

STATEMENT OF ELIZABETH HANFORD DOLE
SECRETARY OF TRANSPORTATION
before the
HOUSE COMMITTEE ON PUBLIC WORKS AND TRANSPORTATION,
CONCERNING
PROPOSED TRANSFER
OF THE METROPOLITAN WASHINGTON AIRPORTS
TO AN INDEPENDENT AIRPORT AUTHORITY
June 24, 1986

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

I am delighted to have the opportunity to urge the enactment of H.R. 2337, the proposed Metropolitan Washington Airports Transfer Act. I have with me today Jim Wilding, the Director of the Metropolitan Washington Airports, former Governor Linwood Holton, who chaired the Commission I appointed to develop the transfer proposal embodied in H.R. 2337, and Gregory Dyer of Salomon Brothers, who with Walter Craigie of Wheat, First Securities has provided advice on the financial capabilities of an independent airports authority.

The leadership this Committee has shown in its willingness to address this critical transportation problem, despite a busy schedule, is most gratifying. For I believe the Members recognize not only that we must address the problems at Washington National and Dulles to meet the demands of the traveling public, but also that adequate facilities at the airports serving the Nation's Capital are important to the entire Nation.

In the early 1970s the Congress addressed comprehensively the national interest in improving all air carrier airports through the Airport Development Aid Program, reenacted in 1982 as the Airport Improvement Program. The time is now to take care of the two airports we have neglected -- Dulles and National. The development needs are enormous, and time is running out, especially at Washington Dulles, the Nation's fastest growing airport.

Consider the present situation. Except for temporary buildings, very little has been done at Dulles since it was opened in 1962. I can't think of another major air carrier airport with the same record.

On the back side of the architecturally stunning Saarinen main terminal, some carriers operate out of temporary gates made up of trailers strung together in a row from the foot of the control tower. From the inside they look like ordinary gates, but from the airfield, they look like trailers.

Out on the field, carriers unwilling to wait for long overdue improvements have built separate, temporary terminals on their own at some distance from the main terminal.

Passengers arriving at Dulles -- especially if they haven't been there recently -- are often surprised to find the main parking lot full, and begin to worry about catching their flight when they realize they must use the remote lots. It was only about two years ago when you could park right at the terminal. Today, parking lots -- many of them temporary -- are filling up as fast as the FAA can put them in.

Check-in is at narrow sections of the long counters under the soaring roof of the main terminal, where long lines of frustrated passengers and baggage for one carrier run across lines for the next. If you think it is bad now, remember the passenger count at Dulles is growing at a rate in excess of 50 percent a year, but the FAA has only added a waiting room and some baggage handling space to the terminal since 1962.

Once checked in, most passengers must ride either to the temporary terminals or individual aircraft in "mobile lounge" vehicles. If you are riding directly to an airplane, scheduled departure time is the time the mobile lounge leaves the gate. If, however, you ride the mobile lounge first to a temporary midfield building, departure time is when the plane leaves, not when the lounge leaves. Passengers have been learning that the hard way.

There is a limit to how long the FAA can rig temporary solutions to growth at Dulles. It's already been reached for international flights. Federal inspection facilities are too small. For the peak hours for international arrivals, roughly 4 p.m. to 7 p.m., Customs and the other inspections agencies will not permit the airlines to schedule any more flights. They're full up.

Dulles is in danger of developing into a shambles of unplanned temporary buildings. If we do nothing, it will indeed catch up with National, leaving Washington with the two shabbiest air carrier airports in the U.S.

National has been an embarrassment for so long that most of us forget to notice. When you or I use National, our schedules are tight, and we tend to hurry to the gates. But next time you arrive there, take a look around and compare National to the airport you just left.

No state or local government could tolerate such an overburdened, antiquated facility. We are moving towards the 90s with an airport for the forties. It was opened June 16, 1941, with basically the same runways, terminal building, and roadways system as it has today. A World War II vintage facility. I have some photographs from the 40s and 50s -- except for the vintage and sheer numbers of the cars, not much has changed. In its first

year, National served nearly 350,000 passengers. Today it sometimes serves that many in a week.

Oh, there have been some improvements. The "new" hangars were added in 1948. The main terminal -- there is a truly handsome building behind the cabs and bric-a-brac -- was extended a ways in 1950. The buildings just north of the Congressional parking lot, including the United gates, the North Terminal, the Piedmont Terminal, the commuter and general aviation terminals, consist entirely of temporary buildings not intended to last more than three to five years. Many went up in the 40s and 50s.

