



Burlington International Airport Strategic Planning Committee

Analysis of Governance Options for Burlington International Airport January 10, 2013



FRASCA & ASSOCIATES, L.L.C.



Background

- On July 13, 2012, Mayor Miro Weinberger sought approval from the City Council for the creation of an Airport Strategic Planning Committee for Burlington International Airport
- The Committee was charged with, among other tasks, developing a strategic plan to strengthen the Airport and to ensure it remains a regional economic driver.
- Following discussion by the Committee and several presentations by outside consultants, the Committee requested Frasca & Associates to evaluate four potential governance structures



Proposed Options for BTV Governance

Option	Type
#1 – Status Quo	Continue current operations as City department with airport commission
#2 – Strong Commission	Independent commission within City jurisdiction
#3 – Regional Airport Authority	Consisting potentially of representatives of several local jurisdictions as well as the State DOT
#4 – Privatization	Sale or lease of the airport to private entity



Forms of Governance

While virtually all major commercial service airports in the US are publically owned they are operated along several models:

Ownership	Administration	Examples
City/County/State	Operated as a governmental department/unit	SFO, LAX, ATL, ORD/MDW, MIA, PHL, IAH/HOU, DIA, STL, BWI, AUG, DSM, MHT, THL, HNL, SNA
<i>Authority or Regional Body</i>		
Airport Authority	Operated as an independent authority reporting to an appointed governing board	DFW, MCO, IAD/DCA, SAN, CMH, CVG, BDL, DTW
Consolidated Authority	Operated as part of a larger authority which may include, port, road and mass transit facilities	OAK, SEA, JFK/EWR/LGA, BUF, BOS, PDX



Regionalization Considerations

A regional airport authority form of governance commonly reflects one of two views:

- **Creating an initial regional authority** to run the airports offered the best approach to governance and meeting coordinated economic development goals - MWAA, PANYNJ
- **Changing governance** from local control to regional platform was required to implement operating efficiencies, and political or structural improvements -DTW, PIT, SAN



Regionalization Considerations

Regionalization/authority structure typically assumed to provide the following benefits:

- Removal of local political considerations from day to day operations
- Streamlined decision making, principally in the areas of management, procurement and personnel
- Ability to attract, retain more professional staff at competitive compensation levels
- Allow for the inclusion of all affected jurisdictions in the management and operation of the facility



Governing Structures of Selected Airport Authorities

Airport	History	Governing Board	CY 2011 EPAX
Metropolitan Washington Airports Authority, DC	<ul style="list-style-type: none"> • Created in 1987 • Assumed operating control from the FAA • Initial 50 year lease subsequently extended 30 years to 2067 	13 member appointed board of directors <ul style="list-style-type: none"> • 5 by governor of Virginia subject to confirmation by Virginia General Assembly • 3 by DC Mayor subject to Council confirmation • 2 by governor of Maryland • 3 by President with Senate advice and consent 	20.09 M
San Diego County Regional Airport Authority, CA	<ul style="list-style-type: none"> • Split off from San Diego Port District January 1, 2003 	12 member board of directors (9 appointed & 3 ex-officio) Appointed: <ul style="list-style-type: none"> • 3 by Mayor of San Diego • 2 by San Diego County • 1 by mayors of east county cities • 1 by mayors of north county coastal cities • 1 by mayors of north county inland cities • 1 by mayors of south county cities Ex-Officio members appointed by Governor: <ul style="list-style-type: none"> • State DOT Director for San Diego Region • DOF representative for State Lands Commission Ex-Officio member appointed by Board: <ul style="list-style-type: none"> • US Navy or Marine Corps representative 	8.47 M
Jacksonville Aviation Authority, FL	<ul style="list-style-type: none"> • Split off from Jacksonville Port Authority May 2001 	7 member board of directors; <ul style="list-style-type: none"> • 3 appointed by Mayor of Jacksonville • 4 by Governor of Florida 	2.70 M



Governing Structures of Selected Airport Authorities

Airport	History	Governing Board	2011 EPAX
Wayne County Airport Authority, MI	<ul style="list-style-type: none"> Split off from Wayne County March 2002 	7 member appointed board of directors <ul style="list-style-type: none"> 2 by governor 1 by County Commission 4 by County Executive 	15.72 M
Allegheny County Airport Authority, PA	<ul style="list-style-type: none"> Created in 1999 Assumed control from Allegheny Co. Dept. of Aviation under 25 year lease 	9 member board of directors <ul style="list-style-type: none"> 7 members appointed by the Allegheny County Executive and confirmed by the County Council 2 members represent Beaver County and West Mifflin 	4.07 M
Albany County Airport Authority, NY	<ul style="list-style-type: none"> Operates ALB under 40 year lease with County. Created in 1993 as a public benefit corporation under state law. 	7 member board of directors <ul style="list-style-type: none"> 4 appointed by the Majority Leader of the Albany Count Legislature 3 appointed by the County Executive All appointments are required to be approved by the Count Legislature. 	1.22 M



