



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

# **REPORT TO CONGRESS ON POTENTIAL FOR USE OF LAND OPTIONS IN FEDERALLY FUNDED AIRPORT PROJECTS**

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**Report of the Secretary of  
Transportation to the United  
States Congress Pursuant to  
Section 127 of the Airport and  
Airway Safety, Capacity, Noise  
Improvement, and Intermodal  
Transportation Act of 1992  
(Public Law 102-581)**



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# REPORT TO CONGRESS ON POTENTIAL FOR USE OF LAND OPTIONS IN FEDERALLY FUNDED AIRPORT PROJECTS

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## INTRODUCTION

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This study is provided to Congress in response to Section 127 of the Airport and Airway Safety, Capacity, Noise Improvement, and Intermodal Transportation Act of 1992, Public Law 102–581. The Secretary of Transportation was directed to conduct a study on options to purchase land for future development of existing and new airports.

The opportunity for expansion at existing airports is often difficult if adjacent or surrounding land is planned for other development, thereby increasing the value and resultant acquisition cost of the land. If development is imminent, an airport owner may prefer to acquire the vacant land before actually needed by the airport to preserve an option for future airport expansion. Further, if the land is developed for uses that would be incompatible with airport noise or safety concerns, the airport owner may find that accommodating additional aviation activity is possible only through relocation to a new site as continued airport operations are threatened and expansion of the existing location becomes impossible.

One concept for acquiring land in advance of the actual need for development is *land banking*; another is to prevent prior sale and development by purchasing a *land option* from the owner to buy the property at a later date at a price agreeable to both parties.

Advance acquisition of land, e.g., land banking, is often not feasible, however, without a commitment of Airport Improvement Program (AIP) funds to supplement local financing capability. AIP funding cannot be approved until much of the detailed planning has been completed and environmental issues examined. These actions require public involvement and preclude undisclosed purchase of large parcels of land for expansion of existing facilities or relocation to a new airport site.

A study was conducted and published in 1977 that considered the need for the Federal Government to be more specifically involved in

promoting land banking.<sup>1</sup> That study assessed the potential of land banking as a means of ensuring the future availability of land for airport development. As defined in the study, “airport land banking is ... any acquisition of land to ensure its [future] availability ... [and] is carried out sooner than otherwise necessary ... to make the acquisition more economical or practical.”<sup>2</sup> The study concluded that “airport land banking could result in a ... [significant] saving in total land acquisition costs at existing airports....”<sup>3</sup>

The study recognized that land acquisition for future airport development has been eligible for Federal aid since 1970 when the Airport Development Aid Program was established. It also recognized that many larger airports with a greater financial base had obtained future development land without Federal aid. However, the study recommended no Federal action to promote wider use of the land banking concept for long-term development due to the potential for expending much needed current assets for speculative future needs. That factor continues to be an important consideration in administration of the AIP.

*Land options* are often used successfully by private developers to acquire many parcels of land for large developments without causing escalation in price based on announcement of their development plans. A prime example is the recent announcement by the Disney Corporation that it planned to develop a new theme park near Haymarket, Virginia. When those plans were scuttled, Disney was not left with large holdings that it did not need because it had not actually acquired the land for the proposed development. However, Disney was required to honor the financial commitments accompanying the options purchased from the land owners. The intervening time between when these land options were acquired and the announcement was made of the intent to develop the site was relatively short. Had the plans been carried out, the actual purchase would likely have occurred over a relatively short timeframe.

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<sup>1</sup>U.S. Department of Transportation, Federal Aviation Administration, *Airport Land Banking*, (Washington, DC 20591, August 1977), I-1 – XII-4.

<sup>2</sup>U.S. Department of Transportation, Federal Aviation Administration, *Airport Land Banking*, (Washington, DC 20591, August 1977) I-1.

<sup>3</sup>U.S. Department of Transportation, Federal Aviation Administration, *Airport Land Banking*, (Washington, DC 20591, August 1977) I-2.

The effect of the land option is to take the property out of the open market. In the private sector, property owners are unlikely to agree to long-term options without either considerable assurance that the option will be exercised or receipt of substantial compensation. Therefore, long-term options are relatively rare. Likewise, if land options were to be used in projects where Federal funding is a factor, the short-term option would likely prevail as it does in the private sector.

