COUNTY OF SACRAMENTO

DEPARTMENT OF FINANCE - AUDITOR-CONTROLLER DIVISION – INTERNAL AUDIT UNIT

INTERNAL AUDIT REPORT

DEPARTMENT OF AIRPORTS

FINANCIAL AND OPERATIONAL RISK ASSESSMENT REVIEW

JULY 1, 2018 TO MAY 15, 2020

Audit Committee Submittal Date: 10/27/2020

SUMMARY

Background

The County of Sacramento, Department of Airports (Airports) is an enterprise operation and is responsible for operating four airports within Sacramento County: Sacramento International Airport, Mather Airport, Executive Airport, and Franklin Field. Airports' mission is to provide a safe, customer friendly, and competitive aviation operation for the Greater Sacramento Region.

A countywide risk assessment study for the County of Sacramento was performed for fiscal year 2018-19. The risk assessment study assessed Airports' Finance Administration and Operations as high-risk areas for the County of Sacramento. Accordingly, we conducted this risk assessment performance audit to evaluate Airports' internal controls over its Finance Administration and Operations.

Audit Objective

The objectives of the risk assessment procedures performed was to evaluate Airports' management of: concessionaire and lease agreements; compliance with the Federal Aviation Administration's (FAA) rules and regulations; Americans with Disabilities Act (ADA) provisions; and the California Occupational Safety and Health Administration's (Cal-OSHA) requirements for the period of July 1, 2018 to May 15, 2020.

Summary

There were several deficiencies noted after review of Airports' Finance Administration and Operations. The deficiencies noted were: 1) the composition of reported concessionaire revenues was not reviewed; 2) job hazard analyses was not performed for all staffing positions and required training documentation not maintained in employment files; 3) system used to track required training appears to be inadequate; 4) ADA assessments of non-public buildings have not been performed for all structures; 5) journal voucher approval process was inadequate; and 6) operational contingency plans have not been prepared.

Department of Finance
Ben Lamera
Director

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County of Sacramento

September 30, 2020

Cindy Nichol, Director
Department of Airports
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The Sacramento County Countywide risk assessment study assessed the Department of Airports (Airports) Finance Administration and Operations as high-risk areas. Accordingly, we have audited selected internal control business processes for Airports Finance Administration and Operations for the period July 1, 2018 to May 15, 2020.

We conducted this performance audit in accordance with *Generally Accepted Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Our audit was conducted to assess and identify key processes and controls of Airports Finance Administration and Operations, and design tests to verify that key controls are in place and functioning as intended.

Management is responsible for the design, implementation, and maintenance of effective internal controls to ensure compliance with federal, state, and other regulatory agencies and requirements.

The scope of our audit will include Airports internal control activities and processes for its Finance Administration and Operations for the period July 1, 2018 to May 15, 2020.

The audit methodology utilized to conduct this performance audit included:

Internal Control Review

- We conducted a preliminary survey of Airports internal control environment and identified key controls related to Airports compliance with federal, state, and other regulatory agencies and requirements.

Document Review:

- We reviewed required reporting to federal and state regulatory agencies from July 1, 2018 to May 15, 2020.
- We reviewed federal and state audit reports and related corrective action plans for the period from July 1, 2018 to May 15, 2020.
- We reviewed whether corrective action plans for any recommendations from federal, state, and other audit reports have been implemented.
- We reviewed written policies and procedures related to compliance with the Americans with Disabilities Act (ADA) and California Occupational Safety Hazard Administration (Cal-OSHA) requirements.

Testing:

- We tested, on a sample basis, key internal control processes related to Airports compliance with regulatory requirements from the Federal Aviation Administration (FAA), ADA, and Cal-OSHA to ensure controls are in place and functioning as intended.

In connection with this audit, there are certain disclosures that are necessary pursuant to *Generally Accepted Government Auditing Standards.*

As required by various statutes within the California Government Code, County Auditor-Controllers or Directors of Finance are mandated to perform certain accounting, auditing, and financial reporting functions. These activities, in themselves, necessarily impair *Generally Accepted Government Auditing Standards* independence standards. Specifically, "auditors should not audit their own work or provide non-audit services in situations where the amounts or services involved are significant/material to the subject matter of the audit."

Although the Director of Finance is statutorily obligated to maintain the accounts of departments, districts or funds that are held in the County Treasury, we believe that the following safeguard and division of responsibility exist. The staff that has the responsibility to perform audits within the Auditor-Controller Division has no other responsibility of the accounts and records being audited including the approval or posting of financial transactions that would therefore enable the reader of this report to rely on the information contained herein.

