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February 14, 2013

The Honorable John D. Rockefeller
Chairman
The Honorable John Thune
Ranking Member
Committee on Commerce, Science, and Transportation
United States Senate

The Honorable Bill Shuster
Chairman
The Honorable Nick J. Rahall, II
Ranking Member
Committee on Transportation and Infrastructure
House of Representatives

Subject: *Alternative Methods for Collecting Airport Passenger Facility Charges*

This report formally transmits the briefing held with your offices on January 15th and 16th, 2013, in response to the mandate under Section 112 of the FAA Modernization and Reform Act of 2012 (FAA reauthorization act).¹ This section directed the Comptroller General to conduct a study of alternative means of collecting airport passenger facility charges (PFCs)² that would allow such charges to be excluded from the ticket price, and in conducting this study, to consider: (1) collection options for arriving, connecting, and departing passengers at airports; (2) cost sharing or allocation methods based on passenger travel to address connecting traffic; and (3) examples of airport charges collected by domestic and international airports that are not included in ticket prices.³ In fulfilling this mandate, our objective was to identify existing and potential methods for collecting and allocating airport passenger facility charges, including from connecting passengers. Your office concurred

¹Pub. L. No. 112-95, § 112, 126 Stat. 11, 18 (2012).

²PFCs, which are collected from passengers, were introduced in 1990 with a cap of \$3 per PFC to finance local airport infrastructure projects at commercial service airports. Collection of fees began in 1992. In 2000, Congress raised the cap on PFCs from \$3.00 to \$4.50 per boarding passenger. Wendell H. Ford Aviation Investment and Reform Act for the 21st Century (AIR-21), Pub. L. No. 106-181, § 105, 114 Stat. 61, 71 (2000).

³During negotiations for the FAA reauthorization act, Senate bill S.223, § 202, 112th Cong., proposed a pilot program at up to six airports to impose an unlimited PFC collected directly from passengers by the participating airports. While this pilot program was not included in the final act, potential alternative collection methods have been explored by airport interests with the intention that an airport could impose an unlimited facility charge if the airport collected it directly from the passenger.

that this report meets Section 112's requirement for the Comptroller General to submit a report not later than 1 year after the date of enactment of this Act.⁴

To conduct this study, we analyzed 2012 data from the International Air Transport Association's (IATA) online inventory of airport charges to identify alternative collection methods that are currently being used at airports worldwide. We determined that the IATA data were sufficiently reliable for the purposes of our analysis by reviewing documentation on the inventory and interviewing a knowledgeable IATA official. We also conducted a literature review of passenger user fees in the airport industry and other transportation modes to identify existing or potential alternative collection methods. We interviewed 35 aviation stakeholders with a role in PFC collection and oversight, including the Department of Transportation (DOT) and the Federal Aviation Administration (FAA), technology consultants and developers, travel agents, consumer groups, global distribution systems for airline ticket processing, as well as representatives from selected U.S. airlines and airports⁵ and their respective associations to identify alternative collection methods, including methods for addressing connecting traffic, and to obtain views on potential impacts of alternative methods relative to the current method. We reviewed literature and GAO reports on fee collection to identify factors to consider when evaluating alternative passenger fee collection methods. Lastly, we reviewed applicable laws and regulations, FAA documents, GAO reports, and industry publications to identify potential impacts of different fee collection design elements. We conducted this performance audit from August 2012 through February 2013 in accordance with generally accepted government-auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In summary, we identified three basic alternative methods to the current airline ticket-based method for PFC collections. These methods are not mutually exclusive and could be used by either individual airports or a group of airports (slides 10 through 13):

1. Kiosk or counter: passengers would pay the PFC at the airport using a self-service kiosk or payment counter.
2. Internet or online payment: passengers would pay the PFC online through an airport or third-party Web site during or after the airline ticket purchase.
3. Emerging technologies: passengers would pay the PFC using their smartphone, pre-paid card, near field communication (NFC)-enabled device, or other technology.

We evaluated these alternative methods relative to the current ticket-based collection method using factors that we identified as key considerations for evaluating alternative passenger fee collection methods—passenger experience, customer transparency, administrative costs, technology readiness, and legal issues (slides 14 through 20). Based on our evaluation of the alternatives, each faces considerable challenges to implement, and

⁴The FAA reauthorization act was enacted on February 14, 2012. One year after that date is February 14, 2013.

