

# Charlotte Airport Governance Study

May 6, 2013

## QUALIFICATIONS, ASSUMPTIONS AND LIMITING CONDITIONS

This report sets forth the information required by the terms of Oliver Wyman's engagement by the City of Charlotte.

Information furnished by others, upon which all or portions of this report are based, is believed to be reliable but has not been verified. No warranty is given as to the accuracy of such information. Public information and industry and statistical data are from sources we deem to be reliable; however, we make no representation as to the accuracy or completeness of such information and have accepted the information without further verification.

The opinions expressed in this report are valid only for the purpose stated herein and as of the date of this report. No obligation is assumed to revise this report to reflect changes, events or conditions, which occur subsequent to the date hereof.

This report does not represent legal advice, financial advisory recommendations, or investment advice.

The findings contained in this report may contain predictions based on current data and historical trends. Any such predictions are subject to inherent risks and uncertainties. In particular, actual results could be impacted by future events which cannot be predicted or controlled, including, without limitation, changes in business strategies, the development of future products and services, changes in market and industry conditions, the outcome of contingencies, changes in management, changes in law or regulations. Oliver Wyman accepts no responsibility for actual results or future events.

# Introduction

- Oliver Wyman was commissioned by the City of Charlotte to conduct an independent, objective review of:
  - Airport governance models, and
  - Issues associated with transition to a different governance model
- The study began on March 20; the final 65-page report was submitted on May 1
- This presentation should not be used as a stand-alone document as it fails to capture the complexity of the issues

# Table of Contents

- Critical success factors for the Charlotte Airport
- Reasons for interest in changing the governance structure
- Current airport governance models
- CPE and bond rating distributions
- Peer group analysis
- Advantages and disadvantages – city versus airport authority
- Airport authority best practices
- Airports that have changed governance structure
- Transition issues
- Conclusions
- Recommendations

# Critical success factors for the Charlotte Airport

## Primary measures of success

- The number of annual passengers (CLT ranks #8 in the U.S.)
- Passenger growth

## Secondary

- Breadth of nonstop service (number of destinations)
- Breadth of international service
- Availability of low fares
- Customer-friendly facilities and services
- Good neighbor, good employer
- Economic development

## Critical success factors

- Strength of travel demand to and from the region served by the airport
- Geographic location
- Airport facilities and infrastructure
- Airline network and pricing strategy
- Airline competition
- Competition from other airports, and
- Level of airport charges Factor most within the airport's control

---

Most successful airports have: commercial orientation; cooperation with airline partners, including hub airline; structured management of stakeholders

---

# Reasons for interest in changing the governance structure

Stakeholders who favor changing the governance structure listed these reasons:

Reason	Summary
<b>Protection of economic engine</b>	Airport must be overseen using the governance structure most likely to ensure its continued success
<b>Recent shift in degree of city involvement</b>	Success to date is attributed to a combination of a very capable airport manager and very limited prior City involvement. Recent City actions are seen as demonstrating that the City will be more involved in Airport management going forward
<b>Paying for unneeded city services</b>	When a City operates an airport, the airport may be required to contribute more for city services
<b>Need for business-oriented leadership</b>	The governance structure most likely to ensure the continued success of the Airport involves oversight by a business-oriented board
<b>Deeper focus on airport</b>	A board would differ from current City governance in its exclusive focus on airport issues
<b>Increased regional focus</b>	The Airport has grown to become a major regional asset and the development of the Charlotte Regional Intermodal Facility means that the Airport will have even more of a regional focus in the future. Therefore the Airport should have oversight by regional stakeholders located both in and beyond the City of Charlotte

