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AIRPORT PRIVATIZATION MOVEMENT IN THE 21ST CENTURY

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This paper examines airport privatization as a whole. Since airport privatization is so complex, this paper begins by laying out the fundamentals of airport privatization and the airport structure in the United States (U.S.). Understanding these crucial fundamentals will help readers comprehend how the supporters of this concept are attempting to revolutionize airports in the U.S. This paper entails an analysis of its corresponding literature, heavily relying on the Transportation Research Board (TRB) and the American Association of Airport Executives (AAAE) since they are two active organizations concerning this topic. This paper also used information from interviews with long-time airport manager, Gary Shafer, who previously wrote his MPA research paper on this same topic. The literature review consists of: the Federal Aviation Administration's (FAA) Airport Privatization Pilot Program (APPP), the various airport examples of this concept being implemented in the U.S. and it finally distinguishes where airport privatization is more likely to occur and become a success. This paper will also analyze what the public sector has to gain and lose with airport privatization through a review of case studies and it will also reveal and relate the misconceptions regarding this concept. Proponents of airport privatization argue that this policy aids the public sector by allowing them to relinquish having to operate an airport and opponents of airport privatization believe that the public sector would be relinquishing of a public asset by privatizing its airport.

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Chapter 1 - INTRODUCTION/PURPOSE

As local and state governments are experiencing increased financial constraints due to the recession; they are also undergoing even harder times trying to balance their budget. There are two main ways to reduce deficits: to increase taxes or reduce spending. Administrators try to avoid raising taxes because of the negative repercussions from doing so. So as an alternative, administrators choose to reduce spending. Not only are public debts increasing due to the decreased revenues, but the public sector is also facing pressing needs to invest in its aviation infrastructure and one of the biggest infrastructure assets for local and state governments is an airport (Poole, 1994). According to the American Society of Civil Engineers' (ASCE) 2013 report card for America's Infrastructure, the aviation infrastructure received a D on a standard grading scale (ASCE, 2013).

As a result of the government's financial problems, the public sector is exploring innovative ways to help mitigate their deficits. Local governments are also pursuing a possible financing model and a source of capital and as a result, the public sector is starting to analyze airport privatization to a greater extent. Even though privatization has not been implemented on a major scale at airports, this policy in theory is not new to the U.S. It is gaining increased interest and thus local governments are starting to implement this practice at a progressive scale, from least to most private sector involvement.

The purpose of this paper is to analyze airport privatization as a whole. It will also answer the research question: what the public sector has to gain and lose from airport privatization? For the purpose of this paper, an analysis will be provided of airport privatization taking place through the APPP at airports that are included in the National Plan of Integrated Airport Systems (NPIAS). This paper will start by describing the background of the airport structure in the U.S. and it will then introduce airport privatization, its pros, cons, barriers and legal/policy issues. This paper will also build on the extensive amount of literature concerning this policy. AAAE and ACRP are major contributors to this paper since they are two big organizations that are actively engaged in this topic.

This paper will conclude by incorporating case studies that will help understand airport privatization in its entirety. The input as a result of the personal interview conducted with Gary Shafer will be incorporated throughout the paper concerning this topic. Gary Shafer was thought of a good asset to this paper because of his expertise regarding this policy, he previously wrote his graduate research paper on this policy also. Finally, this paper will also explore the misconceptions regarding this topic.

U.S. Airport Structure and the National Plan of Integrated Airport System

In order to get a better perspective of airport privatization and its significance, it is crucial to analyze the foundation: our airport structure and the impact of aviation upon the United States. Our aviation system plays a key role in the success, strength and growth of the U.S. economy. According to the 2013-2017 NPIAS Report, in 2009 the U.S. civil aviation-related economic activity totaled $1.3 trillion, generating 10.2 million jobs with $394.4 billion in earnings. Civil aviation accounted for 5.2 percent of U.S. gross domestic product. There are approximately 617,128 active pilots, 222,520 general aviation aircraft and 7,185 air carrier aircraft which utilize 19,786 landing areas consisting of 14,615 private-use and 5,171 public-use facilities (FAA, 2013).

Airports are classified as commercial service, which are classified by their percentage annual passenger enplanements in the U.S. The primary category consists of large, medium, small and non-hub airports. The non-primary category consists of non-hub airports. Besides these categories in the commercial service category, there is also a reliever and a general aviation (GA) airport category (FAA, 2013).

It is also important to note that our national airport structure is amongst the most privatized in the world, despite that fact that all the major U.S. commercial airports are owned by government entities (Airlines for America, 2013). According to De Neufville (1999), "U.S. major airports involve an extensive degree of private control over virtually all aspects of airport planning, design, finance, operations, pricing and access" (p.8). In 2007, The National Civil Aviation Review Commission (NCARC) found that employees of private companies, including airlines, concessionaires, and contractors, account for 90 percent of the employees at the nation's largest airports (NCARC, 2007).

