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IMPLEMENTING THE FAA'S REVISED ADVISORY CIRCULAR

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

On July 29, 2005, the FAA issued Advisory Circular (AC) 150/5070-6B to provide guidance for the preparation of master plans for airports. The new AC replaced 150/5070-6A, which was issued 20 years ago. The new AC attempts to improve the planning process and focus on development of existing airports. The old AC did not keep pace with new planning techniques and failed to provide a flexible approach. Other noticeable changes include a focus on setting goals and objectives, planning for efficiency (avoiding subsequent work), a decreased focus on developing forecasts, current security issues, and a new chapter: "Facility Implementation Plan".

Chapter 11 - Facilities Implementation Plan, provides guidance on how to implement the findings and recommendations of the master planning effort. Oftentimes, an airport will include unrealistic plans for the future without consideration of what is feasible or how the airport can overcome the financial or operational obstacles. As the FAA states within the AC, "the Facilities Implementation Plan must balance funding constraints; project sequencing limitations; environmental processing requirements; agency and tenant approvals and coordination processes; business issues, such as leases and property acquisition; and sponsor preferences." The FAA later states within the AC that "because the implementation plan may be read as a stand-alone document, planners should provide enough documentation sources, allowing it to be independent of the master plan."

If these suggestions and elements of the implementation plan sound familiar, they should.

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The elements and goals are similar to the elements and goals found in a typical airport business plan. *Finally*, the FAA's recommended master plan process is taking into consideration the business circumstances airport managers are facing every day.

In the August 2005 issue of the **Airport Beacon Report**, an article entitled "Airport Business Plans...Who Needs Them?", stated a number of advantages of having a business plan, including:

- Helps clarify, focus and research the development and prospects of a business idea;
- Offers a benchmark to measure and review performance;
- Provides strategic measures to counter business impacts such as a tenant declaring bankruptcy;
- Serves as a basis for discussion with board members, business partners and your key employees.

- Helps the airport to avoid mistakes and recognize opportunities.

The functions and advantages listed are in-line with the overall goals of the implementation plan as outlined by the FAA. In fact, Section 1104 of the new AC lists the key activities and responsibilities of the implementation plan, several of which are found within a typical business plan. They include:

- Sponsor-specific project approval activities, such as airport board, council, or other administration body approvals; various budgetary approvals and funding appropriations; and similar sponsor-specific items.
- Airline and other tenant approvals and lease modifications
- Project funding activities
- Environmental processing activities
- Land acquisition activities
- Sponsor-specific project implementation process activities
- Agency coordination activities
- Public Coordination activities

To gain additional insight concerning the new AC, I contacted Andrew Holesko, C.M. with Passero Associates. During our conversation Mr. Holesko stated, "Airport master plans have historically included a Capital Improvement Plan (CIP) that involves an overly aggressive listing of projects. In many cases, that listing of projects has been much more than an airport sponsor could realistically fund in any given year. The new Implementation Plan will hopefully result in a more realistic listing of proposed projects (and corresponding funding), especially in the 5-Year CIP."

To summarize, the new AC places emphasis on setting realistic goals and objectives. The FAA wants each airport to focus on the right planning and provides flexibility to accomplish that goal. The suggestions of the new AC are similar to the elements found in a business plan and an airport should consider them the next time an update is required. With the right planning and approach, an airport can (and should) include a business plan component within the confines of their next master plan update. With this recommendation, I would like to offer some (somewhat self-serving) advice about this component. Make sure that any business plan component is being performed by someone that focuses on and has experience with the business and management side of airports. The traditional engineering and planning firms offer expertise in facilities and infrastructure necessary to accommodate the anticipated growth at an airport, but do not have a good understanding of the business and management aspect of paying for and maintaining those facilities and infrastructure. Therefore, it probably makes sense to require that your selected master planning firm team with someone that more thoroughly understands these unique aspects.

Uh Oh!

