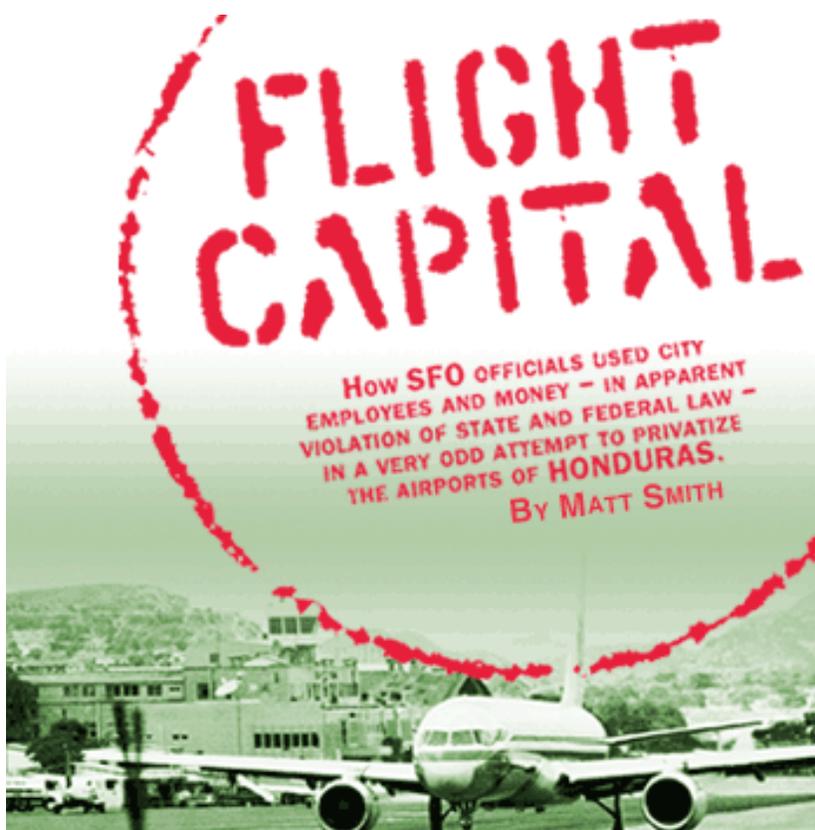


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Flight Capital

How SFO officials used city employees and money -- in apparent violation of state and federal law -- in a very odd attempt to privatize the airports of Honduras

BY MATT SMITH



Control tower at Toncontín International Airport in Tegucigalpa, Honduras.

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Willie Brown to S.F.: You're racist. Racist racist racist racist racist racist racist. Biased, too.

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Week of May 1, 2002

Jorge Arturo Pineda, a laconic, ruddy-faced investigator with Honduras' federal Attorney General's Office, sits in front of Docucentro, a photocopy shop in Tegucigalpa, the capital of Honduras, staring at the crumbled asphalt at the edge of Boulevard Morazán. "It's dirty here," Pineda observes. "Everything's really, really dirty."

He isn't talking about the street.

Today, one of Pineda's co-workers resigned angrily upon determining that a former boss in the AG's Office would not be prosecuted on allegations of stealing \$5 million from his own political party. Yesterday the attorney general himself announced that 14 prominent government embezzlement cases had been derailed by corrupt judicial officials.

For a century, corruption's been a ubiquitous part of Honduran life. It will remain so, Pineda says, and nothing a pencil-pushing attorney general's investigator does will change the situation.

For this reason, Pineda and his sidekick, Walter Hernández, a literature-quoting lawyer also employed by the Attorney General's Office, have agreed to spend this, their workday afternoon, at Docucentro helping me photocopy binders full of government files on an unusual plan to privatize the country's airports. Pineda had lobbied the attorney general, that I might gain access to the binders; Hernández came along to ensure that Pineda would have no trouble getting the files past a lobby guard.

Just once, Pineda and Hernández told me time and again during my recent visit to Tegucigalpa, they'd like to get their hands on government officials who had abused the public trust. Now, as the copy machines at Docucentro churn out page after page of copies -- pages containing names such as San Francisco Mayor Willie Brown, San Francisco International Airport Director John Martin, SFO Deputy Director John Costas, SFO Special Assistant Leonardo Villarroel Fermin Jr., and city Treasurer Susan Leal -- I assure them that this time, they did.

