

Alaska International Airport System (AIAS)

Organizational and Business Relations Review



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Introduction

Under the contract, dated May 25, 2010, the State of Alaska, Department of Transportation & Public Facilities (DOT&PF), retained Critical Path Inc. (CPI) along with named sub-consultants Paul B. Gaines, S.P., Paslay Management Group, and Fison & Associates to conduct an independent third party review of the organizational structure of the Alaska International Airport System (AIAS) and its business relationship with the airlines with the purpose of providing recommendations that will enhance the overall ongoing operation and business development of AIAS. The AIAS is comprised of the Ted Stevens Anchorage International Airport (ANC), the Fairbanks International Airport (FAI), and the International Airport Systems Office (IASO).

While the stated purpose focuses on the AIAS, the Scope of Work also addresses aspects of the DOT&PF related to Statewide Airports. In addition, two areas of focus deemed important to the Commissioner of the DOT&PF were the pros and cons of filling the current vacant position of the Director of the AIAS and ways to enhance business relations with the airline community.

The study was an initiative of the Commissioner. CPI was awarded the project with the state as a result of the competitive process delineated by Request for Proposal (RFP) No. 2510024, dated April 6, 2010.

This report contains the study findings and recommendations and describes the methodology and processes undertaken by the consulting team to arrive at them.

Scope of Work and Study Methodology

The AIAS Scope of Work contained in the contract focused on two primary elements: first, the AIAS organizational review; and second, the review of its business relations with the airlines. The Scope of Work was more specifically identified in the RFP to:

Organization Review

- Examine current functions of the Department's Aviation Division as they relate to the AIAS versus Statewide Airports functions.
- Assess the efficiency of the AIAS structure and approach.
- Examine the current functions and operations performed by the staff at ANC and FAI as well as the Controller's Office.
- Identify which functions, if any, should become centralized "system functions" under AIAS. Provide business case for recommended centralized functions, and impact/benefits to ANC and FAI.
- Identify which functions, if any, should be standardized between ANC and FAI but performed separately.
- Review top-level organizational structure for the Department's Aviation Division including AIAS, ANC, FAI, and Statewide Airports. Identify any recommended organizational changes that would minimize layered management and improve System operations, accountability, and business development.

Business Relations Review

- Evaluate the effectiveness of the AIAS current business practices.
- Evaluate the overall effectiveness of the AIAS working relationships and communications with the airlines community.

- Ascertain and identify any airline concerns and/or expectations not currently being fulfilled.
- Provide recommendations for improving the effectiveness of communications and the working relationships between the airlines and the AIAS.
- Provide recommendations, if any, relative to organizational structure and/or operational practices that would enhance business development opportunities.

Throughout the study work effort, pre-agreed-upon objectives/parameters were used to guide assessments, analyses, and evaluations leading to the development of findings and recommendations. These objectives/parameters (noted below) were initially developed by the consulting team and further refined after discussions with the Commissioner and project coordinator:

- Emphasize and strengthen the business focus and culture as an airport system.
- Allow senior management to focus on particular areas of expertise by identifying deficient core functional areas.
- Ensure mandated functions are identified and given appropriate priority.
- Define functional accountability within the AIAS organization.
- Provide a road map for future organization development.
- Identify administrative and operational processes needing review and improvement.
- Develop an organization structure that reflects best practices in the airport industry.
- Enhance approach for doing business with emphasis on issues affecting the airline community.

The following high level study focal points were developed by the consulting team, after consultation with the Commissioner and project coordinator:

- Assess span of control, division of responsibilities, and lines of authority.
- Assess organizational effectiveness to meet current industry challenges.
- Assess organization structure, in keeping with best practices and core functional capabilities.
- Assess suitability of the management structure to achieve current strategic goals, mission critical functions and priorities.
- Assess approach to business practices.
- Assess the current status of the relationship with the airline community.

Field Activities Summary

Background

The consulting team represented by members Tim Phillips (CPI) and Paul Gaines (Paul B. Gaines, S.P.) met with the Commissioner and project coordinator at the outset (June 8, 2010) of the study. The purpose of this meeting was to discuss and reach a mutual understanding on the study's objectives/parameters, work steps, study schedule/milestones, and priorities of the Work Scope, and to ensure the study deliverables were clearly understood. This purpose was achieved.

This meeting provided an open discussion of study expectations and allowed the Commissioner to make known areas where findings would be of the greatest interest, namely the pros and cons of filling the vacant Executive Director (AIAS) position and the ways to improve business relations with the airline community.

In addition, agreement was reached on staff members and other persons to be interviewed; the initial interview groups, included AIAS and other DOT&PF staff members (current and former), airline representatives, and those with general aviation (GA) and community interests. Further, it was understood that the interview list could be added to or reduced, as needed, in order to obtain a full range of views. At no time during the study was the consulting team denied access to any documentation or person it desired to interview.

Consistent with the terms of the contract and the discussions with the Commissioner at the meeting on June 8, 2010, the focus of the study was to deal with organizational and business relationship issues and would not include or address the following:

- Evaluation of existing personnel.

- Compensation issues.
- Current or future staffing levels.
- Amending of existing or drafting of new position descriptions.
- Issues related to form of governance.

In addition, the following limitations to the study were discussed and agreed to with the Commissioner:

- Study of organization issues and resulting recommended structure(s) would serve as a road map for future organization development, and no attempt would be made to define or deal with staffing requirements.
- Review and analysis would include only high-level core functions and limited sub-functions corresponding to the management levels designated for interviews. Further, the study deliverables would be at a similar high level.
- Study findings and recommendations would be independently developed by the consulting team and would be crafted for use by the Commissioner.
- Data from documents and information provided from interviews would not be subject to in-depth vetting or verification.

Appendix A includes a list of materials and documents reviewed which were furnished by the project coordinator. These were taken at face value and relied upon by the consulting team as one of the two primary methods to gather background data about the DOT&PF aviation environment (the AIAS and Statewide Airports). These reports and documents, coupled with the information obtained from the interviews, served as a point of departure to identify the current key airport functions performed by each department and its subdivisions. There were no on-site investigations conducted to verify information in the materials or responses provided during the interviews.

Interviews

In-person interviews were conducted with the following groups to gain an understanding of the broad AIAS and Statewide Airports current organization and core functions, background regarding relations with airlines over the past five years, and views as to ways AIAS operates and meets mandates.

Senior Staff

Interviews of staff were intended to confirm and document the actual organization structure and to identify the functions performed by the key management positions and their direct reports. The interviews focused on:

- Functions assigned to the position as described in each position description.
- Functions actually performed.
- Reporting lines, as opposed to those noted in the existing organization chart.
- Functions not being performed.
- Functions performed that were not consistent with unit's designated mission.

Airline Community

Interviews of the airlines were intended to document views as to current business relations with the AIAS and the rationale of this relationship from the perspective of local and home office representatives from all categories of airline users.

Former Political Appointments/Senior Management Staff

Interviews were intended to obtain an understanding of events that have contributed to current conditions both organizationally and with respect to airline relations.

GA and Business Community

Interviews were intended to obtain perspective from a broad array of airport users about ways their needs are being met and suggestions as to practices to enhance service delivery.

A total of 47 interviews were conducted. The names of the individuals interviewed are listed in Table 1 on page 14.

Interviews of AIAS and DOT&PF staff were preceded by a letter from the Commissioner prepared by the consulting team explaining the purpose of the study, the interview process, and interview format. In addition, each staff member to be interviewed was provided with a questionnaire that was to serve as an interview guideline and to detail the questions to be asked. With respect to interviews of the other groups, a questionnaire was prepared by the consulting team, which reflected the nature of data expected to be gathered from the specific group. An email from the Commissioner and questionnaires are in Appendix B.

