



COUNTY OF MILWAUKEE  
INTEROFFICE COMMUNICATION

Office of the Comptroller  
**Scott B. Manske, Comptroller**

DATE : October 12, 2017  
TO : County Executive, Chris Abele  
Chairman, Theodore Lipscomb, Sr.  
FROM : Scott B. Manske, Comptroller  
SUBJECT : GMIA International Terminal Redevelopment Project

**Policy Issue:**

The Office of the Comptroller has reviewed the General Mitchell International Airport International Concourse Redevelopment Feasibility Study and has identified concerns that it is presenting to the County Board Finance and Audit Committee. These concerns relate to the affordability of the project within the airport's overall capital improvements plan and the estimates for additional demand that result from completing the GMIA International Terminal Redevelopment Project (Project).

The following list shows the additional information recommended to be provided to the Office of the Comptroller to complete its analysis of the Project:

- The Office of the Comptroller recommends that the Airport provide a cash flow analysis for the Project overall which considers the availability of the Airport reserves in the Airport Development Fund Account (ADFA) and Passenger Facility Charge (PFC) capacity, to fund the project.
- Further, the Airport should provide, in writing, evidence that the Airlines have approved the issuance of PFC-Backed General Airport Revenue Bonds (GARBs) to partially finance the construction of the International Terminal Redevelopment project.
- The Office of the Comptroller also recommends that a market study and a marketing plan for domestic and international service be prepared prior to beginning planning and design for the International Terminal Redevelopment. The study should also include a passenger demand forecast as well. The Request for Proposal for the study should be reviewed and approved by the Office of the Comptroller to make sure that the necessary components are included. The study should not be limited to the items mentioned in the report.

The 2018 Recommended Capital Improvements Budget includes an appropriation of \$25,198,191 for construction of a new International Terminal at GMIA. The project in total is anticipated to cost \$50.0 million, which includes \$4.7 million committed in the 2017 budget, the 2018 capital funding request of \$28.2 million, and an anticipated request of \$20.1 million in 2019.

Based on information provided to the Office of the Comptroller, the reasoning behind the International Terminal Redevelopment appears to be that a new facility is needed because the current facility is outdated, lacks sufficient capacity, and is operationally inefficient as a result of not being connected to the main terminal. The Project is anticipated to provide an opportunity for increased international traffic and provide an efficient and productive use of Concourse E which is currently vacant. These may not be the only reasons, but they appear to be the primary reasons for the Project.

The Office of the Comptroller is not contending that there are not substantial current issues with the existing facility, but has questions relating to the data that has been provided to support the need for the Project. Specifically, the impact of the new International Terminal on international traffic and the impact of the new International Terminal upon the Airport Capital Plan and the future airport PFC and Reserve balances.

### **International Terminal Redevelopment Project Scope**

The scope of the Project listed in the 2017 Adopted Budget is as follows:

GMIA's existing Federal Inspection Services (FIS) facility is located in a 23,000 square feet, one level stand-alone building, with one arrival-only gate. A new facility is needed to attract international air carriers, and enhance customer service. The building will include FIS facilities for international arrivals, terminal gates and passenger hold areas for departures (either domestic or international), passenger loading bridges, baggage claim devices and required support facilities for US Customs & Border Patrol personnel.

In other words, the new building is needed to attract international air carriers as opposed to data driven demand. As noted, the Office of the Comptroller has requested additional data demand information from the Airport in the form of a marketing study that would support these conclusions.

Operational efficiencies are expected to be gained from a new facility, which would reduce cost per enplanements. The construction of the new facility is expected to provide a benefit from a reduction in the footprint of the new facility compared to the existing Concourse E. The feasibility study anticipates savings to be approximately \$330,000 annually. These savings are only for Phase I of a three-phased program. In addition, if the new terminal attracts additional international carriers, then this will generate more revenue for the Airport, thus offsetting other airlines rent payments. As currently configured, the new international terminal could also be used for domestic flights. The addition of domestic gates to the Project is

expected to mitigate the risk and the loss compared to constructing a facility for international flights only.

