GOVERNMENT FINANCE OFFICERS ASSOCIATION (GFOA)
THE RESEARCH AND CONSULTING CENTER

A Report Related to Designing a Process for Considering Public-Private Options for Milwaukee County Airports

March 2009

GOVERNMENT FINANCE OFFICERS ASSOCIATION

THE RESEARCH AND CONSULTING CENTER

LETTER OF TRANSMITTAL

March 31, 2009

Mr. Barry Bateman
Airport Director
5300 South Howell Avenue
Milwaukee, WI 53207

Dear Mr. Bateman:

The GFOA is pleased to present this final report related to designing a structured process for considering public-private options for maximizing the value of Milwaukee County Airports. GFOA would like to thank the County for allowing us to participate on this important project for the project.

Respectfully Submitted,

Anne Spray Kinney

Anne Spray Kinney

Director, Research and Consulting Center
Government Finance Officers Association

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Section 1: Overview

Over the last two decades, public-private partnerships (P3)[1] such as long term leases and operating contracts for public assets and facilities such as roads, parking garages, water and wastewater treatment plants, and convention centers have emerged as viable means for generating additional governmental revenue and continuing or improving the delivery of public services. Airport P3 presents unique opportunities as well as very specific challenges. Given the numerous and often complex contractual relationships involved with airport management, such as those with airlines and commercial renters, an evaluation process related to airport P3 options must be well designed, perceived as and in reality be fair and impartial, and well understood by stakeholders.

As part of Milwaukee County's (the County) efforts to achieve long-term financial sustainability, the County is considering exploring possible public-private partnership agreements concerning General Mitchell International Airport. Given the importance of the project and the complex nature of airport P3 efforts, this report makes recommendations for designing a process for moving forward, and a governance structure that guides evaluation and decision making for the project. In addition, this report presents important considerations for the project based on experiences of other governments in conducting large and complex P3 studies.

Background Information on Airport P3

Public-private agreements come in many varieties. For airports, the most common method has been leases. Governmental airport owners have looked to lease agreements to provide cost savings and/or additional revenues while transferring operations and the responsibility for providing services and maintenance to a private operator. According to P3 proponents, airport lease agreements are likely to increase operating efficiencies, increase revenues, improve airport amenities, and lower airport-related project development risk.[2] P3 skeptics, however, express concerns that because leasing arrangements for mid-size and large airports have been rare in the United States long-term results are difficult to determine. Chicago's initiative to lease Midway Airport (discussed later in this report), for example, is still in the review stage.

[1] Terminology regarding private options for public services can be confusing. In this report we will use the terms public-private partnerships, or P3 to mean any type of public-private arrangement for having private sector firms provide public services or manage public assets.
[2] Charles Sander, "Airport Privatization: Trends and Opportunities: Parts I-III", White Paper, Unisys Global Transportation; Shields, Yvette, "Airport Poised for Privatization: Midway Seeks Lease; Others Could Follow", The Bond Buyer, Wednesday June 18, 2008.

Internationally, however, airport public-private agreements have been a success and a number of firms have demonstrated their proficiency for managing public airports. Over the past 15 years, many major international airports have entered into lease agreements with private firms. The following table lists major airport operators and major airports around the world that they control.

International Examples

Private Operator	Airports
Macquarie	• Sydney Airport (Australia)[3] • Copenhagen Airport (Denmark) • Brussels Airport (Belgium)
Hochtief	• Athens International Airport (Greece) • Budapest Airport (Hungary) • Dusseldorf Airport (Germany) • Hamburg Airport (Germany)
Aeroport de Paris	• Charles de Gualle International Airport (France) • Orly Airport (France)
Abertis	• London Luton Airport (UK) • Belfast International Airport (UK) • Cardiff International Airport (UK)
Ferrovial[4]	• London Heathrow Airport (UK) • London Gatwick Airport (UK) • London Stansted Airport (UK) • Aberdeen Airport (UK) • Edinburgh Airport (UK) • Glasgow Airport (UK) • Southampton Airport (UK) • Naples Airport (UK)

[3] Macquarie owns has an agreement for an 80% stake in the Sydney Airport. Other firms have P3 agreements for the remainder of with Hochtief being the largest at 13%

[4] Ferrovial aquired BAA in 2006. At the time of acquisition, BAA owned seven England based airports. In August 2008, Britain's Competition Commission issued a report in August 2008 that required Ferrovial (and BAA) to divest ownership of some UK based airports to address customer service concerns related to antitrust. As a result, Ferrovial (BAA) plans to sell London's Gatwick airport , London's Stansted Airport and either Edinburgh or Glasgow Airport.

