AUDIT OF THE MANAGEMENT OF LAND ACQUIRED UNDER AIRPORT NOISE COMPATIBILITY PROGRAMS

Federal Aviation Administration

Report Number: AV-2005-078
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Memorandum

U.S. Department of Transportation

Office of the Secretary of Transportation
Office of Inspector General

Subject: ACTION: Audit of the Management of Land Acquired Under Airport Noise Compatibility Programs, Federal Aviation Administration AV-2005-078

Date: September 30, 2005

From: David A. Dobbs
Assistant Inspector General
for Aviation and Special Program Audits

Reply to Attn. of: JA-10

To: Federal Aviation Administrator

This report presents the results of our audit on the management of land acquired under airport noise compatibility programs using Airport Improvement Program (AIP) funds.[1] Our audit objective was to determine if Federal Aviation Administration (FAA) oversight ensures that airport sponsors properly dispose of land purchased with AIP funds for noise compatibility programs when the land is no longer needed for that purpose or for airport development.

Airports receive AIP grants to acquire land and sound-insulate homes and public buildings in areas exposed to significant aircraft noise. As a condition for accepting AIP grants, airports agree to dispose of land when it is no longer needed for noise purposes or airport development, such as terminal facilities and runway protection zones. The land is to be sold or leased for compatible uses (such as industrial or commercial development), and the proceeds are to be used for other noise projects or returned to the Airport and Airway Trust Fund,[2] thereby reducing the need for grant funds.

We assessed FAA's and airport sponsors' policies, procedures, and practices for: (1) identifying land no longer needed for noise compatibility purposes; (2) disposing of this land through sales, leases, or other means such as exchanges; and (3) ensuring that proceeds from disposed land are used for other noise compatibility projects or returned to the Trust Fund. We reviewed 11 of the 108

1 The AIP is administered by the Federal Aviation Administration, and it was established by the Airport and Airway Improvement Act of 1982. It and other FAA accounts are funded from the Trust Fund.
2 The Trust Fund was established by the Airport and Airway Revenue Act of 1970 and receives its revenue from taxes paid by passengers and airlines, including taxes on passenger tickets, fuel, and cargo.

airport sponsors who received AIP grants to acquire land under airport noise compatibility programs from fiscal year (FY) 1982 through FY 2003. See Exhibit A for additional information on our audit scope and methodology.

RESULTS IN BRIEF

Based on our review of 11 airports, we have serious concerns about FAA's and the airport sponsors' inconsistent application of grant assurances and about Agency policies regulating the disposal of land purchased under AIP grants for airport noise compatibility purposes.[3] In particular, we found that each of the 11 airports has land, ranging from nominal acreage at several airports to hundreds of acres at others, that is no longer needed for noise compatibility purposes or for airport development. While 8 of the 11 airports had disposed of some unneeded noise land, 6 of those 8 either did not use or could not document they used all of the proceeds in accordance with grant assurances. With improved oversight of noise land and its disposal, FAA could generate an estimated $242.3 million for the Trust Fund or for other noise mitigation projects at the 11 airports. The following summarizes our results.

✓ **Airports We Reviewed Were Not in Compliance With Grant Requirements.** We found that each of the 11 airports included in this review have AIP-funded noise land that either is no longer required for such purposes or does not have a documented need for airport development. The unneeded acreage ranges from 12 acres at the Reno-Tahoe International Airport to 840 acres at the Tucson International Airport (see Table 1). Together, the 11 airports have 3,608 acres of unneeded noise land, which is 53 percent of the 6,820 acres acquired by the airports with AIP

Table 1. Unneeded Noise Land and Estimated Valuations

Airport	Acres	Land Valuation (millions)	FAA's Share (millions)
Bellingham	72	$11.3	$10.2
Charlotte Douglas	523	27.4	21.9
Cincinnati	684	20.5	16.4
Detroit	325	19.5	15.6
Las Vegas	27	11.5	9.2
Palm Beach	161	5.6	4.5
Phoenix	50	9.9	7.9
Reno-Tahoe	12	2.6	2.4
Seattle-Tacoma	218	76.0	60.8
Toledo	696	7.0	6.3
Tucson	840	5.9	5.4
Total	**3,608**	**$197.2**	**$160.6**

[3] As a condition for accepting AIP grants, airport sponsors agree to dispose of AIP-funded noise land when it is no longer needed for noise compatibility purposes and, at FAA's discretion, either return the proceeds to the Trust Fund or reinvest them in another FAA-approved noise compatibility project. FAA also permits airport sponsors to re-designate the land for airport development. For the purposes of this report, noise land is "unneeded" when it is no longer required for noise compatibility purposes or does not have a documented need for airport development.

funds for noise compatibility purposes. The estimated value of the 3,608 acres is $197.2 million, with FAA's share being $160.6 million.[4]

Airport sponsors and FAA gave various reasons for not abiding by grant assurances for disposing of unneeded noise land: depressed real estate markets, uncooperative local communities, infrastructure limitations, environmental concerns, and others. Yet, recent experience at Seattle-Tacoma International Airport (Sea-Tac) demonstrates that, after two decades of land acquisitions, challenges such as those cited by airport sponsors and FAA can be overcome. Sea-Tac and local communities came together about a year ago to begin identifying, marketing, and utilizing vacant land with development potential, including unneeded noise land acquired with Federal funds.

We also found that 8 of the 11 airports had sold, leased,[5] or exchanged some of their unneeded noise land. However, six of the eight airports[6] either did not use or could not document they used proceeds from these disposals for purposes prescribed by grant assurances. That is, airport sponsors did not return FAA's share ($81.7 million) of the land's estimated value ($100.7 million) to the Trust Fund or use the proceeds for other FAA-approved noise mitigation projects (see Table 2).

Table 2. FAA Share of Disposed Noise Land

Airport	Acres	Land Valuation (millions)	FAA's Share (millions)
Detroit	100	$6.0	$4.8
Las Vegas	160	50.5	40.4
Phoenix	193	35.0	28.0
Reno-Tahoe	46	6.2	5.8
Toledo	54	0.5	0.4
Tucson	355	2.5	2.3
Total	**908**	**$100.7**	**$81.7**

In response to our draft report, FAA cautioned that the land value estimates and potential FAA collections of disposal proceeds may be too optimistic. As we point out in our report, neither the airports nor we can determine precise valuations for the land until it is sold or leased. However, inasmuch as we used appraisals, sales, and lease information (where available) or airport staff estimates (in the absence of other information) to determine the value of land,

4 For these 11 airports, FAA's share ranges from 80 percent to nearly 94 percent of the land's fair market value.

5 In contrast to noise land sales and exchanges, which involve immediate credits to FAA or other noise mitigation projects, proceeds from leases would be incremental, possibly spanning 10, 15, or more years.

6 Two airports (Charlotte Douglas and Cincinnati) properly used all proceeds from sales of noise land for other noise compatibility projects. Two airports (Toledo and Tucson) set aside proceeds from sales of noise land for noise compatibility projects but could not substantiate they had used proceeds from leases on noise land for noise compatibility projects. Likewise, one airport, Detroit, could not substantiate it was using lease proceeds properly. The other three airports (Las Vegas, Phoenix, and Reno-Tahoe) admitted they had not used proceeds from disposals for noise compatibility projects.

we believe our calculations for land values and potential FAA collections are reasonable. FAA did not provide us with any alternative estimated values for land covered by our review.