⁵We selected nine airports with a variety of airport size, airport traffic, and imposed PFC rate and four airlines with a variety of business models and levels of passenger traffic.

none of the three alternative methods that we identified are currently better than the existing collection method (slide 20). Compared to the current on-ticket PFC collection method, all alternatives would diminish the passenger experience by adding another step in the payment or check-in process (slide 15); reduce customer transparency (slide 16); and entail higher administrative costs (slide 17). At this time, all of the aviation stakeholders that we spoke to, including representatives from selected U.S. airports and airlines, support the current collection method over any alternative due, in part, to passenger ease and low administrative costs. In the future, however, it is possible that some of these challenges will be reduced as technology advances or that airports might be willing to accept the additional costs and impose additional passenger burdens in return for an increase in their capital funding.

We provided DOT with a draft of this report for its review and comment. DOT provided technical comments that we incorporated as appropriate. In addition, in comments e-mailed to us, DOT officials generally agreed with our findings. In particular, officials agreed with our finding that alternatives to the current method for collecting PFCs would be counter to DOT's recent efforts to provide consumers with transparency about the full price of air transportation, particularly because PFC rates vary by airport. Officials also agreed that alternative collection methods would reduce efficiency by adding steps in a passenger's air travel experience and complicate itineraries. DOT officials stated that these challenges, as well as the legal impacts should be considered when evaluating alternative collection methods in the future.

We are sending copies of this report to the appropriate congressional committees and to the Secretary of Transportation. This report will also be available at no charge on the GAO Web site at <http://www.gao.gov>. Should you or your staff have questions concerning this report, please contact me at (202) 512-2834 or dillinghamg@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report were Paul Aussendorf, Assistant Director; Amy Abramowitz, Bert Japikse, Leia Dickerson, Delwen Jones, Sara Ann Moessbauer, Josh Ormond, Madhav Panwar, Gretchen Snoey, and Melissa Swearingen.



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Director
Physical Infrastructure Issues

Enclosure



Alternative Methods for Collecting Airport Passenger Facility Charges

**Mandated by Section 112,
FAA Modernization and Reform Act of 2012
(Pub. L. No. 112-95)**

**Briefings to
Senate Committee on Commerce, Science, and Transportation
and House Committee on Transportation and Infrastructure
January 15th and 16th, 2013**

Mandate

Section 112, FAA Modernization and Reform Act of 2012 directed the Comptroller General of the United States to conduct a study of alternative means of collecting passenger facility charges that would allow such charges to be excluded from the ticket price; to report on this study within 1 year of the date of enactment of this Act; and in conducting this study, to consider:

- (1) collection options for arriving, connecting, and departing passengers at airports;
- (2) cost sharing or allocation methods based on passenger travel to address connecting traffic; and
- (3) examples of airport charges collected by domestic and international airports that are not included in ticket prices.

Scope and Methodology

- Analyzed 2012 data from International Air Transport Association’s worldwide online inventory of airport charges and conducted a literature review to identify alternative collection methods that are currently being used at airports worldwide and potential alternative collection methods used by other transportation modes.
- Interviewed aviation stakeholders, including OST/FAA, technology consultants and developers, travel agents, consumer groups, as well as representatives from selected U.S. airlines and airports and their respective associations to identify alternatives, including methods for addressing connecting traffic, and to obtain views on potential impacts of alternative methods relative to the current system.
- Reviewed literature and GAO reports on fee collection to identify factors to consider when evaluating alternative collection methods.
- Reviewed relevant statutes and regulations, FAA documents, GAO reports, and industry publications to identify potential impacts of different fee collection design elements.

Passenger Facility Charge (PFC) Program Background

- PFCs, which are collected from passengers, were introduced in 1990 with a cap of \$3 per PFC to finance local airport infrastructure projects at commercial service airports. Collection of fees began in 1992.
- The goals of the PFC program are to finance projects that:
 - contribute to the preservation or enhancement of the national air transportation system's safety, security, or capacity;
 - reduce noise generated by airport activities; and
 - enhance competition among the airlines.
- Anti-Head Tax Act¹ prohibits states, local governments, and others from levying or collecting any tax, fee, head charge, or other charge, directly or indirectly, on individuals traveling in air commerce or on the transportation of an individual traveling in air commerce, but specifically exempts the PFC program from this prohibition.

