



## PHASE 1: RESEARCH & ANALYSIS

### Part 1: Moruya Airport as an Investment Candidate

CONFIDENTIAL:  
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# 1

## EXECUTIVE SUMMARY

## EXECUTIVE SUMMARY

Eurobodalla is looking for ways to make the airport as efficient, competitive and financially viable as possible. Private sector participation in Moruya Airport - through ownership, operations, management or new investment programs could take many forms, including outsourcing certain functions, management contracts, public-private partnership agreements, design-build-finance-operate developments, outright sale or long-term lease of assets and other types of private sector initiatives.

While Moruya Airport could have the potential to deliver visitor growth to the Eurobodalla region, its redevelopment would have broader based benefits. It is a key economic asset for regional development beyond tourism and in this document we have examined how Eurobodalla Shire Council (Council) could work with private sector on developing such an asset.

### Specifically we have examined:

- Examples of private sector participation in the development or build-out of regional airports
- Regulatory considerations regarding foreign and / or domestic investment
- Attitudes and structures for regional airport investment amongst investors (e.g. Public Private Partnership and other risk-sharing schemes), regulators and the public
- Attitudes amongst investors on landing rights, airport concessions and development rights on adjoining property
- A strategy and message that positions Moruya Airport favourably in the minds of private-sector investors.

The Moruya Airport Master Plan 2015 has been prepared based on traditional models for growth and development of regional airports.

It provides details on:

- Current Airport Status
- Vision and Strategic Direction
- Stakeholder Consultation
- Development Opportunities
- Land Use Precinct Concept Plans
- Implementation

The key for current and future industry development is tied to sustained growth in Eurobodalla tourism and industry. The airport can be one of the critical elements to realising such potential and help turn opportunity into population growth, jobs and revenue. Each in-turn adding to possible future passenger growth at the airport. The airports proximity to water and adjacent properties that have their own unique value should also be key considerations in any airport development.

The Moruya Airport Master Plan and other related research does not take into account the ability to change the development agenda via attracting the right type of investment and partners. It does not look at the region as an ecosystem that can pursue non-organic growth in passengers - for visitors and enterprise - which push beyond the legislated monopoly of the Sydney route. Instead, it relies on traditional forecasts for growth, capacity and frequency.

## EXECUTIVE SUMMARY

It is important that Council establish a vision for what they want the airport to be. As can be seen by some of the case-studies shared in this research, the majority of airports are looking at ways to develop the non-aviation aspects of their airports in an effort to underpin the future viability of such important regional assets. This approach is being driven by private sector enterprise who have broader based skill-sets and expertise to develop and commercially maintain such assets.

A future state changed by the mobilisation of funds and networks to bring large numbers of high-value tourists to the region could change traditional growth models for the airport facilities and passenger numbers. Growth in new routes, increases in flight capacity and/or additional flight times from Sydney can be delivered by increasing demand through a higher movement of people that are less price elastic.



As an individual project taken in isolation, the airport development may not meet investor criteria, but taken as a package it creates the dynamics for a very different future state. It is important to note that any agreement with private sector would be done in an competitive environment. Many airports under the control of regional councils in Australia including Ballina Shire Council and Lismore City Council are also considering private sector options to fund redevelopment of their own regional airports.

Private sector investors would typically prefer to manage asset investments on their own. However, they do appreciate that for such public infrastructure, it needs to be managed in partnership with government. When private sector assess such regional airport investments, the following key criteria have been identified as core considerations:

- Unique destination experiences within the airport catchment that act as a draw card.
- The opportunity for in and out-bound travel growth (business, leisure and VFR) and no overlapping catchment areas.
- Repeat visitation opportunities.
- Development opportunities not just on the airport, but also on adjacent property and land around the airport as they are considered part of the value equation.
- Control and tenure when a lease is offered.

Our parallel work to this report is looking at creating a unique brand position and a destination experience that serves broader visitor needs. At this stage, there is no overlapping catchment areas for airline passenger traffic and, historically, Eurobodalla has a strong repeat visitor base that could fly in/out if prices were to become more affordable. A long-term lease arrangement is necessary and the 50-years leases offered for “federal” airports should be referenced in any level of privatisation planning. Regarding development opportunities, there are many paths that can be taken. As mentioned earlier, it is important that Council has a clear vision for the development / redevelopment of the airport. A vision that does not address the airport in isolation of the destination.

## EXECUTIVE SUMMARY

Moruya Airport is a unique airport facility given its close proximity to major water destinations, the race track and proposed equestrian centre. With both beach tourist areas and Moruya river we need to ensure we communicate to investors the connectivity of the airport with water and land based facilities. Such rare credentials in an asset need a proper feasibility study and design. A creative concept and design could make Moruya Airport an attraction and destination in its own right.

The concept for Moruya Airport to be a destination, including the value of adjacent land such as equine facilities, and not just a service facility is a challenge that can be opened to the right investors. We can position Eurobodalla as a trend setter where the traditional market perception of an airport can be changed with an eco-system approach.

As highlighted, many airports are now looking at the non-aviation aspects of airport developments to make them viable in the future. It is understood that in the approved Moruya Airport Master Plan that the redevelopment of the airport can have many aspects including traditional airport services as well as the Aviation Tourism Precinct and Residential Airpark.

The key is in establishing an ecosystem which promotes the interconnectivity of air, water and land that can become an enhanced experience for all stakeholders. For example, the airport together with a marina and small footprint luxury accommodation could have the potential to create new destination experiences and open up new type of demand in the airport area.

There are many different types of contracts and concessions that can be established with private sector investors. There is no right or wrong approach and each has pros and cons - for both parties. In this document we examine in detail the different type of public-private structures, the key attributes and issues of each for both private sector investors and Council as well as the motivations for one structure over another. Airports are ultimately community assets so it is important that Council decides what it feels best for the community. We recommend that we position for and encouraged unsolicited proposals (guided by a clear Council position) that can allow investors to bring their own vision of Moruya Airport to Council for further evaluation.



As a next step, we would look to test the following message positions linked to the broader Tourism work that we are conducting in parallel to this report (see Phase 1/ Part 2: Core Assets vs. Visitors Needs & Economic Development report):

- Destination vision vs. Airport function
- Different types of privatisation offered
- Type of bid process



# ATTITUDE & SENTIMENT TOWARDS REGIONAL AIRPORT INVESTMENTS





## ATTITUDE & SENTIMENT TOWARDS REGIONAL AIRPORT INVESTMENTS

A recent article on the privatisation of council owned and managed airports in Australia highlighted both the attractiveness and needs of private sector investors. Hastings Funds Management is the largest share holder in Queensland Airport Limited (QAL). In a September 2014 article, an Executive Director of Hastings made the comments noted in Figure 1 when highlighting that regional airport investments had proven very successful to date and while their preference is to have a majority stake, they would not rule out minority stakes. The comments made by the Hastings Executive are insightful as QAL has a proven track record in airport investments in Australia including a 99-year lease over Longreach airport in western Queensland which it purchased for \$2.5 million in 2012.

### **Figure 1 - Existing airport investor comments about regional airport investments in Australia**

"They have been some of the best investments we have been involved with as a firm"

"We have certainly had experiences where investing alongside a local government has been challenging"

"It doesn't have to be a constraint but there certainly has been experience in certain jurisdictions where it has been"

"When we are looking at investments, we tend to like to be able to control the execution of the business plan"

*Source: Sydney Morning Herald, 14 September 2014 - Councils eye privatisation of regional airports to boost the bottom line - By Jamie Freed*

# ATTITUDE & SENTIMENT TOWARDS REGIONAL AIRPORT INVESTMENTS

When looking at regional airport investments, the following key criteria have been identified as the core considerations for private sector investors:

## **Access to unique destination experiences within that location that act as a visitor draw card:**

Ultimately the airport provides access to a destination for one reason or another. Beyond business and VFR travel, some unique visitor experience in the destination is a key component of the value equation.

## **The opportunity for in and out-bound travel growth (business, leisure and VFR) and no overlapping catchment areas:**

An airport that does not compete with another on routes is considered attractive. However, more important for an investor is the opportunity for passenger growth - whether organic and driven by population growth or the opportunity to open new routes or attract new type of visitors.

## **Repeat visitation opportunities:**

Particularly with business, government and VFR passengers, the mobility of local residents and the flow of business and government workers is seen as value that is less disruptive than holiday visitors.

## **Development opportunities not just inside the airport, but on adjacent properties and the land around the airport are considered part of the value equation:**

Investors will look to commercialise land and infrastructure and also consider the additional development of adjacent lands or purchase of nearby infrastructure and commercial assets.

## **Control and tenure when a lease is offered:**

While many private enterprise have excellent working relationships with local / regional governments, the ability to control the development and management of airports is highly valued even in a regulated environment. Further, the ability to create a stable investment environment with leases of 50-years, plus options, is also highly valued.