Outside the AOA - Opinion Article

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 new section.)*

For those of you who stay up late, one of our favorite skits on Late Night with Conan O'Brien is the one in which Conan attempts to predict the future. Most often, Conan's predictions are so unrealistic that you can't stop laughing. In this article, we are going to try to predict the future of the aviation industry. Some of you will not find it so funny.

- In the next 10 years, aircraft owners will be able buy fuel at the FBO's cost. Instead of "bundling" revenues within the price of fuel, FBOs will collect fees for the use of facilities and services. Cessna 172 pilots will not be able to use flight planning rooms, lobbies, and/or eat free cookies without paying for the services, whether they purchase fuel or not. Every FBO will charge ramp/handling/service fees, which will replace fuel as the primary revenue source.

- Within the next five years, the FAA will institute user fees for general aviation aircraft that utilize air traffic control. Airlines will be the primary force behind the proposal to minimize their financial burden.

- NASA's Small Aircraft Transportation System (SATS) will not come close to the expectations of the original plan. However, the entry price into the business jet market will continue to decline and smaller business owners will become the largest users of general aviation.

- The legacy carriers with continue to declare bankruptcy and consolidate with other legacy carriers until the U.S. has only two or three mega-carriers.

- The VLJ (very light jet) will have an initial impact on the general aviation industry through the proposed air taxi industry, but it will quickly take a turn for the worse after the first plane suffers a fatal crash.

- Within the next 5 years, airport managers will begin to implement landing fees on <u>all</u> aircraft utilizing the airport to cover rising maintenance costs and necessary infrastructure expansion. They will initially exclude based aircraft and those below the 12,500 lb. threshold, but will eventually include every user due to the difficulty in managing the exceptions.

- Privatization will expand in the U.S. beyond just different components of the airport (parking, concessions, etc.). Airports will look to private equity to build new runways in exchange for a stake in landing fee collections.

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 a Dallas-based FBO, who asks: *Can an airport write into policy, or Minimum Standards that a certain level of fuel sales or revenue must be earned by an existing FBO before a second FBO will be considered?*

Making a decision to get into the FBO business is not unlike the decision to open or invest in any other business, with one major exception: the business is on an airport. What does that mean?

- The customer base is dramatically limited
- Most of the time, transient customers will on be available to you only if your community has attracted them
- Competition is local, regional, and sometimes national
- You are dependent upon the airport to keep access to your business available
- The regulatory entities that impact your activities and bottom line seem to be endless
- In 20 years or so, your investment will revert to the airport
- and, you get to deal with politics daily.

Despite all this, you decide to make a $5 million investment in the business. A year later, someone comes along with a $500,000 investment and becomes your competition. Is that fair? NO. Does it happen? YES.

This goes right to the heart of why Minimum Standards are so very important to an airport and its commercial aeronautical tenants. If an airport has available land and interested parties, hopefully it has an adopted set of Standards to ensure that level playing field. While Minimum Standards may not prevent individuals with what we like to call "stupid money" from pursuing the FBO business, good Minimum Standards can at least prevent a low dollar entrant from being your competition.

A Leasing Policy can also provide assistance with this issue. If the airport has a written, adopted policy on how property is leased, it can prevent them from having to consider unsolicited proposals. The policy defines the steps to be followed, an application, reasons for denial, and requirements for competitive bids in certain circumstances.

There are also situations where a factual analysis of the economics of a second or third entrant to the market can be helpful. It often makes the "stupid money" smarter, and results in better and more prudent business decisions (they probably didn't make all that money by being stupid). While an airport cannot directly restrict new entrants, with the proper tools, they can certainly deter interest. However, more often than not, the FBO has to provide the information and make the case to the airport. Generally, airport management has little experience with or knowledge of the day-to-day activities of an FBO, and they certainly do not understand the limited profit margins due to massive overhead. Because you may be biased or perceived as biased, it may be prudent to have an independent third-party do the analysis for you.

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

Michael A. Hodges, MAI
President/CEO
Airport Business Solutions
10014 N. Dale Mabry Highway, Suite 101
Tampa, Florida 33618
Phone (813) 269-2525
Fax (813) 269-8022
mhodges@airportbusiness.net
www.airportbusiness.net