

Laguindingan Airport Public-Private Partnership (PPP) Project

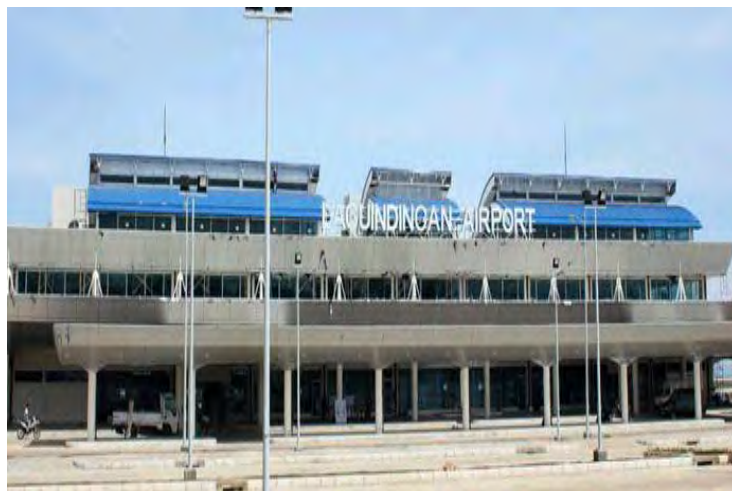
Republic of the Philippines

**DEPARTMENT OF TRANSPORTATION
and CIVIL AVIATION AUTHORITY OF PHILIPPINES**



**LAGUINDINGAN AIRPORT DEVELOPMENT, OPERATIONS AND
MAINTENANCE PROJECT:**

Project Information Memorandum



LIST OF ABBREVIATIONS

BSP	Bangko Sentral ng Pilipinas or Central Bank of the Philippines
CAAP	Civil Aviation Authority of the Philippines
CAB	Civil Aeronautics Board
DOT	Department of Tourism of the Philippines
DOTr	Department of Transportation
EO	Executive Order
GDP	Gross Domestic Product
IRR	Internal Rate of Return
ICAO	International Civil Aviation Organization
ILS	Instrument Landing System
IRR	Implementation Rules and Regulations
ITB	Instructions to Bidders
ITPB	Instructions to Prospective Bidders
LGU	Local Government Unit
NEDA	National Economic and Development Authority
OAT	Operate-Add-and-Transfer
O&M	Operations and Maintenance
PBAC	Pre-Qualification, Bids and Awards Committee
PIM	Project Information Memorandum
PPP	Public Private Partnership
RA	Republic Act
ROW	Right of Way

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Scope and Structure of the Project

Introduction

The DOTr and CAAP propose to appoint a private sector proponent under an appropriate PPP arrangement to undertake the operations and maintenance of the Laguindingan airport along with constructing required additional facilities for a defined concession period. Key objectives of appointing a private sector proponent are:

- Increased operating efficiency of the airports;
- Increased networking and marketing of the airports;
- Improved net financial benefits to government; and
- Improved customer amenities.

The details of the scope of project, legal framework for the project and proposed contractual arrangements are detailed in the following sections.

Scope of the Project

The scope of the Project for the private sector proponent under the PPP arrangement would cover:

- a. Taking-over the operations and maintenance of the existing facilities from CAAP;
- b. Expansion/construction of new passenger terminal(s), along with all associated infrastructures and facilities as per applicable standards;
- c. Installation of all the required equipment and associated facilities as per applicable standards;
- d. Provision of required works with respect to the existing terminal along with all associated infrastructures and facilities as per applicable standards, to handle operations until the development of the new passenger terminal(s);
- e. Operations and maintenance of the passenger terminals (new and existing, as may be decided by DOTr) during the entire concession period;
- f. Enhancement/development of airside facilities to meet the enhanced scale of operations at the airport; and
- g. Operations and maintenance of all enhanced airside facilities, including, among others, the apron, runway and taxiway.

The following would be excluded from the scope of the private sector proponent and CAAP / DOTr would continue to be responsible for:

- a. Air Traffic Control and associated services
- b. Air Navigation Services and associated services
- c. Provision and operations of ATC and ANS facilities

- d. Necessary upgrade and maintenance of ATC and ANS facilities
- e. Existing CAAP administration building
- f. Existing CAAP staff house

Legal Framework applicable to the Project

Republic Act No. 6957, as amended by Republic Act No. 7718 ("BOT Law"), and its 2012 Revised Implementing Rules and Regulations (Revised IRR), is the primary legal framework for Public-Private Partnerships (PPP) in the Philippines. The BOT Law enunciates the policy of the state to recognize the indispensable role of the private sector as the main engine for national growth and development. It further declared that the government shall provide the most appropriate incentives to mobilize private resources for the purpose of financing the construction, operation and maintenance of infrastructure and development Project normally financed and undertaken by the Government of the Philippines.

