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

Office of Airport Safety and
Standards

800 Independence Ave., SW.
Washington, DC 20591

FEB 21 2008

Mr. Bruce V. Pelly,
Director, Palm Beach International Airport
Bldg 846 Palm Beach International Airport
West Palm Beach, FL 33406

Dear Mr. Pelly:

Thank you for the professional and courteous support provided to my staff during the on-site compliance review of Palm Beach International Airport (Airport) in June 2007.

Attached are the results of our on-site compliance review. The results include issues identified in the Department of Transportation (DOT), Office of Inspector General (OIG), *Audit of the Management of Land Acquired under Airport Noise Compatibility Programs, Federal Aviation Administration*, dated September 30, 2005.

Prior to the Federal Aviation Administration (FAA) compliance review at Palm Beach, the OIG had audited eleven airports that received Federal Airport Improvement Program (AIP) grants for noise compatibility purposes. Palm Beach was one of those airports.

We are enclosing our report. Our review concluded that the Airport is complying with FAA grant assurance 31, Disposal of Land, and the DOT/FAA Policy and Procedures in the use of Airport Revenue.

Sincerely,

Charles C. Erhard
Manager, Airport Compliance
Division

Enclosure

Palm Beach International Airport Review of Noise Land Use and Financial Operations For 2006

The FAA Compliance Division, AAS-400, conducted a compliance review of noise land and financial operations at the Palm Beach International Airport (Airport) from June 12 through June 22, 2007.

BACKGROUND. Palm Beach County (County) owns and operates the Airport. It also owns and operates three general aviation airports, Palm Beach County Park Airport in Lantana, Palm Beach County Glades Airport in Pahokee, and the North County General Aviation Airport in Palm Beach Gardens. Those airports were not included in this review.

The FAA classifies the Airport as a medium Hub with 2.5 million annual passenger enplanements. The Airport has an increased volume of traffic and plans to add a new runway to accommodate the demand.

The Airport originally was known as Morrison Field beginning in 1936. In 1940, the U.S. Army converted the Airport to military use and the Department of Defense (DOD) returned the facilities to Palm Beach County in 1947. In 1951, with the outbreak of the Korean War, the U.S. Air Force took control of the Airport and renamed it Morrison Air Force Base. The DOD again released the Airport back to Palm Beach County in 1959.

Since 1982, the FAA awarded the County \$118 million in Airport Improvement Program (AIP) funds.

PURPOSE AND SCOPE OF REVIEW. In 2005, the Department of Transportation (DOT), Office of Inspector General (OIG) issued a report on the FAA's management of land acquired under Airport Noise Compatibility Programs; report number AV-2005-078. Palm Beach was one of eleven airports audited by the OIG. In that report, the OIG found the County had acquired 267 acres of noise land; 106 acres retained for Airport development and 161 acres (valued at \$5.6 million) with no documented need.

The purpose of this review is to evaluate the County's use of the 267 acres of noise land and to determine compliance with FAA grant assurance 31, Disposal of Land and compliance with the FAA Policy and Procedures Concerning the Use of Airport Revenues. The scope of this review primarily covered the Airport's fiscal year 2006, ending September 30.

USES OF NOISE LAND

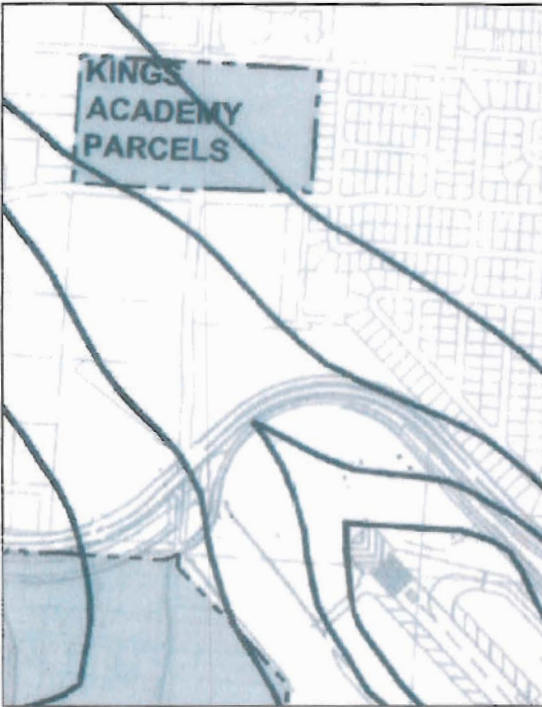
In response to the OIG audit report, FAA instructed its regional offices to obtain noise land inventory maps from the airports listed in the report. Since the County is one of those airports, it was requested to submit the maps. The map below is an extract from the Hillcrest map, which color-coded each parcel by AIP grant number.

