

**GARY/CHICAGO INTERNATIONAL AIRPORT**

**PUBLIC PRIVATE PARTNERSHIP**

**AD HOC COMMITTEE REPORT**

**A FLIGHT PLAN TO THE FUTURE**

**APRIL 2013**

**Gary/Chicago International Airport – Public Private Partnership Ad Hoc Committee Report**

**A Flight Plan to the Future**

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## **From the Committee:**

As the community of Gary and the Northwest Indiana region continue to define and embrace the future, we are honored to participate in an initiative to help shape a “Flight Plan to the Future” for the Gary/Chicago International Airport.

Working alongside an extremely talented team of board members, community, civic and business leaders, we are committed to the continual improvement and development of our region and the City of Gary. The seven-member committee was charged with reviewing, assessing and making a recommendation of the viability of implementing a public-private partnership model to manage and develop the Gary/Chicago International Airport.

With the support, guidance and counsel of many industry experts, policymakers and community leaders, the committee researched, analyzed, questioned and evaluated a range of options from maintaining the current status quo to a full privatization of the Gary/Chicago International Airport. The committee carefully considered the strengths and weaknesses of each option, tailored to fit the needs of the Airport’s current status and future growth potential. Working within the 60-day timeframe allotted by the board, the committee conducted its work through a series of public meetings in open dialogue to ensure a transparent process. The committee also worked in close coordination with the Airport Authority and City of Gary to establish a landing page on their websites with resources and information on the committee’s progress to provide a forum for public comments and input.

After the initial evaluation was complete, the Ad Hoc committee recommends that the Gary/Chicago Airport Authority (Authority) and the City of Gary would best maximize their assets with the innovative management and capital investment capacity of the private sector to advance the region’s infrastructure and economic goals. We recommend that the Authority formally explore a Public Private Partnership (P3) that does not privatize the airport but rather provides the private sector’s innovation and capital access in close partnership with the public sector. We further recommend that the Ad Hoc committee be authorized to seek proposals from the market through a Request for Qualifications and Proposals for a P3 that would define a workable framework for a P3 model for Gary and to report its findings for action by the Authority.

Throughout this process, the committee challenged many key areas including what defines success and the intended role of the Gary/Chicago International Airport. Gary Mayor Karen Freeman-Wilson provided the committee with a definition establishing that success would provide a vibrant and viable airport driving capital investment, economic development and job creation within the region. The airport’s role would effectively and efficiently support the greater region’s transportation infrastructure needs now and into the future. Using these responses as well as the information presented, the committee formulated its recommendation for creating a tailored and best-in-class public-private partnership model for Gary/Chicago International Airport.

With sincere respect and gratitude the Ad Hoc committee thanks the Mayor and Airport Authority Board for their confidence and trust in carrying out the charge to recommend the best public private partnership model possible for the Gary/Chicago International Airport.

Sincerely the Ad Hoc committee members,

David Bochnowski, Chair

Cornell Collins

Carrie Hightman

Marion Johnson

Bo Kemp

Mamon Powers, Jr.

Harley Snyder

**Acknowledgements:**

The Gary/Chicago International Airport Ad Hoc committee formally thanks and acknowledges its members for volunteering their time and efforts in preparing the recommendations for the public private partnership model. The members include:

- Mr. Cornell Collins, Attorney / GCIAA Board member
- Mrs. Carrie Hightman, Executive Vice President and Chief Legal Officer, NiSource Inc.
- Mr. Marion Johnson, Pastor Mt. Moriah Baptist Church / Vice President GCIAA Board
- Mr. Bo Kemp, Chief Executive Officer, J Gari and Assoc. /Advisor to Mayor Freeman-Wilson
- Mr. Mamon Powers, Jr., President and Chief Executive Officer, Powers and Sons Construction Company
- Mr. Harley Snyder, Chief Executive Officer, HSC, Inc.
- Mr. David Bochnowski, President Peoples Bank / GCIAA Board member/ Chair Ad Hoc Committee

Additional acknowledgement and expression of appreciation go to:

- The Honorable Karen Freeman-Wilson, Mayor City of Gary
- Gary/Chicago International Airport Authority Board and management team
- Mr. Kevin Willis, the Federal Aviation Administration
- City of Gary management team members

## **Overview:**

The City of Gary along with the Gary/Chicago International Airport Authority recently established a joint intergovernmental agreement to explore innovative ways to increase value at the Gary/Chicago International Airport and drive economic development and investment in the surrounding area. This agreement brings together common goals, objectives and resources to help solidify the region's competitiveness in a 21<sup>st</sup> century global economy.