With the exception of the two airport managers who met with the consulting team on more than one occasion, interviews generally lasted from one to two hours per interviewee and were for the most part conducted over a four-week period in Anchorage, Fairbanks, and Kenai. In addition, due to the geographic location of the individual interviewed, it was necessary to conduct three of the interviews by telephone as noted in Table 1. While the questionnaires were intended to promote discussion to obtain information about organizational and business practices, it also provided each person interviewed an opportunity to comment on areas that might be of special interest to him or her.

Throughout the data gathering and interview steps of the study, the consulting team's project manager (Paul B. Gaines) conferred with the project coordinator on almost a daily basis by phone and at least weekly in person. In addition,

written progress reports were submitted weekly while the team was on site. At the completion of the interview phase, and prior to members of the consulting team's departure from Anchorage, a briefing was held with the Commissioner and project coordinator to review and discuss the work effort completed to date. While no formal compilation of the data had been made or analysis and evaluations undertaken at that point, the consulting team did provide the Commissioner with a high level overview of initial impressions and observations, a synopsis (using raw data) of which is outlined in Appendix C. No adjustment to the work plan and deliverables was deemed necessary, and the consulting team was given approval to proceed with the assessment phase as outlined in the schedule.

Table 1. AIAS Organizational & Business Relations Review Interviewees

AIAS Staff

John Parrott	Lauri Burkmire	Darryl Avara
Jesse VanderZanden	Keith Day	Donna Allen
Dan Frisby	Larry Swensen	Moses Villalobos
Debbie Herrick	Marilyn Burdick	Steve Henry
Rebecca Cronkhite	John Johansen	
Trudy Wassel	Jim Iagulli	

Passenger and Cargo Airlines

Kathy Smith Alaska Airlines	Bob Hajdukovich ERA, Alaska	Cory Christian Alaska Airlines
Kevin Hoffman UPS	Tseun Ming Chen China Airlines	*Matt Ross, Airline Technical Representative
Al Orot Pen Air	Thomas Kuk Korean Airlines	*Cliff Argue Alaska Airlines, Retired
Jim Sartin Federal Express	Lee Ryan Ryan Air	Penny Jordahl Alaska Airlines

GA and Community Interests

Bill O’Leary, Alaska Railroad Corporation	John Torgensen KPEDD	Richard Wien Florcraft, Inc.
Bill Popp AEDC	Tom George AOPA	Mort Plumb 1 st National Bank, Alaska
Christine Klein Calista Corporation	Jim Dodson FEDC	Adam White, Alaska Airmen’s Association, Inc.

DOT&PF, Statewide Aviation, & FAA

Marc Luiken	Jim Loman, FAA	Butch Douthit
Roger Maggard	Rob Campbell	Dave Eberle
Byron Huffman, FAA	Joel St. Aubin	John Steiner
*Laura Baker		

*Indicates that the interview was conducted by telephone.

Assessment Activities Summary

Organization Evaluation

Using the materials and documents provided by the project coordinator (Appendix A), other external sources, and the information and data gathered from interviews (primarily those with current and former staff), a matrix of key functions performed by ANC and FAI airports was developed (Appendix D). This list was used to identify and describe the actual functions otherwise not apparent in the materials provided, and to provide a more complete picture of the current organization structure by identifying:

- Responsible agencies performing functions not performed by the AIAS staff or third parties under AIAS control.
- Functional groupings.
- Lines of authority and responsibility.
- Provisions for mission critical functions.
- Span of control.
- Overlapping or duplicated functions.
- Areas of risk exposure.

By design, the evaluation process used current industry conditions and best airport organizational practices coupled with the industry experience of the consulting team members. It would have been ideal to include the priorities, goals, and objectives of the AIAS, but they were not available in a formal document. To facilitate consideration of new ideas and concepts, the consulting team avoided focusing on the ways in which the current staff might or might not fit into a realigned structure. Instead, the assessment centered on functions and related processes that were executed, noting any deficiencies or lack of

accountability, while recognizing practices that were effective. The underlying consideration was to create a number of concepts of organizational structures that would provide a guide to organizational development, depending on the strategic direction selected.

The existing organization structures for the AIAS and Statewide Airports provided to the consulting team at the outset of the study appear to have evolved over time in reaction to external and internal circumstances. By means of interviews with the management staff listed in Table 1, the functions summarized in the ANC and FAI matrices (Appendix D) were confirmed. Where functions of a work unit were not noted on the charts provided, they were documented to reflect a more comprehensive picture of key functions performed. This allowed for a point of departure for the evaluation/analysis that used a more complete depiction of current organizational conditions.

Special attention was given to functions that were spread among one or more work units, since adequacy of appropriate controls is a key process issue. In addition, identification of functions not performed or not receiving appropriate attention, inconsistencies with best practices, ambiguous lines of authority, and deficient operating processes that may pose potential business risks were considered. Assessments and evaluations were limited to the materials made available to the consulting team and input received from the staff interviews. No field studies to verify this data were made as a part of this study.

As a result of the evaluations and assessments, findings regarding the current organization structure were developed. These served as the basis for the recommended organization structures and action initiatives to improve organizational efficiency.

While the primary focus of the organization study dealt with AIAS matters, a number of organizational issues related to Statewide Airports were considered. The primary roles and responsibilities of the Statewide Airports staff (including
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the Deputy Commissioner Aviation), the staffs within the three regions, and the objectives of the state as they related to aviation development were reviewed. In addition, construction and re-construction, as opposed to maintenance, of facilities were explored.

Business Relations Evaluation

The business dealings with the airline community were tracked using the materials and documents provided by the project coordinator and the information gathered from interviews. The interview input was primarily from individuals interfacing with tenants on business matters, former staff, former appointees, and airline representatives. This information was used to gain an insight into the strategy—or lack thereof—used to guide business activities, such as aeronautical and non-aeronautical revenue source development, outreach for new business, growth/retention of existing tenant base, and approach to doing business with the airline community. A clearer picture of current business relations and practices was developed by investigating the following:

- Manner in which business was conducted consistent with best practices.
- Extent to which accountability for business decisions existed.
- Extent to which business plan supported organizational priorities and objectives.
- Extent to which mutual respect existed between the AIAS and the airline community.
- Ways in which a positive and open environment to discuss outstanding issues and areas of differing views existed with the airline community.
- Extent to which reports provided timely and comprehensive information. The assessment/evaluation process weighed existing AIAS conditions against current industry conditions, best airport business practices, and the industry experience of

the consulting team members. It would have been ideal to include a review of AIAS business priorities, goals, and objectives, but this was not available in formal documents. Accordingly, the consulting team made assumptions about these items predicated upon information gained from staff interviews coupled with the team's industry experience.

Although a controller's function exists, careful consideration was given to identifying where the responsibility for overall business direction for the enterprise resided. It was also important to identify the organization units in which business-related functions were performed. Further, a careful effort was undertaken to gain a balanced understanding of events leading to the contentious relationship with the airline community that had developed during the master plan study and negotiations for the renewal of the operating agreement and terminal lease. Evaluation of these matters led to the development of the findings regarding business relations that, in turn, served as the basis for recommended action steps and adjustment to practices.