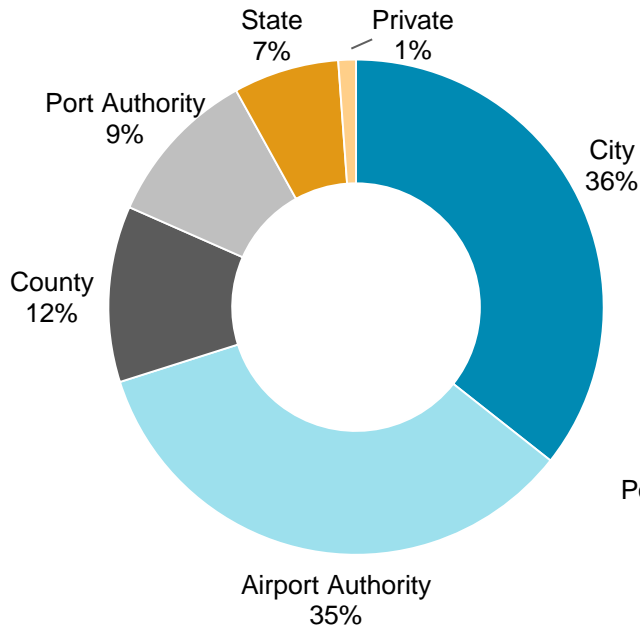
# Current airport governance models in the United States

	<b>Overview</b>	<b>Example</b>
<b>Department of a City, County, or State</b>	Airports that are directly governed by a city, county, or state typically operate as a department of the particular form of government	Hartsfield–Jackson Atlanta International Airport
<b>Multi-Modal Port Authorities</b>	A port authority is a governmental or quasi-governmental public authority for a special-purpose district usually formed by a legislative body or bodies to operate ports and other transportation infrastructure	Port Authority of New York and New Jersey
<b>Airport Authority</b>	An airport authority is a quasi-governmental entity responsible for the operation and oversight of an airport or group of airports	Dallas / Fort Worth International Airport
<b>Privatized</b>	Airports that are either privately owned or leased from the local government for a lengthy term	Luis Muñoz Marin International Airport

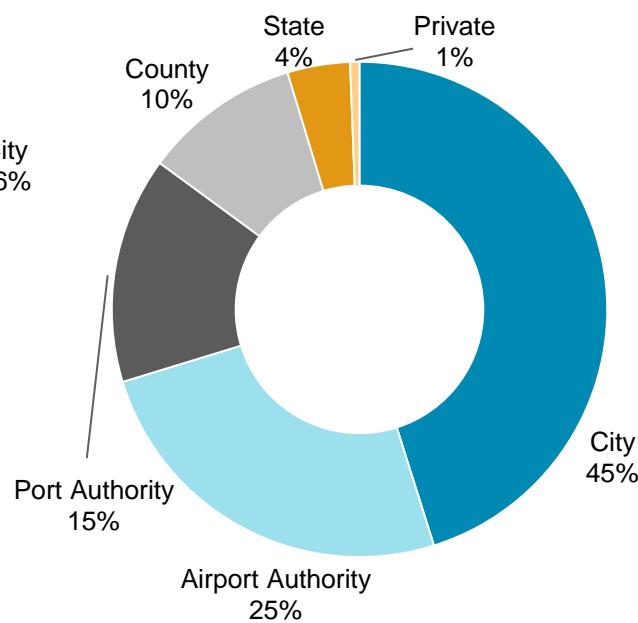
# Distribution of airports by specific governance types

## Airports with 1+ million enplanements (86 airports/93% of US passengers)

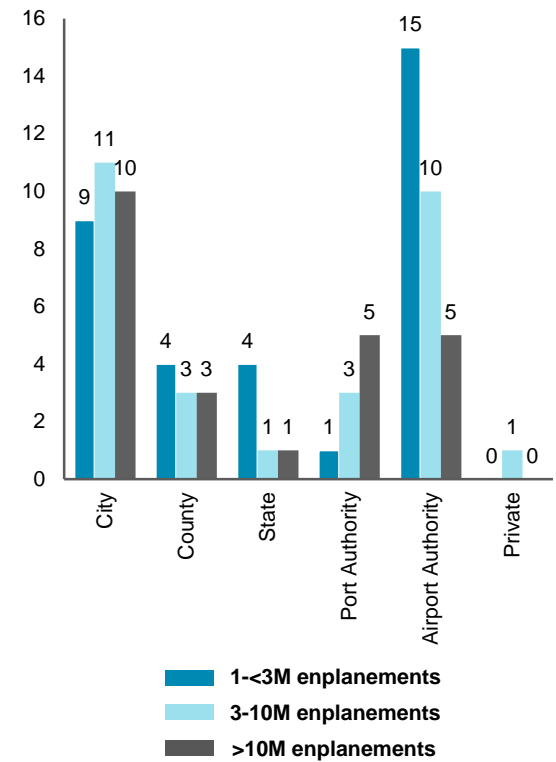
**Airports by governance type**  
Percentage of total



