
Office of Inspector General

**Airport Revenues
McMahon-Wrinkle Airpark
Big Spring, Texas**

Federal Aviation Administration

**Report Number AV-1998-026
Date Issued: November 21, 1997**





Memorandum

**U.S. Department of
Transportation**

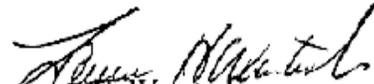
Office of the Secretary
of Transportation

Office of Inspector General

Subject: ACTION: Report on Airport Revenues
McMahon-Wrinkle Airpark, Big Spring, Texas
Report No.

Date:

From:


Lawrence H. Weinrob
Assistant Inspector General for Auditing

Reply to
Attn of: JA-10

To: Federal Aviation Administrator

I am providing this report for your information and use. Your June 6, 1997, and July 23, 1997, comments to our April 8, 1997, draft report were considered in preparing this report. A synopsis of the report follows this memorandum.

The Federal Aviation Administration (FAA) concurred with all recommendations. In response to Recommendation 1, the city of Big Spring has transferred \$1,231,332 into the McMahon-Wrinkle Airpark Fund. This action established fair market value compensation for the building expansion used for nonaeronautical purposes. Actions taken and planned were reasonable. However, please advise us of your final position concerning the fire station costs the city owes the airport, and provide target dates for completing the planned actions. The recommendations in this report are subject to the followup requirements of Department of Transportation Order 8000.1C.

I appreciate the courtesies and cooperation extended to our staff during the audit. Please call Alexis M. Stefani at (202) 366-0500, or Ronald E. Brown at (817) 978-3545, if you have questions concerning this report.

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Airport Revenues
McMahon-Wrinkle Airpark, Big Spring, Texas

Federal Aviation Administration

Report No. AV-1998-026

November 21, 1997

Objectives

Our audit objectives were to determine whether the city of Big Spring, Texas (city), was in compliance with the Federal Aviation Administration (FAA) Airport Improvement Program grant assurances to ensure (i) fee and rental structures were maintained which make the McMahon-Wrinkle Airpark (airport) as self-sustaining as possible, and (ii) airport revenues were used for the operating and capital cost of the airport. This audit was requested by the Manager, Airports Division FAA, Southwest Region.

Results in Brief

The Airport and Airway Improvement Act of 1982, as amended, requires that the airport sponsor agree to comply with assurances as a condition for approval of an FAA grant. Two of these assurances are Section 511(a)(9), which requires the airport to maintain a fee and rental structure that makes the airport as self-sustaining as possible, and Section 511(a)(12), which requires airport-generated revenues be used for the operating and capital cost of the airport.

The airport is operated by the city. The city is the airport's sponsor. The airport, which consists of 2,286 acres, was transferred to the city in 1978 under the Surplus Property Act. For Fiscal Years (FY) 1993 to 1996, the airport earned about \$2.4 million in operating revenues and incurred operating expenses of about \$8.4 million, for a net operating loss of about \$6 million.

The city was not in compliance with its grant assurances, and airport funds were spent for nonaeronautical purposes without obtaining FAA approval. The city diverted at least \$1.8 million of airport revenues for nonaeronautical purposes. This included investing in nonaeronautical construction (\$1,285,554), paying firefighters' costs related to city fire protection (\$529,730), and paying wages of employees that worked off airport property (\$26,539). The city also did not have a fee and rental structure at the airport that met FAA guidelines and owes the airport at least \$122,188 for lease of airport property.

Recommendations

We recommended the FAA notify the city to (i) return \$1.8 million of diverted revenues; (ii) in the future, obtain FAA approval before spending airport funds for nonaeronautical purposes; (iii) develop a cost allocation plan to equitably distribute firefighter costs to the airport; (iv) establish procedures to ensure the city reimburses the airport for wages of employees used for city purposes; (v) update and maintain a fee and rental structure that will make the airport as self-sustaining as possible, to include determining fair market rental value, adjusting rents accordingly, and obtaining FAA approval of the fee and rental structure; and (vi) reimburse the airport \$122,188 for use of airport property.

