

# New York's LaGuardia Airport Public-Private Partnership (PPP) Project

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## 1. Introduction

For many years now, commentators have pointed out how severely infrastructure has deteriorated in the United States. The Infrastructure Investment and Jobs Act, which took effect in 2021, will provide upwards of \$550 billion in new funds over a period of five years for maintaining and improving infrastructure. Although this initiative is expected to quickly improve conditions in many areas, airports with dilapidated facilities and control tower systems have been unable to keep up with the ever-increasing number of travelers each year. Airport congestion has not only worsened, it has become the norm. Much of the funding necessary for financing airport development was projected to come from a range of sources including sales at airport facilities, airport use charges, and government grants.<sup>Note 1</sup> However, the sluggish demand for airline travel due to the pandemic has left the outlook for all airports less than bright.

Amid such circumstances, some cases have demonstrated the use of public-private partnerships (PPP) for airport improvement. Both San Juan Airport in Puerto Rico and Airglades Airport in Florida have adopted PPPs under a pilot program implemented by the federal government for privatizing airports.

The LaGuardia Airport PPP, which this report focuses on, is not part of the federal government program. It has been independently planned and adopted, principally by the Port Authority of New York and New Jersey (PANYNJ), the project administrator. The PPP is a 35-year design-build-finance-operate-maintain (DBFOM) project to rebuild the dilapidated Central Terminal (Terminal B). The project began in 2016 and the new terminal opened this year. The

LaGuardia Airport PPP is set against the backdrop of the world's largest city for business, New York City. It is no overstatement to say that this is one of the world's foremost PPP projects in anticipation of the ever-increasing demand for air travel.

## 2. Overview of LaGuardia Airport

Along with nearby John F. Kennedy International Airport and Newark Liberty International Airport, LaGuardia Airport is one of the principal airports servicing the New York metropolitan area. In 1939, it opened as the New York Municipal Airport. Since 1947, it has been managed, administered, and policed by PANYNJ under a lease with the City of New York (the current lease runs until 2050).

### <Key Data about LaGuardia Airport>

Area: Approx. 280 ha

Runways: 2 (2,134m×46m and 2,135m×46m)

Passenger Terminals: 3 (Terminals A, B and C)

Passengers: 31,084,894 (2019)

From the standpoint of environmental protection and noise reduction, the airport does not allow, with some exceptions, flights to take off or land in cities more than 2,400 km away.



Source: BBC News

Figure 1. Locations of the three main airports near New York City

into New York City, expand the tarmac, and add hotels to the site. As part of this transformation, the Terminal B PPP is a roughly \$4 billion, 35-year DBFOM project for the central terminal (Terminal B).

Upon project completion, the terminal area will be 1.6 times bigger, the security area three times larger, and the tenant area 1.4 times the size of the current area. The renovation work started in 2016 and sections of the terminal were opened in stages starting at the end of 2018. The new Arrivals and Departures Hall was completed in June 2020 during the pandemic (The entire Terminal B renovation was completed in July 2022.).



Source: PANYNJ Website

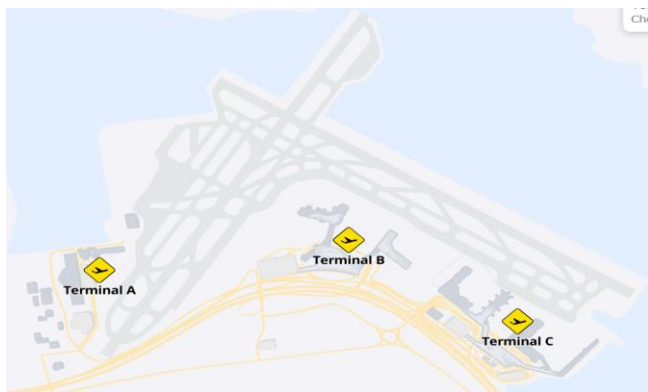
Figure 2. LaGuardia Airport \*Prior to renovation

<Background of PPP and Selection of Consortium>

LaGuardia Airport was plagued for many years by a high rate of aircraft delays, dilapidation, and congestion due to the increasingly cramped facility. In 2014, then Vice President Biden likened LaGuardia Airport to a “Third World country.” The airport was also inauspiciously ranked as the worst in North America.

In 2004, PANYNJ launched a large-scale modernization and redevelopment program for Terminal B, which was last renovated in 1990. Under the auspices of a PPP project, PANYNJ laid out a plan of action to design a new terminal and related facilities and to procure financing, construct, maintain, and operate the new terminal and related facilities with the use of private sector capital. In October 2012, PANYNJ issued a Request for Qualifications (RFQ) for the project.