Draft Report and Presentation

The draft initial findings and preliminary recommendations were completed and presented in PowerPoint format to the Commissioner and project coordinator on August 20, 2010, in Anchorage. Comments were received and discussed; the Commissioner registered his approval and requested the consulting team make a similar briefing in PowerPoint format to the Deputy Commissioner Aviation, the Controller, and the two AIAS airport managers. This additional briefing was held on September 3, 2010, in Anchorage.

A subsequent presentation was made to the Airline Airport Affairs Committee on October 26, 2010. In addition, a meeting was held on October 27, 2010 with the co-chairs of the AAAC, the Commissioner, the Deputy Commissioner Aviation, the FAI and ANC managers, the Controller, and the consulting team's project manager to discuss the draft report.

Findings

The following are the **findings** resulting from the assessments and evaluations of data gathered from the written materials and documents, from the interviews conducted, from feedback the project coordinator offered throughout the work steps, and from the Commissioner during and after the August 20, September 3, and October 27, 2010, briefings. For purposes of this study, a **finding** describes a condition about the organization and/or its processes that might or might not require an action but was deemed a critical aspect in characterizing the organization's framework or fabric.

General Observations

Both the AIAS and the rural airports play a unique role in the state's transportation system. These two categories of airports are sufficiently distinctive to require two very different approaches to operations and management.

The DOT&PF is responsible for a challenging mix of aeronautical activities including:

- Domestic and foreign flag passenger operations.
- Major domestic, intrastate, and international cargo activities.
- Significant stop and go (tech stop) cargo activity.
- Major GA operations and aircraft.
- 250+ rural airports.
- Significant winter operations and operating extremes.

The pool of employees with commercial airport experience and the educational offerings in the field of commercial aviation in Alaska are limited. In addition, the

lack of competitive compensation compared with the “lower 48” commercial airports is a contributor to experience limitations and deficiencies in the diverse specialties required to operate airport enterprises today. For example, there are no members of the AIAS management teams that have “outside” civil airport experience, and the ratio of retired military personnel on staff is significant. Further, there is no formal airport administration curriculum offered in the state education system.

Although issue driven, there is a long-standing view in the Fairbanks community that Anchorage interests are given overriding priority, and consequently FAI is relegated to a lesser role.

The legislatively mandated Aviation Advisory Board is issue driven; as a result its level of activity tends to fluctuate.

Given that the Commissioner and Deputy Commissioner Aviation are political appointees, the management philosophy and strategic leadership of the DOT&PF is subject to frequent changes in direction. Without stable executive leadership, Statewide Airports and the AIAS are faced with a lack of continuity in management, philosophy, and approach, resulting in frustration for AIAS airline customers and the organization as a whole. Further, this contributes to the difficulty in advancing goals and objectives over the long term.

There is a significant difference in the requisite management skills and backgrounds required to operate Statewide Airports as opposed to the AIAS. Statewide Airports is very much a “public utility” upon which citizens of the local communities rely to survive. On the other hand, the AIAS is an “enterprise” that transacts business with large international corporations on a daily basis, requiring a balance between the needs of the state and those of its corporate customers. The management and leadership skills required of Statewide Airports and AIAS executives are such that it would be difficult, if not impossible, to find both skill sets embodied in one individual.

There is a shortcoming in strategic leadership/vision and broad industry knowledge at upper levels of management positions. At the same time, both airports function well from an operational perspective, and the staff still maintains a dedicated work ethic, notwithstanding the extended and contentious airline negotiations and layoffs due to budget constraints.

Certain core functions required to manage and operate AIAS are executed by several different departments within the DOT&PF organization and other state departments. This disaggregated approach to the execution of core functions results in the responsibility and authority being out of sync in several functional areas, as well as exacerbating the lack of management accountability for the airport enterprise as a whole.

Leasing and rental rates do not recognize marketplace forces and differences between the AIAS and rural airports.

A cohesive and planned legislative agenda and mechanism to identify and deal with the legislature is not apparent. Again, ANC, FAI, and Statewide Airports develop legislative agendas independently from one another, instead of jointly developing a comprehensive strategy.

Organization Review Findings

AIAS

There are very few core management functions performed from a “systems” perspective, resulting in lost opportunity for efficiency and strategic system benefits that could be realized. The lack of a designated executive position with the skills and background committed to the AIAS and the absence of a strategic vision/plan contribute in great part to this condition.

The focus of the AIAS, with the completion of the major terminal projects at both airports, has shifted from one of capital development to one of asset

management and utilization, business development, and customer service delivery.

High marks for primary Operations & Maintenance (O&M) functions at each airport; however, business, administrative support, and development functions are staff deficient. Staffing reductions, limitations on hiring, and a lack of AIAS system focus have caused, as would be expected, senior staff to focus on safety and operational matters at the expense of strategic planning and business issues/matters.

A “brain drain” exists due to recent and near-term retirements at several critical functional points. “Bench strength” is minimal with multiple potential points of failure. These issues and the limitations on hiring are having a negative impact on timely and orderly delivery of key services such as marketing and air service development, as well as adequate staffing of other units.

Charts depicting the functional organization structure are dated, do not accurately reflect existing conditions, or are insufficient in the level of detail reported.

Job classifications and titles, in many cases, do not reflect the work tasks for airport specific roles and responsibilities. In certain cases, positions are filled using generic classifications where airport experience and skill sets should be a minimum qualification, resulting in deficiencies in critical functional areas.

Hiring technical/professional skilled staff across all functions is further negatively impacted by the small pool of qualified candidates— in part the result of only two air carrier airports under the same ownership serving as training grounds. This deficient staffing condition is further compounded by the lack of infusion of experienced professionals from “outside” airports.

Training is conducted on an ad hoc basis by each work unit. There is no comprehensive training concept/plan, centralized training function, or recordkeeping.

Airport planning for ANC and FAI is currently conducted independently, with no real “system” planning approach. Additionally, the responsibility for executing this core function is different for each airport. ANC manages this function in-house, while FAI relies on the Northern Region to perform this function. Currently, there is a System Master Plan under consideration that will address this issue.

The AIAS does not exercise management control over design and construction of capital projects. These functions are performed by other departments within the DOT&PF organization, resulting in a lack of airport management accountability and control of these key core functions. In addition, the capital budget is not approached on a system basis.

The AIAS does not have an identifiable corporate culture. The culture that does exist was not developed in a proactive manner to achieve a specific strategic or business objective(s); but instead has evolved due to lack of consistent professional leadership and in reaction to current events.

There is also no formal/approved succession planning process.

Although not a specified aspect of the study it was apparent that compensation issues do exist, namely competitive salary levels for executive positions and a performance pay program. Their absence has had a negative impact on the makeup and lack of appropriate skill sets of current staff.

Statewide Airports

There are a significant number of aviation user groups (GA) with varied interests and agendas. This speaks to the need for a leader of Statewide Airports who has

the knowledge, skills, and abilities to work with large and diverse groups with varied and often competing interests.

A significant airports and aviation issues “gap” exists within the DOT&PF between the senior management levels of each region and the Deputy Commissioner Aviation. This has led to a divergence between skills/knowledge to operate an airport and those to design and build facilities. The regions’ focus on capital projects instead of O&M aspects of airport management is driven in large part by a lack of funding.

The DOT&PF (Statewide Airports) is not always viewed in a favorable light by users and stakeholders of the rural airports. Concerns expressed include:

- No one is in charge of the system—the users cannot get answers to their questions.
- User input is often not solicited and feedback to users is inconsistently provided.
- Within the GA community, the Deputy Commissioner Aviation is the person viewed as responsible for maintaining and operating the airports.
- Policies, practices, and procedures are not consistent across the three regions.
- Communication channels with Statewide Airports and regional staff are not clearly defined and do not encourage open communication with the airport stakeholders.
- In order to get administrative or operational actions accomplished at the rural airports, users often turn to legislative representatives rather than DOT&PF officials.

