Warren County
Floyd Bennett Memorial Airport

Management Options

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Warren County - Floyd Bennett Memorial Airport Management Options

This paper briefly outlines the options associated with several types of airport management. The default option is to hire an airport manager and continue the operation as it has been in the past. Other options include, but are not limited to:

- Fixed Base Operator (FBO) Management
- Airport Privatization
- Airport Management Companies
- Airport Management Structures

Each of these options are discussed in the following sections. It should be noted that the discussion of Airport Privatization was combined with the discussion of Airport Management Companies because of their related subjects.

1. FBO MANAGEMENT

This option would replace the Airport Manager with management of the Airport by the Fixed Base Operator. The terms of this agreement would include FBO responsibilities such as:

- Airport management
- Fuel sales
- Airport mowing and snow plowing
- Aircraft hangar leasing
- Aircraft maintenance
- Flight school

In most of these arrangements, the airport sponsor pays the FBO a management fee for administration of the airport. This fee can range from one dollar to several hundred thousand dollars, depending upon the size of the airport and the complexity of the operation. For example, the Village of Endicott was paying their FBO $50,000 per year to manage their airport. Wellsville, on the other hand, did not pay their FBO to manage the airport. Rather, the FBO was required to pay hangar rent and was given all the revenue from airport operations except a fuel flowage fee.

Positive aspects of having FBO management include:

- ***Reduction in Duplicate Labor:*** Since the FBO must attend the airport during business hours, the addition of airport management functions to FBO responsibilities do not generally require additional personnel. With County Management, both the County personnel and the FBO must be present during business hours.

- ***Attraction of Business:*** The FBO is operating on a profit basis and will seek new business opportunities for the airport. This benefits both the airport and the FBO.

- ***Reduction in Administrative Effort:*** When the FBO manages the airport, they are responsible for billing clients, collecting rents, paying airport invoices, and providing other administrative support which relieves the County of this work.

Negative aspects of having FBO management include:

- ***Special Interest:*** Some business activity that may benefit the airport or County can be perceived as a threat by the FBO. Particularly, competition that may lower prices or bring alternative services to airport may be shunned by the existing FBO.

- ***Lack of Control:*** Some control is forfeited when contracting management to an FBO. Changes in the agreement must often wait until the contract expires or must be renewed. If the change is necessary, there is generally a premium that must be paid to the FBO to amend the contract.

- ***Lack of Specialized Expertise:*** Some FBO's may lack desired elements of County management such as marketing, conference attendance, political savvy to address different constituents, etc.

- ***Audit and Cost Accounting:*** Some public-private partnerships fail because the agreements don't nail down important issues in the contract such as year-end audits for percent-of-gross agreements or acceptable methods of cost accounting.

To see if such an arrangement would work for Warren County, it would be necessary to run the numbers on both methods - showing pro-formas for each management structure. If the FBO option is selected, key elements needed for success include:

- ***Proper Wording of FBO Solicitation:*** The terms requested for the FBO should be itemized and should include all of the necessary requirements of the FBO. The value of these responsibilities should be estimated prior to the release of a Request for Qualifications or Proposals for the FBO position.

- ***Term of the Agreement:*** The agreement should be for 3 to 5 years with options to renew. Those option periods can include renegotiation of terms if needed. The FBO will need a long enough contract to obtain bank financing of debt, if required. Should this be a primary issue, the contract length should tend toward the 5 year term rather than the 3 year term.

- ***Reasonable Expectations:*** Many communities err in thinking that the FBO is making money or getting rich at their expense. This often leads to bad communications and hard feelings. It is important to enter these agreements with reasonable expectations and to know what is a normal return on investment for FBO incentives.

- ***Costs of Operation:*** Even though the FBO may be managing the airport, many of the maintenance costs remain with the sponsor. Depending upon the negotiated terms, County maintenance can include mowing, snow plowing, minor capital maintenance for navaids, buildings, fueling systems, access roads and parking areas. It is assumed that the County will pay all major capital maintenance and match all federal and state grant amounts.

