

**POLICY RESOLUTION PR-20-06**  
**TITLE: AIRPORT REVENUE BOND COSTS**

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**WHEREAS**, revenue bonds sold by public entities to finance public facilities typically provide bond purchasers with tax-free interest income. However, to the extent a bond-financed airport terminal is deemed to be used for “private activity” (operations of airlines and concessionaires), two tax code restrictions are imposed: (1) the bond interest income becomes subject to the Alternative Minimum Tax (AMT); and (2) the bonds may not be advance refunded, in contrast to general municipal bonds; and

**WHEREAS**, to generate a competitive after-tax return to the investor, an airport bond subject to AMT must carry a higher interest rate (i.e., the AMT penalty). The margin varies depending on market conditions and term to maturity; in recent years it has averaged about 20 basis points (0.20%); and

**WHEREAS**, the AMT penalty means higher financing costs for airports, which industry-wide adds millions of dollars of additional interest expense each year—dollars that instead could be spent on additional capital improvements; and

**WHEREAS**, purchasers of long-term fixed-rate bonds generally require 10 years of “call protection,” during which the airport issuer cannot prepay the debt should interest rates decline after issuance (i.e., the Advance Refunding Prohibition). General municipal bonds allow the issuer to do one “advance refunding”—locking in new, lower rates prior to the first call date by issuing refunding bonds and escrowing the proceeds until the first call date (at which time the original bonds are redeemed). However, AMT bonds are prohibited from being advance-refunded; and

**WHEREAS**, it is time that the “private activity” label be abandoned for airport terminal and other projects that clearly benefit the general public. The existing federal eligibility guidelines for Airport Improvement Program (AIP) grants and Passenger Facility Charges (PFCs) could be used to distinguish between airport infrastructure that is of public benefit versus more of a private nature (flight kitchens, maintenance hangars, car rental facilities, etc.). Under this definition, airfield improvements (such as runways, taxiways, lighting and signage) as well as the majority of terminal improvements (non-revenue producing areas for public use, such as baggage claim areas, waiting rooms, restrooms and non-exclusive gate areas) could be financed on a non-AMT basis, saving money and providing refinancing flexibility; and

**WHEREAS**, treating bonds sold to finance airport projects that benefit the general public as “private activity” bonds adds cost and limits flexibility; and

**WHEREAS**, it has been estimated that this reclassification of private activity bonds that benefit the general public would affect approximately 70 percent of airport AMT bonds and generate present-value savings of approximately \$1.2 billion.

**NOW, THEREFORE, BE IT RESOLVED**, that AASHTO recommends that Congress and the Administration eliminate the application of “private activity” status to those airport revenue bonds where the proceeds are spent on project costs meeting the existing “safe harbor” federal eligibility for the AIP and PFC programs. This reclassification would rationalize the tax treatment of airport bonds by conforming it to the existing federal treatment as public purpose airport assets under the AIP and PFC programs.