AIRPORT FINANCE — EMERGING ISSUES

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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%

CURRENT CLIMATE

Airports

Airlines
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

Parking 42%
Terminal Concessions 20%
Rental Car 19%
Other 19%

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

- Terminal Concessions
- Rental Car
- Parking
- Other
- Total
- Enplaned passengers

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

## Total - FY 2016

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<thead>
<tr>
<th></th>
<th>Aeronautical Revenue</th>
<th>Non-Aeronautical Revenue</th>
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<tr>
<td><strong>Total</strong></td>
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<td><strong>54%</strong></td>
<td>46%</td>
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### Large Hub

- Aeronautical Revenue: 43%
- Non-Aeronautical Revenue: 57%

### Small Hub

- Aeronautical Revenue: 44%
- Non-Aeronautical Revenue: 56%

### Medium Hub

- Aeronautical Revenue: 52%
- Non-Aeronautical Revenue: 48%

### Non-Hub

- Aeronautical Revenue: 45%
- Non-Aeronautical Revenue: 55%

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

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

- Residual: 23%
- Compensatory: 24%
- Hybrid: 53%

2015

- Residual: 29%
- Compensatory: 20%
- Hybrid: 51%

AIRLINE AGREEMENTS / ORDINANCE

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

<table>
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<tr>
<th>Signatory</th>
<th>Nonsignatory</th>
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<tbody>
<tr>
<td>• Commitment</td>
<td>• Less Frequent Service</td>
</tr>
<tr>
<td>• CIP Input</td>
<td>• Seasonal</td>
</tr>
<tr>
<td>• Facility Rentals</td>
<td>• New Entrant</td>
</tr>
<tr>
<td></td>
<td>• Rate Premiums</td>
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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
**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
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)

- Defer / Deny
- Projects
- Legal
- Control
- Airport / Airline
- Talk
- Amount
- Duration

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.

P3 ≠ privatization

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

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