



Comparison of FAA's Financial Structure With That Of Commercialized ANSPs

***NEXTOR National Airspace
System Performance Workshop***

March 16, 2006

**Richard Golaszewski
GRA, Incorporated**



115 West Avenue • Jenkintown, PA 19046 • USA
☎ 215-884-7500 • 📠 215-884-1385
✉ richg@gra-inc.com

**The opinions presented
herein do not represent
an official position of GRA
or any of its clients.**



Objectives

- Describe and compare financial structure of FAA to other ANSPs
 - Balance sheet
 - Capital
 - Operating statements
 - Cash flows

- Posit impact if ATO financing restructured to that of commercial ANSP

- Implications of changed financial structure



Organizational Structure

FAA: Federal agency, part of U.S. Department of Transportation

- Subject to budget rules
- Airport and Airway Trust Fund with dedicated taxes

NAV CANADA: Private not for profit corporation

- Commercial accounts
- Assets transferred from government
- Recovers costs, including investment, from user fees

NATS: UK public-private company owned by UK government, employees, airports and airlines group

- BAA Plc investment subsequent to original formation
- Recovers costs, including investment, from fees



Financial Analysis

**Note: *FAA Financials Include All Programs
and Airport and Airway Trust Fund***



Balance Sheet Comparison FY2005

(\$ millions)

	FAA	NAV CANADA	NATS (Group)
Current Assets	\$14,193	\$165	\$524
Long Term Assets	\$14,432	\$2,548	\$1,655
Total Assets	\$28,625	\$2,712	\$2,179
Current Liabilities	\$1	\$194	\$207
Long Term Liabilities	\$3,667	\$2,495	\$1,782
Total Liabilities	\$3,668	\$2,689	\$1,989
"Equity"	\$24,957	\$24	\$190
Total Liabilities and Equity	\$28,625	\$2,712	\$2,179

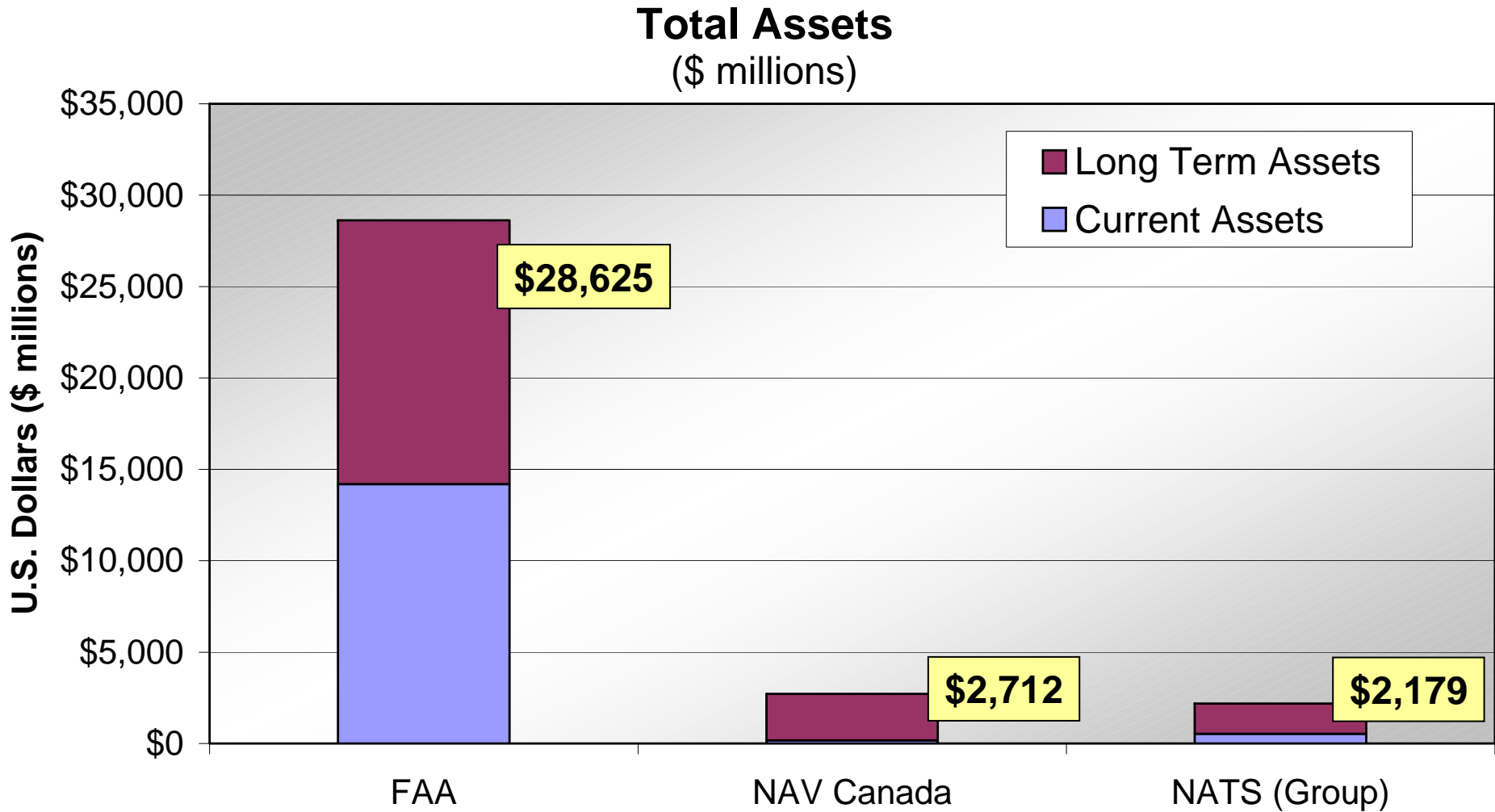
Notes:

