Headline: NUMBERS GAME

SubHead: Car-rental firms, like most firms that do business at the airport, must commit to subcontracting with disadvantaged companies. But some of the companies say they reap those benefits only on paper.

Byline: By Jeffrey Meitrodt and Mark Schleifstein
Staff writers

Date: Tuesday, March 27, 2001

Text: Edgar Ford is not the closest car dealer to New Orleans International Airport. In fact, it takes about two hours to drive from the airport to the company's showroom in Breaux Bridge, 120 miles west of New Orleans in the self-proclaimed "Crawfish Capital of the World."

But Edgar Ford has proved popular with Hertz Corp., the biggest car-rental firm at the airport. Since 1997, Hertz claims it has bought more than $25 million worth of cars from the Breaux Bridge company as part of an airport program aimed at steering work to disadvantaged businesses. The firm is one of just two car dealerships that have been approved to participate in the airport program, records show.

There are just a couple of problems with Hertz's claims.

First, the company isn't really buying the cars from Edgar. It's getting them directly from Ford Motor Co., which happens to be Hertz's parent company, and paying Edgar a small transaction fee to borrow the dealer's identification number, according to dealership owner Jackie Edgar, a black woman. Altogether, Edgar estimates, the program has meant less than $50,000 in revenues for her company.

Second, Edgar Ford isn't really disadvantaged. In 1994 the airport approved the company's application to participate in its disadvantaged business enterprise program, and although it recertified it as recently as 1999, Edgar's revenues have been too high to qualify since 1997, records show.

This is not the kind of thing airport officials said they wanted when they began overhauling the agency's DBE program in 1994. At the time, the incoming chairman of the New Orleans Aviation Board, Revius Ortique Jr., said Mayor Marc Morial was "embarrassed" at the lack of DBE participation in airport contracts, and he criticized the practice of certifying firms that "are not really DBEs."

"It seems to me that this is something we are going to have to wrestle with until such time as persons volunteer to cooperate," he said

"I think once it is made clear that we are going to do everything we can to strengthen our posture on DBE, persons who are bidding will understand. To the extent that (they) fail to understand, I think we have sufficient minds on this committee to take care of the situation."

Ortique and the board hired more staff for the DBE office and tripled the money spent on DBE consultants. Moreover, the board crafted new rules that allowed staff members to reject bidders whose proposals did not promise certain levels of DBE participation. The board also told contractors that it would start enforcing the DBE goals that were written into their contracts, meaning penalties would be instituted against firms that fell below promised levels of DBE participation and could not prove they made good-faith efforts to comply.

Driving a hard bargain

Nowhere was the new approach more evident than in the area of car-rental firms. In 1996, the board shocked the industry by telling companies that had been operating at the airport for years that they could lose their spots if they failed to include a significant amount of DBE participation in their bids for new operating contracts. To that point, such contracts had always been judged on the amount of rent a company was willing to pay, not its DBE participation level.

The most controversial part of the plan called for the proposals to be judged partly on how much of the bidding company was owned by disadvantaged individuals. Industry leaders said such requirements were unreasonable, because most of their companies are publicly held, which means their shares can be bought and sold by anyone in the stock market.

"We went back and forth on this," said Morial, who oversees the airport. "They said, 'If we don't get our way, we will not provide rental cars at your airport. We'll walk away.' It got to be some pretty tough mule-talking."

As a compromise, the airport withdrew the proposal and split the car-rental concession into two parts. The smaller piece reserved two car-rental slots for companies owned by disadvantaged individuals. The airport subsequently leased the spaces to minority-owned firms, one of which closed last year after filing for bankruptcy but has been given permission to reopen after reincorporating with additional investors.

The larger piece let seven nondisadvantaged car-rental companies come up with their own proposals on how to increase the involvement of disadvantaged firms in their operations. Bidders still would be judged on their amount of DBE participation, but the stakes were lower: The company with the highest DBE participation would get its choice of counter space within the airport. Bidders with little or no DBE participation would not face losing their slots altogether, but they would be evaluated on the amount of rent they were willing to pay.

