

GAO

**Transportation and Related Agencies
Report to the Chairman, Subcommittee
on Transportation and Related Agencies,
Committee on Appropriations, U.S.
Senate**

February 1994

**AIRPORT
IMPROVEMENT
PROGRAM**

**Better Management
Needed for Funds
Provided Under
Letters of Intent**





Resources, Community, and
Economic Development Division

B-256001

February 2, 1994

The Honorable Frank R. Lautenberg
Chairman, Subcommittee on Transportation
and Related Agencies
Committee on Appropriations
United States Senate

Dear Mr. Chairman:

Under the Airport Improvement Program, the Federal Aviation Administration (FAA) funds projects to improve the nation's airport system. FAA can provide program funds under either grants or letters of intent, which document FAA's intent to obligate the funds in future years, subject to authorization and appropriations. Between fiscal years 1988 and 1993, FAA issued letters of intent worth over \$2 billion, including about \$1.43 billion that FAA plans to obligate in fiscal years 1994-2005. Letters of intent provide attractive options not available with grants, such as the ability to draw multiyear funding from all three of the program's funding categories (entitlement, set-aside, and discretionary funds) and to schedule disbursements beyond the program's current authorization period. In fiscal year 1993, the program's authorization period was 1 year, so airports have come to rely more on letters of intent.

FAA is required by statute to limit letters of intent to projects that significantly enhance systemwide airport capacity. The statute also requires FAA to plan disbursements under letters of intent so that enough funds are available for other necessary airport improvements. Your Subcommittee wished to know whether FAA had met these requirements and asked us to evaluate how FAA has used letters of intent. As agreed with the Subcommittee, this report (1) provides a profile of the letters of intent that FAA has issued and (2) discusses whether FAA has effectively managed the use of letters of intent.

Results in Brief

FAA has increasingly used letters of intent to provide funding under the Airport Improvement Program. Of the 49 letters of intent issued between fiscal years 1988 and 1993, one-third were awarded in fiscal year 1993. Also, in each fiscal year from 1988 through 1993, both the total amount of program funds and the percentage of total obligations used for disbursements under letters of intent increased. For example, letter-of-intent disbursements as a percentage of total program obligations

jumped from 2 percent in fiscal year 1988 to 12 percent in fiscal year 1993. Furthermore, comparing 6-year periods, letter-of-intent disbursements are scheduled to increase from the \$628 million actually paid in fiscal years 1988-93 to \$1.28 billion in fiscal years 1994-99. The total amount could increase if FAA awards additional letters of intent. Even after accounting for anticipated inflation, the scheduled letter-of-intent disbursements represent a substantial increase in real funding.

In two respects, FAA could have more effectively managed the use of letters of intent. First, while most letter-of-intent commitments were for projects to improve capacity, FAA did not ensure that letters of intent were used only to significantly enhance systemwide capacity, as required by statute. FAA did not establish criteria defining a "significant" enhancement by which to evaluate and approve letter-of-intent proposals. Nor has the agency, as requested by the Congress in 1987, established goals and performance measures for the program, including a goal for improving systemwide capacity on which to base criteria for letters of intent. Furthermore, although agency officials stated that they considered effects on capacity at individual airports and regional airport systems when reviewing letter-of-intent proposals, we found only one case in which they analyzed how a project funded under a letter of intent would affect the national airport system. FAA also issued letters of intent for some projects that clearly could not significantly enhance systemwide capacity. For example, FAA approved letters of intent for projects to construct water treatment facilities and access roads at two major airports and for projects at eight small airports where fewer than one-tenth of 1 percent of all U.S. passengers are enplaned annually. Agency officials told us that they expanded the use of letters of intent in these cases because the program's authorization period was nearing expiration and multiyear grants could not be used. However, FAA did not seek congressional approval to use letters of intent in this manner.

Second, while FAA carried out the statutory planning requirement, the agency made incorrect assumptions about the program's future funding levels. In 1992, FAA determined that letter-of-intent commitments should be limited to half of the discretionary funds available for letters of intent at the beginning of each fiscal year. This approach would, in the view of FAA officials, preserve a reasonable level of discretionary funds for other airport improvement needs. FAA had met earlier planning goals and met the current goal in fiscal years 1992 and 1993. However, the agency may not meet its goal in fiscal years 1994 and 1995. The discretionary funds available for letter-of-intent disbursements at the beginning of the fiscal

year decreased from fiscal year 1992 to fiscal year 1993 and may decrease further. At the same time, the commitments under letters of intent are at a higher level. Under these circumstances, FAA may have fewer discretionary funds available to meet the immediate needs of the national airport system. More conservative assumptions about the program's future funding levels could help the agency better plan commitments under letters of intent.

Background

The Airport and Airway Improvement Act of 1982 created the Airport Improvement Program (AIP) to provide grants for airport improvement projects, including projects that would increase airport capacity. Increasing airport capacity is one way to reduce aircraft delays and better accommodate passenger and cargo traffic. According to FAA, aircraft delays exceeded 20,000 hours at each of 23 major airports in 1991. FAA estimates that 33 major airports could experience delays at this level by the year 2002 if no improvements in capacity are made.

Depending on the project approved, single-year grants and funding for the initial year of multiyear grants can be made from all three AIP funding categories: entitlement, set-aside, and discretionary funds. After the initial year, multiyear grants can be made only with entitlement funds. In addition, grants cannot extend beyond the AIP's authorization period. FAA distributes entitlement funds by formula to specific airports and states. Set-aside and discretionary funds are distributed by type of project to any eligible airport sponsor.¹ Set-aside subcategories include reliever airports, nonprimary commercial service airports, airport noise compatibility programs, integrated airport system plans, and the Military Airport Program. A congressionally mandated percentage of total AIP funds is allocated to each set-aside subcategory. The remaining AIP funds are discretionary. At the level authorized for fiscal year 1993, entitlement funds accounted for 56 percent, set-aside funds for 28 percent, and discretionary funds for 16 percent of the total \$1.8 billion in AIP funds.