Old in this case is not quaint or historic. It is crowded, unattractive and inconvenient. And even hazardous, for pedestrians. Those passengers who can find parking or arrive on the Metro must dodge the cars on the main airport roadway. At the main terminal, they must find their way through the line of cabs - a line which, by the way, snakes along the roadways, taking over an entire traffic lane.

For passengers in a hurry, National can be quite frustrating, and it is often our overworked police officers who must deal with them. "They just lose control sometimes," reports one of the officers in a recent Washington Post story, "They start screaming and throwing their bags at me."

Jim Murphy, who is in charge of airport matters for the Air Transport Association, says of National:

"It is a major horror story of modern planning. You can't overstate the problems. It has the most severe facility constraints per square foot of any airport I have ever seen."

Our tenant Ed Colodny, president of USAir, who has observed the situation from his office in one of the "new" hangars, notes:

"The problems here are issues beyond the control of management."

By the way, Ed's roof leaks.

At the bipartisan rally on the Capitol steps last week, Governor Gerry Baliles characterized the problems as follows:

"The truth is, National is a joke without a punch line, a comedy without laughter."

"National Airport has become a national disgrace. National is crowded, noisy and incomprehensible. Travelers need easy access to the terminal. What they get instead is half marathon, half obstacle course -- and total confusion."

I think you are already familiar with the problems. Now is the time to address the solution. Jim Wilding can show you his plans

for dealing with explosive growth at Dulles and outdated facilities at National, and will do so shortly.

But he cannot do much with those plans unless you are willing to act. As he has said:

"There really isn't much we can do about it unless the transfer goes through. It's not that these things are impossible to accomplish. But the airport has been neglected for so long, many people have grown used to it. There are times when I see people out there that have never been to Washington before. To those people I can only say I'm sorry."

A solution is at hand: H.R. 2337. It has the support of a large and unusual coalition. State and local elected officials support it. All the airlines -- including the commuters -- support it. Community organizations support it. All kinds of business interests support it, both those near the airports, and those who just use them. The business aircraft association supports it. The airport employees support it.

Identical statutes creating a new airports authority have already been adopted by Virginia and the District of Columbia. The Metropolitan Washington Airports Authority will come into existence the moment the President signs a transfer bill.

If that happens by the end of the summer, I can promise that we will negotiate the required lease agreement by the end of the year. In the meantime, financial planning will begin, and the new authority will be able to issue bonds and even begin construction before 1987 is out. No other alternative will allow us to meet that schedule.

I urge you not to lose this opportunity. H.R. 5040, the proposal to keep the airports in the federal bureaucracy, operating them as a federal corporation, could not produce results as quickly, if at all. Whatever its merits -- and I will get to them -- I do not believe the corporation alternative can be developed into a bill that will command enough of a consensus to be enacted this year. Timing alone is sufficient reason to enact H.R. 2337.

I very much appreciate and respect the Committee leadership's intentions in introducing H.R. 5040, and the openmindedness of both the Chairman and the Ranking Minority Member of this Subcommittee expressed in their floor statements introducing it. The federal corporation alternative, proposed so many times in the past, should indeed be aired. H.R. 2337 is based on model authorities elsewhere, yet also contains provisions that reflect the special concerns we all share for a small, limited-access airport just across the river from the Capitol. And I hope you will agree that it represents the best thinking in this country on how a U.S. airport should be operated and financed.

Governor Holton will testify how the transfer proposal was developed and what alternatives were considered. I would like to mention briefly the important provisions of that approach.

Under H.R. 2337, National and Dulles would be leased for 35 years by an independent public authority created by Virginia and the District of Columbia. The authority will be fully independent of the governments that create it -- they will not have to spend a dime on the airports, and they will not receive a dime out of airport revenues.

The authority will be constituted solely to operate both airports as primary air carrier airports. All revenues must be devoted to paying for airport operations and capital costs. It will finance badly needed improvements by raising private capital through the sale of revenue bonds.

An eleven-member board of directors will govern the authority's activities. Its makeup reflects a balance between the source of both airports' passengers and their location in the Commonwealth of Virginia. Five members will be appointed by the Governor of Virginia, three by the Mayor of the District of Columbia, two by the Governor of Maryland, and one by the President.

The board is insulated from the vagaries of state and local politics: members may not be public officeholders, appointed or elected, and will serve six-year terms. On the other hand, they will be properly attentive to the interests of the metropolitan area: all but the Presidential appointee must live in the area. In order further to assure their independence and commitment to the public interest, the board members will not be paid.

H.R. 2337 and the identical Virginia and D.C. laws plainly contemplate that the authority will improve the airports. To clarify that point, the Senate added a new section 6 that calls for simultaneous improvements at both airports, with all work on both projects to be completed within five years after the initial bond issue. We would support a similar amendment in the House.

