STATEMENT OF A. LINWOOD HOLTON, JR.
for the
DEPARTMENT OF TRANSPORTATION
before the
SUBCOMMITTEE ON GOVERNMENTAL EFFICIENCY
and
THE DISTRICT OF COLUMBIA,
SENATE COMMITTEE ON GOVERNMENTAL AFFAIRS
CONCERNING
PROPOSED TRANSFER
OF THE METROPOLITAN WASHINGTON AIRPORTS
TO AN INDEPENDENT AIRPORT AUTHORITY
July 10, 1985

Mr. Chairman and Members of the Subcommittee:

I am pleased to appear before you today, on behalf of Secretary of Transportation Elizabeth Hanford Dole, to discuss the proposed Metropolitan Washington Airports Transfer Act of 1985, S. 1017. With me today are Jim Wilding, the Director of the Metropolitan Washington Airports, Shirley Ybarra, Special Assistant to Secretary Dole for Policy, and Gregory Wolfe, an attorney from the General Counsel's Office of the Department of Transportation.

You have asked us to address several particular points about the transfer legislation. This I hope to do briefly, so that we may answer any additional questions.

The transfer legislation has been referred to the Committee on Science, Commerce and Transportation, which held hearings on it June 26. Rather than repeat the testimony presented there, I would like to offer Secretary Dole's statement for inclusion in the record.

By way of summary, the bill contains a proposal, developed by an advisory commission made up of Members of Congress, state and local officials, and airport users, to transfer the Metropolitan Washington Airports to an independent agency created by the District of Columbia and the Commonwealth of Virginia. Transfer would initially be by a 35-year lease, to be followed by full transfer of title. The new authority would be limited to operating the two airports, and would be required to repay the remaining "hypothetical debt" the airports owe the Treasury, the amount not already reimbursed out of airport revenues. In addition, the authority would pay the unfunded liability of the federal pension system with respect to airport employees.

HYPOTHETICAL INDEBTEDNESS

You asked us to address first the indebtedness the new airports authority would pay the Treasury. Accountants at the Metropolitan Washington airports have kept records of appropriations made to the airports for all purposes -- operating expenses and capital improvements -- since National was built. The records include all elements of cost, beginning with the cost of the land National is built on. In simple terms, each year the accountants add operating and capital costs, subtract airport revenues and then apply a composite interest rate based on the prevailing Treasury rate at the time major expenditures are made. The interest is added to create the next year's beginning balance.

The result is a "hypothetical debt" account that roughly matches the bonded debt the Metropolitan Washington Airports would have if the FAA had financed improvements with revenue bonds instead of direct federal appropriations. It is used in the calculation of rates and charges to airport users, much the same way other airports include the costs of servicing their debt in their rate bases.

The anticipated balance at the end of this fiscal year -- $47 million -- is relatively low because there simply have not been any major improvements at Dulles or National since Dulles was completed in 1962. It is difficult to think of a single other major U.S. airport that has not undertaken major improvements in the last 23 years.

We propose that the new airports authority repay the "hypothetical debt" amount, whatever it may be, on the date of transfer. The reason for doing so is to make the Treasury whole for the investment it has made in the airports. It is not in any respect intended to be a sales price.

The heart of our proposal is to put National and Dulles on an equal footing with all other airports. We therefore are not asking for a substantial sales price, as others have urged us to do. A sales price would only be passed on to the airlines and other users in the form of increased fees and charges, which would be necessary to recover the sales price. The increase in user costs would not provide any benefits to the users or to the public.

Generally, airport fees and charges are increased when improvements are made. Carriers and other users are willing to pay the price of improvements through this means. But an airport's ability to raise fees is not unlimited. The increase in fees required by a substantial sales price would absorb most, if not all, of the authority's ability to finance necessary major improvements.

Transfer does not appear to us an appropriate occasion to squeeze the airlines and other airport users for additional federal revenues. They have nearly finished paying for the existing facilities once, and are about to be asked to pay for major improvements. Why should they pay twice?

While the government would not receive a sales price for the transfer, it would not suffer any loss either. The basic differences resulting from transfer would be that the airports would no longer be operated by federal employees, and improvements would be funded through the bond market. The government would be relieved of the obligation to finance improvements internally, but, as an airport user, would have all the benefits the airports presently provide. In addition, the authority would relieve the Treasury of the unfunded pension liability it would have to bear if the airport employees did not transfer.