When comparing the costs and benefits of using FBO management over self-management, it is important to quantify the value of all services offered by the FBO. That is, issues such as routine maintenance, snow plowing, airport inspection, airport staffing, mowing, aircraft marshalling, and rent collection all have values that should be quantified. If the FBO proposes to replace any of the services currently provided by the County, a value should be placed on that service. In this regard, it is important to know what it costs the County to provide that service and what the FBO will charge for that service. The cost of personnel is another issue that can be compared directly.

Comparisons using financial pro formas should be developed that examine all costs and associated revenues. For example, if the FBO will collect certain rental fees for part or all of the revenue associated with those fees, it is important to determine what revenues will be given up by the County. Knowing what it costs to collect these fees gives a good estimate of what is actually being lost.

2. AIRPORT PRIVATIZATION

Airport privatization generally does not mean divestiture by the government or previous owner. In general, the local community still maintains use of the airport and reaps the benefits of privatization with no expense to the public treasury. Airports provide what has become an essential public service. The public has a right to be secure in the knowledge that this service won't suffer at the hands of a private, for-profit enterprise. This assurance is provided through the fact that airport privatization is generally not a complete divestiture. In most cases, privatization includes an ongoing public-private partnership.

A number of airline and large general aviation airports have tried leasing and privatization as a means of more efficiently operating their facilities. Generally, there are four basic reasons to privatize:

- Capital Infusion
- Efficiency Gains
- Revenue Windfall
- Opportunity to Reinvent the Airport

Table 1 presents a listing of airports in the U.S. that are managed by private contractors. This is not an all-inclusive list and there may be other airports that have joined this group since it was published in 2006.[1] Contractors that provide airport management services appear to fall into two categories: very large companies or local one-airport operators.

Table 1 - U.S. Airports Managed by Private Contractors

AIRPORT	CONTRACTOR
Air Carrier Airports	
Atlantic City, NJ	AvPorts
Albany, NY	AvPorts
Indianapolis, IN	British Airports Authority (BAA, USA)
New Haven, CT	Avports
Rochester, MN	Rochester Airport Company
Stewart Airport, NY	National Express Group, PLC
Westchester County, NY	AvPorts
General Aviation Airports	
Alliance Airport, Ft. Worth, TX	Alliance Air Services
Brackett Field, Laverne, CA	American Airports Corporation
Compton Airport, Compton, CA	American Airports Corporation
Danielson Airport, Killingly, CT	Northwest Air Service
El Monte Airport, El Monte, CA	American Airports Corporation
Fox Airfield, Lancaster, CA	American Airports Corporation
Morristown Airport, Morristown, NJ	D.M. Airport Developers, Inc.
Peru Municipal Airport, Peru, IN	Miami County Air Services
Republic Airport, E. Farmingdale, NY	URS Corporation
Whiteman Airport, Pacoima, CA	American Airports Corporation
Windhem Airport, CT	Windhem Aerobim, Inc.

For existing airports, the simplest form of privatization is contracting out management of the airport on a relatively short-term basis. Larger economic benefits generally can be obtained via a long-term lease of the airport. One particular benefit of contracting out is that measurable performance requirements can be specified, with appropriate penalties for failure to meet them. Some of these sponsors have little or no interaction with the operation of their airports and instead, use their contractors as extensions of their municipal governments. While this type of lease would not remove the County from Airport ownership, a contract can be specified for a long-term period in which the County is held harmless for any Airport operational liability. In effect, the lease company operates the Airport just as an owner would.

It should be noted that the FAA has expressed concern that the sale or long-term lease of an

[1] Source: Reason Foundation, 3415 S. Sepulveda Blvd. Suite 400, Los Angeles, CA, 2006: www.privatization.org/database/policyissues/airports_local.html

airport would violate the obligations undertaken by the municipal owner as a condition of its federal grants. The most significant of these is the obligation not to divert an airport's revenues. Federal law requires that public airport revenues be used for capital and operating costs. The FAA considers sale or lease proceeds to be airport revenue that cannot be transferred to other municipal uses. Therefore, the financial incentives for U.S. public airports to privatize are constrained and they may even impede efforts to privatize because of a consequentially higher cost of capital and a reduced ability to generate more revenues. All money made at the facility would have to be reinvested in the Airport. This provision of the Federal law is being reviewed for general aviation airports and may be changed at some time in the future.

