Report to the Congressional Defense Committees

on

KC-767A Air Refueling Aircraft Multi-Year Lease Pilot Program

Introduction

Section 8159 of the Department of Defense Appropriations Act, 2002 (section 8159), authorizes the Secretary of the Air Force to establish a Multi-Year Aircraft Lease Pilot Program for up to 100 Boeing 767 air refueling aircraft under the terms and conditions cited in the legislation. The pilot program may not commence until 30 calendar days after the Secretary of the Air Force submits a report to the congressional defense committees detailing implementation plans and expected savings, if any, and describing the terms and conditions in the proposed contract. Subsequently, section 133 of the National Defense Authorization Act, 2003 (section 133), provides that the Air Force may not enter into this lease until it submits this report and until either funds necessary to enter into the lease are authorized and appropriated or new start notification for funds is submitted. This report is submitted in accordance with section 8159 and section 133.

This report begins with the operational requirement for air refueling and the challenges/risks faced today by our nation's aging air refueling fleet, showing the urgent need to begin recapitalization. Next it discusses a number of alternatives that were analyzed as possible solutions to meet that need. This report then compares the merits of leasing versus buying as acquisition strategies to accelerate the recapitalization effort with the selected platform, the KC-767A. Finally, it details the proposed lease agreement that fields 100 tankers five years faster than the current planned purchase. The Boeing 767 Multi-Year Aircraft Lease Pilot Program will be for the operating lease of these 100 KC-767A aircraft. The dominant reason for proposing the lease is the advantage it affords for quickly delivering needed tankers to our warfighters.

Operational Requirement

Air refueling tankers ensure our nation has the global reach to respond quickly and decisively anywhere in the world. They enable other aircraft to fly farther, stay airborne longer, and carry more weapons, equipment, and supplies -- at home and around the world. Air Force tankers refuel not only other Air Force aircraft, but Navy, Marine Corps and allied aircraft as well. They enable our entire force to protect our homeland, conduct combat operations, and provide humanitarian relief around the world. As we just experienced in Operation Enduring Freedom and Operation Iraqi Freedom, the Air Force tanker was a critical force enabler and force multiplier that allowed our coalition force to operate with impunity over a distant battlefield. Without a robust and reliable air refueling fleet, no existing war plan, humanitarian mission, or extended special air mission can be flown without the permission and concurrence of other sovereign nations for landing rights to refuel. In short, our National Security Strategy is unexecutable without air refueling tankers.

Tanker dependence in recent wars and the advanced age of the nation's air refueling aircraft fleet drive the Air Force's urgency to recapitalize as soon as possible. Today, a single 43-year old aircraft type, the KC-135, constitutes ninety percent of our combat air refueling fleet. Beginning manufacture under the Eisenhower administration, 732 KC-135s entered military service between 1957 and 1965. The remaining 544 KC-135s on duty today have the oldest average fleet age of any USAF combat aircraft. The current war on terrorism heightens our aging aircraft concerns. Subsequent to September 11, 2001, and on top of the growing commitments to actions around the globe, a more aggressive homeland defense posture further drove up the reliance and demands on our aging tanker fleet. The heightened tempo of operations is likely to continue for the foreseeable future. The military successes in Afghanistan and Iraq were critically dependent on air refueling to extend the range of our airlifters, sensor aircraft, and Navy, Marine Corps, and USAF bomber and strike aircraft. These conflicts, along with the on-going war on terrorism and heightened homeland security, have increased air refueling requirements. These actions are stressing our tanker fleet, especially our oldest and least capable tankers.

The cost of operating the existing KC-135 air-refueling force will continue to escalate. Corrosion, major structural repairs, and an increased rate of inspection are major drivers for increased cost and time spent in depot. This also directly decreases operational aircraft availability. Operational availability is expected to continue to decrease throughout the remainder of the KC-135's lifespan. Increasing signs of aging are evident today. Under these conditions of accelerating costs and declining availability combined with the increasing operational demands, the Department must begin to replace the KC-135s as soon as possible.

The USAF is committed to keeping this critical mission capability through investments in the KC-135 aircraft. But because of the observed increasing signs of aging and unpredictable nature of corrosion, the USAF recognizes the significant risk of having 90% of our air refueling fleet in one aging airframe. Independent analysis teams that visited the KC-135 depot maintenance line at Tinker Air Force Base unanimously recognized the uncertainties and increasing possibilities that this 43-year-old aircraft could encounter a fleet-grounding event, crippling our combat forces. Recapitalization can no longer be deferred; thus, potential solutions were examined.