*Further information on the evaluation of regional airport value can be found on Pages 48-52.*

# 3

## EXAMPLES OF REGIONAL AIRPORT PRIVATISATION

# EXAMPLES OF REGIONAL AIRPORT PRIVATISATION

To aid in the understanding of the development and build out of regional airports that are run by private sector, we have highlighted four examples. Each example provides a different insight such as how the bid is opened to and run with private sector or how private sector looks to maintain viability in an airport through on-going development.

## Launceston Airport, TAS

Launceston Airport is managed by Australia Pacific Airports (Launceston) Pty Ltd (APAL). The ownership structure of APAL has Australia Pacific Airports Corporation Limited (APAC) as the ultimate holding company holding ninety percent of APAL shares with the remaining ten percent held by the Launceston City Council. Launceston Airport was privatised in 1997. APAL is responsible for managing the airport under a lease arrangement until 2047 with the option to extend for an additional 50-years.

While Launceston Airport has a very different set of airport statistics (i.e. its passenger volume far exceed that of Moruya Airport), it also shares many similar variables to Eurobodalla in areas such the opportunity for diversification in tourism as well as industry traditionally dominated by agriculture / primary resources.



### Master Plan History\*:

#### 1990

The Launceston Airport Master Plan 1990 provided a broad framework for orderly airport development, road access and external land use control to protect the 24 hour curfew free operation of the airport. A key feature of the plan was the reservation of land for General Aviation and operational support on the northern section beyond the main runway and reservation of freight to the north-western “landside” area.

#### 1999

The 1999 Master Plan reviewed the land use zoning plans renaming the previous General Aviation and operational support zones north of the runway to “Future Development” beyond the “Planning Horizon”. The North Western freight zone was divided to incorporate the existing Bureau of Meteorology facilities. The Obstacle Limitation Surface (OLS) and Prescribed Airspace future layouts were introduced to help secure the protected airspace and assist in managing residential development in the approach paths off airport. The airports land zoning was incorporated into the Northern Midlands Council’s Planning Scheme 1995 model which adopted its format.

#### 2004

The 2004 Master Plan was consistent with the 1999 Master Plan and included an update of the ANEF Ultimate Capacity model and passenger / movements forecast. Zoning changes in the 2004 Master Plan included the removal of a future reserve area to the North of the runway and a revision of the freight reserve to encompass the Meteorological facilities.



# EXAMPLES OF REGIONAL AIRPORT PRIVATISATION



## 2009

The 2009 Master Plan considered and addressed the impacts of significant growth at the airport and the pressures this had placed on existing infrastructure, particularly the terminal facilities.

The developments included:

- Additional gate lounges
- Expansion of ground floor level public lounges
- Additional check-in and Checked Bag Screening facilities
- Provision for a second passenger screening point
- Upgrade of the terminal infrastructure as demand required

Airside developments included:

- Provision for future aprons and taxiways to service the growth in aircraft movements and long term freight objectives
- A staged upgrade of the southern freight apron to extend the high strength (80,000kg) apron and a decision to decommission the parallel grass runway.

An airfield capacity study was conducted which informed the production of a Practical Capacity ANEF for the purpose of noise modelling.

## What has happened since 2009?\*

There has been significant development and improvements at Launceston Airport. Around \$35 million has been invested in expanding the airport facilities since the 2009 Master Plan.

The following list identifies the major development items:

- Finalisation of a \$20 million terminal redevelopment during 2010
- Redevelopment of hangars into a dedicated freight facility
- Installation of a new airfield lighting system including approach lighting
- Installation of slope guidance system (PAPI) and runway guard lighting
- Replacement of ageing concrete pavements on taxiways
- Construction of two high strength aircraft parking bays on the southern apron
- Construction of a new main entrance / exit roadway including new staff and public parking and facilities.

## WHAT IS NEXT?

### **The vision for the next 20-years (until 2035)\***

Key features include:

- Provision for terminal expansion
- Identification of RPT apron expansion areas
- Reservation of land on the east of the airport for freight and operational support
- Relocation of GA facilities to the south of the freight apron
- **Identification of areas available for non-aviation development.**

# EXAMPLES OF REGIONAL AIRPORT PRIVATISATION

As can be seen in the evolution of the master plans, and beyond the substantial amount of investment made under the stability of a long-term lease, it is the last point around non-aviation development that is a highlight of the 2015 master plan. The focus is on non-aviation developments which complements aviation purposes and importantly are seen as key to protecting **"the long-term viability of the airport"**\*.

*\*Source: LAUNCESTON AIRPORT MASTER PLAN 2015 - Preliminary draft*

## TYPES OF NON-AVIATION DEVELOPMENT BEING CONSIDERED?

**Landside Business Precinct:** Hotel / Motel, Service Stations, Car Rental, Restaurants, Fast Food and Takeaway, Car Dealership and other Accommodation.

**Landside Main Precinct:** Freight, Warehousing, Light industrial, Commercial facilities and small scale Manufacturing.

This together with the development of the Translink project (a business park with streamlined local government processes that sits adjacent to the airport), the Launceston Gateway Precinct Master Plan as well as recognition of the airports contribution to economic growth, showcases that **the value-engineering of Launceston Airport is focused on its place as part of a broader ecosystem which includes Aviation and Non-Aviation facilities, services and enterprises.**

In a Eurobodalla context, the key take-away is that the development of non-aviation aspects to the airport master plan and the development of adjacent lands is critical to the on-going viability and profitability of a regional airport. That is, dependency on the Passenger and General Aviation aspects of airports will only make the airport viable to a certain degree. Looking at how Moruya Airport integrates with the immediate properties around it or new developments/projects on land adjacent to it is key in developing a sense of place (e.g. business or leisure) that in-turn will become a destination. However, as can be seen in the master plan summary, the operators of Launceston Airport also initially focused on functional elements of the airport such as terminal upgrades and runway extensions. It has taken time to develop it to a point where the airport is starting to create an ecosystem around it.

While the profitability of APAL is hard to gauge as its financial results roll-up into APAC annual results, another success factor for Launceston Airport is having a majority owner who can bring expertise, share knowledge, develop a passenger pipeline from an international hub and potentially create economies-of-scale. While Moruya Airport is on a different playing field in terms of capacity and scale, investors with the right investment portfolio's are also seen as critical success factors. Importantly, while the airport is operated under lease, the Launceston Council has equity participation which provides them the opportunity to ensure that community interests are represented as a shareholder.

# EXAMPLES OF REGIONAL AIRPORT PRIVATISATION

## Jandakot Airport, WA

On 1 July 1998 the Commonwealth Government sold a 50 year lease over Jandakot Airport, with an option of a 49 year lease extension, to Jandakot Airport Holdings Pty Ltd (JAH). Jandakot Airport is the main general aviation (GA) airport in Perth and is considered one of the busiest airports in Australia in terms of aircraft movements. However, it must be noted, this is because it provides a broad range of facilities servicing GA and more limited movements when it comes to general passenger traffic.

Its GA portfolio includes tourism, pilot and aviation training, general aviation services to the resource and pastoral sectors and important emergency services such as the Royal Flying Doctor Service, Police Air Wing, RAC Rescue Helicopter and WA Department of Fire and Emergency Services bushfire response. In particular, Jandakot is known as a location for pilot training - both domestic & international. However, the mix of businesses at the airport (see Figure 2 below) showcases that the benefits of having a strong focus on training also has broader economic benefits for local businesses and the economy.

### Figure 2- Current Economic Significance of Jandakot Airport

Number of businesses on site 89  
 Aviation Related Employees (Direct) 750  
 Non-Aviation Related Employees (Direct) 400  
 Payroll \$64.22 million Payroll Tax \$3.69 million  
 Ex-gratia payment in lieu of rates to the City of Cockburn \$2 million  
 Export revenue international students \$61 million  
 Total taxation revenue (excluding GST and taxes on profits) \$13.5 million

Source: MacroPlan Dimasi

While the focus at Jandakot Airport looks to be general aviation, it does recognise that non-aviation services are needed to optimise the potential of the airport and its contribution to the local economy. Ascot Capital Limited is a property development and facilities management company that holds JAH within its portfolio. A business model applied by Ascot Capital Limited is to design, construct and lease facilities to tenant specifications (i.e. in consultation with tenants). Lease terms on facilities range from 10 – 25 years\*

\*Source: Ascot Capital Limited Annual Report 2014

# EXAMPLES OF REGIONAL AIRPORT PRIVATISATION

Figure 3 - Future Airside & Landside Development - Jandakot

## Aviation Development

The proposed future aviation related development at Jandakot Airport will mean a significant increase in the economic activity at the site. At full development, estimated within the 20 year period of the current Jandakot Master Plan, it is anticipated that the estate will accommodate approximately 130,000 square metres of aviation related and aircraft hangar floor space. This increase will come from the development of an area which will accommodate approximately 40,000 square metres of aviation-related and aircraft hangar floor space. This construction is estimated to cost \$50 million and will generate substantial economic activity, including 260 full time jobs in the construction/ development industry, \$7 million in wages and salaries paid to construction/ development industry employees and \$4 million in direct and indirect taxes including income taxes on wages and salaries, company tax and other indirect taxes. The total value-add or contribution to the Western Australian economy that will be generated by the construction will be in the order of \$114 million. It is estimated that at full development, the number of aviation related businesses will be around 80 with an approximate total of 950 employees.

