ASPA
PA Times
A powerful voice for public service...
AMERICAN SOCIETY FOR PUBLIC ADMINISTRATION
Fall 2016 | Vol 2 | Issue 4

INFRASTRUCTURE
Visions of the Future

EDUCATION SUPPLEMENT

Funding and Financing U.S. Airport Infrastructure

By Garfield Eaton

Over the last decade, U.S. airports have operated in a challenging financial environment. Consider the aftermath of the 2008 economic recession and the slow recovery that followed. Then consider that air traffic growth has been more robust in the past couple of years. As a result, airport operators must undertake much needed capacity and basic infrastructure improvements for aging facilities, all while improving the customer experience.

Several airport operators have older terminal facilities that were constructed as early as the 1960s and recently have undergone—or are undergoing—expansion and modernization updates. At the same time, airlines have focused on increasing revenues and controlling costs. These goals often conflict with each other, requiring operators to find creative ways to implement improvements and minimize costs.

Unlike the nation's interstate highway system connecting major metropolitan cities throughout North America, airports serve the important role of connecting major cities and economies domestically and globally. They enhance the movement of people, goods and services throughout the United States and around the world, allowing the economy to operate more efficiently. They are capital intensive facilities and critical infrastructure assets to our transportation network.

The traveling public is generally familiar with facilities like Hartsfield Atlanta, Chicago O'Hare and LAX. But, commercial service airports represent only a small fraction of the total. The United States has 5,148 public-use airports. Only 389 provide commercial service; the rest serve corporate business and smaller general aviation aircraft. Airports Council International-North America (ACI-NA) estimates that more than $75 billion in airport infrastructure investment is needed at U.S. airports through 2019, an average of $15 billion annually.

Funding for airport infrastructure projects comes from different sources; they include federal Airport Improvement Program (AIP) grants, locally generated passenger facility charges (PFCs), rental car customer facility charges (CFCs), state grants and airport generated net income. Larger airports typically get more than half of their capital development funding from airport generated income; smaller commercial service and general aviation airports rely more on AIP grants. Most of that revenue comes from excise taxes imposed on domestic passenger tickets, domestic flight segments and international passenger arrivals and departures. Taxes also are imposed on air cargo and aviation fuel purchases. The annual AIP appropriation for 2016 is $3.35 billion, leaving a funding gap of nearly $12 billion annually for airport projects.

Congress first authorized PFCs in 1990 at $3 per flight segment; it subsequently increased them to a maximum of $4.50 in 2000. PFCs represent an increasingly important funding source for capital projects. In 2015, U.S. airports collected more than $3 billion worth. According to ACI-NA, they have yielded a total of more than $50 billion in airport capital investments since they were created. Yet their purchasing power has diminished as the rate ceiling has not been adjusted in 16 years. Accounting for inflation, the PFC is worth less than $2.25 per segment. Another complicating factor: FAA prohibits their use on such revenue-producing projects as parking garages, terminal concessions and rental car facilities.

Rendering of CLT's $291 million Terminal Lobby and Roadway Expansion project, expected to be open in 2018.

And the others? State and TSA grants, rental car CFCs and airport cash generally fund only 5 to 10 percent of an airport's capital infrastructure needs.

Given the limited availability of funding sources, airports frequently turn to the bond market to finance long-term infrastructure projects. Airport bonds often are secured by net revenues generated by the airport, the largest source of which is from the airlines. Other security comes from PFC and CFC revenues, and even FAA AIP letter-of-intent grants. At smaller commercial service or general aviation airports, city or county governments issue general obligation bonds supported by local taxes. ACI-NA has found that bond proceeds are the largest source of funds for airport capital needs, accounting for 55-60 percent of the total. In the past 10 years, total debt outstanding increased from $64 billion in 2005 to $88 billion in 2015. It is expected to increase an additional $3 to $4 billion in 2016.