Management Position

FAA concurred with all recommendations. The city has transferred \$1,231,332 into the airport fund which represented fair market value compensation for the building expansion used for nonaeronautical purposes. Regarding the fire station costs of \$529,730 the city owes the airport, FAA has requested the city to recompute and reimburse the airport for these fire station costs. In addition, FAA has requested the city to develop a cost allocation plan to equitably distribute firefighter costs and to establish procedures to ensure the city reimburses the airport for the wages of employees used for city purposes. FAA has also requested the city to revise, update, and maintain a fee and rental structure to make the airport self-sustaining and has requested the city to reimburse the airport \$122,188 for use of airport property.

Office of Inspector General Comments

Actions taken and planned were reasonable. However, FAA should advise us of their final position concerning the fire station related costs the city owes the airport, and provide target dates for completing the planned actions.

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I. INTRODUCTION

This audit was requested by the Manager, Airports Division, Federal Aviation Administration (FAA) Southwest Region.

Background

The Airport and Airway Improvement Act of 1982 (AAIA), as amended, requires that the airport sponsor must agree to comply with assurances as a condition precedent to approval of an FAA grant. Two of these assurances are Section 511(a)(9), which requires the airport to maintain a fee and rental structure which makes the airport as self-sustaining as possible, and Section 511(a)(12), which requires airport-generated revenues be used for the operating and capital cost of the airport.

McMahon-Wrinkle Airpark (airport) is operated by the city of Big Spring, Texas (city). The city is the airport's sponsor. The airport was transferred to the city in 1978 under the Surplus Property Act, as amended. The airport consists of 2,286 acres. For Fiscal Years (FY) 1993 to 1996¹, the airport earned about \$2.4 million in operating revenues and incurred operating expenses of about \$8.4 million, for a net operating loss of about \$6 million (\$3.3 million of depreciation expenses).

In 1993, the airport had about \$3 million in its account, of which \$2 million was deposited in 1989 when an airport lessee paid for breaking its lease. As of September 30, 1996, the airport account had about \$1 million, of which \$600,000 was reimbursed from the city for sewer and water pipeline costs. The airport had not received any grant funds or block grants in the last 5 years. The previous grant, issued on April 30, 1987, was for construction and marking of the runway.

Objectives, Scope, and Methodology

Our audit objectives were to determine whether the city was in compliance with Airport Improvement Program grant assurances to ensure (i) fee and

¹ At the time of our audit, the city had not issued its Comprehensive Annual Financial Report for the fiscal year ended September 30, 1996. Therefore, we used the FY 1996 Airport Enterprise Fund Preliminary Trial Balance.

rental structures were maintained which make the airport as self-sustaining as possible, and (ii) airport revenues were used for the operating and capital cost of the airport.

The audit was conducted at the FAA Southwest Region Office and the city's administration and airport offices. We interviewed officials from the FAA Southwest Region Airports Division and the city. At FAA, we reviewed project files and airport compliance reports. At the city and airport offices, we reviewed one nonaeronautical lease. We also reviewed the amounts charged for land and existing buildings at the airport, and tested use of airport revenues. We toured airport property, and met with city officials.

We evaluated FAA management controls related to monitoring and enforcing AAIA Sections 511(a)(9) and 511(a)(12) assurances, and city management controls related to assessing, collecting, and using airport fees and rents. The management control weaknesses we identified are discussed in Part II of this report. The audit covered FY 1993 through FY 1996, but transactions from earlier periods were reviewed as appropriate. The audit was conducted from November to December 1996, in accordance with Government Auditing Standards prescribed by the Comptroller General of the United States.

Prior Audit Coverage

The Office of Inspector General had not audited accountability and use of airport revenues at the airport within the past 5 years.

II. FINDINGS AND RECOMMENDATIONS

Finding A. Revenue Diversions

The airport (i) invested in nonaeronautical construction when there were aeronautical needs, (ii) paid for firefighters' salaries and equipment that were related to the city's fire protection cost, and (iii) paid wages of employees who worked off airport property. This occurred because the city did not comply with its grant assurances. As a result, airport revenues of at least \$1.8 million were diverted for nonaeronautical purposes.

