Future of Aviation Advisory Committee
Subcommittee on Financing
Record of Meeting
September 29, 2010
United Air Lines, Inc.
Chicago, Illinois

Public Announcement

The U.S. Department of Transportation (DOT), Office of the Secretary of Transportation, told the public of this Future of Aviation Advisory Committee (FAAC) Subcommittee on Financing meeting in a Federal Register notice published September 13, 2010 (75 FR 55631).

Subcommittee Members in Attendance

Name	Affiliation(s)	
Jack J. Pelton (*Subcommittee Chair*)	Chairman, President, and Chief Executive Officer	Cessna Aircraft Company (Cessna)
Severin Borenstein[1]	Professor	Haas School of Business, University of California, Berkeley
John Hennigan (*Designated Federal Official (DFO)*)		Federal Aviation Administration
Joseph Kolshak	Attended for Mr. Glenn Tilton	United Air Lines, Inc. (United)
Mike Kulis	Attended for Ms. Thella Bowens	San Diego County Regional Airport Authority
Steve Litty (*Alternate DFO)*		DOT
Daniel McKenzie	U.S. Airlines Research Analyst	Hudson Securities, Inc.
Stan Van Ostran	Attended for Mr. Regalado	Metropolitan Nashville Airports Authority

Committee Members Not in Attendance

Name	Affiliation(s)	
Thella Bowens	President and Chief Executive Officer	San Diego County Regional Airport Authority
Raul Regalado	President and Chief Executive Officer	Metropolitan Nashville Airports Authority
Glenn Tilton	Chairman, President, and Chief Executive Officer	United Continental Holdings
Christopher Williams	Chairman, Founder, and Chief Executive Officer	The Williams Capital Group, L.P.

[1] By phone.

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Other Persons Present

Name	Affiliation(s)
Chris Brown	United
Douglas Cassaro	PAI Consulting
Patty Clark	Port Authority of New York and New Jersey
Mike Derrick	PAI Consulting
Paul Feldman	General Aviation Manufacturers Association
Christa Fornarotto [1]	DOT
Lisa Piccione	National Business Aviation Association
Melissa Rudinger[1]	Aircraft Owners and Pilots Association

Background and Welcoming Remarks

This is the record of the third meeting of the Subcommittee on Financing of the FAAC, a Federal advisory committee formed pursuant to and subject to the requirements of the Federal Advisory Committee Act (FACA). Mr. Jack Pelton, subcommittee chair, Cessna, called the meeting to order at 9:09 a.m. He welcomed the subcommittee members and members of the public in attendance, and opened the meeting by introducing the members of the subcommittee. Mr. Pelton asked the subcommittee for any edits or revisions to the record of meeting from the August 17, 2010, meeting. There were none, and he requested a motion to approve. A motion was received, duly seconded, and the record of meeting was approved.

Mr. John Hennigan read the formal statement required under FACA and then turned the meeting back over to Mr. Pelton to open substantive discussion.

Discussion

Mr. Pelton began by thanking United for the use of their meeting facilities, and reviewed the agenda for the meeting. He noted the subcommittee had much work to accomplish at this meeting to be prepared for the next FAAC meeting in Los Angeles, California, October 20, 2010. He stated the subcommittee must finalize their actionable issues for presentation at the FAAC meeting. Mr. Pelton stated the morning would be spent reviewing, for educational purposes, background papers on issue areas of concern to the subcommittee. During the afternoon, the subcommittee would work on transitioning these topics into issue papers to be presented to the FAAC. Mr. Pelton asked if any of the subcommittee members had comments on or suggestions for the agenda. With no comments, he opened the meeting for substantive discussion on the issue areas.

[1] By phone.

Alternate Minimum Tax Relief for Airports

Mr. Hennigan began by providing background papers written by the airports community and the Airports Council International-North America (ACI-NA), and turned the discussion over to Mr. Michael Kulis, San Diego County Regional Airport Authority. Mr. Kulis introduced himself and thanked the subcommittee for the opportunity to speak on behalf of Ms. Thella Bowens, who was unable to attend. He explained that airports use bonds to fund construction projects, and the American Recovery and Reinvestment Act of 2009 (stimulus bill) provided a 2-year holiday on alternate minimum tax (AMT) for airport bonds. Mr. Kulis stated this saved the San Diego County Regional Airport Authority a significant amount of money in a recent bond offering. He noted the interest rate on the bonds dropped from 6 to 4.38 percent without AMT factored in, resulting in a savings of $40 million. He added the relief from AMT would expire at the end of this year, and noted there is some consideration in Congress of extending or making the relief permanent.

Mr. Joseph Kolshak, United, asked Mr. Kulis to clarify if AMT relief allows airports to borrow money at lower interest rates, making airports more attractive to investors. Mr. Kulis stated yes and encouraged the subcommittee to support making the relief permanent. Mr. Pelton asked if the relief applied only to private activity bonds (PAB) at airports. Mr. Kulis stated yes. Mr. Pelton asked if the current AMT relief applied to other types of airport bonds as well, and if PABs were used for projects other than airport improvements. Mr. Kulis responded that the relief was only for PABs, and PABs are used for a host of projects outside of the aviation industry, such as public housing and stadiums. Mr. Daniel McKenzie, Hudson Securities, Inc., asked when the current relief became effective and if the relief also allowed savings on passenger facility charges. Mr. Stan Van Ostran, Metropolitan Nashville Airports Authority, replied AMT relief began in March 2009 and further explained how AMT relief saves airports money, which reduces costs passed along to the air carriers. Mr. Kulis noted the relatively small cost of AMT relief, stating the amount of lost revenue to the U.S. Government was approximately $49 million, and airports save billions of dollars over the life of their loans.

Mr. Kolshak asked if making AMT relief permanent would require legislation by Congress. Mr. Kulis stated yes. Mr. Severin Borenstein, Haas School of Business, remarked that everyone would likely enjoy relief from AMT, and inquired why relief should just apply to airport bonds, rather than other types of bonds. Mr. Kulis responded that the relief lessens costs that airports have to pass along through rates, charges, and landing fees. He was unsure if there was a more coordinated effort in other sectors of the economy to get permanent AMT relief and was only aware of the effort by the airports community. He added the proposed legislation covers all PABs, not just those at airports. Mr. Borenstein asked for clarification of the definition of a PAB. Mr. Kulis explained that they are used not only to fund airport projects, but to finance local government projects, such as public housing and stadiums. Mr. Pelton provided a verbatim definition of a PAB, stating they are tax-exempt bonds issued by public entities to provide low-cost financing for projects serving a public purpose, such as public housing, stadiums, and airport improvement projects.

