# US airport PPPs: A slow take-off

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The Port Authority of New York and New Jersey has finally awarded a concession for the refurbishment of LaGuardia Airport's Central Terminal Building to a private sector consortium. The $3.6 billion project is the Port Authority's largest PPP procured to date, and only the third true US airport PPP. But despite LaGuardia's progress, no further US airport PPPs are expected in the medium term.

A Highstar Capital- (now Oaktree Capital) and Mexico’s Grupo Aeroportuario del Sureste-led consortium closed the US' first commercial airport PPP, in 2013. The $615 million deal features a 40-year lease of Luis Muñoz Marín International Airport in Puerto Rico. That same year, the city of Chicago attempted to lease Midway Airport to a private partner under a 40-year concession agreement, but then - for at least the second time in the airport's history - opted against a lease. Midway has not been revived as a PPP since.

Today, aside from the LaGuardia project, just one other city is proposing to overhaul a terminal - Denver International Airport. The City of Denver's Department of Aviation has shortlisted four teams for the redevelopment of the airport's Great Hall. But the department has yet to decide whether the project will be delivered as a design-build-finance-operate-maintain concession.

The selection of a preferred bidder for LaGuardia came nearly three years after the Port Authority solicited qualifications for the project. While John Degnan, Port Authority's board chairman, has indicated that refurbishing Terminal A at Newark Liberty International Airport in New Jersey is next on the authority's agenda, a procurement is not imminent.

**Pilot programme limitations**

The US Federal Aviation Association (FAA) established the Airport Privatization Pilot Program (APPP) under a Congressional bill in 1996. The programme was designed to allow US airports to access private capital and boost their competitiveness against foreign operators. Under the programme, private companies are allowed to own, manage, lease and develop public airports.

The federal government reauthorised the programme in 2012, and increased the number of potential airport participants from five to 10. Despite this, only two airports have closed PPPs under the programme - the Luis Muñoz Marín and New York's Stewart Airport. The LaGuardia project is not part of the FAA pilot programme because the would-be lease involves just one terminal - not the entire airport.

The majority of the applications filed under the FAA pilot scheme have since either been withdrawn or terminated. As of October 2014, Airglades Airport in Hendry County, Florida, was the only airport still participating in the programme. And Stewart Airport reverted to public ownership in 2007, seven years after it won approval from the FAA.

Several factors have thwarted the government's hopes for the APPP. “The FAA pilot programme does not offer enough financial incentives for privatising airports,” said Seth Lehman, senior director of global infrastructure and project finance at Fitch Ratings in New York. “So it is viewed as a very limited alternative when it comes to privatising commercial airports.”

Airports use a combination of bond proceeds, federal and state grants and passenger facility charge (PFC) receipts to fund their infrastructure upgrades. “Usually airports secure the bonds from their general revenues and may also pledge the PFCs to projects, subject to federal approval,” Lehman said.

And publicly run US airports can raise tax-exempt debt as well as debt that is subject to the Alternative Minimum Tax - sources of funds that private airport operators cannot access. Private operators would thus have to rely on taxable debt or sources of private equity, which are almost always more expensive.

The Port Authority plans to contribute about $1 billion to LaGuardia's construction costs, with the remaining $2 billion provided by the private sector. The transaction is likely to be financed with a combination of bank debt, bonds and about $200 million in sponsor equity, sources said.

The Port Authority and LaGuardia sponsors Meridiam and Skanska either declined to comment or didn't respond to inquiries.

**Ownership structures**

Another factor holding-back wider US airport privatisations' is the existing ownership model. Most US commercial airports are run by local or state governments, either directly or through a public authority, and not the federal government.

Local governments are generally unwilling to relinquish control of existing revenue-generating infrastructure to private operators. "Terminal buildings are pretty integral to any airport and public authorities are unlikely to give them away to the private sector," said an official at an international equity investment firm.

In addition, a privatisation or lease needs to win the support of at least 65% of the active airlines at a specific airport as well as airlines that account for at least 65% of the annual landed weight (on which landing fees are based).

In the case of LaGuardia, nearly 20 airlines operate at the airport. But none of the airlines has been involved in the LaGuardia procurement - at least not yet. The Port Authority will be required to include airlines in the final financial negotiations with the private sector consortium.

"The authority will now begin a period of engagement with the airlines," said one banker close to the process. "This could either go well or poorly, but that remains a bit of a risk.”

The Port Authority manages three airports in the greater New York City region - Newark, John F Kennedy International and LaGuardia - and consolidates revenues from all three in to its annual budget. The authority's [2015 Capital Budget] authorises about $3.6 billion in capital investments, of which nearly 45%, or $1.6 billion, has been dedicated to the redevelopment of the World Trade Center in Lower Manhattan. Only $779 million has been set aside for aviation activities, which includes the LaGuardia project.