THE PRESIDENT'S FY08 FEDERAL AVIATION ADMINISTRATION'S BUDGET

(110–10)

HEARING

BEFORE THE

SUBCOMMITTEE ON
AVIATION

OF THE

COMMITTEE ON
TRANSPORTATION AND
INFRASTRUCTURE
HOUSE OF REPRESENTATIVES

ONE HUNDRED TENTH CONGRESS

FIRST SESSION

FEBRUARY 14, 2007

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February 9, 2007

SUMMARY OF SUBJECT MATTER

TO: Members, Subcommittee on Aviation

FROM: Staff, Subcommittee on Aviation

RE: The President's FY08 Federal Aviation Administration's Budget

PURPOSE OF HEARING

At 2:00 p.m., on Wednesday, February 14, 2007, in Room 2167 Rayburn House Office Building, the Subcommittee on Aviation will hold a hearing to consider the Administration's FY 2008 budget request for the Federal Aviation Administration.

FY 2008 Federal Aviation Administration (FAA) Budget Request

Background

The Administration's request for the FAA provides approximately $14.077 billion in FY 2008, approximately $413 million less than the estimated FY 2007 funding level provided by H.J. Res. 20 (the House-passed continuing resolution). Under current law, the FAA's budget is broken down into four programs: Operations; Facilities & Equipment (F&E); the Airport Improvement Program (AIP); and Research, Engineering & Development (RE&D) (The Science Committee has jurisdiction over the RE&D program). The authorizations for these programs will expire on October 1, 2007 and must be reauthorized.

For FY 2008, the Administration proposes a new account structure that eliminates the Operations and F&E programs and creates the "Air Traffic Organization" account and "Safety and Operations" account. The FAA believes that its new structure will better align funding with function. More specifically, the FAA asserts that the new account structure is aligned with the FAA's lines of business and the pending FAA reauthorization proposal wherein the FAA's financing system is transformed into a hybrid user-fee financing system starting in 2009. This memo analyzes the FY 2008 request under the existing law, as authorized by this Committee, to provide a basis of comparison to prior years. The chart below compares the Administration's FY 2008 request for FAA with the FY 2007 authorized funding levels and the funding levels provided in H.J. Res. 20, the House-passed continuing resolution.

(in $ millions)

PROGRAM	FY 2007[1]	FY 2007 AUTHORIZED	FY 2008 PRESIDENT'S BUDGET	DIF. OF FY2008 PRES. BUDGET AND FY 2007
Operations	8,330.8	8,064.0	8,726.0	395.2 (4.7%)
Facilities& Equipment	2,514.6	3,110.0	2,461.0	(53.6) (-2.1%)
Airport Improvement Program	3,514.5	3,700.0	2,750.0	(764.5) (-21.7%)
Research, Engineering& Development	130.0	356.3	140.0	10 (7.7%)
Total	$14,489.9	$15,230.3	$14,077.0	(412.9) (-2.8%)

Aviation Trust Fund and General Fund

Most of the FAA's funding is derived from the Airport and Airway Trust Fund (commonly known as the "Aviation Trust Fund"). The Aviation Trust Fund holds the revenues from the various aviation excise taxes that are paid by aviation system users. The Aviation Trust Fund receipts totaled $10.6 billion ($11.1 billion including interest) in FY 2006, with approximately $5.5 billion of this total derived from the 7.5 percent passenger ticket tax. The FAA estimates that, under the current tax structure, FY 2008 receipts would equal approximately $12.1 billion.

The Administration's FY 2008 budget request proposes to transform the FAA's current excise tax financing system to a hybrid cost-based user fee system that would take effect in 2009. Under the proposal, which will be detailed in the FAA's upcoming reauthorization proposal, the FAA's financing sources shift from a mix of fuel taxes, other excise taxes, and a general fund contribution to user fees, fuel taxes and a general fund contribution. The FAA estimates that, under its user fee proposal, FY 2008 receipts would hypothetically equal approximately $11.5 billion.

[1] Throughout this memo, FY 2007 funding levels reflect funding levels provided by H. J. Res. 20 (the full-year CR), as passed by the House (not including an upward adjustment in Section 111 pending OMB guidance to FAA on final enacted legislation).

The Administration's hybrid cost-based user fee proposal will be given in-depth consideration during March 2007 Aviation Subcommittee hearings on FAA reauthorization.

When it was created in 1970, the Aviation Trust Fund was viewed as a fund to pay for improvements to the aviation infrastructure. For many years, this Committee and the aviation community have sought to ensure that the funds paid into the Aviation Trust Fund would actually be used for aviation infrastructure improvements. The Wendell H. Ford Aviation Investment and Reform Act for the 21st Century (Public Law 106-181, commonly known as "AIR 21"), enacted in April 2000, included procedural points of order designed to guarantee that every dollar aviation users pay into the Aviation Trust Fund is actually spent on aviation programs, with aviation capital programs having first claim on these dollars. Under these points of order, aviation capital programs must be fully funded at the authorized levels before the remaining Aviation Trust Fund revenues are used to support FAA's operating costs. Vision 100 - Century of Aviation Reauthorization Act (Public Law 108-176, commonly called "Vision 100") retained this provision.

Specifically, AIR 21 requires that the total amount available for spending from the Aviation Trust Fund each year is equal to the Aviation Trust Fund receipts plus interest as estimated by the Administration's budget for that year. Additionally, under existing law, AIP, F&E and RE&D are funded 100 percent from the Aviation Trust Fund. The Aviation Trust Fund share of FAA Operations account varies from year to year depending on Aviation Trust Fund forecasted receipts and the amount spent on AIP, F&E, and RE&D (the law requires that the Aviation Trust Fund's share of operations is calculated by subtracting total Aviation Trust Fund forecasted receipts and interest minus the amount spent on AIP, F&E, and RE&D).

Although most of the FAA's budget is derived from the Aviation Trust Fund, it also receives funding from the General Fund. The size of the General Fund contribution has varied significantly over time. During the past 20 years (1987-2006), the General Fund contribution has averaged 27 percent of FAA's total budget. During the past 10 years (1997-2006), it has averaged 20 percent. Based on the current formula and the assumptions in the Administration's budget, the General Fund would contribute approximately $1.5 billion, or 10.7 percent of the FAA's budget for FY 2008.

The Administration's FY 2008 proposed new account structure divides Aviation Trust Fund and General Fund expenditures differently:

PROGRAMS	AVIATION TRUST FUND	GENERAL FUND
Air Traffic Organization	85 %	15 %
Safety & Operations	36 %	64 %
Research, Engineering & Development	88 %	12 %
Airport Improvement Program	100 %	

According to the FAA, this new breakdown is linked to a cost allocation study that will be released with the FAA's reauthorization proposal. Under the Administration's proposal, the General Fund would contribute approximately $2.6 billion, or 18.6 percent of the FAA's budget for FY 2008.

Airport Improvement Program

Programs providing federal aid to airports began in 1946 and have been modified several times. The current AIP program began in 1982 and provides federal grants to airports for airport development and planning. AIP funding is usually limited to construction or improvements related to aircraft operations, typically projects such as runways, taxiways, aprons, noise abatement, land purchase, and safety, emergency or snow removal equipment.

There are approximately 19,847 airports in the U.S. Of those, 14,586 are private use, and 5,261 are public use. Approximately 3,431 of the public use airports are included in the National Plan of Integrated Airport Systems (NPIAS) 2007-2011. Listing in the NPIAS makes airports eligible for AIP grants.

Unlike some of the Committee's other programs, AIP reauthorization legislation has not included special earmarks. Instead, AIP money is divided into two broad categories: entitlement funds (also called apportionment funds), distributed by formulas that are set forth in the law; and discretionary funds.

Passenger and cargo entitlement funds are distributed to primary commercial service airports (airports that board at least 10,000 passengers per year) and cargo service airports in accordance with a formula that takes into account the number of passengers and amount of cargo that go through each airport. AIR 21 ensured that beginning in FY 2001, primary, commercial service airports must receive at least $650,000 ($1 million if AIP is at least $3.2 billion) per year. Larger airports can receive a passenger entitlement as high as $22 million per year ($26 million if AIP is at least $3.2 billion). There are 382 primary airports and 114 cargo airports that qualify for these entitlements.

States are entitled to 20 percent of AIP funds (if AIP is at least $3.2 billion) for their general aviation airports and commercial service non-primary airports. The formula for the distribution of this money is based on the area and population of the state. In most states, the FAA, working with the state aviation authority, decides which general aviation airports receive AIP funding. Eight states (out of a total of 10 authorized slots) have authority to allocate the money themselves through the Block Grant program. Alaskan airports receive their own separate entitlement, in addition to the amount apportioned to Alaska as a state.

Beginning in FY 2001, general aviation airports, commercial service airports that boarded between 2,500 and 10,000 passengers annually, non-primary airports, and reliever airports received entitlements (if AIP is at least $3.2 billion) based on one-fifth of their expected infrastructure requirements as published in the NPIAS, capped at $150,000 annually. In FY 2006, there were approximately 2,600 non-primary airports that qualified for this entitlement.

The FAA has discretion over the allocation of any AIP money remaining after all entitlements have been funded. However, provisions requiring that a certain percentage go to designated set-asides limit this discretion. The law requires that 35 percent be allocated to noise abatement projects and 4 percent to current or former military airports designated by the FAA. An additional set-aside for reliever airports equal to 0.66 percent of the discretionary fund is distributed when AIP is at least $3.2 billion.