Privatization Considerations

Privatization typically assumed to provide the following benefits:

- Introduce more efficient operation and management
- Allow more creative , businesslike management techniques
- Monetize the value of the facility through an upfront payment or revenue stream
- Reduce costs of operation, personnel, goods and services
- Access private capital markets for capital development



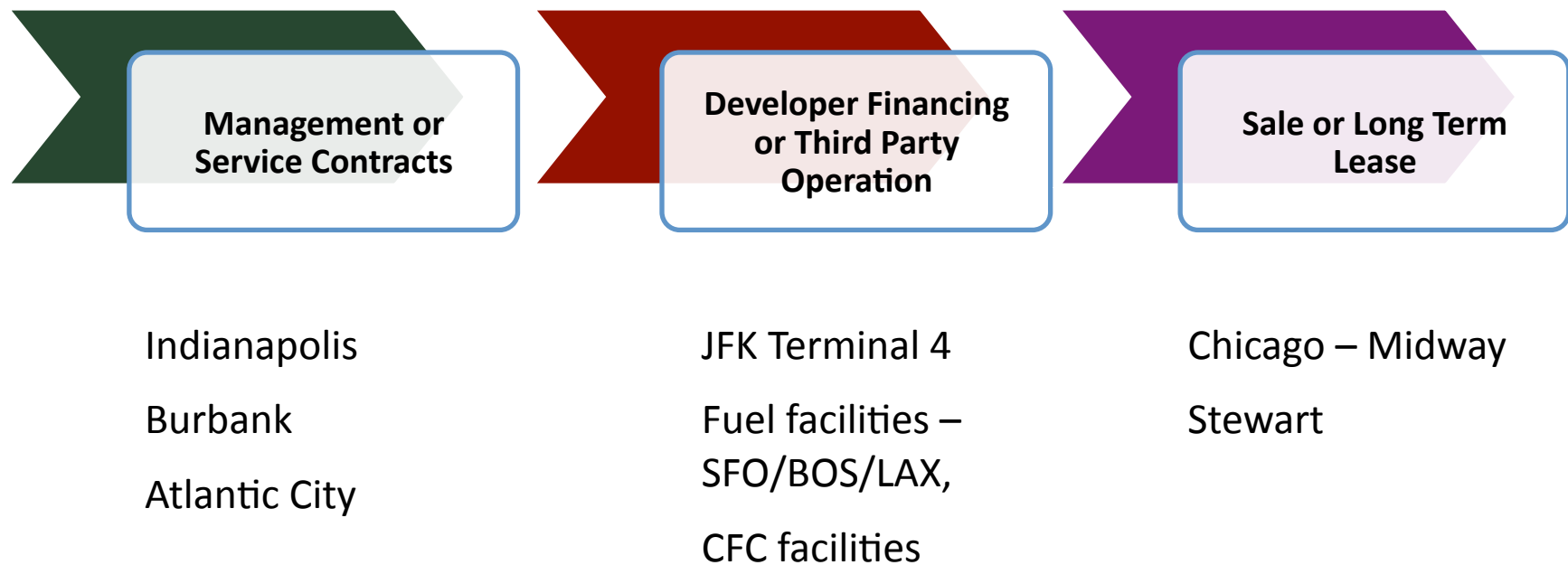
Limitations to Airport Privatization in US

Historically, privatization has found acceptance as a way to develop airport facilities abroad. However it has been slow to catch on in the US. Reasons include:

- Financing, including federal and state grants and cheap, tax exempt bond funds, is more readily available here
- Restrictions on the use of sale proceeds and limitations in federal grants
- Control- governmental operators want to retain a prestige asset

Privatization Spectrum

Airport privatization in the US has taken a variety of forms depending on the facility:





FAA Model Airport Privatization Program

The 1996 FAA Reauthorization Act, (Title 49 United States Code §47134), authorized the Federal Aviation Administration (FAA) to establish a pilot program to encourage privatization of US airports

The 2012 FAA Reauthorization Act increased the number of airports that could participate in the program from five to ten

- Only one large hub airport can participate in the program; one of the airports must be a general aviation airport
- Commercial service airports can only be leased; general aviation airports can be sold or leased



