

# Airport Financial Review Process

Ensuring Airport Compliance with FAA's  
Revenue Use Policy



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**Federal Aviation  
Administration**

# Airport Compliance

- When airports receive Federal financial assistance, the airport owner (airport sponsor) accepts certain obligations to operate the airport in a safe, accessible, and efficient manner.
- Basic structure of the Airport Compliance Program in place since 1946.
  - Surplus WWII military airports:
    - Deeded over to municipalities.
    - Must operate the airport as an airport – no exclusive use (no monopolies)



# Federal Obligations and Grant Assurances

- Requirements that an Airport Sponsor agrees to when accepting Federal assistance or land
  - There are **39 standard grant assurances** for airport sponsors
- Binding commitments designed to ensure the public interest is served
  - Deeds; Conveyance Agreements; and Grant Assurances (mandated by Federal statute)
- Enforced through the Airport Compliance Program
  - Useful life of the facility (generally 20 years)
  - Perpetual Obligations - Federally acquired and conveyed land, **airport revenue**, civil rights and exclusive rights



# Statutory and Grant Assurance Requirements

- Title 49 United States Code § 47133: Restrictions on use of revenues
- Title 49 United States Code § 47107: Project grant application approval conditioned on assurances about airport operations
- Grant Assurance 24: Fee and Rental Structure
- Grant Assurance 25: Airport Revenues
- Policy and Procedures Concerning the Use of Airport Revenue, 64 Federal Register 7996, February 16, 1999.



# Federal Grant Assurances

## Grant Assurance 25, *Airport Revenue*

- All revenues *generated by the airport*, including any local taxes on aviation fuel established after December 30, 1987, must be used for the *capital or operating costs of the airport, the local airport system*, or other local facilities owned and operated by the owner or operator of the airport and *directly and substantially related to the actual air transportation of passengers or property*; or for noise mitigation purposes on or off the airport.



# Role of the Financial Compliance Division

- Provide guidance to Airport Sponsors, Congressional Offices, FAA Offices, Interest Groups, General Public, and Anyone with a stakeholder interest in an airport or the FAA.
- Enforce Federal Statutes, FAA Grant Assurances, and FAA Policy.
- Manage the Compliance Activity Tracking System Portal, (the Airport Financial Reporting Program).
- **Perform Financial Reviews at Commercial Service Airports**



# What is a Financial Compliance Review

- An airport financial compliance review is a process that ensures airport sponsors comply with the Federal obligations they assume when accepting Federal grant funds or Federal property for airport purposes.
  - Key aspects of the review include revenue use, compliance with grant assurances, financial reporting, and financial sustainability.





# Purpose of Financial Reviews

- Identify unlawful revenue diversion & other violations of statute and policy
- Educate airport staff on the permissible uses of airport revenue
- Gain firsthand knowledge of airport financial operations
- Validate Compliance Activity Tracking System (CATS) database information
- Notify the airports community that FAA proactively monitors their financial operations
- Assure the public that FAA is vigilant in its oversight of airport financial operations





# Objectives of Financial Reviews

- To gain reasonable assurance airport revenue is only being utilized for the capital and operating costs of the airport
  - Bring a systematic and disciplined approach to our evaluations
  - Add value and improve an airport's financial operations
  - Partner with the sponsor and the airport to find solutions
  - Prevent the occurrence of unlawful revenue diversion
  - Improve the overall effectiveness of the Airport Improvement Program



# Selecting an Airport for Review

- Criteria for selecting an airport for revenue compliance review varies:
  - Formal and informal complaints,
  - Discrepancies in annual financial data reports, and
  - Insights from stakeholders, such as airlines,
  - Inputs from our regional or airport district offices, and
  - Documented reports from the media.
- **ACO's goal:** Review a diverse range of airports, the level, type of operations/hub size, and geographic distribution.



# Planning a Financial Review

- The financial analysis team creates a review plan that outlines
  - Issues to be assessed,
  - Data necessary for evaluating a specific airport, and
  - Methods for data collection and analysis.
- ACO then sends an engagement letter and data request to the airport, specifying the dates for site work and the information to be examined.
  - Airports are encouraged to submit requested documents electronically before the site visit.



# Two-Part Financial Compliance Review

- First part consists of a review of all the documentation listed in the requested-data sheet:
  - financial transactions will include, but are not limited to direct and indirect billings, lease agreements, and services provided to and from the airport.
  - The revenue compliance review period will include the last six fiscal years.
- Second part consists of on-site meetings and an airport tour:
  - access to the facilities and to key staff, including Police and Fire Fighting (ARFF).



