

# How Airports Make Money and What's New in Compliance

Presentation to: Northwest Mountain Region Airports Conference

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Date: April 17, 2012



Federal Aviation  
Administration



# Topics and Speakers for This Session

## How Airports Make Money

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FAA Office of Airport Compliance

## What's New In Compliance

Joelle Briggs, Regional Compliance Program Manager,  
Northwest Mountain Region Airports Division,  
Safety and Standards Branch

## Disadvantaged Business Enterprise Program

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Office of Civil Rights



# How Airports Make Money



# Raising Revenue

- With construction costs increasing, available funding decreasing and periodic downturns affecting the industry, airport operators find themselves continually looking for additional revenue sources to fund projects and sustain operations.



# Traditional Ways

Primary sources of airport revenue include:

- Fuel sales
- hangar leases
- agricultural leases
- grants



# Primary sources of revenues for general aviation airports:

- | <u>Method of revenue</u> | <u>% of revenue</u> |
|--------------------------|---------------------|
| • Fuel sales             | • 63%               |
| • Commercial leases      | • 60%               |
| • T hangars              | • 59%               |
| • Private hangars        | • 32%               |
| • Ag leases              | • 32%               |
| • Landing/ramp fees      | • 20%               |



# Get the word out

- Development and property management planning provides a long-term plan for nonairline revenue generation by helping the airport communicate to all interested parties the long-term goals of the airport – and how it can be beneficial to everyone.

But before we go any farther you need to remember:



# Grant Assurance Obligations

- 5. Rights and Powers
  - 19. Operations and Maintenance
  - 22. Economic Nondiscrimination
  - 23. Exclusive Rights
  - 24. Fee and Rental Structure
  - 29. Airport Layout Plan
- 
- These grant assurances will have an impact on the leases you set up and administer – make sure to refer to them early and often.





# Airports are valuable property

- Many are confounded as to why McDonald's, a purveyor of inexpensive hamburgers, is one of the world's largest and most successful companies. The answer is it's not about the burgers, it's about land. McDonald's is the world's largest private landowner, holding the deed to more square footage of the planet than the distant second place, the Roman Catholic Church. The maxim here is that it's not burgers or fries or extra pickles that make the money or hold value well - it's the land the restaurant sits upon. The airport business is a real estate business, and if the airport is prime real estate, it commands a premium.



# Airport Sponsor Perspective

- You have the prerogative of determining who will play the role of developer on your airport and how that development will occur. The airport sponsor can choose tenants that will develop their own capital improvements, enlist the help of a third party developer, or play developer itself.
- The rewards can come in the form of new revenues, additional aviation activity, jobs or the synergy needed to develop a business cluster, the attraction of based aircraft or some combination thereof.



# What do you have to offer?

- Existing Leases –Evaluate existing lease agreements and perform physical facility reviews as agreements are expiring and facilities are reverting back to the airport – make sure your land or facility is ready to be competitive again!
- New Project: Financing a new project at a public airport on leased land can be challenging, especially at airports with smaller amounts of developed property and/or when there has been no recent development of land. Funding can be challenging from a collateral standpoint. What can you offer the potential builder?
- Regardless of the type of development, the sponsor should make every attempt to ensure the project is beneficial to the airport.



# Land Leasing

- New development and vacant land – Be more active in identifying near-and long-term uses for currently unused land:
  - Develop a service plan for providing the access and utility improvements for land that could be utilized.
  - Establish a strategy for funding the infrastructure improvements required for commercial development.
  - Airport marketing can be instrumental in developing land and leasing airport property.
  - Develop a good relationship with your community economic development entity and/or chamber of commerce.