FAA Model Airport Privatization Program

- Secretary may exempt the airport owner from requirement to repay grants, use proceeds of sale for non-airport purposes (with 65% of carriers approving)
- Private operator may impose a PFC and receive AIP entitlement funds
- Private operator must meet several operating requirements (safety, environmental, noise, public use) and other restrictions (rate increases can't exceed inflation, sale can't abrogate collective bargaining agreements)



Evaluating Proposed Governance Options

Governance Structure

Financial Structure

Administration & Staffing

Implementation Timeline

Implementation Cost

Approval/3rd Party Involvement

Relevant Stakeholder Interest






Governance Structure Options

Option #1 – Status Quo



Status Quo

Topic	Comment
Governance Structure	<ul style="list-style-type: none"> • Airport commission appointed by Burlington City Council • Commission acts in an advisory capacity to the City Council and Mayor • Ultimate financial and legal authority rests with City
Financial Structure	<ul style="list-style-type: none"> • Airport's finances are run through the City's Department of Finance • City departments or contractors perform IT, garage operations, police, legal review, insurance, pension, HR • Airport near term liquidity reliant on City's General Fund and short term borrowing • Airport capital funding from AIP, PFCs, Revenue Bonds and PAYGO
Administration & Staffing	<ul style="list-style-type: none"> • Airport director appointed by Mayor and approved by City Council • Airport employees subject to City employment rules
Implementation Timeline	• N/A
Implementation Cost	• ESTIMATED COST:  <div>LOWHIGH</div>
Outside Approval/Third Party Involvement	• N/A
Relevant Stakeholder Interest	<ul style="list-style-type: none"> • AIRLINES – no interest in change in status quo because of current good business deal • CITY – interest in retaining some form of control over airport • REGION– interested in good air service, although with limited or no financial contribution • INVESTORS – interested in improving airport credit rating • PASSENGERS - maintaining and expanding air service



SWOT Analysis: Status Quo

SWOT ANALYSIS	
<p>STRENGTHS:</p> <ul style="list-style-type: none">• Familiar structure• History of operating and financial performance and procedures	<p>WEAKNESSES:</p> <ul style="list-style-type: none">• Airport management doesn't have direct reporting relationship to Commission• Airport benefits entire region although administrative and financial responsibility rests on Burlington• Comingling with City financial operations poses credit concerns• Lack of management continuity
<p>OPPORTUNITIES:</p> <ul style="list-style-type: none">• New accounting package allows for better financial management• Comparatively low cost structure provides opportunities for new air service• Revenue opportunities from negotiating new business relationships	<p>THREATS:</p> <ul style="list-style-type: none">• Risk of continued credit deterioration• Loss of air service resulting from lack of management oversight



