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PRIVATIZING MILWAUKEE'S AIRPORT

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EXECUTIVE SUMMARY

The General Mitchell International Airport (GMIA) is one of Milwaukee County's most valuable assets, with an estimated market value of between $96 and $132 million. The County currently receives no direct financial return on this valuable asset. This paper proposes leasing the airport for 30 years to a professional airport firm, to be run on a commercial basis. Such a lease could produce a net new revenue stream to the County estimated at $8 million per year. It would also reduce the County's future debt burden and permit the airport to be operated in a more businesslike and user-friendly manner.

A commercial airport firm would proceed cautiously with the aggressive expansions programmed in the recently approved airport Master Plan. Over the next 15 years there would be modest terminal and runway improvements, but there is probably no need to add a major new terminal, an additional parking structure, or a new parallel runway within this time frame. The forecasts on which these plans were based are overly optimistic, and would not likely be accepted as commercially viable by a private airport firm. Such a firm would more likely expand the airport's commercial concession operations to generate additional revenue by providing a much greater variety of goods and services to airport users.

The financial effects of leasing the airport would be increased airport revenues, lower airport operating costs, and a new revenue stream to the County government, reducing the need for future tax increases. Airport bonding requirements would be greatly reduced during the next 15 years, compared to the Master Plan's projections, leading to important savings on debt-service costs.

It is legally feasible for the County to lease the airport, without any need for federal or state legislation. Federal airport grants would still be available, since the County would remain the airport's owner. Outstanding bonds could remain in effect, and they could retain their tax-exempt status.

Overall, leasing the airport to a professional airport firm could produce benefits to airlines, passengers, and Milwaukee County and its taxpayers.

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I. BACKGROUND

A. Airport Basics

General Mitchell International Airport (GMIA) is Wisconsin's principal air-carrier airport. With 2.19 million enplanements in 1992, it was the country's 56th-busiest commercial airport. GMIA is the principal airport not merely for Milwaukee but for all of southeast Wisconsin; some 78 percent of its enplaning passengers reside outside Milwaukee County. Although a small proportion of GMIA's passengers are transferring from one flight to another, 90 percent of all GMIA's enplanements originate at GMIA. Thus, the airport is considered an O&D (origin and destination) airport rather than a transfer hub airport.

GMIA is owned by Milwaukee County. It is operated as one of six divisions of the County's Public Works Department. GMIA is operationally self-sufficient, recovering from fees, charges, and grants sufficient revenues to cover operating costs and payments on County general-obligation bonds which have been used to finance airport expansion. In 1985, the principal airlines at GMIA signed 25-year contractual agreements obligating them to pay for terminal expansion projects through the year 2010. These contracts are of the type known as "residual-cost" agreements, in which the airlines obtain exclusive use of certain gates in exchange for agreeing to annual charges that will cover whatever portion of each year's airport costs (including debt service) is not covered by non-airline revenues.

Two major studies of the airport have been carried out in recent years: an update of the airport's master plan and an airport authority feasibility study. These documents provide an overview of the airport's operations, problems, and potential.

B. Airport Authority Study

In 1991 the state legislature directed the state Department of Transportation to commission a study of the feasibility of creating an airport authority to take over the operation of GMIA (and Timmerman Airport, a general-aviation reliever airport for GMIA). Motivating the study were concerns by some business leaders and public officials that under its current form of governance, as part of the County Public Works department, GMIA suffers from two ongoing problems: 1) **Micromanagement**: GMIA is subject to a degree of detailed oversight by County government that limits its ability to be run in a fully professional manner; and 2) **Parochialism**: having the airport governed solely by Milwaukee County sometimes fails to reflect the broader interests of the whole region served by the airport. These factors led to concern over the ability to move forward expeditiously with approving and implementing the new GMIA Master Plan (see below). Another concern was the ability of GMIA, under current conditions, to attract an international air carrier.

The study was conducted by KPMG Peat Marwick in association with Foley & Lardner and the Gerald Schwerm Co.[1] The study documented the concerns of business and community leaders over airport governance, in particular finding that the County structure "is not well-suited to running the Airports as a business." But it concluded that there was strong opposition to Milwaukee County giving up control of the airport, either to an authority or to any existing entity (e.g., the State or an existing transportation agency). Moreover, it concluded that there is no consensus that an airport authority is the way to solve the airport's problems, and it failed to identify an existing or potential "champion" of creating such an authority.

[1] "Final Report: Milwaukee Airport Authority Feasibility Study," Prepared for Wisconsin Department of Transportation, KPMG Peat Marwick, et. al., September 1, 1992.

C. Airport Master Plan

In 1988 the County hired Howard Needles Tammen & Bergendoff (HNTB) to update GMIA's Master Plan. An airport master plan is a federally required document that identifies future needs and guides airport development for a 20-year period. The Master Plan Update was published in April 1992.[2] After lengthy public discussion, it was adopted by the County Board in September 1993.

The Master Plan makes projections of enplaned passengers from 1989 through 2009 and from them derives a projection of aircraft operations. In these projections, both a Baseline forecast and an Alternate forecast were developed, the latter assuming that GMIA shifts from being an O&D airport to a transfer-hub airport. Based on these activity forecasts, the Master Plan assesses the need for increased capacity of: 1) runways; and 2) terminals.

For runways, the limiting factor is instrument (IFR) operations in bad weather, under which runway capacity is more limited than under visual (VFR) operations in good weather. HNTB's projections showed that the IFR capacity would be exceeded (at peak hours) in 1998 under the Alternate scenario and by around 2004 in the Baseline scenario. The recommended fix was the addition of a parallel runway. After reviewing a number of alternate configurations, HNTB recommended the runway concept it termed C1. Also recommended were a number of short-term runway and taxiway improvements.

The recent expansion of Concourse D brought the airport's terminal capacity to 42 gates, sufficient for all expected needs during the short-term planning period. Based on accommodating the Alternate (transfer-hub) scenario's passenger forecast, HNTB recommended a several-phase terminal expansion, resulting in an increase to 60 gates by the year 2009 (and ultimate expandability to 80 gates).

These runway and terminal expansions, plus a variety of other improvements, were costed out, totaling $401.6 million, in three phases. Two alternate funding scenarios were then developed, one relying only on traditional sources (primarily bonding and federal grants) and the other supplementing these sources by a $3 passenger facility charge (PFC). Both scenarios were judged financially feasible by the Master Plan's authors.

The County Board deleted one proposed runway extension, but otherwise adopted the Master Plan as written, including the addition of a new parallel runway and the large-scale terminal expansion. The County has also announced plans to apply to the Federal Aviation Administration (FAA) for permission to institute a PFC program.

D. County's Fiscal Problems

Unlike most local governments in other states, county governments in Wisconsin generally do not make use of revenue bonds for projects (such as airport expansion) that can generate their own revenues. All airport expansions have therefore been financed largely with general-obligation (G.O.) bonds. But the County's growing bonded indebtedness has raised questions about the wisdom of continuing to issue larger amounts of G.O. bonds. A joint report issued in March 1994 by the city, county, sewage district, and school district found that the amount of debt of the five major units of local government doubled in the four years ending in 1992.[3] The report also found that the County's debt level is expected to increase to more than $590 million by 1997, as it uses debt to finance 70 to 75 percent of $464 million in new capital projects from 1993 through 1997.

According to County Board Finance Committee chairman Richard D. Nyklewicz, the County's increased borrowing, along with state mandates and the state-imposed tax levy limit, led both Fitch and Moody's (two of the three principal rating agencies) to express concern last year about the County's fiscal health. Nyklewicz in January 1994

[2] "General Mitchell International Airport, Milwaukee, Wisconsin: Airport Master Plan Update, Draft Final Report," Prepared by Howard Needles Tammen & Bergendoff, April 1992.

[3] Gretchen Schuldt, "Local Government Doubled Debt for Capital Projects," *Milwaukee Sentinel*, March 31, 1994.

recommended that all future capital projects have 20 percent cash funding available before they be considered for bonding by the County.[4]

An article in the *Milwaukee Sentinel* in April 1994 reported growing concern over limited County funds to operate current programs: "Complaints are rolling in over park maintenance, pools are breaking down and closing for repairs, and social service programs are begging for money."[5] The article noted that the County has kept property tax increases below the rate of inflation for the past two years, which has limited funds for ongoing operations and maintenance. This situation has led to proposals (and debate) to sell the County-owned electric power plant, using the proceeds to retire debt and supplement operating budgets.

E. Might Privatization of GMIA Be the Answer?

Let us summarize key points from the preceding paragraphs. Milwaukee's GMIA, while self-supporting and competently run, is difficult to manage in a truly businesslike fashion under the current governance arrangements, and the alternative of an airport authority has not won meaningful support. To implement the planned expansions, and cope with future challenges such as attracting an international airline, a more professional form of airport governance would be highly desirable. In addition, County officials are concerned about continuing to increase the County's general-obligation bond indebtedness (on which the Master Plan's expansion plans depend).

Moreover, the County Executive, the Public Works director, and members of the County Board have expressed interest in privatizing one large existing County infrastructure asset, thereby converting a physical asset into a financial asset. The proposition which this study seeks to assess is whether some form of privatization might also be applicable to GMIA, thereby easing the County's fiscal problems (by providing a revenue windfall) while solving the aforementioned set of airport-related problems.

For example, if a world-class airport firm were to purchase or lease GMIA, it would bring a new level of professional airport management to GMIA. Marketing the airport would take advantage of the firm's breadth of international experience. And the design and timing of major runway and terminal expansions would be determined on the basis of commercial, bottom-line criteria. Depending on the privatization scenario, the County would receive either lease payments or a purchase price, thereby easing its fiscal problems.

Would privatization be financially feasible? Is it legally possible? And would the County (and other stakeholders) realize sufficient benefits from such a change to be willing to cede day-to-day *operational* control of GMIA to a private firm? What degree of *policy* control could the County retain to protect the public interest? These questions are addressed in the sections which follow.

II. OVERVIEW OF AIRPORT PRIVATIZATION

A. Airport Privatization Worldwide

Airports are part of a worldwide trend in which governments are divesting a wide variety of enterprises to the private sector. Over the past nine years, some $388 billion of state-owned firms have been divested, in both industrialized countries (Western Europe, Japan, Australia and New Zealand) and the developing countries of Latin America and East Asia.[6] Most recently, the former communist countries of Eastern Europe and the former Soviet Union have also begun large-scale privatization programs.

[4] Darryl Enriquez, "Growing Debt Threatens County's Fiscal Health," *The Milwaukee Journal*, Jan. 11, 1994.

[5] James B. Nelson, "Plant Might Generate Windfall," *Milwaukee Sentinel*, April 4, 1994.

[6] John O'Leary (editor), *Privatization 1994*, Los Angeles: Reason Foundation, April 1994.

Though less-noticed than some types of privat-ization, airports have become part of the privat-ization agenda of more than 50 countries. The general pattern is for developed countries to sell all or a partial inter-est in existing airports or airport authorities, while developing countries make use of a long-term lease or franchise to have the private sector finance and develop either major additions to existing airports or entirely new airports.

Table 1 summarizes the current status of airport divestiture worldwide as of early 1994. The best-known case was the 1987 sale by the British government of British Airports Authority, the owner/operator of Heathrow, Gatwick, and Stansted airports in London and four other airports in Scotland. One hundred percent of BAA was offered to investors in the form of an initial public offering of shares; investors valued the company at $2.5 billion, and after five years in the private sector, the market value of BAA had increased to $4 billion. Under private ownership, BAA's operations became more efficient, its commercial (concession) revenues increased very significantly, and its capital spending increased (encompassing terminal expansions, addition of on-airport hotels, and the forthcoming development of a high-speed rail line from Heathrow to central London).[7]

More recently, Austria and Denmark have sold part-interests in the Vienna and Copenhagen airports, respectively, and shares of both companies now trade on European exchanges. As noted in the tables, a number of other governments have announced plans to divest major airports (Argentina, Australia, Italy, Malaysia, New Zealand), and a number of others (e.g., Germany) are actively studying the idea.

