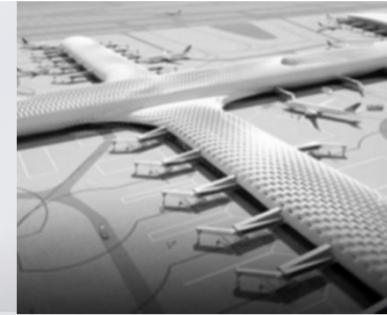


AIRDEV

Airport Development



Public-Private Partnerships in the Airport Sector

Structured Guidelines for PPP Implementation

André Franco Pena

*Seminar AIRDEV - Business Models for
Airport Development*

Lisbon, 20 October 2011



OUTLINE

Introduction

Public-Private Partnerships in Transportation

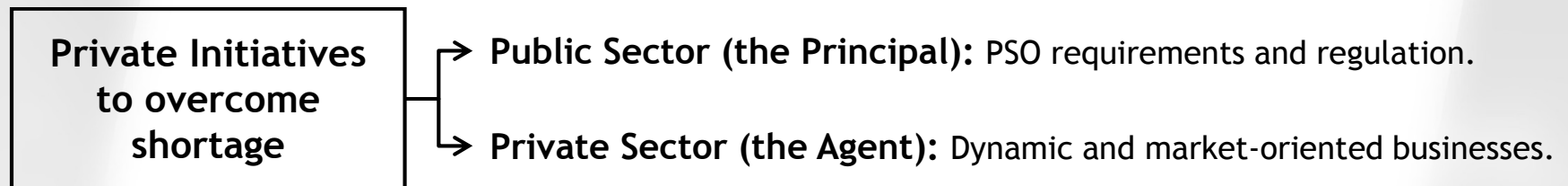
Airport Ownership and Governance Models

Airport Finance

Guidelines for the Application of PPP in Airports

Final Conclusions

INTRODUCTION



The Airport Sector

Why is it important? Vehicles of economic well being and social development.

Issues in airport delivery? Capital intensive, frequent cost overruns and delays, and public contestation.

PPP as a possible solution to deliver airport infrastructures.

PUBLIC-PRIVATE PARTNERSHIPS IN TRANSPORTATION (I)

Public-Private Partnerships - The Concept

Cooperative ventures between the public and private sectors, built on the expertise of each partner, which best meets clearly defined public needs through the appropriate allocation of resources, risks and rewards.

[Canadian Council for Public-Private Partnerships, 2004]

Why and why not PPP in Transport Infrastructures Delivery?

Value for money	<ul style="list-style-type: none"> • Maximization of business potential; • Optimization of cost structures. 	Complex Contract Design & Management	<ul style="list-style-type: none"> • Money and time consuming task; • Responsible for several cases of serious PPP failures.
Efficiency	<ul style="list-style-type: none"> • Improvement of constructive & operational performance. 	Ring-fencing structures	<ul style="list-style-type: none"> • Financially opaque structures; • Does not allow monitoring nor benchmarking.
Private Finance	<ul style="list-style-type: none"> • Reduction of burden on public budget; • Allows alternative sources of capital. 	Capital Intensive Character	<ul style="list-style-type: none"> • Significant resources to define projects' TOR and for procurement; • High transaction costs.
Risk Management	<ul style="list-style-type: none"> • Potential to optimize the design of risk allocation plans. 		
Innovation	<ul style="list-style-type: none"> • State-of-the-art technology; • Cutting edge improvements. 		

PUBLIC-PRIVATE PARTNERSHIPS IN TRANSPORTATION (II)

Major Types of Public-Private Partnerships

Differences? Contractual Length, private sector’s role and ownership structure.

How to choose? Depends on governmental aims - increase efficiency or reduce expenditures?

Options:	Management Contracts	Leasing Contracts	Concession Contracts	Private Finance Initiative	(Partial) Divestiture
-----------------	----------------------	-------------------	----------------------	----------------------------	-----------------------