✓ **FAA Program Oversight and Guidance Need Strengthening.** Five years after agreeing with an Office of Inspector General (OIG) recommendation that airports should dispose of unneeded land acquired with noise grants, the results of this audit show that FAA can do more to ensure airports dispose of AIP-funded noise land when it is not needed for such purposes or for airport development. Due to inadequate oversight, FAA is generally not aware of how much land airport sponsors have acquired under their noise compatibility programs, the sources of funds for the acquisitions, or the land's current status.

Moreover, past FAA guidance has not always conformed to grant requirements for AIP-funded noise land, and FAA has not provided sponsors with any national written guidance on using leases as a means of disposing of noise land. In an example of conflicting guidance, the Phoenix Sky Harbor International Airport is using lease proceeds from noise land for capital and operating costs based on guidance that FAA's Western Pacific Region provided to the airport in 1989. The Region's guidance contradicted the grant assurance requirement that airports either return the Federal share of the proceeds to the Trust Fund or reinvest it in other noise compatibility projects. FAA Headquarters acknowledged that it needs to provide its field offices with guidance on using leases for land disposals.

It is especially important for FAA to exercise sound financial oversight of AIP grants during this period of declining revenue and high demands on the Trust Fund[7] to finance airport noise mitigation projects. Allowing $242.3 million to remain idle or be used for ineligible purposes does not demonstrate the disciplined financial management practices needed to protect Federal funds. Because our findings are based on results from only 11 airports, idle funds could be significantly higher if the same situation exists at some of the other 97 airports that have used AIP grant funds to acquire land for noise compatibility purposes.

We are recommending a number of actions to ensure airport sponsors meet requirements for disposing of unneeded noise land acquired with AIP grants. A complete set of our recommendations can be found on pages 15 and 16 of this report. In summary, we are recommending that FAA:

- Ensure airport sponsors implement written, FAA-approved plans for disposing of AIP-funded noise land that is no longer needed and either return the

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[7] The National Plan of Integrated Airport Systems for 2005 through 2009 includes $1.4 billion for AIP-eligible projects, including land acquisitions.

proceeds to the Trust Fund or reinvest them in other FAA-approved noise mitigation projects.

- Improve program oversight by making disposal of unneeded noise land a high priority and provide airport sponsors with guidance on using leases and revenue bonds to recover the Federal share of disposal proceeds.

For the 11 airports included in the audit, we are making two additional recommendations regarding FAA's share of noise land disposals. Specifically, we are recommending that FAA direct sponsors for the 11 airports to develop and implement plans to:

- Recover FAA's share (estimated at $160.6 million) from the disposition of 3,608 unneeded noise land acres.

- Recover FAA's share (estimated at $81.7 million) of the affected lands' fair market value from airports that are misusing noise land disposition proceeds.

Agency Comments and Office of Inspector General Response

We held an exit conference with FAA to discuss our findings, conclusions, and recommendations and on August 12, 2005, provided FAA with a draft of our report. On September 9, 2005, FAA provided us with its formal response to our draft, which is contained in its entirety in the Appendix. FAA agreed with the report's recommendations but had comments concerning some issues raised in the report. Specifically, FAA believes our estimates for land values and potential FAA collections of disposal proceeds may be too optimistic. Further, FAA commented that, in some situations, the FAA and a sponsor might find it more attractive if the sponsor issues revenue bonds for the Federal share of the fair market value of the land that has been developed and repays the FAA in a lump sum. We revised the report to acknowledge revenue bonds as an alternative to repay FAA for its share of unneeded noise land.

As we point out in our report, neither the airports nor we can determine precise valuations for the land until it is sold or leased. However, inasmuch that we relied on a variety of information from airport sponsors to estimate land valuations, we believe our estimates for land values and potential FAA collections are reasonable. FAA did not provide us with any alternative estimated values for land covered by our review.

Where airports were improperly using proceeds from noise land dispositions, we used actual sales, leases, and exchanges to establish estimated values of $81.7 million for this land. For example, Las Vegas exchanged 74 acres of noise land appraised for approximately $14 million. We, therefore, used $14 million as the value of this land.

To estimate the value of unneeded noise land still held by the airports, we used appraisals, sales, and lease information to estimate the value of land; otherwise, we relied on airport staff estimates. A June 2004 appraisal obtained by Sea-Tac airport to assist in developing ground rental rates and other charges valued the land at $12 square foot, based on sales of 14 properties in Sea-Tac's market area. These properties were valued at approximately $11 to $15 per square foot, with a midpoint of $12 per square foot for industrial land. The appraisal included adjustments for location, size, and access exposure but did not include adjustments for topography and shape. Comparatively, a consultant's December 2004 estimates for developing airport properties, including noise land, valued land at $4 to $27 per square foot for commercial uses and $5 to $8 per square foot for industrial uses.

While FAA did not provide any alternative estimates for noise land values, its formal response to our draft report cautioned that our estimates may be high. As evidence, FAA cited 1 of the 14 properties included in Sea-Tac's June 2004 appraisal. Yet, the appraiser valued the parcel cited by FAA at nearly $11 per square foot, approximately $3 more than we used in our report. Accordingly, we believe the $8 per square foot ($348,500 per acre) that we use in our report is reasonable to compute the value of unneeded noise land at Sea-Tac.

FAA's planned corrective actions are responsive to all of our recommendations. However, FAA did not provide a target date for recovering the Federal share of unneeded noise land, including prior noise land dispositions, at the 11 airports included in our review. Accordingly, the two recommendations regarding developing and implementing plans to recover $242.3 million from the 11 airports will remain unresolved until FAA provides target dates for recovering these funds.

BACKGROUND

Airports are responsible for mitigating the effects of aircraft noise on surrounding communities. Many airport sponsors rely, at least in part, on AIP grants to help pay for their noise mitigation programs. From FY 1982 (the first year of funding under AIP) through FY 2003, FAA provided $3.8 billion in AIP grants for airport noise mitigation projects. These projects generally fall into the following categories: noise land acquisition (including removal of structures and relocation assistance), noise insulation, noise monitoring equipment, and noise barriers. Of the $3.8 billion, 108 airports received $1.8 billion in AIP grants for noise land acquisitions. See Exhibit B for a listing of AIP funding and noise land acreage for each of the 108 airports.

As a condition of receiving AIP grants, sponsors sign a series of assurances that operation, use, and maintenance of the airport will comply with pertinent laws, regulations, or administrative policies. Under one of these assurances, airport sponsors agree to dispose of AIP-funded noise land when it is no longer needed for noise mitigation or airport development, restrict the land's use to purposes compatible with noise levels associated with airport operations, and either return the proceeds to the Trust Fund or reinvest them in other FAA-approved noise mitigation projects. Specifically, AIP Grant Assurance 31 "Disposal of Land" requires:

> For land purchased under a grant for airport noise compatibility purposes, [the sponsor] will dispose of the land, when the land is no longer needed for such purposes, at fair market value, at the earliest practicable time. That portion of the proceeds of such disposition which is proportionate to the United States' share of the cost of acquisition of such land will, at the discretion of the Secretary, be 1) paid to the Secretary for deposit in the Trust Fund, or 2) reinvested in an approved noise compatibility project as prescribed by the Secretary. Disposition of such land will be subject to the retention or reservation of any interest or right therein necessary to ensure that such land will only be used for purposes which are compatible with noise levels associated with operation of the airport.

FAA Headquarters and regional and district offices are responsible for providing guidance to airport sponsors and ensuring sponsors meet Federal requirements for AIP-funded noise land. FAA procedures require that, when reviewing a sponsor's request for Federal assistance or conducting periodic compliance reviews, FAA staff must review airport plans, maps, land inventories, and noise compatibility information to determine whether any grant-acquired noise land is no longer needed for such purposes. According to FAA policy, airport sponsors may redesignate land acquired under noise compatibility programs for airport development purposes,[8] but the designation must be justified by reasonable, documented land-use projections approved by FAA.