Ultimately, all seven of the nondisadvantaged companies that won slots at the airport promised to spend money with DBEs. The amounts varied widely, however, and none of the companies promised to involve DBEs in ownership or in the construction of their facilities at the airport. The main pledge they made was to buy a portion of their goods and services from disadvantaged firms.

Breakdown

The company that promised to spend the most money with DBEs was National Car Rental, which obtained the best counter location by agreeing to either buy at least 35 percent of its fleet cars from disadvantaged dealerships or spend 7 percent of its overall expenses with DBEs, whichever was higher.

In its reports to the airport, National claimed to have exceeded those goals by a large margin in 1998 and 1999. Altogether, National said it spent $14.4 million with DBEs, or 51 percent of the $28 million in revenue it generated locally over the two-year period. Previous records were unavailable.

It turns out, however, that those claims are wildly off base. More than $10 million of those purchases were with three car dealerships that never were certified as disadvantaged by the airport, including a Georgia company that was rejected because it posted average sales of $416 million per year, way above the airport's limit of $21 million for a car dealership. National really spent just $387,787 with certified DBEs, or a little more than 1 percent of the total revenue it reported in the two-year period, records show.

National officials apologized for the mistake.

"When I found out what was happening, I was shocked and disappointed about what we'd reported and our record-keeping and how we'd completed those forms," company President Ernest Johnson said. "I am going to fix it. We intend to meet our commitment to the New Orleans airport."

Taking credit

Few of National's peers did any better. Altogether, five national companies operating at the airport took credit for spending $80 million with DBEs in recent years, when just $32 million of that went to certified DBEs, according to an analysis of airport records by The Times-Picayune. That analysis is based on records dating back as far as 1996. Complete records for all companies operating at the airport were unavailable.

Airport officials have complained to the car-rental companies, asking them to stop claiming purchases made with uncertified firms. Morial said more action may be required.

"If they're not complying in that egregious a fashion, and they're misrepresenting their DBE participation, that may go beyond a violation of the program," Morial said.

Representatives of the five companies said they were not trying to misrepresent their DBE participation. In most cases, officials said, they were simply counting purchases made with firms that were certified as DBEs by other agencies.

"There was no intention to deceive, not at all," said Simon Ellis, vice president of properties and concessions for Hertz. "We wanted to demonstrate that we do have a substantial number of DBE suppliers, but not all of those are certified by the airport."

Though Hertz took credit for $12 million it shouldn't have, it still did the best among the big car-rental companies, spending more than $30 million with disadvantaged firms, or 56 percent of its overall revenues. But even that is misleading, as Hertz is counting more than $25 million in car purchases from Edgar Ford, which didn't actually collect $25 million and shouldn't have qualified for the program at the time.

Don't ask, don't tell

In records provided by Edgar Ford, the dealership's revenues first topped the $21 million limit in 1997 and have since grown to more than $30 million. Edgar said she didn't disclose those revenues in her recertification applications because the airport didn't ask for them. Copies of those forms, supplied by the airport, show that the agency asked her to list "all projects performed by your firm over the past year," but it did not ask for annual revenues.

The airport also certified another car dealership, Musson-Patout Automotive Group, even though its revenues have topped $45 million since 1994, records show.

Airport officials said both companies were certified because they submitted tax returns showing their revenues fit under the cap, but they declined to provide copies of those records or any information contained in them. "That's confidential," airport attorney Rebecca King said.

Edgar said it wouldn't be much of a loss to her business if she was booted out of the program. Though the program's intent is to help disadvantaged firms gain experience and develop financial stability, Edgar said the business she gets from Hertz does almost nothing for her company. Unlike her other fleet customers, she doesn't prepare the cars for delivery, service them or even process the paperwork for the transactions. Everything, she said, is handled between Hertz and Ford Motor Co. The cars don't even pass through her lot.

