



## Preliminary Review of Improvements at the Louisville International Airport

### SUMMARY

Our review of the improvements at the Louisville International Airport showed the following:

- The cost of the Louisville Airport Improvement Program has nearly doubled, from an estimated \$370 million in 1991 to more than \$700 million, due primarily to changes in project scope.
- The initial study that served as the basis for the expansion program was developed without meaningful public input regarding the need for the expansion or discussion of alternatives.
- The presentation of the LAIP to the public was not always handled in a manner that was conducive to public understanding and support.
- Residents affected by the LAIP who are members of the Airport Neighbors' Alliance have numerous questions that they do not think have been adequately answered.
- Two major stumbling blocks are slowing the progress of relocation according to Regional Airport Authority (RAA) officials: absence of money and scarcity of comparable housing.
- The cost of the parking garage appears to be in line with parking garage costs in Kentucky and nationally.
- Recent efforts to keep the public informed and involved are promising, and these efforts must continue.

### Background

The 1998 General Assembly authorized an appropriation of \$20 million for the Louisville International Airport to help the Regional Airport Authority (RAA) acquire residential property under the Voluntary Buyout Program. In exchange, the RAA would deed over \$20 million worth of property to the Kentucky State Fair Board, which would include the Ashton-Adair and South Prestonia areas.

One of the provisos included as part of this appropriation was that the RAA provide to the Auditor of Public Accounts for review copies of its existing financial audits prepared by independent certified public accountants in

order that the Auditor of Public Accounts may determine what additional financial or management audits, if any, are warranted.

**The Commonwealth and its citizens have an interest in ensuring that the Louisville International Airport is managed in the most cost-effective manner possible.**

One reason for the Commonwealth's interest in the airport is because it has contributed more than \$80 million, or just over 11%, of the estimated \$716 million total cost of the Louisville Airport Improvement Program.

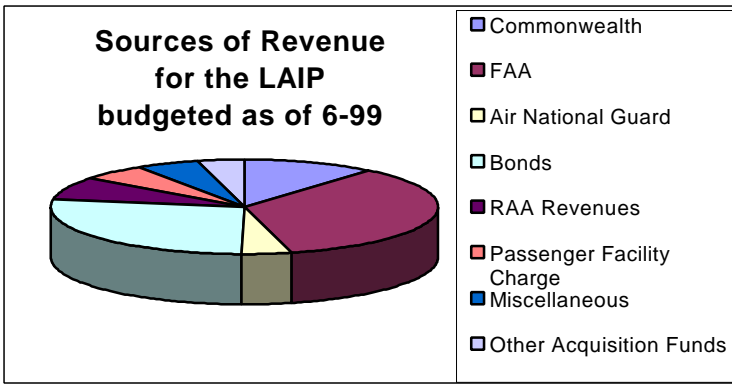
In April 1990, the RAA obtained a \$50 million appropriation from the Commonwealth for the LAIP project. About \$16 million of this appropriation was exchanged for land around the airport, but the remaining \$34 million was a grant. Most of this money was used for relocation purposes, primarily of businesses, according to RAA staff.

In 1994, the Commonwealth relieved the RAA of its future obligations relating to an economic development bond lease agreement initially dated April 1983. The value of this relief was \$10.2 million. In exchange, the RAA agreed to purchase the Ashton-Adair neighborhood, transfer half the property controlled by the RAA in the Ashton-Adair neighborhood to the Commonwealth, and build and deed to the Commonwealth a new four-lane road near the airport.

Finally, in 1998, the Commonwealth appropriated \$20 million to the RAA. As noted earlier, in exchange, the RAA would transfer ownership of \$20 million worth of property to the Kentucky State Fair Board, which would include the Ashton-Adair and South Prestonia areas.

In addition to the direct funds provided by the Commonwealth, the airport has benefited from the Commonwealth in other ways. In particular, Kentucky laws permitted the RAA to issue nearly \$200 million in revenue bonds in support of the improvement project.

The table on the following page shows the relative contributions of the various sources of revenue that are budgeted to pay for the LAIP.



Source: Regional Airport Authority

## Briefing Report Objectives, Scope, and Methodology

The Division of Financial Audit completed the review of the RAA financial statements in October 1998. Our recommendation was that the Authority obtain a management (performance) audit, due to the significant changes in the scope of the Louisville Airport Improvement Program (LAIP) over the past 10 years. This report presents our preliminary work.

As we reviewed the cost and scope increases for the program, we also identified other areas of concern, including the following:

- How adequate was public input to the decision to expand the airport?
- How much money has been spent on relocation activities?
- Why has the relocation process taken so long?
- How long must the remaining 1,600 families wait for relocation?
- Is the parking garage cost reasonable?