Mr. McKenzie asked if savings from AMT relief are reinvested in other projects at airports. Mr. Van Ostran replied the money is sometimes invested in other projects but, more importantly, reduces costs passed along to air carriers. Mr. Borenstein stated he was still unclear on how to justify why these bonds alone should be exempted He noted there would have to be a tradeoff somewhere, as the U.S. Government was losing revenue that would have to be offset somewhere else. Mr. McKenzie noted Congress initiated this action in 2009, and there should be rationale to extend the relief. Mr. Borenstein responded that this was taken as a temporary measure, rather than a permanent shift in policy.

Mr. Kolshak reiterated that AMT relief was for all PABs, not just airport bonds. Further discussion of the loss of revenue versus savings to airports followed. It was clarified that the $49 million in lost revenue was for all PABs, not just those for airport projects. Mr. Kulis cited the benefit of job creation from airport construction projects.

Mr. Pelton stated that as airport infrastructure grows, this is a way to provide cost relief, and expressed his support for the issue. Mr. McKenzie and Mr. Borenstein both agreed it was a worthwhile issue to explore, but Mr. Borenstein expressed that the subcommittee would need to show that AMT was a particularly "harmful" tax that stifled the growth of the industry versus other types of taxes. He expressed reservation that this could be proven. Mr. McKenzie added that a cost-benefit analysis should make AMT relief an easier issue to pursue, rather than as a policy debate.

The subcommittee had an extensive discussion of the merits of AMT relief, benefits and savings to airports, lost revenues to the Federal Government, and the overall benefit to the aviation industry. Mr. Pelton suggested that a savings of $49 million a year was good from a public policy standpoint, but the questions of it helping the aviation industry and benefiting the public must be answered. He asked if the Secretary of Transportation's support could move this forward. Mr. Hennigan suggested the Secretary would have to work with the Secretary of the Treasury, Congress, and others to seek permanent relief from AMT. Mr. Pelton asked if anyone knew how the original effort to seek relief began. No one could provide a specific answer, but several members noted that ACI-NA and the American Association of Airport Executives (AAAE) had been lobbying for relief before the stimulus bill was enacted. They stated the stimulus bill provided a vehicle for AMT relief.

Mr. Pelton stated that for this issue to move forward, the subcommittee would need to define the benefits achieved so far with the relief in place, determine future benefits, and highlight job creation due to relief from AMT. Mr. Kulis agreed, and stated these would be good issues to develop in coordination with ACI-NA and AAAE. Mr. Pelton added that looking at a 20-year plan for future growth of airports, the savings from AMT relief would likely be billions of dollars. He stated an important point to consider was how this effort could support that growth. He noted there is still work remaining before this issue moves forward.

Mr. Kolshak added that lost U.S. Government revenue could be offset by job creation. Mr. Borenstein reminded the subcommittee that the most direct way to present this issue is to highlight activities that would be undertaken due to an AMT exemption, and make the argument that there is good reason for making AMT relief permanent. Mr. Pelton asked the subcommittee if there was agreement that this issue should continue to be developed for presentation. It was agreed this was a worthwhile topic and work would continue. Mr. Pelton thanked the subcommittee for a good discussion of the topic and continued to the next issue area for discussion.

Funding of Aircraft Equipage

Mr. Hennigan distributed a paper about funding of aircraft equipage (appendix A). He stated the paper was written with combined effort from the Federal Aviation Administration (FAA) and industry associations. He stated the subcommittee has been considering this issue for several months and discussions during the last subcommittee meeting in Washington, DC were helpful in identifying the benefits of funding equipage. He stated the paper offers a series of public policy arguments detailing why public funding of aircraft equipage is a good policy.

He stated that after the subcommittee meeting in Washington, DC, President Obama moved forward with a proposed stimulus package that included this topic, showing the importance of investments in aircraft equipage. He suggested the need is for the subcommittee to now better explain why this is a good policy, without getting into the specifics or types of the actual funding.

He stated the business case needs to be made on a broad level so that many public policy goals will be met by taking action on this issue. He cited jobs, global competitiveness, passenger experience, and environmental concerns as areas that would be addressed with making a business case for funding equipage. He invited the subcommittee to ask questions on the topic.

Mr. Pelton stated this is the toughest topic the subcommittee has discussed and inquired how to turn it into a proposal. Mr. Borenstein stated the Federal Government funds the ground-based side, and operators fund the equipage side. He referred to the paper and asked for clarification regarding the costs for general aviation versus the benefits that would be realized by this segment of the aviation industry. He stated the cost is high considering the low benefits and he asked if the larger benefit is realized on the commercial side.

Mr. Paul Feldman, General Aviation Manufacturers Association, stated Mr. Borenstein's assumption was basically correct. He stated the total benefits include air carriers and the overall society, but there is little direct benefit to general aviation. He stated the cost-benefit of a piece of equipment like Automatic Dependent Surveillance-Broadcast Out (ADS-B Out) is not clear, which makes it difficult to accelerate the mandate for 2020. Mr. Kolshak stated the cost of delays is much lower for general aviation than it is for air carriers. Mr. Feldman agreed and stated it is important to highlight this fact for subcommittee consideration.

Mr. McKenzie stated air carriers receive little benefit from ADS-B Out and air carriers feel the U.S. Government should pay for the equipage. Mr. Kolshak stated the benefit is only realized when all aircraft are equipped. He stated the mandate is for 2020 but there is no benefit to an operator from equipping early. Mr. McKenzie stated he understands ADS-B Out is a cornerstone piece to the Next Generation Air Transportation System (NextGen) equipage. He stated the FAA has always been a part of funding for infrastructure, and equipage is now a critical piece of the infrastructure.

Mr. Hennigan agreed and stated the suggested proposal is to help with funding equipage. He stated typically the FAA invested in ground infrastructure, but now that infrastructure is also entering the cockpit, and the ideas about investment may need to shift. He asked if there is a need to accelerate the 2020 mandate. He stated ADS-B Out is just one portion of the equipage issues and there are many other pieces to follow.