Proposed Specifications of Contractual Arrangements

The sections below provide a brief outline of various aspects that are being considered in terms of the structuring of the Project. The final details shall be provided as part of the draft contract during the bid stage after the Pre-Qualification process:

PPP Structure

An Operate-Add-Transfer arrangement is being evaluated / considered for the Project. Under this proposed structure, the private sector proponent shall take over the operations and maintenance of the Laguindingan Airport, undertake immediate expansion of various facilities and also undertake required capacity augmentation at the airport that may be required to cater to future demand throughout the contractual term. At the end of the concession period, the private sector proponent would transfer the airport facilities to DOTr and CAAP.

Concession Period

The PPP concession shall be for a period of 30 years.

Implementing Agency

The implementing agencies for the Project would be DOTr and CAAP. As highlighted earlier, CAAP would continue to provide Air Navigation Services and Air Traffic Control and associated services at the Laguindingan Airport throughout the concession period.

Performance Specifications

DOTr/CAAP proposes to include Minimum Performance Standards and Specifications (MPSS) in the concession agreement. The private sector proponent would be required to operate the Laguindingan Airport as per such defined MPSS. Further, the private sector proponent would also be required to undertake capacity augmentation at the respective airports to ensure compliance with the defined MPSS.

Tariffs at the Airport

When the operation and management of the respective airports will be ceded to the private sector proponent, DOTr/CAAP will concession the levying of various charges to the private sector proponent. DOTr/CAAP will state in the concession agreement with the private sector proponent, the manner by which airport fees and charges will be levied by the private sector proponent, consistent with applicable laws as well as industry standards and practices. Broadly, DOTr/CAAP contemplate specifying a base tariff as identified upfront and also specify tariff increments with reference to a parametric formula.

Incentives

Section 10 of the BOT Law extends to private sector proponents the Investment Incentives under the Omnibus Investments Code upon registration with the Board of Investments (BOI), depending on the level of capital requirements.

Continuation of Existing Contracts

When the private sector proponent takes over the operation of the airports, subject to final approvals, it is currently proposed that the existing contracts will be novated by CAAP to the private sector proponent and once the private sector proponent assumes CAAP's existing contracts, it would have the option to, allow the contracts to expire, renegotiate the contracts, or terminate the contracts on various grounds, within the boundaries of legal requirements. The private sector proponent would also be allowed to enter into new contracts for the provision of services should there be a need to provide additional services to the airport clientele or should there be additional space to lease out.

Laguindingan Airport Background

Development of Laguindingan Airport was conceptualized and studied by the Government of the Philippines over late 80s and early 90s. The Airport is on the northern tip of Misamis Oriental. Laguindingan Airport is understood to have a design capacity of handling ~1.6 million passengers a year. The airport commenced operations from June 15, 2013, under Visual Flight Rules (VFR).

Catchment Area for Laguindingan Airport

Laguindingan Airport is well positioned to handle the traffic earlier being catered to by the Lumbia Airport. The Lumbia Airport in the Northern Mindanao region had a strategic advantage in terms of being located within the Northern Mindanao province and closer to the cities of Cagayan de Oro and Iligan as compared to the Davao International Airport. The Laguindingan Airport is approximately 45 kilometers from Cagayan de Oro city and is approximately 65 kilometers from Iligan city. Thus, it would be able to cater to Lumbia Airport's catchment area.

Northern Mindanao Region

The Northern Mindanao Region (designated as Region X of the Philippines) is composed of five provinces and two cities classified as highly-urbanized, all occupying the north-central part of Mindanao island. Table below presents the names and the population data for the provinces / cities.

Province / Cities	Capital City	Population (2010)
Bukidnon	Malaybalay City	1,299,192
Camiguin	Mambajao	83,807
Lanao del Norte (excluding Iligan City)	Tubod	607,917
Misamis Occidental	Oroquieta City	567,642
Misamis Oriental (excluding Cagayan de Oro City)	Cagayan de Oro City	813,856
Cagayan de Oro City	-	602,088
Iligan City	-	322,821

Source: Philippine census data available at <http://www.caap.gov.ph/web/downloads.htm> <http://www.census.gov.ph/>

Economy - Northern Mindanao Region

The economy of the Northern Mindanao region is one of the largest regional economies in the island of Mindanao. Recently, the economy has been transforming from being a largely agro-based to becoming an industry and services-led economy. However, agriculture continues to remain a key component of the regional economy, and has helped the region withstand the slowdown in industry and services sector

during the crisis. Despite the slowdown in the global economy, the region has been able to attract significant investments in the recent past. Investments in trade, industry, infrastructure and services have witnessed significant Y-o-Y growth over the 2009-2011 periods. Similarly, tourism and export figures for the region over the 2009-2011 periods continue to show healthy positive trend.