In December 2000, we issued a report on various aspects of FAA's Noise Compatibility Program at five airports.[9] Among other findings, the report disclosed that FAA awarded new noise grants to two of the five airports even though neither airport met grant assurances for disposing of unneeded land acquired with noise grants. FAA agreed that airports should dispose of unneeded land acquired with noise grants.

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[8] Examples of airport development purposes include terminal facilities, aircraft landing and approach areas, runway protection zones, and airport utilities.

[9] OIG Report AV-2001-012, "Audit of the Airport Noise Compatibility Program," December 14, 2000. OIG reports can be found on our website: www.oig.dot.gov.

RESULTS

Based on our review of 11 airports, we have serious concerns about FAA's and airport sponsors' inconsistent application of grant assurances and Agency policies regulating the disposal of land purchased under AIP grants for airport noise compatibility purposes. In particular, we found that each of the 11 airports has land, ranging from nominal acreage at several airports to hundreds of acres at others, that is no longer needed for noise compatibility purposes or airport development. While 8 of the 11 airports had disposed of some unneeded noise land, 6 of those 8 either did not use or could not document they used the proceeds in accordance with grant assurances. With improved oversight of unneeded noise land and its disposal, FAA could generate an estimated $242.3 million for the Trust Fund or for other noise mitigation projects at the 11 airports.

Each of the 11 Airports Reviewed Was Not in Compliance With Grant Requirements

We found that each of the 11 airports included in this review has AIP-funded noise land that is either no longer required for such purposes or does not have a documented need for airport development, ranging from 12 acres at the Reno-Tahoe International Airport to 840 acres at the Tucson International Airport. Together, the 11 airports have 3,608 acres of unneeded noise land. The estimated value of this acreage is $197.2 million, with FAA's share being $160.6 million.

We also found that 8 of the 11 airports had sold, leased, or exchanged some of their unneeded noise land. Two of these airports, Charlotte Douglas International and Cincinnati/Northern Kentucky International, used all proceeds from land disposals for other noise compatibility projects, as required by grant assurances. In contrast, the other six airports did not return, or could not show they had returned, FAA's share ($81.7 million) of the land's estimated value ($100.7 million) to the Trust Fund or used the proceeds for other FAA-approved noise mitigation projects. The six airports are Detroit Metropolitan Wayne County Airport, McCarran Las Vegas International Airport, Phoenix Sky Harbor International Airport, Reno-Tahoe International Airport, Toledo Express Airport, and Tucson International Airport.

Airports Have Not Disposed of Sizable Amounts of Unneeded Noise Land

From FY 1982 through FY 2003, the 11 airports reviewed used AIP grants to acquire 6,820 acres of noise land. For the 11 airports, 53 percent of this land (3,608 of 6,820 acres) is no longer needed. Based on information provided by airport sponsors, 968 of the 6,820 acres have been disposed of through sale, lease, or exchange; another 2,244 acres have been designated for airport development, including runway protection zones; and the remaining acreage is considered unneeded. Table 3 summarizes the status of all AIP-funded land acquired by the 11 airports under their noise compatibility programs.

Table 3. Status of AIP-Funded Noise Land Acquisitions (in Acres)

Airport	Sold, Leased, or Exchanged	Designated for Development	No Documented Need	Total
Bellingham	0	63	72	135
Charlotte Douglas	10	60	523	593
Cincinnati	3	56	684	743
Detroit	100	125	325	550
Las Vegas	160	322	27	509
Palm Beach	0	106	161	267
Phoenix	193	231	50	474
Reno-Tahoe	46	99	12	157
Seattle-Tacoma	0	87	218	305
Toledo	97	400	696	1,193
Tucson	359	695	840	1,894
Total	**968**	**2,244**	**3,608**	**6,820**

Sponsors and FAA staff offered a number of reasons why airports have unneeded noise land and are not abiding by grant assurances and FAA policy. Some airports may find it difficult to use or market small, noncontiguous residential lots, especially during the early stages of implementing airport noise compatibility programs; local real estate markets may be depressed; local communities may not cooperate in rezoning the land for purposes compatible with normal airport operations; infrastructure may need improvement; and environmental mitigation may be required. However, over time (20-plus years for some airports), these challenges should have been addressed and the land made marketable and attractive to developers.

Sea-Tac's experience shows that airports can overcome these challenges. After two decades of land acquisitions and contentious relationships with surrounding communities, the airport expects to begin marketing unneeded noise land by mid-2006, with development beginning shortly thereafter. Based on a December 2004 report prepared by a commercial real estate consulting service, Sea-Tac and the surrounding communities now recognize they would benefit from developing vacant land around the airport. The report noted that it will take up to 5 years to develop the land.

Unneeded noise land at airports such as Sea-Tac is worth millions of dollars. Based on recent land sales and other information provided by airport sponsors, we estimate unneeded noise land at the 11 airports reviewed (including Sea-Tac) is worth about $197.2 million. Nevertheless, until it is sold or leased, neither the airports nor we can determine the precise valuations.[10] For example, some land at Sea-Tac has significant infrastructure (see Figure 1), while other land is difficult to access, does not have utilities, and has highly variable topography and environmental constraints. Estimates of the value of vacant noise land around Sea-Tac range from $4 to $27 per square foot.[11]

Figure 1. Example of Vacant Noise Land Adjoining Sea-Tac International Airport

When airports dispose of unneeded noise land, FAA is entitled to recover its contribution based on the land's current fair market value. For AIP grants, FAA's share is 80 percent for large- and medium-hub primary airports and 90 percent for all other airports.[12] Statute permits a higher share for the airports in Reno and Tucson, due to the high percentage of federally owned land in Nevada and Arizona. Using these percentages and estimated land values, we project that FAA's share of the 3,608 acres could be about $160.6 million.[13] Table 4 lists FAA's potential share for unneeded noise land at the 11 airports reviewed.

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[10] For example, around the Seattle and Las Vegas airports, land is worth an estimated $350,000 and $425,000 per acre, respectively, because of high demand for commercial and light industrial uses. In Detroit, estimated land values range from $20,000 per acre for agricultural uses to $250,000 for commercial uses. In Tucson, land values range from $4,000 to $10,000 per acre.

[11] A $12 estimate came from a June 2004 appraisal obtained by the airport to assist in developing ground rental rates and other charges. A $4 to $27 estimate for commercial uses and a $5 to $8 estimate for industrial uses came from a consultant's December 2004 report for developing property, including noise land, around Sea-Tac. We used $8 per square foot ($348,500 per acre) in our analysis of unneeded noise land at Sea-Tac, resulting in a $76 million valuation for 218 acres of land.

[12] 49 USC Section 47504 (4)(A) and (B); 49 USC Section 47109, et seq.

[13] Prior to sharing proceeds with FAA, airport sponsors can deduct expenses incurred to prepare the properties for disposal. Allowable deductible expenses include costs incurred for zoning and platting, upgrading utilities and services, and marketing the property. FAA staff and airport sponsors had little information regarding these expenses and, as a result, we did not figure in any deductions for this report.