Mr. Kolshak agreed the infrastructure is moving from ground-based to air-based. He stated equipment like ADS-B In allows for self-separation of aircraft and strengthens the argument that infrastructure is being moved from the ground to aircraft.

Mr. McKenzie acknowledged the environmental and employment benefits, but he inquired about the factors of the cost-benefit analysis. Mr. Hennigan stated that besides costs, there are three benefit categories to be considered in the cost-benefit analysis:

- Delay savings,
- Fuel savings, and
- Environmental benefits.

Mr. Kulis inquired if the Federal Government would include ground infrastructure at airports. Mr. Pelton stated the ADS-B piece that is ground infrastructure is in the FAA's funding plan. He stated the pieces that are not required at facilities are not included in the plan. Mr. Hennigan stated use of ADS-B was recently approved nationwide, and the FAA is moving in the direction of using ADS-B along with radar to separate traffic.

Mr. Feldman noted the ground-based infrastructure for ADS-B Out will be completed by 2013 but the aircraft are not mandated to equip until 2020. He stated funding from the FAA goes not only to infrastructure, but also to developing required navigation performance (RNP) procedures.

Mr. Hennigan stated from a public policy standpoint, there are three issues that need to be addressed: should Federal funds be used for equipage, for what equipment should these funds be used, and what financial tools might be used for Federal incentives.

Mr. Borenstein stated there is a need to discuss if there is a business case to accelerate the mandate of 2020 for ADS-B. He stated the benefits of ADS-B cannot be realized until everyone has the capability, but he does not know the benefits of equipping early. He stated there are three options: mandate ADS-B early, have industry pay for equipage through taxes and fees, or have the general fund pay for it through grants or loans. He stated the announcement from President Obama may take care of this issue through the stimulus package. He stated if the subcommittee goes through with this proposal, they need to make a clear argument of its importance.

Mr. McKenzie stated the air carriers are already spending money and getting zero benefit. The subcommittee noted the U.S. Government is benefitting from the decommissioning of ground infrastructure. Mr. Borenstein stated this savings of money will allow for subsidizing the changes to better technology. He asked to see the FAA's savings from not having to operate the radar. Mr. Borenstein stated this value will help the subcommittee decide how to deal with the cost of equipage. He further stated if the numbers are substantial, then it strengthens the argument to transfer the saved funds for early equipage.

Mr. Hennigan stated the long-term intent is that new systems will replace the ground-based infrastructure, but that cannot be completed until 2020 or later because of the need for duplicate systems. He stated it is in everyone's best interest to effectively move the mandate to an earlier date. Mr. Hennigan added the 2020 date of equipage creates a problem where little action can take place without incentives. Mr. Kolshak noted the legacy aircraft may be retired by 2020, easing the burden of cost. He stated if equipage is accelerated, then the cost incurred by the air carriers will change. Mr. Borenstein inquired if it is acceptable to try to accelerate the 2020 mandate for aircraft that are about to be retired.

Mr. McKenzie stated that the $40 billion saved from delay reduction and the 12-to-15 percent reduction in carbon emissions display the need for acceleration. Mr. Borenstein stated if the subcommittee is going to endorse that, then there is a need for hard numbers that show the benefit. He stated the reduction in delays produces a savings to the passengers, but there is a need to also show savings to the U.S. Government.

Mr. McKenzie and Mr. Borenstein debated the negative externalities and the public good of acceleration. Mr. Borenstein stated the argument for the U.S. Government to pay for equipage is weak.

Mr. Hennigan stated the mandate for ADS-B out equipage is for 2020 and the subcommittee needs to decide whether or not to explore the option for acceleration. Mr. Borenstein stated if the numbers can be justified, then it is an easy argument. He stated if the subcommittee agrees to propose acceleration, then the issue of who pays for it needs to be discussed.

Mr. McKenzie inquired whether the Government Accountability Office has conducted any studies on the pros and cons of tax credits or loan subsidies. Mr. Hennigan stated he is not aware of any studies, however, the issues have been discussed for a while. Mr. McKenzie stated he is unsure of how to evaluate the pros and cons of funding options. Mr. Hennigan stated there is a wide range of incentive options, and operators have a wide range of equipage needs. He suggested there may not be one answer; the proposal should be a broad statement on the need for funding aircraft equipage, rather than the available avenues.

Mr. Van Ostran stated it seems as if a cost-benefit analysis needs to be done by the FAA to get a fundamental breakdown of needs. Mr. Hennigan stated there is no need to be further burdened with the details. He stated the NextGen briefing from the previous subcommittee meeting makes the overall business case for NextGen. Mr. Van Ostran added the cost-benefit analyses are likely already done. He further added the proposal should be centered on Federal assistance for the package for equipping aircraft.

The subcommittee had a discussion regarding moving the 2020 mandate to an earlier time. It was noted the original mandate was for 2025. The subcommittee discussed the need for aircraft to become equipped, with ADS-B particularly, to realize the benefits. Mr. McKenzie noted if all aircraft equip by 2020, the change will be made all at once, creating a dangerous system. Mr. Hennigan stated that issue is partially why the subcommittee is discussing the acceleration issue.

Mr. Hennigan cited the Honeywell briefing on equipage from the Washington, DC subcommittee meeting and noted older aircraft will probably not be equipped before they are retired. He said there is no need to spend money on aircraft that will not need the technology. Mr. McKenzie noted the 2020 mandate may encourage air carriers to retire older aircraft earlier.

Mr. Pelton stated the subcommittee needs to deal with the equipage issue as system-wide policy. He stated the movement toward ADS-B was very difficult, and it is only one piece of equipment. He stated more elements are to follow. Mr. Kolshak noted moving the infrastructure to the aircraft is just the beginning of the process. He stated aircraft now have sensors that send data to the FAA, and as things progress, communication will take place between aircraft, rather than through the ground-based equipment.

Mr. Hennigan stated there is a change in how air traffic control services will be provided. He stated it may require rethinking the procedures. He added distinctions between ground-based infrastructure versus satellite-based infrastructure and FAA systems versus airport systems are disappearing, because NextGen is a more holistic system. Mr. Hennigan stated shared responsibility of assets and data creates less definition between traditional ideas. He inquired if there is a need for the Federal Government to step in as a partner.