Hillcrest Map



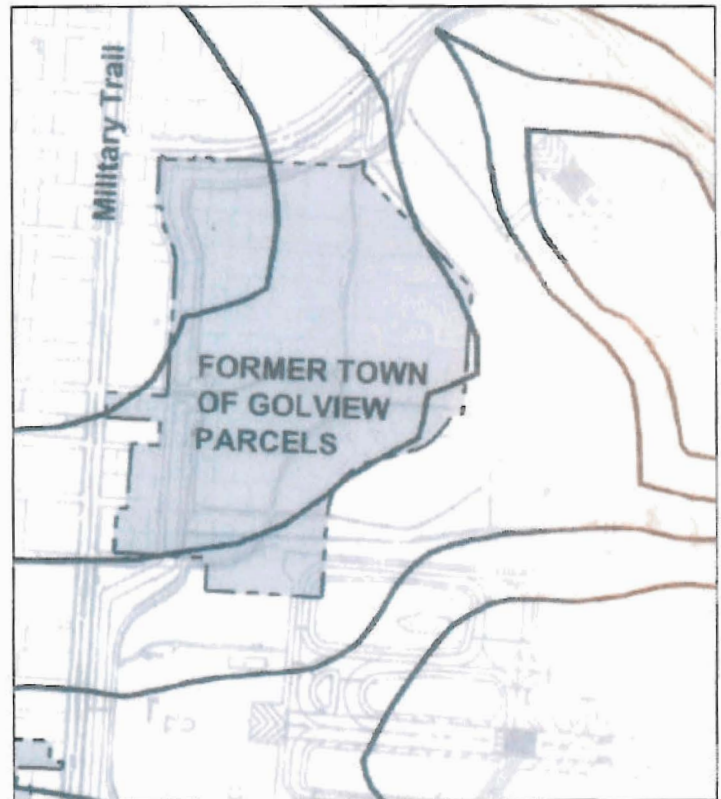
Since 1987, the FAA has awarded the County \$51 million in AIP funds for the acquisition of land for noise compatibility. The County based its acquisition program on 1983 noise contours, which were later updated to projected 1998 contours.

The County's noise land acquisitions are in four areas:

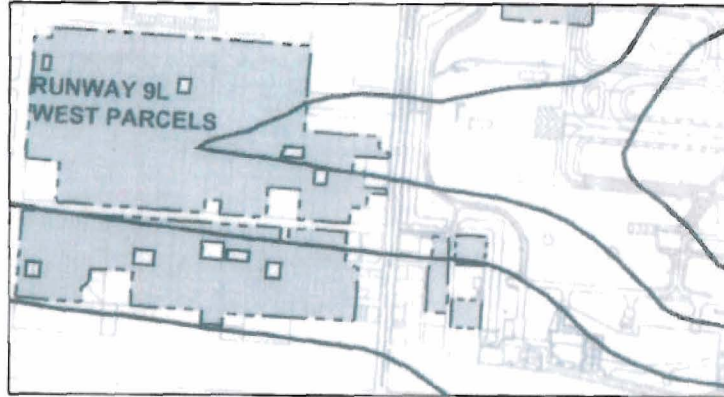


The first area is Kings Academy, a former school, located within the 1998 65-decibel contour, 3,000 feet north of runway 13-31. The County used \$8.5 million of AIP funding to purchase the parcels. The County no longer needs the property for noise compatibility and is attempting to trade it for an off-airport site near the terminal, where it plans to build a new parking garage. The existing parking lot will be freed up for future aeronautical use.

The second area is Golfview, located within Airport boundaries between runways 13-31 and 9L-27R. It consists of 59 parcels. The County used \$11.6 million of AIP funding to purchase the parcels. The County will retain the parcels for aeronautical use. The Airport's Fixed Base Operators will be relocated to this area.

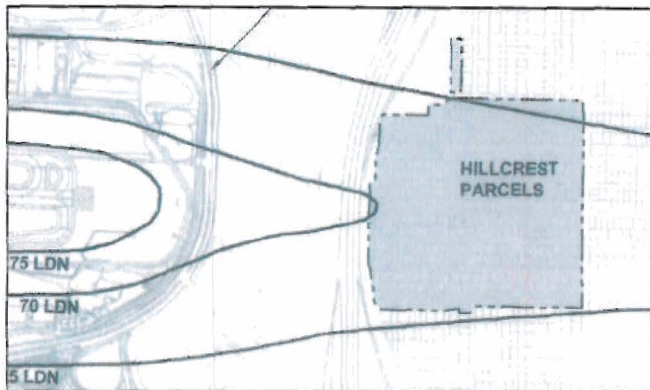


The third area is the Runway 9L West Parcels, located within the 1998, 65-decibel contour, 1,000 feet west of runways 9L-27R and 9R-27L. It contains 131 parcels. The County used \$13.7 million of AIP funding to acquire parcels in this area and is still purchasing parcels.



The County plans to convert the area to an airport use to accommodate a new runway.

The fourth area is the Hillcrest Neighborhood, located within the 1998 65-decibel contour, 3,000 feet east of Runway 9L-27R. It contains 348 parcels. The County used \$32 million of AIP funding to purchase the parcels.