Later that evening, Daniel Rivera, the lawyer who had resigned in disgust earlier in the day from the AG's Office, joins Hernández, Pineda, and me to help celebrate our afternoon's enterprise. "There are two types of corrupt people," says Rivera, portentously raising his brown bottle of *Salva Vida* beer. "There are those who lack imagination -- corruption falls in their lap and they don't know what else to do. And then there are those who are corrupt *because* of imagination; their force of will is consumed by conjuring ways to steal.

"It's the imaginative ones who scare me."

The files spirited from the Honduras Attorney General's Office, when combined with a variety of other documents and a series of interviews conducted in San Francisco and Tegucigalpa over the past four months, detail the activities of a group of SFO bureaucrats who can truly be said to have shown expansive imagination.

In 1997, at the suggestion of SFO executives Martin and Costas, the San Francisco Board of Supervisors approved the creation of a private, for-profit corporation that would have a single shareholder -- the City and County of San Francisco -- and would carry out foreign airport consulting projects. This authorization included one infusion of taxpayer funds, a \$10,000 chunk of start-up capital from the city's General Fund. From that time forward, the bureaucrats insisted, the company would be self-funding. The basic notion: This new firm would win contracts at airports around the globe, earning enough money to expand and to repatriate, at some point, profits to the city. The corporation's books and activities would be kept secret from most city officials, and the city would not be allowed to

intervene in the company's activities. By shielding the city from knowledge of the corporation's actions, the logic went, San Francisco would be protected from liability.

Costas and his co-workers took the idea and ran wild, ignoring the promises that the firm, SFO Enterprises LLC, would support itself and turning it into a vacuum that sucked city time and money into a private money sack. Over time, SFO officials diverted at least \$900,000 in city funds to the benefit of SFO Enterprises without obtaining specific permission from the Board of Supervisors, in apparent violation of the state laws on official misconduct and federal law on the use of airport money.

SFO Enterprises attempted to win contracts all over the world, and SFO officials spent tens of thousands of city dollars traveling to Paris and Rome for airport-privatization conferences, and to Peru to discuss business deals. In the end, Costas and his cohorts apparently won only one major deal, an agreement, in the year 2000, on the privatization of the international airports of Honduras. In attempts to implement that agreement, Costas and his underlings inappropriately used city employees, costing the city -- and saving SFO Enterprises -- hundreds of thousands of dollars in personnel costs. Working on behalf of Costas, Airport Special Assistant Leo Fermin obtained a highly unusual \$40,000 city cash advance to buy a car and rent an apartment in Tegucigalpa. Because it was funded in large part by the city, the Honduran "success" may also have exposed the city to millions of dollars of potential civil liability. And during the Honduras operation, airport money was clearly used for the benefit of the private firm, potentially exposing the city to federal anti-diversion penalties that could restrict future access to federal funds. [NEXT »](#)



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Costas, Fermin, and other airport bureaucrats were able to make these diversions under the gaze of city officials expressly tasked with protecting the San Francisco treasury.

City Treasurer Susan Leal was, until recently, a director of SFO Enterprises. To this day, Leal defends Costas' operation, claiming it is a sound investment for



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the city
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served as
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AIDS patients, heal gums,
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Enterprises
while
simultaneously
holding down
her city job.

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We went to the largest stamp
collectors' convention in
California. And found something
to write about.

As a result,
the City
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to have actively enabled a type of misconduct --
the diversion of public resources to private
benefit -- that it is ordinarily expected, even
required, to advise against.

Deputy City Attorney Nathan Ballard says his
office does not believe Rosales' dual roles
conflict. The office asked for a state attorney
general's opinion on exactly this matter in 1998,
he says. The response: no conflict.

"We view the city's concerns to be the same [as
SFO Enterprises']. Their interests are the same.
The city owns the for-profit corporation in its
entirety, and the city is the beneficiary of all the
corporation's profits," Ballard says.

Rosales insists that the city received top-notch
legal advice from her.

"There has been no laundering, if you will -- no
washing of money, as you say it. There has been
no violation of federal law; there has been no
violation of the City Charter," Rosales offers.
"If you follow the paper trail, with the

agreements between the entities, they are arm's-length agreements."

By "agreements," Rosales appears to be making reference to a letter from Airport Deputy Director John Costas to his boss, Airport Director John Martin, saying SFO Enterprises Inc. planned to pay back part of the airport resources it had used. It is dated March 12, 2001, more than three years after Costas and Martin had begun to oversee the diversion of funds from the airport into this private corporation -- a corporation they had jointly promoted.

