Traditional Financial Tools

• Use of airport revenue

• Utilization of Long Term Debt
  – GARBs
  – Special Facility Leases
Traditional Revenue Generation

- Airline Rates & Charges
- Airport Tenant Charges (rentals, fees, etc.)
- Revenue sharing with businesses (concessions, rental cars, etc.)
- Rental Car Fees
Traditional Revenue Use

• Goes To Operations & Maintenance
• Pay existing long term debt
  – New debt only issued with airline approval
Traditional Airport Debt

1. Revenue bonds
   - General airport revenue bonds (GARBs)
   - Double-barrel bonds (backed by both PFCs and airport revenues)
   - Stand-alone PFC-backed bonds
2. Short-term debt (commercial paper, bond anticipation notes, etc.)
3. Special facility bonds
4. Bank loans (short-term)
5. Private debt
6. General obligation bonds
Why Traditional Financial Tools Are Losing Their Luster

- Pressure to keep cost per emplaned passenger (“CPE”) down
- Airlines less willing to sign on to long term agreements
- Airports want more flexibility to use revenue
- External pressure to increase economic engine generation
Why is this important?
U.S. Airport Operating Revenues

**Large Hubs: 48.1% Airline**

**Medium Hubs: 38.5% Airline**

**Small Hubs: 29.3% Airline**

**Non-Hubs: 19.6% Airline**

More & More Revenue Is Being Derived From Non-Aero Sources

Aeronautical revenue comparison:
- FRA (Frankfurt): 29% (Aeronautical) vs. 71% (Total)
- HKG (Hong Kong): 29% (Aeronautical) vs. 71% (Total)
- AMS (Amsterdam): 37% (Aeronautical) vs. 63% (Total)
- ATL (Atlanta): 37% (Aeronautical) vs. 63% (Total)
- DFW (Dallas/Fort Worth): 40% (Aeronautical) vs. 60% (Total)
- IND (Indianapolis): 47% (Aeronautical) vs. 53% (Total)
- DEN (Denver): 53% (Aeronautical) vs. 46% (Total)
- PDX (Portland): 57% (Aeronautical) vs. 43% (Total)
- JFK (New York): 72% (Aeronautical) vs. 28% (Total)
The Airline Use & Lease Agreement – Times Are Changing

• Brief Overview of the Models
  - Residual
  - Compensatory
  - Hybrid

• Airports are insisting on more control over revenue use
Airline agreements and rate methods continue to evolve

- In the 1980s, 58% of large- and medium-sized airports used a residual approach
- In 2003, a majority of airports set rates using a hybrid method
- In 2013, a majority of airports utilize a compensatory method

Source: 2003 responses based on 2003 ACI-NA General Information Survey
Restrictions on Revenue Use By The Sponsor

FAA MISSION STATEMENT:
We’re not happy Until you’re not happy
Much deeper dive…

• Check out Session # 9 (Strategies for Non-aeronautical Development)
Robust, on-airport property, commercial real estate development...
Four types of airport property

Aeronautical:
- Runways & Taxiways
- Hangars
- Terminals

Nonaeronautical:
- Parking
- Support Buildings
- Road network

Nonaeronautical:
- Parcels acquired for noise mitigation purposes

Nonaeronautical:
- Office Parks
- Gas Stations
Federal Regulation of Airport Land

This Looks Complicated!

- Airspace
- Contracting
- NEPA review
- Use Restrictions
- Economic & activity regulation
- Revenue use
Much deeper dive…

• Check out Session # 9 (Strategies for Non-aeronautical Development)
Where DOES the $§ Come From?

- **City/State Funds**
  - Direct Subsidies
  - One Time "Grants"

- **Federal Funding**
  - AIP
  - PFCs

- **Bonds**
  - Airport GARBs
  - State/Local Bonds

- **Rates and Charges**
  - Terminal Rent
  - Landing Fees

- **Ancillary Revenue**
  - Concessions
  - Parking
  - Land Rent

- **Specialized User Fees**
  - CFCs
  - Rental Car Fees
  - Airport Access Fees

Funds available for development of airport real estate.
Revenue Generation Models/Means/Methods

It’s Not Just Airline Rates & Charges Anymore
Revenue Generation Models/Means/Methods

- Natural Resource Development (ex. Oil & Gas (PIT, DEN, DFW))
- Concurrent Use
- Parking – Taking it to another level
Revenue Generation Models/Means/Methods

• Consolidated Rental Car Facilities
• Project requires integration of:
  – Facility Plan
  – Business Plan
  – CFC affordability
Concessions Mix

