# FAA FULFILLED MOST ARRA REQUIREMENTS IN AWARDING AIRPORT GRANTS

***Federal Aviation Administration***

***Report Number: AV-2011-053***

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# Memorandum

**U.S. Department of Transportation**

Office of the Secretary of Transportation
Office of Inspector General

Subject: ACTION: FAA Fulfilled Most ARRA Requirements in Awarding Airport Grants
Federal Aviation Administration
Report Number AV-2011-053

Date: February 17, 2011

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Reply to Attn. of: JA-10

To: FAA Administrator

On February 17, 2009, the President signed into law the American Recovery and Reinvestment Act (ARRA),[1] designating $1.1 billion for the Federal Aviation Administration (FAA) to invest in Airport Improvement Program (AIP) projects. These funds were intended for airport projects that could achieve several key goals, including investing in transportation infrastructure to provide long-term economic benefits, create jobs, and promote economic recovery. ARRA established tight timeframes for distributing and expending funds and emphasized preference for projects that could be completed in 2 years.

In August 2009, we issued an advisory to the Office of the Secretary outlining our concerns with FAA's process for awarding ARRA grants.[2] We questioned the economic merit of some lower scoring projects and highlighted several ARRA recipients with grant management problems identified in prior single audit reports.[3] Based on these preliminary findings, we initiated this audit to determine the extent to which FAA's process for awarding ARRA grants complied with ARRA requirements and other associated guidance.[4] We conducted this audit from September 2009 through December 2010 in accordance with government

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[1] American Recovery and Reinvestment Act of 2009, Pub. L. No. 111–5 (2009).

[2] OIG Advisory Number AA-2009-003, "FAA's Process for Awarding ARRA Airport Improvement Program Grants," August 6, 2009. OIG reports are available on our website: www.oig.dot.gov.

[3] Single audit is a mechanism relied upon by Executive Branch agencies to oversee financial compliance and grant assurances.

[4] For the purpose of this report, we define "requirements" as a collective term to refer to ARRA statutory requirements, Presidential direction, and Office of Management and Budget (OMB) and FAA guidance related to ARRA implementation.

auditing standards prescribed by the Comptroller General of the United States.[5] Exhibit A details our scope and methodology.

## RESULTS IN BRIEF

FAA's process for awarding $1.1 billion in AIP grants complied with five key ARRA requirements but fell short on two others—being fully transparent and optimizing economic activity.[6] As shown in table 1, FAA used its existing project selection process to meet ARRA milestones for awarding half of the funds in 120 days and all funds within 1 year of the law's effective date of February 17, 2009. FAA also took steps to avoid supplanting other expenditures with ARRA funds.[7] Additionally, the Agency increased its oversight of grant recipients, although continued effort will be needed to comply with March 2010 OMB guidance requiring use of single audit reports to monitor ARRA recipients.[8]

***Table 1. FAA's Compliance with Key ARRA Requirements***

| ARRA Requirements | Fulfilled | Partially Fulfilled | Not Fulfilled |
|---|---|---|---|
| Use discretionary grant process to deliver programmatic results and achieve long-term public benefits. | ✓ | | |
| Award 50 percent of funds within 120 days and remaining funds not later than 1 year after enactment. | ✓ | | |
| Give priority to those projects that can be completed by February 2011. | ✓ | | |
| Ensure projects supplement and not supplant planned expenditures. | ✓ | | |
| Increase oversight beyond normal levels. | ✓ | | |
| Design transparent merit-based selection criteria. | | ✓ | |
| Design selection process to optimize economic activity relative to Federal dollars obligated.[9] | | | ✓ |

Source: OIG analysis

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[5] This review is one of a series of audits we are conducting of FAA's implementation of ARRA.

[6] On March 20, 2009, the President directed executive agencies to design merit-based selection criteria to support particular projects with ability to (i) deliver programmatic results, (ii) optimize economic activity relative to Federal dollars obligated, (iii) achieve long-term public benefits, and (iv) satisfy transparency objectives.

[7] ARRA required that Recovery funds supplement and not supplant planned expenditures from airport-generated revenues or other state and local sources.

[8] In addition to assessing FAA's compliance with ARRA selection requirements, we elected to follow up with the Agency on its efforts to comply with OMB guidance on increasing oversight by using single audits as a tool to monitor ARRA grant recipients; we also raised this issue in our August 2009 advisory to FAA.

[9] The President also directed agencies to select projects that would create or save jobs. We did not include this in our review since this topic is being addressed in a separate OIG audit, announced on November 19, 2009: http://www.oig.dot.gov/library-item/5232.

However, FAA was not fully transparent in justifying its selection of some lower priority projects or reporting actual grant amounts. For instance, FAA set a goal of funding higher priority projects through ARRA but did not publicly disclose on its website the justifications for choosing more than 80 lower-scoring projects (more than 20 percent of those selected).[10] Until FAA provides these disclosures to the public, it will not be transparent to the Congress and taxpayers why lower scoring projects were funded. Moreover, FAA initially published the ARRA recipient names and grant estimates on its Recovery Act website. However, we found that most of the estimates (243 of 319) were not updated to reflect the actual amounts later awarded. In particular, 25 of these project cost estimates were off by more than 50 percent. After we brought this to FAA's attention, it published the actual amounts obligated for each grantee.

FAA also did not ensure its selected projects would optimize economic activity, as required by Presidential direction. FAA maintains it met this requirement because it considered economic factors (such as airport growth and long-term usage) when developing its Airport Capital Improvement Plan (ACIP)—a rolling plan of AIP-eligible projects. However, we found no evidence that FAA applied these factors when developing its list of potential ARRA grant candidates, or in determining whether the projects selected would provide maximum economic impact. Moreover, FAA's ability to select projects that would optimize economic activity was limited by Agency policies that went beyond congressional and Presidential requirements (e.g., widespread geographic distribution, accelerated timelines, and caps on award amounts). While these policies helped FAA distribute ARRA funds quickly to every state, they also resulted in the selection of some questionable projects, including five small airfields in Alaska. In total, these five airfields received as much funding as the entire State of Texas ($59 million) and more than the States of Florida ($55 million), Illinois ($46 million), and New York ($29 million). Only California received more ARRA funding at $85 million.

While FAA's ARRA grant award process is finished, both the Agency's successes and areas for improvement should serve as lessons learned for FAA as well as the Department. We are making recommendations to further improve FAA's public transparency and oversight of existing ARRA grant selections.

## BACKGROUND

The Congress, the President, OMB, and FAA all imposed requirements for implementing ARRA. The ARRA legislation established tight timeframes for distributing and expending funds and emphasized preference for projects that could be completed in 2 years. ARRA also required that FAA make grants for

[10] For ARRA purposes, higher priority projects are those scoring equal to or higher than 62 in FAA's National Priority Rating (NPR) system.

discretionary projects using its established AIP process and ensure that grants did not supplant planned expenditures from other sources. Subsequently, the President directed agencies to develop transparent, merit-based selection processes that would fund projects with a demonstrated or potential ability to achieve economic stimulus. OMB guidance required that agencies increase grantee oversight beyond normal levels.[11] Finally, FAA issued guidance to its regional officials that placed additional restrictions on the Agency's selection process. See Exhibit B for a listing of key ARRA requirements and associated criteria.

In following its established AIP process, FAA utilizes a 3- to 5-year rolling plan of potential projects developed in cooperation with airport sponsors, planning agencies, and the States. Known as the ACIP, this plan prioritizes projects for funding based on such factors as safety, security, capacity, and environmental mitigation.[12] Each year, FAA develops a discretionary candidate list of projects from the ACIP based first on quantitative and then qualitative factors. Quantitatively, FAA uses its National Priority Ratings (NPR) to assign projects a rating score from 0 to 100—the higher the rating, the higher the priority.[13] After assigning NPR scores, FAA applies qualitative factors to further differentiate between candidate projects. Qualitative factors include, but are not limited to, a sponsor's past performance in meeting grant requirements and whether the airport has completed a required environmental review.