On 1 Nov 2001, the commander of Air Mobility Command (AMC) signed a Mission Need Statement for Future Air Refueling Aircraft. On 30 July 2002, the Joint Requirements Oversight Council (JROC) approved the Operational Requirement Document (ORD) for new DoD air refueling aircraft. This air refueling aircraft is required to refuel Navy and NATO probe-equipped aircraft and aircraft fitted with USAF-type boom receptacles on the same mission. This provides interoperability advantages over the existing KC-135 fleet. The ORD calls for the new tanker aircraft to meet or exceed the KC-135R fuel offload capability. Additionally, the aircraft must be able to be refueled in flight by a boom-equipped aircraft, and must be capable of worldwide flight operations in all civil and military airspace. It must have the ability to carry cargo or passengers, as well as supporting aeromedical evacuation kits, to enhance its operational utility. The ORD also requires provisions for "Smart Tanker" growth capability, enabling future roles and missions enhancements.

Alternative Solutions

The Air Force analyzed several possible solutions as the first step toward tanker replacement.

a. **Maintain Current Force Structure**. First, the Air Force considered maintaining the current force structure until as late as 2040, as an earlier Air Force study predicted might be possible. However, it soon became apparent from depot activities that these studies underestimated the damaging effects of aging. The unpredictable nature of age-related corrosion – its timing, location, and extent – increases our concern for the risk of an event that would ground the KC-135 fleet. Consequently, continuing the status quo was rejected because the risks involved with indefinitely operating a fleet of aging aircraft are unacceptable. At that point, a KC-X program was put in the President's FY04 budget, but in light of affordability constraints, the program begins funding in FY06 and starts fielding aircraft in FY09. When the pilot leasing authority was provided in the Department of Defense Appropriations Act, 2002, the Air Force began to re-examine the issue but was unable to get an acceleration proposal ready for the President's FY04 budget.

b. **Re-engining**. When the Air Force re-examined the issue, we realized the need to recapitalize was more pressing than we had thought during development of the President's budget. At that point, the Air Force considered re-engining the aging KC-135Es, but recognized that this also did not address the aging issues, risks to our combat operations, or increasing costs. Under the re-engining option, these risks associated with the aging KC-135 airframe would persist. Re-engining would amount to spending billions of dollars and still having "old iron" that needs replacing.

c. **Commercial Derivative Aircraft**. Finally, the Air Force considered acquisition of commercial derivative platforms that included the B757, B767, B777, and the Airbus A330 in tanker configurations, considering both a lease option and a direct purchase.

Lease vs. Buy

The Air Force strategy is to replace the 544 existing KC-135 aircraft over the next 30-plus years. The strategy calls for acquiring air-refueling tankers derived from commercially available airframes to avoid the high costs of airframe research and development. The KC-767A is a tanker version of the long-range commercial derivative aircraft, developed and commercially offered to the international community by the Boeing Company. To begin the recapitalization of the 544 KC-135 aircraft, the Air Force considered two alternatives--a traditional procurement of 100 KC-767A aircraft, as contained in the FY04 President's Budget, and an operating lease of commercially derived air refueling tankers in accordance with section 8159.

A Traditional Procurement of Air Refueling Aircraft. As the FY04 President's Budget was being developed, the negotiations for the leasing proposal, authorized by section 8159, were unfinished. The Air Force accelerated the program objective of tanker recapitalization in the FY04-09 Future Years Defense Program (FYDP) by adding additional funding for a traditional procurement starting in FY06. Under this plan, the Air Force will order 21 aircraft in the FYDP and deliver 1 by FY09. The 100th aircraft will be delivered in FY16. This recapitalization plan anticipates purchase of commercially developed aircraft, like the KC-767A, containing USAF options that meet the operational requirements approved by the Joint Requirements Oversight Council in July 2002.

An Operating Lease of Air Refueling Aircraft. An operating lease of commercially derived Boeing 767 air refueling tankers is authorized in section 8159. Under the lease, the contractor will deliver 60 new tankers to the warfighter by FY09, and deliver all 100 by FY11. This plan provides for a quicker recapitalization of the tankers in the fleet compared to the program of record in the FYDP. To match such a recapitalization schedule under the purchase option would require billions of additional dollars be invested during the FYDP. Since those funds are already committed to other uses, there would have to be significant restructuring and/or cancellation of ongoing and planned programs.

