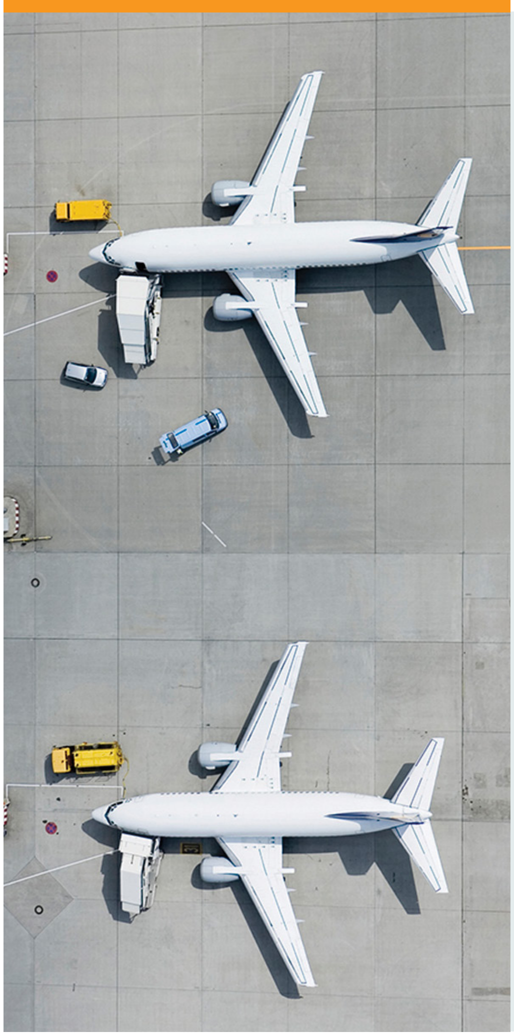
White Paper

U.S. Airport Privatization 2.0

Is Airport Privatization in the U.S. Finally Ready to Take Off?

By Eliot Lees, ICF



A New Dawning?

After years of anticipation and disappointments, airport privatization in the U.S. (commonly referred to as "public-private partnerships" or "P3s") seems finally ready to take off. A number of P3 transactions are currently in the works with the promise of more to come. This has investors, operators, and U.S. public sector airport owners sitting up and taking notice.

The history of airport P3 transactions in the U.S. has been disappointing. Over the past 20 years of the Federal Aviation Administration's (FAA's) Airport Privatization Pilot Program (APPP), only two airports have successfully navigated the process: Luis Munez International Airport (LMM) in Puerto Rico and Stewart Airport in Newburgh, New York. (Stewart reverted back to a publicly owned airport in 2003 when it was purchased by the Port Authority of New York/New Jersey.) Several failed attempts at Chicago Midway Airport (MDW) and elsewhere in the U.S. have led to the widespread belief that it cannot happen here.

DID YOU KNOW?

A P3 renaissance is starting in the U.S.

A $3.6 billion P3 terminal project is under construction at New York's LaGuardia Airport (LGA). The City of Denver (DEN) has just awarded a $600 million terminal redevelopment project and commercial operating concession. JetBlue is looking for a private sector partner in the development of a new Terminal 6 & 7 at JFK International Airport. Westchester Airport (HPN) is navigating the FAA's APPP and is in the final stages of selecting a preferred bidder. The Port Authority of New York/New Jersey is in the process of two tenders: one for design-build of a new Terminal A at Newark International Airport (EWR) and one for a 15-year management contract to operate the terminal. The City of Saint Louis has applied for a slot in the FAA's APPP, and others are considering the option. All of this activity suggests a P3 renaissance for U.S. airports.

The U.S. is Different

Unlike the rest of the world, where airport privatization is a proven and widely used approach, the U.S. continues to present unique challenges. The FAA process is limited, burdensome, and places too much approval power in the hands of airlines - to gain P3 approval, 65% of the airlines must consent. The experiences of LMM, MDW, and HPN show that the airlines need to be offered a really "good deal" in order to approve a transaction – and this airline "cut" changes the deal economics – especially to U.S. public sector airport owners looking to "cash out."

The current FAA APPP grants the airlines ultimate approval rights – experience shows that the airlines receive a "cut" of the sale price in exchange for agreeing to the transaction.

Until the FAA APPP program is revamped, there are only a limited number of airport "slots" available. The more likely outcome, at least in the short term, is to concession discrete portions of airports in order to facilitate airport upgrades and improvements. This approach does not need airline approval, as demonstrated in terminal P3s happening at LGA, DEN, JFK, and being considered at San Diego, Burbank, Seattle, and other airports. While this option lacks one of the key underlying motivations of monetizing airport assets, it does satisfy an equally important need: to upgrade and improve aging U.S. airport infrastructure. In their recent Airport Infrastructure Needs publication, ACI North America estimates that U.S. airports require $100 billion in improvements over the next five years, with $38 billion needed just for terminal buildings.

What is in Store for the U.S.? Our View

The U.S. approach will continue to be different from the rest of the world. Highly experienced investors, operators, and lenders who have participated in the U.S. process can attest to the fact that the U.S. is different – both in terms of the tender process and the highly involved bid requirements.

A level of due diligence not seen elsewhere is required to play in the U.S. Bidders must be prepared for the deep technical analysis needed for proposals.

ICF believes that within the next five years, partial privatizations - in the form of P3s - will become commonplace in the U.S. as an important option for U.S. airports to upgrade infrastructure and deliver a better passenger experience. Terminal privatization, gate privatization (as was successfully accomplished in Austin), operating contracts with investment requirements (which has been successful in Orlando Sanford, and is being tendered at EWR), and commercial concession operation (MDW) will become the norm.

Over the longer term, ICF believes that Westchester, Saint Louis, or other pioneering airports will demonstrate the value of the FAA APPP (after its success in Puerto Rico) and will use sale proceeds to higher purposes: leveraging large transportation infrastructure development (as Nashville is considering), offsetting unfunded pension liability (as Chicago attempted to do with Midway Airport), or shoring up other public sector needs. If the U.S. Congress modifies, expands, or liberalizes this program, ICF believes that airport privatization in the U.S. will truly take hold.

About the Author

Eliot Lees leads ICF's airport operational consulting practice, which combines process flow analysis, facility layout, organizational strategies, and new technology to improve airport performance and enhance the passenger experience. He has worked extensively with airports and third-party operators in business strategy and strategic planning, transaction due diligence, and infrastructure-related development, both in the U.S. and internationally.

Prior to joining ICF, Mr. Lees was an investment banker specializing in municipal and tax-exempt financing. He spent more than 10 years in various finance positions with leading New England financial institutions, including as Vice President at the Bank of New England in Boston, Massachusetts.

Mr. Lees has an M.B.A. from Boston University and a B.A. in Economics from the University of Massachusetts.

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