rates on their bonds.

MIIs can force airports to delay capital projects or, in effect, to forego them altogether. MIIs are in effect at 36 of the 66 largest airports in the country, as shown in attachment I.

¹Barriers to Competition in the Airline Industry (GAO/T-RCED-89-65, Sept. 20, 1989, and GAO/T-RCED-89-66, Sept. 21, 1989).

(See tables I.1 and I.2.) For instance, an official at one large airport told us it took years to get airline approval for a new air cargo facility. At another airport, several projects that would provide expanded capacity to meet expected growth and would improve airport security have been rejected by the incumbent airlines.

Our work suggests that MIIs do represent a barrier to expansion and competitive entry and could detract from the usefulness of a PFC. Our analysis of airline fares indicates that fares are about 3 percent higher on routes from airports where an MII is in force.² Some MII agreements could prevent an airport from using PFC funds effectively, since they require airline approval for any projects that could affect incumbent airlines' cost of operation, even if the projects are not financed with airline-backed bonds. Thus, at some airports, PFC funds could not be used to support a bond issue or combined with funds from other sources, including federal grants.

According to the Airport Operators Council International (AOCI), 25 of the 30 largest airports have restrictions in their agreements with airlines that limit the airports' ability to make effective use of a PFC. Some agreements contain specific clauses prohibiting the airport from (1) charging fees to airline passengers; (2) changing the way airline landing fees are calculated; or (3) charging any additional rates, fees, or charges of any kind other than those specified in the agreement. In addition, residual funding agreements would include PFC funds as part of the airports' revenues in calculating airline fees. Therefore, airline fees would be lowered to the extent that a PFC generated funds and the airport would not have any net increase in revenue. Thus, a PFC could provide an independent funding source

²We are currently completing our estimates using an econometric model to estimate the relationships between air fares and factors that could limit competitive entry into airline markets.

to airports, but only if the authorizing legislation exempts PFC funds from these types of restrictive provisions in existing airport/airline agreements.

Airports Rely Heavily on Airlines to Finance or Guarantee Capital Projects

Many airports rely heavily on airlines to fund capital projects for capacity expansion and improvement. As shown in attachment I to our testimony, half of the nation's 66 largest airports relied on incumbent airlines to back airport revenue bonds. Half of the 66 airports also relied on individual airlines seeking facilities to fund major projects. (See table I.3.) Thus, airlines wanting to expand or begin service at an airport sometimes pay for gates and other facilities to be added to accommodate their new service. At one large airport, for instance, half of the 30 gates leased to domestic airlines are "owned" by the airlines that paid for them.³ At another large airport with an MII, a low-cost airline wanting to begin service paid for the construction of two additional gates in order to gain full access to the airport.

A PFC could give airports a source of revenue independent of airline approval for financing airport expansion projects needed to meet expected growth in operations and to allow competitive entry. Airports that are less reliant on airline financing could be better able to resist pressure to enter into long-term contracts with airlines containing exclusive use or MII provisions. Fewer restrictive contracts, in turn, could give airports more flexibility both in providing facilities to potential competitors and in reducing congestion and delay.

³These gates are leased to the airlines who paid for their construction on 99-year, exclusive-use leases.

Many Airports Lack Competitively
Available Facilities

Previous GAO studies have shown that airline fares are substantially higher when one or two airlines control most of the traffic and when there are barriers to new entry.⁴ Fifteen of the top 75 airports in the country are concentrated, that is, have one airline that handled at least 60 percent of the traffic or two airlines that handled at least 85 percent of the traffic.⁵ Fares at these airports were about 27 percent higher than fares at unconcentrated airports, and most of the gates and passenger waiting rooms at these airports are leased to the dominant airlines on long-term, exclusive-use leases. If entrant airlines are to compete on a level playing field, they need access to airport facilities on terms similar to those received by incumbent airlines. Otherwise, the entrants would be at a disadvantage if their operating costs were higher than the incumbents' costs. We found that many of the major airports in this country lack the gates and other essential airport facilities, such as passenger waiting rooms, ticket counters, and baggage claim facilities, to accommodate competitive entry.