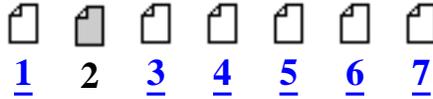
The Office of the Mayor, at the time held by Willie Brown, was listed as the sole shareholder of SFO Enterprises, and therefore Brown was in a position to monitor the debacle. But he contended through a spokesman that he had no information about the company, its activities, or the activities of the people charged to run it.

The City Controller's Office, the ultimate overseer of San Francisco's purse strings, appears to have approved unusual funding requests wholesale, glossing over inappropriate travel expenses and authorizing legal bills that included payments for obviously nonlegal spending. The \$40,000 cash advance that was to be used on a Tegucigalpa car and apartment, for example, was "verbally approved by Remy Nelly of the Controller's Office," according to an internal memo.

City Controller Edward Harrington says the diversion of airport funds to SFO Enterprises appeared to be a lawful use of city funds, because the airport's budget included funding for an International Services Division, and this division was related to SFO Enterprises Inc. "My recollection was that it was anticipated, or at least discussed, that there would need to be some upfront spending to be done. There was discussion that there was going to need to be trips. Clearly the airport has advanced money to the corporation, at least on a cash basis," says

Harrington. "We asked questions, and it seemed to fit within the pattern of how it was originally proposed, and so we approved it."

On Monday, Assistant Deputy Airport Director Mike McCarron said San Francisco International Airport management would not be available to comment on this story. [NEXT »](#)



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San Francisco's Honduran adventure finds its beginnings in November 1996, when Airport Director John Martin and SFO Deputy Director John Costas founded a unit at the airport called the International Services Division. It had the express purpose of earning profits for San Francisco by selling consulting services to



By Luis Elvir

The Tegucigalpa airport terminal displays the logo of InterAirports, the consortium that won the Honduran airport privatization contract.

foreign airports. Judging from memos, meeting minutes, and other documents, the logic of the new division went something like this: As an entity that generates nearly \$300 million in annual revenues, the San Francisco International Airport is the equivalent of a major corporation; the bureaucrats who collect fees from airlines, run the parking lots, etc., are therefore close facsimiles of major international business executives. And, by way of a final leap of logic, the expertise of these bureaucrats could be profitably leveraged in the management of foreign, for-profit airports.

With Costas as its director, the International Services Division participated in consortia that

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bid on the privatization of airports in Santiago, Chile, and Perth, Australia. The groups that included SFO lost both contracts, but the Costas group did earn a \$380,000 fee, paid by other members of the losing Perth consortium. Thus emboldened, in 1997 Costas and Martin urged San Francisco's city fathers to allow them to turn the new division into a private, for-profit, city-owned corporation. Such an entity would be unfettered by public access laws that govern -- and, supposedly, hamper -- city agencies, Costas argued.

"A private for-profit corporation will provide for rapid response necessary in a competitive business environment," Costas wrote in a 1997 memo to the city budget analyst. "Through a private, for-profit corporation that separates public assets and funds from the private enterprise, the necessity for multiple layers of approvals and extended processes can be eliminated and more timely decisions can be made."

More specifically, the corporation would be able to avoid the "extended process" of responding to public information requests. Private corporations aren't subject to laws guaranteeing public access to information about government entities -- even when the corporations are owned by the government. By having the ability to keep its operations secret from the public, this new corporation would not be forced to reveal trade secrets, airport officials said. Indeed, secrecy was described by proponents as one of the main benefits to forming the new, private corporation.

Another touted benefit of Costas' operation dealt with federal laws that prohibit municipalities from looting the budgets of their city-owned airports toward other municipal ends. Like other major airports, SFO receives millions of dollars annually in federal subsidies. According to federal law, all revenues generated by an airport -- airline landing fees, federal grants, bond funds, etc. -- should stay at the airport.

If Costas and his subordinates at the International Services Division were to turn out to be entrepreneurial wizards in the field of international infrastructure privatization, federal law would prohibit the city from using any profits for non-airport activities. And a violation of these laws could ultimately lead federal regulators to deprive the airport of federal funds; airports all over the country are routinely sued and penalized for this sort of fund diversion.

