

The landscape of P3s

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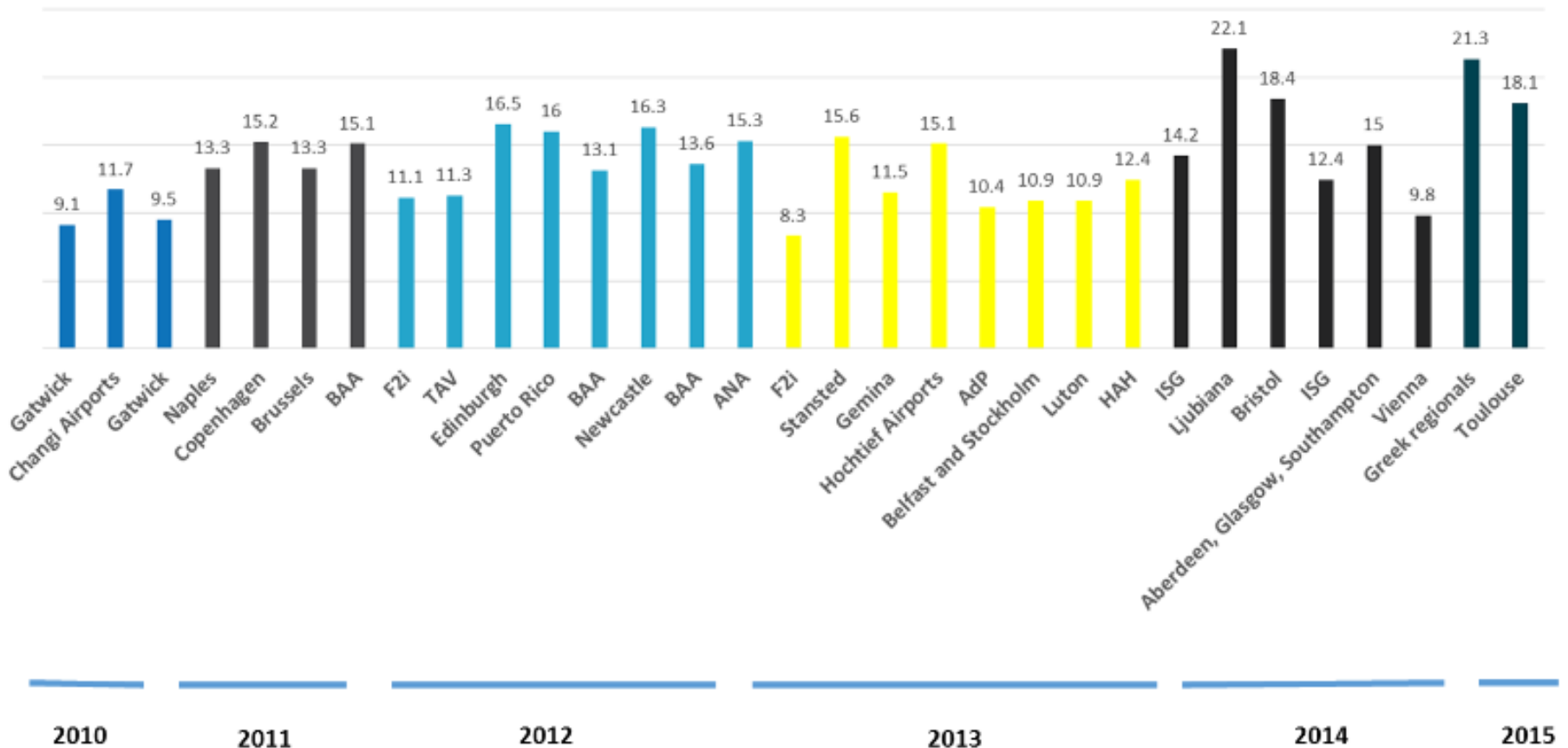
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Why are we here?

Worldwide acceptance of P3s/privatization



Airports are valued by investors: valuations range from multiples of 9.0 to almost 30.0!