The FY 2008 budget request provides $2.75 billion for the Airport Improvement Program (AIP) - $950 million less than the level authorized by VISION 100 for FY 2007 and $765 million less than the House-passed FY 2007 continuing resolution, H.J.Res. 20.

(in $ millions)

AIP FUNDING CATEGORY	FY 2007 Authorized	FY 2007	FY 2008 Request
APPORTIONMENTS			
Primary Airports	857.7	857.7	496.0
Cargo Airports	125.6	119.1	92.4
Alaska Supplemental	21.3	21.3	10.7
Non-primary (General Aviation) Airports	409.0	409.0	0
State Apportionment	308.4	271.3	488.5
SMALL AIRPORT FUND			
Small Hubs	61.3	66.7	30.6
Non-Hub Commercial Service	245.0	266.8	122.5
Non-primary	122.5	133.4	61.3
DISCRETIONARY FUND			
Capacity/Safety/Security/Noise	399.9	365.9	407.6
Pure Discretionary	133.3	121.9	135.8
SET ASIDES			
Noise	309.3	283.0	311.8
Military Airport Program	35.3	32.3	35.6
Reliever	5.8	5.3	0

Because the Administration's FY 2008 AIP request falls below $3.2 billion, several significant changes in the AIP entitlement formula funding would be triggered under the current statutory formula:

- Primary airports would receive 50 percent of their normal apportionment, and the minimum primary airport entitlement would be reduced from $1 million to $650,000.
- The state apportionment would be calculated at 18.5 percent of AIP, rather than 20 percent.
- The entitlements for approximately 2,600 general aviation airports – which are as much as $150,000 per airport – would be eliminated.
- The Alaska Supplemental would be cut by one-half.

It is worth noting that AIP meets only a portion of airport infrastructure needs. To provide additional resources for airport improvements, the Omnibus Budget Reconciliation Act of 1990 (P.L. 101-508) permitted an airport to assess a fee on passengers. This airport fee is known as the Passenger Facility Charge (PFC). PFC funds can be used for a broader range of projects than AIP grants and are more likely to be used for "ground side" projects such as passenger terminal and ground access improvements. The PFC is added to the ticket price, collected by the airlines, then turned over to the airport imposing the fee. PFC funds are not deposited in the U.S. Treasury and are not part of the Federal budget.

AIR 21 increased the cap on the PFC from $3 to $4.50 per passenger per flight segment. The FAA must approve the implementation of PFCs by airports. The FAA has approved PFC collections at 328 locations, including 94 of the busiest 100 airports. Furthermore, 265 airports are approved to collect a $4.50 PFC, including 48 large and medium hub airports.

If a medium or large hub airport charges a PFC of $3 or less, it must forego up to one-half of its AIP entitlement. If one of these airports charges a fee greater than $3, it must forego 75 percent of its AIP entitlement. The foregone entitlements are turned back into the AIP program and divided between discretionary AIP (12.5 percent) and the Small Airport Fund (87.5 percent) that is distributed primarily to non-hub and general aviation airports. For FY 2007, the FAA estimates approximately $2.7 billion in PFC collections.

In addition to AIP and PFCs, airports issue airport bonds to finance capital projects. The American Association of Airport Executives (AAAE) estimates that during the last five years airports have issued an average of $5.2 billion per year in new airport bonds.

At the same time, the FAA estimates that during the next five years, there will be $41.2 billion of AIP-eligible infrastructure development (an annual average of $8.2 billion). The Airports Council International / North America (ACI-NA) Capital Needs Survey, which includes both AIP-eligible and ineligible projects, produced a more comprehensive estimate of $71.5 billion for 2005-2009 (an annual average of $14.3 billion). In addition, projections developed by the Department of Transportation (DOT), FAA, and the MITRE Corporation indicate that as early as 2013, 15 airports and 7 metropolitan areas will need additional capacity to meet expected demand.

Airport groups contend that when annual AIP grants, PFC collections, and airport bonds are added together, there is a significant gap between airport capital needs (as measured by the ACI-NA Capital Needs Survey) and available funding. AAAE estimates that in 2007 this gap will be approximately $3 billion. Additionally, airport groups argue that small airports might be disproportionately affected by reduced AIP funding because AIP grants are a larger source of funding for smaller airports.

The FAA has indicated that its reauthorization proposal will include changes to the AIP formula and the PFC program, including a possible increase in the PFC cap that would potentially free up additional AIP funds for small and medium airports. As a result, the FAA maintains that an AIP funding level of $2.75 billion will provide enough funds to allow the agency to meet high priority airport capacity, environmental, safety and security needs, as well as meet other important commitments such as phased and scheduled projects.

Facilities & Equipment

The FAA's F&E program[2] includes development, installation, and transitional maintenance of navigational and communication equipment to aid aircraft travel. This program supplies equipment for more than 3,500 facilities, including air traffic control (ATC) towers, flight service stations in Alaska, and radar facilities. The F&E program is funded completely by the Aviation Trust Fund. Unlike AIP, there are no F&E grants. Rather, the FAA uses the money in this program to purchase and install radars, computers, navigation aids, and other equipment.

The F&E program is also the FAA's primary vehicle for modernizing the National Airspace System (NAS). Broadly defined, the term "NAS modernization" refers to the FAA's ongoing effort to obtain new surveillance, automation, and communications systems. Since NAS modernization began in the early 1980s, several programs have been fraught with significant cost overruns and delays. However, most of this cost growth occurred before the FAA's Air Traffic Organization (ATO) began operations in 2004, which has been widely credited with making progress in controlling the costs of FAA's capital programs. In fact, the ATO has met its acquisition performance goal for the third consecutive year - that is, 80 percent of its system acquisitions are on schedule and within 10 percent of budget.

While the FAA has developed some new technological capabilities over the last 25 years, the U.S. air traffic management system is still fundamentally based on radar tracking, analog radios, and ground-based infrastructure. At the same time, the proliferation of regional jets, the emergence of low cost and new entrant carriers, more point-to-point service, and the anticipated influx of Very Light Jets (VLJs), not to mention other new users like unmanned aerial systems and commercial space vehicles, are placing new and different types of stresses on the system. The FAA forecasts that airlines are expected to carry more than 1 billion passengers by 2015, increasing from approximately 740 million in 2005. The DOT predicts up to a tripling of passengers, operations, and cargo by 2025.

Pursuant to Vision 100, the Joint Planning and Development Office (JPDO) was created within FAA to leverage the expertise and resources of the Departments of Transportation, Defense, Commerce, and Homeland Security, as well as National Aeronautics and Space Administration (NASA) and the White House Office of Science and Technology Policy, for the purpose of completely transforming the NAS by the year 2025 and developing a Next Generation Air Transportation System (NGATS).

The JPDO is developing an Enterprise Architecture (EA) for NGATS, which will serve as a high-level blueprint for NGATS. The EA is expected to be issued by mid-March 2007. While details about the specific NGATS technologies and capabilities will be forthcoming in the EA, it is expected that the NGATS will likely include: satellite-based surveillance and procedures; enhanced

[2] Under the new account structure proposed in the Administration's FY 2008 request, the $2.46 billion F&E program would be divided between the new "Safety and Operations" account - $118 million, and new "Air Traffic Organization" account - $2.34 billion.

automation capabilities; digital datalink communications; networked communications, and an integrated weather system.

Yet, while the Administration plans to embark on a major new modernization program, in recent years it has requested F&E funding well below congressionally authorized levels for the program. In 2003, the FAA requested and received from Congress an authorization of approximately $3 billion per year for its F&E program. For the past three years, the Administration has requested and received roughly $2.5 billion per year for F&E. As a result, the FAA cancelled or deferred three major modernization programs: the Next Generation Communication (NEXCOM), designed to transition analog air-to-ground transmissions to digital; Controller Pilot Datalink Communications (CPDLC), which would allow digital email-type capability between controllers and pilots (some form of the CPDLC/datalink program will likely need to be revived as part of the NGATS effort); and Local Area Augmentation System (LAAS), a satellite-based precision-landing system. The ATO has also broken down its STARS acquisition phases and has deferred its decision whether to fully deploy the system.

In its FY 2008 budget, the Administration identifies $173 million of its $2.46 billion request (approximately 7 percent) as part of the NGATS effort. For example, the Administration's FY 2008 request provides $80 million for the Automatic Dependant Surveillance – Broadcast (ADS-B) program, which is FAA's flagship program to transition to satellite-based surveillance. Nevertheless, the Department of Transportation Inspector General (DOT IG) has stated that FAA cannot achieve its goal of technologically transforming the system with a $2.5 billion (or less) F&E budget, since a $2.5 billion funding level goes primarily toward sustaining the existing system, not new initiatives. Moreover, the Administration's FY 2008 F&E request appears to be at odds with its own preliminary NGATS F&E cost estimates. Both the Government Accountability Office (GAO) and the DOT IG reported that last year FAA's ATO developed preliminary F&E cost estimates for the NGATS. According to DOT IG, these estimates suggest that the NGATS initiatives would cost, over the next six years, a total of $4.4 billion above the investment levels in the FAA's last capital plan. These preliminary F&E cost estimates for the next five years, including the NGATS, are as follows:

F&E Preliminary Cost Estimates (Including NGATS)

Fiscal Year 2008	$3.120 billion
Fiscal Year 2009	$3.246 billion
Fiscal Year 2010	$3.259 billion
Fiscal Year 2011	$3.301 billion
Fiscal Year 2012	$3.411 billion

Operations

The FAA's ATC system operates 24 hours a day, 365 days a year, providing aircraft separation and guidance services to commercial, military, and general aviation users. The U.S. operates the largest and one of the safest ATC systems in the world, handling almost one-half the

world's air traffic. The Operations account[3] funds the FAA's daily activities and programs. Operations represents about 60 percent of the FAA's annual budget, and mostly funds personnel costs. In FY 2006, the Operations account funded approximately 40,748 full-time employees.

