
Office of the Inspector General Audit Report

*Monitoring of Airport Revenues
at Arlington Municipal Airport*

*Federal Aviation Administration
Northwest Mountain Region*

*Report No: R0-FA-7-005
Date Issued: January 15, 1997*



ACTION: Report on Monitoring of Airport Revenues
at Arlington Municipal Airport, Federal Aviation
Administration, Report No. R0-FA-7-005

January 15, 1997

Lawrence H. Weintrob
Assistant Inspector General for Auditing

JA-1

Federal Aviation Administrator

I am providing this report for your information and use. Your May 21, 1996, comments on the March 13, 1996, draft report were considered in preparing this report. A synopsis of the report follows this memorandum.

Federal Aviation Administration (FAA) concurred with Recommendation 1 and partially concurred with Recommendation 2, proposing alternative corrective actions where it disagreed with our recommendation. We consider FAA's comments and planned actions to be responsive and have revised the report accordingly. For these recommendations, we request FAA provide target dates for completing corrective actions. FAA actions are subject to the follow-up provisions of Department of Transportation Order 8000.1C.

I appreciate the courtesies and cooperation extended by FAA officials. Please call me at (202) 366-1992 or Ronald W. Hambrick, Regional Manager, at (206) 220-7754 if you have any questions concerning this report.

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U.S. Department of
Transportation

Office of the Inspector General

Monitoring of Airport Revenues at Arlington Municipal Airport FAA Northwest Mountain Region

Report No. R0-FA-7-005

January 15, 1997

Objectives

The objectives of our audit were to determine whether Federal Aviation Administration (FAA) monitoring of Arlington Municipal Airport (Airport) was adequate to ensure (i) a fee and rental structure was maintained which made the Airport as self-sustaining as possible and (ii) airport-generated revenues were used for the capital and operating costs of the Airport in compliance with the Airport and Airway Improvement Act of 1982, as amended (AAIA).

Conclusion

The FAA Northwest Mountain Region (Region) did not monitor (i) the fee and rental structure to ensure the Airport was as self-sustaining as possible, and (ii) the use of airport-generated revenues. The Region relied upon the City of Arlington's (Sponsor) self-certification, annual single audits, and third-party complaints to ensure compliance with AAIA Sections 511(a)(9) and (12).

Monetary Impact

The Airport lost about \$216,427 in rental income and was assessed approximately \$5,300 in unsupported non aviation costs by the Sponsor.

SYNOPSIS



U.S. Department of
Transportation

Office of the Inspector General

Recommendations

We recommend the Federal Aviation Administrator (i) require the Sponsor to establish and implement procedures that ensure the Airport receives fair market value for Federal surplus property and that airport-generated revenues are properly used; and (ii) reimburse the Airport Fund for the \$5,300 of questioned costs identified in this report.

Management Position

FAA concurred with Recommendation 1 and partially concurred with Recommendation 2, proposing alternative corrective action where it disagreed with our proposed recommendation.

Office of Inspector General Comments

FAA actions taken and planned are reasonable.

SYNOPSIS

TABLE OF CONTENTS

TRANSMITTAL MEMORANDUM

SYNOPSIS

I. INTRODUCTION

Background..... 1

Objectives, Scope, and Methodology..... 1

Management Controls..... 2

Prior Audit Coverage..... 2

II. FINDING AND RECOMMENDATIONS

Finding: Monitoring of Sponsor Compliance with AAIA..... 4

III. EXHIBIT

Exhibit: Audit Team Members..... 9

IV. APPENDIX

Appendix: Management Response to Draft Report..... 10

I. INTRODUCTION

Background

The Federal Aviation Administration (FAA) promotes development of a system of airports to meet the Nation's aviation needs by providing Federal assistance through grants-in-aid. FAA grants include funds for airport planning, development, and noise compatibility programs. As a condition precedent to approval of an FAA grant, the City of Arlington (Sponsor), Washington, agreed to comply with specific assurances contained in the Airport and Airway Improvement Act of 1982, as amended (AAIA). Two of these assurances are Section 511(a)(9), which requires the Arlington Municipal Airport (Airport) to maintain a fee and rental structure that makes the Airport as self-sustaining as possible, and Section 511(a)(12), which requires airport-generated revenues to be expended for the capital and operating costs of the Airport. Failure to comply with grant provisions can result in grant funds being withheld.

