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Turning on the revenue tap: How US airports could make the most of additional liquidity

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Facing a still uncertain future, airports could consider new ways to diversify their revenue streams and sustain their operations for the long term.

For the CFO of a large hub airport in North America, the past year and a half has been the biggest challenge in the executive's career. Over the course of the COVID-19 pandemic, aircraft movements and passenger traffic at the airport have plummeted to less than half of their usual volumes. Some retail stores have pulled down their shutters permanently. With cash flows dwindling, keeping operations running smoothly has proved difficult.

This CFO is not alone. Across the United States, airports have experienced significant month-to-month changes in aircraft movements and passenger volumes. In this article, we examine the financial outlook of the nation's airports, factoring in the impact of government interventions. We also look at how airports traditionally raise funds and show the inherent limitations of these methods.

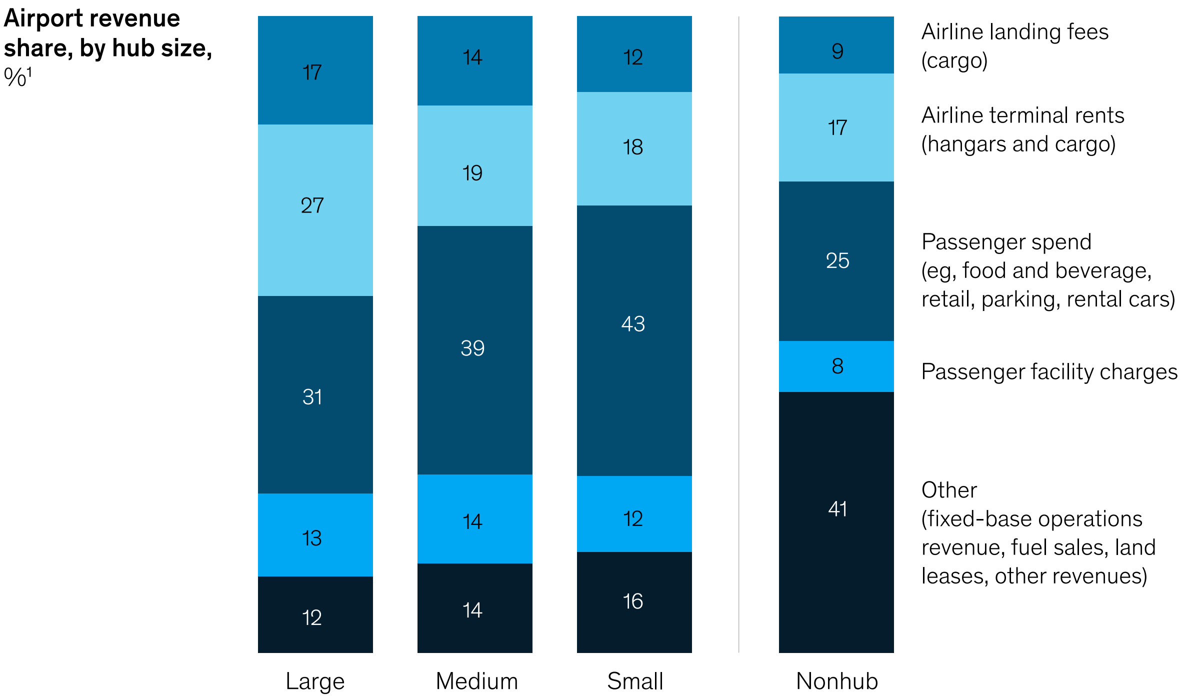
Finally, we consider three new opportunities this CFO could pursue to diversify and increase the airport's future cash flows: modernizing the retail experience to generate value across the end-to-end passenger journey, diversifying revenue streams beyond core operations, and exploring new sources of private capital that may require previously unconsidered partnerships with governments and other airports.