Mr. Pelton stated the next step is to determine what vehicles are available to fund equipage. He stated there is a strong case for the benefit, but now the issue is how to move forward.

Mr. Borenstein stated he is still unclear about the case for accelerating equipage before 2020. Mr. Borenstein inquired if it is possible and feasible to accelerate equipage to pre-2020. Mr. Kolshak stated it may be possible for equipage to happen before 2020, but it will likely not happen by 2013. Mr. Borenstein inquired if a study has been completed to determine what the costs and benefits are if the is mandate moved from 2020 to 2013.

Mr. Hennigan stated there was a cost-benefit study done of the NextGen program based on the 2020 mandates. Mr. Hennigan stated he does not know if there is a cost-benefit analysis of accelerating the equipage. He offered to find a study that displays the cost-benefit of accelerated equipage, if one is available.

Mr. Kolshak stated the U.S. Government paid a fixed amount to air carriers to retrofit hardened doors after 9/11. He stated some aircraft were not worth enough to warrant the retrofit, so the aircraft were retired. Mr. Kolshak suggested a similar approach could be used for ADS-B: if the aircraft is not worth the cost of equipage, then the aircraft should be retired.

Mr. Van Ostran inquired if there is benefit to roll out technology in certain regions or specific airports. Mr. Kolshak stated the ADS-B technology needs to be applied across the system to allow for flexibility and efficiency. He stated aircraft do not stay in one metroplex, so the technology needs to span the whole system. Mr. Hennigan clarified that new area navigation (RNAV) and RNP procedures are being placed in metroplexes in a priority order, however, ADS-B is an underlying infrastructure need for the entire National Airspace System.

Mr. Pelton stated the subcommittee is coming to the conclusion there is a benefit from equipage and there is a benefit from equipping sooner than 2020. He stated there is a need to explore how to incentivize the equipage. Mr. Borenstein agreed, provided the data is supplied to support the case.

Mr. McKenzie inquired about the hazards of all the aircraft becoming equipped at once. Mr. Hennigan stated the change does not happen all at the same time because of maintenance schedules of aircraft. Mr. Kolshak added that wiring may be done at one time, other components may be added at another time, and new aircraft will already have the equipment available.

Mr. McKenzie inquired about the benefits to air carriers that would justify acceleration. Mr. Kolshak stated, with respect to delay reduction, two minutes per flight across the fleet adds up. He stated the same idea goes for fuel savings. Mr. McKenzie inquired about what would happen if the benefits end up being too small for air carriers to justify equipage. Mr. Kolshak stated that is the argument behind the 2020 mandate, because the cost to retire aircraft is much larger than the equipment itself.

Best Equipped, Best Served

Mr. Hennigan resumed the meeting after a brief break and referred to a short paper offering a broad outline of the concept of "best equipped, best served" (appendix B). He stated this concept is new for the FAA and is being put foreword to help accelerate the actual use of operational capabilities of NextGen. Mr. Hennigan stated the FAA asked RTCA, Inc. (RTCA), among other things to assist with operationalizing the effort and help accelerate needed aircraft equipage. He explained the FAA's current "first come, first served" rule may conflict with the "best equipped, best served" idea. Mr. Hennigan stated operators who equip with NextGen technology and equipment needs to realize the benefits from having the equipment on board and using the new operational capabilities. He noted the issue becomes how to ensure that the operators receive the benefits they believe they are owed.

Mr. Hennigan stated one key group is "early adopters." He stated there is an overall benefit from accelerated equipage: more efficient use of the airspace system, less fuel consumption, and lower environmental impact. Mr. Hennigan explained the FAA is asking if the "best equipped, best served" concept will encourage operators to equip. He acknowledged the difficulty and controversial nature of this idea because the issues and needs of each airport and operator vary.

Mr. Hennigan stated the more operators that equip, the more the benefits of NextGen can be realized. He stated even though the situation of mixed equipage will exist for a long time, there is still a need to move to "best equipped, best served." He stated the background paper provided to the subcommittee does not offer information regarding who pays for equipage, rather it outlines the need for operators to receive the promised benefits of equipage.

Mr. Kolshak inquired about what needs to be done to provide the benefits of equipage. Mr. Hennigan stated air carriers will not want to install equipment unless they are able to realize tangible benefits. So the key is to deliver the benefits. Mr. Kolshak offered an example of United purchasing equipment for airplanes that were retired before the equipment was used. He expressed concern for being able to use the equipment and guarantee the benefits associated with equipage.

Mr. McKenzie inquired about the need to complete new environmental impact studies for new procedures before the 2020 mandate date. Mr. Hennigan explained environmental impact studies are not required for all situations because many new procedures are conducted over current routes, causing little to no new impact. He stated the FAA is cautious about environmental issues but feels the 10-year study timeframe often resulting from the initiation of a full environmental Impact statement is neither applicable nor necessary to all situations. Mr. Hennigan noted the main problems are not environmental issues but how to deliver benefits, train pilots and controllers, and examine the metroplexes.

Mr. McKenzie inquired if it is feasible to get a tangible benefit if policies are in place. Mr. Hennigan stated it is possible. He stated NextGen will be implemented between 2012 and 2020 and procedures will need to be developed differently to achieve the goals. Mr. McKenzie stated the FAA is looking at the need to incentivize. Mr. Hennigan stated a proposal from the subcommittee would help strengthen that voice.

Mr. Kolshak inquired if the subcommittee is trying to define "best equipped, best served," or if it will be a task for someone else to define it. Mr. Hennigan stated it is too technical for the subcommittee to define, but it may be possible for other groups to help to define it and determine the priority in "best equipped, best served." Mr. Pelton stated it would be beneficial to look at metroplexes and determine the benefits gained from equipage.

Mr. Hennigan suggested the proposal for action may be as simple as getting the Secretary to agree with this idea. Mr. McKenzie inquired whether the Secretary agrees with ensuring there is a return on investment for operators who chose to equip. Mr. Hennigan stated, at this time, the Secretary has not addressed this issue; however, he thought there is an obvious understanding of the issue. He stated there is a cultural issue of implementation that must be overcome. Mr. Hennigan explained that mixed aircraft equipage brings about a new work environment for controllers who may have to blend the use of new procedures with old procedures perhaps at the same time.