The authority would then proceed immediately with the construction of two midfield terminals at Dulles, more parking and roadway improvements at both airports, and reconstruction and modernization of the sadly outmoded terminal facilities at National. Waiting cabs at National would be moved out of sight into a holding pen on the lower level.

All the present 650 federal employees -- the best airport team in the Nation -- would leave the federal payroll and become employees of the new authority. H.R. 2337 guarantees their jobs and salaries for two years, as well as their benefits. The Senate added a number of technical amendments to protect their leave and seniority rights, as well as a measure extending their job protection to five years. We recommend the House adopt these amendments as well. We would emphasize, however, that in all

other respects but two, we prefer H.R. 2337 to S. 1017, the Senate bill, which includes provisions the Administration is on record as opposing. The two exceptions are an amendment permitting the authority to amend the nighttime noise regulations and an amendment requiring competitive bidding for airport contracts.

Under the transfer bill, the authority will be able to correct a serious personnel situation the government hasn't been able to fix satisfactorily, despite the best efforts of OPM and the Department. The authority will be able to increase police pay to prevailing levels for the metropolitan area, thereby enabling the officers to earn a decent salary without substantial overtime, ending the high turnover rate and creating for the first time a fully staffed police force. In these times of serious concern for airport security, I cannot overemphasize the importance of such action.

Present airport employees will also remain in the federal pension system, with one difference very important to the taxpayer. Unlike federal agencies, the authority will pay the full cost of its employees' pensions. Existing federal pensions are subsidized by the Treasury. The cost to the new authority will be about \$37 million in today's dollars.

To put Dulles and National on the same footing as all other airports, H.R. 2337 makes them eligible for grants under the Airport Improvement Program. Further, on the day of transfer they will be treated as if they had always received federal grants, thus making them subject to the various grant assurances that protect environmental quality; encourage compatible land use planning; and assure public access on fair and reasonable terms, and without unjust discrimination.

Access to AIP funds will help with the airports' capital needs, but it comes nowhere near meeting them. Together Dulles and National would be eligible for about \$9 million per year in entitlement grants. Discretionary grants rarely exceed \$2 million per year per airport. Considering that our estimate to the appropriations committees of the short-term construction needs at Dulles and National total about \$700 million, about \$400 million of which is for terminal facilities for which federal aid is limited, the lion's share will be financed with revenue bonds that will be paid for out of user charges.

Of course Gramm-Rudman-Hollings prevents such funding today. But even if we could appropriate money out of the Trust Fund, other airports would rise up in arms. The most the FAA has granted to single airport authority, under both ADAP and AIP, which means over more than ten years, was \$150 million to Dallas/Fort Worth.

Finally, a word about the basic costs of transfer. H.R. 2337 requires repayment to the Treasury of about \$44 million as lease payments during the 35-year term of the lease. \$44 million represents the remaining "debt" the airports owe the Treasury.

For years the airports have kept their books much the same way other airports do, even though federal financial practices are quite different. All expenditures at Dulles and National are made from appropriations, and all revenues are paid directly into the Treasury -- the airports may not expend their own revenues.

Nevertheless, each year Jim Wilding's people have taken appropriations and matched them up with revenues. Each year when they spend more than they take in, they treat the excess as a hypothetical debt. An interest rate based on the rates the Treasury pays on long term debt is applied to the balance, and the account is carried over to the next year. When revenues exceed expenses, as they have in recent years, the excess is applied towards reducing the debt.

This approach is based on the universal American practice of financing airports. Airport fees and charges are set to recover the annual cost of operations and debt service. These rates rise and fall as costs rise and fall -- airports do not make profits. The Airport and Airway Improvement Act in fact requires this result -- to receive AIP grants, which all air carrier airports do, they must spend all their revenues on their airports.

The hypothetical debt has included nearly every dollar the government has invested in the airports since 1939. Because there have not been any major improvements at Dulles and National since Dulles was completed in 1962, the hypothetical debt for the airports is relatively low.

This explains the "cost" of the transfer. Our proposal in effect treats the United States not as the owner of the airports, but as a lender, as if the airports had issued bonds over the years and the government had bought them all. As an investor, the government has done as well as any other purchaser of airports bonds. The result is that the airports' financial situation after transfer would be the same as if they had always been independent. The authority would not be saddled with a substantial sales price that it would have to recover from its users.

