

**Future of Aviation Advisory Committee
Subcommittee on Financing
Record of Meeting**

November 17, 2010

General Aviation Manufacturers Association (GAMA)
Washington, DC

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 October 27, 2010 (75 FR 66184).

Subcommittee Members in Attendance

Name Affiliation(s)		
Jack J. Pelton (<i>Subcommittee Chair</i>)	Chairman, President, and Chief Executive Officer	Cessna Aircraft Company (Cessna)
Severin Borenstein ¹	Professor	Haas School of Business, University of California, Berkeley
Thella Bowens	President and Chief Executive Officer	San Diego County Regional Airport Authority
John Hennigan (<i>Designated Federal Official (DFO)</i>)		Federal Aviation Administration
Jacqueline Knight ¹	Attended for Mr. Christopher Williams	The Williams Capital Group, L.P.
Joseph Kolshak ¹	Attended for Mr. Glenn Tilton	United Continental Holdings
Steve Litty ¹ (<i>Alternate DFO</i>)		DOT
Daniel McKenzie ¹	U.S. Airlines Research Analyst	Hudson Securities, Inc.
Stan Van Ostran	Attended for Mr. Regalado	Metropolitan Nashville Airports Authority
Bob Peterson	Attended for Nicole Piasecki	Boeing
Raul Regalado ¹	President and Chief Executive Officer	Metropolitan Nashville Airports Authority

Committee Members Not in Attendance

Name Affiliation(s)		
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)
Elliott Black	Federal Aviation Administration (FAA)
Chris Brown	United Continental Holdings
Patty Clark	Port Authority of New York and New Jersey
Andy Compart	Aviation World/Aviation Daily
Mike Derrick	PAI Consulting
Paul Feldman	General Aviation Manufacturers Association
Christa Fornarotto	DOT
Steve Giles	MITRE Corporation
Katie Hamlin	PAI Consulting
Lorraine Howerton	Aircraft Owners and Pilots Association
Aloha Ley	DOT
Debby McElroy	Airports Council International-North America (ACI-NA)
Laura McKee	The Air Transport Association of America, Inc. (ATA)
Ken Mead	Baker Botts L.L.P.
Lisa Piccione	National Business Aviation Association
John Provenzano	Rockwell Collins
Roger Schaufele (Alternate DFO)	FAA
Ashleigh de la Torre	Bombardier
Pete West	NEXA Capital Partners, LLC

BACKGROUND AND WELCOMING REMARKS

This is the record of the fifth meeting of the Subcommittee on Financing of the Future of Aviation Advisory Committee (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 2:23 p.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. John Hennigan, the Designated Federal Official (DFO), FAA, summarized the FACA requirements. He noted the meeting is conducted under FACA and outlined his responsibilities as DFO, including maintaining adherence to the agenda, keeping accurate minutes, and adjourning the meeting if necessary.

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Mr. Hennigan noted this is the last subcommittee meeting and that the final full FAAC meeting will be held on December 15, 2010, in Washington, DC. He added that the minutes of each meeting will be made available in the regulatory docket and on the FAAC Web site at <http://www.dot.gov/faac>. Mr. Hennigan read the formal statement required under FACA.

Mr. Pelton then asked the subcommittee for any edits or revisions to the respective records of the meetings for September 29, 2010 and October 14th, 2010. Ms. Thella Bowens, San Diego County Regional Airport Authority, noted she did not attend the September 29, 2010 meeting and asked for the record of meeting to reflect that she was not in attendance. After the correction was noted, Mr. Pelton requested a motion to approve. A motion was received, duly seconded, and the records of the meetings were approved.

DISCUSSION

Mr. Hennigan explained the purpose of the subcommittee meeting is to review and finalize the formal subcommittee proposals to move forward ultimately as recommendations to the Secretary of Transportation. He noted the deliverable from the subcommittee is due to the FAAC on November 22, 2010. Mr. Hennigan reviewed the four proposals: (1) Public funding of accelerated aircraft equipage; (2) deliver the benefits of the Next Generation Air Transportation System (NextGen); (3) extend the Alternative Minimum Tax (AMT) exemption for four years; and (4) review the eligibility criteria for Airport Improvement Program (AIP) and Passenger Facility Charge (PFC) programs. Mr. Hennigan noted the first three recommendation write-ups were slightly modified to meet the format requested by the DOT.