One indication of the extent of this problem is that 24 of the 27 largest airports have all of at least one essential facility leased for the exclusive use of tenant airlines. In addition, as shown in attachment I, these airports often have no unused facilities as well. (See table I.4.) AOCI found that only 5 of 30 major airports have enough gates available on competitive terms for a potential entrant airline to start a mini-hub

⁴See Airline Competition: Higher Fares and Reduced Competition at Concentrated Airports (GAO/RCED-90-102, July 11, 1990) and Effects of Airline Entry Barriers on Fares (GAO/T-RCED-90-62, April 5, 1990).

⁵A total of 22 airports met the concentration criteria. However, we excluded 7 of those airports because they were in multi-airport cities or outside the 48 contiguous states.

operation. Thus, airlines seeking to start or expand service at many major airports must arrange to use another airline's facilities. According to airline officials, such arrangements are much more expensive than leasing facilities directly from the airport operator.

Competitive Access to Facilities Built or Expanded With PFC Funds Could Be Ensured

One of the issues that has arisen in the discussion of PFCs is ensuring that increased capacity paid for with PFC revenues be made available to airlines on a competitive basis. One proposal under consideration by the Subcommittee to try to ensure competitive access calls for a prohibition on long-term exclusive-use leasing of facilities built or expanded with PFC funds. Our work suggests that such a prohibition, by itself, will not ensure competitive access. Allowing even short-term exclusive-use leases could limit access, especially if the leases include options to renew the lease at the discretion of the leasing airline. Our work suggests that all exclusive-use leasing of PFC-funded facilities be discouraged. Otherwise, facilities built with funds collected from the traveling public could ultimately serve only to benefit incumbent airlines without improving access for potential competitors.

Our work indicates that common leasing practices could limit future competitive access to PFC-funded facilities by extending the length of time airlines control exclusively leased facilities. For instance, it is a standard industry practice to allow expired leases to continue on their old terms under "carryover" provisions while new leases are being negotiated. While airport officials told us these provisions provide continuity in service, our work has shown that some leases remain in force under their carryover provisions for years while negotiations continue. In addition, some leases allow the original lease to be renewed at the option of

the airline. Such renewal options can add many years to the original term of the lease. At one large airport, an airline leasing facilities has two renewal option terms of 10 years each, giving the airline control of some facilities up to 20 years after the original lease term expires. The results of our econometric model indicate that the larger the share of gates an airline leases at an airport, especially if those gates are on long-term exclusive-use leases, the higher the airline's fares are at that airport. (See table I.5 and I.6 in attachment I for information on long-term and exclusive-use gate leasing.)

These problems could be reduced if the facilities built or expanded with PFC funds were leased under preferential leases. Preferential leases protect the tenant airline by giving it the first right to use the facilities under lease but also allow the airport operator to assign secondary use of the facilities to other airlines when the tenant airline does not have operations scheduled. Leases on PFC-funded facilities could also contain a clause providing that the tenant airline agree to accommodate a secondary user at some of the facilities it leases if the airline's use of its total leased facilities (including those on pre-existing exclusive-use leases) permits. Without such a clause, it would be possible for an airline to lease PFC-funded facilities on a preferential basis, use the new facilities intensively, and leave exclusive-use facilities of the same type unused for extended periods, thus negating the capacity and competition enhancing effect of the new facilities.

PFCs Could Help Close the Gap Between Federal Funding and Airport Needs

PFCs could help close the gap between federal funding and airport needs for funding for capital projects in two ways. First, a PFC could give airports additional funds to use on projects eligible for federal funds but for which federal funds

are not now available. Second, PFC funds could be used for projects that are needed to expand capacity or to promote competition that are not eligible for federal funds. While it is apparent how some projects, such as building a new runway or adding gates, would increase an airport's capacity, the need for other projects is not as obvious. For instance, airports must also provide facilities such as airplane sewage treatment plants and noise barriers around areas used to test airplane engines. Without these facilities, an airport's growth is limited just as surely as it is by a lack of runways or gates.

Our work suggests that each airport faces a unique combination of needs and constraints. Airports responding to our survey cited a range of problems including state and federal requirements for environmental studies, the need for noise mitigation, lack of highway access roads, and airline opposition to expansion. As shown in attachment I, more than half of the nation's 66 largest airports reported at least one factor that could greatly limit or delay capacity expansion. (See tables I.7 and I.8.) In addition, nearly one-third of the airports listing problems on our survey reported that unavailability of funding, such as funds from the Airport Improvement Program (AIP), could greatly impede expansion.⁶⁷ While PFC funding would not eliminate the problems airports face because of the environmental and noise impacts of expansion, it could help to fund required studies and pay for mitigation measures.

