Airport Beacon Report

Airport Business Solutions

www.airportbusiness.net *December 2004*

Business Opportunities in TSA's Opt-Out Program

By Mark R. Davidson, A.A.E. Vice President

This past month the Transportation Security Administration (TSA) started accepting applications from commercial airports that wanted to participate in the Screening Partnership Program (SPP), also known as "Opt-Out." This option was designed to allow airports to choose security screeners employed by qualified private companies, while maintaining TSA standards and government oversight. TSA is currently developing a list of qualified screening companies that may offer proposals to provide screening at individual airports.

Although TSA's program is designed for airports that wish to use private companies, airports need to consider the option of operating the screening process with their own employees. As with other business functions operated and controlled by airports, a number of advantages can be realized. One advantage that might peak the interest of a number of airports is the ability to generate revenue. The TSA has already committed to reimbursing for operating costs, including a small profit margin for successful bidders. Depending upon the size of the operation, the new funds could be a significant increase to a number of airports strapped for cash.

Beside cash, airports might be interested in improving customer service, minimizing hassles, and reducing wait times, all of which are common complaints with TSA operations. By operating these functions with direct reports, airports can positively influence these issues without jeopardizing security. In fact, by accepting responsibility for these functions, an airport can consolidate and centralize security by merging the function with an established airport police department.

For those airport managers that are worried about ruffling the feathers of current TSA employees at their individual airport, the TSA will require any selected contract company to give hiring preference to Federal screeners who are employed at an airport that transitions to a private screening force. The Aviation and Transportation Security Act also requires contract screening companies to employ screeners who meet all the requirements that Federal screeners meet, and that the companies provide compensation and benefits not less than what the government provides.

Currently, it does not appear that airports are "jumping on the bandwagon" to "Opt-Out". From conversations with airport executives across the country, it seems that everyone is in a wait-and-see mode. Many airports are satisfied with the Federal screeners and do not want to mess with a good thing. Other executives are concerned about increased workloads, future funding, lack of flexibility in the program, as well as increased liability.

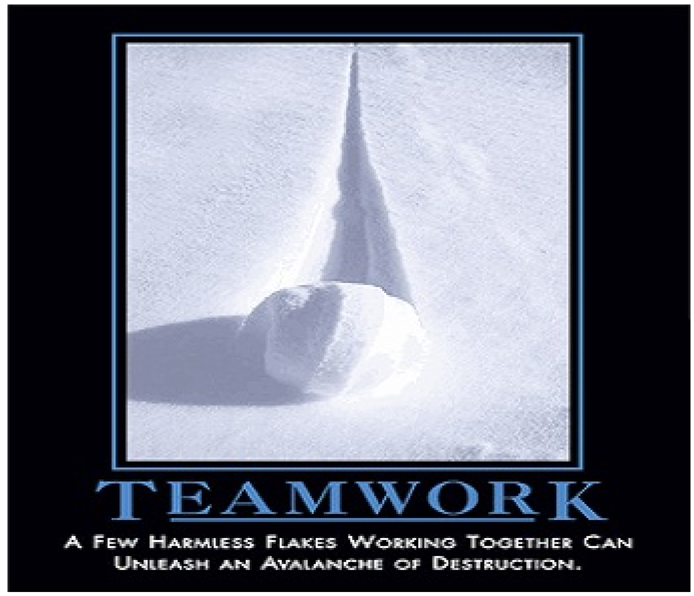
With regard to liability, limited liability protection for terrorist acts can be provided to companies for specific products or services under the Homeland Security Act of 2002 and the Support of Anti-terrorism by Fostering Effective Technologies Act of 2002, which is called the SAFETY Act. The SAFETY Act provides a system of risk and litigation management and essentially limits tort liability in the event of acts of terrorism when utilizing a qualified service or product that has been designated or certified by the Department of Homeland Security.

One airport that has investigated liability, as well as a number of other issues in order to submit an application to the TSA to operate their own screening processes, is Elko Regional Airport in Elko, Nevada. They submitted their application last month and if the process continues, the Airport will have to compete with qualified private security companies to provide the service. The Airport is interested in generating funds from the TSA primarily to support their enterprise fund and to remain self-sufficient. Elko is following the operational model that was established in Jackson Hole, which was one of the five pilot programs established in 2002. Jackson Hole and the other four airports were evaluated in the fall of 2003, and all airports succeeded in security effectiveness, cost, as well as customer and stakeholder impact.

For airports that want to be industry leaders and operate their own security checkpoint, airports must follow a number of steps. One step that many executives might not know is that the public airport must establish a separate company to compete for the screening process. The Aviation and Transportation Security Act contains provisions that require the TSA to accept applications from "qualified private screening company" and states that the private company must be "owned and controlled by a citizen of the U.S.". As we all know, public airports would not fall under these guidelines, and therefore must establish a new corporation. Some states may not permit this practice, which would obviously put a wrinkle in the process.

While the "opt-out" process is not for everyone, it may present another "outside the box" opportunity for revenue diversification for many of the nation's smaller commercial service. However, the jury is still out on the program's success.

This development of a separate company and other necessary steps can be overcome with the assistance of ABS. Our company has teamed up with the founder of the Homeland Security Company, who was responsible for the initial training of all TSA screeners. Please contact us if you would like to explore the possibility of moving forward with the private screener opportunity.



Ask ABS!?!

Many corporate flight departments see a large savings by operating their own fuel farm. Could you address this issue by weighting all the factors involved, including but not limited to, immediate dollar savings, equipment needed, quality control, liability, flowage fees to be paid, effect on FBO both in terms of lost fuel sell and perhaps fewer other services they can provide because there is not sufficient fuel sales to support them, cost of cleanup at the end of lease, setting a precedent that may open the door for others to follow?" *Gary Jackson A.A.E., Greenville Spartanburg International Airport, Greer, SC*

Gary - Your question was selected as the winner of the inaugural "Question of the Month" segment of the Airport Beacon Report (Gary won a free annual subscription to our free newsletter.), and was chosen because it is an issue not unfamiliar to many of our readers.

Airport Business Solutions is recognized as the leader in providing valuation, analysis, and consulting services to airports and aviation businesses, and offers a diversity of backgrounds and experience which provides a new, creative, and "outside the box" perspective on a myriad of aviation issues and problems.

For More Information

Michael A. Hodges, MAI
President/CEO
Airport Business Solutions
10014 N. Dale Mabry Highway, Suite 101
Tampa, Florida 33618
Phone (813) 269-2525
Fax (813) 269-8022
mhodges@airportbusiness.net
www.airportbusiness.net