

## **JOHN F. BROWN COMPANY EMAIL NEWSLETTER**

*Consultants to the Airport Industry*

9 October 2001

### **✈ FINANCIAL STATE OF AVIATION INDUSTRY**

#### **FAA PROGRAM PERMITS PFC TO PAY COSTS**

Summarized from FAA documents:

In a move to ease cash flow crunches experienced by some airports following the Sept. 11 attacks, the FAA is permitting the emergency use of PFCs for airport expenses not normally eligible to be paid with PFCs. Under the emergency authority, airports could use unliquidated PFC revenue to fund interest bearing loans that would pay for other airport expenses on a temporary basis. Airports interested in the program must apply to the FAA and may receive authorization for up to one year. The FAA has set a deadline of Dec. 31, 2001 for all applications.

#### **FAA EXTENDS COMPETITION PLAN UPDATE DEADLINE**

Summarized from FAA documents:

In a letter to major airports, the FAA announced an extension to the deadline to file competition plan updates. For the ultimate procrastinator, the FAA is allowing update filings as late as May 1, 2002. However, to allow the FAA enough time to process the necessary paperwork for AIP and PFC approvals, a practical deadline of March 1, 2002 is in effect.

#### **AIRLINE LOAN RULES RELEASED**

Summarized from the Associated Press, 10-09-01; the Wall Street Journal, 10-08-01; and the New York Times, 10-06-01:

The Office of Management and Budget issued the rules on \$10 billion in federal loan guarantees for airlines (including those in bankruptcy) last Friday. The rules stipulate the conditions under which the federal government cosigns loans airlines obtain from private banks. Should the airline fail to pay off the loan, the federal government would pay it. OMB Director Mitchell Daniels Jr. said, "The most important factor will be an airline's ability to succeed in tomorrow's marketplace without passing the bill to the taxpayer." He added that the programs goal is to preserve the viability of the airline industry, not individual airlines. A federal stabilization board, armed with enormous discretion by the OMB rules, will determine which airlines are awarded loan guarantees. Of concern to the airlines is the fact that two of the three voting members of the board – Treasury Secretary Paul O'Neill and Federal Reserve Chairman Alan Greenspan – have spoken out against the loan guarantees. A GAO report determined the terrorist attacks cost the airlines between \$6.5 billion and \$10.5 billion.

For a copy of the OMB loan regulations, please email Eric Laing ([elaing@johnfbrown.com](mailto:elaing@johnfbrown.com)) or Jason Gasser ([jgasser@johnfbrown.com](mailto:jgasser@johnfbrown.com)).

#### **AMERICAN AIRLINES TO SPEED UP TERMINAL CONSTRUCTION AT JFK**

Summarized from Reuters, 10-09-01:

American Airlines is attempting to cut costs, while showing support for New York City, by accelerating the pace on parts of its terminal construction project at JFK. The carrier plans to finish a mid-field concourse with 17 gates by June 2003, six months ahead of schedule. Completion of the entire project is expected by September 2006. The carrier stated that the faster construction schedule would save several million dollars.

### **LA MAYOR ABANDONS MASTER PLAN**

Summarized from the New York Times, 10-9-01:

Los Angeles Mayor James Hahn has formally withdrawn support for a controversial LAX master plan that was to expand airport capacity to 89 million passengers per year. Hahn now supports a more modest plan that would allow capacity to grow to 78 million passengers, while providing for a greater focus on security. Formal adoption of the plan depends upon the approval of various local and federal agencies, and remains uncertain.

### **NEW BURBANK TERMINAL SCUTTLED**

Summarized from Airports, 10-09-01:

The Burbank-Glendale-Pasadena Airport Authority has abandoned its efforts to construct a new airport terminal, given the uncertain future of aviation demand. Instead, airport officials will permit part of the planned site to be used for light industrial development, leaving another portion for use as city officials see fit.

### **FITCH WATCHES MASSPORT'S POST-ATTACK FINANCES**

Summarized from Airports, 10-09-01:

The New York-based Fitch IBCA, is concerned with Massport's liability exposure. The credit rating firm recently placed Massport's bonds on a possible credit downgrade list, noting that the organization's enabling act has no upper limit on liability. Since two of the four hijacked planes departed from Massport's Logan Airport, Fitch is concerned that the organization's \$500 million general liability coverage will be insufficient to cover potential claims.

