Airport Governance Advisory Committee Meeting

July 30, 2019
Airport Governance Advisory Committee Agenda

• Roll Call

• Public Comment

• Approval of Meeting Minutes

• Today’s Discussion
  – Stakeholder Values, Part 2
  – Authority Advantages and Disadvantages, Part 2

• Public Comment

• Adjournment
Today’s Discussion

• **Stakeholder Values, Part 2**
  – Community
  – NRAC
  – Grand Traverse County
  – Leelanau County

• **Advantages and Disadvantages for Transitioning to an Authority, Part 2**
  – Counties’ Perspective
  – Summary of Advantages

• **Discussion**
Stakeholder Values

Previously
• Strategic Planning Input from Stakeholders
  – Recap on SBA stakeholder input from the beginning of the process

Previously
• Value Questions Survey with the AGA Committee, Part 1

Current
• Value Questions Survey with the AGA Committee, Part 2
CURRENT SURVEY

• Value Questions
  – Zoning (PART 1/June)
  – Property (PART 1/June)
  – Legal Services - TODAY
  – Liability - TODAY
  – Issuing Debt - TODAY
  – Regulatory - TODAY
  – Other Values - TODAY
# Stakeholder Values

<table>
<thead>
<tr>
<th>Issue</th>
<th>Under Commission</th>
<th>Under Authority</th>
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<tbody>
<tr>
<td>Zoning – PART 1</td>
<td>Multiple issues with City</td>
<td>Control own destiny and increased autonomy</td>
</tr>
<tr>
<td>Property – PART 1</td>
<td>Multiple steps to approve</td>
<td>One-step approval; more transparency/accountability</td>
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<tr>
<td>Liability</td>
<td>Airport and Counties</td>
<td>Airport</td>
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<tr>
<td>Issuing Debt</td>
<td>Done through Counties</td>
<td>Can be done via Authority. Counties still involved if desired.</td>
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<td>Legal Services</td>
<td>Airport supports costs</td>
<td>Airport supports costs</td>
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<td>Regulatory</td>
<td>Aviation education and expertise needed; Board members change with political elections appointments</td>
<td>Aviation and business expertise is part of criteria for Board; greater continuity of Board</td>
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<td>Other Values</td>
<td>Adequate business model for best-of-class service</td>
<td>Enhanced business model for best-of-class service</td>
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<tr>
<td>- quality service</td>
<td></td>
<td>Act 95 ensures more public accountability &amp; transparency</td>
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<td>- competitive ticket prices</td>
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<td>- important regional asset</td>
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<tr>
<td>- operate like a business</td>
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<tr>
<td>- value relationship with Counties</td>
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LEGAL SERVICES

– Legal services are important for any business, but especially for the unique public/private enterprises of airports since there is heavy regulation for the industry.

• Basic Background

  – Some commissions utilize shared resources under their sponsors
    • Legal is one of those shared resources
    • Others can include fire, security/police, housekeeping, IT, HR, and other services that would otherwise need to be accomplished in-house
  – Currently, TVC is paying for all legal service, HR, IT, etc. costs; it is not being shared with the Counties
• **How does this relate to Governance at TVC?**
  
  – *Under Commission*
    • If TVC remains a Commission, the Airport would likely continue to pay the costs (unless the Counties agreed to share resources and costs)

  – *Under Authority*
    • If TVC moves to an Authority, then it would continue to pay the costs for legal services as it is now
LIABILITY

- Governance of an airport plays a large role in what entity retains liability for various issues
- Liability includes legal, financial, and political responsibilities and consequences

• Basic Background
  - Currently, as joint airport sponsors, the Counties are responsible for the legal and financial liabilities of the Airport
  - Counties could also be held responsible for the actions and legal transactions undertaken by the Airport
Examples

- **Grant Assurances – under Authority**
  
  - Under an Authority, all the responsibility of the Grant Assurances falls on Authority, not Counties
  - Regarding any issues of non-compliance, the consequences would stay at the Airport
• How does this relate to Governance at TVC?

  – **Under Commission**
    • Counties have more exposure to liability—legal, financial, and political—under a Commission structure
    • Current liability exposure is covered by both Commission’s and the Counties’ insurance policies; however, this would not be necessary under an Authority

  – **Under Authority**
    • The Authority governance structure removes as much liability as possible for Leelanau and Grand Traverse Counties
    • The Authority would be solely responsible for the legal, financial, and political liabilities of the Airport
    • In the event of claims of tort, injury, or other liabilities an Authority would better protect the Counties
ISSUING DEBT

- The Airport’s ability to issue debt can impact how future development at TVC takes place
- Issuing debt from time to time could be used as one of the vehicles to meet the Airport’s short- and long-term financial needs

• Basic Background
  - Ability to issue debt regardless of governance model
  - “Full faith and credit”
• **How does this relate to Governance at TVC?**
  
  – Issuing debt is similar for either a Commission or an Authority
  
  – If the Airport needs to issue debt, Act 95 allows for an Authority to go out on its own to do so, or to use the Counties full faith and credit
  
  – Having the ability to issue debt without the Counties can be beneficial to respond more quickly to financial needs as well as reduce the Counties’ full faith and credit debt liability
• **Under an Authority**
  – One advantage under an Authority is the ability to enter into *Installment Purchase Agreements* for the acquisition of equipment, etc.
  – IPAs allow the Airport to respond more quickly to financial needs

• **NOTE re: millage/taxation:**
  – Act 95 clearly states that an Authority cannot issue a millage/taxation
REGULATORY

– The Airport exists within a heavily regulated environment. Many different agencies—spanning the local, state, and Federal levels—regulate it

– Different governance models affect compliance issues

– To operate efficiently, it is necessary to have an experienced Board and a dedicated professional Airport management team
Examples

– Revenue diversion
  • Airport money sent to Counties, Cities, or other entities is a violation of Federal regulations
    – There are potential civil and criminal penalties for this action
  • An informed board focused solely on the airport can help to prevent revenue diversion concerns

– Lack of consensus
  • If there is lack of consensus on policy, regulatory, or business matters among joint government bodies, a process for mediating through the issues is needed
How does this relate to Governance at TVC?

