

City of Springfield, Missouri Airport Task Force

December 4, 2018

The Honorable Ken McClure
Mayor, City of Springfield
Busch Municipal Building
840 Boonville Avenue
Springfield, Missouri


Dear Mayor McClure:

Pursuant to the charge from City Council, your Airport Task Force held several meetings, gathered information from a variety of sources, and conducted research during the summer and fall. The task force heard testimony from aviation industry experts, airport and community stakeholders, and federal/state government officials. We also traveled to and met with officials at the Northwest Arkansas Regional Airport.

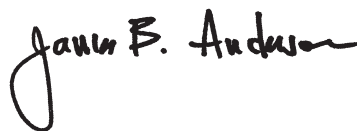
There is strong interest and support for helping the Springfield-Branson National Airport become as efficient as possible and achieve its maximum public benefit. The task force expresses its gratitude to the airport staff, citizens, and officials who provided information and assistance during this process.

The task force recognizes that our airport is a significant economic and transportation asset for our region. We have confirmed several findings during the course of our meetings and research. We offer this report, findings, and recommendations with the intent to help the airport achieve even greater success and benefit to the Springfield region.

Sincerely,



Mayor Pro Tem Jan Fisk
Airport Task Force Co-Chair



Airport Board Chair Jim Anderson
Airport Task Force Co-Chair

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I. INTRODUCTION AND BACKGROUND

The idea of changing the governance structure of the Springfield-Branson National Airport (Airport) has been discussed informally for well over a decade, including during past Community Leadership Visits done by the Springfield Area Chamber of Commerce. Many ideas to move Springfield forward have come from these trips, including identifying the need for the construction of the new Midfield Airline Terminal, which project was completed in 2009.

The recommendation to formally study the feasibility of migrating airport governance to a regional airport authority came out of an Airport Business Plan done by an industry consultant and completed in September of 2017. This governance structure is growing in popularity with over 40 of the top 100 air carrier airports in the U.S. today being operated by an Airport Authorities, including recent conversions by Tulsa, Des Moines, and Asheville.

This research should not be seen as any negative toward the current Airport Board structure or City oversight, which functions well. Rather it is meant to explore whether the authority structure would benefit the Airport by allowing it to act with greater independence, be more entrepreneurial, and have greater flexibility to respond to the unique and dynamic aviation industry. If determined true, the resulting growth and economic activity would provide greater benefit to our region.

The Airport is currently considered an enterprise fund department of the City of Springfield (City), which means it receives no local tax support and generates all revenue needed to cover operations from user fees, rents, and charges. The Airport pays the City to perform certain services, which includes human resources, legal, and financial support services. Responsibility for most activities is given to an 11-member administrative board, known as the Airport Board. Members are appointed by the City Manager with concurrence from City Council. The Director of Aviation reports to the Airport Board and the City Manager, and is a member of the City's Leadership Team.

II. TASK FORCE CHARGE AND MEMBERSHIP

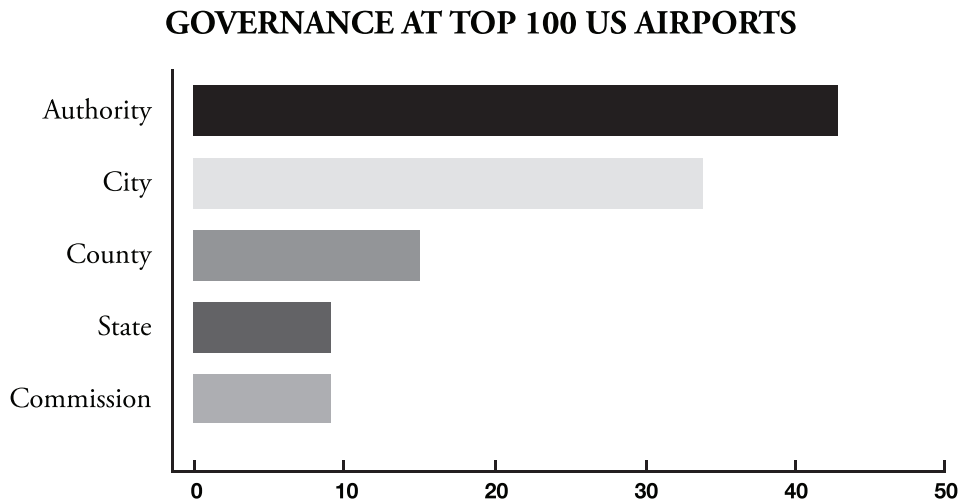
The Airport Task Force was formed by City Council and charged to research the advantages, disadvantages, feasibility and community impact of the Springfield-