**Enplanements by governance type**  
Percentage of total



**Frequency of airport governance by annual enplanements segmentation 2011**



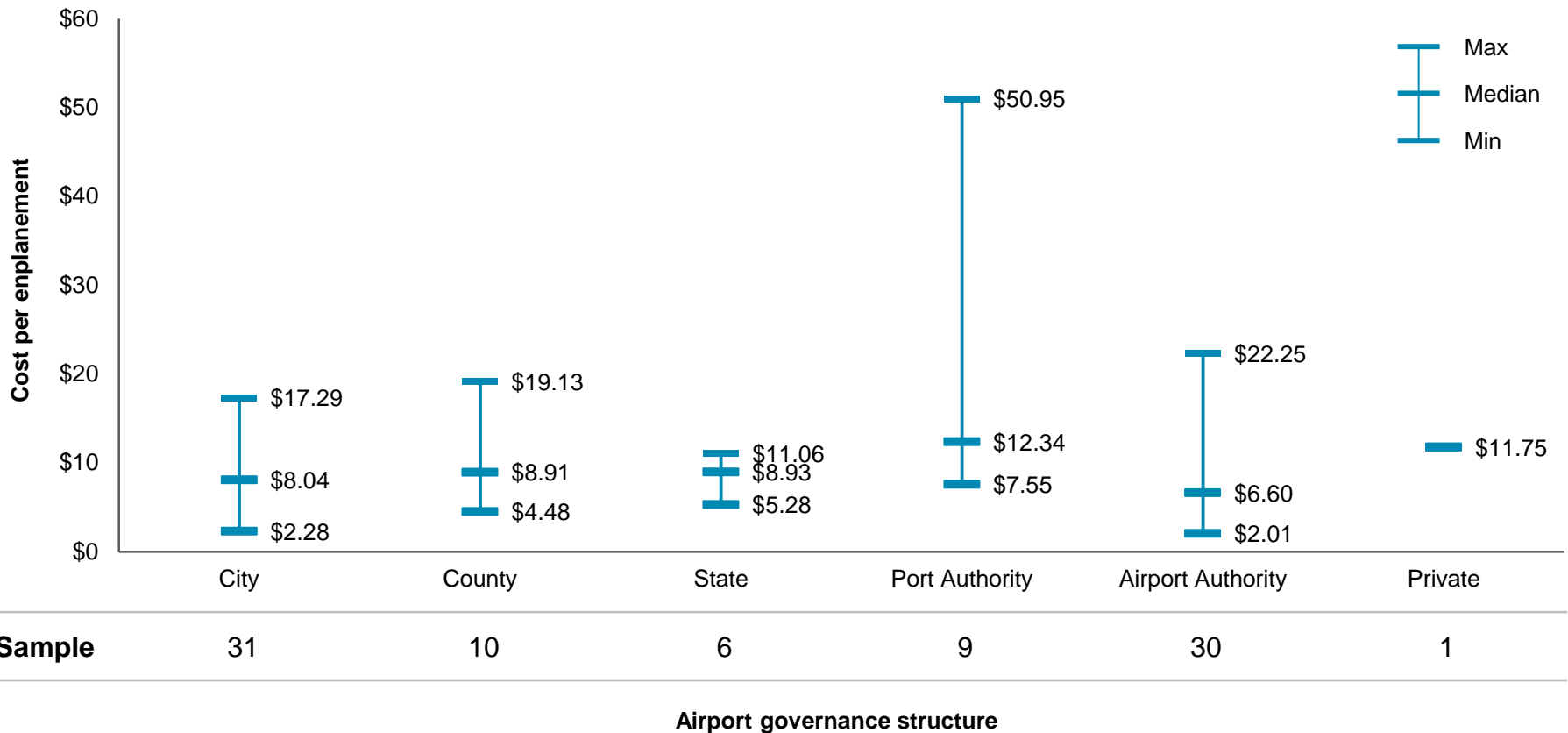
Both city and authority models are widely-used



