



Challenges and Opportunities for Implementing Revenue generation Models for Air Traffic Service Providers at Airports

**Government, the Airline Industry, and the Flying
Public: A New Way of Doing Business**

**A NEXTOR Workshop
Wye Woods Conference Center**

June 21, 2004

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Background



Operations and Delays Approaching CY 2000 Levels

- Aircraft Flight Operations now exceeding levels for comparable months in 2000
- Average arrival delays for 1st Qtr 2004
 - 21.3% below 1st Qtr 2000
 - 24.0% above 1st Qtr 2003
- Key Airports delay growth more pronounced (e.g., ORD)
 - Average delay
 - 1st Qtr 2003 54 minutes
 - 1st Qtr 2004 64 minutes



Changing Drivers of Congestion: Regional Jets and Low Cost Carriers

- Regional Jet Operations as a percentage of all flights
 - May 2000 9%
 - May 2004 29% 180% Growth
 - Available seats still lagging 2000 levels
- Low-cost Carriers compete head-to-head at Large and Medium-sized airports
 - 21% of domestic capacity
 - Low fares create increased operations by both LCC and incumbent air carrier
 - Delays increase due to increased operations
- Internet-based Fares have had a significant and lasting impact, stimulating demand for air service



Actions Taken To Address Rising Delays

- DOT and FAA work with AA and UA to cooperatively reduce peak period flights in ORD
- Establishment of “express lanes” to/from major airports
 - 90 Min. Delay Trigger at both airports
 - Delay flights at other airports
- FAA “Choke Point” Program
- New Runways at Phoenix, Detroit, Miami, Denver, Houston and Orlando
- Establishment of Joint Planning and Development Office – Next Generation ATS



Aviation Economics

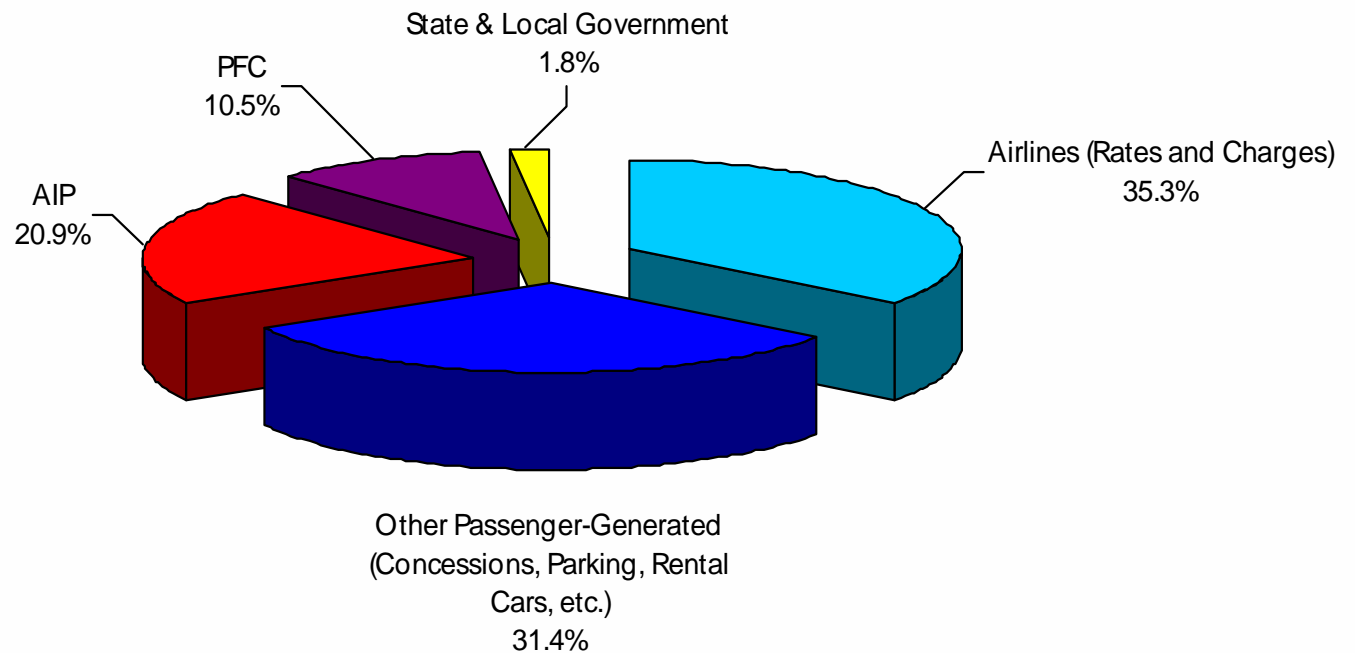
- Legacy Carriers' Break-even load factor in high 80's +
 - Internet impact on fare prices
 - Restructuring of business models
 - Major Unions agree to productivity increases and salary reductions
 - Significant rise in fuel prices
- Aviation Trust Fund Receipts down 28% in 2003
 - Lower airfares reduce receipts of 7.5% ticket tax
- Major Airports consuming PFC Potential