The other common mode of airport privatization is the long-term franchise. In this case, ownership is retained by the government, but operational control is passed to a private firm for a long-term (25- to 50-year) period, in which the firm makes capital investments and manages the facility in a businesslike fashion. When this process is applied to an existing airport, it is termed lease-develop-operate (LDO). This type of privatization is being planned for Mexico's major airports, and is already under way for the two largest airports in Venezuela. When applied to new airport terminals or entirely new airports, it is generally called build-operate-transfer (BOT). As of early 1994, BOT projects to add new airport terminals were under way (or operational) in 12 countries, ranging from Albania to Canada to Vietnam. BOT projects to develop new airports were under way in five countries, the largest of which is Greece's $2-billion project to develop a new airport for Athens. Another 18 airport BOT projects were being considered in 14 countries.[8]

Governments are turning to the private sector in airports for several reasons. A shortage of funds to ensure timely airport expansion and modernization is one principal reason in most countries; this may be due to overall fiscal problems or to limitations on the ability or willingness to issue additional debt. A second factor is a widespread trend toward “reinventing” and restructuring government, to focus more on its core functions and turn over commercial-type functions to the private sector. A third reason is the growing popularity of the commercial model of airport management (as opposed to the more traditional public utility or public service model).[9] This model promises a higher level of services to passengers and a more robust and financially successful airport operation. Because of the general constraints imposed on government entities (civil service, procurement regulations, etc.), it is generally considered more feasible to implement the commercial model via a private-enterprise entity than within a government agency. A fourth factor is the success of the early cases of airport privatization, such as BAA and Toronto's BOT international terminal.

[7] Robert W. Poole, Jr., “Airport Privatization: What the Record Shows,” Policy Study No. 124, August 1990.

[8] O'Leary, *op. cit.*

[9] Rigas Doganis, *The Airport Business*, London and New York: Routledge, 1992.

B. U.S. Airport Privatization

During the past five years there has been considerable discussion of airport privatization in the United States, but not very much action. In 1989 Albany County, New York attempted to sell its airport to a private consortium, but the Federal Aviation Administration (FAA) raised objections regarding the legality of the transaction, given the airport's grant agreements with the FAA. After much discussion and negotiation, the County opted for a management contract with one of the leading airport-management firms.

A number of other public officials have raised the issue of selling or leasing specific air-carrier airports in recent years. Among those which have been the subject of discussion and/or study are Atlanta, Baltimore, Boston, Indianapolis, Los Angeles, New York's Kennedy and LaGuardia, Philadelphia, Rochester, Syracuse, and Worcester. Governors, mayors, and other officials have expressed strong interest, while airlines have generally (but not always) expressed opposition. The FAA, and its parent agency, the U.S. Department of Transportation, continue to study the issue and have promised a policy statement on airport privatization since 1990, but one has yet to be issued.

Table 1

AIRPORT SALES WORLDWIDE

Country	Airport/City	Type	Status
A.	Current Airport Sales Activity		
Argentina	Buenos Aires	Sale or lease	Planned
Austria	Vienna	Minority (27%)	Occurred
	Vienna	Minority (18%)	Planned
Australia	Federal Airports Corp.-23 airports	Divestiture	Planned
Czech Republic	Pardubice	Divestiture	Occurred
Denmark	Copenhagen	Minority (25%)	Occurred
Italy	Rome	Divestiture	Planned
	Milan	Divestiture	Planned
Malaysia	Airports Corp.	Divestiture	Planned
New Zealand	Auckland	Divestiture	Planned
Panama	Commercial airports	Sale or Lease	Planned
Peru	Lima	Divestiture	Planned
United Kingdom	BAA (7 airports)	Divestiture	Occurred
	Liverpool	Majority	Occurred
	East Midlands	Divestiture	Occurred
	Prestwick	Re-sold	Occurred
	Belfast	Divestiture	Selection process
	Birmingham	Majority	Planned
	24 local airports	Majority	Planned
B.	Airport Sale Proposals Under Study		
Belgium	Brussels Airport Terminal Corp.	Divestiture	
France	Aeroports de Paris	Minority	
Germany	Berlin Brandenberg Airport Hold.	Divestiture	
	Dusseldorf airport	Divestiture	
	Cologne/Bonn airport	Divestiture	
Ireland	Aer Rianta (3 airports)	Divestiture	
New Zealand	Christchurch airport	Divestiture	
	Wellington airport	Divestiture	
Philippines	Manila Int'l. Airport Authority	Divestiture	
Russia	70 Aeroflot airports	Minority	
Spain	Aeropuertos (5 airports)	Partial	

Meanwhile, two forms of airport privatization are already in operation in the United States. A number of small and medium-size commercial airports are operated by private firms, on short- to medium-term (typically five years or less) management contracts. Among the airports operated in this manner are Albany N.Y., Burbank Calif., Republic

N.Y., Rickenbacker Ohio, Stewart N.Y., and White Plains/Westchester County N.Y. Most recently Indianapolis has announced plans to issue a request for proposals (RFP) for the long-term lease or contract management of its airport system.

The other extant form of airport privatization is the long-term lease. Three general-aviation airports (Bader Field, Morristown, and Teterboro), one cargo airport (Rickenbacker), and one air-carrier airport (Atlantic City) are currently leased to private operators on a long-term (up to 99 years) basis.

The two major U.S. airport firms are Johnson Controls World Services and Lockheed Air Terminal. As shown in Table 2, of 11 U.S. airports leased to or managed by private firms, these two firms are the operator of all but one. But although these firms are the current U.S. leaders, they would probably not be the only bidders should Milwaukee proceed with privatization. Indianapolis received eight responses to its January 1994 request for qualifications. Among the other firms responding were England's BAA, AMR Consulting Group, and Aeroports de Paris.

Table 2

U.S. AIRPORT PRIVATIZATION

A. Contract Management		
Airport	Management Firm	
Albany, NY	Lockheed Air Terminal	
Burbank, CA	Lockheed Air Terminal	
Republic, NY	Johnson Controls World Services	
Rickenbacker, OH	Lockheed Air Terminal	
Stewart, NY	Lockheed Air Terminal	
White Plains/Westchester, NY	Johnson Controls World Services	
B. Long-Term Lease		
Airport	Lessee	Operator
Atlantic City, NJ	Johnson Controls World Services	Johnson Controls World Services
Bader Field, NJ	Johnson Controls World Services	Johnson Controls World Services
Morristown, NJ	DM Airport Developers	DM Airport Developers
Rickenbacker, OH	Turner Construction	Lockheed Air Terminal
Teterboro, NJ	Johnson Controls World Services	Johnson Controls World Services

C. The Legal Feasibility of Privatizing U.S. Airports

Under the Airport & Airway Improvement Act of 1982 and subsequent amendments, the FAA makes grants to air-carrier and general-aviation airports. Air-carrier airports receive *entitlement* grants based on a formula related to annual enplanements. They and other airports may also apply for *discretionary* grants for specific projects, in competition with other airports. The 1982 Act permits discretionary and noise-related grants (but not entitlement grants) to be made to privately owned airports operated on a for-profit basis.

Airports accepting federal airport grants (generally known as Airport Improvement Program grants, or "AIP grants") must sign contractual "grant agreements" with the FAA. The terms of those agreements require that the airport in question be open to all users on a nondiscriminatory basis, that airport charges be fair and reasonable, and that "all revenues generated by the airport" must be used only for airport (or airport-system) purposes. It is also well-

established that the nexus of FAA control over airport access, charges, and other economic (as opposed to safety) issues lies in the grant agreements, each of which has a 20-year duration.[10] In other words, if an airport were to forego AIP grants, the FAA would have no economic regulatory control over it.

The legal feasibility of privatizing an existing airport via sale or lease was enhanced by President Bush's Executive Order No. 12803 (issued in April 1992). This order is intended to remove federal barriers to the sale or lease of infrastructure facilities, including airports, by state and municipal governments. It directs the relevant federal agencies which have made grants (e.g., the FAA) to approve requests by such governments to sell or lease such facilities. The only conditions attached to such transactions are that: 1) the proceeds from the sale or lease be used in accordance with the provisions spelled out in the Order; and 2) that some sort of mechanism (either market, contract, or regulatory) be in place to ensure that the facility continues to be used for its original purpose and that user charges will be structured so as to protect users from abuse.

The sale or lease proceeds must be used as follows: The first claim on the proceeds is for the government owner of the facility to recover its original investment in the facility, including any transaction costs; these funds may be put into its general fund. If there are funds remaining, the second claimant is the federal government, which is entitled to recoup a portion of previous federal grants to the facility (the full amount less accumulated depreciation based on IRS accelerated depreciation tables). If there are still funds remaining, the final portion of the proceeds must be used by the municipality or state only for investment in other infrastructure or for reducing debt or taxes.

Do these provisions, along with existing law, provide clear legal authorization for privatizing GMIA via sale or lease? This question was addressed in connection with the proposed privatization of Los Angeles International Airport. As part of a major study of this issue commissioned by the City of Los Angeles, the law firm of Skadden Arps prepared a detailed legal memorandum on the issue.[11]

The Skadden Arps memorandum concludes that a transfer of the airport to a new owner is permitted under existing federal law (i.e., prior to the Executive Order), and that private parties are eligible to be such owners and to receive AIP grants (as noted above). It also concludes that the City would be entitled to use the proceeds from a sale for general purposes, because the term “airport revenues” should be understood to mean *operating* revenues, not the proceeds from an asset transaction. This would be consistent with: a) the legislative history of the 1982 Act; b) accounting definitions; and c) the FAA's own handbook, which states that “Airport revenue does not include proceeds from the sale of real property owned by the sponsor.”[12]

With respect to a long-term lease of the airport, the memorandum notes that the FAA Compliance Manual already provides for the lease of entire airports. Not noted by Skadden Arps is the fact that lease payments being made by private lessees in the case of airports such as Atlantic City are going “off the airport” to the general funds of the underlying government owners. The memorandum also notes a 1991 Justice Department opinion regarding a proposed lease of Albany airport, in which the Department of Justice assumed that lease payments were “airport revenue” but could still be used for general-fund purposes to the extent that they represented a recovery of the local government's original investment in the airport. But it notes that the 1992 Executive Order may supersede this opinion.