The financial state of US airports

Even with a summer recovery, scheduled passenger aircraft movements and enplanements from May to August in 2021 were more than 20 percent lower than they had been during the same period in 2019.[1] More than 40 percent of hub airports' revenues involved passenger-related activities, such as terminal concessions, parking, and ground transportation. For large hub airports specifically, another 40 percent, including landing fees and terminal rents, came from passenger airlines (Exhibit 1). The decline in traffic therefore dealt airports a serious financial blow. Hub airports of all sizes were especially hard hit by significant drops in revenues.

Exhibit 1

A decline in passenger traffic during the pandemic has caused revenues for US airports to plummet.



[1]Figures may not sum to 100%, because of rounding.
Source: Federal Aviation Administration form 5100-127, 2019 data aggregate by airport type

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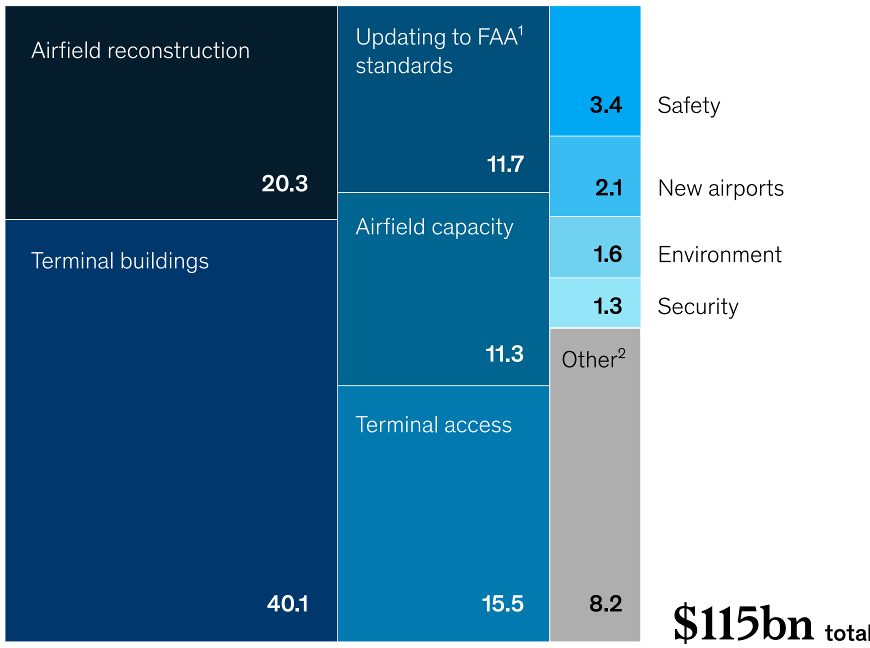
The cash flow problem is compounded by the deterioration of the nation's airports, which on average are more than 40 years old. Many are in dire need of upgrades. According to the Airports Council International (ACI), US airports face a $115 billion backlog in planned and essential infrastructure projects over the next five years (Exhibit 2). That funding gap has worsened during the pandemic and the ensuing economic recession. Before 2020, a number of major capital programs were announced, and some had even started, but the pandemic halted most of them. The vast majority have not been restarted.

Exhibit 2

US airports face a backlog of planned, essential infrastructure projects totaling $115 billion.

Airport infrastructure needs, by type of development, $ billion



[1]Federal Aviation Administration.
[2]"Other" includes construction and rehabilitation of fuel farms, hangars, parking lots, and utilities.
Source: Airports Council International

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The Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020 has helped tide some airports over during this difficult period, but the funding has been unevenly distributed. The 25 busiest airports in the United States received around 45 percent of it.[2] The funding received by airports with lower passenger volumes therefore may not cover their operational and capital development needs. The uncertainty surrounding the COVID-19 Omicron variant could further affect traditional passenger-driven revenue sources. In the long term, airports may lack the funding for capital projects, and that could have an impact on operations, especially as pent-up travel demand recovers in a reopening travel environment.

