Airport Beacon Report

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PIPELINES ON AIRPORT PROPERTY: REVENUE OPPORTUNITY

By Mark R. Davidson, A.A.E., Vice President

Underground and out of sight, pipelines have safely and efficiently transported petroleum to meet the energy needs of the entire nation for many years. Working day and night, pipelines supply natural gas, crude oil and refined petroleum products that sustain our entire economy, as well as our aviation industry. Millions of gallons of jet fuel are transported via pipelines directly to airports across the country every day. Some of these airports include Portland, Fort Lauderdale / Hollywood, Memphis, Raleigh-Durham, Denver, Salt Lake City, Reno/Tahoe, Greensboro Triad, and Atlanta's Hartsfield-Jackson.

If pipelines were not available at these large and medium hubs, tanker trucks or other modes of transport would be required to supply the demand for jet fuel and other petroleum products. For instance, some large hub airports without pipelines could expect approximately 75 to 100 fuel deliveries by tanker trucks every day.

Besides reducing the sheer number of deliveries at a large hub airport, petroleum pipelines offer many advantages over other modes of transportation including: less congestion on highways, airport entrance roads are safer due to reduced truck traffic, both 100LL/Avgas and Jet-A are supplied at a lower rate, as well as a steady, dependable supply of fuel is available despite road conditions and adverse weather.

Now that we have established that there is an operational advantage of having pipelines service the larger airports, the next question is: What financial impact can an airport gain by allowing pipelines on airport property to service the fuel farm or fiber optics to the terminal building. To answer this question, *Airport Business Solutions* contacted numerous airports across the country to determine the terms and conditions of different "pipeline leases." According to research results, most of the airports apply the same unimproved land rate to underground pipes. For instance, one airport in the Southeast U.S. conducts an appraisal based upon current and future use of the parcel. Once the appraisal is completed, it provides a ground rate which is applied to the land the pipelines will be occupying. If the surface property is valued high, the underground rate is the same.

One last word of advice: If you permit a pipeline, make sure the contractor fills in the trench ! !

Other airports apply a different technique. For instance, one airport in California applies a standard 1/3 ratio to underground pipelines. For instance, if the land rate is appraised at $1.00 per square foot per year, the airport charges the pipeline company 1/3 of the rate, or $0.33 per square foot per year.

Another unique method of determining the value is the method used at an airport in Texas. The company

requesting the pipeline must survey the land required and a square footage is determined based on the land that would be tied up. The airport issues a license and the rate applied to the square footage is derived from the "Airport Services Rate." Each year, the airport authority calculates an "Airport Services Rate" that is applied to all the tenants utilizing the airport. The rate can increase or decrease based upon the financial condition of the airport. For instance, if the service rate was $25,000 per acre, the square footage rate would be $0.58.

Most pipeline easement agreements range from 10 to 40 years in length and rely upon the pipeline companies to perform surveys to provide the square footage of the lease agreements or easements. According to airports surveyed, the square footage was the length of the pipe plus the width required for the pipe, plus a buffer zone. The easement area is usually at least three feet wide, even with a 12-inch pipeline.

Although the majority of airports contacted collected revenue for fuel pipelines and fiber optic providers, some airport operators allowed the easements for free. Either way, during our research we found (as usual), every airport does it a little differently. To maximize revenue and potential, it is critical to consider the market and local conditions.

There are two key elements that an airport must consider when evaluating pipeline easements. One, remember that a pipeline easement encumbers part of the airport, and generally prohibits the development, or at least the maximum development, of that area of the airport. Secondly, as with many other secondary land uses on an airport, remember that they are there for a reason, and that reason is usually that it makes economic sense for the pipeline owner for it to be on your airport. In other words, it makes them more money by it being on the airport than at other potential locations. Therefore, make them pay for the privilege and opportunity. Furthermore, make sure any easement agreement protects the airport and gives you the right to require the tenant to relocate the pipeline if it encumbers future airport development.

How to spot a millionaire!

OUTSIDE THE AOA

By ABS Staff

*("Outside the AOA" is a new addition to the **Airport Beacon Report**. The opinion article will provide unique and controversial perspectives to issues that affect the industry. During the next year, we guarantee you will not agree with everything you read within this section.)*

As you may have heard before, "If you've seen one airport, you've seen one airport!", implying that every airport is different. However, everywhere you turn, many Federal and state regulations are applied to airports across the nation in the same way, despite the differences. For instance, take the restrictions surrounding capital funding. Each airport has unique funding requirements to operate, maintain, and develop the airport for the future, as well as different

opportunities to generate revenues. Yet airport owners have to be careful in the terminology used within grant applications. Using words such as 'maintain' is taboo, but using the words 'renovate' or 'rehabilitate' is okay. The overall project scope is the same, yet the FAA has strict guidelines that restrict funding maintenance or airport operating costs.