# Cost per enplanement(CPE) by governance structure

## Wide range of CPEs within each governance structure

Range of cost per enplanement for different governance structures  
2011



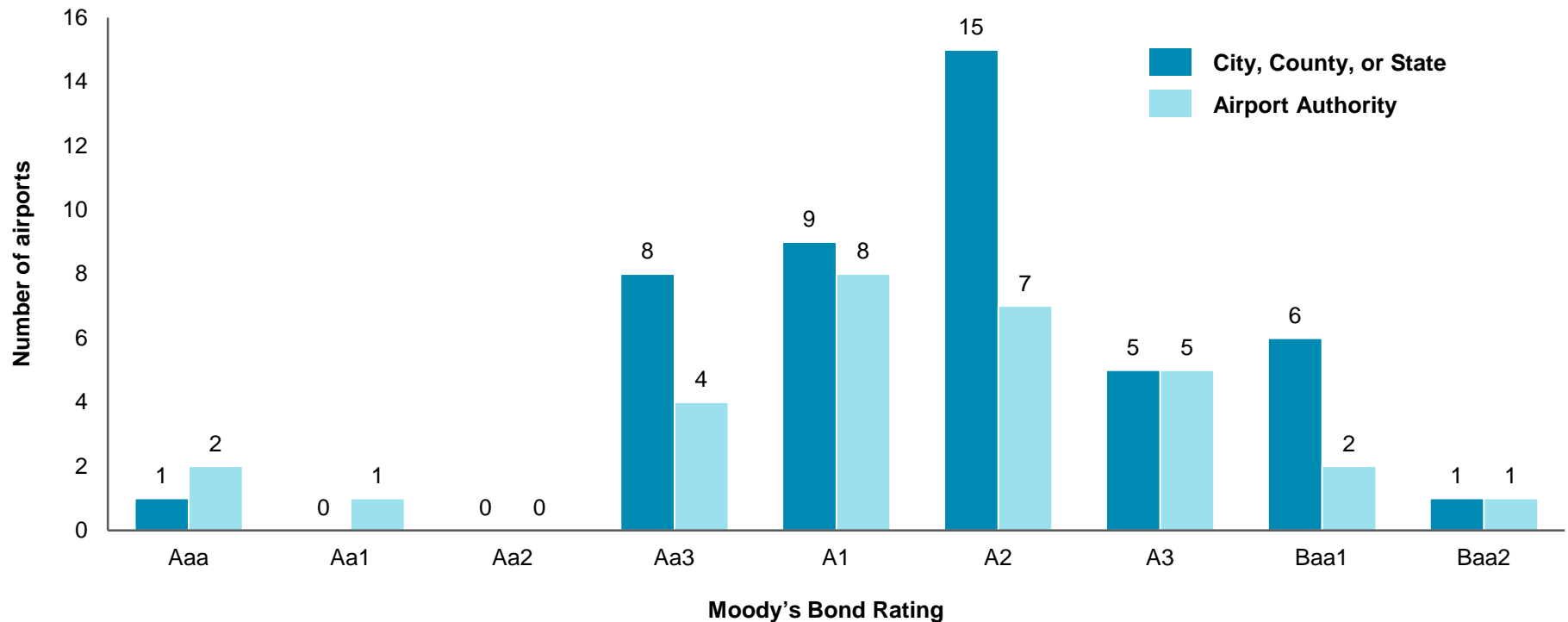
CPE – Cost per Enplaned Passenger, defined as the average cost to an airline for basic airport charges (airport terminal rent and landing fees) divided by the number of departing passengers. See full report issued May 1, 2013 for sources and further explanation.