This report will evaluate the concept of using options to secure property before needed for the subsequent financing and construction of federally funded airport development. Land banking, as previously studied, entails actual acquisition of land for use up to 15 years in the future. Land options, however, are used to ensure a party retains the right to acquire land in the face of imminent or planned development, while avoiding a cost escalation as development plans become known. Land options, as defined in the next section, may range in duration from as short as 3 months to as long as several years. Although there is no established time limitation, this study found that current practice sets the terms of options at relatively short periods of time.

Land banking requires an outlay of funds in the present time frame for land to be held by the new owner until needed. Federal funds may be requested at the time the land is acquired, or alternatively, when development is approved for the land previously acquired with non-Federal funds. Land options, on the other hand, are not actual acquisitions of property, and no outlay of Federal funds could take place until the option is actually exercised and title to the property is transferred. Any costs incurred by the airport sponsor for obtaining options normally would only be reimbursable if the options were exercised and the actual purchases were completed. The purchase costs would be incurred by the sponsor in the present timeframe, but reimbursement would be the subject of a subsequent action by the Federal Government.

The Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970, Public Law 91-646 (Uniform Act), provides for uniform and equitable treatment of persons displaced by programs funded with Federal funds. This Act sets forth the conditions and procedures to be followed to assure the Federal Aviation Administration (FAA) that persons selling land for federally funded projects are treated fairly and receive just compensation for their property. Compliance with these provisions

by the purchaser would be required before Federal funds could be used for purchase of land via an option contract.



## TERMINOLOGY

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The use of land options in the commercial real estate arena is a common practice. Research of current literature on the subject indicates that land options take many forms and can be used by developers to control costs fueled by speculation, minimize cash outlay, and retain the ability to walk away from a proposed transaction with a minimum loss. The review of literature on commercial use of land options revealed many terms and definitions not commonly referred to in Government documents. Therefore, before evaluating the potential application of land options to airport development projects, it is informative and helpful to explain some of the uses of land options in the commercial world. An understanding of these concepts should provide a framework for evaluation of land option use in federally funded airport projects. Although the material below may be elementary for some readers, it is included to help guide less knowledgeable readers through the subsequent analysis of the potential use of land options. With that caveat, there follows a brief explanation of terms, definitions, and examples of land options as used primarily in the commercial sector.

The Arnold Encyclopedia of Real Estate<sup>4</sup> defines “option” in its latest edition as follows:

### OPTION

The right for which a consideration has been paid to buy, lease, or sell a particular piece of real estate to or from another at a specified price and within a designated period.

An option to buy is also known as a call; an option to sell as a put.

Options offer an extremely important technique for real estate investors and developers. They create leverage and conserve cash since the holder of an option can control large parcels of property for a small cash outlay.

Options permit the option holder to tie up land ... [while deciding] whether to buy. For example, an investor may be aware that a piece of property may be used for a new highway or shopping center development ... [and] obtains options on surrounding land, good until a

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<sup>4</sup>Alvin L. Arnold, *The Arnold Encyclopedia of Real Estate*, Second Edition, (New York: John Wiley & Sons, Inc., 1993), 402–403.

date when ... [the] information will be confirmed. If ... wrong, ... [the investor] suffers only the loss of ... [the] option price; if ... right, ... [the investor] is in a position to make a bargain purchase. Similarly, an investor may take a long-term option, running for several years, in expectation of a change in economic conditions or the like.

Options are important in the land assemblage process. Thus, suppose a developer buying contiguous parcels is interested in an 'all or nothing' acquisition. To reduce ... risk, in the event that ... all ... [needed] land ... [cannot be acquired, the developer] can use options rather than straight purchases.

In addition, options permit speculation [for profit] in property with only a very small cash outlay. For example, a speculator might pay \$1,000 for an option to buy real estate at \$50,000. Within the option period, the value of the real estate rises to \$60,000. The optionee can sell ... [the] option to a third party for \$10,000, who can then purchase the property for \$60,000 (\$10,000 for the option plus \$50,000 paid to the seller of the real estate).

Forms of options include the following:

- *Fixed option.* This is the simplest form of option, entitling the optionee (option holder) to buy the property at a fixed price during the option period.
- *Step-up option.* Used in long-term options or in rolling options, here the purchase price of the real estate goes up by steps periodically throughout the option period. If an option is renewable, frequently the step-up will occur at the time of renewal.
- *Rolling option.* This is most commonly used by subdividers of raw land. The option covers a number of contiguous tracts. The developer buys and subdivides one tract, and, if it proves profitable, ... acquire[s] the next tract. Thus, the option rolls from one tract to another. Usually, the price steps up as each tract is acquired, thus permitting the landowner to share in the increased value of the property as it is built up.
- *Full-credit option.* The price paid for the option is credited fully against the purchase price of the real estate, if the option is exercised.
- *Declining-credit option.* As an inducement to the optionee, the percentage of the option price that may be credited against the purchase price of the property declines as time goes by.