Planning, O&M, and construction units and related processes are not consistent across the three regions.

Training for on-site representatives (de facto airport managers) across regions is limited; the training that does occur is not formalized.

Business Relations Review Findings

AIAS

There is no formal business plan detailing strategic goals and objectives for the AIAS or the ANC and FAI airports.

Strategic airport IT Master Plan is not formally documented, but likely, because of the requirements set forth by the Enterprise Technology Services.

Controller's function is impacted because enterprise accounting information is not readily available in needed format.

There is a limited informal effort to leverage both airports to optimize staffing expertise in common functional areas, revenue opportunities, common procurement, IT systems and applications, capital programs, and safety practices.

The ANC Field Maintenance Facility is state of the art and contributes to the effectiveness of O&M functions.

Balancing the disparate needs of the airlines makes finding consensus on issues challenging. Although improving over the last few months, the overall relationship and communication with the airline community remain strained, leading to a credibility gap between the airlines and airport staffs. Key reasons contributing to this erosion of trust between the airline community and the AIAS staff can be attributed to the following:

- Business dealings still lack sufficient transparency, a critical issue with the airlines.

- The capital improvement program (CIP) tracking, from planning through construction and between budget and airline project accounting, is insufficient.
- On-site manager-to-manager meetings are not proactively pursued.
- Budgeting by the AIAS is not based on a business plan.
- The development of airline rates and charges lacks strategic foundation.
- There is no AIAS designated spokesperson, i.e., a knowledgeable “go to” person.
- Formal meetings with the Airline Technical Representative (ATR) on planning and environmental matters do not occur on a regularly scheduled basis.
- Information sharing between the AIAS and the foreign flag carriers is viewed as insufficient and in large part emanates from the Airline Airport Affairs Committee as opposed to the AIAS staff.

Local operational relationship between airlines and airport staff is viewed as “not unhappy” and meets day-in and day-out O&M needs of airline customers. Staff pride is the driver for this relationship, as opposed to a formal customer service program.

Legal support for transactional and regulatory activities is limited to one Attorney General staff attorney.

Statewide Airports

Statewide Airports and the AIAS are the two divisions that report to the Deputy Commissioner Aviation; however, the Deputy Commissioner does not control funding or personnel needed to accomplish O&M at the rural airports. Further, the Deputy Commissioner Aviation has the responsibility, but not the authority, to implement procedural changes, such as repair and snow removal practices, etc.

Annual O&M requirements for rural airports are generally viewed as being a \$30 million annual requirement, while revenues are estimated only in the \$3.0+ million range. This disparity in available funding for O&M has contributed to the decline in the condition of many of the rural airports. The former sources of funds for O&M needs at the airports (fuel taxes) have been virtually eliminated, and no substitute funding sources have been provided.

Information flow to rural airports from Statewide Airports is often too little and not timely. The Safety Officer positions within Statewide Airports have been absorbed by the regions, reducing the connection between Statewide staff and the airport users.

Within the DOT&PF, there are no specific funds allocated for general maintenance of the rural airports based on priority needs. Each maintenance project is identified as a line item in the state budget, and on occasion funding is diverted to unidentified maintenance projects in response to complaints by legislators.

The FAA has expressed serious concerns about DOT&PF's lack of ongoing airport pavement maintenance. Pavement Condition Index (PCI) studies indicate that the deferred pavement maintenance levels are estimated at \$600 million. This level of deferred maintenance is a red flag warning that the rural airport system faces serious challenges from a maintenance perspective.

Recommendations

The recommendations contained in Section A below are intended to identify the key **strategic** actions the Commissioner should consider for immediate implementation as he addresses the most crucial needs to achieve long-term improvement in the “overall ongoing operation and business development of AIAS.” Section A recommendations are listed in **the order** in which they should be implemented; this is intended to avoid results that later fail to support the AIAS goals and objectives and thus need to be reworked or discarded.

The recommendations contained in Section B represent other actions that could be implemented which would not be inconsistent with the overall strategic direction adopted and further would not be sensitive to the order in which they are accomplished.

Three organization concepts are presented in Appendix E that illustrate structures that offer alternative methods to support the study’s recommendations. Depending on the strategic direction adopted by the AIAS, these structures can be used in their entirety or be adjusted, combined or adapted as needed. Appendix E also contains the current organization structure of AIAS. The following is a description of the Figures in Appendix E:

Figure 1 is an abbreviated version of the current organization structure.

Figure 2 is a concept that assumes AIAS would have an executive director position and a new support services unit with responsibility for business, finance & administration, and development functions.

Figure 3 is a concept that assumes the Deputy Commissioner Aviation fulfils the executive director role and responsibilities, including the new AIAS support services unit.

Figure 4 illustrates the way in which consulting support could be utilized in lieu of additional staff hires.

Figure 5 illustrates details of key functions that would be assigned to the AIAS support services unit.

Section A – Priority Actions

1. Take immediate action to develop a formal system approach to providing AIAS support services by creating a new unit staffed with seasoned professional(s) possessing proven airport backgrounds in business, finance, administration, and development functions or by acquiring consulting support with these functional skills.
2. Develop a strategic vision for the AIAS along with a supporting corporate culture; through outreach efforts seek buy-in at all staff levels.
3. Develop a functional organization structure that supports the strategic vision.
4. Develop a business plan that is predicated on the strategic direction/vision.
5. Initiate studies, in cooperation with the appropriate state agency, to:
 - Develop an airport specific IT master plan.
 - Identify critical airport positions requiring specific airport skill sets and experience and the conditions of employment for the AIAS Director and airport managers.
 - Develop modifications and/or in-house reconciliation applications to allow financial data to be obtained in the format needed to support enterprise reporting, contractual requirements for CIP and capital program tracking, and rates and charges calculations.

Section B – Other Actions

- Reestablish a marketing and air service development program.
- Develop a comprehensive training program benchmarked against best practices.
- Establish a common format for safety/operating policies and procedures.
- Develop a key issues agenda for meetings with the ATR on a regularly scheduled basis. Establish informal manager-to-manager meetings at the local level.
- Develop a strategic vision/plan for Statewide Airports. This effort should be completed independent of the AIAS strategic vision.
- Revisit ways in which Statewide Airports interacts and functions with the regions, focusing on operating procedures that include alternative O&M methodologies.
- Undertake a detailed review of the organization structure and functions of Statewide Airports to insure consistency with the strategic plan.
- Support commercial air service opportunities for rural airports based on practical business models that maximize essential air service funding and view the airports as a transportation system.
- Develop a legislative agenda and plan to increase funding for O&M of the rural airport system.
- Develop a series of training programs (minimum standards) for airport operators for non-AIAS state-owned airports.

