



XIV

Welcome to **WALA XIV**
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Why is it so difficult to invest in the USA airport market?

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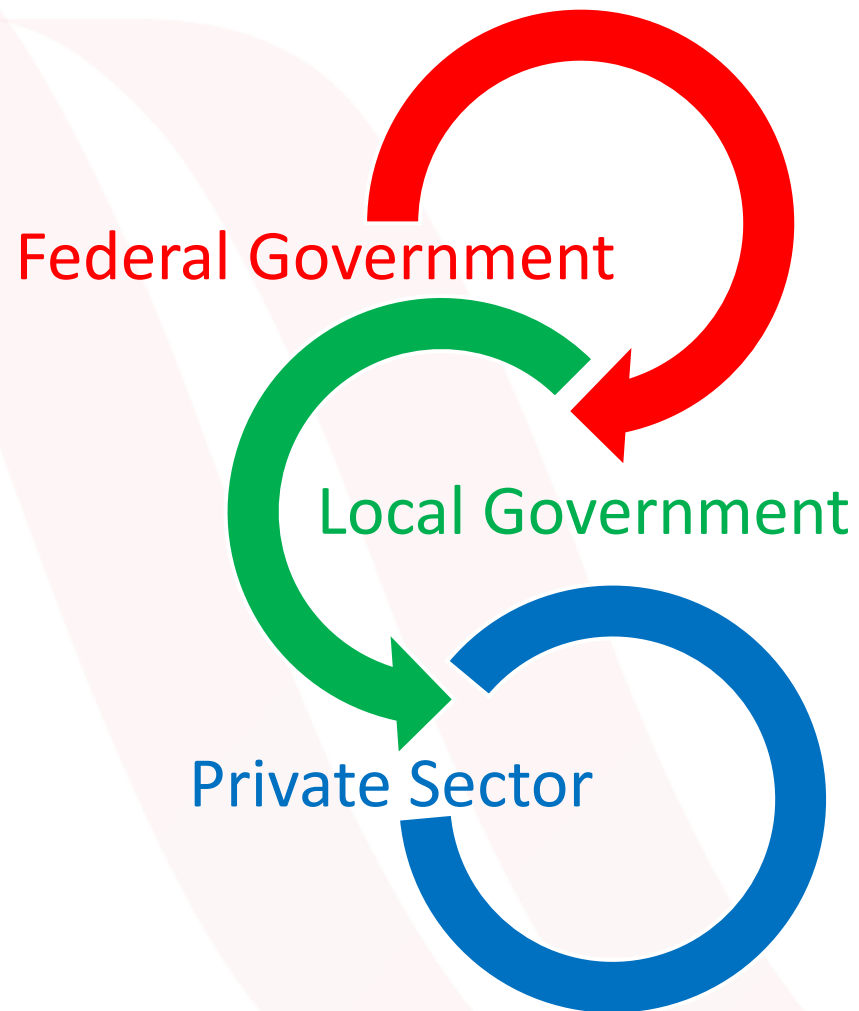
HOSTED BY:



Today's presentation

- Historical background for capital investment in US airports
- Statutory efforts to promote private investment
- Legal constraints on private investment
- Private investment success stories
- Future prospects for private investment