## FAA'S SELECTION PROCESS FULFILLED MOST ARRA REQUIREMENTS BUT WAS NOT FULLY TRANSPARENT OR DESIGNED TO OPTIMIZE ECONOMIC ACTIVITY

FAA's project selection process effectively fulfilled most ARRA requirements. These include meeting tight timeframes for distributing and expending funds, and giving preference to projects that could be completed within 2 years. FAA also increased oversight of ARRA projects as directed by OMB but will need to take additional actions to comply with updated OMB guidance. In addition, FAA pointed out that using ARRA funds on airport projects provided both programmatic results and long-term benefits. While we agree, FAA should have used a more transparent project selection process and given more consideration to projects' potential economic impact before awarding grants to fully meet Presidential direction. Meeting these last two objectives would have provided greater assurance that ARRA funds went to the best candidates.

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[11] OMB Memo M-09-10, "Guidance on the American Recovery and Reinvestment Act," February 18, 2009, and OMB Memo M-10-14, "Updated Guidance on the American Recovery and Reinvestment Act," March 22, 2010.

[12] In our report, "Prioritization of Airport Improvement Program Funding," we found that FAA follows its ACIP process to ensure the Agency's highest aviation priorities are funded (Report No. AV-2008-002, October 26, 2007).

[13] The NPR is based on a mathematical formula that takes into account the type of facility (e.g., runway, taxiway, or terminal), the type of development (e.g., new construction, extension, or rehabilitation), and airport size.

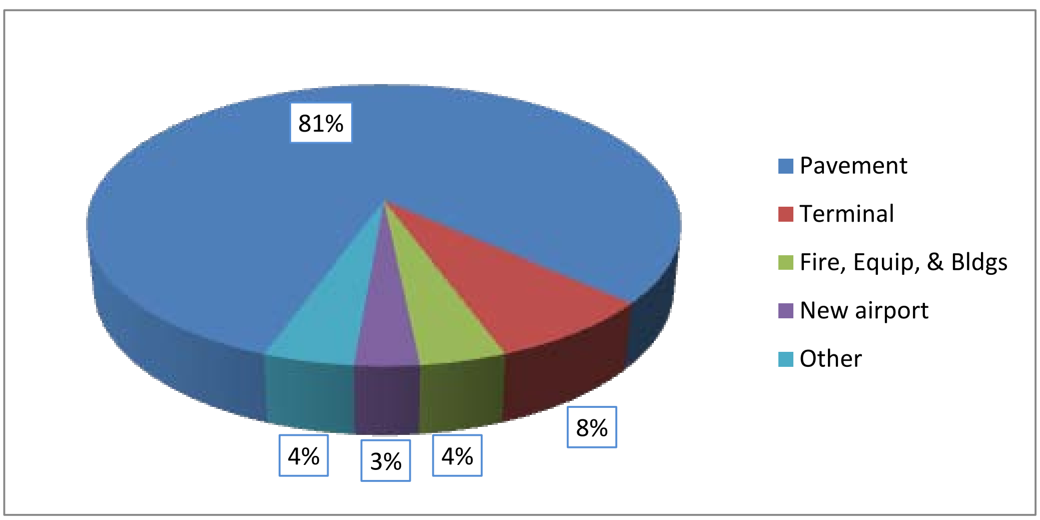
## FAA Met a Number of Key ARRA Requirements in Awarding and Overseeing $1.1 Billion in Airport Grants

FAA fulfilled key ARRA requirements in distributing $1.1 billion in airport grants to 360 projects nationwide. FAA used its normal AIP discretionary grant process as required by ARRA. Having an established process enabled FAA to meet the ARRA deadline for awarding half of the $1.1 billion within the first 120 days and the remainder within 1 year of the law's effective date.[14] FAA also ensured that most projects selected could be completed within the ARRA timeframe of 2 years and grants would not supplant planned expenditures from other sources. In addition to meeting these ARRA requirements, FAA increased its oversight of ARRA-funded projects, but will need to take further steps to comply with OMB guidance issued in March 2010. This guidance requires Federal agencies to review and act on single audit findings pertaining to ARRA grant recipients.

### *FAA Selected Projects That Could Be Completed Within ARRA Timeframes and Did Not Supplant Other Funds*

We reviewed 114 ARRA-funded projects and found that 111 were scheduled to be completed by the ARRA goal of February 2011.[15] To provide assurance that selected projects would meet this goal, FAA gave preference to funding pavement rehabilitation projects (e.g., runways, taxiways, and aprons) that could be completed in one construction season. In fact, FAA invested more than 80 percent of ARRA funds for these types of projects (see figure 1).

***Figure 1. ARRA Funding by Project***




Source: OIG analysis

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[14] As of August 2010, ARRA recipients have expended approximately 77 percent of the $1.1 billion.
[15] The 114 ARRA grants were issued by the 6 FAA Airport District Offices that comprised our statistical sample.

Of the three remaining projects from our sample, one is scheduled to be completed shortly after the ARRA target date. The other two, described below, will not be completed until much later in 2011:

- FAA awarded a $13.9 million ARRA grant for new airport construction in Akiachak, Alaska. The ARRA grant will fund only the first phase, which is site preparation. The new airport is actually not scheduled to be completed until October 2011 and will require a separate non-ARRA (AIP) grant estimated at $12 million.
- FAA will not meet the completion goal for a $14 million project at Atlanta-Hartsfield for a portion of a new apron. This project was delayed due to scheduling and staging issues and will not be completed until September 2011. While ARRA does require that FAA give priority to those projects that can be completed by February 2011, it does not prohibit funding projects that exceed this timeframe.

FAA met another statutory requirement by ensuring ARRA grant awards supplemented, not supplanted, other planned expenditures. Specifically, FAA required airports to commit all available AIP funds to other fiscal year (FY) 2009 projects before qualifying for ARRA grants. Nonetheless, we identified 12 airports that carried over FY 2009 AIP funds to FY 2010.

- In 10 of the cases,[16] the airports requested and FAA approved that the funds be carried over prior to passage of the ARRA Act.
- The remaining two airports were allowed to carry over funds post-ARRA because of extenuating circumstances (i.e., a low bid received at the end of the fiscal year at one airport and unforeseen project delays at Chicago O'Hare, resulted in a more significant FY 2009 carryover).

Based on our review of all 12 cases, we determined that supplanting did not occur since no ARRA funds replaced FY 2009 planned funding.

### *FAA Increased Its Oversight of ARRA Grantees, but Continued Effort Is Needed To Meet Updated OMB Guidance*

To ensure adequate oversight of ARRA funds, OMB issued two guidance memoranda. The first, issued in April 2009, required Executive Branch agencies to increase oversight for ARRA grantees to meet transparency and accountability requirements. The second, issued in March 2010, directed agencies to use single

[16] Moreover, in 9 of the 10 cases, the amounts were considered insufficient to fund any other 2009 projects. The only exception was Los Angeles, which elected to carry over about $4.6 million because the project for which these funds were committed was delayed.

audit results as a tool to identify ARRA grantees at higher risk and resolve audit findings. In response to the first memoranda, FAA took the following actions:

- **Acquiring additional program and engineering expertise.** FAA added eight ARRA-related positions to provide needed program and engineering expertise at selected field locations. FAA determined that these locations had insufficient staffing to handle the increased ARRA workload.
- **Conducting site visits of ARRA recipients.** According to FAA, it conducted site visits at the 97 airports in our sample (see exhibit E). We note, however, that these site visits focus primarily on engineering and technical aspects, such as construction status of projects, and not on the sponsors' compliance with financial requirements (e.g., allowable costs, cash management, and eligibility of expenditures).
- **Hiring an accounting firm to sample ARRA payments.** To increase its oversight regarding sponsors' compliance with financial requirements, FAA hired an accounting firm, Deloitte/Touche, to sample payment requests from 24 of the more than 300 airports that received ARRA funds. In the long term, FAA intends to use the results of the Deloitte/Touche sample payment audit to improve its risk-based approach to grantee oversight.