All she does is charge Hertz a transaction fee for the use of her dealer identification number, which allows Hertz to book the sales as coming from her company. The fee started out as $30 per car, but it has since dropped to $2 to $5 per car, Edgar said. In a good month, that might mean an extra $1,300 in revenue, she said.

"What can you pay with $1,300" Edgar said. "Maybe pay a portion of the light bill, but it wouldn't even pay my telephone bill."

The low fees prompted Musson-Patout, the only other car dealership certified by the airport as a DBE, to drop out of the program in 1997. "It wasn't worth the time and effort," company President Diane Kyle said. Kyle said her New Iberia dealership earned a few thousand dollars by lending its dealer ID to two car-rental companies.

At Hertz, Ellis declined to discuss details of the company's relationship with Edgar Ford, but he said airport officials are aware of the arrangement and have not objected to it.

"The car purchasing program we have with Edgar Ford is exactly the same we have with every dealer in New Orleans and throughout the country," Ellis said. "This is the way that Hertz buys cars, period."

But the airport has complained. In a 1999 letter to Hertz from Calhoun Moultrie Jr., the airport's DBE liaison officer, Hertz was told that it could count only the profits earned by DBE dealers, not the cost of each vehicle. Though Moultrie asked the company to correct its reports, it never did, and neither has any other car-rental company.

New rules of the road

Ultimately, Hertz and its peers may win this one. Last year, the U.S. Department of Transportation issued a proposed rule that restructures how car-rental concessionaires must comply with DBE regulations.

Based on a memorandum of understanding between the car-rental industry and the Airport Minority Advisory Council, a nonprofit trade group made up of airport administrators, disadvantaged business owners and local government officials, the new rule would let rental companies count the full value of new cars toward DBE participation goals. In an attempt to broaden DBE participation, the rule says car-rental companies must spend at least 30 percent of their DBE money on goods and services other than cars.

The new rules also would make it easier for car dealers to be certified as DBEs, because the $21 million annual sales limit would be abolished. In its place would be a new rule limiting the size of DBE car dealers to 500 employees. Under that standard, no single dealership in the New Orleans area would be eliminated, according to a published list of local auto dealers.

Until the rules are finalized, the airport is not counting any fleet purchases by the car-rental companies. In its DBE reports to the federal government for the past five years, the airport has credited the companies with no DBE participation, in effect not counting more than $80 million in DBE expenditures claimed by the companies.

Under the new contracts approved by the airport in 1998, that should have exposed the companies to sanctions worth millions of dollars. But car-rental companies said the airport couldn't impose sanctions because the new leases weren't signed by the city until late 2000.

Airport officials deferred questions on the unsigned contracts to the city. Morial, who signs all airport leases, said he couldn't explain the delay.

Without the rental-car purchases, the airport has shown almost no progress in improving DBE participation in the area of concessions, which is dominated by the car-rental companies. In 1999, the most recent year for which statistics were available, DBEs collected just 12.5 percent of the revenues generated by all airport concession companies, far short of the airport's goal of 35 percent and a small improvement over participation of 11.6 percent in 1995.

By contrast, the airport's tough approach on enforcing DBE goals in construction projects has made a big impact. Since 1995, the overall level of DBE participation on construction projects and related services has more than doubled, reaching 45 percent of total expenditures in 1999, when DBEs earned $8.8 million out of $19.7 million spent, records show.

Airport officials said the percentage of concession revenues earned by DBEs is expected to increase with the implementation of new concession plans.

=====================================

PADDED REPORT

Airport officials told Hertz that the company was incorrectly listing as beneficiaries frims that weren't certified as disadvantaged. Here, in a quarterly report, Hertz says it purchased $2.9 million worth of goods and services from disadvantaged firms, but in fact only $4,300 went to a certified DBD. In 1999, when this report was filed, Edgar Ford was not a certified DBE.