Table 4. Estimated Valuations of Unneeded Noise Land and FAA's Potential Financial Share

Airport	Land Valuations			FAA's Share	
	Acres	Per Acre	Total (millions)	Percent	Total (millions)
Bellingham	72	$157,500	$11.3	90.0	$10.2
Charlotte Douglas	523	52,300	27.4	80.0	21.9
Cincinnati	684	30,000	20.5	80.0	16.4
Detroit	325	60,000	19.5	80.0	15.6
Las Vegas	27	425,000	11.5	80.0	9.2
Palm Beach	161	35,000	5.6	80.0	4.5
Phoenix	50	198,200	9.9	80.0	7.9
Reno-Tahoe	12	215,000	2.6	93.8	2.4
Seattle-Tacoma	218	348,500	76.0	80.0	60.8
Toledo	696	10,000	7.0	90.0	6.3
Tucson	840	7,000	5.9	91.1	5.4
Total	**3,608**		**$197.2**		**$160.6**

Airports Are Improperly Using Proceeds From Noise Land Dispositions

Eight of the 11 airports reviewed disposed of 968 acres of noise land through sales, leases, or exchanges. Two (Charlotte Douglas and Cincinnati) of the eight properly used all proceeds for other noise compatibility projects. Two (Toledo and Tucson) properly set aside all proceeds from sales and exchanges but could not substantiate they used proceeds from leases on noise land for other noise compatibility projects. Another airport, Detroit, also could not substantiate it was using lease proceeds properly. The other three airports (Las Vegas, Phoenix, and Reno-Tahoe) admitted they had used proceeds from noise land disposals for other purposes, such as airport operations. Table 5 identifies the six airports that did not use or did not document using proceeds from 908 acres of noise land for other noise compatibility projects or return FAA's share to the Trust Fund, as required by grant assurances. FAA's share of the 908 acres, which are worth an estimated $100.7 million, is about $81.7 million.

In some cases, airport sponsors had not notified FAA field staff of noise land sales, leases, and exchanges or what the airport had done with the proceeds, as required by AIP Grant Assurance 5, "Preserving Rights and Powers." In other cases, FAA field staff were aware of noise land dispositions but did not ensure airport sponsors properly disbursed the proceeds. For the six airports shown in

Table 5, the following cases identify where airports sponsors either did not credit or could not show they credited FAA for its share of proceeds from the sale, lease, or exchange of noise land because sponsors did not follow and FAA did not enforce grant requirements.

Table 5. FAA Share of Disposed Noise Land

Airport	Acres	Valuation (millions)	FAA's Share	
			Percent	Total (millions)
Detroit	100	$6.0	80.0	$4.8
Las Vegas	160	50.5	80.0	40.4
Phoenix	193	35.0	80.0	28.0
Reno-Tahoe	46	6.2	93.8	5.8
Toledo	54	0.5	90.0	0.4
Tucson	355	2.5	91.1	2.3
Total	**908**	**$100.7**		**$81.7**

- Detroit claimed but could not substantiate that it was using lease proceeds from 100 acres of noise land worth $6.0 million for other noise compatibility projects.

- Las Vegas did not restrict proceeds from a $2.0 million sale of 3 acres of noise land to noise mitigation projects, it was using lease proceeds from 73 acres (worth $31 million) of noise land for airport operations, and it did not credit FAA or the Trust Fund for five exchanges of noise land. The exchanges (84 acres) are worth an estimated $17.5 million. The largest exchange (74 acres appraised at $14.3 million) was part of a 2004 package deal for vacant land at an airport in nearby Henderson, NV, which does not have an FAA-approved noise compatibility program.

- Phoenix acknowledged it was using lease proceeds from noise land (193 acres worth $35 million) for airport operations.

- Reno-Tahoe did not credit its noise compatibility program for a $666,000 allowance received in lieu of cash for four acres of noise land. The credit was to offset traffic impact fees assessed by a regional transportation commission for new developments. In addition, Reno-Tahoe was not restricting the use of lease proceeds from 42 acres of noise land worth $5.5 million to noise mitigation.

- Toledo sold 18 acres of noise land for $308,000 and appropriately set aside the proceeds for other noise mitigation efforts. Toledo also gave 25 acres of noise land to a local governmental agency in lieu of paying costs to relocate a park included in the airport's noise compatibility program, which is permitted by regulations. However, Toledo could not substantiate that lease proceeds from 54 other acres of noise land worth $540,000 were restricted to noise mitigation.

- Tucson sold 4 acres of noise land for $750,000 and properly set the proceeds aside to acquire other land under its noise compatibility program. But Tucson did not use lease proceeds from 355 acres of noise land worth $2.5 million for noise compatibility purposes, using the funds instead for airport operations.

FAA Program Oversight and Guidance Need Strengthening

Five years after FAA agreed with an OIG recommendation that airports should dispose of unneeded land acquired with noise grants, the results of this audit show that the Agency can do more to ensure airports dispose of AIP-funded noise land when it is not needed. Due to inadequate oversight, FAA is generally not aware of how much land airport sponsors have acquired under their noise compatibility programs, the sources of funds for the acquisitions, or the land's current status.

Moreover, past FAA guidance has not always conformed to grant requirements for AIP-funded noise land, and FAA has not provided sponsors with any national written guidance on using leases as a means of disposing of noise land. In one instance, the Phoenix Sky Harbor International Airport is using lease proceeds from noise land for capital and operating costs based on guidance that FAA's Western Pacific Region gave to the airport in 1989. The Region's guidance contradicted the grant assurance requirement that airports either return the Federal share of the proceeds to the Trust Fund or reinvest them in other noise compatibility projects. FAA Headquarters acknowledged that it needs to provide its field offices with guidance on using leases for land disposals.

Oversight

Based on the results of our review, we concluded that identification and timely disposal of unneeded noise land has not been a high priority for FAA, even though FAA agreed in its response to our December 2000 audit report that airports should dispose of unneeded land acquired with noise grants. We also concluded that FAA oversight of this program lacks a sustained surveillance effort[14] that would identify land no longer needed for noise compatibility or for airport development and advise the sponsor to develop and implement plans for its disposition. Throughout our review, we found FAA staff generally were not aware of how much land sponsors had acquired under their noise compatibility programs, the sources of funds for the acquisitions, or the current status of the land.

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[14] Surveillance can take various forms, such as site visits by FAA personnel, telephone conversations or correspondence, review of airport and FAA files and financial records, and investigations of complaints from the aviation community.

Further, we found that FAA field staff either did not have or were not using basic information needed to ensure effective oversight for the 11 airports included in our audit. We found that 4 of the 11 airports did not have land inventory maps showing under which Federal grants and other programs the airports had acquired the noise land. In addition, FAA had not received new master plans[15] for 8 of the 11 airports within the last 5 years, including 3 airports that do not have a master plan on file with FAA. Without current, accurate, and complete information, FAA and airport sponsors cannot effectively identify and account for land no longer required for noise compatibility or airport development purposes or determine the Federal and public interest in any proceeds derived from the disposal of such land.

In our opinion, airport sponsors and FAA should consider additional tools for cataloging information required for land bought with Federal funds. One such tool is geographic information systems (GIS) software. With this software, users can employ automated systems to input, organize, update, and analyze large amounts of information. This will improve users' ability to make educated decisions regarding land bought with Federal funds. Some airports are beginning to use GIS to manage land-related data, including several of the airports included in our audit. For example, near the end of our audit, staff at Sea-Tac Airport used a local county auditor's GIS system to complete a comprehensive inventory of all its airport land bought with Federal funds. The Phoenix Sky Harbor International Airport was also beginning to implement GIS.

Guidance

Given the large number of U.S. airports, FAA relies heavily on voluntary compliance by airport sponsors in fulfilling their Federal obligations. Thus, clear guidance and continuing education for FAA and airport personnel, beginning when an airport sponsor receives its first grant and periodically thereafter, is critical to ensuring voluntary compliance with Federal grant requirements. While we did not find any deliberate attempts by airport sponsors to circumvent grant obligations, we observed that airport sponsors did not clearly understand their obligations regarding disposal of unneeded noise land.

