

# Chapter 50

## Cost and Cost Politics in Airport Takeovers: Two Cases From North Carolina

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### ABSTRACT

*While it is well known that cost is a politically salient issue, much less is known about the role of cost development and how costs get elevated into the political discussion. This chapter looks at the role of cost accounting and cost development in the recent takeover attempts of two airports by the state of North Carolina. The Charlotte-Douglas airport takeover was a failed attempt, and the Asheville Regional airport takeover succeeded. The chapter makes three important contributions to the study of sustainable transportation financial management. First, it shows that costs are important to the political discussion of the takeovers. Second, it provides a discussion of the relevant costs in each case. Third, it provides research on the political dimensions of cost in the United States in the management of transportation assets, which may limit sustainable transportation policy.*

### INTRODUCTION

Airport governance changes, such as converting municipally run airports to regionally governed airport authorities<sup>1</sup>, are often thought to increase financial and resource efficiency (Oum, Yan, & Yu, 2008; Craig et al 2012). Globally, ownership by the private sector of airports may increase efficiency through better management. In the United States commercial service airports are owned by the public sector, primarily by municipal governments or by local authorities (Bacot & Christine, 2006). By being more efficient with regional airport infrastructure and potentially providing a lower cost of management, governance changes may make airport infrastructure more sustainable. However, little is known about airport

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financial management in the scholarly literature and discussions of how costs are perceived provides some indication of the possibilities and problems associated with this potential sustainability strategy.

While efficiency and sustainability are ostensible reasons for governance changes, there are often historical and political reasons for an airport's governance structure. A city or a county may have originally built the airport, which means that this entity often controls it. The reasons for a change of governance to these large and important assets is likely to be at least as political as it is based upon economic and accounting reasons. When governance changes are forced on a city by its state, we call this a takeover of the airport. Especially in non-home-rule or weak home-rule states, the state can take over a municipal airport, which it could then run itself or it could give it to a local authority. In the literature, it is unclear what financial considerations are given to these governance changes. To address this issue we ask the following research question: what costs and financial considerations are discussed in airport takeovers? Specifically, are the indirect costs associated with airport management like airport security, emergency response, and other administrative indirect costs a factor in the governance decision?

To address these research questions, this chapter looks at the costs discussed and the cost politics associated with a government airport takeover attempt by the State of North Carolina of Charlotte-Douglas Airport (CLT). It then applies the findings to the case of the Asheville Regional Airport (AVL) to see whether costs were important in that takeover attempt. Both airport takeovers were attempted by the North Carolina General Assembly between 2012 and 2014. CLT is the ninth largest airport in the United States and a hub airport for American Airlines, currently the largest airline in the world in terms of passengers (FlightGlobal 2017). While the General Assembly did pass legislation to take the airport from the City of Charlotte, this attempt was blocked in court. AVL is a regional airport, and the General Assembly was successful in changing the governance structure in this case. The chapter examines the statements made in the North Carolina media and in technical documents concerning the costs of the airports. This case represents a pathway case study (Gerring, 2007) of the politicization of costs in the relatively technical area of accounting and financial management of airports.

The chapter makes three important contributions to the study of government financial management and transportation. First, it shows that costs were important to the discussion of both takeover attempts. Second, it discusses the costs that were relevant in each case. Third, it provides more research on cost accounting and indirect costs in the United States, which is an area that is severely underdeveloped and in need of scholarship (Rivenbark, 2005; Mohr, 2017). Beyond merely technical issues, the process of how costs are discussed in the public is a fascinating part of the policy process and deserves more attention in scholarship.

## **BACKGROUND**

At this point there is a significant literature on the relationship between ownership of airports and their costs (Albalade, Bel, and Fageda 2013; Assaf and Gillen 2012; Adler and Libert 2014; Carney and Mew 2003; Kutlu and McCarthy 2016). Generally, the global literature finds that there is an effect from ownership on costs, but primarily lower costs are associated with private airports, which may have different input factors such as lower capital investment and staff levels. However, in the United States commercial service airports are owned by public organizations either through municipal governments or through independent authorities (Bacot and Christine 2006; Craig et al 2012).<sup>2</sup> One study that looks at large US airport governance structures indicates that airport authorities do have lower costs, but this is

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