Charlotte Airport Governance Study

May 6, 2013
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ASSUMPTIONS AND LIMITING
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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

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:

<table>
<thead>
<tr>
<th>Reason</th>
<th>Summary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Protection of economic engine</td>
<td>Airport must be overseen using the governance structure most likely to ensure its continued success</td>
</tr>
<tr>
<td>Recent shift in degree of city involvement</td>
<td>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</td>
</tr>
<tr>
<td>Paying for unneeded city services</td>
<td>When a City operates an airport, the airport may be required to contribute more for city services</td>
</tr>
<tr>
<td>Need for business-oriented leadership</td>
<td>The governance structure most likely to ensure the continued success of the Airport involves oversight by a business-oriented board</td>
</tr>
<tr>
<td>Deeper focus on airport</td>
<td>A board would differ from current City governance in its exclusive focus on airport issues</td>
</tr>
<tr>
<td>Increased regional focus</td>
<td>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</td>
</tr>
</tbody>
</table>
# Current airport governance models in the United States

<table>
<thead>
<tr>
<th>Department of a City, County, or State</th>
<th>Overview</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Airports that are directly governed by a city, county, or state typically operate as a department of the particular form of government</td>
<td>Hartsfield–Jackson Atlanta International Airport</td>
</tr>
<tr>
<td>Multi-Modal Port Authorities</td>
<td>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</td>
<td>Port Authority of New York and New Jersey</td>
</tr>
<tr>
<td>Airport Authority</td>
<td>An airport authority is a quasi-governmental entity responsible for the operation and oversight of an airport or group of airports</td>
<td>Dallas / Fort Worth International Airport</td>
</tr>
<tr>
<td>Privatized</td>
<td>Airports that are either privately owned or leased from the local government for a lengthy term</td>
<td>Luis Muñoz Marin International Airport</td>
</tr>
</tbody>
</table>
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

- City: 36%
- Airport Authority: 35%
- County: 12%
- Port Authority: 9%
- State: 7%
- Private: 1%

Enplanements by governance type
Percentage of total

- City: 45%
- Airport Authority: 25%
- County: 10%
- State: 4%
- Port Authority: 15%
- Private: 1%

Frequency of airport governance by annual enplanements segmentation 2011

- 1<3M enplanements:
  - City: 9
  - County: 4
  - State: 4
  - Port Authority: 3
  - Airport Authority: 15

- 3-10M enplanements:
  - City: 10
  - County: 3
  - State: 3

- >10M enplanements:
  - City: 1
  - County: 0
  - State: 0
  - Airport Authority: 0
  - Private: 1

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

<table>
<thead>
<tr>
<th>Airport governance structure</th>
<th>Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>City</td>
<td>31</td>
</tr>
<tr>
<td>County</td>
<td>10</td>
</tr>
<tr>
<td>State</td>
<td>6</td>
</tr>
<tr>
<td>Port Authority</td>
<td>9</td>
</tr>
<tr>
<td>Airport Authority</td>
<td>30</td>
</tr>
<tr>
<td>Private</td>
<td>1</td>
</tr>
</tbody>
</table>

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.

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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

New York JFK $50.95
New York EWR $31.84
Washington IAD $22.25
Miami MIA $19.13
New York LGA $18.18
Los Angeles LAX $17.29
Chicago ORD $16.41
San Francisco SFO $14.82
Boston BOS $14.70
Seattle SEA $12.01
Denver DEN $11.69
Houston IAH $10.65
Baltimore BWI $9.82
Philadelphia PHL $9.66
Detroit DTW $9.09
Las Vegas LAS $8.80
Chicago MDW $8.30
Dallas / Fort Worth DFW $6.86
Orlando MCO $6.15
Minneapolis – St. Paul MSP $6.01
Phoenix PHX $5.07
Atlanta ATL $4.99
Fort Lauderdale–Hollywood FLL $4.48
Salt Lake City SLC $3.91
Charlotte CLT $2.28

Cost per enplaned passenger $USD

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

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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*

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

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:

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

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

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

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

<table>
<thead>
<tr>
<th>Rank</th>
<th>Airport</th>
<th>Operator</th>
<th>Established</th>
</tr>
</thead>
<tbody>
<tr>
<td>56</td>
<td>Bradley International Airport</td>
<td>Connecticut Airport Authority</td>
<td>2013</td>
</tr>
<tr>
<td>28</td>
<td>San Diego International Airport</td>
<td>San Diego County Regional Airport Authority</td>
<td>2003</td>
</tr>
<tr>
<td>17</td>
<td>Detroit Metropolitan Wayne County Airport</td>
<td>Wayne County Airport Authority</td>
<td>2002</td>
</tr>
<tr>
<td>55</td>
<td>Jacksonville International Airport</td>
<td>Jacksonville Airport Authority</td>
<td>2001</td>
</tr>
<tr>
<td>47</td>
<td>Pittsburgh International Airport</td>
<td>Allegheny County Airport Authority</td>
<td>1999</td>
</tr>
<tr>
<td>64</td>
<td>T. F. Green Airport</td>
<td>Rhode Island Airport Corporation</td>
<td>1993</td>
</tr>
<tr>
<td>80</td>
<td>Albany International Airport</td>
<td>Albany County Airport Authority</td>
<td>1993</td>
</tr>
</tbody>
</table>
### Transition Issues

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