OPTIMIZING AIRPORT OPERATING EXPENSES

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Agenda

- Benchmark airport expenses
- Historical cost saving practice
- Alternative approach
It is challenging to benchmark operating expenses due to different airport characteristics

- Volume served: large-hub vs. medium-hub etc.
- Passenger mix served
  - Origin & destination vs. connecting
  - Residents vs. visitors
  - International gateway vs. domestic
- Service provided
  - Full service airport vs. selected service
  - In-house vs. outsourcing
  - Customer service focus vs. low-cost
- Other factors
  - Costs of living and inflation
  - Geographic location and weather
Volume (enplaned passenger) is one of the many cost drivers

Source: FAA form 5100 127.
Operating expenses per enplaned passenger are generally higher at international gateway airports.

Source: FAA form 5100 127 for FY 2013, capped at $30/e.p.
Historical annual operating expense growth rates were approximately 3% to 4%

Source: FAA form 5100-127, based on 2013 hub size and excluding ELP and STT.
Future forecast growth rates in bond feasibility studies are generally below 5%

Forecast O&M Growth %

- CLT 2014AB
- LAS 2014A, PDX Issue 23
Expense reduction is typically a reaction to certain negative events

- Reactive for economic and/or traffic downturn
  - Short-term focus
    - Hiring freeze
    - Salary reduction/furlough
    - Eliminating discretionary spending
  - Top down approach
    - Mandated cost reduction target
    - Across-the-board cut

- Cost reduction efforts are effective in the short-term
  - How about long-term?
Operating expenses are incurred to provide service to the customers: passengers, tenants, employees, community ...
A strategic plan can lead to the decision on what service to provide.
Airports keep strong control of core activities, although core activities may vary from airport to airport

<table>
<thead>
<tr>
<th>Core Activities</th>
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<tbody>
<tr>
<td>• Activities necessary for passenger and cargo movement</td>
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<tr>
<td>• Terminal operation and maintenance</td>
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<tr>
<td>• Airfield system</td>
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<td>• Airport access</td>
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<td>• Safety and security</td>
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<td>• Core supporting activities</td>
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<td>• Management, administrative and finance, IT, etc.</td>
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<th>Other Activities</th>
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<td>• Activities suitable for professional risk-takers:</td>
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<td>• FBO and fuel farm</td>
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<td>• Terminal concessions</td>
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<td>• Baggage system maintenance</td>
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<td>• Activities for customer service</td>
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<tr>
<td>• People mover, shuttle bus, etc.</td>
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<td>• Wi-Fi</td>
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<td>• Other optional amenities</td>
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Core activities can be handled in-house, or outsourced to a third party due to cost or operational considerations.

**Core Activities**

- **In-house**
  - Daily operation needs
    - Airfield, landside and terminal operation
    - Facility maintenance
    - Police/ARFF
    - Other services requiring direct control
  - Core supporting activities
    - Management, administrative and finance, IT, etc.

- **Outsource**
  - Professional services
    - Maintenance
    - Parking
  - Cost considerations
    - Janitorial
    - Police/ARFF
  - On-call services
    - Construction management
    - Financial planning/advisory
    - Master plan
Airport can streamline operations and improve efficiency by analyzing key processes.

- FAA
- DOT
- State/City/County

- Passengers
- Airlines
- Other Tenants
- Employees

Entry to Airport Process

- Supplier
- Contractor
- Consultant

Exit from Airport Process
How should we **simplify** a complicated process but remain adequate **control**?
Technology assists airports to improve efficiency and customer service

NEW MOBILE PASSPORT CONTROL APP LAUNCHED AT MIA
How about other technologies?

Aircraft docking

Beacons

Operation

Accounting

Capital

Business Intelligence
We rely on people to take actions

<table>
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<th>Safety/Security</th>
<th>Sustainability</th>
<th>Operation</th>
<th>CIP</th>
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<tr>
<td></td>
<td>Reduce runway incursion</td>
<td>Implement Solar projects</td>
<td>Improve efficiency</td>
<td>Streamline management</td>
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<td>Strengthen parameter control</td>
<td>Obtain LEED</td>
<td>Design contingency plan</td>
<td>Analyze life cycle costs</td>
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<td>Air Service</td>
<td>Attract low cost service</td>
<td>Convert to low emission</td>
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<td>Adopt EVA</td>
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<td>Expand international route</td>
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<td>Financial</td>
<td>Optimize expenses</td>
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<td>Reach higher survey ranking</td>
<td>Communicate and promote teamwork</td>
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<td>Develop nonair revenues</td>
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<td>Provide low-cost amenities</td>
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More airport finance and traffic information at dwuconsulting.com