Airport Financial Trends: A Preliminary Look at 2000-2005 Data

While traffic continues to grow and the financial condition of airports improved in the last year, it is useful to examine airports' financial performance over the medium term—the last five years. There is concern in the industry about the impact of rising fuel prices, higher construction costs and continued weaknesses with the airlines. While trends suggest a positive outlook, higher operating costs and uninspired non-aviation revenue growth require airport managers to continue to be vigilant in overseeing their finances.

To compile this data, IMG employed a combination of FAA Section 111 5100-127 Airport Financial Reporting data (via the Compliance Activity Tracking System (CATS)) and the FAA Office of Airport Planning's Preliminary 2006 Enplanement statistics. The data is preliminary and is not fully compiled and complete.

After hitting bottom in 2002-2003, U.S. enplanements grew sharply in 2004 and again by 4.3% from 2004 to 2005, reaching record levels as shown in Figure 1. As is apparent in the graph, total landing fees did not follow this pattern, but grew steadily from 2000 to 2002, stalled from 2002 to 2004, and then increased in the last year. As the same figure shows, terminal rental revenue has grown steadily 2000-2005, even less affected by traffic changes.

Parking revenues continued to grow steadily at an overall rate of 12.4% in 2004-2005 and by 7.2% per enplaned passenger (EPAX) as shown in Figures 1 and 4, respectively. Parking revenues contributed to 38.6% of non-aeronautical revenue sources but a mere 12.4% of total airport revenues in 2004-2005. Food and beverage concession revenues grew even faster in 2004-2005 and throughout the period. However, 2005 food and beverage concessions only contributed 10% to non-aeronautical revenues and just 3.2% of total revenues. Overall, non-aeronautical revenues performed well, increasing by 8.1% in 2004-2005, but averaging a compounded annual growth rate of 2.1% since 2000, a less than stellar performance.

Figure 1
U.S. Airport Aggregate Operating Revenue Categories and Total Enplanements, 2000-2005

Airports have been fairly disciplined at keeping operating expenses from rising at accelerated rates in the last five years. However, the gap between operating revenues and operating expenses has not significantly diminished since widening after 2001, as shown in Figure 2. Operating expenses grew 8.0% in 2004-2005, slightly slower than revenues, indicating that although airports are benefiting from higher traffic they are still under considerable financial pressure. Increases in capacity demand along with rising health care costs have increased personnel and contractual costs. Increases in communications

