COUNTY OF MILWAUKEE
INTEROFFICE COMMUNICATION

Date: November 13, 2006

To: Chairman Lee Holloway, Milwaukee County Board of Supervisors

From: Airport Governance Workgroup

Subject: Airport Governance and Operational Structures

Background

On June 22, 2006 the Milwaukee County Board of Supervisors approved Resolution File No. 06-281 authorizing and directing the County Board Staff, Director of Audit, Department of Administrative Services Fiscal and Budget Administrator, Controller, and Corporation Counsel to establish a work group for the purpose of conducting a study on alternative governance and operational structures of General Mitchell International Airport (GMIA) and Timmerman Field. In addition, the work group was given the task of examining the related financial and legal issues associated with this initiative.

The primary focus of the work group was to examine different governance and operation models that would affect GMIA operation; however the work group recognizes the fact that Timmerman Field plays an important role in the County's airfield management by providing a facility designed for this purpose. Therefore, all governance models take into account the fact that the roles of GMIA and Timmerman Field should remain what they are; GMIA is the airport primarily used for passenger and cargo aircraft, and Timmerman Field primarily serves general aviation aircraft.

Milwaukee County has successfully operated and maintained airfield operations within the County since 1919. Over time, Milwaukee County has added significant infrastructure improvements. GMIA currently sits on 2,200 acres with two major air carrier runways and three other runways. The current terminal complex has three terminals with 42 gates and three temporary gates. GMIA also has a six story parking structure for auto parking and rental car agencies. The current value of Milwaukee County's airport land, structures, furnishings and equipment is $436.9 million. The net value after accumulated depreciation is $227 million.

Policy Analysis

The work group identified five basic governance structures that could be used to govern the County's airport operations. The five governance models include: maintaining current County ownership and management, establishing a County authorized authority, leasing airport operations to a private operator, sale of the airport, and a State imposed airport authority. The work group has engaged in extensive research of other airport management and operational models, interviewed prospective parties interested in a governance change, attended meetings concerning governance changes, and reviewed current topical material related to all aspects of each of the aforementioned governance models. Based on the culmination of this work, the study group has provided the following synopsis of each management and operational model. A matrix detailing decision criterion is attached.

County Managed and Operated
This model represents no changes to the current governance structure in place at GMIA. Policy decisions would be kept with the Milwaukee County Board of Supervisors and the County Executive would direct administrative oversight. Milwaukee County would retain authority over the airport's budget and would provide professional services through a variety of County-run agencies. The current residual airline lease agreement would remain in place to finance airport operations. The residual lease agreement requires that, in the event that budgeted expenses are exceeded for any unforeseen reason, the airlines will cover the additional costs through changes to rates and charges. This management model would not impact the existing workforce at GMIA.

County Authorized Authority
The County could establish a County authorized airport authority. There are a variety of different ways in which an authority could be established. One example that could be followed is model used in Lee County, Florida. Lee County, Florida, established a port authority to address the governance oversight of the Ft. Myers, Florida, airport. The authority is made up of all nine current County Commissioners that are elected by citizens of Lee County. If Milwaukee County were to adopt this method of airport governance, a decision would have to be made as to the number of seats held by authority members.

Under a County authorized authority, the authority would assume all financial responsibility for the airport operation. For this reason it would most likely assume the same residual airline agreement structure currently in place. In addition, bonding authority would reside with the airport authority. This would mean that the authority would assume existing airport bonds. The authority would make all policy decisions for the airport, and in this way, the County Board would retain substantial control over policy making at the Airport. County employees currently assigned to the Airport would be employees of the authority. The County could receive a rental payment for the use of airport property by the authority under this model; however, any lease payment made would be subject to FAA and airline approval while the current lease agreement is in effect.

Lease of Airport Operations to Private Operator
A lease of airport assets to a private management firm is available to the County under a Federal pilot program. The program grants no more than five major airports the ability to seek, under FAA guidance, a private management firm for airport operations. The pilot program expires in 2007, however it is anticipated that an extension of this ten-year program will be granted.

Under this governance model, Milwaukee County would lease out airport operations to a private management firm. The management firm would take control of the County's assets such as parking facilities, concession agreements, airline agreements, and airfield operations in exchange for a lease payment. Most firms willing to participate in a lease agreement look for a lease period of 50 to 100 years. A large upfront payment is made to the County, however subsequent annual payment could be made along the way depending on the structure of the lease. There are no comparable lease arrangements in the United States for a major airport, however lease agreements do occur internationally. Internationally, lease deals vary based on differences in laws, ownership interest, and size of the operation. Some of the lease agreements have allowed government entities to make investments in the airport and to receive dividends based on the successful operation of the airport. In the case of larger airports, airport lease agreements are for a percentage of the airport operation.

While a lease agreement can be an attractive method for raising capital from a County-owned asset, there are a number of factors that need consideration. One of the largest hurdles is the fact that two-thirds of all airlines serving the airport and the ownership of two-third of the landing weight of air traffic must agree to the lease structure. The intent of putting both requirements in place assures that the dominant airline along with a super majority of the other airlines must agree to the lease model. In order to achieve agreements by the airlines, the residual model currently in place would most likely be replaced by a cost certain model. A cost certain agreement would guarantee that airlines would pay a set amount annually in lease payments for facility changes. The certainty associated with this model may be attractive to airlines by allowing them to lock in the costs associated with leasing space at the airport. It would appear that without the cost certain airline agreements, this model's success is less feasible.

