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COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

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LOT-FAA

July 14, 1970



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National Airport  
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Dear Senator Spong:

Your letter of June 16, 1970, requested our assistance in clarifying several matters which have or are expected to come up in testimony during Senate hearings on the operation of Washington National (National) and Dulles International (Dulles) Airports. The questions included in your letter relate principally to landing field use agreements between the Federal Aviation Administration (FAA) and the air carriers serving the above airports and landing fees and use agreements at other air carrier airports with comparable traffic. In addition, you requested that we furnish you with a breakdown of landing field area and other operating costs and revenues for Dulles and National from fiscal year 1963 to the present. In accordance with agreements reached with Mr. Jack Lewis of your staff, we furnished him with the financial data separately. In accordance with your request, we are enclosing the following information.

1. Background and evaluation of selected provisions of the Dulles and National airport landing field use agreements (Enclosure I).
2. Discussion of landing fees and air carrier use agreements for airports with traffic conditions comparable to Dulles and National airports (Enclosure II).

We trust that the information presented herewith will serve your purpose. The information contained in this report was obtained principally from FAA records. FAA, however, has not had an opportunity to formally review and comment on this report. We plan to make no further distribution of this report unless copies are specifically requested and then we shall make distribution only after your agreement has been obtained or public announcement has been made by you concerning the contents of the report.

Sincerely yours  
*James B. Strotz*

Comptroller General  
of the United States

Enclosures - 2

The Honorable William B. Spong, Jr.  
United States Senate

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BACKGROUND AND  
EVALUATION OF SELECTED ASPECTS  
OF THE DULLES AND NATIONAL  
AIRPORT LANDING FIELD USE AGREEMENTS

FAA's Bureau of National Capital Airports (Bureau) plans, directs, and supervises the engineering, management, operation, and maintenance of Washington National and Dulles International Airports. The Bureau negotiates contracts for FAA with ~~the~~ airlines and other commercial enterprises regarding charges and operating conditions for service, facilities, equipment, and other resources so as to derive proper rentals and fees, and to render necessary air transportation services to the public.

The activities of each of the above airports are under the direction of an airport manager. The airport managers advise and assist the Director of the Bureau in formulation of policies, plans, and standards governing administration, operation, and maintenance functions at their respective airports.

Construction of National began in 1939. It was completed and opened to traffic in June 1941 and by 1949 had developed into one of the busiest airports in the United States. ~~The~~ aircraft operations at National during fiscal year 1969 totaled 225,609 and related passenger traffic amounted to 9,728,005. The gross capitalized investment at National was approximately \$46 million as of June 30, 1969.

Planning for Dulles airport began in 1950. Construction was initiated in September 1958 and completed in November 1962. Scheduled aircraft operations at Dulles during fiscal year 1969 totaled 61,535 and related passenger traffic amounted to 1,870,209. The gross capitalized investment at Dulles, including the access highway, at June 30, 1969, was approximately \$101 million.

Since fiscal year 1957, Bureau records show that National has consistently operated at a profit considering all costs. However, Bureau records indicate that Dulles has been underutilized in terms of ~~existing~~ capacity and that operations for fiscal years 1963 through 1969 resulted in total revenues of \$20.4 million while total expenses, including depreciation and imputed interest on investment, amounted to approximately \$76.5 million. Of these expenses, depreciation and interest totaled about \$47.9 million.

Passenger traffic growth at Dulles since fiscal year 1964 has averaged 21.9 percent per year, ranging from a low of 17.6 percent in fiscal year 1967 to a high of 29.0 percent in fiscal year 1966. During the same period, passenger traffic growth at National averaged 11.4 percent per year. However, the total passenger traffic at Dulles during fiscal year 1969 was 1.2 million more than it had been in fiscal year 1964. For the same period National passenger traffic increased by 4 million.

At the present time, National and Dulles have separate agreements for use of landing field areas with each of the air carriers serving the respective airports; however, the landing fee for the two airports, excluding propeller aircraft at National, is determined in accordance with the 1962 Dulles use agreement as amended in 1966 in connection with FAA's decision to allow jet aircraft into National.