Then, in 2013, PANYNJ invited the following four consortiums, which had been prequalified, to submit a Request for Proposals (RFP). At the recommendation of the Airport Advisory Panel set up by then New York Governor Cuomo, LaGuardia Gateway Partners, LLC was selected as the partner in May 2015.



Source: PANYNJ Website

Figure 3 LaGuardia Airport \*After renovation

3. LaGuardia Airport Terminal B PPP

LaGuardia airport’s transformation is a tremendous initiative totaling approximately \$8 billion that will merge four terminals, connect the airport to the subway heading

Table 1. Pre-qualified consortiums

Consortium	Participating companies
LaGuardia Gateway Partners	Vantage Airport Group Ltd. Skanska Infrastructure Development Meridiam Walsh Group, HOK Architects, WSP
Aerostar New York Holdings	Grupo Aeroportuario del Sureste (ASUR) Highstar Capital IV
LGAlliance	Lend Lease, Macquarie Infrastructure III
LGA Central Terminal Consortium	Aeroports de Paris (ADP) Goldman Sachs Global Infrastructure Partners II TAV Havalimanlari Holding, Latham & Watkins

Source: Prepared by author based on JETRO report

<Procurement Authority (Lessor)>

Port Authority of New York and New Jersey (PANYNJ)

PANYNJ is an entity independent of the New York and New Jersey state governments. It has the authority to plan, develop, and administer bridges, ports, railways, buses, airports, and other aspects of the regional transportation infrastructure, which is mainly in and around the City of New York and within the borders of both states. The Port Authority is not allocated tax revenue from any of the local municipalities in either state and operates mainly on revenue generated from fees, tolls, and other charges for transportation facilities under its jurisdiction. The governors of both states have the authority to approve and reject the Port Authority’s activities. Since it is an interstate entity, it does not need to follow the procurement regulations prescribed by state law.

PANYNJ operates LaGuardia Airport based on a lease agreement with the City of New York that was formalized in 1947, then subsequently revised and supplemented as needed.

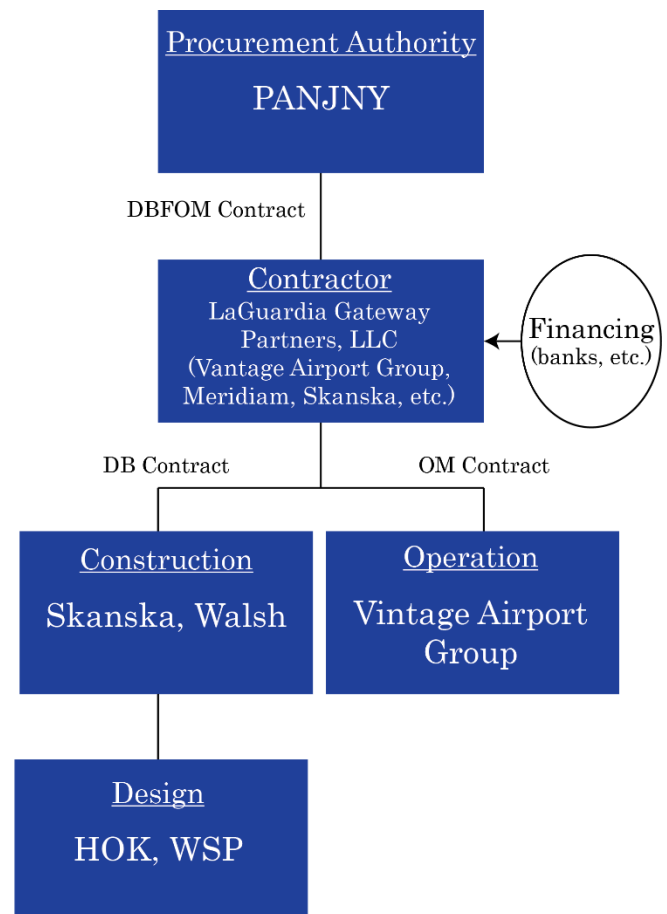
<Contrator (Lessee)>

LaGuardia Gateway Partners, LLC (LGP)

LGP is a limited liability company that was established in June 2015 for the principal purpose of entering into the lease agreement with PANYNJ. It was initially one-third owned each by Vantage Airport Group (Canada), Skanska USA (Sweden), and Meridiam LaGuardia CTB (France). Later, in 2017, JLC Infrastructure took an equity stake in the project with a \$10 million investment.