In order to maximize the amount of capital available in a lease agreement, the lessor would want to assume as much control of all airport operations as possible. The airport management firm would take over all day-to-day responsibilities of the airport operation. This would include making all fiscal, employment, contract, concession, rate-setting, facility improvement, expansion, and policy decisions. County employees currently assigned to the airport would most likely have the opportunity to work for the new management firm. Contracts with unions would be honored until the contract term expires.

The management firm would also prefer to have as much policy oversight as possible. The study group interviewed interested parties who stated they would be willing to work with the County on matters of policy oversight; however they did indicate that this would be a negotiated item. For this reason, it is unclear precisely how much policy-making oversight would remain with the Board of Supervisors. As mentioned before, most international lease models are for a percentage of the airport operation. A percentage lease may exclude the lessor from direct policy oversight, however the lessor may have a provision to accept any policy changes as they affect the contractual arrangement. In essence, the more oversight the County wishes to retain, the more it will cost in terms of the lessee's payment to the County.

Due to the complexity of the airport lease model option, it is difficult to state exactly how a lease arrangement may work best for Milwaukee County. Simplistically, a lease would provide the County with an infusion of cash that could be used for other County purposes. However, as mentioned above, there are a number of variables that would need to be negotiated that may affect the amount based on how a deal is structured.

Sale of Airport

The outright sale of the airport is the least likely of all options. To date, no major American airport has been sold from a governmental body to a private operator. While this option may provide the County with a substantial upfront cash infusion, the County would lose all policy authority. In addition, should the buyer default or be deemed unfit to continue managing the airport property, the FAA may require a local governmental body to take over the airport operation.

Other considerations of a sale of airport property include, airport employees would no longer be employees of the County and would be subject to the conditions of the new employer. The new ownership group would make all policy decisions. In addition, any outstanding bonds would need to be paid before completion of the sale transaction.

State Imposed Airport Authority

It is difficult to determine how a State imposed airport authority would impact GMIA operations. Under a previous draft bill to establish an airport authority, Milwaukee County would have lost all policy-making authority and oversight of the airport. The sponsor of that legislation has recently created a Special Committee on Airport Authorities to possibly draft new legislation on the matter stating that the Committee's work would be "fresh start." Without the benefit of a draft copy of the new legislation, it is unclear whether or not the financial structure of the airline agreements or bond issuances would change. In addition, it is unclear what the status of current airport employees would be and to what extent Milwaukee County would be involved in this process.

Policy Consideration

Given the complexity of each item, it is recommended if the committee chooses to examine one or more of the five stated governance options the committee request further investigation with the assistance of individuals or groups outside the County. Outside consultants would be valuable in determining the airport's value, the appropriate governance structure, and to navigate the statutory and regulatory obstacles that may arise with a governance change. It would be beneficial for the workgroup to remain assembled under this scenario to help guide any outside consultant based on the needs and requirements of the County.

Attachment

Comparison Grid for Airport Governance Models

	County Managed and Operated	County Authorized Authority	Lease of Airport Operations to Private Operator	Sale of Airport	State Imposed Airport Authority
Policy Making	Milwaukee County retains complete policy guidance.	Authority Board could be comprised of elected officials who retain policy authority.	County could retain policy decision making of certain aspects of airport operations identified in lease agreement.	Unlikely that County could retain any policy-making authority.	Model has not been proposed so details are unknown at this time.
Financial Consideration	County is reimbursed for cross-charges.	County could receive a rental payment for use of airport property. FAA would require approval of any rental payment.	County would receive rental payment from operator; but County may be required to repay certain federal grants.	County would receive payment for property that can be used for other county purposes; but County may be required to repay certain federal grants.	
Authority Over Airport Budget	Milwaukee County oversees capital projects and approves airport budget.	Authority Board could recommend budget initiatives and oversee capital projects.	County could become an investor in airport, receive dividends, and could have some authority over budgetary matters.	County could sell all or part of airport thereby retaining some control of asset and budgetary matters.	
Management	Management team is established, experienced, capable, and has a record of success.	Current management team would be kept in place thereby not disturbing established relationships.	Operator could retain current management team. Operator could retain current workforce.	Operator could retain current management team. Operator could retain current workforce.	