The FAA, in conjunction with state aviation agencies and local planning organizations, identify public-use airports that are important to the national airspace system for the inclusion in the NPIAS. Sixty-four percent (3,355) of the 5,171 public-use airports are included in the NPIAS. There are 1,841 existing public-use airports that are not included in the NPIAS because they do not meet the minimum entry criteria. They are located at inadequate sites, cannot be expanded and improved to provide a safe and efficient airport or are located within 20 miles of another NPIAS airport. All primary and commercial service airports and selected general aviation airports are included in the NPIAS (FAA, 2013). These GA airports are categorized and selected based on the role they play in our society, economy, and the aviation system. These GA airports have four categories: national, regional, local and basic (FAA, 2013).

The NPIAS Report identifies for Congress and the public, those airports included in the national system, the role they serve, and the amounts and types of airport development eligible or

Federal funding under the Airport Improvement Program (AIP) over the next 5 years. An airport must be included in the NPIAS to be eligible to receive a grant under the AIP.

As it was previously mentioned, the NPIAS contains 3,355 landing facilities. This includes 3,330 existing facilities and 25 proposed airports that are anticipated to be developed over the next 5 years. Ninety-eight percent (3,252) of the NPIAS airports are owned by public entities and 77 are privately owned, of which all are GA airports (FAA, 2013). It is important to note these 77 privately owned airports that exist in the NPIAS because it illustrates how full privatization is already taking place in our aviation structure. This illustrates how private entities are currently conducting infrastructure assets successfully that are crucial to the public sector while receiving resources from the government.

Introduction/Definition of Airport Privatization

According to ACRP's (2012) privatization guidebook:

> Privatization refers to the shifting of governmental functions, responsibilities, control, and in some cases ownership, in whole or in part, to the private sponsor. The term airport privatization is often understood to mean the transfer of an entire airport to private operation and/or ownership, but private sector involvement at airports can take many forms. These forms range from least to most private sector involvement. (p.1)

- "Partial privatization refers to strategies where partial control and at least a portion of ownership remains with the public owner" (p.1)
- "Full privatization refers to strategies where the complete control and/or operation of an entire airport are vested with a private entity through a long-term lease or sale" (p.2)

The focus will be on four airport privatization models. For the purpose of this paper: service contracts, management contracts, developer financing and operation and full privatization—long-term lease or sale to a private entity (AAAE, 1992, p. 18). These models are categorized from least private sector involvement to most private sector involvement (AAAE, 1992). Take note that the higher the private sector involvement there is; the higher the risk and complexity of the privatization process (AAAE, 1992).

A service contract is the most common type of airport privatization that has occurred to date, by far (AAAE, 1992). Service contracts occur when the airport outsources to a private company to perform duties around the airport (Boudreau, Beek, Ernico & Reimer, 2012, p. 2). The airport outsources to a private company mainly for two reasons: cost reduction and their specialized expertise. Some examples of service contracts are cleaning/janitorial, conveyance systems, security guards, parking operations and terminal concessions.

A management contract is an arrangement where the public entity is the owner but a separate private entity is in charge of the managerial obligations/operational control of the airport in return for a fee (Boudreau et al., 2012, p. 2). An airport is mainly interested in management contracts due to the private company's management expertise. Some examples of management contracts are specific facility obligations and airport-wide management, which took place at Indianapolis under the British Airport Authority.

A developer financing and operation arrangement is where a private entity develops on the airport with their money and they are in charge of the everyday operations of that development (Boudreau et al., 2012, p. 4). It is important to note that every developer financing and operation arrangement is unique in every scenario due to their agreement. An airport is mainly interested in developer financing and operation agreements due to the private entity's capital investment. Some examples of developer financing and operation agreements are terminal development, fuel systems, cargo, rental car and hangars.

A full privatization contract—long-term lease, which usually lasts anywhere from 40-99 years or sale is an arrangement where the complete control and/or operation of an entire airport are vested with a private entity; which already exists in the case of the 77 privately owned airports in the NPIAS through a long-term lease or sale (Boudreau et al., 2012, p. 4). It is also important to note that every arrangement is unique in every scenario due to the contract content. An airport is mainly interested in full privatization due to an upfront payment, which originates from the lease or sale proceeds, and/or yearly income. The public sector treats this as an opportunity to exit the airport business. Some examples of full privatization are long-term leases for full operation and development, which have taken place at San Juan and Stewart Airport.

Pros and Cons

To provide a comprehensive analysis of the policy of privatization, the pros and cons must be explored. Just like any new policy, there are going to be proponents who strongly believe in the policy and there are also going to be opponents who totally dislike the policy. One thing that is important to note is that as human beings, it is in our nature to be in our comfort zone and be reluctant to change. This is important because humans tend to not even give such ideas an opportunity.

There are many proponents who strongly believe that airport privatization is a good option for the airport industry and on the other hand, there are a lot of opponents who see no future in airport privatization. The first part of this section will examine the problems that proponents argue that privatization can alleviate. The second part will review the other side of the coin, addressing the issues that airport executives and/or public officials need to consider before recommending an enhanced form of privatization.

