Privatization and Reverse Privatization in the USA

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Overview: Why so little privatization?

- Airport privatization is challenging in the USA
- Tradition favors government control
- Legal, practical hurdles remain
- Recent new incentives for privatization
- Hybrid model of privatization are the rule in the USA
  - Private investment
  - Government control
Context: USA airports

- Very few private \textit{commercial} airports (2 ± of 550)
- Many publicly owned, operated \textit{general aviation} airports (5,000 ±)
- Most \textit{general aviation} airports are privately owned, operated (15,000±)
- Most airports have some level of private investment
Private commercial airports
Privately operated, publicly owned commercial airports (examples)

- Rochester (RST)
- Albany (ALB)
- Stewart (SWF)
- Westchester County (HPN)
- Bob Hope (BUR)
- Atlantic City (ACY)
- Sanford (SFB)
Traditional division of responsibility

- **Federal Government**
  - Air traffic
  - Capital funding
  - Airport regulation

- **Local Government**
  - Airport ownership
  - Airport control
  - Airport operations

- **Private Sector**
  - Airlines
  - Concessions
  - Service providers
Privatization models in the USA

- Most USA airports have a high degree of private investment
- Privatization exists along a continuum

1. Private airport development
2. Long term lease/ concession
3. Project finance and operation
4. Management contract
5. Contracted services
Airport Privatization Pilot Program

  - 10 slots
- Use of proceeds by seller
- Airport can receive federal grants and levy a passenger facility charge
- Has not proved successful – only one completed; one in process
Federal Privatization Program airports

Hendry (2IS)

Stewart (SWF)

Niagara Falls (IAG)

San Juan (SJU)

Midway (MDW)

Gwinnett (LZU)

New Orleans (NEW) (MSY)

Brown (SDM)
Constraints on privatization

- FAA approval authority
- Grant assurances
- Prohibition against diversion of airport revenue
- Federal grant eligibility
- Grant repayment
- Constitutional rights and protections
- Property tax exemption
- Anti-trust immunity
- Passenger facility charges
Policy and political disincentives

- Tradition of local political control
- Federal financial incentives designed for public entities
- Airlines understand, feel secure with current system
Grant Assurance constraints

- **Assurance 5** (Preserving airport sponsor rights and powers)
- **Assurance 22** (Airport available for public use on reasonable terms and without unjust discrimination)
- **Assurance 23** (prohibition on granting of exclusive right to conduct an aeronautical activity)
- **Assurance 24** (Self-sustaining rates and charges)
- **Assurance 25** (Prohibition against diversion of airport revenues)
Regulatory hurdles

- Closed fiscal loop is key part of USA system
  - Airport revenue may be used only for airport purposes
  - Airport revenue is defined broadly to include the proceeds from the sale or lease of airport property
  - Applies only to the airport sponsor, not private sector businesses
  - Sale proceeds only for airport purposes (except pilot program)
- Distinguish private ventures from private airport
Property tax exemption

- Public airports exempt from property taxation under laws of most states
- These exemptions typically not applicable to a private operator of a public-use airport
Legal and financial constraints

- Federal Airport Improvement Program (AIP) grant funding for capital projects
- Passenger Facility Charges (PFCs)
- Tax-exempt debt and related financing
- General antitrust immunity for states and local governments
Reverse privatization

- “Proprietary exclusive” exception to competition requirements
- Local government assumption of airport services
- Revenue generation to benefit users
- Direct competition with private sector enterprises
- Controversial
What’s next for privatization in USA

- Need for access to private capital
- Reduced federal capital spending
- Increased regulatory burdens on public funding
- Foreign investment in infrastructure now accepted
- Innovative approaches increasingly accepted
Questions?

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