To address these concerns, we reviewed information provided by the Regional Airport Authority. We also interviewed RAA staff. In addition, we talked with members of the Jefferson County legislative delegation as well as neighborhood residents who live around the airport and are subject to the noise from departing and arriving airplanes.

Our review did not constitute a full performance audit. If an audit had been conducted, additional information relevant to the findings and conclusions may have come to our attention. Furthermore, we did not obtain official comments from the Regional Airport Authority regarding the conclusions and suggested actions in this report.

## Findings

The cost of the Louisville Airport Improvement Program (LAIP) has nearly doubled, from an estimated \$370 million in 1991 to more than \$700 million today.

The costs have increased primarily because of changes in the scope of the project, although there have been additional construction costs as well.

The original estimate of project cost as of January 1991 was \$369 million. The estimate as of June 1998 was \$716 million. The project changes total \$347 million, as follows:

### Changes to Original Project

	(in millions)
Additional construction costs:	
East runway	\$33.1
West runway	33.4
Taxiways & aprons	10.2
Airfield roads	1.7
Airfield utilities	7.1
Related construction	
Rental car facilities	3.3
Public roads	6.5
Primary Airport Property	
Acquisition	(2.3)
Demolition	.4
Soundproofing	(18.9)
Mitigation - Edgewood	2.5
Contingency/Other	<u>12.1</u>
Original Project Cost Increases	<b>\$89.1</b>

### Additions to Project Scope

Additional construction:	
Drainage	\$16.3
Support facilities	9.7
FBO facilities	9.4
General aviation ramp	5.4
Government facilities	
Tower and base building	15.8
Instrument Landing System	5.8
Kentucky Air National Guard Base	55.7
Voluntary Relocation	<u>140.0</u>
Additions to Project Scope:	<b>\$258.1</b>
TOTAL	<b>\$347.2</b>

**The study that served as the basis for the expansion program was developed without public input regarding the need for the expansion or discussion of alternatives.**

In November 1987, the Regional Airport Authority approved a study to look at the following three things:

- Projected demand for the airport over the next 5 to 20 years,
- Capacity of the airport to handle this demand, and
- Cost of expanding the airport compared with the expense of building a new airport.

The results of the ensuing 7-month study were released in June 1988. The study rejected as many as two dozen alternatives for improving the airport, including the opportunity to develop a new airport at another location. This last alternative was rejected, in part, because it had been extensively reviewed and rejected in 1971.

In October 1988, the first of three public workshops to solicit input from the public on the proposed project was held. This workshop was held after the proposed expansion plan had been unveiled.

Historical information from that period and our interviews with numerous interested parties, including members of the General Assembly and affected residents, revealed significant concerns about the "closed-door" way the proposed project had been developed. Many of these individuals noted, and we agree, that when public funds are involved, citizens should have a strong voice in how those funds are spent. Furthermore, consistent with good planning practices and citizen involvement, this voice should be heard early enough in the process so that it can influence decision-making.

**The presentation of the LAIP to the public was not always handled in a manner that was conducive to public understanding and support.**

After the project was unveiled, the RAA held a series of public workshops to address affected residents' concerns. We reviewed a summary of the questions and answers that arose during those meetings, as well as historical newspaper accounts of the early days of the airport expansion. We also met with a number of residents affected by the expansion project. It is clear from those reviews that some residents believe that their views were not heard or given any consideration. It is also clear that some residents believe they were given misleading information regarding what was going to be done with their properties.

RAA staff clearly thought they were being open with the residents and the community and were responsive to their needs and concerns. In fact, some changes to the project

were made as a result of public input. For instance, the final recommendation in the Part 150 Noise Compatibility Program recommended reducing the noise levels at which soundproofing would be carried out from 70 Ldn to 65 Ldn<sup>1</sup>.

Part 150 is the section of the Federal Aviation Administration regulations that deals with noise mitigation. The Part 150 Noise Compatibility Program describes the process by which an airport can develop a balanced, cost-effective plan to reduce the impacts of noise from airport growth and mitigate any future impacts due to expansion of the airport to meet future operational demands. After the federal government approves the Part 150 program, the airport can receive additional federal funding to pay for the noise mitigation activities. Examples of possible noise mitigation measures include soundproofing homes or relocating residents. Over the life of the relocation effort, the RAA expects to receive about \$50 million from this program. The initial Noise Compatibility Program was completed in 1993. It is currently being updated.

Some minor changes to the configurations of the runways also were made in response to public comments. However, in a public project of this magnitude, it is critical that citizens believe they are being treated fairly and that their voices are being heard.

**Residents affected by the LAIP who are members of the Airport Neighbors' Alliance had numerous questions that they do not think have been adequately answered.**

A series of questions were posed by a group of residents representing the neighborhoods affected by the airport. Most of the questions related to money available for the relocation program. We thought many of the questions were indicative of the confusion surrounding the LAIP. Appendix I presents the list of questions and indicates our preliminary understanding of the answers to those questions.