Proponents take note in the cost savings associated with airport privatization (ARDF & AAAE, 1992, p. 28). Due the greater efficiency of the private sector, proponents believe that there is potential for increased revenues and decreased costs. The public sector will benefit from this in long-term leases depending on their contract agreement's conditions, hence some agreements do not entitle the airport owner to a percentage of the airport sponsor's retained earnings (the portion of the net income which is retained by the airport rather than distributed to its stockholders as dividends). Not only will local governments capitalize on the retained earnings by privatizing an airport, but it will also allow for local governments to dissipate from having to operate an airport (ARDF & AAAE, 1992, p. 30).

The second argument is the capital infusion associated with airport privatization (ARDF & AAAE, 1992, p. 29). Not only will the private sponsor have the accessibility to supply the capital infusion into an airport, but the private sponsor also has the potential to attract private capital due to its perceived success. This is a huge benefit that can be gained; hence citizens are witnessing the public sector struggle more and more with their finances. In more specifics, a city that is experiencing financial difficulties will be more reluctant to invest in its airport infrastructure compared to other city assets. For example, the City of Marion will be more prone to invest in its roads and school buildings instead of its Williamson County Regional Airport (MWA); hence airports are usually lower in a city's priority. To add to this, the public sector does not have the comparable amount of money and willingness that the private sector obtains to invest in an airport.

The third argument is the potential revenue/on-going tax that the public sector can obtain from the private sector by privatizing an airport (ARDF & AAAE, 1992, p. 30). Government-owned airport land is free from property taxes but if a private entity leases an airport, the airport land could be taxable in many instances but not all depending on the contract agreement. Also, publicly owned airports do not pay corporate income taxes. Privatizing an airport would enable the local, state and federal government to capture corporate income taxes from the airport.

A fourth benefit from airport privatization taking place through the APPP is the possibility of revenue diversion. Revenue diversion allowed under the APPP is a big pro for a public airport owner because it can use the proceeds from the airport lease or sale to fund a non-airport project or policy (such as pensions) in its jurisdiction.

A fifth benefit from airport privatization taking place through APPP is that the private entity would have access to the FAA’s AIP (FAA, 2013). This is a big pro for a private entity hence it will have access to cheap money from Congress. This allows them to spend less of their money, in which proponents speculate that will lead to lower charges for the consumers. Since FAA AIP money is still allowed to be spent on the airport because it is a NPIAS airport, then, that allows the private airport management or owners to spend money that they might have spent on airport capital improvements on some other project.

A sixth perceived benefit from airport privatization is that the private sponsor will help increase the capacity of the airport system to reduce the congestion (ARDF & AAAE, 1992, p. 31). Inadequate airport facilities cause increasing delays in both aircraft operations and airline passenger movement. It is becoming more apparent that action is needed to try to alleviate this constraint imposed on our nation’s airports. Taking this into account and the public sector’s financial distress, proponents believe that the only solution that can help alleviate this problem is airport privatization.

ARDF and AAAE (1992) discovered the following about airport privatization:

> First, private sponsors may be more active identifying opportunities that would increase efficiency and would be more innovative in their solutions to problems. Second, private sponsors may be more aggressive in project scheduling. Airport improvement plans may be implemented more rapidly by the private sector in contrast to the public sector. Third, private sponsors may be more competent to adapt to the changing needs compared to government agencies. Government agencies are bound by restrictive regulations and agreements, particularly in relation to the personnel structure. (p. 31)

The final perceived benefit of airport privatization is that an airport being operated by a private sponsor will reduce the political constraints, which impede airport effectiveness at publicly owned airports (ARDF & AAAE, 1992, p. 31).

Now to discuss the arguments against airport privatization, which mainly stem from negating the perceived benefits that proponents argue privatization can alleviate. And, opponents also lay out additional valid arguments against airport privatization.

According to Bunnell (1992), “the first argument against airport privatization is that it would cause private monopolies” (p. 100). Airports can be thought as a business, but unlike other businesses; competition among airports is low and/or non-existent. Opponents of airport privatization believe that there would be little barriers to impede private sponsor from monopolizing/taking over our airport industry.

Emerging from the first argument, according to Bunnell (1992), “opponents also believe that the private sponsor will have to increase its aeronautical charges towards its users due to inaccessibility to some of the privileges that the public sector obtains: free property taxes, accessibility to tax-exempt bonds, and reduced fees" (p. 100). It is important to note that all these terms and conditions are clearly agreed upon through the APPP and contract agreement.

Bunnell (1992) found that "the third argument against airport privatization is that airports operate like businesses in the hands of the private sponsor, which will reduce the emphasis on the public's interest" (p. 100). Opponents believe that the airport sponsor will have narrow vision; in which their goals will not always coincide with publics/user's best interest because of the sponsor's ambition to maximize their retained earnings.

Barriers and Legal/Policy Issues

We will now have a discussion on the barriers that have prevented this policy from taking off. The biggest obstacle to this policy is our citizens. They are not willing to give this policy a chance because of its negative outcomes (Poole, 1992, p. 15). Since this policy has not been put into practice in the United States, citizens so far perceive that the disadvantages outweigh the advantages.

The other barrier to this policy's implementation is elite political support (Shafer, 2009, p. 21). If the political powers do not support this policy being implemented in their jurisdiction; a transaction will simply not happen. Just like the citizens, political figures also set their personal stand on this policy based on perceived benefits and disadvantages concerning the policy. For example, it will later be discussed on how imperative it was for the City of Chicago and San Juan to have their mayors illustrate and support this policy in order to even start thinking about the airport privatization process.