The Airport and Airway Safety and Capacity Expansion Act of 1987 established letters of intent (LOI) to support projects at primary and reliever airports that would significantly enhance systemwide airport

¹The airport sponsor is the public agency or private entity that owns or operates the airport.

capacity.² While airport sponsors must promise to comply with all AIP grant requirements while working on the projects, LOIs allow them to begin project development sooner and receive multiyear funding from all of the program's funding categories. Thus, instead of waiting to receive a grant before beginning a project, an airport sponsor with an LOI can begin work using other funding sources, such as bonds or short-term loans, and receive reimbursement as the project progresses or after it is completed. And because LOIs can draw multiyear funding from all three funding categories, more funds can be provided to some eligible projects.³ Additionally, in 1988 the Congress authorized FAA to issue LOIs with commitments scheduled beyond the date when the program's authorization expired so that funds could be spread out over longer periods. As noted above, single-year and multiyear AIP grants do not provide these options. Under the 1987 act, FAA began issuing LOIs in fiscal year 1988.

An LOI documents FAA's intent to obligate AIP funds on an established schedule. However, an LOI is not an obligation of federal funds and is subject to authorization and appropriations. LOIs also state that FAA may adjust the LOI disbursement schedule, disbursement amount, or both following consultation with the airport sponsor. Such adjustments may be made if the project's actual allowable costs or completion time changes, FAA's actual or estimated future authority to obligate funds changes, or the FAA Administrator determines such changes to be in the best interest of the United States.

Use of LOI Commitments Has Increased

FAA issued 49 LOIs worth over \$2 billion for projects at 39 primary and 5 reliever airports between fiscal years 1988 and 1993. Three primary airports each received two LOIs and one received three. One-third of the LOIs were awarded in fiscal year 1993—most drawing only on entitlement funds. Of the 49 LOIs, 23 (47 percent) were issued in FAA's Southern Region and 22 (45 percent) were issued in four regions—the Eastern, Great Lakes, Southwest, and Western-Pacific. At least one LOI was issued in eight of FAA's nine regions; none was issued in the Alaskan Region.

Funding amounts and disbursement schedules for LOIs vary widely. Specifically, LOI commitments ranged from a high of \$351 million in

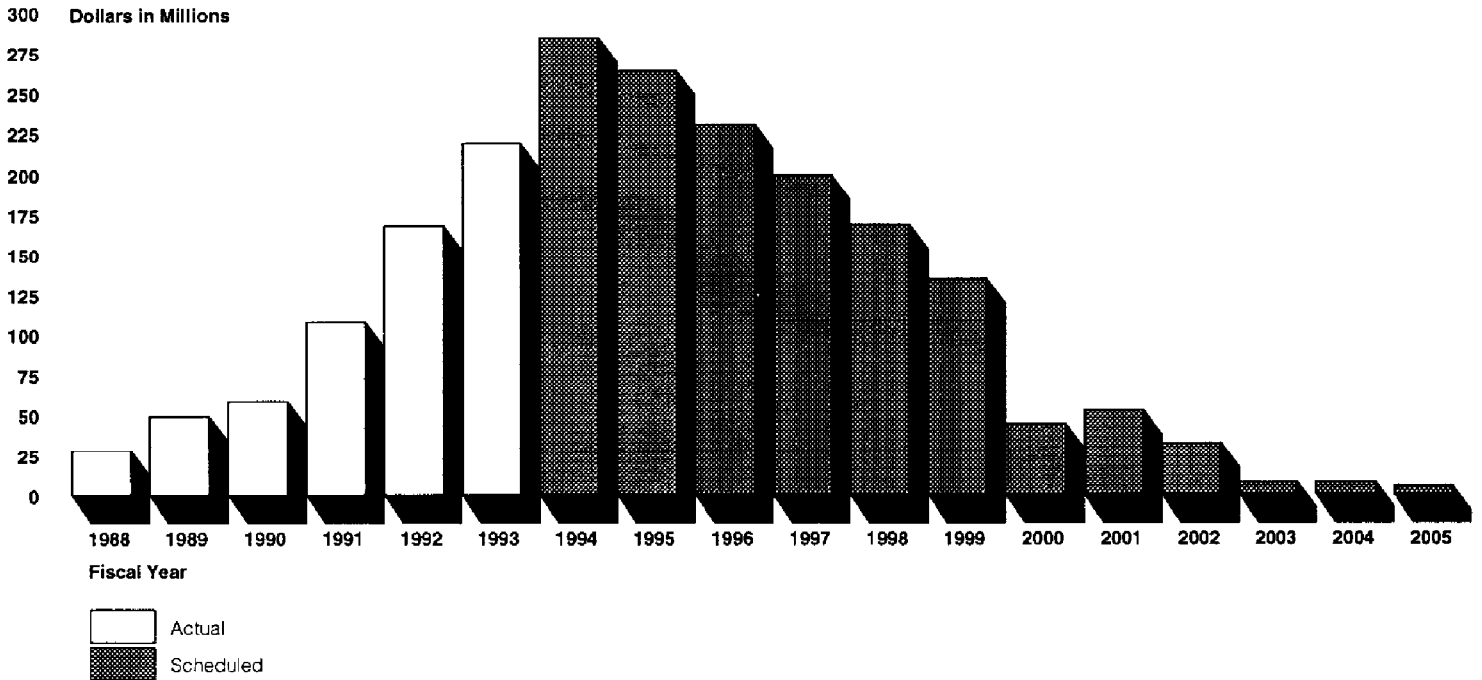
²Primary airports are publicly owned airports that enplane more than 10,000 passengers annually and receive scheduled air transportation service. Reliever airports are airports that FAA has designated to reduce congestion at primary airports. According to FAA, as of January 1994 there were 423 primary airports and 290 reliever airports out of a total of 3,294 public-use airports eligible for AIP funds.

³Set-aside funds committed under LOIs must be used for their intended purpose (e.g., airport noise compatibility programs).

entitlement and discretionary funds for the new Denver International Airport to a low of about \$400,000 in entitlement funds for the Steamboat Springs (Colorado) Airport and for the Chess-Lamberton (Pennsylvania) Airport. LOI disbursement schedules ranged from 1 to 15 years. Through fiscal year 1993, FAA had paid all LOI commitments in full as scheduled, including final disbursements for nine LOIs. Final disbursements are scheduled for seven LOIs in fiscal year 1994 and eight LOIs in fiscal year 1995 if funding is appropriated. Appendix I lists the 49 LOIs by airport, funding amount, and years of disbursements.