Discussion

As required by AAIA, as amended, the airport sponsor must agree to comply with assurances as a condition precedent to approval of an FAA grant. One assurance is Section 511(a)(12), which states:

. . . all revenues generated by the airport, if it is a public airport, will be expended for the capital or operating costs of the airport,

FAA Order 5190.6A, Section 4-20(a)(1) also states:

Where an airport includes property acquired from the Federal Government . . . the law, and frequently the conveyance document itself, authorize use by nonaviation business activity. . . . Such use is justified only when it produces an income which is applied to any airport operation, maintenance and development. This income can also be used to improve and develop the infrastructure (utilities, roads, basic site preparation, etc.) for airport revenue producing land when a determination is made by FAA that all operational and safety needs of the airport are being adequately met and that near term future aeronautical needs can be achieved. The airport owner should be advised that their decision to use these funds for other than direct aeronautical needs may affect the airports' ability to compete for discretionary grant money under the Airport Grant Program.

Construction for Nonaeronautical Purposes

The Indenture transferring property under the Surplus Property Act, dated October 6, 1978 states:

. . . no property transferred by this instrument shall be . . . leased, sold, salvaged, or disposed of by the Grantee for other than the airport purposes without the written consent of the Federal Aviation Administrator. . . .

Western Container Corporation (WCC) is leasing a building on airport property. The building was not used for aviation-related activities. In 1994, the airport spent \$1.4 million to add 70,000 square feet to the WCC building. According to city officials, the expansion supported an increase in local

jobs. The city did not get FAA approval to spend these funds for nonaeronautical purposes, as required.

On March 29, 1994, the city amended its lease agreement to include the building expansion. The lease rate was \$12,948.47 per month for 12 years, and \$252 per year thereafter. The lease payments were set based on return of the construction cost, plus five percent interest. The construction was completed, and WCC made the first payment in June 1995.

The lease generates no revenue for the airport. Since the construction was not for aviation-related activities, airport revenues should not have been used. Consequently, the city should have funded the construction, and should reimburse the airport as follows:

Construction costs	\$1,400,000
5 percent interest 6/95 - 12/96	110,827
Rent of land for building and dock ((\$1,092/mo 6/95 - 12/96))	20,748
Total	<u>\$1,531,575</u>
Deduct amount paid airport ((\$12,948.47/mo - 6/95 - 12/96))	<u>246,021</u>
Amount due airport	<u>\$1,285,554</u>

Once the city reimburses the airport, then the airport should negotiate a lease with WCC for the appraised value of the land used.

Fire Department Cost

FAA Order 5190.6A, Airport Compliance Requirements (October 2, 1989), Section 4-20(c)(ii), states:

Clearly supportable and documented charges made by a governmental entity to reimburse that entity for payment of capital or operating cost of the airport may be allowed. . . . If an indirect charge is levied against the airport in support of capital or operating expenses, the indirect charge must also be levied against other governmental cost centers in accordance with generally accepted accounting procedures and practices.

The Texas Commission on Fire Protection, in a letter to the city on April 12, 1993, stated that operation of a fire station at the airport would eliminate the \$.01 key-rate charge for inadequate station coverage. To satisfy this, the city converted an airport building for use as a fire station.

The airport paid \$735,918 for fire station related costs. The fire station cost included (i) \$155,292 to build a training tower on the airport to provide training for city firemen, (ii) \$77,037 (\$154,037 - \$77,000 paid by city) for a new 1994 fire truck, (iii) fire fighter salaries of \$483,796 (1994 -

\$154,719; 1995 - \$171,178; and 1996 - \$157,899), and (iv) \$19,793 to renovate a 1977 pump fire truck.

The city determined the airport fire station operating cost was \$193,910 annually, or \$16,159 per month. The operating cost included firefighter salaries. The city calculated the airports' share of the fire station operating cost to be 84 percent, based on a land valuation survey. The city did not levy firefighter cost against any other governmental cost center.

Our analysis of fire station calls during 6 months, January, May, and September of 1995 and 1996, showed 13 percent were on airport property. Using the city's monthly cost figure of \$16,159, we calculate the airport share should have been \$92,429 (\$16,159 per month times 44 months, May 1993 to December 1996, times 13 percent), and the city's share \$643,489 (\$735,918 minus \$92,429). The city paid \$113,759 to the airport during the 44 months. Therefore, it owes the airport \$529,730.

Since the fire station at the airport is not totally dedicated to the airport, the city should include firefighter costs in an acceptable cost allocation plan and distribute these costs to the airport using that method.