PFC Rate Cap

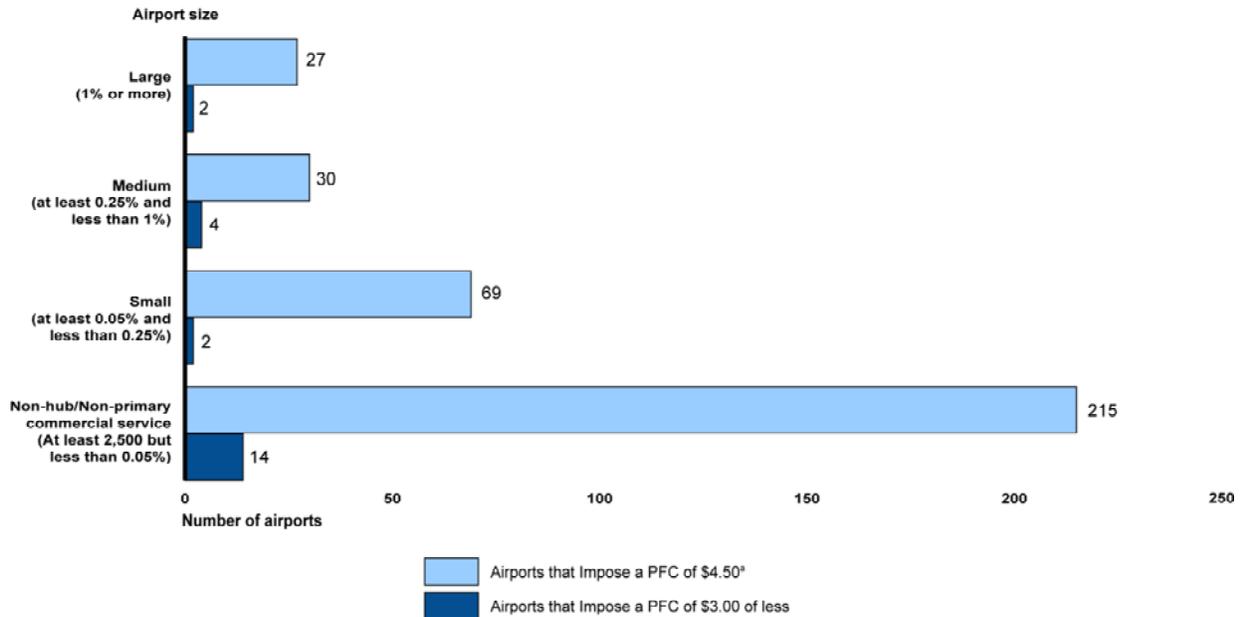
- In 2000, Congress raised the cap on PFCs from \$3.00 to \$4.50 per boarding passenger.¹
- Senate bill S.223, § 202, 112th Cong., proposed a pilot program at up to six airports to impose an unlimited PFC collected directly from passengers by the airport. The proposal was not included in the final FAA reauthorization.
- Airports have long sought to increase the PFC cap, arguing that the fee cap has not been adjusted for inflation and that airport funding available through federal grants is declining.
- Airlines oppose any PFC rate increase, arguing that it inhibits demand for air travel.

¹Wendell H. Ford Aviation Investment and Reform Act for the 21st Century (AIR-21), Pub. L. No. 106-181, § 105, 114 Stat. 61, 71 (2000).

The Current PFC Collection Method

- PFCs are collected as part of the current ticket payment and distribution process, which involves many parties.
- Airlines remit PFCs to airports minus an 11¢ administrative charge per PFC collected.
- According to estimates from aviation industry groups, in recent years, airlines collected between \$69 and \$78 million in PFC administrative charges annually.
- A passenger may be charged no more than two PFCs on a one-way trip or four PFCs on a round trip (with a maximum charge of \$18).

Almost all Airports that Collect PFCs Impose the Maximum Rate

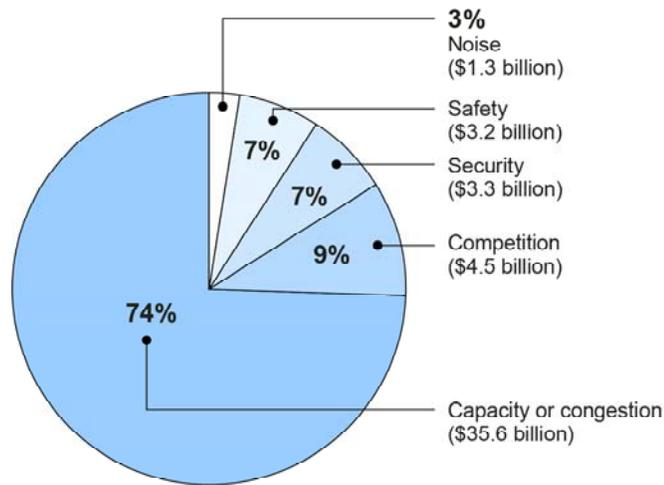


Source: GAO analysis of FAA data.