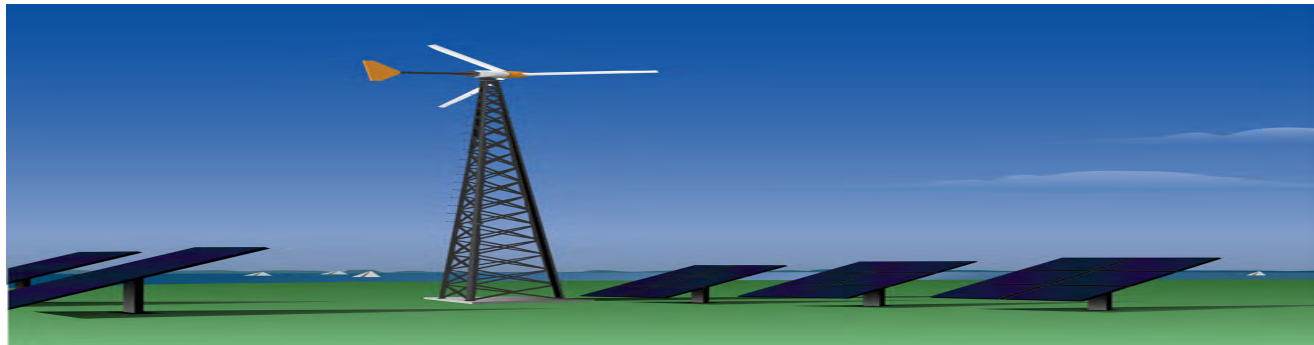
## New and emerging uses for airport land = profit

- **Blueberry farm** – no seriously, Georgia has its largest blueberry farm located on airport property.
- **San Francisco International Airport** installed more than 2,800 solar panels on the rooftop of Terminal 3. Visible from the air train that travels between terminals, the solar panels generate a small percentage of the airport's overall electrical needs, but enough to power all the daytime lighting needs in Terminal 3.
- California's **Long Beach Airport** has a 'solar forest'. The six solar "trees" are actually steel poles topped with photovoltaic (PV) arrays that measure about 9 feet by 9 feet each and shift and tilt throughout the day to track the sun.



# Solar and Wind

- In Boston, there's a wind power demonstration project underway at Massport's **Logan International Airport**, where 20 6-foot-tall wind turbines began whirring in 2008. These are roof-mounted models with a very pleasing design. In fact, they look like aircraft propellers.
- The success of these and other projects, and the availability of energy grants, incentive programs and some stimulus money, is luring other airports around the country to cross the green line.



# Just some reminders...

- When you write a lease, keep this in mind:
  - Ensure sponsor's compliance with Federal Obligations
  - Ensure sponsor Rights and Powers to operate the airport are maintained
  - Term may not exceed 50 years (property disposal)

*No explicit FAA approval of leases but we will review if you ask.*



## Some reminders..

### Grant Assurance 24, Fee and Rental Structure

*Requires that, It (the airport sponsor) will maintain a fee and rental structure for the facilities and services at the airport which will make the airport as self-sustaining as possible under the circumstances existing at the particular airport, taking into account such factors as the volume of traffic and economy of collection.*





# In summary

- Making money on today's airport is challenging:
  - High fuel costs have caused some aviation activities to slow down - resulting in less revenue to airport businesses;
  - Commercial rental rates are down in many parts of the country – reducing potential profit.
  - Loans for development are harder to get – even with historically low interest rates.



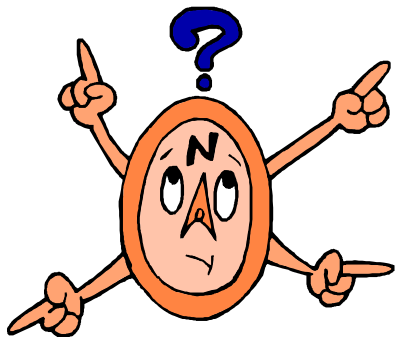
# So what can you do?

- Talk to other airport managers and see what they are doing.
  - (maybe that blueberry farm IS a good idea!)
- Share ideas for growth and revenue – help each other to succeed.
- Reach out to your stakeholders and ask for ideas.
- Be open to new ideas that maybe seemed a little weird a few years ago.



# QUESTIONS





# What's New (or not so new) in Compliance

- Non-Aeronautical Use
- Revenue Use Audits
- Temporary Airport Closures
- Residential Through-the-Fence
- Reauthorization Summary



# Non-Aeronautical Use of Hangars

## *Valley Aviation Services v. City of Glendale*

(Directors Determination 16-09-06, May 29, 2011)

### Violation of Grant Assurance 19, *Operation and Maintenance*

- Allowed Nonaeronautical use in hangars and operating non-aviation related industries in hangars
- RV caught fire; police vehicles, classic cars, carpet rolls, etc.

