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INSIGHT

CARES Act Payroll Support to Air Carriers and Contractors

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The Coronavirus Aid, Relief, and Economic Security Act (CARES Act; P.L. 116-136), signed into law on March 27, 2020, provided assistance to consumers and businesses, including aid to air carriers and eligible contractors. Emergency funds also were provided to eligible airports. Assistance to air carriers in Division A, Title IV of the CARES Act included loans and loan guarantees, funds to support the pay and benefits of air carrier workers, and a suspension of aviation excise taxes on air transport of people, cargo, and aviation fuel through calendar year 2020. This Insight focuses on the payroll support program (PSP).

Section 4112 of the CARES Act provided $32 billion in payroll support to aviation workers. From this amount, the Secretary of the Treasury was authorized to provide up to

- $25 billion for passenger air carriers (any air carrier that, during the period from April 1, 2019, to September 30, 2020, derived more than 50% of its air transportation revenue from the transportation of passengers);
- $4 billion for cargo air carriers (any air carrier that, during the period from April 1, 2019, to September 30, 2020, derived more than 50% of its air transportation revenue from the transportation of property or mail, or both); and
- $3 billion for contractors who provide ground services directly to air carriers, such as catering services or on-airport functions.

The law specified that the amount received by each air carrier or contractor was to be based on its payroll expenses for the six-month period from April through September 2019, and that the payroll support funds must be used exclusively for continuing the payment of employee wages, salaries, and benefits. The law also required that air carriers or contractors receiving payroll support must refrain from conducting involuntary layoffs or furloughs or reducing pay rates and benefits from the day the payroll support agreement was executed until September 30, 2020.

According to the CARES Act, air carriers and contractors receiving payroll support also must comply with other program terms and conditions, including continuation of certain air service deemed necessary by the Secretary of Transportation, refraining from stock buybacks or dividend payments through September 30, 2021, and limiting the compensation of highly paid employees until March 24, 2022.

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Administered by the U.S. Treasury, PSP has generated considerable interest from airlines and contractors. Treasury data show that, by the end of July 2020, more than $27 billion in payroll support had been approved for disbursement to 577 recipients, including 335 passenger airlines, 34 cargo carriers, and 208 contractors.

Although Treasury set April 27, 2020, as the deadline for PSP applications, it agreed to accept and consider applications beyond the deadline, subject to the availability of funds. Program data indicate that Treasury accepted and approved applications in the months after the original deadline, as shown in **Table 1**.

Table 1. CARES Act Payroll Support Program (PSP)

(As of July 31, 2020)

	Passenger Airlines	Cargo Airlines	Contractors	Total
1st Agreement Date	04/20/2020	05/08/2020	05/15/2020	N/A
Number of Recipients	335	34	208	577
PSP Amount	$24,242,235,606	$660,050,566	$2,275,573,925	$27,177,860,097

Source: CRS analysis of U.S. Treasury CARES Act Payroll Support Program data (as viewed on August 13, 2020).

Treasury data indicate that the first group of agreements was reached with a number of passenger airlines on April 20, 2020, and over 75% of the passenger airlines payroll agreements occurred in April and May. The first batch of agreements with cargo airlines was reached on May 8, 2020, followed by contractors in mid-May (**Table 1**). Contractors' payroll support agreements were disbursed relatively evenly in May, June, and July. The timing of PSP agreements suggests that passenger airlines were the first group affected by the abrupt drop in air travel as a result of the COVID pandemic, followed by aviation contractors downstream. Air cargo carriers have been less affected.

The data also indicate that, by the end of July, nearly 97% of the $25 billion appropriated for payroll support to passenger airlines was committed, compared with over 75% of the $3 billion for contractors, and about 17% of the $4 billion for cargo carriers. This also appears to agree with reports that cargo carriers have been faring better than passenger airlines.

As one of the PSP requirements prohibits involuntary furloughs or pay-rate reductions through September 2020, many airlines have asked employees to voluntarily take a leave of absence and/or have begun to offer voluntary separation packages. Airlines also have warned more than 75,000 employees about possible furloughs in October. Labor groups representing aviation unions have been advocating for more federal aid.

However, September 30, 2020, is not the date that the payroll support benefit expires. There is no deadline for a recipient to expend payroll support funds, as long as they are exclusively for the continuation of employee wages, salaries, and benefits, as stated in a Treasury document. Since many payroll support agreements were approved and executed in May, June, and July, many recipients (employers) are likely to have funds available for payroll support beyond September 30, 2020.

PSP has helped airlines and contractors to temporarily avert mass layoffs and furloughs due to the unprecedented drop in business. The number of passengers on U.S. airlines in April 2020 was 96% lower than in the same month in 2019. The number of U.S. airline passengers in early August 2020 remains at over 70% lower than the 2019 level, and air travel is not expected to fully recover to pre-pandemic level for years. Congress could consider augmenting, extending, or reallocating undistributed PSP funds to passenger carriers that need more assistance. However, without immediate and significant improvement in passenger traffic, airlines may not have sufficient business to sustain current employment levels even with short-term payroll assistance from the government. It is likely the airlines will need to restructure for survival and long-term growth.

Author Information

Rachel Y. Tang
Analyst in Transportation and Industry

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