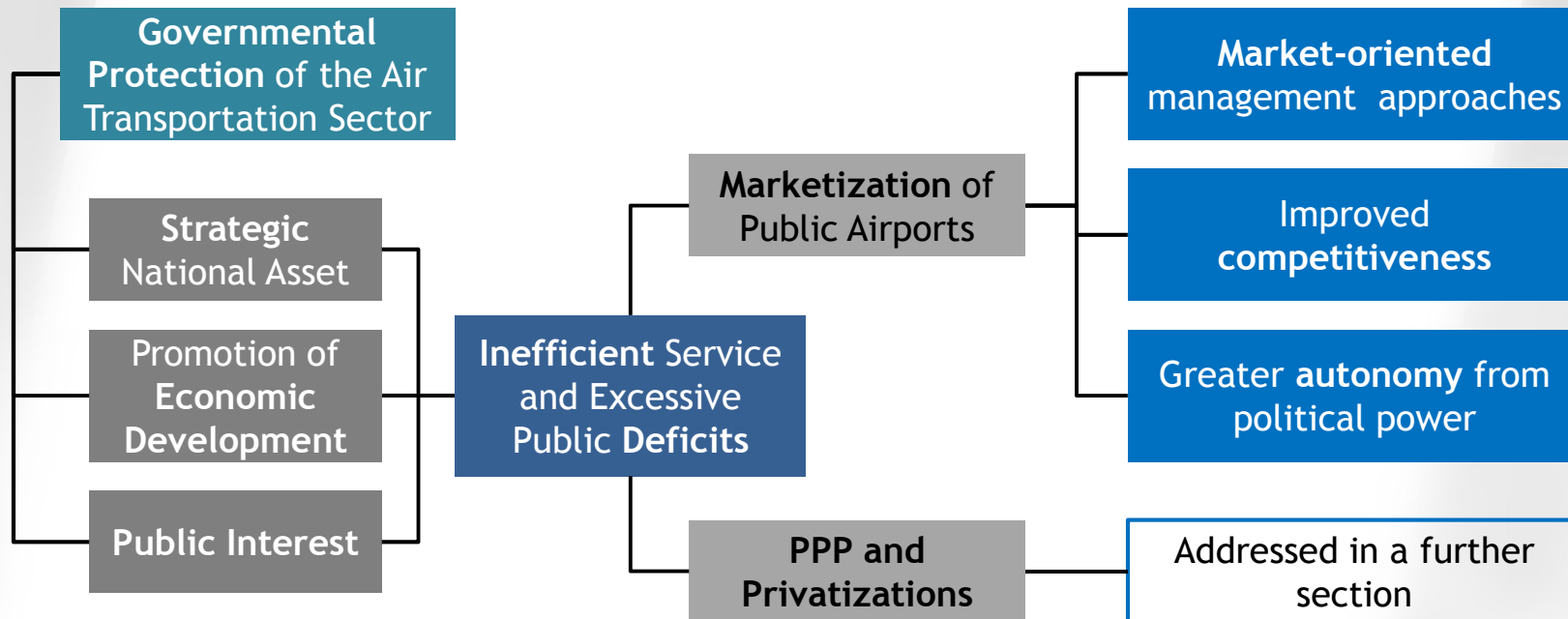
Examples of PPP Implementation in Transportation

Road Infrastructures	Rail Infrastructures	Port Infrastructures	Airport Infrastructures
<ul style="list-style-type: none"> . Car culture socially installed; . Abundance in road delivery; . Prohibitive Public Deficit. 	<ul style="list-style-type: none"> . Less attractive investment; . High CapEx and OpEx. 	<ul style="list-style-type: none"> . Landlord port authorities w/ privately developed & operated terminals. 	Addressed further.

AIRPORT OWNERSHIP AND GOVERNANCE MODELS (I)

Public Ownership and Governance in the Airport Sector

Introduction



AIRPORT OWNERSHIP AND GOVERNANCE MODELS (II)

Public Ownership and Governance in the Airport Sector

Models

Governmental Department	Local Gov. / Quasi-Gov. Entity	Governmental Agency	Public Corporation	Independent Not For Profit Company
Ministry of Transport / Defense	Decentralization of Power	Separation between Airport / Airline Operation / Regulation	Public-owned	Decentralization of Power to Not-For-Profit local authorities
Airport, Air Traffic Control & Navig., National Airline and Regulator	Smaller Operating Units	Dependence on public budget	Airport Operation & Regulation are Independent	Reinvestment of profits
			Corporate status	

AIRPORT OWNERSHIP AND GOVERNANCE MODELS (III)

Public-Private Ownership and Governance in the Airport Sector

Models

Public-Private Airports under Concessions

- . Private Sector responsible for **full service delivery** - CapEx and Opex;
- . **Privately held** during the contract and then **transferred to the State**.

