



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

Airport Compliance and Management Analysis

800 Independence Ave., SW.
Washington, DC 20591

July 27, 2012

Mr. Alan Murphy
Director
John Wayne Airport
3160 Airport Way
Costa Mesa, CA 92626

Dear Mr. Murphy:

Thank you for the professional and courteous support provided to my staff during our compliance review at the John Wayne/Orange County Airport (Airport) March 5 – 16. The purpose of our review was to determine if the Airport sponsor, Orange County (County), and the Airport comply with the Federal Aviation Administration (FAA) requirements that pertain to the use of airport revenue and property.

We are pleased to state we did not identify any violations of the above requirements. A summary of our review is presented below.

1. The County cost allocation plan uses allocation bases that are appropriate for the type of cost allocated. The plan uses actual costs from prior years (FY 2008/09 for FY 2010/11). The County adjusts the billed costs to actual costs incurred. The County did not use the plan to disproportionately charge the Airport. The plan conforms to OMB Circular A-87 and the FAA Policy on Revenue Use.
2. The County's direct billings to the Airport for services conform to OMB Circular A-87 and the FAA Policy on Revenue Use. The County provides the rates to the Airport prior to the start of the fiscal year for the Airport's approval. The rate schedules support all components of the rate. The County supports hourly rates with detailed timesheets. It provides the Airport with monthly billings for the services it provides. The Airport is free to question or challenge any billing from the County.
3. Although the FAA prefers that sponsors provide their airports with Memorandums of Understanding that describes services and charges to their airports, the FAA finds the Cost Applied Agreements with County departments are a sufficient replacement for most services. The FAA strongly recommends the Airport ensure it has either a MOU or a Cost Applied Agreement for each County service provided.

4. The County's attorney fees charged to the Airport comply with OMB Circular A-87 and the FAA Policy on Revenue Use. All attorneys (including attorneys that charge time to the Airport) charge their time to a project and the billing rates are from the Cost Applied Agreement.
5. The County's fleet services charge to the Airport complies with OMB Circular A-87 and the FAA Policy on Revenue Use. The County designed the fund to break even annually. The rates are for repairs only, because the Airport purchases its own vehicles.
6. The County Fire Authority is independent of the County. The Airport's purchase of fire services conforms to OMB Circular A-87 and the FAA Policy on Revenue Use. The Airport is currently working to reduce the number of fire staff required for each shift.
7. The County Sheriff and the Airport are jointly working on containing costs, while continuing to provide the Airport with the appropriate level of service. The latest cost reducing effort was to employ contract security guards at Airport vehicle gates. One area where the Sheriff can provide better service to the Airport is to discuss overtime requirements with the Airport prior to the time when the overtime occurs. The billing for Sheriff services conforms to OMB Circular A-87 and the FAA Policy on Revenue Use.
8. We found the Airport's marketing and air carrier incentive programs were excellent and conformed to our policy. They displayed the best practices found within the airport community.
9. The Airport's leasing and land use practices conform to OMB Circular A-87 and the FAA Policy on Revenue Use. As part of our review, we examined the golf course and the aviation museum. We found the Airport sets the rent for the golf course at fair market value and the aviation museum complies with FAA expectations. In addition, all leases have clauses that provides for annual CPI adjustments, and leasehold improvements revert to the Airport.
10. The County and its surrounding communities have had a Settlement Agreement that restricts airport noise since December 13, 1985. The purpose of the agreement was to settle a longstanding dispute between the County and the communities that surround the Airport. The parties amended the agreement on February 25, 2003, which extended the restrictions through December 15, 2015. Now the parties are in negotiations to extend the restrictions for an even longer period, perhaps for 50-years. We do not know what changes will be made to extend the agreement beyond 2015 until we receive further information from Airport management.

Based on our review, we have the following recommendations:

1. Since the County uses "Cost Applied Agreements" in lieu of Memorandums of Understanding, we urge the Airport to ensure it obtains these agreements from all

County departments that provide services to the Airport and ensure the County renews the agreements annually.

2. We urge the Airport to develop an arrangement with the Sheriff for the approval of overtime. Since the Airport is paying for the overtime charges, the FAA finds it reasonable for the Airport to participate in the pre-approval of those charges.

3. We request the Airport keep the Los Angeles Airports District Office apprised of the coming changes to the Settlement Agreement. The FAA considers it crucial that the changes not only consider the requirements of the Airport Noise and Capacity Act but also the AIP Grant Assurances. In particular the assurances that pertain to the Airport's rights and powers, the assurance that pertains to nondiscrimination of aeronautical uses, and the assurance that pertains to a self-sustaining rate structure. The FAA may object to an agreement with unreasonable terms, such as extending limitations too far into the future.

We will be pleased to discuss the review further with you and your staff and to consider additional input from the County or Airport. For questions that pertain to the technical aspects of the review, please contact Mr. David Duchow at (202) 493-4604.

Sincerely,



Randall S. Fiertz
Director of Airport Compliance
and Management Analysis