Branson National Airport migrating to a regional Airport Authority or some other governance model. The membership of the Airport Task Force is as follows:

- Jan Fisk, Mayor Pro Tem, Co-Chair
- Jim Anderson, Springfield-Branson National Airport Board of Directors, Co-Chair
- Phyllis Ferguson, Springfield City Council
- Charlotte Hardin, At-large member appointed by Springfield City Council
- Jerry Compton, At-large member appointed by Springfield City Council
- Rob Fulp, Springfield-Branson National Airport Board of Directors
- Bill Hammitt, Springfield Area Chamber of Commerce
- Stephanie Hein, Convention & Visitors Bureau
- Stephanie Sumners, Ozarks Technical Community College

III. AIRPORT GOVERNANCE

There are several different types of airport ownership and governance. The chart below shows the types of governance at the 100 largest air carrier airports in the United States.



INDUSTRY TRENDS AND GOVERNANCE OBJECTIVES

The number of airports operated by authorities has increased in recent years. Eight airports have transitioned from City or County to authority governance since 2000. No airports have transitioned back. The following are examples of airports that are similar in size to the Springfield-Branson National Airport, along with the number of airline passengers they served in 2016 for comparison.

AIRPORT AUTHORITY EXAMPLES Springfield, MO (952K)	
LARGER THAN SGF	SMALLER THAN SGF
Tulsa, OK (2,811K)	Chattanooga, TN (837K)
Des Moines, IA (2,484K)	Asheville, NC (827K)
Fayetteville, AR (1,338K)	Ft. Wayne, IN (728K)
Huntsville, AL (1,079K)	Peoria, IL (623K)
Jackson, MS (985K)	Lincoln, NE (330K)

From a review of studies done and discussions with officials from these communities, the move to authority governance appears driven by a changing national airport operating environment and desire to better equip their airport to face emerging industry challenges. In particular:

- Stagnate and uncertain federal funding for airport development that will require more emphasis on innovative financing and approaches to funding capital project needs.
- Airline consolidation and shareholder profit pressure will require airports to compete more aggressively to both retain existing and attract new air services.
- A shift in emphasis to non-aeronautical revenue sources will demand a more proactive approach to commercial development to reduce dependence on airline rents and fees.

- Increased competition between airports for funding, service, and development will require adoption of business focused strategies and policies that support flexibility.

To meet these challenges, airports are changing from their traditional transportation utility role to become high-performance organizations with governance focused on delivering high value to all stakeholders through the following objectives:

- Entrepreneurship to maximize the revenue generating potential of all assets.
- Innovation to develop funding strategies to replace the eroding value of federal programs.
- Partnerships to leverage funding, air service marketing, and development opportunities.
- Flexibility to respond rapidly to opportunities and changing circumstances.
- Competitiveness to aggressively go after passengers, air service, and funding.
- Leadership to attract and retain top airport management talent from a limited pool.

LESSONS LEARNED

Listed below are several general conclusions and lessons drawn from recent governance transitions at other airports:

- A change should be motivated by a strategic business case and structured to improve operations, not to solve an individual problem.
- Local political and business community support is a key determinant of airport success even for those with strong performance.
- Protection of employees should be a “condition” of proceeding with a change in governance.
- Decisions should seek a Win-Win outcome with benefits for all stakeholders.
- Any changes should be done with continuous improvement in mind and a desire to implement best practices.
- An organization must be proactive to remain competitive.

