



# The Airport/Airline Relationship

Richard Marchi

Airports Council International –

North America

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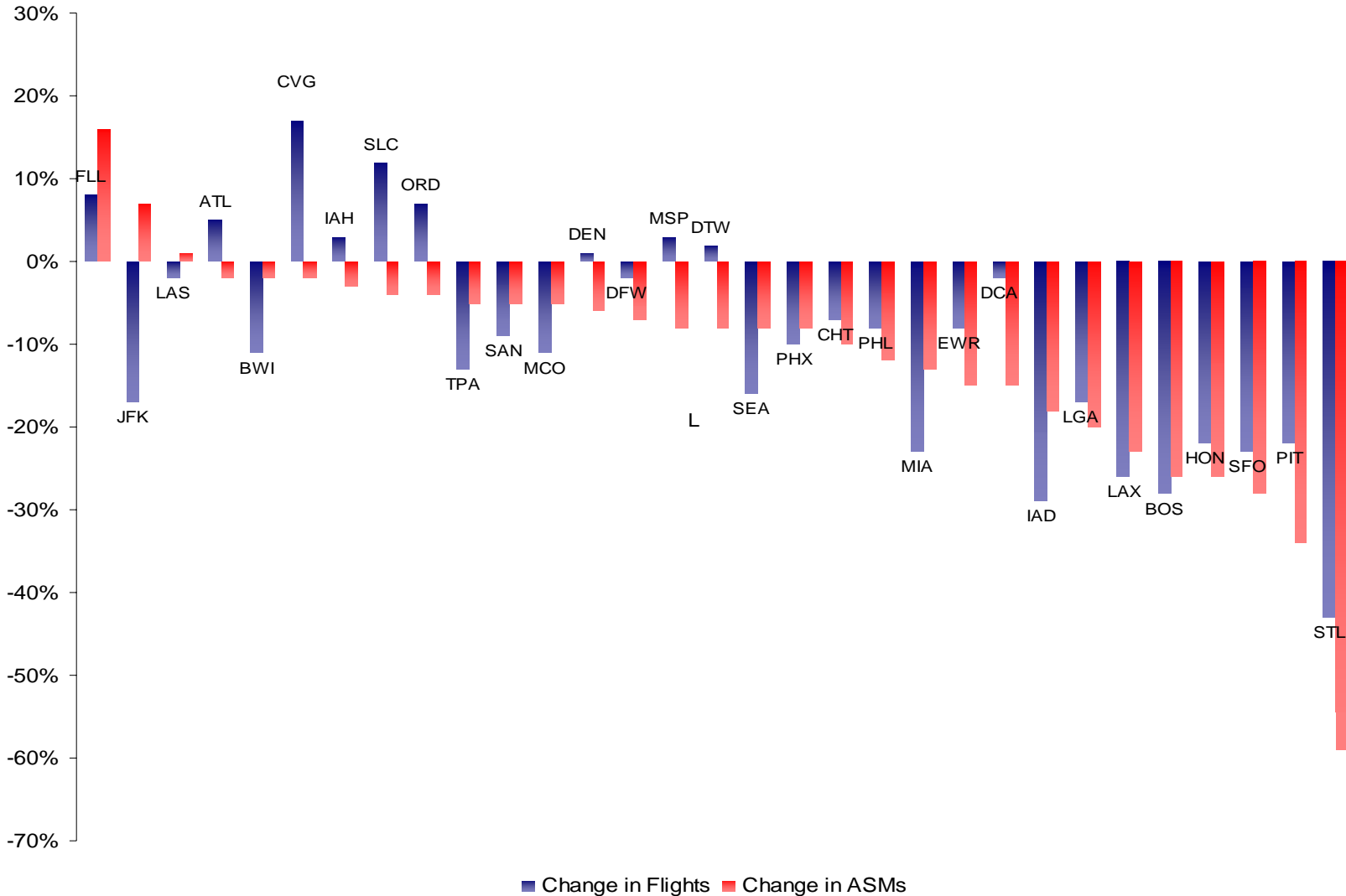


# Relationship Traditionally Very Good

- Close operational and safety alignment between airports and airlines.
- General agreement on security, capacity, other issues facing industry.
- \$74 Billion in outstanding public airport debt.

