

Transparency In Airport Rates & Charges

ACI-NA Airport Economics and Finance Conference
General Session II

April 29, 2008

Panel

- ❑ **Susan Warner-Dooley**, Deputy Executive Director, Finance & Admin, Metropolitan Airports Commission
- ❑ **Mark Berg**, Director, Airport Affairs, Corporate Real Estate, Alaska Airlines, Inc.
- ❑ **Alex Fedor**, Managing Director, AvAirPros
- ❑ **David Hamm**, Director, Properties, Delta Air Lines, Inc.
- ❑ **Chris Poinsatte**, Executive Vice President & CFO, Dallas-Forth Worth International Airport
- ❑ **Tim Skipworth**, Managing Director Properties, American Airlines
- ❑ **Betsy Taylor**, Director of Finance, Massachusetts Port Authority

Introduction

Transparency

■ When

- Airline Agreement Negotiations
- Annual Budget
- Long-term Projections

■ Where

- Operating Budget
- Capital Planning and Funding

What Makes Good Consultation

□ Sufficient information

- Transparent and adequate financial, operational and other information to allow airlines to make informed comments

□ Adequate notice throughout the process

- Reasonable advance notice of materials prior to meetings, before budgets or other decisions are finalized
- Necessary for annual budget processes and even more time for any revision of charges or imposition of new charges

□ Proper consideration to view of Airlines

- Users given the opportunity to submit their views and consult with the airport operator

What Are the Complexities in Transparent Rates & Charges Negotiations?

- **Basic Rules in US Airport Rates & Charges**
 - Fair and Reasonable Rates & Charges
 - Cannot be Unjustly Discriminatory
 - Airport Self-Sustainability
 - Appropriate Use of Airport Revenues
 - Preference for Local Agreement Between Parties

- **Methodologies**
 - Residual
 - Compensatory

- **Cost center allocations**

Consultation Requirements: Any Difference Between Compensatory and Residual?

□ Residual Deals

- Airlines guarantee payment of operating expenses and debt service
- Increased risk on part of airlines
- Single Till

