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Airlines Offer to Pay $40 Million SkyCity Breakup Fee, Urge USVI to Reject $1.2 Billion Airport P3

Airlines warn VIPA’s airport redevelopment could raise airline costs to $126-$156 per passenger by 2031 and reduce service. AAAC backs a phased plan under $400 million and says carriers are prepared to cover SkyCity’s $40 million breakup fee in full.

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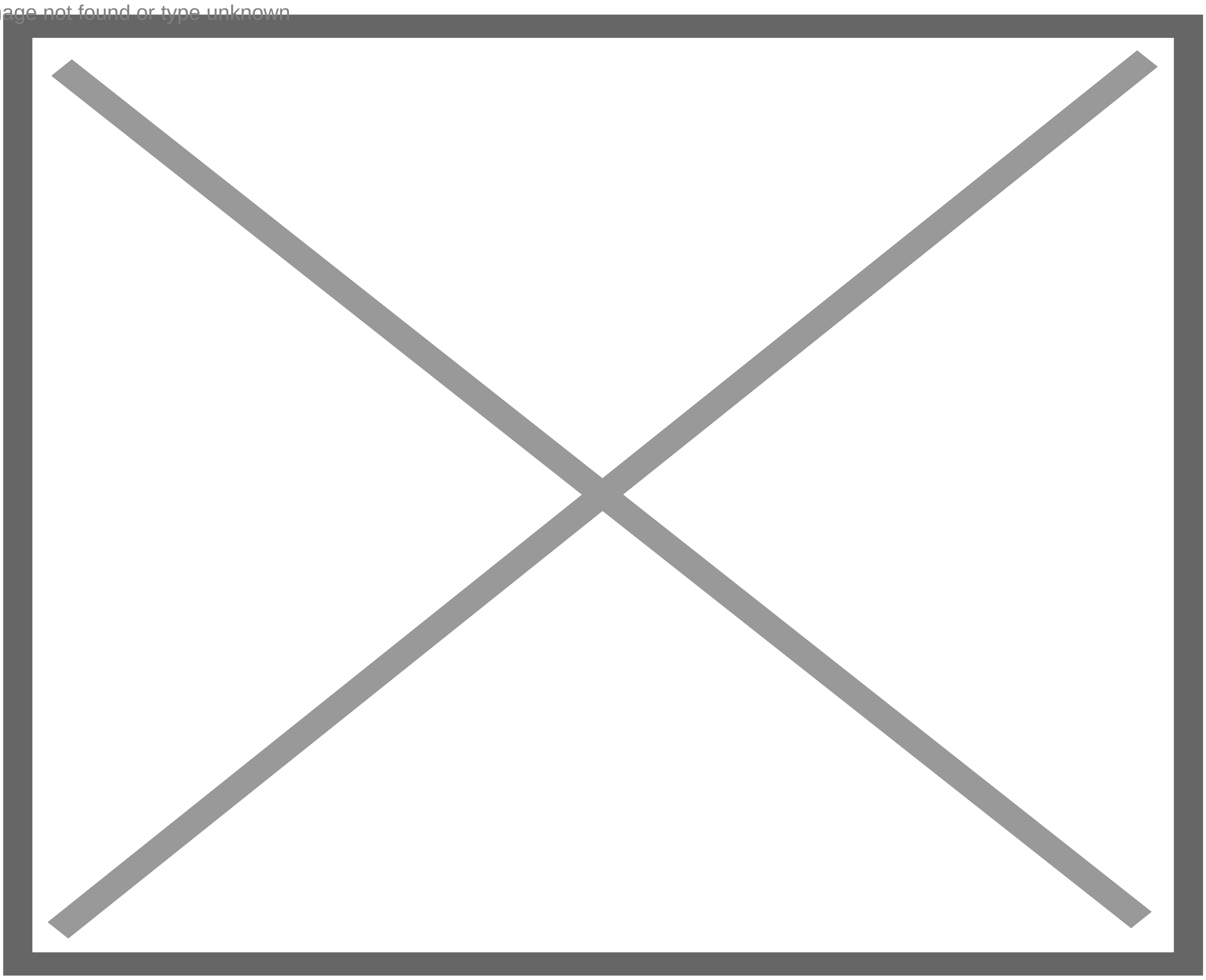

JetBlue aircraft over St. Croix, where airlines are warning that VIPA’s proposed airport redevelopment could sharply increase operating costs and threaten future air service to the territory. **By. ERNICE GILBERT, V.I. CONSORTIUM.**

Airline representatives are urging Virgin Islands tourism and hospitality stakeholders to lobby against the Port Authority’s current airport redevelopment plan, saying carriers are prepared to pay the $40 million breakup fee required for VIPA to walk away from the SkyCity arrangement and instead pursue a phased development plan proposed by the Airlines Airport Affairs Committee.

