

33rd Annual Basics of Airport Law Workshop and 2017 Legal Update

Session #7

AIRPORT FINANCE — EMERGING ISSUES

Bonnie A. Ossege, Vice President
Ricondo & Associates

Peter J. Kirsch
Kaplan Kirsch & Rockwell

INTRODUCTION – WHAT'S NEW

Airport
revenue
trends

Enplane-
ment
trends

Rates
and
charges
policy

Airport -
airline
climate

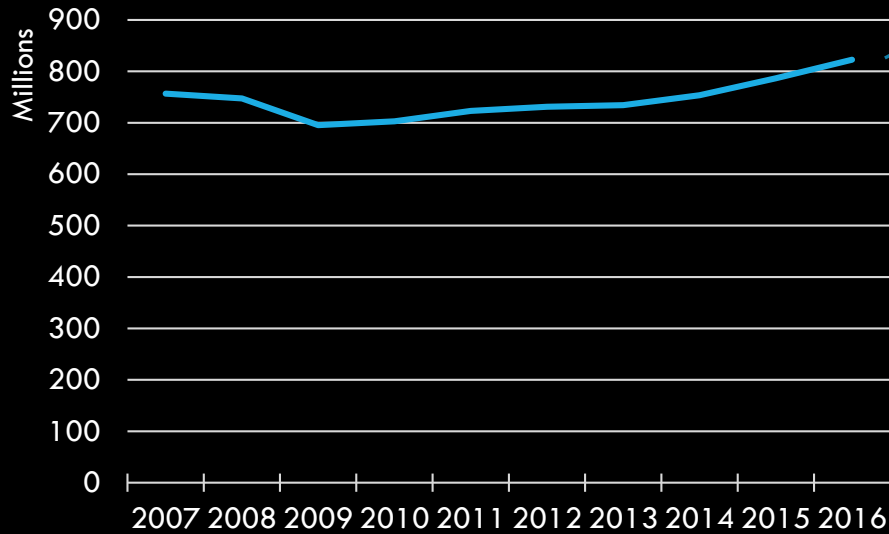
Aging
facilities

New
airline
business
models

Limited
AIP-PFC
funding

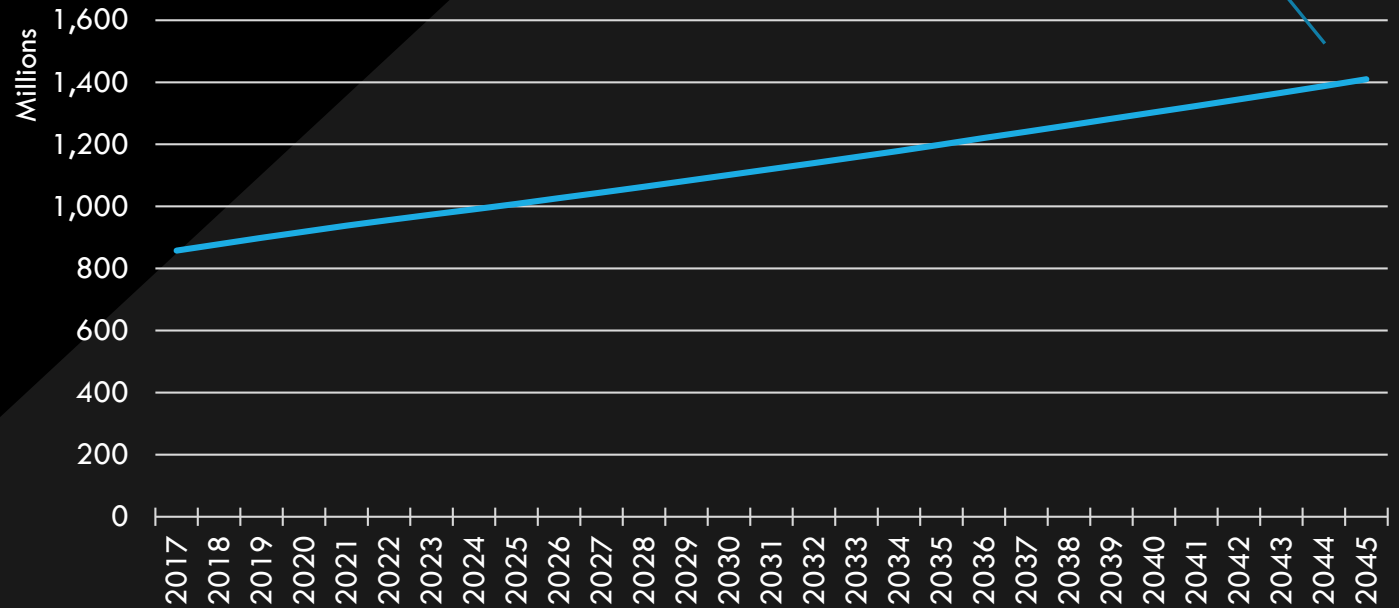
ENPLANEMENT TRENDS

Historical U.S. Enplanements (2007-2016)