**Two major stumbling blocks are slowing the progress of relocation, according to RAA officials: lack of money and scarcity of comparable housing.**

Some 2,200 residences have been relocated by the city/county urban renewal program or by the RAA. An additional 1,600 residences remain to be relocated.

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<sup>1</sup> Ldn refers to the day-night average sound level, in decibels, calculated from the noise exposure from each aircraft takeoff or landing at ground level around an airport and accumulated for a typical 24-hour period. A weighting factor equivalent to a penalty of 10 decibels is applied to operations between 10 p.m. and 7 a.m. to account for the increased sensitivity of people to nighttime noise. Ldn is the industry standard for measuring noise levels.

To-date, the RAA has spent more than \$132 million on the residential relocation program:

- \$62 million was spent to purchase property in five neighborhoods before the Part 150 Noise Mitigation Program was in place.
- \$54 million has been spent since the approval of the Part 150 Noise Compatibility Program to purchase property in four neighborhoods.
- \$16 million has been spent for relocation expenditures that cannot be allocated to a specific neighborhood.

Of the total expenditures, about \$97 million, or 73%, has been spent on direct outlays to residents for land and structure purchases and relocation payments. The following table breaks down the total expenditures by category:

**Relocation Expenditure Breakdown**

Category	Expenditures	% of Total
Administration	\$ 13,827,531	10.4%
Land/Structures	86,066,599	65.0
Relocation Management	5,383,143	4.1
Relocation Payments	10,822,312	8.2
Demolition and Removal	9,189,332	6.9
Consultants	7,089,017	5.4
<b>TOTAL</b>	<b>\$132,477,934</b>	<b>100.0%</b>

Source: Regional Airport Authority

Appendix II presents a spreadsheet that breaks down expenditures by neighborhood and by type of expenditure.

*Absence of money*

As of December 1997, the RAA estimated that it would cost \$120 million to relocate the remaining 1,600 residences. It has identified sources for \$54.0 million of these funds over the next two years:

Innovative Housing Program	\$ 20.0 million
Commonwealth appropriation	20.0 million
RAA Funds (passenger facility charges and grant funds from the Federal Aviation Administration)	<u>14.0 million</u>
<b>TOTAL</b>	<b>\$ 54.0 million</b>

A total of \$66 million is still needed to complete the relocation program. Projected sources of funds include \$7 million a year from the passenger facility charge and grant funds from the Federal Aviation Administration. The current RAA estimate is that the voluntary buyout/relocation program will continue at least through the year 2008.

RAA officials also are examining ways to increase the amount of money they have available for the program. One option might be a bond issue backed by future FAA grant money and passenger facility fees.

*Scarcity of comparable housing*

The first step in the relocation process is to send a letter of intent to the property owner about the RAA's interest in acquiring the property. When the property owner responds, the property is listed for an appraisal. Of the approximately 1,600 properties still targeted for relocation, RAA officials said 1,000 are not yet appraised. Some of these properties are not yet in the pipeline for appraisal because the RAA is appraising neighborhoods that are most affected by noise first and then moving on to other neighborhoods.

Part of the appraisal process includes the RAA locating a replacement property for each homeowner. In essence, the RAA guarantees that a comparable house will be available to the property owner. Because of the scope of the relocation effort, the supply of comparable housing in Louisville has been reduced significantly. RAA officials said this reduction in supply has been a significant stumbling block in relocating residents. For instance, in some cases a comparable house is located but is sold almost immediately, sometimes before the resident has a chance to visit it. When that happens, the process has to start over.

We contacted the Louisville Board of Realtors and confirmed there are only about 770 houses in Jefferson County in the \$80,000 to \$120,000 price range in the Board's real estate listing service. Given that many of these houses likely are not comparable to residences that are to be relocated, it appears clear that homes do not exist in Jefferson County to move everyone at once.

To speed up relocation, the RAA has received approval for the Innovative Housing Program, in which a resident "swaps" his or her home for a comparable new home in a subdivision the RAA has developed specifically for this purpose. Funds are available to move 300 residences to this new subdivision.

**The cost of the parking garage appears to be in line with parking garage costs in Kentucky and nationally.**

The LAIP did not include construction of additional parking facilities in its improvement plans. However, in the mid-1990's, the number of passengers using the airport annually swelled from 1 million to 1.8 million. At that time, building a parking garage became a priority of the RAA. The total capitalized cost of the parking garage is \$55 million. This cost is in addition to the estimated \$716 million that will be spent for the LAIP.

The four-level parking garage at the Louisville International Airport has 4,300 slots, according to RAA officials. The initial estimated cost was \$44 million, based on incomplete drawings. After the engineering drawings were complete, some site problems were discovered, including underground tanks that were not on any city maps. These problems raised the cost of the parking garage to \$51 million, or \$11,860 per space, with a final capitalized cost of \$55 million.

