

Airport Beacon Report



www.airportbusiness.net

June 2006

PRIVATIZATION OF PUBLICLY-OWNED AIRPORTS

By Bobbi Thompson, Executive Vice President

Airport privatization remains a topic of discussion throughout the country. Questions such as “We have privatization of parking operations, concessions, cargo facility development, and other parts of our airport, why not look at privatizing the whole thing?” The answer to this question and many others continues to have a myriad of ramifications that remain unanswered. One of the critical remaining questions is found in the Grant Assurances, more specifically Section 511.a (12) of the Airport and Airways Improvement Act of 1982. This section addresses airport-generated revenues and may limit the private operator’s interest in an airport. In Section 511.a (111), the document discusses equal access to the facility on a fair and reasonable basis, which has the potential to impose restrictions on the private entity in their negotiations with airport users and tenants. There are also anti-trust laws that could obstruct financial investment from the private operator.

Promoters of privatization typically use European airports as examples of successful private management of public airports. In general, the supporters claim that privatized airports would be more profitable due to the efficiencies found under private sector management as opposed to public management. Additionally, supporters cite that the sale or long-term leasing (more than 50 years) could generate a new source of income for the local governing entity from fees and taxes. However, using the European example is somewhat misleading in that U.S. airports have the advantage of Federal government funding, which makes our system distinctly different than other countries. The Federal



Amish Airlines

government provides funds for airport development, as long as the local governmental entity agrees to certain stipulations (the Grant Assurances). These stipulations are some of the current constraints to full airport privatization, the most significant being revenue diversion. Three fundamental issues that remain unresolved and without clear guidance from the FAA include:

- Stipulations for repayment of grants
- Surplus property requirements
- Revenue diversions

As stated, revenue diversion continues to be a primary barrier to airport privatization in the U.S., due primarily to the exclusion on using airport revenues to fund non-airport-related expenditures. The grant assurances read as follows:

“All revenues generated by the airport and any local taxes on aviation fuel established after December 30, 1987, will be expended by it for the capital or operating cost of the airport; the local airport system; or other local facilities which are owned or operated by the owner or operator of the airport and substantially related to the actual air transportation of passengers or property...” Assurance 25.

Does the privatization of an airport with the intention of generating income for a private company warrant penalizing the airport sponsor, even to the point of requiring the payback of Federal grant monies accepted by the airport over the previous years? That fundamental question remains unanswered by the FAA. Grant Assurances provides a means of ensuring that U.S. airports are safe, non-discriminatory and reasonably managed. Are these items that you want to eliminate? As public facilities, airports ultimately belong to citizens. As owners, do you want to lose the degree of accountability inherent to a public entity? The final question then is: Do you want to maintain control of your airports, or would you rather cash in on the airport assets? (Remember, you can only cash-in once, so it better be worth the risk!)

Across the United States, there are a variety of airport types under contract management. This discussion does not include airports where the fixed base operator (FBO) also serves as the on-site airport manager, or where portions of an airport may be contract to a third party. Rather, I am referring to instances where a company has been contracted specifically for the management of the entire airport. While certain airports have been successful under contract management, many have ended in cancellations of the contracts. As in many for profit businesses, there is a great variance in the quality and experience offered by companies that offer contracted management services. Generally, airports with a high level of jet aircraft activity have been the more successful contracts. The obvious objective in seeking the assistance or services of a private firm in the management of a public airport is to maximize both party's abilities and strengths.

Perhaps the first step to be taken is to accurately identify the existing situation of the airport to be privatized (or contracted) by completing an “honest” evaluation. Once completed, develop a list of alternatives that would likely help to achieve the desired improvements and goals identified in the evaluation, including “in-house” options. The self-evaluations should at the very least include an examination of:

- Airport Operations and Security
- Administration
- Finance
- Airport Maintenance

Each of these areas should be evaluated from a series of perspectives, a portion of which include:

- Costs/expenses
- Level of service
- Productivity level
- Cross-utilization
- Technical capabilities

If after completing this exercise it is determined that additional consideration of private management is required, other items should also be accomplished.

- Prepare a list of specific goals to be accomplished (understand exactly what it is that you want to improve)
- Have a reasonable understanding of the value of the undertaking
- How can services be provided for less money? (Remember, the private operator is profit driven!)
- If financial investment is required, the private operator will need time to amortize in over the term of the contract. What is that term?
- Develop a Request for Proposals to solicit qualified and experienced companies to provide cost, structure, and operational proposals.
- Enlist the help of people that are familiar with similar contracts to help in the evaluation of the private operators proposals, as well as in the preparation of the Request for Proposals

- Thoroughly examine all the experience, qualifications and backgrounds of each private operator
- Insure that any potential agreement clearly identifies all required functions and the performance measures for quality control
- How will you manage the contract? Who will have the direct responsibility for contract compliance?