Governance Structure Options

Option #2 – Strong Commission

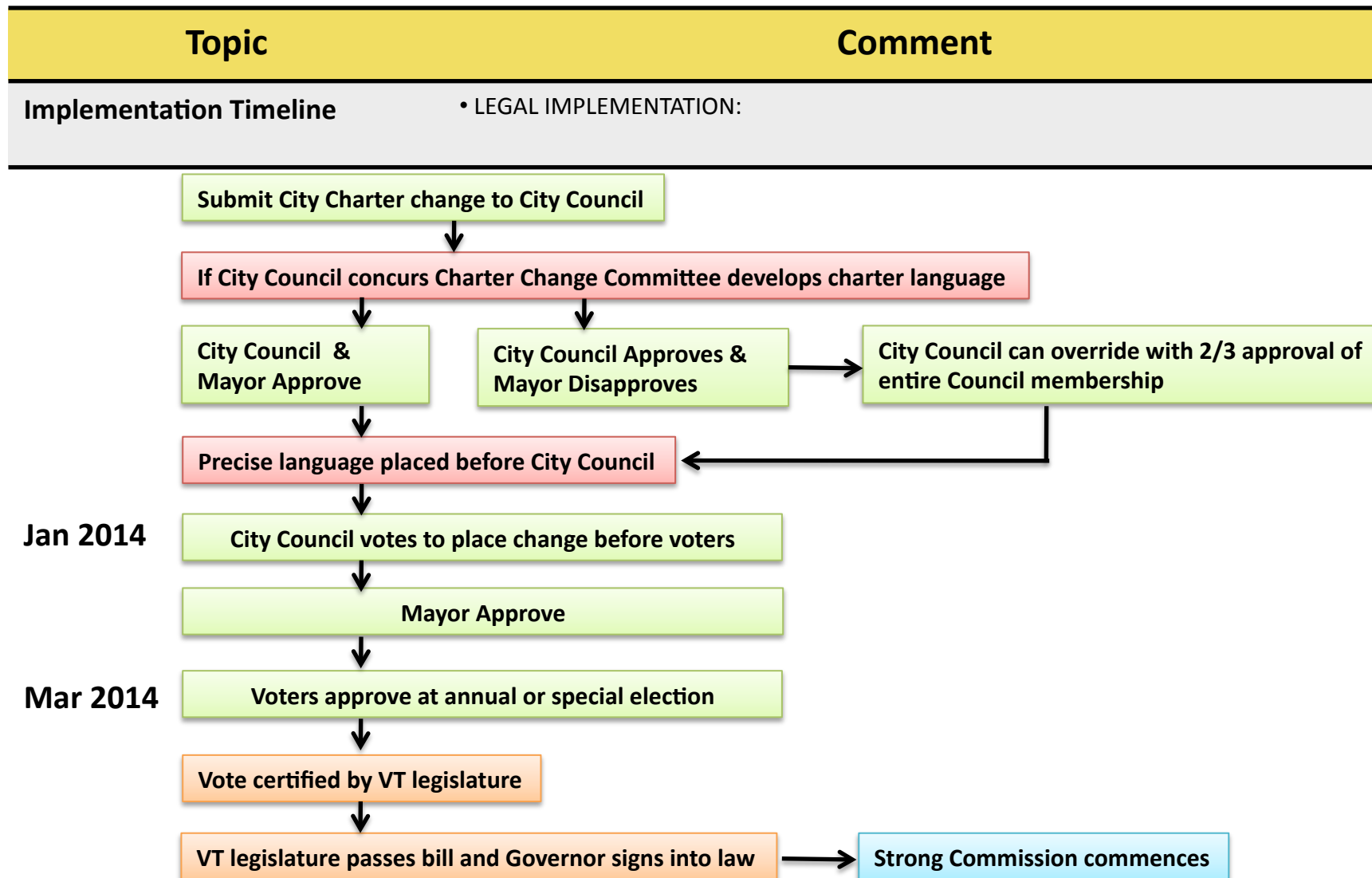


Strong Commission

Topic	Comment	
Governance Structure	<ul style="list-style-type: none"> • Strong commission appointed by Burlington City Council • Commission has total responsibility for all aspects of airport management 	
	Airport Run	City Run
Financial Structure	<ul style="list-style-type: none"> • Commission has authority to run airport financial operations to entities including the City • Airport needs to develop plan for adequate cash reserves and short term borrowing capability by time of transition • Airport capital funding from AIP, PFCs, Revenue Bonds and PAYGO • Budget and audit performed and approved by Commission • Commission approves contracts subject to City legal requirements 	<ul style="list-style-type: none"> • Airport's finances are run through the City's Department of Finance • Airport near term liquidity reliant on City's General Fund and short term borrowing • Airport capital funding from AIP, PFCs, Revenue Bonds and PAYGO • Budget and audit performed and approved by the City • City council approves the contracts
Administration & Staffing	<ul style="list-style-type: none"> • Airport director appointed by Commission • Airport employees subject to City employment rules • City departments and appointed contractors perform IT, legal review, insurance, pension, HR • Garage operations, police may be contracted out 	<ul style="list-style-type: none"> • Airport director appointed by Mayor and approved by City Council • Airport employees subject to City employment rules • City departments and appointed contractors perform IT, legal review, insurance, pension, HR • Garage operations, police may be contracted out




Strong Commission





Strong Commission

Topic	Comment
Implementation Timeline (contd.)	<ul style="list-style-type: none"> • PRACTICAL IMPLEMENTATION: Once approved the process should be expected to take longer than one year. Practical steps include: <ul style="list-style-type: none"> • Appoint board representatives to supervise transition and engage staff • Develop strategic implementation plan detailing what areas of operation are impacted • Develop Authority bylaws and rules and regulations • Financial plan for liquidity and short term borrowing • Segregation of financial systems • Assumption of insurance, pension, HR obligation, contracts
Implementation Cost	<ul style="list-style-type: none"> • ESTIMATED COST:  <div> <div>LOW</div> <div>HIGH</div> </div> • Consultant support to analyze and implement changes • Rebranding and PR costs • Dedicated staff for commission (legal, commission secretary)
Outside Approval/ Third Party Involvement	<ul style="list-style-type: none"> • Voters • State Legislature • Governor
Relevant Stakeholder Interest	<ul style="list-style-type: none"> • AIRLINES– have interest in more efficient operations and continuation of low cost service • CITY – interest in retaining some form of control over airport, possible loss of revenue for services • REGION – interested in good air service though with limited or no financial contribution, could benefit from contracting services and potential operating efficiencies • BONDHOLDERS – interested in improved financial operations of the airport • PASSENGERS - maintaining and expanding air service; potential improvements in air service resulting from operational efficiencies



