Cleared for Takeoff: Airports and the P3 Opportunity.

As their potential for value creation gains recognition, airport public-private partnerships are picking up momentum.

This year marks the 20th anniversary of legislation that created the Federal Aviation Administration's Airport Privatization Pilot Program, designed to allow access to sources of private capital for airport improvement and development projects. What is the state of airport public-private partnerships (P3s) in the U.S.? And what do local government officials need to know when considering airport P3s?

It's clear that airport P3s are gaining some momentum, as evidenced by major projects in San Juan, Puerto Rico, and in New York City, along with other initiatives around the country.

In February 2013, a consortium known as Aerostar Airport Holdings closed a 40-year concession and renovation deal for San Juan International Airport. Puerto Rico received $615 million upfront and revenue sharing in exchange for a long-term lease. What has happened since then? The operational handover to Aerostar was executed smoothly without any labor disputes or operational disruptions, and all airport employees who wanted to continue working were retained. Aerostar recently completed a $148 million renovation that enhanced airport baggage handling, energy efficiency, parking, and food, beverage and other store offerings.

And last May, the Port Authority of New York and New Jersey selected the consortium of LaGuardia Gateway Partners (LGP) for a $3.6 billion central terminal redevelopment project at LaGuardia Airport. By using a P3 model, the Port Authority felt that it would be able to complete the project more quickly, cause less disruption to airlines and transfer certain risks of cost overruns to the private sector.

There are other ongoing airport P3 initiatives to watch. In Denver, for example, the city and county recently issued an RFP to hire a "strategic program development advisor" for a project to create more space for revenue-generating shops and restaurants in the Great Hall of Denver International Airport's Jeppesen Terminal. And in Austin, Texas, the City Council authorized negotiations with Highstar Capital to lease 30 acres, including the South Terminal, at Austin-Bergstrom International Airport.

While these projects indicate growing interest in airport P3s in this country, the U.S. airport P3 market is still in a relatively undeveloped stage. Globally, by contrast, approximately 40 of the biggest 100 airports are fully or partially privately owned and/or operated, an indication that greater private-sector involvement is seen as valuable.

So as investors and private airport operators evaluate opportunities across the United States, what do they generally look for? First, they want to see a vibrant regional economic environment characterized by a growing population and employment base along with the likelihood of continuing GDP expansion. Also critical to potential investors is a large and stable amount of "origin and destination" traffic. O&D traffic — as opposed to hub/connection traffic — tends to reflect the essentiality of an airport to the region it serves.

For public officials exploring airport P3 projects, the questions are the same as for any transaction: “What am I getting?” and “What am I giving?” On the positive side, a P3 can create savings for airlines; generate upfront and periodic payments that can be used for non-airport purposes; bring greater commercial discipline via a comprehensive business plan and global relationships; and transfer risk to the private sector. And a P3 can bring more sources of creativity from both the public and private domains to solving infrastructure problems.

On the other side of the ledger, in a P3 a public authority is likely to have to cede some direct control over a project to the private sector; typically must agree to contractual provisions that commit future public funds regardless of actual revenues; and in some cases incur higher financing costs related to capital projects.

Whatever the pros and cons, it’s clear that airport P3s are slowly gaining acceptance across the U.S. as evidence of their value creation becomes better understood. The FAA privatization program has significant unused capacity. These unused slots represent an opportunity for public authorities that want to drive more economic development through their airports.

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BY ANDREW DEYE | FEBRUARY 17, 2016

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