118449

UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

GENERAL GOVERNMENT DIVISION

MAY 18 1982

Ms. Joyce Walker
Deputy Associate Director for
Commerce, Transportation & HUD
Office Of Management and Budget
Executive Office Building Room 9208
Washington, D.C. 20503

Dear Ms. Walker:

As a result of discussions with Ms. Janet Rice, Economic and Government Division, we are transmitting a staff paper we have developed regarding alternatives to the current management and ownership of Washington National and Dulles International Airports. The document includes a number of ownership alternatives--a Federal airport corporation or independent agency, state ownership, an airport authority, an independent airport operator, or private ownership. Because no single alternative is clearly superior we have not expressed any preference. Also, a more extensive and critical study of both the current airport management and operations and of the implications of the various alternatives would be required before any decisions can be made.

Please direct any comments or questions you may have on this material to Mr. Thomas D. Reese, Group Director, Community and Economic Development Division, on 426-8462.

Sincerely,

W.J. Anderson

William J. Anderson
Director

Enclosure

118448

022143

ALTERNATIVES TO CURRENT AIRPORT OWNERSHIP AND MANAGEMENT OF NATIONAL AND DULLES AIRPORTS

The Federal Aviation Administration (FAA), Department of Transportation (DOT), is responsible under the Federal Aviation Act of 1958, as amended (49 U.S.C. 1421), for ensuring air safety and efficiency and for fostering civil aeronautics and air commerce. FAA also operates and maintains Washington National Airport and Dulles International Airport, the only two commercial airports owned by the Federal Government.

National and Dulles are exceptions to airport management nationwide where local, rather than Federal, ownership is the norm. Other large air carrier airports are publicly owned, the majority by cities, counties, or semi-independent authorities. Past proposals to change ownership and management of National and Dulles have failed to generate needed support.

PAST PROPOSALS TO CHANGE OWNERSHIP FAILED TO ATTRACT NEEDED SUPPORT

Numerous proposals to change ownership or management have appeared since 1949 when the Commission on Organization of the Executive Branch of the Government (the Hoover Commission) recommended Federal incorporation of straight-line business activities, including National Airport. Other proposals recommended (1) transfering ownership to an existing regional body, such as the Washington Metropolitan Area Transit Authority (WMATA), and (2) selling to the highest bidder, public or private. Some reasons for recommending a change were

--reducing fragmented airport management,

--increasing community involvement in airport decisions,

--eliminating FAA's role conflict as regulator of the air transportation system and operator of National and Dulles Airports,

--promoting economy and efficiency through a business structure,

--divesting DOT of a day-to-day operational responsibility that is not a necessary part of its basic mission, and

--simplifying capital improvement financing at National.

Some proposals specified only National and Dulles, one included Baltimore Washington International Airport (BWI), and others were sufficiently broad to cover all area airports, including general aviation facilities. The proposals also differed in the degree of autonomy granted to airport managers. The only element common to all proposals was the need to divest FAA of its airport management functions, a concept supported at one time or another by five administrations, the Office of Management and Budget (OMB), DOT, and FAA.

Interest in changing ownership or management continues. In 1981 FAA drafted legislation to create a Federal airport corporation reporting to the FAA Administrator. A bill (H.R. 1664) presented to the 97th congress proposed leasing Dulles to Virginia. This proposal supported the administration's defederalization goals of reducing Federal Government size and increasing State and local influence over resources.

Most proposals failed to win sufficient support from the Congress and the administration. FAA's incorporation proposal was stayed pending review by the current Secretary of Transportation.

FEDERAL ALTERNATIVES

Federal ownership of National and Dulles Airports offers the strongest congressional oversight of their operations. Depending on the design, a government corporation or a new, independent Federal agency can make greater use of profitability and self-sufficiency and thereby offer a more visible means of evaluating airport management.

Government corporations are managed like a business enterprise

A government corporation is owned or controlled by the Government of the United States. Like any business, it usually has the power to sue and be sued; contract and be contracted with; acquire, hold, and convey property; make by-laws; and apppoint officers.

According to commonly recommended criteria, 1/ public functions are appropriately incorporated when they

--are predominantly commercial and the Government is dealing with the public as a business, not as a sovereign;

--involve many business-like transactions;

--are revenue-producing, potentially self-sustaining, and paid for by users rather than taxpayers;

1/These factors are also considered when determining establishment of public enterprise revolving funds.

--have income and expenditures which fluctuate with demand and cannot be accurately predicted or kept within a predetermined limit without adversely affecting service;

--can make additional expenditures to meet increased demand without necessarily increasing net appropriations in the long run; and

--require greater flexibility than appropriation budgeting ordinarily permits.