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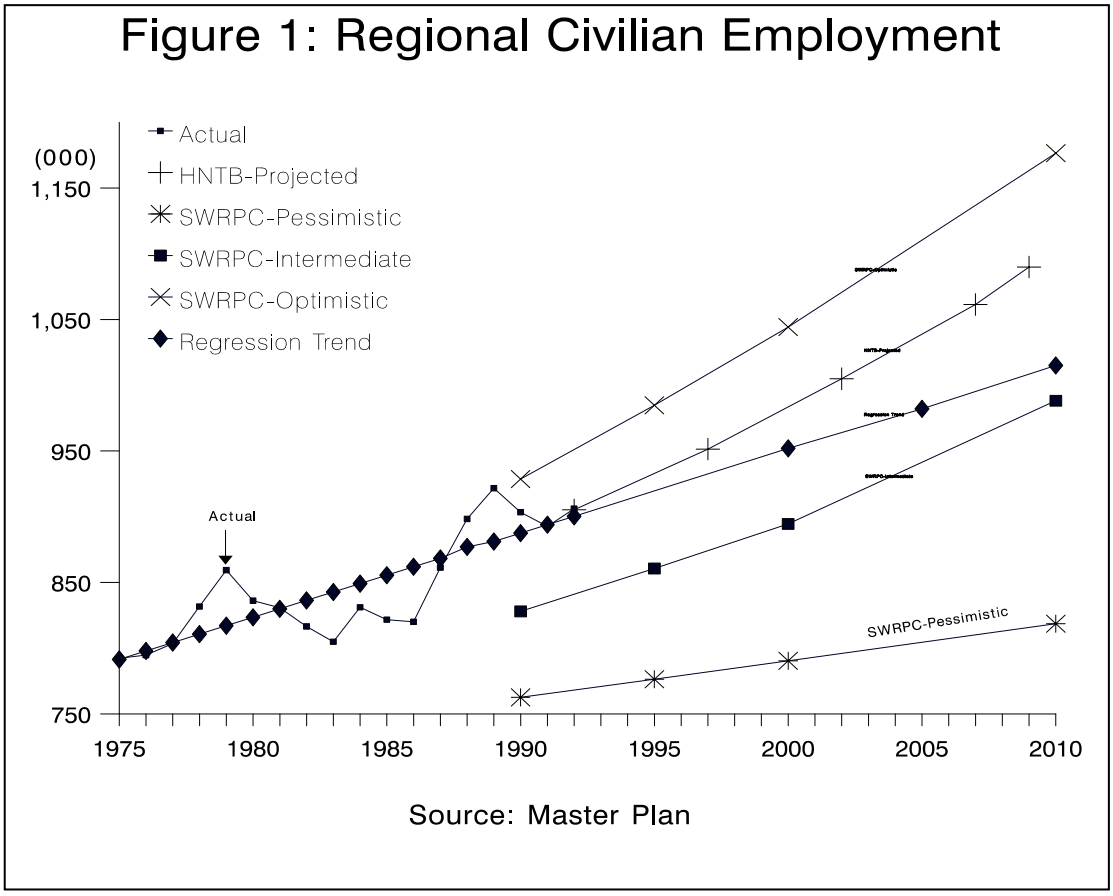
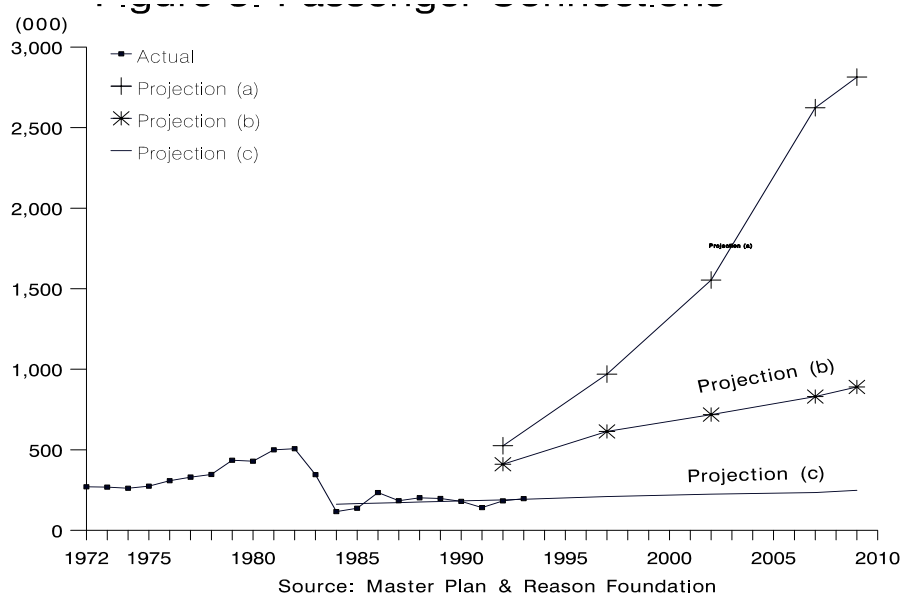
[10] John Giraudo, “Breaking Free of Federal Grant Restrictions: Making Infrastructure Privatization a Real Option,” Policy Study No. 127, Los Angeles: Reason Foundation, February 1991.

[11] Karen J. Hedlund and John P. Giraudo, “A Legal Memorandum to John F. Brown Company, Inc. Regarding Federal Restrictions on Transfer of Airport Revenues and Sale or Lease of Airport Property,” Los Angeles: Skadden, Arps, Slate, Meagher & Flom, June 12, 1992.

[12] “FAA Airport Improvement Program Handbook,” Order 5100.38A, Washington, D.C.: Federal Aviation Administration, 1989, p. 73.

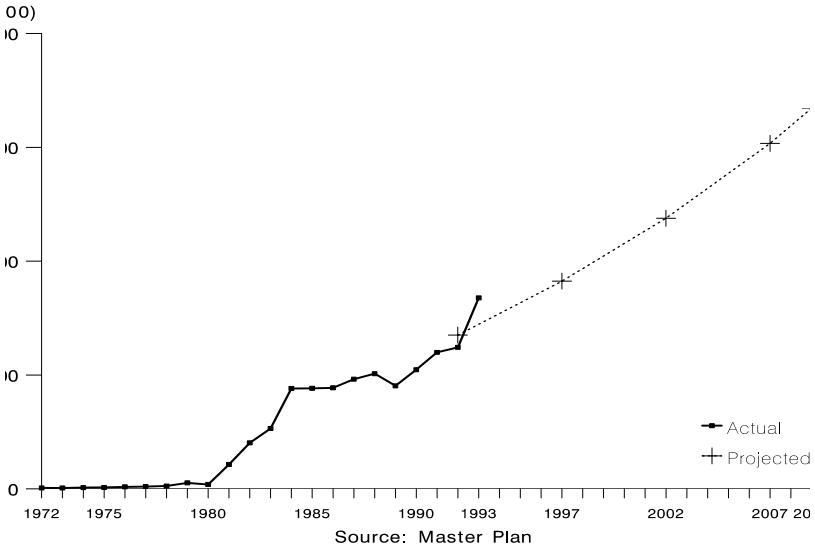


In its overall conclusion, Skadden Arps states that "a sale or long-term lease of LAX to the private sector could be structured consistent with existing federal airport laws and regulations. In the wake of the President's Executive Order, there is even greater reason to believe that such transactions can be accomplished, should the City wish to pursue them." That conclusion would apply equally well to Milwaukee's GMIA.



III. GMIA'S FUTURE CAPACITY REQUIREMENTS

Figure 4: Commuter Enplanements



This section reviews the forecasts and requirements estimates contained in the Master Plan, in two respects. First, it takes account of actual data for the three years 1991, 1992, and 1993 since the Master Plan's analysis was completed, to see how close the actual outcomes are to the plan's forecasts. Second, it attempts to review the proposed investments in added capacity from a private-sector, commercial point of view.

A. Activity Forecasts

The Master Plan begins with a forecast of regional employment, based on projections by the Southeastern Wisconsin Regional Planning Commission. As depicted in Figure 1, the projected levels appear reasonable, though some-what optimistic; the projected numbers are reasonably close to the Reason Foundation's straight-line projection based on a least-squares regression of the historical data points from 1975 through 1992.

The second element is the Master Plan's equation relating air carrier passenger originations at GMIA to regional employment. Figure 2 shows the historical data from 1972 through 1993, together with the Master Plan's two alternate projections. Projection (a), which assumes that transition effects of airline deregulation and the Northwest-Republic merger fade away during the forecast period, appears to be the more reasonable of the two, given the strong growth of originating traffic during the past decade (apart from the 1991 dip due to the Gulf war and the recession).

To obtain *total* air carrier passenger enplanements, we must add figures for *connections* (hubbing passengers who fly in on one plane and transfer to another). The historical data for connecting passengers are depicted in Figure 3, which also shows the Master Plan's two alternate projections. For connecting passengers, baseline version (b) is described as being based on the continuation of historical trends, while the alternative version (a) assumes the establishment of a transfer hub at GMIA.

These projections clearly depart from reality. While the Master Plan's baseline (b) projection assumes that connecting traffic constitutes 25 percent of all enplanements, the actual level for the past decade has averaged only 11 percent. In fact, the merger of Republic into Northwest in 1984 eliminated the former's quasi-hub at GMIA, and there is no sign of any other carrier seeking to re-establish such a hub. Moreover, a number of airline consultants note that the popularity of hubs among airlines is falling. For example, Michael Boyd of Aviation Systems Research Corp. predicts that in the next four years, the number of hubs will decrease from 32 to 28.[13]

[13] Edward H. Phillips, “Airlines' Choice: Adapt or Perish,” *Aviation Week*, March 14, 1994, pp. 61-63.

A least-squares regression of 1985–1993 connecting passengers produced a third alternative projection, which we have labeled (c) in Figure 3. This would appear to be a more reasonable basis for projecting this portion of future enplanements, and we have used it in subsequent calculations.

Besides air carriers, the other main component of enplanements is passengers on commuter airlines. As shown in Figure 4, in this case the Master Plan correctly identified the strong upward trend in commuter activity, which was reinforced by the 35-percent growth experienced in 1993. All indications are that this strong upward trend in commuter service will continue, as forecast by HNTB.

Having established enplanement forecasts, the Master Plan then uses estimates of future aircraft size (seating capacity) and load factor (fraction of seats filled) to project the average number of passengers on each departing aircraft (enplanements per departure). Those numbers appear to be reasonable. Using those numbers, and the previous projections of enplanements, the Master Plan derives the projected numbers of aircraft departures, both baseline and alternate.

Because of the significant over-estimate of *connecting* passengers, noted above, we have recalculated the Master Plan's projections of departures, using HNTB's projection (a) of originating passengers and our own projection (c) of connecting passengers, together with the enplanements per departure forecast from the Master Plan's Table 4-20. The results are presented in Table 3. As a point of comparison, the year 2009 figure in Table 3 of 3,061,492 enplanements is 86 percent with HNTB's baseline forecast of 3,561,199 and only 54 percent of their alternate forecast of 5,626,984 enplanements. Likewise, the 2009 figure for aircraft departures in Table 3 of 34,438 contrasts with HNTB's baseline forecast of 40,058 and alternate forecast of 63,296.

Since air carrier operations are only part of total airport activity, Table 4 provides a revised summary of the Master Plan's forecasts of all enplanements and aircraft operations (where operations equals twice the total of departures, i.e. one takeoff plus one landing). The revised numbers for air carriers have the most impact on enplanements, since air carriers account for the large majority of all passenger activity. They have somewhat less impact on total aircraft operations, since the majority of operations are non-air carrier, especially general aviation, commuter, and air cargo. The implication of Table 4 is that the requirements in the Master Plan for terminal expansion have been overstated, while runway needs may be closer to the Master Plan's forecast.

Table 3

REVISED AIR CARRIER ENPLANEMENTS & DEPARTURES

Year	Enplanements Originations (a)	Connections (c)	Total	Enplanements per Departure	Departures
1992 (actual)	1,673,070	183,443	1,856,513	65.9	28,172
1997	1,939,545	210,000	2,149,545	74.4	28,892
2002	2,271,484	225,000	2,496,484	80.1	31,167
2007	2,623,721	235,000	2,858,721	86.3	33,125
2009	2,813,492	248,000	3,061,492	88.9	34,438

To pursue this question further requires moving beyond annual figures. The Master Plan examines the average daily activity in the peak month (ADPM) and during the peak hour. Table 5 uses the revised figures for air carrier enplanements and aircraft departures from Table 3, along with the assumptions about peaking from the Master Plan, to calculate revised figures for daily enplanements and departures during the peak month (which at GMIA is March). It then does likewise for the peak hour, again using the same peaking assumptions as the Master Plan. Because HNTB has assumed a gradual decrease (between 1988 and 2009) in the fraction of enplanements and departures that occur in the peak, the number of peak-hour departures actually decreases slightly through 2007 (from 9.9 to 9.0).

Table 6 presents similar figures for commuter en-planements and depar-tures, with all figures drawn directly from the Master Plan (except for peak-hour aircraft departures, which have been *calculated* from those figures). Despite the slight increase in average commuter aircraft size over the planning period, the large growth in activity leads to a doubling of peak-hour aircraft departures, from 6 to 12, by 2009.