Northern Mindanao is Mindanao's Trade and Service Center. Its strategic location offers traders and producers the most cost-efficient transit between Mindanao and the Visayas and Luzon and to major foreign markets like the United States, Japan, and Europe. Road projects connecting the region to all major points of Mindanao are understood to be in place. The region has an integrated and complementary economy. Bukidnon is positioned as the region's major food producer; Lanao del Norte as the industrial center; the Panguil Bay Sub region in Misamis Occidental is the region's fisheries and alternate tourism zone; Camiguin Island is the Tourism Haven; the Macalajar Growth Area encompasses the areas within Cagayan de Oro City as the Trade and Service Center; and Misamis Oriental as the Urbanized Agro-Industrial Center in Mindanao.

Prominent Industries in the Northern Mindanao Region

The Northern Mindanao Region is home to many large industries and banking institutions. There is a significant presence of Telecommunications and BPO services sector in the region. Some of the key industries / institutions in the region include -

- Treasure Steel Corporation
- Mabuhay Vinyl Corporation
- Granexport Manufacturing Corporation
- Petronas Energy Philippines, Inc.
- Pilmico Foods Corporation
- Pilmico Iligan Feedmill
- Platinum Group Metals Corporation
- San Miguel Corporation-Iligan Coconut Oil Plant
- Refractories Corporation of the Philippines
- Iligan Cement Corporation
- Mindanao Portland Cement Corporation
- Holcim Philippines, Inc.
- Iligan Bar and Rod Mill
- Fort Steel and Cargo
- Metrobank
- Philippine National Bank
- Bank of the Philippine Islands
- Land bank
- Philippine Veterans Bank
- East West Bank
- Banco Filipino

- Maranao Telephone Company
- Bayan Telecommunications Inc

Tourism - Northern Mindanao Region

Northern Mindanao is considered to be the eco-tourism hub of the Philippines because of its diverse environmental and cultural heritage. The region is composed of five provinces: Bukidnon, Camiguin, Lanao Del Norte, Misamis Occidental, Misamis Oriental.

Prominent Tourist Locations in the Northern Mindanao Region

Northern Mindanao region is a popular tourist destination considering the well-known and famous beaches in the region. Some of the popular tourist destinations include .

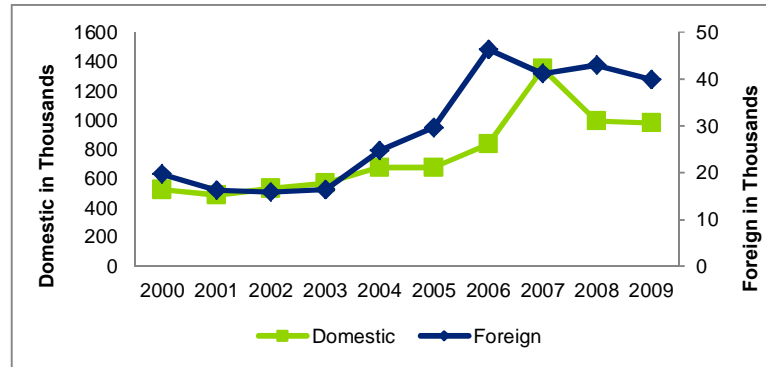
- Misamis Occidental Aquamarine Park
- Hoyohoy Highland Adventure Park, Tangub City
- Fort Santiago, Ozamiz City
- White Island
- Mantigue Island
- Katibawasan Falls
- Tuasan Falls
- Tangub Hot Springs
- Ardent Hot Springs
- Makahambus Cave and Adventure Park
- Gardens of Malasag Eco-Tourism Village

Historic tourist inflow in Northern Mindanao Region has been presented below:

Table 2: Historic Tourist Inflow in Northern Mindanao Region				
Year	Foreign Travelers	Overseas Filipinos	Domestic Travelers	Total
2000	19,706	2,050	524,452	546,208
2001	16,203	1,038	488,825	506,066
2002	15,898	1,075	533,736	550,709
2003	16,355	942	571,343	588,640
2004	24,690	1,811	674,765	701,266
2005	29,597	3,785	674,425	707,807
2006	46,284	8,947	837,851	893,082
2007	41,226	4,791	1,350,313	1,396,330
2008	42,933	3,732	994,697	1,041,362
2009	39,883	4,819	981,707	1,026,409