Funding Accelerated Equipage of Aircraft

Mr. Hennigan read aloud the first recommendation to support a public funding program to accelerate the NextGen equipage of aircraft. He highlighted that the recommendation would receive a very thorough review by the Administration and require legislation. Mr. Hennigan noted the problem/challenge and rationale for the recommendation are included in the full paper, which is an internal working document for the subcommittee's use. Mr. Hennigan stated the paper points out that on September 6, 2010, the President of the United States announced a federal program to accelerate aircraft NextGen equipage that is very similar to the program outlined in the subcommittee's recommendation. Mr. Hennigan explained the President's proposal does not include specific details at this time and contemplates completion of a cost-benefit analysis to justify the program. Mr. Hennigan read the problem /challenge and the rationale for the subcommittee recommendation. Mr. Pelton commented on how the other FAAC subcommittees support and encourage this recommendation. He noted the Financing Subcommittee's recommendation is non-prescriptive to allow a broad base of options for implementation by the Administration. Mr. Pelton opened the floor to discussion.

Mr. Severin Borenstein, Haas School of Business, stated that his concern was the absence of a cost-benefit analysis and support for why aircraft equipage should be government subsidized. He added the President's decision to move the recommendation forward as part of the stimulus package only makes sense if the funding is spent in the next few years. Mr. Borenstein further explained the Air

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Transport Association of America (ATA) analysis that Mr. Hennigan previously circulated to subcommittee members suggested expenditures would not take place in the next few years.

Mr. Joseph Kolshak, United Continental Holdings, stated much of the equipage could be installed in the next 2 or 3 years. He conceded some components would not be installed immediately but explained how wiring could be installed now in aircraft, in preparation for new equipment in the future. Mr. Kolshak used Automatic Dependent Surveillance–Broadcast (ADS–B) as an example of equipment that is already installed in many aircraft. Mr. Borenstein requested analysis detailing a realistic time line for installing equipment. He stated his belief that the stimulus will fall short unless there is pressure or a push to make expenditures in the next couple of years.

Mr. Hennigan also referred to an ATA study completed earlier this year and a paper from ACI-NA in support of accelerating aircraft equipage. He stated the Obama administration is conducting a cost-benefit analysis of their proposal but it is not yet completed. Mr. Borenstein stated his belief that the proposal presumes certain facts that have not been established. Mr. Bob Peterson, Boeing, explained how the recommendation is built upon the work of the RTCA, Inc. Task Force 5, NextGen Mid-Term Implementation Task Force Report. He noted the RTCA report demonstrated a return with measurable results.

Mr. Daniel McKenzie, Hudson Securities, Inc. reviewed Mr. Borenstein's objections: (1) the benefits do not phase in quickly enough; (2) the benefits do not apply or spill over into other industries; and (3) the source of cost is unknown. Mr. Borenstein commented on the lack of justification for including accelerated equipage in the stimulus program and the insufficient evidence supporting the public good argument.

Mr. McKenzie asked if other cost-benefit analyses of the proposed program exist. Mr. Pelton stated the recent ATA analysis is only one study. Mr. Peterson confirmed the FAA supplied the benefit and plan numbers to the ATA. He explained the intent is to ensure industry is invested and to link industry with the FAA to ensure NextGen occurs as quickly and practically as possible. Mr. Peterson acknowledged the parallel activity at the FAA has not occurred as efficiently as planned. Mr. Borenstein highlighted the importance of the FAA implementing their side of NextGen so that air carriers can rely on the payback they expect. Mr. Pelton pointed out that the second recommendation of the subcommittee addresses Mr. Borenstein's comment.

