

Privatization and Reverse Privatization in the USA

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Overview: Why so little privatization?

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- Airport privatization is challenging in the USA
- Tradition favors government control
- Legal, practical hurdles remain
- Recent new incentives for privatization
- Hybrid model of privatization are the rule in the USA
 - Private investment
 - Government control



Context: USA airports

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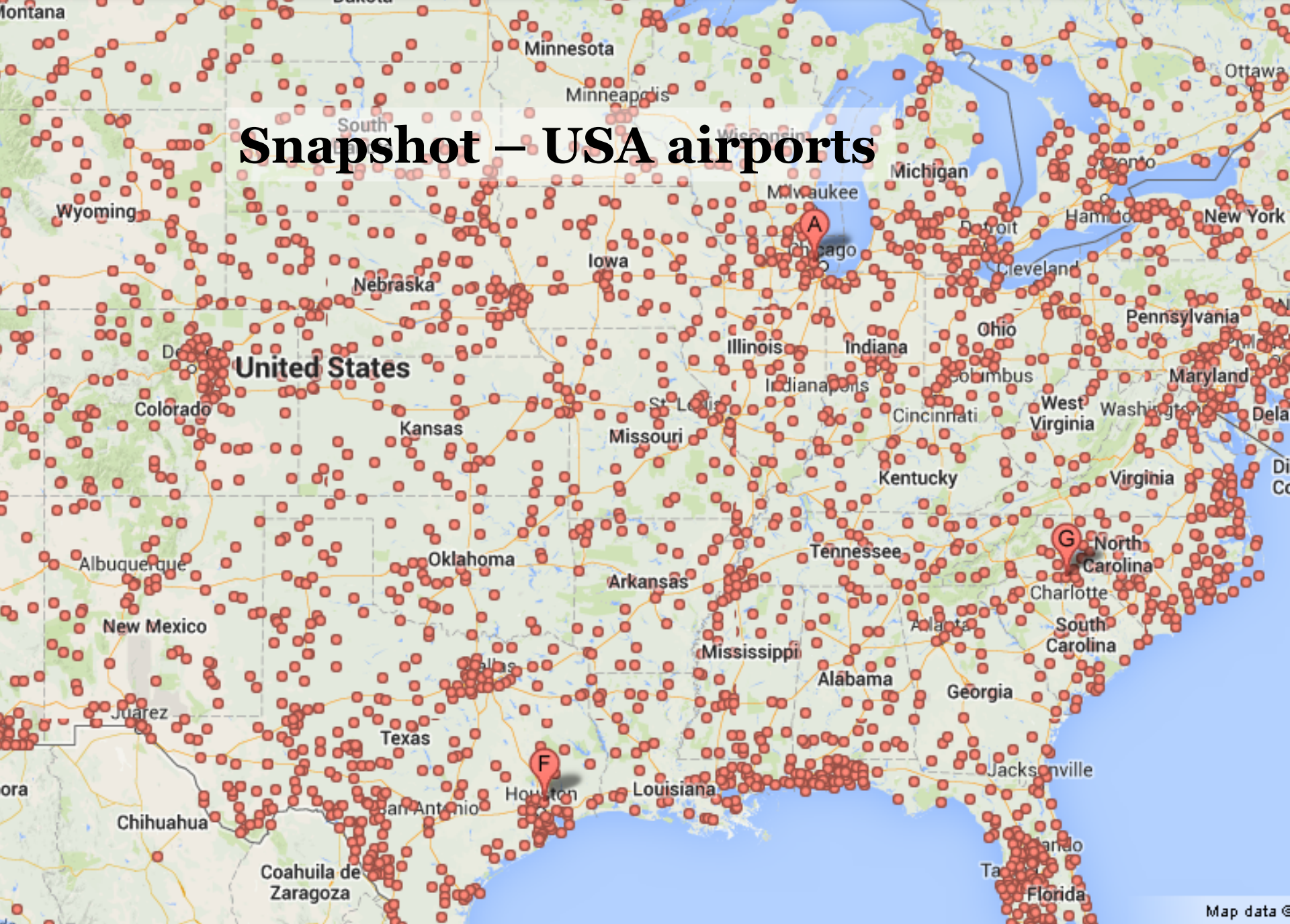