In the United States, while there have been numerous P3 initiatives related to government services and facilities, few U.S. public sector airport operators have explored public-private lease options. However, partnerships do exist and airports have entered into agreements for private management of publicly owned airports. The following table lists major publicly owned and operated in the United States. The lease for Stewart International Airport in New York is the only domestic example of full privatization, and was the first and currently the only approved participant in the Airport Privatization Pilot Program. The remaining examples illustrate the growing trend of management contracts, which involves having a private company operate and maintain the airport, or portions of the airport on behalf of the city/airport owner. The airport owner pays the private company generally a fixed monthly/annual management fee for their services, but retains control over airport revenues. In the following examples, management agreements cover the private operation of: terminal operations, cargo services, refueling, de-icing, aircraft parking and hangarage, and parking garages. For example, Orlando Sanford International Airport (SFB) is operated through a public/private partnership between the Sanford Airport Authority (which is responsible for the operation, maintenance and development of the Orlando Sanford International Airport and the airport's facilities) and TBI Airport Management, Inc. TBI Airport Management, Inc. has been contracted by the Sanford Airport Authority to manage both the international and domestic terminals, develop additional air service, and provide ground handling and cargo services.

Domestic Examples

Private Operator	Type	Airports
National Express 2002-2007	Private Lease	• Stewart International Airport (New York)
BAA (1997-2008)	Management Agreement	• Indianapolis International Airport
Schiphol Group	Management Agreement	• JFK Airport- International Arrivals Terminal (New York)
TBI *TBI is owned by Abertis	Management Agreement	• Orlando Sanford International Airport - Domestic and International Terminal; • Hartsfield-Jackson Atlanta International Airport - International Terminal • Bob Hope Airport (Burbank,CA) • Herbert Smart Downtown Airport (Macon, GA) • Miami International Airport • Middle Regional Georgia Airport (Macon, GA)
AvPorts	Management Agreement	• Albany International Airport

The State of New York retained AvPorts a private company to manage, maintain and run the Albany International Airport in New York. AvPorts' role includes running all aspects of the airport including airside and landside facilities owned by the State, excluding the Control Tower, Navaids and other privately held facilities, providing for all maintenance and upkeep of the airport, and marketing of the airport,. The state receives income generated by the airport and pays AvPorts a monthly management fee. In another example, the City of Indianapolis contracts with BAA for management of all operations and maintenance within the terminal including concessions, food and beverage, duty free, advertisement, office rentals including managing all commercial contracts.

Section 2: Establishment of Governance Structure

Recent experience in public-private agreements clearly demonstrates that establishing a proper governance structure is essential to project success. The term governance refers to the organizational structure that will govern the project, resolution of important issues, identification of project constraints, and identifying and reaching consensus on goals and major drivers to guide the project. Each aspect of governance is explained below.

Project Organizational Structure

The project organizational structure defines the reporting structure and lines of authority for the project. For each position listed on the project organizational chart, the roles and responsibilities for that position must be defined. Additionally, the authority that each organizational level is empowered with must also be identified. The clear delineation of responsibilities, together with up-front consideration of how grey areas that are bound to occur will be managed, will help the county to create a cohesive governance structure to support and guide the P3 project. The following chart represents expected expertise and authority that would be contained within the project governance structure.

Proposed Governance Structure

Steering Team

The Steering team is responsible for initiating the process, establishes the goals for P3, and sets the overall policy direction for the project. Expected team members would include:

- County Executive or his Designee
- Representative from the County Board

- Finance or Budget Director
- Transportation Department Director
- County Corporation Council
- Other Key Executive Decision-Makers
- One or a small number of highly respected public members

Operations Committee

Established by the governance team, the operations committee assumes responsibility for carrying out the vision of the steering committee and for conducting all phases of the P3 process. Relying heavily on in-house expertise, the operations committee must assess its own capabilities, and when necessary, look to external resources to fill-in any expertise gaps. Key roles and responsibilities include:

Internal Resources

- **Legal Counsel -** Responsible for statutory requirements, fee structures contract negotiations
- **Financial Team –** Budget and financial analysts within the County responsible for asset valuation. The financial team works directly with an external financial advisor to help structure an asset valuation methodology and results. The financial team essentially works directly with any external financial advisors/experts.
- **Airport Officials –** In order to adequately guide the process, the County should include County airport personnel familiar with current operating standards, current lease agreements and current management practices. These members also function as a bridge between the County decision-makers and airline/airport employees.