Although FAA has taken steps to improve it oversight of ARRA grant recipients, the Agency will need to continue efforts to meet OMB's March 2010 requirements to make better use of single audit reports. In its guidance, OMB stated that single audit reports are important tools for monitoring accountability in Recovery Act programs. While FAA acts on single audit reports, its reviews are limited to resolving findings that our office brings to its attention. For ARRA recipients, OMB has increased agency responsibilities to include the following:

- Reviewing single audit reports for all ARRA recipients for FY 2009 and later,
- Analyzing findings across grantees and programs to identify high-risk areas,
- Resolving all audit findings within 6 months and disallowing extensions,[17] and
- Considering additional monitoring and inspections of ARRA recipients.

Our prior work supports OMB's conclusion about the importance of single audits as a tool for overseeing a recipient's grant management. Our 2009 ARRA advisory recommended that FAA increase oversight of ARRA recipients with histories of single audit findings. In particular, we noted that Owensboro,

[17] According to FAA, the Agency has more stringent requirements, calling for resolution within 30 days and final action in 6 months.

Kentucky, and Guam have long histories of single audit grant compliance issues. In response, FAA raised its risk assignment level for Owensboro. FAA also increased its oversight of Guam after the airport's 2009 single audit report questioned Davis-Bacon Act compliance[18] and costs of $1.2 million. While these actions are responsive to our advisory, we note that FAA awarded ARRA grants to 20 other high-risk sponsors, which received $126 million of the $1.1 billion in ARRA funds (or 11 percent). Given the sizeable investments and risks associated with these 20 sponsors (as well as other grant recipients), it is important that FAA use single audits to focus its oversight and ensure proper use of ARRA funds.

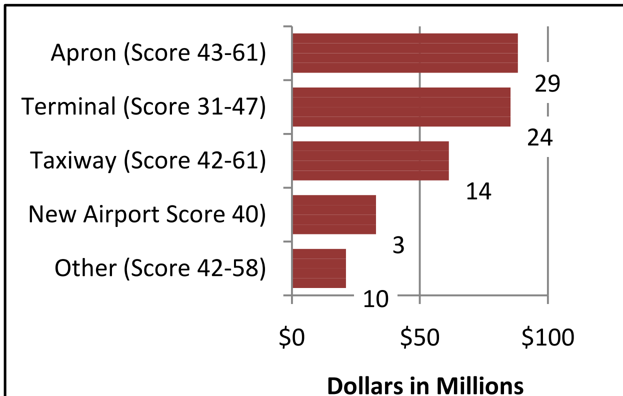
## FAA's Grant Selection Process Was Not Fully Transparent and Did Not Consider Economic Optimization

While FAA fulfilled five key ARRA requirements, it did not modify its AIP selection process to fully meet requirements related to transparency and optimizing economic activity. FAA was not fully transparent when it did not disclose justifications for choosing lower-scoring projects or actual grant amounts on its public website. In addition, FAA could have done more to ensure its grant selections optimized economic activity by considering additional rating factors when selecting grantees. Instead, FAA overemphasized geographic distribution and adopted an accelerated timeline. By doing so, FAA limited consideration of other potential candidates that could have provided greater economic stimulus.

### *FAA's Selection Process Was Not Fully Transparent*

FAA should have been more transparent about the results of its selection process. According to the Agency's planning process guidance, "FAA must distribute funds to the regions in a way that ensures that, nationally, highest priority projects are funded." Moreover, FAA emphasized in public testimony its goal to select the highest priority projects, defined by FAA as an NPR score of at least 62.[19] Yet, FAA awarded over 80 grants to lower-scoring projects. See figure 2 for a breakout of these projects by construction category and associated NPR

***Figure 2. Lower Scoring ARRA Projects***




Source: OIG analysis

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[18] As ARRA requires, the Davis-Bacon Act (Pub. L. No. 74-403 [1931]) directs grant recipients to pay laborers wages at rates not less than those prevailing on similar local projects as determined by the Secretary of Labor.

[19] Hearing before the House Committee on Transportation and Infrastructure, June 25, 2009, "Implementation of the American Recovery and Reinvestment Act of 2009" (statement of J. Randolph Babbitt, Administrator, FAA).

scores. Overall, lower-scoring projects comprised $289 million or almost 26 percent of total ARRA dollars. Until FAA is more transparent about its reasons for selecting each low scoring project—as required by the President's direction—concerns will remain that it did not maximize efforts to ensure that only the highest priority projects received ARRA funding.

As table 2 illustrates, we also found wide disparities in regions' decisions to award grants to lower-scoring projects. Nearly half of ARRA funding in Alaska went to lower-scoring projects. Also, FAA's Great Lakes, Southern, and Central regions distributed over a third of their ARRA funds to lower-scoring projects. In comparison, only 6 percent of Western Pacific region's ARRA funds went to such projects.

***Table 2. Regional ARRA Funding for Lower-Scoring Projects***

| FAA Region | Total Obligations | Low NPR Obligations | % Low NPR |
|---|---|---|---|
| Alaska | $81,804,301 | $40,003,747 | 49% |
| Great Lakes | $187,869,740 | $76,786,816 | 41% |
| Southern | $179,109,822 | $67,106,217 | 37% |
| Central | $62,318,990 | $22,540,304 | 36% |
| NW Mountain | $135,743,900 | $40,416,963 | 30% |
| Eastern | $117,783,118 | $16,998,351 | 14% |
| New England | $52,820,785 | $6,401,021 | 12% |
| South West | $118,401,787 | $10,000,000 | 8% |
| Western Pacific | $157,698,523 | $8,711,669 | 6% |
| **Grand Total** | **$1,093,550,966** | **$288,965,088** | **26%** |

Source: OIG analysis

Further, FAA was not transparent in the process used to select the 24 non-hub terminal projects that were included in the 80 low-scorers. Terminal projects are not normally funded due to their low NPR scores (i.e., less than 40). Yet, FAA did not provide justifications for selecting the 24 terminal projects for ARRA funding even though it required regional officials to document their justification of all other low scoring projects. Instead, for ARRA purposes, FAA classified terminal projects as "special focus area initiatives" with an NPR equivalent rating of 62—noting that many of the older facilities no longer meet current building standards. It also exempted regions and Airport District Offices from providing justifications to support these selections.

Finally, FAA was not fully transparent in reporting the grant amounts it awarded. Rather than reporting actual amounts, the Agency only reported estimated amounts on its public website, which is in keeping with FAA's normal AIP process.[20] FAA should have modified this process to meet the President's direction to be fully transparent in reporting ARRA grant award amounts. Our analysis (see table 3) found significant differences between estimated and approved ARRA grant amounts. For example, 243 of the 319 grants were not updated to reflect the actual grant amounts. In addition, for 25 of the 319 listed on FAA's website, the estimates differed from the actual amounts by more than 50 percent. Publishing the actual award amount provides a clearer picture as to how much money each project received. Soon after bringing this issue to FAA's attention in December 2009, the Agency revised its ARRA website to provide actual award amounts.

***Table 3. Awarded ARRA Grants Under or Over Approved Estimate (as of November 5, 2009)***

| | Percent Above/Below Estimate | Number of Projects |
|---|---|---|
| Under Estimate | 1-24% | 99 |
| | 25-50% | 50 |
| | 51%+ | 17 |
| | Sub-Total: | **166** |
| On Estimate | Sub-Total: | **76** |
| Over Estimate | 1-24% | 52 |
| | 25%-50% | 10 |
| | 51%+ | 8 |
| | Sub-Total: | **70** |
| Unclear | Sub-Total | **7** |
| **Grand Total** | | **319** |

Source: OIG analysis

### *FAA Did Not Enhance Its Selection Process To Optimize Economic Activity*

FAA did not enhance its normal AIP process to consider projects on the basis of their potential to optimize economic activity, as required by Presidential direction. According to FAA, no additional steps were needed because long-term economic benefits are inherent in its AIP selection and planning process. In particular, FAA maintains that its planning process considers economic factors, such as airport growth and long-term usage. In addition to these factors, FAA also funds state aviation planning efforts, including airport economic impact studies. Nevertheless, the Agency did not consider economic factors or the results of economic studies in prioritizing and selecting projects for ARRA funding. Such economic information should have been considered given the Presidential direction that agencies design selection processes and affirmatively determine in advance that each project could optimize economic activity.

