

Background

Commercial airline services are critically important to Minnesota's economy.

SUMMARY

The Metropolitan Airports Commission (MAC) is a 15-member body that operates and sets policy for seven airports in the Twin Cities area. MAC's operating revenues totaled \$170 million in 2001, mostly from airline charges and concessions, and MAC employed more than 500 staff. MAC's primary responsibility is operation of the Minneapolis-St. Paul International Airport. This airport accounted for 96 percent of MAC's operating expenses in 2001, and it will account for 93 percent of the \$2.5 billion that MAC is spending to implement the 2010 capital plan mandated by the 1996 Legislature.

Commercial airline services in the Twin Cities area are critically important to the economic health of the metropolitan area, the state of Minnesota, and even the multi-state upper Midwest region. In 2001, there were more than 1.2 million take-offs and landings at the seven Twin Cities airports. Minneapolis-St. Paul International Airport alone handled 340,000 metric tons of mail and cargo in 2001, as well as 32 million passengers. These activities took place at facilities owned and operated by the Metropolitan Airports Commission, a body created 60 years ago by the Minnesota Legislature.

In this chapter, we address the following questions:

- **What is the Metropolitan Airports Commission, and what is its purpose?**
- **What are MAC's revenue sources, and how does MAC spend these revenues?**
- **How does Minneapolis-St. Paul International Airport compare in size and activity with other U.S. airports?**
- **What roles do MAC's smaller airports play in the airport system?**

METROPOLITAN AIRPORTS COMMISSION

The Metropolitan Airports Commission (MAC) owns and operates Minneapolis-St. Paul International Airport (MSP) and six smaller airports in the Twin Cities region. The 1943 Legislature gave MAC authority to operate the Minneapolis airport (Wold-Chamberlain Field), the St. Paul airport (Holman Field), and any other airports that the commission might acquire or construct.

State law defines MAC's purposes, as shown in Table 1.1.¹ In addition, MAC's most recent strategic plan, approved by the commission in April 2002, identifies five objectives: (1) to meet security mandates, (2) to develop a coordinated response plan to security events, (3) to maintain sufficient liquidity to meet operating and debt service requirements, (4) to maintain a competitive airline cost structure, and (5) to continue implementation of the 2010 Long Term Comprehensive Plan within the limits of available funding.² (MAC's "2010 plan" outlined a series of airport capital improvements that the 1996 Legislature authorized when it decided not to build a new major airport.)

Table 1.1: Statutory Purposes of the Metropolitan Airports Commission

- To "promote the public welfare and national security; serve public interest, convenience, and necessity; promote air navigation and transportation, international, national, state, and local, in and through this state; promote the efficient, safe, and economical handling of air commerce; assure the inclusion of this state in national and international programs of air transportation; and to those ends to develop the full potentialities of the metropolitan area in this state as an aviation center, and to correlate that area with all aviation facilities in the entire state so as to provide for the most economical and effective use of aeronautic facilities and services in that area."
- To "assure the residents of the metropolitan area of the minimum environmental impact from air navigation and transportation, and to that end provide for noise abatement, control of airport area land use, and other protective measures."
- To "promote the overall goals of the state's environmental policies and minimize the public's exposure to noise and safety hazards around airports."

SOURCE: *Minn. Stat.* (2002), §473.602.

**The
Metropolitan
Airports
Commission
(MAC) is a
public agency,
and its revenues
are public funds.**

State law defines MAC as a "public corporation," and it defines all of MAC's revenues as "public funds."³ Thus, MAC is a public agency, although it receives no state or local tax revenues and its facilities are leased mostly by private companies for the benefit of the traveling public.

The Metropolitan Airports Commission consists of 15 members. These include:

- The mayors of Minneapolis and St. Paul, or their appointees,
- Eight members appointed by the Governor, each representing 2 of the 16 Metropolitan Council districts,
- Four members from outside the Twin Cities metropolitan area, appointed by the Governor, and
- A chair, appointed by the Governor.

¹ In 1991, the Legislature authorized MAC to provide financial assistance to Northwest Airlines. The Legislature set forth in law public purposes that were specific to this assistance (see *Minn. Stat.* (2002) §473.6021), including promotion of airline job creation, prevention of airline job loss, and diversification of the metropolitan tax base.

² MAC, *2002 Operating Budget* (Minneapolis, undated), 11-13.