Mr. McKenzie inquired how to package this proposal. Mr. Hennigan stated it is a notion of recognizing a tough problem the Secretary and the FAA and operators needs to deal with. Mr. Pelton stated there are two ways to increase capacity: adding new runways and developing technology for simultaneous operations. He stated that "best equipped, best served" helps to meet the latter.

Mr. Hennigan stated when new programs are implemented, tests are conducted to measure the benefits. He stated the competitive aspect comes to light as operators see the minutes that can be saved on each flight.

Mr. Kolshak offered the example of RNAV. He stated aircraft did not need to have the ability to complete RNAV operations; however, equipped aircraft received more efficient routings and resultant improved operations. He stated the question now is how to integrate the legacy aircraft with aircraft equipped with new technology.

Mr. Hennigan stated the FAA has used as an example of "best equipped, best served" the category III (CAT III) instrument landing system (ILS) operations at some airports. He stated the equipped aircraft got a positive benefit of landing in marginal weather by using the procedure without negatively impacting others aircraft that were not equipped to use the procedure. Mr. Hennigan explained, if the aircraft and the runway are equipped, then the aircraft is able to land. He stated the issue here is how to move forward and study the benefits to encourage operators to equip.

Mr. Kolshak stated the CAT III example is a perfect example because the benefits of equipage are tangible. He stated operators can clearly see the benefit and decide whether or not to equip.
Mr. Hennigan stated this is not a substitute for providing money for equipage, rather it is complementary. He stated an operator needs to see the benefit that come with buying the equipment.

Mr. Hennigan stated 90 percent of aircraft are RNAV-capable but a much lower percentage is RNP-equipped. He stated RNP equipage is important and needs to get installed into aircraft.
Mr. McKenzie inquired how to package this proposal to send to the Secretary.

Mr. Borenstein inquired if “best equipped, best served” refers to ADS-B and RNAV/RNP. He also inquired if most airplanes already have this equipment. Mr. Hennigan stated that most of the aircraft today do not have this equipment. Mr. Borenstein stated it is a good idea to reward the investment the operators will make to equip by receiving priority in areas of limited resources.

Mr. Pelton inquired how the proposal will be formed without getting into the technical issue. He stated the proposal should be based around creating benefits for equipped aircraft because these aircraft are not congesting the system with inefficiencies. He stated an airport needs to be studied to determine how this benefit can be created. Mr. Kolshak stated the Secretary can direct an FAA study to define “best equipped, best served” and explain how to deploy this concept.

Mr. Pelton stated many studies have already been conducted on “best equipped, best served,” but there needs to be a push to take it from where it is now to where it needs to be. Mr. Hennigan stated this issue needs to be brought to the Secretary’s attention and the subcommittee needs to make the case. Mr. Hennigan stated there are complications with best equipped, best served deployment, but lessons can be learned from prior experiences (such as the reduced vertical separation minimum, RVSM mandate). He stated this is a significant proposal topic, because the benefits have to be delivered to get operators to equip.

Mr. Feldman stated an advantage with funding is the ability to structure an arrangement between the FAA and industry to ensure both parties meet their ends of the agreement. Mr. Pelton noted that discussions with the FAA are needed regarding the priority of NextGen. He further stated RNP in Palm Springs, California, was not a good idea because the technology could have been better used elsewhere. He added there is a need to work with the FAA on prioritization based on benefits.

Mr. Hennigan stated RTCA completed their study that included recommendations for streamlining procedure development and prioritizing where procedures are developed based on user benefits to be realized. He stated the FAA has worked with industry to determine the metroplexes that need new and beneficial procedures for equipped aircraft to use them and realize operational benefits. Mr. Pelton stated the FAA set a metric when the wide area augmentation system (WAAS) was implemented. He explained the first task was to overlay WAAS on ILS approaches to avoid environmental impact studies. This did not necessarily show the benefits.

Mr. McKenzie inquired if the DOT is able to implement procedures without conducting an environmental impact study. Mr. Pelton stated it depends on whether or not the air traffic stays in the current path of an existing approach to the airport. He stated new approaches could involve a full environmental impact study.

Mr. Hennigan stated there is a desire to be more efficient in conducting environmental studies, to avoid protracted environmental studies if possible.

Ms. Patty Clark, Port Authority of New York and New Jersey, stated the airspace redesign of New York, New York, took 10 years. She stated environmental impact studies need to be looked at so the process does not unduly delay implementation of new procedures, but offers more than just an overlay of an existing procedure.

Mr. McKenzie inquired if the DOT has the authority to override an environmental impact study in extenuating circumstances. Mr. Pelton stated the environmental subcommittee is acknowledging the issue of environmental impact studies.

Mr. Pelton stated the subcommittee has come to an agreement on the "best equipped, best served" topic and can now review project eligibility criteria and policy for the Airport Improvement Program (AIP), the passenger facility charge (PFC), and airport rates and charges.

Eligibility for AIP Funding

Mr. Hennigan distributed a background paper to the subcommittee on eligibility criteria for funding airport projects (appendix C). He stated the topic originated from the last subcommittee meeting, and the paper describes the issues airports face with using airport funds for certain airport projects. He explained the paper describes FAA investment in air traffic control equipment versus airports' use of AIP, PFC, and rates and charges money to fund airport projects and issues. He noted additional flexibility may be needed in this area.

Mr. Hennigan stated that the FAA is annually appropriated about $3.5 billion for the AIP program for qualified airport-sponsored projects. He explained this funding is rigid in its regulations about defining what types of projects airports can use this money for. Mr. Hennigan also stated that Passenger Facility Charge (PFC) programs is a source of funds that brings in a total of about $2.5 billion to airports that charge PFC's and can be used for similar airport-sponsored projects. He stated a third source of funds for airports is called rates and charges and is collected by the airport through landing fees. He explained this is the system airports use to recover the cost incurred for serving air carriers.