## Non-Aviation Development

At full development, it is anticipated that the airport will accommodate approximately 767,000 square metres of non-aviation floor space, comprising 560,000 square metres of warehouse, 140,000 square metres of workshop, 62,000 square metres of office and 5,000 square metres of retail (already constructed) floor space. The construction of the commercial estate, including the supporting infrastructure and buildings, upon full development is estimated to cost \$780 million and will generate substantial economic activity including 3,700 full time jobs in the construction/development industry, \$108 million in wages and salaries paid to construction/development industry employees and \$56 million in direct and indirect taxes including income taxes on wages and salaries, company tax and other indirect taxes. The total value-add or contribution to the Western Australian economy that will be generated by the construction will be in the order of \$1.786 billion. When the commercial estate is fully occupied it will have the potential to accommodate approximately 220 non-aviation related businesses with approximately 7,100 employees.

Source: Jandakot Airport 2014 Master Plan

This regional airport case-study provides some insight into how an airport can be successful while having the majority of its focus on general aviation services. In Moruya, there has been discussion about the expansion of the general aviation facilities such as hangar space. While this is good, consideration should also be given to supporting existing tenants in their enterprise growth plans and working toward building a stronger GA spread of businesses (e.g. pilot training) and supporting services on adjacent lands. Again, working with the right private sector investors with such expertise is key as they bring a wide range of domain knowledge, experience and contacts.



# EXAMPLES OF REGIONAL AIRPORT PRIVATISATION

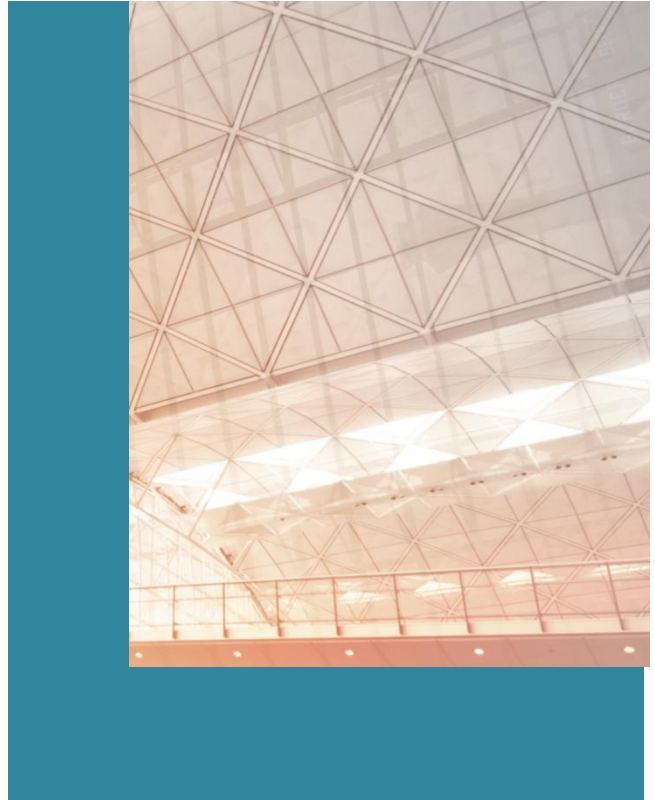
## Southampton Airport , UK

While the airport in Southampton is not comparable to Moruya Airport and Eurobodalla in many ways, it has been selected for a deep-dive assessment based on its ability to position itself in an congested UK and European market. In particular, Southampton Airport was able to buck the trend of regional airports struggling in tough economic conditions following the global financial crisis in 2008 and the slow recovery in Europe. In 2012, passenger numbers at Southampton were only "13 percent lower than in 2007, at 1.7m, according to the Civil Aviation Authority, and still more than double the level seen 10 years" previously.\*

*\*Source: Financial Times - Appeal of regional airports lures investors - Article published in December 27 2012 by Rose Jacobs*

In particular, Southampton Airport has highlighted that the understanding of and catering to niche needs is important when creating a viable **airport property and destination**. Some of the highlights have been:

- Working with cruise liners to provide baggage storage facilities for those who get off a cruise ship in the morning and will depart on a flight in the evening - allowing day trips which use the airport as a base to travel through-out the region.
- Providing the business community with access to places of business which typically are other ports in Europe (i.e. small route development).



AGS Airport, which owns and operates the airport, has put a lot of focus in developing the right offers, experiences and products that are suitable for this destination. It is important for Eurobodalla to consider Moruya Airports role in servicing potential needs beyond the LGA. This could be providing interstate options for people wanting to visit Jervis Bay or working the airport into the plans of tour companies that could operate from the airport location. It is noted that Rex's statutory monopoly (based on current passenger volumes) and flight prices prove a barrier to route growth. However, Rex should also be active in the development of the airport as a destination experience and product.

# EXAMPLES OF REGIONAL AIRPORT PRIVATISATION

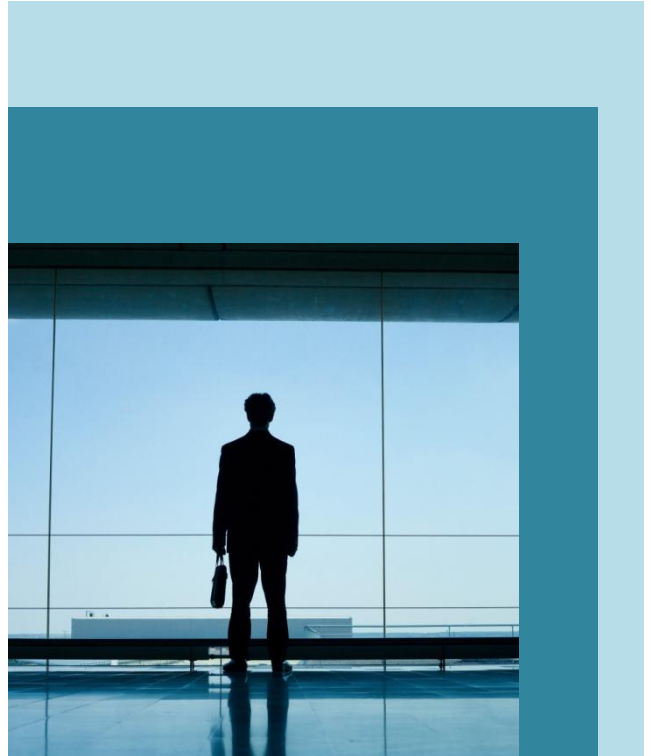
## Private Sector Development, Operation and Maintenance of Airports –Philippines

This is a case-study based on a current invitation for bids from the private sector for the airport development, operations and maintenance of airports in the Philippines. Run by the Department of Transportation and Communications Bids and Awards Committee the following airports were covered by the bid.

- Bacolod-Silay
- Davao
- Iloilo
- Languindingan
- New Bohol
- Puerto Princesa

The goal of the bid was to attract private sector interest in improving service and enhancing the airside and landside facilities of airports. For some of the airports there was a need for construction because they were simply plans and in others, there was a requirement for maintenance as the airports were already operational. 30-year concessions were on offer.

For interested private sector parties, there was a clear process to the bid that ensured that some bid costs (i.e. consultants) were recovered via the process and that time was spent with "genuine" private sector opportunities. This included:



- A \$25,000 AUD non-refundable fee for an invitation, instructions and project related information was needed.
- All bidders needed to pre-qualify based on minimum legal, technical and financial requirements.
- Submission of detailed Technical and Financial proposals to the committee were required after qualification.

The idea of bundling concessions in Eurobodalla (e.g. Airport & Marina) could prove useful in creating more value in assets under a public-private arrangement than they would on their own. Similarly some sort of fee to enter any bid would counter, to a degree, any costs incurred when engaging consultants in developing any feasibility studies as well as the tender development. These positions can be tested.

# EXAMPLES OF REGIONAL AIRPORT PRIVATISATION

## KEY LEARNINGS AND CONSIDERATIONS:

While it is noted that Moruya's passenger volumes and a statutory monopoly on the Sydney / Moruya route are key points of difference from some of these case-studies, the following are some key take-away's that could be applied when communicating with potential private sector investors.