⁶This question asked airports to give the extent that community opposition to increased noise, community opposition to other consequences of expansion, and limitations in the capacity of the air traffic control system would delay expansion plans in the next 5 years. In addition, respondents were asked to write in any additional factors that posed problems for their airports.

⁷FAA provides federal grants to airports for capacity, security, and safety projects under the Airport Improvement Program. However, expansion of revenue-producing facilities, such as gates, are not covered by this program.

Available federal funding falls far short of meeting projected airport capital development needs in the next 5 years. Although the Airport and Airway Trust Fund exceeds current commitments by about \$7.6 billion, the Trust Fund is also used to pay for a portion of the Federal Aviation Administration's (FAA) operating expenses and to modernize the air traffic control system (a task that GAO estimates will cost about \$27 billion through the year 2000). FAA estimates airport AIP-eligible capital development needs for the next 5 years at \$31 billion, an average of more than \$6 billion per year, while the President's Budget allocated only \$1.5 billion in fiscal year 1991 for AIP projects.⁸ In addition, AOCI estimates that there is currently a \$7 billion backlog in unfunded AIP projects. A PFC could help alleviate some of this shortfall in federal funding for airport development.

A PFC could be structured to benefit both large and small airports. While airports serving large numbers of travelers would be able to generate substantial funds with a PFC, airports serving fewer travelers might not be able to generate enough funds with a PFC to pay for needed projects. Thus, larger airports would probably gain the most direct benefits from levying a PFC. However, if an airport's eligibility for AIP funds were partially reduced if the airport levies a PFC, additional federal funds could be made available to those airports less able to use the PFC. It would not however, unduly penalize airports choosing to levy a PFC, since those airports would benefit from a PFC in two ways. First, as long as the reduction in eligibility is not on a dollar-for-dollar basis, airports levying a PFC would have a net increase in funds for capital projects. Second, as mentioned previously, the funds from the PFC could be spent without incumbent airline approval.

⁸FAA's estimate of airport capital development needs for the next 5 years is stated in constant 1989 dollars.

POTENTIAL PITFALLS IN AUTHORIZING
PFCs CAN BE AVOIDED

Our work suggests that allowing airports to levy PFCs could lead to four major problems. First, funds collected through a PFC could be diverted to nonairport-related uses. Second, PFC funds could be used for airport projects that do not affect airport capacity or promote greater competition. Third, consumers' interests need to be safeguarded so that they are informed of the number and cost of PFCs and so that the additional cost of air travel does not become burdensome for any individual traveler. Fourth, as explained previously, airline agreements and leases could prevent competitive access to PFC-funded facilities.

Safeguards Can Prevent Diversion
of PFC Funds by Airports

Diversion of PFC funds to nonairport uses can be prevented if safeguards are enacted as part of the legislation authorizing PFCs. Airlines have expressed concern that airport authorities would use revenues from PFCs for nonairport purposes. The Airport and Airways Improvement Act of 1982 requires that airport operators receiving federal grants provide assurances that airport revenues will be expended for airport purposes. The authorizing legislation could contain similar language ensuring that PFC funds will be spent only on projects to enhance airport capacity and competition. Thus, the requirement that airport funds be spent for airport purposes would cover all airports levying a PFC, both those that receive federal grants and those that do not. In addition, PFC proposals would provide the Secretary of Transportation with the authority to devise an effective program to audit expenditures of PFC funds to ensure the funds are used in an appropriate manner. Should the audit reveal that funds are being diverted, the

legislation could provide for that airport's PFC authority to be withdrawn or suspended.

Criteria Could Be Set For Projects to be Funded With PFCs

The Congress may want to establish criteria for the types of projects that airports could finance with PFC funds to ensure that projects so funded further the goals of expanding capacity and enhancing competition. The Secretary of Transportation could then confirm that proposed projects meet the criteria before an airport could begin collecting a PFC.