SWOT Analysis: Strong Commission

SWOT ANALYSIS	
<p>STRENGTHS:</p> <ul style="list-style-type: none">• Streamline administration• Direct staff accountability to commission• Potential decrease in politicization of airport operations	<p>WEAKNESSES:</p> <ul style="list-style-type: none">• Time needed to build up cash reserves• Possible continued credit rating linkage to City• City responsible for airport commission transition
<p>OPPORTUNITIES:</p> <ul style="list-style-type: none">• Interim step to further governance changes which are more administratively and legally complicated• Near term, results-oriented change• Improve airport credit rating	<p>THREATS:</p> <ul style="list-style-type: none">• Timing and potential outcome of March 2014 vote• Overlap with city budget through at least June 2014• Ability to implement depends on how fast reserves are built up and additional costs accommodated



Governance Structure Options

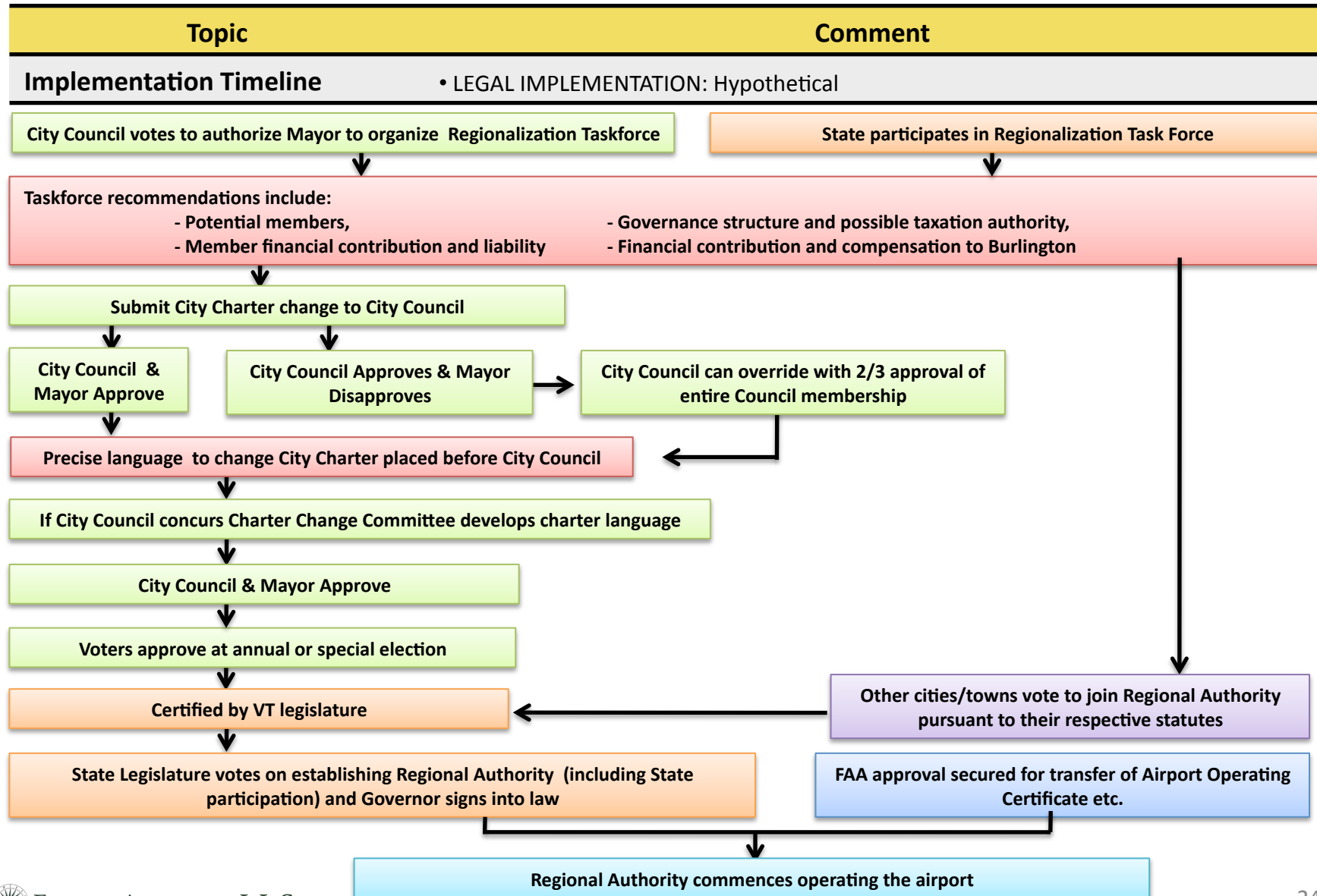
Option #3 – Regional Airport Authority



Regional Airport Authority


Topic	Comment
Governance Structure	<ul style="list-style-type: none"> • Independent board either elected or appointed by head of participating entities • Participating entities could be Burlington plus a minimum of one other including the State • Authority will have total authorization for all aspects of airport management • All oversight power derived from statutory controls and FAA regulations • Creature of the state • Authority assumes all responsibilities: <ul style="list-style-type: none"> • Safe operation of airport • Operating certificate • Grant assurances • Transfer of all contracts
Financial Structure	<ul style="list-style-type: none"> • Authority is responsible for all financial obligations with no recourse to City General Funds or other participating entities except to the extent allowed by enabling legislation (e.g. regional tax) • Independent accounting system • Airport needs to develop plan for adequate cash reserves and short term borrowing capability by time of transition • Airport capital funding from AIP, PFCs, Revenue Bonds and PAYGO • Authority board responsible for budget and audit approvals • Authority assumes insurance obligations • Board approves contracts subject to Authority regulations/State statutes • Authority may be required to assumes responsibility for pension • Assumption of debt and other contractual obligations
Administration & Staffing	<ul style="list-style-type: none"> • Senior staff appointed by and serves at the pleasure of Authority board • Additional employees needed in finance & administration including HR & legal • Development of staffing procedures/regulations • Existing staff transfers to new Authority depends on the terms of enabling legislation

Regional Airport Authority





Regional Airport Authority

Topic	Comment
