OPTIMIZING
AIRPORT OPERATING EXPENSES

Business of Airports Conference

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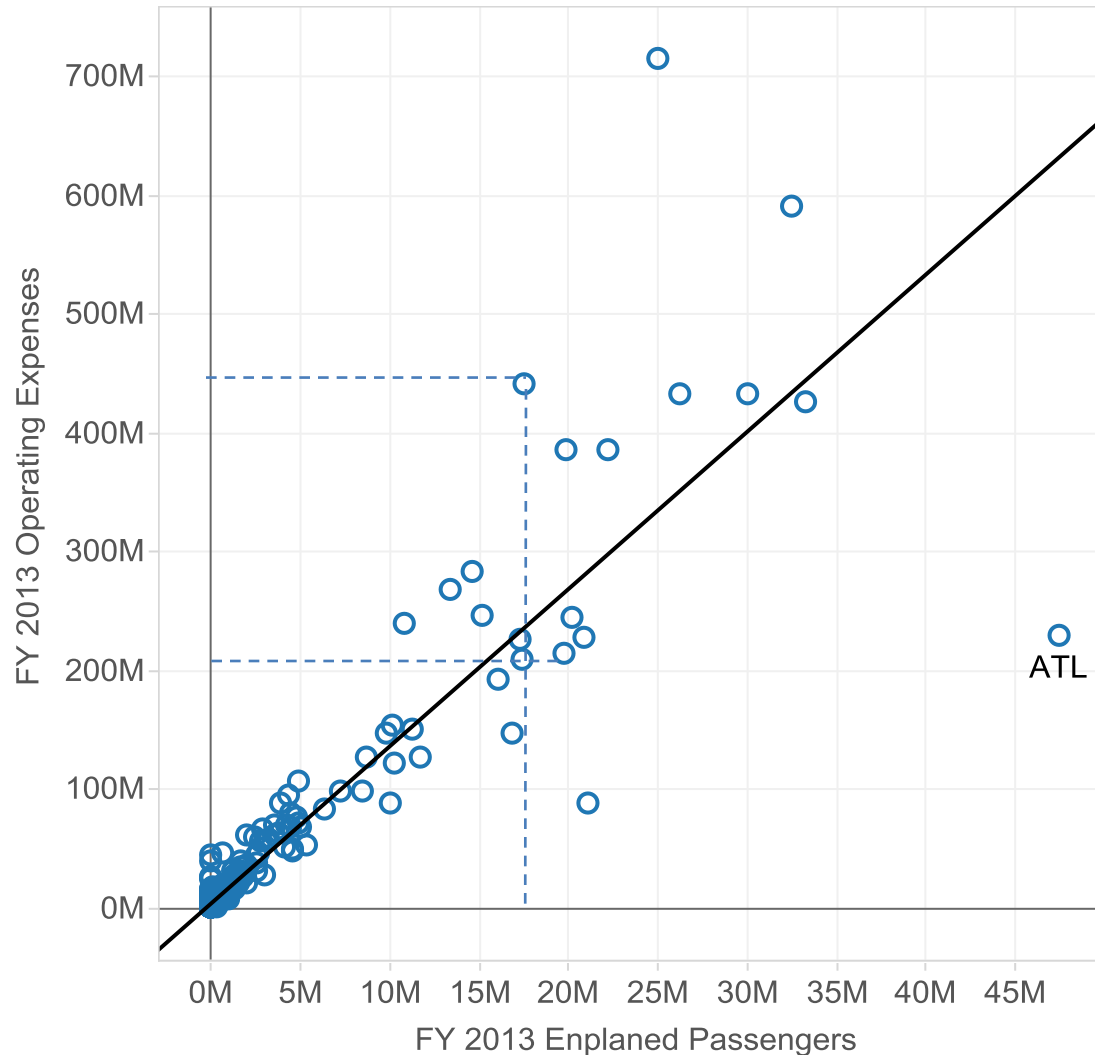
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Agenda