Based on our audit, there were several exceptions noted related to Airports management of its Finance Administration and Operations for the period July 1, 2018 to May 15, 2020. See Attachment I, *Current Findings and Recommendations.*

Cindy Nichol, Director
Department of Airports
September 30, 2020

Airports management responses to the findings identified during our audit are described in Attachment I, *Current Findings and Recommendations*. We did not perform procedures to validate Airports management responses to the findings and, accordingly, we do not express opinions on the responses to the findings.

This report is intended solely for the information and use of the Sacramento County Board of Supervisors, those charged with governance, Sacramento County Audit Committee, Sacramento County Executive, and Airports management, and should not be used for any other purpose. It is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

BEN LAMERA
DIRECTOR OF FINANCE

By: Hong Lun (Andy) Yu, CPA
Audit Manager

Attachment I: *Current Findings and Recommendations*

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Current Findings and Recommendations
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1. Concessionaire Revenue Calculation

The Department of Airport (Airports) has various concessionaire agreements with companies to provide car rental, food services, parking, and other services in the airports. These concessionaire agreements generally require the concession companies to pay Airports minimum guarantee fees and percentage of their revenues generated from doing business in the airports. Airports requires these concession companies to submit their monthly revenue reports to verify the calculation of required payments to the Airports.

As noted in two previous engagements and again in the current audit, our review of two out of six car rental concessionaire agreements along with the required payments to Airports, the calculations did not follow concessionaire agreements. We noted that prepaid gas revenue, a component of the car rental companies' revenues, were treated differently by these two companies despite having identical agreement terms. One company generally included prepaid gas revenues to calculate the required payment to Airports while the other company did not include prepaid gas revenues at all. Airports did not require the car rental companies to submit their detailed revenue accounts used to calculate the required payments to the Airports. Therefore, Airports was not aware prepaid gas revenues were not consistently applied to the required payments calculations. It appeared that Airports did not have a sufficient review process to verify the calculation of required payments.

The insufficient review process to verify calculation of required payments to Airports as identified above with these two car rental companies may also impact other car rental concessionaires and other concessionaire agreements managed by Airports. Inaccurate reporting of concessionaire revenue could result in underpayments to Airports. For the period under review, Airports has managed six car rental agreements and 42 other concessionaire agreements.

As reported in a previous audit, exclusion of prepaid gas revenues by the two car rental companies resulted in underpayments to Airports by $114,845 for the period from October 1, 2015 to September 30, 2018. Airports invoiced and received the $114,845 underpayments from the car rental companies. Airports is currently working on amending the agreements to require the concession companies to submit itemize revenue accounts on their monthly report to Airports.

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Recommendation

Airports should analyze and understand how concessionaires calculate and report revenues to ensure compliance with the approved operational agreements. Also, Airports should review all car rental companies operating at airports to verify that prepaid gas revenue and all other required reported revenues are properly included in required payment calculation for the period noted above through current.

Management's Response

The prepaid gas discrepancy noted initially in the Rental Car Audit report was due to the fact that the prepaid gas was not clearly defined as a concessionable revenue in the concession agreements with the rental cars (RAC). Certain RAC companies reported it in their monthly sales reports and others did not include it. The Airports Department (Department) was not aware of this discrepancy as most of the rental cars did not submit detailed revenue information in their monthly revenue reports. As during the audit it was not clear whether the prepaid gas was a concessionable revenue or not, we consulted the County Counsel who initially determined that prepaid gas was not a concessionable revenue. Before the end of the rental cars audit we surveyed other airports and found that most of them included prepaid gas as a concessionable revenue in their monthly billing. Following the other airports' example, we decided to include the prepaid gas in the billable rental car revenues. Since the prepaid gas was not clearly defined as a reportable revenue in the RAC agreements, management could have decided to refund the prepaid gas percentage already paid by some of our RAC companies or to invoice the others for it. It was the Department's management decision to move in one direction or the other, not a corrective action to the audit finding. This issue was a matter of a different interpretation of the RAC agreements by the County auditors, County Counsel, Department of Airports' staff and the RAC companies. Since eventually we decided to include the prepaid gas in the RAC's concessionable revenues because other airports also included it, we have amended the RAC's agreements to clarify the language regarding the prepaid gas and list it specifically as a concessionable revenue. This action was already noted in the Management's response to the rental car audit and the RAC agreements have been amended appropriately, therefore we believe that the issue was already clarified and concluded and should not have been carried forward as a finding in the Airport Risk Assessment audit report.