Consequently, FAA selected some projects that do not appear—without supporting analysis—to optimize economic activity. For example, we identified 14 airports receiving ARRA funding that serve communities with limited demand

[20] ARRA requires that agencies publicly report on their websites a range of information relating to recovery funds, such as award recipients, actual dollar amounts obligated, and project descriptions.

for flight services (see table 4). Overall, these 14 airports received a total of about $72 million in ARRA grants.

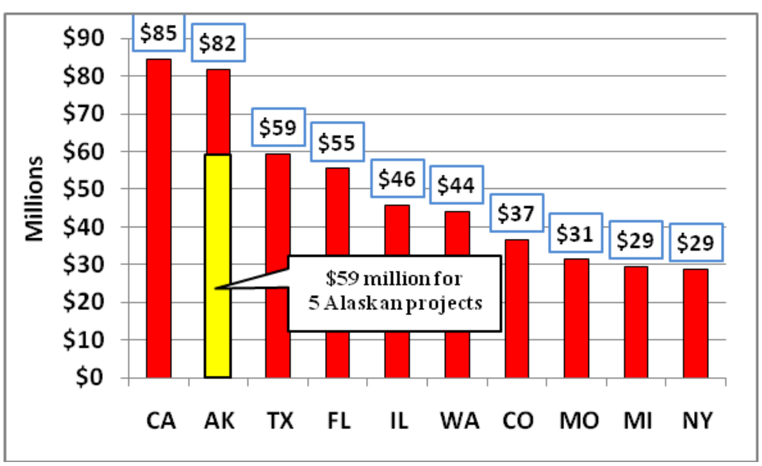
***Table 4. ARRA Recipients Serving Communities with Low Daily Operations***

| Grant Recipient | City Population[21] | Daily Operations | ARRA Amount |
|---|---|---|---|
| Akiachak, AK | 659 | 8 | $13,953,325 |
| Allakaket, AK | 100 | 6 | $10,000,000 |
| Huslia, AK | 265 | N/A | $7,000,000 |
| Fort Yukon, AK | 585 | 23 | $13,659,708 |
| Ouzinkie, AK | 170 | 1 | $14,707,949 |
| Taylor, AZ | 4,139 | 10 | $1,640,523 |
| Cook County (Adele), GA | 5,396 | 22 | $656,000 |
| Bacon County (Alma), GA | 3,490 | 19 | $734,000 |
| Telfair-Wheeler (McRae), GA | 4,378 | 11 | $890,000 |
| Arco-Butte County, ID | 977 | 23 | $931,878 |
| Driggs-Reed Memorial, ID | 1,362 | 21 | $3,750,128 |
| Shoshone County (Kellogg), ID | 2,228 | 21 | $801,917 |
| Grant County (John Day), OR | 1,512 | 26 | $366,419 |
| Wilbur, WA (received two grants) | 878 | 25 | $3,083,293 |
| Total | | | $72,211,140 |

Source: OIG analysis

Moreover, of these 14 airports, FAA awarded $59 million to 5 village airfields in Alaska serving a total population of less than 1,800 residents. As figure 3 shows, these five airfields received as much as all ARRA airport recipients in the State of Texas and more than any other state except California.

***Figure 3. Top 10 States Receiving ARRA Grants***




Source: OIG analysis

[21] Although we provide city population figures, all the airports outside of Alaska are readily accessible to surrounding communities.

Considering other factors during its selection process—such as surrounding population and flight operation statistics as well as airport growth and long-term usage—would have allowed FAA to evaluate the relative economic merits of candidate airports. Similarly, FAA could have considered using Agency-funded airport economic impact studies. For example, studies of airports in Galveston, Texas,[22] and Klamath Falls, Oregon,[23] show that these airports produce sizeable annual economic impacts (both direct and indirect) of $113 million and $85.9 million a year. In comparison, Wilbur, Washington,[24] and La Grande, Oregon,[25] respectively, had impacts of only $1.1 million and $3.3 million. At the other end of the economic scale, Dallas/Fort Worth, Texas, has an annual economic impact of $16.6 billion.[26] While all of these airports received ARRA grants, it is unclear without supporting analyses, whether and to what extent FAA's ARRA-funded projects optimized economic activity.

### *FAA's Selection Process Limited the Candidate Pool by Overemphasizing Geography and Adopting an Accelerated Timeline*

FAA's ability to optimize economic activity was further limited because FAA applied restrictions not required by ARRA or Presidential direction. These restrictions include (1) allocating ARRA funds geographically according to their historical AIP funding distribution, (2) setting an internal goal to have all funds obligated by the end of FY 2009, and (3) establishing caps of $15 million per project/$20 million per sponsor (see exhibit B for a listing of FAA's ARRA-related criteria). Although these restrictions served several FAA purposes (e.g., encouraged widespread and accelerated distribution of funds), they worked against optimizing economic activity.

According to FAA, it allocated ARRA funds based on historical AIP discretionary funding to each of its regions and the states in accordance with its normal process.[27] To distribute ARRA funds widely, FAA limited the amount of funds that any one airport or sponsor could receive. However, our analysis of FAA's distribution shows that its focus on regions and states resulted in some smaller airports receiving far greater support from ARRA than they historically received in the past. Using FAA grant history data, we identified 10 small airports in 9 states that received more in a single ARRA grant than each received in AIP funding from 1999 through 2009 combined. In total, ARRA provided almost five

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[22] "The Economic Impact of Scholes International Airport at Galveston," Wilbur Smith Associates, Texas Department of Transportation, 2005.

[23] "Economic Impact of Oregon Airports," *Oregon Aviation Plan*. State of Oregon Department of Aviation, 2007.

[24] "Economic Impact of Washington Airports," Bucher Willis and Ratliff Corporation, Washington Department of Transportation, 2001.

[25] Economic Impact of Oregon Airports," *Oregon Aviation Plan*. State of Oregon Department of Aviation, 2007.

[26] "The Economic Impact of Dallas/Fort Worth Airport," Wilbur Smith Associates, Texas Department of Transportation, 2005.

[27] FAA's nine regional offices are Alaska, Central, Eastern, Great Lakes, New England, Northwest Mountain, Southern, Southwestern, and Western-Pacific.

times as much funding (i.e., $53 million vs. $11 million) for these 10 airports than they received in regular AIP funding in the last 11 years (see table 5). Thus, FAA's overemphasis on allocating funds by region and state limited the consideration of other potential projects that could have provided greater economic activity.

***Table 5. Comparison of Prior AIP Funding to ARRA Grant Amounts***

| Grant Recipient | Total AIP 1999 through 2009 | Total ARRA |
|---|---|---|
| Fort Yukon, AK | $1,890,542 | $13,659,708 |
| Allakaket, AK | $700,000 | $10,000,000 |
| Compton/Woodley, CA | $2,198,315 | $8,000,000 |
| Mitchell Municipal, SD | $2,451,045 | $6,700,000 |
| Ticonderoga, NY | $699,429 | $3,215,206 |
| Wilbur, WA | $752,775 | $3,083,293 |
| Dexter Regional, ME | $886,395 | $2,785,000 |
| G. V. Montgomery, MS | $854,372 | $2,243,919 |
| Quakertown, PA | $0 | $1,834,420 |
| Vaiden Field, AL | $456,408 | $1,261,298 |
| **Total** | **$10,889,281** | **$52,782,844** |

Source: OIG analysis

FAA also set an objective to obligate all grant funds by the end of FY 2009,[28] 5 months ahead of the February 2010 ARRA deadline. FAA's accelerated timeline limited airport sponsors' ability to meet some of the Agency's eligibility requirements for receiving ARRA grants (e.g., design substantially complete and would be bid prior to grant award). For example, Merrill Field in Alaska had a project that did not receive an ARRA runway grant because when FAA made its Alaska selections, the airport sponsor needed a few more months before the runway design would be complete.[29] Merrill Field is the largest general aviation airport in Alaska with almost 1,000 aircraft and over 40 businesses based at the airport. In addition, the airport receives an average of more than 500 flights and 1 medical flight per day (Anchorage Regional Hospital is physically connected to the airport via taxiway). Consequently, Merrill Field is an economic and medical lifeline to many Alaskan villages. Because of FAA's restrictions, projects such as these, even if they had greater economic potential, did not compete effectively in FAA's selection process.