During a Monday night meeting, airline representatives argued that the proposed public-private partnership could dramatically increase the cost of serving the territory, potentially leading airlines to reduce flights or abandon routes. They promoted an alternative plan they say would cost less than $400 million for both airports, compared with an estimated $1.2 billion for the SkyCity P3 arrangement.

"The airlines have said we will cover the cost of this," said American Airlines executive Lorin Carr, referring to the $40 million breakup fee.

Carr urged local stakeholders to lobby "the politicians, the people in power, the people that have the ability to affect change, and let them know that this is a bad deal."

The appeal comes as discussions between VIPA and the AAAC continue, with another meeting scheduled for Friday. VIPA's board is also expected to meet near the end of the month to consider implementation of a new aviation tariff framework.

Airlines Say Cost Per Passenger Could Rise Sharply

Airline representatives began Monday's presentation by explaining the cost per emplanement, or CPE, a central issue in their opposition to the redevelopment proposal.

CPE is calculated by taking the operating expenses and capital costs paid by airlines and dividing that amount by the total number of passengers. Airline representatives said higher CPE makes individual flights less profitable.

According to the AAAC, airlines currently face a CPE of approximately $26 per passenger when serving the Virgin Islands.

Under the plan being considered, representatives said that figure could climb to between $126 and $156 per passenger by 2031.

Sandra Cisneros of the Airline Liaison Office for the AAAC rejected suggestions that such increases would be relatively minor.

"A fee increase of this scale is not a minor adjustment or the equivalent of buying lunch at the airport," said Sandra Cisneros, from the Airline Liaison Office for the AAAC. "For short-haul and inter-island flights, like flights between St. Thomas, St. Croix, and San Juan, adding $100 or more per passenger to operating costs completely distorts the fare structure," she argued.

Airline representatives warned that such increases could create what they described as an airport "death spiral."

Under that scenario, airlines would reduce airlift or stop serving the territory because of higher costs. The airports' fixed operating expenses would then be divided among fewer passengers, driving CPE higher and potentially prompting additional reductions in airline service.

Airlines Cite Bermuda and Puerto Rico

Carr pointed to Bermuda as an example of the risks airlines see in a P3 arrangement implemented without sufficient carrier involvement.

“They entered into a P3 model without proper airline alignment, built a terminal that exceeded market needs, and CPE tripled,” he said. “Capacity dropped, fares rose, and traffic has still not recovered to pre-pandemic levels.”

He contrasted that experience with Puerto Rico.

Puerto Rico’s P3 airport redevelopment “succeeded because Aerostar worked collaboratively with carriers on a phased approach that kept costs controlled,” Mr. Carr noted.

Airlines Warn They Could Shift Aircraft Elsewhere

The AAAC also objected to VIPA’s proposal to establish higher fees through ordinance rather than through negotiated long-term airline leases.

United Airlines representative Zanell Roberts warned that airlines would not be contractually committed to maintaining their existing levels of service under such an arrangement.

“Under rates by ordinance, airlines are under no long-term contractual obligation to maintain current service levels. If the costs imposed on us are unsustainable, airlines can – and will – adjust schedules, reduce frequencies, or reallocate aircraft to more profitable markets without violating a lease.”

The representatives argued that the territory could therefore assume major airport development costs without guarantees that existing levels of airlift would continue.

AAA Proposes Phased Plan Under $400 Million

Instead of the SkyCity arrangement, the AAAC is proposing a phased redevelopment it says would cap construction costs for both Virgin Islands airports at less than $400 million.

The first phase would concentrate on core infrastructure, including critical utilities and modern airport facilities, with that work targeted for completion by 2031.

A second phase would add jet bridges, expanded holding areas and other concessions as passenger growth creates demand for those improvements.

The airlines also oppose turning airport operations over entirely to a private venture.

Instead, the AAAC recommended that VIPA hire a professional terminal operator to oversee daily airport operations while the Port Authority retains oversight.

Cisneros identified companies including AVports and Vantage as potential examples of such operators.

She said that structure would “avoid the high debt service and equity return markups inherent in a P3 structure while ensuing high-quality operations.”

Airlines Say Local Stakeholders Should Lobby Decision-Makers

Carr argued Monday that local decision-makers have been “sold a bill of goods” by the consortium of companies forming SkyCity.

“The representations made…do not necessarily reflect the reality you can expect if they are implemented,” he declared.

He argued that airlines are particularly well positioned to assess whether the proposed airport costs would make continued service financially viable.

“It would be wise to listen to the folks that understand the business that supports the airports,” Mr. Carr said, warning that “those jet bridges…have no value if there are no airplanes at the end of them.”

“The people that know are telling you that this will not work,” said Mr. Carr.

He encouraged tourism and hospitality businesses and other local stakeholders to make their objections known before VIPA’s board considers the new aviation tariff framework later this month.

The airlines’ position puts them firmly behind their own phased development proposal as negotiations with VIPA continue. Their next meeting with the Port Authority is scheduled for Friday.