For far too long, Chicago's third airport has been an underutilized asset and has not reached its full potential. To continue operating in a business-as-usual environment, the Gary/Chicago International Airport cannot fully contribute to the economic growth of the region. In an effort to maximize its economic potential, the agreement will pursue private sector experience to provide a new perspective on the operations, management, and ongoing development of the Airport and create investment and economic development in the immediate area.

As the agreement's first activity, it has enlisted the support and guidance of an Ad Hoc committee to assist in the development of a public private partnership model to manage and develop the Gary/Chicago International Airport. The Ad Hoc committee has been asked to review other public private partnership models at United States airports and provide a recommended model and approach to be used by the Partnership. The ad hoc committee has been asked to complete its work within 60 days and recommend the best possible framework for a public private partnership model for the Gary /Chicago International Airport.

The intent and objective of the joint agreement would be to employ both government and business perspectives to leverage the value of the Airport as an economic driver for business growth and development. Attracting private sector innovation, investment and management know how will be key to future growth opportunities for Gary and the region. The joint agreement would seek to engage private interest that embraces a long-term growth strategy that serves in the best interest of residents and taxpayers throughout the region.

This joint agreement would not procure a privatization of the Airport, but rather seek a strategic private sector partner to help provide the management and operational expertise to revitalize one of the region's most underutilized assets. Most importantly, the joint agreement would be responsible for a transparent and mutually beneficial process to ensure the public's interest is being protected.

## **Why Gary/Chicago Airport?**

Gary/Chicago International Airport is less than 30 minutes from the heart of the Tri-State region -- the City of Chicago. As the City's third official Airport, it is currently in the process of completing a massive runway extension project which will be finished later this year. The airport is connected directly to Chicago's transportation network through freight, interstate and mass transit integration. These recent investments help position the Airport as an important economic engine to enhance the region's existing assets and allow the region to remain economically competitive nationally as well as internationally.

According to the Gary/Chicago International's 2010 Airport Strategic Business Plan, "the City of Gary has a unique opportunity to demonstrate boldness, initiative and political vision through the repositioning of the Airport's asset. In so doing, the leadership can become a powerful advocate for regional growth and an unquestionable activist for regional prosperity." The Plan further recommends that the Airport has a

viable niche and should pursue low frequency scheduled passenger carrier and air charter operations in supporting the greater regional growth strategy.

### **Why now?**

Today's global economy reaches beyond political and geographic borders and is instead dependent on interlocking local and regional economies. Cities and counties need comprehensive collaboration to leverage resources, assets and planning efforts to advance economically competitive agendas.

Chicago's business community already reaches across borders to strengthen ties throughout the greater region. This newly formalized process is bringing key stakeholders and decision makers together and must continue to identify ways to solidify the Tri-State region's place in the global economy.

Gary/Chicago International Airport is an important part of any regional solution and will be a key part of the effort to unify a regional transportation network and expand capacity and service within the existing infrastructure. The time is now. The status quo will no longer be enough.

### **Assessment Process:**

In order to effectively evaluate the development of a public private partnership model, the Board, in conjunction with the Mayor, determined a seven-member Ad Hoc committee should be established to study, evaluate and recommend the potential benefits of pursuing a customized public private partnership model for Gary/Chicago International Airport. The committee members were appointed by the Gary/Chicago International Airport Authority's chairman and Mayor Karen Freeman-Wilson, City of Gary. In the spirit of providing a greater benefit to the community and region, the two public entities agreed to work together in this venture.

The assessment included gathering information from other U.S. airports currently using variations of public private partnership models in the management and /or development of local and regional airports. The committee reviewed and explored the legal structure, operational performance standards and expected outcomes with both airport owners/sponsors and private operators. Through this exploratory process, the committee learned that these models ranged from simple management arrangements to very complex management and investment relationships.

Validation of the information was accomplished through the committee's meeting with the Federal Aviation Administration's (FAA's) manager of airport compliance. As a result of this meeting, the committee was able to validate federal compliance requirements, the level of federal involvement through the process, and the timing for federal review of the proposed public-private partnership arrangement. Additionally, the committee learned that according to the FAA each public private model is uniquely different and structured based on the needs and goals of the communities that employ the use of these models.

In the final process of the assessment, the committee engaged in a discussion with the financial and investment community. The committee's assessment resulted in establishing an understanding of key components and behaviors that provide for successful public-private arrangements. The committee was advised by the investment industry that political will and support of the local elected body is most critical. Other areas that were referenced for consideration include:

- 1) Flexibility in development of the arrangement between the private investment entity and the public entity,
- 2) Length of time (the term) of the arrangement,
- 3) The management of expectation of an investment schedule,
- 4) The structure and nature of the partnership (shared vision), and
- 5) Timing to market.