Mr. Hennigan explained that the FAA invests in air traffic control equipment at airports, and that airport AIP and PFC programs and rates and charges are used to fund airport-centric programs. He stated the following guideline was used historically to make this distinction: the FAA invested in air traffic control and controller related activities and airports invested in airport and pilot related activities. Mr. Hennigan explained this simple system worked well, but as a more collaborative system between air traffic control and controllers and pilots and aircraft is realized with NextGen, the line between the two becomes less clear. He noted there is sometimes an interest by airports to help fund certain equipment or procedure development for air carriers and pilots at airports but current regulations ban this. Mr. Hennigan stated there may be a need to look at the criteria for the programs and develop a new definition for what types of projects can be funded by airports. As an example, Mr. Hennigan suggested airports may want to develop modern arrival and approach procedures for purposes of efficiency and possibly to gain a competitive edge over other airports, but he noted they are not willing to wait for FAA assistance.

Mr. Hennigan stated, in certain cases, the FAA does not allow airports to invest in certain items, but at the same time, those particular items may not be a priority for FAA investment at that airport . He stated airports may want to assist air carriers with the provision of certain ground equipment so air carriers can use modern equipment at the airports; however, there is a conflict in funding regulations that may not allow airports to invest. Mr. Hennigan suggested, in efforts to modernize, the current funding standards may need to be less rigid.

Mr. Hennigan stated the FAA Airports Office is looking at this issue, but it needs of support from the aviation industry. He stated the move to a more collaborative environment demonstrates a need to update the current regulations. Mr. Hennigan noted this issue is not a critical problem; rather it is an area that needs review. He further noted some of the current issues are mandated by law and regulation, but there is some flexibility in the funding structures. Mr. Hennigan stated the FAA should look at the funding structures to help maximize the benefits of NextGen.

Mr. Kolshak inquired about redefining rates and charges with regard to air carriers paying for equipage. Mr. Borenstein stated it could be a mechanism to allow for better equipage.

Mr. Van Ostran stated airports are allowed to invest in items such as baggage carousels if it provides a benefit to all air carriers, rather than just one. He stated the airports' hands are tied because of the regulations, but more flexibility in the AIPs and PFCs may allow for lower rates and charges because funding money from AIPs and PFCs can be used more effectively.

Mr. Hennigan stated even with additional flexibilities in these programs (AIP and PFC), airports still cannot show preference to a single air carrier. Mr. Van Ostran agreed but stated additional flexibility would allow for innovation in decisionmaking. He stated decisions can be made for each air carrier, while still being fair so everyone benefits.

Mr. McKenzie inquired if the subcommittee needs to push something so obvious. Mr. Pelton stated he struggles with rates and charges, but it is time to say that the U.S. Government needs to sit down and review AIP and PFC funding for a more effective use of the money.

Mr. Borenstein inquired if rates and charges could be used as a way to incentivize NextGen.
Mr. Hennigan stated rates and charges are not intended to incentivize behavior per se, rather it is a way for airports to recover incurred costs. He stated the issue is taking down existing barriers so funding can be used in a more effective manner. Mr. Borenstein stated once flexibility is achieved, the possibility for airports to use rates and charges as incentives becomes plausible.

Mr. McKenzie acknowledged the proposal from the subcommittee to review AIP and PFC procedures will help the FAA overcome some cultural resistance. Mr. Pelton agreed and stated the purpose of the subcommittee is to help identify priority issues. Mr. Hennigan stated proposals from industry help to make a difference. He stated the FAAC recommendations will help make a difference and establish priority for critical issues in the industry.

Mr. Pelton stated there is agreement that AIP and PFC eligibility requirements need to be revisited for efficiency and flexibility, while still keeping a spirit of fairness. Mr. Hennigan stated the issue is not about the source of the funding, but rather how it is spent. He stated there is a need to create flexibility to lessen constraints. Mr. Pelton concluded this portion of the meeting by stating there is agreement to move forward with the AIP and PFC proposal.

Template Population

Mr. Pelton stated the subcommittee could use the morning's discussion to help frame the templates for the subcommittee's issue areas for presentation to the FAAC. He stated the Funding for Accelerated Equipage of Aircraft would be the first discussion point. Mr. Pelton noted this was only a working document and the subcommittee was able to add content before this meeting. He asked the subcommittee to review the template so its members can discuss the best process to complete it and take it to the next level. Mr. Pelton noted this will determine whether the subcommittee will need to meet face-to-face, by teleconference, or through email before the next FAAC meeting. Mr. Pelton asked Mr. Hennigan to discuss the first template.

Template - Funding for Accelerated Equipage of Aircraft

Mr. Hennigan discussed the format of the template - an internal working document for the subcommittee's use. He noted this is the format the subcommittees will use for the upcoming FAAC meetings. Mr. Hennigan added that the intent is to have a one-to-two page high-level document covering the subcommittee's discussions and serving as an issue paper for presentation to the FAAC with the proposal for action and the subcommittee's rationale on the identified topics.

Mr. Hennigan briefed the subcommittee on the Funding for Accelerated Equipage of Aircraft template. He stated this template was created from the subcommittee white paper discussions. Mr. Hennigan discussed how equipping aircraft is important, but there are three major challenges to encouraging operators to equip their aircraft early. He discussed the subcommittee's proposal for addressing the major challenges. Mr. Hennigan stated this proposal addressed how the accelerated equipage of aircraft would benefit commercial and general aviation aircraft, but a major financial investment from the Federal Government is needed to achieve the public benefits. He discussed the subcommittee's rationale behind this proposal and reiterated there will be significant public benefits with early equipage of aircraft, and the delay in equipage because of the high cost relative to benefits can be overcome. He explained it would be advantageous if FAA and industry investments were synchronized. Mr. Hennigan added this will contribute to global competiveness and likely result in an increase in aviation jobs, particularly in manufacturing. He stated this template is an outline that closely follows the subcommittee's morning conversation. He added this is the type of document the Secretary's staff would contemplate presenting to the full FAAC in October 2010.

Mr. Borenstein asked for clarification on what was meant by the Secretary's staff contemplating what would be presented in October. Mr. Hennigan stated to Mr. Borenstein that this is the template the Secretary's staff wants from each subcommittee for each proposal. Mr. Borenstein asked if the Secretary's staff presents it. Mr. Hennigan clarified that Mr. Pelton would be the one presenting the suggestions to the full FAAC on behalf of the Subcommittee on Financing. Mr. Hennigan opened the floor for questions and comments.