In addition to FAA grants, airports can also receive land under the Federal Surplus Property Act of 1944, as amended (FSPA). The FSPA provides for the transfer of Federal surplus real and personal property to be used for airport purposes, subject to specific terms, conditions, reservations, and restrictions. With the written consent of the FAA Administrator, sponsors can use surplus real property to fulfill the immediate and foreseeable future requirement for developing, improving, operating, and maintaining a public airport, including property needed to develop sources of revenue from non aviation businesses.

On July 25, 1958, the FAA Administrator granted the Sponsor permission to use any parcels of land for revenue production, except parcels encompassing the runways and those necessary for clear zones. The Sponsor received approximately 1,124 acres of Federal surplus land in February 1959, to be used for airport purposes. During Fiscal Years (FYs) 1991 through 1993, the Airport reported operating revenues of \$5.2 million and expenses of \$5.3 million. During this period, the Airport received a total of \$2 million in FAA discretionary grants.

Objectives, Scope, and Methodology

The objectives of our audit were to determine whether FAA monitoring of the Airport was adequate to ensure (i) a fee and rental structure was maintained which made the Airport as self-sustaining as possible, and (ii)

airport-generated revenues were used for the capital and operating costs of the Airport in compliance with the AAIA. The audit was conducted in accordance with Government Auditing Standards prescribed by the Comptroller General of the United States.

We evaluated the adequacy of FAA monitoring of the Airport's compliance with revenue accountability provisions of the AAIA for FYs 1992 through 1995. We conducted the audit from August through September 1995 at the FAA Northwest Mountain Regional Office (Region) and Seattle Airports District Office (District) in Renton, Washington, and the Sponsor and Airport offices in Arlington, Washington.

We interviewed FAA, Sponsor, and Airport officials; evaluated FAA and Sponsor policies and procedures; reviewed FAA reports and grant agreements; analyzed Sponsor's leases, accounting transactions, public records, airport property maps, and supporting documents; and observed property usage and Airport improvement projects. To determine whether Airport Fund transactions were used for Airport purposes, we relied upon audit work performed by the Washington State Auditor's Office and tested selected Airport accounts. We evaluated Airport leases to determine whether rental amounts were supported by appraisals, contained escalation clauses, and represented fair market value (FMV). Where necessary to evaluate a lease, we extended our review to prior and subsequent periods. We compared payments and lease rates to determine whether appropriate rents were paid.

Management Controls

We evaluated FAA management controls related to monitoring and enforcing AAIA Sections 511(a)(9) and (12) assurances, and Sponsor management controls for land leases; fee, rental, and investment revenues; and disbursements. Management control weaknesses are discussed in Part II of this report.

Prior Audit Coverage

The Office of Inspector General and the General Accounting Office have not issued reports on accountability and use of airport revenues at the Airport during the past 5 years. Audits of the Sponsor, required by the Single Audit Act, were accomplished by the Washington State Auditor's

Office for each fiscal year addressed by this audit. No material findings or internal control weaknesses were reported by the state auditors.

II. FINDING AND RECOMMENDATIONS

Finding: Monitoring of Sponsor Compliance With AAIA

The Region did not monitor (i) the fee and rental structure to ensure the Airport was as self-sustaining as possible, and (ii) the use of airport-generated revenues. The Region relied upon the Sponsor's self-certification, annual single audits, and third-party complaints to ensure compliance with AAIA Sections 511(a)(9) and (12). Because FAA did not monitor Sponsor compliance with grant assurances, FAA was unaware the Airport lost about \$216,427 in rental income, and was assessed approximately \$5,300 in unsupported non aviation costs by the Sponsor.