	County Managed and Operated	County Authorized Authority	Lease of Airport Operations to Private Operator	Sale of Airport	State Imposed Airport Authority
Continuity	Familiarity for all parties (airlines, airport management, concessionaires, and vendors) helps smooth business relationship.	Familiarity for all parties (airlines, airport management, concessionaires, and vendors) helps smooth business relationship.	Operator may replace management and decision-making system.	Operator may replace management and decision-making system.	
Financial Consequences for Airlines	Current residual airline agreement is a less predictable cost model for the airlines.	Authority could keep or modify existing lease (e.g., hybrid residual lease).	Federal regulations require airline acceptance of lease/sale.	Federal regulations require airline acceptance of lease/sale.	
Revenue Production for County	Current business model does not provide a mechanism to return funds to Milwaukee County.	Potential for rental payments to County.	Potential for rental payments to County.	Federal regulations are strict under the pilot program and the County could be forced to take back the airport in the case of a default.	Uncertain if County would receive payment for assets or what that payment amount might be.
Impact on Workforce at Airport	No impact	Current airport workforce would transfer to authority; wages and benefits to future workforce could be modified. Issues that arise due to separation from County would have to be explored in greater detail.	Long-term retention of management and workforce is uncertain; likely that wages and benefits would decrease.	Future of current management and workforce is uncertain; likely that wages and benefits would decrease.	Management and workforce future is uncertain.
Likelihood of Success	No change	Little change	No U.S.-based model to attribute successful application.	No U.S.-based airports have been sold, so no model is available.	

	County Managed and Operated	County Authorized Authority	Lease of Airport Operations to Private Operator	Sale of Airport	State Imposed Airport Authority
Financial Impact on County – GO bonds	Continue to pay GO bonds for airport use with revenues generated by Airport	Continue to pay GO bonds for airport use with revenues generated by Airport. Separate authority would have to make contribution to County debt service fund.	GO Bonds would have to be defeased (paid off). Payment could be made with upfront contribution on future rental payments.	GO Bonds would have to be defeased (paid off). Payment could be made with upfront contribution on future rental payments.	
Financial Impact on County – Revenue Bonds	Continue to pay revenue bonds for airport use with revenues generated by Airport	Continue to pay revenue bonds for airport use with revenues generated by Airport. Responsibility for revenue bonds would have to be turned over to new authority.	Revenue Bonds would have to be defeased (paid off). Payment could be made with upfront contribution on future rental payments.	Revenue Bonds would have to be defeased (paid off). Payment could be made with upfront contribution on future rental payments.	
Financial Impact on County – Liabilities to Employees – accruals for Sick paid at retirement, vacation, overtime	Continue to accrue liabilities and incur cost in accordance with current labor agreements.	Accrued liability to date would be transferred to authority. Authority who would than take responsibility for accruing costs, in accordance with existing labor agreements.	Accrued liability would either be paid out or would lapse as of transfer date. Possible modifications could be made to this statement if the new operator took on certain aspects of the labor agreements.	Accrued liability would either be paid out or would lapse as of transfer date. Possible modifications could be made to this statement if the new operator took on certain aspects of the labor agreements.	

	County Managed and Operated	County Authorized Authority	Lease of Airport Operations to Private Operator	Sale of Airport	State Imposed Airport Authority
Financial Impact on County – Post Retirement Health and Life Insurance Benefits under GASB 45	County would continue to accrue for post retirement costs in accordance with Governmental Accounting Standards Board Statement 45 – Accounting for Other Post Retirement Benefits.	Authority would continue to accrue for post retirement costs in accordance with Governmental Accounting Standards Board Statement 45 – Accounting for Other Post Retirement Benefits. Separate authority may establish a trust to fund OPEB costs.	County would continue to accrue for post retirement costs in accordance with Governmental Accounting Standards Board Statement 45 – Accounting for Other Post Retirement Benefits. This would be for both employees and retirees who were eligible for this benefit at the date of transfer. Rental payments could go towards the payment of this cost.	County would continue to accrue for post retirement costs in accordance with Governmental Accounting Standards Board Statement 45 – Accounting for Other Post Retirement Benefits. This would be for both employees and retirees who were eligible for this benefit at the date of transfer. Rental payments could go towards the payment of this cost.	

	County Managed and Operated	County Authorized Authority	Lease of Airport Operations to Private Operator	Sale of Airport	State Imposed Airport Authority
Financial Impact on County – Post Retirement Pension Costs	County would continue to accrue for post retirement pension costs in accordance with Governmental Accounting Standards Board Statements. The contribution would be based upon current actuarial analysis of pension costs for eligible airport employees.	County would continue to accrue for post retirement pension costs in accordance with Governmental Accounting Standards Board Statements. A separate actuarial report would be prepared to show annual contribution for only airport employees.	County would continue to accrue for post retirement pension costs in accordance with Governmental Accounting Standards Board Statements. A separate actuarial report would be prepared to show annual contribution for only airport employees. This cost would be charged to a non-departmental and would be covered by rental payments from private operator.	County would continue to accrue for post retirement pension costs in accordance with Governmental Accounting Standards Board Statements. A separate actuarial report would be prepared to show annual contribution for only airport employees. This cost would be charged to a non-departmental and would be covered by rental payments or sale proceeds.	
Legal Authority	Wis. Stats. 59.52 and Wis. Stats. 114.14 provide authority for exisiting airport governance.	Wis. Stats. 114.14 2(a) provides the authority for the County Board to create an airport commission.	Wis. Stats. 59.52(b) provides broad authority for Counties to lease or sell County property. 49 USC § 47134 establishes a federal pilot program for the private ownership of airports.		The precise wording of State enabling legislation may generate legal issues.