

AIRPORT GOVERNANCE STRUCTURE AND FUNDING

Development of a governance recommendation was not included in the services to be provided by Sixel Consulting Group. Rather, a technical committee to the Task Force was established to develop a governance recommendation. Members represented Champaign County, Champaign Urbana Mass Transit District, City of Champaign, Village of Savoy and the University.

The current airport governance as part of the University of Illinois-Urbana-Champaign is not a common approach to operating a commercial airport. Neither does it provide for the participation of the broader community, even though the airport serves an area broader than Champaign County. Originally, the airport may have served primarily an educational mission. However, currently it fulfills a much broader mission and is an important component of the local economy. The University's own study acknowledged that operating a commercial airport is not a primary mission of the University, nor are they currently organized and staffed to carry out that mission in an efficient and effective manner.

According to Legal Research Digest 7 published by the Airport Cooperative Research Program in 2009, of over 4,000 airports in the country, "city ownership accounts for 38 percent, followed by regional airports at 25 percent, single county at 17 percent, and multi-jurisdictional at 9 percent."

Sixel Consulting Group completed a study for the Economic Development Corporation in 2011 titled "Airport Governance Structure Review of University of Illinois Willard Airport" (http://www.flycmi.com/UserFiles/Servers/Server_1000970/file/documents/taskforce/CMIGovernanceStudy11-11-FINAL.pdf). That report noted in Illinois there are 11 airports with scheduled air service, 6 with airport authorities, 3 municipal airports, one park district airport and the University of Illinois airport.

Additional research was conducted by legal counsel for the University, Champaign County, City of Champaign and the Champaign Urbana Mass Transit District.

Principles for Evaluating Governance Models: For the purpose of evaluating governance proposals, the following principles were identified:

1. Maintains FAA Certification and does not require reimbursement of any Federal funds.
2. Improves the airport's financial situation either through new revenue generation and/or improved operational efficiency.
3. Prioritizes options that do not create a new unit of government.
4. Prioritizes options that minimize financial risk to participants.
5. Provides for open and transparent, but efficient decision making and strong oversight and accountability.
6. Is equipped to implement the strategic business plan for the airport.
7. Has existing legal structure or one that can be provided for through legislative changes.
8. Is feasible from a political/policy perspective.
9. Reflects participation with governance is commensurate with financial commitment.

Ownership of the airport was not seen to be a major factor in determining the most favorable governance model. That is, any governance model can work whether the University owns the airport or conveys it in some fashion to a new entity. University ownership, however, does make

any changes in governance much more complicated and certain statutory and regulatory compliance requirements, e.g. procurement, would continue with University ownership. Transferring the airport and land also has some complications as it would require FAA and potentially State of Illinois approval.

Alternative Governance Models: In Illinois, several governance options exist as provided by State law, including: University of Illinois, mass transit district, airport authority, County airport, municipality, park district and port authority. In addition, an airport governance model may be created through intergovernmental agreement, tailored to the needs of the local community. Legal authority includes the Airport Authorities Act, the Joint Airports Act, the County Airport Law of 1943, the General County Airport and Landing Field Act, the County Airports Act, the Mass Transit District Act and the Intergovernmental Cooperation Act.

Alternative Funding Sources: Given the current financial condition of the airport, identifying an alternative source of funding is important for moving forward with implementing the strategic plan and the future sustainability of the airport. All the governance options authorized by statute rely on property tax. Only through a change in State law or intergovernmental agreement could an alternative revenue source be utilized. Given the already heavy reliance on property tax in Illinois and the consideration of other factors that should be weighed in revenue decisions, other funding sources should be considered, including: hotel-motel tax, food and beverage tax, gaming fee revenue, and rental car occupation tax.

Suggested criteria for use in evaluating alternative revenue sources were drawn from the City of Champaign Financial Policies:

- Community acceptability;
- Competitiveness, the revenue or tax burden relative to neighboring communities;
- Diversity, the balance of revenue sources that can withstand changes in the business cycle;
- Efficiency, the cost of administering a tax or fee should bear a reasonable relation to revenues collected, and any new tax or fee should have minimal effect on private economic decisions;
- Fairness, the distribution of the City’s revenue burden as measured by ability to pay, the benefits received or the community’s definition of the resident’s fair share of the revenue burden.

