

The past is the past, and the future is ours to create



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<<< COVER PHOTO
Panatropolis, Panama
serves as a model of
21st century airport
edge city design as it is
being developed next
to Panama's Tocumen
International Airport.

Aviation practitioners in today's marketplace are perhaps more greatly affected by the political and economic climate than at any other time in the industry's history. Funding bills, political debates and stakeholder demands are requiring owners, developers, consultants, suppliers and contractors to have the ability to adapt, build innovative partnerships and take greater risk.

In my own history with the ACC, I have routinely seen the debate of the merits of federal funding bills arise. However, this year, with 18 authorization extensions for the FAA — a staggering number for any government agency — this is no longer breaking news, but rather has become the norm for our respective companies. The political debate may change with every election cycle, but the result is the same. We wait. We see how the federal funding bills fall far short of needs, and then we decide how to make up the balance. While it is difficult under today's short-term demands of private or public shareholders, a paradigm shift in how we conduct our business must and will take place to make up for those shortfalls we see every year.

CURRENT MARKETPLACE

The recession has had little regard for markets and geography, and it has forced numerous changes, to the point of extreme austerity, in the overall transportation and airport development markets. When federal funding was more plentiful, we saw owners share the work between multiple constituents. Now, we increasingly see the bundling of projects to create economies of scale under tighter budgets impacting consultants, contractors and suppliers alike. This, in turn, has led to an increased willingness to adopt design-build and other alternate project delivery mechanisms. "Last year, more than 100 pieces of state legislation passed to widen authorization for public-sector design-build," says Richard Thomas, vice president of the Design-Build Institute of America, in Washington, D.C.

The recent recession has also led to desperation pricing among contractors, as businesses fight to stay above water in the face of significant competition. Moreover, we are now seeing foreign constructors and suppliers enter the U.S. market in a more significant way, changing industry practice even further.

Increased construction management-at-risk, once limited to private industry, is now being used more and more in the public sector, as owners increasingly transfer the risk to consultants while maintaining speed to market. And public-private partnerships (P3), while no longer an unknown entity, are still a relatively small factor in the U.S. airport market.

The global market is a different story. A reason for this disparity between U.S. and global practice may be that P3, or any private investment for that matter, requires a solid revenue/return stream for which airports *can* be very favorable (depending on size and other factors). For example, diverse sources of equity capital outside the U.S. are now available, as witnessed by a U.S. pension fund that recently bought 12.7 percent of UK's Gatwick Airport. Developers, concessionaires and contractors are becoming more involved in the investment side of public infrastructure, either as a donor or receiver, again changing the way projects are viewed and eventually built. In fact, *Engineering News-Record* predicts that the continuing budget shortfalls in state and local governments will cause many design and construction firms to explore P3 options to move projects forward. This will likely follow the same growth path that we've seen in recent years with the gradual and now accepted trend toward design-build as an alternative delivery model.

PUBLIC FINANCING AND INDUSTRY CONSOLIDATION

Budget difficulties will either force new ways to fund projects or will lessen the standards for acceptable infrastructure conditions. Along with increased population growth, these funding issues will further escalate congestion in all modes of transportation. Added to these difficulties is the political process of financing the nation's infrastructure. An example is the federal gas tax, which currently sits at 18.4 cents/gallon and hasn't changed since 1993, forcing states and municipalities to implement their own increases or find alternate ways to fund improvements. The same holds true for Passenger Facility Charges (PFCs), which have not been raised since 2000.

As an alternative to break out of the historic funding stalemate, the Obama administration

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ACC INSTITUTE EVENTS

TIMEFRAME	COURSE TITLE	LOCATION
June 8 – 9, 2011	ACC / ACI-NA / AGC Airport Project Delivery Systems Summit	San Jose, CA
November 30, 2011	ACC Globalization Summit	Washington, DC
December 5 – 7, 2011	ACC/ACI-NA/FAA NEPA Planning Workshop	Atlanta, GA

ACC EVENTS

July 12, 2011	ACC / TSA Security Technology Day	Arlington, VA
July 13 – 14, 2011	ACC / FAA / TSA Summer Workshop Series	Arlington, VA
November 7 – 9, 2011	ACC 33rd Annual Conference & Exposition	Palm Springs, CA

More courses are anticipated. Stay tuned to www.ACConline.org for updates.

For more information email T.J. Schulz, ACC: TJS@ACConline.org.

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has proposed an infrastructure bank solution. However, many argue that this will be another mechanism to benefit large cities, to the exclusion of rural areas. Funding scarcity has created austere spending, forcing owners and consultants to “do more with less,” meaning that the economic models of the past which supported infrastructure funding may stay in the past.

Of course, the consolidation of industry practitioners will continue. For example, consider that in 1965, in ENR’s first ranking of design firms, the top 456 firms combined had billings of \$728 million; in 2009, 22 firms reported design revenue in excess of \$750 million *each*. The breadth of services of these firms has increased immensely. A number of principals of current design and construction firms are reaching retirement age, and a number of these companies do not have well-developed succession strategies. Moreover, mega-corporations like GE and Siemens are growing their service offerings in many diverse markets, including aviation, to increase shareholder return.

WHAT DOES ALL OF THIS MEAN?

First and foremost, we can’t allow our standards to change for what we consider to be merely acceptable service delivery. If quality suffers, eventually safety becomes a more significant risk. So what is our likely path forward?

- 1) As a collection of companies that deal with airport development every day, firms large and small, from supplier to consultants to contractors and operators, will need to increase partnerships, alliances and their overall network to broaden our understanding of a landscape that is in a significant state of flux, with the resultant outcome unknown. One thing is certain — change is required to meet the current challenges. Companies can no longer afford to do business with past business models, nor can we depend on the federal government’s political and funding processes and mechanisms.
- 2) The big will get bigger — both companies and other entities in the aviation market and the transportation industry as a whole. Cities, for example (re-urbanization), will continue to see similar shifts. The development of “mega-firms” has created entities with a full range of services that once used to be resident in many different company types. This trend doesn’t appear to be diminishing. In fact, we are starting to see a shift in the transformation to “mega-firms” and smaller niche firms, with firms in the middle getting squeezed the most.
- 3) Political and other pressures will continue to commoditize engineering services, to the point where costs will be cut and consultants will be forced into business conditions that are not attractive or favorable. This is an area where the aviation industry must take a stand so that quality will be maintained and technology can continue to evolve.
- 4) Consultants, suppliers and construction communities, in the past working with competing interests and agendas, must now work more closely together not only on individual projects, but toward the overall objective of improving our collective industry. It is time all of us think this way, individually within our companies and as ACC — the unified voice of airport development firms.

The bottom line is this: today’s marketplace requires an open mind and thinking outside the box. Expand your willingness to change, take risks, build partnerships and increase your opportunities. The past is the past, and the future is ours to create.