[28] FAA Stakeholder Guidance, June 2009.

[29] Merrill Field was awarded ARRA grants of $1.87 million to rehabilitate an apron and $3.68 million to rehabilitate a taxiway for a total of just $5.5 million, while smaller village airfields received much more ARRA funding.

## CONCLUSION

ARRA has proven a critical component in helping many of the Nation's airports maintain or expand their existing infrastructure—whether in the form of repaving worn-out taxiways and aprons, building new terminal facilities, or expanding existing runways. FAA's focus on complying with ARRA's direction to use its normal discretionary process allowed the Agency to meet the ARRA requirement to distribute $1.1 billion within the Act's timeframes. Yet, FAA should have also focused on complying with Presidential direction to ensure greater transparency and optimize economic activity. Additionally, FAA should have determined the impact of the self-imposed criteria, beyond what ARRA required, that reduced the pool of potential ARRA projects, and in turn, restricted the Agency's ability to optimize economic activity. Although FAA has completed its selection of ARRA grant recipients, the Agency still needs to ensure that it adheres to transparency requirements and OMB guidance for increased oversight.

## RECOMMENDATIONS

To enhance compliance with ARRA presidential direction and OMB guidance, we recommend that the Agency:

1. Increase transparency by posting on its Recovery Act website specific justifications for lower scoring projects (including special emphasis). Justifications should include a description of the actual or anticipated economic activity derived from each project.

2. Increase transparency of its normal AIP process by requiring public reporting of actual as well as estimated grant amounts.

3. Comply with OMB guidance by (a) ensuring each Airport District Office applies sufficient levels of oversight to ARRA grantees, particularly those which FAA has identified as being at higher risk, and (b) using FY 2009 single audit reports to identify high risk areas, consider additional monitoring or inspections, and expedite resolution of report findings for all ARRA grantees.

## AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

We discussed the results of our review with officials from FAA's Office of Airports on November 4, 2010, and provided FAA with our draft report on December 17, 2011. We received the Agency's formal response on January 31, 2011, which is included in its entirety as the appendix to this report. FAA concurred with all three of our recommendations and has either taken or planned sufficient actions to resolve each recommendation. In its response, however, FAA maintains that its project selections were fully compliant with statutory requirements and consistent with Executive Branch guidance and that our report should not have applied the collective term “requirements” to both ARRA statutory elements and Executive Branch guidance. According to FAA, ARRA statutory elements are clearly requirements, while Executive Branch ARRA guidance reflected goals to be implemented “to the extent permitted by law and practicable.” Finally, in its response, FAA stated that in weighing these goals, we overemphasized the goal of economic optimization.

We agree that FAA needed to comply with all elements of the ARRA statute and acknowledge that it did so. However, FAA also needed to comply with Presidential direction and OMB guidance. Our report clearly identifies which requirements are statutory and which are direction or guidance, with all given equal consideration. As such, we do not agree that we overemphasized the importance of “optimizing economic activity” in the context of ARRA, an Act which was expressly directed at economic stimulus.

## ACTIONS REQUIRED

We consider recommendations 1 and 2 as resolved but open pending implementation of FAA’s planned actions. In accordance with Department of Transportation 8000.1C, we request that FAA inform us when it has completed its remaining planned actions. FAA has already taken sufficient actions to address the intent of our third recommendation. Accordingly, we consider recommendation 3 closed.

We appreciate the courtesies and cooperation of FAA and airport representatives during this audit. If you have any questions concerning this report, please contact me at (202) 366-0500 or Darren Murphy, Program Director, at (206) 220-6503.

#

cc: Acting Associate Administrator for Airports
Anthony Williams, AAE-001
Martin Gertel, M-100

# EXHIBIT A. SCOPE AND METHODOLOGY

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions. We conducted the audit between September 2009 and December 2010 and included such tests of procedures and records as we considered necessary, including those providing reasonable assurance of detecting abuse and illegal acts.

To assess the extent to which FAA complied with ARRA requirements and Agency policies, procedures, and criteria for selecting AIP projects for Recovery Act funding, we interviewed officials from FAA's Headquarters and regional offices as well as 6 randomly selected Airport District Offices (of 24 total). For the Airport District Offices in our sample, we examined all 114 projects that received ARRA funding, which comprised nearly 32 percent of the total number of FAA-funded ARRA projects.[30] For each of the 114 projects, we reviewed the Airport District Office files to verify that projects met ARRA requirements. We also reviewed regional ARRA candidate lists, AIP discretionary grant lists, and carryover reports to ensure that ARRA funds did not supplant planned funding from other sources. Our scope, however, did not include assessing the engineering or technical value of each project.

To assess FAA's efforts to fulfill OMB guidance, including increased oversight and consideration of single audit findings, we discussed project selection and grant oversight responsibilities with Airport District Office and regional officials. We also examined single audit report histories for ARRA grant recipients in our sample. Finally, we visited 24 airports with ARRA projects in our sample during the course of our review. See exhibits C and D for a complete list of facilities visited or contacted during the audit.

To evaluate whether projects that may have had a greater potential to optimize economic activity went unfunded, we obtained economic impact data for airports selected for ARRA funding. To identify ARRA grantees that may not have optimized economic activity, we compared flight operations and population statistics for ARRA grantees in our sample.

[30] Subsequent to our audit work, FAA selected several additional projects for ARRA grants. Because these grants do not materially affect our findings, conclusions, or recommendations, we did not update our analysis, tables, and figures with the additional grants.

# EXHIBIT B. KEY ARRA REQUIREMENTS AND CRITERIA

| ARRA Act<br>February 16, 2009 | Presidential Memorandum<br>"Ensuring Responsible Spending of ARRA Funds"<br>March 4, 2009 | FAA<br>Stakeholder Guidance<br>June 2009[31] |
|---|---|---|
| Distribute funds as discretionary grants to airports. | Develop transparent merit-based selection criteria.<br><br>May be tailored to the particular funding activity.<br><br>Recovery Act funds should be distributed on the merits of proposed projects. | Used its normal AIP discretionary program to fund ARRA projects.<br><br>Allocates ARRA funds based on historical distributions to regions.<br><br>Limits the maximum amount of any ARRA funding to a single project to $15 million, and to a single sponsor to $20 million to achieve equitable distribution across regions, states, and service levels. |
| Award grants totaling not less than 50 percent of the funds within 120 days and the remaining funds not later than 1 year after enactment of this Act. | | Directs regional officials to give priority consideration to projects that can be awarded within 120 days (June 17, 2009) and all funds by the end of FY 2009. |
| Give priority to those projects that can demonstrate ability to be completed within 2 years. | | Give preference to projects that are "ready to go (i.e., all AIP prerequisites are complete); meet grant issuance requirements within 120 days or prior to the close of FY 2009; and can be completed within 2 years (February 11, 2011). |
| ARRA funds shall serve to supplement, not supplant planned expenditures from airport-generated revenues or other State or local sources. | | Projects that were previously identified for FY 2009 entitlement funding or discretionary funding were deemed ineligible for ARRA funding. |

[31] FAA considers stakeholders to be both internal and external to the Agency. For instance, FAA regional offices and airport sponsors received copies of this stakeholder guidance.

| ARRA Act<br>February 16, 2009 | Presidential Memorandum<br>“Ensuring Responsible Spending of ARRA Funds”<br>March 4, 2009 | FAA<br>Stakeholder Guidance<br>June 2009 |
|---|---|---|
| | | Sponsors were required to commit all currently available entitlements to FY 2009 normal AIP projects. |
| To preserve and create jobs and promote economic recovery.<br><br>To invest in transportation, environmental protection, and other infrastructure that will provide long-term economic benefits.<br><br>Commence expenditures and activities as quickly as possible consistent with prudent management. | Ensure ARRA funds are expended for projects that further job creation and economic recovery and are not used for imprudent projects.<br><br>Design merit-based selection criteria to support particular projects with ability to:<br><br>(i) deliver programmatic results;<br><br>(ii) achieve economic stimulus by optimizing economic activity and the number of jobs created or saved in relation to the Federal dollars obligated;<br><br>(iii) provide long-term public benefits by… investing in transportation infrastructure that will provide long-term economic benefits; and<br><br>(iv) satisfy the Recovery Act’s transparency and accountability objectives. | Issue grants for high priority projects that can proceed to construction quickly to preserve and create jobs and promote economic recovery. |
| | Undertake unprecedented efforts to ensure the responsible distribution of funds and provide public transparency and accountability of expenditures. | Requires ARRA-funded project work to result in a final useable unit (no partial projects).<br><br>ARRA funds will be tracked separately and cannot be mixed with AIP funds. |

**Exhibit B. Key ARRA Requirements and Criteria**

# EXHIBIT C. FACILITIES VISITED OR CONTACTED

### FAA Headquarters, Washington, DC

- Office of Airports, Program and Planning, Washington, D.C.