The ATO and the Office of Aviation Safety (AVS) are the two major activities funded by the Operations account, representing over 90 percent of the Operations budget.

(in $ millions)

	FY 2007	FY 2008
ATO	6,704.2	6,964.8
AVS	997.7	1,056.1
Commercial Space (AST)	11.6	12.8
Staff Offices	617.2	692.0

The ATO accounts for about 80 percent of the Operations budget. The ATO's budget supports: air traffic controller training, compensation, and operating expenses of ATC facilities; air traffic management and routing; the provision of aeronautical and weather information to pilots and controllers; and safety planning and runway incursion reduction programs.

AVS accounts for more than 10 percent of the Operations budget. The AVS budget supports: safety regulation enforcement; the development of standards to ensure aircraft are safe and in compliance with noise and environmental regulations; the investigation of accidents to identify unsafe conditions and practices; safety oversight of air traffic operations; and the certification of new aircraft to ensure that they are safe and airworthy.

The Administration attributes approximately 67 percent of its FY 2008 request to safety. Yet, while commercial aviation safety trends have been positive over the last several years, the GAO notes that recent safety trends may warrant attention.

- As a result of four fatal commercial air carrier accidents in 2006, FAA did not meet its FY2006 performance target of .018 accidents per 100,000 flights. The DOT reported in its 2006 performance report that it will also miss the 2007 target for commercial air carrier accidents.

- The accident rate for cargo carriers is over six times higher than for commercial passenger aviation.

- The number of general aviation fatal accidents has fluctuated between 340 and 366 annually since 2000.

- From 1998 to 2005, there were 89 air ambulance accidents, resulting in 75 fatalities and 31 serious injuries. The rate of these accidents has been greatly reduced in the last year.

[3] Under the new account structure proposed in the Administration's FY 2008 request, the $8.72 billion Operations program would be divided between the new "Safety and Operations" account - $1.76 billion, and the new "Air Traffic Organization" account - $6.96 billion.

- While the number of severe runway incursions generally decreased from 37 in FY 2002 to 29 in FY 2005, they are serious events that create a collision hazard.

The FAA also faces staffing challenges, particularly with its air traffic controller and safety inspector workforce. The FAA employs nearly 15,000 air traffic controllers at approximately 316 federally-operated facilities. The FAA estimates that over the next 10 years 70 percent of its controller workforce will be eligible to retire. The FAA states that more than 11,800 controllers will need to be hired in that timeframe to address expected air traffic controller retirements. The FAA hired 1,116 controllers in FY 2006. Because the total loss of controllers (including retirements) was higher than estimated, the FAA adjusted its hiring in September 2006 to bring in more new hires in that fiscal year. In FY 2007, the FAA plans to hire more than 1,386 controllers, which after estimated losses translates into a net increase of 189 new controllers. The Administration's FY 2008 request follows a new amended staffing plan (to be published in March 2007) and provides for another 1,420 new air traffic controllers, which equals a net increase of new 144 after estimated losses.

Nevertheless, the DOT IG has raised two major concerns with the FAA's controller staffing plan. First, the FAA's plan does not identify how much it will cost. Second, the plan does not address staffing needs by location. The DOT IG notes that without accurate facility-level planning, the FAA runs the risk of placing too many or too few controllers at key locations. The FAA recognizes this need and is in the process of evaluating its facility staffing standards down to the sector and position level for each location.

While replacing retiring controllers is a critical issue for the FAA, it is also important for the FAA to maintain a safety inspector workforce sufficient to achieve its mission of safety oversight. The FAA employs approximately 3,600 inspectors in its Flight Standards Service (AFS) and about 200 inspectors its Aircraft Certification Service (AIR). Attrition and a 2005 hiring freeze have led to concerns that FAA may be understaffed in its safety office.

The DOT IG reports that by 2010, as much as one-half of the current safety inspector workforce will be eligible to retire. If FY 2007 funding levels reflect funding levels provided by H. J. Res. 20, the Administration's FY 2008 request would enable the FAA to hire 177 net safety inspectors between the end of 2006 and the end of 2008. However, the DOT IG states it is unlikely that staffing gains over the next few years will be enough to offset the number of safety inspectors eligible to retire during the same time period. Furthermore, according to the National Research Council, the actual number of safety inspector slots needed is unknown because FAA lacks staffing standards for inspectors.

At the same time, new classes of airspace users, such as commercial space launch vehicles, unmanned aerial vehicles (UAVs), and very light jets (VLJs), may place additional workload demands on the FAA:

- The FAA predicts 400-500 new VLJs per year starting in 2007, reaching 4,950 by 2017.

- The FAA issued 95 operating certificates (Certificate of Authorization) for UAVs in 2006 and expects the number to increase annually to 428 in 2010. Applications for experimental certificates are expected to grow from 9 in 2007 to 59 in 2011.

- The FAA's oversight workload could greatly expand with expected increases in commercial space launches due to the emergence of a space tourism industry and spaceports.

WITNESSES

The Honorable Marion C. Blakey
Administrator
Federal Aviation Administration

Dr. Gerald Dillingham
Director, Civil Aviation Issues
U.S. Government Accountability Office

The Honorable Calvin L. Scovel, III
Inspector General
U.S. Department of Transportation

THE PRESIDENT'S FY08 FEDERAL AVIATION ADMINISTRATION'S BUDGET

Wednesday, February 14, 2007

HOUSE OF REPRESENTATIVES,
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE,
SUBCOMMITTEE ON AVIATION,
Washington, DC.

The committee met, pursuant to call, at 2:00 p.m., in room 2167, Rayburn House Office Building, the Honorable Jerry F. Costello [chairman of the committee] presiding.

Mr. COSTELLO. If we can get Jimmy Miller from not talking to the witnesses, we can begin this hearing.

[Laughter.]

Mr. COSTELLO. Let me first call the Subcommittee hearing to order and ask members, staff and everyone here to turn off their electronic devices or put them on vibrate, please. I want to welcome everyone here today to the first hearing of the Aviation Subcommittee. In particular, I want to congratulate my friend who is now the Ranking Member of the Subcommittee, Tom Petri. Mr. Petri and I have worked closely together when he chaired the Subcommittee on Highways and he was very good to me in the markup process and to our State. We worked closely together in that endeavor and we are going to work very closely together on this Subcommittee. So I welcome my friend, Mr. Petri, as the Ranking Member of the Subcommittee.

Obviously this year is going to be a very busy year for the Subcommittee. We have the FAA reauthorization, as well as a number of other issues that are important to me and to other members of the Subcommittee concerning a whole host of issues from safety to a lot of other things that we will get into in the coming weeks and the coming months. I will give my opening statement in just a few minutes and I will then call on the Ranking Member, to give his opening statement or any comments that he wants to make.

Then we will give members an opportunity to make an opening statement or a comment. I would ask members, in the interest of time, to one, consider submitting their statements into the record when possible. But I do want to assure every member that you will have the opportunity to either give an opening statement or make a comment. At this time, I would ask unanimous consent that any member wishing to insert their statement into the record in its full entirety may be able to do so, and that we keep the record open for 30 legislative days to submit comments.

Hearing no objection, so ordered.

Mr. MICA. Does that exclude my————

Mr. COSTELLO. You know, I thought we were going to get through at least the first 10 minutes of the hearing without the Ranking Member of the full Committee being here. But welcome to my friend from Florida.

[Laughter.]

Mr. COSTELLO. Also let me say, before I give my opening statement, I would like to ask unanimous consent that the majority members be recognized in order of attendance for questions. What we will DO is we will keep a list of members on the majority side as they come in. They will be recognized according to when they show up. I ask unanimous consent that we recognize members on the majority side in that order. Hearing no objection, so ordered.

I want to welcome everyone to the first hearing of the Aviation Subcommittee. Let me say that I am pleased that the Administrator of the FAA is here with us today, Marion Blakey; the new Department of Transportation Inspector General, Calvin Scovel, and Dr. Gerald Dillingham of the Government Accountability Office. Dr. Dillingham has appeared before this Subcommittee many times in the past.

I would also note that the FAA just released its reauthorization proposal this morning, and this Subcommittee will be reviewing the details of that proposal in detail in coming hearings in the month of March. On March 14th, we will look at the FAA's reauthorization proposal. On March 21st, we will look at the FAA's financing proposal. March 22nd, we will have a hearing on the FAA's operational and safety programs. And on March 28th, we will look at the FAA's airport improvement program.

However, this afternoon, the hearing will focus on the Administration's proposed budget for the FAA. The Administration's fiscal year 2008 FAA budget request has been received and it has received much attention in the last week, as it proposes to transform the FAA's current excise tax financing system to a cost-based user fee system. Under the fiscal year 2008 budget request, and as detailed in the FAA's reauthorization proposal, FAA's financing sources will shift from a mix of fuel taxes other than excise taxes, and a general fund contribution to user fees, fuel taxes and a general fund contribution. This proposal would take effect in 2009.