Mr. Borenstein stated he is not comfortable with the contents of this template given his comments from the morning session. He asked if this document is supposed to be the consensus of this subcommittee at the close of the meeting. Mr. Pelton stated that is the intent. Mr. Pelton added the subcommittee is trying to encourage accelerated funding of equipage. He stated the subcommittee also is trying to capture why it believes it is important without necessarily prescribing the exact tool to provide funding. Mr. Borenstein stated he is not comfortable with money from the general fund going into subsidizing aircraft equipage, and all of the presented options tap the general fund in one form or another. Mr. Borenstein read a section from the proposal where it states the subcommittee believes that financial options, such as grants, loans, leases, and loan guarantees, should be designed in conjunction with the aviation industry. He stated all those options are some form of Federal Government funding from outside the industry to fund equipage. Mr. Pelton asked for comments. Mr. Kolshak stated some members of subcommittee believe this is appropriate, in the public interest, and there is enough benefit to justify the proposal. Mr. Kolshak added the subcommittee will not be unanimous on this issue, but this subcommittee was charged to provide suggestions.

Mr. McKenzie stated that in presentations from previous meetings, the benefits for funding-accelerated equipage had been quantified. Mr. Borenstein disagreed with Mr. McKenzie. Mr. Kolshak stated that he has data from an Air Transport Association of America, Inc., presentation where some benefits had been quantified. Mr. Borenstein stated he would need two things be comfortable: (1) proof that acceleration is a good idea on a cost-benefit basis and (2) confidence there is a solid argument that the Federal Government should be paying for accelerated equipage from the general fund and not through ticket taxes, PFCs, or other aviation industry funding sources. Mr. Borenstein stated that in general, economic policies argue that industry-specific investments should be made through industry financing. He commented there are exceptions to that notion, using the funding of another mode of transportation as an example. Mr. Borenstein stated he is open to the idea that some of the savings will come from decreased FAA expenditures on other services it provides, but it still needs to be quantified. He stated he understood many of the subcommittee members would like to see money come in from the Federal Government to the aviation industry, but moving ahead is an area of concern unless the subcommittee has closely studied this issue and knows this is a good policy.

Mr. Van Ostran agreed with Mr. Borenstein that this issue needs to be quantified, but added the subcommittee could make a public policy argument that there are enough benefits to move forward with some type of an incentive program, such as no-cost or low-cost loans, energy independence, or fuel savings.

Mr. Hennigan stated he will try to find cost-benefit analysis data to address Mr. Borenstein's concerns. He raised the issue that at the October 20, 2010, FAAC meeting in Los Angeles, the DOT wants proposals on how to move forward. He stated he understood the subcommittee's need for cost-benefit analysis data, but he expressed the subcommittee is under a time constraint and it needs to move forward. Mr. McKenzie questioned Mr. Hennigan on the possibility of obtaining the data for the subcommittee by October 14, 2010, and whether the subcommittee needs to have a second meeting. Mr. Hennigan stated he will have to work with the DOT to attempt to gather the information. Mr. Borenstein stated he does not have much sympathy toward the view that the subcommittee should do something even when it has not thought it through well. He stated he would rather see the subcommittee express to the FAAC that it did not have enough time or information to make a proposal on this issue. He stated if the subcommittee cannot back up this issue, it should not present the proposal.

Mr. Borenstein added that some cases are easier to make then others, for example, reducing FAA costs. He noted other cases, such as having the Federal Government provide funding for accelerated equipage, are harder to make. He reiterated that after reviewing the presentations, he did not find any quantitative information that supports these cases. Mr. Borenstein commented on the implementation and equipage of ADS-B, and Mr. Kolshak provided clarification on the issue. Mr. Borenstein asked what the benefit and feasibility are of equipping all aircraft that fly in controlled airspace, in particular, the benefits of partial equipage. Mr. Kolshak informed Mr. Borenstein that until all aircraft in controlled airspace are equipped, there will not be an increased capacity benefit. Mr. Kolshak stated this is due in part because legacy aircraft that will be retired before the 2020 ABS-B mandate will not be equipped.

Mr. Borenstein asked the subcommittee what the benefits would be if it proposes the Federal Government provide funding for aircraft equipage. He asked the subcommittee what the value of acceleration would be if the benefits of carbon dioxide and flight-delay reduction are not realized until all aircraft are fully equipped in controlled airspace. Mr. McKenzie explained to Mr. Borenstein that his concern is just one narrow part of accelerating the entire NextGen system. Mr. Pelton added this proposal includes all areas of NextGen and not just ADS-B. Mr. Van Ostran added the subcommittee could propose that the Federal Government perform a cost-benefit analysis to establish where funds for accelerated equipage should be directed. Mr. Kolshak stated he needs to find the source, but the data is out there, and that analysis has been done to show the benefits in savings, carbon dioxide reductions, and job creation. Mr. Van Ostran stated that cost-benefit data would be an important addition to the proposal and make a stronger case.

Mr. Hennigan asked the subcommittee members to provide any cost-benefit information they might have. He addressed Mr. Borenstein's point of the FAA shutting down old equipment. He added that shutting down old equipment is just one part and it will not be the biggest cost saver. Mr. Hennigan stated the implementation of NextGen results in operational savings and delay reduction. He believes that while shutting down old equipment is important, he would like to review the data to make a better determination. Mr. Kolshak, Mr. Hennigan, and Mr. Pelton briefly discussed other details of shutting down equipment. Mr. Borenstein commented that while it is an easy argument to show that shutting down old equipment saves the Federal Government money, it is a harder argument to get the Government to use general fund money to, for example, save fuel. Mr. Kolshak and Mr. Borenstein briefly discussed the private and public costs that are a result of carbon dioxide emissions.

Mr. Pelton discussed his view of the benefits to accelerated equipage and that a funding mechanism to do so needs to be identified. Mr. Van Ostran stated that a decision needs to be made based on cost-benefit data on which funding mechanism to use. Mr. Hennigan agreed. Mr. Van Ostran believes there is consensus among the subcommittee members that items, such as the acceleration of RNAV procedures, should be moved along, provided they are supported by cost-benefit data. Mr. Pelton noted this is why the subcommittee stayed away from picking specific funding mechanisms, because they mean different things to different constituents. Mr. Van Ostran still believes that if the subcommittee provided the Federal Government with a list of specific programs that need to be accelerated, looking at them from a cost and benefit standpoint would help bring clarity to the issues.