The basic use agreements provide that each air carrier has the right to use public or common areas or facilities such as the runways, taxiways, roadways, vehicular parking areas, and terminal building lobby areas. The agreements also provide for the lease of specified premises to each of the carriers for their exclusive use, e.g., ticket counter space and baggage make-up space. For the rights and privileges granted to the air carriers by the use agreements, the air carriers agreed to pay various fees and rentals. One of these fees, the landing fee, is charged for each aircraft landed at an agreed upon rate for each 1,000 pound unit of maximum certified aircraft landing weight.

Authority for concept of deficit provisions in the Dulles landing field use agreement

The FAA in the operation and management of Dulles International Airport under the Second Washington Airport Act (64 Stat. 770), has broad discretionary authority in the fixing of fees or rentals for the use of airport facilities. The airport Act does not prescribe any standards for the fixing of fees. FAA, in establishing user charges at the airport, has for guidance the congressional policy set forth in 31 U.S.C. 483a. That section of the Code provides that it is the sense of the Congress that any use, franchise, license, etc., granted by a Federal agency to or for any person, except those engaged in official Government business, "shall be self-sustaining to the full extent possible". It authorizes the head of each agency to prescribe such fees, if any, "as he shall determine\*\*\*to be fair and equitable taking into consideration direct and indirect cost to the Government, value to the recipient, public policy or interest served, and other pertinent facts\*\*\*."

The Bureau entered into 10-year use agreements that were effective in December 1962 with air carriers who planned to serve Dulles International Airport. These agreements were identical and were premised on a general financial plan conceived by the Government and the air carriers whereby it was anticipated that the airport would repay all operating and maintenance costs including capital investment and interest thereon within 30 years. The general financial plan provided that the airport would operate at a deficit during the first 10 years, breakeven during the second 10 years, and operate at a surplus during the third 10-year period which would be sufficient to

repay the deficits incurred by the airport during the early years of operation. Both the House and the Senate Appropriations Committees were informed of the general financial plan.

The 10-year Dulles use agreements, effective in December 1962, provided for consideration of a pre-planned annual operating deficit in the formula used for computing landing fees charged to the air carriers. The provision guaranteed that a portion of the operating expenses (pre-planned annual operating deficit) for the landing field area would not be recouped so long as actual traffic, revenue, and expenditures did not change materially from projected traffic, revenue, and expenditures used in the agreement to compute the pre-planned deficit. The agreement, however, provided that the landing fee could not be less than \$.30 per thousand pounds. Theoretically, if there was a significant increase in the amount of traffic or a substantial reduction in expenditures, the pre-planned deficit could have been significantly reduced or eliminated completely. The pre-planned deficit provisions were again included in the 1966 amendment negotiated pursuant to the admission of jet aircraft into Washington National Airport but provisions were included for removal of the \$.30 floor under certain conditions which are discussed in later sections of this report. The inclusion of the pre-planned deficit provisions in the landing field use agreements was an exercise of the discretionary authority of the FAA Administrator provided in 31 U.S.C. 483a.

A Bureau official informed us that pre-planned deficit provisions were not included in use agreements for facilities other than the landing field area. A comparison of the landing area deficits anticipated under the Dulles landing field use agreement and with the actual deficits experienced to date are presented in the following table.

Comparison of Planned and Actual  
Deficits for the Dulles Landing Area

<u>Fiscal year</u>	<u>Planned deficit<sup>1/</sup></u>		<u>Actual deficit<sup>2/</sup></u>	
	<u>Annual</u>	<u>Cumulative</u>	<u>Annual</u>	<u>Cumulative</u>
	(In thousands)		(In thousands)	
1964	\$1,464	\$1,464	\$1,700	\$1,700
1965	1,341	2,805	1,688	3,388
1966	1,242	4,047	1,475	4,863
1967	1,142	5,189	741	5,604
1968	985	6,174	26	5,630
1969	793	6,967	855	6,485
1970	585	7,552	503(Est)	6,988
1971	408	7,960	-	-
1972	247	8,207	-	-
1973	87	8,294	-	-

- 1/ Deficit amounts shown above represent straight-line interpolation of amounts shown in the 1963 use agreement. Such interpolation results in the same fiscal year deficit amounts included in the 1966 amendment to the agreement.
- 2/ Actual deficits are computed in accordance with the terms of the use agreement for the purpose of determining the applicability of the \$.30 minimum landing fee. This computation considers factors that are presented differently in presenting the individual financial statements for National and Dulles.