CAGR = 0.9%

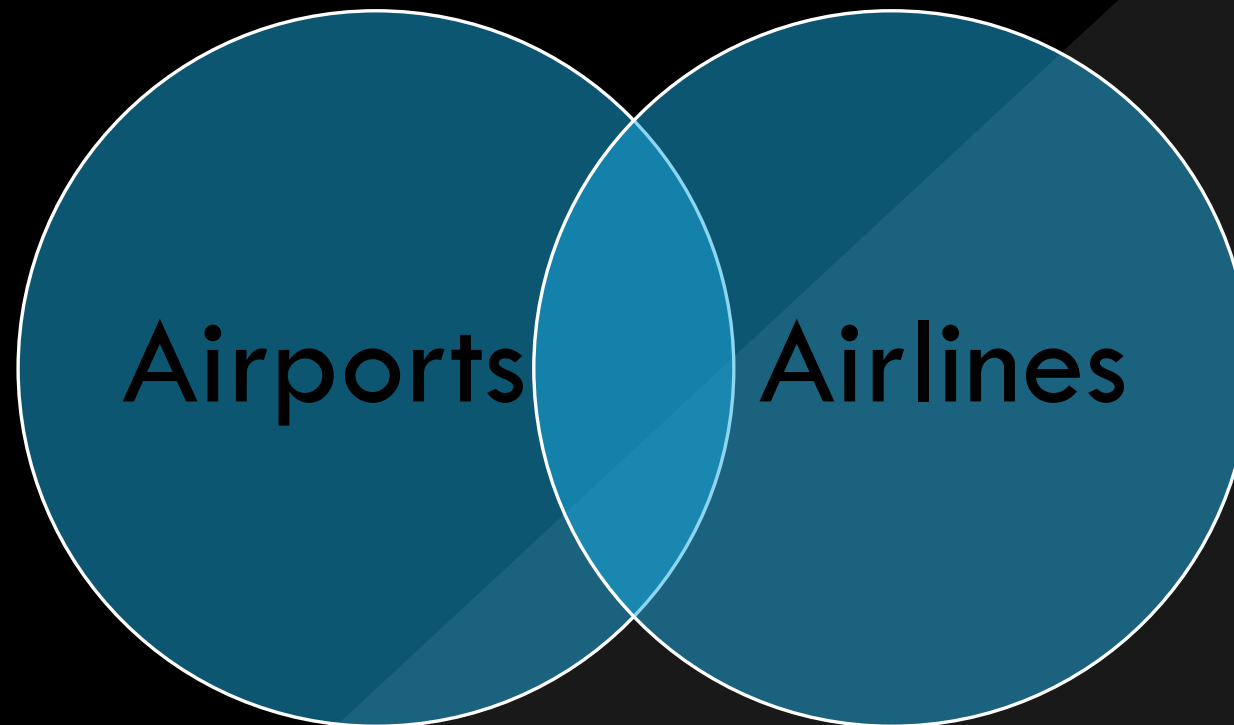
Forecast U.S. Enplanements (2017 TAF, 2017-2045)



CAGR = 1.8%

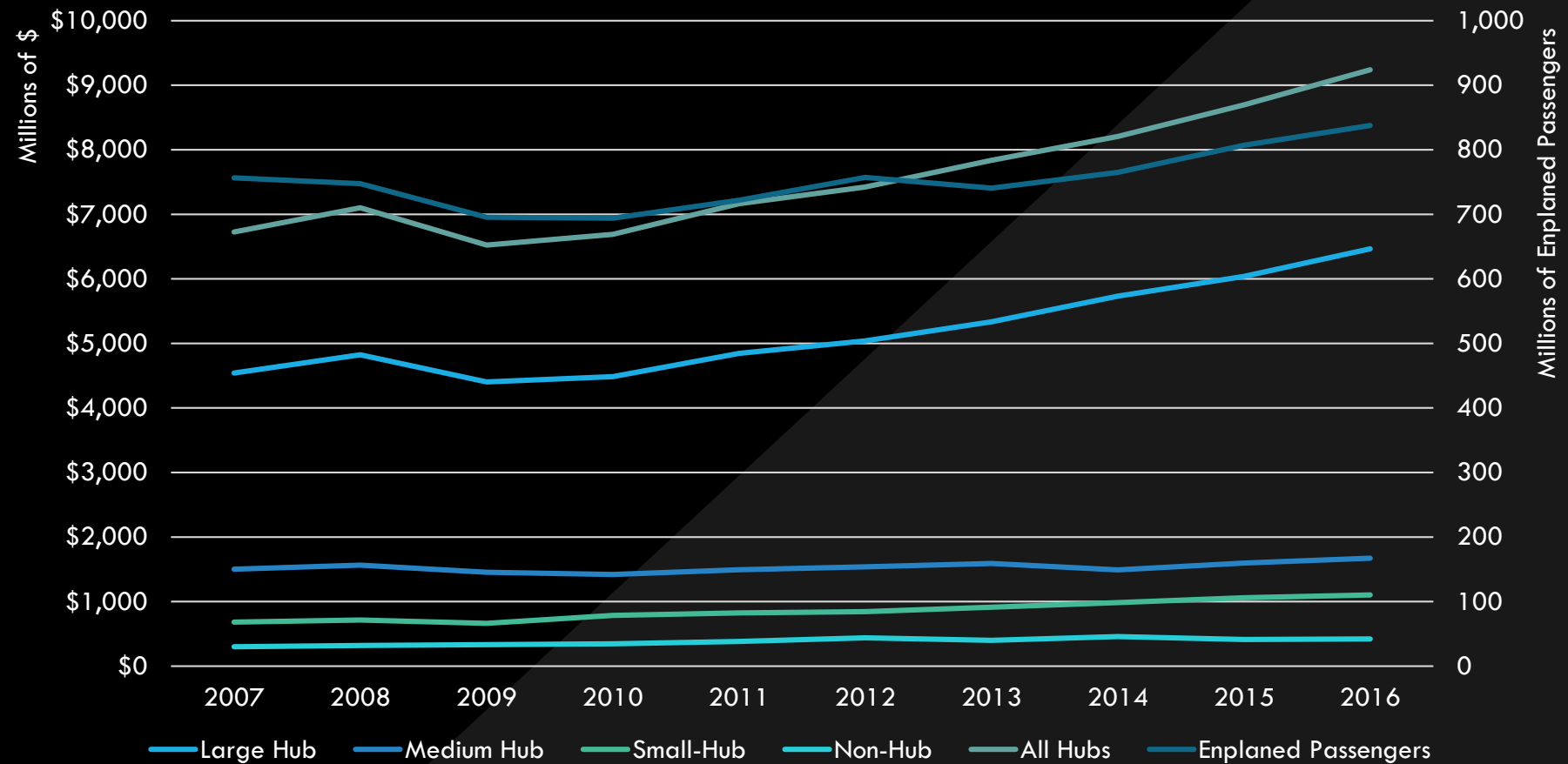
Source: FAA, Terminal Area Forecast, January 2017.