**Airport and IAB Passenger Traffic and Market Data**

The International Arrivals Building (IAB) was constructed in 1975. It has received limited improvements over the years. The last capital project was \$719,000 in 2003 for the ramp.

The IAB is a one gate, two layout Federal Inspection Service (FIS) building. The Airport has indicated that they have had conversations with international airlines who have expressed interest in landing at GMIA.

The Airport has indicated that traffic overall has increased at the IAB. The increases have been modest for the Airport overall and the IAB in particular.

The chart below examines total passenger traffic at the Airport, both domestic and international. The Airport experienced modest increases in total passengers (enplanements and deplanements) after experiencing substantial decreases a few years earlier. Year-to-Date July 2016 to July 2017 show a 2.3 percent increase, which so far continues the positive trend.

<b>Total Passenger Enplanements and Deplanements from 2007-2016</b>		
Year	Total Passengers	YOY% Change
2007	7,712,535	5.7%
2008	7,956,968	3.2%
2009	7,935,124	-0.3%
2010	9,848,377	24.1%
2011	9,522,456	-3.3%
2012	7,515,070	-21.1%
2013	6,525,181	-13.2%
2014	6,554,152	0.4%
2015	6,549,353	-0.1%
2016	6,757,357	3.2%

Unison Airport Feasibility Study, Milwaukee County Airport Official Statements

International passengers have fluctuated substantially over the last few years. After a 17.1 percent increase (8,069 passengers) in 2014 and 2.4 percent increase in 2015, international passengers decreased 7.3 percent (-4,104 passengers) in 2016. International passengers represents 1.5% of total passengers at the Airport.

<b>International Passengers (2007-2016)</b>		
Year	Passenger Count	Percent Change
2007	57,462	7.8%
2008	54,054	-5.9%
2009	47,978	-11.2%
2010	61,136	27.4%
2011	96,658	58.1%
2012	85,666	-11.4%
2013	94,120	9.9%
2014	110,258	17.1%
2015	112,902	2.4%
2016	104,694	-7.3%

Union Feasibility Study, Milwaukee County Airport Official Statements

Year-to-Date July 2016 to July 2017 shows a 26.7 percent increase (11,113 international passengers). Since most of the traffic for the IAB is from Nov/Dec to April the numbers to date may demonstrate a stabilizing of the passenger count for the IAB to the levels of 2014.

In September 2016, an appropriation transfer of \$100,000 was approved to hire a consultant to perform a feasibility study to make the business case for a new international facility. The feasibility study is more of a cost analysis with a theoretical justification for the project. Therefore, there is a need for a market analysis for the Project. The Office of the Comptroller has requested this information but there does not appear to have been a market analysis performed. Such an analysis might include for example, an analysis of carriers who might carry passengers on a new route. It is likely too early to have commitments, since the Project would not be completed until 2020 at the earliest, but a market analysis with projected international traffic resulting from the Project would be more substantial.

They are some high level components of the analysis. For example, there was a powerpoint that was provided that lists potential transatlantic routes, but similar to the feasibility study there is no information explaining why they are candidates to service at the Airport. There is also no discussion on efforts to increase transatlantic services at the current facility since it is not used at capacity year round. However, the current facility appears to have limitations placed upon it by the US Customs and Border Protection (CBP) that could impact pursuit of additional flights.

The marketing study could provide information to determine if there is likely to be increases in traffic. In addition, the study could examine past traffic reports and see if international traffic has remained consistent by carrier, or if carrier patterns are subject to volatility.

- The Office of the Comptroller recommends that a market study and a marketing plan for domestic and international service be prepared prior to beginning planning and design for the International Terminal Redevelopment. The study should also include a passenger demand forecast as well.

**Project Funding -**

The table below shows the sources and uses of the project. The \$50 million shown below reflects the current appropriations and Recommended Budgets. The Feasibility Study, prepared in the last few months, indicates that the project costs are anticipated to be approximately \$53 million.