IV. SUMMARY OF MEETINGS

The Airport Task Force met seven times. All meetings were open to the public with agendas posted in advance and in compliance with Missouri Sunshine Law requirements. The Springfield City Clerk generated minutes that were reviewed and approved by the task force. The following are the dates, locations, and a summary of each meeting:

FIRST MEETING This meeting was held July 13, 2018, at the Airport. It was primarily an organizational meeting. Director of Aviation Brian Weiler gave an overview presentation on the airport, the recently completed Airport Business Plan, and the different types of airport governance structures. He reviewed the current Airport Board structure and contrasted a municipal versus authority structure, including the benefits and challenges of each. Assistant Director Kristy Bork gave an overview of the airport budget, including aeronautical versus non-aeronautical revenue, expenses, terminal bond debt, and future challenges. She explained the airport is an enterprise fund department, which means it receives no local tax support, generates its own revenue from user fees, and operates much like a private sector business.

SECOND MEETING This meeting was held August 10, 2018, at the Airport. The first speaker was Jim Johnson, Director of the FAA's Central Region Airports Division, which provides regulatory oversight and federal financial support for public use airport in Kansas, Nebraska, Iowa and Missouri. His office works with over 300 airports operated by cities, counties, state governments, and airport authorities. He clarified that FAA will not take a position for or against a governance change, but nationwide FAA has seen an increase in airports converting to authority governance. There is no impact on grant eligibility, but in general authorities seem to be able to make decisions and turn around grant paperwork more quickly. This can benefit authorities because of the tight time frames sometimes required by end of fiscal year discretionary grants.

The second speaker was Kevin Foley, Executive Director of the Des Moines International Airport (DSM), which converted from a city department to authority in 2011. His airport is now governed by a five member board with staggered terms that are appointed by the Des Moines City Council. Mr. Foley discussed the benefits

he has seen under the authority governance, including quicker decisions, easier to attract and retain employees, less local politics, and a greater aviation business focus. Their financial position has improved and they are planning for a new terminal. The airport has maintained positive working relationships with stakeholders and he feels their region has benefited from the change in governance to an Airport Authority.

THIRD MEETING This meeting was held August 27, 2018, at the Springfield Chamber. The first presentation was from the Chamber given by Matt Morrow, President, and Ryan Mooney, Senior VP of Economic Development. They provided an overview on local economic conditions and discussed the importance of quality airline service. They highlighted the recent partnership with the airport that led to new American Airlines service to Charlotte, NC, and the creation of a local air service development fund. The Chamber is focusing efforts on quality of life initiatives and community amenities that will make Springfield a destination of choice. Mr. Mooney showed examples of Chamber talent attraction videos and discussed the airport as a major economic hub, including Expedia which now employees over 1,000 people. Anything that allows the airport to be more business-like and entrepreneurial would be good for the region.

The third speaker was Mark VanLoh, CEO of the Tulsa International Airport, who is a 32 year aviation veteran that has held airport director positions at Kansas City, Toledo, and Cleveland. He provided an overview of the process used in Tulsa to convert to authority governance in 2013. He discussed his experience and the frustration that can sometimes occur when needed airport projects and decisions are caught up in local politics or bureaucratic delays. His opinion was for airports to be successful in today's dynamic aviation industry they need the ability to attract top talent, react quickly, and have a board focused solely on moving the airport forward. He also stressed the importance of being prepared for the increased competition of obtaining air service and significant private business investment.

FOURTH MEETING This meeting was held September 7, 2018, at the Airport. The first speaker was Amy Ludwig, MoDOT Administrator of Aviation, who oversees state involvement for Missouri airports and grant funding from the State Aviation Trust Fund. She clarified there would be no impact on grant eligibility as long as the airport remains a political subdivision. The second presentation was from Tracy Kimberlin, President of the Convention and Visitors Bureau, who gave an overview

of travel industry trends in the Springfield region. He discussed the need for improved convention center space and to keep airfares as competitive as possible to compete for conventions. They have no strong opinion on airport governance.

The third speaker was Kent Boyd, who handles air service development for the Airport. He provided an overview of the airline industry, the Springfield market, and the process to attract and retain airline service. Airports are not allowed to “buy” service and routes must be profitable and make sense in the airline’s network. Airports can waive rents and fees for a period of time to incentivize new service, which is done at our airport, but the goal is to go after service that will be self-sustaining and profitable for the airline. Overall the local airline market is doing well and has experienced strong growth in recent years.