### Violation of Grant Assurance 29, *Airport Layout Plan*

- Did not correctly reflect aeronautical/nonaeronautical uses of airport property

### Lessons Learned

- Hangars and Aeronautical property are to be used for aeronautical purposes. Incidental non-aeronautical is okay.
- Request Interim Use for Non-Aeronautical Uses
- Charge Fair Market Value

# THERE IS A DIFFERENCE



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# Airport Revenue Use Audits

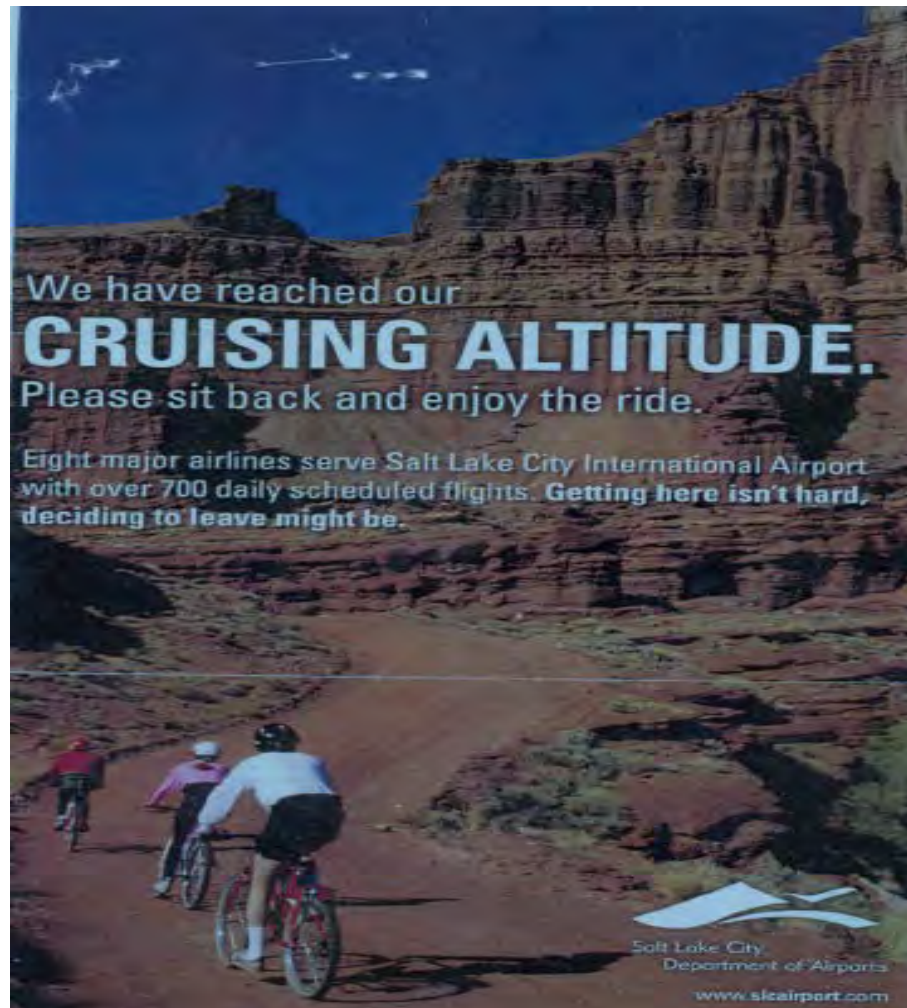
## Most Common Findings

- **Improper Use of Airport Property**
- **Cost Allocation Issues**
  - **Direct vs. Indirect**
  - **Unallowable Costs**
- **Misuse of Marketing Funds**





# Allowable Marketing



# Not Allowable

“see my LA”