We did not find any evidence in hearing records to indicate that the Appropriations Committees had been advised that the above pre-planned deficits would be included in the fee computations under the 10-year Dulles use agreement, or in the 1966 amendment to that agreement. The Director of the Bureau was of the opinion that the Committees had been informally advised of these provisions and the affect that they would have on landing field revenues at the airport. However, such advice would have been provided prior to his appointment as Director and therefore he was unable to provide us with specific details of how the information was conveyed.

The Director of the Bureau informed us that there are no written agreements between FAA and the air carriers covering the periods following the first 10 years of operation at Dulles airport. He stated that at the inception of the Dulles use agreements both the FAA and the air carriers anticipated that it would require 10 years of operation before the annual fees and traffic would reach a point where the annual landing area operating costs could be recouped and that a new use fee agreement would be negotiated at that time. However, he stated that there was no written agreement or understanding covering the operating period from 1973 to 1983 that would prescribe a formula designed only to breakeven based on Dulles' operating costs.

Background and financial effect of selected provisions of the 1966 amendment to the Dulles use agreement

Beginning in April 1966, jet aircraft were allowed to use National. Subsequent to and as a direct result of the admission of jets into National, the Dulles use agreement was amended, in December 1966, to provide for a uniform jet landing fee for the two airports.

Prior to the 1966 amendment, the landing fees for the two airports were determined separately. The propeller aircraft rate at National was determined for each fiscal year by allocating 95 percent of the landing area expenses to air carrier operations for the most recent fiscal year, deducting revenues

received during the same period from the firm operating the fuel distribution system and dividing the result by the estimated landing weight for the fiscal year. The Dulles landing fee for jet and propeller aircraft was established in the basic use agreement as \$.30 per thousand pounds of certified landing weight beginning with the effective date of the contract and ending December 31, 1964, and provided only for adjustments above the \$.30 rate in subsequent fiscal year operations.

The Dulles use agreement (a copy of which was provided to Mr. Jack Lewis of your staff) includes two formulas under which these adjustments would be computed. Each of the formulas provide for a recovery of expenses agreed upon in the basic contract and a portion of the agreed upon expense increases reduced by the amount of the applicable annual deficit set out in the basic agreement. The agreement provides that at the end of any fiscal year, when the cumulative experienced revenue is less than the cumulative revenue goals plus the cumulative allowable expense increases to that date, and the formulas both yield a rate higher than \$.30 per thousand pounds, the landing fee rate for the ensuing calendar year shall be increased to the lower rate yielded by either of the formulas. The basic agreement did not contain a provision for charging less than the \$.30 rate.

The 1966 amendment to the basic Dulles use agreement significantly changed the methods used to determine the Dulles and National landing fee rates. First, the 1966 amendment provided that the jet landing fee rate at National would be the same as the landing fee rate established for Dulles under the Dulles use agreement, or equal to the landing fee rate for propeller aircraft at National, whichever is higher. The 1966 amendment provided that the landing fee rate for propeller aircraft would be computed by dividing the difference between the estimated annual landing area expenses and the estimated annual landing area revenue from sources other than airline landing fees by the estimated number of thousand pound units of certified maximum landing weight for all air carrier aircraft that will be landing during the year at National.

The 1966 amendment also provided that beginning July 1, 1967, and at the end of each fiscal year thereafter, the landing fee rate at Dulles would for the ensuing fiscal year be increased or decreased to the lower rate yielded by either of two formulas included in the amendment.

One formula in the 1966 amendment was the same as provided in the 1962 Dulles use agreement. The other formula differed from the corresponding formula included in the 1962 Dulles use agreement and has had a material effect on the computation of the jet landing fee rates for Dulles and National. The major revision to the formula was to provide for the inclusion of a weight transfer credit for jet aircraft landed at National with the actual Dulles landed weight to arrive at the landing fee rate for the two airports. National's expenses were excluded from consideration in the computation of

the landing fee rate and only Dulles' expenses were used; therefore, inclusion of the National weight transfer credit assuming the general accuracy of Bureau traffic projections causes (1) the formula with the weight credit transfer to always yield a lower rate and lower revenues than the alternative formula which excludes the transfer credit and (2) the rate determined on the basis of the formula with the National weight transfer to be significantly less than rates that would be determined by either of the formulas in the 1962 Dulles use agreement.