### FAA Regional Office

- Alaska Regional Office, Anchorage, AK
- Great Lakes Regional Office, Des Plaines, IL
- Northwest Mountain Region, Renton, WA
- Southern Region, College Park, GA
- Western Pacific Region, Hawthorne, CA

### FAA Airport District Offices

- Alaska Airport District Office, Anchorage, AK
- Seattle Airport District Office, Renton, WA
- Atlanta Airport District Office, College Park, GA
- Chicago Airport District Office, Des Plaines, IL
- Los Angeles Airport District Office, Los Angeles, CA
- Texas Airport District Office, Ft. Worth, TX

### State Aviation Offices

- State of Alaska Department of Transportation, Anchorage, AK
- State of California Department of Transportation, Sacramento, CA
- State of Illinois Department of Transportation, Springfield, IL
- State of Georgia Department of Transportation, Atlanta, GA
- State of Texas Department of Transportation, Austin, TX
- State of Washington Aviation Department, Arlington, WA

## EXHIBIT D.  AIRPORTS VISITED

- Kenai Municipal Airport, AK
- Merrill Field, AK
- Cook County Airport, GA
- McKinnon-St. Simons Airport, GA
- Bacon County Airport, GA
- Chicago O'Hare International Airport, IL
- Chicago/Rockford International Airport, IL
- Whiteside County Airport, IL
- Greater Peoria Regional Airport, IL
- Gary/Chicago International Airport, IN
- Elkhart Municipal Airport, IN
- Dixon Municipal Airport, IL
- Los Angeles International Airport, CA
- Bob Hope/Burbank Airport, CA
- Compton/Woodley Airport, CA
- Gillespie Field, CA
- San Diego International Airport, CA
- Sierra Vista Municipal Airport. AZ
- Tucson International Airport, AZ
- Dallas/Ft. Worth International Airport, TX
- Monroe Regional Airport, LA
- Winston Field Airport, TX
- Sulphur Springs Municipal Airport, TX
- Paine Field, WA

# EXHIBIT E. AIRPORT RECIPIENTS IN OUR SAMPLE[32]

| No | State | Airport Recipient | ARRA Obligation | Airport Category[33] | Average Daily Operations |
|---|---|---|---|---|---|
| 1 | AK | Ouzinkie | $14,707,949 | GA | 1 |
| 2 | AK | Akiachak | $13,953,325 | GA | 8 |
| 3 | AK | Fort Yukon | $13,659,708 | CS | 23 |
| 4 | AK | Allakaket | $10,000,000 | CS | 6 |
| 5 | AK | King Salmon | $8,454,220 | Non-Hub | 140 |
| 6 | AK | Huslia | $7,000,000 | CS | - |
| 7 | AK | Merrill Field (2 Grants) | $5,546,000 | CS | 524 |
| 8 | AK | Fairbanks International | $3,500,000 | Small | 365 |
| 9 | AK | Kenai Municipal | $2,888,253 | Non-Hub | 205 |
| 10 | AK | Ted Stevens Anchorage International | $2,094,846 | Medium | 793 |
| 11 | AZ | Phoenix Sky Harbor International | $10,356,135 | Large | 1,376 |
| 12 | AZ | Kingman | $5,103,575 | GA | 143 |
| 13 | AZ | Sierra Vista Municipal-Libby AAF | $4,474,546 | GA | 365 |
| 14 | AZ | Tucson International | $1,848,700 | Medium | 534 |
| 15 | AZ | Avi Suquilla | $1,800,000 | GA | 28 |
| 16 | AZ | Taylor | $1,640,523 | GA | 10 |
| 17 | CA | Los Angeles International | $10,832,000 | Large | 1,115 |
| 18 | CA | Compton/Woodley | $8,000,000 | Reliever | 181 |
| 19 | CA | San Diego International | $4,875,537 | Large | 609 |
| 20 | CA | Bob Hope | $3,985,000 | Medium | 301 |
| 21 | CA | Meadows Field | $2,725,219 | Non-Hub | 344 |
| 22 | CA | Gillespie Field | $1,612,774 | Reliever | 669 |
| 23 | CA | Camarillo | $986,237 | Reliever | 430 |
| 24 | GA | Hartsfield-Jackson Atlanta International | $13,977,695 | Large | 2,959 |
| 25 | GA | Malcolm McKinnon | $5,846,000 | GA | 123 |
| 26 | GA | Peachtree City-Falcon Field | $2,064,198 | GA | 205 |
| 27 | GA | Savannah/Hilton Head International | $1,620,034 | Small | 267 |
| 28 | GA | Telfair-Wheeler | $634,904 | GA | 11 |
| 29 | GA | Bacon County | $734,000 | GA | 205 |
| 30 | GA | Cook County | $686,898 | GA | 22 |
| 31 | ID | Driggs-Reed Memorial | $3,750,128 | GA | 21 |
| 32 | ID | Pocatello Regional | $1,850,000 | Non-Hub | 95 |
| 33 | ID | Arco-Butte County | $931,878 | GA | 23 |
| 34 | ID | McCall Municipal | $897,000 | GA | 119 |
| 35 | ID | Shoshone County Airport | $801,917 | GA | 21 |
| 36 | ID | Buhl Municipal | $615,068 | GA | 41 |
| 37 | IL | Chicago O'Hare International (2 Grants) | $17,294,387 | Large | 2,317 |

[32] ARRA Grant Obligation Information obtained from FAA's Obligation and Disbursement Data as of June 11, 2009.
[33] FAA classifies "primary" commercial service airports on the basis of their percentage of annual passenger boardings nationwide (e.g., **large**--1 percent or more; **medium**--between 0.25 and 1 percent; **small**--between .05 and .25 percent; and **nonhub**--less than 0.05 percent, but more than 10,000 passengers). FAA categorizes all remaining airports as "nonprimary" (e.g., airports that receive between 2,500 and 10,000 passenger are classified as **commercial service (CS)**; airports handling excess air traffic from primary airports are classified as **relievers**; and all remaining airports are classified as **general aviation (GA).**