It is now important to lay out the legal considerations (revenue diversion, repayment of prior grants, safety and security requirements, noise and environmental concerns and sovereign immunity) that need to be taken into account concerning this issue. Appendix A highlights the guidelines and requirements put forth by the FAA for airports concerning this practice.

Besides the legal considerations, the policy issues associated with this policy need to be analyzed. Robert Poole (1992), an active writer and publisher on airport privatization, stated the following policy issues that exist concerning this policy: loss of public control, economic regulation, safety, noise, liability for the public sponsor and bankruptcy. It is crucial to review and consider these important policy issues before privatization takes place at any airport because privatization transactions can have negative outcomes if these issues are not analyzed beforehand.

Chapter 2 - LITERATURE REVIEW

Airport Privatization Pilot Program (APPP)

The legal and policy issues were analyzed that would discourage the private sponsor's participation/interest in airport privatization and, in reality; there is no reason for private sponsors to show interest in airport privatization unless the privatization occurs under the FAA's APPP. Congress established the FAA's APPP to explore privatization as a means of generating access to various sources of private capital for airport improvement and development. Private sponsors under the APPP may own, manage, lease and develop public airports. The 2012 Reauthorization Act increased the number of public use airports that can participate from five to ten and in which one can be a large hub and one has to be a GA airport (U.S. GPO, 2013). In addition, only GA airports can be completely sold and commercial service airports may only be leased. It is also important to note that the APPP is really meant to only play a factor in full privatization transactions.

According to the U.S. Government Printing Office (2013), "this act authorizes private sponsors from the exemption of certain federal requirements that would otherwise make privatization impractical" (49 U.S.C. Section 47134). For example, the airport owner or leaseholder may be exempt from the repayment of federal grants, eligible for grants from the Entitlement Fund and the private operator can be authorized to impose, collect and use a Passenger Facility Charge (U.S. GPO, 2013). In addition, the Secretary of Transportation may also allow the airport owner to use the sale or lease proceeds for non-airport purposes upon approval in the case of a primary airport, by at least 65% of the scheduled air carriers and by scheduled and unscheduled air carriers accounting for 65% of aircraft landed weight at the airport (U.S. GPO, 2013). In the case of a nonprimary airport, the Secretary may make this same exemption after the airport has consulted with at least 65% of the owners of aircraft based at the airport (U.S. GPO, 2013).

The APPP is a tool that symbolizes that Congress and the FAA dismiss the fact that private entities are not a viable source for airport privatization. This also illustrates that the FAA is willing to experiment by having faith that private sponsors can manage and operate airports, and analyze the outcomes of airport privatization.

At the same time, this program has been scrutinized because it has lacked completed transactions, since only two airports have been privatized. Opponents of this policy can't believe the fact that this program has been around since 1996 and until last year, there was only one completed transaction, with the recently completed privatization transaction of SJU, it brought the success rate to 2 in the first 17 years of its existence (FAA, 2013). People blame this unsuccessful rate on the FAA; they believe that they still have a lot of guidelines and limitations/obstacles that limit the private entity from completing a transaction.

Proponents and opponents of airport privatization both agree that the APPP is a tool that gives the airlines power essentially to decide if this policy is to be put into practice since the airport sponsor has to obtain 65 percent approval from the airlines serving the airport to approve the exemption from prohibition of revenue diversion, the single most important incentive that stimulates the public sector to even consider airport privatization (Arthur, 2012, p. 10). Airlines have always been against airport privatization because they foresee increases in their fees if they don't have a contract agreement before the privatization transaction takes place (Poole, 1994, p. 18). Nevertheless at Luis Munoz Marin International Airport (SJU) and Chicago Midway Airport (MDW), "the airport sponsors had success while obtaining the airlines' approval from this exemption" according to McAllister (2011, p. 11).

To date, only two airports, Stewart International Airport (SWF) and SJU have completed the privatization transaction under the APPP (FAA, 2013). However, in 2007 the Port Authority of New York and New Jersey purchased the rights to the lease agreement for SWF and effectively ended that arrangement and reverted the airport to the public sector (Arthur, 2012, p.12). SJU on the other hand just completed its process under the APPP as of February 2013 and as of March 2013, there are only two active applications that are trying to privatize under the APPP: MDW and Hendry County Airglades Airport (2IS) in Florida (FAA, 2013). These two applicants' status varies in the APPP process.

According to the FAA (2013):

> The City of Chicago received their revised preliminary application on January 18, 2013 and now the airport sponsor can take the next steps to select a private airport sponsor. MDW released their request for qualifications (RFQ) on January 18, 2013 and the deadline for receiving their responses was February 22, 2013; and as a result they received 16 interested entities that originate in different places throughout the world. MDW anticipates issuing an information memorandum and their draft documents in the first quarter of 2013 and the deadline for their final bid documents and binding bids is due in the third quarter of 2013 (p. 3).
>
> 2IS, a general aviation reliever airport in Clewiston, Florida, is located 80 miles from Miami International Airport (MIA). The airport is owned and operated by Hendry County. The airport has a 5,603-foot runway, a general aviation terminal and hangars. The City of Clewiston got their preliminary application approved on October 21, 2012 and now, the airport sponsor is negotiating an agreement with a private operator (p. 4).

