Session 3C: Rates and Charges: Current Trends and Case Studies

ACI-NA 2019 Business of Airports

Scottsdale, Arizona
June 11, 2019

Welcome!

What we hope you walk away with today...

- — Appreciation of complexity and inter-relatedness of big issues
- — Broad perspective of airline strategies and impact upon airports
- — No one size fits all, not every airport has same fact case
- — Hear first-hand accounts of how these tough issues were addressed at other airports

Moderators

1. Sheri Ernico, Director, LeighFisher

2. Bonnie Ossege, Vice President, Ricondo

3. Eric Smith, Partner, Kaplan Kirsch Rockwell

Panelists

1. Lew Bleiweis, A.A.E., Executive Director, Greater Ashville Regional Airport Authority

2. Dave Long, Deputy Director, Properties & Commercial Development, Kansas City Aviation Department

3. Kathleen Sharman, CFO, Greater Orlando Aviation Authority

4. Scott Brickner, Vice President, Chief Financial Officer, San Diego County Regional Airport Authority


GAME PLAN

First things first…

1. Setting and prioritizing goals vs. Christmas wish list
2. Right people in the room - important but easily overlooked
3. Buy in from policymakers (Board, Council, Mayor, etc.) and other relevant stakeholders
4. Understand your leverage position or lack thereof
5. **Special circumstances (political agendas, dominant airline position, labor, FAA-required Competition Plan, etc.)**

Airport Goals

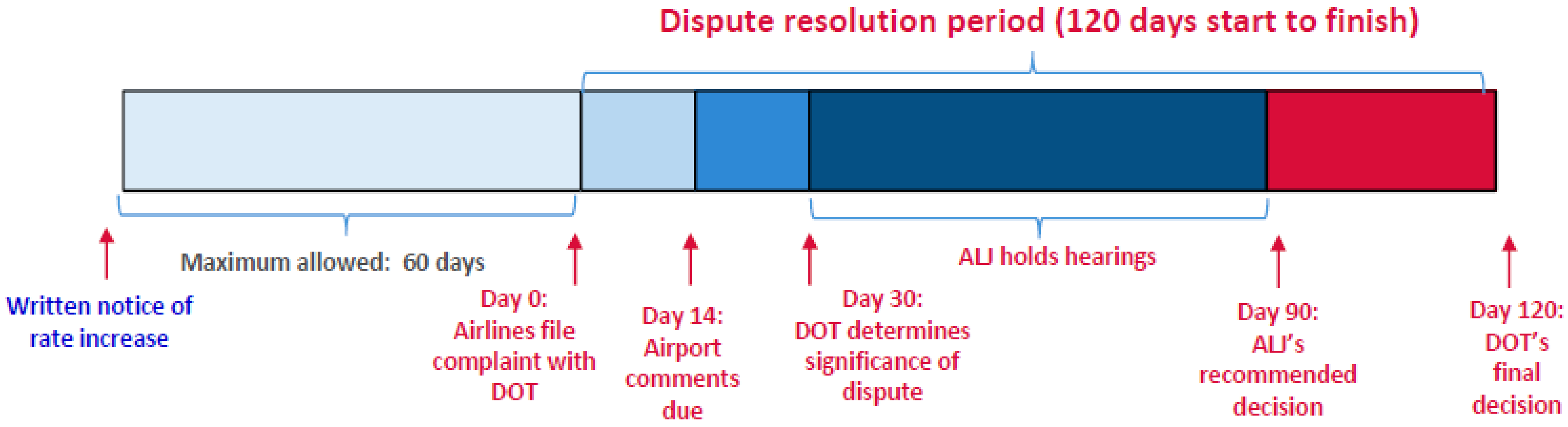
- Keep rates level
- Reduce costs?
- Lower financial barriers to low frequency carriers (e.g., cost per turn, common/joint use formula)
- Maintain competitive CPE
- Increase air service
- Provide facilities for growth
- Pay for capital programs (debt and paygo)
- Maintain good credit rating
- Maintain good airline relationship

Rate-Setting Methodology

1. Related to goals
2. Determine your leverage (“bookends”)
3. **Airport rates & charges are the new frontier for airline competitive tactics**
4. Need to address all airline business models - varied impact of certain methodologies on traditional vs low-frequency carriers
   – Joint/Common Use Formula
   – Per turn fees
5. Resist airlines “We’ve always done it this way”
6. Do not feel bound by the past! Creativity is the key

