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THROUGH-THE-FENCE CONSIDERATIONS

By Michael Hodges MAI. President and CEO

Through-the-fence developments are generally defined as those properties situated outside of the perimeter fence of airport property, but have direct taxiway access to the airport. (Despite some confusion in the industry, the FAA's definition of through-the-fence does not refer to "tailgate mechanics" or other non-tenants accessing the airport, but rather only situations where an adjacent property owner has the ability to taxi an aircraft directly from their off-airport property onto the airport.) The lure of though-the-fence (TTF) developments derives from the perception that if you can own your own land and facilities, yet still have the use of all the amenities and infrastructure of the airport. For the property owner, it can be the best of both worlds, and for the airport it can be a "mixed bag of tricks". However, when both entities have an agreement that benefits (and protects) both the airport and the to the airport user, ir can be beneficial to everyone involved.

At most U.S. airports, all improvements situated on an airport leasehold revert to ownership of the airport sponsor at the end of a lease, regardless of who spent the money to build them. Airports see this as a potential revenue source, while tenants typically see it as an "opportunity" to pay for their improvements all over again. The general consensus within the aviation industry is that through-the-fence developments represent the enemy to an airport's ability to become financially self-sustaining. However, in many circumstances, it can actually be another way to enhance airport revenues. According to our research, there are around 55 airports throughout the US which offer commercial/industrial through-the-fence developments in some form or fashion. (There are many more residential developments, but they usually treated in a different manner that commercial projects.) While most of these airports limit such access to one or two properties, airports such as the Scottsdale Airport in Scottsdale, Arizona, and the Alliance Airport in Fort Worth, Texas, are generally recognized as examples of the successes (as well as some of the problems), which can be achieved through the successful marriage of publically owned/private land ownership. However, both airports are generally recognized as examples of how airports can enjoy the financial benefits of carefully controlled and managed through-the-fence developments and access.

Make sure both parties <u>understand</u> the Airport's through-the-fence agreement!!!

Most people think that the FAA does not allow through-the-fence developments, and that if the airport permits such access, it is in jeopardy of losing AIP funding. Historically, the FAA has been somewhat non-commital on the issue of through-the-fence, neither endorsing nor specifically prohibiting its existence at federally funded airports. FAA's obvious concerns relate to safety and security. Neither the airport nor FAA has control over what occurs once an aircraft crosses the real or imaginary boundary of the airport onto private property. The second major issue with FAA is that a through-the-fence development should not have a competitive advantage over on-airport tenants. A definitive explanation of competitive advantage isn't available, but it boils down to money.

Costs Related to Usage

On-airport tenants are predominantly responsible for paying for the operation and maintenance of the airport and its infrastructure. While some of these costs are borne by airport users through fuel flowage fees, landing fees, PFCs, etc., a significant volume comes from the airport's tenant base. Without some type of compensation from through-the-fence operations, they would effectively enjoy all the benefits of the airport without paying their fair share. If an airport considers a through-the-fence agreement, they must be sure to consider how to structure the compensation paid to the airport. In other words, how the user will pay for the "privilege" of airport access.

The argument from through-the-fence property owners is that they pay their "fair share" via property taxes paid to the local municipality. However, in many communities, airport tenants also pay taxes. Nevertheless, it is unusual for any property tax revenues to be shared with the airport.

TTF developments are a potential way for an airport to both increase revenues and traffic levels, as well as to protect itself from unfriendly encroachment developments. However, if an airport decides to allow a through-the-fence project, it is important that the potential loss of on-airport revenues are not overlooked. In addition, additional operations and maintenance costs to the airport must be recognized and factored into the rate determined for an access fee.

The Central Issue: Control

The greatest concern associated with TTF projects is usually control. However, this issue can usually be addressed by the implementation of two factors: "Minimum Standards" and "Rates and Fees".

<u>Minimum Standards</u>

On-airport tenants view Minimum Standards as a means by which to "level the playing field" for potential competitors. They define a set of minimum threshold criteria by which someone can become a tenant at the airport. This can and should also be extended to property owners and tenants of a through-the-fence developments as part of their access agreement. Minimum Standards must be clear, concise, specifically designed for the airport, and most importantly, enforceable. Unless developed with this in mind, they are nothing but words on paper.

<u>Rates and Fees</u>

Nothing levels the playing field like a comprehensive rate and fee structure which serves to recapture the operating and maintenance expenses. The reason an airport charges tenant/user fees is to cover the cost of operating and maintaining the airport. Consequently, if a business is formed which relies upon the operation and maintenance of the airport for its vitality, whether on or off the airport, it should be expected to pay its way.