APPENDIX

Appendix A – Materials and Documents Reviewed

- December 1990 Draft Final Report – Organization and Management Study Alaska International Airport system. KPMG Peat Marwick
- April 2002 Final Report – Alaska International Airport System Organization and Process Study, KPMG
- Position Descriptions for the following Employees
 - Marc Luiken
 - Debbie Herrick
 - Keith Day
 - Jesse VanderZanden
 - Steve Henry
 - Don Davis
 - Darryl Avara
 - Moses Villalobos
 - Donna Allen
 - Lauri Burkmire
 - Rebecca Cronkhite
 - Dan Frisby
 - Jim Iagulli
 - John Johansen
 - Roger Maggard
 - John Parrott
 - Larry Swensen
 - Trudy Wassel
 - Leasing Manager Statewide Aviation – Vacant
- December 23, 2008 - 1st Draft Statewide Aviation Role Assessment. Steve Pavish
- January 8, 2010 - AIAS Airlines Airport Affairs Committee letter to Commissioner von Scheben
- State of Alaska International Airports System Combining Schedules of Revenue, Expenses and Charges in Fund Net Assets – Year Ended June 30, 2007 and 2006
- September 4, 2009 - DOT&PF, Ted Stevens Anchorage International Airport, Capital Projects Review, 25-30052-09, Legislative Budget and Audit Committee

- December 19, 2006 - Alaska Governor Sarah Palin Transportation Transition Team Report
- February 23, 2006 - State of Alaska, International Airports System Revenue and Refunding Bonds Offering
- April 27, 2009 - Alaska International Airport System Analysis of Air Cargo Activity Keiser Phillips Associates
- ANC and FAI Master Plans dates
- Miscellaneous documents from former Director Mort Plumb
- AIAS Rates and Fees spreadsheet
- Ted Stevens Anchorage International Airport Accomplishments December 2007
- Ted Stevens Anchorage International Airport Total Revenue, Landing & Pax Analysis Report
- Alaska Business Magazine – July 1997
- Anchorage International Airport Statistics System Landing Fee, Total Revenue, Pax, Analysis Report for FY ending 6/30/05
- Airlines & Airports Working Together to Overcome Regulatory Barriers. A Power Point presentation by Morton V. Plumb, Jr., March 1998
- Alaska Aviation System brochure, Economic Engine – Community Lifeline
- FAI marketing brochure, Connecting the World from the Last Frontier
- AIAS Operating Agreement and Passenger Terminal Lease
- Numerous organization charts

Appendix B – Interview Materials

Email From Commissioner von Scheben

As an integral part of the AIAS' organization structure and business relations review that I have requested, Tim Phillips, Paul Gaines and Clay Paslay (members of the consulting team selected to undertake this study), will conduct interviews with key staff members (AIAS and DOT&PF), airline representatives, and other interested stakeholders. You are part of this process.

This is an important phase of the consultants' effort as it identifies where core functions and processes and their interrelationships are performed plus the ways in which AIAS is communicating and doing business with the airlines. Since the information gained from all interviews, along with other related documents and materials, is the primary source of the data used to assess the organization, this is a critical first step. Upon completion of an assessment the consultants will develop their findings, outlining the strengths and shortcomings of the current organizational structure and airline business practices.

The interview will be straight forward and should last no more than one hour. Please be candid in your discussions with Tim, Paul and/or Clay as your thoughts and opinions are important, will be treated in confidence, and will not be specifically identified by person in their report.

To make the interview as productive as possible, a copy of the questionnaire that will form the basis of your discussion is attached. Please review it in advance of your scheduled interview. The form is for your use only and will not be collected by the consultants so you are encouraged to draft your responses or to make notes to allow for a meaningful dialogue.

This study is **NOT** an audit of your performance, compensation issues, or staffing levels of your organizational unit. Again, all replies and discussions will be confidential and will not be attributed to any one being interviewed.

A short bio of the three interviewers is attached.

My personal thanks for your cooperation in making this effort to improve our business practices a success.

LvS

Interview Questionnaires

Interview Questionnaire - AIAS Staff

Date

Employee

Formal Job Title

Class Range

Class Code

Working Job Title

Division/Unit

Immediate Supervisor

Years with AIAS and/or DOT Aviation

1. What are the primary functions of your division/unit?
2. Other than your immediate supervisor, do you report or coordinate through anyone else? If so, who and for which duties?
3. Who are your immediate subordinates (direct reports to you) by Job Title?
4. Do your immediate subordinates (direct reports) coordinate through anyone else? If so, who?
5. Do you believe your daily duties are consistent with those contained in your Position Description? Yes_____ No_____

6. If no, describe those duties that you regularly perform that are not described in your position description:
7. Describe those duties that you do not perform but are described in your position description:
8. Who performs these duties?
9. Do you and your current division/unit have a direct interface with the airlines? If so, please describe in what ways and with whom.
10. How would you characterize your relations with the airline representatives with whom you have dealings?
11. Do you routinely work with other divisions and/or units within the organization?
12. If so, which one(s)?
13. Do you believe your division/unit would be more effective if it were:
 - Combined with another division/unit?
 - Given a different mission?
 - Detached from current division/unit?
14. What changes in the organization structure would you suggest to make the Airport more operationally effective?
15. Are there ways you could suggest that dealings with the airlines could be made easier and more mutually productive?

Thank you.

DOT Headquarters and Region Staff Interview Questionnaire

Name:

Unit:

Title/Position/Job Title:

1. To whom do you report to?
2. Describe your functions and responsibilities
3. List your direct reports
4. Describe the services your unit(s) provides to AIAS and Statewide Airports?
5. Do you have direct interface with AIAS staff? If so, who and the nature?
6. Do you believe the current DOT organizational and functional structure provides an efficient and cost effective means of accomplishing airport work?
 - What works well?
 - Are there any organizational adjustments that you believe would enhance overall operations?
7. Are there ways in which you believe operations of the AIAS and/or Statewide Aviation functions could be improved?

AIAS Business Relations Questionnaire - Airlines & Airline Ancillary Entities

Not to be Distributed

Name:

Company:

Position/Title:

1. Describe the ways in which you interact with AIAS (ANC, FAI, AIAS staff) DOT&PF. Frequency? With whom?
2. Do you negotiate rents/fees or other economic contract terms with AIAS or do you conduct relations based on terms and conditions negotiated by others?
3. What type fees/rentals does your company pay to AIAS?
4. Do you have P&L/profit center responsibility with your company?
5. Describe the ways you find your relations with AIAS to be fruitful.
6. Describe ways in which you believe them to be non-productive.
7. Suggestions for improvement.
8. Does AIAS have an understanding/appreciation of your business?
9. Conversely, do you believe that you have an understanding/appreciation of airport operating practices and policies?
10. How would you describe the corporate culture at AIAS?

11. How would you describe AIAS's business model? Suggestions for improvements.
12. How do you think AIAS would describe the manner in which you conduct business with them?
13. In what ways, if any, could AIAS be better organized?

AIAS Community Stake Holders Interview Questionnaire

Not to be Distributed, for Consultant's Use Only

Name:

Organization:

Position:

1. Describe both direct and indirect relationship you have had with AIAS (ANC, FAI or both).
2. Have you any thoughts about AIAS' business practices?
3. (Commercial driven, nimble and responsive to needs of user community, customer centric)
4. Have you any thoughts about the way AIAS is organized within the DOT? Any suggested organizational changes that would improve operation of airports?
5. What initiatives or programs would you like to see AIAS undertake that it does not, in your view, currently do?
6. Characterize in general terms your views as to the manner in which AIAS is perceived by the community as a whole?

Appendix C – Synopsis of Interview Comments

The following comments are compiled from data and information obtained from interviews but that had not been assessed or evaluated. These were intended to provide the Commissioner an early overview of observations at a point in the study process immediately after the completion of interviews. Accordingly, they should not be considered as final findings.

Independent AIAS

This was the most repeated comment or suggestion; AIAS should be operated independently from the DOT&PF, e.g., an “authority” or a form of governance similar to the Alaska Railroad.