Implementation Timeline (contd.)	<ul style="list-style-type: none"> • PRACTICAL IMPLEMENTATION: Once approved the process should be expected to take at least one year. Practical steps include: <ul style="list-style-type: none"> • Appoint board representatives to supervise transition and engage staff • Develop strategic implementation plan detailing what areas of operation are impacted • Develop Authority bylaws and rules and regulations • Financial plan for liquidity and short term borrowing • Segregation of financial systems • Assumption of insurance, pension, HR obligation, contracts
Implementation Cost	<ul style="list-style-type: none"> • ESTIMATED COST:  • Consultant support to analyze and implement changes • Election costs (paid for by participating municipalities) • Rebranding and PR costs • Increase staff for finance, insurance, HR • Dedicated staff for Authority (legal, Authority secretary)
Outside Approval/ Third Party Involvement	<ul style="list-style-type: none"> • Voter approval by Burlington and participating entities • State legislature approval • FAA approval • Bondholders • Airlines



Regional Airport Authority

Topic

Comment

Relevant Stakeholder Interest

- AIRLINES – have interest in more efficient operations and continuation of low cost service
- CITY –
 - Interest in retaining some form of control over airport and possible loss of revenue for services,
 - Mitigated by potential financial responsibility by regional partners
- REGION –
 - Interested in good air service
 - Impact management of airport
 - Could benefit from contracting services and potential operating efficiencies
 - Authority members can contribute financially to expanding air service development and contribute to overall regional economic development
- BONDHOLDERS – interested in more stable airport financial operations
- PASSENGERS - maintaining and expanding air service; potential improvements in air service resulting from operational efficiencies



SWOT Analysis: Regional Airport Authority

SWOT ANALYSIS

STRENGTHS:

- Streamline administration
- Direct accountability to Authority Board
- No linkage to City of Burlington credit

WEAKNESSES:

- Unclear how many potential Authority members will want to/be able to contribute towards financial reserves
- Potential loss of control by City
- Need to develop method for reimbursing Burlington for investments
- Prospect of increased politicization as potential regional priorities emerge

OPPORTUNITIES:

- Authority members may share in financial responsibility
- Reduction in airport tax liability
- Improve airport credit rating

THREATS:

- Timing and potential outcome of vote for establishing an Authority
- Ability to implement depends on how fast reserves are built up, additional costs accommodated and amount of contribution from participating entities



