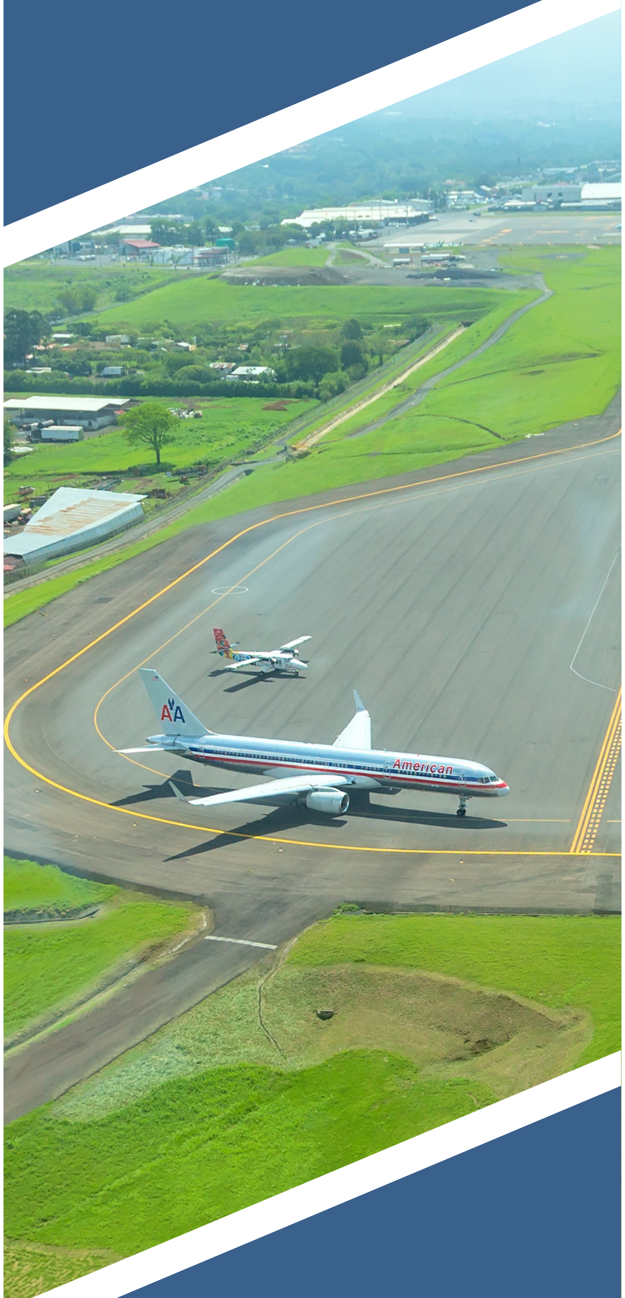

INFRASTRUCTURE CASE STUDY:

San Juan Airport

SUMMARY

PROJECT TYPE	YEAR	DEAL STRUCTURE
Airport	2013	Long-term operating lease

TOTAL COST

$615 million paid upfront by private partner, plus $2.5 million each year for the first five years, 5 percent of revenue over the next 25 years, and 10 percent of revenue for the final ten years

FINANCING

Private equity and debt-financing investment-grade bonds

FUNDING

Airport parking, concessions, and fees

PUBLIC BENEFIT

Modernization and renovations of airport facilities, and job creation

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Background

Luis Muñoz Marín International Airport in San Juan, Puerto Rico, was privatized in 2013 through the U.S. Federal Aviation Administration (FAA) Airport Privatization Pilot Program (APPP). The partners involved were the public airport owner, Puerto Rico Ports Authority, the Puerto Rico P3 Authority, and Aerostar—a 50-50 venture between Highstar Capital, an infrastructure investor, and Grupo Aeroportuario del Sureste SAB de DV, which operates nine airports in Mexico. The process took four years to complete and resulted in a 40-year lease under the Aerostar name.