Discussion

Responsibility for ensuring compliance with the AAIA is vested in the FAA. The Region primarily relied upon the Sponsor's self-certification, annual single audits, and third-party complaints to ensure compliance with AAIA Sections 511(a)(9) and (12).

Fee and Rental Rates

The Sponsor accepted surplus land with the condition it would be used for aviation purposes. In consideration, the Sponsor also provided written assurance it would comply with provisions contained in AAIA Section 511(a)(9), as a condition of receiving an airport development grant. This section, in part, states:

"The airport operator or owner will maintain a fee and rental structure for the facilities and services being provided the airport users which will make the airport as self-sustaining as possible under the circumstances existing at that particular airport. . . ."

The FSPA authorizes the conveyance of Federal surplus property to sponsors for aviation uses, as well as to develop sources of revenue from non aviation business activities at airports. FAA Order 5190.6A, Airport Compliance Requirements, paragraph 418f(1), dated October 2, 1989, requires that when Federal surplus property is used ". . . it must produce income for the airport. . . . Such property may not be rented at a discount to support community nonprofit organizations or to subsidize non airport objectives."

We determined the Sponsor did not receive FMV for approximately 19 acres of surplus property at the Airport having an annual FMV of approximately \$75,468. The FMV for Airport property was established in an appraisal report prepared by the Clarke Consulting Group in September 1994. The FMV was \$.08 per square foot for general aviation and \$.09 for industrial use. For the property leases we reviewed, the FMV was the \$.09 rate, except for the Snohomish County lease identified below which was \$.08. The Sponsor authorized the use of Airport surplus property as follows:

- Approximately 640,000 square feet of Airport property is used rent free for a municipal baseball diamond and soccer field, which include permanent improvements, constructed by the Sponsor. We estimate the Airport has lost approximately \$172,800 in rental income for FYs 1992 through 1995, and will lose at least \$57,600 annually in the future.
- The Sponsor's Fire Station No. 2 utilizes 26,250 square feet of Airport property rent free. The station is not dedicated to the Airport and responds to the needs of the City of Arlington. We determined less than 1 percent of the fire calls since 1992 were attributable to the Airport. We estimate the Airport has lost approximately \$7,089 in rental income for FYs 1992 through 1995, and will lose at least \$2,363 annually in the future.
- Approximately 52,250 square feet of Airport property is used rent free for a Snohomish County storage area. We estimate the Airport lost approximately \$4,180 in FY 1995, and will lose at least \$4,180 annually in the future.
- The Arlington Boys and Girls Club leased approximately 120,000 square feet of Airport property, with an estimated FMV of \$10,800 annually. We estimate the Airport lost approximately \$32,358 in rental income for FYs 1992 through 1995, and will lose at least \$10,786 annually in the future.

In total, the use of 19 acres of Airport surplus property, at less than FMV, resulted in a loss of approximately \$216,427 in rental income for FYs 1992 through 1995.

Airport Revenues

As a condition of receiving airport improvement grants, the Sponsor provided written assurance it would comply with the provisions of FAA Order 5190.6A which, in part, states:

". . . Section 511(a)(12) of the AAIA, as amended. . . requires that all revenue generated by the airport, if it is a public airport, be used for the capital or operating costs of the airport, the local airport system, or other local facilities which are owned or operated by the airport owner or operator and directly and substantially related to the actual air transportation of passengers or property. . . ."

To implement AAIA Section 511(a)(12), FAA Order 5190.6A, paragraph 4-20a(2)(c)(ii), also states:

"Clearly supportable and documented charges made by a governmental entity to reimburse that entity for payments of capital or operating costs of the airport may be allowed. Any charge must be supported by documented evidence. A flat payment "in lieu of taxes" without such documentation is not acceptable. If an indirect charge is levied against the airport in support of capital or operating expenses, the indirect charge must also be levied against other governmental cost centers in accordance with generally accepted accounting procedures and practices."