LOI disbursements have increased significantly, growing nearly eightfold from \$27.7 million in fiscal year 1988 (\$34.1 million in fiscal year 1993 constant dollars) to \$218.3 million in fiscal year 1993. Also, as of January 1994, LOI disbursements were scheduled to double from a total of \$628 million in the 6 fiscal years 1988-93 to a total of about \$1.28 billion in the 6 fiscal years 1994-99. After expected inflation is taken into account, this represents an increase of 77 percent. Furthermore, FAA can issue additional LOIs that could increase the total amount of scheduled disbursements. Figure 1 shows the total actual and scheduled LOI disbursements by fiscal year.

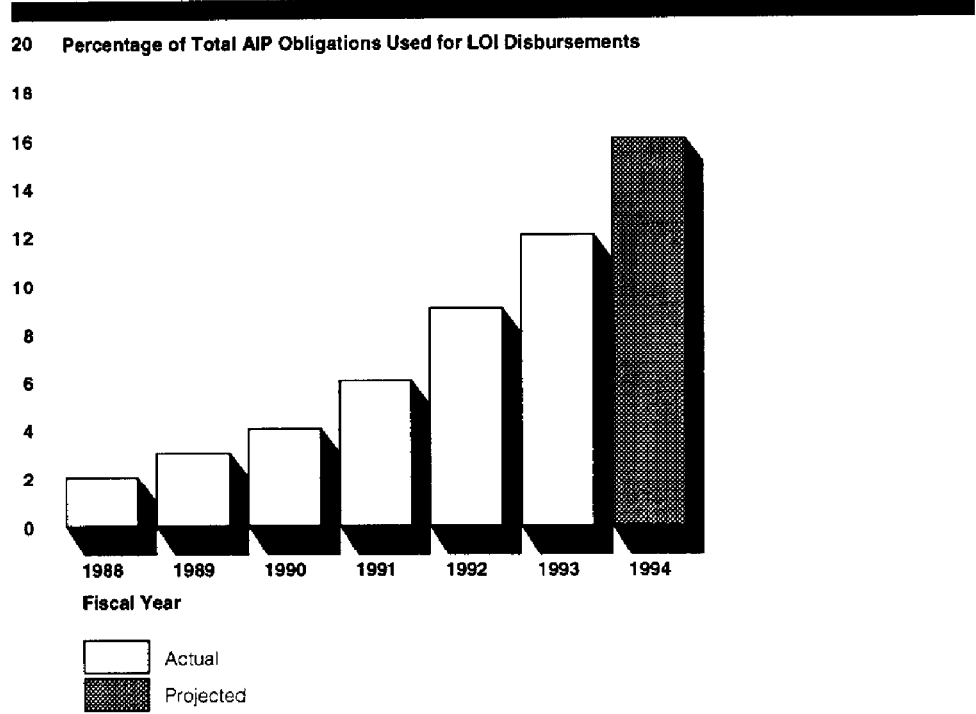
Figure 1: Total Actual and Scheduled LOI Disbursements by Fiscal Year, as of January 1994



Source: FAA.

LOI disbursements constitute an increasing percentage of total AIP obligations. For example, LOI disbursements jumped from 2 percent of total AIP obligations in fiscal year 1988 to 12 percent in fiscal year 1993. Cumulatively, LOI disbursements account for \$628 million (6 percent) of the total \$9.8 billion in AIP funds obligated during fiscal years 1988-93. Figure 2 shows the percentage of total AIP obligations used for LOI disbursements by fiscal year.

Figure 2: LOI Disbursements as a Percentage of Total AIP Obligations by Fiscal Year



Note: The projection of the percentage for 1994 is based on FAA's estimate of \$1.75 billion in total AIP obligations in that fiscal year.

Source: FAA.

We believe there are two main reasons for the increased use of LOIs. First, LOIs allow sponsors to receive commitments for set-aside and discretionary funds and avoid having to compete with other sponsors for these funds in future years. Second, LOIs are more flexible than AIP single-year or multiyear grants. The flexibility in disbursement periods and funding sources is particularly important in facilitating project development. This flexibility allows sponsors to plan and arrange financing for a project and either borrow funds or use bond financing, with the expectation that federal funds will be made available.

Of the 49 LOIs, 41 (84 percent) included disbursements scheduled beyond the AIP's authorization period. Additionally, 16 (33 percent) included disbursements scheduled over 6 or more years. Such disbursement schedules would not have been possible with a multiyear grant because

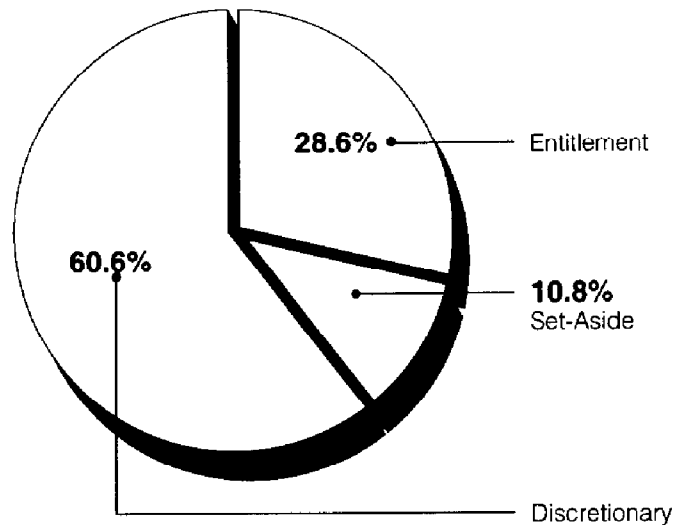
the AIP's authorization period was 5 years when FAA first began issuing LOIs in 1988 and 1 year in fiscal year 1993.⁴ In contrast, the longest disbursement schedule for an LOI extends over a 15-year period, through the year 2005, for the Detroit Metropolitan-Wayne County Airport.

Of the 49 LOIs, 27 (55 percent) were funded from more than one AIP funding category. For example, the LOI for \$88.5 million to the sponsor of the Cincinnati/Northern Kentucky International Airport included \$51.8 million in discretionary funds, \$22 million in set-aside funds for the airport noise compatibility program, and \$14.7 million in entitlement funds. Appendix II lists the total actual and scheduled LOI disbursements by fiscal year and funding category.