External Resources

External advisors often perform several key functions in a large and complex initiative. They can identify potential interested parties in the selected P3 options and initiate promotion of the P3 opportunity and conduct high-level testing of levels of interest. They also sometimes prepare marketing materials to promote the P3 transaction (generally including documents such as Information memorandum, a Website, a “teaser,” or informational seminars, which consist of meetings with investors to present the P3 opportunity). They also provide advice on the financial structuring of the P3 option and coordinate with the County’s legal team in the development of RFQ and RFP documents, assist in reviewing bids (including preparation of review templates), systematically maintain records during the process, draft contract, and work on development of technical and financial regulatory elements to be included in the contract. Further, they often provide assistance during negotiations with a selected bidder and can provide assistance with the transition process of the Airport. Costs vary widely, depending on the scope of services and size of the transaction. Historically, overall cost of an Airport P3 arrangement, whether a lease, a concession or a management contract, has greatly depended upon on the size and complexity of the airport, but in general has ranged between $1.5 and $2 million according to firms who do this kind of work. The largest expense generally is legal fees, which can be up to 40 percent of these costs.

Below are external resources it is expected that the County will require as part of its operations committee:

- **Airport Consultant –** Private, airport consultants provide valuable insight into P3 practices, market conditions and feasibility. Airport consultants will help complement and validate the in-house knowledge of airport officials. They also provide advice on the P3 options that are most likely to meet the objectives of the client government, which may or may not be the bid that provides the highest revenue.
- **Financial Advisor –** The financial advisor will work with the financial team and provide expertise on airport valuation, potential P3 valuation, and other market trends that may impact competition or
- **Legal Advisor –** Often, complex P3 agreements require legal experts with experience in similar situations. Often, this expertise is not found in-house.

It is not uncommon for advisors to form teams that combine these resources, especially airport consultants and financial advisors. Benefits of contracting with such partnerships is that it clarifies accountability, decreases redundancy and complexity for the County's contract managers, and provides considerable support for internal project management where there is a relative lack of experience in conducting large and complex financial deals with the private sector. For example when providing analysis across multiple areas of expertise, such as the development of a financial model that simulates cash flows of the private firm and requires development of operational forecasts, investment and development plans as inputs, it can be beneficial to have place accountability in one team.

Documentation of Governance Structure

After formation of a project governance structure, it will be important to document the project organizational structure and all project controls related to project responsibilities, decision making authority, and issue resolution procedures. Also vital to success is the creation of a document that clearly identifies the project's guiding principles, goals, and major assumptions. This document should also articulate success of the project and create a definition of success in terms of measurable results. Often, documentation occurs through the development of a project charter. GFOA's interviews with stakeholders offer some ideas for creating guiding principles. When asked what mid-term outcomes (for example, five years after a lease) they would hope for, were General Mitchell International Airport leased to a private firm, common responses included:

- The service to airport customers is equal to or better than current.
- In reality and perception, the airport continues to be well managed and well maintained.

- Fees remain stable, do not dramatically increase year on year.
- Revenues from the agreement are close to estimates.
- Revenues are used as originally agreed to.

Issue Resolution Process

Timely decision-making is critical to project success and proper understanding of decision authority is important to project success and should be clearly identified and defined. A clear process on how issues will be identified, tracked and resolved should be documented within the charter. Time frames for issue resolution at each escalation level should also be defined. For example, if the operations team cannot agree on how to resolve an issue, it could refer it to the steering team. If the steering team still cannot resolve the issue, it could decide to meet with a professional facilitator, or to the County Executive or Board or create a hybrid process for resolution.

Project Goals, Objectives, and Measures of Success

As with any project, but more importantly with a project of this size, it is vital to have clearly established goals and objectives prior to beginning the project. Each goal and objective should also be assigned with a key measure or indicator to help determine if the objective was achieved. Because some benefits of this project may be difficult to measure, GFOA recommends evaluating general indicators at regular periods during and after the project gauge project success and determine areas for possible improvement. In addition, the creation of goals will help communicate the importance of the project and help set expectations for potential outcomes of the project. GFOA's interviews identified some goals related to the process itself:

- The process is transparent and well understood
- The process is well documented
- Major stakeholders are consulted and kept informed

Project Constraints

Those items that constrain or create risks the project should also be identified and documented as they also provide boundaries for the project. Typical constraints include statutory/regulatory policies and procedures, critical milestone dates that cannot be moved, and any applicable budgetary constraints. For example, maintaining the tax-exempt status of the airport may be an essential pre-requisite for making a P3 arrangement feasible and that would involve the State of Wisconsin. In addition, maintaining a disciplined timeline is important for maintaining the credibility of the process. Based on GFOA's research, a common timeline for a P3 project, from the moment a decision is made by the airport owner to closing the deal, is 18 to 24 months. This includes the period to hire consultants and legal team advisors, but assumes that relevant legislation is already in place. Without necessary legislation in place, the County could expect a delay of approximately 24 months while all necessary legislation is approved.