- Benchmark airport expenses

- Historical cost saving practice

- Alternative approach

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It is challenging to benchmark operating expenses due to different airport characteristics
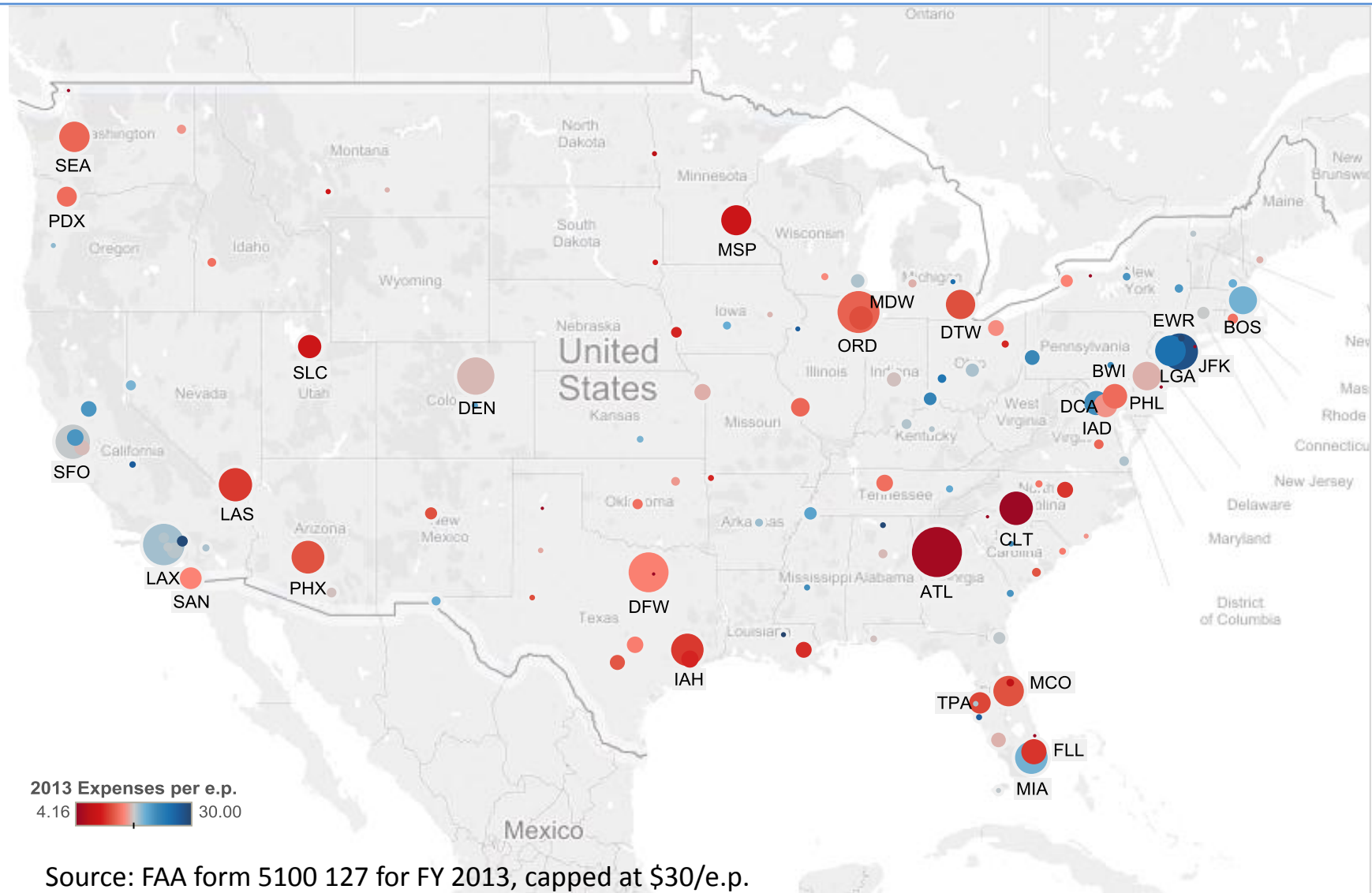
- Volume served: large-hub vs. medium-hub etc.

- 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

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Volume (enplaned passenger) is one of the many cost drivers

Source: FAA form 5100 127.

2013 Expenses per e.p.
4.16 — 30.00

Source: FAA form 5100 127 for FY 2013, capped at $30/e.p.