CURRENT CLIMATE



AIRPORT REVENUE TRENDS — BY AIRPORT SIZE

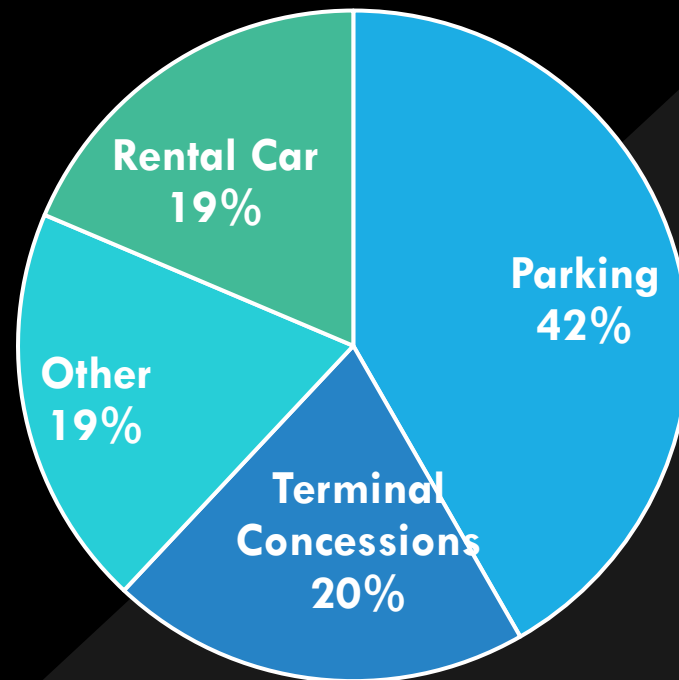
Total Non-Aeronautical Revenue by Hub Size FY 2007-2016



Source: FAA, Form 5100-127.

AIRPORT REVENUE TRENDS — BY TYPE

Breakdown of Non-Aeronautical Revenue - FY 2016

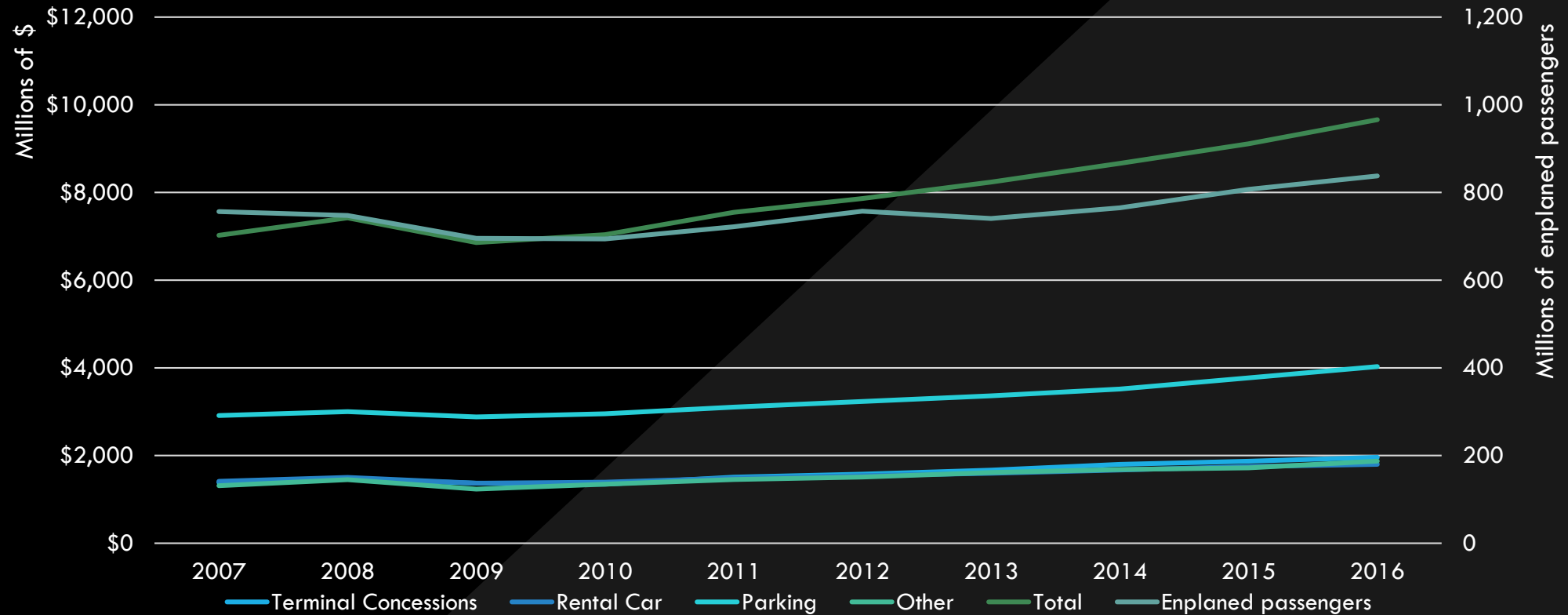


Note: Other non-aeronautical revenue includes hotels, ground rents, facility leases, and other ancillary revenue.

Source: FAA, Form 5100-127.

