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Resources, Community, and
Economic Development Division

B-281413

December 9, 1998

The Honorable John R. Kasich
Chairman, Committee on the Budget
House of Representatives

Subject: Airport Improvement Program: Planned Funding Under Letters of Intent

Dear Mr. Chairman:

As you requested in your letter of August 4, 1998, we are providing information on the Federal Aviation Administration's (FAA) issuance of letters of intent to provide funding for airport development under the Airport Improvement Program (AIP), which is the nation's major program for planning and improving airports' infrastructure. These letters of intent document FAA's plan to obligate AIP funds in future years and allow FAA to schedule multiyear payments for airport development projects beyond AIP's current authorization period, subject to later congressional authorization and appropriations. Letters of intent rely on two funding categories within AIP: (1) entitlement funding, which distributes funds on the basis of a statutory formula, and (2) discretionary funding, which is the funding remaining once entitlement funds are distributed and which is allocated on the basis of a priority system. FAA has issued 59 letters of intent—accounting for \$2.83 billion in both entitlement and discretionary funds—since fiscal year 1988, the first year it used this funding mechanism; 28 still have scheduled payments and are considered open.

You asked us to answer the following questions about open letters of intent: (1) What types of projects are currently being funded by letters of intent? (2) How much funding remains to be paid under these letters? (3) What share of the projects' total costs do these letters cover and what other sources of funding do the projects have? and (4) What percentage of AIP discretionary

GAO/RCED-99-33R FAA's Planned Use of Letters of Intent

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funding do the letters of intent represent for fiscal year 1999 through fiscal year 2004?

In summary we found the following:

- Types of Projects Funded With Open Letters of Intent. Almost half (12) of the 28 open letters of intent fund projects for both airfield improvements, such as runways and lighting (airside projects), and nonairfield improvements, such as terminal and access roads (landside projects).¹ Of the remaining 16 letters, 14 support airside projects exclusively and 2 support only landside projects. (See enc. I.) Letters of intent are now used to fund only airside projects because of a policy change FAA made in 1994.²
- Amount of Funding Remaining to Be Paid Under Open Letters of Intent. The 28 open letters of intent that are scheduled for payment in fiscal years 1999 through 2010 total \$1.18 billion.³ Of this amount, \$867 million (73 percent) is discretionary funding, which FAA uses each year to fund competing and high-priority airport projects. Five letters of intent have final payments scheduled in fiscal year 1999, and the remaining 23 open letters of intent have final payments scheduled in fiscal year 2000 through fiscal year 2010. (See enc. II.)
- Share of Projects' Total Costs Funded by Open Letters of Intent and Other Sources. The 28 open letters of intent fund about 22 percent of projects' total costs, which amount to \$10.2 billion. The remaining 78 percent of the funding for the projects comes primarily from (1) current

¹The figures exclude one letter of intent that is still pending.

²FAA changed its policy after we reported that it did not ensure that letters of intent were used only for projects that would significantly enhance systemwide capacity, as required by statute. See Airport Improvement Program: Better Management Needed for Funds Provided Under Letters of Intent (GAO/RCED-94-100, Feb. 2, 1994).

³Dollars expressed as future-year amount but not adjusted for expected inflation.

and projected airport revenue, (2) passenger facility charges,⁴ and (3) state and local contributions. (See enc. III.)

- Percentage of Discretionary Funding That Open Letters of Intent Represent for Fiscal Year 1999 Through Fiscal Year 2004. The 28 letters of intent account for 16 percent of all of AIP's planned discretionary funding in fiscal year 1999, declining to about 8 percent in fiscal year 2004.⁵ (See enc. IV.) These percentages are based on an AIP funding level of \$1.95 billion, which was the level appropriated for fiscal year 1999.⁶ These levels of commitment are significantly less than FAA's internal policy limit of 50 percent of AIP discretionary funds that may be used for letters of intent.⁷

⁴Passenger facility charges are from passenger fees of \$1, \$2, or \$3 per trip segment at commercial airports, up to a maximum of four trip segments per round-trip.

⁵Based on an assumed AIP funding level of \$1.95 billion through fiscal year 2004. Congressional appropriations for AIP has varied this decade, falling from \$1.90 billion for fiscal year 1992 to \$1.45 billion for fiscal year 1995, before rising again to \$1.95 for fiscal year 1999 (see footnote 6). If AIP funding were to vary, as it has done over time, then the percentage of discretionary funds dedicated to funding letters of intent would rise or fall accordingly.