Negotiations for the uniform jet landing fee at Dulles and National were conducted with the objective of obtaining a premium rate for admission of jets into National airport that would offset losses resulting from the loss of traffic at Dulles. The premium obtained at National was to be credited to revenues obtained from Dulles. The weight credit transfer represents a transfer of a portion of the weight landed at National into the Dulles formula for rate making purposes which in effect accomplishes these objectives.

The 1966 amendment provided for use of the minimum jet landing fee rate of \$.30 for the two airports but made its applicability subject to certain contingencies. The amendment provided that when the cumulative experienced deficit, determined on a quarterly basis at Dulles, equals or is less than the projected cumulative deficit included in the amended agreement, the \$.30 minimum landing fee would no longer apply.

A meeting was conducted on December 10, 1965, between the Deputy Administrator, FAA, and representatives of the Air Transport Association relative to the admission of jets to Washington National Airport and the landing fee agreements at both National and Dulles airports. At the meeting the Deputy Administrator explained that FAA's negotiations would be premised on the following general positions.

1. Washington is a unique area and negotiations there cannot set precedent for other domestic air carrier airports.
2. In no event would rates for jets at National be less than rates for jets at Dulles.
3. FAA has flexibility in deciding whether all jet poundage at National should be credited to the Dulles rate or just the jet poundage over the 14½¢ rate then in existence at National.
4. FAA's aim is to approach a breakeven point at Dulles as rapidly as possible and no attempt will be made to recover prior years' development losses.

The Deputy Administrator directed the Chief of the Bureau's Air Carrier Relations Staff to enter into immediate negotiations with representatives of the air carriers.

Prior to conducting a formal negotiating session with the air carriers on January 5-6, 1966, the Chief of the Bureau's Air Carriers Relations Staff received instructions from the Bureau Director relative to the basis for including the weight credit transfer from National in the jet landing fee agreements for the two airports. The instructions provided that:

"The basis of the FAA position is rooted in the concept that an approach to break-even at Dulles should stem from a jet landing fee at WNA greater than the propeller landing fee at that Airport, with the increase over the propeller rate credited to the Dulles landing fee under the terms of the formula in the Dulles Air Carrier Agreement.

\* \* \* \* \*

"The principle of crediting pounds into the Dulles formula should only be applied once as repetition could drive the Dulles rate down to the floor of 30¢ set forth in the Agreement, or if that floor is removed, drive it down so far as to necessitate a revision of the formula and the concept upon which the Dulles Air Carrier Agreement is founded."

Subsequently, the Bureau entered into contracts with the air carriers which provided formulas for landing fees, one of which included the use of the weight credit transfer through the termination of the Dulles use agreement in 1973. In the last quarter of fiscal year 1968, the \$.30 minimum rate was removed as a result of provisions in the 1966 amendment and the fee was reduced to \$.2498. The fees were again reduced below the minimum in fiscal years 1969 and 1970 to \$.1889 and \$.2038 respectively.

Inclusion of the provisions to eliminate the \$.30 minimum landing fee in the 1966 amendment resulted in a reduction of air carrier landing fee income at the two airports during fiscal years 1969 and 1970 by a total of about \$3 million.

Before the 1966 amendment, the propeller landing fee rate at National was about \$.145 per 1,000 pounds. After the 1966 amendment, jet landing fee at National was \$.32. We asked Bureau officials if the air carriers considered the increase from \$.145 to \$.32 as exorbitant and if so, why did they agree to it. Bureau officials stated that although the air carriers did consider the increase exorbitant, they agreed to pay the increased rate in order to be able to use jets at National. The Bureau officials informed us also that during this period, the air carriers were converting their fleets to all jet aircraft because of operating efficiencies; therefore, it would have been very difficult and expensive for the air carriers to continue scheduling their operations at one of the major air transportation hubs which was limited to propeller aircraft.