³ *Minn. Stat.* (2002), §473.603, subd. 1; *Minn. Stat.* (2002), §473.606, subd. 3.

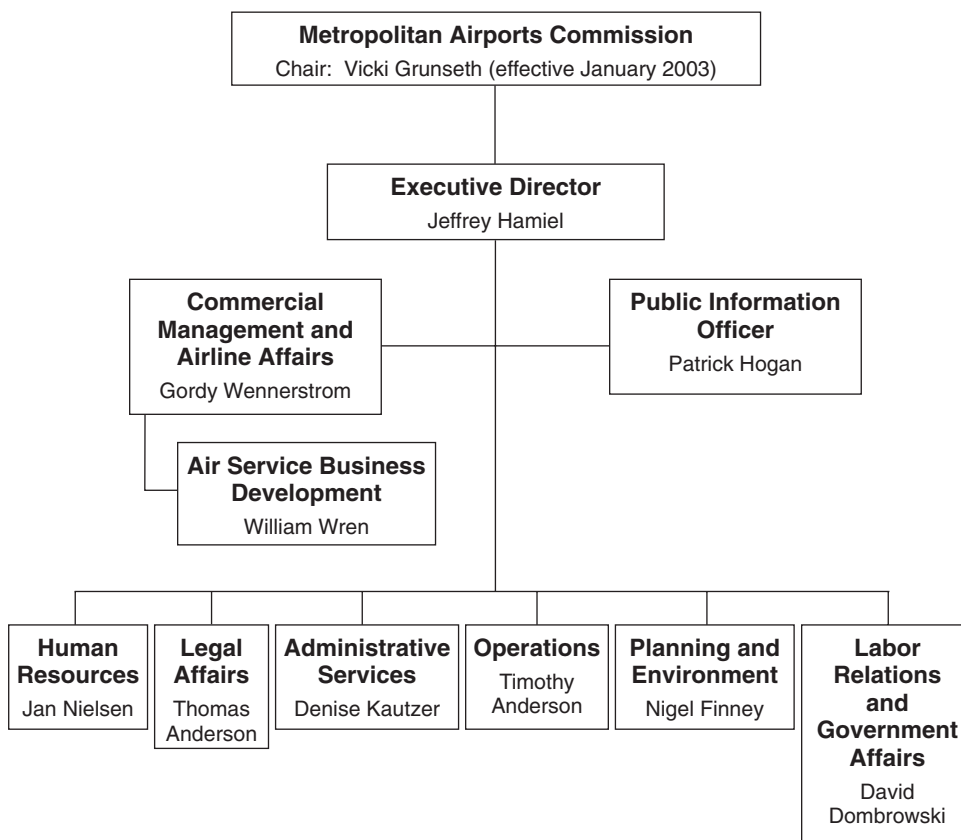
A 15-member commission appoints an executive director to oversee the work of MAC staff.

The chair receives a salary, not to exceed 25 percent of the Governor's salary, while other commission members receive \$50 per diem and reimbursement of expenses.⁴ State law requires the commission to meet at least once each month.⁵

The commission appoints and supervises the agency's executive director, who "shall have had experience as a business executive, preferably in connection with aviation and in the promotion of business enterprises."⁶ The director serves at the pleasure of the commission, and the commission determines the director's compensation. The director cannot spend MAC funds without the commission's "general or specific directions."⁷

Figure 1.1 shows how MAC is organized. Most of MAC's top managers have extensive experience within the organization. MAC's present executive director has held this position since 1985. MAC's five deputy executive directors have

Figure 1.1: Metropolitan Airports Commission Organizational Structure, January 2003



SOURCE: Metropolitan Airports Commission.

⁴ Minn. Stat. (2002), §473.605, subd. 2; Minn. Stat. (2002), §15A.0815, subd. 4.

⁵ Minn. Stat. (2002), §473.604, subd. 5.

⁶ Minn. Stat. (2002), §473.606, subd. 4.