Public Airports w/ Private Operation of Terminals

- . **Ultimate liability** over the airport is **public**;
- . **Privately developed and managed terminals**.

Public Airports under Management Contracts

- . Airport players “**hunting**” **management contracts** globally;
- . **Diminish the risk exposure** to their markets and **expand know-how**.

Public-Privately Owned and Governed Airports

- . **Bring private expertise**, **reduce public expenditures**, **raise capital** for CapEx programs or develop **strategic alliances**.

AIRPORT OWNERSHIP AND GOVERNANCE MODELS (IV)

Private Ownership and Governance in the Airport Sector

Introduction

Economic Motivations for Privatization

- . Increase **efficiency**;
- . Induce **competitive pressure** in the market;
- . **Decrease** the level of **governmental expenses**;
- . Enhance **economic growth** and **social welfare**.

Economic Regulation: Strong prevention of market abuses, but flexible enough to attract private capital. Attention shall be addressed to the creation of private monopolies.

Beyond Public Budget:

Privatization is far too important to be viewed as a quick fix to the Government's current budgetary difficulties. Long term vision is needed... [Bisignani, 2003]

Gains in efficiency, social welfare and in fostering national economy are imperative.

AIRPORT OWNERSHIP AND GOVERNANCE MODELS (V)

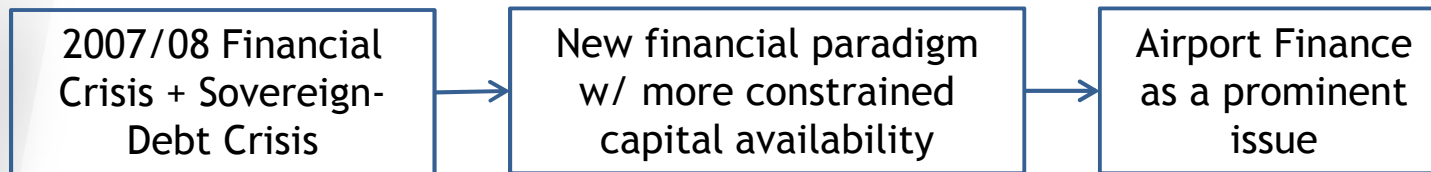
Private Ownership and Governance in the Airport Sector

Privatization: For or Against?

PROS	Financial Flexibility	Diversification of core business	Managerial Expertise	Market-Oriented Thinking
	New sources of capital	More experiences to costumers	Break-through management	Avoid “white-elephants”
	No public budget constraints	Increase airports’ attractiveness	Innovation	Decisions made on financial basis
CONS	Market Abuses	Stock Market Fluctuation	Diversification of core business	Obsessive Profit-Orientation
	Monopolistic Agreements	Subject to market volatility	Loss of capital flexibility	Deterioration of costumers’ opinion
	Reduction of Social Welfare	Secrecy regarding financial “health”	Subject to economic cycles	Loss of demand

AIRPORT FINANCE (I)

Introduction



Sources of Capital

Retained Earnings: Related to airports' direct and indirect revenue streams.

Special Purpose Taxes (SPT): Directly assigned to the operator (not a grant), SPT are used on CapEx.

Governmental Grants: Non-returnable funding, provided by national or international institutions.

Debt: Low-Cost Loans, Commercial Loans, Bridge Financing and Bond Financing.

Quasi Debt-Equity: Securities w/ characteristics of both equity and debt (e.g. Preferred shares).

AIRPORT FINANCE (II)

Sources of Capital

Equity

- . **Capital traded** in exchange of **ownership rights** of an asset/corporation;
- . Placed in the **lowest seniority level** - higher risk / potential higher returns.

General Investors	Investment Banks	Private Equity Firms	Venture Capital Firms	Stock Market
Construction companies and their subsidiaries for concessions	Development of securitization plans	Primary vehicles to perform infrastructure investments	Provide capital for start-ups with high perceived growth potential	Possibility of attractive returns, however it may be perverse