## 夢はロサンゼルスへ！

“see my Famima!!” あなたがファミリーマート特派員！

### LAの「Famima!!」に行こうキャンペーン

ロサンゼルス

クイズ：  
ロサンゼルスには  
「Famima!!」が  
ある

台湾、韓国、タイから  
各5組10名様  
日本から  
10組20名様を  
ご招待！

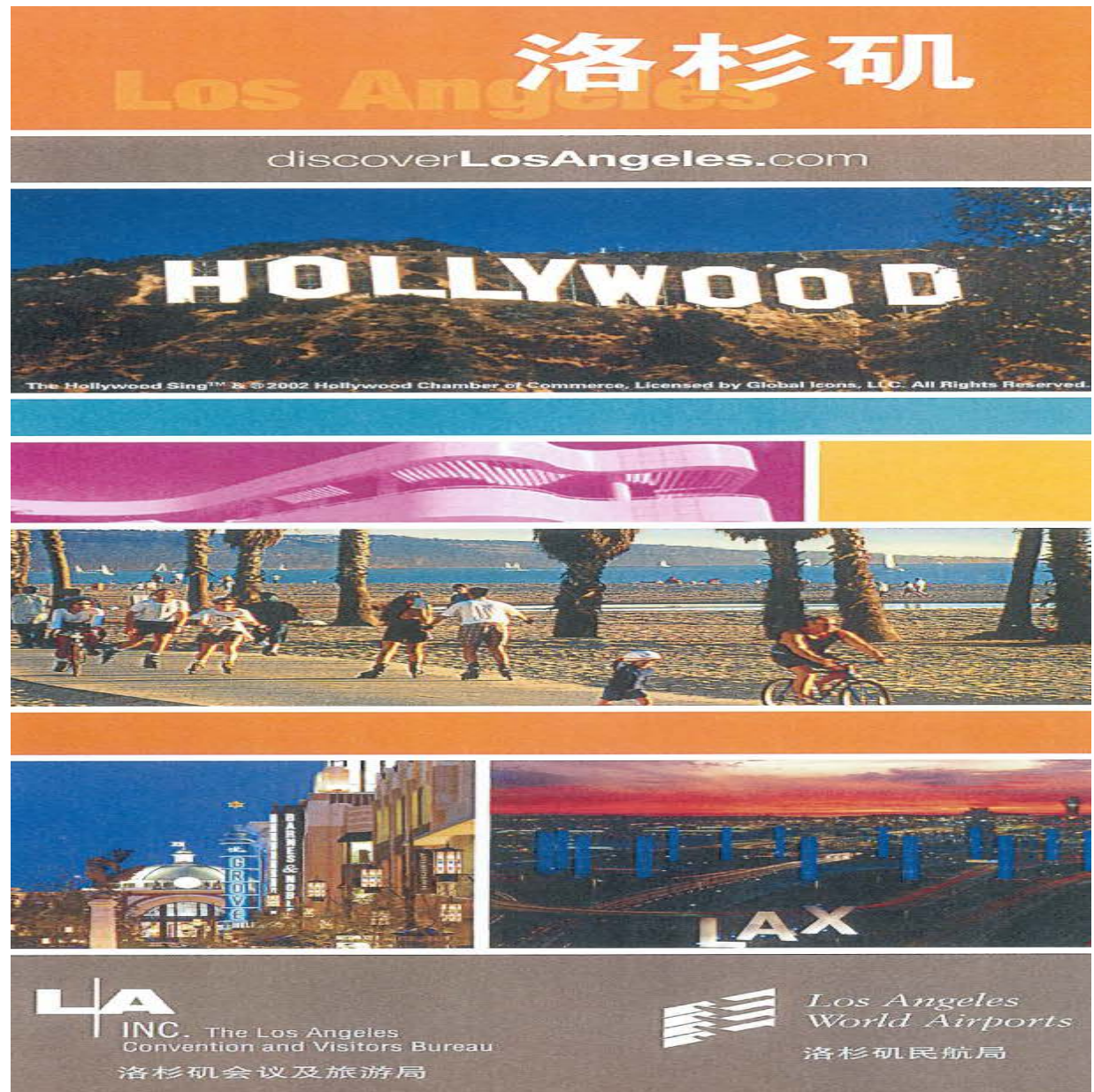
アジア5カ国  
共同企画

ファミリーマート  
25周年

同時  
実施期間  
開催

ファミリーマート25周年&全国出店記念  
キャンペーン期間11/1(水)~11/27(月)  
ありがとうございますの気持ちのキャンペーンです。

Not Allowable



# Allowable Marketing

**WHERE WILL YOU GO?**

**WE GO THERE...**

- ATLANTA
- CALGARY
- CHICAGO
- DALLAS/FT. WORTH
- DENVER
- HONOLULU
- HOUSTON
- LAS VEGAS
- MAUI
- MINNEAPOLIS/ST. PAUL
- NEWARK
- OAKLAND
- PHOENIX
- PORTLAND
- SACRAMENTO
- SALT LAKE CITY
- SAN FRANCISCO
- SAN JOSE
- SEATTLE
- VANCOUVER

**JWA**

JOHN WAYNE AIRPORT  
GRAND COUNTY

John Wayne Airport is owned and operated by the County of Orange.