Section 3: Lessons Learned from Other Jurisdictions

As the County prepares to begin its airport P3 effort, it can benefit from the experiences of other governments who have explored P3 arrangements for their airports or other major assets. This section will present comparable case studies and highlight "lessons learned" that may help guide the County. Please note that due to the relative lack of U.S. experience with airport P3 arrangements, other types of projects have been include because they are instructive.

Case Study 1: Midway Airport P3 (City of Chicago) [5]

Midway International Airport presents a well-conceived model for moving forward with a long-term lease agreement. Midway International Airport successfully entered the Pilot Program, receiving 80% of air carrier approval and 95% of landed weight approval. Throughout the resulting bid processes, the City of Chicago maintained open communication and transaction updates through ongoing meetings with key stakeholders. The agreement, if completed, will create a tri-partite agreement giving airlines and city direct enforcement rights over the private operator. Additionally, the City of Chicago maintains an ongoing presence in the airport's operations, primarily through the Department of Aviation. The Midway Airport initiative is currently awaiting certain approvals, including an FAA review and approval of City documentation and the private operator's equity and debt structure information, and a CFIUS (Committee on Foreign Investment in the United States) review and approval. As of March 31, 2009, the proposed April 6, 2009 closing date has been cancelled and delayed for six months to provide Midway Investment and Development Company LLC an opportunity to put together the combined package of equity and debt necessary for purchase. However, as part of the agreement, Midway Investment and Development Company LLC has already paid $126 million to the City that the City would keep if financing is never achieved. A more detailed description of the Midway Airport process is included in Appendix 2.

Key Lessons:

- Maintain communication throughout the process with key stakeholders
- Communicate and gain approval of airlines by incorporating airline concerns into concession agreements
- Maintain control over service levels and enforcing service quality
- Maintain control over the process. By requiring funds paid up front, the City is able to mitigate risk of the agreement not being completed
- Control risks by requiring non-refundable earnest money from winning bidder.

[5] Midway Overview Report

Case Study 2: Stewart Airport P3 (New York)

Stewart International Airport in New York illustrates the distinction between proposed benefits and actual results and practices. This example was the first fully privatized U.S. airport and the first participant in the FAA's pilot program. In April 1998, the State of New York entered into a 99-year lease agreement with U.K. firm National Express Group for the operational rights to Stewart International Airport. The State chose National's bid of $35 million in upfront cash plus a percentage of future airport gross revenues from among 5 bids. New York intended to use the funds for non-airport use, however, the airport was unable to achieve the necessary approval of 65 % of carriers and therefore was limited using lease funds for only airport improvements. On January 25, 2007, the Port Authority agreed to purchase the lease agreement and regain control of Stewart International Airport.

Key Lessons:

- Understanding and working to address key stakeholder concerns plays an important role in realizing project benefits

Case Study 3: Los Angeles County General Aviation Airports

In 1990, Los Angeles County entered into a 20-year hybrid contract management and long-term lease agreement with private operator Comarco. Via the agreement, user and tenant fees were paid to Comarco to support all operating expenses and the contract between the County and Comarco stipulated a split of airport net income based on a prearranged formula. The County directing all revenue into its Aviation Division budget to use for capital improvements. Within the first two years, Comarco paid the County $2.7 million per year, an increase from the $2.2 million net income under County operation. According to Charles Sander, Vice President of Airport Operations for Unisys Global Transportation, the increase derives from improved marketing of airport facilities, reduced operating costs and a computerized revenue control system[6].

Key Lessons:

- Project was met with resistance at first, but over time has gained acceptance.
- Operating efficiencies were achieved by improved marketing of airport facilities, reduced operating costs, and a computerized revenue control system

[6] Charles Sanders. "Airport Privatization: Trends and Opportunities." *Unisys Global Transportation*, Transportation White Papers.

Case Study 4: The Chicago Skyway P3 (City of Chicago) [7]

While not an airport P3 project, the City of Chicago's Skyway P3 project offers valuable lessons for current projects. In 2004, after an international competition, the City of Chicago awarded operation of the Skyway for 99 years to a joint consortium of Cintra Concesiones de Infraestructuras de Transporte S.A. and Macquarie Infrastructure Group. for $1.83 billion dollars. As a result, agreements establish and mandate standards for operation and maintenance. Prior to the completion of the lease agreement, the City established a spending plan and pre-allocated all proceeds. Goldman, Sachs & Co, which served as financial advisor to the City of Chicago in the Skyway competition initiative, highlighted three principles maintain by the City throughout the pre-qualification and bidding process as key to the successful transaction:

Key Lessons:

- Maintain total transparency of the information related to asset. The City felt providing this information was crucial in helping the private teams formulate good bids
- Maintain a competitive process and do not allow visibility between competing bidders.
- The City had to make clear to potential bidders that this deal was really going to happen if a fair price was offered.

