Taxpayer Will See Best Value in Leasing Boeing 767 Tanker Aircraft

(**Note to Editors:** On July 10, the United States Air Force gave the U.S. Congress a proposal to lease 100 Boeing 767 air refueling tankers, to address a critical national security need and to get an essential military asset quickly into the hands of U.S. warfighters. The Air Force, the Office of Management and Budget, and The Boeing Company worked together to develop a fair and equitable proposal for the taxpayer and for the nation. The following is the third in a series of five background papers designed to assist you in coverage of this issue.)

Air operations over Iraq, Afghanistan and Kosovo, along with thousands of homeland security-related missions to protect America's cities, have demonstrated the critical role that air-refueling aircraft play in sustained air operations. Currently, the Air Force relies on a fleet of more than 500 KC-135 air-refueling tankers that are 1950s-vintage. Each tanker requires more than one year out of five in depot maintenance. And when other maintenance problems are factored in, an estimated 40 percent of the entire fleet is unavailable at any given time.

Concerns about reliability and cost effectiveness of operating this essential national asset in light of unprecedented demands at home and abroad led the Air Force to explore new ways to begin recapitalizing the tanker fleet. In 2001, Congress authorized the Air Force to explore the viability of leasing 100 Boeing 767 tankers. Working together with The Boeing Company [NYSE: BA] and the Office of Management and Budget (OMB), the Air Force forwarded to Congress a tanker leasing program proposal on July 10, 2003 that meets this national need and provides fair and equitable value for the taxpayer.

The proposed lease provides 100 needed tankers to warfighters five years earlier than a traditional government purchase. According to the Air Force report, this opportunity -- at a total lease price of $15.5 billion for 100 tankers -- costs 50 percent less than the $31 billion CBO estimate of May 2002. By leasing new 767 tankers, the Air Force will realize a savings of $5.5 billion in KC-135E maintenance and upgrade costs, more than offsetting all lease-related interest.

How does this lease compare to purchasing outright? The Air Force report notes two possible answers. A confusing footnote reports a theoretical, worst case scenario where the least favorable leasing terms could cost up to $1.9 billion more than an outright purchase. This worst-case scenario is based on several unrealistic or extreme assumptions, including an assumption that the Defense Department and Congress have approved a multi-year procurement for the 100 tankers -- unprecedented for a brand new weapons system. In addition, this scenario fails to account for the associated $5.5 billion in estimated savings that leasing will enable by not having to maintain and upgrade the current aging tanker fleet.

However, this extreme scenario is just one of several that the Air Force considered over the course of preparing its analysis; it is not the basis for the final proposal, which is why it ended up in a footnote. A more realistic and the most probable difference between leasing now and purchasing now is the estimated $150 million -- a difference of only one percent -- presented in the official report to Congress.

Aircraft leasing is not new; it is a common practice in the commercial airline business. Boeing sells approximately 25 to 30 percent of the commercial airplanes it produces to leasing companies. The KC-767 lease proposal was structured through strict adherence to OMB guidelines. In doing so, Boeing and the Air Force have ensured the taxpayer gets the best possible value.

Because Boeing assumes all development and production risk, there are no upfront costs to the Air Force. Boeing has already put hundreds of millions of dollars of its own money into 767 research and development costs. Moreover, under the proposed lease, the Air Force makes no lease related payments until the first aircraft is delivered in Fiscal Year 2006. Boeing profits will be capped at levels consistent with DoD standards. The U.S. government receives "Most Favored Customer" price guarantees: the taxpayers will receive a rebate if Boeing sells anyone a 767 aircraft for less than the combined lease/purchase price agreed to by the Air Force. The aircraft price is the lowest offered to any 767 customer in 17 years and the lowest ever at these production rates.

When negotiations were concluded, former OMB Director Mitch Daniels said: "From where this began, taxpayers will save at least $2 billion, so it was well worth our time and effort."

The Air Force has made clear that the national need for new air refueling tankers is now. The commercial Boeing 767 tanker meets that need. After 18 months of negotiations between the Air Force, Boeing and OMB, the proposed tanker leasing program provides fair and equitable value for the taxpayer and is the quickest way to put this essential asset into the hands of our men and women in uniform.

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