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# Financial Structures in Air Traffic Management Organizations

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ICAO/McGill Air Navigation Conference

Montreal, September 2006

# Overview

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- Operating Statement Issues
- Capital and Balance Sheet Issues
- Financial Flexibility
- Linkages with Organizational Structure
- Conclusions

# Operating Statement: Revenue

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- **Five basic models**
  - Direct user charges
  - Direct user charges supplemented by other charges (e.g., fuel taxes)
  - Indirect user charges (pax fees)
  - Government fund-based (dedicated)
  - Government budgetary allocation
- **Varying degrees of linkage with costs, even for user charge systems**
- **Blurred boundaries (hybrids)**

# Operating Statement: Revenue

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- **Other Issues**

- Can you make a profit?
- If so, what can/must you do with it?
- Reserves?
- For-profit subsidiaries?
- Revenues for other services or non-charged functions (e.g., regulatory)

# Operating Statement: Costs

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- Major issues are labor costs and O&M expenditures
- Productivity improvements and cost containment interrelated, with short-term and longer-term components
- Joint and common costs (allocation)
- Extent to which cost drivers link with revenue

# Capital and Balance Sheet

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- Access to capital markets
- Substantial value "locked up" on balance sheet
- Debt
  - Guarantees? Collateral? Form?
- Equity
  - Shareholders? Strategic investors? Acquisitions?

# Financial Flexibility

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- Re-thinking scenarios (stress-testing)
- Not "what if?" but "when?"
- Debt
- Equity
- Regulatory environment
- Governance structure

# Two Examples

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- NAV Canada
- NATS (UK)



# NAV Canada

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- Created 1996 in context of congestion, delays, budget problems
- Support of airlines, unions, pilots
- Non-share capital corporation
  - Not for profit
  - No shareholders
  - Board of directors (15)
    - 10 by airlines, business aviation, labor, govt
  - Stakeholder model

# NAV Canada Post 9/11

- Traffic and revenue decline 10%
- C\$ 145 m deficit vs. budget FY 2002
- Forecast 2002-05 cumulative revenue gap C\$ 360m
- "Balanced approach"
  - Drew down rate stabilization fund to (C\$116 m) by Aug 2003
  - Rate increases: 6% 2002, 3% 2003
  - Cost reductions salary, board, suppliers
  - Wage freeze
  - Reduced annual operating costs C\$100m / year (vs. 1996)
  - Reduce and defer capital spending
  - Lease/leaseback of C\$ 600m assets
- Eliminate cumulative deficit over 5 years

# NATS (UK)

- **Restructuring context 1990s**
  - Rising operational and capital pressures
  - Budgetary needs of government
  - "From privatisation to PFI to PPP"
- **"Regulated private corporatisation"**
  - 46% Airline Group; 5% labor; 49% govt
  - RPI - 4,5,5 %
- **Govt proceeds £800m**
- **> £730m debt at inception**
- **Project finance structure**
- **Born April 2001**

# NATS (UK) Post 9/11

- "Do-Over"
  - Bank debt from £ 730m to £ 600m
  - £ 130 in new shareholder capital (from BAA plc and HM Govt)
  - Regulatory asset base +12%
  - RPI - 2
  - Traffic volume risk-sharing
  - Suspend £ 1 billion investment program
    - Scottish Centre at Prestwick

# Financial Performance and Organizational Structure

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- Different financial structures can be used with different organizational and ownership models
- Some are better "matches", but even these have potential weaknesses
- Starting points matter - a lot
- Expect systems to evolve over time (not just one-off reforms)

# Tentative Lessons

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- User charge systems tend to evolve toward more user input and governance
- Capital investment problems in government organizations have as much to do with procurement and politics as money
- Cost containment harder under government revenue structures

## Tentative Conclusions (cont'd)

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- The textbook doesn't strictly apply
  - Role of Debt
  - Role of Equity
  - Flexibility, contingencies, and public service aspects
- Legacy issues
- Longer-term transitions
- And... "why do we need to do anything at all?"