CA\$/US\$ exchange rate as of August 31, 2005 is 1.1893 as provided by the FRED database at the Federal Reserve Bank of Saint Louis web site: <http://research.stlouisfed.org/fred2/categories/15>

US\$/UK £ exchange rate as of March 31, 2005 is 1.8888 as provided by the FRED database at the Federal Reserve Bank of Saint Louis web site: <http://research.stlouisfed.org/fred2/categories/15>

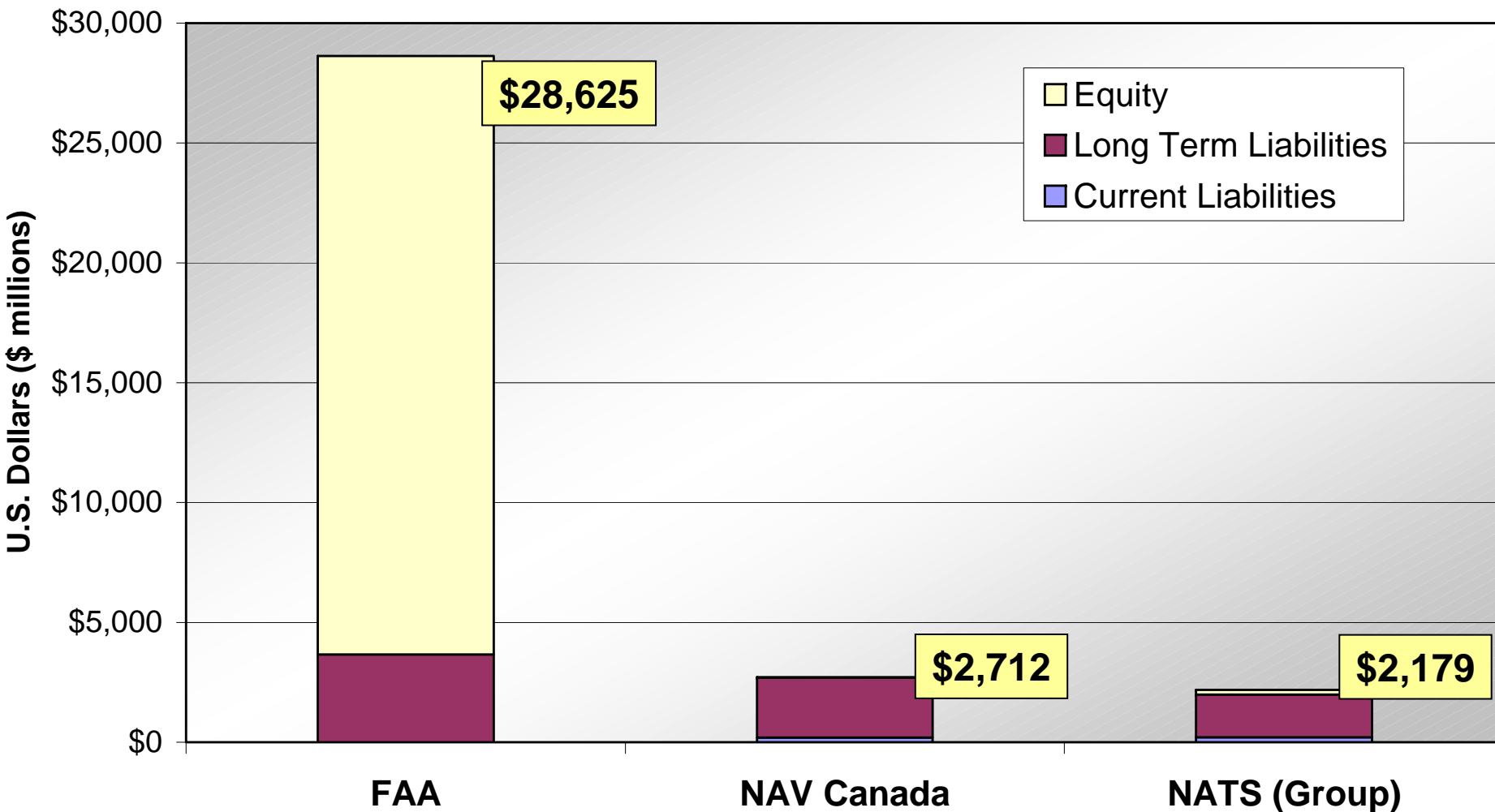


Balance Sheet Comparison FY2005



Balance Sheet Comparison FY2005

Total Liabilities and Equity (\$ millions)



Results from Operations FY2005

(\$ millions)

RESULTS FROM OPERATIONS FY 2005

	FAA	NAV CANADA	NATS (Group)
Total Financing Sources ¹	\$13,631	\$955	\$1,207
Total Uses	\$14,029	\$708	\$964
Operating Margin	(\$398)*	\$247	\$243

*Funded via drawdown of position

¹Sources include user fees, taxes, appropriations and other.