In part, sponsors did not understand their obligations because FAA staff did not always provide them with appropriate guidance on how to use proceeds from noise land dispositions. The Phoenix Sky Harbor International Airport was following guidance for land acquired under noise compatibility programs that FAA Headquarters staff recently acknowledged is not appropriate. The guidance, which was provided in 1989 by FAA's Western Pacific Region, states "The net proceeds/revenue obtained from leasing land…is deposited into a separate fund for

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15 The airport master plan describes the airport's long-term development needs. Some airports are providing FAA with documents, such as environmental assessments, in lieu of revising their master plans.

the capital or operating costs of Phoenix Sky Harbor Airport." This guidance does not conform to grant assurances, which require that lease proceeds be returned to the Trust Fund or reinvested in other FAA-approved noise compatibility projects and not airport capital or operating accounts.

FAA Headquarters agrees that it needs to provide its field offices and airport sponsors with written guidelines covering the use of leases for unneeded noise land. Exhibit C contains a discussion of how airport sponsors and FAA could use leases to generate funds for reinvestment in noise mitigation projects. In its response to our draft report, FAA commented that, instead of repaying FAA with a continuing stream of lease revenues, it might be more attractive in some situations if airport sponsors issued revenue bonds to repay the Federal share of noise land proceeds in a lump sum. We recognize that revenue bonds offer another option for repaying the Federal share of unneeded noise land's fair market value. We revised our recommendation to include FAA guidance on the use of revenue bonds.

FAA staff acknowledged that FAA's guidance for disposing of unneeded noise land needs clarification to preclude inconsistent and inadequate enforcement of grant requirements between and within FAA regions and field offices. Further, to enhance airport sponsors' understanding of grant requirements and their impact, FAA staff acknowledged that it would be prudent for FAA to provide and discuss these requirements with airport sponsors more frequently, particularly where there has been turnover in FAA and airport staff. FAA staff acknowledged the importance of having FAA and airport sponsors participate in specialized education, seminars, and conferences, such as FAA's training course "Airport Compliance" and FAA's annual Airports Land Conference. With this type of training, FAA can ensure attendees obtain information on how best to meet Federal requirements for noise land acquisition and management.

RECOMMENDATIONS

For all airports with AIP-funded noise land, we recommend that the Federal Aviation Administrator:

1. Ensure that sponsors (a) implement written, FAA-approved plans for disposing of AIP-funded noise land that is no longer needed for noise compatibility programs or for airport development, and (b) either return the proceeds from any dispositions to the Trust Fund or reinvest them in other FAA-approved noise mitigation projects at the airports.

2. Improve program oversight by making disposal of unneeded noise land a high priority; by maintaining sustained surveillance of noise land; and by

ensuring that basic information (such as airport master plans and land inventory maps) needed for effective program oversight is current, accurate, and complete.

3. Provide a program of continuing education to enhance FAA staffs' and airport sponsors' understanding of grant requirements and their impact.

4. Provide airport sponsors with guidance on using leases and revenue bonds to recover the Federal share of disposal proceeds.

For the 11 airports included in the audit, we recommend that the Federal Aviation Administrator direct airport sponsors to develop and implement plans to:

5. Recover FAA's share (estimated at $160.6 million) from the disposition of 3,608 unneeded noise land acres.

6. Recover FAA's share (estimated at $81.7 million) of the affected lands' fair market value from airports that are misusing noise land disposition proceeds.

AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

We held an exit conference with FAA to discuss our findings, conclusions, and recommendations and on August 12, 2005, provided FAA with a draft of our report. On September 9, 2005, FAA provided us with its formal response to our draft, which is contained in its entirety in the Appendix. FAA agreed with the report's recommendations but had comments concerning some issues raised in the report. Specifically, FAA believes our estimates for land values and potential FAA collections of disposal proceeds may be too optimistic. FAA also noted that the importance of keeping noise land for airport development cannot be understated. Further, FAA commented that, in some situations, the FAA and a sponsor might find it more attractive if the sponsor issues revenue bonds for the Federal share of the fair market value of the land that has been developed and repays the FAA in a lump sum.

As we pointed out in our report, neither the airports nor we can determine precise valuations for the land until it is sold or leased. However, inasmuch that we relied on a variety of information from airport sponsors to estimate land valuations, we believe our estimates for land values and potential FAA collections are reasonable. FAA did not provide us with any alternative estimated values for land covered by our review.

Also, we believe the report appropriately recognizes that unneeded noise land may be designated for airport development, assuming such designations are justified by reasonable, documented land use projections approved by FAA. We revised the report to acknowledge revenue bonds as an alternative to repay FAA for its share of unneeded noise land.

FAA's response includes planned corrective actions for each of the report's six recommendations. The report also includes target completion dates for FAA's planned corrective actions, except for recommendations 5 and 6. A summary of FAA's planned corrective actions and target completion dates follows.

- ✓ **Recommendation 1.** By April 2006, FAA expects to issue national guidance requiring airport sponsors to have written plans for the disposal of unneeded AIP-funded noise land and for either returning the proceeds from such disposals to the Trust Fund or reinvesting them in other FAA-approved noise mitigation projects. FAA will notify its regional offices and Airport District Offices of this requirement, and they in turn will notify airport sponsors directly.

- ✓ **Recommendation 2.** Beginning in FY 2006, FAA expects to issue national guidance instructing its regions to develop detailed maps and inventories of AIP-funded noise land as part of Airport Layout Plan sets. FAA expects maps and inventories for the 11 airports audited to be completed within 24 months after the guidance is issued. FAA will also instruct its regions to develop plans and timetables to obtain this information for the remaining airports with AIP-funded noise land by the beginning of FY 2007. In addition, training for FAA and airport sponsor staff will include specific information about surveillance of noise land. Further, FAA will incorporate noise land audits into regular compliance audits for airports, including ensuring land inventory maps are complete and accurate.

- ✓ **Recommendation 3.** Beginning in FY 2006, FAA intends to provide better educational resources and direct training to FAA staff, airport sponsors, and consultants to enhance the understanding of grant requirements and their impact. By the end of FY 2007, FAA expects to have offered all of its regions several grant-related recurrent training courses and other grant-specific training. In addition, FAA will investigate including noise land guidance in online training currently available to FAA staff. Sponsors and consultants will be offered training through yearly FAA regional airports' conferences and the Airport Land Conference.

- ✓ **Recommendation 4.** By the end of FY 2006, FAA intends to issue national guidance on using leases for land disposals, both as a handout in training sessions and as program guidance.

- ✓ **Recommendations 5 and 6.** FAA agreed to review all of the circumstances surrounding each of the 11 airports included in this audit to determine the scope of a repayment obligation. However, FAA did not provide a target date for completing the review and for recovering the Federal share of unneeded noise land, including prior noise land dispositions.

  Overall, we took a conservative approach to estimating land values. Where available, we used appraisals, recent sales, and lease information to estimate the value of land; otherwise, we relied on airport staff estimates. For example, values for land at Sea-Tac ranged from $4 per square foot to $27 per square foot. A June 2004 appraisal obtained by the airport to assist in developing ground rental rates and other charges valued the land at $12 square foot, based on sales of 14 properties in Sea-Tac's market area. The values of these properties ranged between $11 and $15 per square foot with a midpoint of $12 per square foot for industrial land. The appraisal included adjustments for location, size, and access exposure but did not include adjustments for topography and shape. Comparatively, a consultant's December 2004 estimates for developing airport properties, including noise land, valued land at $4 to $27 per square foot for commercial uses and $5 to $8 per square foot for industrial uses. Because Sea-Tac has not disposed of any noise land, we used what we believe, considering all available information, is a conservative $8 per square foot ($348,500) estimate to compute the value of its unneeded noise land.

