

October 10, 2011

The Honorable Joe Adame
Mayor, City of Corpus Christi
P.O. Box 9277
Corpus Christi, TX 78469

Sent Via Facsimile and U.S. Mail

RE: PROPOSED CORPUS CHRISTI INTERNATIONAL AIRPORT FBO DEVELOPMENT PLAN

Dear Mayor Adame:

The National Air Transportation Association (NATA), the voice of aviation business, is the public policy group representing the interests of aviation businesses before the Congress, federal agencies and state governments. NATA's 2,000 member companies own, operate and service aircraft. These companies provide for the needs of the traveling public by offering services and products to aircraft operators and others such as fuel sales, aircraft maintenance, parts sales, storage, rental, airline servicing, flight training, Part 135 on-demand air charter, fractional aircraft program management and scheduled commuter operations in smaller aircraft. NATA members are a vital link in the aviation industry providing services to the general public, airlines, general aviation and the military.

In a recent presentation to the Corpus Christi City Council, staff from the Corpus Christi International Airport outlined a proposed vision for the future of the two fixed base operator leaseholds located on the airport. This presentation put forth a vision for the two leaseholds that included one facility being leased to a private operator and the other remaining under airport control and operated by a third-party management company. This proposal suggests a future that puts the airport in the tenuous position of being both a landlord to private businesses and those businesses' direct competitor. Under this proposal, the airport will exchange the fixed and predictable revenues that result from a long-term lease with a private enterprise for the ownership stake in a competitive commercial service business. The airport will be subject to the full force of market variability and competitive pressures just as is any other private business. However, unlike any private business, the airport will retain full regulatory authority over its competitors.

NATA is extremely concerned about the possibility that the Corpus Christi International Airport will place itself in the unique position of both competitor with and regulator of private enterprise.

The primary reasoning expressed, by airport staff, for taking this bold step into commercial service competition is that it will result in “competitive pricing alternatives.” Since there are currently two separate businesses providing competing FBO services at the airport, it must be assumed that the “competitive pricing alternatives” will be derived from the airport sponsor utilizing its advantages as a governmental entity and landlord to allow its own FBO to provide lower prices for fuel and ground handling than would otherwise result from fair market competition. I strongly caution the City Council to consider this point. Corpus Christi International Airport is a federally obligated airport that is subject to compliance with federal grant obligations, including Sponsor Assurance 22g, which requires:

“In the event the sponsor itself exercises any of the rights and privileges referred to in this assurance, the services involved will be provided on the same conditions as would apply to the furnishing of such services by commercial aeronautical service providers authorized by the sponsor under these provisions”

In short, Sponsor Assurance 22g requires the airport to operate any commercial business under the same conditions that apply to a private business providing similar services. Obviously, this would apply to airport minimum standards requirements such as facility size, fuel storage capacity and staffing requirements. However, Sponsor Assurance 22g goes beyond service requirements and demands that airport sponsors operate their commercial service enterprise on “the same conditions” as applied to private service providers with which they compete. The only way for an airport sponsor to ensure that it is not violating Sponsor Assurance 22g in competing with a private tenant engaging in similar service is to adopt a procedure for determining pricing that accounts for the conditions that are applicable to a private business. While not an exhaustive list, some of those conditions include:

- Capital Costs – The sponsor must account for, in its pricing for fuel and ground handling, the land lease fees that would be charged to any other private business in order to operate at the airport.
- Required Investment – Typical FBO leases also require the lessee to invest significantly in facility development in order to secure a long-term lease. The airport sponsor must also make the same investment and account for that cost when determining pricing.
- Airport-Provided Services – Since the airport would be the owner of the facility, it must account for any service that the airport provides to its own FBO but not the private FBO, including staff resources and facility upkeep and maintenance.
- Rate of Return – In addition to accounting for the various business costs, the airport would need to show that it has set pricing so as to receive a reasonable rate of return for the taxpayers that are financing this commercial enterprise.

Failure to account for any of the above factors would indicate that the airport is using its position as airport sponsor and governmental entity to compete unfairly with the private businesses, and thus be in violation of Sponsor Assurance 22g.

As a matter of fact, this exact situation is playing out in Chattanooga, Tennessee, right now. The Chattanooga Metropolitan Airport Authority (CMAA) established an airport-owned FBO to compete with its own tenants without demonstrating that it would compete on a level playing field. The CMAA is now subject to a Part 16 complaint filed with the Federal Aviation Administration that, in part, deals specifically with Sponsor Assurance 22g compliance.

Aside from the pitfalls of Sponsor Assurance 22g compliance in operating a sponsor-owned FBO in competition with a private FBO, I encourage the council to consider additional factors that affect both the city and its taxpayers. An airport-owned FBO, assuming it has taken the required steps to comply with Sponsor Assurance 22g and compete fairly on pricing, is subject to the variations that any other private commercial service enterprise faces. The city will be choosing to stake its future revenues on a bet that a government-owned and third-party managed service facility will be able to “win” in a competitive environment against a profit-motivated private business. Is that a risk the city and its taxpayers are willing to accept?

One of the benefits of private businesses operating service facilities such as FBOs is the investment of private capital in the development of the airport facilities that those businesses bring. By choosing to own and operate an FBO (even through a third-party management firm), the City of Corpus Christi would be choosing to tip the scale of funding towards public sources at a time when most municipalities can least afford to take on additional obligations. Though public sources such as federal or state grants may seem like a reasonable approach, please remember that under Sponsor Assurances 22g those grants must be treated as an obligation to ensure that the taxpayers are receiving a reasonable rate of return on their investment in a commercial enterprise and that the airport sponsor is competing fairly with private business that cannot access those grants.

Finally, since, under the current proposal, the city will be providing services such as aircraft fueling and aircraft ground handling to the general public, the city faces a significant increase in liability compared to its liability when acting solely as a landlord and regulator. When weighing this proposal, I encourage you to consider the additional exposure the city is taking on.

NATA firmly believes, in most instances, that a profit-motivated private business provides the best opportunity to offer quality, efficient services to the flying public. NATA also acknowledges that in some cases, such as where traffic levels are too low to encourage private

investment or private interest in providing service does not exist, it may be necessary for the sponsor to own and operate an FBO. Corpus Christi is not one of those cases. I strongly encourage you to evaluate fully the airport's plan for compliance with Sponsor Assurance 22g and ensure that plan fully accounts for the conditions that I have mentioned. I believe that in doing so you will see that many of the supposed benefits of a government-owned FBO, such as the ability to provide lower prices, are non-existent. When combined with the loss of private investment in airport development, increased liability for the city and exposure to marketplace volatility speak loudly about the dangers of an airport assuming the role of marketplace competitor with existing private business.

I thank you for your consideration of my comments, and I would be pleased to speak with you further regarding NATA's position and the future plans for FBOs at Corpus Christi International Airport.

Sincerely,



James K. Coyne
President and CEO

Cc:

David Loeb, Councilman at Large
Nelda Martinez, Councilwoman at Large
Mark Scott, Councilman at Large
Kevin Kieschnick, Councilman, District 1
John Marez, Councilman, District 2
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