Source: CAAP

Figure 1: Historic tourist inflow in Northern Mindanao Region



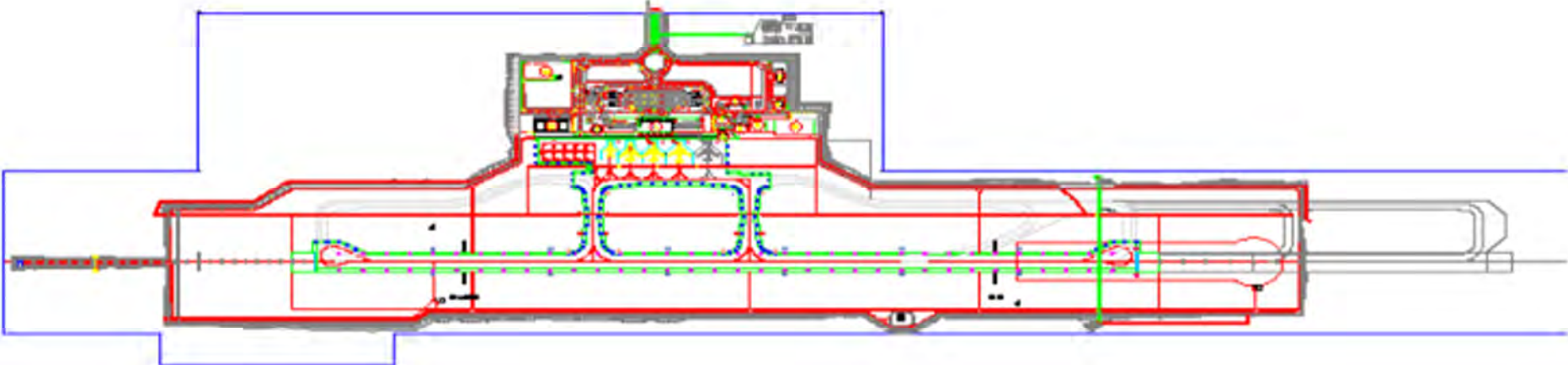
The historic domestic and foreign tourist inflow is presented in the graph. As per the Northern Mindanao Regional Development Plan 2011-2016, prepared by National Economic Development Authority at Cagayan De Oro, a tourism development plan has been presented for Northern Mindanao. As per this plan, the region shall endeavor to be the leading ecotourism destination of the south and to excel in business and leisure activities with its quality and standard tourism facilities, services and complementary local products. Among the broad strategies, that are planned to be implemented in this period of six years, are the following:

- a) Strengthen the tourism hub concept
- b) Entice private sector investments in tourism-related facilities and activities
- c) Reinforce licensing and accreditation of tourism facilities and services groups
- d) Ensure quality service providers in the Laguindingan airport
- e) Pursue collaboration in planning and promoting tourism investments and destinations
- f) Promote affordable and standard tourism complementary products and services; and
- g) Development and continuing improvements of logistics system and transport infrastructure (i.e., land, sea and air), through private sector engagement, as well as public and private partnership (PPP), to better link the region's economy to the rest of Mindanao, as well as to Luzon and Visayas

Based on the progress in implementation of these initiatives, the tourist inflow to Northern Mindanao region is expected to grow. The Plan has proposed following targets in terms of number of visitors in Northern Mindanao region:

- A total of 17.02 million visitors for the period 2011- 2016
- 12 percent annual increase of domestic tourist arrival from 2011-2016
- 10 percent annual increase of foreign tourist arrival from 2011-2016

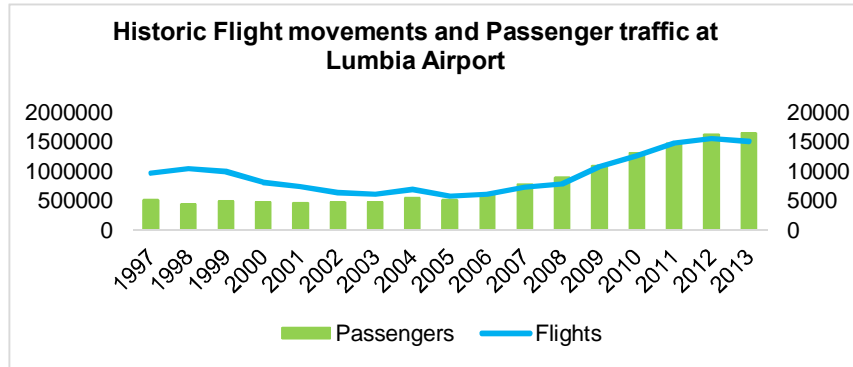
Figure 2: Existing Layout of Laguindingan Airport



Laguindingan Airport – Historic Traffic Assessment

Lumbia Airport was amongst the five busiest airports in the Philippines, in terms of passenger traffic. Growth for the airport has been fueled by introduction of low cost airlines in this region such as Cebu Pacific and AirPhil Express increasing their capacities on the major routes connecting to Cagayan De Oro and Butuan. Graph below shows the correspondence of aircraft movements and passenger traffic at Lumbia airport until 2013.

