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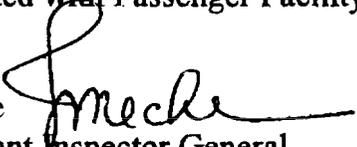
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Memorandum

**U.S. Department of
Transportation
Office of the Secretary
of Transportation
Office of Inspector General**

Subject **ACTION:** Proposed Rulemaking on Collection
Costs **Associated with Passenger Facility** Charges, FAA
FE-2000-087

Date April 27, 2000

From: John L. Meche 
Deputy Assistant Inspector General
for Financial and Information Technology

Reply To: **Meche:x61496**
Attn Of:

To: Federal Aviation Administrator

In response to a request from Congressman James Oberstar, we performed a limited review on airline compensation related to the collection of Passenger Facility Charges (PFC). We conferred with representatives from the Department of Transportation, airlines, and members of the aviation community. We also reviewed Federal Aviation Administration (FAA) file information provided by airlines and airports concerning PFC collection costs.

During the fact-finding, we found the FAA Office of Airport Planning and Programming intends to issue a new notice of petition for rulemaking, as suggested in House Report 106-513. The House report notes that a number of air carriers had communicated to Congress that compensation for collecting PFCs allowed by current FAA regulation is too low. The House report states that airlines should be given the opportunity to demonstrate their necessary and reasonable expenses in collecting and handling PFCs in a rulemaking proceeding. The report also directs FAA to make its final decision on air carrier PFC compensation within 189 days after airlines have submitted the evidence necessary for evaluation of their claim.

Presently, eligible airports receive \$2.92 on each \$3.00 PFC remitted. Air carriers are entitled to the remaining \$.08 on each PFC. Air carriers also retain any interest or other investment return earned on PFC revenue. The interest, or "float," is income air carriers earn by depositing PFC collections into income-generating accounts between the time of collection and remittance. FAA determined, based on 1993 through 1996 data provided by air carriers, that interest earned by air carriers varied from about \$.01 to more than \$.02 per PFC.

According to information in FAA's files, air carriers assert that \$.08 is inadequate to cover the costs associated with collecting and handling PFCs. The air carriers also have stated they anticipate significant implementation costs associated with the PFC increase from \$3.00 to \$4.50, authorized by Congress, in the Wendell H. Ford Aviation Investment and Reform Act for the 21st Century.

From our review and discussion, it is clear that air carrier compensation for PFCs is a sensitive and important issue for airlines, airports, and FAA. Therefore, the information provided by the airlines in response to the new rulemaking must be accurate, complete, consistent, and current, so that FAA can make a fair decision on this matter.

Considering the sensitivity of this matter to multiple parties, we recommend that FAA include requirements in the new proposed rulemaking that cost data presented by the airlines:

- Must be limited to **only** those incremental costs that are directly associated with PFC collection, handling, remittance, reporting, recordkeeping, or **auditing**. Though incremental cost compensation does not include **an** allocation for indirect costs such **as** utilities, officer salaries, and other administrative expense, it will compensate air carriers for the additional costs of handling and remitting PFCs; **and**
- Must be accompanied **by an** independent audit opinion stating the costs are supportable, presented in accordance with generally accepted accounting principles, and in compliance with the requirement of the proposed rulemaking

We would appreciate receiving **your** written comments within 30 days. If you concur with our recommendations, please indicate for each recommendation **the** specific action taken or **planned** and target dates for completion. If you do **not** concur, please provide **your** rationale. You may provide alternative courses of action that you believe would resolve the issues presented in **this** report.

We appreciate the courtesies and cooperation of FAA representatives. If we can answer questions or be of any further assistance, please call Keith Cospers or me at (202) **366-1496**.

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