Appropriate criteria for each category of projects would have to be developed. A conservative approach would be to limit PFC-funded projects to those that are eligible for AIP funds, that is projects related to airport capacity, security, and safety. However, facilities that will be leased to airlines, such as gates and other facilities essential for potential entrants, are not eligible for AIP funds. Thus, if the criteria are too narrow, they could limit the effectiveness of the PFC as an alternative source of funding by excluding projects that would promote competition or that would indirectly affect airport capacity. Based on our work and the wide range of needs airports reported, we believe airports should have a great deal of discretion in choosing which capital projects to fund with PFCs, provided the projects expand airport capacity and promote competition.

Consumers Will Need Information About the Number and Cost of PFCs

Our work suggests two consumer issues the authorizing legislation might address--the number of times a passenger can be charged PFCs on a single trip and the way passengers should be informed of PFCs when booking flights. Because of the development of hub-and-spoke systems, many passengers must make connections

between their original flight and another flight at a connecting hub airport. If the passenger is charged a PFC at each airport on the route, the total PFCs charged on a flight could become substantial. Passengers will also need to know the number, location, and amount of PFCs included in their airfares.

The Congress may wish to limit the number of times a PFC can be levied on any single trip. This will necessitate deciding which airports could collect PFCs on flights with multiple stops. Based on fourth quarter 1989 data, at least 38 percent of the trips taken involved either connecting flights or stops in more than one city. This represents at least 16 million passengers. While it would be relatively simple to determine which airports would have the right to collect a PFC on one-way and round-trip flights, some flights do not fall into these categories. Some formula would have to be devised to designate which airports and how many airports could levy PFCs on "open jaw" trips (i.e., trips in which the traveler does not return to the starting point) and trips with stops in numerous cities. We have not done any analysis on this complex issue and, therefore, are not prepared to offer any specific solutions at this time.

In addition, authorizing legislation might address how passengers are to be informed about the presence and amount of PFC charges for their proposed trips. One alternative would be to require that PFC charges be included in advertised airline fares. Another alternative would be to allow the exclusion of PFC charges from advertised fares but require that consumers be informed of PFCs when they book tickets. If consumers are informed about the presence of PFCs, especially those levied at connecting hub airports, they will have better information to use in deciding between competing airlines and routes. Resolution of this issue could be delegated to the Secretary, since the Department of Transportation already has the authority to regulate unfair and deceptive airline trade practices and to resolve airline consumer

complaints. A formal rule-making process with opportunity for public comments could help the Secretary to sort through these complex and contentious issues.

CONCLUSIONS

We believe that PFCs would give airports an important alternative to reliance on airline funding or guarantees to build and expand airport capacity. The availability of such an alternative is particularly important for those airports having severely restrictive MIIs or having most or all of their present facilities leased on long-term exclusive-use contracts. Legislation allowing airports to levy a PFC can be structured to protect the interests of the consumers paying the PFC, while still affording each airport a maximum amount of flexibility in meeting its particular needs. Our work suggests that many of the current problems with competition in the airline industry are the result of agreements and conditions that existed before deregulation. The Congress has an opportunity to include safeguards in the authorizing legislation to prevent pre-existing agreements between airports and airlines from limiting the effectiveness of a PFC. Thus, a PFC could help to shift more control over airport development, expansion, and use decisions to airports.

SELECTED RESULTS OF THE GAO AIRPORT SURVEYAIRPORTS RESPONDING TO OUR SURVEY

We surveyed 183 large, medium-sized, and small airports in the continental United States.¹ Using the Federal Aviation Administration's (FAA) size categories for the communities airports serve, our sample included all 27 large airports and all 39 medium-sized airports. The sample also included 117 of the 163 small airports reporting routes with at least 20 passengers per day. The small airports surveyed are end points on a stratified random sample of routes having 20 or more passengers per day. Thus, the small airports we surveyed are not themselves a random sample of airports, since airports with more routes had a greater chance of being selected than airports with fewer qualifying routes. Therefore, the data we received from the large and medium-sized airports represent a census of conditions at those airports, while the data from the 117 small airports in our survey represent only conditions at those particular airports and are not generalizable to all small airports. Nevertheless, our survey included 72 percent of the small airports reporting routes with at least 20 passengers per day.