Which brings us to our controversial point. In addition to capital projects, it is our opinion that airports should be able to use Passenger Facility Charges (PFC) to fund operating costs required by the FAA. For instance, FAR Part 139 requires airports to have Aircraft Rescue and Fire Fighting (ARFF) to meet the index based upon the commercial aircraft utilizing the airport, yet there is no funding mechanism to finance the mandate.

Some airport operators reading this may completely disagree with this concept, since they probably have residual agreements that would be in conflict with the idea. Others may have huge capital debt or may require future PFCs to fund a new terminal in the next five years. On the other hand, some airport operators may appreciate the idea and need the assistance funding ARFF or Self-Inspection Specialist. No matter how you look at it, each airport sponsor needs the flexibility to finance operating costs, as well as capital expenditures. Relaxing the funding restrictions may open the doors to creative measures that would free up cash for other concerns, such as air service.

The rarely photographed Florida squirrel!

ASK ABS

In each issue, we have included a section called "Ask ABS," where we request aviation-related questions from our readership. Each month we publish one question that we receive from our readers with a joint reply from our professional consulting team. Even if your question is not selected, all questions submitted will be responded to via e-mail. Please submit a question by e-mailing Mark Davidson at the following: **mdavidson@airportbusiness.net**

This month's question comes from an anonymous FBO. *"I am in the process of renegotiating my lease with the airport, and there are certain things I want included in my lease. However, the airport manager keeps telling me not to worry about these issues, that he will "take care of me" if the issue arises in the future. Should I worry?"*

Worry, yes, panic, no. Lease negotiations are complex events that can and will impact an airport and tenant for a long time. Anytime you are dealing with a legal document or process, ALWAYS get it in writing. Two very important things to remember when you are negotiating a lease are: (1) the airport manager and/or anyone else on the staff you are dealing with may not be there when an issue arises where you have a "verbal agreement"; and (2) you may not be around when the issue arises.

No matter which side of the table you are on in a lease negotiation, always remember that you are probably negotiating with one or two successors over the life of the agreement, especially if it is a long-term lease. Do not leave anything up to interpretation or "he said, she said." In most cases, the more time and effort you spend now, the easier your life (and job) will be in the long-run. A common theme of new airport management is "I can't believe my predecessor did that." Moreover, when things get confrontational, you can bet that "I cannot find any documentation of that matter" will not work in your favor.

As the FBO, remember that taking the approach that "I won't be around by the time that happens" is not prudent from a business standpoint. Lots of things may happen that could impact your longevity on the

job. Moreover, and more importantly, when the time comes to sell, the buyer is probably going to discount anything that potentially negatively impacts the viability of the business, especially if it relates to a "verbal agreement" between you and the airport. Even future or prospective issues that are marginally bad or financially neutral have less of an impact if they are clearly documented as to what happens or who is responsible in certain instances. The known is almost always more valuable than the unknown. This is not to say to not trust your airport management, but rather that things change over time. Protect yourself in the present, and the future will likely offer fewer roadblocks.

(**NOTE:** The aforementioned answer could just as easily been from an airport. In that case, you can generally interchange FBO and airport management to yield the same moral to the story.)

Airport Business Solutions is recognized as the leader in providing valuation, analysis, and consulting services to airports and aviation businesses, and offers a diversity of backgrounds and experience which provides a new, creative, and "outside the box" perspective on a myriad of aviation issues and problems.

In addition, our international affiliate, Airport Business Solutions International, AEC, has helped numerous airports worldwide with a variety of airport management and operational issues and problems. Problems at international airports are no different from those experienced at airports in the U.S., and the diversity of experience and breadth of knowledge of Airport Business Solutions International has been extremely valuable in achieving comprehensive solutions to those issues.

For More Information

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JOKE OF THE DAY

Several men are in the locker room of a golf club. A cell phone on a bench rings and a man engages the hands-free speaker function and begins to talk. Everyone else in the room stops to listen.

MAN: "Hello."
WOMAN: "Honey, it's me. Are you at the club?"
MAN: "Yes."
WOMAN: "I am at the mall now and found this beautiful leather coat. It's only $1,000. Is it OK if I buy it?"
MAN: "Sure, go ahead if you like it that much."
WOMAN: "I also stopped by the Mercedes dealership and saw the new 2006 models. I saw one I really liked."
MAN: "How much?"
WOMAN: "$90,000"
MAN: "OK, but for that price I want it with all the options."
WOMAN: "Great! Oh, and one more thing.... The house I wanted last year is back on the market. They're asking $950,000"
MAN: "Well, then go ahead and give them an offer of $900,000. They will probably take it. If not, we can go the extra $50,000. It is clearly a pretty good price."
WOMAN: "OK. I'll see you later! I love you so much!!"
MAN: "Bye! I love you, too."

The man hangs up. The other men in the locker room are staring at him in astonishment, mouths agape. He smiles and asks, "Anyone know who this phone belongs to?"