<u>Sources</u>		
PFC Backed General Airport Revenue Bonds	\$	30,000,000.00
Airport Development Fund Reserve	\$	16,000,000.00
Passenger Facility Charge (Cash)	\$	4,000,000.00
<b>Total Anticipated Sources</b>	<b>\$</b>	<b>50,000,000.00</b>
<u>Uses</u>		
Feasibility Study	\$	100,000.00
Design	\$	4,589,000.00
Construction	\$	45,311,000.00
<b>Total Anticipated Uses</b>	<b>\$</b>	<b>50,000,000.00</b>

The Airport operates as a division within the Milwaukee County of Transportation (MCDOT) and is accounted for as an enterprise fund within the County’s financial statements. Funding that has been or is anticipated to be provided for the Project may not be used for any non-airport system purposes.

Given that airport funding is limited to airport purposes, there are not opportunity costs in other areas as a result of pursuing the Project. It is critical to ensure that pursuing the Project that the airport system will still have adequate revenue to pay all ongoing operating and maintenance expenses, pay current and projected debt service, maintain all reserves at sufficient levels, and finance all other current and future capital improvement projects.

The two sources of County funding for the Project are Passenger Facility Charges (Cash and PFC Backed GARBs) and the ADFA. The Airport has used and will continue to use these revenues sources for capital projects. The Office of the Comptroller recommends that due to prior commitments of these funds, the large commitment made for this project, plus any future commitments for projects, which would also use these funds, that the Airport determine the adequacy of these two sources of funds to meet all of these needs.

- The Office of the Comptroller recommends that the Airport provide a cash flow analysis for the Project overall which considers the availability of the Airport reserves in ADF and PFC, to partially fund the project.

**Passenger Facility Charge Commitment (~\$34 million)**

The Airport charges enplaning passengers a PFC to fund Federal Aviation Administration (FAA) approved projects that enhance safety, security, or capacity; reduce noise; or increase air carrier competition. The Airport submitted PFC applications to the FAA requesting authority to increase the PFC rate from \$3.00 to \$4.50 for the remaining applications, which has the effect of extending the current \$4.50 collection authority until 2020. Thereafter, the approval is \$3.00 from 2020-2028. It is anticipated that the Airport will file PFC applications that will provide funding for the Project.

PFCs cannot be used for operation and maintenance expenses. The County has pledged PFCs to pay outstanding PFC Backed GARBs and has used PFC cash to finance ongoing projects. It is anticipated that PFC-backed GARBs used to finance the Project will be for a term of 30 years. The Office of the Comptroller recommends that Airport provide a 30-year cash flow of PFC funds that take into account current alternate enplanement trends, outstanding PFC commitments, projected PFC commitments for other projects, term of the PFC applications, and PFC debt service associated with this Project and other capital projects. The cash flow should indicate a threshold that the balance of PFC shall not drop below. The current PFC balance as of December 31, 2016 was \$28.7 million.

**Airport Development Fund Commitment (~\$16 million)**

The current Airport Use and Lease Agreement (AULA) which went into effect on October 1, 2010 and expires on December 31, 2020 includes a cost center residual rate methodology. The Airport is able to deposit an amount equivalent to 10 percent of Airport concession revenues into the ADFA. Funds in the ADFA can be used for capital improvements or any lawful Airport System purpose, subject to certain limitations. The current balance in the ADFA as of December 31, 2016 was \$12.8 million. Under the current AULA that balance of the ADFA cannot exceed \$15 million.

The Office of the Comptroller recommends that Airport provide a cash flow of ADFA funds that take into account current and alternate enplanement trends, outstanding ADFA commitments, projected ADFA commitments for other projects, and ADFA commitments associated with this Project. The cash flow should indicate a threshold that the balance ADFA funds shall not drop below.

**Airline Approval of PFC Backed Bonds:**

Although PFC cash projects do not have to be approved by the Airlines, the general airport revenue bonds (GARBs) do. Since new GARBs would be issued on parity with existing outstanding GARBs, there is a question as to whether the Airlines would need to approve the use of GARBs funded with PFCs. In the past the Airlines did approve the PFC-Backed GARBs.

- Further, the Airport should provide, in writing, evidence that the Airlines have approved the issuance of PFC-Backed GARBs to partially finance the construction of the International Terminal Redevelopment project.



Scott B. Manske  
Comptroller

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