Lack of trust

In most part, the genesis of this comment referred to the contentious relationship between the airline community and AIAS.

Executive Director position is viable

Interviewees that understood the DOT&PF organization structure commented that the executive director position was logical in order to optimize operation of AIAS as a system. Further, they noted airport experience was a key requisite as well as political cover for the position to be effective.

Politics is the core issue

Decisions are made with the first consideration being political, not the business interest of the airports.

Airline relations improving

A common theme, but with the caveat that the “jury is still out” on the long term.

DOT&PF viewed as not “user friendly” or approachable

At times DOT&PF tends to be insular and lacking a propensity to reach out to users and stakeholders.

Operationally, AIAS airports function well

Interviewees commented that ANC and FAI seem to “operate” effectively from an O&M perspective.

Airports viewed positively by community

Those interviewed believed the public at large has a positive opinion about ANC and FAI, especially the new state of the art terminals.

Rural airports hard to fix

This comment dealt with the lack of funding to maintain and operate rural airports. It was repeated often by those with general aviation interests or that work on rural airport issues.

Appendix D – Function Matrices

Core Functions of FAI Organization Units

Administrative Operations

Air Service Development

Leasing
 . Legal Coordination
 . Land Leasing
 . Terminal & Buildings
 . Concessions
 . Insurance

Business Development

Marketing

Community Relations

PIO/PR

HR Coordination

Procurement

Budget

IT Coordination

DBE

Accounts Payable/Receivable

Operations

Car Park

Ground Transportation

Construction Safety Oversight & Coordination

Training - 139 only

FAR 139 compliance

TSR 1542 compliance

Field/Facility /Equipment Maintenance

Training

Preventative Maintenance
 Field, Equipment & Facilities

Snow Removal

Field Maintenance (139)

Landside Grounds

Vehicle/Equipment Maintenance

Procurement/Storage

OSHA Compliance (some)

HVAC

Repairs, airfield, equipment, facilities

Janitorial/Custodial

Preventative Maintenance

Police and Fire

Law Enforcement

Fire Suppression

Medical Response

Training

TSR 1542/LEO Support

ARFF & structural fire support

Badging, permitting, tiedown leasing

Communications Center

Engineering/ Environmental /Planning

Coordinate Master Planning/project planning

5 yr. CIP development

Environmental Compliance (water, air, noise & soil)

Building Permits for Tenant Improvements

Oversees delivery of CIP projects managed by others

As-built Drawing Management & Airport Mapping

Drawing support for other departments

Oversee "in-house" projects executed by JOC contract

DOTPF & Other State of Alaska Departments

Human Relations

Pursue Capital Project Grants
 FAA/State, Grants

Legal

Risk Management

Planning, Environment, Design, Construction & Procurement for these services

CIP

DBE

Procurement

Audit-External

Building Permits, Code Inspection & Certificate of Occupancy

Fixed Assets

Enterprise Technology (IT)

Preventative Maintenance

Core Functions of Controller's Office



Finance
Audits - Internal and External
Accounts Payable/
Receivable coordination
Budget parameters
CIP - Funding Sources
Revenue Bonds
Issuance & Management
Airline Rates & Charges
Financial Reporting
Fund Management