FIFTH MEETING This meeting was held October 1, 2018, at the Northwest Arkansas Regional Airport in Bentonville, Arkansas. The task force met with board and staff leadership of the airport, which included the board chair, CEO, airport director, and outside legal counsel. The Mayor of Fayetteville also spoke, which is one of the six political sub-divisions that appoint members to the airport authority board. The authority was formed in 1990 and construction of this airport was completed in 1998. They emphasized this structure has served their region well by empowering representatives to make decisions focusing on long-term goals, not local election cycles, and a side benefit is the authority has been an important bridge to regional cooperation.

SIXTH MEETING This meeting was held October 29, 2018, at the Airport. The first speaker was Jeff Kempker with Missouri Local Government Employee Retirement System (LAGERS). He provided an overview of the current defined benefit pension plan, how it is ranked as one of the best in the nation, and options to keep current airport employees covered. The second speaker was Jack Holland with George K Baum & Company, who has decades of experience in bond financing of public infrastructure projects. He reviewed the airport’s current bond debt on the mid-field terminal and car rental facilities, and discussed access to financing to pay for airport future capital needs. The third speaker was retired former City Attorney Howard Wright, who has extensive experience and knowledge about local governance issues, including research he has done on airport governance options. He outlined the authority of local governments to create interlocal governmental cooperative agreements.

SEVENTH MEETING This meeting was held November 19, 2018, at the Airport. There were no guest speakers and this was a working meeting to finalize the report to City Council.

V. SUMMARY OF MEETING TAKEAWAYS

The Airport Task Force took input during several meetings from a wide variety of Airport stakeholders and there was considerable open discussion on topics. At the end of each meeting, task force members were asked to provide their individual main takeaways, which are included within the approved minutes of each meeting. The following is a summary of these individual meeting takeaways from task force members:

- The Airport is a city within a city that is the front door and first impression to our community.
- Airport has positive and productive relationships with varied stakeholders like Chamber, CVB, MoDOT, and FAA. It does not appear a governance structure change would affect these relationships.
- ATF meetings are very educational and we learn from each meeting.
- Current Airport Board structure already operates much like an Airport Authority model.
- Providing additional authority and flexibility will help the Airport “go to the next level”, and enable it to function as a more effective platform for future growth.
- The Airport is managed well and task force work is not to correct problems, rather it is to be proactive and help it go to the next level in an ever-changing industry.
- The airport is a strong engine for Springfield, but it needs more independence to run like a business.
- The City should look at an airport governance change as something which will allow the community to be more competitive.
- Staffing is a definite challenge, both in pay to attract / retain talent and separation from the municipal barriers to upgrade or reclassify positions.
- Airport currently enjoys a very positive political support structure from City Council, but that could be negatively impacted by future elections, which could harm airport growth.

- Should maximize non-traditional development opportunities to increase revenue and keep airline fees low.
- The City of Springfield and its Airport Board have functioned as an effective owner and operator of the Airport.
- Airport has strong entrepreneurial potential, but must balance benefits and risks.
- Need to address any negative impressions the community could have regarding this process.
- Concern if Airport is converted to authority governance that board members continue to be appointed by City Council, not elected, to avoid problems seen at other airports.

VI. CONSIDERATIONS AND IMPACTS

The following are summaries of general topics researched by the task force:

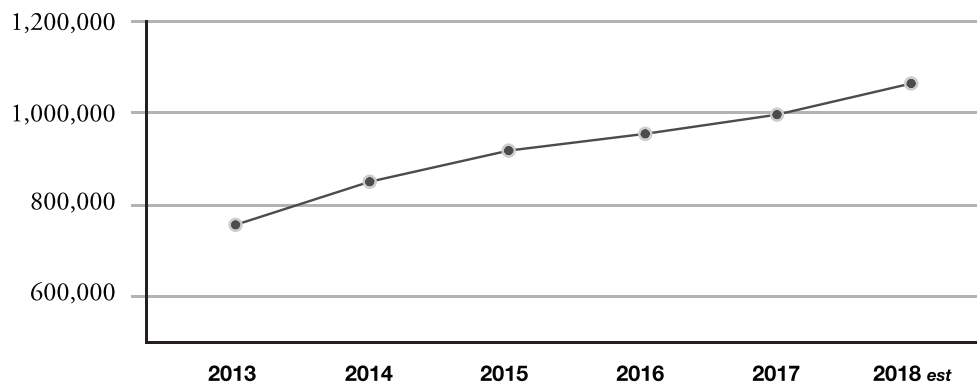
FEDERAL / STATE GRANT FUNDING - The task force heard testimony from the two governmental entities that award aviation grant funding, which are the FAA Central Region Airports Division and MoDOT Aviation Section. Federal grants come from the Federal Aviation Trust Funds, which derives revenue from an airline ticket tax and other aviation user fees. State grants come from the State Aviation Trust Fund, which derives revenue from aviation fuel taxes. Grants from these sources are an important part of how airports maintain and improve critical infrastructure, such as airfield pavements (runways and taxiways), airport lighting systems, navigational aids, and specialized equipment (snow blowers / plows and aircraft rescue / firefighting trucks). Both the FAA and MoDOT indicated they work with various types of airport sponsors and that a change in governance structure should not impact grant funding eligibility provided the airport remains a political subdivision of the State of Missouri and is able to comply with required grant assurances. There is no governance model being considered that would fall outside of these requirements.

