Innovation Can Keep NextGen On Financial Track

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The gridlock and political temper tantrums of the U.S. Congress as 2012 drew to a close threatened to derail America's fragile economic recovery. Now, the specter of weeks of debate on the government's debt ceiling and deep, automatic spending cuts known as “sequestration” promises more chaos.

In just the first year of sequestration, the FAA Operations Account and the Facilities and Equipment Account would each be cut by 8.2%, or $377 million and $229 million, respectively. NextGen programs would absorb the majority of those cuts, delaying programs already under funding pressure, such as ERAM (En Route Automation Modernization), ADS-B (Automatic Dependent Surveillance-Broadcast) and Data Communication.

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The pressing need for such upgrades has been partially obscured by cuts in the capacity of U.S. airlines. By removing aircraft, flights and seats, carriers have been able to raise ticket prices and bolster profits—leading to more crowded cabins and, temporarily, less crowded skies. That is good, because airlines need a few years of profitability to accumulate capital, strengthen balance sheets and better manage the burden of investing in new aircraft and technologies, to reduce delays and operating costs caused by older aircraft and antiquated ATC.

But capacity reduction cannot be a long-term national airline policy. The FAA predicts that by 2032, the U.S. airline industry will need to fly 1.2 billion passengers, a substantial increase from the 731 million carriers served in 2011. If the system cannot handle those traffic levels, the nation's economy will suffer, and passengers will pay much higher ticket prices.

Aggressively proceeding with NextGen is the only solution for U.S. airspace modernization. Yet oddly, most of the increased capabilities NextGen would offer remain unfunded or underfunded by Congress. Sequestration would exacerbate the situation. For instance, the FAA 's projected facilities and equipment budget cannot adequately support critical and capital-intensive future programs such as Datacomm, Future Facilities Modernization , Tower Flight Data Manager, Common Support Services and Multi-mission Phased-Array Radar.

Concerns over NextGen funding are driving airlines to slow-roll much-needed efforts to retrofit aircraft with new avionics. This is alarming. The full benefits of NextGen can only be realized once the U.S. fleet has reached “predominant equipage”—with upwards of 65% of in-service passenger aircraft having the necessary avionics. Meanwhile, the clock is ticking. It will take the better part of a decade for fleet retrofits to be completed. The deadline for the ADS-B mandate is barely seven years away.

Despite Congress's dilatory performance, there is a bright spot. Innovative approaches can be used to bring private sector capital into NextGen infrastructure renewal. In its 2010 report, the National Commission on Fiscal Responsibility and Reform, commonly known as Simpson-Bowles, called for government to leverage private capital through an infrastructure bank and other forms of credit enhancement. With this political endorsement, the FAA can pursue public-private partnerships, tapping considerable commercial funding sources, while resting assured that it is on the right side of the fiscal debate .

Our NextGen Fund LLC has been established to address the airline equipage funding gap and finance the sector's way to predominant equipage , using a public-private partnership that taps aerospace industry investment and federal loan guarantees.

Happily, both Congress and the Obama administration are open to these partnerships and understand that under the right circumstances, almost unlimited sources of private sector capital can be made available for NextGen and other FAA facilities renewal. That is critical, because the real cost of bringing the nation's air traffic infrastructure fully into the 21st century is probably $30-40 billion.

Aviation is a linchpin of national economic prosperity. Innovative financing can provide the missing element to allow aviation to expand to support growth. These approaches should become integral to all major FAA procurements. The politicians may be gridlocked but that does not mean our airways have to follow suit.