Financial Accounting
& Reporting
Bond Issuance
Auditing

Appendix E – Organization Concepts

Figure 1
Abbreviated Version of
Current Organizational Structure

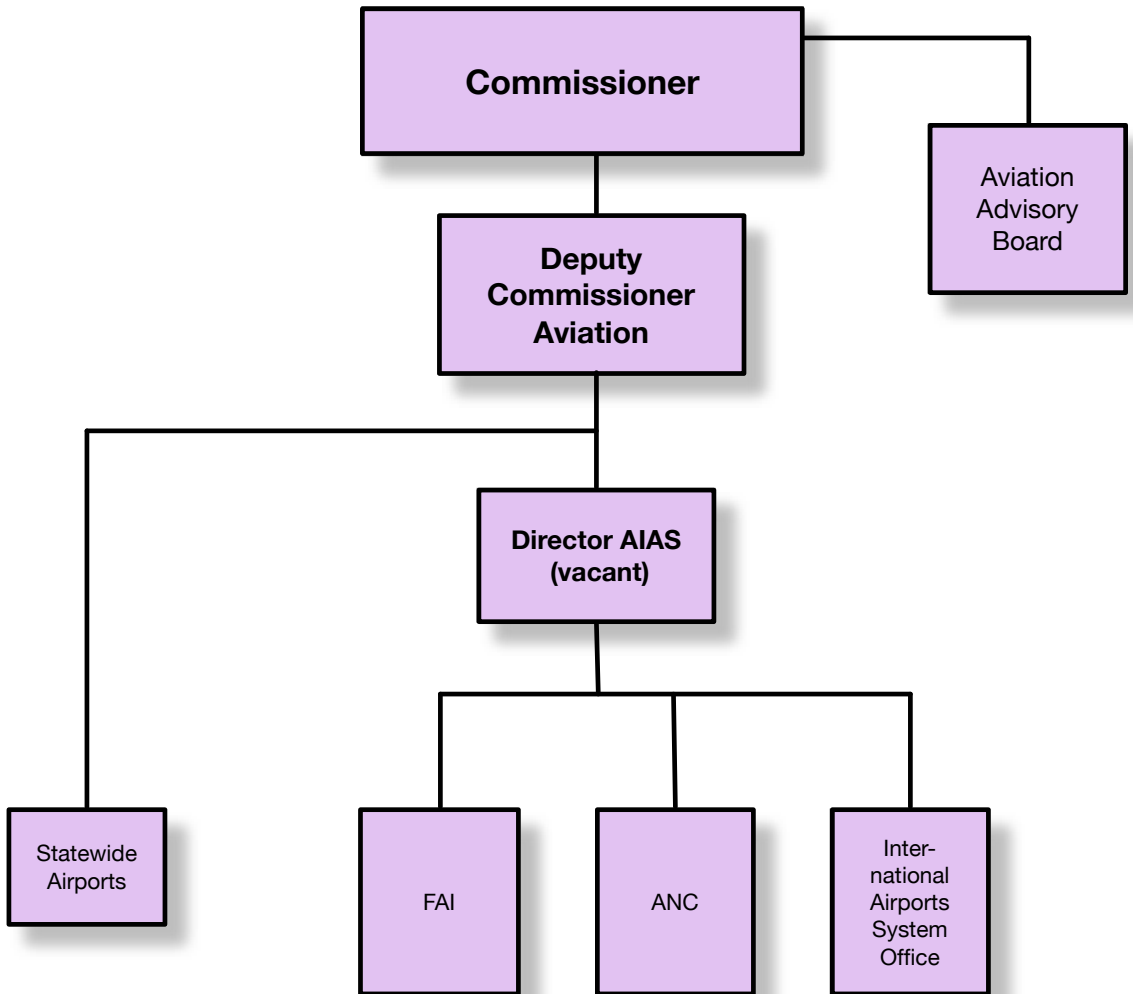


Figure 2
Concept with AIAS Director and
new Support Services Unit

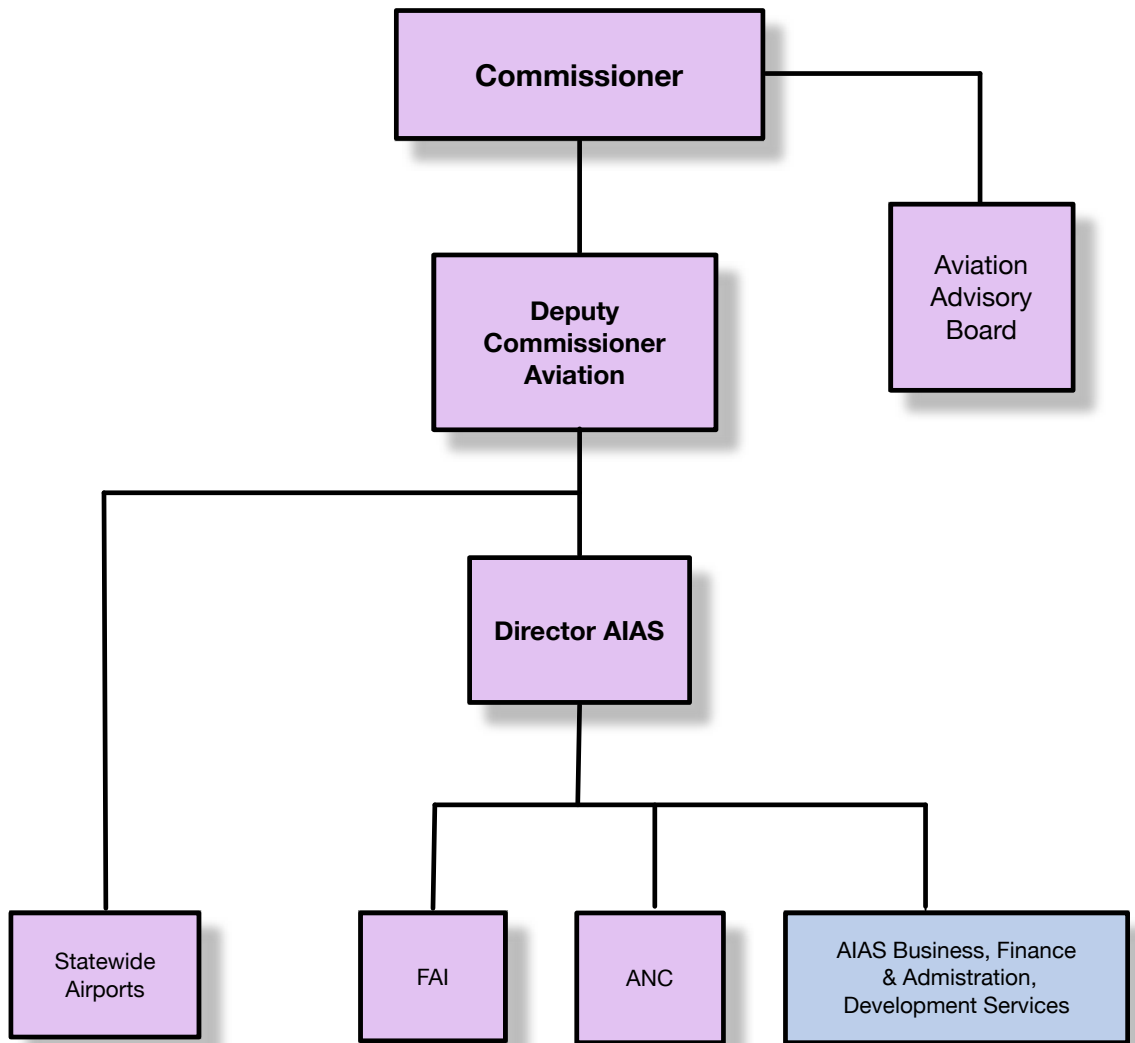


Figure 3
Concept with Deputy Commissioner as AIAS Director
and new Support Services Unit

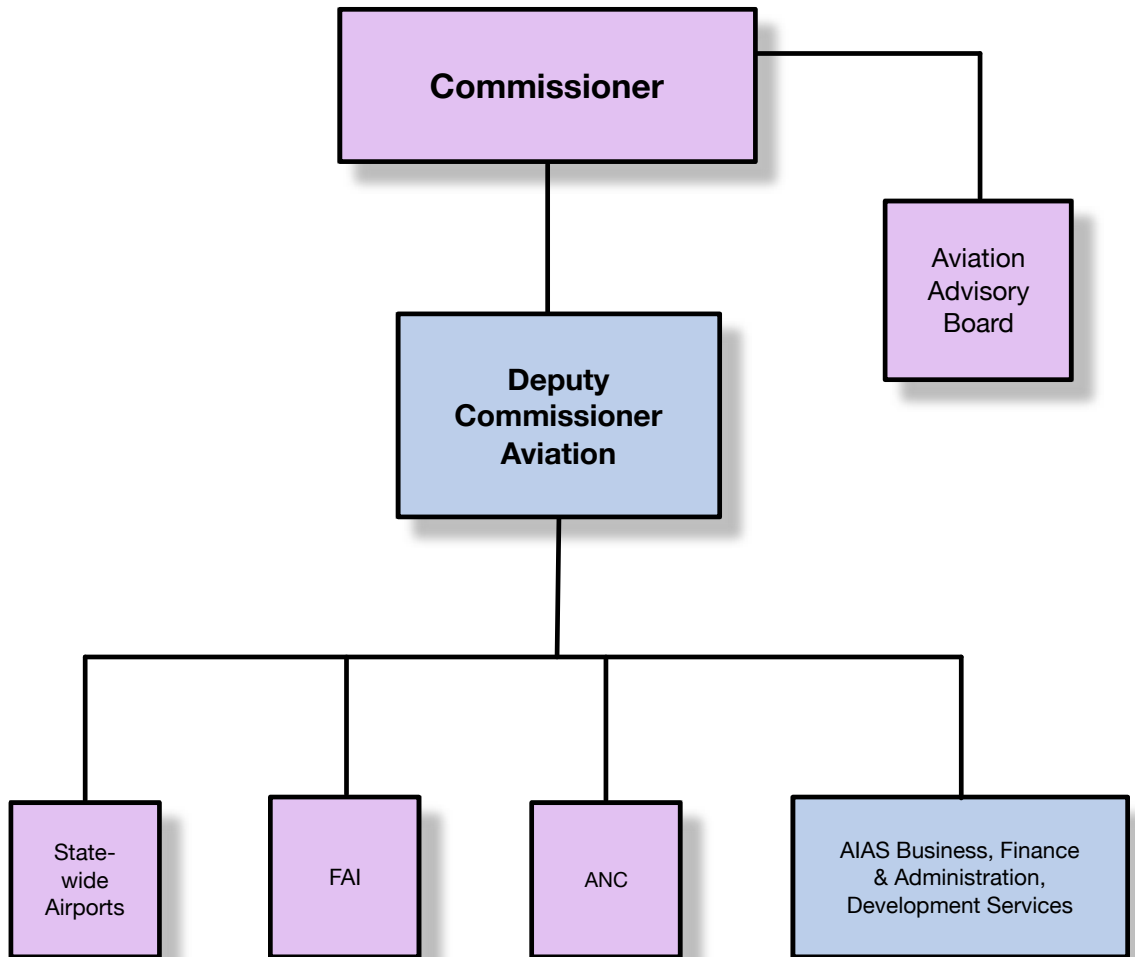


Figure 4
Concept with Deputy Commissioner, consulting support,
and new Support Services Unit