The Congress can authorize establishment of a government corporation. The enabling statute defines the corporation's mission, specific powers, and organizational structure; the composition of the board of directors; and limitations on corporate actions, making each corporation unique.

The Congress generally exercises less oversight for a corporation than for a Federal agency. In addition, it has less oversight over an independent government corporation, which reports directly to the President, than over corporations within a Federal department. With three exceptions (the Tennesse Valley Authority, the Federal Deposit Insurance Corporation, and the Export-Import Bank), all wholly owned government corporations are within Federal departments and are thus subject to a department Secretary's policy direction and supervision. However, because the Congress specifies corporate powers and the degree of congressional oversight, it has ultimate control and can modify or abolish any provisions of the enabling statute, including the corporate status itself.

Self-sustaining government corporations as a group have the following features. They obtain funds from operating revenues, Treasury borrowings, and appropriations to a capital fund. Corporations receive congressional authorizations to spend revenues. Corporate expenditures are limited only by available revenue and borrowing authority and by a requirement that expenditures be in accordance with the corporate charter and the annual budget program approved by the Congress. Except for administrative expenses, the Congress approves the budget as a whole, rather than restricting the corporation to dollar amounts for specific line items. Permanent or annual authorizations permit the corporation to make expenditures as needed to carry out budgeted programs.

Congressional budget control varies sharply between independent government corporations and corporations within a Federal department. Planned spending for independent corporations is left to management's discretion, subject to the test of maintaining self-sufficiency. However, corporations within a department must submit their budgets for approval by the department, OMB, and the Congress and must have their revenues appropriated for their use. Appropriated corporate revenues can be legislatively limited to uses and to dollar amounts.

Although specific features would depend on the legislation, incorporating National and Dulles Airports would

--retain some degree of Federal control,

--eliminate FAA's dual Federal and proprietary responsibilities if the corporation is outside FAA,

--provide airport management similar to other major airports in the Nation,

--allow local jurisdictions to participate in management through membership on the board of directors,

--increase continuity of policy,

--encourage and aid long-range planning,

--increase airport management and decisionmaking autonomy, and

--reduce DOT and FAA management involvement in day-to-day operating decisions.

Corporate financial and budgetary features could provide a stable financial base which allows long-term planning and development of the airports. A corporate structure could also simulate business-like financial management which uses commercial standards to judge economy and efficiency and which simplifies identification of full costs to provide a basis for fair and equitable airport fees. Airport management flexibility would also be increased because the airports would no longer be dependent on annual appropriations and because capital improvements would be reviewed and approved in larger increments. Increased financial flexibility could allow airport management to more quickly respond to increased demand that necessitated capital expenditures.

Placing the airport corporation within an established Federal department could strengthen decisionmaking because decisions have the secretary's approval and support. It would also insulate airport management from public reaction to policy and operations by shifting responsibility upward. If they remain under DOT, National and Dulles will continue to be subject to departmental regulations unless specifically exempted. Personnel ceilings and reductions can unnecessarily restrict the airports' business-like operation because personnel strength can affect the level of service provided.

If the airport corporation were to remain subject to departmental budget controls, designed to ensure adherence to Federal policy and to prohibit improper expenditure of Federal funds, the controls could obstruct management of the self-sustaining corporation. Also, such controls offer few means of judging efficiency. Further, OMB and departmental budget cuts, and legislation in authorization acts restricting the use of funds, could also circumscribe the management flexibility intended by the Congress in creating the corporation. Incorporation creates its own controls: the enabling statute controls the corporation's policy and direction and the requirement to be self-sustaining controls expenditures.

An independent Federal agency would shift responsibility for National and Dulles to the President

Independent Federal agencies, such as the U.S. Postal Service, the Panama Canal Commission, and the National Aeronautics and Space Administration (NASA), are part of the executive branch but are independent of Cabinet-level departments. Agency officials report to the President. Generally, independent agency status is appropriate when the agency's function is unrelated to or inconsistent with existing departments. 1/ In addition, the traditional department structure was not designed for commercial-type activities.

By removing National and Dulles Airports from FAA and DOT oversight, independent agency status would

--eliminate FAA's dual Federal and proprietary responsibilities, and

--increase airport management and decisionmaking autonomy.

Establishing National and Dulles as an independent agency also would relieve DOT and FAA officials of their responsibility for airport policy and operations. But it would transfer this responsibility to the President and increase the President's duties, a disadvantage that led the Congress to place the St. Lawerence Seaway Development Corporation within an executive branch department.

In the independent agency alternative, the Congress would retain its airport oversight responsibility. However, congressional review of financial management can vary as it does among present independent agencies. The Postal Service need not sent its budget to the Congress. However, the Congress must approve the NASA and Panama Canal Commission budgets.