Other Alternatives Considered. In addition to these strategies, the Office of the Secretary of Defense (OSD) Leasing Review Panel evaluated several alternate procurement approaches in contrast to the lease or planned purchase. These included purchasing on the same delivery schedule as the lease, applying the funds necessary for the proposed lease to a traditional purchase, and a split lease-purchase arrangement. Carefully considering the implications of each, the Secretary of Defense determined that the lease was more advantageous and the preferred option.

Financial Analysis

Obviously, cost is a big driver when choosing an acquisition strategy. In isolation, a leasing strategy requires additional funds in then-year dollars relative to the cost of a traditional purchase. Economic considerations, however, are not limited to expected funding flows, which ignore the time-value of money. To account for the time-value of money and gain insight into the economic implications of leasing as an acquisition strategy, Office of Management and Budget Circular (OMB) A-94 directs a present value comparison between the proposed lease and a hypothetical purchase based on the same delivery/return profile. The financial analysis for the A-94 test is highly sensitive to the underlying assumptions such as purchase price, expected inflation and appropriate discount rate. However, in no case approved by OMB did the financial analysis indicate that the net present value of the lease option as being less than that of a traditional purchase. Applying the A-94 test, the Department of Defense determined that the net present value of the multiyear lease option and a traditional purchase option results in a NPV favoring a purchase of $150 million, as shown in Table 1[1].

[1] In evaluating the net present value of the lease and purchase options as required by OMB Circular A-94, the Air Force relied on the availability of multi-year lease authority granted by Congress in 2002 Defense Appropriations Act. Had the Congress chosen instead to provide multiyear procurement authority and had the Department of Defense been able to accommodate that execution while preserving program stability, the NPV could favor purchase by up to $1.9 billion. While this information affords a measure of clarity in an equitable comparison of terms and NPV, it is provided with the understanding that neither multiyear procurement authority, nor related funding authorities were made available and, therefore, was not a viable option for the Administration's analytical consideration.

Table 1. Net Present Value: Lease vs. Purchase Analysis (NPV$)

	Lease	Purchase
Lease Payments w/ A/C return	$11.4B	N/A
Purchase Payments non-MYP w/ A/C sold	N/A	$11.3B
Ops and Support	$4.6B	$4.6B
MILCON and other Government Costs	$1.2B	$1.2B
TOTAL	$17.2B	$17.1B
Net Present Value Delta	$0.15B (1%) *Favoring Purchase*	

The advantages in schedule and reduced impact to currently budgeted programs outweighed the results of the A-94 analysis and drove the leasing decision. The Air Force and Department of Defense selected leasing as the acquisition strategy primarily based on affordability and minimizing budgetary impact to our plans for getting accelerated capability of the new weapon system to our frontline troops. As Under Secretary of Defense Aldridge pointed out, "This [lease] minimizes the near-term cost to the Department of Defense and delivers the aircraft sooner. If we were to purchase the aircraft and deliver them on the same schedule as the lease, it would require billions of dollars more in our Future Years Defense Plan. And reallocating that amount of money for other programs would result in a loss of military capability." In other words, it is an opportunity cost trade-off.

Under the lease option, the Air Force can afford to field this new fleet of tankers at a quicker pace than under a traditional purchase plan. Jumpstarting replacement of the older, less-capable tankers enables faster modernization of air combat forces. The lease not only advances the first delivery by three years, *it puts the 100 aircraft fleet at the disposal of our frontline commanders for combat operations by FY11, five years ahead of the planned purchase*. If we were to purchase these aircraft in a traditional buy on the same delivery schedule, while maintaining our financial top-line, we would have to take billions of dollars out of other important programs. The adverse impact to our combat capability would be traumatic.

Implementation Plan

Under the Pilot Program, the Air Force will contract to lease 100 aircraft. The lease program will be a sole source, using terms and conditions germane to commercial aircraft leases and commercial business practices in accordance with the Federal Acquisition Regulation and section 8159. Under this program, the Air Force plans to award a multi-year operating lease contract to Boeing for 100 KC-767As.

The Air Force intends to fund KC-767A lease payments with Aircraft Procurement appropriations. Three million dollars have been appropriated for this lease effort in FY03; no other funds have been specifically identified for this effort. Funds must be realigned to begin military construction for aircraft hangars and bed-down costs. A New-Start notification has been prepared and will be forwarded to the Defense Committees separately for approval.