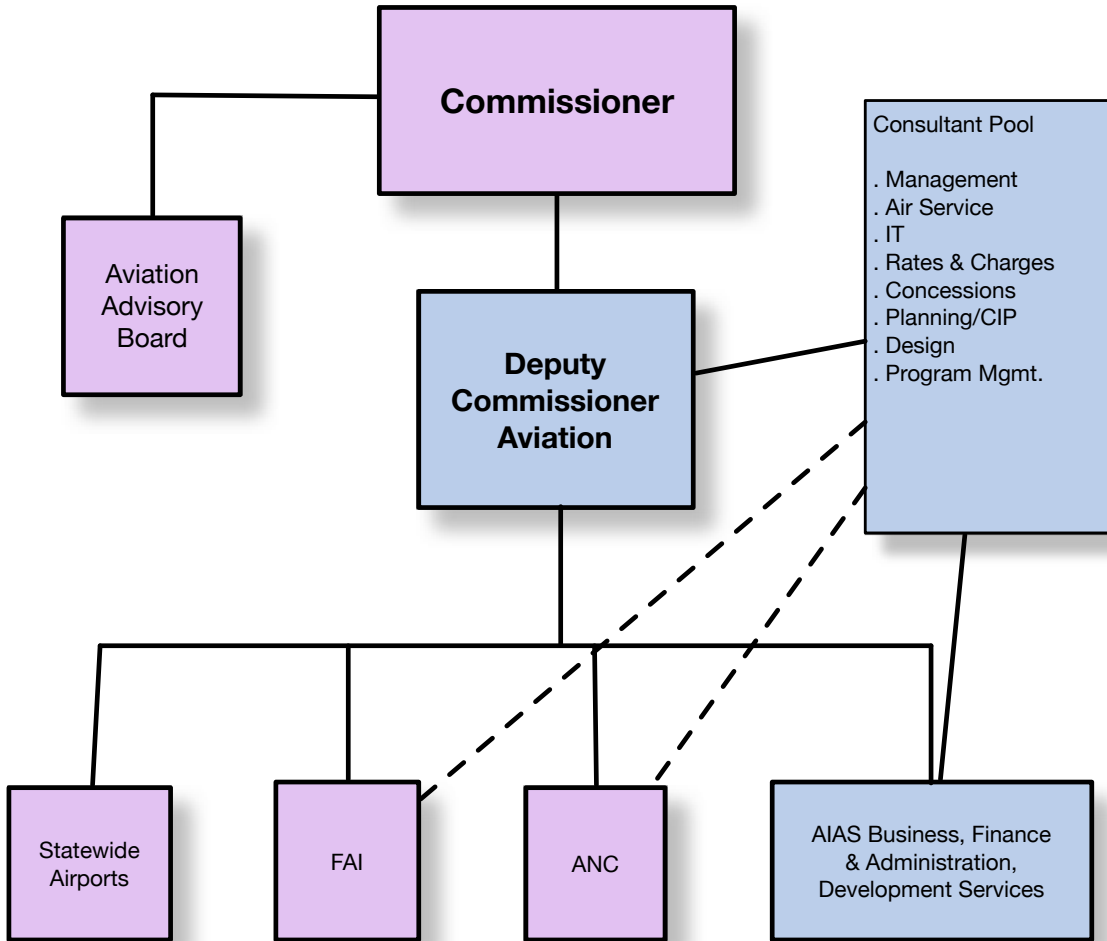
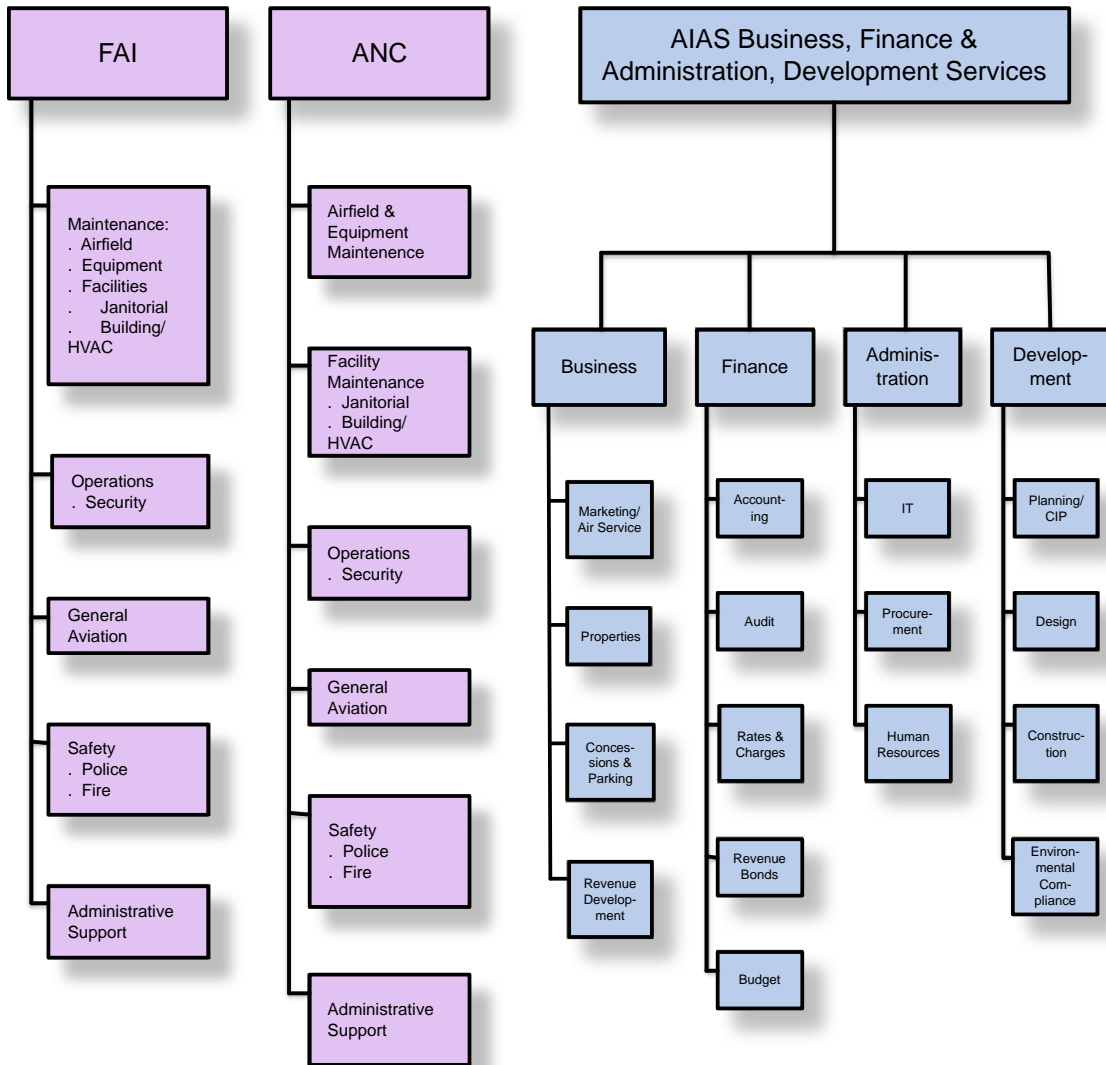


Figure 5
Key Functions FAI, ANC, and new
Support Services Unit



Acknowledgements

The consulting team wishes to express its sincere appreciation to those who participated in the interview process associated with this study. Without the time they took from their personal schedules and their candid and forthright answers a critical aspect of data gathering would not have been available.

In addition, a special thank you to Dave Eberle who served as the study project coordinator for the Commissioner. His support of the consulting team's efforts throughout each phase of the study was invaluable. In particular, Dave's timely response to information requests and his in depth knowledge about the DOT&PF and the airport environment in the State of Alaska allowed the consulting team to remain focused on key issues affecting the study.