



L to R: Gavin Molloy, Bob Montgomery, Michelle Rieger, Michael Minerva, Kevin Costello

TAKEAWAYS FROM 2018 P3 AIRPORT SUMMIT

Panel Discussion - Behind the Curtain: What Airlines Think When They Hear P3

Not to be outdone by the California sun, the 2018 P3 Airport Summit held July 23-24 in San Diego, cast an informative light on Public Private Partnerships (P3s) in the aviation sector. Complete with informative debates and captivating speakers, the summit was indeed a bright spot in the participants' otherwise busy schedules. From cutting edge P3 financing solutions to accelerating project delivery, speakers and panelists grappled to find a blueprint for the optimal P3 partnership. Just before lunch on day two, the summit focused on a lively conversation with airline industry executives who provided their unique perspectives on P3 airport projects.

- Panel Moderator, **Michelle Rieger**, Construction Practice Chair and P3 Industry Group Co-Chair at Winstead PC, guided the exchange among the industry panelists:
- **Kevin Costello**, JetBlue, Director, Infrastructure, Properties and Development
- **Michael Minerva**, American Airlines, Vice President, Government and Airport Affairs
- **Gavin Molloy**, United Airlines, Vice President, Corporate Real Estate
- **Bob Montgomery**, Southwest Airlines, Vice President, Airport Affairs

The panel examined a number of challenges with the P3 model in the airport space, from selecting appropriate financing mechanisms to determining the best means of producing an improved experience for the traveling public. Involvement of the airlines in the process, early and often, is crucial to P3 success. But at the end of the day, the key to an improved P3 model, the panelists agreed, is teamwork. A number of key comments are summarized below.

P3: THE PURSUIT OF SUCCESS, NOT PERFECTION

While P3s can be an effective project delivery tool for airport development, from the perspective of some major airlines, it seemed clear the perfect P3 is elusive. The concept of public-private partnerships (P3s) is not new to the airlines, but there are new players at the table. The advantages these players bring—distributing the financial, development and operational management burdens on large projects—can often be overshadowed by project delivery delays, operational inefficiencies and participatory inequities.

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"The perfect P3 continues to be a bit of a unicorn for me" said Bob Montgomery, Vice President, Airport Affairs with Southwest Airlines. "There are many P3 models. There are airline-led P3s. There are projects we're doing ourselves. There are developer-led P3s, which is what this conference is about, and then there's privatization, which is a wholly different animal all together. The best P3s that we've been involved with so far are the ones that we are running ourselves."

"I think, as airlines, we maybe see them differently than the rest of the world. P3s are neither inherently good nor inherently bad," said Michael Minerva, Vice President, Government and Airport Affairs at American Airlines. "We just look at each deal individually and ask 'does this one make sense?'" Minerva went on to say, "When I hear P3 I think, 'good, somebody wants to use this to solve a problem and build a new project.' So, I'm always curious to know when I hear it and ask what the motivation is behind its suggestion. Is it P3 for its own sake or for the sake of some end we might not necessarily agree with?"

"And at the end of the day we're operational businesses so the operation has to work. And you'll find that, put the financial end aside for second, if we can get something that works from an operational perspective and has the right customer experience, you are 85% of the way there in terms of getting us to support a project for sure," stated Gavin Molloy, Vice President, Corporate Real Estate for United Airlines.



In the end, operational economics, customer experience, efficient project delivery, and predictability of cost and schedule are ultimately what drives airline support of a project.

WIN-WIN: THE VALUE OF GROWING THE MARKET

Open dialogue between developers and the airlines is a key component of the success of any P3 project. Airports are the crown jewels in the communities and metro areas they serve. If parties consider airports and airport improvement projects as a tangible part of the community rather than a mere financial asset, the stage is set for efficiencies and cooperation that benefit not only the airlines, but also the communities served by the airport. The developer-airline partnership is a way to ensure community involvement and that an excellent project is delivered to the community in the shortest time possible.

"I know we've had a number of discussions with developers in the past," said Kevin Costello, JetBlue, Director, Infrastructure, Properties and Development with JetBlue. "We are willing to talk to anyone that has ideas. Again, back to kind of what keeps me at night is our ability to continue to grow in this marketplace where access to the infrastructure is very limited. You know, the industry is healthy. There's strong growth and we struggle with being able to crack the marketplace in certain markets that don't have capacity to accommodate Jet Blue. So we're always willing to talk to anyone that has any ideas . . . to have that open dialogue. I think that's the first step."

Montgomery adds "If we can't do it ourselves, then what we're really looking for is a developer partner who can perform and who can do the project because so much of cost of a project is in the construction time frame. And then when there is a shortened time frame, I have use of it faster so I can ramp up my flights and the revenue potential. Those two things go together and are important."

"In the case of San Juan there was a framework and MOU between the airlines and the port authority at Puerto Rico before there was even an RFP to bring in the developer," noted Costello. "That deal evolved once the developer was at the table. But it was that ability for all parties to have a seat at the table and then to work through and find that sweet spot."

The benefits for the local/regional communities are opportunities to do business with local contractors and motivation for private entities to become part of the project. This perspective helps the long-term success and operational longevity of the project. The economic impact of an airline to an individual city such as Dallas or Chicago can be in the tens of billions of dollars. Building these facilities and helping aviation to grow is tremendously important.