  Where airports were improperly using proceeds from noise land dispositions, we used actual sales, leases, and exchanges to determine land values. For example, Las Vegas exchanged 74 acres of noise land appraised for $14.3 million. We, therefore, used $14.3 million as the value of this land. In our opinion, FAA's inability to provide any estimate as to the value of unneeded noise land or misused disposition proceeds identified in this report underscores the need for improved FAA oversight in this area. This is especially true for the airports where our estimates were based on actual disposal of the noise land through sale, lease, or exchange.

ACTIONS REQUIRED

FAA's planned corrective actions are responsive to all of the report's recommendations. Recommendations 1 through 4 can be considered resolved and will be subject to our audit follow-up process. However, without target completion dates, recommendations 5 and 6 cannot be considered resolved at this time. In accordance with Department of Transportation Order 8000.1C, we request that FAA provide target completion dates and estimated recoveries, within 30 calendar days of this report to resolve Recommendations 5 and 6.

We appreciate the courtesies and cooperation of FAA representatives during this audit. If you have any questions concerning this report, please call me at (202) 366-0500 or Robin Hunt, Deputy Assistant Inspector General for Aviation and Special Program Audits, at (415) 744-3090.

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cc: FAA Deputy Administrator
FAA Chief of Staff
Associate Administrator for Airports
Anthony Williams, ABU-100
Martin Gertel, M-1

EXHIBIT A. OBJECTIVE, SCOPE, AND METHODOLOGY

The audit objective was to determine if FAA oversight ensures that airport sponsors properly dispose of land purchased with AIP funds for airport noise compatibility programs when the land is no longer needed for such purposes or airport development. The audit was conducted from July 2004 through May 2005 in accordance with Generally Accepted Government Auditing Standards prescribed by the Comptroller General of the United States.

In addressing our audit objective, we reviewed laws, regulations, and FAA policies and guidance regarding disposal of land acquired under airport noise compatibility programs. We determined FAA's oversight responsibilities through discussions with senior management officials in (1) FAA's Office of Airport Planning and Programming in Washington, DC; (2) FAA regional offices in Atlanta, GA; Chicago, IL; Los Angeles, CA; and Seattle, WA; and (3) FAA district offices in Atlanta, GA; Burlingame and Los Angeles, CA; Detroit, MI; and Seattle, WA.

According to the information provided by FAA, 108 airports received AIP funds totaling $1.8 billion to acquire an estimated 20,000 acres of noise land from FY 1982 through FY 2003.[16] We judgmentally selected 11 of the 108 airports for detailed audit. We did not find any material differences in funding data for these airports but found differences in acreage information. Table 6 identifies funding and acreage for the 11 airports.

Table 6. Funding and Acreage at Airports Selected for Detailed Audit

Airport	AIP Funds (millions)	Acres
Bellingham	$10.6	135
Charlotte Douglas	45.1	593
Cincinnati	30.5	743
Detroit	25.6	550
Las Vegas	77.2	509
Palm Beach	51.7	267
Phoenix	68.6	474
Reno-Tahoe	45.3	157
Seattle-Tacoma	62.2	305
Toledo	26.8	1,193
Tucson	14.1	1,894
Totals	**$457.7**	**6,820**
Percent of Audit Universe	**26%**	**34%**

[16] We relied on data given to us by FAA to determine how many airports used AIP funds to acquire land for noise compatibility purposes and how much acreage was acquired with the funds. We did not verify FAA's data, except at the airports where we conducted our audit.

At the 11 airports, we reviewed files and records and interviewed airport staff to verify funding and acquisition (acreage) data provided by FAA. Similarly, we determined how much AIP-funded noise land was sold, leased, exchanged, or designated for airport development and whether the airport sponsors had other plans for developing land not required for noise compatibility or airport development. We also determined whether airport sponsors restricted proceeds from the sale, lease, or exchange of noise land to other noise compatibility projects or to the Trust Fund and whether this land was used for purposes compatible with noise levels associated with operation of the airports. We toured and photographed each airport's noise land and reviewed airport master plans, layout plans, and land inventory maps to confirm the land's location and use. We also reviewed aerial maps. Where available, we used recent sales or lease information or both to estimate the value of the land; otherwise, we relied on airport staff estimates.

EXHIBIT B. AIRPORTS RECEIVING AIP FUNDING FOR NOISE COMPATIBILITY PROGRAMS, FY 1982 THROUGH FY 2003

Rank	Airport Name[17]	AIP Funds	Acres[18]
1	Atlanta Hartsfield International	$221,349,562	716
2	St. Louis International	154,847,967	600
3	Louisville International	86,472,618	335
4	McCarran Las Vegas International	77,184,532	509
5	Memphis International	73,934,594	791
6	Phoenix Sky Harbor International	68,631,776	474
7	Seattle Tacoma International	62,211,114	305
8	Indianapolis International	59,452,000	397
9	Los Angeles International	52,153,299	80
10	Palm Beach International	51,738,212	267
11	Reno-Tahoe International	45,266,171	157
12	Charlotte Douglas International	45,137,392	593
13	Birmingham International	36,167,625	303
14	Fort Lauderdale/Hollywood International	35,375,684	99
15	Norman Y. Mineta San Jose International	31,306,091	24
16	Cincinnati/Northern Kentucky International	30,524,268	743
17	Toledo Express Airport	26,753,094	1,193
18	Detroit Metropolitan Wayne County	25,642,860	550
19	Louis Armstrong New Orleans International	25,410,959	99
20	Minneapolis-St Paul International	25,160,226	69
21	Baton Rouge Metropolitan Ryan Field	24,439,659	172
22	Tulsa International	24,229,827	925
23	Baltimore-Washington International	24,090,748	167
24	Cleveland-Hopkins International	23,732,163	47
25	Dekalb-Peachtree	21,742,445	55
26	Ontario International	20,706,735	24
27	Theodore Francis Green State	20,327,165	26
28	Nashville International	18,448,600	N/A
29	Sarasota/Bradenton International	17,629,696	64
30	Dallas/Fort Worth International	17,240,565	64
31	Des Moines International	15,756,720	N/A
32	Albany International	15,014,205	156
33	Bob Hope	14,754,651	31
34	Orlando International	14,620,864	N/A

[17] Airports No. 4, 6, 7, 10, 11, 12, 16, 17, 18, 36, and 42 were included in the audit.
[18] Acreage for those airports that did not respond to FAA's data request is annotated as N/A (not available).