# Bond ratings by governance type

## Similar rating distribution among different governance types

### Airport revenue bond ratings

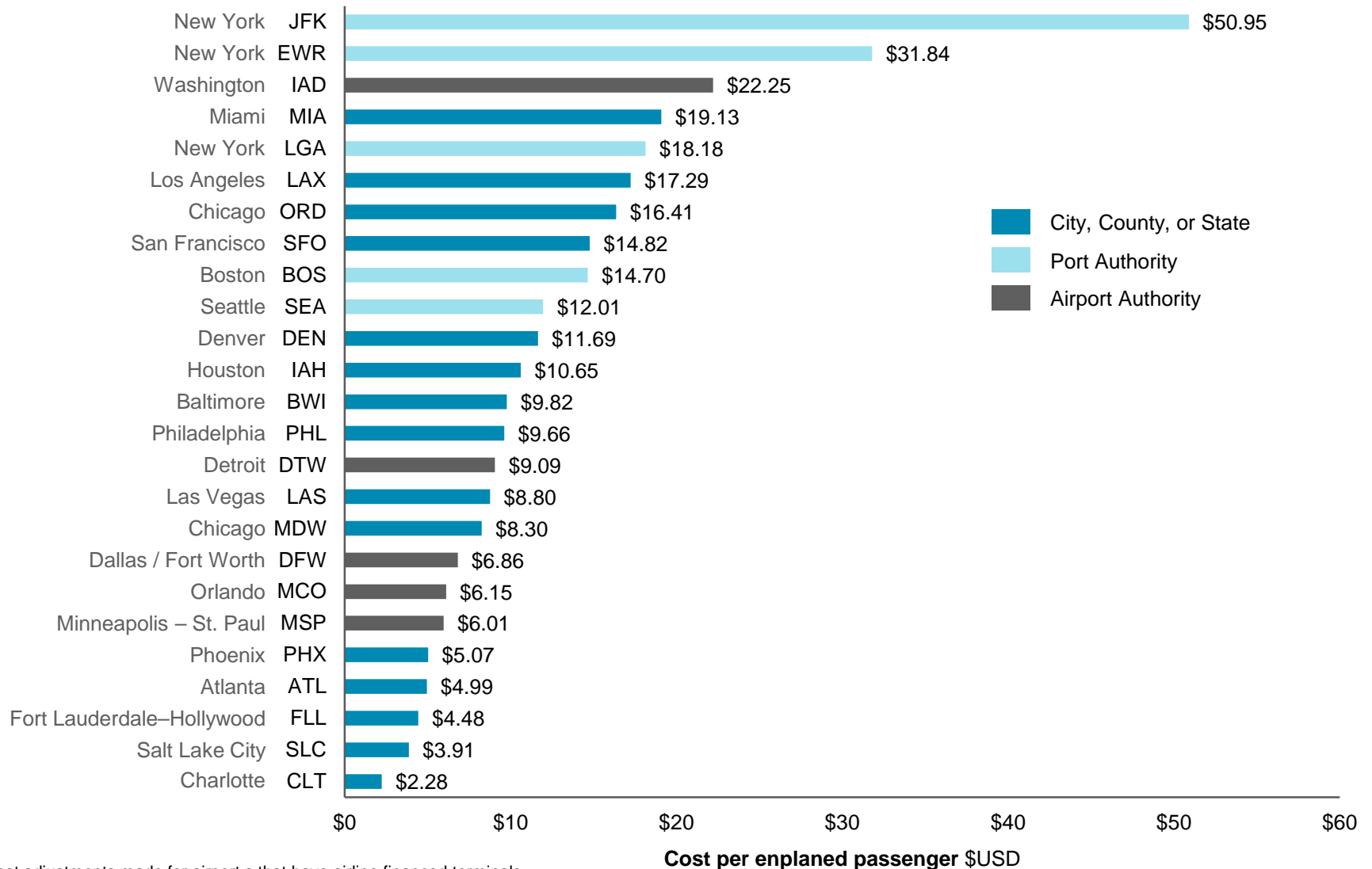
Frequency of bond ratings for airports by type