⁶While title I, section 101(g) of the Omnibus Consolidated and Emergency Supplemental Appropriations Act of 1999 (P.L. 105-277, Oct. 21, 1998) allows AIP obligations of \$1.95 billion for fiscal year 1999, it authorized AIP only through Mar. 31, 1999, and permitted obligations of not more than \$975 million until the authority for AIP is further extended. If the authority is not extended during fiscal year 1999, then FAA's commitments for letters of intent will constitute a significantly greater percentage of AIP's discretionary funding in 1999.

⁷To provide funding flexibility, FAA is required by statute to plan payments under letters of intent (49 U.S.C. section 47110 (e) (4)). FAA is to base its planned funding on its estimate of the (1) total AIP funding level in future years and (2) amount of these funds needed for projects not funded with letters of intent. Such planning is critical because more projects are always eligible for grant funding than available funding can support. FAA must also be prepared to help airports meet unanticipated funding needs.

SCOPE AND METHODOLOGY

We used FAA's database for letters of intent to determine the projects funded by open letters of intent. To determine the amount of funding remaining to be paid under open letters of intent, we used FAA's database and obtained updated information from FAA and the airports receiving these letters. We determined the share of projects' total costs funded with letters of intent and the other funding sources by obtaining financial information from the 28 airports that have open letters of intent. The percentage of discretionary funding planned for letters of intent in fiscal year 1999 through fiscal year 2004 was provided by FAA on the basis of estimates of AIP's future discretionary funding and the agency's plans for using this funding for letters of intent. We based our analysis on AIP's appropriated funding of \$1.95 billion for fiscal year 1999 and the formula FAA used for this year. We also met with FAA officials, including the Manager, Airports Financial Assistance Division, Office of Airport Planning and Programming.

We performed our work from August through October 1998 in accordance with generally accepted government auditing standards.

AGENCY COMMENTS

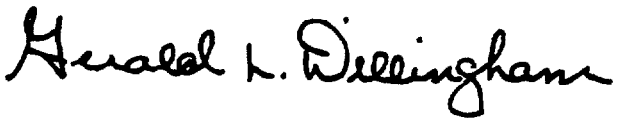
On November 18, 1998, we discussed a draft of this report with the Division Manager and officials of FAA's Airports Financial Assistance Division. These officials generally agreed with the report. However, they stated that only official funding levels should be cited in this report. As a result, we agreed not to include proposed spending levels for specific letters of intent in the report. They also made technical comments on the draft, and we revised the draft accordingly where appropriate.

We are sending copies of this report to interested congressional committees; the Secretary of Transportation; the Administrator, Federal Aviation Administration; and the Director, Office of Management and Budget. We will also make copies available to others on request.

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Major contributors to this report were Paul Aussendorf, Danielle Bartoni, Charles Chambers, Dana Greenberg, and Randy Williamson. Please call me at (202) 512-2834 if you or your staff have any questions.

Sincerely yours,

A handwritten signature in black ink that reads "Gerald L. Dillingham". The signature is written in a cursive style with a large initial 'G'.