MAJORITY-IN-INTEREST AGREEMENTS

Some airports have agreements with their tenant airlines, called majority-in-interest (MII) agreements, that give the

¹FAA defines airport size categories based on the percentage of total passengers enplaned in a city and its surrounding standard metropolitan statistical area. A large hub enplanes at least 1 percent of the passengers, a medium hub enplanes 0.25 percent to 0.99 percent of the passengers, and a small/nonhub enplanes less than 0.25 percent of the passengers. We applied these criteria to individual airports (such as LaGuardia) rather than to communities (such as New York City).

airlines some control over airport expansion. (See table I.1.) Under these agreements, an airport may be required to get the airlines' approval of the proposed project itself, or the airlines may have some control over the airport's ability to issue additional bonds or raise fees to pay for improvements. For example, an agreement might require approval by airlines enplaning 51 percent of the passengers in the previous year for any project costing over \$50,000 whose costs would be recovered from fees charged to the airlines.

Table I.1: Number and Percentage of Airports With a Majority-in-Interest Agreement Where One Airline Can Block Expansion

<u>Size of airport</u>	<u>Total number of airports</u>	<u>One airline can block^a</u>	<u>One airline cannot block^b</u>	<u>Unknown^c</u>	<u>Total airports with MII</u>	<u>Percentage of airports with MII</u>
Large	27	6	7	2	15	56%
Medium	39	3	9	9	21	54%
Small	<u>117</u>	4	3	11	18	15%
Total	<u>183</u>					

^aThis column shows the number of airports where one airline has a sufficiently large share of operations to block approval of airport expansion projects under the terms of the MII agreement.

^bThis column represents those airports where no single airline has a large enough share to block approval of projects under the terms of the MII agreement.

^cIn these cases, we did not have enough information to determine whether a single airline could block projects.

We also asked airports with an MII whether the agreement limited or delayed their expansion efforts. (See table I.2.) One large airport with an MII did not answer this question.

Table I.2: Number of Airports Where MII Limits or Delays Expansion

Size of airport	Number of airports				Total airports with MIIs
	Effect of MII on expansion				
	Greatly limits or delays	Moderately limits or delays	Somewhat limits or delays	Does not limit or delay	
Large ^a	2	3	3	6	14
Medium	4	5	9	3	21
Small	1	2	12	3	18

^aOne large airport with an MII that did not respond to this question is not included in this table.

SOURCES OF FUNDING FOR AIRPORT EXPANSION PROJECTS

The airports in our survey were asked if they had undertaken any capacity expansion or improvement projects since 1980 costing over \$10 million. Fifty-six of the large and medium-sized airports and 48 of the small airports we surveyed had such major projects. These airports were then asked how important several types of funding were in financing major expansion and improvement projects. (See table I.3.)

Table I.3: Sources of Funding for Major Capacity Expansion and Improvement Projects Undertaken Since 1980

Funding source and size of airport	Number of airports			Airports using source	Percentage of airports using source ^a
	Major source	Minor source	Source not used		
Funds from airline seeking facilities:					
Large	7	12	3	19	86%
Medium	4	10	12	14	54%
Small	3	14	22	17	44%

(continued)

ATTACHMENT I

ATTACHMENT I

Funding source and size of <u>airport</u>	<u>Number of airports</u>			<u>Airports using source</u>	Percentage of airports using <u>source^a</u>
	<u>Major source</u>	<u>Minor source</u>	<u>Source not used</u>		
Airport revenue bonds needing airline approval:					
Large	13	2	9	15	62%
Medium	17	1	11	18	62%
Small	6	2	28	8	22%
Airport revenue bonds not needing airline approval:					
Large	6	2	15	8	35%
Medium	7	2	20	9	31%
Small	16	11	14	27	66%
Federal grants:					
Large	10	13	0	23	100%
Medium	18	11	2	29	94%
Small	40	4	2	44	96%
Airport operator's own revenues:					
Large	10	11	3	21	88%
Medium	8	14	7	22	76%
Small	18	25	3	43	93%
State or local general obligation bonds:					
Large	2	1	21	3	12%
Medium	5	0	23	5	18%
Small	14	6	20	20	50%

(continued)

Funding source and size of airport	Number of airports			Airports using source	Percentage of airports using source ^a
	Major source	Minor source	Source not used		
State or local revenue bonds:					
Large	3	0	20	3	13%
Medium	3	1	25	4	14%
Small	7	3	29	10	26%

^aPercentages are based on the total number of airports responding to each segment of this question.