We contacted staff in the Department for Facilities Management in the Finance and Administration Cabinet. They were recently involved in the construction of a parking garage at Northern Kentucky University. The officials said the base price for each parking space was \$10,264. They add about 20% to that base cost to cover "soft" costs, such as engineering costs, architect fees, and contingencies. The resulting estimated cost per parking slot was about \$12,000.

Bluegrass Airport in Lexington, Kentucky, currently is building a new parking structure. An official from the engineering department at the airport said that the actual construction costs for the 1,022 space garage are about \$9.3 million. Costs for site work, engineering and design work, and the like would add another 15% to the cost. The resulting per space cost would be \$10,500.

We also reviewed construction cost data from R.S. Means and Company, Inc., a nationally recognized source of construction cost information. That source indicated that a per car cost, including site work and equipment, would be \$14,600.

Finally, we contacted an official in the engineering department at the Denver International Airport. He said that airport budgets from \$10,000 to \$13,000 per parking space for construction costs. He said site preparation costs, utility costs, and other "soft" costs are in addition to the construction costs.

As the following table shows, the cost of the parking garage at Louisville International Airport is generally within industry standards, although it is higher than the cost of the garage in Lexington.

**Comparison of Parking Garage Costs Per Space**

<b>Source of Comparison</b>	<b>Cost Per Space</b>
Division of Facilities Management	\$12,000
Bluegrass Airport, Lexington	\$10,500
R.S. Means construction costs	\$14,600
Denver low estimate:	\$10,000*
Denver high estimate:	\$13,000*
Louisville International Airport, Actual cost, uncapitalized	\$11,860

\*These are construction costs only. There would be additional costs for site work, utilities, and related costs. These could vary greatly depending the site for the garage.

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**Looking to the Future/Suggested Actions**

**Recent efforts to keep the public informed and involved are promising, and these efforts should continue.**

- The RAA Board now includes a member from the surrounding neighborhoods.

Until 1998, there was no representative on the RAA who was specifically designated as a representative of the community. The General Assembly passed legislation that year (HB56) that requires the Governor to appoint a member of the Airport Neighbors' Alliance Association Executive Committee to the RAA Board of Directors. This member has been appointed and is currently serving on the Board. Having a Board member who is affected by changes in the airport should improve the input of the public to decisions regarding the airport. It also should provide a better communications link between the RAA and the public.

- The Board hired a new general manager in June 1998, and a new Board Chair assumed his position in July 1998.

The new general manager came from the Denver International Airport. Because of his varied experiences, he brings a healthy objectivity to the airport project. He appears to be committed to improved communication with, and involvement of, the public regarding major decisions affecting the airport. One effort he initiated was the creation of a voluntary working group made up of interested residents and representatives of businesses

affected by the airport. This group will serve as a sounding board for the RAA Board.

- The Part 150 Noise Compatibility Program is being updated with significant public involvement.

The Part 150 plan is updated every five years. Planning for the update began in 1998. The working group, discussed above, reviewed proposals for doing the Part 150 update from four consultants and selected finalists to be sent to the 13-member Coordinating Council. The Coordinating Council is composed of the following members:

- four neighborhood representatives,
- two RAA Board members,
- two airline representatives,
- an aircraft operator,
- a member of the travel industry,
- a member of Greater Louisville, Inc.,
- an elected official, and
- a representative of Southern Indiana.

The Coordinating Council heard presentations from the finalists and submitted their recommendation to the RAA Board, which selected the consultant to conduct the updated noise study.

Throughout the noise study, the working group will review, and provide input to, the consultant's work and recommendations made for noise mitigation.

As of April 1999, a consultant has been hired and is beginning work on the Part 150 Noise Compatibility Program update.

**The RAA should explore all options for obtaining enough money to relocate all affected residents as soon as possible, including the possibility of issuing bonds for that purpose.**

Potential revenue streams exist to retire a relocation bond issue. Specifically, bonds could be backed by passenger facility charges and anticipated funds from the Federal Aviation Administration.

Having the money in place for relocation would allow the RAA to "swap" additional residences for new homes in the subdivision it is building. RAA officials said there is enough land in the subdivision to build 800 homes. It also will ensure that residents who are ready to move will have that opportunity.

**The General Assembly should consider requiring that all studies, proposals, and other activities related to any airport expansion, improvement, or land use projects**

**obtain the input of affected neighborhood residents before any proposal is finalized.**

The residents of Louisville and Jefferson County apparently had public discussions about moving the Louisville Airport out of the county in 1971 and rejected that idea. They were not given the chance to review that idea in 1988 when the feasibility study was undertaken. Even though that idea may have been rejected again, a full and open public discussion would have provided a sounder and more accepted basis for whatever decision was made regarding airport improvements.