Sponsors, who commonly render support services to their airports, may charge these services directly or indirectly to airport funds. We determined that Sponsor charges to the Airport Fund for fleet maintenance, equipment, and utilities were justified, reasonable, and supported. However, the Sponsor arbitrarily assessed the Airport Fund for administrative charges, city recycling program costs, and "in lieu of" tax payments for fire and police protection. These charges were based solely upon the Airport Fund's ability to pay, exceeded those charged other city funds, and the Sponsor did not provide documentary evidence to support or justify the costs charged. This practice does not adhere to generally accepted accounting practices and procedures. Specific details are defined below:

- During FYs 1992 through 1995 the Sponsor assessed the Airport Fund approximately \$185,000 in administrative charges determined to be the Airport share of the Sponsor's overhead expenses, such as

payroll, accounting, and purchasing expenses. However, these charges were not supported by documents showing how assessed amounts were determined.

- For FYs 1992 through 1995, the Sponsor assessed the Airport Fund \$387,000 and \$200,000 for police and fire protection, respectively. These "in lieu of" tax payments were the Sponsor's estimate of the cost of police and fire protection for the Airport. However, the Sponsor was unable to show the charge reflected actual police and fire costs. In addition, we noted there was no adjustment to the estimated fire protection costs to reflect the rental value associated with the Sponsor's fire station constructed upon Airport property.
- For FY 1995, the Sponsor assessed the Airport \$5,300 for a city recycling program, which is neither a capital nor operating cost of the Airport.

In total, the Sponsor made unsupported assessments against airport-generated revenues of approximately \$777,300.

Recommendations

We recommend the Federal Aviation Administrator:

1. Require the Sponsor to establish and implement procedures for ensuring the Airport receives FMV for Federal surplus property.
2. Require the Sponsor to (i) establish and implement procedures for ensuring airport-generated revenues are properly used, and (ii) reimburse the Airport Fund for the \$5,300 of questioned costs identified in this report.

Management Response

FAA concurred with Recommendation 1 and partially concurred with Recommendation 2. For Recommendation 1, FAA indicated it will require the Sponsor to (i) obtain FMV for all leased property and (ii) restrict municipal recreational use of airport property to temporary arrangements, if no capital improvements are installed. For Recommendation 2, FAA indicated it will (i) require the Sponsor to implement procedures for assuring airport generated revenues are properly used, (ii) require the Sponsor to establish an acceptable cost allocation

plan for administrative, police, and fire protection services provided to the Airport, and (iii) request the Sponsor to reimburse the Airport for \$5,300 assessed for the City of Arlington's recycling program.

A copy of FAA's complete response is included as an appendix to this report.

Office of Inspector General Comments

Concerning the questioned \$772,000 for administrative, police, and fire protection costs, FAA indicated that, subsequent to our audit field work, the Sponsor provided data to support the questioned administrative costs assessed the Airport. FAA indicated the Sponsor's proposed method of assessing police and fire protection costs, based upon assessed property values, appeared reasonable. FAA regional personnel subsequently met with Sponsor officials and determined that the assessed property value method for assessing costs for city provided services was appropriate, and would be used to equitably and consistently distribute such costs to all city departments.

We consider the actions taken and planned by FAA to be responsive to the findings and recommendations contained in this report and have revised the report accordingly.

AUDIT TEAM MEMBERS

The following is a listing of the audit team members who participated in the audit of Monitoring of Airport Revenues at Arlington Municipal Airport in the FAA Northwest Mountain Region.

Ronald Hambrick	Regional Manager
Donald Nellis	Project Manager
David Dickson	Auditor-in-Charge
Greggory Bond	Auditor
Deborah Kloppenburg	Auditor



U.S. Department
of Transportation
**Federal Aviation
Administration**

Memorandum

Subject: ACTION: Draft Report on Monitoring of Airport
Revenues at Arlington Municipal Airport, FAA
Northwest Mountain Region

Date: MAY 21 1996

From: Chief Financial Officer

Reply to
Attn. of: AWilliams:
267-9000

To: Assistant Inspector General for Auditing

As requested in your March 13 memorandum, we have reviewed the subject Office of Inspector General's draft report. Representatives from our regional airports division met with the city of Arlington officials on several occasions regarding the findings and recommendations within this report. Comments to each recommendation are provided in the attachment.

