



U.S. Department  
of Transportation

**Federal Aviation  
Administration**

# Memorandum

Subject: **ACTION:** Program Guidance Letter 05-2

Date: April 29, 2005

From: Manager, Airports Financial Assistance  
Division, APP-500

Reply to  
Attn. of:

To: PGL Distribution List

05-2.1 Letter of Credit Project Payments – Mark Beisse (202) 267-8826.

Attached is a working draft of a replacement paragraph 1301 within the AIP handbook. It reflects comments and suggestions made by regions over the last several months.

While further coordination of the draft and certain related directives continues, this guidance is to be used effective immediately. The draft paragraph is an updated outline of best practices and procedures for overseeing virtually all airport project payments or support documentation. In addition, transition from regional accounting offices to the Finance Center is underway. We may have experience in the near future to refine payment requirements based on that new organization.

If you have further revisions to suggest, please send them in writing to APP-520 by June 15.

Barry L. Molar

Attachment

### **1301. PAYMENT BY LETTER OF CREDIT (LOC).**

**a. General.** The terminology described in paragraph 1300 includes the concept that LOC payment under the AIP has a different meaning than is in common use. The guidance on LOC payment set forth herein is based on requirements that are not under the control of APP-1. Procedures for LOC payment are in Order 2700.33, Letter of Credit - Treasury Financial Communications System (TFCS).

(1) The purpose of LOC procedures is to expedite the transfer of funds for sponsors while meeting the FAA fiduciary obligation involving the Airport and Airway Trust Fund.

(2) For purposes of AIP payments, an LOC is an instrument certified by the FAA authorizing a sponsor to draw funds from the U.S. Treasury for payment directly to the sponsor's bank when needed for reimbursement of allowable project costs incurred. While an electronic clearinghouse operation under auspices of the Federal Transit Administration known as ECHO has superseded certain parts of Order 2700.33, the overall directive requirements remain in place.

(3) The FAA Airports Office should contact the Finance Center, or Regional Accounting Office when applicable, for advice upon initial implementation of payment procedures for a sponsor. Regional Accounting Offices are at the present time transitioning functions to the Finance Center. Airports Offices should make the amount of grant agreements and amendments available to the Finance Center or Regional Accounting Office as soon as those amounts have been fully approved.

**b. FAA Approval of Sponsor's LOC Payment Process.** FAA project payment policy is to approve use of LOC financial transactions for virtually all sponsors. If questions arise, the LOC should be approved when each of the following conditions exist:

(1) The sponsor has an existing procedure or demonstrated willingness and ability to establish procedures that will minimize time elapsed between the Federal transfer of funds and disbursement. However, payment significantly in advance of incurring the cost requires prior approval of APP-520. See paragraph 1300 and 49 CFR 18.21.

(2) There is, or will be, a continuing relationship between the sponsor and the FAA for 12 months at a minimum and payment amounts during that period have been determined to total \$120,000 or more.

(3) The sponsor anticipates frequent drawdown reflecting project progress and agrees to provide the documentation supporting Federal transfers of funds as described in subparagraphs c-d. When the Airports Office determines a sponsor would likely have only unusual periods up to one year with no request for payment, LOC payments may remain appropriate.

(4) The sponsor's financial management system meets standards for funds control and accountability prescribed in Title 49 CFR Part 18, the common grant management rule.

(5) The sponsor is not for any other reason found currently unqualified for an LOC.

(6) The special condition in Appendix 7 on LOC is in grants using this process.

**c. Sponsor Documentation to Support Drawdown.** Sponsors with letters of credit are not required to use Standard Form (SF) 270 and SF 271 that contain project progress and fiscal information except as provided in subparagraph c(3) below. Regions should rely

on the SF 272 or alternatives in individual projects that would be an adequate basis for FAA actions in subparagraph e below. LOC drawdown support documentation alternatives are as follows:

**(1) Federal Cash Transactions Report, SF 272.** Sponsors must submit at least the SF 272 when no report that the FAA determines to be comparable has been provided.

**(2) Comparable Reports and Forms.** Regions may require sponsors to provide the Sponsor Quarterly Performance Report, Construction Progress and Inspection Report, or Special Reports for project tracking of LOC projects if financial information comparable to an SF 272 is included. Regions may prescribe a local form or use forms that are provided by sponsors to the extent the document is comparable to an SF 272. See Paragraph 1221. Routine sponsor certification forms and procedures comparable to SF 272 may also be used for project payment. See Chapter 10, Section 3.

**(3) Other Substitute Standard Forms.** Forms in Paragraph 1303 may also substitute for an SF 272 in an LOC project when the region determines that is appropriate.

**d. Timing and Distribution of Support Documents.** The sponsor must provide forms or reports required by subparagraph c to the Airports Office within 15 working days from the end of the quarter. Forms or reports for any quarter without LOC payments may be deferred.

**e. FAA Role on Support Documents.** Regional Accounting Offices or the Finance Center should review reports on LOC status, confirm with the sponsor if necessary and report payment rejection to the Airports Office. Airports Offices should periodically monitor the sponsor's drawdown and disbursements reported under subparagraph c. On a schedule the region determines to be appropriate, Airports Offices should comprehensively evaluate the financial activity and make one of the following determinations:

**(1) LOC Best Practices Requiring No Action.** Regions should correlate progress of the project with the LOC drawdown request, Treasury Fiscal Service (TFS) Form 5805, Request for Funds (or the current version of the TFS Form 5805), a copy of which sponsors must send to the Airports Office. The region should review sponsor tracking of funds as well as whether payment is greater than the Federal share and disbursements. If the region determines the sponsor draws down funds in line with project progress as known to the FAA, no action is required except to include available information in the project file.

**(2) Notice to Sponsor of Corrective Action.** If the region determines documents and other information from a sponsor indicate the conditions within subparagraphs b and c are not met, the Airports Office should notify the sponsor of discrepancies. Airports Offices should ensure the discrepancies are corrected.

**(3) Other LOC Actions.** If a region's LOC procedures are different from the above or the Airports Office makes other determinations, contact APP-520 for appropriate actions.

**f. FAA Revocation of LOC.** The region must revoke an LOC if the sponsor has not after 90 days from FAA notification in subparagraph e(2) corrected irreconcilable drawdown or other unacceptable conditions. The Airports Office should contact the Finance Center or Regional Accounting Office prior to taking actions that revoke the LOC. Regions may use other payment methods when the LOC has been cancelled.