LIMITED AVAILABILITY OF FACILITIES AT AIRPORTS
DUE TO EXCLUSIVE-USE LEASING

The airports responding to our survey reported whether or not they lease ticket counters, passenger hold rooms or waiting rooms, and baggage claim facilities for the exclusive use of the leasing airlines. (See table I.4.) An exclusive-use lease gives the tenant airline sole right to the facilities leased, even if the airline chooses to leave the facilities unused. Only the airports leasing these facilities for exclusive use answered further questions giving the total number of each type of facility, the number leased, and the number unused (unused facilities may or may not be leased).

Table I.4: Airports With All of a Facility Leased for Exclusive Use

<u>Size of airport</u>	<u>Number of airports</u>	<u>Percentage of airports</u>		
		<u>With some or all exclusive-use leases</u>	<u>With all exclusive-use leases</u>	<u>With all facilities used^a</u>
Ticket counters:				
Large	27	85%	30%	26%
Medium	39	97%	51%	34%
Small	117	93%	56%	54%
Passenger hold rooms:				
Large	27	85%	30%	65%
Medium	39	74%	26%	59%
Small	117	36%	16%	67%
Baggage claim facilities:				
Large	27	56%	11%	67%
Medium	39	28%	5%	55%
Small	117	3%	2%	100%

^aThis column is based on the number of airports leasing each type of facility for exclusive use. It shows the percentage of airports leasing some or all of each type of facility for exclusive use that have all of that type of facility used.

GATE LEASING AND USE AT THE 183 AIRPORTS

We asked airport officials to tell us how many domestic gates they lease to each airline, the terms of the leases, and how the airlines actually use the gates they lease. Airport officials filled out a separate form for each airline leasing gates, detailing the number of gates leased, whether the airline subleased any of those gates to other airlines, how the gates were being used in 1988, and the terms under which the gates were leased. Two of the medium-sized airports reported that they do not

have gate leases, as did 43 of the small airports we surveyed. All of the large airports have gate leases.

Gate Leasing

Airport facilities are leased on two major types of leases-- exclusive and preferential. (See table I.5.) An exclusive lease gives the tenant airline the sole right to use the leased facilities during the term of the lease, even if the tenant airline chooses to leave the facilities unused. A preferential lease gives the tenant airline the primary or first right to use the leased facilities whenever it has operations scheduled. However, under a preferential lease, the airport operator can also lease the facilities to a "secondary" user when the primary tenant does not have operations scheduled. Either exclusive or preferential leases may be modified by a use-or-lose provision that allows the airport operator to assign use of the leased facility to other airlines if the tenant airline's use does not meet a specified criterion (e.g., gates may be repossessed if the tenant airline has no scheduled flights for a period of 6 months).

Table I.5: Number and Percentage of Gates Leased by Type and Length of Lease

<u>Type of Lease</u>	<u>Number of gates</u>	<u>Percentage of gates</u>
Exclusive-use		
With use-or-lose	389	12%
Without use-or-lose	2,195	68%
Preferential-use		
With use-or-lose	91	3%
Without use-or-lose	<u>554</u>	<u>17%</u>
Total	<u>3,229</u>	<u>100%</u>

We also calculated the time remaining on gate leases from the date of our survey (March 1988) until the lease was due to expire. (See table I.6.) Gates on leases with an expiration date of 1987 or before are counted in the "expired" category. Gates on leases expiring in 1988 and gates on month-to-month leases are counted in the "less than 1 year" category. However, some leases include a renewal option term, giving the leasing airline the right to renew the lease for a stated number of years. The calculation of time remaining on gate leases does not include any renewal option periods, although the options may significantly extend the length of the lease.

Table I.6: Number and Percentage of Gates Leased by Length of Time Remaining on Lease

<u>Time remaining on lease</u>	<u>Number of gates</u>	<u>Percentage of gates</u>
Expired	66	2%
Less than 1 year	100	3%
1-2 years	421	13%
3-5 years	405	12%
6-10 years	536	17%
11-20 years	740	23%
Over 20 years	<u>961</u>	<u>30%</u>
Total	<u>3,229</u>	<u>100%</u>

FACTORS THAT COULD GREATLY LIMIT OR DELAY EXPANSION DURING THE NEXT 5 YEARS

We combined the airports' answers to questions concerning the availability of land for expansion, the extent their MII limits or delays expansion, the effect of community opposition to increased airport noise and other effects of airport expansion, the ability of the air traffic control system to handle expansion, and other concerns listed by the airports to determine the number of airports

where one or more of these factors could greatly limit or delay expansion in the next 5 years. (See table I.7.)