The LOIs issued to primary airports total about \$1.85 billion and include entitlement funds, set-aside funds for airport noise compatibility programs, and discretionary funds. The LOIs issued to reliever airports total about \$200 million and include entitlement funds and set-aside funds for reliever airports and the Military Airport Program. Figure 3 shows the percentage of total LOI commitments by funding category.

⁴The AIP expired on September 30, 1993. As of January 1994, the Congress had not reauthorized the program.

Figure 3: Percentage of Total LOI Commitments by AIP Funding Category



Note: The percentages are based on \$2.054 billion in LOI commitments as of January 1994.

Source: FAA.

FAA Could Have Better Managed LOI Commitments

Although most LOI commitments were for capacity projects, FAA did not ensure that LOIs were used only to significantly enhance systemwide capacity, as the 1987 act requires. FAA did not establish criteria defining a "significant" enhancement and evaluate LOI proposals against such criteria. Without a measurable way to evaluate LOI proposals, it is not clear how LOI-funded projects affect the national airport system.

In compliance with the statutory planning requirement, FAA set goals to ensure that a reasonable level of funds would be available for other needs after meeting LOI commitments. FAA's current goal, set in 1992, limits LOI commitments to 50 percent of the AIP discretionary funds available at the beginning of the fiscal year. FAA met its planning goals before fiscal year 1994. However, FAA officials assumed that discretionary funding would not decrease and scheduled LOI commitments accordingly. As a result, lower funding levels in fiscal years 1994 and 1995 may cause the agency to exceed its goal. Anticipating lower funding levels in fiscal year 1994, FAA officials made adjustments to decrease the LOI commitments that draw on discretionary funds.

FAA Did Not Ensure That LOI-Funded Projects Significantly Enhance Systemwide Capacity

Most LOI commitments were for projects directly related to capacity. According to FAA's selection criteria for these projects, the only ones that may directly affect system capacity are those to construct or acquire new airports, or to construct, alter, or repair runways, taxiways, and aprons at existing airports. FAA provided about \$1.81 billion in LOI commitments, generally with discretionary and set-aside funds, for such projects. FAA also provided about \$206 million in LOI commitments, generally with entitlement funds, for associated projects such as constructing terminal buildings, access roads, and drainage ditches; purchasing rescue, firefighting, and snow removal equipment; and installing taxiway signs and fencing, among others. For example, the LOI issued for improvements at Theodore F. Green State Airport in Rhode Island included discretionary funds to construct taxiways and aprons and entitlement funds to construct a new terminal building, among other improvements. Of the 49 LOIs, 30 (61 percent) were issued to airports ranked in the top 100 of all primary airports for passenger enplanements in 1992 and included projects directly related to capacity enhancement.⁵

While most LOI commitments were for capacity projects, FAA did not ensure that LOIs were used only to significantly enhance systemwide capacity, as the 1987 act requires, for three reasons. First, although the Congress allowed FAA to define significant enhancement, the agency has not done so. Nor have FAA officials established goals for the AIP, as requested by the Congress in 1987, including a goal for improving the nation's airport system capacity. Such a goal could provide a basis for defining a "significant" enhancement of systemwide capacity.⁶ For example, FAA could set a goal of reducing aircraft delays nationally by 50,000 hours and, for the purpose of awarding LOIs, define a significant capacity enhancement as one that reduces aircraft delays nationally by at least 1,000 hours annually.

Second, FAA officials did not use the agency's selection criteria for capacity projects or any other criteria to analyze a project's potential effect on systemwide capacity, with the exception of the new Denver International Airport.⁷ Generally, in determining which projects should receive LOIs,

⁵Enplaned passengers are the revenue-producing passengers boarding aircraft.

⁶We discussed the need for FAA to establish goals in our testimony Airport Improvement Program: Opportunity to Consider FAA's Role in Meeting Airport System Needs (GAO/T-RCED-93-43, May 26, 1993).

⁷The selection criteria for capacity projects are identified in FAA's AIP Handbook (Order 5100.38A, app. 25). These are the criteria developed for selecting capacity projects under section 507(c)(3) of the Airport and Airway Improvement Act of 1982. That section was incorporated by reference and made a part of the 1987 act's provision on LOIs.

agency officials relied on information provided by airport system and master plans and FAA's Aviation System Capacity Plan.⁸ These plans consider a project's potential to enhance the capacity of an individual airport or a regional airport system.

Third, FAA issued 10 LOIs worth over \$35 million, using entitlement funds, for projects that clearly could not significantly enhance systemwide capacity. FAA officials told us that these LOIs were issued because the AIP authorization period was nearing expiration and multiyear grants, which provide multiyear funding using only entitlement funds, could not be used. These LOIs were for projects at (1) two major airports that were only undertaking improvements not related to capacity and (2) eight primary airports too small to have a significant effect on the national system regardless of the improvements. For example, Nashville International Airport received an LOI to construct water quality and drainage treatment facilities. Additionally, Raleigh-Durham International Airport received an LOI to connect airport access roads with nearby interstate highways. The eight small primary airports were not ranked in the nation's top 150 airports for passenger enplanements. Furthermore, each of the airports accounted for fewer than one-tenth of 1 percent of all annual passenger enplanements in the United States. For example, FAA issued LOIs to Chess-Lamberton Airport in Pennsylvania and Golden Triangle Regional Airport in Mississippi; Chess-Lamberton had 10,165 enplanements in 1992 and ranked 416th among 423 primary airports, and in the same year, Golden Triangle Regional Airport had about 50,000 enplanements and ranked 269th among primary airports. In contrast, over 250,000 passengers were enplaned at the airport ranked 150th for enplanements among the nation's airports in 1992.

FAA officials recognize that the agency could better manage how LOIs are used and acknowledge that some LOIs have been issued for projects that do not significantly enhance systemwide capacity. These officials stated that both FAA headquarters and field officials view their role as that of advocates for airport development who have used LOIs when, in their judgment, it was the best way to provide funding. FAA officials also acknowledged that awarding LOIs for projects that do not enhance systemwide capacity sets a precedent and makes it difficult for FAA to deny LOIs for the same types of projects to other airport sponsors.