Following are revenue estimates for these sources of revenue, which are currently received and budgeted. Note that as home rule municipalities, Champaign and Urbana have considerable discretion with regard to revenue alternatives, and can raise those rates through City Council action. Additional legislation would be required for some options for increasing revenue for Champaign County and Savoy.

| | Hotel/Motel Tax | | Food & Beverage Tax | | Auto Rental Tax | | Gaming Fees |
|-------------------|-----------------|-----------------------|---------------------|-----------------------|-----------------|--------------------|---------------------|
| | Rate | Annual Revenue | Rate | Annual Revenue | Rate | Annual Revenue | Annual Revenue |
| City of Champaign | 5% | \$1,809,471.50 | 0.5% | \$1,480,000.00 | 1.00% | \$37,538.00 | \$356,793.00 |
| City of Urbana | 6% | \$1,000,000.00 | 0.5% | \$341,607.00 | N/A | N/A | \$122,823.00 |
| Village of Savoy | 5% | \$35,000.00 | N/A | N/A | N/A | N/A | \$34,302.00 |
| County | 5% | \$30,207.00 | N/A | N/A | 1.00% | \$32,356.00 | \$45,582.00 |
| | | | | | | | |
| TOTALS | | \$2,874,678.50 | | \$1,821,607.00 | | \$69,894.00 | \$559,500.00 |

Review of Governance Options: Following is a review and analysis of the top models for governance considered by the Technical Committee:

1. **University.** Under this approach, the University would continue its governance role through the Chancellor's Office. Management of the airport could be provided through either hiring an airport CEO or contracting with a private management firm. Very few Universities operate a commercial airport (Penn State University and Texas A&M are two examples), but none in Illinois other than the University of Illinois.

Advantages

- Strong resources to support the airport (but needs an airport CEO)
- Basic structure is in place and can move forward to make improvements relatively quickly
- Strong commitment to make airport improvements
- A subsidiary advisory board could be created from the community to focus on the airport
- FAA status would be maintained
- Minimizes any legal issues

Disadvantages

- Does not include the community in full partnership
- Maintains some burdensome State administrative requirements
- Higher costs may be associated with the University
- No additional external funding is provided

2. **Champaign-Urbana Mass Transit District (CUMTD).** Illinois state law authorizes the MTD to own, operate, or manage airports, and the University could contract with them to operate the airport through an intergovernmental agreement. No Mass Transit Districts in Illinois operate an airport.

Advantages

- Primary mission is transportation and this could shorten the learning curve
- A subsidiary advisory board could be created to focus on the airport and the airport and its budget would likely be maintained separately
- Potentially could be less expensive

Disadvantages

- Main focus of CUMTD would continue to be ground transportation
- Airport is not currently within CUMTD boundaries
- Only potential new revenue would be a new property tax, and voter approval would be required
- Does not include other local government partners
- Ownership would need to be decided, and if the University retains ownership, certain statutory and regulatory requirements would continue to apply
- MTD would take on additional liability

3. **County Airport.** Illinois state law authorizes the County to own, operate and manage airports. A County airport would operate under a board appointed by the County Board and would have sufficient authority to operate an airport successfully. A few counties in Illinois operate small airports, the largest being DuPage County.

Advantages

- County is the largest jurisdiction geographically
- Airport is located in the County
- A subsidiary board would be created to oversee the airport and the airport and its budget would likely be maintained separately
- Potentially could be less expensive

Disadvantages

- County Board has many other responsibilities
- Only potential new revenue would be a new property tax, and voter approval would be required
- Would be a totally new operation for the County
- Does not include other local government partners
- Ownership would need to be decided, and if the University retains ownership, certain statutory and regulatory requirements would apply
- County would take on additional liability

4. **Airport Authority.** Illinois state law authorizes the creation of an airport authority as a separate unit of government with the express purpose of operating an airport. It could eventually assume all responsibility for the airport or operate through some type of agreement with the University. Airport authorities are the predominant form of governance for airports in Illinois, including Greater Peoria, Quad Cities, Rockford, Springfield and Bloomington-Normal.