Ordinance vs. Agreement

1. Ordinance vs. agreement
2. Can't unilaterally set rates by resolution
3. Must consult even under ordinance
4. Legally must consult with <u>all</u> carriers not just current signatories (except for cargo carriers if they will be subject to a separate agreement)
5. Potential for "Rocket Docket"



Signatory Status, Non-Sig Premium

1. **Entry fee/minimum commitment to be signatory (minimum space or turns – financial commitment)**

2. **What does the airport get in return?**

3. **Non-Sig premium consequences – be critical of why it would be imposed – we've always done xx, barrier to international carrier**

4. **Cargo under separate agreement? (considerations: do not pay PFC or generate nonairline passenger-related revenues, MII implications)**

Terminal Space

1. Gate rights
2. Common/joint use space
3. Administrative space – where to put costs
4. Airport rights over sharing/moving/reallocation

Capital Programs and MII

1. **Can drive negotiations**
2. **Could influence whether airport wants to have ordinance (impact on bond rating)**
3. **MII only if airline skin in the game – how many times do you want to "Mother May I?"**
4. **Relevance of airport exposure to financial risk vs airline backstop (compensatory vs. residual)**
5. **Airline focus on liquidity or Days Cash on Hand / DCOH (note: airlines use FAA CATS Form 127 data extensively)**

Term

1. The “Olden Days”
2. Current context
3. Factors and relevancy
4. Amended / extended agreements becoming more common
5. The Big 4 use of term as a weapon against ULCCs

Panelists

Background	Kathleen (MCO CFO)	Lew (AVL CEO)
Hub size	Large	Small
Agreement or Ordinance	Rate resolution with revenue sharing agreement ("Participating Airlines")	Rates by ordinance
Ratemaking Methodology	Compensatory w/ revenue sharing	Hybrid with revenue sharing at discretion of Executive Director (no agreement)
Size of Capital Program	$4.2 billion	$100-200 million (future)
When negotiated	Ongoing	2016-2018
Length of Negotiations	Started 7/2018 – finish 9/2019?	2+ years

Background	Dave (MCI CCO)	Scott (SAN CFO)
Hub size	Medium	Large
Agreement or Ordinance	Agreement	Agreement
Ratemaking Methodology	Pre-DBO Compensatory → Post DBO Residual	Compensatory terminal / airfield cost center residual; no revenue sharing
Size of Capital Program	$1.75 billion ($1.5B for new terminal)	$2.7 billion for Terminal 1
When negotiated	Completed 5/30/19	Finalizing
Length of Negotiations	5 years (started 2014)	Approximately 18 months

MCO New South Terminal Complex

Asheville

MCI New Terminal Complex

San Diego

Questions & Answers

1. **Approach to Negotiations**
2. **Most Challenging Issues?**
3. **Baggage Area and Other Common Use Areas Fee Formula**
4. **Turn Fees for Common Use Facilities**
5. **Revenue Sharing and Discretionary Cash Flow**
6. **Gate Assignment / Leasing**
7. **Project Governance for Major Project(s)**
8. **Other Topics**
   - Special ‘Asks’ by Airlines?
   - CPE by Airline
   - Non-Signatory Premium
   - Minimum Requirement to be Signatory
   - Blended or Differential Terminal Rental Rate

Key Take-Aways

And Now for Something Completely Different…

MCO Facility Fees Example

			Budget FY 2019
	SF	Rate	Annual
Holdroom	2,661	$ 144.10	$ 383,501
Ticket Counters	909	$ 144.10	130,987
Ticket Counter Queue	-	$ 144.10	-
Bag Make-up	1,368	$ 144.10	197,129
Curbside	27	$ 144.10	3,891
Total	4,965		$ 715,508
Apron	1	50,568	50,568
Airline Equipment	1	63,987	63,987
Total Estimated Annual Costs		**[A]**	**$ 830,062**
Assumed Annual Turns (365 * 4)		**[B]**	1,460
Base Facility - Airside & Landside		[A] / [B]	$ 569
Remote Parking Rate Calculation:			
Terminal Apron Requirement Allocable to Remote RON Area from Table 3			828,865
Remote RON Rate per Position per Year			37,676
Remote RON Rate per Position per Use Overnight			$ 103
Facility Fee Revenues			
Per Turn Fees	Turns	Rate	
Base Facility - Airside & Landside	8,641	$ 569	$ 4,916,729
Airside Only	10,881	341	3,710,421
Landside Only	29	228	6,612
Arrival Only	755	171	129,105
Departure Only	14	398	5,572
	20,320		$ 8,768,439
Additional Fees			
Additional Gate Occupancy per Hour	7,858	$ 171	$ 1,343,718
Additional Ticketing Position per Half Hour	74,882	22	1,647,404
Additional Bag Make-up Pier per Hour	12,322	135	1,663,470
	95,062		$ 4,654,592
Total Facility Fees	115,382		**$ 13,423,031**
FIS Fees			
Arriving International Passengers/Crew Requiring FIS	2,521,938	$ 4.00	**$ 10,087,752**
Ramp Parking & RON Rate per use			
RON at the Gate	5,604	$ 314	$ 1,759,656
Remote Parking	2,560	103	263,680
Total Ramp Parking & RON Fees	8,164		**$ 2,023,336**