1/Report on Government Corporations: A Report Based on a Study by a Panel of the National Academy of Public Administration for the Office of Management and Budget, Vol. I, August 1981, p. 31.

Strict budget formulation and congressional oversight procedures were designed to control Federal expenditures. However, they are not totally appropriate to management of self-sustaining business functions. Establishing an emergency fund for use when operating costs exceed appropriated funds alleviates the effects of having to estimate commercial-type budget requirements 2 years in advance of need but does not solve the problems. Instead of budget controls, financial management of National and Dulles as an independent agency could be evaluated by net profit measured against a clear financial goal. The need to be self-sustaining imposes its own control on expenditures.

NON-FEDERAL ALTERNATIVES

Non-Federal ownership of National and Dulles Airports would reduce Federal control and shift accountability for airport operations from the Federal to the State or local level. However, Federal participation in management could be legislated into any ownership structure, even extending to a veto power over decision-making. In addition, the Congress could impose conditions or restrictions on the transfer. Four non-Federal alternatives are: state ownership, airport authorities, independent airport operators, and private ownership.

State ownership of a major airport is unusual but can increase State influence over statewide aviation service

Only 5 of the 60 largest U.S. airports are State owned. Most are operated by an aviation, public works, or transportation department within the State government and are financed by appropriations from State funds. In general, the State role in aviation is coordinating local efforts to improve air transportation through developing State aviation plans and awarding grants for airport construction, improvement, or development.

State ownership of National and Dulles would

--eliminate FAA's dual Federal and proprietary responsibilities, and

--eliminate for the most part DOT's and FAA's responsibility for airport operations.

Because State ownership would bring its own oversight levels, airport management autonomy would not necessarily increase.

State ownership would minimize Congressional control and FAA involvement in specific National and Dulles operations. In approving a transfer of ownership, however, the Congress could legislate continued Federal review, which would add to the oversight levels and continue Federal responsibility for airport operations.

State ownership would also offer the opportunity to

--make State aviation grants available to National and Dulles,

--transfer responsibility for capital improvements from Federal Government to the State,

--issue revenue bonds to finance operations and/or capital improvements,

--promote Dulles Airport and the surrounding region, and

--coordinate airport ground access needs.

A potential problem of State ownership is that the State legislature, representing diverse interests, may not be responsive to the airports' financial needs. As part of a state agency, the airports would be subject to appropriation funding procedures and expenditure controls similar to those they encounter within DOT and FAA.

The Commonwealth of Virginia now has two organizations which are potential airport operators

The Virginia Aviation Commission, part of the State Department of Aviation, is authorized by state law to own and/or operate what are now federally owned airports. The Commission can issue revenue bonds, receive Federal and State grants and loans, make payments in lieu of taxes, and lease operation of airports under its jurisdiction. The Virginia law which created the commission authorized Federal and local representation and permits the commission to participate in creating a regional or interstate airport authority.

The Virginia Port Authority, an agency reporting to the Virginia Secretary of Transportation, has an established line and staff organization and can develop and operate foreign trade zones, issue revenue bonds, and acquire property through the power of eminent domain. The authority has an aggressive marketing structure and broad goals to promote commerce and interregional cooperation. However, it currently has no role or experience in aviation and it is not self-sustaining.

Either alternative--the aviation commission or the port authority--offers Virginia the opportunity to be a party to the decisions affecting National, Dulles, and all Virginia airports, a need identified in a 1975 Virginia Air Transportation System Study.

An airport authority allows all affected jurisdictions to participate in management

An authority is a government entity independent of its parent government but limited by the laws creating it. Authorities are usually established when interest in the transportation facility(s) extend over several political jurisdictions. An authority may be a single purpose agency, like WMATA, or may have broad responsibility for various revenue-producing facilities, like the Port Authority of New York and New Jersey (NY/NJ). An authority may own or merely operate the facilities, such as airports. Generally, an appointed board establishes airport policy while a professional staff implements the policy and manages the facilities.

Transferring National and Dulles to an airport authority would

--eliminate FAA's dual Federal and proprietary responsibilities, and

--increase airport management autonomy and decisionmaking.

As with other alternatives, the Congress could legislate the degree of Federal oversight or involvement in the authority's management and decisionmaking process. It may vary from representation on the authority board to equal voting power. The Appalachian Regional Commission (ARC), a regional economic development organization, illustrates how the Federal Government can be an equal partner in a regional effort. The ARC policymaking process protects both interests by requiring two votes, a collective State vote and a Federal vote which, in effect, is a veto power.