Of LGP’s participating companies, Vantage Airport Group is leading the program to redevelop and manage Terminal B. Skanska Walsh operates as a design-build joint venture in partnership with HOK and WSP, which are in charge of design. LGP partners have experience in more than 350 airports and transportation projects both in the United States and around the world.

<Structure of LaGuardia PPP Project>



Source: Prepared by author based on JETRO report

Figure 4. Structure of LaGuardia Airport PPP Project

<Overview of PANYNJ-LGP Lease Agreement>

PANYNJ (lessor) and LGP (lessee) entered into a 35-year

lease agreement that obligates LGP to complete the following:

- (i) Operation, maintenance, financing and demolition of existing Terminal B and related infrastructure;
- (ii) Design, construction, financing, operation, as well as maintenance and management of new Terminal B and related infrastructure;
- (iii) Design and construction of New Improvements on behalf of PANYNJ (these include specific improvements related to the airport, structure of public roads and public parking areas, as well as other improvements). These New Improvements shall not be operated or maintained by the lessee when they are completed, and are not regarded as part of the facilities leased to the lessee under the lease agreement;
- (iv) Design, construction, operation, and maintenance of the new Central Arrivals and Departures Hall (“Central Hall”)

As stated above, PANYNJ leases the facility to the lessee, and the lessee LGP is obligated to complete the following:

- (i) operation of the existing Terminal B facilities;
- (ii) the construction project that includes construction of the new Terminal B facilities, Central Hall, other specified new facilities as well as specified New Improvements;
- (iii) provide financing for specific elements of the construction project,
- (iv) operate and maintain the new Terminal B facilities and Central Hall.

The lease agreement terminates on December 30, 2050. Pursuant to the lease agreement, LGP has the right to grant airline companies, tenants, and other businesses the right to use space in the Terminal B facilities as well as to set the level of all fees relating to use of the Terminal B facilities with some exceptions of some (public telephones, luggage carts, etc.)

In addition, payments to be made under the lease agreement are described below.

#### (1) Payments by PANYNJ to LGP

- PANYNJ is to pay up to \$1 billion based on

performance for the cost of designing, constructing, and demolishing the terminal.

- PANYNJ is to pay milestone payments on schedule as progress is made for the cost of ancillary infrastructure and the Central Hall.

#### (2) Payments by LGP to PANYNJ

- Rent
  - Base rent: \$15,000,000/year
  - First additional rent: (leasehold mortgage): \$500,000/year
  - Second additional rent (surplus, etc. prior to construction completion): Undisclosed
- Compensation for oversight services during construction (\$3 million/year)
- Fees for technical services relating to transition of operations

LGP will apply revenue gained over the project term to repayment of debt relating to operational expenditures as well as design and construction costs. Project revenue will come from airline revenue (gate and facility lease fees as well as use fees paid by airline companies, etc.) and non-airline revenue (airport tenant rents, advertising fees, communications fees, etc.).

LGP’s financing has been underwritten by Citigroup Global Markets and Wells Fargo.

Costs and funding for the project are given below.

Table 2. Project Costs

Use/item	Amount
Design & Construction Costs	\$2,788,000,000
Other Costs Related to Design & Construction	\$236,000,000
Financing Costs	\$97,000,000
Construction Insurance	\$157,000,000
Other Unforeseen Costs	\$90,000,000
Interest Payments	\$488,000,000
Reserves	\$107,000,000
Total	\$3,963,000,000

Source: Prepared by author based on JETRO report

Table 3. Project Funding Structure

Source	Amount
PABs (tax-exempt) <sup>Note 2</sup>	\$2,354,000,000
PABs (taxable)	\$150,000,000
Debt Premium	\$188,000,000
PANYNJ	\$1,000,000,000
Equity Capital	\$200,000,000
Reinvested Operating Revenue	\$30,000,000
Interest Income During Construction	\$41,000,000
Total	\$3,963,000,000

Source: Prepared by author based on JETRO report

Other contract terms are:

- Service Level Maintenance
  - The level of service must be in compliance with the airport performance measurement program so that it is within the customer care standards set by PANYNJ.
  - Penalties will be levied if there is a failure to comply with performance standards and measurement provisions.
  - The performance fee is to be paid to the management company based on the amount of project revenue.
- Labor
  - A target of 20% of tenant businesses are required to be disadvantaged business enterprises (DBE).
- Contract Termination (Breach)
  - The agreement may be terminated due to breach by either PANYNJ or LGP, but PANYNJ must pay a fixed amount to LGP in such a case.
  - If the City of New York terminates the lease for LaGuardia Airport with PANYNJ, the lease agreement between PANYNJ and LGP will also terminate.
    - ◇ LGP may negotiate directly with the City of New York for the remainder of the term, depending upon the City's intentions.
    - ◇ If the lease with the City of New York is terminated due to breach by PANYNJ and LGP does not enter into an agreement directly

with the city or PANYNJ's successor does not take over the lease with LGP, PANYNJ shall pay LGP a pre-determined amount.