Airport's Financial Dependency

98% of airport revenue comes from airport users

U.S. Airport Sources of Revenue, 2001



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Source: FAA Form 5100-125

*Airport Improvement Program grants from the Airport and Airway Trust Fund, which contains taxes and fees imposed on airlines and their customers



Carriers who have filed bankruptcy or its foreign equivalent in 2001-2003

<u>Foreign</u>	<u>U.S.</u>
Air Canada	Hawaiian
ACES	Midway
AOM - Air Liberte	National
Avianca	Sun Country
Sabena	TWA
Swissair	Vanguard
	United
	U.S. Airways

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Source: Air Transport Association



Airports reassessing their leasing strategies as a result of airline bankruptcies

- Allegheny County Airport Authority
 - U.S. Airways rejected its lease with shortly before emerging from bankruptcy demanding lease restructuring, cancellation of debt and incentives valued at \$864M in order to continue service at airport
 - Airport/Community challenge: maintain break-even operation and maintain air service
- Denver International Airport
 - Low-cost Carrier Frontier requested 8 more gates from DIA to double its daily flights to 190
 - United refused to cede 8 gates that Frontier claims are underutilized
 - Airport challenge: facilitate LCC expansion while incumbent carriers battle to retain lease space and market share



Challenges to Future Capacity Gains

- FAA ability to enhance the NAS, in light of difficulties in completing current tasks
 - Airspace Redesign
 - Local Area Augmentation System
 - Controller-Pilot Data Link Communication
- Local Community Environmental Challenges to Airport Expansion
- Funding
 - Aviation Trust Fund – revenues down
 - AIP – outpaced by needs
 - PFCs – committed for current capital improvements



Approaches For the Future

- Rely upon service providers to develop and implement solutions
- Support Joint Planning and Development Office Plans (operationally and financially)
- “... the time may be appropriate to begin to identify and evaluate market-based solutions.”
 - Statement of the Honorable Ken Mead, Inspector General, USDOT before the Committee on Commerce, Science, and Transportation Subcommittee on Aviation United States Senate, May 18, 2004

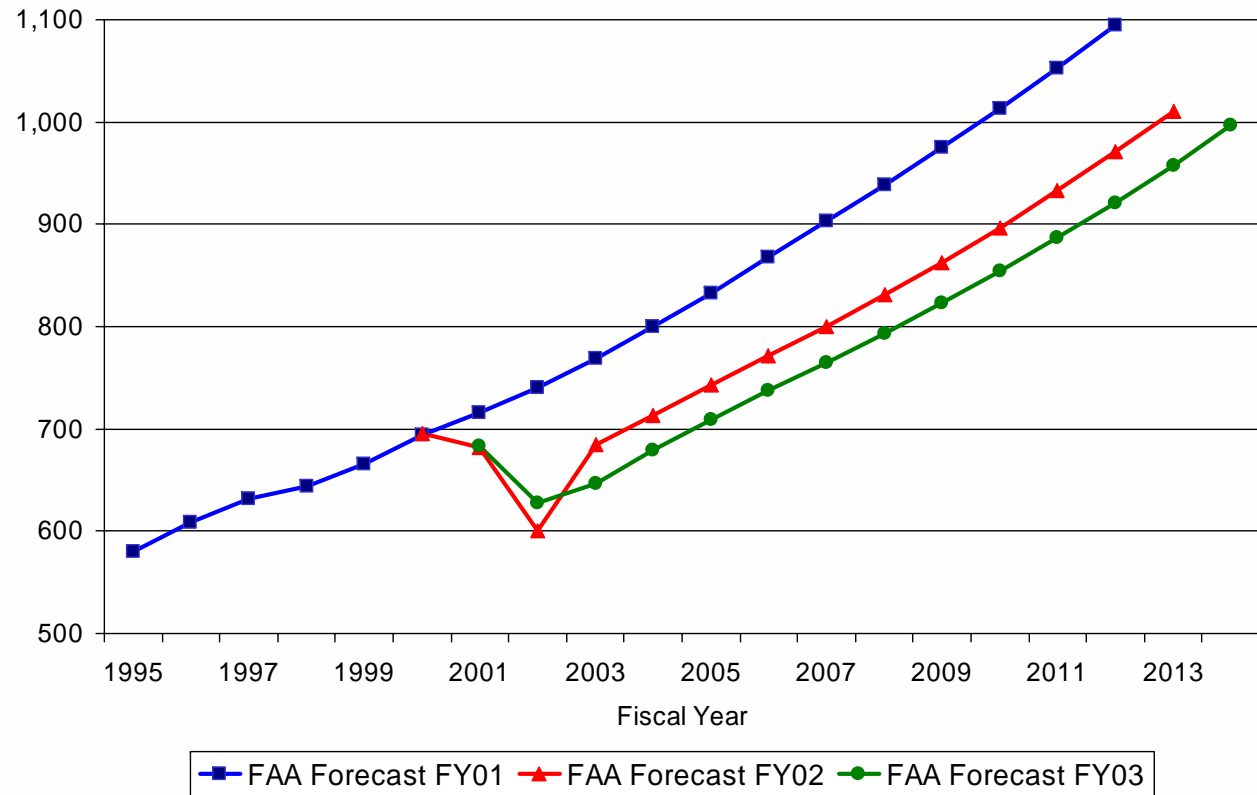


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FAA Still Projecting Long-Term Growth

