

December 31, 1953

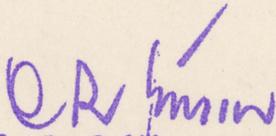
To: The Directors

Since the time of the last meeting I have received two or three letters from individual directors, raising questions about the merit of the decision to finance, with funds of the Company, the construction at Idlewild Airport, rather than turn to the alternative plan of asking the Port Authority to finance the project.

The reasons which appear to support the conclusion that the construction should be financed by the Company are so strong, in the opinion of the officers of the Company, that we recommended that course at the last meeting, and it was approved by the Directors. And since that time nothing has occurred to merit, in our opinion, a recommendation that the course should be different.

If, however, the Directors, or any of the Directors, believe that a different course is the better one, there is no reason why it cannot be again discussed at the next regular meeting, in February. I believe our lease with the Port Authority could be amended to require them to finance and construct our facility, for we had some difficulty in persuading it that we should be permitted to finance our own project. Port Authority, evidently, would like the potential profit which might come from the 10% over-riding fee on the project, and the difference between what it pays for funds and that which it would charge the tenant.

If there are any directors who would like the project re-discussed, let me know and it will be put on the February agenda.

  
C. R. Smith

The company is required, by the nature and extent of its operation, to construct a hangar and operating facilities at Idlewild Airport. That requirement has been proven and is not, we believe, subject to dispute.

A lease for the necessary ground space has been entered into with the New York Port Authority and it is the opinion and statement of the officers of the company that no better lease, or terms, is available.

A preliminary estimate of the cost of buildings, paving and facilities indicates that the cost of the facilities will approximate \$8,250,000, if built by us, as indicated in Appendix A.

While the Port Authority is not obligated to finance the project it might be willing to finance the project on the same basis as it has financed similar projects for other air carriers.

Under the terms of the proposals to others by Port Authority an overriding charge of 10% would be made for engineering services, supervision and architectural work. That charge would amount to \$825,000 and is comparable with an estimate of \$480,000 for architectural services if the building is constructed and financed by American Airlines.

The Port Authority would charge interest at the rate of 5.5%. American is now paying 3% on the funds provided by its debentures. If American should elect, by reason of requirement for additional funds, to finance the facilities with bank loans an interest rate lower than 5.5% would be available. It is anticipated, however, that no such bank loans will be required, occasioned by the construction of the facilities.

If American should enter into an arrangement with the Port Authority for the construction, financing and lease of the premises, not only would the total commitment be larger but, in addition, the company could reflect on its books no investment in the premises, in spite of the fact that the total continuing liability would be fixed and apparent. There is an obvious advantage that American have such investment on its books, for future rate making purposes, if the liability is in any event to be incurred. There would be a comparable advantage to American if at any time in the future another excess profits tax should be levied, for its effect would probably be predicated principally on return on investment, that being a principal factor in existing tax legislation.

In addition, supervision of the detail of construction under the direction of architects and builders employed by American, rather than by the Port of New York Authority, should have substantial advantages.

There is no obvious advantage to American in arranging that the facilities be financed by Port Authority other than the usual advantage that outside funds rather than funds of the company would be utilized. The price we are asked to pay for that advantage is, in our opinion, too high to warrant its serious consideration.

ESTIMATED COST OF HANGAR FACILITY FOR  
AMERICAN AIRLINES  
AT IDLEWILD INTERNATIONAL AIRPORT

Hangar	\$2,630,400
Lean-To	2,793,600
Apron	1,291,350
Roads, Parking. etc.	750,000
Fencing, Utilities & Contingencies	<u>784,650</u>
	\$8,250,000

Site Lease

Term - 22 years, 2 months plus 5 years - rent open  
Acreage - 76.436  
Rent - Annual 76.7 x \$2000 = \$ 152,872.  
Term 22 1/6 x \$153,400 = \$3,363,184.

AMERICAN AIRLINES, INC.  
COMPARISON OF  
PROPOSED IDLEWILD FACILITY COSTS  
ON ALTERNATE BASE FACILITY TRACT

76.44 Acres

	<u>If Constructed &amp; Financed By</u> <u>Port Authority</u>	<u>American Airlines</u>
Contractor Cost	\$ 8,250,000	\$ 8,250,000
Architectural, Eng. Fees	--	480,000
Overhead at 10%	825,000	--
Interest		
3.5%		3,208,000
5.5%	5,241,000	
Ground Rental (76.44 acres)	<u>3,376,000</u>	<u>3,376,000</u>
	\$17,692,000	\$15,314,000

Order To Show Cause No. E-5560, American, United, Trans World  
Docket Nos. 2849 and 3663  
August 7, 1951

"On the basis of the costing techniques described above and detailed in Appendix No. 12, the 1950 cost of mail per ton-mile for each of the Big Four carriers was as follows:"

	<u>Average</u>	<u>American</u>	<u>Eastern</u>	<u>TWA</u>	<u>United</u>
Operating cost excluding return on investment	39.28¢	35.75¢	43.23¢	40.92¢	37.21¢
8% return on investment including taxes at 47%	<u>5.15</u>	<u>5.72</u>	<u>4.98</u>	<u>4.46</u>	<u>5.46</u>
Total cost of mail including return	44.43¢	41.47¢	48.21¢	45.38¢	42.67¢

It will be noted that after including an 8 percent return on the investment allocable to the mail service and Federal income taxes computed at the rate of 47 percent, the average mail cost for the group is 44.43 cents per ton-mile.

Order To Show Cause No. E-6581, Mid-Continent Airlines, Inc.  
Docket Nos. 4680 and 5075  
July 7, 1952

"In accordance with established policy, provision has been made in the rate for a return element of 8 percent on recognized investment, or \$406,000."

Order To Show Cause No. E-5869, Chicago & Southern Air Lines, Inc.  
Docket No. 5144  
November 15, 1951

"Consistent with Board policy in fixing future rates for domestic operations, a return element of 8 percent on recognized investment, or \$478,000. has been provided."

Order To Show Cause No. E-4159, Braniff Airways,  
Domestic Operations, Docket No. 3601  
May 12, 1950

"As regards future periods, final rates for domestic carriers are ordinarily established in amounts which will provide reasonable opportunity under honest, economical, and efficient management to earn a rate of return, after Federal income taxes, of 8 percent."