AIRLINE SERVICE - The task force heard testimony from multiple stakeholders on the importance of quality airline service to the regional economy and quality of life for citizens. The Airport currently has direct service to 13 destinations from four

airline partners, including an average 30 daily flights to six major airline hubs. This provides excellent access to the national air transportation system. The Airport has seen strong passenger growth in recent years as airlines have gone to larger aircraft, increased frequency, and added new service to Charlotte, Houston, and Fort Walton Beach. As shown in the chart, the total annual passengers have grown over 40% from 755,000 in 2013 to an estimated 1,065,000 in 2018, which is well above the industry average.

This growth is attributed to a strong regional economy in Southwest Missouri and favorable conditions for airlines; which include a low cost structure for airlines to operate, strong consumer demand, and a relatively long drive time to larger airports like Kansas City, St. Louis, and Tulsa.

SGF PASSENGER GROWTH
2013-2018 *est*



There was considerable discussion about possible impacts to airline service from a change in governance. All stakeholders expressed a desire for more flight options and lower airfares, which is true at virtually all airports.

The airline industry has gone through a period of dramatic change in the last decade. Bankruptcies and mergers have reduced the number of airlines to the point that 85% of seats in the U.S. are controlled by only four airlines, which are American, Delta, United, and Southwest. This consolidation and a reduction in overall seat capacity to improve profitability have caused cuts in service to many communities. As a result, airports are becoming more aggressive with air service development efforts

and must seek alternative revenues sources to keep rents and charges to airlines as low as possible. This is a primary reason that communities mention for converting to authority governance to help their airport face these industry challenges.

AIRPORT EMPLOYEES - There are approximately 100 full-time employees that work at the airport in a variety of roles, including airfield / building / grounds / equipment maintenance, airport police, general aviation services, aircraft rescue / firefighting, custodian, and administration. The task force heard comments from stakeholders about the high quality of airport employees and the need to attract and retain the best employees possible. The airport has gone over ten years with no discrepancies noted in their annual FAA safety certification inspections, the terminal has consistently received high marks for cleanliness, and there is a strong focus on customer service.

The airport director testified about some of the challenges of managing an enterprise fund department that is run more like a business within general city policies and procedures that are more geared toward traditional tax funded departments. These include high turnover and training expense with certain positions, such as custodial and maintenance, because city job classifications will not allow the airport to pay a more competitive wage. He also expressed a desire to include performance based incentives and concerns about the airport's ability in the future to attract the best candidates to fill key positions in a very competitive talent environment.

Employees are considered city employees and receive the same benefits package as all city employees, including enrollment in Missouri Local Government Retirement System (LAGERS) and health care options. The major concern expressed by employees during the Airport Task Force process was that they maintain as good of a benefit structure. The task force heard similar concerns from other airports that converted to authority governance. They all adopted a "do no harm" approach to benefits for existing employees. A representative from LAGERS testified that there were options to keep employees within their covered retirement program whether the airports stayed as part of the City or became a separate entity like an Airport Authority, provided the entity remained a political subdivision.