Source: <http://www.rdcaviation.com/Insights/Article/44/Airport-Transaction-Update-and-2016-Outlook>

This morning's introduction

- **Context for airport industry in USA**
- **Definitions**
- **Why the interest in P3s**
- **Types of P3s**
- **Evaluating the economics of P3s**

Terminology: a word of caution

“There is no single, internationally accepted definition of *Public-Private Partnership*.”

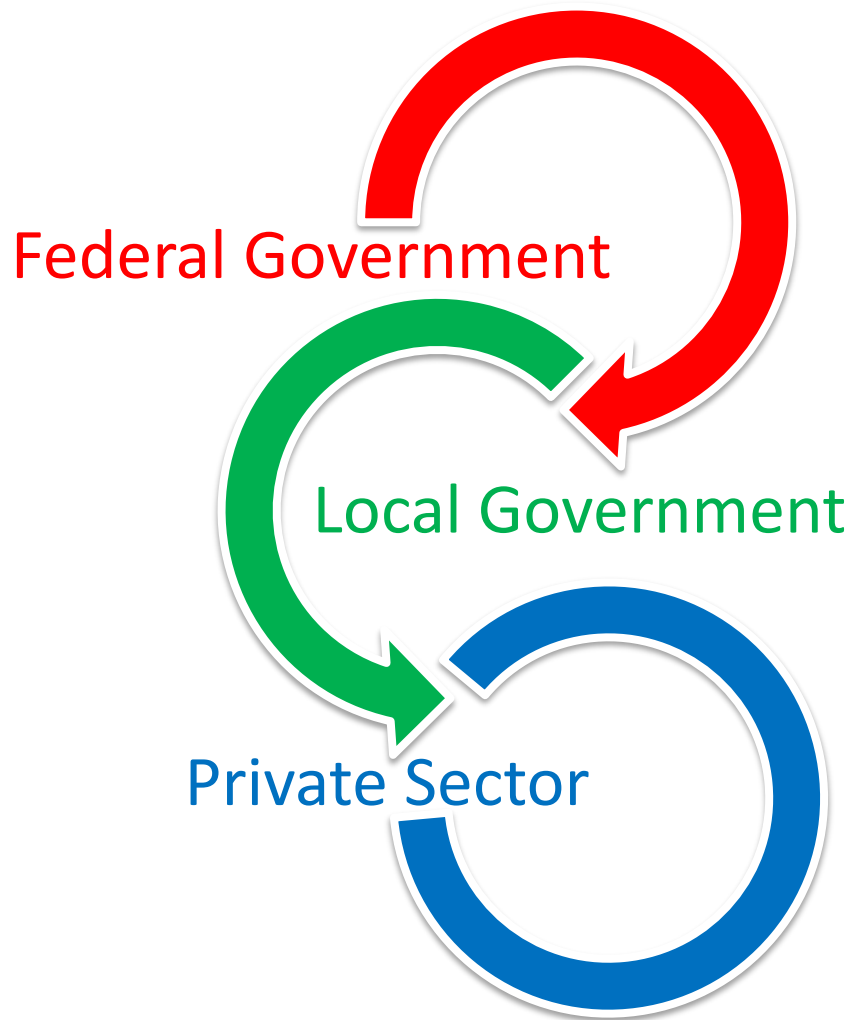
- PPP Knowledge Lab, The World Bank Group

Equivalent terminology does not necessarily equate to equivalent meaning

Terminology: defining airport P3s

- An arrangement by which one or more services or projects that traditionally have been provided or performed by a public sponsor are instead provided or performed by a private sector entity.
- An arrangement through which a private sector partner will exercise greater control, have greater responsibility and/or make a greater financial investment than would customarily be the case with respect to a particular type of airport contract, service, or project.