**The General Assembly should consider requiring that all airport boards have a neighborhood representative.**

One of the main points of contention with the LAIP was that neighborhood residents affected by the expansion project had no voice in the project. The 1998 General Assembly passed House Bill 56, which required the Governor to appoint a member of the executive board of the Airport Neighbors' Alliance to the RAA. That member has been appointed and is serving on the Board. Similar neighborhood representation could be a useful mechanism to ensure that all affected parties are heard regarding decisions about airport expansion or other development activities across the state.

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# Questions from the Airport Neighbor's Alliance Appendix I

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At a March 1999 meeting of a group of residents who are members of the Airport Neighbors' Alliance (a group of neighborhood associations that represent residents of areas affected by the Louisville International Airport), questions and concerns were raised about various aspects of the Louisville Airport Improvement Program. We distilled the questions and concerns into the following areas and developed responses to those questions based on our preliminary review of the information available to us.

**1. It appears that \$100 million was in hand for the LAIP prior to the approval of the parallel expansion program in January 1991.**

\$50 million in bonds were sold in May 1989 by Louisville and Jefferson County for an Urban Renewal Program in three neighborhoods surrounding the airport (the program later was declared unconstitutional). According to documentation the RAA has provided concerning the project, the urban renewal program was independent of the airport expansion and the local governments planned to undertake the program regardless of whether the airport was expanded.

The \$50 million from the Commonwealth was appropriated in April 1990. According to information from the RAA, most of the Commonwealth's investment was to help acquire businesses in the path of the expansion.

The FAA had not approved the expansion project as of April 1990 (the date by which \$100 million had been committed for the project), but the RAA submitted a "preapplication" to the FAA in January 1989 to ensure federal funding of the project. In July 1989, the RAA received "place named" (priority) status in the FY 1989-1990 FAA budget.

**2. The RAA says that the reason people are not being moved is that there is a lack of money. How much money has been spent for relocation?**

According to information provided by the RAA, expenditures for residential relocation through February 1999 were as follows:

<b>Source of Funding</b>	<b>Expenditures in millions</b>
RAA expenditures before the Part 150 Noise Mitigation Program: (This includes purchases of residences in Standiford and Highland Park as well as residences on Tuberose. This money came from money remaining from an earlier bond issue, from the FAA, and from some of the \$50 million provided by the Commonwealth.)	62.3
RAA expenditures, including Part 150 Noise Mitigation Program funding And RAA surplus funds:	53.6
RAA expenditures not allocated to specific neighborhoods	<u>16.5</u>
Total expenditures through January 1999:	\$ 132.4
Other expenditures:	
City/County program (the Urban Renewal Program that was found unconstitutional) :	\$54.6
(These were expenditures from the \$50 million City/County bond issue described above plus additional funds generated from that bond issue)	

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As of December 1997, the RAA estimated it needed \$120 million to complete the relocation program. It identified funds available from the following sources over the next two years:

- \$ 20 million appropriation from the Commonwealth for the voluntary buyout program
- \$ 14 million from the RAA Base Purchase Program Funds (passenger facility charges, FAA Part 150 Funds, and other RAA revenues over a 2-year period)
- \$ 20 million for the Innovative Housing Program (50/50 FAA/Commonwealth match)
- \$ 54 million

Based on these figures, the RAA estimated the relocation program was \$66 million short. Since that time, the RAA has spent slightly less than half of the \$54 million for relocation expenditures.

- 3. If expenditures for the Highland Park, Prestonia, Standiford, and Ashton-Adair neighborhoods amounted to \$97 million as of February 1997, and \$100 million was available when the project got started, where is the remaining \$3 million?**

According to RAA information, the Commonwealth's \$50 million appropriation apparently was used primarily for business relocation rather than residential relocation. As a result, the \$100 million in hand was not all for residential relocation. As Appendix II shows, the RAA has actually spent \$132 million for residential relocation purposes through January 1999. The City of Louisville and Jefferson County spent an additional \$50 million for the urban renewal neighborhood relocation activities.

- 4. Where is the UPS (United Parcel Service) money (as much as \$15 million), and has it been used for relocation purposes?**

According to Larry Huber, Director of Finance for the Regional Airport Authority, UPS gave the RAA \$12 million in 1997. This was an advance on land it would buy in the Edgewood area at some point in the future. UPS agreed to purchase 50 acres in Edgewood for approximately \$40,000 to \$50,000 an acre. The \$12 million also included money from additional fees. Until recently, UPS had only paid a landing fee to the RAA. Now, UPS is also in the passenger charter business. As a result, UPS had to alter its agreement with the RAA to include additional fees related to its passenger services. These additional fees are included in the \$12 million advance payment.