^a We have combined the one small hub airport that charges a \$4.00 PFC to the \$4.50 bar. Data are as of September 2012. Page 7

Most Collection Revenue Is Used to Enhance Capacity or Reduce Congestion

Approved Collection Revenue (in billions) for PFC Projects by Category, beginning 2006 through 2054



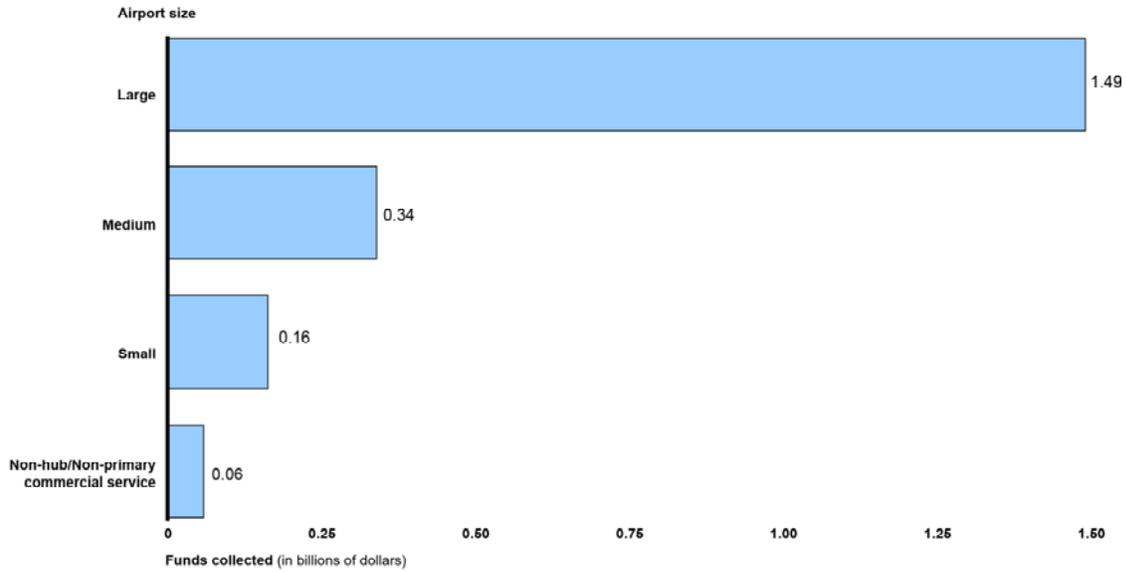
Source: GAO analysis of FAA data.

Note: Data are as of September 2012.

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Vast Majority of PFCs Are Collected By Large Hub Airports

PFC Funds Collected by Hub Size, 2012*



Source: GAO analysis of FAA data.

*Total PFC funds collected from January through September 2012.

Three Basic Alternatives to Current Ticket-Based Method for PFC Collections

1. Kiosk or Counter
2. Internet or Online Payment
3. Emerging Technologies

Note: These alternatives are not mutually exclusive and could be used for individual airports or a group of airports

Kiosk or Counter



- Passengers would pay the PFC at the airport using a self-service kiosk or payment counter.
- We identified very few airports around the world that currently collect airport facility charges or airport taxes from the passenger at the airport.
 - Examples identified: Blackpool Airport in the United Kingdom and Cartagena Airport in Colombia.
- Airports would collect their PFC from originating and connecting passengers.
- Connecting passengers would pay at kiosks or counters located inside secure areas, or an airport could choose to exempt connecting passengers from its PFC.

Internet or Online Payment



- Passengers would pay the PFC online through an airport or third-party Web site during or after ticket purchase.
- We did not identify any airports that use this method for collecting airport passenger fees.
 - Examples identified in other applications: PayPal.
- If a third-party Web site is used, participating airports would share costs for collecting the fees and a clearinghouse would need to be formed to allocate the collections among airports.
- Connecting passengers with multiple airports in an itinerary would either need to visit multiple airport Web sites or a third-party Web site would have to include all airport PFCs for that itinerary.

