PUBLIC PRIVATE PARTNERSHIPS (P3s) AT U.S. AIRPORTS

Broadly, Public-private partnership (P3) refers to arrangements, typically medium to long term, between the public and private sectors whereby some of the services that fall under the responsibilities of the public sector are provided by the private sector, with clear agreement on shared objectives for delivery of public infrastructure and/ or public services[1].

U.S. airports are critical infrastructure assets that are important components of the country's transportation network. They enhance the movement of people, goods, and services throughout the United States and around the world, allowing the economy to operate more effectively and efficiently. Airports continue to look for efficiencies to increase their competiveness and be more financially viable. As a result, they look to different forms of privatization to accomplish this endeavor. All, or a portion, of these options can be chosen depending on the needs of the airport. There are four generic privatization models: service contracts, management contracts, developer financing/operation, and long-term lease or sale[2].

PRIVATIZATION MODELS

Service Contracts: Contracting services, or outsourcing, is the delegation of non-core operations from the public sector to a private entity that specializes in the operation, maintenance, or management of that activity. Examples include maintenance services, airline equipment, shuttle bus operations, and project management.

Management Contracts: Airport owners may contract the management and/or operation of an airport-wide system or specific facilities such as parking, terminal concessions, terminal operations, and reliever airports. Management contracts for parking operations are particularly prevalent and effective. There are two examples where the allocation of responsibilities and control for a full airport system is contracted: (1) Albany International Airport is operated by AvPorts and Go-Albany, Inc.; and (2) Bob Hope Airport is operated by TBI Airport Management, Inc. Both airports continue to be owned by their respective airport authority.

There are also examples, at general aviation airports, where an airport management company serves as the fixed-based operator (FBO), providing aeronautical products and services to airport tenants and users in which case the company will be subject to the same grant assurance obligations as the airport sponsor.

Developer Financing/Operation: This is when an airport contracts with a developer to finance and operate a facility. Examples include these types of facilities: parking garages, rental car, cargo, general aviation, as well as other facilities.

The most recent example is the Gary Chicago International Airport privatization that secured agreements for a master developer and a master airport management agreement that are

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[1] PPP in Infrastructure Resource Center: http://ppp.worldbank.org/public-private-partnership/overview/what-are-public-private-partnerships.

[2] This White Paper is developed based on ACRP Report 66: Considering and Evaluating Airport Privatization.

expected to bring at least $100 million in investment to the Airport within the next 40 years. The Airport's P3 Committee did not require an upfront payment but wanted to solidify a partner to invest in the Airport. Should the team be unsuccessful in securing the required investment, the Airport has the right to shorten the term or cancel the contract, thereby keeping some control. The winning bidder, AFCO, will receive up to 20% of the profits when they lease or develop projects as well as 20% of the profits on airport operations. The Airport will pay AFCO's subsidiary, AvPorts Management, $120,000 annually to operate the Airport.

Full Privatization (Long-term Lease or a Sale): Under this model, the airport owner enters into a long-term lease, long-term concession, or the sale of an airport. This may, or may not, be accomplished under the FAA's Airport Privatization Pilot Program (APPP). If it's a long-term lease or concession agreement, the airport owner grants full management and development control to the private operator who, in turn, makes capital improvements and/or takes on other obligations such as the outstanding debt. If it's a sale, the airport is transferred on a freehold basis with the requirement that the facility continue to be used for airport purposes.

The first privatization of a large commercial airport, under the APPP, occurred in 2013. San Juan, Puerto Rico's Airport entered into a 40 year lease with Aerostar that will benefit from improved facilities for a much improved customer experience with the Airport still maintaining ownership of this vital asset. In addition, the airlines will have the certainty of fixed airline payments for the next five years, with future increases capped by the rate of inflation. The Puerto Rico government received $615 million in up-front proceeds and anticipates another $600 million from revenue sharing over the life of the lease. Finally, Aerostar has announced a $1.2 billion capital program over 40 years. $200 million will be spent on a terminal renovation within the next two years.

PRIVATE AIRPORT DEVELOPMENT

There are examples of private investors funding the development of airports without the benefit of federal or state grants. They operate as for-profit businesses and most are at general aviation airports. However, Branson Airport, LLC, in Branson, MO, is an example of a commercial passenger airport that was privately developed and, now, privately operated.

Private developers raised $155 million in capital and received airspace approval from the FAA. They created a one-runway airport with a contractor-operated control tower and a modest terminal building. Currently, Branson has scheduled passenger service to Atlanta, Chicago Midway, Denver, and Houston. However, Branson's passenger traffic was much less than 50% of the initial forecasts. As a result, they have faced financial challenges, reporting losses between 2010 and 2013 in excess of $50 million. Air service development continues to be an issue at the same time other commercial airports are having the same problem.

SUMMARY

Public Private Partnerships can offer airports an alternative option to improve financially and/or operationally. An airport has to fully understand the drivers of passenger demand and air service supply and ultimately what is best for their airport in both the short and long term. In addition, a P3 can only work when the airport knows the limitations, the benefits, and how the private sector is going to work with the airport owner and their board. Detailed guidelines must be spelled out in a written agreement. Finally, adhering to all existing and future federal and state government regulations and policies completes the recipe for success.

This document was prepared by the ACI-NA Finance Committee. If you have any questions, please contact Annie Russo (arusso@aci-na.org).

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