Gerald L. Dillingham
Associate Director,
Transportation Issues

Enclosures - 4

OPEN LETTERS OF INTENT, FISCAL YEAR 1999 THROUGH FISCAL YEAR 2010

Dollars in millions

Airports with open letters of intent, by expiration date of letter of intent	Types of projects		Funding planned for payment, Fiscal Years 1999-2010			Period of Fiscal Year payments remaining
	Landside	Airside	Discretionary	Entitlement	Total	
Buffalo Niagara International Airport	X	X	1.3	0.0	1.3	1999
Denver International Airport	X	X	20.0	4.7	24.7	1999
Nashville International Airport		X	0.0	1.0	1.0	1999
New Orleans International Airport/Moisant Field	X	X	0.0	0.3	0.3	1999
Washington Dulles International Airport	X	X	1.5	0.0	1.5	1999
Golden Triangle Regional Airport	X		0.0	0.4	0.4	1999-2000
Hilton Head Airport	X	X	0.0	0.8	0.8	1999-2000
Ronald Reagan Washington National Airport	X	X	25.9	0.0	25.9	1999-2000
Austin-Bergstrom Airport	X	X	20.0	4.6	24.6	1999-2001
Cincinnati/Northern Kentucky International Airport	X	X	12.6	0.0	12.6	1999-2001
MidAmerica Airport	X	X	56.0	0.0	56.0	1999-2002
Midland International Airport	X		0.0	4.2	4.2	1999-2002
Northwest Arkansas Regional Airport		X	26.0	0.0	26.0	1999-2002
Theodore Francis Green Airport	X	X	13.4	9.2	22.5	1999-2002
Henderson Airport		X	10.7	2.7	13.4	1999-2003
Louisville International Airport		X	5.8	14.5	20.3	1999-2003
Reno-Tahoe International Airport	X	X	22.0	7.0	29.0	1999-2003
Sacramento Metropolitan Airport		X	0.0	6.8	6.8	1999-2003
Salt Lake City International Airport		X	50.0	0.0	50.0	1999-2005
Anchorage International Airport		X	32.0	16.1	48.1	1999-2008
Detroit Metropolitan-Wayne County Airport		X	127.0	53.8	180.8	1999-2008
Lambert-St. Louis International Airport		X	95.0	46.4	141.4	1999-2008
Memphis International Airport		X	7.5	61.8	69.3	1999-2008
Orlando International Airport		X	20.0	17.4	37.4	1999-2008

Airports with open letters of intent, by expiration date of letter of intent	Types of projects		Funding planned for payment, Fiscal Years 1999-2010			Period of Fiscal Year payments remaining
Southwest Florida International Airport		X	35.0	0.0	35.0	1999-2008
William B. Hartsfield Atlanta International Airport		X	75.0	0.0	75.0	1999-2009
Chicago Midway Airport	X	X	123.0	0.0	123.0	1999-2010
Seattle-Tacoma International Airport		X	87.1	61.8	148.9	1999-2010
Total			866.8	313.5	1,180.2	

Note: Figures sometimes do not sum to total because of rounding and have not been adjusted for inflation.

Source: Federal Aviation Administration.

**AMOUNT OF FUNDING REMAINING TO BE PAID UNDER THE 28 OPEN LETTERS
OF INTENT, FISCAL YEAR 1999 THROUGH FISCAL YEAR 2010**

The Federal Aviation Administration (FAA) can use two program funding categories, entitlement and discretionary, for letters of intent. Entitlement funds are distributed by statutory formula to eligible airports and states. Discretionary funds can generally be used for projects at any eligible airport. All airports receiving Airport Improvement Program (AIP) funding must provide a matching share ranging from 10 percent to 25 percent of the project's total cost, depending on the type of project and size of the airport.

**Table II.1: Discretionary and Entitlement Funds Under Open Letters of Intent,
Fiscal Year 1999 Through Fiscal Year 2010**

Dollars in millions

Fiscal Year	Discretionary	Entitlement	Total	Number of open letters of intent with their final payment scheduled
1999	\$131.4	\$ 45.1	\$176.5	5
2000	116.8	39.3	156.1	3
2001	105.6	39.5	145.1	2
2002	92.5	37.1	129.5	4
2003	67.5	25.1	92.7	4
2004	66.4	23.7	90.0	0
2005	64.3	24.2	88.5	1
2006	57.1	24.7	81.7	0
2007	57.4	25.2	82.6	0
2008	55.9	18.6	74.5	6
2009	26.7	5.6	32.3	1
2010	25.1	5.6	30.7	2
Total	\$866.7	\$313.6	\$1,180.3	28

Note: Figures sometimes do not sum to total because of rounding and have not been adjusted for inflation.

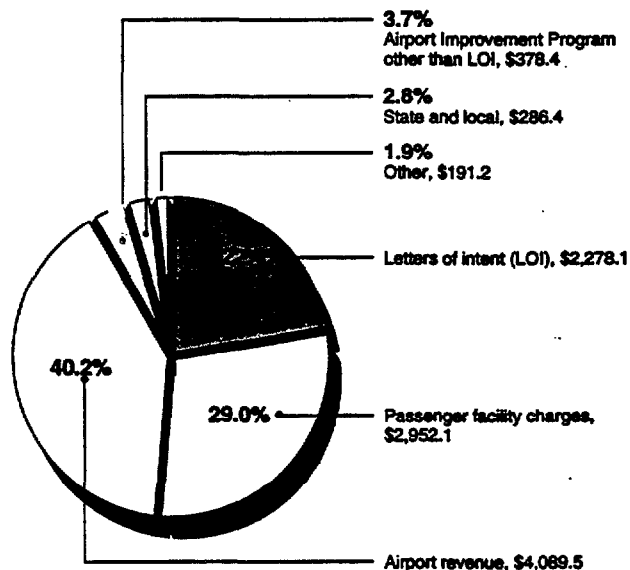
Source: Federal Aviation Administration.