Fig.1 AERONAUTICAL OPERATING REVENUE

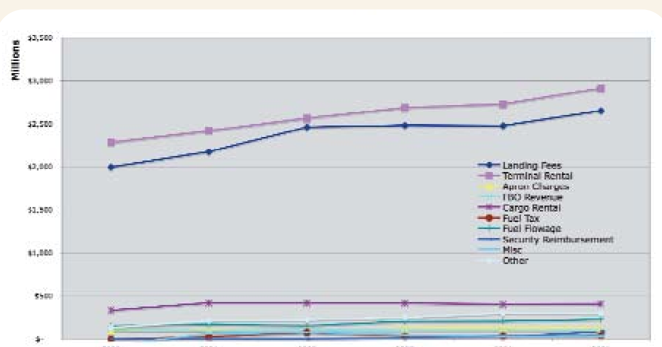


Fig.2 NON-AERONAUTICAL OPERATING REVENUE

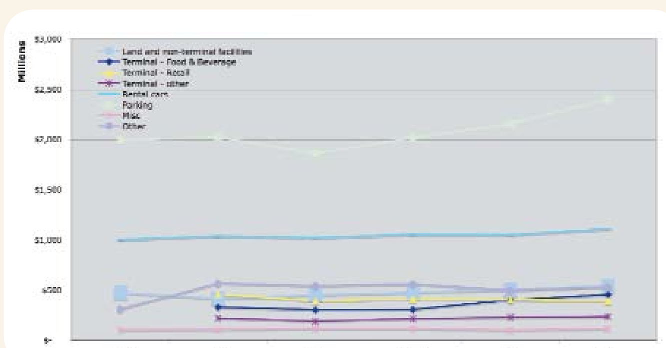


Fig. 3 CAPITAL EXPENDITURES

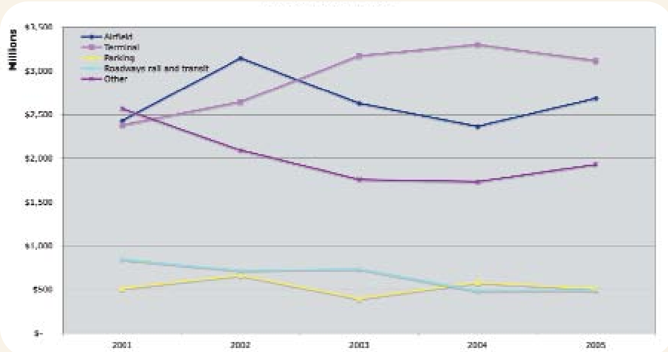
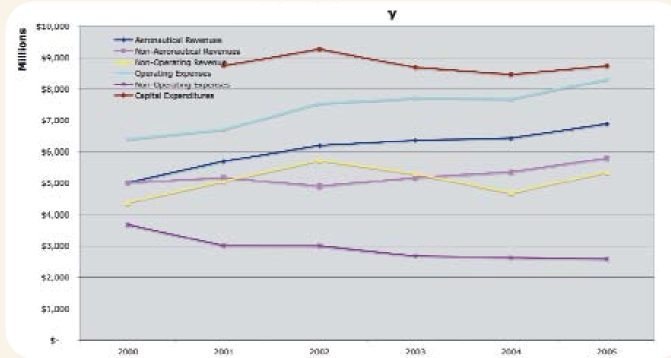


Fig. 4 FINANCIAL SUMMARY



and utilities expenses have been moderate in this time period. The latter is at first surprising given that this category has been subject to increases in fuel prices. However, it can be explained in that the dramatic fuel price increases since Katrina are only incorporated in the last quarter of the 2005 data.

Figure 2
U.S. Airport Operating Expense Categories, 2000-2005

While capital expenditures grew at a modest rate of 4.1%, the growth was mixed by category. After declining for several years, expenditures for airfield projects have increased in the last year, while terminal investments appear to have peaked, as shown in Figure 3. Parking development also declined somewhat, but over the period has remained fairly steady. Recent reports of extreme parking shortages during peak seasonal travel suggest that this may change as airports add new spaces. Investments in roadway, rail and transit have essentially decreased since 2001. The data is inconclusive on whether construction activity has slowed as a result of high construction cost escalation, in part because this phenomenon has only picked up in the last 18 to 24 months.

Figure 3
U.S. Airport Capital Expenditure Categories, 2000-2005

Analyzing these trends on a unit basis, per EPAX, most measures are trending higher after decreasing in the previous year. Operating revenue per EPAX, as well as operating expenses per EPAX, have increased in 2004-2005 after declining in 2004. Annual debt payments per EPAX have been dramatically reduced as a result of increasing passenger levels. To an extent, debt payments reflect the "lumpiness" of large construction projects and therefore do not always correlate with passenger activity.

Figure 4
U.S. Airport Financial Summary Per EPAX, 2000-2005

Even though it is almost five years after 9/11, airports continue to face financial challenges and have performed admirably overall, increasing credit ratings, generating adequate revenues, and convincing the financial markets to lend monies for expansion. In the future, airports will need to overcome further financial hurdles in part by improving their non-aviation activities, but so far in 2005 things are trending in the right direction.

How does this experience compare with your airport? If you would like to share your ideas, please e-mail Alex Zaslov at azaslov@imggroup.com or Sasha Page at spage@imggroup.com.

Infrastructure Management Group (IMG) provides management consulting, financial advisory, development and technology services to airports and other infrastructure industries.

Fig. 5 FINANCIAL SUMMARY (PER EP)