We appreciate the opportunity to comment on this report and request that you incorporate these comments in your final report.

J. C. Saut
for Ruth A. Leverenz

Attachment

Federal Aviation Administration (FAA) Position on Findings and Recommendations Contained in the Office of Inspector General (OIG) Draft Report on Monitoring of Airport Revenue at the Arlington Municipal Airport

OIG Recommendation 1: Require the sponsor to establish and implement procedures for ensuring the airport receives fair market value (FMV) for Federal surplus property.

FAA Response: Concur. Our regional personnel have met with the city attorney, city manager, and airport manager to resolve this issue. The city believes their current lease policies for airport land are consistently resulting in the city receiving FMV for surplus land at the airport, with the exceptions noted by the OIG. Those exceptions, as identified in the draft report, are individually addressed below.

a. Recreational Property: The city asked whether we would consider permitting use of some property rent free if the property does not have significant capital improvements that would impede future industrial development. We find it acceptable to allow the interim use of surplus property at less than FMV for civic recreational purposes if that use can be terminated immediately when there is a demand for commercial development of that parcel. It must be readily apparent that the temporary recreational use does not impede commercial development. The existence of capital improvements associated with the recreational use, such as permanent structures or athletic field lighting, would be prime facie evidence that the recreational use impedes or discourages commercial development of the parcel and will require FMV rates to be charged for the recreational use. Airport revenues may not be used to maintain or to operate the recreational facilities. The city will be requested that they report the amount of land that does not have significant improvements and is being used at less than FMV on an interim basis. All other recreational property will require FMV leases.

In an attempt to justify recreational use of this property, the city stated that ordinances have been in place since 1990 that require industrial users to pay approximately 5 cents per square foot or dedicate a comparable amount of land, towards park and recreational mitigation. The city believes that free use of the soccer and baseball fields is an equitable way to treat the airport the same as other industrial properties. This rationale is not persuasive, because the property in question is Federal surplus property, which was conveyed to the city for airport purposes only. Because this property is dedicated airport property, its development for industrial purposes cannot be interpreted as a loss of potential park and recreational land. Therefore, we will inform the city that this rationale does not support use of Federal surplus property at rates below FMV for nonaeronautical purposes.

- b. Fire Station #2: In regard to the rental value associated with the sponsor's fire station constructed upon airport property, we agree that the airport fund should receive FMV for the property. FAA will write the city and inform them of this position.
- c. Snohomish County Storage Area: The city has contacted the county to discuss payment of FMV for the short-term use of the storage area.
- d. Boys and Girls Club/Community Youth Center: The airport manager has arranged a meeting with the board of directors of the organization to discuss a fair market rental of this property.

OIG Recommendation 2: Require the sponsor to (i) establish and implement procedures for ensuring airport-generated revenues are properly used, and (ii) reimburse the Airport Fund for the \$777,300 of questioned costs identified in the report.

FAA Response to 2 (i): Concur. We will notify the city (sponsor) that it must establish and implement procedures for insuring airport generated revenues are properly used.

FAA Response to 2 (ii): Partially concur. The audit report states that no police or fire protection costs should be attributed to the airport. We believe that there are bona fide costs which the sponsor may recover from airport revenue. As stated previously, our regional personnel met with the sponsor's representatives concerning the audit. During that meeting, the city provided information which was not available during the audit and subsequently submitted it in their April 16 letter to the OIG. Our analysis and determination on each of these questioned costs follows.

1. Administrative Charges: In its report the OIG states "During fiscal years 1992 through 1995, the sponsor assessed the Airport Fund approximately \$185,000 in administrative charges. However, these charges were not supported by documents showing how these addressed amounts were determined."

FAA Response: The city made an attempt to allocate administrative costs in 1993. The city clerk's office conducted a study of staff utilization to determine what portion of the clerk's office staff time was devoted to airport business. The city clerk's office is under the city finance department. The total administrative costs, in which a portion was charged to the airport fund, are those costs incurred specifically by the city finance department. No charges from any other department or charges related to the city administrator, mayor or council member salaries are included. The city finance department costs include salaries and benefits; office supplies; and other similar expenses for that department.