Funding sources and financing strategies vary greatly depending on the type of facility planned. AIP grants and PFCs have eligibility restrictions on the types of projects they can fund, typically runway, apron, land acquisition and security projects. As the need for new or expanded passenger terminals grows, PFCs often are a key funding source.

Recently, public-private partnerships have gained momentum. These funding approaches typically result in the private sector assuming an equity stake in the project and/or taking on responsibilities from the public airport operator. Successful partnerships include investment of private capital, lower construction and operating costs, and increased technical and collaborative expertise. Structured properly, the approach can be a "win-win" for both the public and private entities. The airport operator benefits from additional cash funding which it might not otherwise have, allowing it to implement the project more efficiently. In return, the private entity can generate a steady five to seven percent return on its investment over the term of the lease. The $4 billion expansion of the Central Terminal at New York's LaGuardia Airport is the most recent and prominent example of a public-private partnership project. Scheduled for a 2022 opening, it is the largest such airport infrastructure project undertaken in the United States.

The high cost of infrastructure improvements means U.S. airports will continue to struggle to meet the growing needs of air travelers and still make air travel efficient and affordable. Traditional airport funding sources address nearly half of our airport infrastructure needs, but airports need to identify

continued on page 36

now going public." Cox's editorial argued for a new model in higher education making greater use of benefit corporations, stating: "[Alliant] believes its new corporate structure will result both in higher standards of accountability to our students and the public, and access to new sources of capital and a more sustained financial future."

Panelists also tackled the question of diversity. Frederickson, himself a former president of Eastern Washington University, noted that schools are malleable and changeable. "What we see now are 'people's universities' where we educate so many more people than elite schools. As a result of marketing efforts we are now seeing a decline in diversity. Elite schools' rankings don't change much, but there's an increased feeling that 'if you've seen one, you've seen them all' and as a result universities are far less interesting than they might otherwise be."

Crow noted that some of that is determined by the culture inculcated at each institution. Highlighting ASU's dedicated decisionmaking, he said, "One of our features is significant diversity. We've formed a unique charter looking specifically at who we include, who will succeed and how we will provide for the well-being of where we are located. Through this specific process, we work to ensure we've formed a productive member of society at the end of their time with us."

Both panels featured wide-ranging and interesting dialogues, producing only one weakness: not enough time to dig deeper into each discussion and share more information with each other and attendees. Many were particularly keen—given the focus on for-profit institutions, such as the now collapsed ITT Technical Institute, and their sometimes questionable monetary practices—to look even more at for-profit educational models and their successes and failures.

"I have a background in student affairs and there were some really great points about for-profit education in these discussions," noted one of the event attendees. "This is on the rise and it's a huge conversation. For-profits are not a great place for students to be going, but we haven't made a place for those students in other academic communities."

"This event proved what a critical discussion this is and that we need to keep having it," said ASPA Immediate Past President Maria Aristigueta of the University of Delaware. "How we educate our students and the environment we provide for them, both at the undergraduate and graduate levels, is critical to what they learn, the public values they absorb and the contributions they will make going forward."

Information about this event, including a link to the Flickr feed photos and other helpful material, can be found on ASPA's website under Events/Other Events. Members interested in the PAR *Symposium can access it through the* PAR *interface on Wiley's website or contact ASPA staff for assistance.*

FUNDING AIRPORT INFRASTRUCTURE

continued from page 20

new approaches to secure the rest. Increasing the PFC level and indexing it to inflation would be a good first step. That said, the growing gap between project costs and capital funding sources requires operators to find creative ways to increase their non-aeronautical revenue streams.

Garfield Eaton, vice president at Trillion Aviation, has more than 27 years of experience in airport business and financial consulting. Over the course of his career, Eaton has prepared airport bond feasibility studies supporting more than $13 billion of bonds and assisted in the implementation of major capital improvement and infrastructure programs at more than 50 airports. He can be reached at geaton@trillionav.com