Examples of Airport Privatization in the U.S.

It is now important to illustrate the examples that exist while these models are put into practice in the U.S. As mentioned earlier, service contracts are the most common type of airport privatization that occurs in the U.S. A specific example of this type of arrangement takes place at San Francisco International Airport (SFO), where an airline consortium (SFOTEC) operates and manages airport-owned common use equipment and systems related to handling flights and passengers (Boudreau et al., 2012, p. 19).

Management contracts aren't as popular as service contracts but they are picking up momentum. A specific example of this arrangement took place at Indianapolis. British Airport Authority Indianapolis Limited Liability Corporation was the winning bidder of a 10-year management contract in 1994 to manage Indianapolis's airport system, which included Indianapolis International Airport (KIND) and five general airports (Boudreau et al., 2012, p. 24). The contract was later extended three additional years but subsequently was cut a year short at the request of the BAA. Private management ended on December 31, 2007 and control was transitioned back to IAA management (Boudreau et al., 2012, p. 24).

Another example of this type of agreement took place in Los Angeles County. American Airports manages and operates five general aviation airports owned by the Los Angeles County. In 1991, Comarco was awarded a 20-year management contract to effectively operate as the airport management. Comarco subsequently sold the contract to American Airports in 2000 and currently, they are in charge of these airports until April 2016 (Boudreau et al., 2012, p. 19).

Developer financing/operation contracts have been the popular arrangements in recent years because of the constant struggle of capital for airport owners. A specific example of this arrangement takes place where individual airlines have privately financed the construction of portions of or entire, terminals. For example, United Airlines built terminal 1 at Chicago O'Hare and American Airlines built terminal 8 at New York's John F. Kennedy (Boudreau et al., 2012, p. 30).

The final form of airport privatization that has gained momentum, with the help of the APPP, is long-term lease or sale of airports. The two notable examples that the U.S. has witnessed is SJU and SWF. Both airports leased their airport to a private company for a long term: SJU leased their airport for 40 years and SWF leased their airport for 99 years, in which the private sponsor sold the remaining 91 years to the public sector (Boudreau, 2012, p. 43).

Airports that are More Prone to be Successful While Privatizing

According to Shafer (2009), "privatization is a promising policy and can be beneficial only at certain airports". Looking back, here are the ways that private sponsors could increase revenues while privatizing an airport: 1) enhancing non-aeronautical revenues, 2) cost savings through optimized use of facilities, 3) application of commercial business practices and 4) realizing less political and lobbying influence. Stemming from this, because no two airports are alike, the private sponsor has to perform an abundance of research into a specific airport before even thinking of privatizing it since every airport has its unique strengths and weaknesses (McAllister, 2011, p. 11).

According to Boudreau's (2012) guidebook:

> Small hub airports cannot expect to realize the same level of concession revenues per passengers as that of a major international airport. In addition, airports with older, less efficient terminals are not able to provide the concession space needed to take full advantage of the market. In conclusion, airports that are well-operated are weaker candidates for privatization because there is less overall value to be derived. (p. 69).

In addition Shafer (2009) stated that it didn’t make sense for smaller airports to be privatized since most of them require some type of subsidy from the government. Privatization does claim to be more effective and efficient and in turn, generate higher revenues, but privatization in its best-case scenario at small airports (less than 10,000 passengers per year) will make them break-even instead of being profitable. For medium-size airports (more than 10,000 passenger boardings in a year and at least .25% but less than 1% of the total annual passenger boardings in the U.S.), which already break even, privatization may result in higher retained earnings (the portion of the net income which is retained by the airport rather than distributed to its stockholders as dividends). So, in all, the airports that are more attractive to private sponsors are large airports (more than 10,000 passenger boardings in a year and more than 1% of the total annual passenger boardings). Most of these airports are already profitable and private entities are confident that they can maximize on their retained earnings by the perceived benefits that privatization has to offer at these airports (Boudreau et al., 2012).

Chapter 3 - DISCUSSION

Case Studies

Luis Munoz Marin International Airport (SJU)

SJU is a joint civil-military international airport located in Carolina, Puerto Rico; three miles southeast of San Juan. Over 9 million passengers board a plane at the airport every year according to the FAA. Puerto Rico Ports Authority (PPPA) owns the airport.

According to the FAA (2013):

> SJU is the island's main international gateway and it's the main connection to the U.S. The airport serves, as the Caribbean's hub for Cape Air and it is the focus airport for JetBlue Airways. JetBlue is the largest carrier in San Juan, with 31 daily flights on an average day. Major upgrades to the airport have been under way since 2006, with more than $400 million being invested in the improvement and expansion of its facilities, including a new terminal: Terminal A. Puerto Rico saw this new terminal as an investment that was going to establish the airport for success in the future. (p. 3)

Puerto Rico along with many other states and municipalities across the U.S. continue to grapple with the lingering effects of the Great Recession. Puerto Rico was recently exposed to depressed revenues and increased deficits due to the economy and thus resulting in a triple B-bond rating and which effectively eliminated PPPA from the bond market. As public debts grow, cities and states simultaneously face pressing needs to repair and modernize critical infrastructure assets that can't wait if citizens hope to keep goods and services moving the economy (FAA, 2013).