According to Mr. Huber, when the RAA received this money from UPS, it had relocation funds available. As a result, the money was used for construction purposes.

- 5. Where is the \$4 million in annual Part 150 funds, the \$2 million in passenger facility charge funds, and the \$1 million from other RAA revenues?**

These figures total \$7 million a year. Based on the information in Question 2 showing the \$14 million available from the RAA for the residential relocation program over a two-year period (or \$7 million annually), the annual Part 150 funds, the passenger facility charges, and the other RAA revenues are accounted for.

- 6. A question was raised about the RAA agreeing to sell 14 acres of the original airport land for \$945,000, with the proceeds going to refund \$900,000 in property taxes to six Louisville corporations.**



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According to Larry Huber, Director of Finance for the Regional Airport Authority, some private hangars had to be moved as part of the airport construction project. At least one company also owned the land its hangar was on. As part of the RAA's agreement with the companies that owned the hangars, the RAA had to buy out the undepreciated portion of the existing hangars. The RAA then relocated these hangars, and the companies are leasing their new hangar site from the RAA at fair market value.

Bob Benson, legislative liaison for the RAA, said House Bill 141 was introduced in the 1998 session to repeal the property tax on aircraft. During the hearings on this legislation, Mr. Benson said the companies with airport hangars threatened to store their planes in Indiana rather than in Kentucky. This legislation passed and the companies remained at Louisville International Airport. However, Mr. Benson said the RAA has not made any property tax rebates to the companies storing their airplanes at the Louisville International Airport.

**7. Why must the RAA matching funds for the Innovative Housing Program come from the garage bond reimbursement and the instrument landing system reimbursement?**

The RAA must match \$10 million provided by the FAA for the Innovative Housing Program with \$10 million. According to information provided by the RAA, \$4.2 million will come from FAA reimbursements to the RAA for payments made by the RAA for an Instrument Landing System (ILS). The RAA spent its own funds on the ILS and the FAA reimbursed the RAA for this expenditure because the FAA decided to fund it out of its money.

RAA officials also provided information showing that \$2.0 million of the match is from bond reimbursement funds. The remaining \$3.8 million is from surplus funds available after the FAA has reimbursed the RAA for some of its relocation expenditures through the Part 150 program.

**8. Why did the RAA have to extend bond payments that were due and payable in 1998?**

Larry Huber said the RAA had some bond anticipation notes that were due to expire on June 30, 1998. There also were some bond anticipation notes that were due to expire on June 30, 2002. The bond anticipation notes were issued in anticipation of FAA construction grant money coming in. That money has been slow to come to the RAA in some cases. As a result, the RAA got an extension on the notes that expired on June 30, 1998. They now are set to expire June 30, 2002, the same date as the other bond anticipation notes.

**9. Why did the RAA have to sell an additional \$15 million in airport system revenue bonds 1998 Series A for the purpose of financing additional cost of public parking?**

Larry Huber of the RAA said in 1995 the RAA issued bonds to pay for the parking garage. The garage had an estimated cost of \$44 million. The RAA issued \$40 million in bonds and used \$4 million in surplus funds to pay for the rest of the project. When the airport had more detailed engineering plans for the garage, the cost grew to \$51 million, with a capitalized cost of \$55 million. RAA officials said much of the increase was related to underground tanks that were not shown on the original engineering documents used to begin the project. The RAA paid for this difference (\$7 million) out of its surplus funds. It then issued \$15 million in bonds to cover the additional costs of the parking garage. The RAA used \$11 million of this bond issue to reimburse itself for the amount it had spent on the parking garage. This \$11 million was used for relocation expenditures.

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The bonds are special and limited obligations of the Authority, payable solely from the revenues of the Authority derived from the operations of the Airport Parking System of the Authority. That is, these are not bonds that should affect the airport's funds available for relocation.

**10. Why did the RAA approve the write off of \$100 million due to value loss in its fiscal year 1998 audit?**

According to the Audited Financial Statements for June 30, 1998 and 1997, the Authority has acquired residential and commercial property for the purposes of expansion and noise mitigation. Further, the audit states:

"The cost associated with these acquisitions includes, among other items, relocation costs, replacement housing payments, demolition expenses, and other expenses mandated by federal relocation law. As a result, the Authority's expenditures with respect to these properties have exceeded its fair value for commercial or other airport related uses. Based on independent appraisals and/or pending sales offers, the Authority has written down assets (vacant property) with a carrying amount of \$100.8 million to a fair value of \$30.8 million at June 30, 1998. The resulting loss of \$70 million has been recorded as 'loss on impairment of assets', included in other revenues (expenses), in the accompanying statement of revenues and expenses for the year ended June 30, 1998."