Note: Due to the complex nature of the organization type, port authorities were omitted from this analysis. Also, Salt Lake City International Airport was omitted as it does not currently have outstanding debt.

# Cost per enplaned passenger at the top 25 airports (66% of US passengers)

## Five airports with lowest CPEs are city or county departments



Note: Cost adjustments made for airports that have airline financed terminals.  
 Adjusted airports: ATL = \$2, ORD = \$3, LAX = \$6, JFK = \$25, EWR = \$6

# Peer Group Analysis

## Selection criteria

Large airports with a high percentage of connecting passengers share similar characteristics in terms of scale, specialized facilities, and competitive pressure

### Annual enplanements

- Airports with greater than 10M annual enplanements in 2011

### Connecting passengers

- Airports with roughly 50% or greater connecting traffic

## Charlotte-Douglas International Airport peers\*

Code	Name	Governance	Enpl. (M)	Cnx %	CPE	Bond Ratings/ Ranking		Skytrax	J.D. Power
CLT	Charlotte/Douglas International Airport	City	16.0	74%	\$2.28	Aa3	1	88	697
ATL	Hartsfield–Jackson Atlanta International Airport	City	44.4	68%	\$2.99	A1	3	59	666
MSP	Minneapolis–Saint Paul International Airport	Airport Authority	19.5	49%	\$6.01	Aa3	1	65	701
DFW	Dallas/Fort Worth International Airport	Airport Authority	27.8	58%	\$6.86	A2	4	49	692
DTW	Detroit Metropolitan Wayne County Airport	Airport Authority	15.8	51%	\$9.09	Aaa	2	76	705
IAH	George Bush Intercontinental Airport	City	19.6	59%	\$10.65	A1	4	83	685

See full report for sources and further explanation.

# Advantages and disadvantages of municipal governance

Airports that are operated directly by cities, counties, or states have the following strengths and weaknesses:

---

<b>Strengths</b>	<b>Weaknesses</b>
Citizen recourse to elected officials	Elected officials have multiple constituents and priorities which may result in less focus on Airport issues
Intergovernmental coordination benefits	City may look to airport to contribute to central city services not essential to airport operation
Access to city expertise	Airport may be less likely to attract and retain best-qualified work force
Ability to provide financial support beyond airport resources	May be less continuity in airport governance, based on election results, depending on particular form of city oversight
Procurement economies of scale available to a larger entity	Oversight may be less business-like than some other forms, with associated disadvantages in decision-making and implementation speed
	May be required to use services such as police and fire from other departments of same jurisdiction rather than most cost-effective source

---

# Advantages and disadvantages of airport authority governance

## Airports that are operated as independent authorities or other single-purpose independent entities have the following strengths and weaknesses:

---

<b>Strengths</b>	<b>Weaknesses</b>
Governing board focused exclusively on airport issues	Responsiveness to citizens
Business-oriented and capable of fast decision-making and implementation	Loss of special relationship to local government and local government expertise
Clear financial independence and separation from other governmental Entities	Loss of benefits of purchasing scale and local governmental expertise
Greater continuity of governance, assuming staggered board	
Greater flexibility in compensation and procurement	