Case Study 5: City of Atlanta P3 Efforts

The City of Atlanta recently considered leasing Hartsfield International Airport to pay for a $3 billion sewer upgrade mandated by the EPA. However, ultimately, the City Council denied the consideration because of a commonly held belief that the City would not be able to achieve the necessary 65% approval of airline carriers to use P3 funding outside of the airport. In addition, the City of Atlanta's history of P3 deals had achieved less than expected benefits. For example, in 1998 the City of Atlanta signed a 20-year $400 million contract with United Water to operate the City's water system8. As a result of the project, jobs were lost, promises made for employee training were not kept and service levels decreased.

Key Lessons:

- Throughout the process, the County should be engaging all stakeholders to correctly understand challenges facing the P3 efforts.

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[7] Interview, Eric Reese, Chicago Transit Authority; Civic Federation, *Alternative Service Delivery*; Chicago Skyway Website, http://www.chicagoskyway.org/; U.S. Toll Road Privatizations: Seeking the Right Balance, Fitch Ratings, March 22, 2006; Enright, "Then There Were Two: Indiana Toll Road vs. Chicago Skyway."; Enright, *The Chicago Skyway sale: An analytical review.*

[8] Reason, Privatization Watch, Vol. 28, No. 2, 2004

- Lease agreements should contain robust service level agreements that protect the City’s interest in the event the private operator does not maintain adequate delivery of quality services

Section 4: Major Steps and Considerations in the Process

As the County moves through the process, the following steps should be carefully addressed to ensure a structured evaluation that sets the County up to accomplish project goals. The following list is not intended to be exhaustive, but rather a list of key steps and events, all related to project governance.

1) Establishment of Governance Structure
Establishment of a governance structure is absolutely essential to the project and will provide direction and guidance throughout the project. Governance structure is described in section 2.

2) Understand the 1996 Reauthorization Act – Airport Privatization Pilot Program
A summary of the act and its requirement is contained in Appendix 1

3) Asset Valuation
From the very beginning, the County should consult with proper external resources to determine an accurate estimate for the value of the to-be privatized asset. In conducting an asset valuation, the County should respond to the following questions:

- Based on calculation, what is the actual value of the Airport?
- Is there a viable market for Airport P3?
- Based on the current market and perceived value of the asset, how much money can the County expect from P3?
- What type of deal best assures that the County receives the best deal?
- What tax status will the project have? (If the leasee has to pay property taxes, the asset will be worth less)

By establishing an estimate of value early in the process, the County can identify an initial cost benefit analysis and set preliminary project goals as a guide for the project.

3) Establishment of Project Goals
The steering committee will communicate project priorities, expectations, and overall direction through the development goals. These goals will also act as a definition of project success and indicators attached to these goals will act as ongoing assessments during and after the project.

- **Project Performance –** The Governance team establishes key performance goals to pursue throughout the process. These relate to potential risks. The County may wish to consider the following:
- **Go/No-Go Level.** Airport privatization requires approval by 65% of airlines, both in terms of the number of airlines and the percentage of passengers. Governments risk spending resources on a process that may

not in the end result in an agreement. The County must gauge this risk at the beginning and decide what it will take to obtain airline buy-in.

- **Revenue Expectations and Usage -** Based on the asset valuation and market condition analysis, the County must decide on an adequate revenue level necessary for moving the project forward and articulate goals or intent on how to use revenues.
- **Performance and Quality Standards -** By establishing this early, the County can institute benchmarks from which to assess proposals. These standards help dictate the values and areas most critical to government functioning, and work to guide proposal and processes. Performance standards that will be required of the private operator will need to be written into the contract, including provisions and penalties if the standards are not maintained. The County may wish to consider the following factors in establishing performance standards:

    - Levels of transparency and definitions of fairness during the bidding process
    - "Social goals" the County will expect the private operator to adhere to, such as common DBE/WBE/MBE requirements. The goals that are regularly included in standard County contracts may serve as a starting point. In addition, during GFOA's interviews, such things as the presence of local vendors inside the airport as substitutes for national chains. It will be important for the County to consider the cost of each goal in terms of the trade-off in revenue, in establishing such goals for the process.
    - Staffing levels and training requirements
    - Asset condition (during and at the end of the lease contract) and maintenance standards.
    - Landing fee structure and allowable increases/changes. For example, the agreements could include restrictions on rate increases based on a rate structure with cap conditions by year, percentage or timeframe/growth. For example, GDP per capita may drive up user charges, while CPI or floor/ceiling structures help protect user rates. One solution may include pass through adjustments in addition to the latter two to help produce acceptable monetization results.
    - Airline carrier lease and use Agreements
    - Airport usage – Will there be any use restrictions?