## ➤ Risk Allocation

Table 4. Allocation of Risk Between PANYNJ and LGP

Risk	PANYNJ	LGP
Design & Construction		○
Financing	△	○
Operation & Maintenance		○
Revenue	△	○
Parking Area Operation & Maintenance	○	
Parking Area Revenue	○	
Termination of Lease with City of New York	○	
Force Majeure Event	○	
Changes to Laws	○	

Source: Prepared by author based on JETRO report

## 5. Discussion &amp; Closing Remarks

With airport facilities aging in the United States, LaGuardia Airport is the first major airport built in the United States in the last 25 years (large renovations have not been seen in recent years) and symbolizes a major turning point.

Terminal B, which was discussed in this report, has been awarded UNESCO's 2021 Prix Versailles (global architecture and design award) and recognized as a world-class airport. It brilliantly fulfills the commitment set by PANYNJ to "elevate LaGuardia from worst to best." Construction projects have been planned for the airport that will significantly improve its convenience and value, including Delta's \$4 billion modern Terminal C (opened in June 2022), an AirTrain connecting to the New York subway, hotels, and other new infrastructure. Construction of the AirTrain has been a high priority issue for LaGuardia Airport, which is the only one of New York's three major airports not to have rail access. The airport is plagued by congestion on the surrounding roads. If completed as planned by 2025, the AirTrain will provide LaGuardia with the potential to rapidly grow as it is the airport located

closest to Manhattan.

Another point that deserves attention is that two-thirds of the \$8 billion committed for the program to redevelop all of LaGuardia Airport will be covered by private sector funds and facility usage charges.

LGP, which operates Terminal B, was dealt a hard blow by the pandemic at the time of the new terminal opening. By August 2021, however, the number of passengers had recovered to 50% of the level in 2019. In terms of financing, the most recent rating<sup>Note 3</sup> of LGP has affirmed its BBB rating, revising the outlook to stable from negative: “The rating affirmation reflects LPG's performance through the coronavirus pandemic, demonstrating an ability to maintain both a stable liquidity profile and a sustainable level of operating cashflows even during a period where terminal volumes have fallen significantly.” In the United States where demand for air travel has quickly recovered mainly for domestic leisure, the outlook for increased revenue is brighter and attention has focused on the private consortium LGP's competence in operating LaGuardia Airport facilities.

Furthermore, also on behalf of PANYNJ, a new \$2.7 billion Terminal A is being built at Newark Liberty International Airport, which is scheduled to open in 2022. The facility will be operated by Munich Airport NJ, LLC. In addition, at John F. Kennedy International Airport there is also a major renewal project underway with some facilities scheduled to open in 2023 (In August 2021, an agreement was reached on a PPP with JFK Millennium Partners, a consortium of Vantage Airport Group, JetBlue, and other participants, to redevelop Terminal 6.).

Despite the lingering impact of the pandemic, initiatives have begun to move forward in the United States to improve and upgrade airports through the use of PPPs. For government institutions and airport operators considering similar approaches, there are many things to learn from this movement in the United States, which began with the LaGuardia Airport PPP Project. During my tenure as I observe and experience the new facilities and equipment at airports gradually opening up as much as possible, I also hope to focus on trends where PPPs are employed for modernizing airports in the United States.

## 【LaGuardia Airport Terminal B】 Photos

Source: PANYNJ Website \*Photos below are from the same source.