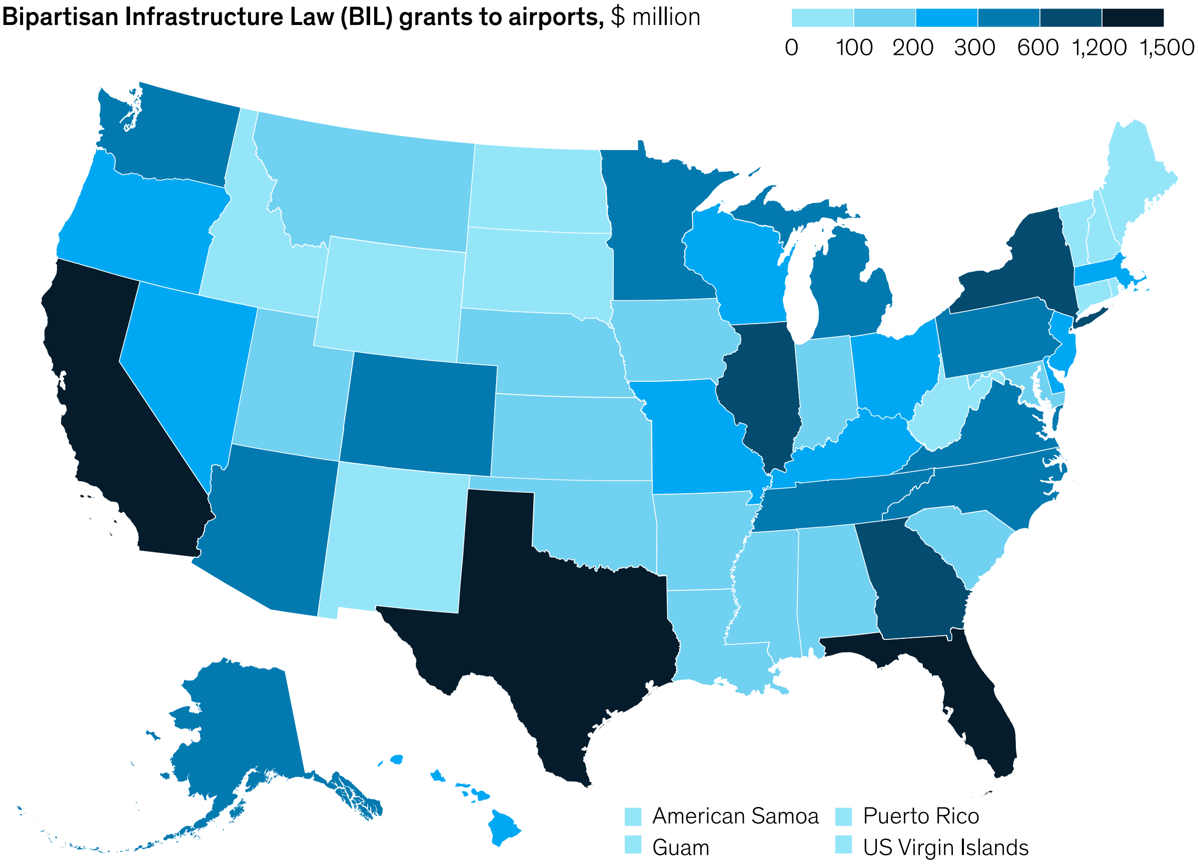
Meanwhile, the Bipartisan Infrastructure Law (BIL) was signed on November 15, 2021. Worth around $1.2 trillion, this new source of capital investment earmarks $550 billion in new funding across core infrastructure pillars, including $25 billion for US airports. Around $15 billion is set aside to upgrade aging airside infrastructure, such as runways, and $5 billion goes to landside infrastructure, including terminal upgrades. Another $5 billion is reserved for the Federal Aviation Administration's Facilities and Equipment program, which includes air traffic control (ATC) facilities.

Airports will probably prioritize replacing end-of-life infrastructure before they address their big-picture goals. Modernization efforts could improve the efficiency, capacity, customer experience, safety, and sustainability of airports while reducing congestion. But as with the CARES Act, more funding goes to busier airports than to low-traffic ones (Exhibit 3).

Exhibit 3

High-traffic airports will receive more funding from the Bipartisan Infrastructure Law.