AIRPORT REVENUE TRENDS — BY TYPE

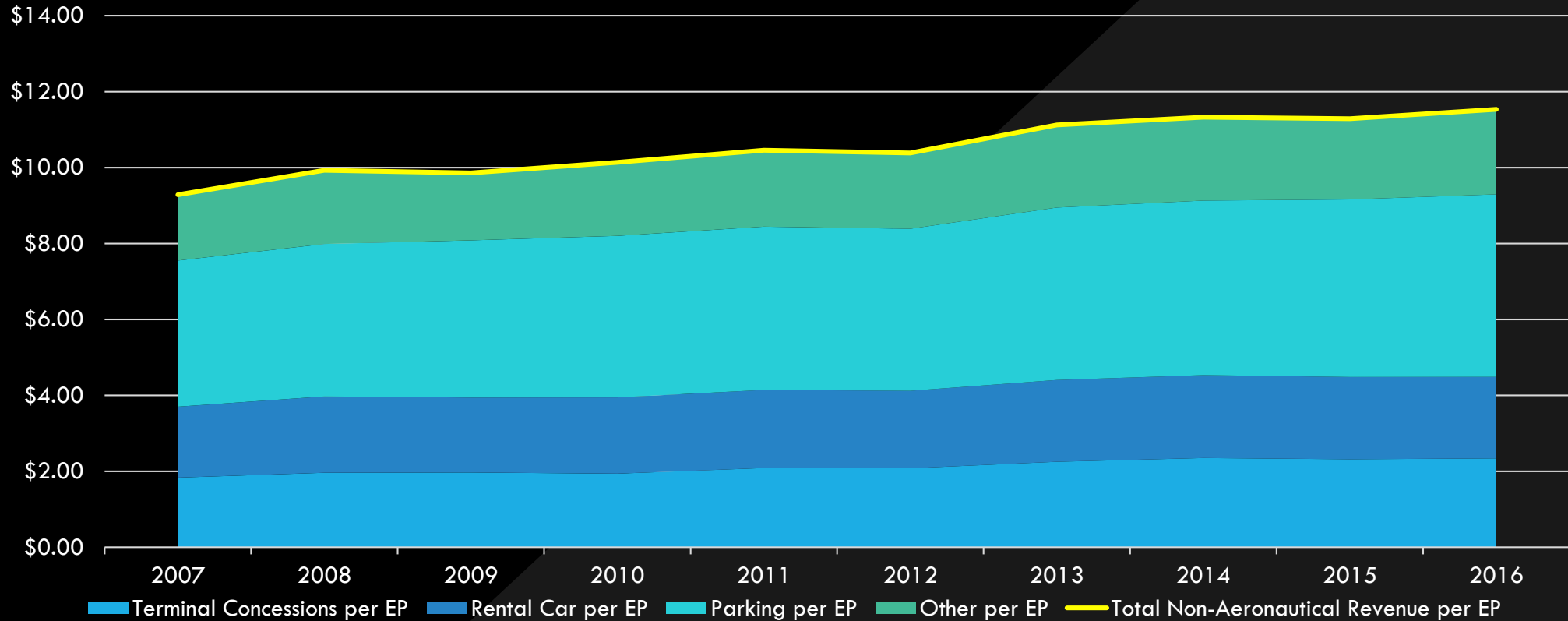
Non-Aeronautical Revenue by Category FY 2007-2016



Source: FAA, Form 5100-127.

AIRPORT REVENUE TRENDS — PER PAX

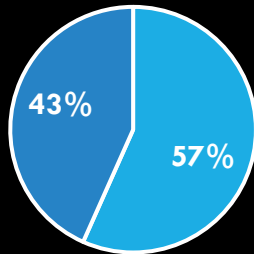
Non-Aeronautical Revenue per Enplanement FY 2007-2016



Source: FAA, Form 5100-127.

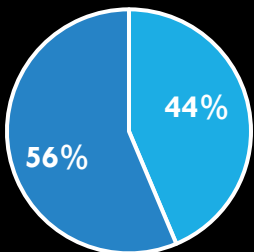
AIRPORT REVENUE TRENDS — AERONAUTICAL VS. NON-AERONAUTICAL

Large Hub



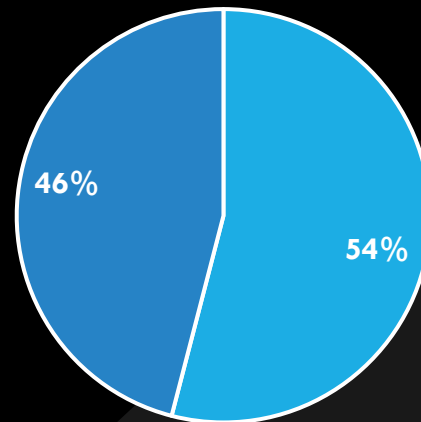
■ Aeronautical Revenue ■ Non-Aeronautical Revenue

Small hub



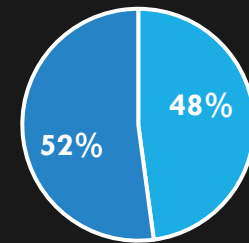
■ Aeronautical Revenue ■ Non-Aeronautical Revenue

Total - FY 2016



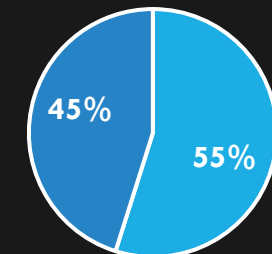
■ Aeronautical Revenue ■ Non-Aeronautical Revenue

