



# *Airport Beacon Report*

*May 2008*

## **WE MOVED!**

**The Tampa Headquarters of *Airport Business Solutions* and *ABS Aviation Management Services* have moved to new offices. As of May 1, the new office address is as follows:**

*13529 Prestige Place, Suite 108  
Tampa, Florida 33635-9772*

**Phone and fax numbers remain the same.**

**Please make note of these changes in your records.**

## **PERFORMANCE-BASED COMPENSATION**

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

Last month, Congress held hearings regarding the mortgage crisis, the prominent financial executives that still received large compensation packages despite their company's losses, and the borrowers that lost their homes. Not to oversimplify things, but as a third party observer, could it be possible that the compensation packages may have at least contributed to the mortgage crash. From my understanding, corporate board members developed bonus plans for top executives that promoted high risk with little or no penalties for failure. For example, executives would promote practices such as underwriting subprime mortgages in order to generate high profit margins, with little regard to the risk. As we know today, these practices led to the housing and credit markets failing and huge losses for the shareholders.

After watching and reading about these hearings, I started thinking about compensation packages for airport executives. Could this happen in the public airport sector? For example, could an airport manager unwisely allow risky business opportunities to impress his or her board for increased compensation? Has an airport manager ever

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unwisely spent capital funds on improvements that are indirectly linked to compensation motives? In my experience, the answer is probably “Yes” to all of the above. Although it is not as obvious in the public sector, many managers make unwise risky decisions knowing that the compensation rewards outweigh the risk to the airport and the community.

Since the beginning of my career, I have always been a proponent of the private sector, and tried to emulate private business practices while I worked in the public sector. However, since witnessing these hearings, it reminded me of a lesson a previous airport director shared with me. One day, he asked me how much of my own money did I invest in the runway and terminal. Of course my answer was zero. He later went on to explain our roles as public servants and how we were employed to manage the facilities in an effective and efficient manner.

Historically, public airport managers and directors have had contracts or agreements with their employers that do not include performance measures. However in recent years, airport authority boards and government entities have been including compensation incentives that include performance benchmarks. These measures may be linked to a director’s ability to reduce expenses or increase revenues, or perhaps to increased air service or some other indicator that measures efficiency.

Despite the mortgage crisis and my insight into the role of an airport manager as public servant, I still believe that compensation incentives are good for an organization. In fact, I think the incentives should be

made available for junior managers and employees as well, as long as they are applied and assessed responsibly. The following are some guidelines into developing a compensation policy.

- Develop the compensation philosophy for the airport and ensure that it is consistent with the airport’s business strategy, mission and culture.
- Recommend performance criteria and specific annual and long-term performance targets for salary increases and/or awards.
- Review the airport’s performance in relationship to established targets and to peers, as appropriate.
- Provide a meaningful oversight within the organization, by using a “check and balance” on compensation matters.
- Ensure the compensation paid is competitive and appropriate given the level of performance attained, and that such plans are consistent with the airport’s strategy and business plan.
- Provide the transparency required in today’s more open and highly legislated business environment.
- Ensure that compensation matters are conducted in a completely ethical and highly professional manner.



*Final Score:* Porcupine 1 Pitbull 0

In addition to all of these suggested measures, it is important to be flexible and responsive to matters outside the control of the organization. For example, last month, Skybus declared bankruptcy and pulled out of several smaller airports that never had commercial air service. Many of these airport managers worked hard and long hours to attract and accommodate Skybus, and facilitated investment in facilities for the good of the community. Should these managers be penalized for Skybus’ failure? It is true that it will be hard for many of these airports to recover the capital investment they made to accommodate Skybus, but common sense must be used when evaluating these types of situations,

especially when dealing with the highly unpredictable aviation industry. Just think back to 9/11 and all the performance measures that were dramatically impacted in 2001 and 2002. Do you really think that management and staff played a major role in the likely decline that the airport suffered during this period?

