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Fitch: FAA Reauthorization Neutral for U.S. Airport Credit

Fitch Ratings-New York-23 May 2024: The FAA Reauthorization Act of 2024 (the Act), recently signed into law, is neutral for U.S. airport credit, Fitch Ratings says. While the Act adds to annual levels of federal capital funding for airport infrastructure improvements, it is not likely to lead to significant changes to U.S. airport finances.

The Act, which reauthorizes the FAA for five years, allocates $105 billion for the national aviation system and provides a number of enhancements targeting the operating and funding environment for airports, airlines, and the FAA, which was previously operating under short-term extensions since the prior authorization bill expired in 2023. Monies which support much of the federal aviation grants and operating activities are sourced from Airport & Airway Trust Fund, which in turn is funded by multiple aviation excise taxes. The federal General Fund also provides some supplemental funding.

Positively, the Act increases Airport Improvement Program (AIP) funding to $4.0 billion per year from $3.35 billion, a nearly 20% boost to annual funding levels from the prior reauthorization bill. Airports receive funding under the AIP based on passenger volume that can be supplemented with discretionary funding. Smaller airports, including those serving general aviation purposes, will have increased priority to federal grant allocations. In addition, the Act requires the FAA to enhance its workforce development such as additional hiring and training its air traffic controller staff, with the goal of improving flight schedules and safety as traffic growth continues its strong post-pandemic recovery. U.S. airlines are signaling traffic for the summer of 2024 will reach new highs as air travel demand remains strong.

Conversely, the passenger facility charge cap of $4.50 per flight segment that has been in place since 2000 remains unchanged. Increasing the cap was not anticipated but the fee still provides a critical source of funds that can support airport infrastructure investments.

While increased AIP funding will help defray airport capital budgets, most large and midsize airports will continue to heavily rely on debt to fund infrastructure linked to terminal and airfield projects.

Nationally, airport expansion and modernization capital program costs are rising for projects extending out over the next decade. This is particularly true for certain large-hub airports like LAX ($15 billion), Metro Washington ($10 billion) and San Francisco ($12 billion). The additional funding under the Act will help offset some project cost escalation; however, much of these costs will be passed down to the airlines based on cost recovery rate setting methods via airline operating agreements.

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