- Customer service levels and requirements including factors such as safety, airport amenties, costs, complaints both inside the airport and from the surrounding area.

- **Goals Related to Current Employees -** These should be included in RFPs and written into contracts. Midway International Airport's proposed lease agreement requires the following employee protection stipulations[9]:
  - The lessee agrees to offer comparable employment to current employees including maintained wages
  - Requires the city to offer alternative jobs to those who choose not to work for the private operator
  - Private operator will offer wages at comparable levels of other City employees
  - Agreement ensures the rights of employees to organize in collective bargaining.

4) Determine Feasibility

Based on market research, conditions and communication with potential bidders, the County can determine the feasibility of privatizing. This helps address:

- The long-term viability of private operators
- Discerns if enough competition exists in order to provide the government with the greatest possible benefit from P3. Without adequate competition, P3 initiatives are less likely to yield cost savings or improved efficiency.

6) Explore Need for Legislation

To support the project or increase the chance of project success, members of the project should explore opportunities for additional legislation to guide the process or begin the process of removing constraining legislation. An audit of the impact of seeking privatization on federal and state legislation, regulatory requirements and issues of liability is an important early step. The County must clearly understand the statutory limitations related directly to FAA requirements and the Pilot Program, as well as any State of Wisconsin or local statutory rules concerning privatization.

7) Gathering Project Concerns for Stakeholders

It will be the responsibly of all levels of the governance structure to identify stakeholder concerns. GFOA conducted interviews and developed the following preliminary list of concerns that should be addressed during the project.

[9] Midway Overview Report

- How will the government's employees fare in the transition? Will unions be recognized? Will workers be reassigned if the private operator does not hire them? What will be the impact on wages and benefits?
- What are the estimated revenues that Milwaukee County would recognize from such an arrangement, and how will the revenue stream be structured? What risks exist that could cause actual revenues to vary from estimates?
- How will revenues be used, and how can the public be assured that promises about the use of revenues will be kept?
- What will happen to airline fees and what control can the government have over fee increases?
- If the private operator provides a large up-front payment and if fee increases are controlled, where is the profit? Is there enough left over to adequately fund operations and maintenance?
- How can fixed assets be protected? How can we assure that a private operator will do an appropriate level of maintenance over the term of the lease
- What would motivate a private lease holder to do the necessary long term planning and development of infrastructure (runway expansion, for example), considering that the costs occur during the lease period but the benefits are not likely to be recognized until after the term of the lease?
- What will happen to customer service? Will the airport experience change? How will complaints, both from airport users and airport neighbors, be addressed and resolved if the government no longer is in charge of operations?
- Will a private operator/lease holder comply with federal laws and regulations and if not, what are the implications for the government?
- Why would the airlines agree to private lease and operation?10

5) Develop Communication Plans

To gather support for the project, expectations, goals, and other project information must be communicated on a regular basis with key stakeholders including airlines, employees, and the public.

- **Airline Communication Plans -** Any attempt at P3 must be accompanied by thorough communication with operating airlines. Airlines should be included throughout the process in order to address potential concerns and barriers. This includes discussion on proper service level agreements the airlines feel are necessary to provide approval for the project.

[10] This list summarizes stakeholder concerns identified during GFOA interviews conducted as part of this project.

- **Communicating with Labor -** The County should proactively address the employee question from the beginning by including key stakeholders, including the union in preliminary discussions and properly reporting all developments to affected parties in order to remain attentive to collective bargaining agreements and standards of employment guaranteed at the time of the public hiring.

- **Customer and Public Communication Plans -** To receive proper public support, the County must make clear its reasons for pursuing P3 and the potential benefits for all involved including the public. When communicating public benefits, it will be important to address the issues of greatest concern to the public, including those discussed above that we heard in our interviews.

8) Determination of Evaluation Criteria According to Set Goals
Using project goals, stakeholder concerns, and knowledge of the current market, detailed evaluation criteria should be developed that will allow the County to thoroughly evaluate proposals/bids and determine which represents the best deal for the County. Once set, evaluation criteria should be strictly followed.

