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August 17, 2005

Mr. Michael W. MacMullen, Airports Environmental Program Manager
Federal Aviation Administration, Chicago Airports District Office
2300 East Devon Avenue
Des Plaines, IL 60018

Re: Comments on Updated Financial Feasibility Information and Analyses in the O'Hare Modernization Final Environmental Impact Statement

Dear Mr. MacMullen:

On July 27, 2005, the Federal Aviation Administration (FAA) released its O'Hare Modernization Final Environmental Impact Statement (FEIS), which contains, among other things, an analysis and discussion of the financial feasibility of the O'Hare Modernization Program (OMP). The FAA concluded in its report that the cost estimates and financial plan for O'Hare modernization are reasonable. The Civic Committee of The Commercial Club of Chicago* believes the FAA and its independent consultants have conducted a thorough and professional analysis of the financial feasibility of O'Hare modernization. We support the FAA's finding in its FEIS that the City of Chicago's O'Hare Modernization Program is the preferred alternative for reducing delays and increasing capacity in Chicago and throughout the entire national aviation system. 1

We respectfully submit the following comments for the record.

R. Eden Martin

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* The Commercial Club of Chicago is a non-profit membership organization comprised of senior business, professional, educational and cultural leaders who seek to address social and economic issues of importance to the Chicago region. The Civic Committee of The Commercial Club of Chicago is comprised of about 75 senior executives from the Chicago region's leading corporations, professional firms and universities. The Civic Committee works on a variety of projects and initiatives to stimulate and encourage the growth of the region's economy and its ability to provide for its people.

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I.

On January 13, 2005, the FAA released its Draft Environmental Impact Statement (DEIS) for O'Hare Modernization. In its DEIS, the FAA discussed the cost estimates and financing plan that the City of Chicago submitted as part of its overall O'Hare International Airport Master Plan, which includes the modernization program. During the ensuing public comment phase, the FAA was criticized by the opponents of O'Hare expansion, the Suburban O'Hare Commission (SOC), which represents a few communities adjacent to the airport, and their hired consultants.

On April 6, 2005, SOC submitted a "critical assessment" of the O'Hare plan. The critique was prepared by the Campbell-Hill group in Alexandria, VA. The critique asserted that the costs of the modernization plan far exceed what the City of Chicago and the FAA have estimated, and that neither Chicago nor the airlines at O'Hare can finance the project. In particular, SOC and Campbell-Hill argued that "the FAA did not evaluate the details of the City's vague and generalized costs and simply inflated the City's Master Plan costs from 1999/2001 dollars to 2004 dollars." (at 12.) The critique also argued that "the DEIS failed to analyze the availability of funds for the OMP, even for the FAA's highly understated costs." (at 56.)

On July 21, 2005, the U.S. Department of Transportation's Inspector General released his report examining the FAA's process for reviewing and approving Chicago's OMP. The Inspector General's examination was conducted in response to a request from Representative Henry J. Hyde and former Senator Peter G. Fitzgerald, and it focused on the FAA's (1) process for reviewing the financial viability of the OMP, and (2) actions to redesign the airspace to accommodate the OMP. Although the Inspector General's review was not an assessment of the FAA's Environmental Impact Statement, it helped inform the work of the FAA on its FEIS and the administrative process related to the City's Request for a Letter of Intent (LOI) for federal funding for the project.

The Inspector General's report recommended that the FAA focus greater attention on verifying that the OMP's costs, schedule, and sources of funding are realistic, reasonable, and credible. (at 3.) In particular, the report states that "the FAA, in its review of the LOI, must ensure that the statement of costs is credible and includes escalations for any anticipated schedule delays and rising labor or materials costs." (at 3 and 4.)

II.

The criticisms of SOC and the comments of the U.S. DOT Inspector General, and others, prompted the FAA to undertake a broader, more in-depth review of the financial feasibility of O'Hare modernization as part of its EIS. The FAA's enhanced financial review and its finding – that the cost estimates and financing plan put forth by the City of Chicago are reasonable – further support the agency's conclusion that O'Hare modernization is the preferred alternative for reducing delays and expanding capacity in the region and throughout the entire national aviation system.

In response to the public comments it received on its DEIS, the FAA "broadened the discussion in this Final EIS of the financial feasibility, which includes an analysis of the City's estimated costs for this proposal." (FEIS 1-52) In its response to the Inspector General's report, the FAA stated that it "agrees that the OMP deserves additional scrutiny and is applying that higher level of diligence to the OMP proposal and its associated LOI request." As part of this higher level of due diligence on the financial feasibility of O'Hare modernization, the FAA conducted several important inquiries.

First, the FAA adjusted its cost estimate escalation by using more detailed construction-related inflation factors. In the DEIS, the FAA used a uniform cost escalator of 2.4% to update Chicago's cost estimates. In the FEIS, the FAA used more specific escalation indicators – escalators which are appropriate for the specific types of construction work involved in the project, i.e. RS Means Square Foot Cost from 1999, 2001, and 2004 and Heavy Construction Cost Data from 1999, 2001 and 2004 for historical cost indexes for the City of Chicago. This analysis updated the cost estimate for OMP from $6.6 billion in 2001 dollars to $7.5 billion in 2004 dollars.

Second, the FAA contracted independent airport engineering and planning consulting firm, Crawford, Murphy & Tilly, Inc., to assess the reasonableness of Chicago's cost estimates in the Master Plan for O'Hare, which includes O'Hare modernization, the Capital Improvement Program, and the World Gateway Program. The FAA's consultants conducted the following analyses as part of their review:

- analyzed the completeness and comprehensiveness of the listed program components and project work items;
- analyzed individual projects for reasonableness of cost by order of magnitude cost estimate calculations, including a side by side review of nearly 50 key components of the proposed construction; and
- conducted a broad scale evaluation of the project costs for construction of the four new runways under the OMP and compared the costs to new runways at five other large airports, Boston Logan, George Bush (Houston), Sea-Tac (Seattle), Hartsfield (Atlanta), and St. Louis Lambert.