Puerto Rico to date has been left with massive budget deficits and weak credit ratings, which in turn leaves Puerto Rico with a limited ability to finance its infrastructure (Boudreau, 2012, p. 44). As a result, Governor Luis Fortuno from the previous administration and Alejandro Garcia Padilla, the current administration, understand that innovative infrastructure financing will be Puerto Rico's one way out of the financial distress.

As a consequence, Puerto Rico contemplated and enacted to privatize SJU. PPPA and Puerto Rico Public-Partnerships Authority (PRPA) selected Aerostar Airport Holdings to act as the private sponsor to operate SJU. The deal calls for Aerostar which is made up of Aeropuertos del Sureste (ASUR), an operator of nine Mexican airports, and Highstar Capital which has made investments in Baltimore and London. ASUR is in charge of operating the airport for 40 years in which the transaction was valued at $2.57 billion (ASUR, 2102). The Puerto Rico Ports Authority received $615 million upon the signing of the lease and will receive annual revenue-sharing payments over the life of the lease estimated to add up to $552 million (ASUR, 2102). According to the FAA (2013):

> The FAA received the final application from PRPA for the participation of SJU in the APPP and has determined that the final application is substantially complete. PRPA requested an exemption to permit them to use proceeds from the lease agreement for non-airport related purposes, to forego the repayment of Federal Grants and Aerostar demanded for the exemption to permit them to earn compensation from the operation of the airport. On February 26, 2013 the U.S. FAA signed off on the agreement, making it the first large U.S. airport to be placed in private hands. Aerostar has pledged to invest an average $46 million in the facility each year or more than three times the current $13.5 million average annual investment. The deal will provide new cash to bail out the island's Ports Authority, which is weighed down by nearly a billion dollars in long-term debt and lacks the financial strength to tap U.S. municipal bond markets. There is no question that

this deal is a great milestone for airports going private and many people are skeptical that more airports will follow SJU's lead (p. 2).

The general comments from the proponents of this privatization transaction were that changes are needed to modernize the airport infrastructure, to improve management of the airport and to provide leadership to market Puerto Rico as a global destination (FAA, 2013, p. 4). Opponents believed that the private sector should not perform public services that are inherently governmental in nature; commentators also opposed foreign companies controlling local public assets in which they also believe that foreign nationals would displace Puerto Rican's public interests (FAA, 2013, p. 4). Another comment from Puerto Rican citizens against this transaction is that SJU will be more inclined to the shipment of drugs and weapons since ASUR also operates nine other airports in Mexico (FAA, 2013, p. 5).

There was an economic impact assessment done by Estudios Tecnicos in 2012 that is reflected by the FAA (2013).The purpose of this assessment was to see how this privatization transaction would affect the economy and they found out that during the first ten years, the deal would result in annual average impacts of:

- "$2.3 billion in increased business activity" (p. 2).
- "14,461 new jobs" (p. 2).
- "$437.4 million in salaries associated with the new jobs" (p. 2).
- "$93.6 million in new tax revenue" (p. 2).

Chicago Midway International Airport (MDW)

The City of Chicago proposed to transfer MDW to a private sponsor in a long-term lease. This is by far the largest proposed airport privatization in the history of the U.S. and was positioned to be a landmark transaction as the first privatization of a major commercial airport in the U.S. In addition, the City of Chicago was the second applicant, beside SJU in the history of the APPP to get secure airline approvals to divert any funds from the lease revenues for non-airport purposes (McAllister, 2011, p. 11).

In 2005, the city secured state legislation to extend the airport's exemption from property taxes to a private owner, which paved the way for the transaction and committed the city to use 90% of the net proceeds to finance infrastructure work or up to 45% of the net proceeds to shore up the city's $9 billion unfunded pension liability at that time (FAA, 2013). These commitments were needed to secure the support of the powerful Chicago Federation of Labor. In October 2006, the city secured the only large-hub slot under the APPP. In February 2008, the city secured airline approvals for its APPP and immediately issued a request for qualifications (RFQ) for bidders. Bids were received on September 30, 2008 two weeks after Lehman Brothers Holdings collapsed on September 16, which triggered the global credit crisis (Boudreau et al., 2012, p. 44). When the chosen private consortium was unable to come up with the full up-front rent payment under the lease's purchase price of $2.521 billion in April 2009, the deal fell through and the consortium had to pay a $126-million breakup fee to the city, of which $75 million had been posted as collateral after city council approved the lease (Boudreau et al., 2012, p. 97). Since that time, the FAA has granted the city's requests for more time to complete the deal through a series of extensions to maintain its spot in the APPP.