The staff utilization study was not available during the audit, nor was it used when determining the amount to charge the airport fund for administrative services. However,

based on this data, approximately 17 percent of the city clerk's available staff time was spent in support of airport business. The city's April 16 letter indicated that the airport was billed an average of approximately 14.5 percent of the total administrative costs for calendar years 1993 through 1995.

We find that the city should not be required to reimburse the airport fund for any administrative costs. However, for the city to assess future administrative charges to the airport fund, we will ask the sponsor to establish a cost allocation plan for future administrative charges. The plan must ensure charges to the airport under such a plan will be fair and reasonable. We will write the city and inform them of this position.

2. Police Protection Assessment: In its report the OIG states "For fiscal years 1992 through 1995, the city assessed the airport fund ... \$387,000... for... police... protection...".

FAA Response: The city responds to the audit with two alternatives for cost allocation. The first is to allocate police protection charges based on the relationship of total land in the city to that of the airport land. The airport covers 1,124 acres of the 3,793 acres in the city or about 29 percent of the city land area. The total budget for calendar years 1993 through 1995 for the police department was \$2,401,058. The charges to the airport were 365,532 or about 15 percent of the total. Clearly the 15 percent is significantly less than the 29 percent; however, we do not believe this is a reasonable approach for allocating police protection charges.

The second proposal is to use the assessed valuation of properties in the city. In 1995, the assessed valuation of the properties within the city limits was \$433,915,276. The assessed valuation of airport properties, which are non-taxable, was \$70,735,300, or about 16.3 percent of the total assessed valuation of the city. Applying the 16.3 percent to the total police budget would result in costs allocated to the airport of \$391,372 for the 3-year period of 1993 through 1995.

We find the latter proposal to be a fair and reasonable way to allocate the police protection costs.

3. Fire Protection Assessment: In its report the OIG states "During fiscal years 1992 through 1995, the sponsor assessed the airport fund...\$200,000 for...fire protection....".

FAA Response: The city assessed the airport \$200,000 for fire protection services. The total budget for fire protection, less capital costs for fire equipment, was \$1,015,767 for calendar years 1993 through 1995. Applying the 16.3 percent assessed property valuation method established above would result in an allocation amounting to about \$209,000. The table for fire protection on page 6 of the city's April 16 letter to the OIG includes the airport's allocation as a percentage of total fire protection expense, which

shows that the airport was charged at a rate exceeding the assessed property valuation method.

We find that the assessed valuation cost allocation method is an acceptable means for allocating future fire protection costs.

The lessees of airport property are also paying a leasehold excise tax to the city. It is our understanding that this tax is typically intended to cover, among other things, costs attributed to police and fire protection. This tax has not been taken into consideration when determining the allocation to the airport of charges for police and fire protection. Although the city actually only receives a small portion of the tax paid (the State of Washington retains a portion), we believe that the leasehold excise tax should be factored into the revenues and charges being assessed to the airport fund. As stated in the city's April 16 letter to the OIG, Arlington is willing to accept an analysis and process by which the net amount received in leasehold excise tax is factored into the revenues and charges for the airport.

Our regional personnel will meet with the city to determine the appropriateness of the charges based on the above proposed methods and resolve the questioned cost issues, specifically the administrative, police, and fire costs allocated to the airport.

4. City Recycling Program: In its report the OIG states "For fiscal year 1995, the sponsor assessed the airport \$5,300 for a city recycling program, which is neither a capital nor operating cost of the airport."

FAA Response: The city has attempted to justify the \$5,300 allocation based on the airport's acreage in relation to the city's acreage. The city also did not respond to the issue of whether or not this charge is an actual capital or operating cost of the airport. Because we do not agree with the city's rationale of using acreage to justify the assessed amount, and because we have not received any information that might convince us that the assessed charge is a capital or operating cost of the airport, we will write to the city requesting that the \$5,300 be credited to the airport fund.