Why the City Should NOT Align itself with the Airlines

1. The Airlines only ever act in their own fiduciary interests, and not in the best interest of the City and community. DON’T GIVE UP ON THE COMMUNITY.
   a. After all of the mergers they are balance sheet-driven, and make decisions that are only in their own best interest.
   b. The City is looking long-term for this project to be generational and transformative. The airlines do not operate that way, as they only think about their own financial interests and will leave a market the minute profits decrease. This happened in both St. Louis and Branson.
   c. The City wants a partner who has experience negotiating AGAINST the airlines on behalf of the City.

2. Eventually in most City/airline deals, the largest airline turns on the other airlines with smaller market share and goes off and cuts its own deal with the City. In this case Southwest has done that with the Mayor, starting back with the original MOU with B&M, and now with Friday’s support of the “hometown” team and the switch today to the Edgemoor team. This is happening now – for example American Airlines had no idea that Southwest switched its support Tuesday from the “hometown” team to the Edgemoor team
   a. Each airline should be asked if it changed its position from Friday to Tuesday. As of today American Airlines did not know, and it’s likely that several other airlines also did not know.
   b. Each airline should be asked if it approved the release of the “consortium” statement given Friday to the Kansas City Star with respect to the existing non-disclosure agreements.

3. Why would the airlines (and really just Southwest) do this? Why would Southwest say that it’s difficult to work with AECOM? In the case of Kansas City, Southwest is searching for a design/build team that will put the airlines’ interests above the City’s interests.
   a. AECOM has a track record of advocating for its City clients and not the airlines. Southwest is looking for a developer who it has worked with before so it can control the scope and the quality of the project. AECOM works with the City and Airport to control scope and quality, not the airlines.
   b. First they supported the “hometown team” last Friday. B&M has NEVER built a terminal for a public entity. Their only two terminal projects are both for private entities- Delta Air Lines at LaGuardia and the private equity investors in Branson. In fact the commercial aviation work that B&M does is predominantly directly for the airlines and not for City government.
   c. Next, three days later, they shift their support to another team with a long history of Southwest- and Delta-related terminal projects in Baltimore, Los Angeles and Houston.

4. AECOM has a long and successful history of working for the Cities and not the airlines, with a proven track record of meeting the objectives and goals of the City and Community on issues such as airport operational flexibility, community engagement and minority participation. The airlines do not want the City to align with a developer who will put the City’s interests ahead of the airlines’ interests.
5. Why the City needs to reject the airlines’ maneuver and put its interests ahead of the airlines’ interests
   a. **The City needs to put its interests first, and NOT the airlines’**. The City wants:
      i. An award-winning terminal design built on budget and on time by a team with a strong track record of delivering this in other cities
      ii. The most efficient financial plan that brings the lowest possible interest rates on the bond debt and that brings enough equity to insulate the City from cost overruns that cause a developer default (causing the City to have to step in).
      iii. Any financial proposal with less than 10% equity significantly increases the City’s risk. In the event of any cost overrun or schedule delay, any developer with no equity in the deal can simply walk away, leaving the City with the total obligation to complete the funding and the construction of the terminal project.
      iv. A generational, transformative, sustainable Community Engagement Plan that delivers access to working capital for MWBEs, workforce development, a Community Benefits Agreement and 30%+ MWBE participation
   b. **The City should contact Sheri Enrico, its advisor to the City/Airport from Leigh Fisher Associates**. Sheri is one of the toughest airline negotiators and can give you 30 years of examples of how airports have successfully put their own interests ahead of the Airlines.
   c. **The airlines have assets with wheels and engines, and have a proven track record of leaving communities**. Historically, Cities that put the airlines’ interest ahead of their own are left with oversized and under-used facilities that the Cities have to continue to pay the remaining bond debt and annual maintenance after the airlines leave the community:
      i. **St. Louis, MO** – After constructing a $800mm new runway for American Airlines, the airline pulled down the hub, cutting hundreds of daily flights. The City and airport still has over $600mm in bonds outstanding for the runway that isn’t used while also paying for annual maintenance on the runway.
      ii. **Branson, MO** – After acquiring AirTran Airlines, **Southwest Airlines pull out all service after only six months in the market**, leaving the new $130mm airport with no air service
      iii. **Memphis** – Delta Air Lines pulls down its hub and hundreds of daily flights, leaving the City with an overbuilt terminal and the annual debt and maintenance costs
      iv. **Cincinnati** – Delta Air Lines pulls down its hub and hundreds of daily flights, leaving the City with an overbuilt terminal and the annual debt and maintenance costs
      v. **Cleveland** – United Airlines pulls down its hub and hundreds of daily flights, leaving the City with an overbuilt terminal and the annual debt and maintenance costs
      vi. **Pittsburgh** - American Airlines (USAirways) pulls down its hub and hundreds of daily flights, leaving the Authority with an overbuilt terminal and the annual debt and maintenance costs
   d. The airlines (mainly Southwest) at Kansas City are requesting an overbuilt terminal (too many gates) and have negotiated a deal with the Mayor to lock in their annual payments at $69.33mm, **thereby capping the airline risk and putting the financial risk back onto the City**. This “airline MOU” should be abandoned and renegotiated after the final project scope and cost are determined.
6. Have other cities separated their interests from the airlines on major terminal projects? Yes they have.
   a. **Indianapolis** – The City began an award-winning new $900mm terminal after going to ordinance rates with the airlines when a new airline agreement could not be reached. The airlines eventually signed a new agreement covering the entire project cost.
   b. **Sacramento** – The City began a $1B new terminal project without an airline agreement. The project was financed, built and made operational while there was still no airline agreement, and the airlines continue to operate there, covering the entire project cost.
   c. **New York LaGuardia** – The Port Authority launched its $3B new Central Terminal Building (CTB) without an airline agreement. The developer sold over $1.5B in bonds without an airline agreement in place. After one year of construction the airlines have agreed in principal to cover the costs of the new terminal.

7. **Do not select a developer who is going to align with the airlines**
   a. DON’T GIVE UP ON THE COMMUNITY – put the City’s interests first
   b. Select a partner that has a proven track record of executing the community objectives and goals for major cities
   c. Understand that the airlines will first consider their own fiduciary interests and can leave a market anytime as their assets have wheels and engines
   d. Do not give control of the terminal scope of work and quality to the airlines and accept the risk of the airlines decreasing flights, thereby leaving the City with an overbuilt, under-used terminal and a 30-year commitment to the developer to pay for it