— *Under Commission*

- Under the current model, Commission members, and to some extent County members, have a responsibility to have significant knowledge of regulations and compliance.
- The Commission and County both need continuous education on the specifics of the regulatory environment.
- Elected officials that frequently change, and have other focuses outside of the airport, have less opportunity to develop expertise in airport management.
How does this relate to Governance at TVC?

— **Under Authority**

- Board members are chosen for their industry and business expertise
- Members would be required to have industry and/or business expertise
  - Minimum standards could/should be stipulated for board member qualification.
- Membership make-up represented by the regional community through appointment, ex:
  - Grand Traverse County appointed members
  - Leelanau County appointed members
  - Another local County appoints 1 member
- Up to 45% of Board members can be elected officials
OTHER VALUES

– A commitment to quality service for customers

– Competitive airline ticket pricing (i.e., cheaper flights)

– Recognizing and supporting the Airport as an important regional asset and economic development tool
  • The Airport’s reach goes beyond the City and the two Counties

– Provide the best service and benefits to the entire region
OTHER VALUES

– Operate like a business

– Recognize elected officials can have agendas other than what is best for the Airport and the community it serves

– Value the relationship with the Counties, even if moving to an Authority model
Examples

– Re: Cheaper flights, more seats, more routes
  • Airport does not have control of airfare; however, TVC can lower the cost to the carrier at the airport to induce lower airfares
  • Non-aero revenue to help airport offset operating costs
  • Focus on marketing and air service development to expand service and promote competition

– Economic development of region through airport initiatives
  • Leasing land
  • New and/or expanded air service (i.e., new carriers, new destinations, greater frequency to current destinations, etc.)
  • Job creation
Examples

– Management requirements and clear responsibilities as a public body outlined in Act 95
  • CEO requirement
  • CFO requirement
  • Annual audit
  • Public meetings
  • Board members
Advantages & Disadvantages of a Commission From the Counties’ Perspective

**Commission Advantages**
- Political connections and support
- Provides direct oversight and accountability by Counties
- Counties approve buying and selling of land
- Counties priorities can be reflected more easily
- Control over some long-term lease agreements past Operating Agreement

**Commission Disadvantages**
- Airport liability shared with Counties
- Legal/professional services can be supplied by Counties
- Can more easily rely on Counties for financial support
- No direct control of Airport zoning
- Less efficient– Legislation & Agreements not as clear
- Lack of dispute resolution
Advantages & Disadvantages of an Authority from the Counties’ Perspective

**Authority Advantages**
- Liability held by Authority
- Cannot impose a millage
- Airport business focus
- Zoning control
- Not required to provide airport financial & operational support from Counties
- Clear legislation
- Efficient & effective actions
- Industry best practices
- Criteria of expertise for Board members
- More transparent, more public accountability

**Authority Disadvantages**
- Buying & selling of property is more autonomous for Airport
- Eminent domain
- Regional requirement
- Reduces political influence
- May reduce Counties control over decision making and long-term agreements
- Limitation of 45% of elected officials serving on Board
Summary Overview of Authority Advantages

• **Provide a Singular Airport Enterprise Focus**
  – More flexibility to develop policies and procedures specifically attuned to meet the needs of an increasingly competitive environment

• **Strengthen Regional Coordination and Economic Contribution**
  – Expansion of Board members to include greater regional input to better represent the entire community the airport serves

• **Create a Stronger Platform for Economic Development**
  – Singularity, business-focused Board with commercially-oriented policies will encourage a more entrepreneurial, business, and hospitality management focus that is more conducive to customer service and air service development
Summary Overview of Authority Advantages

• **Enhanced Decision Making**
  – Authority Board members have a sole focus on the airport which fosters enhanced knowledge of airport operations that is not normally acquired by elected officials that have a multitude of political priorities and responsibilities

• **Lower Operating Costs**
  – Operational cost savings are inherent through greater efficiency and higher productivity found by reducing the time to educate, gain approval, and process business agreements with multiple boards

• **Air Service Development**
  – Using funds from operational cost savings, as well as greater revenue earned through airport focused strategic initiatives, the airport can more easily market and attract new air service
Summary Overview of Authority Advantages

• **Ensuring a “win” for all key stakeholders:**
  
  – **Board** – Long-term increased economic contribution. Control retained of all Board appointments by joint sponsors.
  
  – **Authority** – Single-purpose entity configured expressly to optimize results for Airport enterprise. Stronger business/commercial focus.
  
  – **Airport Staff** – All employment and pension benefits would be preserved via Agreements, if required.
  
  – **Regional Interests** – Authority helps promote the fact that the Airport is a regional asset and involves regional representation.
  
  – **Business Community/Economic Development** – Criteria for Authority Board appointments can include a stronger business focus, which would help strengthen ties to the business community and help increase economic development.
Discussion

• Q & A

• Next Meeting
Thank You