The subcommittee continued its discussion on proposals and how to move them forward. Mr. Kulis stated he agreed with Mr. Hennigan that the proposal should be contingent upon acceptable cost-benefit analysis data. All subcommittee members appeared to be in agreement. Mr. Van Ostran reiterated the proposal should be reworked in the most expeditious way to include existing, supporting cost-benefit analysis data.

Template - Best Equipped, Best Served

Mr. Hennigan briefed the subcommittee on the contents of the Best Equipped, Best Served (BEBS) template—an internal FAAC working document. Mr. Van Ostran stated he was fine with the document, but suggested that the subcommittee draft its own document and circulate it among the group. Mr. Borenstein stated that “best equipped” should be defined in some way so it does not just encompass ADS-B, but includes all the elements of NextGen. All subcommittee members appeared to agree. Mr. Kolshak, as an example, hypothesized that if you accelerate ADS-B, there are no mandates for the other equipage, such as RNAV RNP, which brings in the other key elements of NextGen.

Mr. Borenstein stated, in terms of airport landing fees, he noticed a direct parallel between BEBS and landing fees that vary with equipage. He believed it would be reasonable for airports to recognize the lowest impact on the system is posed by an aircraft with certain equipage. Mr. McKenzie stated he was in agreement with Mr. Borenstein. Mr. Borenstein stated that airports could rebalance the landing fee so it does not change the total revenue. Mr. Van Ostran commented he would not be able to do that at his airport because of a residual agreement that has landing fees frozen through 2017. He added it might work at some airports, but could pose a challenge for others.

Mr. Borenstein stated his understanding was no airport could do that right now but suggested one possibility is to give airports the flexibility to offer a financial incentive to aircraft with the appropriate equipage. Ms. Clark, a commenter from the Port Authority of New York and New Jersey, stated new regulations do provide airports with a lot of flexibility, but existing agreements may restrict airports from carrying out those actions. Mr. Van Ostran added that his airport agreements could only be changed if a majority of the signatory air carriers agreed, but that would pose a challenge.

Mr. Borenstein stated his belief that the group most opposed to this would be the general aviation community. Mr. Pelton replied, noting himself as a single general aviation voice and not representative of the industry as a whole, that the general aviation community likely would not be opposed to this. The subcommittee members continued a brief discussion on the equipage of airports. Mr. Hennigan reminded the subcommittee the last time this topic was discussed, it was focused on the equipage from an FAA standpoint. He added the discussion did not carry into what the airports can do. Mr. Van Ostran stated that whether it is the FAA or the airports, the Secretary should place emphasis on building the infrastructure for both.

Mr. Pelton stated the subcommittee's comments can be used to send a strong message to the FAA that if it implements NextGen technologies early in certain areas, there could be potential benefits.

Template - Eligibility Criteria for Airport Programs

Mr. McKenzie asked Ms. Clark to comment on AIP. Ms. Clark discussed that a majority of airports rely on AIP funding and how AIP affects the ability for smaller airports to maintain their operation. Mr. Pelton stated the intent was to broaden the definition on where AIP and PFC funding may be spent. He added this would not change the funding allocation to a small airport that only gets AIP funding, but would give that airport and others more flexibility to fund a project that cannot currently be funded by AIP. Mr. Hennigan commented that the focus of the proposal is to create more flexibility in the spending of funds. Mr. Van Ostran agreed with Mr. Hennigan and added airports are not looking for more funds, just more flexibility how they can spend their funds.

Mr. Van Ostran discussed the Voluntary Airport Low Emissions (VALE) program. He stated if environmental programs could use funds from the PFC program, it could keep airports from turning toward the VALE program for financial support. He stated the Subcommittee on Financing may consider coordinating with the Environment Subcommittee on the issue of funding environmental programs. Mr. Van Ostran suggested the subcommittee propose increasing flexibility on use of funding for programs such as AIP, PFC, and VALE.

Mr. Hennigan noted a potential overlap between the Eligibility Criteria for Airport Programs and AMT Exemption and Eligibility Criteria for Airport Programs—both internal FAAC working documents.

Mr. Pelton discussed how current PFC and AIP have both legal and regulatory requirements on what they may be used to fund. He added the subcommittee is suggesting the introduction of NextGen is a good opportunity to go back and look at the regulations and create more flexibility for funding equipment modernization. He noted the subcommittee is not suggesting how funds should be allocated, but rather broaden the definitions of AIP and PFC funds to allow more flexibility on how they can be spent.

The subcommittee discussed Airport Surface Detection Equipment, Model X, (ASDE-X) , and its role in aviation infrastructure. Mr. Hennigan briefed the subcommittee on the contents of the Eligibility Criteria for Airport Programs template and AMT Exemption and Eligibility Criteria for Airport Programs template. Mr. Kulis clarified that this proposal does not reduce airports' roles in deciding how to use funding for projects. Mr. Hennigan asked the subcommittee for any final remarks. No comments were offered, and Mr. Pelton proceeded to the final point of discussion.

Template - AMT Relief and Eligibility Criteria for Airport Programs

Mr. Pelton commented how he thought AMT Relief and Eligibility Criteria for Airport Programs could possibly go together, but he now recognized there are differences. Mr. Kulis commented the subcommittee needed to gather additional information to provide to the subcommittee members before the next FAAC meeting.

CLOSING REMARKS/NEXT MEETING

Mr. Pelton stated the templates will be updated to reflect the day's discussion. Mr. Borenstein stated many areas still need to be covered and the issues of aircraft equipage and AMT are items he is still not convinced on. Mr. Pelton discussed logistics for the subcommittee's next meeting.

Mr. Hennigan stated at the next FAAC meeting October 20, 2010, the subcommittee would like to present all four issues with the intent of receiving approval from all FAAC members. He added that if approved, they will be formal recommendations to the Secretary at the final FAAC meeting in December 2010.

Mr. Pelton stated that the next subcommittee meeting will be held via teleconference October 14, 2010, at 9 a.m. Central Daylight Time.

ADJOURNMENT

The meeting adjourned at 3:04 p.m.

I hereby certify that, to the best of my knowledge, the foregoing minutes are accurate and complete.

Approved by: John Hennigan
John Hennigan, Designated Federal Official

Dated: 11/17/2010