Historic responsibilities in USA



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

Today



Context: USA airport market

- 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 commercial airports are owned and operated by public sponsors but have some level of private investment

Understanding the wide set of players

- Each stakeholder has a role in P3 transactions



Political Stakeholders

- Who's calling the shots
- Public policy objectives
- Economic development
- Operational risk transfer
- Unlocking the value of the asset



Airport Stakeholders

- Airlines
- General aviation and corporate
- Airport management
- Passengers



Community Stakeholders

- Airport neighbors
- Non airport users
- Businesses
- Workforce

What distinguishes USA airports?

"Commercial means for public ends"

1. **Organizations:** Non-profit, business conducted in public.
2. **Highly Regulated:** Economic (AIP-grant assurances, PFCs, user charges), Environmental (federal and state processes) and Security/Facilitation federal operations).
3. **AIPP:** Second form of FAA regulation with a different rule set--some additional flexibility. Limited application in market so far.
4. **Infrastructure-Rich:** AIP funding (5% - 30% local cost share) unusual globally
5. **Indirect Benefits > Direct Benefits:** Airports valued for the indirect benefits they bring to the community/region—"the airport's constituencies" not for their direct benefits--the economic return to shareholders.

Why examine new financing alternatives?

Why?

- Access to non-traditional source of capital, new partners and access to global expertise
- Ability to use capital for non-airport purposes (privatization only)
- Value for airport infrastructure investment and business plans
- Widespread elsewhere in the world—lots of lessons learned.

