




CHARLOTTE.

**CITY MANAGER'S OFFICE  
M E M O R A N D U M**

April 5, 2013

**TO:** Mayor and City Council

**FROM:** Julie Burch, Assistant City Manager 

**SUBJECT:** Airport Governance Study: Phase One/ Drivers for Interest in Change of Governance

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On March 4, 2013, the City Council authorized the Interim City Manager to enter into a contract with an independent consulting firm to conduct a study of airport governance models and issues associated with transition to a different governance model at the Charlotte Douglas International Airport. On March 20, 2013, the firm of Oliver Wyman, a global managing consulting firm with extensive aviation-related experience, was selected to conduct the study. The work is being managed by Robert A. Hazel, a partner in the firm. The deadline for study completion is May 1, 2013.

The study scope of work consists of four phases: 1) determine the drivers for interest in change of governance; 2) review and assess current governance of U.S. airports; 3) review and assess peer airports' governance; and 4) governance transition issues. The consultant was asked to prepare a report summarizing his findings at the conclusion of Phase One. The Phase One report is now complete and is attached for Council information.

As described in the report, Mr. Hazel interviewed more than forty stakeholders to determine the specific reasons for interest in changing the governance structure of the airport. One-on-one interviews began on March 22 and continued the weeks of March 25 and April 1. Stakeholders interviewed included the Mayor and City Council members, members of the Mecklenburg Delegation, members of the Airport Governance Study Oversight Committee and business and

community leaders. No comments or findings in the report are attributed to any individual stakeholder or group.

Mr. Hazel continues work on the other three phases of the study. He may interview additional stakeholders during the course of the work. Findings and recommendations, and a list of all people interviewed, will be included in the final report submitted to the City Manager on May 1. The final report will be sent to the Mayor and City Council, the Governance Study Oversight Committee and members of the Mecklenburg Delegation. It will be made available to the public via the City's website.

The Governance Study Oversight Committee met for the first time on March 21 and will meet again next Thursday, April 11 at 1:30 p.m. in Room 280 of the Government Center. The Committee, representing several stakeholders in the future of the airport, is charged with ensuring that the consultant study is objective and unbiased.

At the meeting, the consultant will provide the Committee with an update on the study and seek feedback and guidance on how the study is proceeding. The Committee will also discuss the public input meeting scheduled for Tuesday, April 16 from 7:00 – 8:30 p.m. in Room 267 of the Government Center. Interested citizens and stakeholders are invited to attend to offer comments to the Oversight Committee and to the consultant. Comments received will be included in the final report.

The Phase One report is being provided to members of the Oversight Committee and the Mecklenburg Delegation. It is also available to the public, along with other information about the study, on the City's website at <http://charlottenc.gov>.

A news release announcing the availability of the Phase One report via the City's website will be issued this afternoon. The consultant, as well as City staff, will not be addressing media inquiries about the Phase One report in order to ensure that the study remains objective and unbiased.

If you have any questions, please contact me.

Attachment: Phase One Report, Airport Governance Study

C: Ron Carlee, City Manager

April 5, 2013

Charlotte Airport Governance Study  
Task 1 Report

Interview Results – Reasons for Interest in Changing the  
Governance Structure of the Charlotte Airport

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## I. INTRODUCTION

The City of Charlotte (the “City” or “Charlotte”) has commissioned Oliver Wyman to conduct an independent, objective review of airport governance models and the issues associated with a transition to a different governance model at Charlotte-Douglas International Airport (the “Airport” or “CLT”). The study has four components:

1. Determine drivers for interest in change of governance structure;
2. Review and assess current governance models of U.S. airports;
3. Review and assess peer airports’ governance; and
4. Governance transition issues.

The study scope of work and schedule are attached.

The study is being overseen by a Study Oversight Committee, consisting of one member each from the Charlotte City Council, the Airport Advisory Committee, US Airways, the Charlotte Chamber, the Charlotte Regional Visitors Authority, and the Charlotte Regional Partnership.

Oliver Wyman will complete the study and submit a final report to the Study Oversight Committee and City Manager by May 1. This initial report, due April 5, has the limited purpose of identifying the specific reasons given for the interest in changing the governance structure of the Airport.