Revenue Passenger Enplanements (Millions)*



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*Scheduled Revenue Passenger Enplanements (Millions), Certificated U.S. Carriers; Source: FAA Aerospace Forecasts, based on DOT Forms 41 and 298-C
Source: Air Transport Association



Market-driven Mechanism Opportunities

- Match demand to capacity
 - Reduce local delays
 - Reduce NAS delays
- Provide time for airport expansion where feasible
- Realize net increase in airport fees
 - Address existing air carrier facility debt and operating costs
 - Address existing airport bond covenants
 - Fund airport expansion
 - Off-set shortfall in Aviation Trust Fund
 - Fund NAS Expansion



Major Stakeholders Interests (Challenges)

- Community
 - Passengers/Shippers
 - Local Businesses
 - Political leadership
- Financial Markets
- Air Carriers
- Airports
- FAA

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Community Interests

- Passengers/Business Interests
 - Cost of Air Travel – **entitlement** (e.g., fuel)
 - Frequency of Service
 - Ready-access to markets (i.e., non-stop)
 - One-day turnaround for business travel
- Community Leaders Interests
 - Economic Impact of Air Service
 - Environmental Impact of Airport Expansion
 - Independent Airport Financing
- Non-hub Airport Communities
 - Airport Financial Stability
 - Direct access to major markets
 - Bryan Elliott Executive Director Charlottesville-Albemarle Airport Authority testimony to the Subcommittee on Aviation, May 13, 2004

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Access to Financial Markets

History of Airport Credit

- Since deregulation in 1978, no airport has ever defaulted on its GARB debt despite the fact that 130 airlines have filed for bankruptcy over that same period*
- From 1996 to 2002, Fitch assigned 15 upgrades and only one downgrade to airport infrastructure ratings**

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*S&P, The U.S. Airport Sector - fundamentally sound, yet potential for credit erosion exists (July 17, 2003)

** Fitch, Airline Bankruptcies and Airline Bonds 2003-2006 (July 21, 2003)



Access to Financial Markets

Airport's Ratings in a Post 9/11 Environment

- S&P downgraded only 14% of airport infrastructure ratings and assigned only 10% with negative outlook after its comprehensive review in 2002
- S&P currently rates 75% of the approximate 90 public airport infrastructure ratings in the U.S., in the A category
- Since July 2002, airport sector has brought 87 transactions for \$9.5B to the marketplace

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Source: S&P, The U.S. Airport Sector - fundamentally sound, yet potential for credit erosion exists (July 17, 2003)



Financial Markets Interests

- Secure existing debt and identify and manage future risk
- Current Bond Covenants
 - Ensure payoff of existing debt
- Lending to air carriers
 - Uncertainty over use of air assets without assurance of long-term access to market
 - Uncertain over use of facility assets without assurance of long-term access to market
- Lending to airports
 - Business case for airport expansion
 - Both non-hub and hub airports



Airline Interests

- Current asset utilization and maximize yield
- Match slots to facilities (gates)
 - Incumbent – make use of all that exists
 - New entrant – access to facilities
- Certainty of flying rights over long term
 - Capitalization of air assets
- Maximize load factor
 - Hub carrier advantages in serving major destinations (ability to out bid point-to-point)
 - Point-to-point disadvantage in serving smaller markets (e.g., Charlottesville)



Airport Interests

- Avoid financial risk (traditionally held by air carriers through residual use agreements)
- Ensure debt and O&M coverage
- Excess fees to fund facility expansion
- Concern over use of excess fees
 - Environmental mitigation scope
 - Local community interest to shore-up local budget (revenue diversion)
 - Impacted air carriers interest to cover air asset and facility debt/O&M)
- Select markets that will be served to maximize revenues
 - Airline Deregulation Act 1978 prohibition
 - Conflict with non-hub communities desiring access



FAA Interests

- Stabilize the NAS (delay reduction)
- Shore up Aviation Trust Fund
- Fund NAS O&M and expansion
- Fund environmental mitigation
 - Reasonable compensation
 - Limits of eligibility
- Impact on other modes of transportation (DOT)



Summary

- As markets grow, demand for air service will grow
- Internet-based fares and Low-cost carriers are increasing demand for air service
 - Air travel, like telecommunication and fuel is viewed as an entitlement
- Demonstrated inability to Ensure gate access to accommodate any airline desiring to serve the marketplace
- Limited number of markets require immediate market-based measures
- Many stakeholders interests need to be addressed if implementation of Market-based measures is to succeed



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