## **OPTIONEE**

One who holds an option, i.e., a right, for which he has paid a consideration, to buy specified property from another within a specified period of time and at a specified price or to sell such property to such other person at a specified price and within a specified time.

Options are not restricted to purchases and sales. For example, an option may be one to lease property, rather than purchase property. [This provision is not likely to apply in federally funded projects. However, there are cases where long-term lease is the only course of action available to an airport sponsor. This normally involves development on land currently held by another Government entity, such as a military installation where joint-use is proposed.]

## **OPTIONOR**

One who grants an option to another. In real estate, the optionor usually grants, for a valuable consideration, the exclusive right to purchase a specific property, at a specified price and during a specified period of time.

## **OPTION PERIOD**

The duration of an option as specified in the option contract, during which the person holding the option (the optionee) has the privilege of deciding whether or not ... [to] 'exercise' it, i.e., buy or sell, as the option might call for.

The longer the duration of the option period, all things being equal, the more valuable the option.

Since the effect of the land option is to take the property out of the open market, a property owner is unlikely to agree to a long-term land option without either considerable assurance that the land option will be exercised or he receives substantial compensation. Therefore, long-term land options (longer than a few years) are relatively rare.

As cited in the definitions quoted above, land options may take the form of a call option or a put option. The call option, or option to buy, is a unilateral action on the part of a potential purchaser to obtain the right to buy the property at a specified price within a designated period of time. The put option, or option to sell, is a unilateral action on the part of the property owner to require another party to purchase specified property within a designated period of

time and generally at an established price. Alternately, an option may also be bilateral or mutual where either party has the right to exercise the rights contained in the option based on the happening of a specific event or a particular time.

Louis B. Hansotte, in his article in the McGraw–Hill Real Estate Handbook<sup>5</sup>, provides an easy–to–understand distinction between the two types of options and the terms bilateral, mutual, and unilateral. These definitions will have a bearing on the discussion in following sections. Since a clear understanding of the concepts is necessary to arrive at a reasonable conclusion, the following definition is provided for those readers with a limited legal background.

## UNILATERAL VERSUS BILATERAL

In the typical *bilateral* contract, the obligations of the parties are found in their mutual promises to do (or refrain from doing) something. An agreement to purchase a specific parcel of real property for \$100,000 is a promise on the part of the buyer to buy, and a reciprocal promise on the part of the seller to sell the property for the agreed upon price. It is the exchange of a promise to buy for a promise to sell that creates the obligations, or consideration, in a bilateral contract. It is *not* the payment of the \$100,000, although that is frequently stated to be consideration. It is the *promise* to buy given in exchange for the *promise* to sell. Thus, in a bilateral contract, consideration is found in a promise for a promise.

In the typical *unilateral* contract, the obligations of the parties are found in the promise given by one party in exchange for the act of the other—a *promise* for an *act*. ‘Here’s the \$10,000 cash which I will give you if you will sell this lot to me,’ Henry tells Arthur, handing over the money at the same time. Henry’s obligation is found in his *act* of handing over the money; if Arthur agrees, he will be making a *promise* to sell the lot. (But, remember, a promise to purchase real property must be reduced to writing before the contract will be enforceable.)

## OPTIONS

Consider an offer to enter into an option agreement. ‘I will give you \$1000 if you will agree to sell me your house for \$100,000 and *give me the right to buy the house for 30 days*.’ (This promise must also be in writing to be enforceable.)

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<sup>5</sup>Louis B. Hansotte, “Contracts,” *The McGraw–Hill Real Estate Handbook*, Second Edition, Robert Irwin, Editor in Chief, (New York: McGraw–Hill, Inc., 1993), 102–103

Such an *option* agreement is frequently referred to as a unilateral contract, with the explanation that it only binds *one* party (optionor) since the optionee is not obligated to buy and therefore is not bound to the contract. An option agreement *is* unilateral because it is an exchange of a promise for an act.