⁷ Minn. Stat. (2002), §473.606, subd. 4.

worked for the organization an average of about 24 years, and all but one have been in their current positions for more than six years.⁸

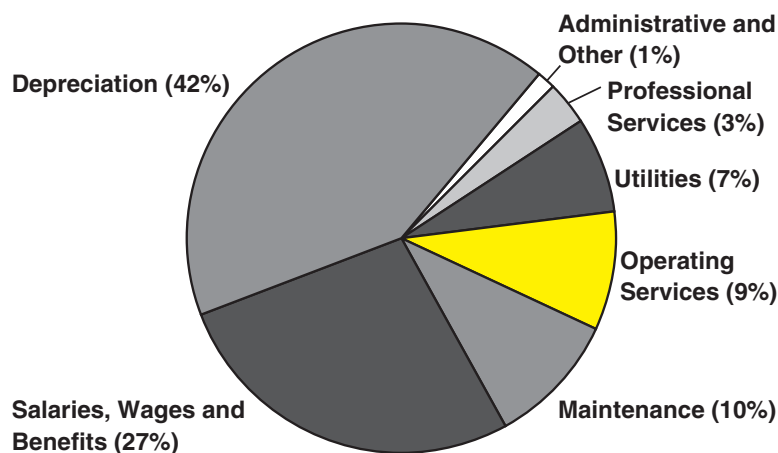
MAC's 2002 budget included funding for 567 full-time equivalent (FTE) positions.⁹ As of late September 2002, MAC had about 548 FTE employees. The largest categories of MAC staff were in the following departments: maintenance (113 FTE), police (116.5 FTE), fire (46 FTE), and trades workers (40 FTE). Slightly less than half of MAC's employees are represented by labor unions.

FINANCES

Operating Budget

Figure 1.2 shows MAC's 2001 operating expenses, as represented in MAC's annual financial statement. The financial statement presents expenses on an accrual, not a cash, basis of accounting. The largest single expense category in 2001 was depreciation (\$66 million), which is an accounting entry and not an actual outlay of current funds. Depreciation represents the current use of assets—such as runways and terminal buildings—that were previously constructed.

Figure 1.2: MAC's Operating Expenses, 2001



NOTE: Operating expenses totaled \$156.2 million.

SOURCE: MAC, *Comprehensive Annual Report, Year Ended December 31, 2001* (Minneapolis, 2002), 54.

⁸ MAC has deputy executive directors for administrative services, planning and environment, labor and government affairs, human resources, and operations.

⁹ An additional 26.5 FTE positions are on administrative hold due to the condition of the economy and the airline industry.

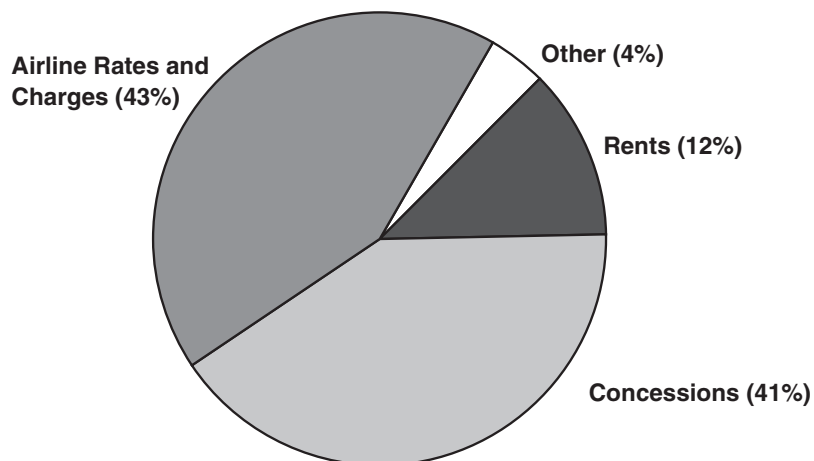
The Minneapolis-St. Paul Airport accounts for 96 percent of MAC's operating expenses.

Aside from depreciation, MAC spent \$91 million in 2001 to administer the Twin Cities airport system and pay for ongoing operating costs at seven airports. Employee salaries, wages, and benefits comprised about \$43 million of MAC's operating expenses. In Figure 1.2, "maintenance" expenses included MAC's costs for supplies, equipment, and parts—for instance, related to airport plumbing, lighting, and snow removal. "Maintenance" also included the cost of maintenance contracts—such as those for janitorial services and maintenance of the automated people mover at the Minneapolis-St. Paul Airport. "Operating services" included activities such as parking facility management, shuttle bus services, and storm water monitoring. "Professional services" included the cost of specialized consultants, such as architects, engineers, lawyers, auditors, information technology consultants, and public information consultants.¹⁰ Overall, the costs of running Minneapolis-St. Paul International Airport accounted for 96 percent of MAC's operating expenses.

