Appendix A

Memo to Senator John McCain
from Mitchell E. Daniels, Jr.,
Director, Office of Management and Budget

December 18, 2001
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The Honorable John McCain
United States Senate
Washington, DC 20510

Dear Senator McCain:

Thank you for your inquiry regarding the costs associated with the conversion of 767 aircraft to tankers. According to the Air Force, the total cost for a program to lease 100 tankers is approximately $26 billion. I have attached a summary of assumptions and costs they have identified. Please let me know if you require any additional information.

Sincerely,

Mitchell E. Daniels, Jr.
Director

Attachment: Summary of Assumptions
Cost Estimate of 767 Tankers

Assumptions

All costs based on Air Force estimates of implementing language adopted in the Senate Appropriations Bill;

Air Force program is for 100 aircraft;

All leases are for 10 years from the date of delivery, beginning in FY 2005;

Orders are made for Boeing 767s three years in advance of delivery;

Boeing has told the Air Force that for this program the unit cost of a commercial 767 is $90 million;

Boeing has told the Air Force that the cost to convert a B-767 to a the tanker configuration is $60 million. The Air Force has assumed that this cost will include the cost to “de-convert” the aircraft back to its commercial configuration at the end of the lease. Boeing has not specifically stated that the $60 million includes the “de-conversion” costs. However, based on the unit price of a Boeing 767, $60 million appears to be about double of what we (and the Air Force) would expect for just the conversion.

Schedule of Aircraft Orders and Deliveries

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<th></th>
<th>FY02</th>
<th>FY03</th>
<th>FY04</th>
<th>FY05</th>
<th>FY06</th>
<th>FY07</th>
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Cost Estimate (Then Year Dollars in millions)

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* Other government costs include spare parts, simulators, and program management costs.