As I stated at the outset, the Subcommittee will hold a hearing on March 21st to discuss in detail the Administration's financing proposal and its present and future implications. However, I would at this time make at least one initial observation about the proposed user fee financing proposal. While the FAA has cited the need to finance a major new air traffic control modernization initiative as a reason for reforming the current tax structure, the Administration's data indicates that in fiscal year 2008, user fees and excise taxes under the new proposal would hypothetically yield approximately $600 million less revenue than maintaining the current tax structure, and over $900 million less from fiscal year 2009 through fiscal year 2012.

I question the wisdom of moving to a new financing system that will not generate as much revenue as the current tax structure when we clearly need to make critical investments now to ensure that our Nation's air traffic control infrastructure is robust for the future. I also believe that the fiscal year 2008 FAA budget request

falls short in several respects. Facilities and equipment, the capital program in 2003, the FAA requested and received from the Congress an authorization of approximately $30 billion per year for its capital program. Yet for the past three years, the Administration has requested roughly $2.5 billion per year for the capital program.

For fiscal year 2008, the Administration is once again requesting $2.46 billion for capital spending. The Administration identifies a $173 million of its $2.46 billion request, about 7 percent, as being directly related to the Next Generation system.

The Department of Transportation Inspector General has stated that the FAA cannot achieve its goals of technologically transforming the national airspace system with $2.5 billion in the F&E budget, and that a $2.5 billion funding level goes toward primarily sustaining the existing system, not new initiatives. Moreover, the Administration's fiscal year 2008 capital spending request appears to be at odds with its own preliminary NGATS F&E cost estimates of a little more than $3 billion.

The airport improvement program. The fiscal year 2008 budget request provides $2.75 billion for the airport improvement program, $950 million less than the level authorized by Vision 100 for fiscal year 2007 and $760 million less than the House passed in the 2007 continuing resolution, H.J. Res. 20. Under the current formula for distributing AIP entitlement funding, virtually every airport that currently receives AIP entitlement in funding will have its entitlement reduced. Additionally, small airports might particularly be hard hit by the Administration's proposed AIP cuts, because AIP grants are a larger source of funding for smaller airports.

Essential air service. Although it is not an FAA program, the fiscal year 2008 budget provides only $50 million for the essential air service, $77 million less than authorized by Congress, almost $60 million less tan provide in the House-passed continuing resolution. As a result of this dramatic cut, almost half the communities that received EAS funding, 73 out of 147, would be dropped from the program.

Staffing. In addition, I am very concerned about future staffing levels for the FAA controllers and safety inspector work forces. In particular, over the next 10 years, approximately 70 percent of the FAA's nearly 15,000 air traffic controllers will be eligible for retirement. The FAA estimates that it could lose more than 10,300 air traffic controllers by the year 2015. The FAA will need to hire approximately 11,800 controllers over the next 10 years to have enough recruits in the pipeline to meet the positions lost.

Although the FAA hired 1,116 controllers in fiscal year 2006, the total loss of controllers was higher than the FAA projected. The increase in retirements could be directly attributable to the imposition of the FAA contract on the controllers. In fiscal year 2007, the FAA plans to hire more than 1,386 controllers and the fiscal year 2008 request provides for another 1,420 air traffic controllers. However, hiring new controllers is a complex process and task. Controllers are highly skilled professionals and it takes several years to train a controller.

According to the FAA, the failure rate for controller trainees in both the FAA academy and in the ATC facilities is approximately

5 percent and 8 percent respectively. Replacing a controller who retires must begin several years in advance. In addition, the Department of Transportation Inspector General will testify today that the FAA controllers workforce plan still has some major shortcomings, including a lack of facility level staffing standards and associated cost implementation. It is imperative that the FAA have a feasible plan to hire and train new controllers today. Otherwise, we will be left with a system that is woefully short-staffed and unable to accommodate the future demands for air transportation. I look forward to hearing more from the Department of Transportation IG in this regard.

I am also concerned about the potential attrition in the FAA safety inspector work force. It is my understanding that over one-third of the FAA safety inspectors will be eligible to retire by the year 2010. While the FAA's fiscal year 2008 request provides for hiring an additional 177 safety inspectors over the next two years, I am concerned that the FAA does not have an accurate assessment of its staffing needs.

Last year, the National Research Council reported that the FAA lacked staffing standards for inspectors and recommended that the FAA undertake a holistic approach to determine its staffing needs. In addition, the Department of Transportation IG has noted in the past that the rapidly changing aviation environment, from the increased use of outside maintenance vendors to new classes of air space users, such as unmanned aerial vehicles and very light jets, will place greater demand on the FAA inspector workforce.

It is imperative that we make these investments in the FAA's workforce now so that they can meet the new challenges for maintaining the highest level of safety in this ever-changing aviation environment.

With that, I want to again welcome our witnesses here today. I look forward to hearing their testimony. And I would recognize the Ranking Member, Mr. Petri, now for his opening statement or any remarks he would like to make.

Mr. PETRI. Thank you very much, Chairman Costello. Let me begin also by congratulating you on your new assignment. It is a big one. This Subcommittee, as I think all the members are aware, has a very full plate this Congress. We are determined to work with you to make it as productive a session as we possibly can, knowing that the Senate also may have something to say about it as well as the Administration.

I would like to thank you for calling this important hearing to start off the year. The budget request from the FAA before us sets on the course for reauthorization, in which we will examine the request in depth. While we await the details that will help us flesh out the agency's proposal, today we will address the issues raised by the President's budget request for this budget year.

Among the most complex is the proposal to shift the FAA's revenue sources from the current assortment of excise taxes to a combination of general aviation fuel taxes and cost-based user fees for commercial users intended to better align system cost with system usage. With the current tax structure's expiration date set for September 30th of this year, we have to carefully consider the funding

options available to best provide for the safety and efficiency of the Nation's airspace system.

Modernization of the national airspace system will be of critical importance over the next 10 or 20 years as demand on the system grows. For modernization to be successful, development and deployment of cutting edge technologies and performance standards must not be delayed. I am interested in hearing about what specific modernization initiatives the Administration proposes for budget year 2008 and subsequent years.

To keep pace with rising demand, the FAA must also continue to support airport capacity capital projects with the continuation of a robust airport improvement program. The President's budget request of $2.750 billion for the airport improvement program and although this request is some $950 million less than what was authorized for last budget year, I hope you are going to try to figure out how to stretch it as best we can. Nonetheless, I am concerned about the impact that reduced funding will have on our airports' ability to keep up with capital project needs, particularly at small and medium size airports that are unable to rely on sizeable passenger facility charge receipts to complete the needed projects.

The aviation industry's safety and efficiency is not only achieved by technology and funding, but also by the highly trained safety inspectors and air traffic controllers. As we move forward with the budget and with reauthorization, we must be sure to provide adequate funding for these critical elements of the FAA's safety oversight mission. I am pleased that its budget proposal addresses the coming wave of workforce retirements and supports a hiring plan that will keep pace with expected attrition.

I would like to thank Administrator Blakey for being with us today, as well as the other witnesses from the GAO and Inspector General's office, and look forward to your testimony.

Mr. COSTELLO. I thank the Ranking Member for his opening statement and comments. At this time, under the five minute rule, we would recognize the gentleman from Colorado, Mr. Salazar.

Mr. SALAZAR. Thank you, Mr. Chairman. I want to thank the witnesses for coming here today, and thank you for holding this important hearing.

I want to associate my comments with yours, Mr. Chairman, as well. And I will keep my comments brief. I will submit my full statement for the record.

But there are several things that are of concern to me. One, of course, is the user fee issue, and how it would basically cut the receipts down to $11.5 billion. I would like the FAA, or the Administrator, to actually give us a justification for this net loss of $600 million, if there is a great need for funding today, why should we want to go to a new structure that basically reduces the investment in our Nation's air transportation system?

And of course, something that is very near and dear to my heart, in Colorado there are three essential air service airports. All three of them are in the Third Congressional District, my district in Colorado. I would like to understand or have an explanation made to me as to what justification is being used, what formula are you using to cut almost half of the funding for the EAS program. Is it going to be cut? Is it going to be straight across the board, or are

there going to be certain airports that are going to be cut out of the program?

Many of us are from rural communities. And the EAS program is vital to economic opportunities in rural communities.

So with that, Mr. Chairman, I will yield back and I look forward to the witnesses' testimony today. Thank you.

Mr. COSTELLO. I thank the gentleman.

At this time I will recognize, first let me congratulate, it is my first opportunity publicly to congratulate the former chairman of this Subcommittee, who is now the Ranking Member of the full Committee. We worked very closely together in our prior positions and I remember at one of our last hearings, one of the witnesses said something, and you said, well, I hope as we come back next year, and I said, Mr. Chairman, I hope you're sitting in my chair and I am sitting in your chair. Well, I am sitting in your chair, but you are elevated now to be the Ranking Member of the full Committee. And I congratulate you and recognize you at this time.

Mr. MICA. Thank you, Mr. Costello. There are a lot of new faces in Congress, but you never know where you are going to end up in the system, in this great institution. I came here as a freshman member and Mr. Oberstar was the chairman of Aviation some 14 years ago. And then for six years I did get to chair that, and several of the past years, of course I had DeFazio for several years, God gave me him for a while.

[Laughter.]

Mr. MICA. Then I was blessed—is he here? OK, there he is. Any time you can withstand that long with Mr. DeFazio, you have a special elevation to sainthood in the next life.

[Laughter.]