In 2001, MAC collected \$170 million in operating revenues, according to its annual financial statement. Figure 1.3 shows MAC's sources of operating revenues for 2001. Airline rates and charges at the Minneapolis-St. Paul Airport were the largest source, providing 43 percent of the operating revenues. These rates and charges include landing fees, ramp fees, and terminal rents and charges

Figure 1.3: MAC's Operating Revenues, 2001

MAC's operating revenues totaled \$170 million in 2001.



NOTE: Operating revenues totaled \$170.1 million.

SOURCE: MAC, *Comprehensive Annual Report, Year Ended December 31, 2001* (Minneapolis, 2002), 54.

¹⁰ Much of MAC's architectural and engineering consultant work is in the capital budget, not the operating budget—reflecting work on specific capital projects.

MAC has used some of its operating revenues to help pay for construction projects, debt service, equipment, property acquisition, and bond account reserves.

paid by airlines.¹¹ They are calculated in accordance with legal agreements between MAC and the airlines, and they are designed to recover a portion of MAC's operating expenses and certain capital costs expended for the benefit of the airlines.

MAC's second main source of revenue in 2001 was concessions at the Minneapolis-St. Paul Airport, which provided 41 percent of operating revenues. A majority of concession revenue came from automobile parking fees at the airport. Other significant sources of concession revenue included fees charged to rental car companies and rents paid by the airport's restaurants and retail establishments. Miscellaneous sources of revenue from the Minneapolis-St. Paul Airport—including other building and land rentals and utility charges—accounted for 15 percent of MAC's operating revenues in 2001. Revenue from MAC's other six airports accounted for only about 1 percent of its revenues. MAC has authority to levy taxes on property throughout the Twin Cities metropolitan area to pay for operating costs and debt service, but it has not levied a property tax since the 1960s.¹²

MAC's total operating revenues (\$170 million in 2001) have typically far exceeded its operating expenses excluding depreciation (\$91 million in 2001). MAC has used the balance (plus interest earnings on its operating revenues) to help pay for construction projects, debt service, equipment purchases, property acquisitions, and bond account reserves. For instance, MAC transferred \$50 million in operating revenues in 2001 to help make debt service payments (which totaled \$88 million in 2001). In 2000, MAC transferred \$47 million in operating revenues to help pay for construction projects, but it made no such transfer in 2001.¹³

Capital Spending

Presently, MAC is significantly expanding and improving airport facilities, as directed by the 1996 Legislature.¹⁴ The basis for the expansion is MAC's 2010 Long Term Comprehensive Plan, which includes about \$2.5 billion in proposed capital expenditures (93 percent for the Minneapolis-St. Paul Airport and 7 percent for the other MAC airports). At the Minneapolis-St. Paul Airport, the plan includes construction of a new runway, expansion of the terminal and parking facilities, noise mitigation activities, and various other projects.

¹¹ MAC sets *landing fees* to recover the full cost of MAC's airfield and runway operations (including a share of administrative overhead), and they are assessed to airlines based on the actual gross weight of planes landing at the airport. MAC sets *ramp fees* to recover the full cost of ramp (or apron) space outside the terminal, and airlines pay fees based on their lineal feet of ramp space. Airlines pay *terminal rents and charges* in proportion to the amount of terminal space they occupy; however, the rates are not set at levels that recover the costs of the entire terminal. Other MAC revenues—such as those from parking and concessions—also support terminal costs.

¹² MAC last levied a tax on property throughout the metropolitan area for operating purposes in 1961. It last levied a property tax to pay debt service in 1969.

¹³ MAC's annual financial statements show the difference between operating expenditures (including depreciation) and operating revenues. This difference is often called MAC's "operating income" or "net revenue," although depreciation does not represent an actual outlay of current funds. MAC's net revenues averaged about \$20 million from 1996 to 2001, but they were about \$14 million in 2001 and are projected to be less than \$4 million in 2002.

¹⁴ *Laws of Minnesota* (1996), ch. 464, art. 3, sec. 6 required MAC to implement its 2010 long-term comprehensive plan for MSP.

MAC has issued \$1.3 billion in bonds to support its current capital development plan.

Funding for MAC's capital projects comes from a number of sources. Bonds have provided the largest source of funding for the 2010 plan. Since May 1998, MAC has issued about \$1.3 billion in airport revenue bonds to support the plan. In addition, MAC staff estimate that the 2010 plan will use more than \$900 million in "passenger facility charges," about \$300 million in state and federal grants, and more than \$200 million from MAC operating funds.¹⁵ The current passenger facility charge is \$4.50 per passenger boarding an airplane at MSP. This charge, which was approved by the Federal Aviation Administration, is the maximum permitted under federal law.