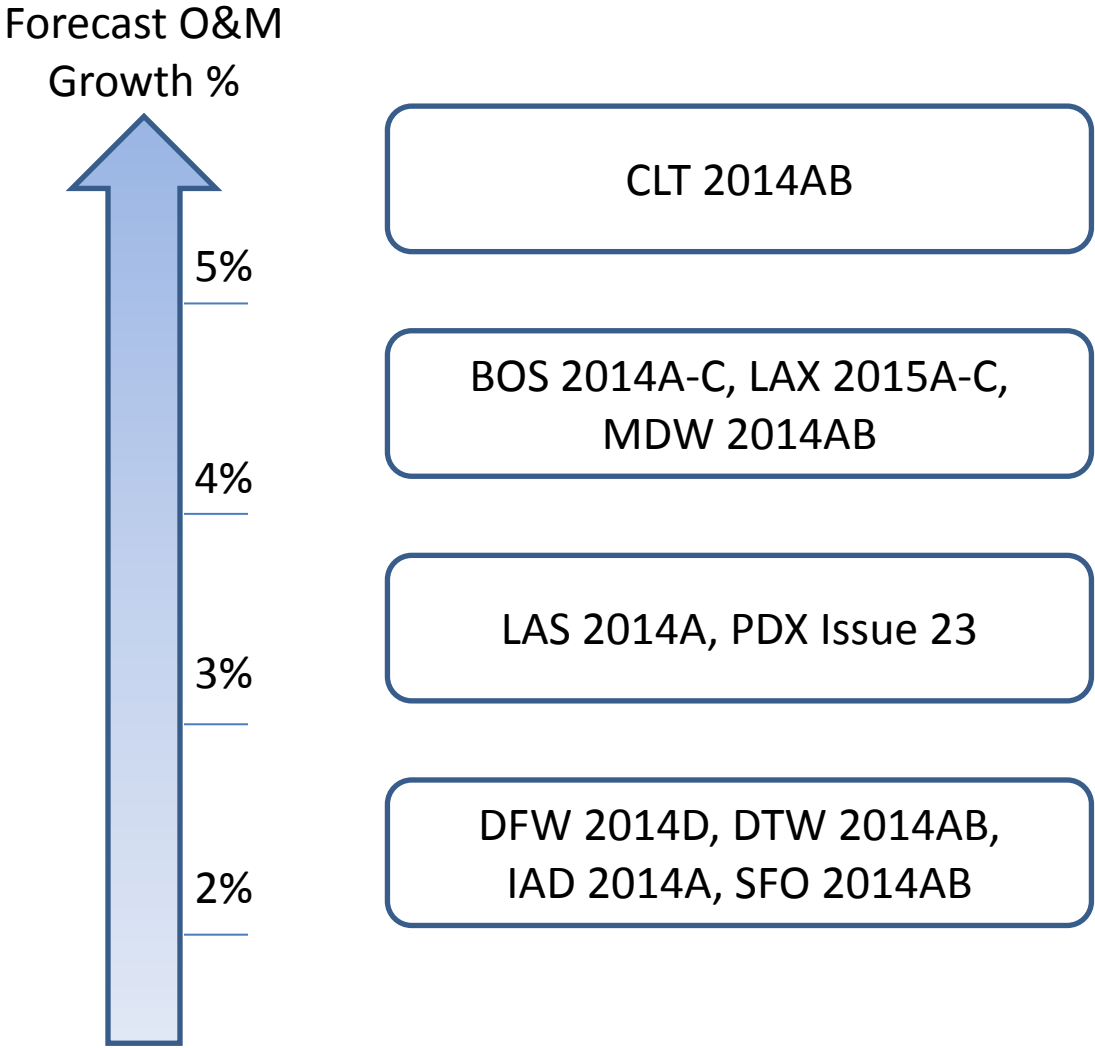DWU CONSULTING
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Historical annual operating expense growth rates were approximately 3% to 4%
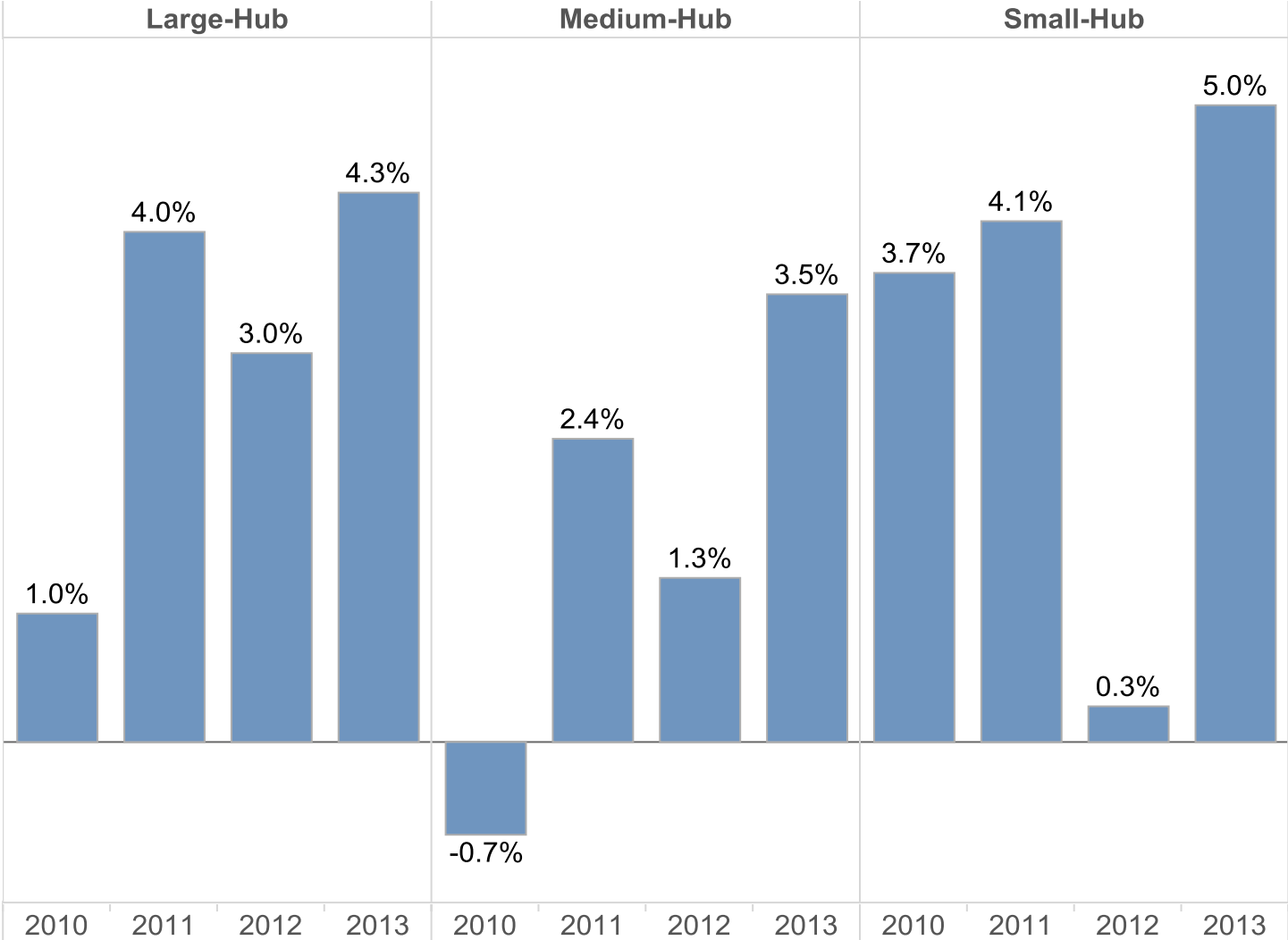
Source: FAA form 5100 127, based on 2013 hub size and excluding ELP and STT.