Costas suggested to city officials that his new private firm could create the bureaucratic version of a miracle: He would turn the airport into a cash cow that drained its milk into the city's General Fund -- without violating federal law. Despite the unlikeliness of the spectacle -- after all, an airport bureaucrat was promoting the idea of moving money from the airport into the city's General Fund, rather than vice versa -- the Board of Supervisors, then dominated by appointees and allies of Mayor Brown, bought Costas' idea.

There were catches, though, small print on the back of the box, if you will. The new corporation simply, absolutely, positively could not use airport funds.

Melba Yee, a deputy city attorney who works at the airport, came up with the following explanation in an official memo: "If structured as a separate legal entity with its own source of funds separate from the monies generated from ongoing airport activities, this line of business could produce a long-term source of revenue which lawfully could be provided to the general fund. ... Under this structure, no airport revenues would be used for the corporation, nor would revenues from the corporation be used to operate the airport."

In proposing their new private corporation to city officials, Costas and airport director John Martin were likewise charming in their scrupulousness. Martin, for his part, insisted that

the city specifically allocate \$10,000 for start-up funding of the corporation, rather than obtaining this money from the budget of the airport itself, because use of airport money "would be considered improper revenue diversion and thus violate federal regulations," a 1997 budget analyst's memo quoted Martin as saying.

Costas, for his part, told the budget analyst that "all costs incurred by the corporation would be funded by the revenues to be realized by the corporation," according to the budget analyst's memo. [NEXT »](#)



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Keeping the new corporation's accounts separate from the city's was important for reasons beyond obeying federal law, Deputy City Attorney Yee opined. Maintaining a fire wall between city funds and the accounts of the newly formed private corporation was also essential to protecting the city from civil liability under California law. "As long as the city acts



By Luis Elvir

A plane lands at Aeropuerto Toncontin

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For 20 years, South American thieves have been stealing millions of dollars in gems and jewelry from traveling salespeople in San Francisco. And no one -- not the cops, jewelers, or insurance companies -- has the slightest idea how to stop them.

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solely as a shareholder, the corporate formalities are observed ... and the corporation is properly capitalized for the business in which it engages, the protection of the city as a shareholder will be preserved. If, on the other hand, the city intervenes in the day-to-day affairs of the corporation or ignores the separate legal identity of the corporation, then the city may lose the protection that is otherwise provided by California law."

In other words, according to the City Attorney's Office, the Budget Analyst's Office, and the airport bureaucrats who were the proposed private corporation's main protagonists, the city's venture into international private entrepreneurship possessed a third rail: If it were somehow to become a conduit for diverting city funds beyond the initial \$10,000 investment, San Francisco would run the risk of violating federal law and/or exposing itself to the huge financial liability connected to running international airports.

There was a third crucial reason for keeping taxpayer resources away from the new corporation that went unmentioned in Costas' 1997 sales pitch to the Board of Supervisors: Unless the firm's accounts were kept unerringly separate from the city's, it would be impossible to determine whether the city was making or

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losing money on its new venture -- particularly because details of the operation of the new venture were to be kept secret from city officials.

In the world of private corporations the city contemplated entering in 1997, the ability to keep a strict accounting of a company's bottom line is the hub from which all other decisions emanate: which business opportunities to pursue, whether to retain or fire the company's chief executive, whether it is financially wise to continue or discontinue a business enterprise. Unless the city scrupulously divorced its accounts from those of this new enterprise, it ran the risk of creating a financial black hole. Unless the accounts were kept separate, public officials assigned to the new corporation -- such as Costas, who was the corporation's chief executive, and Fermin, the corporation's chief financial officer -- would be able to spend hundreds of thousands of taxpayer dollars without telling anybody how they used it.

During the first three years of the life of SFO Enterprises, public records show, that kind of misappropriation seems to have been accomplished, over and over.

Aeropuerto Toncontín in Tegucigalpa, Honduras, is the only airport in the world where motorists must stop at a traffic signal to await passing planes. Out-of-towners sometimes run the light. Locals rarely do; such is the terror of seeing car windows darkened by the belly of an airliner.

Aeropuerto Toncontín is considered by pilots who have landed there to be the world's keenest skills test. At 5,046 feet, the runway is approximately half the length of runways at SFO; it is surrounded by six mountain peaks; in making landings, pilots are forced to execute a tight U-turn before skimming their wings along a gully of mountainside residential dwellings. Aeropuerto Toncontín may be the only airport

in the world whose main terminal clock was six hours slow the morning of Aug. 11, 2001. It's surely the only airport where a private security guard held a gun to the head of a customs official in July, leading the government to shut down customs for two days. ("It was a question of them not recognizing the legitimate authority of the government," says a very irritated Jorge Yllescas Oliva, director of Honduras' version of the Internal Revenue Service. "The guard was very arrogant. He placed the gun right here," he adds, motioning to his forehead.)