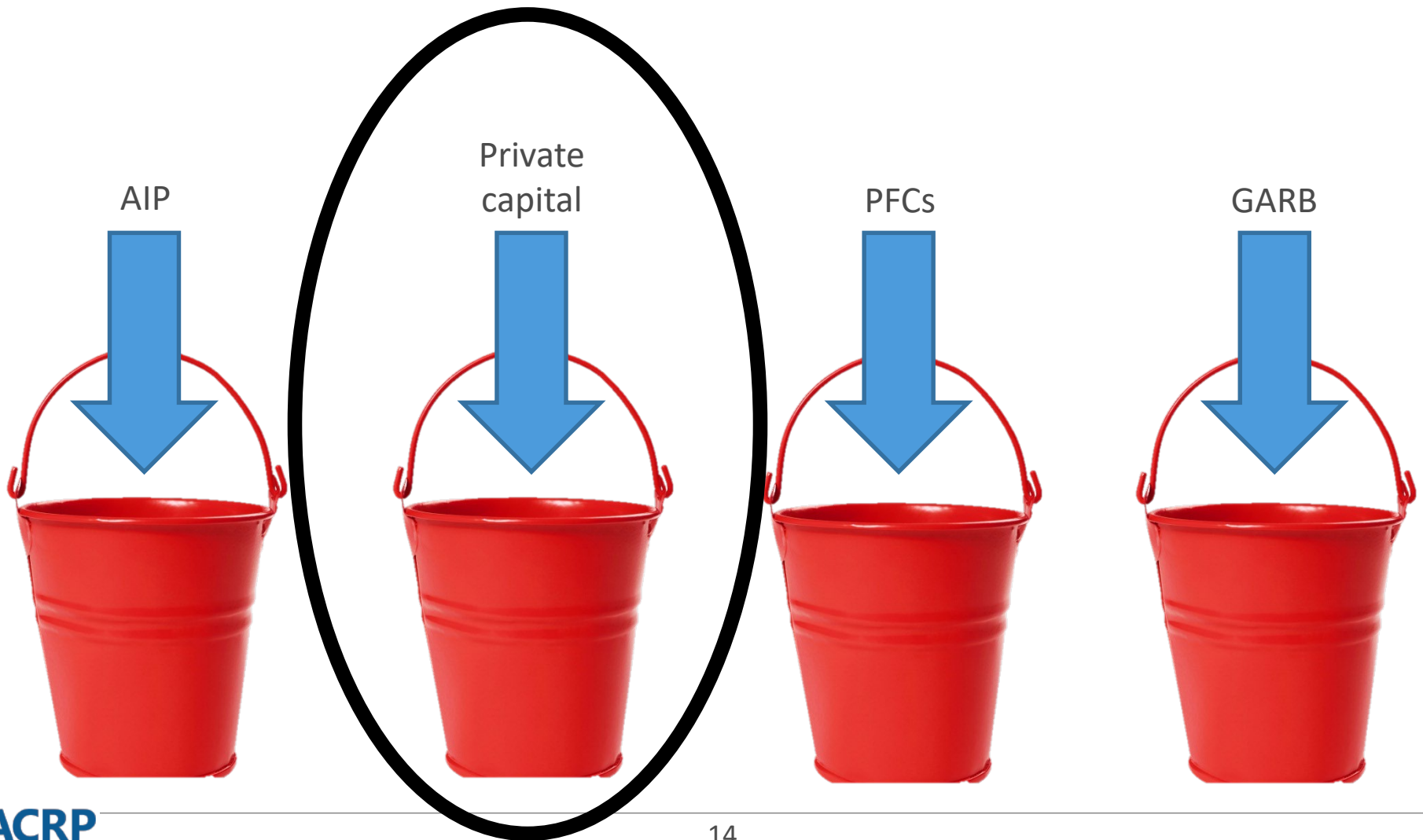
Key Issues

- Who takes on what risks?
- How much do those risks cost?