Airport Employees Working for City

We found four of eight employees paid by the airport who worked for both the airport and the city. We reviewed the time records of the four employees for the months of March, April, and May 1996. We found the employees spent a combined total of 39 percent of their time working off airport property. Using these employees' 1996 salaries, the city owed the airport \$26,539 (39 percent times \$68,050) for these employees.

Recommendations

We recommend FAA notify the city to:

1. Compensate the airport \$1,841,823 (\$1,285,554, \$529,730, \$26,539) for diverted revenues.
2. In the future, obtain FAA approval before spending airport funds for nonaeronautical purposes.
3. Develop a cost allocation plan to equitably distribute firefighter costs.
4. Establish procedures to ensure the city reimburses the airport for the wages of employees used for city purposes.

Management Response

In the June 6, 1997, and July 23, 1997, responses to our April 8, 1997, draft report, FAA concurred with the recommendations. The city has transferred \$1,231,332 into the airport fund which represented fair market value compensation for the WCC property. Regarding the fire station costs of \$529,730 the city owes the airport, FAA has requested the city to recompute and reimburse the airport for the fire station related costs. In addition, FAA has requested the city to reimburse the airport \$26,539 for the employees used for city purposes. For Recommendations 3 and 4, FAA has requested the city to develop a cost allocation plan to equitably distribute firefighter costs and to establish procedures to ensure the city reimburses the airport for the employees used for city purposes. FAA's responses to the draft report are Appendix I and Appendix II of this report.

Office of Inspector General Comments

Actions taken and planned are reasonable. However, please advise us of your final position concerning the fire station related costs the city owes the airport, and target dates for completing the planned actions.

Finding B. Fee and Rental Structure

The city's fee and rental structure did not meet FAA guidelines. This occurred because the city's fee and rental structure, which was not approved by FAA, was based on an appraisal of one airport property. As a result, the airport was not as self-sustaining as possible.

Discussion

Assurance 24, which covers fee and rental structure, provides:

It (the sponsor) will maintain a fee and rental structure . . . for the facilities and services being provided the airport users which will make the airport as self-sustaining as possible . . .(Parenthetical data added.)

FAA Order 5190.6A requires:

. . . any lease or other rental arrangement covering the use of surplus property at an airport must assure that the fair rental value of the property will accrue to the airport and be available to meet airport expenses. . . .FMV (fair-market value) for any lease of nonaeronautical revenue production . . . under the Surplus Property Act of 1944, as amended, must be established. Appraisals . . . is one acceptable method of establishing FMV. (Parenthetical data added.)

During the last 4 years, FY 1993 to FY 1996, the airport lost about \$6 million. The city's fee and rental structure was based on an appraisal of a single property, although the airport collected revenue from leasing over 80 properties. Examples of inadequate lease rates follow.

Fire Station. The airport paid \$378,552 to refurbish a building for use as a fire station. The city pays all utilities and \$1,506 a month for rent. At the current lease rate, it would take about 21 years to recapture the cost of refurbishing the building, before any revenues would be generated for airport operations.

Wilderness Camp Prison. Wilderness Camp Prison, located on the airport, was not paying any rent. The airport also paid \$70,127 to renovate an airport building for prison use.

The city, by Letter of Understanding, had an agreement with the Texas Department of Criminal Justice-Institutional Division (Institutional Division) for the labor use of inmates in exchange for housing. Neither the airport nor the city were receiving any money from the Institutional Division. The camp became operational in March 1995. There was no written agreement between the city and the airport regarding rent for the Wilderness Camp.

Using the lease rate established based on one appraisal, which was not approved by FAA, the camp rental should be \$5,554 per month. The city owes the airport at least \$122,188 (\$5,554 per month x 22 months from March 1995 to December 1996).

WCC Building Expansion. As discussed in finding A, the airport is receiving no rent for the 70,000 square feet provided to WCC at a cost to the airport of \$1.4 million.

There were 77 other properties where fair market rental value needs to be established, and lease rates adjusted accordingly to ensure the airport is as self-sustaining as possible.

Recommendations

We recommended FAA notify the city to:

1. Revise, update, and maintain a fee and rental structure in accordance with FAA Order 5190.6A, to include (i) determining fair-market rental value, (ii) adjusting rents accordingly, and (iii) obtaining FAA approval of the fee and rental structure.
2. Reimburse the airport \$122,188 for lease of airport property included in this finding.