The optionee *is bound to pay the \$1000* if the option is to be created, just not obligated to *exercise* the option. So *both* parties are bound—one, to pay the money, the other to keep the offer to sell open for 30 days—but the agreement is unilateral because it represents the exchange of a promise for an act, instead of a promise for a promise.



## LIMITED USE OF OPTIONS ON FEDERALLY FUNDED PROJECTS

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The use of land options, with terms similar to those used by land developers in the private sector, is not typical in federally assisted land acquisition projects. Developers rely on land options to ensure future acquisition and to leverage their available funds in anticipation of development when market conditions dictate. The speculative nature of their development initiatives depends primarily on nondisclosure of development plans. Therefore, land options permit wide latitude to a developer, while limiting disclosure and initial fund outlays for property. Also, land options in the private sector may be for either the short term or somewhat longer periods, depending on the speculative nature of the project and the willingness of the property owner to remove his land from the market.

Federally assisted projects do not allow a public agency using these funds to exercise the same degree of latitude available to the private developer. However, limited use of land options is common in some circumstances where Federal funds are involved. Some state and local agencies use land options to secure agreement with property owners for the conveyance of their property for development of public facilities. Unlike private sector land options, these land options generally expire within six months and typically do not provide for monetary consideration, given the relatively short term. The land option is used by the public agency to allow it to comply with internal legislative and administrative requirements before the agency may be legally bound to a purchase agreement. Consequently, the use of these short-term land options is a matter of preference on the part of the public agency and not a requirement for use on a federally funded project.

Typical short-term land options give the public agency the exclusive right to purchase the property at the agreed price; however, they do not obligate the public agency to purchase the property should the public agency, for whatever reason, decline to exercise the land option. The land option contract obligates the land owner to convey the property within the specified time at the established price. The land option normally specifies that the public agency may take possession of the property, when needed, even if the property owner becomes unwilling or unable to follow the terms of the land option.

It is also noted here that use of Federal funds entails several requirements not applicable to projects financed privately by commercial developers. These include the applicability of the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970, Public Law 91-646, and the National Environmental Policy Act of 1969 (NEPA). Conversely, commercial developers do not have the ability to condemn property for their use.

The Uniform Act requires that, before requiring a property owner to surrender possession of real property, the public agency shall pay the agreed purchase price to the owner. In the case of condemnation, the public agency will deposit their estimate of just compensation with the court for the benefit of the owner. If an option contract is used, the contract must fully represent the agreement on the purchase price and terms of possession by the public agency. The purchase price offered shall not be less than the public agency's appraised fair market value of the property. Relocation assistance and payments shall be offered to eligible persons when negotiations for the acquisition are initiated. The availability of relocation assistance is discussed with the property owner when negotiating for the option. Payment is made after the option is exercised and the property changes hands.

NEPA requirements ensure compliance with Federal mandates dealing with use of the land acquired and its effect on the environment.



# **FAA'S CURRENT POLICY ON ADVANCE LAND ACQUISITION FOR AIRPORT DEVELOPMENT**

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Section 47102 (3) (c) of Title 49, United States Code, defines the acquisition of an interest in land as eligible for airport development funds. Land for future airport development is also defined as an eligible item. Section 47110 sets forth the criteria for allowable project costs, including the requirement that costs be incurred after the execution of the grant agreement for the project. An exception is made for certain project costs incurred before the date of a grant agreement. Specifically, costs to acquire interests in land are allowable costs if incurred after May 13, 1946, the date of enactment of the first Federal airport grant program. Therefore, acquisition and subsequent reimbursement of airport sponsor costs for airport development land are permitted. Thus, an airport sponsor may option land that may be currently available and potentially needed for development in the future, with a later chance to receive Federal reimbursement for the purchase. The airport sponsor would be required to expend its own funds up front and apply for reimbursement as a project formulation cost when the airport development is approved in a grant agreement.

There have been proposals by various interest groups to broaden the current policy on funding land banking projects to acquire potentially valuable land in the current timeframe that may not be available later for airport development. These proposals have generally advocated broadening definitions to allow and encourage land banking speculation, while providing reimbursement with current funds. Although land banking is currently eligible, based on the definition in Title 49 describing the acquisition of land for future airport development, the FAA has limited the practice to near-term future airport development. Although there is no set limit now, fiscal prudence dictates immediate future time periods of closer to 5 years, as opposed to a period of as much as 15 years, as recommended in some proposals by special interest groups.

