Airport Financial Management

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***Abstract*: The key objective of the airport financial management is to understand the economic and financial aspects. A strong management is maintained by analyzing the current financial trends and their impact on airport. The vital role is to meet the requirements and the demands for improving the facilities, capital expenses and budgets.The expected challenges are turned into the benefits of developing the organizational goals. In this literature, airport expenses and revenues, budgeting and airport funding are studied in detail.**

I. INTRODUCTION

There is a necessity of financial resources to operate and maintain the infrastructure and labor in the airport. Theavailability of capital is earned through number of plans, which is employed to cover the airport's cost burdens. The airport financial management educates the reader to understand the airport expenses, the need for liability insurance, airport revenues and types of funding programs. Financial accounting in airport is very important, as it manages the balance of operating expenses and revenues. The liability insurance is a general insurance system, which protects the insured from the risks through insurance policy. A long-term and short-term decision requires planning and administering the operating budget. In order to adapt to the dynamic environment, there should be continuous planning in making a well-organized management.

II. FINANCIAL MANAGEMENT

The objective of an organization is to accomplish the effective and efficient management of funds is referred to **financial management.** It often deals with company's financial strategy and also includes personal finance. These works are being carried out by financial manager and designated staffs.

III. AIRPORT FINANCIAL MANAGEMENT

In **airport financial management** the expenses and revenues are generated based on the airport operation and services. There are a large number of financial resources that has to be taken care by the airport authorities. The results obtained from the economic data relating to the financial position helps in decision making for airport financial accounting.

Airport Expenses:

Airport expenses are categorized into two:

- Operation and maintenance costs
- Capital improvement costs

  - *Operation and maintenance costs:*

    These expenses occur on day to day basis which includes remuneration of the airport employees, utility costs such as electricity usage, water consumption and communication methods.

  - *Capital improvement costs:*

    These are the expenses that occur on periodic basis prioritizing airport development such as airfield and terminal expansion, utility of aircraft rescue and firefighting vehicles and land procurement.

Operating Expenses:

There are four groups of operating expenses. They are:

- Airside area expenses
- Terminal and Ground expenses
- General and administrative expenses

The expenses affiliated with

- *Airside area*
  - Maintenance of runways, taxiways, apron and parking areas.
  - Airport equipment services.
  - Electricity supply for the airfield.

- *Terminal and Ground*
  - Maintaining employee parking slot, access roadways and waste disposal.
  - Improving landscape areas.

- *General and administrative*
  - Payment for admin staffs, maintenance operators and other officials in airport.

Non-Operating Expenses:

Paying interest on outstanding debt and contribution to government bodies is included in non-operating expenses.

Liability Insurance:

Liability insurance are used to assure various areas of responsibilities where a large amount of expenses are derived. Same degree of liability exposure to the airport tenants and public premise operators. Claims from aircraft accidents are very high and liability in such cases includes damage in runway surface and failure of airport management to send warning during obstructions. The basic airport premises liability policy provides coverage for airport operators, products and construction works. Basically, coverage meant for bodily injury and damage of the property. Most of the airports invest money to purchase the liability insurance and coverage to secure their assests.

Operating Revenues

There are four major groups in airport operating revenues

- Airfield area revenues
- Terminal area revenues
- Airline leased area revenues
- Other leased area revenues

Revenues corresponding to

❖ *Airfield area*

- ➢ Collecting landing fees for scheduled and unscheduled airlines.
- ➢ Parking charges in hangars.

❖ *Terminal and Ground*

- ➢ Concessions made within terminal consist of restaurants, travel services and retail shops.
- ➢ Outside terminal concession are made for parking and ground transport.

❖ *Airline leased area*

- ➢ Rentals from the office, ticket counters, ground equipments and cargo terminals.

❖ *Other leased area*

- ➢ Revenues from governmental units and business in airport industrial area.

Non-Operating Revenues:

Non-operating revenues are generated from the interest earned on governmental investments, local taxes and selling of airport properties.

Budget Appropriation:

Budget is a quantified financial plan for operating and maintaining the airport during a definite period. A budget concerning runway resurfacing and construction covers the major capital expenditures in the airport. A written financial budget is made once when the future plans of the airport has been decided.The airports operates under three different budget appropriation

- Lump sum appropriation
- Appropriation by activity
- Line-item budgeting

❖ *Lump sum appropriation:*

- ➢ Lump sum budget are non-specific approach for budgeting.
- ➢ It also refers to the simplest form of budget.
- ➢ Here, the usage of funds is much more flexible than other budget appropriations.

❖ *Appropriation by activity:*

- ➢ The process of setting money aside for specific purpose.
- ➢ Appropriated funds are assigned to deal with major activities such as airside facilities and terminal buildings.

❖ *Line-item budgeting:*

- ➢ Identification of the total available revenue and cost estimation for descriptive categoriesare allocated in separate lines and given a monthly budget.

Revenue Strategies at Commercial Airports:

The risks and responsibilities of running the airport is legally binded as agreements which define revenue strategies in airports. The terms and conditions governing the airport and aircraft facilities are established in airport use agreements. It includes both legal contracts and leases.Two financial practices used are:

- Residual cost approach
- Compensatory cost approach

❖ *Residual cost approach:*

- ➢ The financial aspects of airport operation are taken care by the airlines, so it relives the residual agreement between operators and airlines.
- ➢ The airlines take in charge to collect the non-aeronautical revenues.

❖ *Compensatory cost approach:*

- ➢ Air carriers are required to pay charges equal to the cost of air carrier facilities,in order to recover the actual costs of the service they use.
- ➢ Surplus revenues are generated by compensatory approach.

Airport Funding:

It is difficult to manage airport finances and to maintain the budgets which have been increasing over the upcoming years. Therefore to improve the capital costs there are three alternative sources of funding

- Federal and state grant programs

- Bond financing
- Private investment

❖ *Federal and state grant programs:*

- ➢ State grant programs are provided by the federal government which collects fund for airport development.
- ➢ There is no requirement to pay back these funds to the government.
- ➢ Grant programs are generally offered by many individual states in the nation.

❖ *Bond financing:*

- ➢ Airport funding is done widely through bond financing.
- ➢ Based on the size of the airport and type of air traffic served, the overall investment varies.

❖ *Private investment:*

- ➢ Private investment mostly handles airport capital projects.
- ➢ Their main concenr is to construct terminal buildings and ground service areas.
- ➢ These investments are made through public private partnership
- ➢ Privitization can be structured into
  - Build, operate and transfer (BOT) contracts
  - Lease, build and operate (LBO) agreements
  - Full Privatization

♦ *Build, operate and transfer(BOT) contracts:*

- ➢ BOT contracts uses private investment to contruct and operate the facility for a defined period as mentioned in contract.
- ➢ The transfer of ownership of the facility to the airport authorityis done at the final stage of the contract.

♦ *Lease, build and operate (LBO) agreements:*

- ➢ The allowance of lease agreement by the government makes stronger bond with complete privatization without losing the airport assests.
- ➢ Long-term lease allows the private sector to construct and maintain the airport facility.
- ➢ Private agencies has more authority over the facility because of its creativity and innovation.

♦ *Full Privatization:*

- ➢ Full privatization means the sale of the entire airport.It is the final form of airport privatization.
- ➢ This procedure is followed internationally and not domestically.
- ➢ Under full privatization, the complete authority is handed over to the private entity but regulatory authority is maintained by the government.

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