Advantages

- The authority would have its own board of directors to focus on the operation of the airport
- The board would typically be appointed by local elected officials providing some accountability
- The authority would encompass the entire geographical area of the county
- Relative independence of decision making would allow operation more like a business
- Financial and legal liability would be assumed by the authority
- Potentially could be less expensive

Disadvantages

- Voter approval or legislative action will be needed for the establishment of an authority
- Statutory authority currently allows only for property tax support, and voter approval would be required
- Creates another unit of government
- Uncertainty whether there is a legal requirement to own the airport, and State approval may be needed to transfer the land
- University's Sponsor Assurances may need to be assumed by the authority, requiring FAA approval

It is possible that specific concerns about whether the statutory framework fits the unique situation with the University airport might be addressed through legislative changes or by developing a similar governance model through intergovernmental agreement with Champaign, Urbana, Savoy and Champaign County.

5. **Intergovernmental Agreement to support the Airport.** Under this model an intergovernmental agreement would be developed to enhance financial support for airport operations and community engagement in the airport. This could serve as a both a short term approach to allow changes to be made quickly, and a long term approach which might create a model similar to an airport authority but with more local control.

Advantages

- Structure could mirror an airport authority, but be tailored to the specific needs and interests of the University and community
- A board of directors may be created consisting of representatives of entities helping to fund the airport
- Cost of operation beyond airport revenue would be shared by the parties to the agreement

- Funding could be in the form of general support, or targeted to specific activities, such as marketing, economic development or creation of an escrow fund for the attraction of new airline routes
- Each party could determine the source of funding that works best for them

Disadvantages

- Reaching agreement between the local units of government could be difficult and time consuming
- Not all governmental units have the same legal capability to enact new revenue sources
- Determining the approach to include the private sector would take some time

Recommendation for the Long Term. Governance by an airport authority seems the best approach for the long term. It is recommended that work begin right away on the long term solution, with the idea that it should be implemented as soon as possible, but recognizing it will take some time to put it in place. The current statute does not totally meet the unique needs of the airport. Ownership, board composition, funding source, legal questions and the possible need for State and/or Federal legislation related to University ownership all need further review. As an alternative to State legislative action, an intergovernmental agreement may be developed which accomplishes much of what legislative action can.

Recommendation for the Short Term. It is recognized that there is a need to move forward with strategies for near term improvements as well as for funding support. Therefore, it is recommended that the community pursue the following strategies for the next five years or until the long term structure is in place.

Governance –Maintain the University as the governing entity. Enhance the decision making authority of the Airport CEO position and task this person with taking an entrepreneurial approach to the operation. This position should be given the responsibility and authority to pursue air service improvements and marketing the airport, as well as other management tasks within the University administrative structure. The position should report directly to the Office of the Chancellor. It is also critical that a community affairs/marketing staff position be established and tasked with implementing a branding, marketing and community engagement campaign. The private contractor alternative can be further evaluated to determine the feasibility for that approach. In addition a Community Advisory Committee should be created to advise the Airport CEO. The Committee should be representative of the public and private stakeholders of the airport and members should possess a diversity of important skills in support of the airport mission.

Funding – The community and the University should seek an intergovernmental agreement for financial support of the airport. Those who actively participate in funding pursuant to the Agreement should be represented on the Community Advisory Committee. It was further noted that for the local government partners, it would be best if this funding came from a tax source other than property tax, such as an increase in the hotel-motel tax. Following is an example of the local government funding commitments based on a per capita allocation to raise \$ 250,000. Private funding and in-kind contributions would be additional.

| | 2013 Population Estimate | \$250,000 Cost Per Capita |
|---------------------|--------------------------------|------------------------------|
| Total County | 204,897 | \$1.22 |
| Champaign | 83,424 | \$101,787.73 |
| Urbana | 41,752 | \$50,942.67 |
| Savoy | 7,681 | \$9,371.78 |
| County | 72,040 | \$87,897.82 |
| | | |
| TOTAL | 204,897 | \$250,000.00 |