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2. Job Hazard Analyses and Employee Training Files

U.S. Department of Labor, Occupational Safety and Health Administration (OSHA) 3071, requires job hazard analyses be performed for positions that are prone to have the highest injury and illness rates, could potentially cause debilitating injuries and illnesses, and whereby human error could cause accidents and injuries.

California Code of Regulations, Title 8 Regulations Section 3203, California Occupational Safety and Health Administration's (Cal-OSHA) General Industry Safety Orders, requires organizations to develop, implement, and maintain an the Injury and Illness Prevention Program (IIPP). Per Cal-OSHA's guide an effective IIPP should be specific to the workplace. Also, identify all of the workplace hazards, correct the identified hazards in a timely manner, provide effective training, and be regularly reviewed and updated.

The County of Sacramento's (County) Countywide IIPP requires County departments to analyze their work environments and develop IIPP and safety trainings that protect their employees from injuries, accidents, and illnesses.

During our audit, we noted that Airports has not performed job hazard analyses for all of its employment positions. Accordingly, Airports was not tracking and maintaining required training documentation in employment files. Also, Airports has not develop a specific IIPP for its staff.

We selected 27 out of 69 claimants on workers' compensation claims from July 1, 2018 to December 31, 2019. We reviewed the selected 27 claimants' records of hazards analysis in their respective training files. Below table is a result of our review of the selected 27 claimants.

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Sample of Workers' Compensation Claims Reviewed				
Period July 1, 2018 to December 31, 2019				
	Number of Claimants Reviewed	Number of Claimants Paid	Percentage Claimants Paid	Total Amount Paid to Claimants
Claimants with Job Hazard Analyses Documented	13	6	46%	$ 38,441
Claimants without Job Hazard Analyses	14	13	93%	88,822
Total Sample Claimants	27	19	70%	$127,263

Based on the above table, the claimants with job hazard analyses documented has a significantly lower percentage (46%) of paid claims and workers' compensation payment ($38,441) than those without job hazard analyses documented (93% and $88,822). Therefore, job hazard analysis can reduce the numbers of workers' compensation claims and payments.

Without sufficient job hazard analysis and no specific IIPP, Airports has the following risks:

- Not able to develop and provide adequate safety trainings to guard against potential dangers;
- Potentially exposing employees to risks and hazards and may cause death;
- Pay unnecessary workers' compensation costs;
- Face lawsuits from former, current, and future employees and their families due to injuries or death from unsafe work environments; and
- Non-compliance with OSHA and Cal-OSHA regulations may result in financial penalties.

Recommendation

Airports should perform job hazard analyses for all required positions. In addition, Airports should develop a specific IIPP in consideration of its workplace environment and incorporate this departmental IIPP with the Countywide IIPP. Airports should also document and maintain employment files with required safety trainings and certificates.

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Management's Response

The audit report states that "during our audit, we noted that Airports has not performed job hazard analyses for all of its employment positions." As previously relayed to the Auditors, Job Hazard Analysis (JHAs) are created for specific job tasks or equipment items to identify and mitigate hazards associated with those tasks/equipment; JHAs are not routinely created for "employment positions". Over the last 12 months, the SCDA Safety Management System (SMS) team has been working with all Airport's Sections to review their job tasks, JHA documents/requirements, Codes of Safe Practice (COSP) documents, and training to ensure compliance with Cal/OSHA. SCDA has identified areas for improvement and we have developed a set of guidelines and a plan for each Airport Division/Section to ensure compliance with Cal/OSHA training and documentation (including any required JHA development of revisions) by the end of FY 20/21.

The Airport forwarded a copy of the SCDA IIPP to the Internal Audit Unit via email on February 11, 2020. SCDA coordinated with the County Safety Office (CSO) for the inclusion of the SCDA Hazard reporting system into this IIPP. On March 3, 2020, SCDA disseminated the updated/final IIPP (via email to all Airport employees), which included the Airport's anonymous Hazard reporting system included in IIPP Addendum I, and also available on the SMF website (https://sacramento.aero/scas/about/safety-management-systems). SMS has recently developed an IIPP course within Target Solutions and assigned it to all Department personnel for the month of September in accordance with our aforementioned plan/schedule.