If we were selling the airports, I would agree that a market price would have to be established. It would be quite high, if the buyer could do anything it wanted with the land. But H.R. 2337 does not permit that. A private owner would make the most money from using the land for something other than an airport, and the transfer bill requires that all its property be used for airport purposes. This means that the new authority cannot make any profit. Under such circumstance, who would buy the airports?

Based on this line of reasoning, H.R. 2337 provides for the ultimate transfer to the authority at the end of the 35-year lease at no cost. The Senate was unwilling to agree to this approach, and provided instead for a 50-year lease, with ultimate disposition to be made only with the agreement of the Congress.

Although we consider the original Holton Commission proposal the better approach, we did not object to the Senate amendment. It does not affect the main purposes of the bill -- nonfederal operation of the airports, with improvements financed with private capital. It does not increase the costs to the passengers who use the airports.

THE GOVERNMENT CORPORATION BILL

Now I would like to turn to the government corporation approach followed in H.R. 5040.

The government corporation is an old approach to the long-recognized inadequacy of operating the airports as a line federal agency. It has been proposed many times since an interagency task force first identified National as an appropriate candidate for corporation status in 1948. The Hoover Commission made a formal recommendation to that effect in 1949.

A government corporation bill was first submitted to Congress in 1954, and there have been subsequent efforts in every Congress until the 91st (1969-70). The last hearing in the House on the matter was held in 1963. Then, after ten years of other failures, the FAA, as you know, once again turned to the government corporation approach late in the Carter Administration. A draft bill was ready in January of 1981, but the Reagan Administration did not pursue it.

H.R. 5040 is a model government corporation bill. It appears to be based on the FAA's 1963 bill, with some provisions from H.R. 2337, as well as several Senate amendments to S. 1017. But it is precisely because it is a model that H.R. 5040 demonstrates a government corporation is the wrong answer. It is a proposal that made good sense in the 1950s, but not necessarily today.

I emphasize the vintage of the proposal to draw attention to how much has changed over the years. At the time it was first proposed, many airports were still subsidized by the cities that owned them. We did not have the outstanding record of revenue bond financing of airport improvements. We did not have an extensive federal-aid grant program. Both of those developments began in the early 1970s, when we realized that our airport system was inadequate for the growing demand.

Further, the government corporation approach was never intended to solve the capital needs problems of the airports. The bills introduced in the 50s and 60s did not include bonding authority, leaving capital improvements to direct appropriation. If you were to review the testimony of the government witnesses from the hearings in the early sixties, you would note that their purpose was to allow the airports to be run on a businesslike basis. Since then the FAA has operated them in as businesslike a manner as possible -- the hypothetical debt is one example of that approach. Today's problems are different.

There are two fundamental purposes met by transferring the airports. The first -- and the one that causes the urgency -- is the need to finance improvements. The second, also important in my view, is to get the airports out of the federal government, to free them of the burden of federal procedures.

If OMB and the Appropriations Committees cooperate, a government corporation may meet the first purpose, although at a greater cost than transfer. But it does nothing to resolve the second. And I am convinced we should not pass up the opportunity to do the whole job.

The provisions of the H.R. 5040 raise many questions. The National Capital Airports Corporation would be subject to the direction of the Secretary of Transportation. The Secretary will still be ultimately responsible for operating policy. To what end?

As to personnel, H.R. 5040 is intended to free the airports of personnel ceilings. But it leaves the employees subject to the rest of the federal personnel system. As I mentioned earlier, this has caused police staffing issues, despite the best efforts of OPM and the Department, have not been solved satisfactorily. In contrast, H.R. 2337 would permit increasing police pay enough to attract a stable, fully staffed police force so badly needed at the two airports.

Under H.R. 5040, the corporation would be subject to the Government Corporation Control Act. That means the airports would be included in the President's Budget. In addition, expenditures would be still subject to the annual appropriations process. An exemption from Gramm-Rudman-Hollings is intended to help, but with the Corporation on-budget, its cuts would have to be made up elsewhere in the DOT or some other budget.

The corporation would also have an advisory board "to review the general policies of the Corporation". What is the point of adding a strictly advisory board to conduct an additional layer of review when the corporation's budget continues to go through the multilayered federal budget review process? And I might add that no Secretary of Transportation would appreciate the responsibility of appointing the board. Board membership was the single most controversial issue the Holton Commission had to face in developing the transfer proposal.

The Corporation is permitted to issue revenue bonds, but unlike the bond issues of all other airport authorities, the interest is not exempt from federal tax. It is exempt from state and local tax, but the net result is that bond issues will be more expensive than those of a public authority. There is an issue of whether any airport bonds should be tax exempt, but certainly these airports should not be treated as second class citizens if others may issue tax exempt bonds.