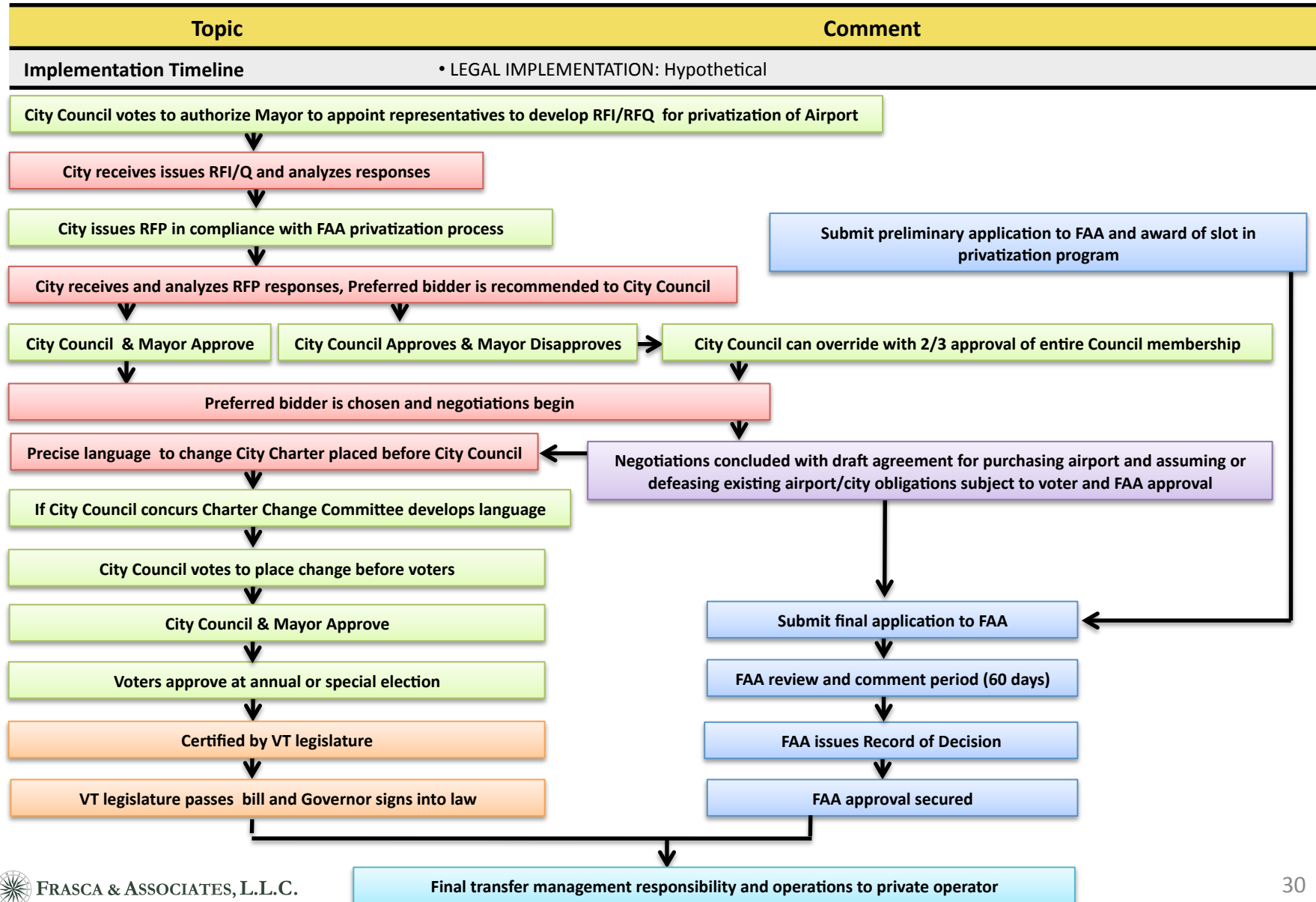
Governance Structure Options


Option #4 – Privatization



Privatization

Topic	Comment
Governance Structure	<ul style="list-style-type: none">• Airport is operated by private entity• Burlington involvement limited to monitoring how private operators are meeting their contractual obligations
Financial Structure	<ul style="list-style-type: none">• Airport is separated from Burlington financial operations• Private operators pay City per agreement• Financial structure contemplates private operator assuming the financial or legal debt obligation• Ongoing revenue payment to the city is also contemplated
Administration & Staffing	<ul style="list-style-type: none">• Most staffing decisions in hands of private operator• City airport employees may be offered positions by private operator per negotiated agreement with the City



Topic	Comment
Implementation Timeline	<p>IMPLEMENTATION:</p> <ul style="list-style-type: none"> • Develop RFI/RFQ to gauge level of interest • Submit preliminary application to FAA and award of slot in privatization program • Voter approval of privatization process before RFP • Development of RFP in compliance with FAA privatization requirements • Airport Commission and City Council approval of winning bidder • Submission of final application to FAA for privatization program • Negotiate deal with private operator • FAA review and public comment period • Final transfer to private operator
Implementation Cost	<ul style="list-style-type: none"> • ESTIMATED COST SPECTRUM:  <p>LOW HIGH</p>
Outside Approval/ Third Party Involvement	<ul style="list-style-type: none"> • Burlington voters • State • FAA • Bondholders • Airlines
Relevant Stakeholder Interest	<ul style="list-style-type: none"> • AIRLINES – have interest in more efficient operations and continuation of low cost service • CITY – interest in retaining some form of control over airport, possible loss of revenue for services • REGION – interested in good air service though with limited or no financial contribution; could benefit from contracting services and potential operating efficiencies • BONDHOLDERS – interested in improved financial operations of the airport • PASSENGERS - maintaining and expanding air service; potential improvements in air service resulting from operational efficiencies, limited cost increases resulting from privatization of operations