Airport SMS does not recommend maintaining safety training and certifications in employment files as it has proven to be too difficult to track. The County Airport has chosen to track safety related training using Target Solutions. This system has limitations and SMS is working with the company in an attempt to overcome those. If SMS cannot overcome these limitations by the end of this FY, the Airport may consider another training delivery and tracking system. Of note, some of the training documents that were submitted as part of this audit were hard copies that some of the Airport Sections kept in a paper file, while others were from Target Solutions, so not all were housed in the digital environment. Going forward, these documents will be maintained in Target Solutions for uniformity and to aid in the ease of retrieval.

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In relation to the data in the table titled: “Sample of Workers’ Compensation Claims Reviewed”, SMS requested specific information about the Workers’ Compensation claims information used in this Countywide Risk Assessment study. Specifically, we requested the names of the Airport Divisions/Sections for each injured employee along with the job task being performed at the time of injury (e.g. tree trimming, working with the automotive lift, concrete saw cutting, etc.). This information would have helped SMS identify the specific JHA related to the task being performed at the time of the injury. Although we provided a large amount of documentation, the information above would have aided in this documentation request and may have allowed us to identify the specific JHA associated with each of the employee injuries used in the table above.

3. <u>System to Track Required Training</u>

Cal-OSHA requires Airports to provide annual training for certain topics to its employees. Countywide IIPP requires Airports to track employees’ required trainings. The system used to track training records should allow Airports to identify employees that have upcoming training requirements due and employees that have an expired status on required training for retraining purposes.

Airports mainly used the Target Solutions System (Target Solutions) to track trainings related to safety and Cal-OSHA required training topics. Target Solutions appeared to have the capability to track training expiration date, status, and days to expiration for training. In reviewing Airports employee training files from Target Solutions, we noted lapses in training for Cal-OSHA training topics that require annual training such as bloodborne pathogens and hearing conservation program. We noted that the employees completed the initial training for bloodborne pathogens and hearing conservation program (if required), but no annual training were documented following their initial training. In one instance, we noted that the annual training was completed, but retraining took place 5 years after the initial training while retraining is required annually.

The lapse in required trainings puts County employees at risk for non-compliance with Cal-OSHA training topic requirements. In addition, the lapse in required training could result in harm, injury, and death of employees performing work at Airports, which may lead to workers’ compensation claims and lawsuits (see Finding #2). Adequate and timely training should allow Airports to prevent and mitigate harms to its employees.

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Recommendation

Airports should review the Target Solutions System used to track the completion of required employee trainings to ensure that Airports comply with requirements imposed by federal, state, and other regulatory agencies. Airports may need to verify that training subjects that require annual training were identified in the system and the training expiration date, status, and days to expiration for required trainings were accurately entered into the system. Additionally, review controls in place for reminder to employee to complete required training and notification to supervisor for follow-up when an employee fails to complete required training.

Management's Response

In response to number 2 above, limitations related to Target Solutions were briefly mentioned. Target Solutions does not have the ability to track and automatically reassign annual training requirements in a user friendly format. SMS has identified a potential work around but this would be a very labor intensive process. In addition, the individual who was responsible for updating Target Solutions did not perform this task efficiently and this person did not include the tracking of safety training for every County Airport employee. Other issues were identified, for example, the records for the Hearing Conservation Program were kept by the individual responsible for scheduling the annual audiograms, and most of this data was not entered into Target Solutions.

In response to the finding no. 3, Airport SMS has been coordinating with County Airport Divisions/Sections to determine which Cal/OSHA training and policies are applicable to their specific operations/job tasks. In coordination with all of the different County Airport Divisions/Sections, SMS has developed a spreadsheet for each that lists the Cal/OSHA training requirements for their specific Sections. The Airport has also researched the two County training systems (My Learning and Target Solutions) and selected Target Solutions as the primary means for tracking Cal/OSHA related training for County Airport employees. The use of Target Solutions for this purpose began in May 2020, Airport wide and required a complete overhaul of the Target Solutions administrative system for the Airport to correctly align employees with their correct Airport Divisions/Sections as there had been several changes over the last decade.