 **Major U.S. Airports**
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(Lower 48 States)

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EYW

Snapshot – USA airports



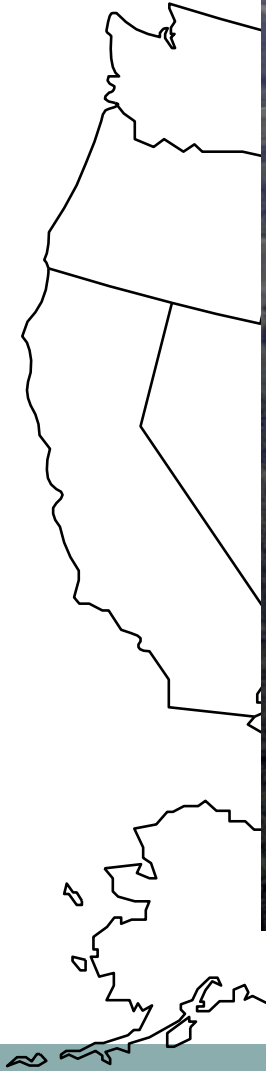
Context: USA airports

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- Very few private *commercial* airports (2 ± of 550)
- Many publicly owned, operated *general aviation* airports (5,000 ±)
- Most *general aviation* airports are privately owned, operated (15,000±)
- Most airports have some level of private investment