1. Consider Moruya Airport as part of a broader economic eco-system within the region
2. Place value on the opportunity to develop non-aviation industry on and/or around the airport
3. The need to work with the right investors who will look to support and assure their capital investment with airport expertise and/or a diversified investment portfolio that can be leveraged to build future value in the asset
4. Long term commitments create a more stable environment
5. Offset costs through paying a bid fee

# 4

## **REGULATORY REQUIREMENTS FOR PRIVATE SECTOR INVESTMENT IN REGIONAL AIRPORTS**



# REGULATORY REQUIREMENTS FOR PRIVATE SECTOR INVESTMENT IN REGIONAL AIRPORTS

Due to the complex nature of regulations and laws (at federal, state and local government levels) that cover airports in Australia, it is recommended that Council seek the right consultation and advice before developing and inviting bids. The following laws and areas of regulation could apply to any private sector investment in Moruya Airport.

## REGULATORY CONSIDERATIONS:

### Australia's Foreign Investment Policy (2015) & Foreign Acquisitions and Takeovers Act (1975)<sup>^</sup>

- Foreign government investors must notify the Federal Government and get prior approval before making a direct investment in Australia, regardless of the value of the investment.
- Foreign persons conducting large scale investment in the hundreds of millions must get approval before making an investment.

<sup>^</sup> Source: *Foreign Investment Review Board*

### Aerodrome Local Ownership Plans (ALOP)

- Covers airports that were established by the Commonwealth Government for military purposes and that were gradually transferred to the ownership of the relevant local government authority.
- Under ALOP, if the local government body intends to sell, lease or otherwise dispose of the airport they should get advice on any legacy issues with ALOP.

### Australian Airport Act (1986)\*

- Limits the control of 22 leased federal airports
- Provides limits on foreign ownership of airport-operator companies including cross-ownership between paired airports.

\* Source: *Department of Infrastructure & Regional Development*

Please note, all environmental, land & planning, OHS, economic, security and aviation regulations also apply.

# PRIVATE SECTOR MOTIVATIONS & DRIVERS



# PRIVATE SECTOR MOTIVATIONS & DRIVERS

When looking at private sector investment models for Moruya Airport we should not be limited by traditional planning models, but be open to unsolicited proposals that capture private sector innovation as well as motivation.

The potential benefits of working with the private sector on airports include:

- access to private capital for development
- extract an upfront or ongoing payment for the airport asset (monetise the asset)
- stimulate air service and airline competition
- introduce more innovation and creativity, including entrepreneurial ideas in the development of non airline revenue
- secure long-term efficiencies in operation and maintenance and enhance customer service
- shift the risk of debt, capital development and/or operations to the private sector
- accelerate project delivery and reduce construction costs
- reduce reliance on general tax levies
- de-politicise airport decision making

In the case of Moruya Airport, one of the main drivers could be funding the airport master plan which forms a critical part of the Economic Development Strategy for the Region.

Figure 4

Stage	Project	Indicative Costs \$ M
One	Aviation / Marine Precinct.	A\$4.3
Two	Private Aircraft Storage	A\$1.6
Three	Aviation Tourism Precinct	A\$3.1
Four	Residential Airpark	A\$4.0
Five	Relocation of Terminal	A\$6.1

Source: Eurobodalla Airport Master Plan 2015



# PRIVATE SECTOR MOTIVATIONS & DRIVERS

The planned projects within the Moruya Airport Master Plan (see Figure 4) can be planned and arranged under various types of private sector contracts. As individual projects the participation of private funds would be significantly tied to economic viability. Tender documents can be completed for each phase of work and competitive bidding could be conducted with the right Council criteria established for the winning bid.

The approach of developing private sector concessions for small airport projects will be quite costly given the projected traffic volumes and small budgets outlined in the Moruya Airport Master Plan. The question Council needs to decide upon is if it wants to be limited by these concepts of plans and developments or to test the market for a different dynamic. We would encourage testing both during Phase 2 to quantify sentiment to both approaches. It is understood that one of the limiting factors for Eurobodalla's prior marketing campaigns has been that the distance from Sydney and Melbourne has been a barrier for attracting large number of international and high spend domestic visitors. This tyranny of distance is further enhanced by poor awareness of the region and tourism infrastructure. Infrastructure that may not suit the tastes of existing or emerging visitors. However, in these challenges lies unrealised opportunity and can be positioned as such to private sector.

Given limitations on budget, encouraging an unsolicited proposal from private sector could be cost effective and, if accepted, a competitive process is carried out where the original proponent has some form of advantage.

The most common systems for offering an advantage can be grouped into one of three types: Bonus, Swiss Challenge or Best and Final Offer system.

The objective should not be limited to the airport's basic infrastructure, but should engage investor groups that can understand the future vision of the area including the creation of destinations and experiences. They should also understand that the airport can drive growth in many sectors and industries. The current Moruya Airport Master Plan is a solid basis for third party review. What we would need to do is paint an alternative picture that may be a much larger budget, but will enable Moruya Airport to be included as a special place to visit for residents as well as local and international tourists. Focus groups carried out in the past have indicated that Eurobodalla constituents also support a wider focus on developing land around the airport and understand the economic benefits of doing so\*.

While the statutory monopoly which Rex currently has on the Sydney - Moruya - Sydney route does offer a challenge (whether perceived or factual), existing research has focused on existing capacity and organic passenger growth. The creation of new markets and new passengers could be the catalyst for route growth – whether through line sharing with emerging Asian airlines or increasing frequency and capacity growth of current aircraft. Route growth will deliver broader economic benefits. All represent potential opportunities for Rex and should be positioned as such to them as investors will also consider the Rex factor.

*\*Source: Eurobodalla ESG Focus Group Research.*

# TYPES OF PRIVATE SECTOR CONTRACTS & CONCESSIONS

6



## TYPES OF PRIVATE SECTOR CONTRACTS & CONCESSIONS

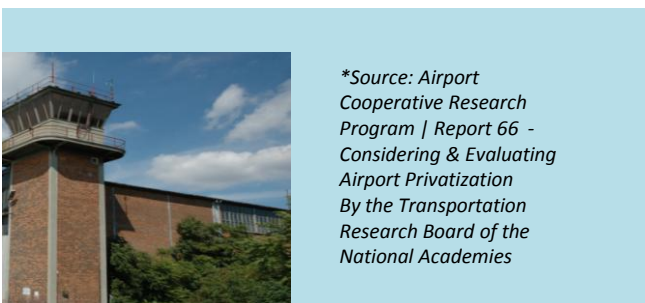
Eurobodalla Council, as airport owner, can structure airport privatisation in a number of ways. It is important to obtain feedback from Council as to what approach it would like to adopt balanced against existing investor sentiment. This will allow an authentic message to be designed for investor communications and engagement.

A report carried out by the National Academies of Sciences (United States) in 2012 on airport privatisation provides an excellence source of information on the types of privatisation approaches that are available. Below are the profiles of the different type of private sector contracts and concessions as outlined in this report:

**Service Contracts\*** — Airport owners routinely contract out to the private sector certain airport services traditionally provided by government or internal employees in order to (1) achieve operating efficiencies through outsourcing the operation of functions that readily are available through the private sector (e.g. janitorial, escalator/ elevator repair, non-police security, parking operations), (2) enhance non airline revenue (e.g. terminal concessions) or (3) provide project design and delivery (e.g. construction management and program management) for capital improvements.



**Management Contracts\*** — Under a management contract, a private entity manages an airport or certain airport facilities for a specified period of time and typically provides little or no capital investment. The private manager's objective is to improve the financial and operational efficiency of the facility for which the manager is paid a fee and is reimbursed for its expenses, subject to a budget that is usually set by the manager and approved by the airport owner. Most airports operate their public parking facilities using a management contract, and some use a management contract for the operation of individual terminals or master terminal concessions, hangars, warehouses or, in a few cases, for the entire airport.



*\*Source: Airport Cooperative Research Program | Report 66 - Considering & Evaluating Airport Privatization By the Transportation Research Board of the National Academies*

## TYPES OF PRIVATE SECTOR CONTRACTS & CONCESSIONS

**Developer Financing and Operation\*** — Developer financing is the most common way to channel private sector investment into public sector infrastructure. Money is borrowed (often through a tax-exempt conduit issuer of municipal bonds) for the specific purpose of financing a project, and lenders are repaid only from the cash flow generated by the project or, in the event the project fails, in some cases, from the value of the project assets. Thus, if project revenues never materialize because the project is abandoned during construction or if project revenues are disrupted because of operational problems, there is no alternative source of cash flow to meet debt service requirements.

Most examples of airport project finance transactions in the United States involve special purpose facilities for single or multi-tenant use, typically an airline (e.g. unit passenger terminal, terminal equipment, fuel storage and distribution systems), one or more cargo tenants (cargo buildings) or rental car companies (consolidated rental car facilities). Sometimes the developer is required to put its own equity capital at risk, but more frequently the project is financed with bonds that are secured solely from the revenues of the facility being financed.