⁸Airport system plans identify the aviation facilities required to meet the air transportation needs of a state, region, or metropolitan area. Airport master plans identify the development necessary at individual airports on the basis of 5-, 10-, and 20-year forecasts of aviation activity, environmental and community compatibility, and financial feasibility. FAA's Aviation System Capacity Plan shows the magnitude of delays at the nation's top 100 airports for enplanements. It also catalogs and summarizes programs that have the potential to enhance capacity and reduce delays at each airport.

Because FAA officials are concerned with better focusing limited resources, the agency has chartered a task force to review the process used to evaluate and approve LOI proposals and to recommend changes. In March 1994, FAA plans to publish proposed new LOI requirements in the Federal Register, with a 60-day comment period. FAA plans to issue the final new requirements by June 1994.

Despite the eligibility requirements in the 1987 act, FAA did not propose legislative changes to the AIP that would allow the agency to issue LOIS for projects with objectives other than significantly enhancing systemwide capacity. While systemwide capacity development was viewed as a top priority to be facilitated with LOIS in 1987, FAA may now believe that other types of projects need to be facilitated with LOIS. However, FAA is not in the best position to advise the Congress on possible changes in the program, including changes to when LOIS can be used, because the agency has not developed goals and performance measures for the AIP, as requested by the Congress in 1987. Such goals and performance measures could provide focus and direction for the AIP and form a basis for tracking the program's accomplishments. Furthermore, clear goals and information about progress in meeting these goals could help FAA justify expanding the use of LOIS.

LOI Planning Assumptions May Limit FAA's Future Flexibility With Discretionary Funds

To provide funding flexibility, the 1987 act requires FAA to plan LOI disbursements on the basis of its estimate of (1) the total AIP funds in future years and (2) the amount of these funds that FAA determines will be needed for projects not funded under LOIS. Such planning is critical because there are always more eligible projects than the available AIP funding can support. Also, FAA must be prepared to meet unanticipated airport funding needs. For example, following fatal airplane crashes, airports have been required to install additional security systems and new runway signs.

In 1992, FAA set an internal planning goal of limiting LOI commitments to no more than 50 percent of the discretionary funds available at the beginning of the fiscal year. This approach would, in the view of FAA officials, preserve a reasonable level of AIP funds for other airport improvement needs. FAA set a limit only on the use of discretionary funds because (1) LOI disbursements do not constitute a significant portion of set-aside funds and (2) the allocation of entitlement funds is determined by formula. FAA met earlier planning goals and the current goal in fiscal years 1992 and 1993.

On the basis of historical AIP funding levels and budget projections for the future, FAA officials assumed that discretionary funding levels would not decrease. Authorized funding levels for the AIP quadrupled from \$450 million in fiscal year 1982 to \$1.9 billion in fiscal year 1992, with corresponding increases in discretionary funds. Although there was substantial inflation during this period, even in constant dollars this represents an increase of about 183 percent. At the 1992 AIP funding level, the percentage of discretionary funds available for LOI disbursements in fiscal years 1994 and 1995 would be below the goal FAA set.

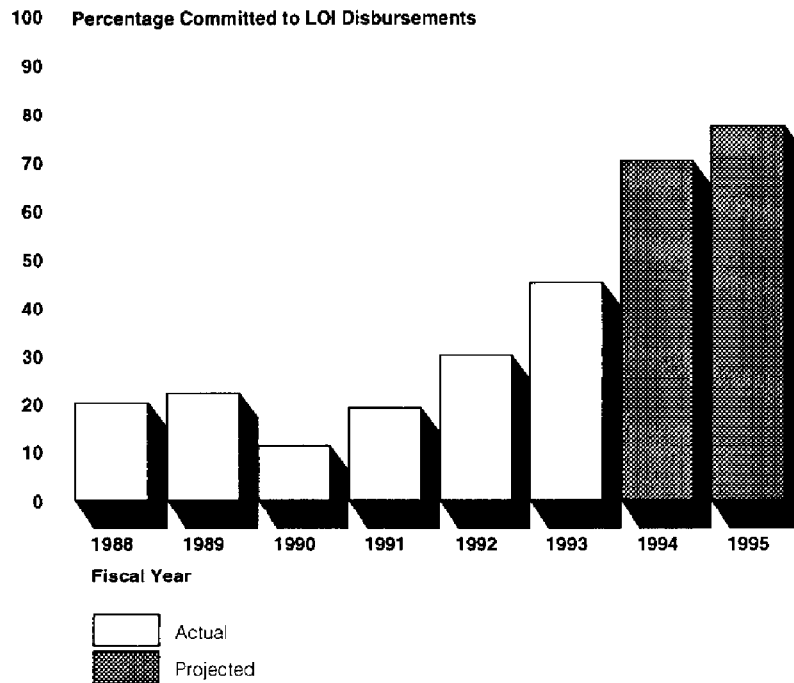
However, fiscal year 1993 discretionary funds decreased sharply from the 1992 level. Specifically, from fiscal year 1992 to 1993, the discretionary funds available for LOI disbursements at the beginning of the fiscal year dropped 25 percent, from \$411 million to \$307 million.⁹ This decrease occurred for two reasons. First, the fiscal year 1993 AIP appropriation set the total funding level at \$100 million below the fiscal year 1992 level. Second, the AIP authorization allocated a greater proportion of total funds to entitlements for cargo airports and set-asides for airport noise compatibility programs and the Military Airport Program. According to FAA officials, such changes in AIP funding make long-term planning for LOI commitments difficult.

From fiscal year 1993 to 1994, the discretionary funding decreased again when AIP's total funding level dropped from \$1.8 billion to \$1.69 billion, as set by the Congress in the 1994 appropriation act. At this level, fiscal year 1994 LOI commitments will take 70 percent of the \$227 million in discretionary funds available for LOI disbursements at the beginning of the fiscal year, assuming that the program is not amended during the pending AIP reauthorization process.¹⁰ Figure 4 shows the percentage of discretionary funds available for LOI disbursements at the beginning of the fiscal year.

⁹Generally, any unused entitlement funds are returned to FAA in the last quarter of the fiscal year and converted to discretionary funding that may be used for LOI commitments. However, FAA does not schedule LOI disbursements that would be paid with those returned entitlement funds because (1) FAA does not know the amount of unused entitlement funds that will be returned and (2) LOI disbursements may be needed before the last quarter of the fiscal year.