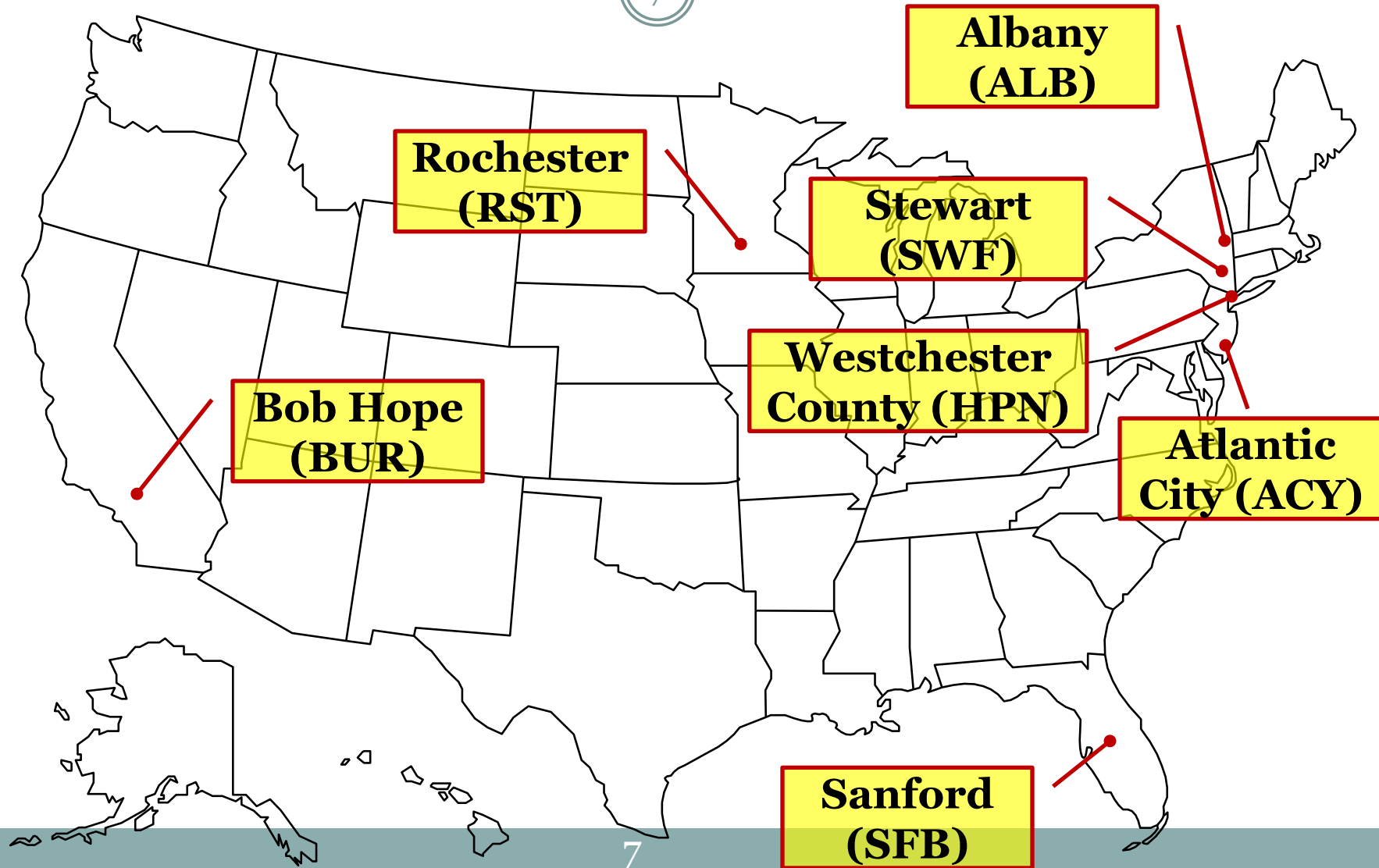


Private commercial airports



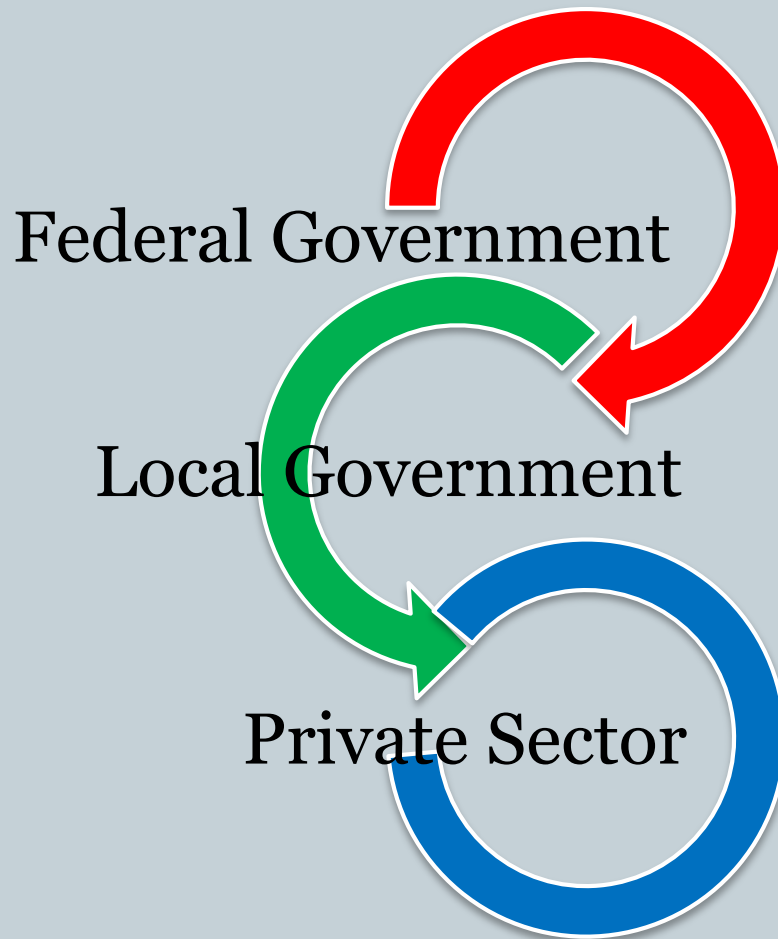
Privately operated, publicly owned commercial airports (examples)

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Traditional division of responsibility

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- Air traffic
- Capital funding
- Airport regulation
- Airport ownership
- Airport control
- Airport operations
- Airlines
- Concessions
- Service providers



Privatization models in the USA

- Most USA airports have a high degree of private investment
- Privatization exists along a continuum

