



U.S. Department
of Transportation

**Federal Aviation
Administration**

Office of the Administrator

800 Independence Ave., S.W.
Washington, D.C. 20591

MAR 30 2004

The Honorable Charles E. Grassley
Chairman, Committee on Finance
United States Senate
Washington, DC 20510

Dear Mr. Chairman:

Thank you for your letter of March 4, cosigned by Senator Max S. Baucus, on Federal agency review of "lease-in lease-out" or "LILO" transactions. We will of course be pleased to assist the committee in its investigation of the use of such transactions at airports receiving Federal assistance.

Our files contain records of three contacts on LILO or similar transactions. In 1996, the Metropolitan Nashville Airport Authority forwarded a LILO proposal from Hawkins, Delafield & Wood. The Federal Aviation Administration (FAA) responded that the transaction would need to be consistent with certain requirements of the Federal Airport Improvement Program (AIP) grant assurances, passenger facility charge assurances, and surplus property deed covenants. The airport sponsor did not accept the proposal, and the transaction did not go through. We have enclosed a summary of the proposed transaction prepared by Hawkins, Delafield & Wood.

The second contact in our files is a 1996 request by the city of West Palm Beach to approve a LILO-type transaction for airport facilities. The FAA regional and headquarters offices reviewing the proposal had serious concerns about the proposal, relating to revenue diversion and the degree of control retained by the airport. The FAA never approved this transaction, and the airport sponsor did not pursue it. We have enclosed two versions of the proposal to West Palm Beach.

The most recent contact was a presentation by the UBS PaineWebber Municipal Securities Group in June 2002. That firm presented a concept for leasing, but had no specific locations or facilities in mind. We informally advised UBS PaineWebber of some problems with the concept. Since that time, we have not heard any more about the concept or its proposed use at any location. We have enclosed a copy of the presentation handout.

Please keep in mind that the FAA's review involved only the question of whether the proposed transaction would be consistent with the airport sponsor's obligations under the Federal AIP grant assurances. The FAA has no expertise in tax matters and could

not have determined whether a particular transaction complied with tax law. We assumed, understandably, that the proponent would not request FAA approval if the transaction was prohibited by tax law.

If I can be further help, please contact me or Mr. David Balloff, Assistant Administrator for Government and Industry Affairs, at (202) 267-3277.

We have sent an identical letter to Senator Baucus.

Sincerely,

A handwritten signature in blue ink, appearing to read "Marion C. Blakey". The signature is fluid and cursive, with a long horizontal flourish extending to the right.

Marion C. Blakey
Administrator

Enclosures