# Airport Traffic is Down

AIRPORTS COUNCIL INTERNATIONAL



# Issues in the Current Climate

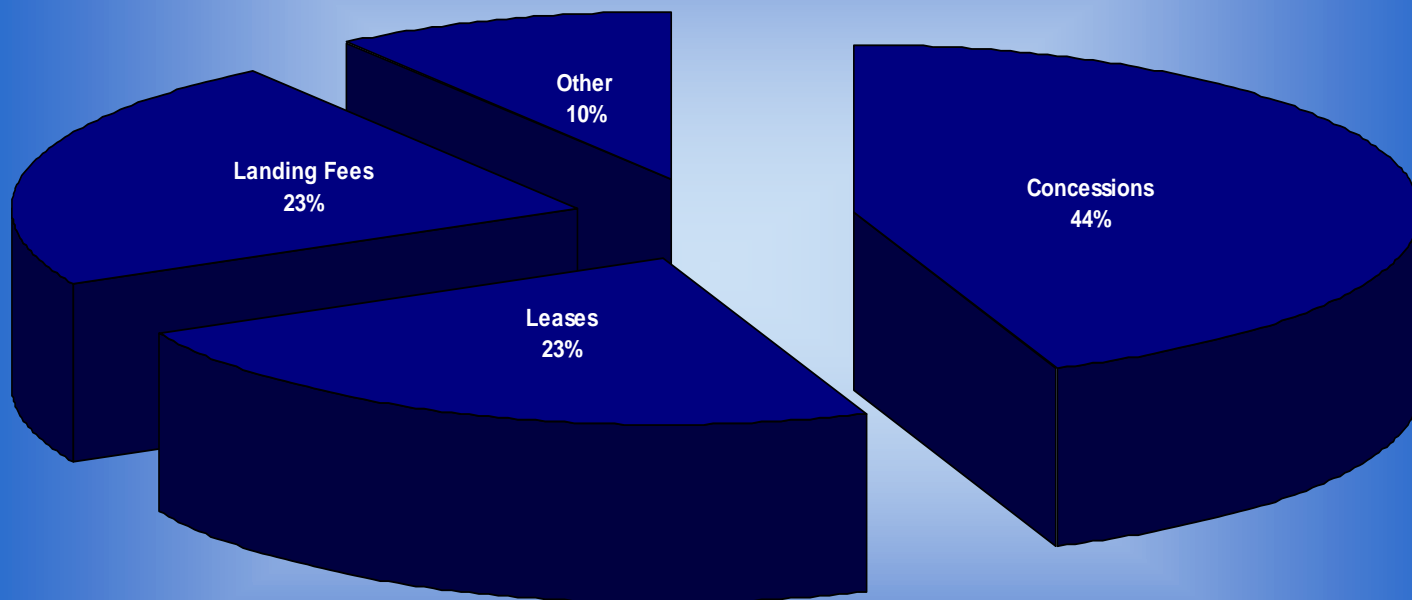
- Operating Cost Control
- Capital Cost Deferral
- Direct Relief for Airlines
- Financing Future Capacity

# Operating Cost Control

- High fixed costs:
  - Snow removal, utilities, airfield maintenance, etc. remain fairly constant
- Cutting discretionary spending:
  - Travel, hiring, wage freezes.
  - Attrition and layoffs.
- Typically 5% - 10% results
- Airport costs are small % of total