Private airport development

Long term lease/ concession

Project finance and operation

Management contract

Contracted services

Airport Privatization Pilot Program

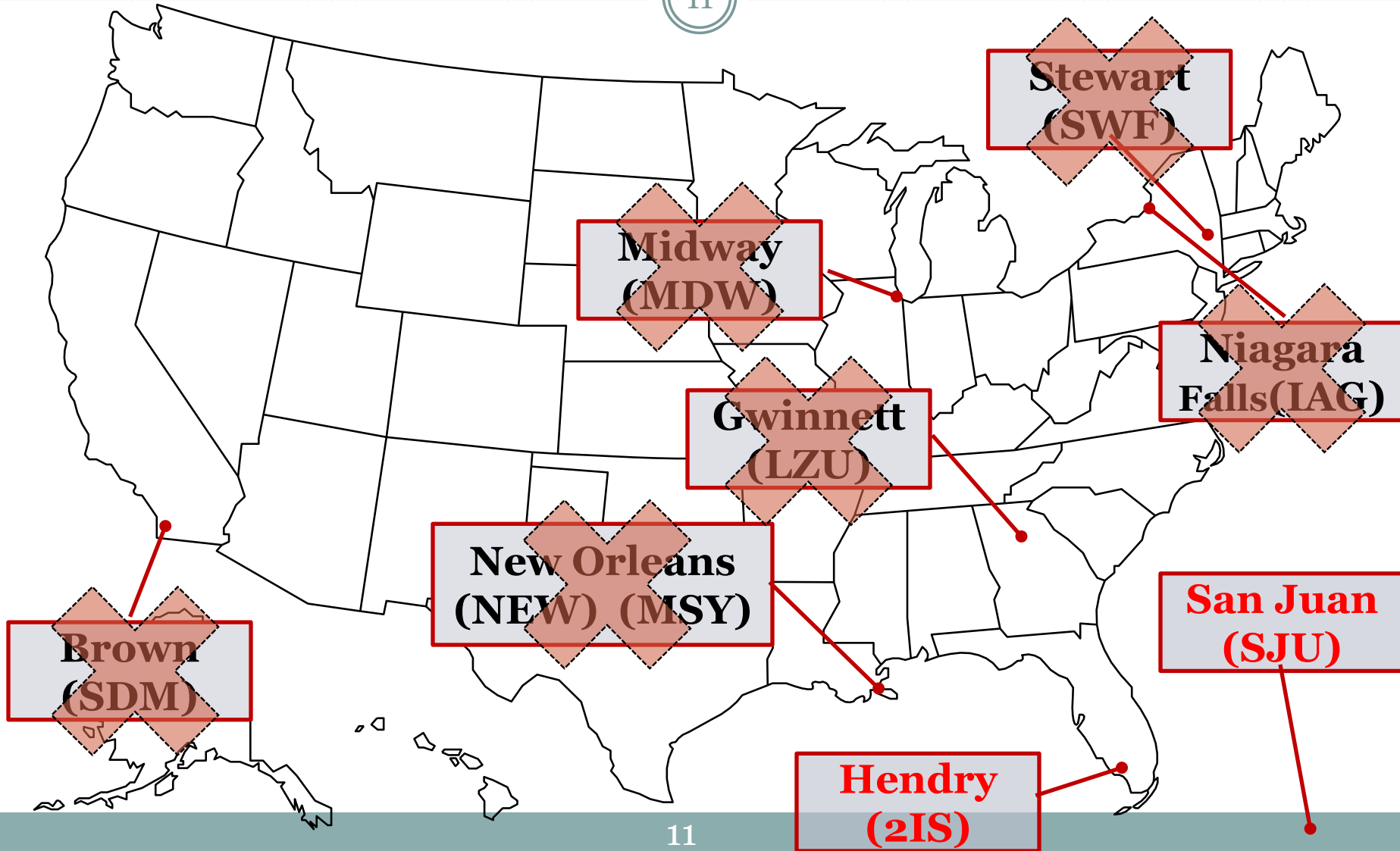
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- Federal legislation in 1996, 2012
 - ✦ 10 slots
- Use of proceeds by seller
- Airport can receive federal grants and levy a passenger facility charge
- Has not proved successful – only one completed; one in process