Emerging Technologies



- Passengers would pay the PFC using their smartphone, pre-paid card, near field communication (NFC)-enabled device, or other technology.
- We did not identify any airports that use this method for collecting airport passenger fees.
 - Examples identified in other applications: EZ-Pass and SmarTrip.
- An airport could individually develop technology infrastructure to support collection at its airport. Alternatively, a third party could be used by airports to share costs for collecting the PFCs and allocating the collections among airports.
- Connecting passengers with multiple airports in their itinerary would either need to pay individually for each airport or a third-party would collect all airport PFCs imposed for that itinerary.

Key Considerations for Evaluating Alternative PFC Collection Methods

- Passenger Experience
- Customer Transparency
- Administrative Costs
- Technology Readiness
- Legal Impacts

Passenger Experience

All alternatives would diminish passenger experience.

- Kiosk or Counter: Introduces extra check-in step, which could increase airport check-in times and transfer times for connecting flights. Could lead to more missed connections.
- Internet or Online Payment: Introduces extra step during ticket purchase, which could create passenger confusion and irritation from entering credit card information twice. Research suggests passenger could abandon ticket purchase altogether.
- Emerging Technologies: Introduces an extra step to travel and presumes that a majority of travelers have the technology.

Customer Transparency

- All collection alternatives would decrease transparency because a passenger may not be aware of the PFC until after already purchasing ticket, particularly if alternative collection method is not universally implemented.
- Department of Transportation's full-price advertising rule¹ supports transparency of all mandatory charges associated with air transportation.
- Conversely, a passenger who pays the PFC directly to the airport may better understand that PFCs are used for airport infrastructure projects.

¹14 C.F.R. § 399.84.

Administrative Costs

- All collection alternatives would require development of new infrastructure.
 - For example, kiosks, payment systems, software platform, or clearinghouse.
- All alternatives would likely entail administrative costs greater than 11¢ per PFC that airports currently pay.
 - For example, would require separate increased costs for collection and enforcement staff, payment validation systems, credit card processing fees, or revenue accounting systems.

Technology Readiness

All alternatives would present some technological challenges or raise security concerns.

- **Kiosk or Counter:** Tested at smaller airports. May not be scalable to large airports due to space constraints and large volume of passengers.
- **Online Payment and Emerging Technologies:** Unclear how charges could be verified (proof of purchase) or how to make refunds. Security concerns would arise with sharing passenger data and credit card information. Would require a backup payment method for passengers who do not have or opt not to use these technologies for ticket purchase. Current estimates are that 70 percent of airline passengers travel with smartphones¹ and that percentage is expected to grow.

¹ Air Transport World and SITA, 2012 Passenger Self-Service Survey, 2012.

Legal Impacts

- Regulations stipulate that only airlines can collect PFCs.¹
- The Anti-Head Tax Act was enacted in response to significant public objection to state and local head taxes on air commerce.²
- Full-price advertising rule requires airlines to include PFCs and all other taxes and mandatory fees in disclosing the full listed price for air transportation.³
- Airports may need access to personal information such as passenger itineraries, which airlines are not required to share.

¹14 C.F.R. § 158.45.

²1973 U.S.C.C.A.A.N. 1434, 1446.

³14 C.F.R. § 399.84.

No Alternatives Identified Are Currently Better Than Existing Collection Method

Key considerations	Alternatives (relative to the current collection method)		
	Kiosk or Counter	Internet or Online Payment	Emerging Technologies
Passenger Experience	Negative	Negative	Negative
Transparency	Negative	Negative	Negative
Costs	Negative	Negative	Negative
Technology Readiness	Neutral	Negative	Negative
Legal Impacts	Would require modifications to current law		

Source: GAO

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Aviation Stakeholders Support Current Collection Method

- All airport authorities (9) and airlines (4) that we spoke with support current method.
 - Airports primarily support increasing the PFC cap with the current collection method, but might consider using an alternative method if the PFC cap was lifted.
 - Airlines do not support increasing the PFC regardless of the collection method used.
- Other stakeholders that we spoke with also support current method.
 - Consumer groups.
 - Travel agents.
 - Technology stakeholders.
 - FAA and DOT.
- Alternative collection methods are not a priority for the Airports Council International–North America or U.S. Travel Association (USTA), among others.

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