Management Response

In its responses to our April 8, 1997, draft report, FAA concurred with the recommendations. FAA has requested the city revise, update, and maintain a fee and rental structure in accordance with FAA Order 5190.6A, to include determining the fair market value and adjusting rent accordingly and to obtain FAA approval prior to implementation. In addition, FAA has requested the city reimburse the airport \$122,188 for the camp rental.

Office of Inspector General Comments

FAA's actions taken and planned are reasonable. However, please provide target dates for completing the planned actions.

MAJOR CONTRIBUTORS TO THIS REPORT

These individuals participated in the audit of Airport Revenues at McMahon-Wrinkle Airpark, Big Spring, Texas.

Ronald E. Brown	Regional Manager, Region VI
Alvin B. Schenkelberg	Auditor-In-Charge
Stanley C. Sabourin	Auditor
Sherry A. Hilderbrand	Auditor
LaRue Burks	Administrative Staff



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

Memorandum

Subject: INFORMATION: Response to Draft Report on
Airport Revenues at McMahon-Winkle Airpark,
Big Spring, Texas, Project No. 764-001-6000

Date: JUN 6 1997

From: Manager, Airports Division, ASW-600

Reply
to Attn.
of:

To: Mr. Ronald E. Brown
Regional Manager, Region IV
Office of Inspector General

This responds to your April 8, 1997, draft report of the Airport Revenues Audit at McMahon-Winkle Airpark, Big Spring, Texas. Your report concluded that the city was not in compliance with its grant assurances. The city diverted airpark revenues for nonairpark-related purposes. It further stated that the city (i) did not have a fee and rental structure at the airpark that met Federal Aviation Administration (FAA) guidelines, and (ii) spent airpark funds for nonaeronautical purposes without obtaining FAA approval.

The FAA concurs with your report and has been working with the city to resolve the issues in the report. The city has transferred \$1,228,628.00 into the Airpark Fund (documentation attached). That action established Fair Market Value compensation for the Western Container property. We are continuing to work with the city to resolve the remaining issues in the draft report. We will provide your office a written report of our actions no later than June 27, 1997.

If you have any questions regarding this memorandum, please contact Mr. Joe Washington at 817-222-5620.

Naomi L. Saunders

Attachment

cc:
ASW-650

Celebrating 50 Years of Airport Development



MONTHLY STATEMENT OF ACCOUNT

LOCATION: 11401 SERIES: 0315 FUND: 000 AS OF: 04/30/97
 ACCOUNT NAME: AIRPARK RESERVE FUND

CITY OF BIG SPRING
 ATTN: THOMAS D FERGUSON
 310 NOLAN ST
 BIG SPRING, TX 79720-2657

TRANS. DATE	DESCRIPTION	CONFIRM NO.	AMOUNT	BALANCE
	BEGINNING BALANCE:			0.00
04/16/97	INTERFUND DEPOSIT	04169964	300,000.00	300,000.00
04/16/97	TRANSFER DEPOSIT	04169968	928,628.00	1,228,628.00
04/30/97	MONTHLY POSTING		2,704.35	1,231,332.35
	ENDING BALANCE:			1,231,332.35
SUMMARY:				
	BEGINNING BALANCE:		0.00	
	TOTAL DEPOSITS:		1,228,628.00	
	TOTAL WITHDRAWALS:		0.00	
	TOTAL INTEREST:		2,704.35	
	CURRENT BALANCE:		1,231,332.35	
	AVERAGE BALANCE:		614,314.00	

If you have any questions, please call 1-800-234-5447.



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

Southwest Region
Arkansas, Louisiana,
New Mexico, Oklahoma,
Texas

Fort Worth, Texas 76193-0000

JUL 23 1997

Mr. Gary Fuqua
City Manager
City of Big Spring
310 Nolan
Big Spring, TX 79720-2657

Dear Mr. Fuqua:

We recently received a draft audit report from the Office of Inspector General (OIG) for an audit conducted at McMahon-Wrinkle Airpark related to use of airport revenues at the airpark in conformance with Federal Aviation Administration (FAA) grant assurances.

The report contains two findings and several recommendations, which we concur with fully. Your assistance in resolving the findings and initiating actions on the recommendations, as set forth herein, is requested so that the audit may be resolved.

