

Appendix G

Public Private Partnership

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Birchwood Airport Master Plan Update

Public Private Partnership Summary – November 2022

Introduction

The Alaska Department of Transportation & Public Facilities (DOT&PF) conducted an analysis of a potential partnership with a private entity for Birchwood Airport operations. The partnership can range from airport management to other, smaller roles, including activities like maintenance or janitorial services. In this instance, DOT&PF was considering private entities to serve as the airport manager.

Why conduct a public-private partnership analysis? The DOT&PF was exploring a public-private partnership (P3) to provide users with the highest level of service for minimal cost. The DOT&PF did not enter this analysis with any specific goal other than to better understand all options. This analysis examines if and how different management scenarios can best support the vision and goals for the Birchwood Airport. There was no specific private entity being considered at the time this analysis was developed.

Public-Private Partnership in Aviation

In aviation, a P3 can range from a specific service, like janitorial, all the way to full privatization of an airport. More general P3s, where a specific service or construction project is contracted out, are much more common than full privatization.

Full privatization agreements are regulated under the Airport Investment Partnership Program. The program was originally created by the U.S. Congress in 1997 to increase access to private capital for airport improvement and development. Initially, the act created a pilot program which allowed for up to five public airport sponsors to sell or lease an airport to a private entity. Under this arrangement, the privately owned airport remains eligible for federal benefits. In 2012, the pilot program expanded to allow for 10 participants, and in 2018 the cap for number of participants was removed.

The Federal Aviation Administration (FAA) is the approving body and key partner for all aviation P3s. Currently, there are only two airports in the U.S. and U.S. territories in the AIPP; the Luís Muñoz Marín International Airport in Puerto Rico and the Hendry County Airglades Airport in Florida. The Luís Muñoz Marín International Airport is owned by the Puerto Rico Ports Authority and managed by Aerostar Airport Holdings, a private airport management company. The Hendry County Airglades Airport is owned by Hendry County and they have been working through the FAA application process for over 12 years.

National Increase in P3s

P3s (short of full privatization) are becoming more common in aviation because they can be more efficient and provide access to private funding. Privatizing operations is rare, but P3s to manage a specific service, such as janitorial, or a specific project, such as the remodel of a terminal, are much more common. These partnerships can be beneficial because they provide access to private funding that otherwise would not be available. A recent example is the [complete transformation of New York's LaGuardia Airport](#). The \$8 billion project is mostly funded (approximately two thirds, or \$5,333,333) by private investment. In this situation, the

private entity secured a 30-year lease to operate and maintain the terminal in return for providing up-front funds for the capital project.

P3s have become more common in aviation in part because airports tend to be extremely complicated environments that house hundreds of businesses, move thousands of people per day through secure and nonsecure areas, manage air traffic control, and the overall logistics of transporting people and goods around the country and world. That complexity makes airport expansions and operations potentially overburdensome for a singular government department.

Most P3 arrangements occur at larger airports. P3's may be considered when an airport is not financially stable or not meeting revenue goals, such as bringing in a private operator to recruit new vendors or airlines. A P3 arrangement for a specific project may be an advantage in situations where the public owner does not have easy access to capital construction costs because they can work like a design-build model. An example would be a terminal improvement project where an airport owner leases a terminal to a private company, potentially an airline or investment firm that redevelops it.

There are very few, if any, examples of P3 in general aviation airports as small as Birchwood, with almost no commercial activity. However, small general aviation airports are often not financially self-sufficient, and a private operator has the potential to institute more efficient business practices.

While the P3 arrangement can be beneficial and offer opportunities for airports, the model does have challenges that could result in an inability to achieve airport stakeholder goals. According to [a 2021 presentation](#) on P3 from the National Academies of Sciences, Engineering, and Medicine's Transportation Research Board, P3s can occur at any airport, but generally work best for large, complex projects. P3s are often more expensive than public management and decisions are often driven by politics and the result of a risk calculation. A P3 is most successful when the private entity is managing something other than a core airport activity. They require a thoughtful assessment and an air-tight agreement that matches the desired outcome exactly.

Management Background

The Birchwood Airport is owned and operated by the State of Alaska and managed through the DOT&PF Anchorage Maintenance District. The level of use does not warrant on-site management. Users can submit questions, comments, and complaints to the airport manager, though immediate assistance is not always feasible due to off-site management.

The Birchwood Airport collects revenue through lease fees, tie-downs, and parking. [The airport is financially sustainable](#), though profits cannot be directly invested back into the airport. All DOT&PF airport revenue goes into a state general aviation fund which funds maintenance and operations for all state-run airports. Airports experiencing safety concerns in communities primarily reliant on air travel are prioritized.

Currently, no DOT&PF airports have a private manager. [The Ketchikan International Airport is owned by the State of Alaska and has a unique arrangement](#) where the airport is entirely managed by the Ketchikan Gateway Borough. In this arrangement, the borough operates the airport with the state serving as a technical advisor. Both parties are financial partners for major maintenance projects.

Due to the increase in popularity of P3s in aviation nationally, DOT&PF anticipates conducting analyses to determine if and where such partnerships could provide a benefit to users in Alaska. However, as the

federally recognized airport owner, the state will be responsible for ensuring the partnering airport manager meets federal grant assurances and maintains the airport in a safe operating condition.

Stakeholder Engagement

Since the Birchwood Airport Master Plan Update process started in spring 2020, the project team conducted 35 interviews with key stakeholders. This included flight associations, business trade groups, pilots, and organizations nearby, such as Eklutna, Inc. and the Birchwood Recreation and Shooting Park.

Users of the airport reported dissatisfaction with the level of management. With no on-site manager, they were often unaware of how to alert DOT&PF to an issue. Some reported when they did alert DOT&PF to an issue, it took too long to receive a response.

Stakeholders were specifically asked about a potential P3 at Birchwood. Some expressed interest in the benefits, such as having a more attentive manager. Primarily, stakeholders expressed concern about a private operator increasing fees and commercial operations of the airport. The most common sentiment relayed by far was that airport users want the airport to remain the same and do not envision major changes in the next 20 years. Users would like more tie-downs and lease lots, but overall want the airport to remain without air traffic control.

Several users referenced DOT&PF airports that moved from state management to city or municipality management. Stakeholders reported that in these instances, user fees went up, which discouraged use at the facilities. Stakeholders repeatedly said access is their main concern and they would prefer no change to the airport over changes that increase fees, commercialization of the airport, or air traffic control.

Recommendation

The Birchwood Airport does not have many of the characteristics that make an airport an ideal candidate for a P3. For that reason, our recommendation is to not pursue a P3 arrangement, unless a specific need is identified. The airport is almost entirely general aviation from hobbyist pilots, and operations are simple enough that they do not require air traffic control or an on-site manager. The Birchwood Airport is one of the few profitable Alaska DOT&PF airports in the state, so there is no financial incentive to privatize.

During stakeholder outreach, many airport users said they oppose a P3. They are concerned a private operator would increase fees and commercial activity. Low costs and the casual, uncontrolled nature of the airport are its most beloved attributes.

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