**Key P3 Pillars:**

The establishment of key pillars to support the structuring of the best possible public-private partnership model for the Gary/Chicago International Airport is essential.

The following Key P3 Pillars will help ensure that all participating partners understand and agree in principle to the most critical elements in an arrangement with the Airport Authority/City of Gary.

- Airport ownership/sponsorship shall remain with the Gary/Chicago International Airport Authority.
- Robust job creation and economic development in the region.
- Long-term, strategic community regional partnership.
- Ability and willingness to maximize capital investment dollars into the airport's growth, and development of property adjacent to airport.
- Development of a sustainable Gary/Chicago International Airport – environmentally, economically and socially.

**Expected P3 Outcomes:**

To effectively measure the success of both the process and the implementation of the public-private arrangement to the economic well-being and growth of the region, the committee established certain expected outcomes:

- Employment of local residents,
- Creation of a strong community partnership to share in a long-term vision for the region,
- Establishment of a highly competent, professional and innovative management team capable of managing and developing the airport, and any affiliated land,
- Capital investments into public infrastructure and local development,
- Financial self-sufficiency of the airport,

## **Recommendations:**

The following is a proposed framework / structure for the development of a public private-partnership model for the Gary/Chicago International Airport Authority.

### **Recommendation 1: Formalize intergovernmental agreement.**

Continue to foster and formalize the recent intergovernmental agreement between the City of Gary and the airport authority to collaborate more effectively for the common purpose of developing the airport and the surrounding Indiana-Illinois region.

The Airport Authority and the City of Gary (the Public Partnership) can provide greater strength and success to a public-private partnership by continuing an effective relationship between the two entities. With this co-management structure, the City and the Authority will be able to proceed under a unified and coordinated vision, with better integration of land use and supportive developments, and greater opportunities for economic success.

In order to do so, the Airport Authority and the City of Gary should formalize a joint agreement that defines roles and expectations can be clearly defined before entering into a public private partnership arrangement with the private sector. The joint agreement will also help determine revenue sharing parameters and circumstances early in the process.

### **Recommendation 2: Establish the basic objectives for the public private partnership.**

The Partnership will employ an open and transparent process to engage a highly qualified private entity with the resources and expertise to realize the Airport's vision. The private entity must provide the public sector with an innovative solution that grows operations, enhances the management of the Airport structure, maximizes the assets, and can implement cost-effective solutions to revitalize and reinvigorate activity and economic development at the Airport.

With the coordinated intra-local agreement between the Airport and the City established earlier, this public partnership will be able to ensure the interests of the Airport and the residents of Gary are represented and that resources can be maximized across the partnership.

Critical to the establishment of the basic objectives are well-defined performance standards. The primary operating standards will be developed and more detailed through a negotiated process with a private entity.

### **Recommendation 3: Maintain current ownership (sponsorship) and governances of the Airport Authority.**

By maintaining the current ownership/airport sponsorship and governances, the Airport Authority will retain oversight and public control of the airport. Maintaining ownership is necessary to maximize options at the airport, including attracting government resources not available to the private sector. It also maximizes the value of the public private partnership to leverage additional capital opportunities when public dollars are backed by private resources.

Secondly, maintaining ownership will enable the Airport Authority to continue to participate in the federal airport improvement programs (AIP), Passenger Facility Charges (PFC) and use tax-exempt revenue bonds for capital improvements.

**Recommendation 4: Create the ability for private capital to be invested in the development of the airport and any residual land associated with the public private partnership.**

Creating a vehicle that will allow the private entity to invest capital into the ongoing development of the Gary/Chicago International Airport is a significant part of the public private partnership model. The public private partnership will establish a mechanism to allow a private entity to invest, make a reasonable return on investment and profit without triggering “revenue diversion” or a “violation of self-sufficiency” in accordance with FAA grant assurances.

**Recommendation 5: Test and engage the market.**

Beyond creating typical fee-for-management services relationship, the desire is to create a partnership between two public entities and a third party private entity. This means creating an agreement that will contractually allow a private entity through a competitive process to propose alternative approaches to manage the airport more efficiently and effectively as well as invest in the capital improvements of the Gary/Chicago International Airport.

**Recommendation 6: Expand and continue the role of the Ad Hoc committee.**

Continue the engagement of the public-private partnership Ad Hoc committee through the solicitation and evaluation process of identifying a private entity to partner with the Airport Authority and City of Gary. Expand the Ad Hoc committee’s scope to include creating a solicitation and valuation process that will test and engage the market. The Ad Hoc committee will solicit interest and qualifications and, based on the level of response, determine what entities should be asked to provide a proposal to the Partnership.