Historical background – basic legal framework



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

Historical background - unique role of Federal Aviation Administration

Regulator +

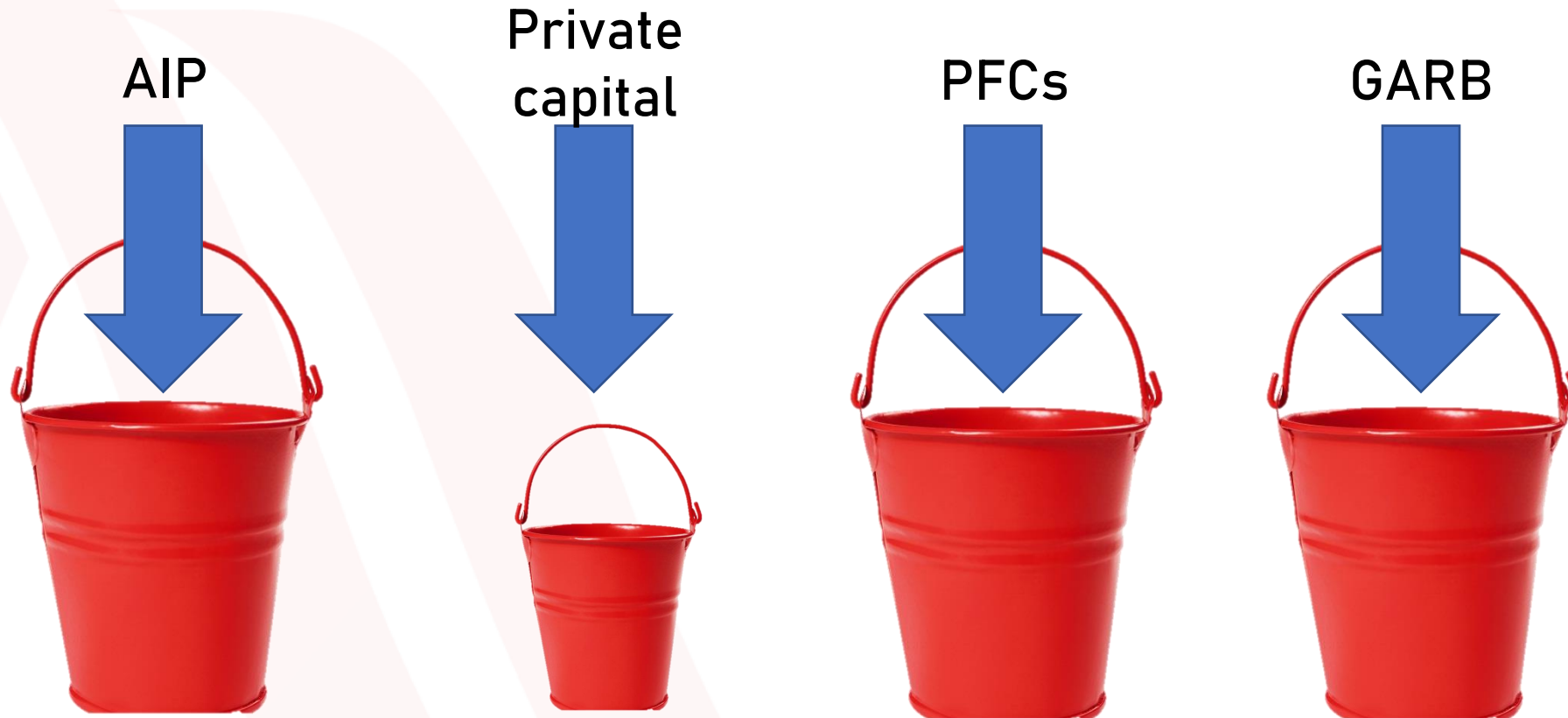
Funder +

Operator (Air Traffic) +

Advocate



Historical background – capital funding

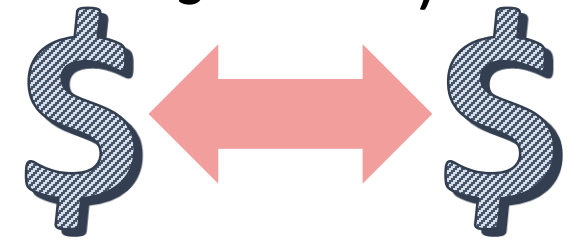


Historical background – financial regulation

- Federal law regulates sources and uses of airport funds (49 U.S. Code § 47133):
 - “ . . . revenues generated by an airport that is the subject of Federal assistance **may not be expended for any purpose other than** the capital or operating costs of—
 - (1)the airport;
 - (2)the local airport system; or
 - (3)any other local facility that is owned or operated by the person or entity that owns or operates the airport that is directly and substantially related to the air transportation of passengers or property.”

Exceptions to prohibition on 'revenue diversion'

- Airports that have never been federally regulated (2 of about 500± commercial airports)
- Pre-1982 financial arrangements
- Airport Investment Partnership Program (49 U.S. Code § 47134)



- Private investors have to navigate revenue use rules

Limitation on passenger fees

- Federal law prohibits per-passenger charges except with FAA approval (49 U.S. Code § 40117)
- Federal law sets ceiling of \$4.50 per passenger – not raised for decades
- Law to increase vigorously opposed by airlines

Potential sources of revenue

- Airline rates and charges – highly competitive environment
- Non aeronautical revenue – largely unregulated
- Passenger fees – capped by law
- Federal grants – available but declining in relative terms

What distinguishes US airports

- **Organizations**

- Non-profit governmental
- Business conducted in public eye

- **Highly Regulated**

- Economic (AIP-grant assurances, PFCs, user charges)
- Environmental (federal and state processes)
- Security/Facilitation (federal operations).