The Airport and Airway Improvement Act of 1982, (AAIA), as amended, requires that the airport sponsor must agree to comply with assurances as a condition precedent to approval of an FAA grant. Two of these assurances are Section 511(a)(9), which requires the airport to maintain a fee and rental structure which makes the airport as self-sustaining as possible, and Section 511(a)(12), which requires all revenues generated by the airport, if it is a public airport, to be expended for the capital or operating costs of the airport. The basis for the OIG's findings are set in accordance with the aforementioned assurances.

Finding A, Revenue Diversions: The Airpark (i) invested in nonaeronautical construction when there were aeronautical needs, (ii) paid for firefighters' salaries and equipment that were related to the city's fire protection cost, and (iii) paid wages of employees who worked on airpark property. As a result, airpark revenues of at least \$1.8 million were diverted for nonairport related purposes.

a. Construction for Nonaeronautical Purposes: The OIG revealed that the city was leasing a building to the Western Container Corporation (WCC) on airpark property for nonaviation related purposes. In 1994, the airpark spent \$1.4 million to add 70,000 square feet for WCC. According to city officials, the expansion supported an increase in local jobs. The city did not get FAA approval to spend these funds for nonaeronautical purposes, as required.

Celebrating 50 Years of Airport Development

On March 29, 1994, the city amended its lease agreement to include the building expansion. The lease rate was \$12,948.47 per month for 12 years and \$252 per year thereafter. The lease payments were set based on return of the construction cost, plus five percent interest. The lease generates no revenue for the airpark. Since the construction was not for aviation related activities, airpark revenues should not have been used. Consequently, the city should have funded the construction, and should reimburse the airpark accordingly.

Since the OIG's report, the city has worked with the FAA, Texas Airport Development Office to improve operational characteristics of the airpark. Consequently, \$1,231,332.35 was transferred to the airpark account on March 16, 1997.

Recommendation: The FAA considers the matter of using airpark funds for nonaeronautical purposes resolved as a result of the city's action to reimburse the airpark account \$1,231,332.35. Our recommendation on the leasing issue is addressed in Finding B, of this letter.

b. Fire Department Costs:

1. The OIG revealed that the city paid for firefighters' salaries and equipment that were related to the city's fire protection cost.

FAA Order 5190.6A, Airport Compliance Requirements (October 2, 1989), Section 4-20(c)(ii), requires that, if an indirect charge is levied against the airport in support of capital or operating expenses, the indirect charge must also be levied against other governmental cost centers in accordance with generally accepted accounting procedures and practices.

The Texas Commission on Fire Protection, in a letter to the city on April 12, 1993, stated that operation of a fire station at the airpark would eliminate the \$.01 key-rate charge for inadequate station coverage. To satisfy this, the city converted an airpark building for use as a fire station.

The airpark paid \$735,918 for fire station related costs. These costs included (i) \$155,292 to build a training tower on the airpark to provide training for city firemen, (ii) \$77,037 (\$154,037 - \$77,000 paid by the city) for a new 1994 fire truck, (iii) fire fighter salaries of \$483,796 (1994 - \$154,719; 1995 - \$171,178; and 1996 - \$157,899), and (iv) \$19,793 to renovate a 1977 pump fire truck.

The city's airpark fire station operating cost was \$193,910 annually, or \$16,159 per month. This cost included firefighter salaries. The city calculated the airpark's share of the fire station operating cost to be 84 percent, based on a land valuation

survey. The city did not levy firefighter cost against any other government cost center. The OIG's analysis of fire station calls during 6 months, January, May, and September of 1995 and 1996, showed 13 percent were on airpark property. Using the city's monthly cost figure of \$16,159, the OIG calculated the airpark's share should have been \$92,429 (\$16,159 per month times 44 months, May 1993 to December 1996, times 13 percent), and the city's share \$643,489 (\$735,918 minus \$92,429). The OIG determined that the city paid \$113,759 to the airpark during the 44 months; therefore, it owes the airpark \$529,730.

The OIG suggested that, since the fire station at the airpark is not totally dedicated to the airpark, the city should include firefighter cost in an acceptable cost allocation plan and distribute this cost to the airpark using that method.