=======================================

COUNTER CLAIM

The Aviation Board told rental-car companies at the airport in 1996 that car-rental counters would be awarded on the basis of how much business the companies would pledge to do with disadvantaged businesses. National Car Rental won a premium counter location when it agreed to buy at least 35 percent of its fleet from disadvantaged dealers or spend 7 percent of overall expenses with DBEs. But despite its claims, the company really spent just $387,787 with certified DBEs, or a little more than 1 percent of total revenue.

GLOSSARY

Agencies -- The seven local agencies central to this series, each of which operates a program for disadvantaged business enterprises, are:

-- The city of New Orleans, whose minority- and women-owned business program applies to all city departments but not to quasi-independent agencies

-- The Housing Authority of New Orleans, or HANO

-- The New Orleans Aviation Board

-- The Orleans Levee Board

-- The Orleans Parish School Board

-- The Regional Transit Authority, or RTA

-- The Sewerage & Water Boar, or S&WB

Disadvantaged Business Enterprise, or DBE -- A company that has been certified as disadvantaged by any of the seven agencies listed above. A company can be required to prove it is both socially and economically disadvantaged, or, in some cases, it can be presumed disadvantaged because of its ownership by minorities or women.

Net worth -- An individual's total assets minus liabilities.

Open Access Plan -- Program operated by the city of New Orleans to encourage city departments and private companies to do business with minority- and women-owned businesses. For example, Jazzland Theme Park, a private enterprise that received public financing, had to meet the city's Open Access goals for construction, suppliers and hiring.

Performance bond -- Issued by an insurance company to guarantee satisfactory completion of a project by a contractor.

Presumptively disadvantaged: An assumption by an agency that all minorities and women qualify for the DBE program as long as company revenue and personal net worth fit within the agency's limits.

Prime contractor -- Lead company hired to oversee and hire subcontractors for a construction project or other job.

Revenue -- Total money collected for goods and services sold by a company. A company hopes to make enough revenue to cover its expenses and make a profit.

Set-aside -- The practice of reserving a portion of public work to be bid on only by disadvantaged businesses, or companies owned by minorities or women. This practice has largely been abandoned in favor of goal-based systems that require prime contractors to subcontract a certain percentage of work to DBEs. That work can be any aspect of a project.

Subcontractor -- An individual or company hired by a prime contractor to perform part of a larger project. Many DBEs get work as subcontractors.

U.S. Small Business Administration, or SBA:

Federal agency charged with assisting small businesses by offering educational, grant and loan programs. The Agency's Section 8(a) program helps disadvantaged businesses through the awarding of federal contracts. Its standards have been adopted by some local agencies.

. . . .

Jeffrey Meitrodt can be reached at jmeitrodt@timespicayune.com or (504) 826-3497.

Mark Schleifstein can be reached at mschleifstein@timespicayune.com or (504) 826-3327.

Caption: Car-rental shuttle buses pull to the curb to pick up customers at New Orleans International Airport.

Sweet deal

Edgar Ford, a Breaux Bridge car dealership, isn't really disadvantaged, says owner Jackie Edgar, left.. But that didn't stop Hertz from using the dealership to partly satisfy its goal of sharing business with disadvantaged firms. In reality, Edgar says, Hertz used the company's dealership number so it could buy cars directly from Ford. Edgar Ford actually received only a token amount per car, not $25 million as Hertz reported, Edgar says.

"The mayor has indicated that he is embarrassed, and I can't blame him, that the DBD components in these contracts have not been higher."

REVIUS ORTIQUE JR., above Aviation Board chairman, speaking in 1994

STAFF FILE PHOTO BY JOHN MCCUSKER

COUNTER CLAIM

STAFF PHOTO BY TED JACKSON

STAFF PHOTOS BY TED JACKSON

Words: 2937

Section: NATIONAL

Page: 08