This type of transaction is sometimes referred to as a public-private partnership, PPP or P3 and is typically conducted as:

- Long-term Lease or Sale—A long-term lease, or concession, sale, or other transfer of an entire airport to private operation and/or ownership
- Airport Privatisation Program - A coordinated approach involving multiple airports.

**Private Airport Development\***—Development of an entire airport without the aid of federal or state grants by private investors to be operated as a for-profit business. It should be noted that private airport development without government support is not considered to be airport privatisation for purposes of this guidance since it does not involve the transfer of control or ownership from the public sector to the private sector



*\*Source: Airport Cooperative Research Program | Report 66 - Considering & Evaluating Airport Privatization By the Transportation Research Board of the National Academies*

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## FORMS OF AIRPORT GOVERNANCE

# FORMS OF AIRPORT GOVERNANCE

Four generic models of governance for airports exist ranging from providing the least to the most private sector control\*.

1. Public ownership and operation
2. Public ownership with some form of private operation
3. Mixed public/private ownership with private operation
4. Private ownership and operation

## CONSIDERATIONS:

Public–private partnerships raise questions about the role of the airport owner and what functions are most appropriate for it to perform. The questions revolve in part around who can produce a service or product more economically. A partnership would expose the airport owner to various risks—political, legal, operational and financial. If the approach fails, the airport owner will be “politically” liable.

Under public ownership and control, an airport owner retains the most control over land uses occurring on the property that it develops, in particular, the ability to determine initial land uses and the flexibility to change land uses in later years in response to events or shifts in demand. Under private development, an airport owner’s control of land uses is frozen for the term of the lease unless appropriate protections are incorporated into the lease allowing it to change land uses in later years as necessary.

Also under private development, an airport owner also exercises less control over uses at facilities developed by private developers, and over the quality of the appearance and maintenance of those facilities than it does over facilities it develops, unless it includes strong performance standards in the lease. The controls can also be costly to enforce.

The lease, contract or concession should provide for ongoing investments in the asset to address concerns about a developer returning back a facility at the end of a long-term arrangement in poor condition. For example, in the Boston Terminal A lease, Delta was required to make annual maintenance reserve payments so that funds would be set aside for facility renovation, renewal, replacement, or reconstruction, and for unusual or extraordinary maintenance or repairs. Funds in the Terminal A maintenance reserve account were available to be dispensed at the discretion of the airport owner (Massport).

\*Source: Airport Cooperative Research Program | Report 66 - Considering & Evaluating Airport Privatization  
By the Transportation Research Board of the National Academies



# KEY CONSIDERATIONS REGARDING FULL PRIVATISATION





## KEY CONSIDERATIONS REGARDING FULL PRIVATISATION

Some of the key considerations for Council with regards to full privatisation include\*:

- Creates potential to promote increase in service, commerce and economic development. Policy makers recognise that airports are strategic assets and have the potential to deliver long-term value to the local economy. Some policy makers see airport privatisation as an economic development strategy.
- Secures a lump sum or ongoing lease payments by selling or leasing airport for budgetary relief (asset monetisation) or for annual payments to government owner. One of the primary motivations for airport privatisation from policy makers may be to derive cash proceeds from the sale or long-term lease of the airport either through an up-front payment or annual payments.
- Obtains private capital investment for capacity expansion and modernisation and reduces the need for public investment and debt.
- Involves significant time, effort and out-of-pocket expense to undertake (for both the public and private sector). Therefore, an airport owner seeking to privatise its airport(s) needs to give careful consideration to the design of the privatisation transaction process. Also involves loss of control by policy makers such as long-term policy decisions, influencing the awarding of contracts and potentially requires multiple layers of approvals including federal, state and local government as well as tenants and existing employees.
- Can be constrained by existence of airline use and existing lease agreements.
- Involves limitations on aeronautical rate increases and requires airline approval to take money out of the aviation system, which can be difficult to obtain and can reduce the value of the transaction. The airlines often also ask for capital investment commitments. Some U.S. airport managers feel privatisation involves significant transaction costs, including legal and investment banking advice. For a small airport, those transaction costs are likely to represent a high proportion of the transaction value.
- Many smaller airports are not self-sustaining. Although it is not impossible, it is relatively problematic to attract investors to loss-making airports based on current balance sheets and operational statistics.

*\*Source: Airport Cooperative Research Program | Report 66 - Considering & Evaluating Airport Privatization  
By the Transportation Research Board of the National Academies*

# EVALUATION OF PRIVATISATION STRATEGIES



## EVALUATION OF PRIVATISATION STRATEGIES

Private sector investors would generally prefer to have greater control over their investments. This has pros and cons for Council which we have listed below. While we can message test different positions in Phase 2, ultimately it will be up to Council to weigh up investor preferences and community needs to decide upon an approach before an investor campaign goes to market.

### ASSESSMENT\*:

Opportunities and Advantages	Disadvantages
<b>Service Contracts</b>	
<ul style="list-style-type: none"> <li>• Accesses private sector expertise for specialised functions</li> <li>• Applies private sector techniques to accelerate project delivery and reduce construction costs for capital improvements</li> <li>• Provides potential to cut costs and optimise efficiency and thereby reduce costs to tenants</li> <li>• Retains airport oversight of contracts to ensure compliance with airport goals</li> <li>• Reduces airport costs for employee salaries and benefits as well as post retirement expenses and liability (pension, medical, etc.)</li> <li>• Involves low implementation risk and complexity</li> <li>• Allows airport management to focus on core and strategic issues</li> <li>• Maintains airport owner control over land uses and facilities</li> </ul>	<ul style="list-style-type: none"> <li>• Could involve organisational disruption (i.e. reassignment or termination of existing employees)</li> <li>• Could encounter labour resistance in an effort to protect and increase public sector jobs</li> <li>• Requires careful monitoring, which can be expensive and time-consuming</li> <li>• Presents tension in the outsourcing relationship - the contractor wants to make a profit and the airport owner wants to cut costs</li> </ul>

\*Source: Airport Cooperative Research Program | Report 66 - Considering & Evaluating Airport Privatization  
By the Transportation Research Board of the National Academies

# EVALUATION OF PRIVATISATION STRATEGIES

Opportunities and Advantages	Disadvantages
<b>Management Contracts</b>	
<ul style="list-style-type: none"> <li>• Accesses private sector expertise for specialised functions and commercial development</li> <li>• Provides potential to cut costs and optimise efficiency and thereby reduce costs to tenants</li> <li>• Provides opportunity for the airport to be managed and operated as a business</li> <li>• Streamlines day-to-day operational decision making</li> <li>• Brings increased emphasis on revenue enhancement, commercial and economic development</li> <li>• Provides potential for new revenue/economic development initiatives</li> <li>• Can streamline and improve certain processes (e.g. renegotiating nonairline contracts)</li> <li>• Furnishes potential to impose contractual obligation for contractor to achieve performance targets</li> <li>• Provides opportunity for staff to gain management expertise</li> <li>• Reduces ongoing municipal employee compensation, including post retirement expenses (pension, medical, etc.)</li> <li>• Provides greater incentives for management and employees to perform better</li> <li>• Provides more commercial and operational freedom for contractor</li> </ul>	<ul style="list-style-type: none"> <li>• Involves considerable time and effort for the bidding process</li> <li>• Could involve buyouts and compensation for existing public workers</li> <li>• Could involve organizational disruption (i.e. reassignment or termination of existing employees)</li> <li>• Difficult to truly measure efficiencies for the purpose of justifying compensation</li> <li>• Can discriminate against government departments competing in managed competition efforts, as regulations generally prevent them from partnering with private firms or guaranteeing performance</li> <li>• Requires careful tracking of contract compliance, which can be a time consuming and substantial undertaking for the airport owner</li> <li>• Becomes increasingly difficult to attain further improvements and realise the full value of the management fee once initial efficiencies are attained</li> </ul>

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By the Transportation Research Board of the National Academies*