The FAA's consultants concluded: (1) "In general, the cost breakdowns provided by the City appear to be reasonable and somewhat conservative in consideration of the magnitude of scale and relatively high production rates potentially achievable with large work areas and volume." (2) the "costs for the runway components of the O'Hare OMP prepared by the City of Chicago appear to fall in the middle of the range of costs for large runway programs" and "the dollar estimates for OMP runways...would indicate that they are comparable to other programs" and (3) "Overall, the City of Chicago OMP estimated costs for the base year 2001 appear to be reasonable and representative of the probable cost of the OMP in that year. For the purposes of this review under NEPA, [Crawford, Murphy, Tilly] has concluded that the estimated costs considered within this sample analysis are reasonable." (at 5.)

Third, the FAA contracted an independent airport management consulting firm, Leigh Fisher Associates, to assess the feasibility of the City's financial plan for OMP and compare

certain feasibility metrics for O'Hare to other large hub airports. The FAA's consultants conducted the following analyses as part of their review:

- reviewed the sources of funding identified by the City;
- analyzed the reasonableness of required future airline user charges at O'Hare; and
- gauged the financial community's acceptance of the OMP financing plan.

Based on their analysis, the FAA's consultants concluded: (1) "the funding sources [identified by the City] are appropriate for this type of airport development program, and reasonably consistent with the sources of funds that are used for large hub airport capital programs at other U.S. airports." (at 3.) (2) "It is reasonable to expect that, over the time horizon of the OMP (that is, through 2018), the average cost per enplanement at O'Hare..., while relatively high by current standards, will be within the range that is experienced at large hub airports nationwide," (at 8.); (3) "bond rating agencies have chosen to assign investment-grade ratings to the bonds issued by the City of Chicago." These ratings, "are an indication that the financial community has accepted the City's financial plan as reasonable, in relation to the benefits of such investment." (at 9.) and (4) there is "no reason to believe that the resulting costs to airport users (most significantly, major airlines serving ORD) will significantly adversely affect the ability to finance the capital projects and realize the projected aviation demand, particularly in the context of future investments that will be required at other large hub airports in the United States." (at 10.)

III.

The FAA and its outside experts have exercised reasonable due diligence in analyzing the project costs and financial plan for O'Hare modernization. The Civic Committee, which is composed of the heads of major corporations and business firms in the Chicago region, has supported expansion of O'Hare for well over a decade – and it supports the present modernization plan. It does so – not because every cost detail and every element of future demand can be predicted with certainty – but because, in an uncertain world, business investments must often be made in circumstances where all important facts cannot be known, and the future is not perfectly foreseeable. Business leaders regularly face such situations in their own businesses. They know that to make no decision because of uncertainty is to make a decision – a decision to do nothing.

3

In the case of O'Hare modernization, we believe the FAA and its outside experts have now validated the financial feasibility of the project. The City, the airlines, and the FAA know enough to go forward, and we support that decision. We know it will cost a lot of money to expand the airport – billions of dollars. We know that the costs of expanding O'Hare – one way or the other – must be met, in the final instance, through government support and increases in charges to customers. We know that O'Hare is central to the future of the Chicago region, and is also critical to the nation's air transport system. We know from recent experience that people continue to fly, even in times of terrorist threat and uncertainty. They fly regardless of which corporate name or logo appears on the tail of the aircraft. We believe that they will continue to fly in the future.

4

The objections of SOC ignore the national need for an expanded O'Hare and the costs of failing to meet that need. Put to one side the plain fact that SOC's objections to O'Hare have

nothing to do with solicitude for Chicago's ability to provide for its people or its financial health. Also, put to one side the fact that their arguments are based on factual assertions which are contrary to the FAA's own findings, or which are inherently speculative. The larger problem is that O'Hare opponents totally disregard the national interest in expanding airport capacity in Chicago. 5

O'Hare's west suburban opponents analyze O'Hare expansion as if it were isolated from the rest of the national aviation system. They ignore the delays caused in New York and Washington, the disruptions caused to passengers in Atlanta, the delay costs incurred in Los Angeles and Houston – when O'Hare is shut down or delayed because of inadequate runway capacity. They also ignore the fact that ramping up Gary, or starting a new airport in the fields 45 miles south of the Chicago Loop, will not in the foreseeable future significantly alleviate those delays or mitigate those costs. 6

The operational capacity of O'Hare Airport is of crucial importance to the nation's air transportation system – both civilian, and (potentially) military. O'Hare is important to the lives of families, business travelers, and public and private-sector employees all over the country. 7

If the west suburban opponents of O'Hare had been around at the time, they would have opposed the development of the inland waterway system in Illinois because the financing was uncertain. They would have opposed construction of the transcontinental railroads because the costs could not be predicted. They would have opposed building and expanding O'Hare after World War II because it was not clear that the costs would be borne by the passengers.

Chicago was built on transportation. Its present position in the economy and commerce is founded on its position at the cross-roads of the continent, and upon its transportation facilities. Its future depends on maintaining its central position as the principal mid-American aviation hub for both domestic and international travel.

The one thing which the FAA may be sure of is that if the modernization of O'Hare is approved, the financing will get done. The City of Chicago, the airlines, the FAA, the U.S. Department of Transportation, and Congress will work out the remaining details and make it happen. 8