On March 10, 2006, the County sold 68 acres of the Hillcrest parcels to the Palm Beach Atlantic University for \$3.1 million. The University will use the land for athletic fields. There were two appraisals of the land value. The first was for

industrial use. However, the County would not approve an industrial use as it is adjacent to a residential area, and the County did not want to incur infrastructure costs to develop the area for industrial use. The \$3.1 million is the fair market value of the second appraisal for use for an athletic complex. The County converted the remainder of the Hillcrest parcels (1.6 acres) for Airport roadway access.

The County has received approval from FAA to reuse the proceeds from the Hillcrest disposal to acquire the above Runway 9L West Parcels.

The County's actions thus far comply with FAA grant assurance 31, Disposal of Land.



[Layout of the Hillcrest parcels configured for recreational facilities.]

FINANCIAL OPERATIONS

Each year, the County is required to file two reports with the FAA to disclose the Airport's financial operations. The first report is the Financial Government Payment Record, FAA Form 5100-126, which reports payments the airport makes to governmental entities for services received, and it also reports the value of any property or services furnished to governmental entities by the Airport. For example, an airport may pay a governmental entity for fire or police services. An airport, on the other hand, may provide land to a governmental entity for storage. The second report is the Operating and Financial Summary, FAA Form 5100-127. This is a report of the Airport's financial operations and contains information typically found on income statements and balance sheets. The County affirmed the information on its Forms 126 and 127 is based on audited financial information.

In addition to the above reports, the County issues a comprehensive annual financial report for the Airport, which is audited by independent auditor. Ernst and Young is their current Certified Public Accountants (CPA).

FAA FORM 5100-126: There are two sections to this form. The top section reports payments made to governmental entities with airport revenues. The mid-section discloses airport property or services provided to governmental entities and whether the airport received fair market value compensation of either cash or in-kind services.

Payments to Governmental Entities: To determine if the County was in compliance with the DOT/FAA Policy and Procedures Concerning the Use of Airport Revenue (Revenue Use Policy), we reviewed the financial transactions that occurred between the Airport and County. The payments included payments for law enforcement, firefighting, legal services, engineering, central services, utilities, fleet services, and marketing. For 2006, the reported transactions are shown in the schedule below:

Type of Payment	Amount	Note
Law Enforcement	\$ 6,343,690	1
Firefighting	5,789,303	2
Legal Services	118,723	
Central Services	2,913,756	3
Utilities	528,300	
Fleet Services	555,924	
Promotion and Marketing	181,063	4
Total	<u>\$ 16,430,759</u>	

Note 1 – Law Enforcement: Law Enforcement is composed of about 80% direct cost and 20% indirect costs billed by the Palm Beach County Sheriff's Office (PBSO).

Direct costs consist of salaries, wages and benefits, plus an insignificant amount of miscellaneous items. The salaries and wages line item was supported by a Master

Schedule of employees, by job description title, and the number of authorized personnel for the year.

Indirect costs are allocated by a software program, MAXIMUS, which is industry recognized. The Airport absorbed about 2% of the Sheriff's allocated overhead costs with other organizations absorbing the remainder. Training, investigative services, workers' compensation and general liability are the largest items in the overhead.

Note 2 – Fire Department: The Fire Department bills the Airport based on budgeted information. During the year, the budget is adjusted to reflect more current information and any differences are rolled over into an interest-bearing reserve account which is used to offset the next year's costs. Direct costs (84%) are composed of salaries, wages, and benefits and insignificant miscellaneous operating costs. Indirect costs (16% of direct cost) billed to the Airport are about 2.09% of all indirect charges billed to other receiving entities.

Note 3 – Central Services: Central Services consists of allocated costs from the County Cost Allocation Plan. The main components include County administration, purchasing, finance and facility management.

Note 4 – Promotion and Marketing: This cost is not allowed if it is for general economic promotion. However, these costs were used to promote the Airport and are permitted under the Revenue Use Policy.

Property and Services Provided to Government Entities. The review found that government entities using space on the Airport paid cash equal to the fair market value of the rental value of the space. In fact, for leases in general, we found the Airport had an exemplary program of updating leases to fair market value, through CPI indexing for older leases, and updated newer leases with fair market value land appraisals. The Airport's documents and files are in excellent condition.

FAA FORM 5100-127: Inputs disclosing financial information were supported by the accounting records. The County's independent CPA's audit the accounting records.

SUMMARY:

The Planning and Development staff of the Airport responded quickly to address the OIG audit report and provide the noise land inventory maps.

The County and PBSO provided an easy to follow cost allocation plan. However, it was not always updated on an annual basis. Using a set year with escalation provided a reasonable approximation, but both the County and PBSO are reminded to do a true-up and provide a carry-forward adjustment, as needed.

We appreciate the cooperation extended us by the Airport, County, PBSO, and Fire Rescue Department.