Figure 5. Exterior View of LaGuardia Airport Terminal B



Figure 6. Departures Hall (Check-in Area)

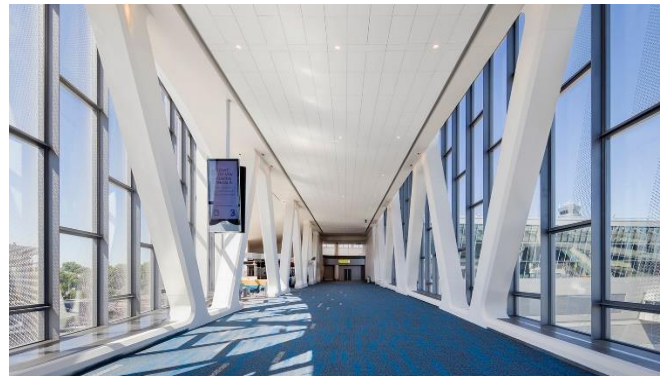


Figure 7. Pedestrian Skybridge connecting terminal and concourse



Figure 8. Green Space (located after passing through security check)

## (REF) Federal Aviation Administration's Public-Private Partnerships

< Airport Investment Partnership Program (formerly Airport Privatization Pilot Program) >

In the United States, the U.S. Congress established the Airport Investment Partnership Program in 1997 as a means of promoting airport PPPs in the privatization of airports<sup>Note 4</sup>. This program allows private companies to own, manage, lease, and develop airports. The 2012 Reauthorization Act increased the number of airports that can participate from five to ten. The 2018 Reauthorization Act removed the restriction on the number and type of public airports that may participate in the program (the name of the act was also changed in 2018). The 2018 Reauthorization Act also permitted public sponsors and private operators to manage airports jointly. It permitted a public sponsor to privatize multiple airports owned by the same sponsor. The airport owner or leaseholder may be exempt from repayment of federal grants, return of property acquired with federal assistance, and restrictions on the use of proceeds from the airport's sale or lease. Operators may collect airport use charges as well as utilize federal grants provided exclusively for public airports. As of June 2020, there are two airports in the program: Luis Muñoz Marín International Airport in Puerto Rico and Hendry County Airglades Airport in Florida. New York State's Stewart International Airport was authorized to be leased by a private operator in 2000, but PANYNJ bought back the remainder of the lease in 2007.

Other than those listed above, applications were filed for 11 more airports, but all withdrawn prior to approval. According to an investigation conducted by the United States Government Accountability Office<sup>Note 5</sup>, among the reasons only two projects have been implemented since the program went into effect 25 years ago are: (1) the amount of time it takes for authorization, (2) the cost of obtaining private financing, and (3) the passivity of public institutions about transferring airport management authority. The

reason why the Luis Muñoz Marín International Airport went through the program and privatized was the pending debt repayments and urgent airport improvement project work that required the allocation of lease revenue. Previously, all of the projects, which were eventually authorized, took several years from application until approval. However, during the Trump Administration, which sought to promote PPPs, tentative approval was granted one month after an application was filed for the St. Louis Lambert International Airport project. This also became a case study highlighting the focus on infrastructure PPPs (the application was later withdrawn for this project).

Notes:

Note 1) American Society of Civil Engineers, 2017  
Infrastructure Report Card, Aviation,  
<https://www.infrastructurereportcard.org/wp-content/uploads/2017/01/Aviation-Final.pdf>

Note 2) In Table 3, PABs is an abbreviation for Private Activity Bonds. These are a type of debt instrument issued for the purpose of supporting financing from the private sector to engage in specific projects.

Note 3) New rating issued by Fitch Ratings (October 2021)  
<https://www.fitchratings.com/research/us-public-finance/fitch-affirms-laguardia-gateway-partners-at-bbb-outlook-revised-to-stable-15-10-2021>

Note 4) U.S. Department of Transportation Federal Aviation Administration, Airport Privatization Pilot Program,  
[https://www.faa.gov/airports/airport\\_compliance/privatization/](https://www.faa.gov/airports/airport_compliance/privatization/)

Note 5) United States Government Accountability Office, Airport Privatization Limited Interest despite FAA's Pilot Program, <https://www.gao.gov/assets/670/667076.pdf>

### 【Citations, References & Source Material】

- 1) JETRO New York (2018), "Research Report on PPP Laws and Regulations and Operational Status in Key US States"
- 2) Wikibooks, Public-Private Partnership Policy Casebook/LaGuardia Central Terminal,  
[https://en.wikibooks.org/wiki/Public\\_Private\\_Partnership\\_Policy\\_Casebook/LaGuardia\\_Central\\_Terminal](https://en.wikibooks.org/wiki/Public_Private_Partnership_Policy_Casebook/LaGuardia_Central_Terminal)

3) Takatori, Yasuhisa and Tamagawa, Masabumi, Baker & McKenzie Law Firm (2017), “Characteristics and Recent Trends in the United States PPP System: Comparative Study with Japan’s PPP System (Japan Institute for Overseas Investment, November 2017 Edition).

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4) LaGuardia Terminal B website,

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