Capital Structure

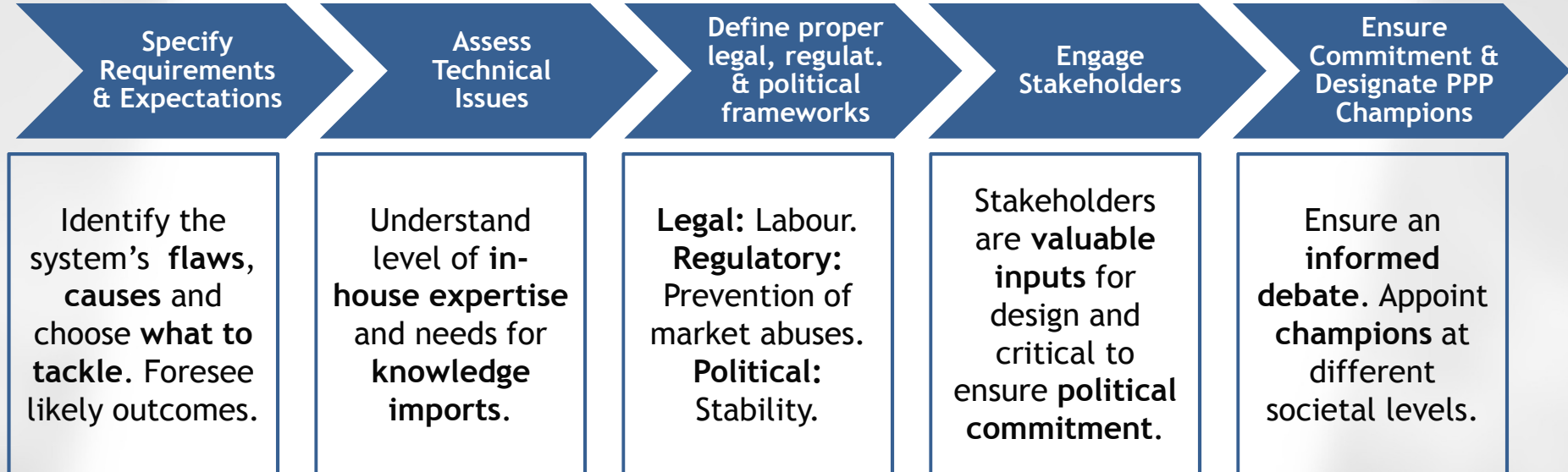
- . **Combination of capital sources** defining a project's financing plan;
- . Depends on: Capital Cycle & CF Generation, Taxes, Financial Risk & Flexibility and Cost of Capital.

GUIDELINES FOR THE APPLICATION OF PPP IN AIRPORTS (I)

Bringing Public-Private Partnerships into Policy Agenda

- . **Political strength** is imperative requirement;
- . Identify moments of opportunity - **Policy Windows** - to bring the issue into discussion;
- . To create those moments, issues in the debate must address **Public Interest**.

Structuring a National PPP Programme



GUIDELINES FOR THE APPLICATION OF PPP IN AIRPORTS (III)

Identification and Prioritization of Projects

- . Identify **investments** deemed to be **relevant in the national context**;
- . Perform a **Suitability Test**, to assess implementation barriers and eliminate condemned projects;
- . **Prioritization** of projects is imperative to **assign special focus** to the most relevant ones.