Section 5: Conclusion

Airport privatization options are complex and include highly technical analyses. Consequently, it is important to obtain the services of qualified financial, legal, and transaction analysts, whether internal to the County or external. Nevertheless, final decisions regarding costs, benefits, and trade-offs, including the important one of what level of control the government relinquishes to the private sector partner in return for what amount of revenue and structure of payments will be the responsibility of the government's key decision makers. It is therefore of utmost importance that the County establish and define a governance structure to guide decision making and throughout the process obtain the highest quality and most up-to-date advise and information as it continues to explore options for its airports.

Appendix 1: The 1996 Reauthorization Act: Airport Privatization Pilot Program[11]

This Act permits up to 5 domestic airports, including one general aviation airport and no more than one major commercial hub, to be owned, managed, or leased and developed by private operators. The Act included the following exemptions and inclusions in an attempt to make privatization a practical solution:

- Exempt private operator from certain federal requirements. Specifically, private operators would be exempt from repayment of federal grants, return of property acquired with federal assistance, and proceeds from the airport's sale or lease to be used exclusively for airport purposes.
- Exempt public institutions from the latter requirement. Responding specifically to concerns that funds from a sale or lease would be limited to airport purposes and not other critical needs, the Act stated that public institutions may receive exemption from proceed restrictions based on support from the airport's operating airlines. If 65% of air carriers, both in terms of the number of airlines serving the airport and total landing weight, approve non-airport use of proceeds, public institutions are free to use such proceeds for other capital projects or operating costs as the government sees fit.
- Require that the private operator honor and maintain existing labor agreements and collective bargaining agreements.
- Maintain rate and airline charges structures based on annual rate of inflation or a higher rate as approved by a super majority of operating airlines.

Structurally, the FAA established the following guidelines for approval:

- Private operator must demonstrate ability to comply with the public institution's grant obligations, including ensuring continued access to the airport on reasonable terms for monitoring and inspection.
- Private operator must provide assurance that it functionally can and will operate the airport safely, continue all maintenance and improvement projects, provide security, mitigate noise and environmental impacts, and abide by current collective bargaining agreements.
- Public operator must provide an operation plan for the airport in case of bankruptcy or other defaults of the private lessee.
- Final approval is contingent on 65% approval from air carriers, both in terms of number of carriers and by landed weight. This approval rate also determines the public institutions ability to use funds for non-airport purposes.

[11] All guidelines and stipulations derived from the FAA Pilot Program Website/Documents; http://www.faa.gov/airports_airtraffic/airports/airport_obligations/privatization/

- The Pilot Program stipulates the continuation of federal assistance, including grants, charges and fees.
- Any approved program will be required to remain within federal oversight and security measures. All FAA airport safety regulations remain intact.

The 1996 Reauthorization Act established the following specific measures for submitting a proposal for airport privatization by filing an application exemption under 49 US Code 47134:

- Preliminary application submitted for FAA review and approval. This process identifies the objectives of privatization, describes the process and timetable for selecting a private operator, and supplies current financial statements and a copy of the Request for Proposal.
- If the FAA approves the preliminary application, the FAA reserves one of the five Pilot Program spots, pending final approval.
- Following FAA approval, public institutions may begin the selection process, select a private operator, negotiate an agreement and submit a final application for FAA approval. This step does not contain a specific timeline.
- FAA reviews application and subject to approval of an application and lease, publishes a notice in the “Federal Register” for a 60-day public review and comment period.
- Following the 60-day period, the FAA completes review by preparing its findings and releasing a Record of Decision (ROD), which addresses public comments and concerns.
- FAA publishes its ROD and, if approved, observes the legal settlement and transfer of airport management and operations from the government sponsor to the new private operator.

Appendix 2: Midway Airport P3 Process

The only current airport partaking in the Airport Privatization Pilot Program, Midway International Airport provides the most recent process where the desired end results was a long-term lease agreement with a significant up-front payment to the City of Chicago. With over 273 daily flights, 19.4 million passengers and 304,000 flights served in 2007, 90,000 regional jobs and over $7 billion a year in economic activity, Midway International Airport successfully entered the Pilot Program, receiving 80% of air carrier approval and 95% of landed weight approval.

Proponents of the proposed Midway International Airport privatization initiative have said that privatization will result in the following airline benefits[12]:

- Lower costs over the lease's 25-years when compared against the current rate-setting mechanism
- Provides more predictable pricing and a longer Use Agreement
- Transfers operation and management costs from operating airlines to the lessee
- Provides for previously approved capital investment projects and requires airline approval for subsequent capital projects
- Results in a highly-qualified, experienced private sector airport operator; 6) Enforces service quality levels
- As part of the long-term lease, airlines receive rights to enforce the operating agreement. However, until the Midway privatization initiative is finalized and put into affect, the benefits can only be proposed, not fully guaranteed.

