

The Airport Financial Impacts of September 11

We all are aware that the terrorist attacks of September 11 will have a dramatic impact on the aviation industry for some time to come. Demand for air travel will continue at reduced levels for at least the short run, while the government and the airlines struggle to assure the public that air travel is safe. Yet airports, which represent the beginning and end of the aviation spectrum, have received less attention from politicians and the press. Airports and the associated businesses that depend on the traveling public for their livelihood will continue to experience dramatic decreases in revenue. Compounding this problem is higher operating and, potentially, capital costs, mandated by the new security procedures.

Airports must be concerned with a number of issues in light of the terrorist attacks, including:

- Reduction in revenue strains the ability of airports to pay current debt service, and also makes it more difficult to raise money in the future. Furthermore, a dramatic decrease in revenue may even cause difficulty in covering operating expenses.
- Increased security costs as new federal regulations are implemented may increase operating and some types of capital expenses for the long term.
- On top of the immediate decline in passengers, passenger growth may be depressed in the medium and long term. This may require planned capital expenditures to be scaled back or eliminated.
- Airport layouts may be reconsidered if non-ticketed visitors are not eventually allowed past security again. Implications include longer dwell times as passengers arrive early for flights,

increased crowding on both sides of security barriers and a greater need for more amenities, such as restrooms, outside secure areas.

- It is unclear how concourse revenues will be affected by these changes. Longer dwell times should increase revenue, but reduced passenger loads and more time in lines will offset this effect.
- New parking regulations will generally not permit cars to be parked within 300 feet of a terminal, and longer waits and passenger dwell times may increase the demand for parking spaces. If demand rebounds, this may cause a parking crunch at some airports.
- Security requirements may increase aircraft ground time. This may cause congestion on the tarmac, forcing airports to build new gates.
- A resumption of terrorist attacks may cause other hardships for airports, even if the attacks do not involve the aviation industry. Furthermore, an extended military campaign could raise fuel prices, increasing the cost of air travel.
- A weak global economy may mean that passenger demand will not return to previously projected levels for some time.