This lease will be a three-party contract between the US Government, Boeing Integrated Defense Systems (IDS) and a third-party Special Purpose Entity (SPE), also known as the KC-767A USAF Tanker Statutory Trust 2003-1 (a Delaware business trust established 5 Mar 03), hereafter referred to as the Trust. Boeing IDS will administer the leasing arrangement and will be responsible for delivery of supplies and services under this contract. The Trust will issue bonds on the commercial market based on the strength of the lease contract with the US Government (rather than the credit worthiness of Boeing), will buy the aircraft from Boeing, and will lease them to the Government. The Trust will have an independent director, an employee of Wilmington Trust Company. The Trust will not make a profit but will provide for the funds necessary to pay bondholders and pay off the debt after the sale of the aircraft. Any residual funds acquired from the sale of the aircraft subsequent to lease termination will be refunded to the Government as an overpayment.

In the unlikely event that Boeing files for bankruptcy, the leased tanker assets are protected because they are owned by the Trust.

Under the negotiated contract, Boeing will provide contractor logistics support (CLS) for all levels of maintenance prior to the delivery of the first aircraft, including site activation efforts, flight test and FAA type certification of the KC-767A. After delivery, Air Force maintenance personnel will accomplish organizational level maintenance. All other maintenance support will be in accordance with established acquisition and logistics support directives (AFI 63-107). Commercial technical data (operations and maintenance) will be used and updated by Boeing's fleet support center. Boeing is currently working with Oklahoma City Air Logistics Center and local government officials on potential partnership agreements. Air Force Air Mobility Command (AMC) is the lead command for all Air Force KC-767A aircraft and will ensure FAA certification is maintained. Boeing will maintain configuration control as the lease administrator.

As is the case for many new weapon systems, the government will contract with Boeing to provide a fee-for-service Total Training System that will train all aircrew for flight test, initial cadre, initial qualification, upgrade, and continuation training. In addition, Boeing will provide maintenance training for the initial cadre, with remaining maintenance training provided through contractor and Air Force training. Following contract award, Boeing will conduct a Training Systems Requirements Analysis (TSRA) with AMC, Air Force Materiel Command and Air Education and Training Command to refine the KC-767A training tasks to be incorporated into the Master Training Task List. Boeing will be responsible for development of the aircrew and maintenance training devices. Boeing will also ensure site activation and installation of training devices at the first two main operating bases. Aircrew devices will include four Full Flight Simulators, three Boom Operator Trainers, and one Fuselage Trainer. Four Maintenance Training Devices will be defined during the TSRA. AMC is the lead command for KC-767A and will be responsible for the simulator certification.

The Trust is not a party to the training portion of the contract. The Trust's concern with CLS is that the KC-767s must be properly maintained to be marketable at the end of the lease.

The Department of Defense believes that the terms and conditions of the KC-767A Multi-Year Aircraft Lease Pilot Program contract comply with the requirements of section 8159 and meet all criteria of an operating lease defined by OMB Circular A-11. The terms and conditions are described in Annex 1. However, it is important to note that one of the tests under

OMB Circular A-11 requires that "the present value of the minimum lease payments over the life of the lease does not exceed 90 percent of the fair market value [FMV] of the asset at the beginning of the lease term". Our analysis showed that at the contracted lease price of $138.4M at the time of delivery, including $7.4M in construction financing, the lease payments would be 89.9% of the FMV, thereby meeting the requirement. However, if the FMV were taken to be the negotiated pre-construction price of $131M per tanker, which would require the Air Force to pay up front and then wait 3 years before delivery, the lease payments would be 93% of the FMV and thus, would not meet the requirement. The Air Force believes that a price of $138.4M represents the FMV as delivered to the Air Force under this lease at the beginning of the lease term and that the negotiated lease meets the 90% requirement.

The contract will include "Most Favored Customer" clauses stating that if Boeing sells comparable aircraft (up to 100) during the term of the contract for a lesser price, the Government will receive an equitable adjustment. To further guarantee the taxpayers receive a favorable deal, Boeing has agreed to a Return-on-Sales (ROS) cap of 15%, whereby, following an audit of their internal cost structure in 2011, any ROS in excess of 15% in either commercial or military manufacturing centers will be returned to the Government.