REVISED SUMMARY OF FORECASTS

	1992	1997	2002	2007	2009
Enplanements					
Air Carrier	1,856,513	2,149,545	2,496,484	2,858,721	3,061,492
Commuter	270,152	364,942	475,503	606,875	669,080
Non-scheduled	82,114	90,660	100,097	110,515	114,980
	2,208,779	2,605,147	3,072,084	3,576,111	3,845,552
Aircraft Operations					
Air Carrier	56,344	57,784	62,334	66,250	68,876
Commuter	31,596	39,242	48,770	58,920	63,722
Non-Scheduled	994	1,096	1,212	1,338	1,392
Cargo	10,572	13,947	16,490	19,640	21,058
Gen. Aviation	97,102	88,922	85,392	82,012	82,217
Military	5,517	5,517	5,517	5,517	5,517
	202,125	206,508	219,715	233,677	242,782

Table 5

REVISED AIR CARRIER PEAK ENPLANEMENTS & DEPARTURES

	Average Day Peak Month		Peak Hour			
	Enplanements	Aircraft Departures	Enplanements % of Daily		Aircraft Departures % of Daily	
1992	6,049	76	15.6	944	13.0%	9.9
1997	7,003	78	14.2	994	11.8%	9.2
2002	8,134	84	13.1	1066	10.9%	9.2
2007	9,314	90	12	1118	10.0%	9.0
2009	9,974	93	12	1197	10.0%	9.3

Table 6

REVISED COMMUTER PEAK ENPLANEMENTS & DEPARTURES

	Average Day Peak Month		Peak Hour	
	Enplanements	Aircraft Departures	Enplanements	Aircraft Departures
1992	1,040	61	123	6.0
1997	1,405	76	166	7.5
2002	1,831	94	216	9.2
2007	2,337	113	276	11.1
2009	2,577	122	304	12.0

B. Capacity Expansion Needs

Chapter 5 of the Master Plan seeks to derive runway and terminal expansion needs from the activity forecasts in its Chapter 4.

Airfield (runway/taxiway) capacity is defined principally in terms of the number of aircraft operations that can be accommodated during the peak hour. Under good-weather (VFR) conditions, capacity is significantly greater than under bad-weather (IFR) conditions. As the Master Plan notes, GMIA operates in IFR conditions about 20 percent of the time—about one and a half days per week. The present IFR capacity is 57 operations per hour. As of the time the Master Plan was written, current peak-hour operations averaged between 40 and 45, which is 70-80 percent of IFR capacity. Under HNTB's baseline forecast, peak-hour IFR operations would reach 57 by around 2004; under the (unrealistic) alternate (hubbing) scenario, that level of operations would be reached by 1998.

Tables 7 and 8 present our revised forecasts of peak-hour operations under VFR and IFR conditions, respectively, using the assumptions noted and the peak-hour figures for air carriers and commuters from Tables 5 and 6. As can be seen, neither VFR nor IFR capacity limits are exceeded through the year 2009. Table 9 summarizes total annual aircraft operations with the revised forecast, compared with the Master Plan's two alternatives, and Table 10 repeats this comparison for peak-hour IFR operations.

To permit continued growth of GMIA beyond the point where 57 IFR operations per hour occur will require additional runway capacity, as the Master Plan points out. And its analysis of a variety of alternatives, leading to the choice of the C1 parallel runway, appears to be sound. But the runway C1 capacity increase to 110 IFR operations/hour is more than twice what is actually needed by 2009, according to our revised forecast.

The Master Plan recommends that GMIA acquire land well before the runway itself is needed, to preserve the future option to build the runway. Land acquisition for this purpose is proposed for both the intermediate-term (1996–2001) and long-term (2002–2009) periods; some $58 million is proposed for the intermediate period for land acquisition.

Based on the revised operations forecasts developed in this report (which reflect the great unlikelihood of GMIA becoming a transfer hub airport), deferring construction of the new parallel runway until after the end of the long-term planning period (2009 or later) would appear to be the most prudent course. Acquisition of the land to preserve this option should take place during the intermediate or long-term period.

Terminal requirements are based on peak-hour passenger flows. The Master Plan's derivation of required terminal facilities is flawed in two respects. First, it notes but does not take into account the extent to which short-term deficiencies have been remedied by the expansion of Concourse D, noting only on its requirements tables that “Concourse D expansion completed after the inventory element of this update satisfies much of this need.” Unfortunately, “much” is not quantified, so it is difficult to estimate how much of the short-term expenditures recommended are no longer necessary.

Table 7

VFR PEAK-HOUR OPERATIONS (Departures X 2)					
	1992	1997	2002	2007	2009
Air Carrier	19.8	18.4	18.4	18.0	18.6
Commuter	12.0	15.0	18.4	22.2	24.0
Non-sched.[1]	1.0	1.0	1.0	1.0	1.0
Cargo[2]	1.2	1.6	1.9	2.2	2.4
Gen. Av.[3]	22.2	20.3	19.5	18.7	18.8
Military[4]	0.6	0.6	0.6	0.6	0.6
VFR Operations	56.8	56.9	59.8	62.7	65.4
VFR Capacity	115–119	115–119	115–119	115–119	115–119

Notes:
[1] 6 Flights/day during winter months/max. of one per peak hour
[2] Yearly total divided by 365 days divided by 24 hours
[3] Yearly total divided by 365 days divided by 12 hours
[4] Same as 2

Table 8

IFR PEAK-HOUR OPERATIONS					
	1992	1997	2002	2007	2009
Air Carrier	19.8	18.4	18.4	18.0	18.6
Commuter	12.0	15.0	18.4	22.2	24.0
Non-sched.	1.0	1.0	1.0	1.0	1.0
Cargo	1.2	1.6	1.9	2.2	2.4
Gen. Av.*	6.2	5.7	5.5	5.2	5.3
Military	0	0	0	0	0
	40.2	41.7	45.2	48.6	51.3
IFR Capacity	57	57	57	57	57

* 28% of GA, per HNTB assumption

Table 9

AIRCRAFT OPERATIONS COMPARISON

	Forecast		
	RF Revised	MP-Baseline	MP-Alternate
1992	202,125	206,255	212,303
1997	206,508	214,718	226,932
2002	219,715	229,169	252,895
2007	233,677	244,391	289,037
2009	242,782	254,022	300,498

Table 10

	Forecast			
	RF	MP-Baseline	MP-Alternate	Capacity
1992	40.2	45	49	57
1997	41.7	49	56	57
2002	45.2	54	67	57
2007	48.6	58	70	57
2009	51.3	N/A	N/A	57

Far more serious is the fact that throughout Chapter 6, terminal (gate) requirements are based on the *Alternate* scenario (which assumes a transfer hub operation at GMIA), rather than the more likely Baseline scenario—or our Revised scenario, which is slightly more conservative. Tables 11 and 12 compare our forecasts with those of the Master Plan, making clear that the Master Plan's program of terminal expansion is based on accommodating 6.4 million annual enplanements by 2009, when the actual number is likely to be 3.8 million. Likewise, the peak-hour enplanements in 2009 are likely to be around 1200, rather than the 2559 on which the terminal expansion plans are based.

C. Financing Assumptions

The discussion in the previous section has sought to demonstrate that the Master Plan has programmed two major expansions for the next 15 years which are unlikely to be needed in that time frame: the addition of a parallel runway to increase peak-hour IFR capacity from 57 to 110, and the expansion of terminal capacity to 68 gates (from the present 42). These decisions stemmed from an overly optimistic projection of connecting passengers in both the Baseline and Alternate forecasts used in the Master Plan, especially the latter.

Table 11

ENPLANEMENTS COMPARISON			
		Forecast	
	RF Revised	MP-Baseline	MP-Alternate
1992	2,208,779	2,344,895	2,544,194
1997	2,605,147	2,910,596	3,364,920
2002	3,072,084	3,450,749	4,400,948
2007	3,576,111	4,038,386	5,964,832
2009	3,845,552	4,345,259	6,411,044

Table 12

PEAK-HOUR ENPLANEMENTS COMPARISON			
		Forecast	
	RF Revised	MP-Baseline	MP-Alternate
1992	944	1,008	1,153
1997	994	1,139	1,458
2002	1,066	1,222	1,826
2007	1,118	1,294	2,386
2009	1,197	1,388	2,559

Hence, the projected $401.6 million in capital expenditures is significantly more than is actually required. A bottom-line oriented airport management firm would be expected to develop new capacity only when and as it is required, and as can be justified by what are referred to as “investment-grade” traffic forecasts. Although the County's declared policy at present is to develop new capacity only when justified by increased traffic levels, there is no guarantee that a future County Board would stick with this approach, as opposed to a Denver-type “if we build it, they will come” philosophy. A long-term lease would provide the taxpayers with *contractual* protection against unwise future decisions, because such decisions would be against the firm's economic interests.

It is just as well that the required capital expenditures turn out to be less than what is projected in the Master Plan, since the proposed funding plan also makes some assumptions that might not be justified. The Master Plan's Table 9-6 summary, assuming the imposition of PFCs (as agreed to by the County Board), relies on federal grant funds for nearly one-third of the total capital spending program. Federal airport grants are of two types: entitlement and discretionary. The former are allocated by law in accordance with a formula based on enplanements. Since we expect actual enplanements by 2009 to be only 88 percent of the Master Plan's Baseline amount, entitlement funds would be 12 percent less than shown. More problematical is the Master Plan's assumption of $87.7 million in discretionary grants over the next 15 years. Over the past eight years (1986 through 1993), GMIA received a total of $8.2 million in discretionary grants, an average of $1 million per year. While it is conceivable that GMIA could obtain the projected $87.7 million in discretionary grants over the next 15 years, that would amount to a sixfold increase in the level of such grants. GMIA will be competing with numerous other airport expansion projects during this time frame; hence, that magnitude of grant funds cannot be safely assumed to be available.

IV. THE PRIVATIZATION ALTERNATIVE

Under the status-quo approach, GMIA will continue under tight day-to-day oversight by County officials, reducing its ability to adopt businesslike management approaches. And the County will continue to experience fiscal problems, even if the airport remains fully self-supporting. And should a future County Board pursue too-rapid expansion of GMIA, as programmed in the Master Plan, County taxpayers would be put at risk to make payments on the new G.O. bonds issued to pay for a portion of this expansion.

Privatization offers an alternative scenario. Under this approach, the airport would be leased to a professional airport firm for a term of 25 to 30 years. The firm would make lease payments to the County, and the leasehold interest could become part of the County's tax base. Thus, one or two new revenue streams (lease payments and possibly property taxes) would be added to County coffers. The County would retain overall policy control, via the terms incorporated into the lease agreement. But day-to-day management would be delegated to the airport firm's professional managers.

New capital expenditures would be proposed by the firm and carried out by them, following County approval. Financing would continue to involve tax-exempt bonds, with a probable shift to revenue bonds backed solely by airport revenues, thereby shielding taxpayers from the risks of unwise development projects.

The remainder of this section fleshes out this concept in more detail.

A. Commercial Potential

Would a private operator be able to increase revenues and reduce costs at GMIA by enough to afford lease payments and property tax payments to the County, and still be able to make a profit (on which it would have to pay state and federal corporate income taxes)?

1. Cost Savings

Private firms have taken over the operation of numerous government services and facilities in the United States in the past 10 years, including convention centers, data processing centers, sports arenas, and wastewater treatment facilities. In addition, the major British airports have been privatized, as noted in Section II. We therefore have some basis for estimating cost savings generated by increased efficiency. A 1993 paper by John Hilke summarizes scores of empirical studies of cost-savings.[14] In most cases, these savings have ranged from 10 to 50 percent, either on a before-after basis or in terms of side-by-side comparisons of similar operations.

For example, late in 1993 Indianapolis signed a five-year management contract for the operation and maintenance of its two advanced wastewater plants. The contract will reduce the projected operating budget by 40 percent, yielding savings of $65 million over the five-year period. Flint, Michigan last year contracted out its garbage collection service, cutting costs by 48 percent. There are many other such examples across the country.