Principal features of an authority are

--managerial and financial autonomy,

--management centralization,

--representation of numerous jurisdictions in decisionmaking, and

--regional coordination and cooperation.

By moving decisionmaking from the Federal to State or local levels, National and Dulles would be owned and operated in a manner similar to other airports. Long and overlapping board terms would increase continuity of management policy. Because it is not bound by existing political boundaries, an authority can deal with problems affecting the airports that would otherwise be beyond the jurisdiction of an airport owner. Regional economic development is an example.

If given broad goals, an authority can be a major benefit to the airports, both in promoting economic development and in providing a more powerful, unified voice representing airport interests. As a mechanism for coordinating transportation needs, an authority could

--provide a conflict resolution point for competing strategies of nearby airports, and

--reduce future airport investment by coordinating regional aviation needs.

As illustrated by the NY/NJ Port Authority, an authority can also encourage a collective regional identity and regional approaches to all types of transportation problems.

An authority is not easily created, controlled, or effectively run. All involved parties must reach agreement and enact legislation. The board may not adequately represent all interests or may become too large to be effective. Political and financial independence may place airport operations, finance, and the quality of service beyond effective public control. The primary means of control open to airport owners is through appointment and dismissal of board members. This can be relatively ineffective as dismissal usually follows the undesired decision. Control can be strengthened by providing gubernatorial or mayoral veto of member decisions, as does the NY/NJ Port Authority.

Numerous types of authorities exist. Some examples include:

--Local authorities (intrastate).

--Regional authorities (representing local-level jurisdictions but crossing State boundaries).

--Multistate authorities (representating two or more State-level jurisdictions).

Because both National and Dulles are located in Northern Virginia, they could be owned and/or operated by a local authority. Numerous local airport authorities in Virginia, including Richmond and Norfolk, can be used as models.

A regional authority would combine interests of the District of Columbia and Virginia and Maryland local jurisdictions served and effected by the airports. The WMATA is an example of a regional authority.

A multistate authority could represent Virginia, Maryland, and the District of Columbia. Special legislation would be needed because the law authorizing States to create interstate airport compacts excluded the District. If BWI management is merged with National and Dulles, a multistate governing body would be required. BWI could be sold or leased to the authority.

Member jurisdictions could have an equal voice in policymaking, as in the NY/NJ Port Authority, or proportional representation based on population, as in the Dallas/Ft. Worth Regional Airport Board.

Airport commission

An airport commission is similar to a local or regional authority but lacks independent financing and is dependent on appropriations. Most commissions are policymaking bodies composed of citizen members. Commission policies must be consistent with direction and guidance from the parent political jurisdictions. A commission would be responsible for operating the airport and could act as a buffer between the governing bodies and airport management.

Independent airport operation can substitute for inexperienced public management

An independent airport operator is a private company operating an airport for a public owner under contract or lease. The private operator is responsible for airport operation but the public owner retains policy control.

Of the 60 largest U.S. airports, only 1 (the Burbank-Glendale-Pasadena Airport) is publicly owned and privately operated. Independent operation is most often used when the owner lacks experience in airport management and an established infrastructure to operate the airport. In such cases, independent operators offer airport management expertise and eliminate the need for a large government staff.

Independent operation of National and Dulles would

--reduce the airport operational responsibilities of DOT and FAA officials, and

--increase airport management autonomy.

Because the public owner retains policy control, the problem of FAA's dual Federal and proprietary responsibilities could continue and DOT and FAA officials would continue to be burdened with airport policy decisions.

Congressional control over airport operations would be weakened because the public owner relinquishes most operational control and has little remedy until the lease or contract expires. Policy oversight would not change.

The principal feature of independent operation is that the airport is run like a business but remains publicly accountable through the public owner. As is true of all ownership/management alternatives, local input can be provided through an advisory board.

Private ownership creates unique problems

Private ownership of airports is common in the United States, although all large commercial airports are publicly owned. Private airports are generally owned by individual or companies.

Private ownership of National and Dulles would

--eliminate FAA's dual Federal and proprietary responsibilities,

--eliminate DOT's and FAA's operational responsibilities, and

--increase airport management autonomy.

A private airport is subject to Federal, State, and local taxes and is ineligible for Federal grants. Congressional oversight would be decreased, although the Congress can impose requirements and restrictions in the transfer legislation.

Many conceptual arguments exist against private ownership of a major airport. First, it counters the nationwide pattern of public ownership. Second, whereas profit is the primary goal of a private business, airport operation is basically a public function and profit is rarely the primary objective. Third, a major airport necessitates political decisions not normally made by private enterprise, decisions needed to balance conflicting interests of the airlines, local businesses, users, and the local public.