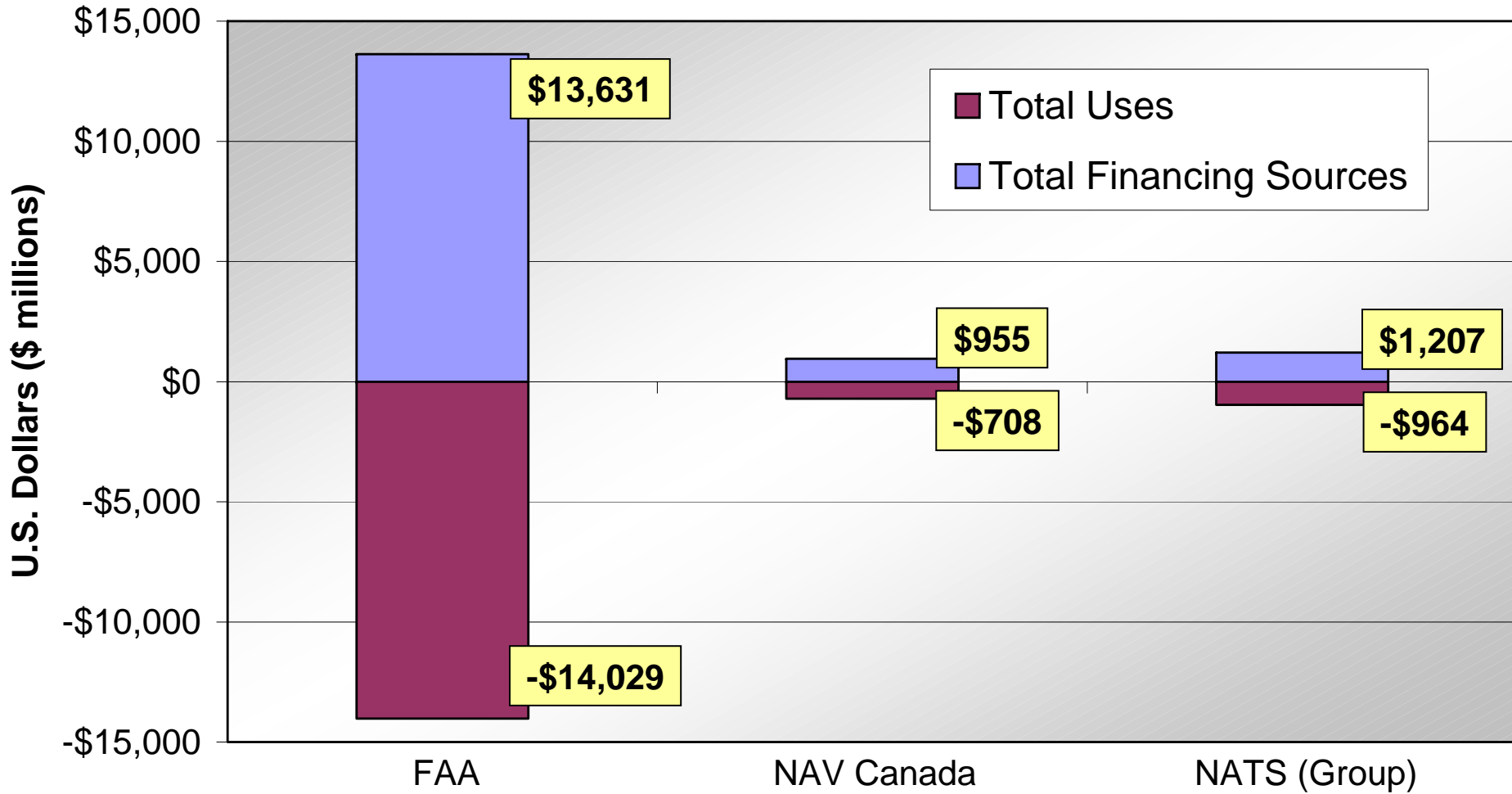
Notes:

CA\$/US\$ exchange rate as of August 31, 2005 is 1.1893 as provided by the FRED database at the Federal Reserve Bank of Saint Louis web site: <http://research.stlouisfed.org/fred2/categories/15>

US\$/UK £ exchange rate as of March 31, 2005 is 1.8888 as provided by the FRED database at the Federal Reserve Bank of Saint Louis web site: <http://research.stlouisfed.org/fred2/categories/15>



Results from Operations FY2005



Selected Financial Ratios

Year 2005	FAA	NAV CANADA	NATS (Group)
Debt/Equity Ratio (Total Liabilities/Equity)	0.15	113.89	10.45
Current Ratio (Current Assets/Current Liabilities)	14,694.74	0.85	2.53
Fixed Assets/Total Assets	0.50	0.94	0.76
Long Term Debt/Revenue	0.07	2.58	1.29
Operating Ratio (Operating Expenses/Total Revenues)	1.03	0.74	0.80



Observations

- ➔ FAA's federal agency spending rules tie up significant amounts of cash
 - Large cash balance is from Trust Fund commitments
 - Users pay for investments well before they enter service
- ➔ NAV CANADA as not-for-profit does not have or generate substantial equity
- ➔ NATS lower debt-equity and higher current ratio than NAV CANADA results in lower financial leverage
- ➔ Suppose there were no constraints and FAA's balance sheet could be restructured
 - Note: Examples use all of FAA instead of ATO, which is approximately 70% of total



