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
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
1. Ordinance vs. agreement

2. Can’t unilaterally set rates by resolution

3. Must consult even under ordinance

4. Legally must consult with all carriers not just current signatories (except for cargo carriers if they will be subject to a separate agreement)

5. Potential for “Rocket Docket”
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

<table>
<thead>
<tr>
<th>Background</th>
<th>Kathleen (MCO CFO)</th>
<th>Lew (AVL CEO)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hub size</td>
<td>Large</td>
<td>Small</td>
</tr>
<tr>
<td>Agreement or Ordinance</td>
<td>Rate resolution with revenue sharing agreement (“Participating Airlines”)</td>
<td>Rates by ordinance</td>
</tr>
<tr>
<td>Ratemaking Methodology</td>
<td>Compensatory w/ revenue sharing</td>
<td>Hybrid with revenue sharing at discretion of Executive Director (no agreement)</td>
</tr>
<tr>
<td>Size of Capital Program</td>
<td>$4.2 billion</td>
<td>$100-200 million (future)</td>
</tr>
<tr>
<td>When negotiated</td>
<td>Ongoing</td>
<td>2016-2018</td>
</tr>
<tr>
<td>Length of Negotiations</td>
<td>Started 7/2018 – finish 9/2019?</td>
<td>2+ years</td>
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<thead>
<tr>
<th>Background</th>
<th>Dave (MCI CCO)</th>
<th>Scott (SAN CFO)</th>
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</thead>
<tbody>
<tr>
<td>Hub size</td>
<td>Medium</td>
<td>Large</td>
</tr>
<tr>
<td>Agreement or Ordinance</td>
<td>Agreement</td>
<td>Agreement</td>
</tr>
<tr>
<td>Ratemaking Methodology</td>
<td>Pre-DBO Compensatory $\rightarrow$ Post DBO Residual</td>
<td>Compensatory terminal / airfield cost center residual; no revenue sharing</td>
</tr>
<tr>
<td>Size of Capital Program</td>
<td>$1.75 billion ($1.5B for new terminal)</td>
<td>$2.7 billion for Terminal 1</td>
</tr>
<tr>
<td>When negotiated</td>
<td>Completed 5/30/19</td>
<td>Finalizing</td>
</tr>
<tr>
<td>Length of Negotiations</td>
<td>5 years (started 2014)</td>
<td>Approximately 18 months</td>
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MCO New South Terminal Complex
Asheville
San Diego
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...

It's my emotional support bar cart.
### MCO Facility Fees Example

#### Total Estimated Annual Costs

<table>
<thead>
<tr>
<th>Description</th>
<th>SF</th>
<th>Rate</th>
<th>Annual</th>
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<tbody>
<tr>
<td>Holdroom</td>
<td>2,661</td>
<td>$144.10</td>
<td>$383,501</td>
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<tr>
<td>Ticket Counters</td>
<td>909</td>
<td>$144.10</td>
<td>$130,987</td>
</tr>
<tr>
<td>Ticket Counter Queue</td>
<td>4</td>
<td>$144.10</td>
<td>$576</td>
</tr>
<tr>
<td>Bag Make-up</td>
<td>1,368</td>
<td>$144.10</td>
<td>$197,129</td>
</tr>
<tr>
<td>Curbside</td>
<td>27</td>
<td>$144.10</td>
<td>$3,891</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>4,965</td>
<td></td>
<td>$715,508</td>
</tr>
<tr>
<td>Apron</td>
<td>1</td>
<td>50,568</td>
<td>50,568</td>
</tr>
<tr>
<td>Airline Equipment</td>
<td>1</td>
<td>63,987</td>
<td>63,987</td>
</tr>
<tr>
<td><strong>Total Estimated Annual Costs</strong></td>
<td></td>
<td><strong>[A]</strong></td>
<td>$830,062</td>
</tr>
</tbody>
</table>

- Assumed Annual Turns (365 * 4) = [B] 1,460

#### 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

<table>
<thead>
<tr>
<th>Description</th>
<th>TURNS</th>
<th>Rate</th>
<th>Annual</th>
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<tbody>
<tr>
<td><strong>Per Turn Fees</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Base Facility - Airside &amp; Landside</td>
<td>8,641</td>
<td>$569</td>
<td>$4,916,729</td>
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<tr>
<td>Airside Only</td>
<td>10,681</td>
<td>341</td>
<td>3,710,421</td>
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<tr>
<td>Landside Only</td>
<td>29</td>
<td>228</td>
<td>6,612</td>
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<tr>
<td>Arrival Only</td>
<td>755</td>
<td>171</td>
<td>129,105</td>
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<tr>
<td>Departure Only</td>
<td>14</td>
<td>398</td>
<td>5,572</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>20,320</td>
<td></td>
<td>$8,768,439</td>
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<tr>
<td>Additional Fees</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Additional Gate Occupancy per Hour</td>
<td>7,858</td>
<td>171</td>
<td>$1,343,718</td>
</tr>
<tr>
<td>Additional Ticketing Position per Half Hour</td>
<td>74,882</td>
<td>22</td>
<td>1,647,404</td>
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<tr>
<td>Additional Bag Make-up Pier per Hour</td>
<td>12,322</td>
<td>135</td>
<td>1,663,470</td>
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<tr>
<td><strong>Total</strong></td>
<td>95,062</td>
<td></td>
<td>$4,654,592</td>
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<tr>
<td><strong>Total Facility Fees</strong></td>
<td>115,382</td>
<td></td>
<td>$13,423,031</td>
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#### FIS Fees

<table>
<thead>
<tr>
<th>Description</th>
<th>TURNS</th>
<th>Rate</th>
<th>Annual</th>
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<tbody>
<tr>
<td>Arriving International Passengers/Crew Requiring FIS</td>
<td>2,521,938</td>
<td>$4.00</td>
<td>$10,087,752</td>
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<tr>
<td>Ramp Parking &amp; RON Rate per use</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>RON at the Gate</td>
<td>5,604</td>
<td>314</td>
<td>$1,759,656</td>
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<tr>
<td>Remote Parking</td>
<td>2,560</td>
<td>103</td>
<td>263,680</td>
</tr>
<tr>
<td><strong>Total Ramp Parking &amp; RON Fees</strong></td>
<td>8,164</td>
<td></td>
<td>$2,023,336</td>
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# MCI TMP Project Governance

<table>
<thead>
<tr>
<th><strong>Program Management Committee</strong></th>
<th><strong>Steering Committee (SC)</strong></th>
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</thead>
<tbody>
<tr>
<td><strong>Purpose</strong></td>
<td>Review/approve any changes to all Threshold Issues</td>
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</tbody>
</table>
| **Members** | 1. KCAD - Director of Aviation  
2. Airline – AAAC Chairperson |
| 1. KCAD - Deputy Director  
2. Airline - Airline Technical Representative  
3. Developer – VP/Managing Director for TMP | 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 |
| **Responsibilities** | 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 |
| 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”) |
Panelist Contact Information

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Session 3C

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