The lease portion of the program will begin upon delivery of the first aircraft. The contract will not be awarded until at least 30 calendar days have elapsed after submission of this report.

The Department of Defense is committed to examining possible options to reduce peak funding requirements in the out years of this lease. One such optional path is presented in Annex 2.

Basing Plan

As these aircraft enter service, current plans call for proposing the establishment of three main operating bases. The Air Force has announced that Fairchild Air Force Base (AFB), Washington, is the first proposed beddown location for the KC-767A, and that the second and third proposed beddown locations are Grand Forks AFB, North Dakota, and MacDill AFB, Florida, respectively. As we continue the beddown planning process, we will comply with the National Environmental Policy Act (NEPA) by analyzing the environmental impacts associated with the proposed beddowns at these and alternative locations. We will also comply with all applicable requirements of the BRAC 2005 process as set forth in the Defense Base Closure and Realignment Act of 1990, as amended.

Summary

The Boeing 767 Multi-Year Aircraft Lease Pilot Program authorized by section 8159, Department of Defense Appropriations Act, 2002, offers the Air Force the opportunity to begin recapitalization of our aging tanker fleet. Recent events and a heightened steady-state of homeland defense have spotlighted our reliance on these critical refueling assets. Tanker dependence in recent wars and the advanced age of the nation's air refueling aircraft fleet drive the Air Force's urgency to begin recapitalization as soon as possible. The KC-767A supports the requirements for our next generation tanker aircraft. The negotiated lease proposal would provide for the delivery of 60 aircraft within the FYDP and allow the Air Force to field the 100th aircraft by 2011, five years faster than current purchase plans. This lease minimizes near-term budgetary impact to other programs. Terms and conditions of the lease arrangement will meet all requirements of the FY02 Defense Appropriations Act including OMB Circular A-11 criteria for an operating lease. The Air Force recommends implementing the leasing alternative and providing the warfighters with new equipment sooner rather than later.

Annex 1: Proposed Contract Terms and Conditions
Annex 2: Possible Peak Funding Buy-Down

Annex 1

Proposed Contract Terms and Conditions

Section 8159 of Appropriations Act instructs the USAF to describe the terms and conditions of the proposed contract in a report to Congress. The USAF plans to include the following terms and conditions in its contract for the lease of tanker aircraft.

a. Aircraft operating lease for 100 KC-767A aircraft in accordance with FY02 Department of Defense (DoD) Appropriations Act, Section 8159, and as amended in Section 8117 of FY03 DoD Appropriations Act.

b. The contract will be between the Government, Boeing Integrated Defense Systems (IDS) and a third-party special purpose Delaware statutory trust identified as KC-767A USAF Tanker Statutory Trust 2003-1, also known as the Trust or the Lessor. Boeing IDS will administer the leasing arrangement and will be responsible for delivery of supplies and services under this contract. The Trust will issue bonds on the commercial market based on the strength of the lease contract with the Government (rather than the credit worthiness of Boeing), will buy aircraft from Boeing, and will lease them to the Government. The Trust will not make a profit.

c. The Trust will purchase the modified aircraft from Boeing IDS for $131M per aircraft (CY02$), subject to economic price adjustments that account for inflation and fluctuations in the cost of construction financing. The lease price for financing purposes will include the purchase price and construction financing interest for the aircraft.

d. The contract will include “Most Favored Customer” clauses stating that if Boeing sells comparable aircraft (up to 100) during the term of the contract for a lesser price, the Government will receive an equitable adjustment. Boeing’s Return-on-Sales (ROS) will not exceed 15% for either the green aircraft or tanker modification. ROS will be verified by a public accountant in an audit opinion. Based on the independent auditor’s findings, Boeing will provide a certificate of the earnings and if the earnings exceed the 15% cap, the Government will receive a refund of the difference.

e. The Lease term for each of the 100 KC-767A aircraft will be six years. Lease of initial aircraft begins in Aug 2006, with the last aircraft returned in Sep 2017.

f. Lease payments will be due on the lease inception date of each aircraft (immediately following aircraft delivery and acceptance) and thereafter on 15 February each year for the term of the individual leases. Payments to the Trust will be made in advance under the authority of 10 USC 2307.

g. The statutory authority under which the Government will enter into this contract does not allow the Government to purchase the aircraft. However, Boeing and the Trust have granted the Government the right to acquire title to some or all of the aircraft at any time should Congress authorize such a purchase and provide budget authority in advance through appropriation acts.