Medium Hub



■ Aeronautical Revenue ■ Non-Aeronautical Revenue

Non-hub



■ Aeronautical Revenue ■ Non-Aeronautical Revenue

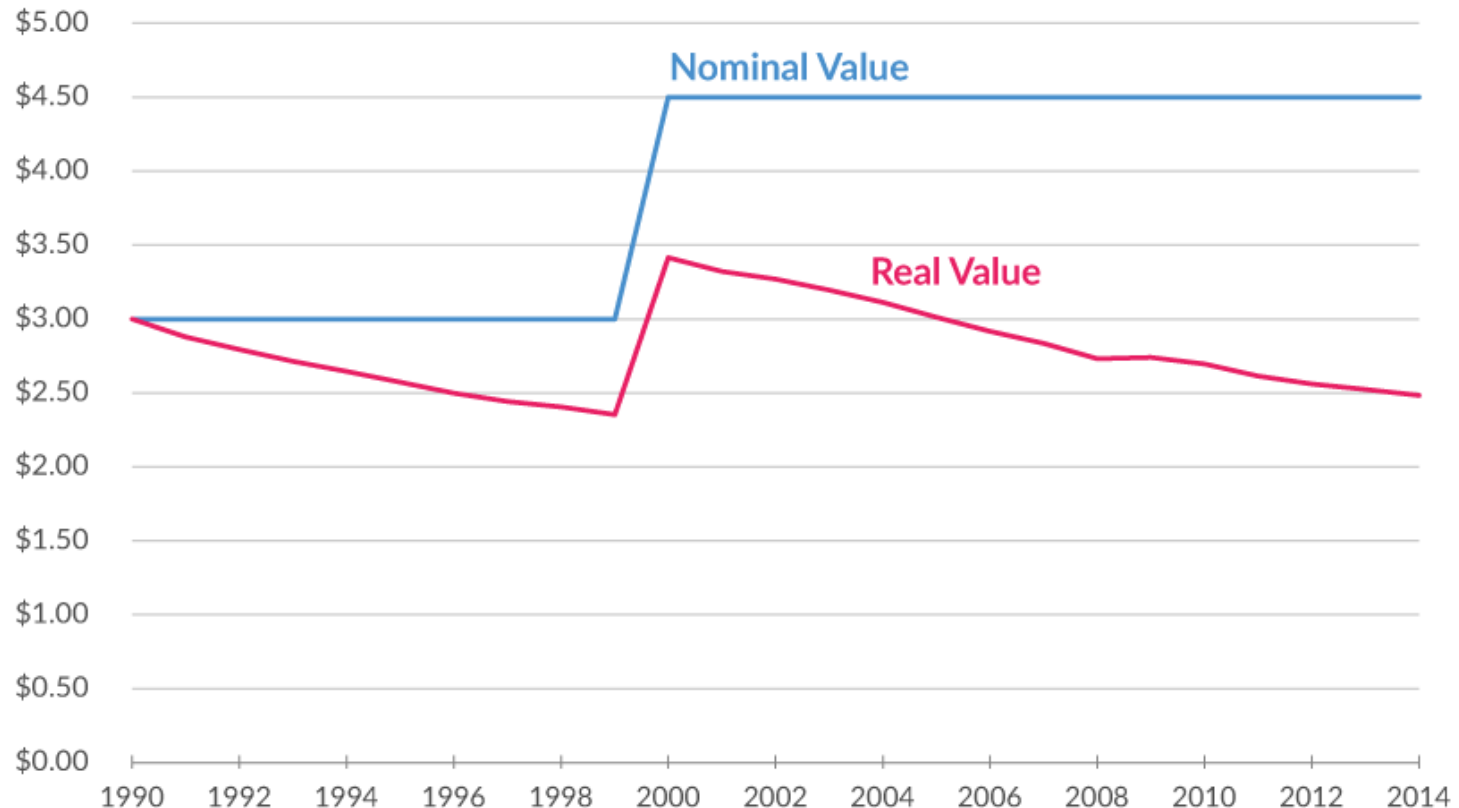
Source: FAA, Form 5100-127.

PFC AS A FUNDING SOURCE

- No increase since 2000
- No prospects in sight for increase
- Uncertainty for future funding
- Revenue committed long into future

The Passenger Facility Charge Has Not Kept Pace with Inflation

Real and Nominal Values of the Passenger Facility Charge, 1990-2014



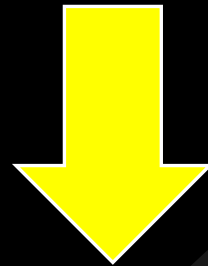
Note: The real value is calculated in 1990 dollars, using the historical Engineering News Record Construction Cost Index (CCI) to make inflation adjustments.

Source: BEA, Author's Calculations.

Source: https://files.taxfoundation.org/legacy/docs/TaxFoundation_FF466.pdf

AIP UNCERTAINTY

- Original purpose has been lost
- Declining
 - As % of airport capital costs
 - In real dollars
- Funding uncertainty (Congressional Continuing Resolutions)
- Redistribution from large to smaller airports
- Rigid contracting procedures



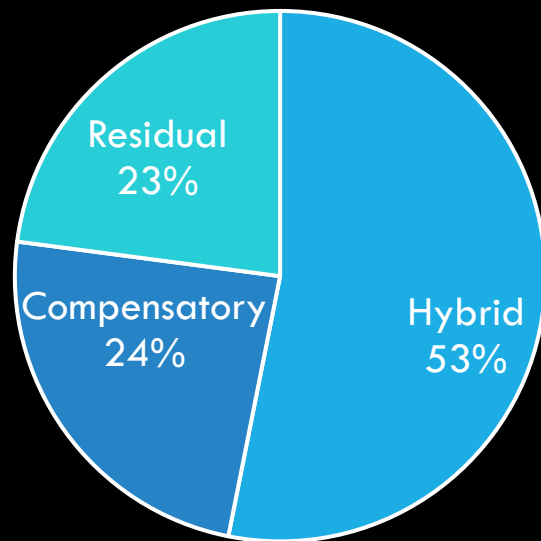
RATES AND CHARGES POLICY

- Drafted in an earlier (simpler) age
 - Largely **guidance** with few black-and-white directives
 - Most innovative, contemporary issues fall in the grey area of Policy
-
- Need to seek additional guidance
 - Be aware of regional vs HQ inconsistency