Federal Privatization Program airports

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Constraints on privatization

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- FAA approval authority
- Grant assurances
- Prohibition against diversion of airport revenue
- Federal grant eligibility
- Grant repayment
- Constitutional rights and protections
- Property tax exemption
- Anti-trust immunity
- Passenger facility charges



Policy and political disincentives

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- Tradition of local political control
- Federal financial incentives designed for public entities
- Airlines understand , feel secure with current system



Grant Assurance constraints

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- Assurance 5 (Preserving airport sponsor rights and powers)
- Assurance 22 (Airport available for public use on reasonable terms and without unjust discrimination)
- Assurance 23 (prohibition on granting of exclusive right to conduct an aeronautical activity)
- Assurance 24 (Self-sustaining rates and charges)
- *Assurance 25* (Prohibition against diversion of airport revenues)



Regulatory hurdles

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- Closed fiscal loop is key part of USA system
 - Airport revenue may be used only for airport purposes
 - Airport revenue is defined broadly to include the proceeds from the sale or lease of airport property
 - Applies only to the airport sponsor, not private sector businesses
 - Sale proceeds only for airport purposes (except pilot program)
- Distinguish private ventures from private airport



Property tax exemption

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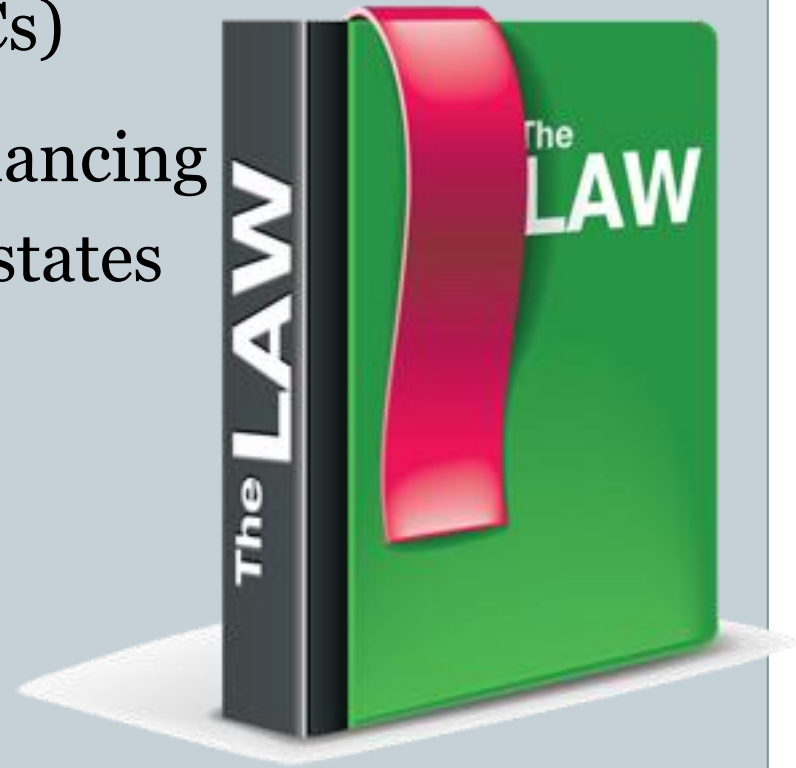
- Public airports exempt from property taxation under laws of most states
- These exemptions typically not applicable to a private operator of a public-use airport



Legal and financial constraints

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- Federal Airport Improvement Program (AIP) grant funding for capital projects
- Passenger Facility Charges (PFCs)
- Tax-exempt debt and related financing
- General antitrust immunity for states and local governments




Reverse privatization

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- “Proprietary exclusive” exception to competition requirements
- Local government assumption of airport services
- Revenue generation to benefit users
- Direct competition with private sector enterprises
- Controversial



What's next for privatization in USA



Need for
access to
private
capital

Reduced
federal capital
spending



Increased
regulatory
burdens on
public
funding



Foreign
investment in
infrastructure
now accepted

Innovative
approaches
increasingly
accepted

Questions?

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