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New Way to Upgrade Air Control

ITT, Partner Plan $1.5 Billion Loan-Guarantee Fund to Help Airlines Buy Gear

By ANDY PASZTOR

Aviation-equipment supplier ITT Corp. and a private-equity partner are preparing a loan-guarantee fund of more than $1.5 billion to help upgrade the nation's air-traffic control system, a novel financing plan aimed at ending an impasse over how airlines will purchase new equipment.

On Monday, ITT and Nexa Capital Partners LLC are expected to announce proposals to use about $150 million in federal loan guarantees as seed money to establish a larger, self-sustaining fund to pay for installing upgraded equipment on potentially thousands of U.S. airliners.

European Pressphoto Agency

Controllers at work in LaGuardia Airport's new traffic-control tower, which will replace one that dates to 1964.

The goal is to help carriers fund their piece of a delay-plagued effort by the Federal Aviation Administration to create a satellite-based traffic control network. The new network would allow aircraft to fly shorter, more direct routes, thereby saving fuel and reducing congestion, and give pilots greater leeway in choosing routes and keeping their planes separated from nearby traffic.

The system, dubbed NextGen, is a satellite-based project slated to replace the nation's current air-traffic control system, which is based on decades-old ground-radar technology and doesn't make the most efficient use of airspace or runway capacity.

Expected to cost more than $40 billion overall, the next-generation solution has been stymied by a persistent reluctance by airlines to invest billions of dollars to upgrade airborne devices. Now, after years of delays and futile industry lobbying for direct federal aid, ITT and its partner believe they have found the key to overcoming airline resistance.

ITT's objective "was to put forward a positive alternative" for bridging the funding gap, said John Kefaliotis, the company's point man on the topic. In discussions with senior FAA officials, he said in a recent interview, "what we get is interest and agreement that it is a viable concept."

Executives at JetBlue Airways Corp, Alaska Air Group Inc. and the United Airlines unit of United Continental Holdings Inc. have also expressed support for the idea, according to people familiar with the matter, and have engaged in detailed discussions with the fund's creators. No final agreements are in place, but airline executives generally like the concept because the equipment will be leased and therefore won't add debt to their balance sheets.

Senior FAA officials, including Hank Krakowski, who heads the agency's air-traffic control organization, have also been briefed about the prospective fund and informally endorsed the concept, according to the people familiar with the discussions.

The FAA's leadership looks favorably on ITT's initiative partly because it avoids adding substantially to the government's deficit. The FAA is reviewing various options, and on Sunday, an FAA spokeswoman declined to comment.

"It takes into account today's political realities" by focusing on a "private-enterprise approach instead of a grand government giveaway," said James May, a consultant advising ITT and a former head of the Air Transport Association, which represents the country's largest carriers.

Monday's announcement is particularly timely because as part of a broad FAA reauthorization bill, the House on Friday adopted a provision prodding the FAA to embrace such arrangements.

Lawmakers voted to require the agency to "leverage the use of private-sector capital" to "expedite the equipage of" NextGen technologies. Without a breakthrough, it could take until the end of the decade or longer for industry to purchase the equipment in traditional ways. ITT and its partner said the initiative could prod suppliers to cut costs by $1 billion over the life of the fund.

ITT Chairman Steven Loranger has championed the loan-guarantee fund despite initial disinterest—and sometimes even hostility—from various industry players. The most unusual aspect is that airlines would gradually repay the cost of equipping planes only after they start reaping fuel and schedule benefits.

Mr. Loranger's dream still faces huge challenges, including formal congressional approval amid heightened public and Capitol Hill opposition to launching any new federal program. But "the debate has matured to the point" that there is a political climate "making this kind of approach possible," according to former FAA chief Marion Blakey, who now heads the Aerospace Industries Association, a trade group representing major aerospace contractors.

By permitting reduced in-flight separation of aircraft and smoother airport approaches, NextGen is "the key to how we will safely and efficiently serve more customers," Alaska Air's chief executive, William Ayer, said.

Nexa Capital's managing partner, Russell Chew, a former senior FAA and JetBlue official, said in an interview that the proposed fund is unique because it is pegged to the FAA's ability to deliver on promised benefits. If the rollout of NextGen falters due to a lack of agency or congressional support, airlines essentially would be off the hook for repaying the loans.

FAA chief Randy Babbitt told an air-traffic controller conference last month that it doesn't make sense to slow down NextGen when the industry could "save a billion gallons of fuel by 2020." His agency continues to invest heavily in required new ground facilities to supplement more-advanced airborne devices relying on Global Positioning System satellites.

Before major traffic improvements can occur, though, airlines may need to spend between $150,000 and $750,000 a plane to install equipment compatible with the future system. So far, most U.S. carriers have balked at such commitments, arguing they need to see sustained FAA support and don't want to prematurely bet on technology that might be a dead end.

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