Ultimately, the airlines using Minneapolis-St. Paul Airport will pay a portion of the costs of the 2010 plan. Excluding costs financed using state or federal grants or passenger facility charges, a share of the remaining capital costs will be billed to the airlines over a period of time. The airlines' share of the remaining costs depends on their use of facilities. For example, airlines are responsible for all airfield and runway costs. In contrast, they pay for only the portion of the terminal facilities that they use.



MAC is implementing a large-scale capital improvement program, as required by the Minnesota Legislature.

Projects in the 2010 plan costing \$1.7 billion are underway or have already been completed, according to MAC estimates, but a significant portion of the plan will be undertaken in the next several years. MAC's capital improvement plan includes projects totaling almost \$900 million over the years 2003-2008. MAC expects that it will spend more during this period than was previously expected because it deferred some projects following the terrorist attacks on September 11, 2001. Mostly through delaying projects, MAC reduced its 2001 capital budget by \$118 million, and it reduced its 2002 capital budget by \$295 million.

¹⁵ The total amount of funds available is more than the estimated costs of the 2010 Plan. This occurs because not all of the funds raised from bonds are available to pay construction costs. Some of the funds borrowed must be used to pay bond issuance costs and capitalized interest and to provide necessary debt service reserves.

MINNEAPOLIS-ST. PAUL INTERNATIONAL AIRPORT

Among U.S. airports, Minneapolis-St. Paul Airport (MSP) has the seventh largest number of arriving and departing planes.

MAC's principal responsibility is the operation of Minneapolis-St. Paul International Airport (MSP). This airport was known as Wold-Chamberlain Field when MAC was created in 1943, but it was given its current name in 1948.¹⁶ Today, MSP is one of the largest airports in the United States in terms of its aircraft and passenger activity. According to a leading airports association, MSP ranked 7th in the nation in the number of aircraft "operations" (arrivals and departures) during 2001 and 10th in the total number of passengers. MSP also ranked 19th in the amount of cargo handled during 2001.¹⁷

The high levels of activity at MSP are largely due to the hub operated by Northwest Airlines (NWA). NWA flies many passengers into MSP where they switch planes and leave for their final destinations. NWA, like most large airlines, finds it more profitable to operate hub operations than to fly passengers directly to their destinations. In recent years, about half of the passengers departing MSP were *connecting* passengers whose flights started elsewhere, while the other half were *originating* passengers whose flights began at MSP. In 2001, about 74 percent of the passengers departing from MSP flew with Northwest Airlines. Altogether, however, the airport is served by 17 domestic airlines that provide scheduled service, 4 domestic airlines that provide non-scheduled (or "charter") service, 4 international airlines, and 11 airlines that provide cargo services.

During the 1990s, passenger and aircraft activity at MSP grew considerably. From 1990 to 2000, the number of paying passengers departing MSP grew 83 percent, while the number of aircraft operations increased 36 percent.¹⁸ But the terrorist attacks of September 11, 2001—along with the recession that began in early 2001—caused activity levels to fall during 2001. The number of paying passengers departing MSP fell 9 percent in 2001, while the number of operations decreased 4 percent.¹⁹ The declines continued during the first nine months of 2002. Paying passengers for the first nine months of 2002 decreased 5 percent from the levels during the first nine months of 2001, while aircraft operations were down only 1 percent from 2001. The 1989 Legislature adopted a "dual track" airport planning process—to simultaneously consider the options of expanding the existing airport and relocating the airport to a new site.²⁰ The Metropolitan Council, which conducts long-range planning for the Twin Cities metropolitan area, examined possible locations for a new airport in Dakota, Scott, and Anoka counties. The council, MAC, and the U.S. Federal Aviation

¹⁶ The airport's first landing strip and hangar were built in 1920. Initially called Speedway Field (after the racing track that was previously at this site), the airport was renamed Wold-Chamberlain Field in 1923 to honor two World War I pilots.

¹⁷ Airports Council International-North America, "Stats & Surveys: Traffic Statistics" (<http://www.aci-na.org/asp/traffic.asp?page=90>; accessed November 25, 2002).

¹⁸ Examples of "non-paying" passengers include persons whose flights are provided without charge due to a frequent flier program and airline employees whose travel is paid for by the airline.