- What are the alternatives?
- How do you obtain the best deal?

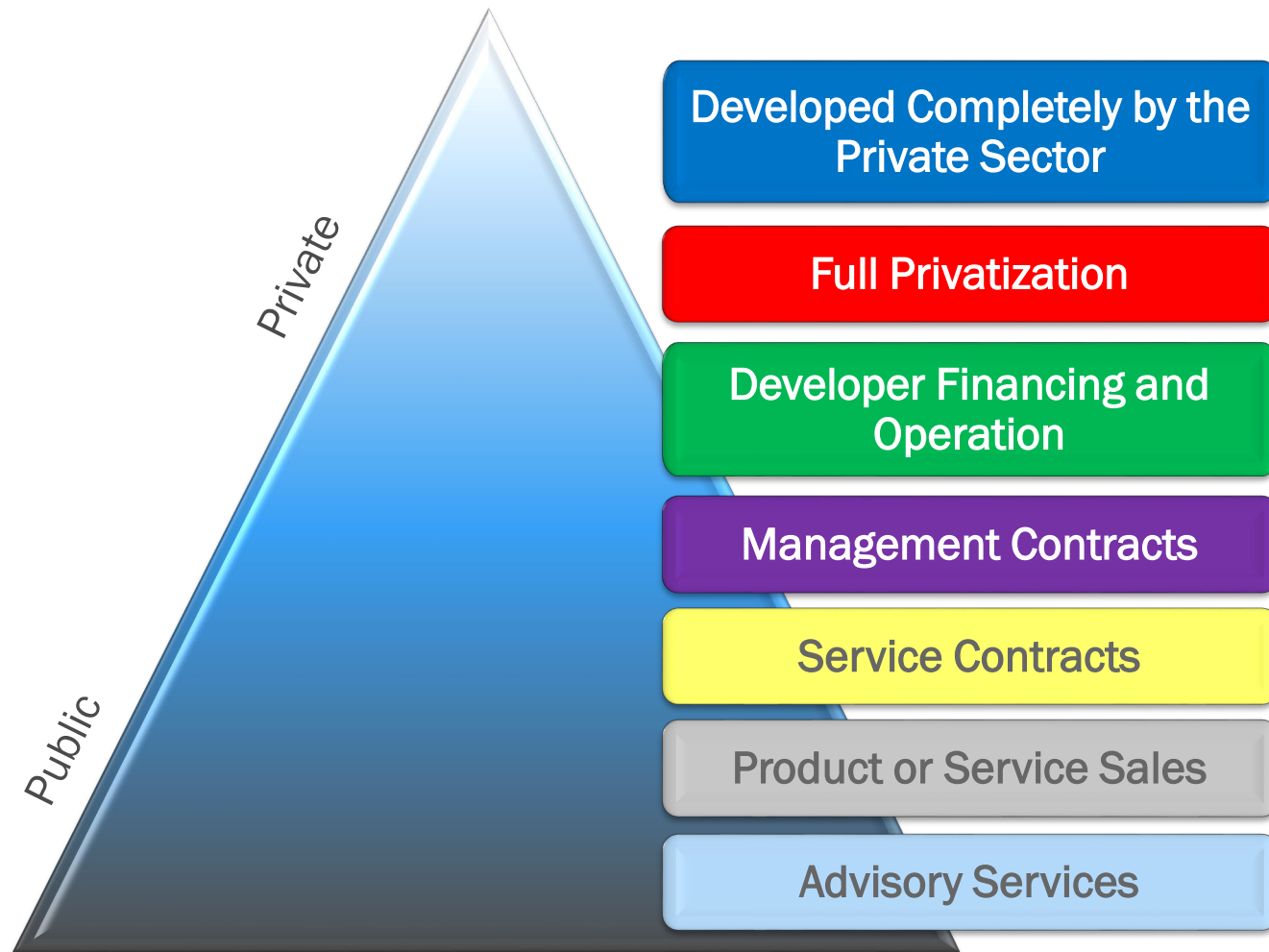
First step:

A “Value for Money” study, which assesses the benefits and costs of a range of procurement and operational strategies

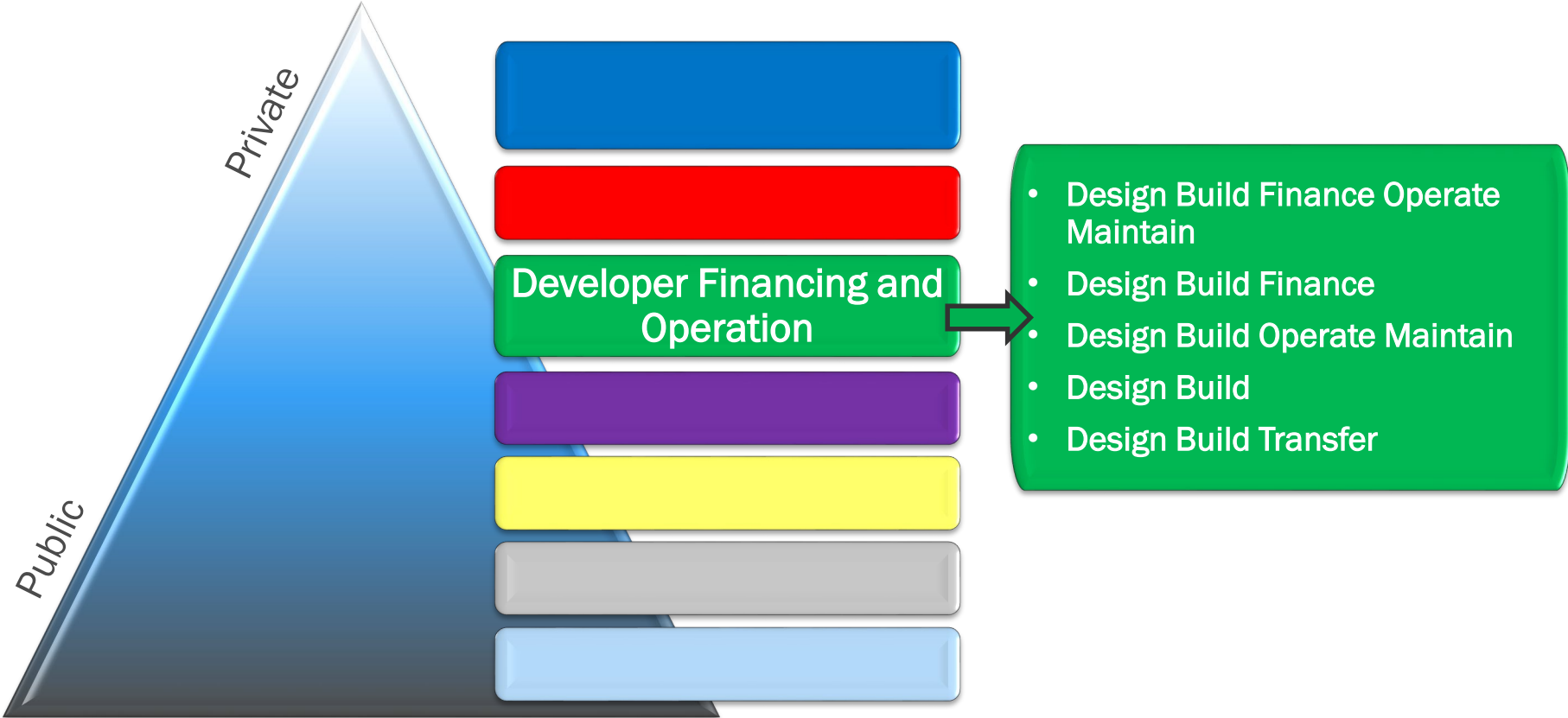
Sources of capital funding



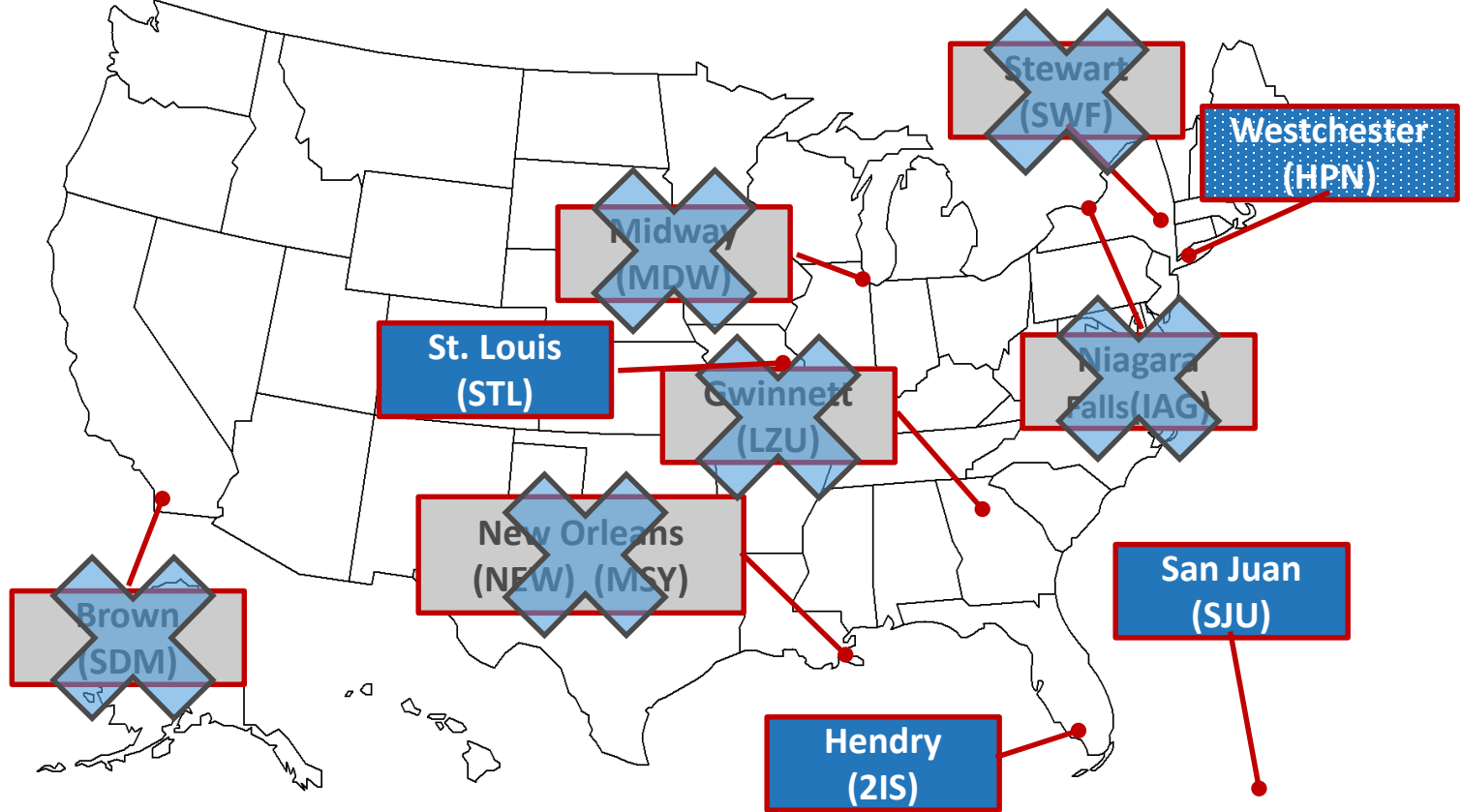
Types of private sector engagement



Focus on P3 arrangements



One permutation: Airport Privatization Pilot Program (now AIPP)



P3s in today's USA airport market

Public Sector Challenges

- Inadequate airport terminal and ground transport infrastructure given airline trends of larger aircraft, higher load factors and traffic growth
- Traditional tools, such as AIP and PFCs, have lost real value since their peak 20 years ago
- FAA eligibilities focused on airport airside needs—terminal and ground projects harder to fund
- Consolidated airlines increasingly powerful negotiators who are not reticent about wielding influence with airport boards and in Washington

The majority of active and pending P3s focus on terminal development — where aero and non-aero revenues are available

Commercial Drivers

- The airport sector is attractive due to its market (air service growth), development opportunities and cost-recovery mechanisms
- Experience with overseas airports has established a solid track record with EBIDTA multiples averaging around 12x (and even higher for immature markets)
- Different airport challenges, provide the right fit for equity investors with varying risk/return expectations
- Recent track record of USA airport PPPs stimulating interest and competition for **limited opportunities**

How should deal be structured?

Risk transfer: what is being transferred from the airport sponsor to the private sector? What risks are retained?

Experience suggests five important factors:

1. **Market/traffic risk:** Industry and airport profile (revenue share / availability payment)
2. **Costs:** capital expenditure (taking away budget & schedule risk)
3. **Revenues:** commercial revenues (car parking, commercial development area), but also allocation of use agreement and PFC proceeds?
4. **Rights and Obligations/Service:** Terms of contract and/or concession (service level requirements, rights to revenues). Incentives for 'right' behaviours.
5. **Term:** Medium to long term dependent on amount of capex and time to generate financial return to investors (20 to 40 years)?

Use market competition to get the “best deal”. The deal must be structured right to receive enough bidders.

An investor's perspective on revenues and costs



The levers and logic of a P3

- **Project: Terminal estimated at Capex \$1 billion**

**\$642 million in Revenues
from business plan
(Aero and non-aero)**



Remaining gap to be funded
by the Authority =
\$358 million

New ideas for higher commercial revenues or
cost-efficient operations improving the economics of the terminal expansion