Rank	Airport Name	AIP Funds	Acres
35	James M. Cox Dayton International	$14,195,138	743
36	Tucson International	14,135,951	1,894
37	Tallahassee Regional	13,666,735	N/A
38	Lehigh Valley International	13,250,364	319
39	Austin-Bergstrom International	13,100,000	150
40	Adams Field	12,976,414	43
41	Laredo International	11,934,986	17
42	Bellingham International	10,626,404	135
43	McGhee Tyson	8,951,724	503
44	Shreveport Regional	8,705,794	169
45	Fort Worth Meacham International	8,666,959	39
46	Central Illinois Regional Airport	8,634,570	365
47	Pittsburgh International	7,997,140	395
48	Fort Worth Alliance	7,230,083	158
49	City of Colorado Springs Municipal	7,022,469	133
50	Boise Air Terminal/Gowen Field	6,971,131	57
51	Palm Springs International	6,106,419	4
52	Huntsville International-Carl T. Jones Field	5,697,498	313
53	Erie International/Tom Ridge Field	5,033,000	21
54	Will Rogers World	5,026,046	29
55	General Mitchell International	4,690,046	101
56	Orlando Sanford	4,592,335	15
57	Santa Barbara Municipal	4,506,736	23
58	Fresno Yosemite International	4,377,823	6
59	Port Columbus International	4,118,310	66
60	Salt Lake City International	3,994,269	102
61	Burlington International	3,869,795	12
62	Cheyenne	3,593,424	5
63	Fairbanks International	3,508,861	38
64	Rickenbacker International	3,382,096	650
65	Guam International	3,296,226	6
66	Fort Smith Regional	3,221,913	86
67	Syracuse Hancock International	3,189,349	8
68	Naples Municipal	2,677,117	97
69	Capital	2,662,641	110
70	Sacramento International	2,555,705	N/A
71	Greater Peoria Regional	2,555,626	51
72	Henry E. Rohlsen	2,331,236	NA
73	Manchester	2,155,699	69
74	Manassas Regional/Harry P. Davis Field	2,130,645	121
75	Greater Rockford	1,989,900	46
76	Akron-Canton Regional	1,726,685	30
77	Livermore Municipal	1,495,060	N/A

Exhibit B. Airports Receiving AIP Funding for Noise Compatibility Programs, FY 1982 Through FY 2003

Rank	Airport Name	AIP Funds	Acres
78	Barnes Municipal	$1,328,641	48
79	Albuquerque International Sunport	1,250,195	N/A
80	Gainesville Regional	1,246,366	16
81	Blue Grass	1,245,724	N/A
82	Terre Haute International Hulman Field	1,222,446	101
83	Montgomery Regional (Dannelly Field)	1,158,337	63
84	Glendale Municipal	1,067,221	49
85	Long Island MacArthur	1,019,109	N/A
86	Chicago Midway International	930,526	N/A
87	San Diego International	926,335	N/A
88	Lake Charles Regional	876,205	N/A
89	Natrona County International	859,714	N/A
90	Ted Stevens Anchorage International	827,587	120
91	Rogue Valley International Medford	731,223	16
92	Kansas City International	702,492	165
93	General Edward Lawrence Logan International	698,944	N/A
94	Valley International	585,301	44
95	Norfolk International	526,020	3
96	Columbia Metropolitan	492,000	N/A
97	Easton/Newnam Field	473,582	1
98	Roanoke Regional/Wood Rum Field	433,267	N/A
99	Rapid City Regional	346,077	N/A
100	Juneau International	319,921	1
101	Decatur	240,024	4
102	Lovell Field	217,800	4
103	Golden Triangle Regional	177,875	N/A
104	Warroad International-Swede Carlson Field	97,140	N/A
105	Winchester Regional	37,800	1
106	Seminole Municipal	32,728	29
107	Roswell Industrial Air Center	31,500	N/A
108	Carroll County Regional/Jack B. Poage Field	10,184	70
	Total	**$1,790,116,693**	**17,899**[19]

[19] Since a number of airports did not provide acreage numbers, we used the estimate of 20,000 total acres of noise land for our analysis.

Exhibit B. Airports Receiving AIP Funding for Noise Compatibility Programs, FY 1982 Through FY 2003

EXHIBIT C. NOISE LAND LEASES

Leases are an alternative to selling land purchased with AIP funds for noise compatibility programs when the land is no longer needed for that purpose or for airport development. FAA staff acknowledged that leases for compatible land uses are consistent with congressional intent and Federal grant assurances. Moreover, leases could be particularly attractive to airport sponsors, allowing airports to maintain ownership and control of the land while providing a revenue stream for noise compatibility projects, as well as airport operations and capital projects.

Table 7 compares how FAA could recover its pro-rata share of a hypothetical property worth $1 million under either a sale or lease. With a sale, FAA's pro-rata share of the proceeds would be available immediately for reinvestment in other noise compatibility projects. Under a 15-year lease, the proceeds would be available in installments, with interest accruing on the diminishing principal balance. Assuming a 10 percent rate of return on the land's fair market value, the airport sponsor would collect $100,000 during the lease's first year: $69,400 would be credited to FAA and $30,600 to the airport sponsor. While FAA's credit would remain constant during the 15-year repayment schedule, the sponsor's revenue could rise if the lease includes rental increases. If the lease increases 3 percent annually (compounded), rental income would be $156,800 in the 15th year, with $69,400 credited to FAA and $87,400 to the sponsor. After the 15th year, FAA would have recovered its share, $720,000, of the property's fair market value, as well as interest totaling $320,500. Thereafter, the airport would receive all the lease income, all of which could then be used for airport operations and capital projects.

Table 7. Proceeds From Sale or Lease of Property Worth $1 Million

	Sale	**Lease**
Value at time of sale or lease	$1,000,000	$1,000,000
–Development/marketing costs	100,000	100,000
Net Value	$900,000	$900,000
Sale: FAA's proportionate share (80%)	$720,000	
Lease: 15 years, 5% interest on diminishing principal balance		
–Principal Balance		$720,000
–Interest		320,500
–Total		$1,040,500

APPENDIX. MANAGEMENT COMMENTS

Federal Aviation Administration

Memorandum

Date: September 9, 2005

From: Assistant Administrator for Financial Services and Chief Financial Officer, ABA-1

To: David A. Dobbs, Assistant Inspector General for Aviation and Special Program Audits

Prepared by: Barry Molar, Manager, Airports Financial Assistance Division, APP-500

Subject: FAA's Response to the Office of Inspector General's Draft Report: Audit of Management of Land Acquired Under Airport Noise Compatibility Programs, Office of Airports (ARP)

This memorandum is provided in response to the subject report. The FAA has reviewed the draft OIG document. In general, we agree with the recommendations outlined in the draft report. However, we believe there are some issues that must be highlighted and resolved to ensure the information contained in the report is accurate. The following paragraphs summarize some of the key issues we believe need further consideration.

1. Land Value estimate and estimate of potential FAA collection of disposal proceeds may be too optimistic.

We are concerned the values of the land cited provide a false expectation of funds that may be coming back into the Trust Fund. The auditors' estimate that at the 11 airports reviewed for the audit, some 4515 acres of acquired land (3608 acres pending disposal plus 908 acres leased, exchanged or disposed) is worth $242.3 million. We believe the report should explicitly recognize that development cost and marketing risk must be thoroughly researched to provide a credible estimate of the net sales proceeds that may be expected on the disposal of excess land. The audit report estimate is not adequately supported by credible and verifiable information and we suspect may be several times the value that can be expected on the disposal of excess land.

To evaluate our concern over the cited land values, as your staff recommended, we reviewed the SeaTac appraisal and development studies referenced in the draft audit report. Your staff advised that SeaTac had the most comprehensive appraisal documentation of the 11 airports reviewed. This appraisal estimated industrial land values in the immediate vicinity of SeaTac airport at roughly $523.000 per acre ($12/sq.ft). The auditors then estimated development cost at one-third of this value and derived the value of the SeaTac land at $348,654 per acre (or $8/sq.ft). The audit report then applied this value to the entire 218 acres that they estimate is excess and available for market sale for a total value of roughly $76 million.