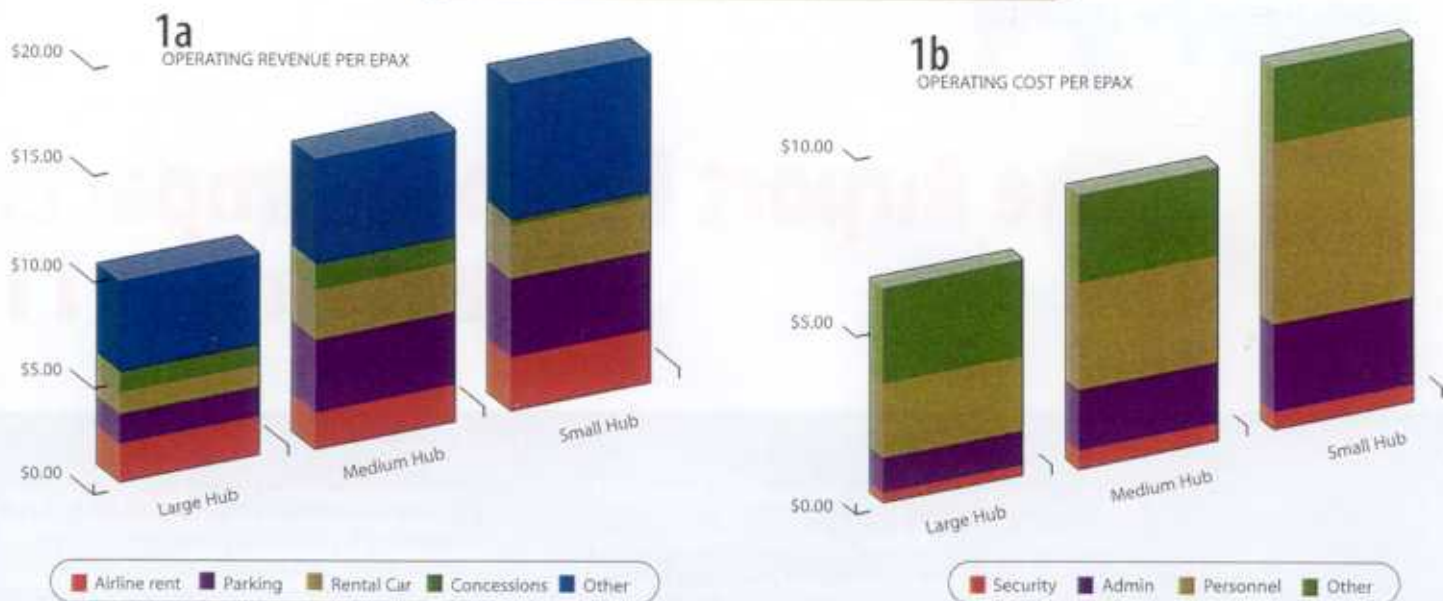
Impact on the 'Typical' Airport

Airports throughout the nation are reporting a variety of financial and business impacts since September 11. It will take some time to estimate the full effect of the attacks. Taking advantage of the 2000 AAAE Rates and Charges Survey, however, IMG has attempted to model the short- to long-term impacts of the attacks on "average" small, medium and large-hub airports.

Figures 1-A and 1-B on the following page depict the revenue and cost structure of the typical small-, medium- and large-hub airport.

Based on our discussions with several airports and available news reports, we can make several assumptions about the impact of the attacks for the short, medium and long term. For example, using the revenue and cost items in Figure 1, we project that the impact on airline rent for the short term will be zero but range down to minus 30 percent for rental cars. The revenue impact for the medium term will be

Figure 1a and 1b PRE-SEPTEMBER 11 OPERATING COST AND REVENUE



between minus 10 percent and minus 20 percent in all five areas, and a negative 10 percent for each area in the long term. In terms of costs, security costs have jumped 70 percent in the short term — up 10 percent in the other three areas — while long-term security costs will be 40% higher, compared to no change or down slightly in the other areas.

Many variables tracked in the AAAE survey, such as airline rent, are quasi-fixed (i.e., they do not change immediately due to a change in passenger demand) for the short and often medium term. These assumptions help show the magnitude of the potential impact but results, obviously, will differ for each airport.

The net total operating income per EPAX (revenues per EPAX minus operating expenses per EPAX, or "OPINPAX") for each type of airport is as follows:

- small hub: \$5.41
- medium hub: \$6.00
- large hub: \$3.20

The OPINPAX for each type of airport are shown in Figure 2 for the short (next three-months), medium (next year) and long term (next five years). The fact that OPINPAX remains positive for all airport sizes indicates that most airports will remain financially solvent through this downturn. However, individual airports may have to dip into financial reserves to meet debt service payments. This poses a threat to some outstanding bonds, as well as the ability of the airport to issue new bonds, especially for projects resulting from new security procedures.

The data demonstrate that the attacks are likely to burden medium hub airports somewhat less than large and small hubs. Furthermore, while airports of all sizes recover in the long run, bottom-line performance may

not be as strong as it was before the attacks.

Potential Airport Responses

While the actual impact on each airport will vary, it is clear that all airports must be proactive in facing these issues to ensure their long-term stability. Some actions airports are taking currently or must take soon include:

- **Financial Planning:** Capital expansions that were planned before the attack must be re-evaluated for feasibility. Some planned expansions may not be necessary until later years if demand remains depressed. Furthermore, airports may find it more difficult to borrow for capital expenditures.
- **Business Planning:** Facing a triple threat of reduced operating revenue, increased expenses due to security costs and slow or no growth makes it imperative that airports carefully analyze their operations as well as their entire approach to business and management planning. It is also an opportunity to make cost-saving changes.

• It remains to be seen whether travelers' perceptions of risks will change the way they fly. Some may wish to avoid long-haul or inter-continental flights, make fewer connections, or shift modes from air to rail or automobile for shorter trips. Furthermore, it is unknown whether any changes will be lasting.

• Airports need to identify a variety of scenarios of future travel demand and financial performance and develop a corresponding variety of solutions. A series of new attacks over an extended period could change the financial landscape even more dramatically than the scenario considered in this article.

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Figure 2 NET OPERATING INCOME (OPINPAX) COMPARISON

	Base*	Short Term	Medium Term	Long Term
Large Hub	\$3.20	\$0.33	\$1.43	\$2.24
Medium Hub	\$6.00	\$1.74	\$3.28	\$4.52
Small Hub	\$5.41	\$0.50	\$2.33	\$3.81

* pre-September 11