¹⁰As of January 1994, pending AIP reauthorization, the Congress had agreed to a funding level of \$1.69 billion. However, the Congress is considering two amendments to the program. One amendment would increase discretionary funds; the other would increase entitlement funds and set-aside funds for integrated airport system plans. According to FAA's analysis, the discretionary funding level would range from about \$206 million to \$280 million, depending on whether the Congress declines to adopt the amendments, adopts only one of the amendments, or adopts both amendments. At these levels, LOI commitments as a percentage of discretionary funding would range from 57 to 77 percent.

Figure 4: LOI Disbursements as a Percentage of Discretionary Funds Available at the Beginning of the Fiscal Year



Note: The projections of the percentages for fiscal years 1994 and 1995 are based on a \$1.69 billion funding level and no amendments to the program.

Source: FAA.

If all of the LOI commitments scheduled for fiscal year 1994 are paid, fewer discretionary funds will be available for new grants than FAA had anticipated. As a result, FAA has less flexibility to use AIP funds to meet other immediate needs of the nation's airport system. FAA has taken steps to decrease LOI commitments for discretionary funds in fiscal year 1994, including (1) paying \$8 million in fiscal year 1994 discretionary commitments with fiscal year 1993 funds, (2) negotiating with a sponsor to provide no discretionary funds in fiscal year 1994 and few funds in fiscal year 1995, and (3) not approving two LOIs that would have drawn on discretionary funds. According to FAA officials, the agency also has the option of deferring all or a portion of scheduled LOI disbursements in order to free up more discretionary funds.

Most airport sponsors are not prepared for shortfalls in LOI disbursements. Although an LOI is not an obligation of federal funds, airport officials told us that they expect LOI commitments to be paid in full as scheduled. These officials told us that, generally, they had three options for covering a decrease in scheduled LOI disbursements in order to meet LOI-funded commitments: (1) stop the project, (2) delay the project, or (3) obtain replacement financing, which could increase development costs.

Bond underwriters at a major firm told us that the investment community's confidence in using LOI disbursements exclusively to leverage investment-grade bonds would be undermined if the disbursements are not made in full as scheduled. In part, bond rating agencies provided an investment-grade rating to LOI-backed bonds for the Reno Cannon International Airport's sponsor because FAA had established a record of meeting LOI disbursements in full as scheduled.¹¹ The retirement of principal on the Reno Cannon International Airport's LOI-backed bonds is matched to its LOI disbursement schedule. Bond underwriters told us that if FAA fails to provide LOI disbursements in full as scheduled, additional LOI-backed bonds would probably not receive an investment-grade rating, resulting in less favorable financing.

Conclusions

FAA's increasing use of letters of intent underscores their importance as a tool for facilitating improvements to the nation's airport system. However, FAA needs to better manage its use of letters of intent in two respects. First, to clearly establish that it is complying with the 1987 act, FAA must analyze projects proposed for letters of intent on the basis of a definition of what constitutes a significant capacity enhancement. Furthermore, despite a long-standing congressional request, FAA has not established goals and performance measures for the Airport Improvement Program. Program goals would help provide a clearer overview of the development needed to best improve the overall airport system. Performance measures would provide a method for reviewing the extent to which goals were being achieved. Such information could also form a basis for considering the expanded use of letters of intent.

Second, the agency made additional commitments under letters of intent expecting no decrease in funding levels. But AIP funding decreased in fiscal year 1993 and may be set at a lower level in fiscal years 1994 and 1995. As a result, fewer discretionary funds are available for projects not funded

¹¹As of January 1994, the Reno Cannon International Airport's sponsor is the only airport sponsor that has used LOI commitments exclusively to back bonds.

with letters of intent than FAA had anticipated. Although future funding levels are difficult to predict, it would be prudent for FAA to make commitments under letters of intent on the basis of conservative assumptions about the program's discretionary funding levels—such as the lowest level in the last 5 years. This conservative approach would give FAA greater assurance that any future cuts in discretionary funding would not affect (1) existing commitments under letters of intent or (2) FAA's ability to meet other airport improvement needs.

Recommendations

To ensure that letters of intent are used in accordance with congressional direction, we recommend that the Secretary of Transportation direct the FAA Administrator to

- set a timetable to establish a goal for improving systemwide capacity and a definition of a significant capacity enhancement in relation to this goal, and analyze projects proposed for letters of intent against this goal and definition;
- provide justification and obtain approval from the Congress if the agency wants to expand the statutory criteria for the use of letters of intent beyond projects that significantly enhance systemwide capacity; and
- plan commitments under letters of intent for each fiscal year on the basis of more conservative assumptions about future discretionary funding levels in the Airport Improvement Program.

Agency Comments

As requested, we did not obtain written comments on a draft of this report. However, we discussed our findings and recommendations with FAA's Manager, Airports Financial Assistance Division, and Manager, Programming Branch, and with other Department of Transportation officials. These officials provided us with some clarifying information, and we revised the text as necessary. FAA officials generally agreed with our recommendations. The agency's task force to revise LOI policy will address our concerns about ensuring that (1) LOIs are used only for projects that significantly enhance systemwide capacity and (2) an adequate level of discretionary funds is available.

Scope and Methodology

To address our objectives, we performed work at FAA headquarters in Washington, D.C.; FAA's Central Region in Kansas City, Missouri; and FAA's Southern Region in Atlanta, Georgia. We interviewed FAA headquarters, regional, and field officials about the review and approval process for LOIs.

We also interviewed officials from the Airports Council International-North America and Air Transport Association.

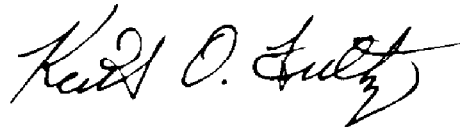
We reviewed agency regulations, policies, and procedures governing the use of LOIS. We analyzed the LOIS that FAA issued in fiscal years 1988-93 and supporting documentation. We also analyzed FAA's data base and other records on LOI funding. In addition, we reviewed FAA's proposed new LOI policy. To better understand the circumstances surrounding airport sponsors' requests for and use of LOIS, we interviewed officials from each of the 44 airports that received LOIS.

We performed our review between February 1993 and January 1994 in accordance with generally accepted government auditing standards.

As agreed with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from the date of this letter. At that time, we will send copies to appropriate congressional committees; the Secretary of Transportation; the Administrator, FAA; the Director, Office of Management and Budget; and other interested parties. We will make copies available to others on request.