Welcome to the capital of Honduras, bastion of surreal superlatives, a city rife with corruption, grinding poverty, and decrepit infrastructure, home to SFO Enterprises' sole publicly acknowledged line of business.

San Francisco became part of the consortium granted the right to privatize Honduras' four international airports -- located in the cities of Tegucigalpa, San Pedro Sula, La Ceiba, and Roatán -- only after failing elsewhere around the globe. SFO managers had traveled the world in hopes of winning airport privatization concessions, using city money, living on city paychecks, boasting of their authority as San Francisco city officials, while actually working on behalf of SFO Enterprises, which was very specifically set up *not* to be part of the city government. In essence, a two-sided deception was under way: In San Francisco, everyone was pretending that SFO Enterprises was entirely separate from the airport and the city. Overseas, airport bureaucrats were presenting themselves as city officials, and glossing over or minimizing the difference between the city of San Francisco, which has tens of billions of dollars in assets, and SFO Enterprises, which was worth \$10,000.

"When they won the concession, we had the idea that experts from the airport in San Francisco were going to come and improve our airport, and that they were going to invest \$125 million. I had understood that InterAirports SA

[the consortium that won the privatization contract] was the same thing as the San Francisco International Airport. We know that's a prestigious institution, so we figured that was great. We figured it was a stroke of good fortune that the San Francisco airport would run our airports," says Juliette Handal, president of the Honduran Private Enterprise Council, a national Chamber of Commerce.

(Judging from documents pertaining to an earlier privatization effort, Costas and his subordinates may have done more, at least once, than simply leave an impression that the city was backing their efforts. In Panama, a notarized document lists the San Francisco International Airport -- which, legally speaking, is the same as the City and County of San Francisco -- as a 10 percent equity partner in Airport Management Group Inc., a corporation created to bid on the privatization of a Panamanian airport. The city's business partners: two Panamanian banks.) [NEXT »](#)



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As Costas' team squandered hundreds of thousands of city dollars on losing privatization proposals, it became clear that the new corporation needed to hire outside experts. In some respects, at least, this reality undermined the logic behind the creation of SFO Enterprises. The company was created, after all, to exploit S.F. government expertise in



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the area of international airport management.

But Costas hired Alex Seid, who, according to *Aviation Week*, had been director of project development for the Massachusetts Port Authority, which had also set up a

division to pursue private airport consulting work. However, like others who worked for SFO Enterprises, Seid was hired as a city of San Francisco employee, and he traveled on a city government expense account -- while pursuing a private corporation's business.

To pursue the Honduran privatization contract, Seid helped assemble a consortium of international airport-industry players. The consortium offered an astoundingly high bid to win a privatization contract for Honduras' international airports. The consortium, called InterAirports SA, told Honduran reporters it would invest \$120 million to improve airport facilities over 20 years. The consortium also included Servicio Littoral Pacífico SA, a Peruvian warehousing and shipping company known as Serlipsa; Swissport SA, an international firm that provides airport ramp services; Pacific Architects and Engineers, an L.A.-based contractor that, among other things, managed CIA infrastructure during the Nicaraguan Contra war; Calmaquip Engineering Inc., a Miami-based contractor; and Honduran partners CIC and Interoceánica.

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According to a contract I obtained between SFO Honduras SA -- the corporate shell created as a subsidiary to SFO Enterprises for purposes of the airport privatization project -- and its consortium partners, other members of the group agreed to pay SFO Honduras a \$750,000-per-year fee to provide "operation and management services" for the consortium.

The consortium took over the airport in October and (as reported in a previous column, "Flying Blind," March 28) proceeded to earn the ire of the Honduran business community by immediately jacking up the fees importers pay for processing their goods through customs. But fee hikes were the least of SFO Enterprises' problems.

SFO Enterprises had a problem that many new businesses face -- undercapitalization. SFOE (as it is often called in government documents) did not have a source of start-up funding beyond the pitifully insufficient \$10,000 voted by the San Francisco Board of Supervisors. Fees from consortium members would not cover required spending for years. To solve the cash-flow problem, SFO bureaucrats embarked on a truly brazen series of maneuvers.