¹⁹ Cargo shipments from MSP have shown less growth. Available data on tons of enplaned cargo go back to 1992 and show a growth of 20 percent from 1992 to 2000. Cargo shipments dropped 11 percent, however, in 2001.

²⁰ *Laws of Minnesota* (1989), ch. 279.



The number of passengers at MSP increased 83 percent from 1990 to 2000, then declined 9 percent in 2001.

MSP's fourth runway is scheduled for completion in late 2004.

Administration all developed forecasts for aviation activity at MSP. After years of study and discussion, the 1996 Minnesota Legislature decided to keep the airport at its present location.

Presently, planes at MSP use three runways, with lengths of 11,006, 10,000, and 8,200 feet. A new 8,000 foot runway is scheduled for completion in late 2004. In addition, MAC operates two terminals at MSP: the Lindbergh Terminal (with 2.6 million square feet of space) and the Humphrey Terminal (395,000 square feet).

In recent years, MAC has received various awards from trade associations for the Minneapolis-St. Paul International Airport. For example, the International Air Transport Association named MSP the best large North American Airport for "overall customer satisfaction" for 1999, 2000, and 2001, based on customer surveys. The airport has also won awards for specific aspects of its operations—such as snow and ice control, concessions, and building design. In general, airline officials whom we contacted were more positive than negative about MSP facilities and MAC's management of them.

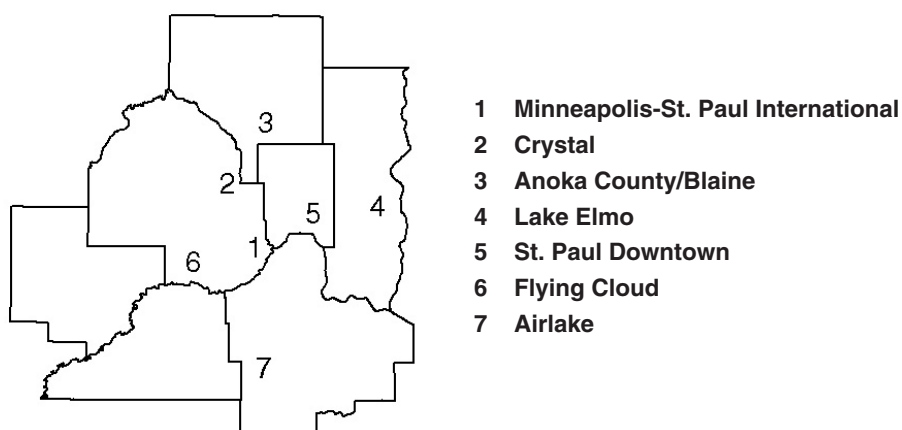
RELIEVER AIRPORTS

In the seven-county Twin Cities metropolitan area, the Federal Aviation Administration has designated seven airports as "reliever airports" for Minneapolis-St. Paul International Airport. Reliever airports are supposed to relieve congestion at a commercial airport and provide improved access for "general aviation" aircraft.²¹ Figure 1.4 shows the location of the six reliever airports operated by MAC. A seventh reliever airport is operated by the city of South St. Paul.²²

²¹ The term "general aviation" usually refers to aviation other than scheduled commercial passenger transport flights and military flights. It can include business, recreation, training, and emergency medical flights, among others.

²² State law formerly allowed cities to determine whether their airports would be MAC-operated airports. At that time, South St. Paul decided to retain ownership of the airport.

Figure 1.4: MAC Airports in the Seven-County Metropolitan Area



SOURCE: Metropolitan Airports Commission.

Six MAC-operated reliever airports divert some traffic from MSP.

Although the reliever airports do not serve anywhere near the number of passengers served at MSP, they provide a vital service by accommodating the needs for private and corporate flights, recreational flying, flight training, military operations, and medical evacuations. As shown in Figure 1.5, there were about 757,000 operations at MAC's reliever airports in 2001, down from 923,000 in 1994. Federal restrictions on general aviation aircraft significantly reduced operations at the reliever airports for several weeks following the September 11, 2001 terrorist attacks, and flooding temporarily closed the St. Paul Downtown Airport in mid-2001. The total number of operations at MAC's reliever airports exceeded the number of MSP operations by more than 100 percent in the early 1990s, compared with 62, 58, and 51 percent during the past three years.