# EVALUATION OF PRIVATISATION STRATEGIES

Opportunities and Advantages	Disadvantages
<b>Developer Financing and Operation</b>	
<ul style="list-style-type: none"> <li>• Accesses private sector expertise for specialised functions and commercial development</li> <li>• Reduces reliance on municipal debt and conserves public capital for those areas where public funding is the only alternative</li> <li>• Transfers risk exposure for cost overruns, delays and debt repayment to the private sector</li> <li>• Has potential to reduce operating expenses and increase operational efficiencies due to avoidance of public procurement processes and to private sector motivations and incentives</li> <li>• Attains the latest technical and managerial expertise for the infrastructure project</li> <li>• Applies private sector techniques to accelerate project delivery and reduce construction costs</li> <li>• Can enhance commercial development revenues</li> <li>• Creates/retains jobs for the local economy</li> <li>• Avoids unnecessary risks for airport owner</li> <li>• Minimizes or eliminates delays from local procurement policies that tend to delay contract awards</li> </ul>	<ul style="list-style-type: none"> <li>• Involves considerable time and effort for bidding process and negotiation of complex legal documents</li> <li>• Requires that the project have a revenue stream to repay the debt</li> <li>• Provides airport owner less control over the project and facility management</li> <li>• Loss of control over the development site and future capacity expansion</li> <li>• Loss of flexibility to change land uses over period of lease</li> <li>• Less control over types of activities and quality and appearance</li> <li>• Involves considerable upfront planning, time and expense</li> <li>• Involves moderate implementation risk</li> <li>• Less control of facility utilisation especially under airline-financed terminals that run the risk of inefficient utilisation of gates and associated terminal space</li> <li>• Could involve organisational disruption and the need to reassign or terminate existing employees</li> <li>• Could involve buyouts and compensation for existing public workers</li> </ul>

*\*Source: Airport Cooperative Research Program | Report 66 - Considering & Evaluating Airport Privatization  
By the Transportation Research Board of the National Academies*



## EVALUATION OF PRIVATISATION STRATEGIES

Opportunities and Advantages	Disadvantages
<b>Developer Financing and Operation continued</b>	
<ul style="list-style-type: none"> <li>• Has potential to provide low-cost facilities to tenants (especially when tax-exempt financing is employed)</li> <li>• Limits administrative burden of airport and staffing responsibilities for facility financing, bidding, design, construction oversight, marketing, ongoing maintenance, administration and management</li> <li>• Allows airport management to focus on other strategic issues and assets</li> </ul>	<ul style="list-style-type: none"> <li>• Involves long-term risk if the project encounters financial problems. That is, the airport owner may need to step in (even though it is not financially obligated to do so) to preserve the use of the facility and associated airport capacity</li> <li>• Can expose the airport to political, legal, operational and financial risk if the transaction is not consummated or if the private entity incurs financial difficulties</li> <li>• Involves loss of key revenue streams under parking and cargo privatisation</li> </ul>
<b>Long-term Sale or Lease (Full privatisation)</b>	
<ul style="list-style-type: none"> <li>• Creates potential to promote increase in service, commerce and economic development</li> <li>• Secures a lump sum or ongoing lease payments by selling or leasing airport for budgetary relief (“asset monetisation”) or for annual payments to government owner</li> </ul>	<ul style="list-style-type: none"> <li>• Involves significant time, effort and out-of-pocket expenses to undertake (for both the public and private sector)</li> <li>• Involves loss of control by policy makers</li> <li>• Requires multiple layers of approvals (federal, state, local, tenants and employees)</li> <li>• Can be constrained by existence of airline use and lease agreements</li> <li>• Involves limitations on aeronautical rate increases and requires airline approval to take money out of the aviation system, which can be difficult to obtain and can reduce the value of the transaction</li> </ul>

\*Source: Airport Cooperative Research Program | Report 66 - Considering & Evaluating Airport Privatization  
Transportation Research Board of the National Academies

# EVALUATION OF PRIVATISATION STRATEGIES

Opportunities and Advantages	Disadvantages
<b>Long-term Sale or Lease (Full privatisation) continued</b>	
<ul style="list-style-type: none"> <li>• Obtains private capital investment for capacity expansion and modernisation and reduces need for public investment and debt, particularly in light of the potential loss of tax-exempt financing, real reductions in AIP funding, and no increase in the PFC level</li> <li>• Provides ability for the private sector to innovate, introduce operational and technological efficiencies and create new income streams</li> <li>• De-politicises airport operations and insulates airport from broader public policies</li> <li>• Provides flexibility to structure and tailor debt to meet infrastructure needs, including potential to tap foreign markets for financing</li> </ul>	<ul style="list-style-type: none"> <li>• Tempts elected officials to cash-out value (“borrow against the future”) without necessarily appreciating and understanding the long-term implications to the airport enterprise</li> <li>• Involves higher financing costs (for private capital) than public tax-exempt debt</li> <li>• Could involve buyouts and compensation for existing public workers</li> <li>• Can involve implementation risk in the event the bidder desires to get out of the transaction</li> <li>• Can involve loss of control of the airport by the airport owner, which can be mitigated by including performance standards in the lease</li> <li>• Affords limited opportunities because many of the largest airports already operate like commercial enterprises and few of the smaller ones have strong commercial potential</li> <li>• May result in a renegotiation of the contract due to changing market conditions, which are next to impossible to foresee, because of the long-term nature of these leases (50-99 years)</li> </ul>

\*Source: Airport Cooperative Research Program | Report 66 - Considering & Evaluating Airport Privatization  
Transportation Research Board of the National Academies

# EVALUATION OF PRIVATISATION STRATEGIES

Opportunities and Advantages	Disadvantages
<b>Long-term Sale or Lease (Full privatisation) continued</b>	
	<ul style="list-style-type: none"> <li>• Creates long-term responsibility for the airport owner to continue to oversee the performance of the privatised operator and may also require the airport owner to be ready to operate the airport, if needed, in the event of default or bankruptcy</li> <li>• Can expose the airport owner to political, legal, operational and financial risk if the transaction is not consummated or if the private entity incurs financial difficulties</li> <li>• May create greater tort liability risk for a private operator than a public operator in the event of, for example, an act of terrorism or aircraft accident, since the private operator would not likely be entitled to same immunities as a public entity</li> <li>• Presents potential for controversy in the event of foreign ownership</li> <li>• Gives airport owner less control over customer service standards and airports pricing although performance standards can and should be included in the lease</li> <li>• May involve less consideration of local policy issues, environmental impacts, and community interests in favour of shareholder and investor interests</li> <li>• May receive less local support if the public owner cannot take money out of the aviation system</li> <li>• Provides less access to federal grants</li> </ul>

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By the Transportation Research Board of the National Academies*

# KEY STAKEHOLDER INTEREST



## KEY STAKEHOLDER INTEREST

With regard to message testing , while our work is purely focused on the private sector investor audience, any campaign developed and executed should also consider key airport stakeholders and how they would interpret such a position. Below is a list of key stakeholders and communications points for consideration\*.

Stakeholder	Key Interests
<b>Policy Makers</b>	<ul style="list-style-type: none"> <li>• Ensure the airport is developed in a manner that promotes regional economic development</li> <li>• Create an operating environment that encourages increased passenger traffic</li> <li>• Raise money from a sale or lease of the airport to help pay for municipal budget deficits, pension deficits, infrastructure development and other general purpose needs</li> <li>• Provide opportunity for operational efficiencies and revenue development</li> <li>• Provide access to private capital for airport improvements and development</li> <li>• Ensure the transaction is successful</li> <li>• Retain a degree of control over the airport assets (e.g., prices, CapEx, levels of service, noise mitigation, etc.)</li> <li>• Protect existing civil service employees</li> </ul>
<b>Airport Management</b>	<ul style="list-style-type: none"> <li>• Promote safety, security, airline service, customer service, financial stability, compliance with laws and regulations, non-aeronautical revenue development, operational efficiencies, labour stability and other measures that enhance the reputation of the airport</li> <li>• Provide for the best interests of the tenants, passengers and community over the long-term</li> <li>• Provide an opportunity for the government to monetise a government-owned asset (minority view)</li> <li>• Deploy P3 on a select basis to maximise the value to all stakeholders</li> <li>• Get relief from cumbersome public procurement rules and social policy mandates to operate airports more like a business than a unit of government</li> <li>• Reduce federal economic regulation to allow public airports more freedom</li> </ul>

\*Source: Airport Cooperative Research Program | Report 66 - Considering & Evaluating Airport Privatization  
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## KEY STAKEHOLDER INTEREST

Stakeholder	Key Interests
<b>Airlines</b>	<ul style="list-style-type: none"> <li>• Reduce airline costs to operate at the airport</li> <li>• Provide greater predictability and stability in rates</li> <li>• Ensure efficient airline operations</li> <li>• Ensure operator meets stated operating standards</li> <li>• Provide sufficient capacity to accommodate demand</li> <li>• Provide quality level of service for passengers</li> <li>• Prevent monopolistic actions</li> <li>• Construct deal that makes business sense for the airlines</li> <li>• Permit consortiums for airline terminal equipment maintenance and fuel systems</li> </ul>
<b>National and State Authorities</b>	<ul style="list-style-type: none"> <li>• Protect the federal government’s investment in airports</li> <li>• Ensure airports abide by and comply with federal laws and regulations</li> <li>• Provide capacity to accommodate future growth</li> <li>• Prevent actions that would discourage growth for national airport system</li> </ul>
<b>Privatised International Airports</b>	<ul style="list-style-type: none"> <li>• Promote safety, security, airline service and customer service</li> <li>• Take actions to increase traffic levels, drive efficiency, introduce innovation, increase non-aeronautical revenues and produce reasonable financial returns for investors</li> <li>• Align operator and airline interests through per passenger charges</li> </ul>
<b>Private Domestic Airport Operators</b>	<ul style="list-style-type: none"> <li>• Promote safety, security, airline service and customer service</li> <li>• Maximise their financial return through operating savings, revenue enhancements and high facility utilisation</li> <li>• Expedite delivery of services relative to public sector rules</li> <li>• Minimise airline costs to the mutual benefit of the airlines, the operator and passengers</li> <li>• Incentivise employees through bonuses, succession programs and training</li> <li>• Prefer light handed regimes with no pricing regulation, because it provides the most flexibility</li> </ul>