Mr. MICA. A great working relationship with Peter, just kidding. And of course, you couldn't ask for anyone better to have as a friend. I have known our new Chairman and his wife, Georgia, since I think first coming here. So we are very proud of you and know you will do a great job.

I had a few comments, though, that I did want to make. Because this is a very important hearing, and again, we have spent a lot of time on aviation in the past with some of these members, as I said. We do have a bit of a challenge ahead of us. As you know, the fees and taxes that fund FAA expire on September 30th, 2007. And I think it is critical to sustaining our current system, which has had a great safety record. But it is starting to get stretched a bit at the seams. We look for reauthorization, we look for a good way to finance that system, keeping it safe and keep us in business and our economy and aviation industry on the move.

I do want to say first of all, I support the attempts of the Administration and FAA to revisit the whole way we are financing the aviation system. To move to a hybrid system I think is important, with some reliance on fuel taxes for general aviation and a cost based user fee system for commercial aviation users. One of the challenges we have, and I brought my little model today, I always have to have a model, but we have to look too at how we are now funding the system. Most of you know 7.5 percent ticket tax is really the way we fund this.

So this airplane, commercial passenger aircraft, actually contributes, and our flying public today, contributes most of the money to fund the system. And is that truly fair? We have to ask some questions. Because I think we have about 7,000 of these aircraft, then we have about 16,000 jets and other craft that only carry maybe a few folks, but take up the same time and space. And how they pay their fair share is very important to the system.

So we have to find the fairest way possible. I think the hybrid approach is very good.

I do have some questions about the Administration's budget request, it provides $2.7 billion for the AIP, the airport improvement program in 2008. That is $950 million less than the level authorized in Vision 100. I have some concerns there.

I do support also, some of you know me, I am a right wing, no-tax kind of guy. I do support, however, increasing the PFC and providing our airports with some flexibility with which to use those funds. The airlines, commercial airlines, have increased their fares over about a 12 month period about 16 times, is what I am told. But we need to find a way to increase the money to support the infrastructure that also supports these passenger aircraft.

So the final thing I will close on is, I commented at the beginning, we have a safe system and we need to keep it that way. I want assurance from FAA that in this new funding that we don't divert any of the funds necessary to keep the system safe, that we have safety inspectors and that we start moving to the next generation of air traffic control. We go from human to human, to data to data systems, which is expensive. They have, I think, a multi-billion dollar bonding proposal in here, which I look favorably upon, and other means of paying for that next generation system. But we have to make certain that again, we do not compromise safety.

Thank you, Mr. Chairman.

Mr. COSTELLO. Thank you.

We now recognize for five minutes the gentleman from Arizona, Mr. Mitchell.

Mr. MITCHELL. Thank you, Mr. Chairman.

As we examine the President's FAA budget proposal, I want to express my concern about a couple of issues. First and foremost, I want to express my concern about safety. According to the FAA, over the next 10 years, 70 percent of its air traffic controllers will become eligible to retire. We need to make sure that FAA has the resources it takes to recruit, train and maintain controllers to replace those retirees and to keep the public flying safely.

Second, I want to express my concern about efficiency. Last week's Washington Post reported some sobering statistics. According to the paper, airlines' on-time performance dropped for the fifth year in a row in 2006, with one in four flights arriving late or not at all, according to the data released yesterday by the Bureau of Transportation Statistics. It goes on to say, the airlines also mishandled a massive amount of luggage, 4 million bags, or 6.7 for every 1,000 passengers, and it is the industry's worst rating since 1990. We can do better.

Lastly, I am concerned about airport maintenance and growth. The President's budget seeks a 21.7 percent cut in the airport improvement program, which funds capital improvements at commer-

cial airports. This program funds everything from runway and taxiway improvements to noise abatement projects. Noise abatement is critically important to communities that surround Sky Harbor Airport in my district, an airport which serves as a hub for its Tempe-based U.S. Airways. Sky Harbor has requested more than $10 million for noise abatement projects in fiscal year 2008. A drastic cut to the airport improvement program could put this funding at risk.

I encourage my colleagues to keep this issues in mind as they consider the FAA's budget request. I thank you, Mr. Chairman, and I yield back my time.

Mr. COSTELLO. I thank you.

At this time, we recognize Mr. Hayes for five minutes.

Mr. HAYES. Thank you, Mr. Chairman. Thank you and welcome, Mr. Dillingham, Mr. Scovel. We have been friends for years.

I have looked at the proposal. There is no way that I can come to the conclusion that this user fee approach to funding the next generation is fair, equitable or is going to work. I would simply ask that the FAA and others sit down with those of us, and a number of have spoken already, who are pilots, who have some concept of what the proposals are going to do. At the same table I would love to see the controllers and folks from the FAA sit down and really look at hands-on, nuts and bolts, here is the good stuff, here is where you can save money, we need this, we don't need that, and really come up with something other than absolutely deadly user fee, huge tax on gas.

So with all due respect, I again welcome you here, and look forward to that opportunity. I think Sam and Mr. Salazar and others, Leonard, can bring some wisdom to the table. And let's bring NATCA to the table and hear what they are saying as well.

Thank you very much. I yield back.

Mr. COSTELLO. I thank the gentleman. And at this time for five minutes we recognize Mr. Lampson from Texas.

Mr. LAMPSON. Thank you, Mr. Chairman. I appreciate the opportunity for just a minute or so. First let me say thanks to you and to Ranking Member Petri for the leadership on this particular hearing. I am looking forward to the comments that are being made.

Our Nation's aviation system faces some daunting challenges. This Committee and this Congress must rise to the occasion in helping to craft policy that will deliver a sustainable aviation infrastructure. Southeast Texas faces many of the same challenges other major cities and areas of the United States face. We are rapidly changing, rapidly increasing the volume of passengers and commercial aviation. I am concerned that the current level of infrastructure will not be sufficient to sustain the growth if we don't act preemptively.

I am pleased that Congress and our Federal agencies have continued to explore solutions to both near-term and long-term issues, bringing public and private organizations together in forums such as the Next Generation Air Transportation System. As we move closer to the Federal Aviation Administration reauthorization, which this Committee will soon consider, we must focus on smart growth, planning for future congestion mitigation, ensuring that our air traffic control systems remain viable and providing suffi-

cient resources to grow our aviation infrastructure to the necessary levels.

I firmly believe that a congested and inefficient system hampers economic prosperity and productivity. I look forward to working with the Chairman and the Ranking Member as well as the Administration to ensure we are both crafting policies that make sense and providing adequate funding to secure the viability of our aviation infrastructure.

I thank you, Mr. Chairman, and I yield back the balance of my time.

Mr. COSTELLO. I thank the gentleman.

Mr. Coble.

Mr. COBLE. Thank you, Mr. Chairman. I will not consume five minutes. I just want to echo what the distinguished Ranking Member said about you and Mr. Petri being in leadership roles on this very important subcommittee. I have two other meetings simultaneously, so I may have to leave. I want to welcome the witnesses here.

But I want to mention, Mr. Chairman, I came in late, but I know that we are blessed with the presence of at least two very adept aviators, the distinguished gentleman from Iowa, Mr. Boswell, the distinguished gentleman from North Carolina, Mr. Hayes. At least they tell me they are adept aviators, Mr. Chairman, I can't refute that. But I think it is good to have some expertise on the Subcommittee, and I look forward to working with you and Mr. Petri this session. I yield back.

Mr. COSTELLO. Thank you.

At this time we recognize the gentleman from Iowa, Mr. Boswell.

Mr. BOSWELL. Thank you, Mr. Chairman.

I would like to associate myself with the remarks of Mr. Hayes and save a little bit of time for witnesses. Ms. Blakey, I too appreciate very much, in spite of the fact that we are not in agreement with what you are proposing, we think you are sincere in what you are trying to do and we appreciate your doing it. But I think you have heard a very sincere plea, let's sit down together. I want to join with that, I think it must be done. I think we would get a lot more done if we work together than if we just bump heads.

So we respect you and ask that you might respect us, and let's see if we can work it out. I am pleased that we are this session and process. I just don't see how we can't continue the functions that we have to do with our present funding mechanism, we can do it. So as has been stated, I am a user of the system, not as much as some, but I do use it and appreciate it and I feel comfortable using it. We have some real pros sitting behind those screens and safely moving us across some very busy skies at times.

So I would hope that you do that, I again associate myself with Mr. Hayes and others. I think this is an unfair approach and an unwise approach, and I don't think we have to do it. So I would hope that this discussion would open the door and take us to a point where we can figure out what we can do and we all understand it and work at it together. With that, Mr. Chairman, I yield back.

Mr. COSTELLO. Thank you.

At this time the Chair would recognize for five minutes Mr. Dent.

Mr. DENT. Thank you, Mr. Chairman.

I have some questions about a specific issue in my district that I will submit for the record, with your approval. With that, I will yield back the balance of my time.

[Mr. Dent's letter to Administrator Blakey follows:]

CHARLES W. DENT

MEMBER OF CONGRESS
15TH DISTRICT, PENNSYLVANIA

HYDROGEN AND FUEL CELL CAUCUS
FOUNDER, CO-CHAIR

Congress of the United States
House of Representatives
Washington, DC 20515–3815

COMMITTEE ON HOMELAND SECURITY
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HIGHWAYS AND TRANSIT

ECONOMIC DEVELOPMENT, PUBLIC BUILDINGS AND EMERGENCY MANAGEMENT

February 14, 2007

Congressman Charles W. Dent
116 Cannon House Office Building
Washington, DC 20515

Subcommittee on Aviation
Hearing: *The President's Fiscal Year 2008 Federal Aviation Administration Budget*
February 14, 2007

Administrator Blakey,

As you may know, the Lehigh Valley International Airport (LVIA) is located in my District. The Lehigh Northampton Airport Authority, which owns and operates the airport, has recently updated its Master Plan. One of the major projects identified on the Authority's Airport Layout Plan is in response to the FAA's Runway Safety Area (RSA) Program. In order to achieve the current RSA standards for each runway end, one of the airport's runways must be reconfigured at considerable expense.