As background for this report, Oliver Wyman conducted more than 40 interviews of stakeholders in Charlotte and Raleigh, North Carolina. We also reviewed press reports and other material of possible relevance, including the Governor’s Logistics Task Force Final Report of June 2012. The majority of interviews were conducted in-person; others were conducted by telephone. Those interviewed were assured that they would not be identified directly or indirectly in connection with any specific remarks, although a list of the individuals interviewed would be attached to the final report. Interviews have been conducted with elected City Officials, City staff involved with the Airport, State Senators and Representatives, members of the Airport Advisory Committee, members of the Study Oversight Committee, business and community leaders, and major airport tenants.

This initial report will become one section of the final study report and may be modified in that process. Although we believe that our many hours of interviews have resulted in an understanding of the drivers for the interest in changing airport governance, we remain open to receiving additional input during the public input hearing scheduled for April 16.

This initial report is:

- A summary of the main reasons given for the interest in changing the governance structure of the Charlotte Airport.

This initial report is not:

- An assessment of the validity of the individual reasons given.
- A summary of “pros” and “cons” for changing the current Airport governance structure.

- A determination of whether or not the weight of the evidence supports a change in governance.
- A statistically representative sample of responses.
- A list of theories as to what the “unspoken reasons” may be for the interest in changing the current governance structure.

## **II. REASONS FOR INTEREST IN CHANGING THE GOVERNANCE STRUCTURE OF THE CHARLOTTE AIRPORT**

The following reasons were cited by stakeholders who were in favor of changing the governance structure of the Airport. In most cases, those favoring a change in airport governance framed the change in terms of a comparison between the current structure and a regional airport authority structure, defined as an authority with board representation from throughout the region. This was at least in part because a regional authority structure is embodied in current legislation that has passed the North Carolina Senate and is pending in the House of Representatives. The reasons listed below were cited as motivating factors and are presented as such, not as statements of fact:

- As the City’s most important economic asset and the most important economic engine for the region, the Airport must be overseen using the governance structure most likely to ensure its continued success. A critical factor in the Airport’s success is its low cost to the airlines.
- The Airport’s success to date is attributed to a combination of a very capable airport manager and very limited prior City involvement in the management of the Airport. Recent City actions are seen as demonstrating that the City will be more involved in Airport management going forward.
- There is a natural tension between the City’s need for revenue to support services and programs, and the Airport’s goals of keeping operating costs to a minimum. Stakeholders who favor a change in governance acknowledge that federal law prohibits the use of airport revenue for non-airport purposes, but believe that when a City operates an airport, the airport may be required to contribute more for city services than would be the case if the Airport were truly independent.
- The governance structure most likely to ensure the continued success of the Airport involves oversight by a business-oriented board whose sole focus is the Airport.
- Such a board would differ from current City governance in its full-time focus on airport issues, greater understanding of airport issues, business-orientation, and lesser degree of ongoing involvement by elected officials.
- 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.

- By having elected officials from multiple North Carolina jurisdictions make appointments to a new airport authority board, proponents of change believe the new board would be more representative of the region and more likely to have a strong business-orientation.

### **III. CONCERNS EXPRESSED ABOUT CHANGING THE GOVERNANCE STRUCTURE OF THE CHARLOTTE AIRPORT BY INTERVIEWEES WHO FAVOR CHANGE**

The purpose of this report is to “determine the specific reasons for the interest in changing the governance structure” of the Airport. It is not to list each argument for and against a governance change. Nevertheless, several concerns have been expressed by individuals who are in favor of changing the governance structure of the Airport, and these are summarized below:

- A change in governance to that of an airport authority structure is seen as a balancing of risks; a new authority structure is seen as likely to have “less risk” in terms of effective airport governance, but as nevertheless still involving some level of risk that board appointments could take the airport in an unintended direction, e.g., by focusing on specific local interests as opposed to the broader interests of the Airport and region.
- A change in governance to an airport authority is seen as likely to result in a board strongly aligned with important stakeholder interests, but proponents of change nevertheless recognize there is still the risk that a new authority board could prove less responsive to stakeholder interests and, in that event, that stakeholders may have less recourse than under the current system.
- There is concern that a change in governance that is not seen as based on the merits and that does not involve an earnest and open discussion of the merits may cause long-term damage to the relationship between the City and other stakeholders who must continue to work together for the long-term success of the Airport.

Not surprisingly, those who are opposed to changing the current governance structure have expressed a number of reasons why the current structure should be maintained. They observe that the Airport has the lowest airline charges of any major U.S. airport; that it has become extremely successful under the current governance structure; and that no one is in favor of doing anything that would be detrimental to the success of the Airport. They assert that specific issues/problems that have arisen under the current structure can be addressed within the current structure. A number of those who oppose changing the current governance structure emphasize that they are not opposed in principle, but just feel that no one has put forward a persuasive case for change.