One of the most effective ways to develop a rate and fee structure for a prospective through-the-fence development is to carefully evaluate current airport operating expenses, with or without capital improvement costs, and allocate them across the existing tenant base. The potential physical and financial impact of a new development on the operating and maintenance costs of the airport also needs to be assessed. The resulting adjusted expense burden can then be allocated across the new tenant base, which includes the TTF development.

In summary, through-the-fence projects do not have to be the "bad guy" at your airport, but can actually serve to further expand revenues and development opportunities, while still maintaining control.

SATISFYING THE REGIONAL AIRLINE MARKET: PART TWO

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

Last month, we discussed the recent movement by the regional airlines to place pressure on airports across the country to lower costs. Although they have been profitable over the years, the members of the Regional Airline Association (RAA) discussed at their last meeting the importance of lowering station costs and working with airports to place emphasis on developing other revenue opportunities. Despite the regional airlines efforts to operate as efficiently as possible, the legacy carriers are determined to lower their costs and are placing pressure on them. Thus, the regional airlines are placing pressure on the airports to assist them in remaining competitive and profitable, since 5% to 10% of their costs are directly related to airport rents and fees. This month, we are going to touch on a couple of different methods your airport might be able make in order to reduce the dependance upon regional airline rates and fees.

One method that many airports have been doing for years is developing industrial parks from surplus property that is not required for aeronautical use. A number of these parks were developed during turbulent economic times in the early 1980's to combat poor revenue streams from typical aeronautical sources. However, over time these parks have grown and have become an essential and steady source of cash flow. Commercial service airports appreciate the consistent revenue from land leases to counter risks such as airline bankruptcy or an airline deciding not to service the market. The need to diversity revenues was never more apparent than after the attacks of September 11, 2001. Airports across the United States saw the ripple effects of low passenger volumes, and revenue sources such as airport parking and concessions dropped dramatically. As such, airports that had other sources of revenue independent of passenger services, such as industrial parks, seemed to fair better. A sample of airports were surveyed by *ABS* earlier this year and the results discovered that approximately 20% of the surveyed airports had industrial parks, and airports such as Melbourne and El Paso generated 20% to 30% of there total revenue from the parks.

Another measure that is being reviewed at many airports to decrease the financial burden of the regional airlines is the business practice of providing certain ground services for the airlines, such as baggage handling. Airports such as Springfield-Branson, Mobile, and Tupelo have not only lowered the financial burdens, they have been able to attract new air service. By acquiring ground equipment and providing staff, the regional airline does not have the initial investment usually required to handle a few start-up flights. They can test the profitability of servicing a community without a huge investment and risk. If the airport designs a business plan and approaches the new business as a private enterprise, the regional airline could save as much as 30% of their operating costs and more than 50% of their initial start-up costs. It appears that the regional airlines are embracing this new concept and are sharing the cost of training airport employees at their facilities to become familiar with their practices and procedures.

(The issue of airports providing ground service was discussed in detail by this author in the October issue of Airport Business Magazine. To obtain a copy of the article please contact Airport Business Solutions. In addition, if your airport is considering offering ground service and needs some assistance, ABS has experience in developing feasibility studies, training and developing business plans.)

ASK ABS

Over the past few months, 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 Jay Michael from Marianna, Florida, who asks: "The newsletter website says you welcome questions, I see one article in which part of the title is "How Many FBO's are Enough?", I would propose the question "Will My Community Airport Support an FBO?" I would be very interested in your opinion on what factors in the local community and the existing airport infrastructure would need to be considered to make a decision."

Jay, this is a tough issue which commands the answer "It Depends!" For years, the "industry standard" was that an airport needs somewhere around 500,000 gallons of fuel annually to support a private, third-party FBO. (This is where the concept that at the 1 million gallon threshold, two FBOs can survive.) The reality is that it depends upon a number of factors as to whether your airport can support a privately-run FBO (without subsidy). Factors such as the ratio of jet fuel sales to avgas sales, the availability, marketability and demand of other aircraft/customer support services (maintenance, avionics, charter, aircraft sales, flight training), and the short and long-term potential of the airport and community it serves. Some airports will probably never reach the threshold needed to support an independent third-party FBO. Others may need to turn over flight services to a third party in order to take the airport to the "next level." In a nutshell, I wish I could give you a clear-cut set of guidelines that fits every situation, but as the saying goes, "If you've seen one airport, you've seen one airport!"

"And so I ask the jury...is that the face of a mass murderer?"

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.

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