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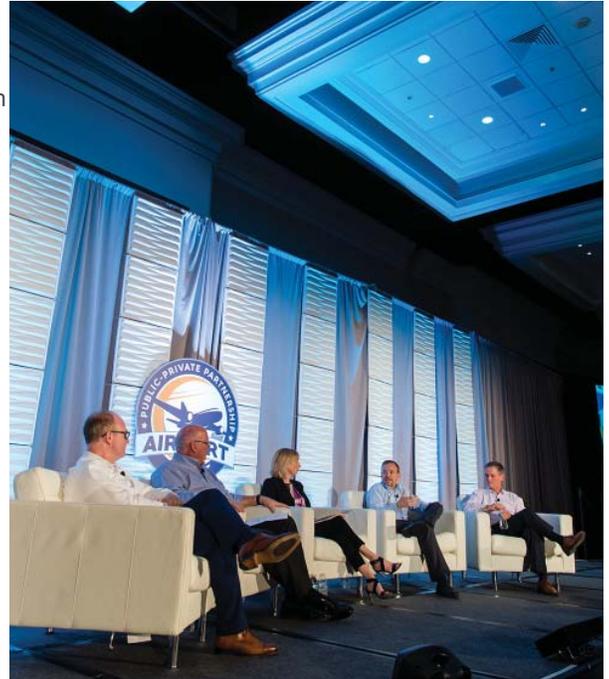
INFLUENCE VERSUS CONTROL: WHAT THE AIRLINES WANT

While airline “control” of a P3 project can be advantageous under certain circumstances, the airlines are not necessarily looking to command every project. They have, however, developed a certain wisdom from years of aviation operations and interactions with their customers that can, and should, be tapped to assist in the development and construction of a P3 project. Inviting the airlines to provide that input into the process can be extremely helpful and valuable.

“We’ve seen in some instances where we talked about control, being involved up front, where the airport can be a little bit more of a partner,” asks Rieger. “How can airlines be better partners in these types of projects?”

“I’m more interested in having influence and not so interested in having control,” says Montgomery, “because the whole reason I would go to a developer model of P3 is to limit its impact on my books and ensure an excellent project was delivered in the shortest amount of time at the best cost possible.”

Setting aside finance and project equity, if the operational elements make sense and the deal creates the right customer experience, airlines are much more likely to support it. In other words, while financial structure is important, it is not the airlines’ primary concern. In the end, when the developer has completed the project and operations can begin it is the airlines’ customers who will have good (or not) experiences at the facility for years to come.



UPFRONT INVOLVEMENT- BUILDING THE ULTIMATE CUSTOMER EXPERIENCE

Each entity brings specific expertise to a project, and if each understands how the others bring value to the project’s success, then all will benefit. Airlines can guide effective and efficient baggage logistics and provide a forecast of the traveler experience that is critical to airport operations. Operators gain insight from a model designed to avoid revenue reducing or travel-impacting elements that can make or break bottom line operations.

The airlines have a strong grasp on the operational and traveler-focused elements needed to maximize airport efficiencies and revenue. Many times, however, the airlines are not part of the initial P3 consultation process. When the airlines are excluded from early-stage conversations, it can position them as an unintended adversary in the P3 process and the group may not as focused on whether the proposed design will elevate the customer experience.

“When airlines are left out of the process, we don’t think it serves us well or, as importantly, our customers,” says Molloy. “I think at the end of the day we all have the same motivation, which is to provide a great customer experience for people to fly with us.”

Molloy added, “If you decide you’re going to build your own house and you bought a piece of land, you’re not going to hand over responsibility to a number of third parties to design the house, decide what your fixtures and fittings are going to look like, whether you’re going to have a solar roof or not, right? You’re kind of engaged in all of those conversations because, ultimately, you’re going to pay for it. So, to be in a situation where you are not involved in the design of your home and just get a bill at the end, is actually kind of frustrating.”

What do airlines worry about in a P3 deal? The airlines’ operational concerns extend beyond completion and cost of the project. They must address passenger processing, baggage management and terminal/gate security. How do passengers make their way through the airport? Can they run the kind of operation needed to efficiently connect passengers and connect bags? These are the things that keep the airlines up at night.

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AIRLINE CONSORTIUM: CAN UNIFIED REPRESENTATION IMPROVE THE PROCESS?

The desire for increased involvement in the P3 process raises a number of questions, many of which were posed to the panel: Would it make sense for airlines to partner with each other on P3 projects? Is that even possible because of the competition between the airlines?"

"I think we're challenged at coming together and forming consortiums for the purpose of airport construction," says Montgomery. "I think it's something that we ought to consider but given all of our staffing it just gets to be really difficult to develop the manpower and the resources to pull those together."

Airlines have not taken advantage of working together as a consortium when it comes to these partnerships. There is some interest and models to study. And while airlines unofficially "work together" on certain operations and maintenance at many shared terminals and gates, none have yet to apply that model to P3s.

Challenges to a consortium model abound, but a glimmer of collaboration was raised by the panel. "I think when you're talking about construction or major projects, the competitive forces make it a bit difficult, said Molloy. "So, there are challenges, but I don't look at that and say, 'well that could never happen.'"

Because of the similarity of issues airlines face in the area of development and construction/ expansion of facilities, information and best practices are informally and routinely shared among industry peers.

"I think it would be very difficult for us too, based on our own individual needs at individual airports, to do that," continued Molloy. "But I don't see a world where it would be prohibited or too hard to do."

Certainly, an airline consortium is an interesting proposition in the P3 world. Time will tell whether the "glimmer" brightens into a "glow".