## **IV. SPECIFIC INCIDENTS AND CIRCUMSTANCES**

Individuals interviewed cited specific examples to support their views. And in many cases, the exact same examples were used to support the positions taken by proponents of changing the Airport's governance as by those who feel that the current governance system is effective.

The one issue on which there was clear alignment of all stakeholders is that the Airport is enormously important to the success of the City, and that no one wants to create conditions that would interfere with that success.

The final report will address how different forms of governance will or will not address the issues with the current form of governance that are identified in Section II of this report. In the interest of full disclosure, we also list without comment some of the specific incidents and circumstances that were cited in multiple interviews as relevant to an examination of CLT Airport governance. In a number of cases, individuals in favor of a change in Airport governance cited the circumstances surrounding a particular incident as evidence of unnecessary City intervention which had the effect of increasing Airport operating costs, while individuals in favor of the current Airport governance structure cited the same incident as evidence of the City having exercised responsible oversight of the Airport. The following specific incidents and circumstances were cited in multiple interviews:

- US Airways' reported request for involvement in the process of selecting a successor to the current Aviation Director, and the City's reported response to that request.
- The replacement of CLT Airport police with a larger CMPD police force.
- The death of a teenager who may have climbed the Airport fence and who fell from the wheel well of an aircraft that departed from CLT.
- IRS questions regarding the use of Airport bond funds.
- The relationship between the prior City Manager and the Aviation Director.
- The City's reported requirement that the Airport participate in funding City financial and IT systems.
- The Charlotte City Council having not approved a City Capital Improvement Plan for the current year.
- The reported interest of the City in imposing a tax on Airport parking.

Our final report will not address any of these individual incidents or circumstances, nor is the above listing intended to express any views on the merits of the incidents and circumstances listed. Since most, if not all, of these subjects have already been reported in the press, and were



raised in many interviews, we note simply that we have become well-acquainted with stakeholders' views on these subjects.

We would appreciate receiving any comments on this report from the Oversight Committee. Our Draft Final Report will be provided to the Oversight Committee and the City on April 25.

RAH

## EXHIBIT A

### SCOPE OF WORK AND MILESTONE PLAN

This Scope of Work and Milestone Plan is an Exhibit to and is incorporated into the Fixed Price Services Contract between the City of Charlotte and Oliver Wyman, Inc. (the "Contract"). Capitalized terms not defined in this Exhibit shall have the meanings assigned to such terms in the Contract. Each reference to "consultant" in this Exhibit refers to the Company, and each reference to "you" in this Exhibit refers to the City.

The Company will promptly undertake the following analysis, and will prepare and deliver a final report for submission to the City by May 1, 2013.

#### A. Scope of Work

##### 1. Determine Drivers for Interest in Change of Governance

As part of the initial stage of the study, the consultant will be asked to interview stakeholders to determine the specific reasons for the interest in changing the governance structure of the Charlotte Airport. The consultant will be asked to provide an information report summarizing the outcome of the interviews to the Interim City Manager and the Mayor and Council at the conclusion of this first stage of the study. Specifically, the consultant will:

- a. Document the issues or problems a change in governance would address
- b. Provide a report at the conclusion of this step describing such issues or problems in detail

##### 2. Review and Assess Current Governance of U.S. Airports

The consultant will review and assess current forms of governance of U.S. airports, including municipal models, authority models, and any other forms, such as hybrid models, that exist. Attention shall be paid to airports located in peer airports of similar size and scope. Best practices, advantages, disadvantages, and other considerations for each governance model shall be reviewed. The review will address how the different forms of governance would or would not address the problems or issues with the current form of governance identified through stakeholder interviews.

- a. Municipal models
- b. Authority models
- c. Any other forms of governance, including hybrid models
- d. Include in assessment of each form the matter of succession planning for Airport leadership

##### 3. Review and Assess Peer Airports' Governance

The consultant will:

- a. Review selected airports with similar size and scope as Charlotte-Douglas International Airport
- b. Identify key variations in governance within the peer group and drivers for those variations
- c. Costs of operations and related service delivery impacts
- d. Address the role of airports in economic development, i.e. does the form of governance make a difference in an airport's impact or contributions to economic development
- e. Impact of any change in governance on successful airport operations

##### 4. Governance Transition Issues

The study conducted by the consultant shall also address matters to be considered as part of any transition from a City department to a different governance structure, including but not limited to: finances, debt, property, operations and services, security, administrative and management support, and legal considerations.