Existing use agreements do not make it possible for the FAA to share measurably in any profit that may result from the recent admission of Boeing 727-200 aircraft at National. Considering the existing use agreements, the only additional revenue generated by the 727-200's at National would, according to a Bureau official, result from the 11,000 pounds increased weight of that aircraft over the Boeing 727-100. For each landing of a 727-200, the Bureau would receive approximately \$2.25 more than if the aircraft had been a 727-100, considering the landing fee rate in effect in fiscal year 1970. Based on conditions set out in the Bureau's study relative to the effects of introducing Boeing 727-200's into National, the net profit to the air carrier for each 727-100 flight replaced with a 727-200 flight could amount to as much as \$340.

Financial effect of transferring  
traffic from National to Dulles

The transfer to Dulles of a significant number of jets landed at National during fiscal year 1969 could have resulted in a deterioration of the Bureau's financial picture during fiscal years 1970 and 1971. During fiscal year 1969 the jet weight landed at National totaled about 8.7 billion pounds. We determined that under existing use agreements, a transfer of 44 percent<sup>1/</sup> of National's fiscal year 1969 jet weight (about 27,800 flights in terms of 727-100 aircraft) would have resulted in a \$512,000 decrease in fiscal year 1970 landing fee revenues for the two airports. This decrease would occur because the weight transfer would have resulted in a substantial decrease (about 17 percent) in the Dulles and National jet landing fee rate. However, the weight transfer would also result in an increase in the National propeller rate in fiscal year 1970 and the elimination of the National weight transfer credit to Dulles in fiscal year 1971. In fiscal year 1971, the National propeller rate and the Dulles and National jet rate would be increased to the extent that \$107,000 of the fiscal year 1970 decrease in landing fee revenue would be recouped. Also the elimination of the National weight transfer credit for fiscal year 1971 and a significant reduction of the National weight transfer credit could result in reinstatement of the \$.30 minimum landing fee rate for fiscal year 1972 as provided in the 1966 amendment. The reinstatement of the \$.30 minimum landing fee rate would result in substantial increases in the fiscal year 1972 landing fee revenue.

The methods used in arriving at the above determinations were discussed with a Bureau official who concurred with these determinations. As indicated above, the use agreements that presently exist could in the short term give FAA an incentive to limit growth at Dulles and to continue heavy use of National. However, it appears that on a continuing basis this may not be the case.

<sup>1/</sup> The point at which the jet and propeller rates at National would be equal and eliminate the National weight credit transfer in the fee formula in the following year.

DISCUSSION OF LANDING FEES  
AND AIR CARRIER USE AGREEMENTS FOR  
AIRPORTS WITH TRAFFIC CONDITIONS COMPARABLE  
TO DULLES AND NATIONAL AIRPORTS

To compare the landing fees charged at National and Dulles with fees at other airports, we selected 29 airports at which the amount of traffic during fiscal year 1969 was comparable to the traffic at either Dulles or National for that period. The traffic at 15 of these airports was comparable to the traffic at Dulles and the traffic at the remaining 14 airports was comparable to the traffic at National.

We found that the fiscal year 1970 landing fee rate at Dulles of \$.2038 per thousand pounds of maximum landing weight was higher than the rates in effect during June 1970 at all 15 of the selected airports. The landing fee rates at these 15 airports ranged from a low of \$.08 per thousand pounds to a high of \$.18 per thousand pounds. Our comparison of the landing fee rate at National (\$.2038) with the rates in effect during June 1970 at the 14 selected airports showed that the rate at National was higher than the rates at 8 of the airports and lower than the rates at 6 of the airports. The landing fees at the 14 selected airports ranged from a low of \$.08 per thousand pounds to a high of \$1.0332 per thousand pounds.

The following schedule lists the airports selected, the number of air carrier operations at each airport, and the respective landing fee rates.