Table I.7: Percentage of Airports Where One or More Factors Could Greatly Limit or Delay Expansion in the Next 5 Years

<u>Size of airport</u>	<u>Number of airports</u>	<u>Number of factors</u>				
		<u>One</u>	<u>Two</u>	<u>Three</u>	<u>Four or more</u>	<u>At least one</u>
Large	27	33%	15%	15%	11%	74%
Medium	39	31%	10%	5%	0%	46%
Small	<u>117</u>	21%	6%	5%	2%	34%
Total	<u>183</u>					

Airport representatives checked boxes showing the extent to which the community opposition to increased noise, community opposition to other consequences of airport expansion, and the ability of the air traffic control system to handle expansion could limit or delay expansion in the next 5 years at their airports. They were also given an opportunity to write in additional factors of particular concern for their airport, which are tabulated in table I.8 in the column headed "other factors."

Table I.8: Factors That Could Affect Airport Expansion in the Next 5 Years

<u>Effect on expansion</u>	<u>Number of airports citing each factor</u>			
	<u>Community opposition</u>		<u>Air traffic control capacity</u>	<u>Other factors^a</u>
	<u>To increased noise</u>	<u>To other aspects of expansion</u>		
Large airports:				
Greatly limit	18	6	6	7
Somewhat limit	4	9	9	4
Would not limit	4	11	10	b
No response	1	1	2	18
Medium-sized airports:				
Greatly limit	6	3	4	6
Somewhat limit	23	9	8	3
Would not limit	9	26	25	b
No response	1	1	2	31
Small airports:				
Greatly limit	13	10	7	25 ^c
Somewhat limit	32	15	14	6
Would not limit	69	89	91	b
No response	3	3	5	88

^aData in this column reflect the number of additional constraints on expansion written in by airports. Some airports cited more than one such factor; other airports did not respond. Factors cited include lack of funding, airline opposition to expansion, and concern over the impact of expansion on wetlands.

^bThe "would not limit" category is not applicable for these factors that airport representatives wrote in.

^cLack of funding was the leading "other factor" cited by small airports. Eleven said lack of funding would greatly limit expansion, while 3 said it would somewhat limit expansion.

LIST OF SELECTED GAO REPORTS AND TESTIMONIES
ON AIRLINE COMPETITION

ISSUED PRODUCTS:

Deregulation: Increased Competition Is Making Airlines More Efficient and Responsive to Consumers (GAO/RCED-86-26, Nov. 6, 1985).

Airline Competition: Impact of Computerized Reservation Systems (GAO/RCED-86-74, May 9, 1986).

Airline Takeoff and Landing Slots: Department of Transportation's Slot Allocation Rule (GAO/RCED-86-92, Jan. 31, 1986).

Competition in the Airline Computerized Reservation System Industry (GAO/T-RCED-88-62, Sept. 14, 1988).

Airline Competition: Fare and Service Changes at St. Louis Since the TWA-Ozark Merger (GAO/RCED-88-217BR, Sept. 21, 1988).

Air Fares and Service at Concentrated Airports (GAO/T-RCED-89-37, June 7, 1989).

Barriers to Competition in the Airline Industry (GAO/T-RCED-89-65, Sept. 20, 1989, and GAO/T-RCED-89-66, Sept. 21, 1989).

Airline Competition: DOT's Implementation of Airline Regulatory Authority (GAO/RCED-89-93, June 28, 1989).

Airline Service: Changes at Major Montana Airports Since Deregulation (GAO/RCED-89-141FS, May 24, 1989).

Airline Competition: Higher Fares and Reduced Competition at Concentrated Airports (GAO/RCED-90-102, July 11, 1990).

PRODUCTS IN PROCESSING:

Airline Competition: Industry Operating and Marketing Practices Limit Market Entry (GAO/RCED-90-147).