**11. Why was construction completed before moving all 4,000 families in relocation areas?**

RAA documents indicate that since 1989, approximately 2,200 residences have been relocated. A total of 1,500 to 1,600 residences remain to be acquired. These homes generally are in the Edgewood, Ashton-Adair, and Minor Lane Heights neighborhoods.

In 1994, the Part 150 Plan was approved by the FAA and acquisitions of 686 properties in Ashton-Adair and Edgewood began.

Minor Lane Heights was approved for soundproofing in 1994. In 1995, the RAA requested FAA approval of a change in mitigation strategy so that this area would be acquired instead of soundproofed. That approval came in 1996 and covered 1,064 properties.

FAA approved the acquisition of an additional 290 properties in Edgewood and the Preston Highway area in 1997.

As the scope of the project increased and upon the opening of new runways, additional residences were targeted for relocation. The absence of relocation funds, scarcity of comparable housing, and the complex LAIP buyout program were all contributing factors to the slow pace of relocation.

**12. Why have five neighborhoods in addition to the original three been designated for destruction? Also, why have several neighborhoods with possible noise levels above 65 Ldn not been considered for destruction?**

The 1993 Noise Compatibility Program included a recommendation that neighborhoods with noise levels above 65 Ldn be soundproofed. (The original recommendation was to use a threshold of 70 Ldn, but this threshold was dropped to 65 Ldn as a result of the noise study.) As the program progressed, the RAA abandoned the idea of soundproofing because it would not be effective for some of these neighborhoods, and it sought approval from the FAA to acquire homes in these neighborhoods instead. In addition, residents of some of these neighborhoods wanted their homes to be relocated. The noise study is currently being updated and the noise contours could change.

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**13. Why the rush to build the parking garage when land was available before relocating affected families? What bidding process was followed in construction of the parking garage? Did FAA rules apply?**

According to Larry Huber, Director of Finance for the RAA, the Airport had long used a 3,000 space surface lot. Until the early 1990's, the annual number of passengers that went through Louisville International Airport was about 1 million. In the mid- to late 1990's, Southwest Airlines began to fly to Louisville. Passenger growth swelled to 1.8 million per year. When this growth occurred, no vacant land was available because Ashton-Adair land (which originally had been considered for a surface parking lot) had been given to the Commonwealth in exchange for \$10 million in bond relief. Mr. Huber said the RAA determined the lot would not have been large enough to meet the airport's needs anyway.

The four-level parking garage was constructed. It holds 4,300 spaces. There is an adjoining surface lot that contains 1,200 spaces. The RAA can build additional levels onto the parking garage and can expand it to cover the surface lot as well.

Our work did not show what kind of bid process was used for the parking garage, and whether FAA rules applied.

**14. What was the original plan to finance the relocation effort? Poor planning seems to have resulted in 1,600 families waiting until 2008 to all be relocated. The RAA simply has no money to move them any faster and is at least \$66 million short of what it needs.**

The initial sources of money for relocation include the following:

\$ 55 million City/County Bond Issue

\$ 69 million pre-Part 150 expenditures from RAA sources. (This figure includes expenditures not allocated to specific neighborhoods.)

According to Larry Huber, the \$69 million of RAA expenditures were funded from surplus funds from a variety of sources.

- In 1987, the RAA had issued bonds to finance the airside terminal, apron, and runway improvements. Some of these projects were canceled because of the LAIP, and \$15 million was left over from the bond issue. The airlines agreed to pay the debt service on these bonds and the RAA used the funds to acquire certain properties under a mandatory purchase program. (These properties were needed for the airport expansion and were condemned by the airport. They were the same properties that were being purchased through the Urban Renewal Program and, when that program was declared unconstitutional, the RAA used its powers of eminent domain to purchase remaining properties.)
- The RAA received \$17 million from the FAA
- The RAA also received a \$126 million letter of intent from the FAA for all grant-eligible expenses.

More recent sources of funds for the voluntary buyout program include:

\$ 20 million from the Commonwealth

\$ 20 million for the Innovative Housing Program (\$10 million of this total came from the FAA and the other \$10 million was a match from RAA funds)

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The RAA also plans to receive about \$7 million a year from federal Part 150 grants and passenger facility charges.

It is true the RAA does not have enough money to move everyone who needs to be relocated within a short span of time. RAA officials also said even if it had the money, it would be difficult to move everyone at once because of a lack of comparable housing in the Louisville market. As one option, the RAA is developing a subdivision to move up to 300 residences from the Minor Lane Heights neighborhood, with the ability to increase that number to 800 residences.

**15. Which meetings are open to the public and which are closed? Allegations exist that planning meetings as far back as 1987 were held in secret and the initial plan was "sprung" on the community with major decisions made without public input.**

It does appear the initial plan was "sprung" on the community with major decisions already made without public input. The plan that was brought before the public for discussion was the two-runway plan that essentially became the LAIP.

As a governmental body, the RAA is subject to the Open Meetings laws.