	<u>Annual air carrier aircraft operations</u>	<u>Landing fee rate</u>
<u>Dulles International</u>	<u>61,535</u>	\$ <u>.2038</u>
Phoenix-Sky Harbor Municipal	79,364	\$ .16
Louisville-Standiford Field	77,868	.17
Milwaukee-General Mitchell Field	75,531	.17
San Diego International-Lindbergh	70,356	.135
Metropolitan Oakland International	70,076	.11
Columbus-Port Columbus International	66,687	.14
Hartford-Windsor Locks-Bradley International	64,526	.18
Nashville Metropolitan	62,683	.1375
Charlotte-Douglas Municipal	61,638	.16
Syracuse-Clarence E. Hancock	53,968	.161
Jacksonville International	53,814	.095
Dayton-James M. Cox Dayton Municipal	53,772	.15
San Jose Municipal	52,779	.15
Oklahoma City-Will Rogers World	50,955	.08
Birmingham Municipal	50,742	.12
 <u>Washington National</u>	 <u>225,609</u>	 \$ <u>.2038</u>
Miami International	266,745	\$ .099
New York-La Guardia	258,279	1.0332
Dallas Love Field	251,279	.08
Boston-Logan International	210,217	.265
Newark <sup>1/</sup>	208,079	.46
Detroit Metropolitan Wayne County	201,941	.10
Philadelphia International	197,511	.25
St. Louis-Lambert	184,031	.16
Greater Pittsburgh	169,778	.25
Denver-Stapleton International	157,619	.17
Cleveland Hopkins	149,976	.185
Kansas City Municipal	137,252	.249281
Minneapolis St. Paul International	137,151	.175
Baltimore Friendship International	129,093	.18

<sup>1/</sup>This airport charges a landing fee based on maximum takeoff weight.

With regard to your request for information relative to (1) the formula or method used to determine landing fees at other airports, (2) the factors generally taken into account in determining landing fees at other airports, (3) the term of airport/air carrier use agreements at other airports--

specifically, whether 10 years is abnormal for such agreements, and (4) whether there is any precedent for the Dulles deficit provision, we selected for this purpose, as agreed with Mr. Jack Lewis, the airports located in Kansas City, Missouri; Houston, Texas; and Baltimore, Maryland.

Information obtained from officials at the Kansas City International and Houston Intercontinental, both new airports, indicates that the method used to determine landing fee rates provides for the recovery of all operating and maintenance costs, depreciation, and interest (debt service) associated with the landing fee area during the life of the agreement. In each case the landing fee rate is determined by dividing such expenses and costs by the estimated annual aircraft landing weight.

The use agreements at Kansas City International and Houston Intercontinental are similar to the use agreements at Dulles in that each of them include pre-planned estimates of operating and maintenance expenses, and interest that will be recovered during the life of the agreements. Further, each of the agreements provide for annual adjustments of the estimated expenses to reflect actual expenses incurred in the landing field area and for an annual redetermination of the landing fees. However, the Kansas City and Houston agreements provide for the recovery of depreciation whereas the Dulles agreement does not.

Officials at Friendship International Airport in Baltimore advised us that the Friendship use agreement, in effect for the past 20 years, expired on June 30, 1970. An official stated that a new agreement was being negotiated at the present time with the air carriers serving the airport. The expired use agreement at Friendship was similar to those at Kansas City and Houston. The method used to compute the landing fee was basically the same except that no provision was made for the recovering of depreciation at Friendship. We were advised by the officials at Friendship, however, that operations in the past years resulted in a surplus of revenues over operating, maintenance, and interest costs and that such surplus revenues were returned to the City of Baltimore's general operating fund.

As previously indicated, the use agreement at Friendship had been in effect for a period of 20 years. The existing use agreements at Kansas City International and the Houston Intercontinental Airports are for a period of 28 years. Officials at the airports in Baltimore, Kansas City, and Houston were of the opinion that a 10 year term for a use agreement at an airport would be abnormal only if there was no provision included in the agreement to adjust estimated expenses to actual expenses and for an annual or periodic redetermination of the landing fees.

The Kansas City and Houston use agreements, do not include a provision for a stated or pre-planned deficit each year. An official at Friendship stated that the new agreement to be negotiated at Friendship would not

ENCLOSURE II  
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include a deficit provision. Officials of these three airports were not aware of any other airport landing field use agreements that provided for a pre-planned deficit in computing landing fees.