In airports, BAA's experience with Heathrow and Gatwick is instructive. Productivity, as measured both by revenue per employee and passengers handled per employee, increased significantly as BAA became a commercial enterprise. Between 1983 and 1990, BAA's operating expenses per passenger handled decreased by 18 percent in real (inflation-corrected) terms.[15] The privately developed and operated international terminal at Toronto's Lester B.

[14] John Hilke, "Cost Savings from Privatization: A Compilation of Findings," How-to Guide No. 6, Los Angeles: Reason Foundation, March 1993.

[15] Poole, *op. cit.*

Pearson International Airport is operating with 25 percent fewer employees than had been projected under government operation. And contractor-operated Burbank Airport has twice the level of enplanements per employee as comparably-sized Reno and Sacramento airports.[16]

A major study of privately provided municipal services, carried out for the U.S. Department of Housing and Urban Development by researcher Barbara Stevens, offers insights into the kinds of factors that lead to cost savings thanks to higher productivity in privatized services.[17] Stevens analyzed 10 different types of municipal services in Southern California, in each case obtaining data from one set of cities that produced the service in-house and a matched set of cities that obtained the service via private contractor. The study found that, on average, the private firms produced the same amount of output with 25 percent less input. Among the factors leading to these differences were that the private contractors, on average, provided less generous fringe benefits, made greater use of a mix of part-time and full-time staff, gave first-line managers the authority to hire and fire, used incentive systems, were less labor-intensive, and had a larger number of people supervised by each manager. Not generally found were either lower salaries or a lower quality of service in the private sector.

It is beyond the scope of this study to conduct a detailed analysis of the efficiency of GMIA's current operations. But on the basis of the foregoing, it seems reasonable to assume a *minimum* 10 percent saving on operating and maintenance costs for a privatized GMIA. The airport's operating budget (excluding depreciation and debt service) for 1994 is $22.18 million; this budget has increased at an annual rate of 10.3 percent/year over the past 11 years. With inflation accounting for perhaps half of that, the underlying number has increased about 5 percent per year. That would put the nominal 1995 number at $23.29 million; if that were cut by 10 percent thanks to privatization, the 1995 savings would be $2.3 million. These savings, too, would grow at a real rate of 5 percent annually; thus, by 2009, the savings would amount to $4.6 million per year.

2. Increased Revenues

The key to making airport privatization work is taking full advantage of the airport's commercial potential. As Clifford R. Bragdon, dean of the School of Aviation and Transportation at Dowling College, has noted, many large U.S. airports are “sleeping giants” with business potential to serve local and transient consumers. A busy airport can be viewed as a “satellite business district” with a distinct economic base of its own, Bragdon told *Aviation Week* recently.[18]

Like most U.S. airports, GMIA is not fully taking advantage of its commercial potential. Its two principal sources of airline revenue—landing fees and space rentals (which constitute approximately half of operating revenues)—are generally constrained by the residual-cost use agreements which continue in force until 2010.

As Table 13 shows, the other principal sources of revenue are parking fees, car rentals, and inside concessions (food, news, gift, etc.). While parking and car-rental revenues have grown at a higher rate than overall airport revenues, inside concessions have scarcely increased since 1983; indeed, were the figures in Table 13 to be adjusted for inflation, it would be seen that revenues from this source have shrunk in real terms over the past decade. Even without inflation-correction, concession revenues per enplaned passenger have declined from 69.4 cents in 1983 to 57.6 cents in 1993. By comparison, car rental and parking revenues per enplaned passenger have increased fairly steadily over this time period (Table 14).

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16 *Ibid.*

17 Barbara Stevens, *Delivering Municipal Services Efficiently: A Comparison of Municipal and Private Service Delivery*, Washington, D.C.: U.S. Department of Housing and Urban Development, 1984.

18 Edward H. Phillips, “Airlines' Choice: Adapt or Perish,” *Aviation Week*, March 14, 1994, pp. 61-63.

Table 13

GMIA REVENUE TRENDS (1983–1994)

Revenue	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994 (proj.)	% Change
Landing Fees	$2,961	$3,093	$3,476	$4,078	$3,937	$3,685	$3,864	$4,045	$4,083	$4,592	$5,228	$5,332	80%
Space Rentals	3,922	4,753	6,035	7,032	8,050	9,082	9,014	10,349	7,501	8,963	10,819	11,065	182%
Parking Fees	1,817	1,859	2,605	3,256	3,459	4,746	5,913	6,494	6,445	7,114	6,800	7,000	285%
Car Rental	985	1,114	1,255	1,413	1,454	1,508	1,821	2,017	1,955	2,437	2,100	2,565	168%
Inside Concessions	1,004	994	1,024	1,121	1,179	1,178	1,236	1,234	1,272	1,299	1,305	1,168	16%
Airline Catering	180	179	214	221	215	277	348	482	439	417	456	430	139%
Other Concessions	71	77	124	262	556	642	693	813	1,116	1,236	1,143	1,164	1,539%
Misc./Adjust	2,271	670	-481	-493	-1,119	-1,224	-2,562	-2,746	4,584	2,515	1,286	1,310	-42%
TOTAL	$13,184	12,739	14,252	16,890	17,767	19,894	20,327	22,688	27,396	28,573	29,137	30,034	128%

Table 14

GMIA CONCESSION REVENUE DETAILS

Year	Air Carrier + Commuter Enplanements	Car Rental Revenue Total	Car Rental Revenue Per Enplanement	Parking Revenues Total	Parking Revenues Per Enplanement	Inside Concession Revenues Total	Inside Concession Revenues Per Enplanement
1983	1,445,579	$958,000	$.663	$1,817,000	$1.26	$1,004,000	$0.694
1984	1,243,584	1,114,000	.896	1,859,000	1.49	994,000	0.799
1985	1,478,584	1,255,000	.849	2,605,000	1.76	1,024,000	0.692
1986	1,616,292	1,413,000	.874	3,256,000	2.01	1,121,000	0.694
1987	1,705,997	1,454,000	.852	3,495,000	2.05	1,179,000	0.691
1988	1,898,588	1,508,000	.794	4,746,000	2.50	1,178,000	0.620
1989	2,048,085	1,821,000	.889	5,913,000	2.89	1,236,000	0.600
1990	2,103,133	2,017,000	.959	6,494,000	3.09	1,234,000	0.590
1991	1,955,127	1,955,000	1.00	6,445,000	3.30	1,272,000	0.650
1992	2,105,217	2,437,000	1.16	7,114,000	3.38	1,299,000	0.617
1993	2,264,402	2,100,000	.927	6,800,000	3.00	1,305,000	0.576

How would a profit-oriented lessee approach GMIA's commercial operations? The following is one plausible scenario.

Inside Concessions: News, gift, and miscellaneous concessions (other than food and drink) account for about 45 percent of inside-concession revenues, or about 27 cents per enplanement. When those contracts expire (most of them in 1996), it should be possible to increase GMIA's take to 40 cents/enplanement, a net increase of 13 cents (50 percent). For food and beverage concessions, which now generate 33 cents/enplanement, a more aggressive and commercial approach should permit the airport's share to double, to 66 cents. However, this could not go into effect until 2004, once current food and beverage contracts expire.

New Retail: Commercially successful airports (e.g., Frankfurt, Gatwick, Heathrow, Pittsburgh, Schiphol, Toronto) have created the equivalent of in-terminal shopping malls, offering brand-name merchandise outlets and a wider

array of services. These concessions aim to serve not only passengers but airport employees and airport neighbors. We assume that one of the few terminal expansion projects that would be justified in the 1996–2001 period would be for the private operator to add 50,000 sq. ft. of new retail space to the main terminal, and that this space would generate for the airport a net of 50 cents per enplanement starting in 1998, rising to 75 cents by 2003.

Car Rental: The existing contracts with car-rental firms deliver approximately $1.00 per enplaned passenger. They expire in 1996. We assume that from 1997, the net to the airport is increased to $1.25 per enplanement.

Parking: The Master Plan identifies parking as a future deficiency, projecting the need to add a 3,000-space parking structure plus an off-site 1000-space employee parking lot. Including land acquisition, adding this parking would require some $30 million in capital expenditure. Yet GMIA charges relatively low parking rates, especially for covered, close-by parking. For example, GMIA's $4.00/day for close-by, long-term covered parking compares with long-term rates for *uncovered*, remote parking of $6.00/day at Chicago O'Hare, $7.25 at Buffalo, $8 (covered) at Cleveland, and $9 at Hartford.

For an airport of its size, GMIA appears to have over-invested in parking spaces. Table 15 provides data on several other northern and midwestern airports. Their number of parking spaces per 1,000 enplanements ranges from 0.52 for Chicago O'Hare to 1.86 for Cincinnati—compared with 3.00 for GMIA. This overcapacity is reflected in the low annual revenue of $971/space at GMIA compared with more than twice that amount at most of the other airports.

Table 15

AIRPORT PARKING DATA, 1990

City	Total Enplanements	Parking Spaces	Spaces per 1,000 Enplanements	Average Revenue Per Enplanement	Average Revenue Per Parking Space
Milwaukee	2,213,672	6,650	3.00	$2.92	$971
Buffalo	1,721,905	2,307	1.34	2.15	1,604
Chicago (ORD)	29,419,002	15,365	0.52	1.38	2,643
Cincinnati	4,578,284	8,498	1.86	1.27	685
Cleveland	4,375,900	4,644	1.06	2.31	2,174
Detroit	11,260,265	9,994	0.89	1.89	2,127
Hartford	2,522,402	3,846	1.52	3.23	2,121
Burbank*	1,753,901	3,462	1.97	4.34	2,197

* privately operated

Source: Airports Association Council International, "1991 Airport Public Parking Systems and Rates Report," Washington, D.C.

What GMIA and the Master Plan's authors appear to be ignoring is the law of supply and demand. Charging well below market rates for airport parking leads more people to park at the airport, creating the impression that more costly parking needs to be provided. Instead, a commercial approach would seek to increase parking rates, both to generate increased revenue and to reduce airport/roadway congestion by encouraging the use of other forms of ground transport (bus, limo, and taxi). The airport's current parking revenue averages $3.00 per enplanement; we assume an increase to $4.50 (which could mean an increase in the long-term rate to $6/day, the same as O'Hare charges for remote, *uncovered* parking).

Table 16

INCREASED COMMERCIAL REVENUES PER ENPLANEMENT (1994 $)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
News/gift/ misc.		.13	.13	.13	.13	.13	.13	.13	.13	.13	.13	.13	.13	.13	.13
Food & Beverage										.33	.33	.33	.33	.33	.33
New Retail				.50	.55	.60	.65	.70	.75	.75	.75	.75	.75	.75	.75
Car Rental			.25	.25	.25	.25	.25	.25	.25	.25	.25	.25	.25	.25	.25
Parking	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Total	1.50	1.63	1.88	2.38	2.43	2.48	2.53	2.58	2.63	2.96	2.96	2.96	2.96	2.96	2.96

Table 17

INCREASED COMMERCIAL REVENUES

Year	Projected Enplanements	Increased Commercial Revenues	
		Per Enplanement	Total
1995	2.446.599	$1.50	$3.669.898
1996	2.525.873*	1.63	4.117.173
1997	2.605.147	1.88	4.897.676
1998	2.698.534*	2.38	6.422.511
1999	2.791.922*	2.43	6.784.370
2000	2.885.309*	2.48	7.155.566
2001	2.978.697*	2.53	7.536.103
2002	3.072.084	2.58	7.925.977
2003	3.172.884*	2.63	8.344.685
2004	3.273.695*	2.96	9.690.137
2005	3.374.500*	2.96	9.988.520
2006	3.475.306*	2.96	10.286.905
2007	3.576.111	2.96	10.585.288
2008	3.710.832*	2.96	10.984.062
2009	3,845,552	2.96	11,382,833

*Interpolated

Table 16 shows how these increased commercial revenues would be phased in (again, neglecting inflation; in practice, all contracts and prices would be adjusted annually to keep pace with inflation, but to keep our numbers comparable with those in the Master Plan, which did not inflation-adjust, we have not incorporated this adjustment into the tables). By 2009, additional commercial revenues would be generating an extra $11 million per year (Table 17).