Bipartisan Infrastructure Law (BIL) grants to airports, $ million



Source: Airports Council International

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Government interventions such as the CARES Act and BIL may give airports a much needed infusion of liquidity. Yet airport leaders such as the CFO at the start of this article will have to devise longer-term cash flow solutions even as they figure out how to invest the funds they do have. They could start by examining the airports' traditional sources of funding to find the inherent weaknesses the pandemic has exposed.

Flaws in airports' traditional capital-raising methods

Airports, airlines, and local authorities have many interdependencies. During periods of economic growth, all three share in the benefits. But the reverse is also true: economic downturns tend to trigger a domino effect that compounds the financial burden the three parties must bear. The pandemic has posed specific challenges to three crucial revenue streams: direct revenues from users (passengers and airlines), as well as municipal bonds and passenger facility charges (PFC).

Direct spending from users contributes the bulk of an airport's revenue—from 59 percent in nonhub airports to 88 percent in large hubs. Direct revenues include passenger concessions and parking, airlines' landing fees, and rents in terminals. In some airports, the cost burden of the airlines has increased as their nonaeronautical revenues have decreased significantly, at a time when they too are struggling.

Municipal bonds issued by the authorities in the municipalities that airports service are another way airports raise funds. More than 95 percent of the debt the largest 30 airports in the United States hold is in the form of such long-term bonds, representing 45 times the cumulative 2019 operating income for these airports.[3] To access this capital, airports may have to present a defined cash flow, but the pandemic has introduced a level of unpredictability that makes doing so accurately difficult. Many local governments face their own financial challenges and may therefore hesitate to fund low-traffic airports struggling with a lack of liquidity.[4]

PFCs, which are applied to every passenger ticket, make up around 5 percent of an average airport's total cash inflow. These charges haven't increased significantly in the past two decades: they rose from $3 to $4.50 per ticket in 2001 and remain at that level today.[5] If PFCs matched the rate of inflation, they would now exceed $7 per ticket, which means that

PFCs have been gradually generating less value for airlines over the years. Furthermore, the decline in passenger volumes directly affects the revenues that PFCs generate, and increasing their cost for a smaller passenger base does not appeal to either airlines or passengers.

The weaknesses of these revenue streams stem from an overreliance on passenger traffic and the interdependencies among airlines, airports, and local governments. Airports, often owned by those governments, receive funds from passengers (direct spending and PFCs) and rely on airlines to bring in human traffic. Before the pandemic, these channels supported airport maintenance and infrastructure development, but in periods of low traffic, traditional revenue streams dry up and airport development suffers. How could airports diversify their financial channels and support long-term sustainability?

Investing in future funding sources

Right now, airports face heightened uncertainty about how to plan for changes in demand for travel. It's not clear if the recent surge will remain in the long term or if traffic and activity will return to prepandemic levels. Furthermore, airport leaders must grapple with other challenges, such as limited access to talent.[6]

The extra help from the federal infrastructure bill is a short-term boost but probably won't support the long-term sustainability of airports unless it is invested efficiently. If airports keep operations running smoothly and restart necessary infrastructure upgrades, three new areas of focus could unlock long-term value in the current climate and support a more sustainable and diverse revenue mix.

Modernize retail and generate value across the end-to-end passenger journey

Millions of passengers at airports spend money on parking, food and drink, and duty-free retail. Airports rent out store space to third-party shopping operators and therefore don't have direct access to retail revenues, except through revenue-sharing agreements, which are more common at larger hubs. Airports that aren't already maximizing the wealth of data available to them from such retail operations could do so. For example, leading hubs already use these data to target promotions that increase revenue, to offer new services relevant to passengers, and to improve operations (for instance, by predicting demand and proactively adjusting staffing levels to avoid lines).

Airports derive data from transactions within the walls of terminals but often are not involved in the rest of the passenger journey, so they could add value to their land-based service offerings. The entire journey, from the traveler's door to the boarding gate, offers many ways to increase margins by making the passenger experience more seamless. For example, some airports around the world include transportation to and from the airport, home-to-hotel pickup and delivery of baggage, partnerships with tourism agencies and attractions, and value-added services such as lockers and dry cleaning. Grocery delivery programs for frequent travelers can even ensure that their kitchen is stocked when they arrive home.