- **Infrastructure-Rich**

- Federal grant funding (5% - 30% local cost share) unusual globally

- **Indirect Benefits > Direct Benefits**

- Airports valued for the indirect benefits they bring to the community/region—the airport authority's constituencies – not for their direct economic return to shareholders

Airport Investment Partnership Program

- Established 1997; originally limited to 5 airports; limit removed in 2018
- Requires application and approval by Federal Aviation Administration
- Commercial airports can be leased; general aviation airports can be leased *or sold*
- Use of proceeds an exception to revenue use laws – proceeds are not subject to federal regulation

Airports participating in AIPP

- Two commercial service airports privatized to date – one returned to public operation
- Two general aviation airports approved for privatization
- Process initiated but terminated or application withdrawn for nine other airports
- All have been leases, not sales

AIPP has not stimulated private investment

- Lengthy process
 - Initial application to approval can take many years, during which political will or other uncertainties can cause the action to lose favor by both the sponsor and potential investors
 - Preliminary application requires significant effort on the part of the sponsor; FAA has 30 days to review
 - Once private operator is selected and a final application is submitted, FAA has no set timeline to review the application
 - 60-day public review process must be completed prior to issuance of Findings and Record of Decision
- Regulatory obligations
 - Under AIPP, commercial service airports can only be leased and not sold
 - 65 percent of air carriers (and by carriers collectively accounting for 65 percent of the prior year landed weight) must agree to the lease
 - Grant assurances that limit operator's flexibility to charge users, use airport revenues, etc.
- Availability of funding
 - Airport Improvement Program eligibility reduces to 70 percent
 - Operator cannot issue tax-exempt bonds for airport improvements and therefore pay a higher interest

Other possible private investment models in US

Private airport development

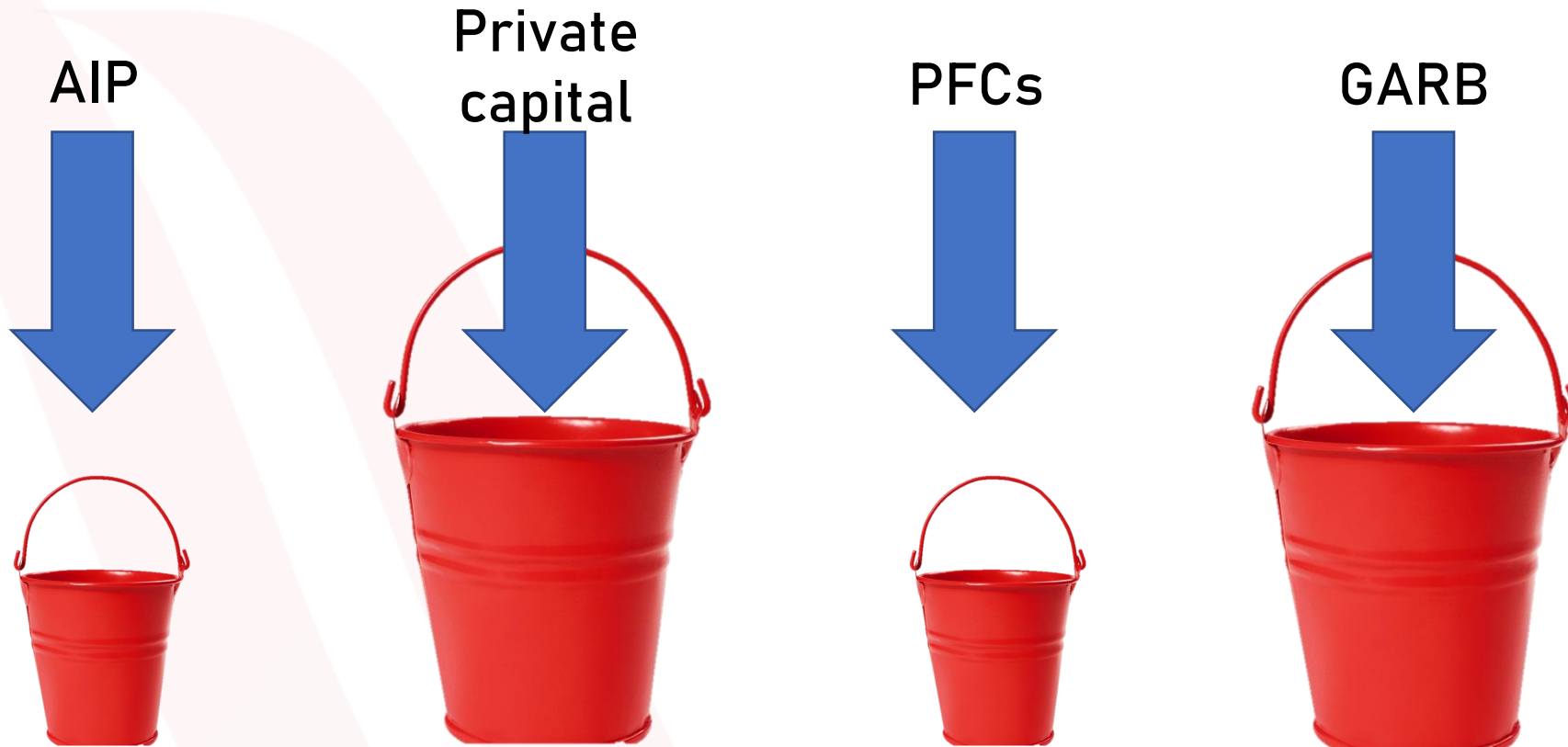
Long term lease/ concession

Project finance and operation

Management contract

Contracted services

Recent breakdown in historical model



Financial reality

- Federal grants, FAA-authorized taxes insufficient
- FAA focus on airfield infrastructure has left terminal facilities woefully inadequate
- Growth in traffic and in aircraft size has negatively affected terminals and ancillary facilities
- Airports need non-aeronautical ancillary revenue to survive
 - Best candidates for private investment