**SOURCE OF FUNDS FOR PROJECTS FUNDED IN PART BY THE
28 OPEN LETTERS OF INTENT**

The projects partially funded under the 28 letters of intent are also funded by a variety of other sources. The largest source of funds is airport revenues, which include airline landing fees and concession revenues. The second largest source of revenues comes from passenger facility charges. Passengers pay fees of \$1, \$2, or \$3 per trip segment at commercial airports, up to a maximum of four trip segments per round trip. The third largest source of funds is letters of intent. Other sources include state and local contributions, such as state aviation fuel and airline property taxes, state bonds, and state-generated appropriations. These sources of funds are typically used to secure municipal bond financing, but also may be applied to airport projects as collected. AIP also provides funds for airport projects outside the letter of intent program. Funds under the "other" category represent other federal grants not listed in previous categories and private funding. See fig. III.1 for an analysis of these sources.

Figure III.1: Source of Funds for Projects Funded in Part by the 28 Open Letters of Intent

Dollars in millions



Note: Figures sometimes do not sum to total because of rounding and have not been adjusted for inflation.

Source: The 28 airports with open letters of intent.

**FAA'S PLANNED USE OF DISCRETIONARY FUNDING FOR LETTERS OF INTENT,
BY SUBCATEGORY**

Discretionary funding is divided into seven subcategories to fund various types of projects. The subcategories are (1) nonhub airports; (2) noncommercial service airports (NCS); (3) noise mitigation; (4) Military Airport Program (MAP); (5) capacity, safety, and security improvements or noise mitigation at primary and reliever airports (C/S/S/N); (6) small hub airports; and (7) any other projects at eligible airports (Other). FAA has designated over 3,300 airports as part of the national airport system eligible to receive AIP funding. Table IV.1 shows the amount of discretionary funding FAA plans to devote to each subcategory, the percentage of discretionary funding FAA plans to use for letters of intent by subcategory, and the fiscal year in which FAA plans to use letters of intent. However, the total discretionary funding available is very sensitive to fluctuations in AIP funding levels and is based on an assumption of \$1.95 billion for fiscal year 1999 through fiscal year 2004. If AIP is funded at a lower level, the percentage of discretionary funding dedicated to letters of intent could rise, as occurred in the post-1992 time frame.

Table IV.1: Percentage of Discretionary Funding by Subcategory That FAA Plans to Use for Letters of Intent, Fiscal Year 1999 Through Fiscal Year 2004

Dollars in millions

Fiscal year	Discretionary funding available, by subcategory (the percentage of discretionary funding intended for letters of intent)							Total
	Nonhub	NCS	Noise	MAP	C/S/S/N	Small hub	Other	
1999	\$80.8 (10%)	\$40.4 (0)	\$248.3 (0.004%)	\$31.8 (0)	\$372.2 (28%)	\$20.2 (6%)	\$124.1 (15%)	\$843.6 (16%)
2000	\$83.2 (11%)	\$41.6 (0)	\$241.9 (0.004%)	\$31.2 (0)	\$364.9 (25%)	\$20.8 (0)	\$121.6 (15%)	\$832.4 (14%)
2001	\$85.5 (11%)	\$42.8 (0)	\$303.6 (0.002%)	\$96.7 (0)	\$258.5 (32%)	\$21.4 (0)	\$86.2 (22%)	\$755.1 (14%)
2002	\$87.9 (10%)	\$44.0 (0)	\$296.0 (0)	\$93.0 (0)	\$255.7 (27%)	\$22.0 (0)	\$85.2 (16%)	\$746.9 (12%)
2003	\$91.4 (2%)	\$45.7 (0)	\$281.6 (0)	\$86.0 (0)	\$250.6 (26%)	\$22.9 (0)	\$83.5 (0)	\$730.1 (9%)
2004	\$92.7 (0)	\$46.3 (0)	\$224.2 (0)	\$28.9 (0)	\$335.2 (20%)	\$23.2 (0)	\$111.7 (0)	\$787.1 (8%)

Notes: Figures sometimes do not sum to total because of rounding and have not been adjusted for inflation. These figures also include current and projected funding used to finance bonds.

Source: GAO's analysis of FAA's data.

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