The simplest, yet most costly, portion of these maneuvers involved the unauthorized use of city personnel and travel expenses. City files are now packed with expense vouchers that airport officials, who are city employees, submitted for work conducted on behalf of SFO Enterprises. These officials spent city money to educate themselves in the ways of international airport privatization -- while boasting during conference round-table discussions of plans for their new private corporation.

In July 1999, for example, the city paid about \$5,000 for Fermin to attend the fourth annual Latin American Airport Privatization Development Summit in Miami, a sum that does not include Fermin's salary and benefits during

this time. The city paid for John Costas to attend a similar conference in Paris the following year. Martin, likewise, attended a similar conference, at city expense, in Rome. City employees were regularly reimbursed thousands of dollars for travel to Honduras. A Nov. 28, 2000, city travel-advance check made out to Gerardo Fries in the amount of \$3,035 is typical of dozens of such SFO Enterprises- related city cash requests made from 1997 through 2001.

Airport officials were selective in providing accounting documentation, making it difficult to assess the full amount of city money that was spent. But judging from the privatization contracts city officials attempted to win around the world, combined with the level of spending reflected in bills, checks, and receipts I was able to view, it's apparent that these officials spent more than a million dollars on SFO Enterprises' behalf.

As helpful as city travel advances were to SFO Enterprises, they did not provide the kind of walking-around money necessary to run a foreign business operation. Costas and Fermin turned to the giant San Francisco-based law firm Morrison & Foerster LLP, which does around \$1 million each year in legal work for San Francisco International Airport. Legal billing statements often contain line items that refer to expenses or (in this case) disbursements; these billings usually seek repayment for sundry office expenses such as photocopying fees, messenger services, and the like. But on legal bills submitted to the airport by Morrison & Foerster and another law firm, Felipe Danzilo y Asociados in Tegucigalpa, "disbursements" could total thousands of dollars, and involve a lot more than copying and delivery.

For example, a Morrison & Foerster bill dated Oct. 11, 2000, seeks city reimbursement of \$13,986 to "set up office for SFO Honduras," the SFO Enterprises subsidiary in Honduras. Morrison & Foerster submitted dozens of bills with Honduras-related disbursements; the

payments total well into the six figures. Such disbursements through law firms appear to have been used to pay SFO Enterprises' on-the-ground expenses in Honduras for several months. (An attorney with Morrison & Foerster specializing in aviation law refused to comment for this story, referring information requests to the airport.)

Legal bills weren't the only method of washing airport money into Honduras. In one case, mentioned previously, Fermin took the odd step of requesting a city cash advance of \$40,000, to be made out to airport employee Steven Zehr; according to records at the City Controller's Office, Fermin said the money was needed right away to rent an apartment and to buy a car in Honduras. The Controller's Office approved this highly unusual request. [NEXT »](#)



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According to now-retired Controller's Office

Accounting Operations

Manager

Harold

Guetersloh,

Fermin did

not provide an accounting of

how the

\$40,000 had

been spent for

several

months,

despite

repeated

requests from

the

Controller's

Office that he

do so. Finally

in April, six

months later,

after I began

requesting city

documents on

SFO



By Luis Elvir

The Tegucigalpa firm of Danzilo y Asociadas, which SFO officials used to route money to Honduras.

this week in News

Feature

[The Perfect Crime](#)

For 20 years, South American thieves have been stealing millions of dollars in gems and jewelry from traveling salespeople in San Francisco.

And no one -- not the cops, jewelers, or insurance companies -- has the slightest idea how to stop them.

Mecklin

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Californians have refused public campaign financing, and we've gotten what we deserve: a governor's race between a fund-raising slut and a clueless rich guy

Enterprises' finances, the airport's International Services Division returned the \$40,000 to the city, using a different check than the one originally issued. The airport officials hadn't needed the \$40,000 after all, was the explanation Guetersloh

says he was offered. Other documents, however, say SFO employees began using a Tegucigalpa apartment not long after the \$40,000 cash advance.

In the end, documents obtained from the city controller and SFO make it clear that airport officials diverted, at minimum, hundreds of thousands of city resources into SFO Enterprises, a private, for-profit corporation.

When a scenario similar to the SFO Enterprises situation was described to Sandra Michiokau, a spokeswoman for the state attorney general, she declined comment, but referred me to state law saying that a public official may not, without authority of law, appropriate public funds "to his own use, or to the use of another."