| No | State | Airport Recipient | ARRA Obligation | Airport Category | Average Daily Operations |
|---|---|---|---|---|---|
| 38 | IL | Greater Peoria Regional | $6,363,000 | Non-Hub | 146 |
| 39 | IL | St Louis Downtown | $4,703,084 | Reliever | 365 |
| 40 | IL | Chicago/Rockford International (2 Grants) | $4,672,000 | Non-Hub | 212 |
| 41 | IL | Quad City International | $4,057,500 | Small | 135 |
| 42 | IL | Abraham Lincoln Capital | $2,468,534 | Non-Hub | 93 |
| 43 | IL | Greater Kankakee | $1,509,000 | GA | 137 |
| 44 | IL | Waukegan Regional | $1,229,200 | Reliever | 149 |
| 45 | IL | Dixon Municipal-Charles R. Walgreen Field | $926,360 | GA | 110 |
| 46 | IL | Decatur | $791,853 | CS | 122 |
| 47 | IL | Whiteside County-Joseph H. Bittorf Field | $467,100 | GA | 90 |
| 48 | IL | Litchfield Municipal | $704,985 | GA | 41 |
| 49 | IL | Jacksonville Municipal | $306,350 | GA | 33 |
| 50 | IL | Fairfield Municipal | $231,917 | GA | 21 |
| 51 | IN | Elkhart Municipal | $3,939,317 | GA | 59 |
| 52 | IN | Mount Comfort | $3,717,534 | Reliever | 145 |
| 53 | IN | Indianapolis Executive | $3,431,098 | Reliever | 124 |
| 54 | IN | Terre Haute International | $2,722,695 | GA | 112 |
| 55 | IN | Columbus Municipal | $1,320,740 | GA | 99 |
| 56 | IN | Fort Wayne International | $1,221,735 | Non-Hub | 179 |
| 57 | IN | Indianapolis International | $1,174,757 | Medium | 540 |
| 58 | IN | Smith Field | $1,078,670 | GA | 55 |
| 59 | IN | Gary/Chicago International | $845,698 | Non-Hub | 99 |
| 60 | IN | Purdue University | $665,880 | GA | 315 |
| 61 | IN | Delaware County-Johnson Field | $382,707 | GA | 62 |
| 62 | NC | Asheville Regional | $7,629,527 | Non-Hub | 195 |
| 63 | NC | Pitt-Greenville | $7,616,822 | Non-Hub | 132 |
| 64 | NC | Raleigh-Durham International (2 Grants) | $5,883,170 | Medium | 325 |
| 65 | NC | Piedmont Triad International (2 Grants) | $5,595,500 | Small | 210 |
| 66 | OR | Portland International | $7,000,000 | Medium | 630 |
| 67 | OR | Klamath Falls | $3,122,212 | Non-Hub | 66 |
| 68 | OR | Southwest Oregon Regional | $1,294,076 | Non-Hub | 50 |
| 69 | OR | LaGrande/Union County | $1,098,136 | GA | 44 |
| 70 | OR | Grant County Regional/Ogilvie Field | $366,419 | GA | 26 |
| 71 | SC | Myrtle Beach International | $3,491,545 | Small | 253 |
| 72 | SC | Greenville Spartanburg International (2 Grants) | $2,510,489 | Small | 156 |
| 73 | SC | Grand Strand | $1,387,385 | GA | 128 |
| 74 | SC | Jim Hamilton L.B. Owens | $1,148,800 | Reliever | 153 |
| 75 | SC | Mt Pleasant Regional-Faison Field | $708,823 | GA | 80 |
| 76 | TX | Laredo International (2 Grants) | $10,565,744 | Non-Hub | 155 |
| 77 | TX | Dallas/Fort Worth International (3 Grants) | $9,684,600 | Large | 1,808 |
| 78 | TX | North Texas Regional/Perrin Field | $5,913,903 | GA | 146 |
| 79 | TX | McAllen Miller International | $5,400,000 | Small | 144 |
| 80 | TX | Tyler Pounds Regional | $4,910,534 | Non-Hub | 68 |
| 81 | TX | Ellington Field | $4,785,226 | Reliever | 347 |
| 82 | TX | Kerrville Municipal/Louis Schreiner Field | $4,190,769 | GA | 164 |
| 83 | TX | Waco Regional | $3,242,000 | Non-Hub | 85 |

**Exhibit E. Airport Recipients in Our Sample**

| No | State | Site Name | ARRA Obligation | Airport Category | Average Daily Operations |
|---|---|---|---|---|---|
| 84 | TX | Robert Gray AAF | $2,752,473 | Non-Hub | 36 |
| 85 | TX | Sulphur Springs Municipal | $2,288,888 | GA | 49 |
| 86 | TX | Scholes International at Galveston | $2,262,014 | Reliever | 167 |
| 87 | TX | Winston Field | $1,956,420 | GA | 26 |
| 88 | TX | Curtis Field | $914,840 | GA | 64 |
| 89 | TX | East Texas Regional (2 Grants) | $465,702 | Non-Hub | 245 |
| 90 | WA | Spokane International (2 Grants) | $14,039,213 | Small | 223 |
| 91 | WA | Snohomish County (Paine Field) (2 Grants) | $11,002,765 | Reliever | 311 |
| 92 | WA | Tri-Cities (2 Grants) | $9,077,593 | Non-Hub | 118 |
| 93 | WA | Wilbur (2 Grants) | $3,083,293 | GA | 25 |
| 94 | WA | Bellingham International (2 Grants) | $2,280,772 | Non-Hub | 182 |
| 95 | WA | Richland | $2,195,470 | GA | 79 |
| 96 | WA | Pangborn Memorial (2 Grants) | $1,317,000 | Non-Hub | 116 |
| 97 | WA | Grant County International (2 Grants) | $1,178,144 | GA | 191 |
| | Total | 97 Airports | $393,040,635 | | |

**Exhibit E. Airport Recipients in Our Sample**

## EXHIBIT F. MAJOR CONTRIBUTORS TO THIS REPORT

| Name | Title |
|---|---|
| Darren Murphy | Program Director |
| Chuck Ward | Project Manager |
| Linda Major | Senior Auditor |
| Susan Cohen | Senior Analyst |
| Gloria Echols | Auditor |
| Sue Zimmerman | Auditor |
| Curtis Dow | Analyst |
| Petra Swartzlander | Senior Statistician |
| Andrea Nossaman | Writer-Editor |

## APPENDIX. AGENCY COMMENTS

Federal Aviation Administration

# Memorandum

Date: January 28, 2011

To: Jeffery B. Guzzetti, Assistant Inspector General for Aviation and Special Program Audits

From: Clay Foushee, Director, Audit and Evaluation, AAE-1

Prepared by: Catherine M. Lang

Subject: Office of Inspector General (OIG) Draft Report, "FAA Fulfilled Most ARRA Requirements in Awarding Airport Grants"

In August 2009, the Deputy Secretary signed a memorandum to the Inspector General,[34] in response to an OIG Advisory. The memorandum made a clear and direct statement, "FAA Project Selection of Airport Improvement Projects Fully Complied with Applicable Requirements." This was a true statement then and remains so. The FAA's project selections were fully compliant with statutory requirements, consistent with executive branch guidance, transparent and well understood in accord with programmatic criteria, and continue to receive appropriately enhanced oversight.

We appreciate the OIG report's recognition of FAA's fulfillment of the American Recovery and Reinvestment Act of 2009 (Recovery Act) requirements. As required, FAA used the AIP grant processes to achieve long term public benefits through its investments in projects of enduring aviation value. The projects were awarded expeditiously, and in accord with applicable requirements. Priority was given to those projects that could be completed by February 2011, and we are pleased to report that 98 percent of the projects are expected to be completed by that mark, as intended by Congress. Finally, these projects generated a significant number of jobs. Based on recipient reporting, we understand these efforts contributed to the employment of more than 12,000 people.

While we appreciate the draft report's recognition of FAA's accomplishments in this important initiative, we differ with the elements of the report's presentation and analysis.

[34] See the Departmental Response (August 7, 2009) to OIG ARRA Advisory on "DOT Actions to Ensure Effective Project Selection and Oversight of Airport Improvement Program Grants Pursuant to the Recovery Act." A full copy of the response can be found here: http://www.dot.gov/recovery/docs/ARRAAdvisoryAIPresponse.pdf

First, we do not agree with the report's elevation of executive branch guidance to the stature of statutory requirements. This elevation of guidance and policy considerations to a programmatic requirement leads the OIG analysis to place undue emphasis on a single element of economic stimulus. In addition, the report could better recognize the transparency of FAA's program, with well-designed and time-tested programmatic selection criteria and clear understanding and participation by stakeholders.

**FAA Fulfilled Statutory Criteria and Complied with Executive Branch Guidance**

Throughout the duration of this OIG review, the FAA has shared its understanding of the complete set of statutory requirements relating to the Recovery Act, the application of the AIP program within its context, and how guidance issued by the executive branch factored into project selection. In what may be an effort to simplify its presentation, the draft report makes a key error of defining "requirements as a collective term to refer to Recovery Act requirements, Presidential Direction, Office of Management and Budget (OMB), and FAA guidance related to Recovery Act implementation." This error led the OIG report to selectively elevate one element of those policy considerations to the stature of a requirement.