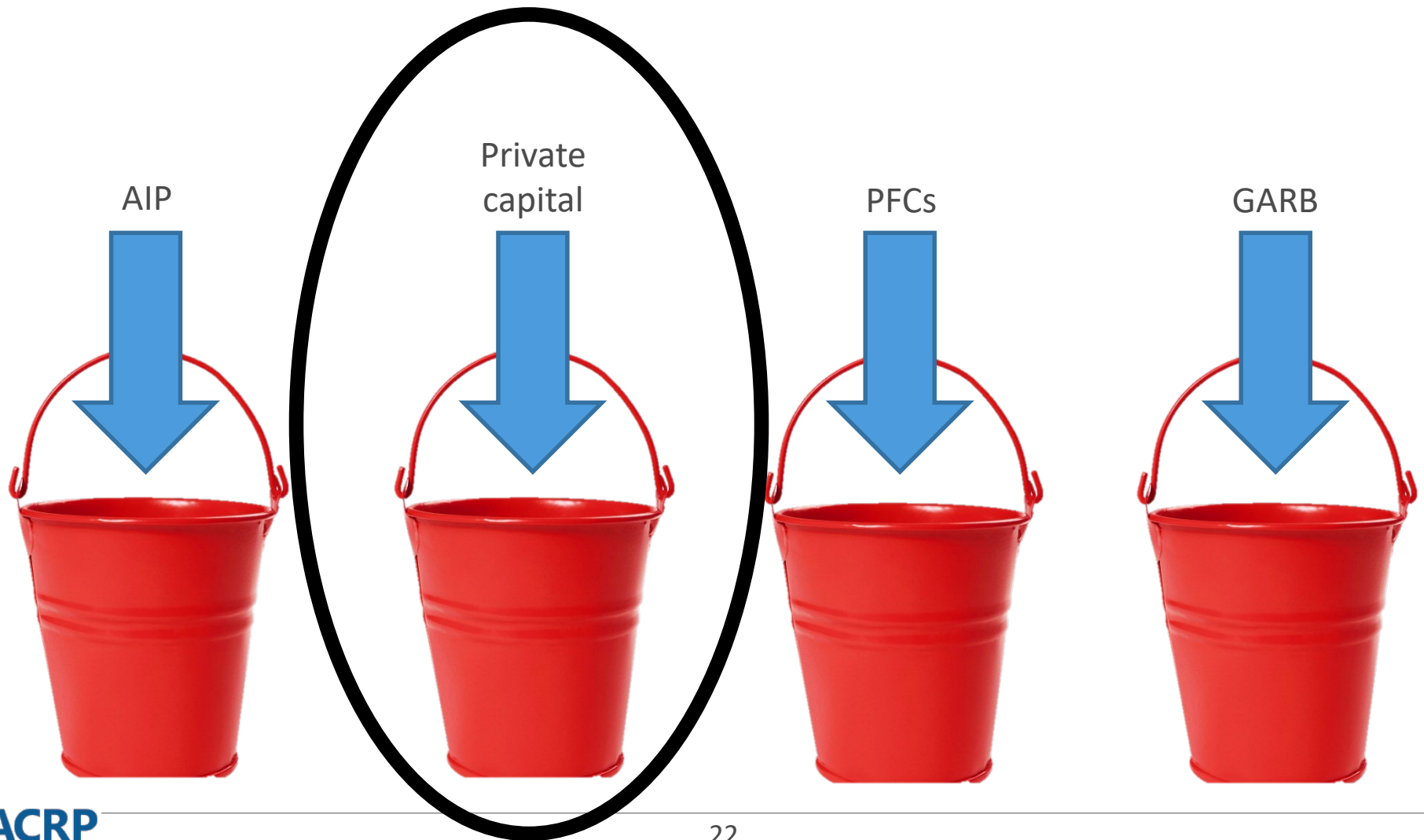
- 10 million passengers, assume growth at 2% per annum
- 'Current' commercial net revenue per passenger \$5.00
- 'New' approach to commercial, net revenue per passenger \$7.50
- Discount rate of 8%, over 20 years



Revised gap after market pressures and innovation=
\$74 million

To be financed from other contributions
(user charges, PFCs)

Multiple sources of capital funding (reminder)



How to make a deal attractive

- What works?
- Avoid the pitfalls
- Look at examples inside and outside of USA
- Protect your goals for the transaction (i.e., design standards, brand) without over-specifying the terms of the deal
- Advance homework— run the numbers
- Talk to and listen to developers and investors; encourage innovative solutions
- Give investors some ideas and get a competition of 3+ interested firms

Coming up at this conference ...

Walk through the decision-making process

- Lay of the land
- Pre-procurement decisions
- Procurement
- Getting support from political leaders
- After financial close
- Lessons learned

Questions and Discussion