Project Description

The Luis Muñoz Airport privatization was made possible by the APPP, 1997 FAA program. This originally allowed for five airports to apply for and begin the process of privatization, with one of them being a "large hub."[1]

The program was expanded under the 2012 Reauthorization Act to include up to ten airports.[2] Currently, there have been two successful privatizations out of ten applications. Stewart International in Newburgh, New Jersey, was the first to be privatized in 2000; however, the Port Authority of New York and New Jersey bought the airport in 2007. San Juan is the only other to successfully privatize. Chicago has filed and withdrawn an application for Chicago Midway International Airport.[3]

Operating under the Puerto Rico P3 Act of 2009, the Ports Authority, the owner of the airport at the time, applied to the APPP program in 2009. The next step was a desirability report to detail what could be gained from a P3. Puerto Rico's P3 Authority, a government-owned corporation under the authority of the governor and tasked with negotiating and regulating P3s in the state, then studied the idea and released a report in 2010 advocating for a P3 agreement.[4] The report said that the existing airport did not serve passenger needs well and needed reform in order to be financially stable. The report also reasoned that this could be achieved by a private sector agent with experience in airport operations. After the release of the report, the P3 Authority issued a Request for Proposal in June 2011. In May 2012, it was announced that Aerostar and Grupo Aeroportua Avance were the two consortiums on the shortlist for the project. In July 2012, it was announced that the consortium under the name Aerostar had won the contract.[5]

As long as profitability holds, the partnership will come out with a win. Puerto Rico got $615 million in an upfront leasehold fee, followed by $2.5 million each year for the first five years, 5 percent of revenue over the next 25 years, and then 10 percent of revenue for the final ten years. The upfront lease payment was financed via $265 million of private equity (43 percent) and $350 million from debt financing of investment-grade bonds (57 percent).[6] The airport (and the public it serves) received modernized facilities as an upfront investment around $400 million.[7] This leaves most future profits with Aerostar.

The U.S. Government Accountability Office studied the APPP in November 2014 and found some key barriers to privatization: financing costs are higher for private entities, property tax exemptions may not carry over to the private owner, and the program has unclear rules and an intrusive federal presence that slows the process.[8] However, as the report notes, privatization occurs across a spectrum, with a long-term lease or sale at the most extreme end. Many airports are finding more success with different levels of private involvement, ranging from simple service contracts, to management contracts (for example, specific facility management to airport-wide management), to developer financing/operation contracts (for example, specific facility development).

Benefits and Criticisms

The privatization of San Juan's airport worked due to a unique set of factors. First, there was political will, despite some public opposition. There was some worry that the privatization could disenfranchise workers at the airport, but the U.S. transportation secretary guaranteed that approval of the plan would not go through if the collective bargaining agreement (CBA) was violated; furthermore, the CBA signed in 2012 guaranteed that any employee who did not stay in their position under privatization would be given another position within the Ports Authority under the same contract.[9]

Commissioner Pedro R. Pierluisi, delegate to the U.S. House of Representatives, said that the privatization process was in line with what Congress had intended with the creation of the APPP program and that, given the Puerto Rico Ports Authority's bond status—one level above junk in 2009—it was clear that the Ports Authority could not provide the investment needed for a 21st-century airport.[10]

Takeaways

The privatization of San Juan's Luis Muñoz International Airport is so far the only success story of the FAA's APPP pilot program. Under the P3, the airport has seen considerable investment, with Terminal A reopening in 2012 and serving as a regional hub for Jet Blue, Terminal B reopening in 2014, and Terminal C renovations completed in March 2016. These renovations include an automated baggage-scanning system, in use in only a few U.S. airports, and high-end retail stores, which have created 3,000 jobs.[12]

On the spectrum of P3s, San Juan Airport leans far toward privatization. Importantly, there was the political will to privatize a poorly managed airport, and there was profit to be made by private actors. This case study is representative of a situation where the public sector may want to privatize an unprofitable endeavor and private industry is in fact well suited to make important changes that recover profitability.

Endnotes

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12. Danica Coto, "Puerto Rico airport to unveil $200M in upgrades," USA Today, 2014. http://www.usatoday.com/story/todayinthesky/2014/07/02/puerto-ricos-san-juan-airport-to-unveil-200m-renovations/11943569/.

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