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Future forecast growth rates in bond feasibility studies are generally below 5%

Forecast O&M Growth %

CLT 2014AB

5%

BOS 2014A-C, LAX 2015A-C, MDW 2014AB

4%

LAS 2014A, PDX Issue 23

3%

DFW 2014D, DTW 2014AB, IAD 2014A, SFO 2014AB

2%

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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?

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Operating expenses are incurred to provide service to the customers: passengers, tenants, employees, community ...
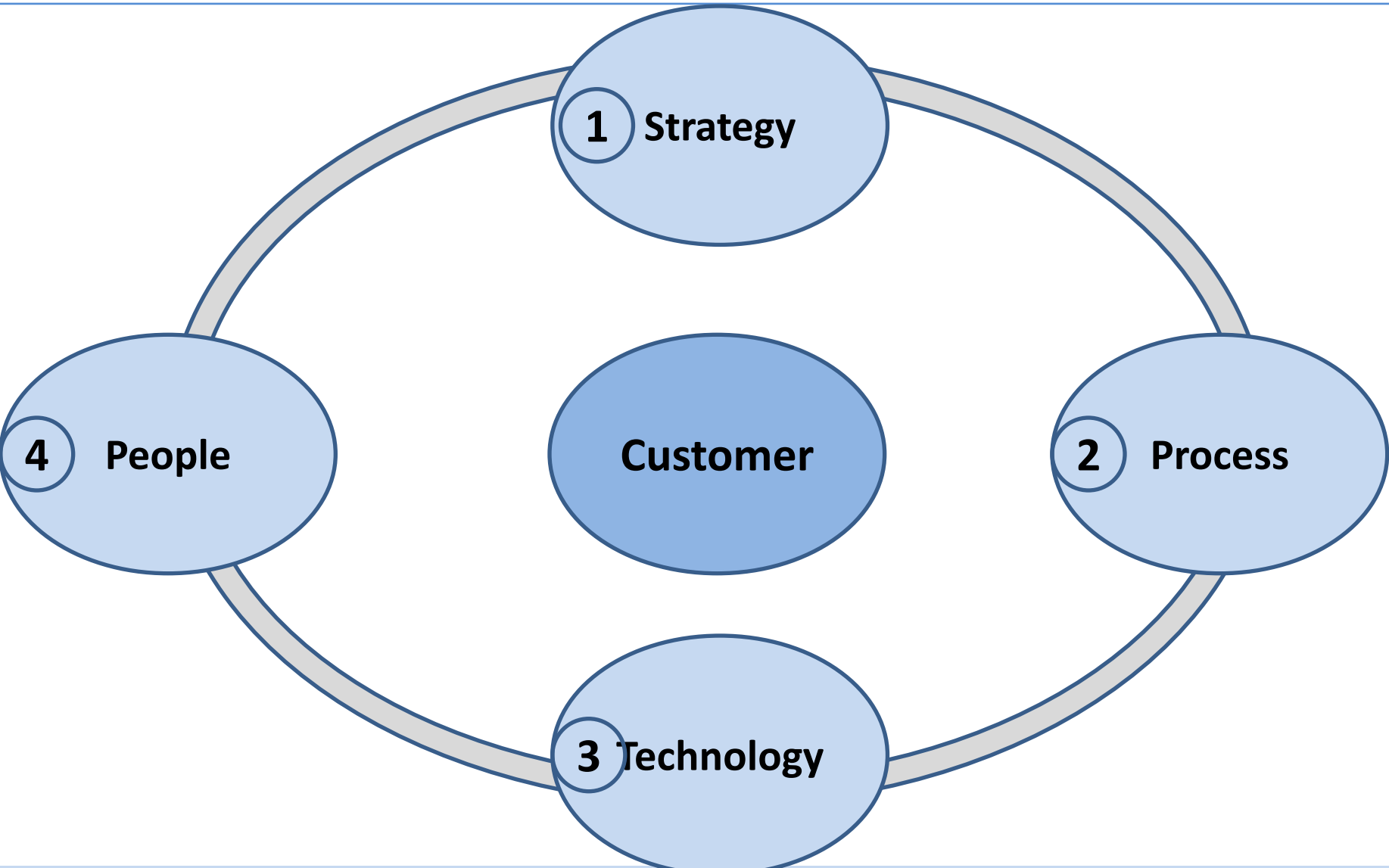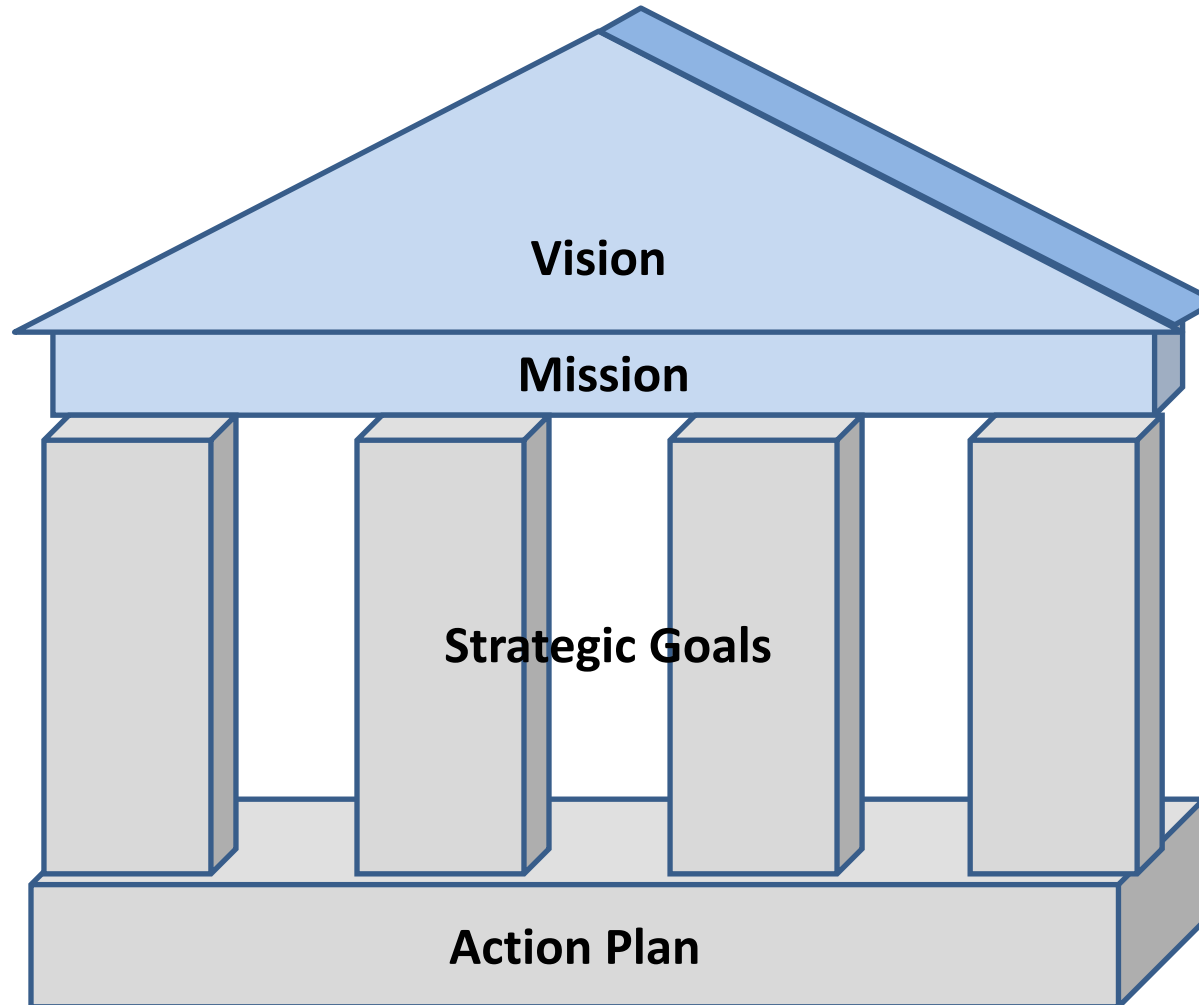
Airports keep strong control of core activities, although core activities may vary from airport to airport