- a. Review factors for consideration if Airport were to transition from a City department to a different governance structure, including but not limited to the following list of factors for consideration for transition:
  1. General Operational Finances
  2. Maintenance of low cost advantage to enhance hub activity
  3. Bond Rating
  4. Past and current City of Charlotte General Fund CIP infrastructure support
  5. Debt
  6. Property and facilities
  7. City land use planning and decision-making
  8. Operations and services
  9. Security
  10. Administrative and management support, including impact of change on current City Airport employees
  11. Impact on surrounding communities, including land use planning and decision-making
  12. Responsiveness to the public on matters such as land use, noise impacts and customer service
  13. Any applicable Federal or State laws or regulations that may impact a possible change in governance
  14. Any other considerations deemed relevant to a change in governance, including economic development impacts
- b. Review of results of any similar transitions at other airports and impacts on Airport stakeholders.

#### **Section b.4. Governance Transition Issues**

Work under Section 4(b) of this Exhibit will be limited as follows:

Within the limited time available and project budget, it will not be possible to make use of the specialized professional advisory services required to definitively address these transition issues, as doing so would require specialized legal, financial advisory, and other specialized expert advice that does not reside in the core team.

Instead, the report will identify likely transition issues and how those issues have been addressed in prior airport authority transactions. These issues include bond assumption/ refinancing issues, pension transfer issues, transfer of title issues, land use and condemnation powers, etc.

#### **B. Conducting the Study**

1. The input and involvement of major community and airport stakeholders is an important component of the study.
2. Establishment of a Study Oversight Committee of 7–10 members appointed by the Interim City Manager, including representatives of the organizations and stakeholders outlined below:
  - a. Mecklenburg Legislative Delegation
  - b. Charlotte City Council
  - c. Airport Advisory Committee
  - d. US Airways
  - e. Norfolk Southern
  - f. Charlotte Chamber
  - g. Charlotte Regional Visitors Authority
  - h. Charlotte Regional Partnership

3. The Committee will be charged with providing guidance and feedback to the consultant, ensuring the study is objective and unbiased and with monitoring study progress within the bounds of the scope of work. It is anticipated the Committee will meet with the consultant three or four times over the 60 day study period, For example, (1) at the outset of the study, (2) at the conclusion of Step I of the scope of work, (3) at approximately the 50% completion point and (4) at the completion of final findings and recommendations.
4. There will be at least one meeting to allow broad public input and comment.
5. Additional opportunities for public input could be provided if time allows.
6. City staff resources will be available to provide information, data, technical assistance and context as needed.

### **C. Timeline and Deliverables**

The consultant will provide the final report by May 1, 2013 (subject to contract execution no later than Thursday, March 21, 2013.) Deliverables and due dates are as follows:

1. Deliverable #1, Initial draft report summarizing findings from Section 1 (drivers of interest in change of governance) – due April 5 (subject to availability of key stakeholders for interviews to be completed no later than April 2).
2. Deliverable #2, PowerPoint or other appropriate material for public hearing – due prior to public hearing tentatively scheduled for April 16 or 18.
3. Deliverable #3, Final report – due May 1. The final report shall include all information and meet all requirements set forth in Sections A and B of this Exhibit, and shall detail the results of all Work described in Sections A and B of this Exhibit.
4. We commit to provide regular project updates to the Oversight Committee, but will do informally as agreed with the Oversight Committee in order not to divert resources from the core work for this project.
5. Following submission of the final report, the Company will answer questions about the Company's findings. Should significant additional work be required in addition to telephone follow-up, other than due to a failure of the Company to meet the requirements of this Contract, the Company would bill for that work on an hourly basis or for a fixed fee as agreed.

### **D. Fees**

The fixed price fee for all Work and Deliverables is US \$150,000 total, including travel, hotel and other expenses. The Company will bill the City in accordance with the following Milestone Plan

Milestone 1: \$50,000, due after completion and submission of Deliverable #1, and

Milestone 2: \$100,000, due after completion and submission of Deliverables 2 and 3.

#### **Addenda:**

The Airport Governance Study Background Information for Potential Consultants attached as Addenda 1 is incorporated into this Exhibit and the Contract by reference.