FAA has also placed other limitations on land banking eligibility. FAA's Airport Improvement Program Handbook<sup>6</sup> sets forth the FAA's policy as follows:

“Acquisition of land for future airport development is eligible. development' is considered to be the development of a facility more than 5 years after acquisition. A sponsor may consider such land acquisition in planning a new airport or in the orderly development of an existing airport. Federal participation must be justified, taking into consideration such factors as rising land costs, encroachment on available land by incompatible uses and development, and the probable unavailability of land for use in the future. The acquisition of land for future airport development must meet the requirements of the National Environmental Policy Act (NEPA) of 1969, as implemented by Orders 1050.1 and 5050.4.”

The FAA's handbook also requires the airport sponsor to complete, or ensure completion of, the following:

1. Documentation to support the aeronautical need for the land;
2. Adequate data to permit FAA review and approval of the site, if for a new airport;
3. Adequate justification to permit FAA analysis and approval of airspace clearance for the site; and
4. The planning process and subsequent FAA approval of an airport layout plan depicting the land to be acquired. As a part of the planning process, environmental issues must be assessed to comply with NEPA requirements.

Elimination of any of the prerequisite actions would entail more risk and could ultimately be more costly. Thorough planning with public involvement is necessary to obtain a community consensus. Without such consensus, the project is likely to experience time-consuming opposition and delays to the extent that most of the potential advantage of early land acquisition could be lost. Premature commitment of AIP funds could also be viewed as investing scarce Federal funds in speculative land acquisition projects with no immediate potential for realization of subsequent airport development. If the development project failed to materialize,

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<sup>6</sup>U.S. Department of Transportation, Federal Aviation Administration, *Airport Improvement Program (AIP) Handbook, Order 5100.38A*, (Washington, DC: Office of Airport Planning and Programming, October 24, 1989), 70-71

disposition of the land could be required. The chance of recovering the initial investment would be uncertain.

Since planning and environmental analyses tend to lose credibility with time, it is appropriate to place a limitation on time between acquisition of land and subsequent development. With acquisition based on current planning and environmental considerations, there is a better chance of ensuring that the findings and impacts will be an accurate reflection of current and short-term changes in conditions.

The current national priority system used by the FAA in deciding how to distribute discretionary funds does not rate acquisition of land for future development as a high priority project. This policy is appropriate, since the highest priority for limited funds should go to safety, security, and capacity development and other current needs. Rehabilitation of existing facilities is also designated as a relatively high priority in order to preserve the Federal investment. Land acquisition, although an important item to allow expansion of airport facilities, is assigned a lower priority due to the need to devote a high percentage of limited funds to development items. Also, the provision in legislation which authorizes reimbursement of land in future grants permits a sponsor to incur costs and obtain reimbursement; that has not been the case with construction prior to a grant. The AIP was amended recently to authorize reimbursement of approved project costs from funds apportioned to an airport sponsor.

Another consideration that argues against acquiring property for long-term development is the uncertainty associated with those development plans. At most locations, development proposals evolve over time as the perceived need changes. Earlier planned development proposals may be abandoned altogether if anticipated aeronautical demand does not materialize. There may be previously unconsidered factors (e.g., environmental, financial, etc.) that now mitigate strongly against earlier proposals. The dynamics of aeronautical activity, facility needs, and future growth make planning for future needs and the decision making associated with timing of development an ever-evolving process. Therefore, investment decisions are best deferred until development needs are obvious and have become critical to sustaining orderly growth.

In view of these limitations and uncertainties, FAA has discouraged use of Federal funds for speculative land acquisition projects. Thus no legislative changes have been recommended to ease use of Federal funds for advance land acquisition projects.

## LAND-OPTIONS FOR FEDERALLY FUNDED AIRPORT PROJECTS

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Although the use of land options has not been encouraged in FAA-funded airport development projects, there are no apparent legislative provisions that would preclude or restrict their use.

The use of either short-term or long-term land options has never been addressed by FAA in written guidance to sponsors. Also, we are not aware of this process being used by airport sponsors. If airport sponsors were to use land options, private sector incentives associated with the speculative nature of the development would not be present, and airport sponsors would not be expected to adopt private sector strategies. The land purchase would not be considered complete and reimbursable until a properly executed deed had been received for the property. The FAA would also assure itself that the acquisition offer for the property was not less than its fair market value at the time of purchase, as determined by the requirements of the Uniform Act.