Just recently, the City of Chicago tried for their second privatization effort. The FAA revised the preliminary application and approved it on January 18, 2013. The City of Chicago released their RFQ that same day and received 16 responses by the set RFQ deadline, in which the City of Chicago announced that only 6 were good candidates (Centre for Aviation, 2013). Gary Shafer when asked about MDW privatizing said that he speculates the business deal going through but stated that he is skeptical of the long term if and when the transaction is completed. The current Mayor, Rahm Emanuel, for the City of Chicago is looking to structure the potential lease a little different from what former Mayor Daley had in mind. In order for the city to make up for the previously failed privatization deals, Emmanuel appointed an advisory panel composed of council members, business leaders and labor representatives to oversee and maximize on this deal. At the same time, this panel will give skeptical citizens a pledge of transparency. Emanuel has insisted that a Traveler’s Bill of Rights must be part of the final deal. He also wants a deal that does not last more than 40 years and that the private sponsor shares its revenues with the city on an ongoing basis instead of the lump-sum style (FAA, 2013). Initial proceeds would be used to pay down debt issued since 1996 to rebuild the airport, the mayor's office said, which is about $1.4 billion in outstanding debt. Longer term, cash flow would be directed to the city’s infrastructure needs. The mayor has also pledged that proceeds would not be used to pay for city’s operations. The city also wants assurance from the private sponsor that the prices for parking, food and other amenities will be kept at a reasonable rate by taking inflation into consideration (FAA, 2013).

Stewart International Airport (SWF)

In 1999 SWF became the first and only airport to complete the APPP process. It was operated by a subsidiary of UK-based National Express Group (NEG), under a 99-year lease with the state of New York, which was the owner of the airport. NEG operated the airport from November 1, 1999 through October 31, 2007, when it sold the remaining 91 years of the lease to the Port Authority of New York and New Jersey. Because the Port Authority is a public agency and not a commercial private entity, the airport was no longer eligible to continue in the APPP under the Port Authority's control and its participation in the program was terminated (Boudreau et al., 2012, p. 95).

Airport Privatization Misconceptions

One of the biggest misconceptions and fears about airport privatization from the public is that once a privatization transaction occurs, the private sponsor has absolute freedom to do whatever it desires. The reality is that it is true that the private entity has the freedom to do what it desires, but still must follow certain rules put out by many different entities (De Neufville, 1999, p. 10). For example, if an airport was previously operated under Part 139 and that airport wants to continue getting AIP funds, the private sponsor has to operate and comply with Federal Aviation Regulations (FAR) Part 139. Besides an airport having to abide by FAR Part 139 regulations, the airport also has to follow the laid-out requirements and guidelines set by the APPP. Besides all these requirements, the airport also has to abide with the Transportation Security Administration requirements for airport security.

Another factor that plays a big role in dismantling this misconception is that there are a lot of conditions agreed upon in the privatization contract agreement. For example, the City of Chicago requested in its RFQ that current employees at MDW be offered employment with the aspiring private sponsor, the city also incorporated a passenger's bill of rights to protect the users of MDW and it also requested that the prices for the food, parking and that amenities be kept at a reasonable price by taking inflation into consideration (FAA, 2013). In the City of San Juan, the RFQ requested: that not a single employee of SJU should be fired as a result of the privatization, that nearby airports must retain the right to expand and that airport rates at SJU must not increase too much compared to the inflation rate (FAA, 2013).

Besides the previous misconception on airport privatization, citizens also perceive that local governments only turn to this policy because of the upfront revenue, without putting much effort and research into a possible transaction. One thing that was previously mentioned was the complexity of airport privatization (De Neufville, 1999, p. 6). It was noted how the complexity of a transaction increases as there is less public sector involvement and more private sector control (service contracts being least complex to full privatization being the most complex). So the higher the complexity, the more time consuming the privatization transaction will be (De Neufville, 1999, p. 10). The more time consuming, the more the airport sponsor has to invest in the transaction. There was an extensive amount of time and money invested in the SJU and MDW transaction. These are just two examples of airport privatization transactions that have occurred or are in the process of occurring recently. Every airport aspiring to privatize at some level, will have to invest resources to ensure itself that the results from the transaction will be positive.

The other thing that is important to note is that there are not two airports in the U.S. that are identical. The public entities that own airports in the U.S. vary widely: cities, counties, states, airport authorities, port authorities, school districts and park districts. This gives us the impression that every airport is unique and one airport's needs will never be the same as another airport, so every airport will have to adjust its requirements in order to fit its needs (Boudreau et al., 2012, p. 69). A small GA airport will not have the same needs as a large airport.

Stemming from the previous paragraph, it is up to the airport sponsor to determine what type of privatization model will fit that specific airport. It is unfortunate and good at the same time that there isn't a standard protocol to follow if an airport is contemplating privatizing, hence every airport will have to conduct research to determine what model will fit that specific airport the best. Even though there isn’t a standard protocol to follow, ACRP just released a guidebook to help airport sponsors with the privatization process in its entirety. An airport owner should not treat this guidebook as the rules to follow if contemplating privatization but instead; the airport owner should treat this guidebook as guidance material while trying to privatize an airport.

Chapter 4 - CONCLUSION

It is important to note that our national airport structure is among the most privatized in the world, despite that fact that all the major U.S. commercial airports are owned by government entities (Airlines for America, 2013). In 2007, The National Civil Aviation Review Commission (NCARC) found that employees of private companies, including airlines, concessionaires, and contractors, account for 90 percent of the employees at the nation’s largest airports (NCARC, 2007).