Mr. Hennigan stated the Financing Subcommittee staff previously circulated three separate analyses providing support for this recommendation: (1) a previous ATA briefing, (2) Airports Council International- North America (ACI-NA), and (3) a separate FAA cost-benefit analysis of the underlying NextGen program. He mentioned another study by Deloitte LLP about accelerating aircraft equipage which will be available in January 2011. Mr. Hennigan acknowledged there are many studies on accelerating equipage, but the definitive study of the issue and this proposal is not available yet. Mr. Pelton pointed out the subcommittee's recommendation provides a menu of options and does not specifically prescribe a government subsidy. Mr. Borenstein disagreed with Mr. Pelton and stated his view was that all of the options presented were forms of government subsidy. Mr. McKenzie

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commented on the benefits associated with the recommendation even though the supporting analyses have not been fully developed or released.

Mr. Borenstein acknowledged the ATA in the latest paper circulated to the subcommittee has made the argument that the recommendation meets the cost-benefit test but then he commented on the lack of justification for why the government should fund aircraft equipage. Mr. McKenzie explained the government funding will help make the industry more competitive and benefit the consumer and labor. Mr. Kolshak emphasized neither industry nor the public will benefit until every aircraft is equipped. After further discussion among the members to reach a compromise recommendation, Mr. Pelton acknowledged that an agreeable position for all members could not be reached. He then asked Mr. Borenstein to file his dissent and asked if there is consensus on the recommendation from the rest of the committee. The remaining subcommittee members agreed on the recommendation.

Delivering the Benefits of NextGen

Mr. Hennigan read the second recommendation on delivering the benefits of NextGen, which included three components: (1) the Secretary of Transportation should fully endorse and focus on ensuring the FAA delivers the operational capabilities, procedures, and approvals necessary for operators to realize the benefits of the NextGen air traffic control systems; (2) the FAA must improve the environmental review process; and (3) the FAA must develop a well-crafted and balanced “best equipped, best served” program which fully leverages the operations of those who have already invested in performance-based navigation. Mr. Hennigan stated the recommendation also discusses the need to create a timetable to provide air carriers with more certainty on when benefits will be realized. He reviewed the problem/challenge and rationale of the recommendation. Mr. Pelton then asked the subcommittee for their input.

Mr. Kolshak distinguished the difference between the first and the second subcommittee recommendations: the first recommendation discusses the replacement of ground-based radar with ADS-B and other equipage in aircraft cockpits; and the second recommendation includes implementing other operational capabilities and components such as Area Navigation (RNAV) procedures and training that operators would not equip for and do on their own without a direct benefit. Mr. Kolshak explained how the recommendation allows self-help from the operator if the benefit is commensurate with the investment. The key is that the FAA should be encouraged to timely deliver the benefits of these programs to equipped carriers. Mr. Pelton added the recommendation drives airspace redesign and addresses some of the issues at major hub airports. There were no further comments and the subcommittee agreed on the recommendation.

AMT Exemption

Mr. Hennigan read the third recommendation, to extend the Alternative Minimum Tax (AMT) exemption for airport private activity bonds for four years. He reviewed the problem/challenge and rationale of the recommendation.

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Ms. Bowens stated airports should go on record supporting this recommendation with the understanding airports are willing to propose a permanent exemption. She commented on how the 4-year extension proposed by the subcommittee is a compromise position. Mr. Borenstein stated he is willing to agree to this recommendation but noted his concerns: Extending the AMT exemption will save airports a lot of money, but it may reduce Treasury revenue; and based on the argument and the separate set of investors who are required to be paid much higher interest rates, the markets do not arbitrage between AMT exempt and AMT non-exempt bonds. Mr. Borenstein was troubled by this and noted his support with caution.

Mr. Stan Van Ostran, Metropolitan Nashville Airports Authority, shared Ms. Bowens' support and concerns. Ms. Bowens stated if the recommendation goes from the full FAAC to the Secretary of Transportation before this gets submitted to Congress, additional work could be done regarding the effects to the Treasury. Ms. Bowens stated that perhaps Mr. Borenstein could help to ensure the subcommittee has an argument the Treasury can support. Ms. Bowens stated that there is a typographical error in the first paragraph of the proposal. The correction was noted.

Mr. Pelton confirmed full committee consensus with the recommendation...

