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U.S. airlines take great pride in the 750,000 men and women they directly employ — from pilots, flight attendants, to reservation agents and mechanics. Each U.S. carrier is having direct and continuous conversations with their employees, and everyone understands the severity of the situation. The current economic environment is simply not sustainable, and it is compounded by the fact that the crisis does not appear to have an end in sight. In order to combat this unprecedented economic downfall, Airlines for America recommends the following combination of programs to provide immediate and medium to long-term assistance to the U.S. airline industry and their employees: 1) grants; 2) loans; and 3) tax relief.

GRANTS: IMMEDIATE ASSISTANCE

- <u>Passenger Carriers</u>: Grants to U.S. Part 121 passenger air carriers in the aggregate amount of $[25]B to compensate for reduced liquidity (net of financing) – from Dec. 31, 2019 through Dec. 31, 2020 – attributable to the novel Coronavirus (or COVID-19).

- <u>Cargo Carriers</u>: Grants to U.S. Part 121 cargo air carriers in the aggregate amount of $4B to compensate for reduced liquidity (net of financing) – from Dec. 31, 2019 through Dec. 31, 2020 – attributable to COVID-19.

LOANS: MEDIUM TO LONG-TERM LIQUIDITY MEASURES

- <u>Unsecured Loans/Loan Guarantees</u>: A voluntary liquidity facility program in an aggregate amount up to $[25]B pursuant to which the Federal Reserve would purchase financial instruments from or provide zero interest unsecured loans or zero interest unsecured loan guarantees to U.S. Part 121 passenger air carriers and up to an aggregate amount of up to $4B to U.S. Part 121 cargo air carriers.

    - The process should be simple, straightforward, and streamlined.
    - Eligible financial instruments will include but not be limited to commercial paper and term loans.
    - Given the credit profile of the industry prior to the onset of COVID-19, participation should be open to all carriers, no carrier shall be required to collateralize any instrument, and the particular instruments purchased or guaranteed should be structured so as to expedite the participant's ability to re-access the private capital markets as promptly as practical and to stabilize their existing credit ratings.

- <u>Urgency</u>: The grant program will be designed and implemented by the Department of Treasury, and the liquidity facility program will be designed and implemented by the Federal Reserve. Treasury will implement a process for payment of the grants immediately following enactment of the legislation and the Federal Reserve will implement a process for the purchase of financial instruments within [15] days.

TAXES: RELIEF

- <u>2020 Excise Taxes</u>: Rebate to U.S. Part 121 air carriers the amount of federal excise taxes paid into the Airport and Airway Trust Fund (AATF) that have been remitted to the U.S. Government beginning January 1, 2020 through March 31, 2020.

- <u>Temporary Aviation Excise Tax Repeal</u>: Temporary repeal of all the federal excise taxes on Part 121 air carriers, including those taxes on tickets, cargo and fuel through December 31, 2021 (i.e., Internal Revenue Code (IRC) sections 4261(a), 4261(c), 4261(b), 4261(e)(3), 4271 and 4081(a)(2)(c)(i)), subject to a trigger for a further extension beyond 2021 dependent upon economic circumstances.

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A4A Member Liquidity Modeling Factoring in Self-Help Measures but No Governmental Assistance

WORKING DOCUMENT AS OF MARCH 16, 2020

- In the short space of two weeks, U.S. airlines have seen their positions of strong financial health deteriorate remarkably rapidly. The downturn in demand for commercial air transportation related to COVID-19 is causing unprecedented harm to the U.S. airline industry.
    - Net bookings for the next few months have been exceeding negative 100% as cancellations are rapidly outpacing new bookings (2 to 1 for some carriers), and trending worse each day.
    - The dramatic and alarming plunge is a combination of fear, macroeconomic deceleration and government- and business-imposed travel restrictions.
- Carriers are taking dramatic self-help measures to offset the draw on liquidity.
- There is still significant uncertainty underlying assumptions, but today's context is much worse than 9/11.
- **Each A4A member has provided us with total available liquidity projections for mid-year 2020 and year-end 2020, relative to year-end 2019.**
- Passenger carriers modeled inflows under a uniform scenario of revenue declines provided by A4A as well as reduced cash from sales for future travel based on what carriers are experiencing.
- They modeled cash outflows factoring in ticket refunds plus self-help measures announced as of March 13, lower fuel prices and a reduction in variable costs (agency commissions, fuel consumption, landing fees, etc.) tied to reduced flying.
    - In our optimistic scenario, access to outside cash (including capital markets) remains open throughout 2020.
    - In our pessimistic scenario, revenues decline more severely, and outside sources of cash become unavailable.
- While carriers would avoid some costs from not operating, there are substantial ongoing fixed costs. Also, since cash payments for expenses are typically due within 30 days, outflows tied to operations for the 30 days preceding the travel ban would come at a time when inflows are at their lowest point.
- As of the afternoon of March 15, our analysis indicates the following:
    - Optimistic: $18B (45%) net drop in liquidity for A4A passenger carriers alone in the first 6 months of 2020 to $21.5B.
        - **By end of 2020, they will have dropped $23B (59%) to $16B.**
    - Pessimistic: $26B (67%) net drop in liquidity for A4A passenger carriers alone in the first 6 months of 2020 to $12.8B.
        - **By end of 2020, they will have dropped $53B (135%) to a deficit of negative $14B.**
        - In this scenario, ***all seven of A4A passenger carriers*** run out of money completely sometime between June 30 and the end of the year. Making matters even more urgent, credit card companies would likely begin withholding cash from sales before the carriers actually run out of money, effectively causing carriers to run out of money earlier than June 30.
- As of the morning of March 16 the pessimistic scenario is looking most likely.
- In the optimistic scenario, the low point of liquidity is expected to occur in May, so we cannot afford to wait long for assistance – governmental relief plus the signal it sends to the markets would be critical in getting several carriers through that near-term potential valley of death to make it to the end of the year.
- A near-term 30-day domestic ban would result in a massive cash draw because, per DOT rules, even non-refundable tickets are refundable to the customer, in cash, within seven business days if the service cannot be provided. This would be compounded by a further reduction in cash inflows from sales during April for travel after the ban is lifted, since people would be less likely to book during the ban period. Credit markets would also be far less likely to lend.
    - As of now, we estimate that a **30-day domestic travel ban would worsen** our optimistic scenario by $7B and our pessimistic scenario by $10B.