



STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

September 28, 2000

Mr. Joseph H. Boardman
Commissioner
New York State Department of Transportation
State Office Building Campus--Building #5
Albany, New York 12232

Re: Report 2000-F-5

Dear Mr. Boardman:

Pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law, we have reviewed the actions taken by officials of the Department of Transportation (DOT) as of August 30, 2000 to address the issues contained in our earlier report, Study of Future Use: Republic Airport (Report 96-D-26) issued February 10, 1999. The study focused on the financial viability of Republic Airport and its success to stimulate the expansion of air transportation and related economic development on Long Island.

Background

Republic Airport (Republic) is a 530-acre, State-owned general aviation facility located in East Farmingdale, Suffolk County, NY. One of 11 such airports on Long Island, its facilities include runways that can accommodate jet aircraft as well as fixed-base airport services, a passenger terminal, and a Federal Aviation Administration (FAA) operated control.

Republic is home to approximately 500 aircrafts, primarily single- and twin-engine airplanes, where, according to figures reported by the FAA, 235,739 total operations (including 172,256 takeoffs and landings) took place during the fiscal year ended March 31, 2000. For the fiscal year ended March 31, 2000, DOT reported Airport revenues of \$2,189,436 and operating expenses and New York State overhead of \$2,475,445, a loss of \$286,009, a modest improvement since our prior report was issued. Since the early 1980s, the New York State Police have also had a headquarters on Republic property. For the fiscal year ended March 31, 2000, the imputed rent for this space was valued at \$181,900. However, no part of this State Police allocation was paid to DOT although counted within its revenues of \$2,189,436.

DOT contracts with American Port Services, Inc. (commonly known as AMPORTS) to manage, maintain and operate Republic Airport. AMPORTS is the current corporate name of the airport management firm formerly known as Johnson Controls which has operated Republic

Airport since November 1, 1993. DOT paid AMPORTS an annual management fee of \$200,000 and reimbursed the contractor for all costs incurred in operating and maintaining the airport, including the salaries of its approximately 23 airport staff. For the fiscal year ended March 31, 2000, DOT reimbursed AMPORTS exclusive of its management fee a total \$2,024,143. In addition, DOT has one full-time employee at the Airport, in conjunction with DOT aviation management in Albany, to provide the contractor with policy guidance and oversight.

Summary Conclusions

In our original study, we concluded that despite its operating advantages (i.e. location, safety features) and a high fee structure compared to other general-aviation airports in the New York City metropolitan area, Republic had incurred an annual deficit in 11 of 15 years since a State-takeover in 1983. We attributed the deficits to its small-scale aircraft operation and noted that DOT efforts to enhance airport economics repeatedly met with local opposition, primarily concerns about aircraft noise, which impeded its ability in carrying out planned strategies including airport improvements and commercial development on airport property.

In our follow-up review, we found that since issuance of this study DOT had made significant progress to financially turn-around the Airport and to address key issues related to airport economic development. A number of new aviation-related facilities have been built and, if all goes according to current plans, Republic is now being considered by private-sector developers for other commercial development projects. Effective April 1, 2000, DOT entered into a new, five-year airport management agreement with AMPORTS that allows new ways of doing business at Republic including development of a focused public affairs and marketing program for the first time.

Summary of Status of Prior Study Issues

Of the nine issues contained in the study, DOT officials have demonstrated positive movement on seven of eight issues while we deemed one issue, dealing with the monitoring of new service-providers in a privatization scenario, as not relevant at this time because DOT has elected to continue with an aviation management contract relationship for the time being. With respect to Issue #2 dealing with alternative contract options at Republic, DOT officials reaffirmed that they have and will continue to explore alternative aviation business models as raised in the report.

Follow-up Observations

Issue for Consideration 1

How can DOT eliminate the continuous deficits at Republic and make the Airport financially self-sustaining?

Status - Fully Addressed

Agency Action - DOT has re-introduced competition by bringing a new fixed-base service provider to the airport which has led to increased revenues and sparked land development on airport property. In addition, three proposals from three different private-sector developers for airport projects are currently being given serious consideration by DOT management. The facilities being planned on three separate parcels of airport land, includes a hotel, expansion of the adjacent shopping center, and expansion of one of the field base service providers. This could generate an estimated \$1.1 million in additional annual rental income.

Issue for Consideration 2

Should the State engage a private firm to manage the Airport, entering into a long-term (e.g., 30-year) lease similar to the one used by the Port Authority at the Teterboro, NJ, airport?

Status Fully Addressed

Agency Action - DOT has considered a number of different aviation contract options including the 30-year lease used by the Port Authority of New York and New Jersey (Port Authority) and concluded that, for the present, DOT wants to maintain more direct control over Republic through a management contract than what is possible under a long-term lease arrangement. In fact, the Port Authority has reportedly ended its long-term contracting relationship at Teterboro Airport, electing instead to exercise more direct control via a short-term contracting relationship as currently exists at Republic Airport.