Eligibility Criteria for Airport AIP and PFC Programs

Mr. Pelton began the discussion by introducing a compromise proposal to the two versions of the recommendation which had been previously circulated to members. He explained that air carriers and airports had concerns about the original recommendation and the proposals each of them previously put forward. Mr. Pelton stated that he and staff pulled together this newly offered recommendation that could bring the parties together. Mr. Hennigan then distributed a hard copy of the compromise recommendation to the members at the meeting and explained that it was the same document that Mr. Pelton emailed to all subcommittee members shortly before the meeting. All members acknowledged they had copies of the compromise recommendation. At Mr. Pelton's request, Mr. Hennigan reviewed the compromise recommendation, which included three elements: (1) the FAA should review and redefine what is meant by aviation infrastructure; (2) based on that study, it should update and modernize the eligibility criteria for AIP and PFC projects; and (3) the DOT and the FAA should consider whether investing AIP and PFC dollars in NextGen equipment, operational capabilities, and performance-based procedures is needed to produce a demonstrated near-term improvement in operational performance at airports. He added if changes are warranted, the FAA should do as much as possible of this update administratively and develop legislative recommendations to the Secretary of Transportation for the remainder of the updated changes. Mr. Hennigan summarized the problem/challenge and rationale of the compromise recommendation. He highlighted the belief that significant benefits could be realized with a more up to date and flexible eligibility criteria.

Mr. Van Ostran noted his overall agreement with the compromise and suggested a slight wording change in the second paragraph, third line in the problem/challenge statement. He requested the addition of the word "facilities". The revised statement refers to "facilities, capabilities, and procedures." Mr. Van Ostran explained the need to improve the infrastructure of facilities at airports. Mr. Kolshak asked to modify the last paragraph in the actual recommendation section to reflect that the

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FAA should determine whether the AIP and PFC caps need to be adjusted based on eligibility criteria changes. There was a discussion to refine the language. The subcommittee agreed on the revised statement.

Ms. Sharon Pinkerton, ATA, a public attendee, was recognized and asked for clarification of the authority responsible for determining eligibility criteria. She explained her understanding is the FAA has the authority based on the statute. Mr. Van Ostran provided examples of projects on which the FAA and the airports agreed but could not implement because of limitations imposed by the statute. Mr. Pelton explained flexibility is often desired at the airport and FAA level but is limited because of the statute. He stated the goal is to align the statute to provide flexibility for the FAA to fund these projects. Mr. Pelton stated that this is another recommendation that would require congressional action. He asked if there is concurrence with the proposed compromise recommendation with the suggested changes by members. The subcommittee agreed on the recommendation as modified.

CLOSING REMARKS/NEXT MEETING

There was an attempt to refine the first recommendation to make it acceptable to all subcommittee members. Mr. Pelton and others suggested several wording changes but general consensus was still not reached. Mr. Borenstein stated he will write a concurring partial dissent. He reiterated his belief that the acceleration of equipage should be accomplished without government subsidy and commented on how the claim of net benefit to society was not adequately supported.

Mr. Pelton stated there are four recommendations to take forward to the full FAAC. He noted there is unanimous agreement on three of the recommendations: (1) delivering the benefits of NextGen; (2) the extension of AMT exemption for 4 years; and (3) eligibility criteria for airport AIP and PFC funding. Mr. Pelton added there is full committee agreement and one dissenter on the recommendation to publicly fund aircraft equipage. Mr. Hennigan noted the four recommendations will be submitted to the DOT on November 22, 2010. He stated the next meeting will be the full FAAC meeting on December 15, 2010.

Ms. Christa Fornarotto, DOT, on behalf of Ms. Susan Kurland, DOT, and the Secretary of Transportation thanked the entire subcommittee for their time and resources. Mr. Pelton thanked everyone for attending. Ms. Bowens thanked the subcommittee staff for coordinating and managing logistics. Mr. Hennigan officially closed the meeting.

ADJOURNMENT

Mr. Hennigan adjourned the meeting at 3:50 p.m.

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

Approved by: 
John Hennigan, Designated Federal Official

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Dated: December 14, 2010