• To maximize spend rates and therefore airport revenue, a balance between types of concession space is required.
• While Duty Free locations typically provide the highest yields on a square foot basis, the right concessions mix is required to generate the highest overall spend rate.
• Two methods will be used to determine the mix of concession space – a top-down approach and a bottom-up approach:
  – A top-down approach uses benchmarking and analysis of overall concession space quantities at other U.S. airport terminals to determine approximate requirements.
  – The bottom-up approach develops a model for calculating the appropriate mix of concessions space based on assumptions of passenger spending and the type of passengers.
Concessions Development Model

- Concession development model affects control, risk, revenues, and overall customer experience
- Typical contract types employed at airports in the U.S. include:
  - Master Concessionaire - operates all of concessions
  - Multiple Prime Concessionaires - each operates a major category, such as Food & Beverage or News & Gift
  - Developer Model - third-party manages concessions and contracts with others for the operation of all concession spaces
  - Direct Leasing - whereby the airport sponsor enters into separate agreements with different concession operators for individual locations
Regional Economic Development and Key Airport Revenue Generator

### DEVELOPMENT DISTRICTS

#### CLT Terminal Development District
- **Total Area of the District**: 2,380
- **Assessed Value**: $684
- **Area Covered by CLT**: 220
- **Area Covered by Park Service**: 53
- **Area Covered by City of Charlotte**: 11
- **Area Covered by County**: 76

#### South End Development District
- **Total Area of the District**: 1,930
- **Assessed Value**: $466
- **Area Covered by CLT**: 1,150
- **Area Covered by Park Service**: 160
- **Area Covered by City of Charlotte**: 130
- **Area Covered by County**: 60
- **Area Covered by State**: 10

#### City Area Development District
- **Total Area of the District**: 520
- **Assessed Value**: $376
- **Area Covered by CLT**: 320
- **Area Covered by Park Service**: 90
- **Area Covered by City of Charlotte**: 70
- **Area Covered by County**: 50
- **Area Covered by State**: 40

#### Great Southern Development District
- **Total Area of the District**: 1,485
- **Assessed Value**: $515
- **Area Covered by CLT**: 485
- **Area Covered by Park Service**: 365
- **Area Covered by City of Charlotte**: 265
- **Area Covered by County**: 165
- **Area Covered by State**: 105

### District Observations:
- **Transportation**: Essential for economic development and growth.
- **Business Opportunities**: Abundant due to proximity to major transportation hubs.
- **Residential**: High demand for sustainable, well-designed homes.
- **Commercial**: Ideal for retail and office spaces.
- **Recreational**: Potential for outdoor activities like hiking and cycling.

[Map of Charlotte Douglas International Airport and surrounding development districts]
Revenue Generation Models/Means/Methods

• Public-Private Partnerships “P3s”

• *Government owns* the project, but *private entity finances* it (and in some cases also operates it)
  – Private project financing of public infrastructure generally includes: *Private equity* sponsor’s investment generally equal to 10-20%
  – Bank or bond debt (taxable or tax-exempt) secured by project revenues or availability payments due under the project agreement
Public-Private Partnerships (P3’s)

Privatization is not an all-or-nothing solution, in fact, most U.S. airports have a high degree of private-sector involvement.

- **Partial Privatization**
  - Contracting Services
  - Management Contract
  - **Developer/Project Finance & Operation**
- **Full Privatization**
  - Long-Term Lease/Concession Agreement (including Airport Privatization Pilot Program)
  - Private Airport Development
  - **MOST PRIVATIZATION**
Why P3’s can be attractive to airport sponsors

- Expedited project development / cost savings
- Political insulation
- Risk transfer
- Efficiency improvement
- Debt avoidance, reduction, diversification
- Enhanced revenues
Decision Making Process for Private Participation

- **Objective**: What is the airport sponsor trying to achieve?
- **Controls**: What controls does the airport sponsor want to retain?
- **Hurdles**: What are the impediments to private sector participation (financial, regulatory, organizational)?
- **Options**: What are the realistic privatization options to achieve the goals?
- **Go/No Go**: Is there ‘Value for Money’?
Revenue Generation Models/Means/Methods

• Governmental Contributions – Special Discussion
• TIFFs & Other Tax-Based “help”
• Direct payments
Conclusion

- Many Federal Legal Tentacles Exist
- Plus Local Particularities (Legal and Political)
- Do Not Let Complexity Deter You
- Innovation Is Good!
- Partner With Pros & Bring Airlines & Agency Into The Fold When The Time Is Right
Comments/Questions

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