THE FEDERAL INTEREST IN USE RESTRICTIONS AT NATIONAL

You also asked about the federal interest in retaining certain rules at National Airport, in particular, the perimeter rule, hourly slots, nighttime noise limits, the passenger cap and landing fees. I do not believe that there is any special "federal interest" in these rules, at least not a federal interest distinct from that of all airport users and neighbors.

Since our goal is to create an authority with the same powers and duties as other U.S. airports, S. 1017 simply transfers existing FAA airport rules without change from the Code of Federal Regulations to the new airports authority wherever they are proper airport proprietor matters. Thus the nighttime noise rules (under an amendment agreed to by the sponsors) and the perimeter rule would be transferred to the new authority.

The High Density Rule, a federal air traffic rule applicable at National, LaGuardia, JFK and O'Hare airports, will remain with the FAA. That rule sets the number of flights that may operate at National through the requirement of "IFR reservations" or "slots" for each air carrier aircraft operation. The one regulatory change provided for in the transfer legislation is the substitution of a statutory freeze on the number of slots for the so-called passenger cap, a measure that would have limited the number of passengers at National.

This slot freeze represents a compromise between competing interests that sought, on the one hand, an increase in the number of operations at National, and on the other a decrease. I believe it is in the public interest because it would resolve a longstanding dispute, often aired in the Congress, over the future of National Airport.

None of these measures was developed specifically to protect a federal interest. But I believe that they do protect the federal interest in airport operations, however you choose to define it.

A LEVEL PLAYING FIELD

You have quite aptly termed the issue of competition between airports -- the issue most important to the State of Maryland -- the "level playing field" question. Contrary to some of the charges leveled against us, a level playing field is precisely what S. 1017 is intended to provide. The tilt has long been in favor of Baltimore-Washington International, and this bill would help put the National and Dulles Airports on an equal footing.

But before I get into this discussion, I would emphasize that, however you choose to characterize the degree and fairness of competition between BWI and the Washington airports, this bill will not hurt BWI. It will not syphon off flights from BWI to Dulles. Traffic at Dulles will grow, but so will traffic at BWI.

Under the present regime, Jim Wilding's hands are tied. He has an excellent workforce, and two fine, though outdated, airports, but he cannot make the improvements most agree are necessary to allow modern operations at Dulles and to improve the flow of automobile and pedestrian traffic at National. Even if the government were prepared to fund improvements, he must propose them through the federal budget process, subject to reviews at at least four levels within the Administration before submission to the Congress. This process alone takes at least two years. Like most other airport operators, Mr. Wilding is obliged to collect fees and charges that cover all the airports' costs. Finally, he does not have funds to promote his facilities. The advertisements for Dulles you read or hear are paid for by a private organization.

Maryland's approach to airport operations, on the other hand, has enabled the State Aviation Administration to improve and aggressively market BWI. BWI, unlike Dulles and National, is an up-to-date facility. To the extent it needs further improvements, Maryland has shown it can respond quickly, as it did in 1983 for the Piedmont Airlines hub. On top of that, BWI's fees are kept low because its operations are subsidized substantially by the Maryland Transportation Trust Fund.

Our proposed transfer does nothing to give an unfair advantage to the Washington airports. It simply permits the airports, without subsidy of any kind, to finance improvements on the same basis as other airports. It will also allow the Metropolitan Washington Airports to do their own promotional work.

COMPETITION AMONG AIRPORTS

Concern about the effects of transfer on BWI is not a new issue; Maryland has been concerned about competition ever since a decision was reached during the Eisenhower Administration to build Dulles.

Such concerns are to be expected. In a sense, all airports compete to attract service from carriers. In particular, certain kinds of service are desired by every airport -- for example, the location of a carrier's hub, or a terminal for international flights. In that sense, both BWI and Dulles -- not to mention Boston, Philadelphia and Atlanta -- compete with Kennedy Airport in New York for international service. Similarly, Pittsburgh, Kansas City, St. Louis and Chicago all compete for domestic traffic. Each of them is a successful hub airport.

But at the same time, each airport has its own distinctive market that provides a base for airline service. The carriers recognize that BWI has a strong market of its own that is basically not susceptible to diversion to Dulles. Carriers are operating at BWI now because they have found a growing market there, and we see no reason for them to shift flights out of BWI after the transfer of National and Dulles.

Regardless of how the base market might be defined, BWI does and will continue to serve a segment of the metropolitan Washington area. Demand is so strong regionwide that before long the problem in the region will be lack of airport capacity rather than a lack of service. There will be more than enough growth for Dulles and BWI to share.