---

# Airport Authority Best Practices

Area	Best practice	Comments
<b>Appointment authority</b>	Those with the largest stake in the airport	Charlotte should have the largest number of seats, based on ownership, location, operation, and history
<b>Limits on appointments</b>	No one jurisdiction can appoint a majority	One purpose of an authority is to reduce level of political involvement
<b>Board size</b>	Between 7 to 11	Median size is 9 among airport boards
<b>Terms</b>	4 year terms, staggered	Learning period required; staggered terms for continuity; removal for cause to reduce political influence. Median term is 4-years among airport boards
<b>Procurement of services</b>	Not obligated to procure city services	Provides airport with negotiating leverage to procure services at low costs
<b>Condemnation and land use authority</b>	Powers required by FAA and needed by the airport	Subject to both state law and FAA requirements; goal should be to permit airport to operate independently

## Airports that Have Changed Governance Structures

Seven in the past 20 years – all have changed to an authority structure

Rank	Airport	Operator	Established
56	Bradley International Airport	Connecticut Airport Authority	2013
28	San Diego International Airport	San Diego County Regional Airport Authority	2003
17	Detroit Metropolitan Wayne County Airport	Wayne County Airport Authority	2002
55	Jacksonville International Airport	Jacksonville Airport Authority	2001
47	Pittsburgh International Airport	Allegheny County Airport Authority	1999
64	T. F. Green Airport	Rhode Island Airport Corporation	1993
80	Albany International Airport	Albany County Airport Authority	1993



# Transition Issues

<b>Issue</b>	<b>Recommendation</b>
<b>Timing</b>	Minimum of six months, once appointments have been made. A smooth transition from beginning to end is more likely a year
<b>Financial issues</b>	Parties need to work together to transfer bonds, airport funds, and accounting functions
<b>Property/contract transfers</b>	Typically, dozens of contracts need to be assigned, and consents obtained
<b>Use of city services</b>	Airport should continue to have the right to procure city services at cost during any transition
<b>Employee transfer and pension</b>	Employees are usually offered same pay and comparable benefits; the parties should work together to try to transfer pension rights
<b>Safety and security</b>	Both FAA and TSA must approve the new airport operator, so the transition plan should allow time for this
<b>Land use planning and noise</b>	Experts in FAA and local law should make sure the legislation provides the authority required

# Conclusions

## Case for Change

The Airport has been spectacularly successful in most regards, including its low cost and high service quality.

No suggestion that the Airport suffers from the issues/problems that have triggered additional oversight and governance changes at other airports, such as patronage, political favoritism, or contracting irregularities.

The specific incidents that have been cited as driving the need for change deserve an examination on the merits but not a rush to judgment that the City's actions have been aimed at increasing the Airport costs or shifting revenue to the City.

In interviews with the City, it was clear that the City was open to re-addressing the specific issues raised. One issue regarding US Airways' request for input regarding the next Airport Director has already been addressed.

So, when compared with other airports, the case for change is weak.

## Conclusion

Our conclusion is nevertheless that the best form of governance for the Charlotte Airport is a **properly structured** airport authority.

May not improve performance in the short term, but likely to best position the Airport for the future.

Best supports success factors – low costs, commercial mindset, cooperation with hub partners, structured management of stakeholders

Not based on real or perceived wrong-doing, mismanagement, or other impropriety by City

Represents our findings as to how to best institutionalize the factors that have led to the Airport's success.

## Reasons

Reduced political involvement in airport management, which enables airport managers to better concentrate on running the airport most effectively.

Ability to function much like a corporate board to add value by focusing on and understanding the business of the airport.

Finances are completely separated from that of the city/county/state in which it is located, thereby ensuring that the airport contracts and pays for only the services it needs and uses.

Ability to develop its own contracting and procurement policies, which are likely to lead to more nimble procurement and possibly lower costs.

Ability to develop a compensation system that enables it to attract and retain top talent.

# Recommendations

## **To best position the Charlotte Airport to retain its status as one of the most successful airports in the U.S.:**

- Reconsider any proposed airport authority structure to better meet the criteria outlined in this report
- Obtain input from experts
  - FAA regulations, airport authority law, financial advisors
- Carefully plan for the tasks required to make a smooth transition, and permit sufficient time to make a smooth transition