However, after review, we do not believe the appraisal offers independent support of that high value for the SeaTac noise land. The property appraised and the sales data and analysis applied in the appraisal are not directly comparable nor can they be relied on to provide a specific value for the noise land tracts. In particular, of the comparable sales that were used in the appraisal, there was only one (sale #11) that we considered as somewhat comparable to the identified noise land tracts. However, this sale was zoned, had development rights approved, had superior access and topography and was immediately available for development. The development cost necessary on the noise land (as is partially noted in the footnote #4 of the draft audit report) would exceed the cost of the comparable development on the sale property. Also the sale property is currently better located for industrial use (i.e. major local roads and proximity to Interstate view and access). In contrast, much of the development potential of the SeaTac noise tracts is dependent on major road improvements, which are planned, but are not yet built. Also, as is indicated in the appraisal reviewed and the development studies conducted at SeaTac, there is a wide variance in potential values for the SeaTac noise land depending on what development cost and market sales assumptions to re-develop the land prove to be realistic. We believe, at best, the audit report estimate relies on the most optimistic assumptions and the $76 million value derived may not be reliable or a realistic estimate of likely disposal proceeds.

2. The importance of keeping satisfactory land for airport development cannot be understated.

We note that the draft report agrees with the FAA policy of permitting airports to designate noise land as land needed for airport purposes. We agree that the designation must be properly supported with reasonable land-use projections. However, in making those projections, it is appropriate to recognize that there is an additive value (over off-airport land), for land incorporated into the airport perimeter and available for airport operations. Therefore, in identifying disposal areas, an airport sponsor and FAA must carefully consider what land may be held that would increase the overall value of the airport above potential disposal sales proceeds. Should land be disposed of and then need to be acquired again, any benefit of the disposal would be lost because of the high cost to reacquire the land. Therefore, current and long-range airport development plans should be carefully reviewed before disposal of owned land.

Because of these concerns, we fully concur in the draft report's support of leasing as an acceptable means of disposal for noise land. Even in situations where a future airport development use might be too speculative to support an AIP development grant, the airport and airport system may benefit when the airport can retain title. One example would be the situation outlined above – avoiding the high cost of reacquiring the land at a future date. Another might be to provide the airport with greater power to prevent incompatible land use. In these circumstances, the use of lease proceeds for noise mitigation or deposit of lease proceeds in the trust fund would fulfill the purpose of the noise land disposal requirement and better serve the interests of the airport and the airport system.

3. Alternative method for recovering Federal share of noise land lease proceeds.

Appendix C provides an example of how the amount owed to the trust fund might be calculated when a sponsor leases noise land for development. The example contemplates a continuing payment to the trust fund until the amount due with interest is completely reimbursed. In some situations, the FAA and a sponsor might find it more attractive if the sponsor issues revenue bonds for the Federal share of the fair market value of the land that has been developed and repays the FAA in a lump sum. To avoid future uncertainty about whether this approach conforms to your recommendations, it would be useful for the report to discuss this as an acceptable alternative. We would be happy to discuss this concept further with you or provide a more detailed example.

Concerning the specific recommendations contained in the draft OIG report, the FAA offers the following:

Recommendation 1. Ensure that sponsors (a) implement written, FAA-approved plans for disposing of AIP-funded noise land that is not longer needed for such purposes or for airport development, and (b) either return the proceeds from any dispositions to the Trust Fund or reinvest them in other FAA-approved noise mitigation projects at the airports.

We agree that sponsors should have a written plan for the disposal of unneeded AIP-funded noise land. We plan to include a requirement for such a plan as a required activity before closing a noise land grant (in much the same way that we currently require sponsors to submit a revised Airport Property Map for other land grants.) The plan will be appended to, or attached to the Exhibit "A" Airport Property Map. We agree that sponsors will need to either return the Federal share of the proceeds from any dispositions to the Trust Fund or reinvest them in other FAA-approved noise mitigation projects.

We plan to issue the guidance by April 2006, prior to the FY 2006 grants season, so that all noise land grants in FY 2006 and following will include this requirement. This guidance will include program guidance and revised special provisions to include in all noise land grants. We will notify all regional offices and Airports District Offices of this requirement, who in turn will notify airport sponsors directly.

Recommendation 2. Improve program oversight by making disposal of unneeded noise land a high priority; by maintaining sustained surveillance of noise land; and by ensuring that basic information (such as airport master plans and land inventory maps) needed for effective program oversight is current, accurate and complete.

We agree that accurate record keeping and strong program oversight will improve the noise land program. We will incorporate noise land audits into regular compliance audits for airports, including ensuring the land inventory maps are complete and accurate. FAA does not approve an airport's master plan, but rather approves the Airport Layout Plan, which is a multisheet set of plans that includes the Land Inventory Map. In the staff and airport training (see response to Recommendation 3), we will include specific information about the reviews that are needed for maintaining sustained surveillance of noise land.

In addition, we will instruct the regions to develop noise land inventories for airports that bought land with AIP noise grants. The inventories will include acreage, status of disposition and, where appropriate, use of proceeds from disposition.

We anticipate issuing guidance to the regions beginning in FY 2006. We expect that the maps and inventories for the 11 airports will be completed within 24 months of issuance of the guidance. We will instruct the regions to develop plans and timetables for the remaining airports by the beginning of FY 2007. The maps and inventories will be maintained in the regional offices or Airports District Offices as part of the Airport Layout Plan sets.

Recommendation 3. Provide a program of continuing education to enhance FAA staffs' and airport sponsors' understanding of grant requirements and their impact.

We agree that providing better educational resources and direct training to FAA staff and airport sponsors (and consultants) will improve the program. As noted in the draft OIG report, incomplete or inaccurate guidance from FAA offices may have led to unintended, incorrect disposal of noise land or use of disposal proceeds. Staff training will be offered at the Recurrent Compliance Course, Recurrent AIP Programming, Recurrent Environmental and other grant-specific training. Sponsor and consultant training will be offered through the Regional Airports' conferences which are held on a yearly basis and the Airport Land Conference, cosponsored by the FAA, Federal Highway Administration and International Right of Way Association. We anticipate offering this coursework beginning in FY 2006 and expect to have offered it to all regions by the end of FY 2007.

We will also investigate including noise land guidance in the online training that is currently available for Airports' staff.

Recommendation 4. Provide airport sponsor with guidance on using leases for land disposals.

As noted, we support the use of leasing as a disposal method for noise land, and we agree that current guidance in this area needs improvement. We agree with this recommendation and will develop and issue this guidance, both as a handout in training sessions and as program guidance. We anticipate issuing this guidance by the end of FY 2006.

For the 11 airports included in the audit, we recommend the Federal Aviation Administration direct airport sponsors to develop and implement plans to:

Recommendation 5. Recover FAA's share (estimated at $160.6 million) of the proceeds from the disposition of 3,608 acres of unneeded noise land.

Recommendation 6. Recover FAA's share (estimated at $81.7 million) of the affected land's fair market value from airports that are misusing proceeds from noise land dispositions.

We agree that in cases where noise land proceeds have not been properly credited, that corrective action may be needed with funds deposited into the Trust Fund or applied to noise projects. However, as the audit report indicates, in some cases sponsors may have been acting in good faith reliance on guidance or instructions provided by FAA staff. While sponsors may have unintentionally been given guidance that does not follow exact policy or grant requirements, a reimbursement requirement may be considered as an unfair penalty in the face of good faith actions on their part. We intend to review all of the circumstances surrounding each of the 11 airports in determining the scope of a repayment obligation. Also, as noted previously, we do not have sufficient appraisal information to concur in the draft report's estimate of the value of the noise land at these airports.

The FAA appreciates the opportunity to comment on the OIG's draft report before a final report is developed. FAA representatives are available to discuss the comments and suggested changes to the draft report that are contained in this memorandum. Should you have comments or need additional information, please contact Mr. Barry Molar, Manager, Airports Financial Assistance Division at (202) 267-3831.

Ramesh K. Punwani