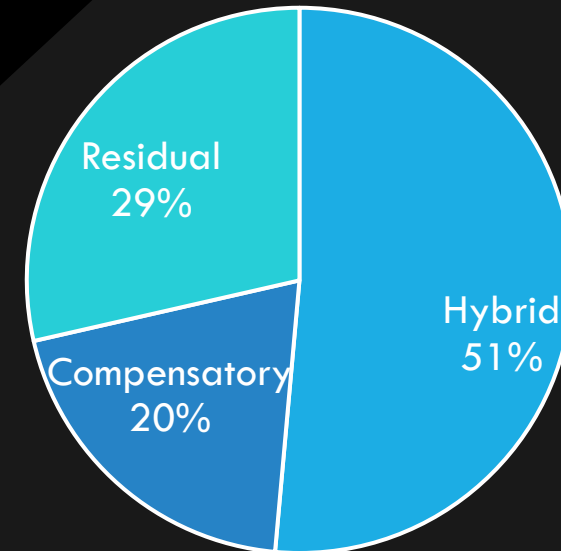


AIRLINE AGREEMENT TYPES

2003



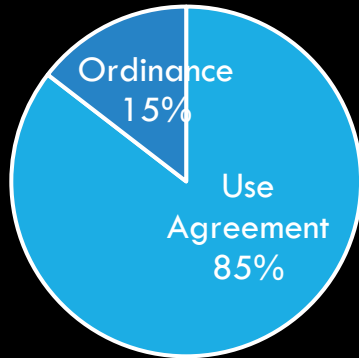
2015



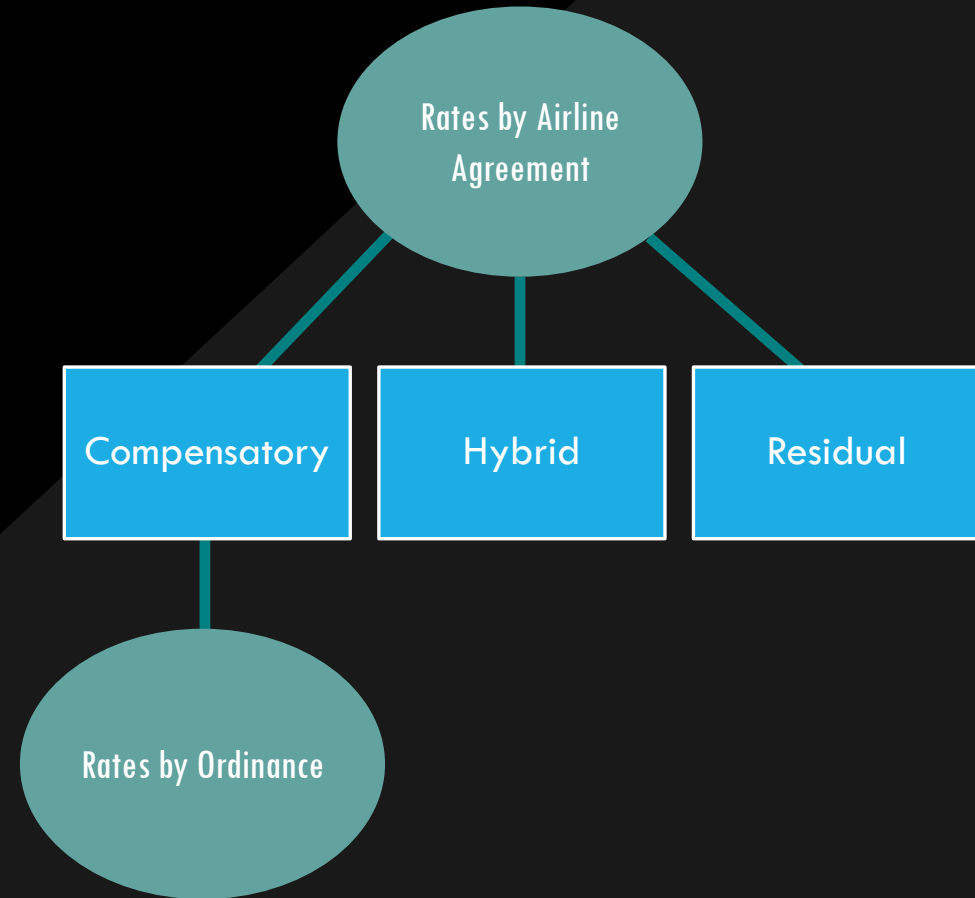
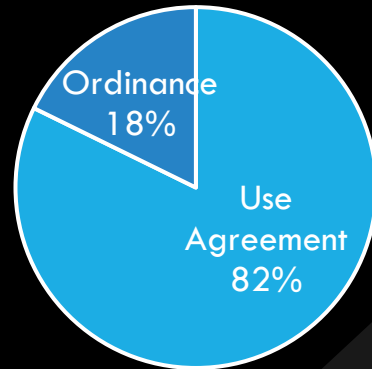
Source: 2015 ACI-NA Airport Business Term Survey, October 2015 (http://aci-na.org/sites/default/files/liying_quairport_business_term_survey.pdf, accessed October 9, 2017).

AIRLINE AGREEMENTS / ORDINANCE

2003



2015



Source: 2015 ACI-NA Airport Business Term Survey, October 2015 (http://aci-na.org/sites/default/files/liying_quairport_business_term_survey.pdf) accessed October 9, 2017).