FINANCIAL AND ASSET OWNERSHIP - The task force heard an overview presentation on the airport's budget. This included that the airport generates

sufficient revenue from user fees and rents to cover the cost of operation, which rates are reviewed regularly and increased if needed by the Airport Board. The airport also maintains reserve accounts for additional bond debt coverage, to cover unforeseen capital expenses, and to provide the local match for any large state / federal infrastructure grants that are received. Within the last three years, the airport has completed a new business plan, most major agreements have been renegotiated to benefit the airport, and the Airport Board adopted a set of conservative financial goals.

The airport currently has approximately \$60 million in outstanding debt from construction of the new midfield terminal and car rental facilities. While ultimately backed by the City, these bonds are in good standing with payments being made with airport funds and were recently refinanced to a lower interest rate. This was confirmed from testimony from the City's investment banker, who also discussed the airport's ability to access financial capital for future infrastructure needs. He indicated bonds markets regularly finance projects with airport authorities and there should be no difficulty obtaining financing based on the airport strong financial position and the overall health of the airline industry.

The task force heard testimony for airports that converted from a municipal department to an airport authority. In some cases, airport land was deeded over to the newly created airport authority. In others, ownership was retained by the city and leased to the airport authority under a long-term agreement. Since laws and requirements differ depending on the state, there is no clear benefit to either approach and it is recommended this decision be made at a later date with additional research.

LEGAL AND LEGISLATIVE - The task force is made up from a diverse cross section of individuals representing elected officials, volunteer board members, at-large citizens, economic development, businesses, tourism, and education. They were charged with researching at a high level issues associated with converting to an airport authority governance and then provide general recommendations to City Council based on that research. Providing specific legal or legislative direction goes beyond the scope of this task force. However, the task force heard testimony from a retired former city attorney about creating an airport authority through an interlocal governmental cooperative agreement between the City of Springfield

and the Airport Board. This concept deserves further consideration, but should be reviewed in greater detail and verified by qualified legal counsel. From testimony of other airports, most conversions to an airport authority were done through a change in state statute or use of existing state statute authority. A change to city charter may also be required, but this should also be reviewed by qualified legal counsel.

SPRINGFIELD CITIZENS - There is always some uncertainty with any proposed change and this issue is no exception. The idea of changing the governance structure of the Airport has been discussed informally for over a decade, but became more serious after being recommended in a recently completed business plan and a growing national trend toward this governance at other similar airports. This task force was established by City Council to “get the right people in the room” to review this issue from all sides as see if a change would benefit our Airport. Based on the research and overwhelming positive input from airports and communities that have made this change, it strongly supports a governance change. It would allow the Airport to act with greater independence, be more entrepreneurial, and have greater flexibility to respond to the unique and dynamic aviation industry.

Citizens of Springfield and the surrounding regions have made it clear that what they desire are more airline route choices, competitive airfares, modern facilities, and an airport that supports regional economic development and a high quality of life. These are things demanded of all airports, but fewer airlines and growing industry challenges are causing some communities to actually lose air service. There is no guarantee a change will bring more airlines, new routes, or cheaper airfares to Springfield. However, the research supports a change will better allow our Airport to face challenges and continue to be successful to the benefit of our citizens.

VII. REPORT OF FINDINGS

The Airport Task Force makes the following report of findings:

1. The Springfield-Branson National Airport is an important economic and transportation asset for our region.
2. The airport operates like a business in that it receives no local tax support, is self-sufficient, and must generate revenue to cover expenses.
3. The board, management, and staff of the airport have done a good job taking the airport to the point that it is today.

4. The airport's status as a city department that must follow general city policies and requirements reduces its ability to adapt and respond to today's dynamic and ever changing aviation industry.
5. The current board structure functions well, but a growing number of cities have changed to an authority governance to allow their airport to streamline decision making, reduce bureaucracy / political involvement, be more entrepreneurial, and provide leadership solely focused on making sound business decisions to advance the airport.

VIII. RECOMMENDATIONS

The Airport Task Force makes the following recommendations to City Council:

1. That steps be taken to migrate the governance structure of the Springfield-Branson National Airport from a City department to a standalone Regional Airport Authority.
2. That during such conversion process, existing airport employees be recognized as a significant asset and experience no reduction in pay or benefits as a result of this change.
3. That the City retain the current process to appoint Airport Board members, but changes be made to allow greater regional representation.
4. That an Airport Authority Implementation Committee be established and made up of qualified professionals to recommend specific steps needed to complete this process.