# Revenue Distribution

Large Hubs



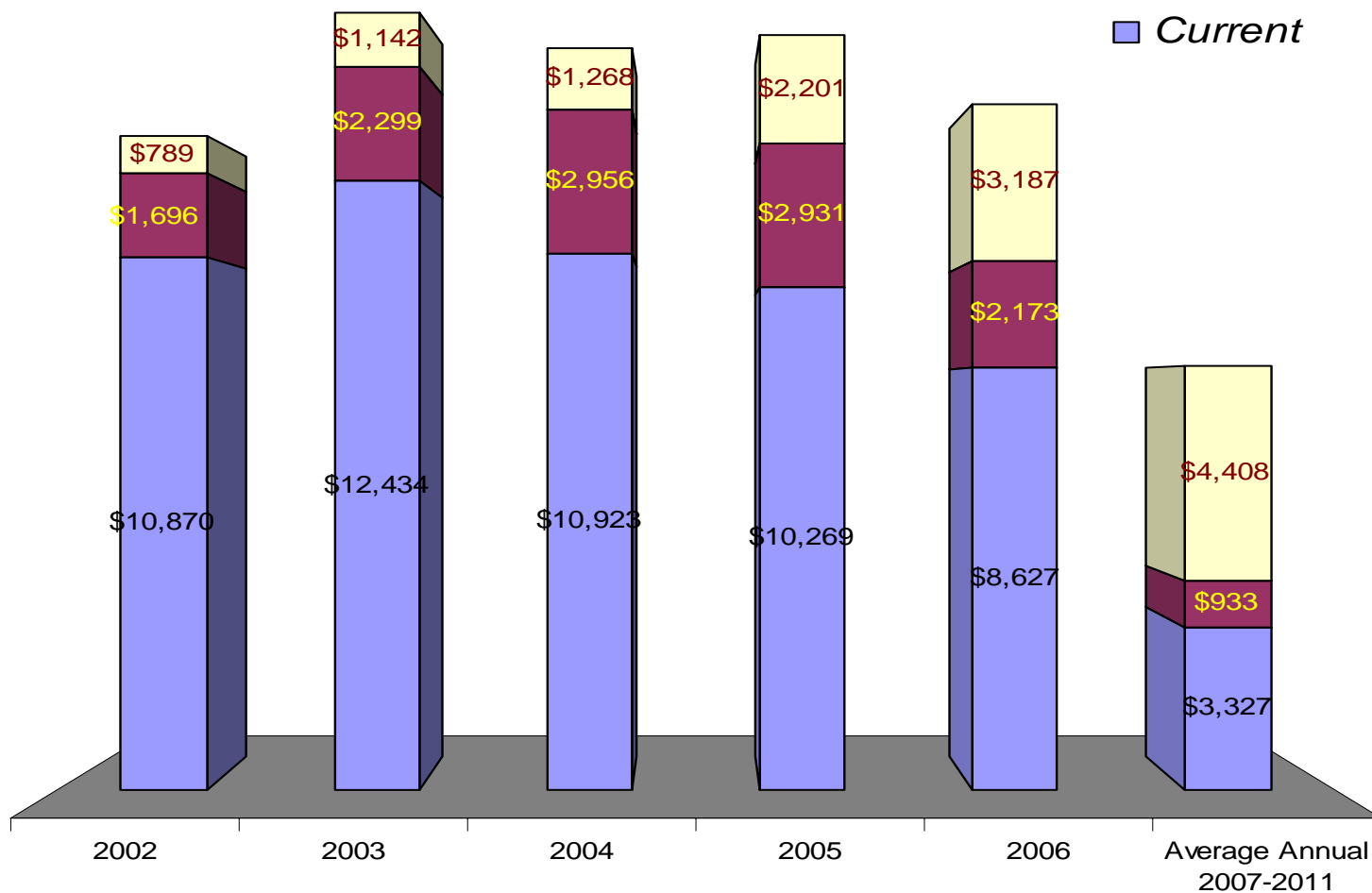
# Capital Cost Control

- Continue with projects under construction.
- Continue with approved capacity projects... (environmentally approved runways).
- Freeze design on future projects.
- Defer or reduce the scale of future projects.

# Capital Projects Postponed

Total Capital Needs (\$million)

- Postponed*
- New*
- Current*





# Direct Relief to Airlines

- SFO/UA recent agreement:
  - Extend lease term
  - Repay arrears at 2.5% over three years
- PIT/USAir:
  - Exploring restructuring of \$673 M debt
  - Operating cost reductions
- CLS:
  - Reduced airline fees by 7.4%

# Financing Future Capacity

- Airport Credit Remains Good and is a Viable Source of Future Financing
- Never a Default on an Airport Issue
- \$73 Billion outstanding airport debt
- Moody's median rating = A3
- Range: Aa2 to B1
  - Airlines struggling to maintain B3

# Future Airport Financing Issues

Private Activity Bond Status

Special Facilities Bond Issues

Financing O&D Capacity

Financing Hub Capacity



# Private Activity Bond Status

- IRS classifies airport bonds as private, not public purpose.
- Subject to AMT – 15 basis point premium.
- Restricted ability to advance refund for interest rate relief.
- ...possible topic for joint airport/airline legislative initiative.

# Special Facilities Bond Issues

- Pay for airline facilities: maintenance hangars, reservations centers, etc.
- Lower interest rates & off balance sheet
- About \$14 Billion outstanding
- UA bankruptcy court decision could destroy market:
  - Not preferred debt, but rejectable leases

# Financing O&D Capacity

Traditional leases backed by municipal debt will continue to work.

Local traffic demand will satisfy investors.

Airports and communities willing to issue debt for airport facilities.

Credit enhancements may raise costs.

# Financing Hub Capacity

- How much hub capacity are we going to need in the future?
- How will it be financed?
  - PIT, STL, other issues have eroded confidence in traditional lease-backed municipal debt.
  - Special Facility bonds may disappear
  - Airports nervous about financing non-Origin & Destination capacity
- Bankruptcies have reduced confidence in traditional financing model
- Trust between airports and airlines has been eroded.