The use of EMAS (Engineered Material Arresting System) in this case is not practical, so the project scope involves bridging across a state road, placing overhead utilities underground, and acquiring homes in the relocated runway protection zone and noise exposure area. Additionally, there are potential impacts to a nearby elementary school. The Airport Authority is in the process of completing an Environmental Assessment for the project and all indications are that, with mitigation measures included, the project is feasible to construct.

The primary concern that I have relates to the considerable funding that a project of this magnitude requires. It is possible that this work could require in excess of $40 Million of federal funding from your Agency's Airport Improvement Program - and that is on top of other AIP grant funding needs at Lehigh Valley International Airport.

At a time when the Administration is requesting a considerably lower amount of funding for the Airport Improvement Program than what has typically been authorized by Congress, how can my local Airport Authority and others throughout the country with deficient RSA(s) reasonably expect to fund projects of this scale?

I am sure you can understand that the Airport Authority does not want to complete the Environmental Assessment and portray to the community that this project is moving forward, only to later be informed that the FAA cannot provide the necessary funding.

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Most community residents and institutions recognize the need for safety-enhancement projects, but the question they will want answered is "When will this happen?"

You should know that the Airport Authority already charges a Passenger Facility Charge (PFC) that is obligated long-term for terminal improvements. The Authority also has need for reimbursement for land acquisition that will obligate the majority of its entitlement funds for several years and even longer if entitlement funding is reduced by an overall lower funding level of AIP. Accordingly, this project will only be able to be constructed with discretionary funds.

With best wishes,

Sincerely,

Charles W. Dent
Member of Congress

Mr. COSTELLO. I thank the gentleman.

At this time I would recognize Ms. Norton for five minutes.

Ms. NORTON. I thank you very much, Mr. Chairman, and I thank the Administrator and her staff for appearing.

I note that you have heard from Mr. Boswell, who uses this airport. There are a number of members who fly. This Committee had to take quite extraordinary action in order to open small plane and charter service at Ronald Reagan National Airport. It was a disgrace that although the Committee was clear, for about three years, that with small plane service up everywhere, including almost immediately in New York after 9/11, there was no excuse for the Government and the Administration, recognizing that there were other parts of the Administration involved, to ignore the clear wishes of this Committee that service be resumed as well at Ronald Reagan National Airport.

It took a specific piece of legislation, passed by this Subcommittee, and only when Chairman Young threatened to hold officials in contempt did a plan come forward that finally opened the service at Ronald Reagan for small planes. This Committee could not be more cognizant of what the responsibility was and how difficult it was. But it certainly made the greatest power in the United States look small, that we could not open part of the airport for our own capital.

And when it was opened, and here is my complaint, Madam Administrator, the trappings that surround the ability to fly into this airport are unworthy of the United States, where people had to come armed on small planes, and a whole set of paraphernalia and extra expense that in effect dis-invited such planes to land in the capital of the United States. Because I will not be here for the entire testimony, I want to go on record again to say that I hope that you will work with others in the Administration to normalize service for small planes in the Nation's capital, so that it does not become almost impossible to travel to the Nation's capital, not only a major region because our capital is located here, but because this is one of the great economic engines of our Country.

So I ask you to give your concerted attention to relieving the burdens that attach to flying in with small plane service to Ronald Reagan National Airport.

Thank you, Mr. Chairman.

Mr. HAYES. Will the gentlelady yield?

Ms. NORTON. I will be pleased to yield.

Mr. HAYES. I appreciate your remarks, you are absolutely on target. I would be happy, along with Mr. Graves, Mr. Boswell and others, it is not the FAA's fault alone. I have asked the Secret Service to revisit, TSA needs to revisit. I am sure you will, and Ms. Blakey will help us get the folks back to the table and get away from "it's not us, it's them," make sure they all come to the meeting.

But Ronald Reagan, except in a technical sense, is not open to general aviation this day. On paper, yes, but try to do it, you won't. Thank you.

Ms. NORTON. I thank the gentleman for his remarks, and I yield back the balance of my time.

Mr. COSTELLO. I thank you.

The Chair would propose that we recognize one more member on this side of the aisle and then move to the witnesses, if there are no objections. At this time, we would recognize Mr. Graves for five minutes.

Mr. GRAVES. Thank you, Mr. Chairman, add thank you, Administrator Blakey, for coming in. You have always been a pleasure to work with and easy to work with. You are always responsive whenever we call.

I have to tell you, I am terribly disturbed by this proposal. I kind of went through the process and figured up, and I know we are depleting the aviation trust fund. But revenues into the aviation trust fund are actually increasing. We are trying to fund a system, I know it is a next generation system, we are going to make the skies safer.

So I kind of put all this into perspective, and I realize, too, that we haven't figured out what that system is yet and we don't know when we are going to implement it. We don't know how much it is going to cost. So I think, well, we are going to build up the fund, we are going to try to build it up in advance of that point.

So I am sitting here, and we first got word of the proposal two weeks ago, I think, or last week. My staff person walks into my office, and I know there is going to be a gas tax hike, so I am bracing myself. I know it is 21 cents, just a little less than 21 cents now. I am thinking, maybe it is going to go up a nickel, you know, 29 cents. And my gosh, I hear 70 cents and it just floors me. I don't even know where to begin. I don't even know where to talk about that, and I can't even tell my pilots back home about this, because I am going to get pelted the minute I say it.

And then to know that the fact that this is open-ended, and it is indexed for inflation, and there are so many other broad proposals out there that we are not even sure about that are to be determined later, it really, really disturbs me. Then I have to ask, and I have talked to a couple of my pilots about this, and the question they have is, what do I get for that? Obviously, I know the airport improvement program is a part of this. The proposal is to eliminate the standard rate for the States that do use that.

But again, the airport improvement program is in there, so they are getting something for that. But next generation air traffic control system, these guys are out there flying in Class D air space and Class E air space and whatever the case may be, they are just not a burden on the system, they are not using the system, and they want to know what they are getting for this incredible increase.

Then I had another pilot tell me, and he was exactly right, this is going to make the skies safer because nobody is going to be able to fly any more except the commercial carriers. They can't afford it. It is a 300 percent increase in aviation fuel.

I know everybody has to do their part and be a part of this. But I am truly at a loss. I don't know where to start. I understand that we come in with the negotiation process and we start at one end and the other side starts at the other end and we try to find our way to the middle. But even the middle is unheard of, at least in my opinion.

I don't know what to do. I am truly at a loss. I am bothered. I am flustered. I don't even know where to begin.

I vented in the full Committee last week, and now, since I have seen the proposal, I am venting even more. I have a lot of pilots out there that I have to represent, and a lot of folks out there that depend on aviation, they have small businesses that cater to general aviation, they relate indirectly—there is just a lot of people out there that their livelihood hangs on this proposal. I don't see anything but bad news for everybody. I don't see how anybody can afford to fly with that kind of an increase. It is not going to stop there, it will be indexed and it will go up. And we all know it is going to go up.

Mr. EHLERS. Will the gentleman yield?

Mr. GRAVES. Yes.

Mr. EHLERS. Thank you very much.

First of all, I want to comment, you are also an adept pilot, and we have to add you to the list of adept pilots here, and we appreciate your input. But in terms of your question, where do we start, I have a suggestion. I think the proposal that has been formed is dead on arrival. We can all save a lot of time, instead of arguing about that, getting a working group together from this Committee, a working group together from the FAA and explore the possibilities. I don't think there is any other branch of the Federal Government that is in such need of coherent, long-term planning as the aviation sector. They simply cannot make moves quickly. As you well know, the Congress doesn't make moves quickly.

But we have to sit down and talk about the next 20 years of aviation sector and the only way to do it is to get some people from the Congress, some people from the FAA sitting down and trying to work on the long-range picture, rather than having the FAA come up with proposals we shoot down, they come up with others we shoot down, I think this is so important to the Nation that we really have to sit down and thresh it out together in some informal manner and come up with some ideas.

I appreciate the comments that you made, and I yield back.

Mr. GRAVES. Thank you, Mr. Chairman.

I am glad it is you, Administrator, because I would have lost my temper if it hadn't been you. I hope you understand what I am saying. Thank you.

Mr. COSTELLO. I thank the gentleman, and would like to move on to our witnesses. Again, we welcome you here this afternoon. We would ask all of you to summarize your testimony in a five minute period if possible, so that we can move on to questions. The Chair would recognize the Administrator, Ms. Blakey.