As Costas and Fermin solved their Honduran cash problem by diverting city funds, they faced a crisis in the area of human resources. For reasons not entirely clear, Costas had a difficult time keeping managers on board. Though Seid

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An afternoon with Mandy Aftel and the ineffable magic of natural perfume

Bay View
[Miracle at the KK Cafe](#)

Peanut milk can strengthen AIDS patients, heal gums, soothe chronic skin diseases, and prevent baldness, or so it is said. And it's found only one place on Earth.

Dog Bites
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We went to the largest stamp collectors' convention in California. And found something to write about.

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did not speak Spanish, officials at the Honduran Public Utilities Commission and elsewhere say the former Boston airport official forged a relatively smooth working relationship with the consortium partners, government officials, the press, and the Honduran business community. Seid left early this spring, to be replaced by Steven Zehr, who had previously worked for the Hong Kong Airport Authority. According to people who worked with him in Honduras, Zehr's brief tenure as manager of Honduras' airports proved a disaster.

Zehr's term lasted a couple of months, and Gerardo Fries, another airport official, was apparently sent down briefly as manager. "They'd send somebody for a couple of weeks, and then they'd disappear," says Tania Pagoada, an official with the Superintendencia de Concesiones y Licencia, Honduras' version of a public utilities commission. "Managers would come and go. It was hard to tell what was going on."

Earlier this year, consortium partners finally managed to hire Johnny Morales, who had previously directed operations at the airport in Santiago, Chile, which had been privatized by a consortium led by the Vancouver International Airport.

Despite the malfunctioning terminal clock, the security guard's gun to the head of a customs official, and a just-resolved cargo-fee dispute between Honduran business leaders and InterAirports SA, Morales seems to be performing competently. InterAirports SA has complied with requirements to submit detailed plans for airport improvements to be built during the next two years -- the terminal will be remodeled; the parking lot will be widened; a flight information screen will be installed. Work is on schedule to complete new training manuals, safety manuals and procedures, security procedures, and the like, Morales says, and his claims are backed up by Public Utilities Commission Director José Gilberto Aquino.

Pedro Emilio Banegas, an account executive for infrastructure finance with the Central American Bank for Economic Integration, tells me that his organization -- a regional nonprofit financing institution similar in structure to the World Bank -- may loan InterAirports SA half of the \$60 million it has committed to investing in Honduras during the coming years. The rest may come from the International Finance Corp., a division of the World Bank, and the Inter American Development Bank, another regional nonprofit lending institution.

So if the SFO consortium's implied promise to invest \$120 million in Honduras over 20 years may have been an exaggeration, airport improvements are likely to go ahead just the same.

Oddly, San Francisco is almost nowhere to be seen in the Honduran operation. The contract between SFO Enterprises' subsidiary, SFO Honduras, and the InterAirports consortium stipulates that San Francisco would be responsible for developing airport operational standards and procedures, drafting plans, conducting environmental assessments, and creating safety, security, and management manuals. But according to Morales and Public Utilities Commission officials who regularly meet with consortium members, SFO Honduras is not doing any of these things. Private consultants are. Morales says SFO officials are "reviewing" finished work done by the consultants, but Morales hires the consultants and supervises their work.

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These days, San Francisco International Airport officials rarely book rooms at the luxurious Princess Hotel in Tegucigalpa, traverse the city streets in a new car, or hold meetings at the InterAirports SA office at Aeropuerto Toncontín. San Francisco airport officials have essentially vacated Honduras, leaving the task of running the privatization of Honduran



By Luis Elvir

The Tegucigalpa airport terminal displays the logo of InterAirports, the consortium that won the Honduran airport privatization contract.

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airports to their other consortium partners. The director hired by the consortium says the project is on track, but there are compelling reasons to seek a full accounting of why Martin, Costas, and Fermin were allowed to divert city government money into a

private corporation, under the noses of the city treasurer and employees of the city attorney and city controller.

In convincing supervisors to approve the creation of SFO Enterprises four years ago, airport officials warned the city of the clear legal strictures against mingling airport funds with the soon-to-be-created for-profit corporation. In retrospect, Airport Director John Martin's insistence that the city provide the corporation's \$10,000 start-up stake seems prescient. Federal law indeed prohibits the diversion of airport funds for non-airport uses. Now it must be seen whether the federal government will penalize SFO for the use of hundreds of thousands of airport dollars on an international privatization program.