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## KEY STAKEHOLDER INTEREST

Stakeholder	Key Interests
<b>Lenders</b>	<ul style="list-style-type: none"> <li>• Receive timely repayment of debt obligations at a rate commensurate with the risk</li> <li>• Secure senior status on debt repayment</li> <li>• Be protected against refinancing risk</li> <li>• Lock up as much security as possible in the case of default</li> </ul>
<b>Investors</b>	<ul style="list-style-type: none"> <li>• Earn a reasonable return on investment, which is dependent on the amount of risk</li> <li>• See an appropriate balance between equity and debt to maximise returns</li> <li>• Minimise exposure to political and regulatory risk</li> <li>• Invest for the time horizon desired</li> <li>• Conduct the transaction under a transparent process</li> <li>• Have access to relevant data to conduct due diligence</li> <li>• Provide for a clear and credible timetable for the process</li> <li>• Minimize the cost of participating, especially in the initial round</li> </ul>
<b>Financial Advisors</b>	<ul style="list-style-type: none"> <li>• Provide the most advantageous conditions for the financial offering</li> <li>• Protect the airport owner’s long-term financial interests</li> <li>• Maximise the potential for the transaction’s success</li> <li>• Explain which risks can be passed to the private investors and which cannot</li> <li>• Develop a reasonable estimate of the value of the transaction and manage the government’s expectations regarding the value of the transaction</li> </ul>
<b>Rating Agencies</b>	<ul style="list-style-type: none"> <li>• Assess potential for a project or airport to generate adequate cash flow to pay bondholders with special attention paid to risks and risk allocation (including refinancing risk) and flexibility to deal with adverse conditions</li> <li>• See debt fully repaid by end of the concession with an appropriate “tail period”</li> <li>• See strong legal provisions</li> <li>• Have the ability to withstand financial stress tests</li> </ul>

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# SELECTING A PRIVATISATION MODEL

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## SELECTING A PRIVATISATION MODEL

The following guide helps Council examine the different types of concessions by a set of considerations. Again, different concessions can be examined via message testing in Phase 2.

### GUIDE\*

Factor	Attributes/Issues
<b>Service Contracts</b>	
Legal	Relatively easy to implement
Regulatory	Limited regulatory hurdles
Governance	Relatively limited monitoring and compliance (administration, not policy formulation)
Financial	Limited staffing and out-of-pocket expenses required by owner
Internal-economic	Potential to reduce costs for tenants and users
External-economic	Limited or no economic development benefits
Commercial	Lower private sector employment and overhead costs
<b>Management Contracts</b>	
Legal	Limited legal constraints
Regulatory	No special conditions required to implement under current laws
Governance	Significant monitoring and compliance for owner; relatively easy exit
Financial	Limited staffing and out-of-pocket expense required by owner
Internal-economic	Potential to improve financial operations of the airport
External-economic	Limited economic development benefits
Commercial	Relatively small compensation for private operator

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# SELECTING A PRIVATISATION MODEL

## GUIDE CONTINUED\*

Factor	Attributes/Issues
<b>Developer/Project</b>	
<b>Finance</b>	
Legal	Complicated legal constraints to conform to bond indentures
Regulatory	Compliance with federal and state assurances and tax regulations
Governance	Limits administrative burden and staffing responsibilities of owner with limited follow-on monitoring once transaction is complete
Financial	Potential to create significant financial improvements via capacity for commercial enhancements and cost savings; offloads debt and risk to private sector
Internal-economic	Transfers risk exposure to private sector
External-economic	Significant potential for economic development benefits
Commercial	Good opportunity to generate profits for private companies
<b>Long-Term Lease or Sale</b>	
Legal	Significant legal hurdles, including property tax exemption and labour contracts
Regulatory	Possible extensive regulatory hurdles (federal, state, local) and potentially airline approval requirements
Governance	Upfront risk; modest amount of ongoing monitoring and compliance; difficult to exit
Financial	Highest out-of-pocket expense to accomplish
Internal-economic	Uncertain outcome
External-economic	Potential for significant economic development benefits; upfront financial benefits with long-term risks
Commercial	Strong potential to generate profits for private companies

\*Source: Airport Cooperative Research Program | Report 66 - Considering & Evaluating Airport Privatization  
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## WORKING OUT THE COUNCIL GOALS WHEN WORKING WITH PRIVATE SECTOR

## GOAL DECISION MATRIX

It would be ideal to communicate a preferred privatisation model when any investor campaign goes live as it reduces ambiguity. That being said, it may not be absolutely necessary and this is another variable that can be message tested. To help make a decision on a private sector model preference, the below table indicates which model will help deliver on certain Council goals or objectives\*.

Goals and Objectives	Partial Privatisation			Full Privatisation
	Service Contracts	Management Contracts	Developer/ Financing/ operations	Outside
Maintain community control of airport operation and development decisions	X	X		
Secure operating efficiencies	X	X	X	X
Introduce innovative revenue enhancements	X	X	X	X
Eliminate airport subsidies	X	X		X
Reduce airline costs	X			
Convert underutilized facility into economic catalyst		X	X	X
De-politicise airport decisions		X	X	X
Address improper conduct, e.g. corruption		X		X
Access private capital			X	X
Accelerate project deliver			X	X
Reduce construction costs			X	X
Transfer construction risk			X	X
Minimize organisational disruption			X	
Use sale or lease proceeds for non-airport purposes				X
Repay airport debt				X

X = potential to deliver on Council goals

\*Source: Airport Cooperative Research Program | Report 66 - Considering & Evaluating Airport Privatization  
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# VALUATION & VALUATION DRIVERS

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## VALUATION & VALUATION DRIVERS

It is important that Council independently develop a valuation of the concession(s) that it wants to put to bid. While this should not be communicated to investors, it would be used in any bid evaluation or discussion with potential private sector investors. Extracted from the report carried out by the National Academies of Sciences (United States)\*, below is a guide to the factors that a investor will examine and ones that can be discussed internally at Council and with your consultants. Privatisation can generate value in the following ways:

- Enhancing non-aeronautical revenues
- Cost savings through optimized use of facilities
- Rightsizing CapEx—no overbuilding
- Efficiencies on procurement and purchasing functions
- Applying commercial business practices
- Aligning actions with the needs of different market segments (e.g. low-cost carriers)
- Realising less political and lobbying influence
- Adopting a strategic and business approach to long-term needs

The value of the transaction can be affected by numerous factors and depends on the type of privatisation as follows:

### Service Contracts

- Condition of the facilities or equipment
- Current staffing levels
- Requirements to retain government staff if any
- Labour hiring conditions if any (collective bargaining agreements, full-time versus part-time etc.)
- Peaking characteristics
- Operating and performance standards

### Management Contracts

- Condition of the facilities
- Potential for non-aeronautical revenue enhancement
- Potential for operational efficiencies
- Utilisation of the facility and capacity to accommodate additional demand
- Amount of vacant space

### Developer Financing and Operation

- Scope of the transaction (one or more cargo buildings, terminal building and parking facilities etc.)
- Responsibility for airside development and operations
- Condition of the facility
- Utilisation of the facility and capacity to accommodate additional demand
- Exclusive franchise or competing facilities (other terminals, cargo facilities and parking facilities)
- Degree of competition from other on-airport facilities or alternative airports or other transportation forms
- Availability of tax-exempt financing
- Credit market conditions
- Availability of PFC revenues



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By the Transportation Research Board of the National Academies*



# EVALUATION FACTORS



# EVALUATION FACTORS

Investors would evaluate Moruya Airport against many of the following factors. All would need to be considered in any communication and engagement with prospective private sector investors. Each should have a response developed and sellers and key Council staff briefed on how to respond to each so that opportunities can be developed and nurtured.