For more information:  
[www.ocair.com/airlines](http://www.ocair.com/airlines)



SCAN WITH QR READER  
FOR MORE INFORMATION

## Results of Revenue Use Audits

| <u>Year</u> | <u>Airport</u> | <u>Issue</u>                 | <u>Recovery</u> |
|-------------|----------------|------------------------------|-----------------|
| 2005        | San Francisco  | Direct and Indirect Costs    | \$4.5 M         |
| 2006        | Fresno         | Sale of Land Below FMV       | \$5.8 M         |
| 2007        | Miami          | Improper Cost Allocation     | \$15 M          |
| 2007        | Palm Beach     | Noise Land                   | -               |
| 2008        | Los Angeles    | Marketing                    | \$ 14 M         |
| 2009        | Ft Lauderdale  | Uses of Airport Property     | Pending         |
| 2010        | Houston        | Marketing and Franchise Fees | Pending         |
| 2011        | Kansas City    | Improper Cost Allocation     | Pending         |
| 2012        | Salt Lake City | Uses of Airport Property     | Pending         |



# Sources of Unlawful Revenue Diversion

Unlawful Revenue Diversions usually do not originate at the airport but instead it originates with airport oversight authorities and local governments that look to the airport as a means of offsetting their costs

- Sponsor does not pay fair market value rents
- Locating city operations like jails, animal shelters and schools on airport property for free or reduced rents
- Subsidizing other city departments
- Overcharging the airport through their cost allocation plan



# Temporary Airport Closures for Non-Aeronautical Events

## Legal and Policy Citations:

- Any proposal to close an airport temporarily for nonaeronautical purposes must be approved by the Secretary (49 U.S.C. § 47107(a)(7-8))
- Grant Assurance 19, *Operation and Maintenance*, requires airport sponsors to “not cause or permit any activity or action (on the airport) which would interfere with its use for airport purposes.”

# Temporary Airport Closures for Non-Aeronautical Events

There may be limited situations when a Temporary Closure can benefit Civil Aviation and the FAA is developing process for making the request and reviewing/approving such requests.

## Proposals Will Need to Discuss 5 Areas:

- Impact to Aeronautical Use
- Risks and Liability
- Safety and Security
- Financial and Local Benefits
- Location and Use



**Guidance Expected Out Later This Fiscal Year**





# Residential Through-The-Fence Effect of the Reauthorization Section 136

General Aviation Airports may have RTTF, if written agreement requires property owner to:

- Pay an access charge comparable to similar uses on the airport
- Bear cost of building/maintaining infrastructure necessary for access to airfield
- Maintain property as residential/non-commercial
- Prohibit “piggy back” access
- Prohibit aircraft refueling on the property



# Residential Through-The-Fence Effect of the Reauthorization Section 136

- Revised Grant Assurance 5g
  - Prohibits new RTTF at Commercial Service Airports
  - Requires General Aviation Airports entering into RTTF meet Section 136 requirements
- Revised Grant Assurance 29a(4)
  - Sponsor will keep up to date at all times an airport layout plan of the airport showing... (4) all proposed and existing access points used to taxi aircraft across the airport's property boundary.

**Expect revised guidance in May**

# Additional Compliance Changes in the Reauthorization

|             | Summary   |
|-------------|---|
| Section 135 | Permits noise land to be used as “buffer land” and leased at FMV without it being a disposal ( <i>Grant Assurance 31a</i> ) |
|             | Allows reinvestment of noise land funds into AIP projects ( <i>31a</i> )  |



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| Section 822 | Pilot Program for Redevelopment of Airport Properties   |

# QUESTIONS