Look beyond core airport operations

Aside from being transportation hubs, airports significantly drive economic activity in the regions that surround them by facilitating connections between people and businesses. Many airports also function as malls, leasing out retail spaces. Several airports and airport groups around the world have leveraged their expertise and experience in these areas to diversify their real-estate and commercial-development portfolios in creative ways. Some provide consulting and facility operations services to other airports and terminals. Others have expanded the use of their existing infrastructure and facilities for nontravel activities by giving nonpassengers access to them. This approach could involve, for example, creating commercial office space or a shopping or restaurant area to draw people from the surrounding communities.

Airports may also pursue partnerships with local universities, businesses, or incubators to lease airport facilities for testing, observation, and data collection. This could be particularly relevant in R&D for technologies relevant to aviation—such as sustainable aviation fuels, electric vertical takeoff and landing (eVTOL) aircraft, and autonomous aircraft. Airports have repurposed parking facilities for alternative uses and are converting unused real estate into logistics or e-commerce hubs whose revenues have grown more quickly and consistently than passenger volumes. Other airports have repurposed unused airport land for solar farms, which reduce electrical expenses and help meet sustainability targets.

Identify potential access to private capital

Most airports in the United States are publicly owned, not-for-profit entities bound by strict regulations controlling how they raise funds. Private capital has therefore traditionally played a very limited role in the financing of airports, although it may prove to be an additional source of liquidity. The BIL supports such opportunities by providing grants to help state and local governments develop and procure public–private partnerships.

Airports could also take inspiration from the way airlines often use equipment trust certificates (ETC) to raise funds among private investors to buy new aircraft, which are then leased to the airlines that operate them and that in turn make regular payments to the investors . The title of aircraft is transferred to the airlines when the ETCs mature. Similarly, airports could create Airport Trust Certificates (ATCs)—for example, if states were allowed to borrow private capital, using all the state's commercial airports as collateral to spread the risk. Likewise, a group of regional airports serving different needs (for example, cargo, regional flights, and general aviation) could issue ATCs to private investors. The reasoning behind a diverse portfolio of airports is that the pandemic has affected different ones in different ways: a cargo airport may have experienced a surge in demand while traffic at a commercial airport slumped. A diverse portfolio may therefore reduce the overall risk for investors.

ATCs might open up a new asset class of private infrastructure capital, which could provide immediate and longer-term value for airports: they could both access liquidity quickly to maintain operations and embark on necessary infrastructure improvements. States that fund airports may also reduce the financial burden of subsidizing cash-strapped ones. In addition, regulators could consider letting airports use ATCs for purposes such as ensuring that infrastructure upgrades are environmentally sustainable and that airports are using inclusive hiring practices.

Airports are significant drivers of economic impact beyond the aviation industry; they generate billions of dollars in direct, indirect, and induced value to the economy.[7] Thus, at a time when airports are competing for limited capital and face a challenging recovery from the pandemic, CFOs could find that diversifying revenue streams and funding sources is a critical opportunity.

Beyond enabling survival through the crisis, new funding channels would empower airports to restart necessary improvements they had in progress before the pandemic; reduce the financial burden on governments, which wouldn't need to bail out airports; and give regulators a way of encouraging airports to pursue sustainable and inclusive best practices.

1. "US air carrier traffic statistics through September 2021," Bureau of Transportation Statistics.
2. "Map of CARES funding," Federal Aviation Administration.
3. Operating and financial line item report 127, Certification Activity Tracking System, Federal Aviation Administration.
4. Anshu Siripurapu and Jonathan Masters, "How COVID-19 is harming state and city budgets," Council on Foreign Relations, March 19, 2021.

5. “Passenger facility charge,” Department of Transportation, Federal Aviation Administration, August 9, 2001.
6. Leslie Josephs, “Airport restaurants, TSA offer $1,000 bonuses in hiring scramble as travelers face long lines,” CNBC, June 28, 2021.
7. “Economic impact study,” Airports Council International.

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