# On-Site Visit

- During the site visit, the team will:
  - Examine airport documents,
  - Tour of Airport of facilities, hanger, and terminal
  - Meet with the airport personnel from the following departments:



# Site Visit - Departmental Meetings

- Fire – ARFF
- Security/Law Enforcement
- Promotion and Marketing Manager
- Airline Incentive Program Manager
- Leasing Manager
- Fleet Manager
- Art Program Manager
- Noise Land Program Manager
- Utilities Manager
- Legal
- Accounting Manager



# Areas of Review

- Financial statement review
- Uses of Airport Property
- MOU agreements for government services
- Noise Land Program
- Reconciliation of Form 126 and 127 data
- Cost Allocation Plan Review (if applicable)
- Marketing & Air carrier incentive
- Testing of financial system
- Standards of documentation
- Other Areas of Concern





# Draft Report

- Developed after incorporating findings and recommendations reviewed by ACO managers.
  - The financial team will ensure that the report is objective, fact-based, and fair
  - ACO will send a copy of the draft to the airport for review and comment, and
- The airport will have 60 calendar days to respond.
  - Depending on the circumstances, the airport may be granted an extension not to exceed 30 calendar days,.



# Airport Response

- **Airport concurs** with ACO findings and recommendations.
  - Final Report is issued.
- **Airport does not concur.**
  - The team will deliberate with the airport, which may include:
    - Request additional documentation.
    - Discussions to come to a consensus.
  - Unresolved recommendations become corrective action items.



# Corrective Action Items

- ACO will determine whether the airport's corrective action plan is consistent with the sponsor's federal obligations.
- If the corrective action items result in airport revenue diversion or possible violation of grant assurances, ACO-1 may initiate a Part 16 Notice of Investigation.
  - A finding of noncompliance may result in withholding Airport Improvement Program funds.



# Final Report

- The Final Review Report will be issued when all recommendations and corrective actions items have been agreed upon and disseminated to the Airport and
  - It will be made available to the public on the FAA website.
- The review team will provide ACO management with periodic updates of all open recommendations and corrective actions.
- Monitoring occurs until sufficient and appropriate corrective actions have been completed



# Evidence Our Program is Working

- We find that airport staff has received training specific to the allowable uses of airport revenue.
- Airport staff is often aware of our findings at other airports.
- Airports know they are in the queue for an audit, so they prepare for an eventual audit.
- Fewer mistakes occur in the preparation of Forms 126 and 127.
- Airports frequently consult with FAA offices before making certain expenditures; however...



# Why We Need to Stay the Course ...



# Phoenix Sky Harbor International Airport

- Funds at issue, \$61,000,000
- In 2005, the City agreed to corrective actions that would restore the Federal share of their noise land investments. These actions include land swaps, conversion of noise land to AIP eligible use, and the City's investment of an additional \$7.4 million in noise land projects.
- The City completed all promised actions.





# Austin-Bergstrom International Airport

- Non-aeronautical use of land issue.
  - The Airport was renting land for a solar farm at below FMV, even though the solar farm that was NOT providing a benefit to the airport.
- Cost allocation issues.
  - The City needed to adjust its allocations based on debt service; however, instead was using depreciation for the preceding 6 fiscal years.



# Austin-Bergstrom International Airport (Cont.)

- Cost allocation issues (continued).
  - In addition, the City used authorized full-time equivalents for the preceding 6 fiscal years instead actual staffing levels; the City needed to adjust its allocations based on actual staffing levels.
  - The City allocated costs of the Revenue Recovery Office to the Airport which was not providing services to the Airport.
- All findings were eventually closed out and a Final Report was issued in May 2014.



# Rhode Island TF Green International Airport

- Funds at issue, \$500,000/year to the City of Warwick to fund municipal services provided by Fire Station 8.
- In 2023, the FAA considered the activity provided to the Airport by Fire Station #8 as mutual aid and should have been provided free of charge on a reciprocal basis as noted in the relevant ordinance.



# Rhode Island TF Green International Airport (Cont.)

- In its Draft Financial Compliance Report, the FAA issued a finding disapproving of the \$500,000 payment to the City of Warwick and recommended that payments cease immediately.
- Rhode Island Airport Corporation (RIAC), the Airport sponsor, agreed with the FAA finding.
  - Upon learning of the finding, RIAC wrote to the City of Warwick informing it that the Airport would cease making monthly payments of \$41,666 to the City immediately.