Normally, monetary consideration in obtaining a short-term land option is small or non-existent. A property owner may be expected to seek substantial compensation for tying up land with a longer-term land option. Therefore, we would not expect long-term land options to be used on a regular basis. In those cases where money is given in consideration for a land option, that money should be applied to the total purchase price upon exercise of the land option. In the event of failure to exercise the land option, the sponsor would not normally be allowed to recoup the incurred cost from the Federal Government, since no actual property interest was acquired. However, there may be some mitigating circumstances where reimbursement could be considered to be eligible. These issues are discussed in further detail in the following portions of the report.

An airport sponsor who finds that the use of a land option would be advantageous in securing additional property for a federally funded airport project should be encouraged to do so. However, the sponsor should be explicitly advised that the acquisition must conform to the Uniform Act, the National Environmental Policy Act of 1969 (NEPA), and other applicable Federal environmental laws and regulations. The Uniform Act provides that any increase or decrease in the fair-market value of the real property caused by the project or program for which it is being acquired, or by the likelihood that the

property would be acquired for the project, shall be disregarded in the appraisal of its fair-market value. A sponsor is therefore only obligated to acquire property at its fair-market value, or the price a property would bring disregarding any effect of the proposed airport project.

There may be cases where the sponsor must purchase a land option without full credit for the land option price when exercised. Mitigating circumstances may dictate an incentive to the owner to preclude sale of the property for noncompatible uses that the sponsor wishes to prevent. Failure to act promptly and aggressively may result in loss of the opportunity to obtain the property later without the use of condemnation. If justified in the public interest, inclusion of the incentive payment may be considered an eligible cost. The rationale to support this conclusion should be well documented.

In the event a sponsor obtains a land option and fails to exercise it in the time stipulated, the circumstances of the transaction would dictate the approach taken regarding the issue of reimbursement for any costs incurred by the sponsor. If failure to exercise the land option was the result of poor planning on the part of the sponsor, reimbursement would not be appropriate. If, however, the lack of Federal funding made the project unlikely to compete favorably for funding within a reasonable time, the FAA could consider the matter a reasonable good faith action by the sponsor and reimburse the costs incurred. The costs incurred would be classified as administrative costs necessary to pursue the project and therefore eligible for reimbursement, like other project formulation costs, even though the land was not actually acquired. If, in a subsequent project, the sponsor later attempts to obtain the property, the FAA would try to receive full or partial credit for the previous costs incurred.

An airport sponsor may wish to use a longer term land option to protect the availability of property that may be needed for airport purposes in the future, but not commit to a current purchase. In this case, a longer term land option may be obtained from the property owner for the “protective purchase” of land to preclude future development of the property by the owner or a subsequent owner for a purpose incompatible with expected airport operations. For these advance “protective purchases,” the sponsor should advise the property owner that the property may be acquired in anticipation of a possible federally assisted project and make sure the owner is aware of his or her rights and protections under the Uniform Act. Failure to

show compliance with the Uniform Act requirements may jeopardize future Federal funding of the project if the land option is exercised and the property interest is transferred.





## **FINDINGS AND RECOMMENDATIONS**

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In view of the preceding discussion of land options and their applicability to federally funded projects, the Department of Transportation does not perceive a need for legislative changes to broaden land acquisition methods available to sponsors.

Current legislation allows a limited form of land banking and can be extrapolated to include purchase of land options, although longer term options have not been used to date. We are not aware of any use of short-term options either. The primary difference between land banking and land options is when the sponsor would be eligible for reimbursement. Land banking would involve immediate transfer of a deed, constituting a binding acquisition. This transaction would qualify for reimbursement either in a current grant or a subsequent one associated with the development proposed for the purchased land. Land option purchase costs, if any, would only be reimbursable when the deed transfers.

Initially, the sponsor would be required to finance any costs associated with acquisition of a land option to secure property expected to be needed in the future for airport growth. In the event the airport development project does not materialize, any costs incurred by the sponsor would not be reimbursable since a deed would not be acquired.

The FAA intends to make sponsors aware of the possibility for use of both short- and long-term land options in connection with future airport development. Copies of this report will be sent to FAA field offices and will be available to interested sponsors. A copy will also be available for downloading from the FAA's home page on the world wide web. As long as the airport sponsors understand the risks associated with obtaining reimbursement tomorrow for funds spent today, the use of land options could provide a greater degree of latitude for acquiring needed development land.

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