Unique private investment hurdles - 1

- AIPP has not proved successful
 - Burdensome application process
 - Formal consultation and cooperation with users
 - Uncertainties given past failures
- Financial incentives uniquely designed for public entities
 - Federal capital grants (Airport Improvement Program)
 - Tax exempt debt financing for local government capital
 - Exemption from local property taxation
- Little privatization history to provide comfort

Unique private investment hurdles - 2

- Tradition of local political control
 - Patronage – airport as the largest local government employer
 - Control over economic development driver
 - Indirect economic benefits important
- Airlines understand, feel secure with current system
 - Far greater control in US than elsewhere
 - Fortress hubs
 - Competition
- Impediments to foreign investment
 - Committee on Foreign Investment in the United States (CFIUS) Foreign Investment Risk Review Modernization Act; 31 Code Fed. Regs. Appx. A Part 800

Unique private investment hurdles - 3

- Local and state procurement laws
 - Being revised but often impose limitations on private investment
 - Cumbersome and highly public processes in many cases
- History of lengthy, costly, complex procurements
 - Such processes not required but have become common
 - Discourage potential investors
- Contradictions on federal funding
 - Huge in real dollar amounts (\$130+ billion since 2005)
 - Small annual investment in light of need

Recent (positive) developments

- Recognition that traditional sources of capital are insufficient
 - US airport capital needs in excess of \$150 billion USD per ACI-NA
- Private investment outside AIPP becoming rule, not exception
- Marquee failures in the rearview mirror (KDEN, KSTL, KMDW, KHPN)
- Complex public procurements not always required; state laws are being revised to allow flexibility
- Shift from *airports* to *airport facilities*
 - Partnership with public entities
 - Distinguish revenue-producing and airfield facilities
- Increased flexibility in federal loan programs

Private investment successes



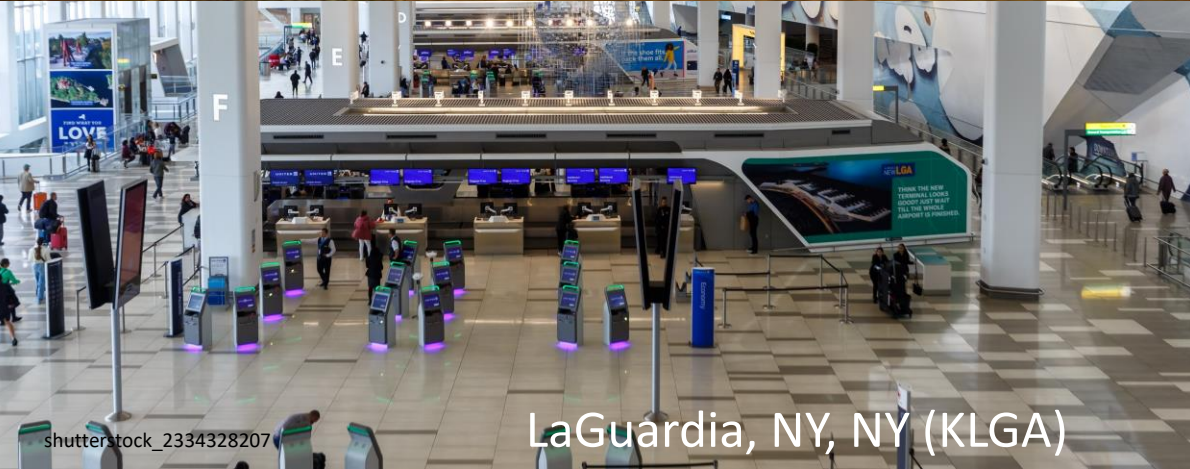
New Terminal New Haven, CT (KHVN)



People Mover - KLAX



Car Rental Facility KEWR



LaGuardia, NY, NY (KLGA)



Conclusions

- Need for private investment is enormous
- Investors need to appreciate unique attributes of US market
- US public losing resistance to private infrastructure investment
- Local, state laws are changing to allow greater investment flexibility
- Recent successes have also increased political comfort



Thank you!

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