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February 18, 2009

TESTIMONY OF THE DEPARTMENT OF TRANSPORTATION

COMMITTEE ON TRANSPORTATION

HOUSE BILL NO. 1166, RELATING TO THE PASSENGER FACILITY CHARGE SPECIAL FUND.

The Department of Transportation (DOT) **strongly supports** this Administration Initiative, which will authorize the DOT to use the Passenger Facility Charge (PFC) Special Fund for bonds and to establish subaccounts.

PFCs were authorized under the Aviation Safety and Capacity Expansion Act of 1990, which was recodified as Title 49 United State Code Section 40117. PFCs are charges assessed on enplaning (departing) overseas domestic and international passengers to fund capital improvement projects at airports statewide. No PFCs can be implemented on interisland travel.

The purpose of PFCs is to provide public agencies with an additional capital funding source to provide for the expansion of the airport system. Additional amendments to the law also allow PFCs to be used to pay for debt service costs on approved projects. The PFC program is a federal program administered by the FAA; and as such, FAA approval is needed to impose, collect, and use PFC revenues.

The use of PFCs is governed by HRS Section 261-5.5. Presently, section 261-5.5 permits PFCs to be used only to directly pay the costs ("pay-as-you-go") of the Airport Projects approved by the legislature. As presently worded, the statute is unclear regarding the use of PFCs in indirect financing structures.

The DOT would like the flexibility to use PFC revenue more efficiently to better meet the needs of the State's Airports System. More specifically, the DOT would like the ability to create subaccounts with the PFC Special Fund and to pay debt service on bonds issued to finance airport capital improvement projects. This bill would provide the DOT with the flexibility to finance the cost of the Airport Projects with the proceeds of bonds that would be completely or partially backed by the PFCs, as well as with pay-as-you-go. The DOT believes that using the PFC revenue to offset the State's debt service requirements on the Airport Bonds or to reimburse the State in the future for current Airport Project expenditures, will allow the DOT to use its PFC revenues more efficiently in meeting the financial needs of the Airport Projects.

The proposed bill would provide such benefits as: 1) Give the DOT more flexibility in financing the Airport Projects and make the DOT more efficient in meeting the air transportation needs of the State, 2) Instill confidence in the bond market regarding the investment quality of the Airport Bonds, 3) Be accepted by the bond market as an effective way of reducing debt service, and 4) Be permissible under federal laws governing the use of PFCs.

Accordingly, we ask for your favorable consideration of this bill.