

# Transparency In Airport Rates & Charges

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# Panel

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- ❑ **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

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## Transparency

### ■ When

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

### ■ Where

- Operating Budget
- Capital Planning and Funding

# What Makes Good Consultation

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## □ 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?

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- **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?

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## □ Residual Deals

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

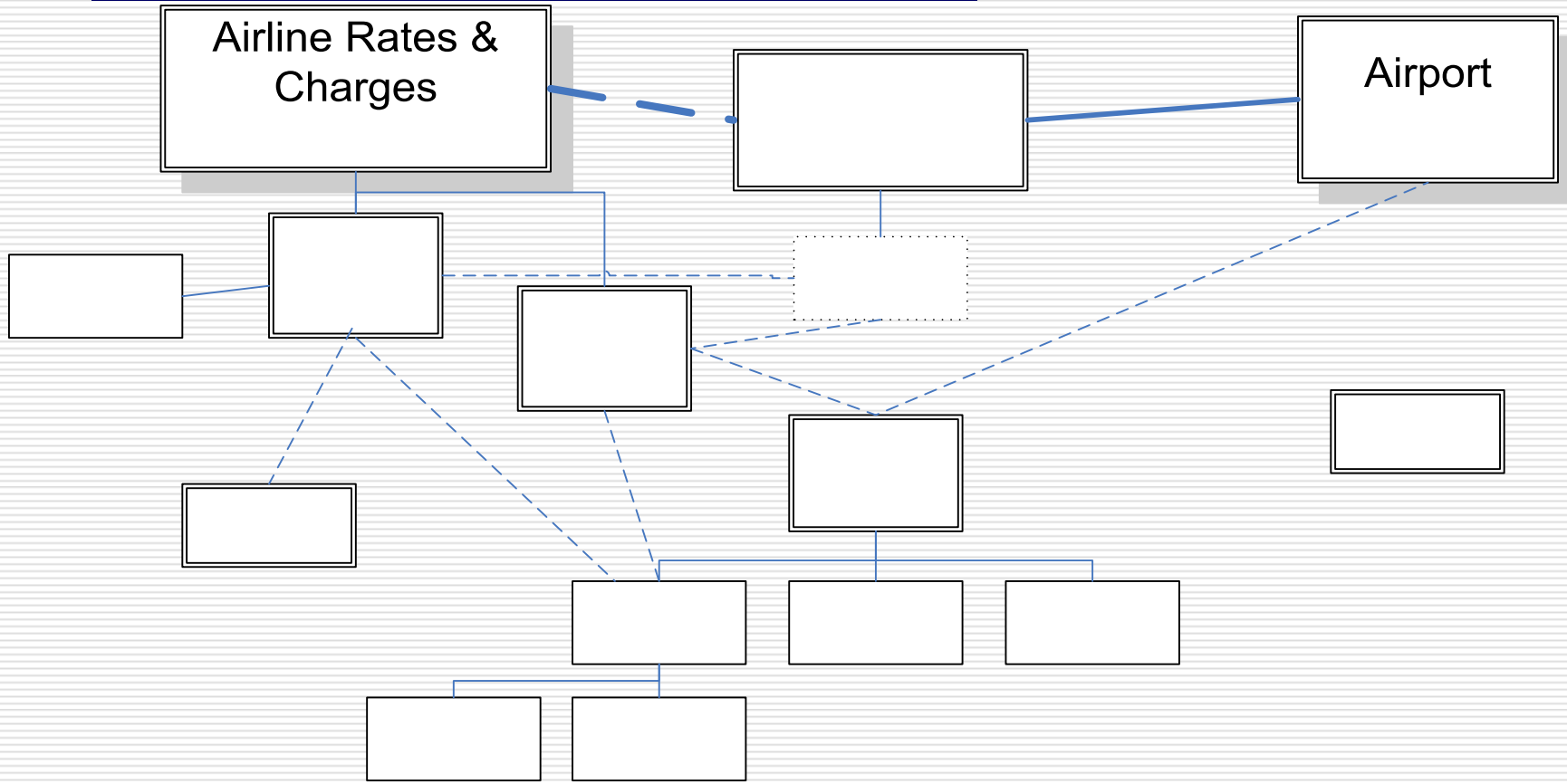
## □ Compensatory

- 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

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- **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

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- **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

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## □ 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

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- **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

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## 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

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