## KEY EVALUATION FACTORS

### 1. Facility attributes

- Multiple airport system or group versus single airport
- Condition of the facility
- Utilisation of the facility
- Capacity to accommodate additional demand (airside & landside)
- Degree of technological innovation
- Undeveloped land potential

### 2. Capital investments and funding

- Level of investment required including capital investments
- CapEx, working capital, unfunded pension liabilities etc.
- CapEx triggers or mandated capital improvement program
- Capital structure and ability to access tax-exempt debt
- Credit market conditions and competing investment opportunities
- PFC level and capacity
- Return on asset base (RAB)

### 3. Pricing power or constraints to pricing

- Level of existing aeronautical charges (cost per enplanement or CPE) and contractual, regulatory and practical potential to raise fees
- Dependence on volume-based fees
- Other aeronautical contractual agreements and associated terms
- Non-aeronautical revenue per passenger
- Constraints on non-aeronautical charges such as price caps or contractual agreements
- Competition from off-airport vendors (parking, hotels, etc.)
- CFC level

### 4. Underlying demand characteristics of the market including:

- Strength and diversity of the local economy
- Business versus leisure oriented market
- Demographics and income levels of the passenger base (population, employment base, unemployment rates, personal consumption, wealth levels, construction and housing market conditions)
- Enplanement base and volatility
- Origination-destination (O&D) versus connecting passengers
- Presence, scale and potential for international passengers (access to gateway airports)
- Degree of competition from alternative airports or other transportation modes
- Airline diversity (vs. monopoly)
- Financial condition of dominant airline(s)
- Prominence of low-cost carriers versus legacy airlines etc.
- Aircraft operations
- Cargo tonnage

## EVALUATION FACTORS

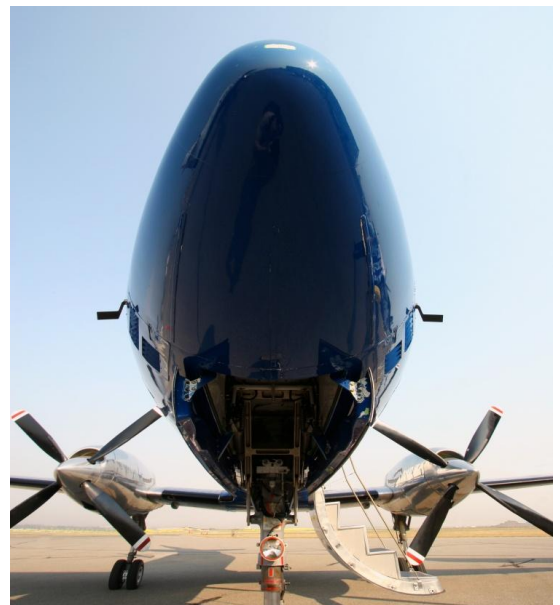
### 5. Potential for operational efficiencies and operating expenses per passenger

### 6. Other business terms and conditions

- Length of lease or concession
- Deed restrictions
- Value of unamortised AIP grants and potential need to repay the grants
- Shareholder structure and percentage of control offered to private sector
- Detailed performance standards and associated penalties and incentives
- Inherited collective bargaining agreements
- Requirements to comply with government's procurement rules
- Other external regulations (e.g., passenger volume cap, slot rules, noise rules, night time curfew)
- Breakup or clawback terms

### A variety of valuation methodologies are employed:

- Cost-based methodologies, including historic cost and depreciated replacement cost
- Value based methodologies, including fair market value, net present value and deprival value
- The concept of opportunity cost, representing the amount lost by not using the resource in its best alternative use
- Optimisation—to remove inefficiencies that exist in the current asset configuration such as non-productive assets, duplication, excess capacity and or redundant assets
- EBITDA margin
- EBITDA per passenger
- RAB
- Airline Cost Per Enplanement (CPE)
- CPE rank
- Non-aeronautical revenue per passenger
- CapEx per passenger
- OpEx per passenger



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## RISK & MITIGANTS

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If privatising part or all of Moruya Airport is mandated, the following are some core requirements that would help Council in developing the parameters to a formal bid process.

- Adapt the master plan and investment plan for the concession term
- Establish performance and quality of service standards
- Forbid the private operator from selling the lease for at least five years
- Make sure the risk/reward ratio is attractive and well-defined
- Contractually allocate risks between the government and the private sector
- Allow for efficient and reasonable infrastructure development requirements for which the users are willing to acknowledge and pay the costs
- Conduct a simple and transparent process for the bidding with clear evaluation criteria
- Carefully think through specifications for the contracts
- Clearly spell out rules for extending or renegotiating contracts, if any

Council positions in each area can be message tested.





## RISK & MITIGANTS

From an airport owner's perspective, the privatisation models and bid potential should be evaluated in terms of issues and opportunities regarding:

- 1) governance
- 2) regulatory
- 3) legal
- 4) financial
- 5) economic
- 6) commercial
- 7) labour
- 8) customer service
- 9) implementation.

In this context, these terms mean:

**Governance\*** refers to the degree of policy decision making required or control retained by the airport owner.

**Regulatory\*** refers to rules that are established by federal policies such as grant assurances, Surplus Property Act deed restrictions, Airport Security Program, prohibition on revenue diversion, Policy Regarding Airport Rates and Charges, Federal and State conditions, Tax regulations etc.

**Legal\*** refers to external constraints that are established by laws, labour contracts, and financial commitments made to various parties such as bondholders and trustees.

**Financial\*** refers to the responsibility for staffing, management and capital improvements as well as paying operating expenses and debt service. This includes the potential for revenue increases and/or cost reductions

**Economic\*** refers to both enterprise and external impacts. Enterprise economic impacts pertain to the overall economics of the transaction for the airport owner and its tenants. External economics refer to the economic development impacts and associated costs and benefits of the transaction to the community or region served by the airport. Airports create tremendous economic value for the local economy by attracting and retaining industries and creating new jobs.

**Commercial\*** refers to the profit to be earned by the contractor, which is what motivates the private company. The higher degree of commercialisation, the higher the level of potential profit over the term of the concession.

**Labour\*** refers to commitments to existing employees under collective bargaining agreements, local laws and political acceptance.

**Customer Service\*** refers to the experience of passengers, airlines and other tenants using the airport as well as residents living in the vicinity of the airport.

**Implementation\*** refers to the ability to successfully complete the transaction and to derive value from it over the long-term.

At the time of any investor campaign going live, it is important that Council be in a position to evaluate private sector investors enquires around such subjects.

*\*Source: Airport Cooperative Research Program | Report 66 - Considering & Evaluating Airport Privatization By the Transportation Research Board of the National Academies*



# POSITIONING OF MORUYA AIRPORT AS AN INVESTMENT CANDIDATE

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# POSITIONING OF MORUYA AIRPORT AS AN INVESTMENT CANDIDATE

Moruya Airport is a unique airport facility given its close proximity to major water destinations, the race track as well as the proposed equestrian centre. With both beach tourist areas and Moruya river in close proximity, we need to ensure that we position the airport as an opportunity that provides true connectivity of the airport to water and land based facilities. Such rare credentials in an regional asset are unusual and provide the opportunity to make the airport area an attraction in its own right.

While there are several challenges such as passenger volume that need to be addressed in any communications with private sector investors, the concepts for Moruya airport to be a destination, including the value of adjacent land such as the Equine facilities, and not just a service facility, is a challenge that the right investors will be open to and can be positioned as such. We can position Eurobodalla as a trend setter where the traditional market perception of an airport are changed with an eco-system approach. As highlighted, many regional airports are now looking at the non-aviations aspects of airport developments to make them viable in the future and this positioning would again align to such private sector thinking.

It is understood that in the approved Moruya Airport Master Plan the redevelopment of the airport could have many aspects including traditional airport services as well as the Aviation Tourism Precinct and Residential Airpark. These are all important items to communicate to private sector investors in conjunction with the promotion of the interconnectivity of air, water and land in the Moruya Airport area.

For example, the airport together with a marina and small footprint luxury accommodation could have the potential to create new destination experiences and open up new types of demand. Such a proposition meets the growing trend for mixed use developments (see Phase 1 / Part 2 report), yet focuses on the unique characteristics of the airport and its surrounds.

With possible future links to Canberra as an international airport and other airport destinations, we believe that the airport development can be a major driver for regional development. The types of activities and services offered in an destination airport will bring in a different range of services in food and retail and even in accommodation, thus enhancing the opportunity for job creation from any redevelopment. We recommend that we position for and encouraged unsolicited proposals, with Council's position providing guidance, that can allow investors to bring a different vision of Moruya Airport to the council for further evaluation.

**In Phase 2 message testing, we would look to test the following message positions linked to the broader Tourism work that we are conducting in parallel to this report:**

- Seeking investors to develop a destination (including adjacent properties) as opposed to developing and / or managing facilities only
- Different types of public private partnerships - investor vs. councils preferred approach
- Data points from core evaluation factors
- The bid process - formal paid, formal or unsolicited bids.

Client: Eurobodalla Shire Council (Council)  
Author: Total Brand Activation Pty Ltd (Pico)

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