**16. Who are the subcontractors for the LAIP and which subcontractors have direct or indirect ties to board members? Which board members benefited financially from the LAIP?**

An Attorney General opinion stated that conflict of interest provisions were not violated when the RAA Board awarded a contract to a general contractor, with whom the Board members had no proprietary or pecuniary interest, and that general contractor executed a contract with a subcontractor in which board members had an interest, assuming there were no considerations or inducements by the Board members to get the general contractor to deal with the particular subcontractor.

Because of the concern raised by this question, disclosure of all relationships between Board members, contractors, and subcontractors would be a reasonable requirement for the Board to consider.

**17. Why has the cleared land that was to be sold to airport related industries not occurred as planned?**

According to Larry Huber, land purchased under the Part 150 program has to be sold for airport compatible uses. No such land has been sold yet. Mr. Huber said there have been "lookers" but that purchasers need a large contiguous land area before they are willing to buy anything. There are still some pockets of residences in the buyout areas that limit potential purchasers' interest.

**18. Have the contracts with the Corradino Group (and its predecessor) been bid or nonbid contracts?**

According to our financial review, the Auditor of Public Accounts reviewed this issue in 1995. The Corradino Group's contract was not competitively bid. A legal opinion from the RAA's general counsel stated that federal regulations in effect on the date the RAA and the Corradino group executed the consultant arrangement at issue (11-15-88), authorized the use of a non-competitive single source qualifications-based procurement procedure.

Did the principals in the Corradino group make campaign contributions to politicians who have served on the RAA Board since the LAIP began? Are there any nonbid contracts over \$50,000 with

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companies whose principals made campaign contributions to the elected officials on the RAA Board since 1987? These specific questions require extensive audit work and were beyond the scope of this limited review of the LAIP.

**19. Why did the RAA deny any monitoring of the 1993 Part 150 study only to produce evidence of some flight monitoring in recent weeks? What additional monitoring was done that has not been made public?**

Officials associated with the LAIP said that monitoring is done to validate the results of the noise study computer models. These officials said once that validation has been done, no further monitoring takes place. The 1993 study developed noise contour maps that projected noise levels for the operating conditions at the airport projected five years into the future and for the year 2000. A contract was signed in early 1999 for an update to the 1993 study.

# Relocation Expenditures for the Louisville International Airport

Source: Regional Airport Authority - As of February 1999

	EXPENDITURES					
	TOTAL AMOUNT	ADMIN	LAND STRUCTURES	RELO MGT	RELO PAYMENT	DEMO & REMOVAL
<b>Pre-Part 150:</b>						
<b>HIGHLAND PARK</b>	18,256,180	1,315,611	12,427,221		1,471,641	2,356,312
<b>STANDIFORD</b>	18,828,807	927,294	15,444,466		1,067,554	1,228,459
<b>HIGHLAND (FENCE EX.)</b>	10,642,127	1,565,156	6,744,375	1,339	407,985	1,859,905
<b>TUBEROSE</b>	4,408,828	790,225	3,274,773	10,547	183,124	105,648
<b>EDGEWOOD</b>	8,530,849	1,561,075	5,526,911		913,550	373,835
<b>PRESTONIA</b>	1,702,391	258,626	839,499		865	598,474
<b>ALLOCATED</b>	16,482,412	3,994,943	3,068,783	5,293,134	80,025	153,473
<b>Part 150 Voluntary Buy-out Program:</b>						
<b>MINOR LANE HEIGHTS</b>	16,656,872	939,349	11,683,480	164,636	1,725,730	674,109
<b>ASHTON-ADAIR</b>	13,061,370	834,021	9,096,094	10,467	2,238,936	689,050
<b>NEW EDGEWOOD</b>	19,430,939	1,636,262	13,937,943	3,016	2,513,814	1,143,972
<b>PRESTON</b>	1,855,887	796	1,617,031		216,082	6,091
<b>CEDAR CREEK</b>	2,721,269	4,167	2,406,017		3,000	
<b>TOTALS</b>	132,477,935	13,827,531	86,066,599	5,383,143	10,822,312	9,189,332

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# Auditor of Public Accounts Information

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## Contributors To This Report

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## Services Offered By Our Office

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**Financial Audits:** The Division of Financial Audit conducts financial statement and other financial-related engagements for both state and local government entities. Annually the division releases its opinion on the Commonwealth of Kentucky's financial statements and use of federal funds.

**Investigations:** Our fraud hotline, 1-800-KY-ALERT (592-5378), and referrals from various agencies and citizens produce numerous cases of suspected fraud and misuse of public funds. Staff conduct investigations in order to determine whether referral of a case to prosecutorial offices is warranted.

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## General Questions

General questions should be directed to Donna Dixon, Intergovernmental Liaison, at (502) 564-5841 or the address above.