H.R. 5040 creates a new revolving fund in the Treasury. This simply adds an administrative burden for the Treasury without any corresponding benefit to the government or the Corporation. H.R. 2337 allows the new authority to keep its money in private financial institutions.

Now I recognize that the answer to my objections may well be that the Committee could cure them in markup. Indeed, a corporation bill could be amended to look very much like H.R. 2337. But if the Committee were willing to go that far, it would remove any reason for creating a federal corporation.

A government corporation is designed both to allow an agency to operate like a business, with flexible financing and operations, while retaining full governmental oversight. The very devices that prevent businesslike flexibility to a government agency -- the personnel rules, the procurement rules, the budget process -- are all devices based on governmental policy to provide adequate stewardship over the use of federal funds.

A government corporation is a way to perform a federal government function in a businesslike manner. It was never intended as an alternative to local governmental control. There is no reason to keep the airports federal, either in a corporation or a line agency form.

In fact, if you cure all the defects of H.R. 5040, so that the corporation can fund improvements inexpensively and the managers have all the flexibility they need, the degree of federal control will be no more than the degree of federal control the Congress can exercise through the device of the H.R. 2337 lease.

Why take the government corporation approach when a perfectly viable alternative is available, an alternative that enjoys the unanimous support of all airport users, of the airport employees, of community groups, and of all affected governments other than those in Maryland?

I am afraid the answer is that some Members believe the federal interest might not be served by a local public authority. Therefore I believe it is important to address the federal interest in transfer.

THE FEDERAL INTEREST

I must confess that in developing the directions I gave the Holton Commission I had to pause to consider what control by a nonfederal organization might mean to the government. The Department of Transportation itself is in fact a heavy user of both National and Dulles. The Coast Guard and the FAA both base aircraft at National. Government employees are of course airport users as well.

What might an airport authority do? Would it want to close National? Would it attempt to exclude general aviation aircraft there? Would it try to increase flights to maximize revenues, or reduce them to limit noise impacts?

The first answer is that a responsible public authority would not be likely to do any of these things. The track record of other airports strongly suggests this. But H.R. 2337 does not leave these matters to chance. The present number of flights is fixed. That in turn guarantees room for the general aviation operations that many Members depend on. The bill also requires not only that National continue to be operated as a primary air carrier airport, but also -- at least in the Senate version -- that it be improved. Provisions of H.R. 2337 may be enforced in federal district court by any interested party.

The Congressional interest in the airports is well known. Members of Congress are heavy users of the air transportation system. Your busy schedules include many trips back to your districts. You depend on the ability to get to the airport quickly, to park quickly, to get to the airplane quickly. Transfer can only improve the situation at National for you and your constituents traveling to the Nation's Capital.

Some of you have already seen Jim Wilding's preliminary plans for reconstructing National; he will show them to you again today. A dual-level roadway system will clean up the continuing traffic jams. Parking structures will mean easy parking for everyone. A new lot for Members and diplomats will provide more space, and will provide -- as the new structures will for all airport users -- close, covered, and more secure access to the terminals.

But if you have any doubts of the willingness of a new authority to carry out Mr. Wilding's plans, I am sure we can fashion statutory language that will assure Congressional interests are addressed, even including the details of individual parking places.

As for expenditures, the market place provides its own discipline. The authority will be limited at the outside by the amount of bonds it can sell. The size of a bond issue will depend upon the revenues an airport can be expected to earn. For Dulles and National, the \$700 million program we have identified is probably all the authority could afford in the near term. Moreover, an airport authority rarely proceeds with projects unacceptable to those who ultimately pay for it -- the airlines and their passengers.

In the extremely unlikely event the new authority should take action unacceptable to the Congress, H.R. 2337's lease means that the Congress will always be looking over its shoulder. The board of directors will know that its actions are always subject to oversight hearings, and that ultimately the Congress will be able

to take the airports back if dissatisfied with the authority's operations.

In the end, the federal interest in Dulles and National is not different from the public interest. We will all benefit from improved facilities and improved air service that will result from transfer. If you would like some idea of what a local authority can accomplish, consider the other airports you use, the airports serving major metropolitan areas, and the airports in your own districts.

I therefore urge you to settle the federal airport disputes once and for all by marking up and reporting H.R. 2337, the Metropolitan Washington Airports Act. It is good public policy to put the Washington Airports on a par with other airports, and it will save the government money as well.

If there are any matters you believe we have overlooked in our proposal, please correct them. But please do it quickly. Time is running out, and I do not believe we will again be able to ask the Members to devote the time and attention to fixing Dulles and National they have already spent in this Congress.