Figure 3: Historic Flight movements and Passenger traffic at Lumbia Airport



Over the years, traffic has increased from 0.51 million in 1997 to 1.80 million in 2016. Historic traffic numbers at the airport are as given below:

Table 3: Historic Traffic at Lumbia / Laguindingan Airport		
Year	Passenger Traffic	Cargo Traffic (in MTs)
1997	516,565	8,621
1998	442,957	9,191
1999	487,405	9,084
2000	470,202	11,613
2001	457,612	7,834
2002	468,884	9,515
2003	472,457	7,832
2004	545,036	9,359
2005	511,854	9,468
2006	606,216	10,379
2007	781,020	12,409
2008	884,671	11,036
2009	1,091,656	16,113
2010	1,301,502	22,245
2011	1,471,432	16,231
2012	1,622,049	21,818
2013	1,638,398	20,127
2014	1,553,436	21,823
2015	1,756,445	25,903
2016	1,800,505	20,486
CAGR last 5 Years	2.64%	-1.56%
CAGR last 10 years	9.72%	5.73%

Source: CAAP

Existing Airport Facilities

Passenger Terminal Building

The existing passenger terminal building at Laguindingan Airport has a total space of 7,184 sq. m. and this area has been developed in a one and a half level terminal. The terminal is served by two aerobridges. The floor heights are about 4.75m to 5m. The overall height of terminal is about 15m, well within the permissible height of 45 m under transitional slope as per ICAO norms.

The passenger departure check-in area is on the ground level while the regulatory checks and security hold area are on the upper level. The commercial areas in the terminal are limited to small spaces for a snack counter, restaurant and a business lounge. The arrival area is on the ground level only and it is served by two baggage conveyor belts.

Airside Facilities

The information of the existing airside facilities at the Laguindingan Airport is presented below:

#	Particular	Description
1.	Area	354 hectare
2.	Runway Orientation	N 85° 30q12+E
3.	Runway Length	Single runway of length 2,100 m
4.	Runway Width	Single runway of length 45 m
5.	Runway Strip Width	300 m
6.	Taxiways	23 m wide
7.	Turning Pad	Yes
8.	Apron Area	46,150 sqm
9.	Passenger Boarding Bridge	2 Passenger Boarding Bridge

Source: CAAP

Other Core Airport Facilities

A brief overview of various other core facilities at the airport is given below:

- Car Parking

The existing car parks are located in front of the passenger terminal, between the passenger terminal and fire station building and between the passenger terminal and cargo terminal buildings. Car parking areas have been provided for the infrastructure buildings i.e. the ATC tower, Fire station, administration Building, Maintenance building, Power House Building, and cold water receiving station. The total number of car parking slots available is 420, of which 380 are for passenger parking.

- Cargo

The existing cargo terminal is 350 sq.m. in area. It is located east of the passenger terminal at a distance of less than 100 m. The terminal is designated to handle both incoming and outgoing cargo.

- **ATC**

The Air Traffic Control (ATC) Tower Building is located to the west of the Passenger Terminal Building. The building has an area of 1,139 sq.m. It serves as the control tower and a technical block. The height of the ATC tower is 36.7 m with the controller's eye at 33.5 m.

- **ARFF**

The aircraft rescue and firefighting (ARFF) building is located between the Passenger Terminal building and the ATC tower. It is a two-floor building and has an area of 553 sq.m. There is a watch tower over the fire station building.

- **Administration Building**

The Administration Building is located south of the ATC tower and power house. It is a two floored building with an area of 676 square meters.

- **Maintenance Building**

The maintenance building is located west of the administration building. It has a floor area of 740 sq.m.

- **Other utilities**

The other utilities e.g. Power supply system, Water supply network, Sewerage network, Storm water drain network are also situated inside the airport.

Historical Financials

Following are the historical financials for Lumbia Airport:

Table 5: Historical Financials of Lumbia Airport		
	2009	2011
Total Revenues	PHP 73 Million	PHP 100 Million
% of Aero Revenues	97%	96%
Expenses	PHP 117 Million	PHP 166 Million