h. The Government has the right to terminate all, but not less than all, Aircraft under the lease and Aircraft that have not commenced construction for its sole convenience. The Government will give the Contractor and the Trust twelve months advance notice before terminating the lease and, upon return of the aircraft, shall make a special payment equal to one year's basic rent for each leased aircraft that is terminated. In addition, the price for the remaining aircraft to be delivered would be adjusted upward to include unamortized costs incurred by the Contractor that would have been amortized over the terminated aircraft and a reasonable profit on those costs.

i. The Contractor also will provide, under this contract, required aircrew/maintenance training and worldwide logistics support for leased aircraft. The performance metric for training will be measured by successful completion of training. The performance metric for logistics support will be aircraft availability. The logistics support is priced for an average aircraft availability of 80% and contains incentives and disincentives to motivate the Contractor to meet or exceed 80%.

j. The Government will pay for and the Contractor will secure commercial insurance to cover aircraft loss and third party liability, as part of the lease agreement. Aircraft loss insurance will be in an amount equal to the Stipulated Loss Value ($138.43M in CY02$) of the aircraft. The Government shall have the option to reduce the amount of hull insurance or eliminate hull insurance for damage to or loss of the aircraft, in effect self-insuring. Liability insurance will be in an amount not less than $1B per occurrence per Aircraft.

k. To the extent not covered by commercial insurance, the Air Force will indemnify the Trust (Lessor) and the lendors, under the authority of Public Law 85-804 and Section 8159 of the FY 2002 DoD Appropriations Act, for any claims by third parties arising out of the use, operation or maintenance of the Aircraft under the Contract.

l. At expiration of the lease term, aircraft will be delivered to the Trust in a KC-767A configuration with any Trust approved changes considered to be part of the general tanker configuration. Any USAF unique configuration changes are to be removed at Government expense prior to aircraft return. The KC-767A shall be returned with all inspections current and in FAA certified configuration. All life limited parts must be in "half-time" condition upon return.

m. Any residual funds acquired from the sale of the aircraft subsequent to lease completion over and above that required to pay off outstanding debt will be paid by the Trust to the Government.

n. The Contractor will warrant that, at the time of Aircraft delivery, each Aircraft will conform to the specification contained in the Contract and will be free from defects in materials and workmanship, and all services performed will be performed by employees or agents of the Contractor who are experienced and skilled in their profession and in accordance with industry standards. In addition, the contract will contain a 36 months warranty on the green aircraft beginning upon delivery from Boeing Commercial Aircraft (BCA) to Boeing IDS at the start of the tanker modification. Upon delivery of the KC-767 to the Air Force, there is a six months design warranty and a twelve months material and workmanship warranty on the tanker modification and the remainder of the BCA green aircraft warranty (approximately two years). The contract also provides for limited warranties beyond these periods on certain structural components of the commercial aircraft.

o. Contractor retains ownership of all technical data in the aircraft and tanker modifications but grants the Air Force a license to use technical data necessary to operate and maintain the aircraft, as well as training of aircrew and maintenance personnel. This license extends to third party contractor personnel who perform support under Air Force supervision. Should the Air Force elect to contract out maintenance and training support, prospective contractors would be required to enter into a license agreement with the Contractor for use of technical data. The Contractor commits that any license will be offered at fair and reasonable prices consistent with commercial practices.

p. The contractor has no right to terminate the contract.

q. The price of logistics support is based on an average of 750 hours per aircraft per year across the fleet based on expected operations and deployment rates. The contract is pre-priced to support flexible adjustments to the flying hour program ranging from 400 hours per aircraft per year up to 1200 hours. Repairs and replacements for normal operating and maintenance standards that meet the users operational requirements are covered under this contract.

Annex 2

Possible Peak Funding Buy-Down

Background. The Department of Defense is committed to earmark an additional $2B in FY08 and FY09 for the purchase of aircraft covered by the multi-year pilot program under the terms in the proposed contract. The contract confirms that further statutory authority is necessary if the Department is to purchase any of these aircraft.

Discussion. These funds would be used for the direct purchase of aircraft in FY08 and FY09. Exercising this aspect of the negotiated lease would reduce the peak funding requirements in the FY11-13 period. Two key areas of cost avoidance are lease payments (in FY09-15) and the purchase of aircraft at the end of the lease (in FY14-15).