SWOT Analysis: Privatization

SWOT ANALYSIS	
<p>STRENGTHS:</p> <ul style="list-style-type: none">• City can monetize the airport as an asset	<p>WEAKNESSES:</p> <ul style="list-style-type: none">• Loss of control by City of key asset• No real examples of successful implementation in US• May be constrained by airline rights in lease and under FAA Airport Privatization Model Act
<p>OPPORTUNITIES:</p> <ul style="list-style-type: none">• Ability to redirect City efforts to general government operations	<p>THREATS:</p> <ul style="list-style-type: none">• Local anti-privatization political sentiment• Potential investor lack of access to capital markets• Timing to implement could be years

Key Takeaways



Key Takeaways

Success of any form of governance depends on the following:

Topic	Takeaway
Management	<ul style="list-style-type: none">• Quality of management to run the facility
Board or Commission	<ul style="list-style-type: none">• Expertise and background of members• Experience in related businesses: aviation, law, finance, business (e.g. retail, restaurant, parking)• Small board
Participant Roles	<ul style="list-style-type: none">• Commitment of creating/participating jurisdictions to improving operations• Provide financial support if needed
Implementation	<ul style="list-style-type: none">• Recognizing the considerable amount of time and resources necessary to effect change• Successful outcome dependent on amount initial time spent on planning and defining goals and objectives



Appendix 1 – Privatization Case Studies



Stewart International Airport

Located in Newburgh, NY, Stewart became the first and only airport to successfully complete privatizing under the Model Act in 1999. It was leased for 99 years from the State of New York to a subsidiary of National Express Group (NEG), a UK corporation. NEG was largely involved in the bus and rail transportation field in the UK and promoted its intermodal experience to increase access from the NY metro area to Stewart. After assuming control it almost immediately sought to be relieved of its lease obligations. The State refused. NEG took over operation of the facility shortly before the events of 9/11, and was unable to achieve the improvements in air service and enplanements that had been expected. However, NEG was somewhat successful in stimulating economic development at sites on or related to the airport. NEG operated Stewart until 2007 when the PANYNJ bought out the remaining lease term.





Chicago Midway International Airport

Midway is one of two major airports owned and operated by the City of Chicago. Chicago began the process of attempting to privatize Midway in 2005. The goal was to use the proceeds from the lease of the facility to finance a portion of the City's long term unfunded pension obligation. The City was successful in achieving several approvals for the transaction, including the approval by the airlines for the application to the FAA Model Airport Privatization Program . However, the process of receiving RFQs for the acquisition of the airport started shortly after the financial crisis in 2008. As a result, the private consortium that was selected for the transaction was unable to come up with financing for the up front price for the acquisition and the deal fell through. Chicago is considering whether to re apply under the Model Act process to continue the privatization of Midway.





JFK Terminal 4

In 1997 the PANYNJ formed JFK International Air Terminal LLC (JFKIAT) to provide for the construction of Terminal 4 at JFK. T4 was intended to replace the existing International Arrivals Building at JFK, which housed most of the operations of international carriers at the airport. JFKIAT was a private consortium of financial and operating partners, and the first private, nonairline group to construct and manage an air terminal in the US. T4 was financed with nearly \$900 million of airport special facility bonds, which were supplemented by a \$172 million subordinate loan from the Port Authority when cost overruns occurred. T4 has been a limited success, having failed to meet its initial forecasts of concession and other revenues because of adverse market conditions and the cost overruns incurred in its construction. However, it successfully captured a growing percentage of passengers at JFK and an increase in revenues and successfully renegotiated the terms of its debt with the Port Authority to more beneficial terms.





Indianapolis Airport Authority

Indianapolis' then Mayor Goldsmith was a pioneer in the effort to privatize city assets. In 1994 the Indianapolis Airport Authority solicited bids to manage the Indianapolis International Airport and the five relievers run by the Authority. BAA, the winning bidder, managed the facilities under a 10 year management contract that ran until 2005. It was extended mid term by negotiation. Under the agreement, BAA was to be compensated based on savings in airline payments per enplanement versus an assumed hypothetical baseline. Because the provisions of the management agreement relating to BAA's compensation were complex to manage and the agreement had several provisions that limited BAA's incentives to manage the airport efficiently, both parties became disenchanted with the process. The arrangement was terminated by mutual agreement of the parties in 2007