In summary, an airport organization depends on the skills and talents of their workforce to stay competitive. Rewarding top performers more than the average or poor ones is one way to enhance competitiveness. The public sector should attempt to mimic what works in the private sector, and learn from their mistakes (like the off-the-charts compensation packages in the mortgage and credit industry). Although fiscal goals are typically good performance measures, remember that sometimes, numbers lie!

### ***ASK ABS***

Once again, a valued part of our monthly newsletter (at least we value it) is a section called "*Ask ABS*". Within this section, we answer aviation-related questions from our readership. (If we do not receive a question, we usually make one up.) Each month we will publish one question that we receive with a joint reply from our professional consulting team. However, this month is special. **We have two questions.** Please submit any questions via e-mail to Mark Davidson at [mdavidson@airportbusiness.net](mailto:mdavidson@airportbusiness.net)

#### **First Question:**

What do other airports do with their old equipment?

**Answer:** Depending upon the situation, airports with excess equipment or equipment being replaced or phased out, often hold auctions. In recent years, the idea of on-line auctions has surfaced in order to reach a broader range of potential buyers. Whether the auction is on-line or traditional, the auction allows the airport to generate revenue and the buyer to obtain equipment below market rates. Another method of disposing of excess equipment involves trade-ins. For instance, large pieces of equipment such as passenger loading bridges can often be turned in if they qualify. Companies such as FMC will accept a trade-in on a passenger loading bridge if the equipment can be

refurbished and is a popular style of bridge, such as an apron drive bridge.

Similar to a vehicle trade-in, the airport receives credit towards a new passenger loading bridge. It might not be at the value you want, but when you consider the "hassle factor" of having to go through an auction process, the "net" to the airport could be the same.

Sharing is another method which is used situations where the airport sponsor operates more than one airport. Often old fire trucks, mowers, police cars, fuel trucks, and tugs found at general aviation reliever airports started their career at the local commercial service airport. Just like a little brother, always having to accept hand-me-downs!

#### **Second Question:**

A controversy has developed at my airport about whether it is typical for updated or new Minimum Standards to be retroactive. When I developed mine, I made them from that date forward. I am now being told that they can and should be retroactive. So far, I cannot find anything definitive that says either way is correct.

**Answer:** You cannot require tenants to adhere to something they were not aware of at the time a lease was signed. However, Minimum Standards language can be enforced through a lease if it states that the tenant must comply with Minimum Standards "as written or hereinafter amended". This means that if the standards change during the term of the lease, the tenant would need to comply. Nevertheless, from a practical standpoint, tenants are usually given a reasonable period of time to meet higher threshold requirements. What is reasonable will depend upon the deficiency and capital investment requirements imposed on the tenant.



*Airport Business Solutions is recognized as the leader in 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.*

*Our international affiliate, Airport Business Solutions International, has helped numerous airports worldwide with a variety of airport management and operational issues and problems, including business planning and privatization assessments.*

*ABS Aviation Management Services offers contract airport and FBO management to airports looking to maintain the revenues generated by ownership, while avoiding day-to-day management and operational issues.*

### **Joke of the Month**

After having dug to a depth of 10 meters last year, Scottish scientists found traces of copper wire dating back 100 years and came to the conclusion that their ancestors already had a telephone network more than 100 years ago.

Not to be outdone by the Scots, in the weeks that followed, British scientists dug to a depth of 20 meters, and shortly after, headlines in the UK newspapers read: 'British archaeologists have found traces of 200 year old copper wire and have concluded that their ancestors already had an advanced high-tech communications network a hundred years earlier than the Scots.'

One week later, a Redneck Hillbilly in a Kentucky newsletter reported the following: 'After digging as deep as 30 meters in a tobacco field near Possum Creek, Ole Bubba, a self taught archaeologist, reported that he found absolutely nothing. Ole Bubba has therefore concluded that 300 years ago, Kentucky had already gone wireless.'

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