The key processes and procedures Midway International Airport employed included:

- **Core Team:** The core team is made up of the Mayor, County Administrator, City/County CFO, Head of Department of Aviation, Manager of Finance and Budget, all City designated airport personnel and legal counsel
- **Transaction Team:** Financial advisors, legal advisors and other consultants
- **Process/Progress:**
    - Submitted preliminary approval to FAA in September 2006, which was accepted;
    - Reached preliminary agreement with 5 of 7 airlines regarding terms and financial structure in February 2008;
    - Issued RFQ to potential operators on February 13, 2008, receiving bids from 6 experienced bidders;

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  - Maintained open communication and transaction updates through ongoing meetings with FAA, Department of Transportation and members of Congress;
  - With airline approvals, qualified firms now eligible to submit bids
  - Received preliminary approval from operating airlines on a new 25-year Midway Use Agreement, Operating Standards and Concession Agreement;
  - Established an extensive due diligence process with qualified bidders.
- **Privatization Agreement:**
  - **Term –** 25-year initial, with 5-year renewal subject to amendment;
  - **Rate Setting –** All airline charges held constant for the first 6 years of the agreement, plus funding for additional airline approved capital projects. Airline charges growth capped at CPI (excluding energy and food);
  - **Service Quality –** Airlines and City responsible for directly enforcing operating standards in the lease agreement;
  - **Gate Utilization –** All gate rights remain at the current level through 2012, with new minimum standards beginning in 2013;
  - **Capital Expenditures –** Private operator assumes responsibility for funding all currently approved capital projects with existing reserves, PFCs and its own financing. Future capital projects and expenditures require airline approval, which need to be included in airline charges. The private operator must continue all efforts to mitigate noise including residential and school sound insulation projects.
- **Key Agreement Stipulations**:
  - Created a tri-partite agreement giving airlines and city direct enforcement rights over the private operator;
  - City maintains an ongoing presence in Midway's operations, primarily through the Department of Aviation;
  - Private operator required to fund reserve accounts for both operations and maintenance expenses, debt services and must take an initial 20% equity contribution to the deal;
  - The City and airlines must approve all qualified bidders and any subsequent changes in operations.
- **Airport Security**:
  - TSA will continue to manage airport security and the Chicago Police Department will continue to maintain law enforcement activities. The Chicago Fire Department will continue to be responsible for fire, medical and other emergencies.
- **Final Steps**:
  - Draft transition plan governing public to private turnover;
  - Finalize Use Agreement and Concession Agreement;
  - Receive bids;
  - Coordinate and receive approvals from FAA, TSA and Chicago City Council.

Appendix 3: Examples of Domestic Management Agreements

Indianapolis International Airport

The City of Indianapolis retained in the mid 1990's BAA to manage, maintain and run the passenger terminal at Indianapolis International Airport. BAA's obligations include:

- Running all aspects of the passenger terminal.
- Managing all commercial contracts within the terminal including concessions, food and beverage, duty free, advertisement, office rentals.
- Responsible for the upkeep and maintenance of all systems and parts of the building
- Coordinating security with TSA, dealing on a daily basis with airlines and passengers.
- Responsible for marketing the airport to airlines as well as to retail companies to establish their businesses. Essentially BAA operates as the de-facto managers of the passenger terminal building .

Albany International Airport

The State of New York retained AvPorts a private company to manage, maintain and run the Albany International Airport in New York. AvPorts' role includes:

- Running all aspects of the airport including airside and landside facilities owned by the State, excluding the Control Tower, Navaids and other privately held facilities.
- Responsible for all of the maintenance and upkeep of the airport
- Responsible for the management of all contracts with all airport tenants and concessionaires, in the marketing of the airport and overall operation of all facilities owned by the state of NY.
- The State receives all income generated from the operation of the airport , pays AvPorts a monthly management fee and is responsible for all major investments at the Airport.

Orlando Sanford International Airport

The Orlando Sanford International Airport (SFB) is operated through a public/private partnership between the Sanford Airport Authority and TBI Airport Management, Inc.

- The Sanford Airport Authority is responsible for the operation, maintenance and development of the Orlando Sanford International Airport and the airport's facilities
- TBI Airport Management, Inc. has been contracted to manage both the international and domestic terminals, develop additional air service, and provide ground handling and cargo services.