Specifically, the OMB guidance called upon agencies implementing the Recovery Act to take a number of equally weighted policy goals into account, *to the extent permitted by law and practicable*, when determining how best to use Recovery Act funds.[35] The guidance called upon agencies to develop transparent, merit-based selection criteria that will guide their use of Recovery Act funds. The guidance continues that agencies should ensure that the funding furthers the job creation, economic recovery, and other purposes of the Recovery Act. More specifically, the guidance indicates that these merit-based selection criteria shall to the greatest extent possible support funding for projects that: (i) deliver programmatic results; (ii) achieve economic stimulus; (iii) achieve long term public benefits; and (iv) satisfy the Recovery Act's transparency and accountability objectives. FAA has described through the course of the OIG's review, how the AIP programmatic criteria fulfill these policy objectives.

FAA's implementation of the AIP with regard to the Recovery Act was fully consistent with statutory requirements and executive branch guidance. FAA demonstrated that AIP project selections are in accord with these key elements of the guidance. However, by equating a single element of the policy guidance describing aspects of achieving economic stimulus with a "requirement" to optimize economic activity, the OIG report elevates it out of context with the overall policy guidance and also significantly overstates its relevance to overall program implementation. Further, the OIG's report, which faults FAA in this area for not considering economic factors or the results of economic studies in prioritizing projects, is without discernable basis. FAA's existing and long-standing project prioritization implicitly factors economics into project selection criteria, consistent with subchapter 1 of chapter 471 and subchapter 1 of chapter 475 of

[35] Office of Management Memorandum, Updated Implementing Guidance for the American Recovery and Reinvestment Act of 2009, April 3, 2009, question 1.6 at 4 (What other policy goals should an agency consider in determining how best to use Recovery Act funds in order to achieve the Act's objectives?).

title 49, United States Code (USC)—the FAA's authorizing legislation—as required by the Recovery Act legislation. However, neither data nor tools exist that would enable the level of economic impact consideration that OIG suggests to be applied to the funding of individual airport projects or facilities, such as the addition of runways, taxiways, lights, or aprons. Of greater importance, such data or tools are unnecessary because such requirements are based on established regulations, published Advisory Circulars or statutory requirements.

**FAA Recovery Act Project Selection Was Transparent**

As required by statute, the FAA's project selection process followed the established discretionary grant process in use for over a decade, as described and published in FAA Order 5100.39A, "Airports Capital Improvement Plan," available on the FAA website. The FAA's long-established and widely available policies and processes for managing the National Plan of Integrated Airport Systems (NPIAS), the Airports Capital Improvement Plan (ACIP) and associated processes are well-known to the aviation industry and readily available for public review, and were developed specifically to advance the purposes called for in the AIP legislation.

As such, Congress, airport sponsors and others in the air transportation industry are fully cognizant of the decision-making process used by FAA. To help the public and airport sponsors understand the Recovery Act specific guidelines, including Recovery Act project selection, FAA also put the Recovery Act specific guidelines on its web site. Additionally, the National Priority Rating (NPR) numbers for the Recovery Act projects have also been released to the public. In seeking the strongest possible projects for the use of Recovery Act funds, FAA raised the threshold NPR score from 41 (which has been the threshold for the last several years) to 62. This did not mean that FAA could not or would not fund projects with NPR levels below the threshold. It simply established a higher threshold, below which special documentation would be required before FAA would approve a grant.

Fully 85 percent of FAA's AIP Recovery Act projects had a NPR of 62 or higher, representing more than 80 percent of total funding. Of these, 9 percent were for passenger terminal projects at primary non-hub airports with an NPR equivalent to 62 by virtue of their special emphasis status. The remaining 15 percent of total Recovery Act AIP projects were justified projects with NPR under 62, including new airport construction, safety and various other projects. All but three of these Recovery Act projects had an NPR of 41 or higher, the level normally used in the Discretionary grant program for projects not requiring supplemental justification. Each of these three projects was in economically disadvantaged Native Alaskan or Native American communities. All three of these projects required and received additional documentation of their justification.

**Project Selections Deliver Programmatic Results and Long Term Public Benefit**

FAA-funded Recovery Act projects are achieving program results. Whether they rehabilitate runways and taxiways; upgrade airport safety by removing obstructions and placing runway incursion markings; or enhance security, the net results are long-term, lasting improvements to the nation's system of airports. The Recovery Act was intended as an economic stimulus law with broad benefits, which the FAA has achieved through the number of jobs created/funded, program results accomplished, and public benefit of usable air transportation infrastructure projects completed on time and within budget.

FAA-funded Recovery Act projects also offer long-term public benefits. Under the Recovery Act, FAA funded 246 runway, taxiway, and apron reconstruction and rehabilitation projects that will extend the useful life of those facilities by up to 20 years. Similarly, 23 lighting systems and 8 fire and rescue buildings will have a useful life of at least 20 years. The 11 Airport Firefighting and Rescue vehicles purchased with Recovery Act funds are expected to last at least 10 years.

FAA is responsible for the national system of airports, not just large airports. The discretionary grant process recognizes the importance of this diverse system of airports, and therefore includes both large and small airports fulfilling a variety of functions critical to economic activity. In light of this, and the Recovery Act's direction to supplement but not supplant, the relevance of the draft report's discussion of funding for a number of projects at small airports is not clear. These projects were in accord with all applicable requirements. Every airport project that the FAA funded with Recovery Act resources was already in the queue for eventual implementation. The Recovery Act resources enabled the FAA to accelerate these projects, which fulfilled the statutory requirements, complied with executive branch guidance, and provided the public with long term transportation benefits within the context of a diverse system of integrated airports, as enumerated in statute.

FAA Recovery Act geographic distribution considerations, accelerated time lines and award amount caps were useful tools to assist FAA in its efforts to ensure that communities served by airports throughout the entire nation benefitted from FAA AIP funding under the Recovery Act. FAA does not agree that the use of these tools limited FAA's ability to optimize economic activity or select projects worthy of Recovery Act funding.

**Conclusion**

FAA was effective in achieving significant accomplishments pursuant to the Recovery Act. The agency complied with all statutory requirements in selecting projects under the Act and was in accord with the guidance enumerated by the executive branch. FAA's project selection was also accomplished in a manner that sought to ensure communities across the nation benefitted from these investments in transportation infrastructure. FAA's efforts results in 372 airport projects, which are now 84 percent complete. We anticipate that these projects will be 98 percent complete by the Recovery Act's 2-year mark. Based on recipient reporting, these efforts contributed to the employment of more than 12,000 people.

**Recommendations and Responses**

**Recommendation 1:** Increase transparency by posting on its Recovery Act website specific justifications for lower scoring projects (including special emphasis). Justification should include a description of the actual or anticipated economic activity derived from each project.

**FAA Response:** The FAA concurs. To increase transparency, the FAA will post on its Recovery Act website additional information on project selection. The FAA will post information on the special focus areas and why these projects were funded as equivalent to those with an NPR score of 62. Additionally FAA will explain the projects that were below a 62 NPR score, but met the normal discretionary grant process requirement of a 41 NPR score and above. For the three projects below 41 NPR FAA will share the written justification as to why these projects were approved including data on the number of jobs funded. FAA will include information regarding the economic expectations behind the projects to the extent it is available. FAA anticipates completing this action by May 31, 2011.

**Recommendation 2:** Increase transparency of its normal AIP process by requiring public reporting of actual as well as estimated grant amounts.

**FAA Response:** FAA concurs that posting grant amounts as issued is beneficial to the AIP process and will incorporate this change for the FY 2011 grant cycle.

**Recommendation 3:** Comply with OMB guidance by (a) ensuring each ADO applies sufficient levels of oversight to Recovery Act grantees, particularly those which FAA has identified as being at higher risk, and (b) using the FY 2009 single audit reports to identify high risk areas, consider additional monitoring or inspections, and expedite resolution of reports findings for all Recovery Act grantees.

**FAA Response:** FAA is already in compliance with this recommendation. FAA is already providing enhanced oversight to Recovery Act projects and is also reviewing all single audit reports that we have received on our Recovery Act grantees. We will continue to do this. When additional actions are warranted based on these reports, FAA will take them expeditiously.