Core Activities

- Activities necessary for passenger and cargo movement
    - Terminal operation and maintenance
    - Airfield system
    - Airport access
    - Safety and security
- Core supporting activities
    - Management, administrative and finance, IT, etc.

Other Activities

- Activities suitable for professional risk-takers:
    - FBO and fuel farm
    - Terminal concessions
    - Baggage system maintenance
- Activities for customer service
    - People mover, shuttle bus, etc.
    - Wi-Fi
    - Other optional amenities

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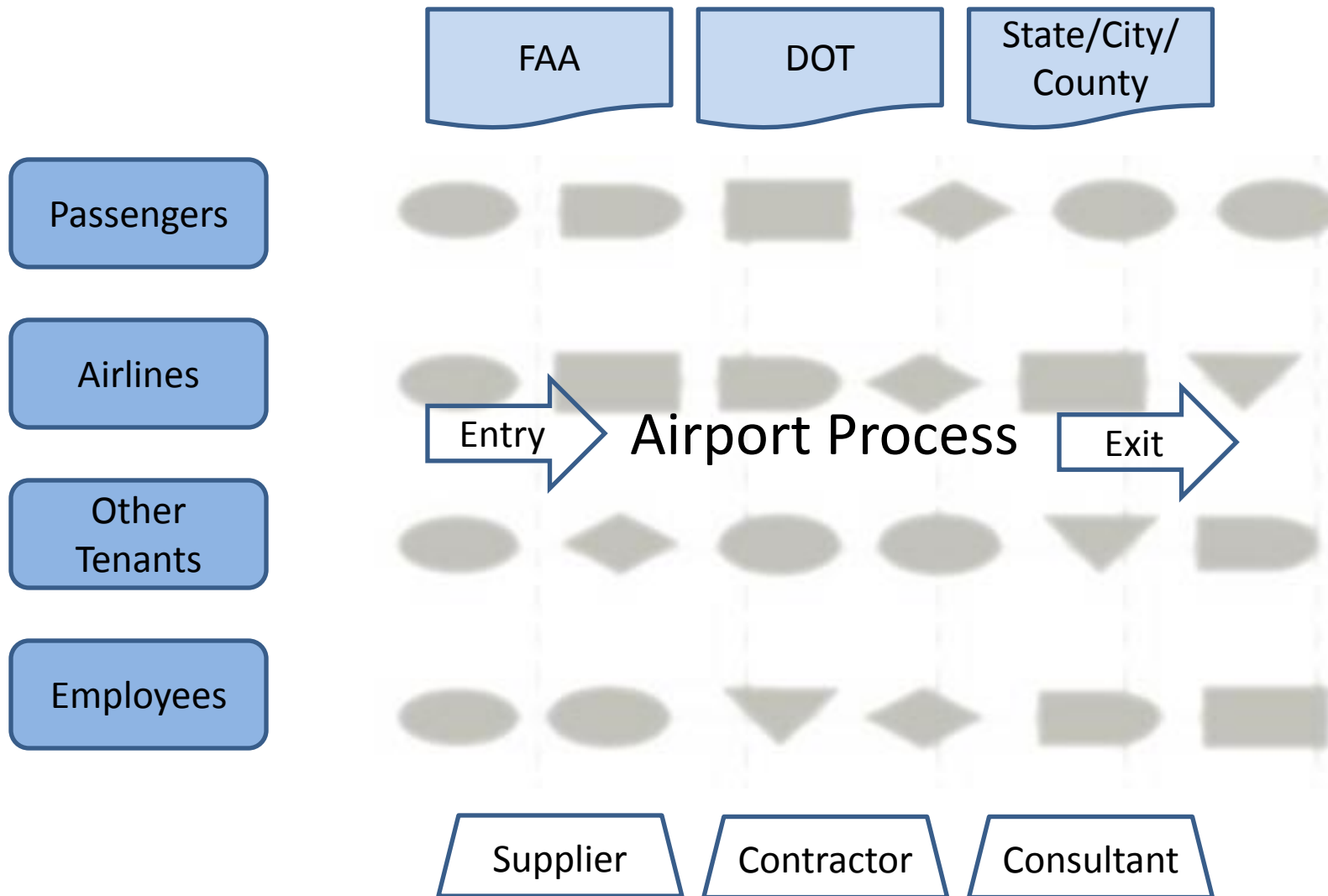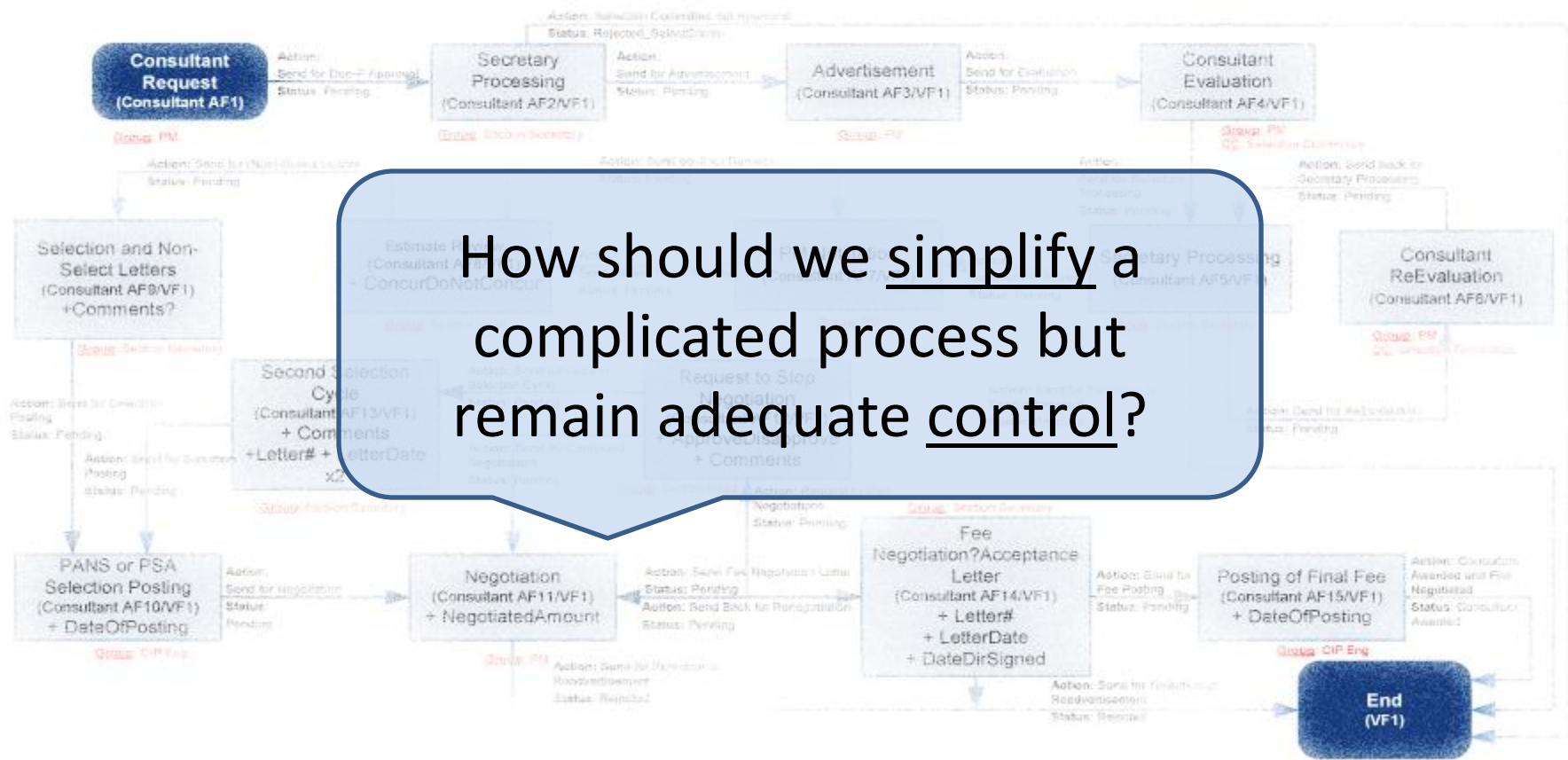
Core Activities

