Why are we here?
Worldwide acceptance of P3s/privatization
Airports are valued by investors: valuations range from multiples of 9.0 to almost 30.0!

Source:
http://www.rdcaviation.com/Insights/Article/44/Airport-Transaction-Update-and-2016-Outlook
This morning’s introduction

- Context for airport industry in USA
- Definitions
- Why the interest in P3s
- Types of P3s
- Evaluating the economics of P3s
Terminology: a word of caution

“There is no single, internationally accepted definition of *Public-Private Partnership*.”

- PPP Knowledge Lab, The World Bank Group

Equivalent terminology does not necessarily equate to equivalent meaning
Terminology: defining airport P3s

- An arrangement by which one or more services or projects that traditionally have been provided or performed by a public sponsor are instead provided or performed by a private sector entity.

- An arrangement through which a private sector partner will exercise greater control, have greater responsibility and/or make a greater financial investment than would customarily be the case with respect to a particular type of airport contract, service, or project.
Historic responsibilities in USA

Federal Government
- Air traffic
- Capital funding
- Airport regulation

Local Government
- Airport ownership
- Airport control
- Airport operations

Private Sector
- Airlines
- Concessions
- Service providers
Context: USA airport market

- Very few private *commercial* airports (2 ± of 550)

- Many publicly owned, operated *general aviation* airports (5,000 ±)

- Most *general aviation* airports are privately owned, operated (15,000±)

- Most commercial airports are owned and operated by public sponsors but have some level of private investment
Each stakeholder has a role in P3 transactions

Political Stakeholders
- Who’s calling the shots
- Public policy objectives
- Economic development
- Operational risk transfer
- Unlocking the value of the asset

Airport Stakeholders
- Airlines
- General aviation and corporate
- Airport management
- Passengers

Community Stakeholders
- Airport neighbors
- Non airport users
- Businesses
- Workforce
What distinguishes USA airports?

"Commercial means for public ends"

1. **Organizations:** Non-profit, business conducted in public.
2. **Highly Regulated:** Economic (AIP-grant assurances, PFCs, user charges), Environmental (federal and state processes) and Security/Facilitation federal operations).
3. **AIPP:** Second form of FAA regulation with a different rule set--some additional flexibility. Limited application in market so far.
4. **Infrastructure-Rich:** AIP funding (5% - 30% local cost share) unusual globally
5. **Indirect Benefits > Direct Benefits:** Airports valued for the indirect benefits they bring to the community/region—”the airport’s constituencies” not for their direct benefits--the economic return to shareholders.
Why examine new financing alternatives?

Why?

- Access to non-traditional source of capital, new partners and access to global expertise
- Ability to use capital for non-airport purposes (privatization only)
- Value for airport infrastructure investment and business plans
- Widespread elsewhere in the world—lots of lessons learned.

Key Issues

- Who takes on what risks?
- How much do those risks cost?
- What are the alternatives?
- How do you obtain the best deal?

First step:

A “Value for Money” study, which assesses the benefits and costs of a range of procurement and operational strategies
Sources of capital funding
Types of private sector engagement

- Developed Completely by the Private Sector
- Full Privatization
- Developer Financing and Operation
- Management Contracts
- Service Contracts
- Product or Service Sales
- Advisory Services
Focus on P3 arrangements

- Design Build Finance Operate Maintain
- Design Build Finance
- Design Build Operate Maintain
- Design Build
- Design Build Transfer

Developer Financing and Operation
One permutation: Airport Privatization Pilot Program (now AIPP)
P3s in today’s USA airport market

Public Sector Challenges

- Inadequate airport terminal and ground transport infrastructure given airline trends of larger aircraft, higher load factors and traffic growth
- Traditional tools, such as AIP and PFCs, have lost real value since their peak 20 years ago
- FAA eligibilities focused on airport airside needs—terminal and ground projects harder to fund
- Consolidated airlines increasingly powerful negotiators who are not reticent about wielding influence with airport boards and in Washington

Commercial Drivers

- The airport sector is attractive due to its market (air service growth), development opportunities and cost-recovery mechanisms
- Experience with overseas airports has established a solid track record with EBIDTA multiples averaging around 12x (and even higher for immature markets)
- Different airport challenges, provide the right fit for equity investors with varying risk/return expectations
- Recent track record of USA airport PPPs stimulating interest and competition for limited opportunities

The majority of active and pending P3s focus on terminal development — where aero and non-aero revenues are available
How should deal be structured?

Risk transfer: what is being transferred from the airport sponsor to the private sector? What risks are retained? Experience suggests five important factors:

1. **Market/traffic risk:** Industry and airport profile (revenue share / availability payment)
2. **Costs:** capital expenditure (taking away budget & schedule risk)
3. **Revenues:** commercial revenues (car parking, commercial development area), but also allocation of use agreement and PFC proceeds?
4. **Rights and Obligations/Service:** Terms of contract and/or concession (service level requirements, rights to revenues). Incentives for ‘right ‘behaviours.
5. **Term:** Medium to long term dependent on amount of capex and time to generate financial return to investors (20 to 40 years)?

Use market competition to get the “best deal”. The deal must be structured right to receive enough bidders.
An investor’s perspective on revenues and costs

- Network Development Analysis of unserved routes and markets
- Traffic Forecast
- Testing impact on traffic and revenues of different schemes
- Optimising charges structure in line with regulation in place
- Differentiation by quality of service provided (e.g. LCC terminals)
- New airline opportunities (e.g. LCC)
- Airside and Terminal constraints analysis
- Development of connecting traffic
- Optimisation of parking price structure
- Upgrade passenger concessions offer
- Development of Capex project to improve layout of commercial area
- New terminal layout for long term traffic development
The levers and logic of a P3

- **Project: Terminal estimated at Capex $1 billion**

  $642 million in Revenues from business plan (Aero and non-aero)

  Remaining gap to be funded by the Authority = $358 million

New ideas for higher commercial revenues or cost-efficient operations improving the economics of the terminal expansion

- 10 million passengers, assume growth at 2% per annum
- ‘Current’ commercial net revenue per passenger $5.00
- ‘New’ approach to commercial, net revenue per passenger $7.50
- Discount rate of 8%, over 20 years

Revised gap after market pressures and innovation = $74 million

To be financed from other contributions (user charges, PFCs)
Multiple sources of capital funding (reminder)
How to make a deal attractive

▪ What works?

▪ Avoid the pitfalls

▪ Look at examples inside and outside of USA

▪ Protect your goals for the transaction (i.e., design standards, brand) without over-specifying the terms of the deal

▪ Advance homework—run the numbers

▪ Talk to and listen to developers and investors; encourage innovative solutions

▪ Give investors some ideas and get a competition of 3+ interested firms
Coming up at this conference ...

Walk through the decision-making process

- Lay of the land
- Pre-procurement decisions
- Procurement
- Getting support from political leaders
- After financial close
- Lessons learned
Questions and Discussion