This report was prepared under the direction of Kenneth M. Mead, Director, Transportation Issues, who may be reached at (202) 512-2834. Other major contributors to this report are listed in appendix III.

Sincerely yours,



Keith O. Fultz
Assistant Comptroller General

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Abbreviations

AIP	Airport Improvement Program
FAA	Federal Aviation Administration
GAO	General Accounting Office
LOI	letter of intent

Letters of Intent Issued in Fiscal Years 1988-93

	Fiscal year issued	Total amount	Total amount in FY 1993 constant dollars	Years of disbursements
Letters of intent (49)				
Alaskan Region				
None				
Central Region				
Kansas City International Airport	1989	\$ 22,353,000	\$ 23,775,013	5
Eastern Region				
Stewart International Airport (reliever) ^a	1989	5,821,700	6,485,241	2
Pittsburgh International Airport	1990	33,000,000	33,344,228	5
Washington Dulles International Airport	1991	24,200,000	23,975,090	5
Washington National Airport	1991	106,000,000	100,252,503	7
Greater Buffalo International Airport	1991	39,004,356	37,655,159	5
Elmira/Corning Regional Airport	1992	1,536,278	1,509,844	3
Chess-Lamberton Airport	1993	399,893	389,380	1
Great Lakes Region				
Indianapolis International Airport	1988	23,222,821	26,905,137	4
Dupage Airport (reliever)	1988	45,019,700	49,275,234	5
Detroit Metropolitan-Wayne County Airport	1990	185,000,000	169,966,923	15
Toledo Express Airport	1991	5,663,970	5,597,741	3
Scott Air Force Base (reliever)	1992	140,000,000	125,368,205	10
Indianapolis International Airport	1993	37,168,101	34,813,214	5
New England Region				
Theodore F. Green State Airport	1992	55,700,000	49,500,663	9
Northwest Mountain Region				
Denver International Airport	1990	351,000,000	333,495,114	9
Steamboat Springs Airport/Bob Adams Field	1993	400,000	389,484	1
Southern Region				
Nashville International Airport	1988	35,283,559	40,293,499	5
Peachtree City Airport-Falcon Field (reliever)	1988	6,824,642	7,667,319	4
Clayton County Airport-Tara Field (reliever)	1988	2,838,243	3,282,717	2
Cincinnati/Northern Kentucky International Airport	1988	38,419,876	43,484,600	5
Orlando International Airport	1988	33,550,000	37,086,266	5
Orlando International Airport	1991	18,050,480	17,813,205	2
Standiford Field	1991	126,400,000	118,646,243	8
Nashville International Airport	1991	21,000,000	21,023,044	3
Birmingham International Airport	1992	17,358,333	16,914,986	3
Savannah International Airport	1992	15,386,334	14,617,462	6
Cincinnati/Northern Kentucky International Airport	1992	88,500,000	83,078,717	8

(continued)

Appendix I
Letters of Intent Issued in Fiscal Years
1988-93

Letters of intent (49)	Fiscal year issued	Total amount	Total amount in FY 1993 constant dollars	Years of disbursements
Raleigh-Durham International Airport	1992	12,913,072	12,605,700	3
Jacksonville International Airport	1992	19,600,000	18,865,791	4
Daytona Beach Regional Airport	1993	7,400,000	6,985,648	5
Golden Triangle Regional Airport	1993	2,682,386	2,436,107	7
Florence Regional Airport	1993	634,665	612,338	2
The William B. Hartsfield Atlanta International Airport	1993	20,504,250	19,827,281	2
Nashville International Airport	1993	7,875,000	7,240,019	4
Memphis International Airport	1993	68,280,000	61,984,170	6
Hilton Head Airport	1993	3,446,069	3,138,139	7
Piedmont Triad International Airport	1993	963,000	937,683	1
Key West International Airport	1993	3,848,616	3,656,392	3
Panama City-Bay County International Airport	1993	1,400,000	1,346,364	2
Southwest Region				
New Austin Airport	1988	87,000,000	78,755,793	8
Dallas/Fort Worth International Airport	1989	100,000,000	94,039,492	8
New Orleans International Airport/Moisant Field	1991	82,546,309	78,968,222	7
Albuquerque International Airport	1993	7,147,755	6,849,019	3
McAllen-Miller International Airport	1993	2,700,000	2,576,195	3
Western-Pacific Region				
John Wayne Airport	1988	10,191,525	11,563,923	3
McCarran International Airport	1989	42,000,000	44,437,253	7
Reno Cannon International Airport	1992	71,000,000	63,120,178	10
Sacramento Metropolitan Airport	1993	22,700,000	21,105,406	5

*Stewart International Airport is now a primary airport.

Source: FAA.

Total Actual and Scheduled Letter-of-Intent Disbursements by Fiscal Year and Airport Improvement Program Funding Category

Dollars in millions

Fiscal year	Discretionary	
1988	\$ 27.7	(34.1) ^a
1989	27.4	(32.4)
1990	16.7	(18.8)
1991	59.5	(64.6)
1992	122.5	(125.7)
1993	137.6	(137.6)
1994	159.1	(155.0)
1995	165.3	(157.0)
1996	152.4	(141.2)
1997	134.4	(121.5)
1998	107.9	(95.2)
1999	82.2	(70.7)
2000	18.3	(15.4)
2001	26.6	(21.8)
2002	6.0	(4.8)
2003	0	(0)
2004	0	(0)
2005	0	(0)
Total	\$1,243.7	(1,195.9)

**Appendix II
Total Actual and Scheduled Letter-of-Intent
Disbursements by Fiscal Year and Airport
Improvement Program Funding Category**