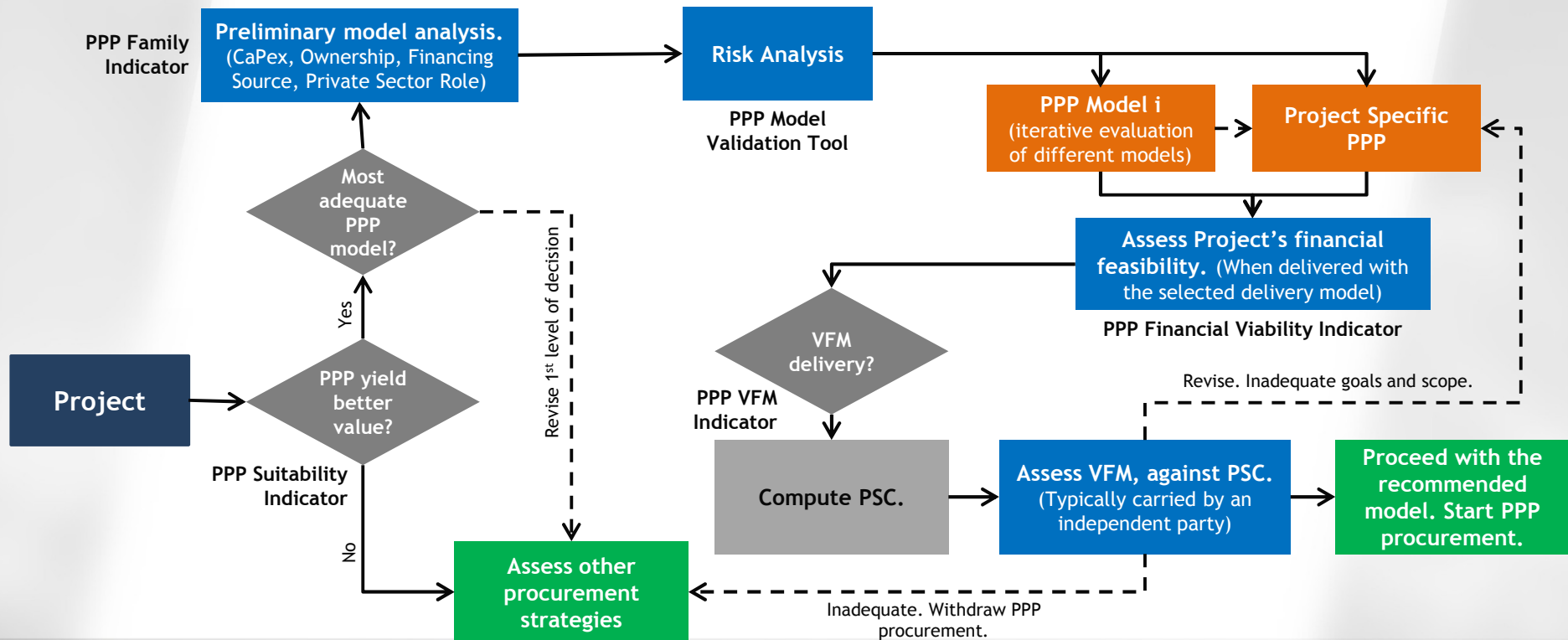
Due Diligence and Feasibility Studies

Cost-Benefit Analysis		Allows thoroughly understanding project's socio-economic impacts .
Choice of PPP Model	PPP Family Indicator	Preliminary assessment. Criteria: CapEx, Ownership, Financing and Private Sector's Role.
	PPP Model Validation Tool	Final decision. Risk analysis, comparing the proposed risk allocation with pre-defined risk structures.
Assess Vfm Delivery	PPP Financial Feasibility Ind.	Scenario analysis, with varied capital structures & outcomes. Acknowledge likelihood to attract investors & need for subsidies.
	PPP VFM Indicator Tool	Probability distribution of VFM. Final comparison with PSC, assessing which model delivers higher VFM.

GUIDELINES FOR THE APPLICATION OF PPP IN AIRPORTS (IV)

Due Diligence and Feasibility Studies

Decision Support System for PPP Implementation



GUIDELINES FOR THE APPLICATION OF PPP IN AIRPORTS (VI)

Due Diligence and Feasibility Studies

Decision Support System for PPP Implementation

- . Structure political decision-making, without neglecting imperative points of analysis;
- . Investors are benefitted by the awareness raised to a significant batch of subjects.

Procurement and Contract Award



- . Rigorous appraisal procedures: Technical Skills and Financial Evaluation;
- . VFM Measurement of every proposal, with comparison with PPP VFM Indicator.

Implementation, Contract Management and Benchmarking

- . Contract Management: Crucial for success. From pre-operative stage until asset transfer;
- . Benchmarking: Imperative to compare and evaluate productivity & efficiency.

FINAL CONCLUSIONS

#1: Past experiences created a **preconception** about PPP.

#2: PPP are **partnerships** - Public interest to be protected and private potential to be promoted.

#3: Need of structured, transparent and consistent **political decisions**.

#4: Market liberalization creates major **business opportunities** for both sectors.

#5: Guidelines for PPP Implementation provide:

- . **Stepping stones** for better delivered services;
- . **Bilateral** and **holistic consciousness** regarding PPP in airports;
- . Promote the **transformation of the policy process**;
- . **Investors' 'eye-opener'** concerning imperative matters of analysis.

#6: **'Clean' PPP** attract more private capital and increase public support.

The airport infrastructure gap is huge and a **counterattack** is imperative



JV between the public & private sectors may be the **strongest weapon** to overcome this gap



Airport Development

Public-Private Partnerships in the Airport Sector

Structured Guidelines for PPP Implementation

André Franco Pena

DECivil - IST - UTL

Email: francopena@gmail.com

LinkedIn: <http://pt.linkedin.com/in/francopena>



Universidade do Porto
Faculdade de Engenharia
FEUP