Included in this process was the identification of a Target Solutions POC for each Airport Division/Section. The Target Solutions POC now uses the spreadsheet SMS created for their Division/Section to ensure all identified safety training courses are delivered to their employees each year. Because Target Solutions does not have an efficient tracking mechanism for training, these spreadsheets also serve that purpose and will assist us with closing any training gaps that might occur throughout the FY. As a secondary assurance measure, SMS routinely pulls lists of individuals who are overdue for training and disseminates this information to those individuals, their Managers/Supervisors, and Airport Senior Leaders. This is a laborious process but it is effective at gaining compliance with regulatory training requirements.

4. Accessibility Evaluation of Non-public Buildings

Title II of the Americans with Disability Act (ADA) requires public entities to evaluate their access to non-public buildings. Structures are required to be reviewed and any impediments related to accessibility be addressed in order to accommodate individuals with mobility limitations.

During the audit, we noted that non-public buildings used by Airports employees have not been evaluated for accessibility for compliance with ADA requirements.

Airports is not in compliance with Title II of the ADA requirement. Airports may currently, or in the future, be employing individuals with ADA limitations whereby their work environment might be inadequate given their limitation. Airports could be subject to ADA lawsuits from employees if buildings are not compliant with the requirement.

Airports has identified vacancies and the lack of specialized staff related to ADA compliances as the reason for not inspecting all of the non-public access structures located on Airports grounds.

Recommendation

Airports should review its non-public access buildings to ensure compliance with Title II of the ADA requirements.

Management's Response

The Department of Airports concurs with finding #4, accessibility evaluation of non-public buildings and is fully committed to implementing corrective actions to address the finding and recommendation. The Department is in the process of obtaining scope and cost from a consultant to assist us with developing an ADA self-inspection and compliance assessments program for the entire Department that will include non-

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public buildings to ensure compliance with Title II of the ADA requirements. The Department will budget the actual cost of developing the self-inspection and compliance assessments program and additional budgeting will occur to address the findings and necessary corrective measures.

5. **Journal Voucher Approval**

Journal entries are required to be posted by an individual with equal or greater authority as the individual parking the journal entry. The County's journal entry process is designed to ensure there is proper and adequate review of journal entries and segregation of duties before the journal entries are posted to the County's financial system (a.k.a. COMPASS). The staff assigned to park the journal entries will have their personnel number documented in COMPASS when the entry is inputted in the system. The staff assigned to posting the journal entries will have their personnel number documented in COMPASS when the individual perform a review and post the journal entries to COMPASS.

During the audit, we noted that Airports senior management prepares journal entries and assigns staff to park and post the journal entries. The process does not provide a clear way to identify the individual from Airports senior management who authorized and prepared the journal entries.

We also noted during the test of journal voucher approval an instance where an Airports staff with lower authority posted a journal voucher for a staff with greater authority.

Although we did not find any errors or inappropriate journal entries from our review, we could not determine if the journal entries were properly prepared and reviewed prior to posting in COMPASS.

Journal entries might be posted without proper review if senior management prepares the journal entries and directs staff to park and post the journal entries in COMPASS.

Recommendation

Airports staff should prepare journal entries and management and senior management should post the journal entries. Doing so will ensure proper check and balance in the process for preparing and approving journal entries.

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Management's Response

The Department agrees with the finding that one specific monthly journal voucher was parked by an employee on a higher-level position than the employee's position who posted the journal voucher, due to staffing shortage and Compass access limitations. This was an internal cash transfer between the Department's Revenue Fund and the Department's Operating Expense Fund and being posted by a lower-level position, yet an experienced Accounting Manager, did not pose any risk whatsoever on the Department's financial transactions. However, in order to eliminate any perception of risk associated with this monthly cash transfer, moving forward, a lower-level position will park this journal voucher and a higher-level position will post it.

6. **Contingency Plan**

Contingency plans are risk management tools that allow entities to plan for catastrophic events and to mitigate the negative impact of such occurrences on an organization. Contingency plans are best practice procedures for organizations. There should be a contingency plan if the largest air carrier operating at Sacramento Metropolitan Airport (SMF) ceased operations. It can be risky for an organization to rely solely on a single customer for a majority of its business activities.

During the audit, we noted that Airports' largest air carrier accounts for 54% of the enplanements at SMF. Airports did not have a contingency plan if embarkation activities related to its largest air carrier were interrupted.

There is a risk to Airports if the majority of its business activities are derived from a single customer. Airports operations can be negatively impacted if the business relationship changes and there is not a strategy for handling such a scenario.

Recommendation

Airports should identify possible scenarios that if they were to occur would hamper Airports ability to deliver aviation services to the Sacramento region and develop contingency plans to mitigate risks for undesirable events.