I asked Airport Director John Martin to account for airport money that had been diverted into SFO Enterprises, the private corporation. In response, he gave me computer printouts describing an "agreement" under which SFO

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Enterprises would repay the airport \$565,088.92 over seven years at 5.464 percent interest, for the private corporation's expenses paid for by the city during fiscal year 1999-2000.

The document gave every appearance of having been ginned up specifically in response to my public records request: It was a photocopied computer printout dated March 12, weeks after I had begun inquiring about SFO's activities in Honduras. Martin did not provide me with any initial "agreement" to borrow the money in the first place. He provided no "agreement" about how SFO Enterprises would repay the city money diverted into the service of this private company during fiscal years 1997-1998, 1998-1999, or 2000-2001. When I requested accounting related to this supposed "loan," Martin gave me printouts, dated April 18, which had been check-marked with a pencil before being photocopied, listing travel and other expenses that had benefited SFO Enterprises. Like the first one, this documentation was dated after I began inquiring about SFO Enterprises and more than three years after the airport began diverting money into the private corporation.

Rosales rejects the idea that the fund transfers' unusually scant, late, and informal documentation might have been prepared specifically for purposes of satisfying a public information request.

"I hate to break it to you, but we don't go around jimmying things up; we don't react to people's requests for information," says Rosales. "I can assure you that those agreements were in the works. The only reason those weren't consummated was that the legal review was so extensive about the thing. It's because we have so many lawyers looking at the thing that it took forever to put them in the final form. This SFOE thing is new; it's cutting edge. It means the lawyers get crazy about dotting every 'I' 10,000 times. You may laugh, but that's what happens. We're pretty busy around here. The SFO Enterprises idea doesn't come out of people at

the San Francisco International Airport not having anything to do."

In assessing the proposal to create a private consulting corporation, Deputy City Attorney Melba Yee accurately raised the question of potential liability to the city. As long as the accounts were kept separate, she said, the city would be safe. Accounts weren't kept separate, and by Yee's logic, the city is now not safe from liability relating to SFO Enterprises' airport privatization venture. Instead, our city government faces the prospect of being liable for airport safety in a country with some of the most dangerous airports in the world. Aside from Tegucigalpa's mountainous approach and short runway, there's Roatán, an isolated tropical island with limited firefighting or medical facilities.

Now it must be determined whether there is some way to limit or eliminate the city's new liability load.

But these issues take a back seat to possible violations of California criminal law, which explicitly prohibits public officials from giving money to private entities without authorization, and without getting value in return.

I have no evidence that Costas, Martin, Fermin, Rosales, or any of the public officials involved in SFO Enterprises used this corporation for their own financial benefit.

But a troubling fact remains: Because SFO Enterprises is a private corporation whose activities and records are secret to the public, it is all but impossible for me, most elected officials, and members of the public to monitor the activities of the corporation, its officers, or its employees. If the corporation's assets were ever used to benefit a public official, or anyone else, inappropriately, there would be little if any way for the malfeasance to be discovered.

At its inception, SFO Enterprises had a sole owner, the city of San Francisco, and airport

officials suggested the city would reap profits from the private company's activities. But the city had no right to audit the books of the private company to see if profits were being made. The city had no ability to object if new owners came on board. It was clear from the beginning that the private firm had *no obligation whatsoever* to repatriate profits to the city. And because it is a private corporation, SFO Enterprises does not have to provide its records, or open its books, to journalists or the general public.

If this kind of arrangement, in which city resources are used in a private company distinct from the city government, is legal, a host of public officials might decide to be as enterprising as the bureaucrats at San Francisco International Airport.

Chiefs of police across the state might set up private security firms whose books are out of the reach of public disclosure laws. They might order police to spend days and weeks working for the private firms, and they might fudge their accounting so that it becomes unclear where city employee time ended and private corporate gain began.

City treasurers from here to San Diego might set up private accounting firms -- arguing that the firms would make those cities bundles of money -- and then keep the books secret and make extensive use of city employee time and expertise.

If prosecutors don't take action when laws prohibiting this kind of thing are violated, our government will wind up tangled in sweetheart deals, and smiley-faced embezzlements, and front companies, all protected by an impenetrable veil of secrecy. And when that happens, we will have created an American version of Honduras, right here in San Francisco.



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