Issue for Consideration 3

If Republic Airport were to close, could the other Long Island Airports accommodate the aircraft based there? If not, how would the State maintain this service with an annual subsidy?

Status - Fully Addressed

Agency Action From a practical perspective, DOT has determined that too many aircraft are based at Republic and depend upon its ground support services for DOT to close the Airport. DOT's analysis of airport capacity shows there is insufficient capacity at the other Long Island Airports to absorb the full number of Republic-based aircraft. If the airport real estate development currently contemplated actually occurs then there is an expectation by DOT aviation management that annual subsidies will not be required long into the future.

Issue for Consideration 4

How can the Airport's community relationships be improved to support its efforts to achieve self-sustaining economic growth?

Status - Fully Addressed

Agency Action - DOT aviation management recognizes that, for Republic to be a successful general aviation facility, they need to find ways to improve community relations. Since issuance of the study, DOT, in concert with AMPORTS, has embarked on available opportunities to promote Republic in a positive way. In recent months, Republic has launched a public education process. In addition, consistent with its successful proposal, AMPORTS has made a formal commitment to airport development and to introduction of a comprehensive community relations and marketing program designed to achieve the goals of improving relations with a variety of stakeholders including the community surrounding Republic. This is occurring concurrently with DOT's development of an airport master plan that is facing strong local questioning. The proposal for aviation management services submitted by AMPORTS views public education and community relations as separate and distinct from its marketing efforts which are more aviation specific. DOT aviation management now stresses a public-private partnership approach to airport-based development and operations.

Issue for Consideration 5

Should Republic Airport develop a comprehensive marketing effort?

Status - Fully Addressed

Agency Action - In State Fiscal Year 2000-01, AMPORTS has a budget of approximately \$125,000 for marketing and public relations. Last year, the budget was \$100,400 and reflected the first time any real funds had been devoted to marketing and public relations since the State-takeover of Republic Airport in 1983.

Issue for Consideration 6

Should DOT take a more active role in promoting economic growth at the Airport?

Status - Fully Addressed

Agency Action - DOT is now actively involved in economic development at Republic as evidenced by the three proposals (see agency actions taken on issue number 1) as well as several projects opened or commenced since issuance of our study in Report 96-D-26. For example, a new aviation museum is now open to the public. Also, Republic has benefited from the construction of several new corporate aircraft hangers and support facilities such as a low cost, self-service fuel farm and a new executive terminal for pilots and passengers.

Issue for Consideration 7

Should DOT work with the FAA to expand the pilot program at Stewart International Airport to include the development of Republic Airport?

Status - Fully Addressed

Agency Action - Effective April 1, 2000, Stewart International Airport has been successfully transferred to National Express Corporation through a 99-year lease pursuant to the pilot program overseen by the Federal Aviation Administration (FAA). At present, after a long approval process that started in April 1998 when DOT selected National Express Corporation from among five bidders to operate Stewart International Airport, DOT aviation management prefers to review preliminary results from Stewart International Airport in order to assess how the federal pilot program unfolds before making a determination about applying that business model to Republic Airport.

Issue for Consideration 8

Should DOT work with the FAA to explore any of the development/privatization options described in this report?

Status - Fully Addressed

Agency Action - DOT has been exploring ways to redefine its role as well as that of others that provide essential ground support services at Republic Airport. In its most recent solicitation for airport management services in 1999, DOT requested prospective bidders to consider alternative methods and means for providing services other than through the traditional fee-based model. Among the alternative methods that DOT was willing to consider were various incentive arrangements including direct capital investment in aviation facilities and alternative fee arrangements such as incentive fees. However, DOT has chosen not to privatize the airport at this time.

Issue for Consideration 9

How can DOT ensure that new service-providers will meet the State's standards?

Status - Not Relevant at Present

Agency Action - DOT has elected to maintain the aviation management contractual relationship it has developed over time, however, the successful proposal from AMPORTS included a number of alternative airport financing scenarios. At such time that new service-providers are engaged by DOT, the issue regarding State standards (e.g., accountability) can be addressed by including them in the written agreements/contracts. In the interim, DOT's contract with the current vendor should address the issue of meeting State standards.

Major contributor to this report is Gerald Tysiak.

We would appreciate your response to this report within 30 days, indicating any actions planned or taken to address any unresolved matters discussed in this report. We also wish to thank

Department aviation management and staff as well as AMPORTS management for the courtesies and cooperation they extended to us during this review.

Very truly yours,

Carmen Maldonado
Audit Director

cc: Steven Lewis
Charles Conaway