**Recommendation 7: Establish an exceptional team of expertise.**

To ensure the best possible opportunity to create and implement a successful and sustainable public private partnership model, the Airport Authority will need to put in place a team of competent and experienced professionals to include legal services, financial advisory services, communications services, and project management and advisory services.

Coupled with the short term engagement of a highly qualified public private partnership team to work with the Ad Hoc committee, the Airport Authority, and City of Gary, the Ad Hoc committee strongly encourages the Airport Authority to move forward in hiring an airport director (CEO) with a proven performance record.

**Next Steps:**

The proposed next steps entail the Gary/Chicago Airport Authority Board and the City of Gary approval and adoption of the Ad Hoc committee’s recommendations. Upon approval and adoption by the Gary/Chicago Airport Authority Board and the City of Gary, the following steps will be implemented:

1. The Ad Hoc committee will provide oversight on behalf of the Gary/Chicago Airport Authority Board and the City of Gary to:
  - a. Create a formal process to test the market seeking qualifications and interest in a public private partnership arrangement with the City and Airport Authority by May 2013,
  - b. Formally test the market with the agreed upon process by June 2013,
  - c. Review and evaluate the market responses by July 2013,
  - d. Seek binding proposals from a short list of best qualified and responsive participating entities by August 2013,
  - e. Provide final recommendation of a public private partnership model and private entity partner to the Airport Authority Board and City of Gary for approval by August 2013.
2. The Ad Hoc committee will facilitate the process for the city and airport authority to codify its joint agreement through an intra-local memorandum of understanding by May 2013.
3. Immediately hire a highly competent team of professionals to support the execution of the public private partnership process. Immediately hire: 1. Hawthorne Strategy Group for communications; and 2. JClark Consulting Group for project management and advisory services. At the April 19<sup>th</sup> Ad Hoc committee meeting the committee will recommend providers for legal services and financial advisory services.
4. Immediately begin working with the current airport management team to ensure understanding and potential transitional process by April 2013. The objective being to maintain business continuity as the Airport Authority continues to explore and/or transitions into a public private partnership model.
5. The Ad Hoc committee will develop and execute a joint P3 communications strategy with the City and Airport Authority by April 2013.

#### **Conceptual Framework of the Public Private Partnership Arrangement (P3):**

- **Term:** Initial P3 term will be based on market response and value to the public-private participants.
- **Management Fee structure:** The management fee structure will be based on market conditions and value to the public-private participants.
- **Management Scope:** The general management scope will include but is not limited to,
  - Private Entity Partner's area of responsibilities:**
    - Air and landside operations and maintenance,
    - Budget and administration,
    - Air trade development (passenger, air freight, air taxi, charters, corporate GA, etc.),
    - Engineering and Capital planning and management,
    - Real estate management and development,
    - Shared public, governmental and community relations,
  - Partnership (Airport/City):**
    - Public Safety (ARFF and law enforcement),
    - Public Policy oversight,
    - Long term capital improvement program,
    - FAA sponsorship (AIP grants, PFC's, LOI's, etc.)
    - Tax exempt financing if necessary
    - Capital and Operating budget approval (annually)

- Shared public, governmental and community relations
- **Investment and Capital development:** Investments and capital improvements will be based on structured lease options. Lease options will be subject to approval by the Gary/Chicago International Airport Authority and triggered by:
  - the Gary/Chicago Airport's desire to cause an improvement to occur;
  - the private entity's desire to cause an improvement to occur; or
  - the independent interest in creating improvement.
- **Shared revenues:** The Partnership will share in the upside of revenue proceeds from any and all commercial development activities as a result of the public private partnership arrangement. The Partnership will establish a revenue share arrangement that will reflect best practices and market conditions. The Partnership will explore various profit sharing models to include establishing a minimum annual guarantee (MAG) requiring the private entity to pay the Partnership the greater of a fixed rental or a percentage of gross revenues.
- **Partnership's Minimum Expectations:** Minimally, the Partnership will expect the private entity to provide:
  - Highly competent and innovative management team,
  - A five year management plan that establishes annual operating performance measures (financial as well as physical operational enhancements),
  - A five to ten year investment plan to include aviation and non-aviation development,
  - A demonstrated financial capacity to fund (equity and/or debt) at a minimum of \$100 million,
  - A plan for community outreach and engagement (communications, civic and social involvement),
  - A demonstrated ability to work in a public environment with multiple stakeholders, and
  - A demonstrated ability to work with an appointed board.