B. Reduced Capital Expenditure

Table 18

CHANGES IN FUNDING REQUIREMENTS (compared to Master Plan)	
Short Term (1993–1995)	
Original	$67,678,000
Change	-33,480,000
New	$34,198,000
Medium Term (1996–2001)	
Original	$165,834,000
Change	-44,810,380
New	$121,023,620
Long Term (2002–2009)	
Original	$160,676,000
Change	-64,498,420
New	$96,177,580

Table 19

PFC AND ENTITLEMENT FUNDS AVAILABLE 1993–2009				
Year	95% of Enplanements	PFC Revenues	Passenger Entitlements	Cargo Entitlements
1993	2.173.649	--	$2.646.706	$286.251
1994	2.248.960	$6.566.963	1.337.633	287.204
1995	2.324.269	6.786.865	1.354.789	303.954
1996	2.399.579	7.006.771	1.371.370	321.680
1997	2.474.890	7.226.677	1.387.437	340.440
1998	2.563.607	7.485.733	1.423.406	360.294
1999	2.652.326	7.744.792	1.459.249	381.307
2000	2.741.044	8.003.847	1.486.944	394.331
2001	2.829.762	8.262.905	1.513.894	407.800
2002	2.918.480	8.521.961	1.540.369	421.730
2003	3.014.240	8.801.580	1.573.910	436.135
2004	3.110.010	9.081.230	1.606.997	451.033
2005	3.205.775	9.360.863	1.637.261	467.168
2006	3.301.541	9.640.499	1.666.789	483.880
2007	3.397.305	9.920.132	1.695.699	51.190
2008	3.525.290	10.293.847	1.731.251	519.120
2009	3,653,274	10,667,561	1,765,583	537,691

A privatized GMIA would adopt a commercial, bottom-line approach to capacity expansion during the 15-year period 1995–2009. Based on the analysis presented in Section III, the lessee would defer much of the programmed terminal expansion until beyond this time frame, and would undertake only the land acquisition for the parallel runway (to preserve this option for the future). These changes would considerably reduce the overall investment needs during the next 15 years compared with the Master Plan's program, particularly the amount of bonding required.

1. Spending Reductions

The Master Plan divides the planned improvements into three periods: near-term (through 1995), medium-term (1996–2001) and long-term (2002–2009). It itemizes each improvement by year or time period.

In the near term, we have deleted the items associated with the runway/taxiway extension over College Ave., since that item was deleted by the County Board when they approved the Master Plan. We also defer until the medium-term period several runway items (#11 from 1993, #8 and #12 from 1994, and #4, 5, 8, and 9 from 1995).

For the medium term, we add the runway items deferred from the short-term period and the $7.3 million College Ave. tunnel/safety zone recently added by GMIA. But runway items #4 and 5 are deferred until the long-term period, and two-thirds of the (medium-term) terminal expansion (#6) is deferred until the long-term period. (A portion of the funds remaining are used to add the retail space discussed previously in this section.)

In the long-term period, the deferred medium-term terminal spending (Concourse F) is added, but the major terminal expansion originally programmed for this period (Concourse G and the new unit terminal) is deferred until after 2009. In addition, only the land acquisition for the new runway is carried out, with construction ($61 million) deferred until after 2009.

The net effect of these changes is to save $33.5 million in capital expenditure in the near term, $44.8 million in the medium term, and $64.5 million in the long term, for a total savings of $142.8 million over the 15-year period.

2. Revised Funding Sources

The Master Plan also identifies a possible set of funding sources for each improvement: federal grant funds of both entitlement and discretionary kinds, passenger facility charge (PFC) revenues, state grants, and local (bond) funding. The general approach is to make maximum use of federal grants and PFC revenues, meeting the required local share of federal grants from state funds (and PFC funds), with only the remainder coming from the issuance of new bonds. This approach follows the well-known investment principle of using other people's money to the greatest degree possible, while minimizing the interest expense associated with borrowing. Table 18 summarizes the changes from the Master Plan's funding requirements for each period.

Because we have projected somewhat lower enplanements than forecast in the Master Plan, the available entitlement grant funds and PFC revenues must be recalculated accordingly, as shown in Table 19. Using these available entitlement and PFC funds to the fullest, we then continue to assume the maximum available discretionary grant funds and make up the difference with state and local monies. As Table 20 shows, the need for bond funds is nearly eliminated under this approach, with only $8.7 million in new bonds having to be issued in the near-term period and none in the other two periods.

Compared with the Master Plan's projection of $92.7 million in new bonding over the 15-year period, having to issue only $8.7 million represents a reduction of nearly $84 billion. We estimate the savings in principal and interest payments *during the 15 years in question* to be approximately $85.6 million.

To be sure, these calculations—like those of the Master Plan—rely on optimistic assumptions about the availability of federal discretionary grants over the next 15 years. The Master Plan assumed $85.8 million in such grants; we

have assumed $68 million, which is still a large amount. Under *either* the Master Plan scenario or the privatization scenario, a lower degree of success in winning discretionary grants would require larger amounts of bonding and the corresponding debt-service costs. But those risks would clearly be much smaller under the privatization approach, which relies less on federal grants and has practically no need for new bonding.

Table 20

REVISED FUNDING PLAN

	AIP Entitlement Grants	AIP Discretionary Grants	Passenger Facility Charges	State Grants	Local	TOTAL
Short-Term (1993–95)						
Master Plan	$6,646,173	23,047,092	21,147,856	4,948,878	11,888,000	67,678,000
Revised	6,216,537	4,125,000	13,353,828	1,795,196	8,707,439	34,198,000
Medium Time (1996–2001)						
Master Plan	$11,842,536	46,440,000	50,997,198	9,713,756	46,840,510	165,834,000
Revised	10,848,152	61,008,750	45,730,725	3,436,007	0	121,023,620
Longer Term (2002-2009)						
Master Plan	$18,699,467	16,287,875	85,896,162	5,831,224	33,961,272	160,676,000
Revised	17,035,806	2,854,101	76,287,673	0	0	96,177,580
TOTAL						
Master Plan	$37,188,176	85,774,967	158,041,216	20,493,858	92,689,782	394,188,000
Revised	34,100,495	67,987,851	135,372,226	5,231,203	8,707,439	254,139,200
Net Change	-3,087,681	-17,787,116	-22,668,990	-15,262,655	-83,982,343	-142,788,800

C. Valuation and Lease Payments

How much would investors be willing to pay for GMIA, assuming the County were willing to lease or sell the airport? While the actual transaction price would depend considerably on such factors as the terms of the sale or lease agreement (e.g., What degree of pricing and managerial freedom would the company be able to exercise? What extent and kind of economic regulation would apply?, Etc.) and on each firm's assessment of the earnings potential of the airport under those conditions, it is possible to provide a ballpark estimate, based on investors' apparent willingness to pay in the case of other airports. To provide comparability among airports of different sizes, one rule of thumb is the *amount paid per annual enplaned passenger*.

BAA was sold for $2.5 billion, and Heathrow and Gatwick have been estimated as accounting for $1.87 billion of that total. Their combined enplanements at the time were 27.6 million, which placed the airport's value at $67.75 per enplaned passenger. Investors paid $180 million for a 27 percent interest in Vienna International in 1992. That implies a value for the entire airport of $607 million, which works out to $98 million per annual enplanement. For Copenhagen's Kastrup International, in early 1994 investors paid $106 million for a 25 percent stake, implying a total value of $424 million. With 10 million enplanements, that equals $42.40/enplanement (see Table 21).

Table 21

AIRPORT VALUATIONS

Airport	Annual Enplanements	Price ($ millions)	Value per Enplanement
Heathrow and Gatwick (1987)	27.6 million	$1,870	$67.75
Vienna Int'l (1992)	6.8 million	$180 (for 27%)	$98.09
Copenhagen Kastrup (1994)	10.0 million	$106 (for 25%)	$42.40
Los Angeles Int'l (proposed)	25.0 million	$1,000	$40.00
Auckland Int'l (proposed)	4.5 million	$200	$44.40

Two *proposed* transactions may also be included here. Two detailed analyses of the possible privatization of Los Angeles International were carried out, respectively, by Babcock & Brown[19] and the Reason Foundation[20], placing the value of LAX to a private buyer at around $2 billion. A recent Harvard Business School review of these studies, after taking into account sensitivity analysis, risks, and other factors, concluded that a prudent buyer would be willing to pay at least $1 billion, with $2 billion possible only under a combination of optimistic assumptions.[21] Using the conservative $1 billion value and LAX's 25 million enplanements leads to a figure of $40/enplanement. That is similar to an earlier estimate for the proposed sale of Auckland International for $200 million; at 4.5 million enplanements, the net result was $44.40/enplanement.

While these figures differ somewhat from one another, they all fall within the range of $40–$98, with an average value of $58.53 per annual enplaned passenger. Applying that average to Milwaukee's 1993 traffic level of 2.264 million enplanements leads to a ballpark valuation of $132 million. To obtain a more conservative estimate, we can use the lowest figure from an actual sale, Copenhagen's $42.40. On that basis, GMIA would be worth $95.99 million.

As a point of comparison, GMIA's Dec. 31, 1993 balance sheet lists total assets (net of depreciation) of $128.9 million. Liabilities total $74.2 million, leaving a total fund equity of $54.7 million. It would not be unreasonable for investors to pay several times the value of the equity for an asset that is expected to yield a reasonable return on assets.

The general consensus today in the United States is that long-term leases are far more likely to be the initial mode of airport privatization than outright sale. As noted in Section II, several U.S. airports are already leased to private firms, and have maintained their eligibility for both entitlement and discretionary grants (even though their lease payments go "off the airport"). No U.S. airports have been privatized via sale, and if an airport were sold, it would no longer be eligible for entitlement grants. In addition, local officials are likely to have a higher comfort level with a lease, because they will be able to retain a degree of policy control (via the lease agreement), and they will retain ultimate ownership of the airport.

What size lease payment would the County need to obtain to make a long-term lease equally attractive, financially, as selling the airport? Assuming that a sale price were received in a lump sum at the time of the sale, this is equivalent to asking what stream of annual lease payments would have a present value of, respectively $96 million

19 "Los Angeles International Airport Privatization Study," Babcock & Brown; John F. Brown Company, Submitted to City of Los Angeles, Department of Airports, May 1992.

20 Robert W. Poole, Jr. and Bryan E. Snyder, "Privatizing Los Angeles International Airport: Analyzing the Alternatives," Policy Study No. 143, Los Angeles: Reason Foundation, April 1993.

21 Dave O'Connor & Amos Yadlin, "Buying the Los Angeles Airport: Valuation, Strategy, Commitment & Choice," Cambridge, Mass.: Graduate School of Business Administration, Harvard University, November 29, 1993.

or $132 million. This is a standard present-value calculation. Assuming an 8 percent discount rate (which we assume to be the amount the County can earn on its invested funds), and a 30-year lease term, present-value tables provide a figure of $8.6 million per year for the lower valuation and $11.7 million per year for the higher valuation. To be conservative, we can conclude that the County should expect to receive something in the vicinity of $8 million per year from leasing the airport.[22]

Table 22

NET CHANGES TO BOTTOM LINE ($ millions)

Year	Reduced Operating Costs	Increased Revenues	Reduced Debt Service *	Total
1995	$2.300	$3.670	$0.738	$6.708
1996	2.415	4.117	1.675	8.207
1997	2.536	4.898	1.885	9.319
1998	2.662	6.422	1.824	10.908
1999	2.796	6.784	1.763	11.343
2000	2.935	7.156	1.702	11.793
2001	3.082	7.536	8.466	19.084
2002	3.236	7.926	8.194	19.256
2003	3.398	8.345	7.922	19.665
2004	3.568	9.690	7.650	20.908
2005	3.746	9.988	7.378	21.112
2006	3.934	10.287	7.106	21.327
2007	4.130	10.585	6.834	21.549
2008	4.337	10.984	11.510	26.831
2009	4.554	11.383	11.085	27.022

* from Master Plan Table 9-8

Would private lease-management produce sufficient improvements in airport operations to permit a lessee to make payments of that magnitude and still earn a profit? Table 22 assembles figures from the previous analyses of projected savings in operating costs, increases in operating revenues, and reduced debt service based on the scaled-back expansion plan. These projections cover the same time frame as the Master Plan, through 2009—the first half of a 30-year lease period. They indicate that privatized operation would lead to annual improvements to the bottom line beginning at nearly $7 million per year and increasing to $27 million per year by 2009. Clearly these figures would permit for making annual lease payments in the vicinity of $8 million per year, while leaving room for pre-tax operating profits.

