



Highlights of GAO-03-923T, a testimony before the Senate Committee on Armed Services

Why GAO Did This Study

At 543 aircraft, the KC-135 is the mainstay of U.S. aerial refueling capability. Recapitalizing this fleet is crucial to maintaining this capability and, ultimately, maintaining the mobility of U.S. forces. In the fiscal year 2002 defense appropriations act, the Congress authorized the Air Force to lease up to 100 aerial refueling aircraft after the Air Force reported its plans to the Senate and House Armed Services Committees and Defense Appropriations Subcommittees. The Air Force sent Congress on July 10 its report containing a business case analysis of its proposed lease. The Air Force plans to lease 100 KC-767A aircraft for 6 years each from a special purpose entity (SPE) that will order the aircraft from the Boeing Company.

GAO was asked to (1) summarize the Air Force's report for leasing KC-767A aircraft, (2) present its observations on the report and justification for the lease, and (3) identify related issues and costs to assist the Congress as it considers the Air Force's proposal.

www.gao.gov/cgi-bin/getrpt?GAO-03-923T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Neal P. Curtin, (202) 512-4914, curtinn@gao.gov.

MILITARY AIRCRAFT

Observations on the Proposed Lease of Aerial Refueling Aircraft by the Air Force

What GAO Found

The Air Force report indicates the following:

- Leasing costs more than buying by \$150 million (net present value).
- Replacing the KC-135 is urgent because of aging and corrosion.
- The Air Force will pay 89.9 percent of aircraft's fair market value—\$138.4 million—complying with the Office of Management and Budget's (OMB's) requirement that the price not exceed 90 percent.
- The Air Force may return the planes or buy them for about \$44 million per aircraft (if authorized by the Congress) at the end of the lease.

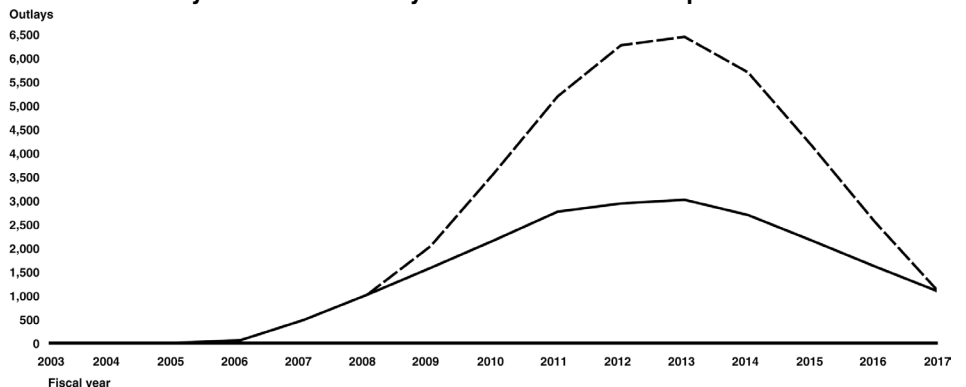
GAO has the following observations about the lease report:

- Purchasing could be up to \$1.9 billion cheaper (net present value), if multi-year procurement authority were granted.
- The Air Force believes that replacement is urgent because of decreased availability, increased maintenance costs, and the risk of fleet wide grounding for the KC-135, although until recently, recapitalization had not been a high enough priority to successfully compete for funding.
- The lease payments comply with OMB requirements only if \$7.4 million in construction financing is added to the \$131 million-per-aircraft purchase price, for a total of \$138.4 million per aircraft. Otherwise, the lease payments represent about 93 percent of the value of the aircraft.

Other issues the Congress may wish to examine include the following:

- Boeing will maintain the aircraft for between \$5 billion and \$5.7 billion during the lease period; KC-135 total operating and support costs were about \$4.3 million to \$4.5 million per year per aircraft in fiscal year 2002.
- Boeing's profit is limited to 15 percent on the KC-767As compared to about 6 percent on commercial 767s, according to one financial analysis.
- Leasing delays payments for the first 100 aircraft so acquiring 100 more tankers will significantly increase outlays in the 2012 -17 time frame.

Estimated Outlays to Lease and Buy 100 Aircraft and to Acquire 100 More



Source: GAO analysis of Air Force data.