Airport privatization is a policy that is picking up momentum by local governments. This momentum originates from the local government’s pressing need to invest in their infrastructure while undergoing tough financial times (Poole, 1994). As a result, local governments perceive airport privatization as a financial model and a source of capital.

The purpose of this paper was to analyze this airport privatization as a whole, but having an emphasis on airport privatization taking place through the APPP at airports that are included in the NPIAS. This paper first laid out the foundation of the airport structure in the U.S. and then it introduced airport privatization and its four distinct models: service contracts, management contracts, developer financing and operation and full privatization—long-term lease or sale (AAAE, 1992, p. 18). These models are categorized from least private sector involvement to the most private sector involvement. Take note that the higher the private sector involvement there is; the higher the risk and complexity of the privatization process.

Proponents of airport privatization argue that this policy aids the public sector by allowing them to relinquish having to operate an airport. This, in turn, 1) allows the public sector to concentrate on other more important public sector obligations, 2) it allows for the public sector to tap into outside revenue/capital infusion and 3) it finally allows for a private sponsor to deliver better services to the airport users and the community.

Opponents of airport privatization believe that the public sector would be relinquishing of a public asset by privatizing its airport. Opponents also believe that the users would be affected because airport privatization would lead to higher charges for the users and the community. Finally, they believe that the public sector will be affected by the perceived downgraded services that a private sponsor has to offer.

Is it important to note that there is an abundance of literature concerning this topic in theory; but San Juan and Stewart are the only airports in the history of the U.S. that have been fully privatized under the APPP. According to Shafer (2009), “privatization is a promising policy and can be beneficial only at certain airports”. So, in all, the airports that are more attractive to private sponsors are large airports (more than 10,000 passenger boardings in a year and more than 1% of the total annual passenger boardings in the U.S.) because of their overall revenue potential.

There is no doubt that this approach has a lot of potential by witnessing the airports that have already privatized and the main benefit already seen stems from the private entity’s increased revenues. The private sponsor originates these revenues by: 1) enhancing non-aeronautical revenues, 2) cost savings through optimized use of facilities, 3) the application of commercial business practices and 4) realizing less political and lobbying influence. Next on the FAA’s list: Midway and Hendry Airport (previously discussed in the APPP section) are awaiting their privatization transactions to be completed (FAA, 2013). It is important to note that as human beings, resistance to change is the norm. This is a problem because humans fall victims to not give concepts with potential to develop.

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Appendix

Appendix A

According to the FAA (2013), the federal law creating the APPP prescribes the following requirements:

1. A general aviation airport may be sold or leased. A commercial service airport may be leased only.

2. Ten airports may receive approval to privatize under the APPP. One of the 10 airports must be a general aviation airport. No more than one airport may be a large-hub primary airport.

3. The Secretary may permit the public airport owner to use sale or lease proceeds for non-airport purposes upon approval (i) in the case of a primary airport, by at least 65% of the scheduled air carriers and by scheduled and unscheduled air carriers accounting for 65% of aircraft landed weight at the airport, and (ii) in the case of a nonprimary airport, by the Secretary after the airport has consulted with at least 65% of the owners of aircraft based at the airport.

4. The Secretary may exempt the public airport owner from any legal requirement to repay prior grants or return airport property to the federal government.

5. The Secretary may permit the private operator to use airport revenue for non-airport purposes in order to earn compensation from the operations of the airport.

6. The statute requires that the following nine conditions must be satisfied to obtain approval:

a. The airport will continue to be available for public use on reasonable terms and without unjust discrimination.
b. The airport will continue to operate in the event the private operator becomes insolvent, seeks bankruptcy protection, or under similar circumstances.
c. The private operator will maintain, improve, and modernize the airport in accordance with plans submitted to the Secretary.
d. Rates and charges on air carriers will not increase faster than the rate of inflation unless a faster increase is approved by at least 65% of the air carriers serving the airport and by air carriers accounting for at least 65% of aircraft landed weight at the airport.
e. The fees on general aviation aircraft will not increase faster than the rate of increase for air carriers.
f. Safety and security at the airport will be maintained at the highest possible levels.
g. Noise effects will be mitigated to the same extent as at a public airport.
h. Adverse environmental effects will be mitigated to the same extent as at a public airport.
i. The sale or lease will not abrogate any collective bargaining agreement covering airport employees.

7. The Secretary must conclude expressly that approving the sale or lease will not result in unfair and deceptive practices or unfair methods of competition.

Appendix A Continued

8. The Secretary must ensure that the interests of general aviation users at the airport are not adversely affected by the sale or lease.

9. The private operator will be eligible to impose a Passenger Facility Charge.

10. The airport will be eligible to receive an apportionment from the Entitlement Fund.

11. The private operator may impose reasonable rental charges, landing fees, and other service charges from aircraft operators consistent with the Anti-Head Tax Act.

12. The federal share of financial assistance in grants issued from the Discretionary Fund issued to a private operator is 70% of project costs.

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