Hypothetical Restructuring

- Does not work under FAA's current legislation and budget rules
- Shift from pay in advance to pay as you use
- "Unlock" FAA balance sheet to increase investment, reduce fees/taxes, or some of both
- FAA balance sheet restructured to be equivalent to combination of NAV CANADA and NATS
- Would occur over multi-year transition



Impact of Fee Reduction on FAA Balance Sheet Generates \$12.2 Billion

(\$ millions)

Balance Sheet Comparison			
	FAA Today	Reduce Fees/Taxes	Net Changes
Current Assets	\$14,193	\$1,999	(\$12,194)
Long Term Assets	\$14,432	\$14,432	\$0
Total Assets	\$28,625	\$16,431	(\$12,194)
Current Liabilities	\$1	\$1,348	\$1,347
Long Term Liabilities	\$3,667	\$14,365	\$10,698
Trust Fund Commitments	\$9,350	\$0	(\$9,350)
Equity	\$15,607	\$719	(\$14,889)
Total	\$28,625	\$16,431	(\$12,194)

- ➔ Same level of investment with lower fees (\$9.8 bil.)
- ➔ No requirement to have cash in advance
- ➔ Ability to borrow



Impact of Fee Reduction on FAA Balance Sheet Generates \$12.2 Billion

(\$ millions)

Balance Sheet Comparison

	FAA Today	Reduce Fees/Taxes	Net Changes
	\$44,193	\$1,999	(\$12,194)
	32	\$14,432	\$0
	25	\$16,431	(\$12,194)
	\$1	\$1,348	\$1,347
		\$14,365	\$10,698
		\$0	(\$9,350)
	07	\$719	(\$14,889)
Total	\$28,625	\$16,431	(\$12,194)

**REDUCE CASH IN;
 INVEST SAME;
 DO NOT FUND
 COMMITMENTS;
 BORROW**

- Same level of investment with lower fees
- No requirement to have cash in advance
- Ability to borrow

Balance Sheet Back-Up: Reduced Fee

Back Up For Balance Sheet Comparison Reduced Fee scenario \$millions

	Initial Balance Sheet	Cash Used to Reduce Fees	Acquire new Assets	Asset Depr.	Year 1 Balance Sheet	Cash Used to Reduce Fees	Acquire new Assets	Asset Depr.	Year 2 Balance Sheet	Total Change
Current Assets	\$14,193	(\$4,904)	(\$1,194)		\$8,096	(\$4,904)	(\$1,194)		\$1,999	\$12,194
Long-Term Assets	\$14,432	\$0	\$7,216	(\$7,216)	\$14,432	\$0	\$7,216	(\$7,216)	\$14,432	\$0
Total Assets	\$28,625	(\$4,904)	\$6,023	(\$7,216)	\$22,528	(\$4,904)	\$6,023	(\$7,216)	\$16,431	\$12,194

Short-Term Liabilities	\$1		\$674		\$675		\$674		\$1,348	(\$1,347)
Long-Term Liabilities	\$3,667		\$5,349	\$0	\$9,016		\$5,349	\$0	\$14,365	(\$10,698)
Trust Fund Commitments	\$9,350			(\$4,675)	\$4,675		\$0	(\$4,675)	\$0	\$9,350
"Equity"	\$15,607	(\$4,904)	\$0	(\$2,541)	\$8,163	(\$4,904)	\$0	(\$2,541)	\$718	\$14,889
Total Liabilities & Equity	\$28,625	(\$4,904)	\$6,023	(\$7,216)	\$22,528	(\$4,904)	\$6,023	(\$7,216)	\$16,431	\$12,194

Notes:

1. Cash used to reduce fees and fund investment
2. Assets depreciated at 50% per year and replaced
3. Commitments reduced to zero
4. Assets funded via borrowing



Impact of Increased Investment on FAA Balance Sheet

(\$ millions)