TESTIMONY OF THE HONORABLE MARION C. BLAKEY, ADMINISTRATOR, FEDERAL AVIATION ADMINISTRATION, U.S. DEPARTMENT OF TRANSPORTATION; GERALD L. DILLINGHAM, Ph.D, DIRECTOR, PHYSICAL INFRASTRUCTURE ISSUES, U.S. GOVERNMENT ACCOUNTABILITY OFFICE; THE HONORABLE CALVIN L. SCOVEL, III, INSPECTOR GENERAL, U.S. DEPARTMENT OF TRANSPORTATION

Ms. BLAKEY. Good afternoon, and thank you, Chairman Costello. It is a true honor and a privilege to address you, Congressman

Petri and the Members of this Subcommittee. This is the first time that I am appearing before the 110th Congress. Let me say that I am really looking forward to working with all of you, and certainly with the aviators, the pilots on this Committee. We are very lucky to have so many people who know aviation first-hand. I am very pleased about that, and do look forward to the discussions that we are going to have, because it will be a very busy year.

I will tell you that my statement today is focused on the issue of the 2008 budget, as that was the topic of the hearing. And of course, we did not know whether the timing would be coincident, as it is, with the Administration submitting the new financing reform legislation, which we submitted to Congress this morning. However, I am very happy to address some of the concerns and issues that a number of you have raised in your opening statements as we go forward. My statement will focus on the budget.

The final thought I might have also is that a number of concerns were expressed, such as concerns about essential air service and the security requirements for general aviation at Reagan, which do fall outside the FAA's purview. They fall outside of our authority. So I would caution about that fact as well, although it is helpful, certainly, to hear the concerns.

Let me just start with noting something that I think we all can take a great deal of credit for, and that is that this is the safest period in the history of aviation. I believe the President's 2008 budget provides the framework to keep it that way. We believe strongly that the budget and the reauthorization proposal released this week are how we are going to reach the Next Generation Air Transportation System. We believe that the current financing structure will make it extremely difficult to get there.

As you are aware, the 2008 budget is structurally very different from previous years. It supports changes in our financing and these in turn support the development and the launch of NextGen. In a nutshell, the new financing system will allow the FAA to operate in a more businesslike fashion, with the ability to make long-term plans and investments that won't be tripped up by the fluctuations in ticket prices and the other changes that occur in the shape of the aviation industry that aren't related to our workload at all. Of course, here I am referring to things like the increase in the number of small planes, the regional jets, the VLJs, and all of the various other changes that are happening in the system that really don't have to do with the change in our workload.

Frankly, the plan to tie FAA revenues to the price of a ticket has long outlived its usefulness. The creators of the Airport and Airway Trust Fund had no way of anticipating the bumpy economic road ahead or that airlines would shift to smaller planes in an attempt to stay competitive in business. The new reauthorization proposal suggests a hybrid funding system that distributes more fairly and equitably the cost to operate the system. The airlines, passengers and other commercial users pay the lion's share of taxes today. They pay more than 95 percent, while accounting for less than 73 percent of the air traffic system's cost.

High end general aviation aircraft impose similar costs on the FAA in the en route high altitude environment, but they currently

pay far less into the system than commercial users for comparable flights. The new funding mechanism addresses this inequity.

The Administration's proposal respects not only the concerns of people flying the planes, but the taxpayers flying in them as well. Turbine commercial flights will pay their fair share of the cost through user fees. But we have listened very closely to the general aviation community. And general aviation flights will pay their fair share through fuel taxes. This is a hybrid system, and we believe it strikes the right balance.

The general fund will finance the cost of services provided to the public and programs that are in the public's interest, such as safety regulation, air traffic costs driven by the military and air ambulances, and flight service stations. And we are going to replace the ticket tax and four other aviation excise taxes, which further tie our costs to our revenue. That equals fewer taxes added on the cost of a passenger's ticket.

This is all crucial to the success of NextGen. But let me turn quickly to the 2008 budget because the 2008 budget fully funds the next step in technology, ADS-B. This satellite-based aviation system is designed to increase safety, capacity and efficiency. Even as ADS-B is the future, its capabilities are already being demonstrated. ADS-B provides automatic broadcast of aircraft position, altitude and velocity, and simply put, it offers both pilots and controller enhanced visibility, not just in the air but on the ground as well.

The budget also fully funds another innovation: System-Wide Information Management, SWIM. This is an aviation internet, essentially, with the ability to move information within the FAA and to other Government agencies faster, better, cheaper. Much like the World Wide Web revolutionized American commerce, SWIM lays the aviation information superhighway. It is going to lead to dramatic improvements in air transportation, safety, security and capacity.

Let me touch quickly on two other aspects of this, because our budget request for the new safety and operations account is $1.9 billion. This level supports increasing the 2006 actual onboard AVS safety work force by 177 inspectors and 173 other safety staff. Our budget request for the new ATO account is $9.3 billion and calls for the hiring of 1,420 controllers. By year-end, we expect to have 14,951 controllers onboard, and 4,045 inspectors as well.

Our airports remain the primary focus in the 2008 budget, also a primary area of focus. The budget request of $2.75 billion with our proposed programmatic changes for the Airport Improvement Program will enhance capacity, security, safety, and environmental mitigation. The budget also boosts capacity with a request of $3.6 billion. As you know, we bolstered capacity with Domestic Reduced Vertical Separation Minimum, DRVSM. This effort adds six additional lanes for flight at cruise altitudes, increasing capacity by exponential factors. It is going to save the airlines $5.3 billion in fuel. And we see that just going up as the cost of fuel, the price of a barrel of oil goes up as well.

We are also enhancing our air traffic control over the ocean with ATOP, Advanced Technologies in Oceanic Procedures. This covers the Atlantic, 24 million square miles of air space. And we see the

airlines again saving 6.5 million pounds of fuel, that is about $8 million a year.

I could talk a bit more about other important aspects of this. RNP, Required Navigation Performance, which allows pilots to take advantage of satellite technology to fly a much more precise flight path into an airport, and tell you that we are going to be advancing this rapidly with this budget. We plan to publish at least 25 RNP approaches this year, including 10 in Atlanta in May. These are huge advances.

What is without doubt, though, is that NextGen is a necessary step that we have to take without delay. As the system continues to experience an influx of smaller, newer jets, microjets, air taxis, it becomes more and more clear that we can no longer rely on yesterday's technology to keep things moving. Without the Next Generation Air Transportation System, we will all be looking back at the summers of 2000 and 2006 as the good old days. The tarmac is where you are supposed to get ready to take off. It is not supposed to be a holding tank.

Our 2008 budget and the new reform proposal ensures a smooth takeoff and a terrific trajectory to the NextGen. Thank you very much.

Mr. COSTELLO. Thank you, Administrator Blakey.

At this time we would recognize Dr. Dillingham.

Mr. DILLINGHAM. Thank you, Chairman Costello, Mr. Petri, Mr. Duncan, members of the Subcommittee.

I believe that we all here agree that the U.S. has one of the safest air transportation systems in the world. It is, however, a system under strain. In 2006, one in four flights arrived late, matching the record delays of 2000. And in the next ten years, demand for air travel is expected to increase by over 300 million passengers. Furthermore, the consensus of opinion is that the current ATC system cannot be expanded to meet the forecasted traffic demands.

Mr. Chairman, my testimony today will identify some of the progress FAA has made in two broad areas as it attempts to address this growing capacity problem, as well as some of the challenges that will need to be addressed in the 2008 budget year and beyond. I will focus specifically on FAA's progress and challenges related to ensuring the continued safe and efficient operations within the national airspace system and FAA's progress and challenges in managing the development of the current ATC system, while leading the transition to the next generation.

I will also briefly discuss the importance of a timely reauthorization.

First, with regard to system safety. In the current system, and certainly as the system has expanded to meet demand, it is unlikely that FAA will have enough resources to directly oversee every aspect of aviation safety. FAA has determined that it can best achieve its safety mission by using risk-based, data-driven safety programs. GAO agrees that this is a rational approach for monitoring safety.

However, for this approach to be effective, FAA must have accurate and complete safety related data. FAA has made progress in this area, but as examples in our written testimony show, problems

with the quality and availability of data continue to negatively affect its ability to achieve its safety program goals.

Another challenge to meeting this goal is FAA's ability to hire, train and deploy its primary safety workforce of inspectors and air traffic controllers. For example, FAA plans to more than double the number of air carriers in its risk-based air carrier safety oversight program. This will result in significant workload shifts for its inspector workforce. Actions such as these make it critical that FAA improve its safety inspector staffing process, including the development of a staffing model.

In addition, FAA's ability to replace as many as 10,000 air traffic controllers or about 70 percent of its controller workforce over the next 10 years, will also need to be monitored closely. In recent years, controllers have been retiring faster than FAA anticipated, thereby exacerbating this hiring challenge.

With regard to the management of the current ATC modernization program and transitioning to NextGen, the implementation of several GAO recommendations and best practices from the private sector has led to significant improvements in the outcome of FAA's acquisition and oversight processes for major ATC acquisitions. As a result, for the first time, FAA has reported meeting its acquisition cost and schedule goals for major systems in each of the last three years.

Another outcome in this area was the establishment of an agency-wide cost savings and cost avoidance initiative, which resulted in a total of nearly $100 million in cost savings for the last two fiscal years.

In regard to the transition to NextGen, FAA and JPDO are working toward a single plan for modernizing the air traffic system under its operational evolution partnership. The principal challenges for FAA in this area are institutionalization and integration. By institutionalization, it means doing what is necessary to maintain and improve on the culture transformation that has been initiated at the agency. Research shows that this kind of cultural change takes about five to seven years, and requires sustained leadership to take a firm hold in the organization.

ATO has been in place a little over three years. And the tenure of FAA's principal cultural change leaders, Administrator Blakey and the COO of the air traffic organization, are drawing to a close. FAA will also be challenged to obtain Congressional support for controversial cost savings and efficiency measures, such as additional facility closings and consolidations.