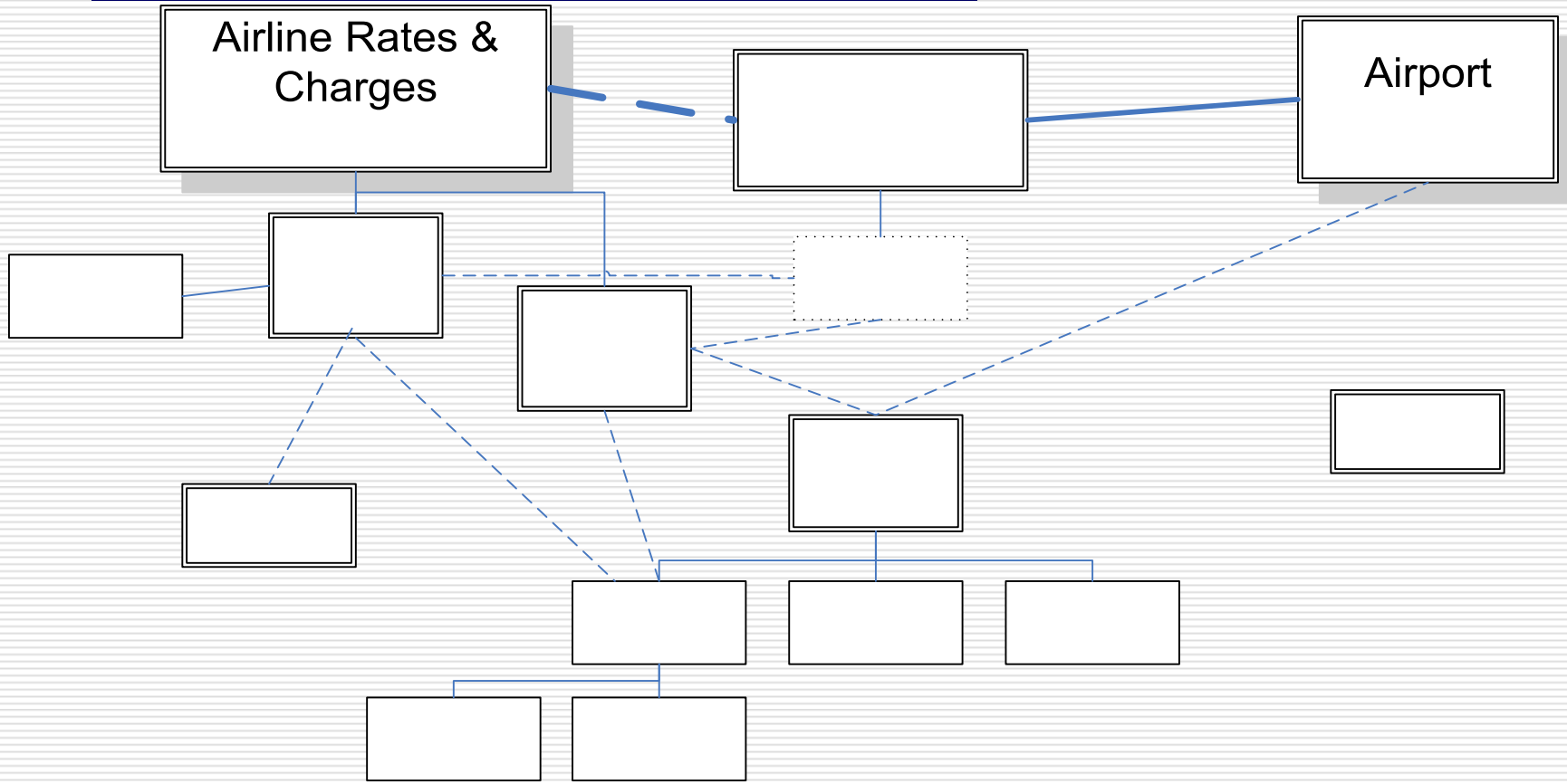
□ Compensatory

- Airport assumes risk of unused facilities
- Airport has greater opportunities for accumulating discretionary funds
- Allocation methodologies of increased importance

Cost accounting for variety of cost centers can add complexity



more time for review, transparency and detailed information required



Airfield

Ramp

Key Elements of Rate & Charges Package For Airline Negotiations

- **Sufficient details** and good examples to show how proposed methodologies will operate:
 - Good definition of cost centers and details to show allocation methodology
 - Explanation of funding plan
 - Reasonable forecast of expected
 - operating costs
 - debt service
 - rates & charges
- **Comparison information** for prior years and methodology
- **Executive summary** to facilitate transmission for corporate approval
- **Identification of changes** in rates and charges due to shift in leasing policies (e.g. exclusive to preferential or common use)
- **Individualized rate impact** calculations

Annual Budget Process

- **Timing**
 - Who gets the first look
 - Sufficient time for review and potential adjustment
- **Materials provided** – Nature of Info Shared
 - Level of detail
 - Justification
- **Meaningful Discussions**
 - All interested parties
 - Possible subcommittee for additional level of review
 - Adequate and timely participation by stretched airline representatives
 - Receptive to adjustments

Annual Budget Data

□ Financial

- Staffing levels, new positions and break out of major functional areas, e.g. security, fire
- Adjustments for major capital projects hitting rate base each year
 - Debt service
 - Operational Costs
- Changes to major contracts or service agreements

□ Assumptions and formulas

- Traffic level assumptions and comparison to historical (two-way street)
- Adjustments in allocation methodologies
- Expensed vs capitalized items
- Explanations

Capital Program

- **Facility Planning**
 - Defining “Need” -- Business Case
 - Type of facilities
 - Phasing

- **Design Verification**
 - Adjustability to changing times

- **Financial Analysis**
 - Funding Plan
 - Future Operating Costs
 - Projected Long Term Rates & Charges
 - Assumptions including passenger forecasts
 - Understanding implications for different carriers

- **Construction**
 - Lessons learned from other airports’ experiences
 - Updates on schedules and cost overruns

Benchmarking

Purpose of benchmarking

- “Partnership” with Common Goals vs. Differing Perspectives on:

- Passenger Services
- Continuous Improvement, aka keeping rates low
 - Efficiencies
 - Value Engineering
 - Sustainability
- Financial Reserves
- Handling Capacity, Demand, and Competition

Meaningful comparisons & political realities

FINAL Q&A