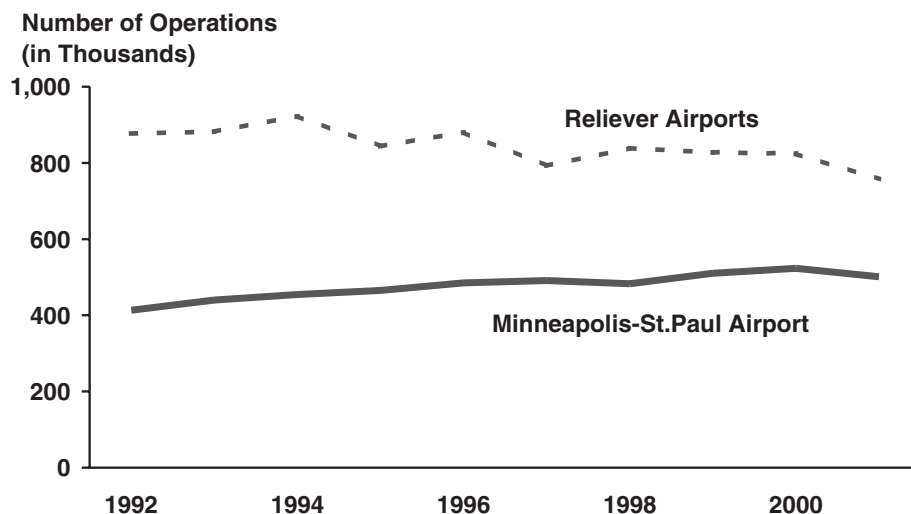
While MAC cannot prevent small planes and corporate jets from using MSP, the reliever airports provide pilots with alternative take-off and landing sites. The diversion of such aircraft helps to limit delays at MSP and reduce expenses for airline companies using MSP. The 1996 Legislature required MAC to "develop and implement a plan to divert the maximum feasible number of general aviation operations" from MSP to reliever airports.²³ There is no single MAC document that constitutes the required plan. Instead, MAC tries to entice pilots to use the reliever airports with capital improvements and "relatively low user charges."²⁴ For instance, MAC is currently proceeding with plans to lengthen one runway at Flying Cloud Airport and one runway at Anoka County-Blaine Airport to 5,000 feet, which would allow these airports to serve newer corporate jets. Table 1.2 shows the length of the longest paved runway at each of the reliever airports. MAC staff told us that most corporate jet pilots prefer to have runways of at least

²³ Minn. Stat. (2002), 473.608, subd. 27.

²⁴ MAC, *Comprehensive Annual Financial Report for the Year Ended December 31, 2001* (Minneapolis, May 2002), 20.

Over the past decade, MSP's traffic increased while traffic at the reliever airports declined.

Figure 1.5: Total Operations at Reliever Airports and MSP, 1992-2001



SOURCE: MAC, *Comprehensive Annual Report, Year Ended December 31, 2001* (Minneapolis, 2002), 68-69.

Table 1.2: MAC Reliever Airports' Runway Characteristics and 2000-01 Operations

Reliever Airport	Number of Paved Runways	Length of Longest Runway (feet)	Number of Operations (Arrivals and Departures)		Percent of All Reliever Airports' Operations	
			2000	2001	2000	2001
Airlake	1	4,098	76,418	70,229	9.3%	9.3%
Anoka County/Blaine	2	4,855	156,546	136,892	19.0	18.1
Crystal	3	3,266	176,554	156,801	21.4	20.7
Flying Cloud	3	3,909	186,078	185,593	22.6	24.5
Lake Elmo	2	2,850	70,687	64,962	8.6	8.6
St. Paul Downtown	3	6,711	157,788	142,794	19.1	18.9
TOTAL	14		824,071	757,271	100.0%	100.0%

SOURCE: Metropolitan Airports Commission and <http://www.airnav.com>; accessed December 11, 2002.

5,000 feet; presently the St. Paul Downtown Airport is the only reliever airport with such a runway.

MAC subsidizes the operation of its reliever airports with revenue from parking and other concessions at MSP. In 2001, the operating subsidy for the reliever airports was \$1.8 million (excluding depreciation charges). The subsidy has decreased from \$2.5 million in 1997 due to increases in user charges put into effect by MAC beginning in 1999. In addition, MAC uses revenue from MSP to pay for capital rehabilitation and improvement projects at the reliever airports. The depreciation expense for MAC's reliever airports was \$2.6 million in 2001.