3. AIRPORT MANAGEMENT STRUCTURES

There are a number of different airport management structures employed by both airline and general aviation airports across the nation. Organizational structures that are common to general aviation airports include the following:

- ***Airport Authority:*** Airport authorities are desirable in cases where the airport sponsor desires autonomy from the existing county, city, town, or village structure. Airport authorities permit multi-jurisdictional and private sector participation. Additionally, airport authorities can be created to have separate financial structures from other local municipal governments. This may be desirable when the airport is operated as a profit center, when revenues must be generated specifically for the airport, when significant grants are used, or when operational and financial practices differ with municipal government practices.

- ***County/Local Municipal Sponsorship:*** County airport sponsorship is common in the northeastern United States. New York State law authorizes a municipality to establish and maintain airports. Management options include private operation of a public airport as a public airport, operation under an existing municipal official or agency, or the appointment of an airport manager. Thus, the airport can be managed through the hiring of Township personnel or managed by a contract FBO.

- ***Industrial Development Agency:*** Industrial Development Agencies (IDA's) in New York are economic development entities that seek to increase the amount of outside investment in a community or county, preserve and increase the number of local jobs, and market the assets of an area to outside businesses. Many IDA's use revolving loan funds with lower-than-market-value interest rates to attract business investment. IDA's do not have to be formed by State legislation, but instead, can be formed locally by incorporation. The FAA has recognized and funded airports owned or acquired by IDA's. The Ontario County (NY) IDA’s sponsorship of Canandaigua Airport is an example of this form of airport ownership.

- ***Community Development Corporation:*** Community Development Corporations (CDC's) have been in existence for a long time. Most are not-for-profit corporations whose purpose is to the benefit the local community or region. The structure of CDC's has changed more recently to permit banks to form CDC's in order to participate in local community development. Non-bank CDC's are mostly non-profit versions of Local Development Corporations (LDC's). These corporations can be formed by municipal governments, industrial development agencies, and other municipal or regional groups to undertake special projects. Specifically, projects can include job creation, education, charitable objectives, residential rehabilitation and development, operation of commercial or industrial facilities, operation of transportation facilities, etc. In essence, a non-bank CDC can operate for the public benefit in numerous ways. One of those ways would be to operate an airport.

As a part of this study, the Airport Authority structure was considered a possibility for discussion with Albany County Airport Authority. Some examples of airport authorities or communities owning or sponsoring multiple airports with at least one general aviation airport include but are not limited to the following:

- Phoenix Sky Harbor International
  - Deer Valley Airport
  - Litchfield Airport
- Fort Worth
  - Fort Worth-Meacham Field
  - Fort Worth-Spinks Field
  - Fort Worth Alliance
- City of Dallas
  - Dallas Love Field
  - Dallas Executive Airport
- NY & NJ Port Authority
  - Teterboro Airport
- Delaware River & Bay Authority
  - New Castle Airport (Wilmington, DE)
  - Delaware Airpark (DE)
  - Civil Air Terminal (DE)
  - Millville Airport (NJ)
  - Cape May Airport (NJ)
- Niagara Frontier Transportation Authority
  - Buffalo-Niagara International
  - Niagara Falls International Airport

Generally, these sponsorship structures permit the larger airport to pay for the smaller facility, if it can be shown that there is a benefit to the users of the larger facility derived from the relationship. That is, capacity relief, additional business opportunities, or some other form of benefit should be manifest as a result. The smaller airport usually benefits from this relationship by having a larger funding source, better marketing resources, and more administrative and management staff.

Potential issues that may have to be addressed for this process to move forward include the following:

- ***Mutual Benefit & Interest:*** A mutual benefit and interest will have to be shown for this partnership to work. That is, there must be some common bonds between the Albany and Glens Falls area that would make co-sponsorship of the airport reasonable.