Balance Sheet Comparison			
	FAA Today	Invest More	Net Changes
Current Assets	\$14,193	\$4,032	(\$10,161)
Long Term Assets	\$14,432	\$24,593	\$10,161
Total Assets	\$28,625	\$28,625	\$0
Current Liabilities	\$1	\$2,348	\$2,347
Long Term Liabilities	\$3,667	\$25,025	\$21,358
Trust Fund Commitments	\$9,350	\$0	(\$9,350)
Equity	\$15,607	\$1,252	(\$14,355)
Total	\$28,625	\$28,625	\$0

- Same level of fees produces more investment
- No requirement to have cash in advance
- Ability to borrow

Impact of Increased Investment on FAA Balance Sheet

(\$ millions)

Balance Sheet Comparison

	FAA Today	Invest More	Net Changes
Operating Assets	\$44,193	\$4,032	(\$10,161)
Operating Liabilities	29,102	\$24,593	\$10,161
Total	15	\$28,625	\$0
Operating Assets	1	\$2,348	\$2,347
Operating Liabilities	1	\$25,025	\$21,358
Operating Liabilities	1	\$0	(\$9,350)
Operating Liabilities	7	\$1,252	(\$14,355)
Total	\$28,625	\$28,625	\$0

**TAKE IN SAME \$;
 INVEST MORE;
 DO NOT FUND
 COMMITMENTS;
 BORROW**

- Same level of fees produces more investment
- No requirement to have cash in advance
- Ability to borrow

Balance Sheet Back-Up: Incr. Invest.

		Back Up For Balance Sheet Comparison Acquire Assets Scenario \$millions									
		Initial Balance Sheet	Cash Used to Reduce Fees	Acquire new Assets	Asset Depr.	Year 1 Balance Sheet	Cash Used to Reduce Fees	Acquire new Assets	Asset Depr.	Year 2 Balance Sheet	Total Change
Current Assets		\$14,193	\$0	(\$5,081)		\$9,113	\$0	(\$5,081)		\$4,032	\$10,161
Long-Term Assets		\$14,432	\$0	\$10,824	(\$7,216)	\$18,040	\$0	\$18,040	(\$11,487)	\$24,593	(\$10,161)
Total Assets		\$28,625	\$0	\$5,744	(\$7,216)	\$27,153	\$0	\$12,960	(\$11,487)	\$28,625	\$0
Short-Term Liabilities		\$1		\$1,174		\$1,175		\$1,174		\$2,348	(\$2,347)
Long-Term Liabilities		\$3,667		\$4,571	\$0	\$8,238		\$16,787	\$0	\$25,025	(\$21,358)
Trust Fund Commitments		\$9,350			(\$4,675)	\$4,675		\$0	(\$4,675)	\$0	\$9,350
"Equity"		\$15,607	\$0	\$0	(\$2,541)	\$13,066	\$0	(\$5,000)	(\$6,812)	\$1,254	\$14,353
Total Liabilities & Equity		\$28,625	\$0	\$5,745	(\$7,216)	\$27,154	\$0	\$12,961	(\$11,487)	\$28,627	(\$2)

Notes:

1. Cash used to increase investment by \$10.2 bil. over base and after replacement of depreciated assets.
2. Assets depreciated at 50% per year and replaced
3. Commitments reduced to zero
4. Assets funded via borrowing



- ➔ FAA status as government agency
 - Precludes “businesslike” financial structure

- ➔ Substantial value “locked up” in balance sheet

- ➔ Likely to require legislative fix
 - Can be unlocked via borrowing and/or by eliminating need to fund commitments (able to “anticipate” future revenues)

Back-Up



Sources of Financial Data

"FAA FY 2005 Performance and Accountability Report Available online at:
http://www.faa.gov/about/office_org/headquarters_offices/aba/offices/financial_management/performance_accountability/media/2005_PAR.pdf"

"Management's Report and Consolidated Financial Statements of NAV CANADA, Year ended August 31, 2005 Available online at:
http://www.navcanada.ca/ContentDefinitionFiles/Publications/CorpPublications/financial/2005/Quarter4_en.pdf"

"NATS Holdings Limited Annual Report and Accounts 2005 Available online at:
<http://www.nats.co.uk/news/docs/natsholdingsmarch2005ara.pdf>"