### **FEDS TAKE DOUBLE BITE OUT OF \$5 BILLION AID**

Summarized from the Wall Street Journal, 10-05-01:

Uncle Sam gets two cracks at taxing the \$5 billion hand out to the airlines. The grants are treated as taxable income so airlines will pay taxes on the funds. Additionally, the grant amounts are based on after-tax losses. One industry official estimated that the aviation sector would net less than half of the direct losses. Separately, the DOT announced that it would release guidelines next week for the next \$2.5 billion in airline grants.

### **STRUGGLING SWISSAIR CUTS 9,000**

Summarized from the Associated Press, 10-8-01:

Swissair, teetering on the brink of financial collapse, has announced 9,000 layoffs worldwide. The cuts will represent 12.6 percent of the company's 71,000 employees. Swissair resumed partial service last Thursday, after an abrupt two-day shutdown. Swissair has been attempting to recover from a \$1.79 billion loss in 2000, the result of a failed strategy of expansion.

### **GA RELIEF PROPOSED BY LAWMAKERS**

Summarized from Aviation Daily, 10-9-01:

Relief totaling roughly \$400-500 million for general aviation businesses has been proposed by a group of U.S. lawmakers. Rep. Bill Shuster's (R-Penn.) "General Aviation Small Business Relief Act of 2001" would provide for aid in three areas. First, grants would be provided equal to losses resulting from FAA or DOT orders. Second, loans without interest or payments for one year would be provided. Finally, due dates for excise taxes paid by certain companies could be extended by two or four months.

## ✈ AIRPORT SECURITY

### **FAA RESTRICTS CARRY-ON BAGS TO 1**

Summarized from the Associated Press, 10-09-01:

A new FAA regulation limits a passenger's carry-on luggage to a single bag and a pocketbook or briefcase. A DOT task force recommended the more restrictive regulation last week.

### **SENATE COMPROMISES ON SECURITY BILL**

Summarized from Airports, 10-09-01:

Senate Democrats have eased off their proposal to federalize all airport security screeners. Instead, they are putting forward a call for federal security screeners in just the 140 largest U.S. airports in an effort to ensure sufficient background checks and wages. Nevertheless, the airport security bill is stalled over the issue with opponents worried that such a compromise would allow potential threats to enter the aviation system through one of the airports outside of the 140 largest.

Other measures in the bill include:

- Deploying armed law enforcement at every checkpoint
- Adding a \$1 passenger security charge to tickets
- Using AIP funds to pay for operational expenses
- Using FY2002 appropriations to reimburse airport operators for additional security costs

### **FED LAW COMPLICATES AIRPORT SECURITY**

Summarized from the Associated Press, 10-09-01:

A federal law prevents airport officials from conducting what they consider to be adequate screening of employees with access to restricted areas. Airport employees with access to restricted areas normally are fingerprinted to check for a criminal background prior to starting work. However, federal law says that employees hired before Dec. 23, 2000 are exempt – except under certain limited conditions – from this requirement. Airport officials would like this loophole removed. Additionally, they would like to check employees against the FBI's watch list.

## ✈ AIR TRAFFIC

### **US AIRWAYS CONTINUES TRAFFIC CUTS**

Summarized from Washington Post, 10-9-01:

Further cutting of costs had led US Airways to cease 60 percent of its jet service from Baltimore-Washington International Airport, including all direct Florida service. The carrier is the second largest at BWI. The cuts are part of US Airways' plan to eliminate nearly one quarter of its overall operations. Sources also predict cuts in traffic to and from Reagan National Airport.

## ✈ RENTAL CAR INDUSTRY

### **RACS BATTLE OVER FEDERAL SUPPORT**

Summarized from the New York Times, 10-05-01:

The quest for federal aid to rental car companies has divided the industry. ANC Rental Corporation (parent of National and Alamo), Budget, Dollar and Thrifty car rental companies are lobbying Congress for a five-year, \$1.5 billion loan guarantee package, similar to the airline aid deal. Hertz and Avis, however, oppose the relief plan, and said so in a letter to Commerce Secretary Donald Evans. They expressed concern that any rental car aid would take money away from domestic security programs and other efforts to fight terrorism. Enterprise Rent-A-Car also objected to the rental car bail out, but did not sign the letter.