This preliminary assessment assumes that the present residual-cost agreement with the airlines remains in effect through 2009, and that GMIA's underlying core operations remain self-supporting. The increased revenues from

[22] A more accurate calculation would have to factor in the residual value of the airport (which the County would still own) at the end of the 30-year lease period. The present-value calculation would need to include the present value of this residual value (in addition to the present value of the stream of annual lease payments). Estimating the residual value 30 years in the future, by standard valuation methods, requires assumptions about the asset's future profitability (in year 30) that are beyond the scope of this preliminary study. The net effect of this calculation would be to reduce somewhat the annual lease revenue the County could expect from the transaction. The actual lease revenues, of course, would be the result of negotiations between the County and potential lessees.

expanded concession operations and reduced operating and debt-service costs are the key value-added benefits from privatization that make possible the lease payments to the County and operating profits for the lessee. In economic terms, the "marginal costs" of privatization (lease payments and profits) are made possible by the marginal improvements to the bottom line which privatization can bring about.

V. LEGAL FEASIBILITY

Numerous legal questions arise in considering the privatization proposal discussed in the previous section. In the following paragraphs the principal legal issues are addressed. More detailed legal assistance would be necessary if the County decides to pursue this approach.

A. Power to Lease the Airport

As noted previously in Section II, federal law already permits the lease of entire airports, and those airports which are currently leased to private firms continue to receive federal AIP grants.

Wisconsin law appears to offer no obstacles to the lease of an airport such as GMIA. The statute which establishes county governments, Wis. Stat. Ch. 59, contains no prohibitions or restrictions on the sale or lease of airports. Wis. Stat. 114.14, which governs the control of airports, limits management contracts to a 10-year term, but does not prohibit the sale or lease of an airport. Ch. 59.07 explicitly states that a county board may "Direct the clerk to lease, sell, or convey or contract to sell or convey any county property, not donated or required to be held for a special purpose, on such terms as the board approves."[23]

B. Outstanding Bonds and Bondholders

Neither the Official Statements nor resolutions adopted by the County Board in connection with the seven outstanding Milwaukee County general obligation bond issues (a portion of whose proceeds have been used for GMIA projects) require the redemption or defeasance of those bonds in the event or a sale or lease of the airport. However, the statements and the six most recent authorizing resolutions do promise to satisfy Internal Revenue Code requirements regarding the tax-exempt status of interest on those bonds. Two sections of the IRC 142, read together, require the property financed by the bonds to be "owned by a governmental unit."

While a lease is not, per se, a change in ownership, depending on the terms of the lease, it can sometimes have the legal effect of a change in ownership. In response to growing interest in privatization of public facilities which have been financed with tax-exempt debt, the IRS in 1993 issued Revenue Procedure 93-17. This procedure allows interest on outstanding bond issues to continue to be tax-exempt even if the facility is leased or sold by a government unit, if certain other conditions are met. The most important of these is that the disposition proceeds (i.e., the lease or sale payments) must be used in an alternative manner that would have qualified for tax-exempt status. Devoting the lease payments to other public works investment, for example, would be one such use. In addition, the facility involved in the transaction (the airport) must continue to be used for its original purpose for at least five years, and the new owner or lessee must transact business with the original government owner on an arm's-length basis and for fair market value.[24]

At the state level, Wis. Stat. Ch. 67, pursuant to which the existing bonds have been issued, does not require redemption or defeasance of the bonds in the event of the lease or sale of the facility or reorganization of the issuer.

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[23] Michael E. Hartmann, "Legal issues surrounding privatization of Milwaukee County's General Mitchell International Airport," legal memorandum, Wisconsin Policy Research Institute, October 4, 1993.

[24] *Ibid.*

C. Lease Payments to County Government

It was concluded in Section II that no federal barrier exists to a municipal government leasing its airport to the private sector and receiving and using the lease payments for other than airport purposes. Both existing practice at leased airports and written FAA provisions regarding the lease of airports imply that a lease payment made by a lessee to a city or county government is not "revenue generated by the airport" within the meaning of the 1982 Act. Moreover, the legislative history of the Act reinforces the conclusion that what was meant by airport revenues was *operating* revenues (landing fees, space rentals, concession fees, parking charges, etc.). From the lessee's standpoint, a lease payment is simply an operating *expense*—payment for the use of the airport's land to the municipality that provided that land.

Nevertheless, a legal question might still be raised by the airlines regarding this issue. Any long-term lessee of GMIA would remain bound by the terms of the County's existing long-term lease and use agreements with the "signatory" airlines (which continue in force until 2010). Article IV.P of this agreement provides that the County agrees to commit "all revenues and receipts from rents, fees, charges, or income from any source received or accruing to the Airport System" exclusively for Airport System purposes. Any long-term lessee would, in effect, become the substitute for the County in making this commitment to the signatory airlines. Thus, "Acme Airports" would assume the duty to commit all the revenues that it generates to airport purposes.

What, exactly, does this provision mean in the case of a lease? In those existing situations in which airports are leased to private, for-profit firms, a margin of profit is considered one of the costs of doing the business of running the airport and therefore does not constitute devoting revenues to non-airport purposes. Likewise, payment for the use of airport land (the lease payment) is arguably another cost of doing business as an airport. In addition, Article XXX of the agreement provides that "nothing in this Agreement shall be construed or interpreted in any manner whatsoever as limiting, relinquishing, or waiving any rights of ownership enjoyed by County in the Airport property." One of the traditional rights of ownership is a return on investment. Thus, both the County, as owner, and the new long-term lessee, "standing in the shoes" of the County, should retain the right to a return on their investment, by the explicit terms of the Agreement.

For reasons discussed below in Section VI, the airlines may seek to renegotiate the terms of their existing lease and use Agreement in the event of a lease of GMIA, aiming to switch from the present residual-cost structure to a compensatory structure. This would offer the lessee a good opportunity to clarify the status of lease payments and lessee profits. Such a renegotiation would require the unanimous consent of all the signatory airlines.[25]

D. Property Taxes

In general, the leasehold interest of a private-sector lessee of GMIA would be subject to local property taxation. Property owned by a county is exempt from the general property tax, and the fact that such property is leased "does not render that property taxable," according to Wis. Stat. 70.11(2). But the Wisconsin courts have held that in determining "real or true ownership" for purposes of property taxation, the courts must analyze the facts and circumstances of the lease. In the 1969 *Mitchell Aero* case, whose facts and circumstances are more like a long-term lease of GMIA than any other reported case, the Wisconsin Supreme Court held that a tenant at GMIA which built hangars on county land at the airport had sufficient "ownership" to sustain city taxation of the hangars, even though the county had legal title to them.[26]

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[25] Michael E. Hartmann, "Further legal research concerning the potential privatization of Milwaukee County's General Mitchell International Airport," Wisconsin Policy Research Institute, January 31, 1994.

[26] Michael E. Hartmann, "Further law-related research concerning the recommended long-term lease of Milwaukee County's General Mitchell International Airport," Wisconsin Policy Research Institute memorandum, November 9, 1993.

On the other hand, in January 1994, the Court decided the case of *City of Franklin vs. Crystal Ridge*. In this case a lessee of county-owned property on which it built a ski facility was held exempt from property taxation because, given the facts, the county was considered the beneficial owner of the land. The *Crystal Ridge* case and at least four other reported cases finding a county the beneficial owner of property for purposes of taxation, as opposed to a lessee, explicitly differentiate their facts from those of *Mitchell Aero*. Also in *Crystal Ridge*, the Court held that the lessee did not, as alleged, waive the benefits of the tax exemption or agree to pay taxes in the lease. Hence, for Milwaukee County to be certain about the taxability of a lessee's leasehold interest, the lease should contain a clause in which the lessee explicitly waives the benefits of any potential tax-exemption and agrees to pay any assessed taxes.[27]

A separate question is whether a negotiated lease would end up actually containing such a clause. The County will negotiate to receive a total stream of revenue from the lessee, whether that stream consists solely of lease payments or partly of lease payments and partly of tax payments. A prospective lessee is likely to be willing to pay out the same total amount, based on its assessment of future airport costs and revenues, regardless of what names are used for the revenue streams. Because tax rates are subject to somewhat unpredictable future changes, however, the lessee is likely to prefer to agree to a payment stream consisting solely of lease payments, whose amounts can be defined predictably in the lease agreement.

E. Future Tax-exempt Revenue Bonds

The analysis in Section IV concluded that substantially less bonding would be needed over the next 15 years under the privatization alternative. But much of the expansion that can be deferred under this scenario would quite possibly be justified during the second 15 years of a 30-year lease. Thus, the ability to continue to make use of tax-exempt revenue bonds, with their lower interest rates, would be desirable. Fortunately, it appears to be legally possible for Milwaukee County to issue tax-exempt *revenue* bonds on behalf of a leased GMIA.

Historically, the County has financed capital improvements at the airport via general obligation bonds. Most airports, by contrast, rely principally on revenue bonds, in order to reserve their G.O. bonding for essential government functions that are not revenue producing. But it has generally been thought that counties in Wisconsin are unable to issue revenue bonds. This is not technically the case. A county may issue revenue bonds if such bonds do not create "debt" within the meaning of Article XI, Section 3 (which provides for a limitation on debt issuance).

This question was recently addressed by the Wisconsin Supreme Court in the 1992 *City of Hartford vs. Kirley* decision. In that case, the court noted that "an obligation is not debt in the constitutional sense if it is neither: 1) a general obligation of the municipality entitling the creditor to look to the municipality's revenue for repayment; nor 2) secured by any asset owned by the municipality prior to its incurring the obligation."[28] The court further noted that they had previously held that "obligations payable solely out of the property acquired or constructed, or out of revenues generated from the project, are not debt." Thus, Milwaukee County revenue bonds, if payable solely from revenue generated directly by the bond-financed project, are not "debt" and thus could be issued without violating the provisions of Art. XI, Sec. 3.

Kirley's reasoning is in accord with Wis. Stat. § 59.07(92)(b), which allows county boards to "[f]inance such [airport] projects, including necessary sites, by the issuance of revenue bonds and... payable solely from the income, revenues, and rentals derived from the operation of the project from the proceeds of said bonds... Any bonds issued pursuant to this subsection shall not be included in arriving at the constitutional debt limitation."

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[27] Michael E. Hartmann, "Taxability of a private-sector, long-term lessee's interest in Milwaukee County-owned General Mitchell International Airport," Wisconsin Policy Research Institute memorandum, January 21, 1994.

[28] 172 Wis.2d 191, 493 N.W.2d 45, 50.

Wisconsin Stat. 67.12(1)(a) allows municipalities to "issue municipal obligations in anticipation of receiving" deferred payments, including those from a private lessee. The Wisconsin Health and Educational Facilities Authority, for instance, recently issued revenue bonds on behalf of the Milwaukee Regional Medical Center for the financing and construction of certain improvements to the medical center's power plant. Thus, the County could issue revenue bonds on behalf of the private lessee of GMIA.