Recommendation: The FAA requests that (1) The city develop and submit for review a cost allocation plan that equitably distributes firefighter cost. The procedure shall become effective no later than the beginning of the next fiscal year. (2) The city recompute and reimburse the airpark the proper percentage of cost applied by the airpark for the training tower, 1994 fire truck, and the renovation of the 1977 pump fire truck. Considering the OIG's assessment, 13 percent should have been the proper multiplier. The FAA estimates that the city owes the airpark \$223,607. We did not include the cost associated with firefighter salaries since we had previously approved it in our June 9, 1994, letter. Our decision at that time was based on the city provided information.

c. Airpark Employees Working for the City: The OIG found that four of eight employees paid by the airpark worked for both the airpark and the city. The time records of the four employees for the months of March, April, and May 1996 revealed that 39 percent of their time was spent working off airpark property. Using their 1996 salaries, the city owed the airpark \$26,539 (39 percent times \$68,050).

Recommendation: The FAA requests that the city reimburse the airpark account \$26,539 and establish procedures to ensure the city reimburse the airpark for the employees used for city purposes.

Finding B, Fee and Rental Structure: The city's fee and rental structure did not meet FAA guidelines. The fee and rental structure was based on the appraisal of one airpark property and was not approved by the FAA. As a result, the airport was not self-sustaining.

Assurance 24, of the grant agreement, dated December 23, 1991, require that the sponsor maintain a fee and rental structure for the facilities and services being provided to the airport users which will make the airport as self-sustaining as possible.

Celebrating 50 Years of Airport Development

Additionally, FAA Order 5190.6A, Airport Compliance Requirements, state; Fair Market Value (FMV) for any lease of nonaeronautical revenue production ... under the Surplus Property Act of 1944, as amended, must be established. Appraisal ... is one acceptable method of establishing FMV."

The city leased airport property with an outdated fee and rental structure. Airport officials did not know the basis for established rates and did not have procedures to establish FMV.

The OIG estimates that during the last 4 years, FY-93 to FY-96, the airpark lost \$6 million. The city's fee and rental structure was based on an appraisal of a single property although the airpark collected revenue from leasing over 80 properties.

a. Fire Station: The airpark paid \$38,552 to refurbish a building for use as a fire station. The city pays all utilities and \$1,506 a month for rent. At the current lease rate, it would take approximately 21 years to recapture the cost of improvements, before any revenues would be realized.

Recommendation: We request that the city revise, update and maintain a fee and rental structure in accordance with FAA Order 5190.6A, to include FMV and adjusting rent accordingly.

b. Wilderness Camp Prison: The OIG revealed that the Wilderness Camp Prison, located on the airpark, was not paying any rent. The airpark also paid \$70,127 to renovate an airpark building for prison use.

The city, by Letter of Understanding, had an agreement with the Texas Department of Criminal Justice-Institutional Division (TDCJ-ID) for the labor use of inmates in exchange for housing. Neither the airpark nor the city was receiving any money from the TDCJ-ID. Prison staff and utility costs are paid by TDCJ-ID. The camp became operational in March 1995. There was no written agreement between the city and the airpark regarding rent for the Wilderness Camp.

Using the lease rate established based on the one appraisal (not approved by the FAA), the OIG determined that the camp rental should be \$5,554 per month. The city owes the airpark \$122,188 (\$5,554 per month x 22 months from March 1995 to December 1996.)

Recommendation: The FAA requests that the city reimburse the airpark \$122,188. The FAA also requests that the city revise, update, and maintain a fee and rental structure in accordance with FAA Order 5190.6A, Airport Compliance Requirements, to include determining FMV and adjusting rent accordingly. Also, FAA approval must be obtained prior to implementation.

c. WCC Building Expansion: As discussed in Finding A, the airpark is receiving no rent for the 70,000 square feet provided to WCC at a cost to the airpark of \$1.4 million.

Recommendation: We recommend that the city establish a lease rate structure that ensures the airpark receives FMV for the property utilized by WCC. This agreement, once drafted, will be submitted to FAA for review and approval.

Your assistance, and that of other city officials necessary to complete the above actions in a timely manner, will be greatly appreciated. We would like to resolve each issue at the earliest date possible; therefore, we request that each of these actions be accomplished and our office notified by August 29, 1997. If all actions are not completed by that date, please submit a status report stating current status and a tentative completion date for each item.

If you have any questions, please contact Mr. Joe Washington at (817) 222-5620.

Sincerely,

ORIGINAL SIGNED BY:
NAOMI L. SAUNDERS

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cc:
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