MCI TMP Project Governance

	Program Management Committee	Steering Committee (SC)
Purpose	Supports the SC by providing overall management and coordination	Review/approve any changes to all Threshold Issues
Members	**1. KCAD - Deputy Director** **2. Airline - Airline Technical Representative** **3. Developer – VP/Managing Director for TMP**	**1. KCAD - Director of Aviation** **2. Airline – AAAC Chairperson**
Responsibilities	1. Prepare and submit appropriate documents to the SC 2. Establish/review baselines, scope, cost estimates, schedules 3. Establish clear lines of responsibility, authority, and communication (spirit of teamwork among all stakeholders) 4. Minimize Program impacts on Airport operations, operating airlines, and other tenants 5. Coordinate projects with other on-going Airport projects 6. Ensure proper review and approval by the SC before contracts for services or construction are developed and executed 7. Review performance of consultant and construction contractors providing services to the Program and review quality standards 8. Coordinate both internal and external interfaces, identify any issues, and obtain resolution 9. Direct the value engineering exercises to satisfy the required function at the lowest cost consistent with performance, reliability and maintainability requirements 10. Review all significant deviations from the Program baseline as established 11. Review all packages of work 12. Approve all change orders that do not materially affect Airline operations, Program Schedule, or Program scope, or that affect the payments required of the Airlines under the Airline Use and Lease Agreement ("Threshold Issues")	1. Set Program Policy and provide Program oversight 2. Review and resolve issues to maintain forward progress in achieving Program goals 3. The SC is responsible for the following: a. Overall Program review and approval b. Decision making authority within the Program for all procurements c. Review and approval of all TMP's scope, cost and schedule d. Review Bid Packages before released for bidding e. Review and advise bid awards f. Review weekly, monthly and quarterly reports g. Review financial controls recommendations and reports 4. The SC shall review any part of the Program that has deviated from its SC approved baseline scope, budget or schedule. Developer shall recommend subsequent corrective actions based on the following criteria: a. Scope Changes b. Schedule delays over the baseline c. Budget variances over or under the baseline

Panelist Contact Information

Rates and Charges: Current Trends and Case Studies

Session 3C

Kathleen M. Sharman
Chief Financial Officer
Greater Orlando Aviation Authority
5855 Cargo Road
Orlando, FL 32827-4349
Phone: (407) 825-2043
kathleen.sharman@goaa.org

Dave Long
Deputy Director of Aviation - Properties & Commercial Development
Kansas City Aviation Department
601 Brasilia Ave
Kansas City, MO 64153
816-243-3027
David.Long@kcmo.org

Mr. Lew Bleiweis, A.A.E.
Executive Director
The Greater Asheville Regional Airport Authority
61 Terminal Drive
Suite 1
Asheville, NC 28732
Phone: (828) 654-3243
lbleiweis@flyavl.com

Mr. Scott Brickner
Vice President
Chief Financial Officer
San Diego County Regional Airport Authority
PO Box 82776
San Diego, CA 92138-2776
Phone: (619) 400-2838
sbrickne@san.org

Sheri Ernico
Director
LeighFisher
555 Airport Boulevard, #300
Burlingame, CA 94010
Phone: (650) 759-8430
sheri.ernico@leighfisher.com

Ms. Bonnie Ossege
Vice President
Ricondo
312 Walnut Street, Suite 3310
Cincinnati, OH 45202
Phone: 5136514700
b_ossege@ricondo.com

Mr. Eric T. Smith, Esq.
Partner
Kaplan Kirsch Rockwell LLP
1001 Connecticut Ave. NW, Suite 800
Washington, DC 20036
Phone: (202) 955-5600
esmith@kaplankirsch.com