F. Employee Relations

One other legal issue arises over the transition of current airport employees from working for the County to working for the private lessee. (We presume that the County would encourage the lessee to make job offers to most or all current airport employees as part of the transaction, as has occurred in most other such cases of airport privatization.) The legal question is whether the lease of the airport would be considered a subject of mandatory bargaining under Wisconsin's Municipal Employment Relations Act (MERA). Disputes arising from such mandatorily bargainable subjects must be resolved by third-party arbitration before the Wisconsin Employee Relations Commission (WERC).

In its 1977 *Racine* decision, the Court held that a school district acted unlawfully by subcontracting its food operations without first bargaining with its employees, because the effect of the decision was primarily on the wages, hours, and condition of employment of the workers, not on the district's services or policies. Thereafter, decisions appearing to involve only the *means* by which a public-sector employer achieves the same *ends* are legally subject to bargaining with the employees, but decisions altering *ends* can be made without having to bargain with the employees.

In the 1979 *Brookfield* case, a city was legally permitted to lay off five fire fighters without first bargaining the decision, because it served the end of holding down property taxes. By contrast, in the 1987 *Brown County* case, the county's decision to lease its juvenile shelter home to a private operator of similar services was judged to be subject to bargaining with the affected county employees, since it was found to be primarily a change of means of carrying out the same ends. But in three more-recent cases, in which Chippewa, Manitowoc, and Waukesha Counties sold or leased nursing homes to private operators, the Court found that there was no duty to bargain. In *Manitowoc* the court found that where "the term of the lease is of sufficient length so as to satisfy us that the transaction does indeed represent a bona fide decision to cease providing the services in question," there is no requirement to bargain over such a "level of service" decision, despite the possible impact on employee wages, hours, and conditions of employment.[29]

Thus, the language involved in any County ordinance and/or lease document should make clear that what is being changed via the transaction is the end rather than simply the means: that the County is essentially getting out of the business of operating GMIA.

VI. IMPACTS ON STAKEHOLDERS

How would the long-term lease of GMIA proposed in this paper affect the principal parties concerned with the airport? Would there be sufficient benefits to offset the risks of trying something different?

A. County Government

Milwaukee County would benefit financially by leasing the airport. It would receive a stream of new revenue consisting either of annual lease payments or (somewhat smaller) lease payments plus property tax revenues. Based on the estimated market value of the airport, due to its ability to generate profits thanks to increased revenues and lower costs, the County should be able to realize a new revenue stream on the order of $10 million per year. It would

[29] Michael E. Hartmann, "Judicial Interpretations of the Duty to Bargain `Mandatory Subjects' Under Wisconsin's Municipal Employment Relations Act," Wisconsin Policy Research Institute memorandum, March 31, 1994.

be wise for the County to negotiate a lease agreement that provides for a guaranteed annual minimum payment plus a percentage of GMIA's gross revenues. This will give the County an ongoing stake in the airport's financial success under private operation.

Secondly, the County would be relieved of future additions to its general-obligation indebtedness, an important consideration in light of the growth of that indebtedness, discussed previously. The privatization plan would greatly reduce the need for new airport debt (at least over the next 15 years), and would also shift the form of that new debt to a revenue-bond basis.

Thirdly, by privatizing GMIA the County would be able to shift much of the risk of capital improvement projects to the private operator. The recent example of the huge cost overruns and repeatedly delayed opening date of the new Denver International Airport should serve as a warning of the risks of overly ambitious airport expansion plans. We have pointed out that the current GMIA Master Plan is over-ambitious; if a future Board were to implement it as written over the next 15 years, it is likely that the County's taxpayers could be put at risk for unsustainable debt-service payments. Making airport expansion the responsibility of a commercial firm using revenue bonds payable only from airport revenues would force more rigorous scrutiny of the financial viability of airport improvements.

To be sure, the County could not relinquish total control of GMIA. Its role would shift from that of airport operator to one of overall airport policy-maker—to "steering" rather than "rowing," to use a phrase popularized by David Osborne.[30] The vehicle for protecting the public interest would be the long-term lease agreement. Provisions dealing with public participation, employee protection, safety, noise, airport expansion, liability and insurance, bankruptcy, and pricing could be negotiated and incorporated in that agreement.

In addition, the County, as the underlying owner of GMIA, would remain the airport "sponsor" for purposes of interfacing with the Federal Aviation Administration and continuing to comply with airport grant agreements. GMIA would remain subject to all FAA regulations concerning safety, noise, access, and pricing, as are other airports currently leased to private operators.

B. Airlines

U.S. airlines are generally considered to be opposed to airport privatization. Indeed, airlines were the principal opponents of the proposed sale of the Albany airport in 1989 and have spoken against proposed privatizations of Baltimore-Washington International and Los Angeles International. But there are good indications that the airlines' position may be changing.

Even in the Albany case, the final version of the *lease* proposal succeeded in winning the airlines' endorsement (though it did not go through due to FAA opposition and local political factors).[31] Ultimately the parties in question worked out lease terms which adequately protected the airlines' exposure to future charges, while providing for development of a badly needed new airport terminal.

More recently, airlines have been outspoken in opposition to grandiose expansion plans such as the (now-canceled) $3.2-billion JFK 2000 at New York's Kennedy International and the new terminal at Washington National. Airlines have also been quite concerned over the new Denver International's huge cost overruns and delayed opening. As they observe successful privatized projects such as Toronto's Terminal 3 in contrast to these unwise public-sector projects, the airlines are becoming more willing to consider specific privatization proposals, on a case-by-case basis.

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[30] David Osborne and Ted Gaebler, *Reinventing Government*, Reading, Mass.: Addison-Wesley, 1992.

[31] Kevin Roach, "US Air Backs BA/Lockheed Plan," *Daily Gazette* [Schenectady], Feb. 20, 1991; and Brian Nearing, "American Airlines Endorses Airport Suitor," *Daily Gazette*, April 20, 1991.

What would the airlines have to gain from a long-term lease of GMIA? As discussed in the KPMG airport authority study, the airlines are frustrated by the County's micromanagement of the airport, which is inherent in it being part of a County department. (For example, airlines at GMIA are concerned over the airport being subject to a countywide hiring freeze, even though no general-fund monies are used to support airport operations.) They would still prefer a change of airport governance, to permit a more businesslike approach, even though no support developed for the airport authority idea. Leasing the airport to a professional airport firm offers an alternative way of achieving this objective.

In addition, the airlines are concerned about the "aggressive" expansion program embodied in the Master Plan approved by the County. In March/April 1994 USAir, Delta, and Northwest asked the County Board Transportation & Public Works Committee to delay a $2-million project to add high-speed turnoffs on the north-south runway.[32] Off-the-record interviews with several airline representatives confirmed airline concerns that the Master Plan may be programming too much, too soon. Hence, the airlines should be receptive to a private-sector approach that provides stronger protection against premature expansion of the airport's runway and terminal capacity.

In addition, there are indications that the airlines would be open to renegotiating the existing "residual-cost" use and lease agreements, in the context of a long-term lease of the entire airport. A "compensatory" agreement, in which the airlines paid for specific cost centers, would be more predictable as to future airline costs. It would reduce the airlines' risk of getting stuck with unexpectedly large future payment obligations (as might come about under the present agreement if expansion led to higher debt service without the traffic to generate sufficiently high PFC and entitlement revenues).

C. Passengers

How would passengers fare with a privatized GMIA? As noted in Section IV, we expect that an airport firm would greatly expand the concession operations within the passenger terminal, creating a mini-shopping mall at the airport. The privatized commercial concession operations at Heathrow, Gatwick, Pittsburgh, and Toronto all rely on a pricing policy that requires all vendors to charge no more at their airport shops than they charge at their other outlets in malls or downtown. Hence, customers are more willing to spend money at the airport, knowing that the prices are fair and reasonable.[33] Thus, passengers at a privatized GMIA would find a more user-friendly environment, with a much greater variety of goods and services available.

On the downside, they would have to pay somewhat more for parking at GMIA, as the parking rates were increased to levels comparable with those of other northern and midwestern airports. In response to the higher parking rates, they would probably also find a greater number of alternative transportation modes being offered, especially if the relevant local authorities permitted the creation of airport-shuttle services of the kind pioneered by SuperShuttle in California, Arizona, and Texas.

D. Airport Neighbors

The principal concern of those who live near GMIA is airport noise. By making it more likely that the addition of the new parallel runway would occur later than the year 2009, the privatization plan might reduce the extent of noise experienced by airport neighbors to the southwest of the airport. This reduction would be small, because the airport's overall noise impact will be shrinking rapidly over the next 15 years in any case.

Current federal law provides for the phase-out of second-generation jet airliners (727s, early 737s, DC-9s, etc.) by the year 2000. These noisy "Stage II" aircraft must either be retired by that date or re-engined with new-technology engines such that they meet more stringent "Stage III" requirements which are applicable to all aircraft currently in

[32] James B. Nelson, "Cupertino Sees Snag for Airport Expansion," *Milwaukee Sentinel*, April 2, 1994.

[33] Paul Burnham Finney, "The Airport as Mall," *Frequent Flyer*, May 1994, p. 16.

production (MD-11s, 757s, 767s, etc.). As shown in the Master Plan, the noise contours around the airport are projected to shrink dramatically over the next 15 years, as Stage II aircraft are phased out and replaced entirely by Stage III planes.

Leasing GMIA to a private operator would therefore have no adverse impact on airport neighbors; its only effect might be a small additional reduction in noise exposure.

E. Airport Employees

Privatization is generally of concern to the employees of any governmental entity. They fear either losing their jobs or having to work under less desirable conditions should they gain employment from the private contractor.

In contrast to some municipal operations, airports are generally run in a more businesslike fashion, and significant overstaffing or grossly inefficient work practices are seldom major problems at airports, especially when traffic is growing. When the British Airports Authority was privatized, for example, not only were there no layoffs, but total employment expanded each year for the next three years to keep pace with growing airport traffic. When a private firm took over the operations of the Albany airport, it retained all the existing airport employees.

Governments sometimes require bidders to agree to make job offers to all the existing workers of an enterprise that is to be privatized. Except in cases of gross overstaffing or greatly inefficient work rules, bidders are often willing to accept such a condition, as long as they will subsequently have all the normal rights of management: to hire and fire based on performance, to determine compensation levels, to define work rules and conditions, etc.

To ease the transition, the County may want to establish provisions to encourage those near retirement age to take early retirement, and to offer transfers to other public works positions for those airport employees who do not wish to shift to the private sector. Vested pension benefits must also be safeguarded to the employees who have earned such benefits. Many jurisdictions have managed such employee transitions quite well, and the County would do well to draw on their experiences.[34]

As noted in the previous section, Wisconsin law is not completely clear on whether the long-term lease of an airport would be exempt from being a subject for mandatory bargaining. It appears that the transaction can be structured in such a way that it would be exempt.

F. Conclusion

GMIA is a very important asset of Milwaukee County. Its present form of governance, embedded within a county department, fails to optimize its potential as a well-run commercial airport. It also prevents the airport from providing county taxpayers with a direct financial return on their investment in this facility. And it exposes those taxpayers to potential future risk of unwise expansion, should a future Board adopt an "if we build it, they will come" approach.

Leasing GMIA to a commercial airport firm offers the prospect of some important benefits. The County could obtain a new revenue stream on the order of $10 million per year. The airport could be run more like a business, with lower unit costs and increased per-passenger revenues, as has been observed at other privatized airports and other facilities. Airlines could be protected from unreasonable future cost increases, and both airlines and taxpayers offered stronger protection against the risk of unwise airport expansion projects. Passengers, airline and airport employees, and airport neighbors could obtain a more user-friendly terminal, offering a greatly increased variety of goods and services.

[34] John O'Leary and William D. Eggers, "Privatization for Public Employees: Guidelines for Fair Treatment," How-to Guide No. 9, Los Angeles: Reason Foundation, August 1993.

The financial analysis in this paper suggests that the private sector would be interested in leasing GMIA, and the legal analysis suggests that it is feasible for the County to proceed in this direction.

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