- ***Distance:*** Geographic separation is one issue that should be addressed. With 60 miles between Albany International and Warren County Airport, it may be more difficult to administer joint operations than airports in a closer proximity. The fact that Saratoga County Airport lies between Albany International and Warren County Airport may make the justification more difficult.

- ***Political:*** Political issues may arise concerning the control of the airport. When interests diverge, friction can be generated between the new sponsor and the old sponsor. That is, will Albany County Airport Authority have the same goals and objectives for the Airport as the Warren County sponsor?

For this process to work, extensive discussions will have to be made. In particular, Warren County will have to put together a proposal that clearly demonstrates the mutual benefit from having Albany County Airport Authority operate Floyd Bennett Memorial Airport. Such a proposal would have to “run the numbers” and would also need to state the goals and objectives of Warren County relative to their airport.

4. SUMMARY & RECOMMENDATIONS

To determine the best management alternative for Warren County - Floyd Bennett Memorial, pro formas should be developed for the alternatives in question. For example, if there is an offer from a local FBO to operate the Airport, preliminary negotiations should be undertaken to determine the terms that the FBO is offering. These can be developed into revenues and expense projections and compared with the self-management option. Important in this comparison is to quantify the value of all the tasks undertaken by the FBO and compare those to what it would cost the County to provide them.

In many cases, FBO management can work. It depends upon the size of the airport, the desires of the sponsor for control, and the cost structure associated with FBO management. If the FBO desires to lease the entire airport, there may be difficulties with FAA concerning some of the grant assurances with FAA. In particular, aviation and non-aviation property must be clearly delineated and long term revenues from non-aviation property can only be generated with certain FAA approvals. In some cases, a release of airport property is needed to convert to other uses. However, it is important for the airport to retain possession of the property since that is the only way revenues can accrue to the airport (through lease or rental). Sale of non-aviation property generally results in the requirement to reimburse FAA for grants given previously to the airport.

Other options of airport management are not as easy to implement, since there must be willing providers available. For privatization-type agreements, large companies such as American Airport Corporation, D.M. Airport Developers, URS Corporation, or others must be available and interested in performing these services. In cases where third party management is used, the airports were self-supporting prior to the solicitation of outside management. The airport profitability is the draw for these providers. They do relieve the County of having to staff the airport, but other than this employment service, the County must examine the actual costs and benefits of such an arrangement. The fact that some airports use these contractors shows that there are cases where it is cost-effective. The RFP process can reveal fairly quickly whether or not this is a viable option at Floyd Bennett Memorial. If no proposals are received, this may indicate the lack of a market for this service in Warren County. If one or more proposals are submitted, the costs and benefits can be weighed among them.

Finally, the possibility of an arrangement with Albany County Airport Authority should be discussed with their designated representatives. Again, face-to-face meetings will reveal fairly quickly whether or not such an arrangement has merit. Issues to discuss include the points of mutual benefit and interest, the geographic distance between airports, and the political considerations associated with each jurisdiction. For such a meeting, it would be beneficial for Warren County representatives to prepare a list of potential benefits associated with the partnership, including marketing opportunities, fuel sales, aircraft storage, business development, and so on. The burden will likely be on Warren County to prove the beneficial nature of such an arrangement.

After examining the most recent revenue and expense statement for the Airport, several items call for closer analysis. For example, the largest cost category is Labor ($317,700). These costs should be compared to bids from qualified FBOs to determine if savings in this area are justified by an alternative plan. In the other cost items, the equipment rental category has a fairly high cost ($132,000). These are for vehicle costs at the Airport. It is conceivable that an FBO would supply his own vehicles. Given that the current FBO lease expires at the end of 2008, recommendations for a path forward would include the following:

- Begin an RFP process to see what the market will produce in the form of proposals for the FBO airport management option. This process should be started more than six months prior to the expiration of the current contract to permit bidders to assemble financing and business plans.

- Initiate discussions with Albany County Airport Authority to determine if there is interest in joint operation of Warren County - Floyd Bennett Memorial.

- Compare complete costs and benefits of all management options, once proposals have been received.

If the costs to operate the Airport could be reduced by several hundred thousand dollars, it would be worth examining the means and tradeoffs of doing so.