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

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FAA

DOT

State/City/County

Passengers

Airlines

Other Tenants

Employees

Entry

Airport Process

Exit

Supplier

Contractor

Consultant

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How should we <u>simplify</u> a complicated process but remain adequate <u>control</u>?

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NEW MOBILE PASSPORT CONTROL APP LAUNCHED AT MIA

Aircraft docking

Beacons

Operation
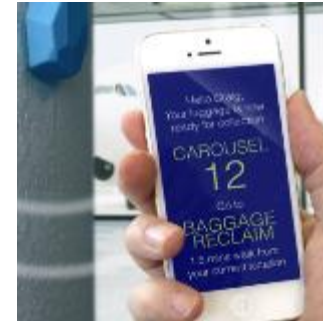
Accounting

Capital

Business
Intelligence

Action Plan

Safety/Security
- Reduce runway incursion
- Strengthen parameter control

Sustainability
- Implement Solar projects
- Obtain LEED
- Convert to low emission

Operation
- Improve efficiency
- Design contingency plan

CIP
- Streamline management
- Analyze life cycle costs
- Adopt EVA

Air Service
- Attract low cost service
- Expand international route

Financial
- Optimize expenses
- Develop nonair revenues
- Control CPE

Customer
- Reach higher survey ranking
- Provide low-cost amenities

Employee
- Communicate and promote teamwork
- Inspire the talented

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