AIRLINE AGREEMENT TRENDING TOPICS

ULCC

Sig vs
Nonsig

Rate
Calculations

Airline
Consortiums

Other Issues

ULTRA LOW COST CARRIERS (ULCC)

Issues

Controversial

Financially successful and growing

Different business model leads to need for different (but not unjustly discriminatory) rate making methodology

React more quickly than legacy / traditional low cost (flexibility)

Legacy / traditional : “ULCCs Must Pay Their Fair Share”

Benefits

Often source of new service

Often also low frequency

Don't always use all facilities



SIGNATORY VS NONSIGNATORY

Signatory

- Commitment
- CIP Input
- Facility Rentals

Nonsignatory

- Less Frequent Service
- Seasonal
- New Entrant
- Rate Premiums

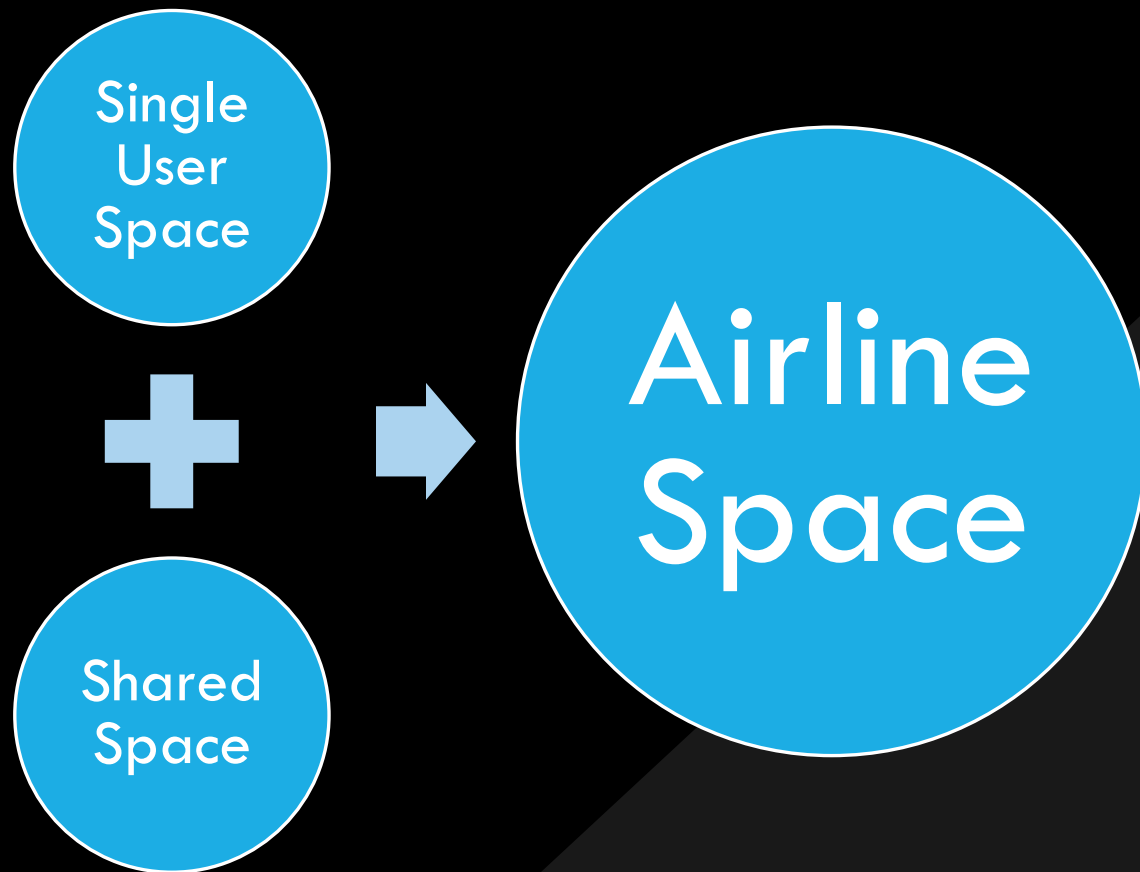
RATE CALCULATIONS - PER USE FEES

- When is a per use fee appropriate?
 - Various users share facilities
 - Occasional users of facilities
- Need for per use fees:
 - Recovery of costs
 - Administrative ease
 - Efficient use of facilities
 - Accommodate growth

Types of Space:

- **Ticket Counters / Kiosks / Queuing**
- **Holdrooms / Gates / Loading Bridges**
- **Baggage Makeup**
- **Baggage Claim**
- **International Processing (FIS)**
- **Apron (RON & Parking Fees)**

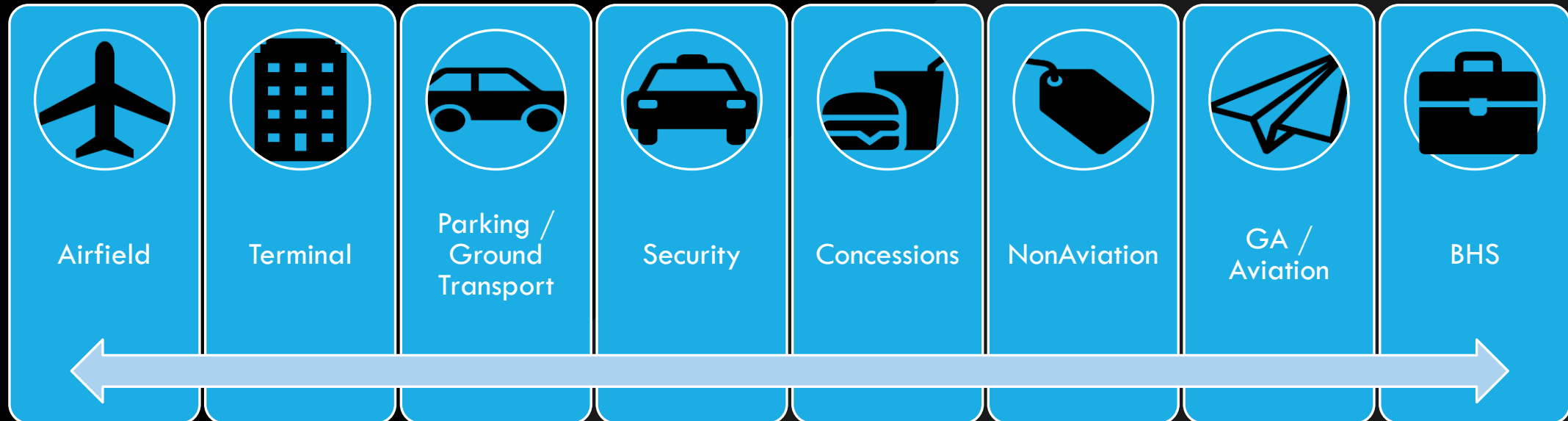
RATE CALCULATIONS – COMMON / JOINT USE FACILITIES



- Airport Design
- CUTE
- Fixed / Variable
- Airline Mix / Number
- Allocation Options

RATE CALCULATIONS - COST CENTERS

Cost Centers: Functional areas or activities of an airport or airport system used for the purposes of accounting for revenues, operating expenses, amortization, and debt service.