Entitlement		Reliever airports set-aside		Military Airport Program set-aside		Airport noise compatibility programs set-aside		Total	
\$ 0	(0)	\$ 0	(0)	\$ 0	(0)	\$ 0	(0)	\$ 27.7	(34.1)
7.9	(9.4)	13.6	(16.1)	0	(0)	0	(0)	49.0	(57.8)
22.0	(24.9)	19.5	(22.1)	0	(0)	0	(0)	58.2	(65.8)
36.1	(39.2)	11.7	(12.7)	0	(0)	0	(0)	107.4	(116.6)
38.1	(39.1)	7.0	(7.2)	0	(0)	0	(0)	167.6	(171.9)
52.3	(52.3)	17.5	(17.5)	5.0	(5.0)	6.0	(6.0)	218.3	(218.3)
104.5	(101.8)	9.0	(8.8)	5.0	(4.9)	6.0	(5.8)	283.7	(276.2)
77.8	(73.9)	9.0	(8.5)	5.0	(4.7)	6.0	(5.7)	263.1	(249.9)
59.4	(55.0)	9.0	(8.3)	5.0	(4.6)	4.0	(3.7)	229.8	(213.0)
50.5	(45.6)	9.0	(8.1)	5.0	(4.5)	0	(0)	198.8	(179.8)
46.3	(40.9)	9.0	(7.9)	5.0	(4.4)	0	(0)	168.2	(148.5)
38.1	(32.8)	9.0	(7.7)	5.0	(4.3)	0	(0)	134.3	(115.5)
11.7	(9.9)	9.0	(7.6)	5.0	(4.2)	0	(0)	44.0	(37.0)
11.7	(9.5)	9.0	(7.4)	5.0	(4.1)	0	(0)	52.3	(42.8)
11.7	(9.3)	9.0	(7.2)	5.0	(4.0)	0	(0)	31.7	(25.3)
7.3	(5.7)	0	(0)	0	(0)	0	(0)	7.3	(5.7)
7.5	(5.7)	0	(0)	0	(0)	0	(0)	7.5	(5.7)
5.1	(3.7)	0	(0)	0	(0)	0	(0)	5.1	(3.7)
\$587.9	(558.7)	\$150.3	(147.1)	\$50.0	(44.8)	\$22.0	(21.2)	\$2,053.9	(1,967.7)

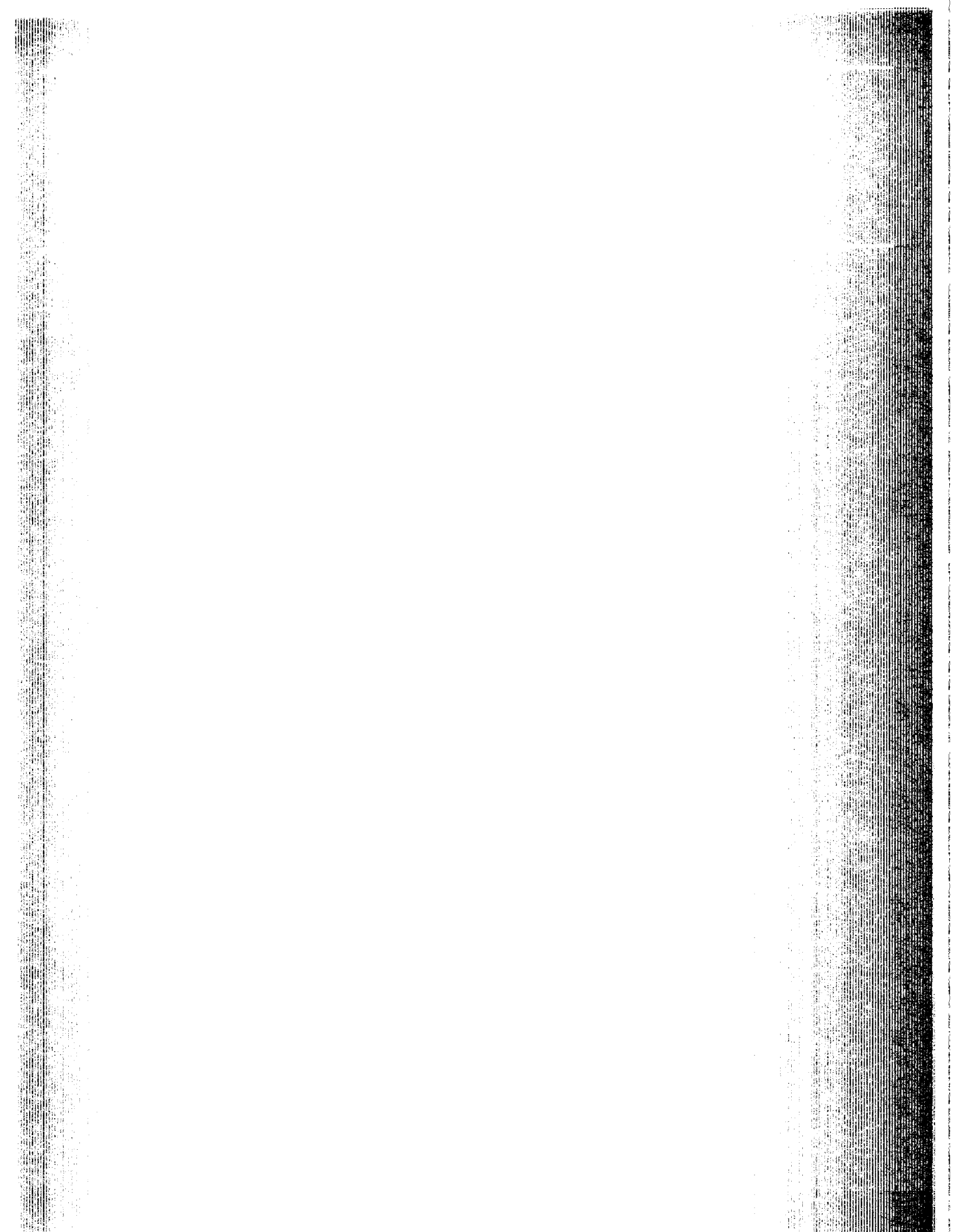
*Fiscal year 1993 constant dollars are shown in parentheses.

Source: FAA.

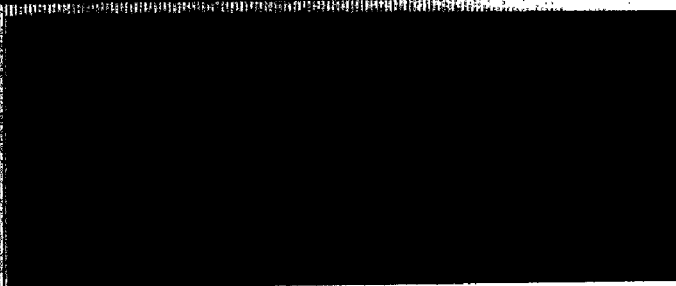
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Address Correction Requested