Management's Response

Risk management is defined through the negotiation of the airline agreement and the establishment of the rate setting methodology. Under the County's Airline Use and Terminal Lease Agreement, Signatory Airlines pay rental fees and charges according to a hybrid rate-setting methodology for the Airline Cost Centers:

- Airfield Cost Center. Landing fees are calculated based on a residual rate-setting methodology whereas the Signatory Airlines are obligated to discharge all claims, obligations and indebtedness payable in connection with the Airfield Cost Center.
- Terminal Cost Center. Terminal rental rates are calculated based on a compensatory rate-setting methodology. Under the compensatory method, the County sets Signatory Airline rates and charges based on the percentage of costs corresponding to the airlines' use of facilities, without consideration for the amount of nonairline revenues. Excess revenues in this cost center is retained by the County.

  Airline Cost Centers established on a shared basis, including airline systems and equipment, provide for a residual allocation whereas 10% of cost is allocated on a fixed number of airlines that use these facilities and 90% of cost is allocated to airlines based on the number of enplanements reported.

Key provisions of the Agreement that were negotiated to minimize risk to the County include:

<u>One Time Release of Space.</u> Throughout the term of the Airline Agreement, Signatory Airlines may lease space as needed, however are required to maintain their leasehold commitments pending a single time-frame reflected as January 2022 to April 2022, whereas such leaseholds may then be adjusted during a short window for the term of the extended Agreement.

<u>Rolling Debt Service Coverage.</u> Also called “funded coverage,” this provision is for the prior year’s coverage to offset the current year’s debt service coverage requirement for Airline Cost Centers. The rolling coverage was intended to keep costs low to airlines operating at the airports.

<u>Majority In Interest (MII).</u> Capital Expenditures relating to new development, planning and expansion projects in the Airline Cost Centers with a net project cost in excess of $10 million are the only expenditures requiring a Majority in Interest of Airlines (“MII”) review under the Airline Agreement. The County notifies Signatory Airlines in writing of its intent to undertake Capital Expenditures in excess of $10 million. In return, Signatory Airlines submit any written objections; if an MII of airlines oppose a project,

then the County must defer the project for a period of up to two years. With respect to issues pertaining to the Airline Cost Centers, MII is defined as (1) at least 75% of those Signatory Airlines (including Affiliates) who together had at least 75% of the Signatory Airlines' total Maximum Gross Landing Weight, or (2) 75% of the Signatory Airlines' (including Affiliates) Enplaned Passengers, during the immediately preceding Fiscal Year.

Airlines choosing not to execute the Airline Agreement are assigned space on a month-to-month basis and pay rentals and fees in accordance with the Sacramento County Code. Such non-signatory airlines pay a twenty percent (20%) premium on rentals and fees paid by Signatory Airlines, and have no right to vote on capital projects.

<u>Revenue Sharing.</u> In the determination of annual Revenue Sharing, the County will share with Signatory Airlines 40% of Net Remaining Revenues (equal to Total Revenues less O&M Expenditures, O&M Requirement, and Debt Service). Availability of Revenue Sharing is based on the County's ability to satisfy its obligations and meet all requirements of the Indenture in each Fiscal Year. Revenue Sharing is allocated to Signatory Airlines based on a proportionate share of Enplaned Passengers, and promptly paid to the Airline at the time of Year-end Settlement.

<u>Extraordinary Coverage Protection.</u> In exchange for the Revenue Sharing provision, the Airline Agreement also provides for the Signatory Airlines to make payments in the rates for rentals, fees and charges in which the amount provides sufficient Net Revenues in each Fiscal Year to comply with the minimum rate covenant required by the Indenture (the "Extraordinary Coverage Protection"). Should Extraordinary Coverage Protection payments be made, the County will refund such payments to the Signatory Airlines as soon as uncommitted funds become available.

<u>Year-end Settlement.</u> Rates and charges are calculated annually based on the County's approved operating budget and reviewed and adjusted, if necessary, throughout each Fiscal Year to ensure that sufficient revenues are generated to satisfy all requirements of the Indenture. At the end of each Fiscal Year, the County recalculates rates and charges based on audited financial data and upon determination of any difference(s) between the amount paid by Signatory Airlines during the preceding Fiscal Year and the recalculated rents, fees and charges due,

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County shall (1) refund any overpayment, or (2) invoice any shortage between the Airline Cost Center requirements and amounts paid by Signatory Airlines.