While there may be competition between BWI and Dulles, I do not believe the transfer will have any significant effect on it. The reasons for this can be observed from the present situation.

First, consider the claim that a low-cost transfer causes a competitive disadvantage. As I mentioned before, a higher cost transfer would simply result in higher user fees. I assume therefore that the argument is that carriers will prefer to serve an airport with lower fees. At the moment, however, landing fees at BWI are nearly twice the rate at Dulles and National, and have been at this relative level for at least ten years. Has BWI suffered? No. For years growth there, measured both in absolute numbers and percentages, has exceeded Dulles. Enplanements at BWI grew at a rate of about 28 percent in 1984. In the same year, enplanements at Dulles grew 20 percent, and at National 2 percent.

Further, soon after the airports are transferred and improvements are under way, fees will increase substantially at Dulles and National, and would soon exceed BWI's. Thus, if fees are the issue, BWI should support the transfer.

In fact, the transfer would only accomplish what the State of Maryland did with considerable foresight thirteen years ago, when the State bought Friendship Airport and proceeded promptly to rebuild it, issuing bonds to fund the improvements. The State is also gradually recovering its investment from the airport users through its rates and charges. Because the improvements at BWI are more recent than the last major improvement at the Washington airports, the construction of Dulles more than twenty years ago, BWI's charges are higher. But any future improvements to National and Dulles will be at higher present-day costs, possibly even without the benefit of tax-exempt revenue bonds, and rates here will exceed BWI's.

Maryland has also taken exception to what it calls "cross-subsidization" of Dulles by National. There is no transfer of funds from one airport to the other; the FAA has made a practice of establishing a common landing fee for the two airports for some time. It has simply been a means of recovering the costs of constructing both airports from the users, unlike the true subsidy provided BWI through the State's Transportation Trust Fund, which stands behind its bond issues and pays any operational deficits. Such a source of revenue has never been and will never be available to the Metropolitan Washington Airports.

The basic Maryland proposals for the transfer -- a substantial sales price, or separating Dulles and National -- would simply increase the costs to users at one or both airports, and thereby delay improvements, particularly at Dulles.

This suggests a belief that BWI's present level of service is a result of deficient facilities at the Washington airports. But the recent decisions by two major carriers (Pan American and New York Air) and a third new carrier (Presidential) to operate hubs at Dulles out of temporary facilities show that an airport's market is more important than the facilities it provides.

Finally, I would commend the Marylanders to the Metropolitan Washington Council of Governments 1981-82 survey of passengers at the three area airports. When asked which airport they preferred, 21 percent named BWI. That matched the 21 percent share of all passengers that were using BWI. National was preferred by only 46 percent of the passengers, even though 67 percent of them were using it. Dulles was preferred by 21 percent of the passengers, though only 12 percent were using it.

Those data suggest very strongly (1) that BWI, where preference and actual use were the same, already had the service patterns its passengers wanted; (2) that many passengers were using National because the service was not available at Dulles; and (3) that growth in service at Dulles would be at the expense of National, not BWI.

This in turn suggests that, with an effective limit on service at National through the freezing of slots, Dulles and BWI will split the growth in demand for air service in the metropolitan Washington and Baltimore areas.

ENVIRONMENTAL IMPACT

The principal environmental impact of airport operations is of course aircraft noise. Since the transfer legislation would maintain the status quo in terms of aircraft operations, there would not be a significant impact on the quality of the human environment from the transfer. The environmental impact of this level of operation has been addressed in considerable detail in past environmental impact statements issued by the FAA. Further evaluation should not be necessary at the time of transfer. Environmental analysis will be appropriate at the time major improvements are made with federal aid.

IMPACT ON THE LEVEL OF SERVICE

The level of service to the traveling public will only increase with transfer of the airports. The likely construction of a midfield terminal at Dulles will enable the development of "hub and spoke" service patterns there. This will provide Dulles users with more options, and permit the many users of National who prefer Dulles to find the flights they need there.

Since improvements will not bring Dulles any closer to the Maryland suburbs than it now is, growth in the portion of the Metropolitan Area now served by BWI will go to BWI. Thus service patterns will continue their natural improvement at BWI as the economy continues to grow. This improvement at BWI will not, of course, result from transfer. But it will not be inhibited by transfer either. As I mentioned before, the airline service problem for the region in the future will be providing the groundside capacity to meet the demand by the year 2000, not competition among airports for a share of airline service.

This concludes my prepared statement; we are now prepared to answer your questions.