In addition to the self-evaluation of your airport, an examination of other privatized or contractually managed airports is an essential step. Prepare a detailed list of concerns and questions to be used in the analysis of existing contracted airports, and visit as many of the airports as possible. A flashy presentation with edited dialogue by a private operator can be more honestly evaluated if you have actually been to the airport or have benefitted from a third-party evaluation. **Remember, private business is in the business to make a profit!**

Consideration must be given to the legal, political, and other implications created by using a private operator. Therefore, it is critical to consider not only if the addition of a third party in the management of the Airport will provide the anticipated financial goals, but how will you correctly select the company best suited for the challenge. Moreover, what form of privatization/contract management should be utilized, and how will the relationship be monitored and managed politically. When considering private management of airports, the fundamental difference between private and public entities must be remembered: public entities generally consider service to the public as their primary goal, while private entities are always guided by “bottom line” objectives.

(Note: Bobbi previously managed the five Los Angeles County airports under a privatization contract, so has a bit of experience on this topic. Feel free to contact her for more insight.)

GATHERING OF MUSTANGS AND LEGENDS CORRALS COLUMBUS FOR THE FINAL ROUND-UP IN 2007

The 1999 Gathering of Mustangs & Legends (GM&L) held in Kissimmee, Florida was hosted by Stallion 51 Corp., world renown for their orientation and training flights using two magnificently maintained dual cockpit/dual control P-51 Mustangs. The historic GM&L brought 65 restored Mustangs and twelve aviation legends to Kissimmee for a weekend, attracting thousands of enthusiasts and media coverage from around the globe. Among the twelve Mustang Legends honored there were Frank Borman, Bob Hoover and Chuck Yeager, William Anders, Robin Olds, Kenneth Dahlberg and Bud Anderson.

The GM&L was considered by many to be one of the great aviation events of the 20th Century. Since that memorable gathering, and driven by popular demand, Stallion 51 President Lee Lauderback and GM&L Event Director Angela West went in search of the right place to recreate and even top the magic of what was dubbed the “Mustang Woodstock.” To assist in their search, they contracted *Airport Business*



1999 Gathering of Mustangs and Legends

Solutions to research the best possible airport location for the event.

Several sites around the U.S. vied to host such a unique and major air and ground show. Stallion 51 plans to attract 100 Mustangs and will honor 51 living Mustang Legends. At this year's Sun-n-Fun, Ms. West revealed that the next Gathering of Mustangs & Legends will be held at Rickenbacker International Airport in Columbus, Ohio on September 27-30, 2007.

Rickenbacker was formerly Lockbourne Air Force Base, a massive glider pilot and B-17 training base during WWII that produced many of the bomber crews that later benefitted from the escort of P-51's over Europe. Additionally, the rich history of the military field includes being the post-war home of the 447th Composite Group/332nd Fighter Wing's "Tuskegee Airmen," many of them Mustang crew and pilots. The Airport was renamed in honor of Columbus native and famed WWI fighter ace Eddie Rickenbacker, and currently boasts an array of business and cargo-related aviation services.

The Airport will be celebrating its 65th anniversary in 2007; however, the focus will be on piston-driven horsepower. According to Ms. West, plans call for a massive 51-plane Mustang formation in addition to many other aerial demonstrations, an aviation auction, a formal Gala for Legends, and ample opportunities to meet the legends and heroes who fly the P-51 Mustang throughout the four-day event.

Airport Business Solution's Bobbi Thompson has been named the Director of Operations for this amazing event, and *ABS* will be involved in the planning over the next several months.

ASK ABS

A monthly part of our newsletter is a section called "Ask ABS", where we answer aviation-related questions from our readership. (If we do not receive a question, we make one up.) Each month we publish one question that we receive with a joint reply from our professional consulting team. We would REALLY appreciate more questions from our

readers, as we are getting tired of making up questions. Please submit any questions via e-mail to Mark Davidson at: mdavidson@airportbusiness.net

This month's question is offered by a fictional airport manager. "My current FBO wants a new lease. Should I cut a deal with them since they have been a tenant at the field for over 30 years?"

This is a rather common question, at least in one form or the other. The basic answer is "No!" There are two reasons for this answer: 1) Always remember that every lease sets the precedent for the next lease! Do not fool yourself into thinking that your tenant's do not talk or that the terms of a "deal" will not get out. 2) You may think that you are negotiating with the FBO entity that has been on the field for 30+ years, but they can sell tomorrow. Always approach lease negotiation as if you are working with a new, unknown tenant. (Similarly, I tell our FBO clients that they are effectively negotiating with future airport and/or property management, so get everything clearly set forth in writing.) Some leases are longer than most marriages, so negotiate accordingly!

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
mhodes@airportbusiness.net
www.airportbusiness.net