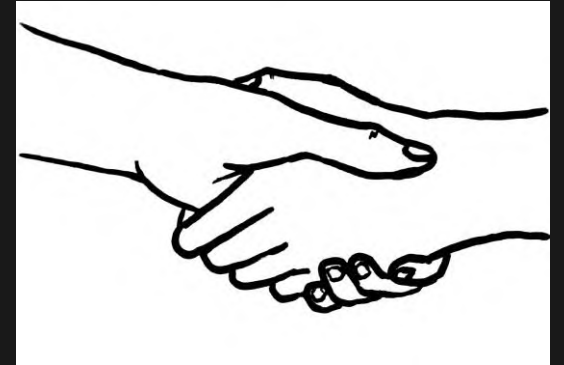


RATE CALCULATIONS - REVENUE SHARING

“It’s MY
revenue”



or



AIRLINE CONSORTIUMS

- Form of P3
- Airlines responsible for certain services
- Airlines: “this helps control cost.”
- Airport: balance cost with quality control and management

Baggage claim
Jet bridges
Blue water
Fuel farm
Fuel delivery
Janitorial

AIR SERVICE INCENTIVES

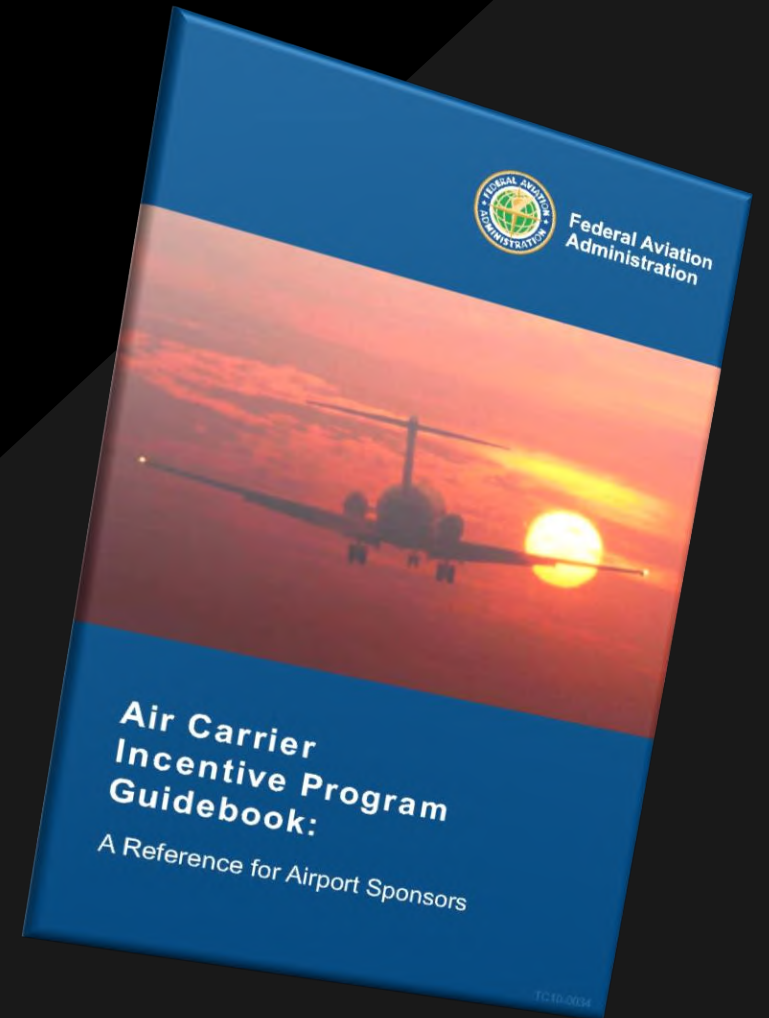
Legally very complex

Important distinctions:

Incumbent vs new entrant

Airport revenue vs outside revenue

New vs better service



AIR SERVICE INCENTIVES — BEST PRACTICES

- Minimize airport involvement in program design
- Limit airport revenue participation
- Understand long-term service and revenue plan
- Precise cost accounting

OTHER ISSUES - MAJORITY IN INTEREST (MII)



OTHER ISSUES - TERM

- Duration
- FAA outlook
- Term extensions
- Amendments



OTHER ISSUES — SIGNAGE

- Aesthetics
- Control
- Nonsignatory



NEW AND CREATIVE NONAIRLINE REVENUE SOURCES

- Non-airline tenants
- Non-aeronautical land uses
- TNCs (impacts on parking / rental car / taxi)
- CFC
- Duty Free
- GA Facilities
- Creative parking options
- Advertising

PUBLIC-PRIVATE PARTNERSHIP (P3)

What is “Privatization”?

Privatization occurs when a public utility or asset is transferred to private ownership or management.



“Assets can be managed more efficiently if they are run like a business.”

P3 ≠ privatization

COMMENTS / QUESTIONS

Bonnie A. Ossege, Vice President

Ricondo & Associates, Inc.

513-729-9706

bossege@ricondo.com

Peter J. Kirsch

KAPLAN KIRSCH & ROCKWELL

pkirsch@kaplankirsch.com