The integration challenge is the effort that will be necessary for an efficient and cost-effective transition of the current ATC program with JPDO and NextGen. Some key elements of this challenge include working with JPDO, airlines and Congress to complete a valid consensus cost estimate and funding method for NextGen. A time-critical part of the funding challenge is how to replace funds for research and development that were previously thought to be coming from NASA. Another element of this challenge is that FAA will need to determine whether it has the technical and contract management expertise that will be required to implement NextGen. The next generation air transportation system

must also include adequate airport infrastructure to meet the forecasted air traffic demands.

In the 2008 budget proposal, the Administration has proposed reducing funding for the airport improvement program and changing the allocation formula. Other changes being considered by FAA, such as adjustments to the passenger facility charges, could increase available funds for airport development. The net effect of all these changes on the amount of funding available for airport development is uncertain.

Mr. Chairman and members of the Subcommittee, my final point this afternoon is with regard to the completion of FAA and trust fund reauthorization. As you know, 80 percent of FAA's budget is funded from the Aviation and Airway Trust Fund. That authorization expires September 30th, 2007. FAA estimates that the tax lapses in 1996–1997 cost the trust fund about $5 billion in revenues. Additionally, since the uncommitted balance of the trust fund is at one of its lowest points, there is very little cushion to absorb any lapse. It is very critical that the reauthorization take place in a timely fashion.

Thank you, Mr. Chairman.

Mr. COSTELLO. Thank you, Dr. Dillingham.

Inspector General Scovel.

Mr. SCOVEL. Chairman Costello, Ranking Member Petri, members of the Subcommittee, I appreciate the opportunity to testify this afternoon regarding FAA's fiscal year 2008 budget request.

The U.S. operates the safest and most complex air transportation system in the world. In 2006, FAA facilities that manage high altitude traffic handled 46 million operations. This level of activity approximates levels in 2000, when air travel was at its peak. Safety is and must remain FAA's number one priority. Notwithstanding a very impressive safety record, the August 2006 ComAir flight 5191 accident serves as a reminder that we all must work together to make a safe system even safer.

Our testimony today will focus on the key issues that will frame FAA's financial requirements over the next several years. Clarifying those requirements early this session is important, as Vision 100 and the current ticket taxes expire and Congress and the Administration begin deliberations regarding the next FAA reauthorization. FAA's $14.1 billion budget request is presented in a new format and structure that mirror its plans to reform how FAA is financed. Currently, FAA is financed by excise taxes and the general fund. We understand that FAA's reauthorization proposal will be the subject of another series of hearings.

An important message of our testimony, Mr. Chairman, is that regardless of the funding mechanism ultimately decided by Congress, a number of front and center issues require attention and will shape FAA's requirements over the next several years. These include the following. One, addressing the expected surge in air traffic controller retirements. Last Friday, we issued the results of our review of FAA's progress in implementing its controller workforce plan as directed by Congress. The plan details FAA's strategy for hiring approximately 11,800 new controllers to replace those expected to leave over the next 10 years.

Overall, we found that FAA continues to make progress in implementing a comprehensive staffing plan. For example, FAA has made significant improvements in its hiring process and in reducing the time and cost to train new controllers. Further progress, however, is needed in several key areas. First, FAA is in the process of developing accurate, facility-level staffing standards, which is a foremost necessity in effectively placing newly hired controllers where they will be most needed. Planning by location is critical, because FAA has over 300 terminal and en route air traffic control facilities, with significant differences in the types of users they serve, the complexity of air space they manage, and the levels of air traffic they handle. We recommended, and the agency agreed, that FAA report in its next annual update to the plan, progress in validating standards, including the number of facilities completed.

Second, FAA has not identified the estimated total costs associated with the plan. We recommended that FAA develop detailed cost estimates so that the agency's stakeholders clearly understand the resources required to execute the plan. This is particularly important, as deliberations begin over FAA's next reauthorization.

Two, having sufficient safety inspectors to provide oversight of a dynamic aviation industry. While controller staffing represents a significant challenge, FAA must not lose sight of safety. Potential attrition in its inspector workforce, along with a rapidly changing aviation industry, presents FAA with substantial challenges in its safety oversight.

FAA currently has 3,865 inspectors. Over one-third of these inspectors will be eligible to retire by 2010. FAA is requesting $71 million more than last year's request to fund safety-related functions. With this additional funding, FAA plans to hire 203 inspectors. Sir, I will note that yesterday FAA advised us that in view of anticipated funding in H.R. 20, it expects to be able to hire an additional 87 inspectors, for a total of 290 new hires in fiscal year 2008.

FAA will never have an inspection workforce that is large enough to oversee all aspects of aviation operations. But it is critical for the agency to ensure that its inspectors are located in areas where they are most needed.

The National Research Council recently completed its study of FAA's current methods for allocating inspector resources, and concluded that the agency's current method is ineffective. FAA must develop a reliable staffing model to ensure it has the right number of inspectors at the right locations. This is an important watch item for this Committee.

Three, keeping existing modernization efforts on track and reducing risks associated with the Next Generation Air Transportation System, or NGATS. FAA is requesting $2.4 billion for capital efforts in 2008. The majority of these funds are for the air traffic organization. FAA is requesting funds for key next generation initiatives, such as automatic dependent surveillance broadcast, commonly referred to as ADSB. At the request of this Subcommittee, we are reviewing progress on 18 projects worth about $17 billion.

Mr. Chairman, I see I have exceeded my time. If I might ask for a couple more minutes, I should be able to wrap this up.

Mr. COSTELLO. Please proceed.

Mr. SCOVEL. Thank you.

At the request of this Subcommittee, we are reviewing progress on 18 projects worth about $17 billion. We are not seeing the massive cost growth and schedule slips with FAA's major acquisitions that we did in the past. However, several projects, such as FAA's telecommunications infrastructure program, are at risk of not achieving expected cost savings because of schedule slips and diminishing benefits.

The overarching question facing FAA's capital account is how to transition to the Next Generation Air Traffic Management System. This is one of the most complex efforts that FAA has ever undertaken. We have seen cost estimates suggesting that FAA would need $500 million to $1 billion annually over existing planned funding levels for the Next Generation system. However, there are significant unknowns with respect to requirements for new software, intensive automation systems and data communications. Also considerable development will be required to refine concepts.

In a report done at the request of this Subcommittee, we made recommendations aimed at reducing risk with this extraordinarily complex effort. These include developing realistic cost estimates, quantifying expected benefits and establishing a road map for industry to follow; reviewing ongoing modernization projects and making necessary cost, schedule and performance adjustments; and developing approaches for risk mitigation and systems integration. FAA agreed with our recommendations and we will continue to monitor this important effort.

Finally, using the agency's cost accounting system to improve operations. Regardless of the financing system Congress decides upon, FAA must have an effective cost accounting system. A multibillion dollar operation like FAA must have such a system in order to shape decisions and establish priorities. Since 1996, FAA has spent over $66 million to implement a cost accounting system which now covers all lines of business and captures the annual labor costs of substantially all its personnel, the single largest cost item for FAA.

Overall, FAA's cost accounting system is properly designed to assign costs to the agency's lines of business and can be used for measuring performance. However, FAA must ensure the accuracy of financial data in the cost accounting system.

That concludes my statement, Mr. Chairman. I would be pleased to answer any questions you may have.

Mr. COSTELLO. Thank you very much.

Administrator Blakey, I have a few questions. Obviously we have a number of members still that have questions as well, so if we can be as brief as possible in our questions and answers, so that we can get as many as possible in the time that we have.

In my opening statement, I mentioned and will say again that in our review of the Administration's 2008 budget request, the financing proposal would hypothetically yield about $600 million less in fiscal year 2008 than maintaining the current tax structure. Over the period of 2009 to 2012, it would be about $900 million less than the current tax structure. Is that an accurate statement? Would you agree that is correct?

Ms. BLAKEY. That is correct under the figures in the President's budget. I am very grateful to you though for raising this, because I think it is a matter of some confusion and has been raised by a number of Members. I think what is important to understand is that the hybrid financing system that we are proposing is cost based. The cost that the Congress determines in terms of the appropriations for the various categories of our expenses are what will then drive the mechanism to recover those costs.

The proposal that we put forward has AIP at $2.75 billion. As we know, the Congress has chosen historically to set AIP levels at a very different figure. The costs that AIP drives will, of course, cause us to adjust that figure. And if in fact Congress should choose to support AIP at a different level, then the costs will exactly match that.

Mr. COSTELLO. But aren't you saying in your cost estimates that you need less revenue?

Ms. BLAKEY. No, we are saying we need the revenue that is proposed in the President's budget. The President's budget, of course, is addressing the deficit. It is looking at the tremendous demands we have on the Federal budget overall. We are trying to be very careful, therefore, in the requests we are making. But the proposal we have made for the new financing system matches that request.

Mr. COSTELLO. Well, let me ask another question, then, maybe in a different way. If the user fees and excise taxes under your financing proposal would yield less than the current tax structure, isn't it possible, possible that we could finance the next generation system under the existing tax structure? Are you unequivocally saying that it is not possible?

Ms. BLAKEY. No, I am not unequivocally saying it is not possible. I think we can limp along and at some point get there.

What I do fear, though, and I think there is a tremendous liability in this, that if we continue with the current financing system, which has tremendous variations in the revenue coming in, and which has caused real problems in the FAA's ability to make capital investments over the years, we will hit that point where there are a billion passengers somewhere around the year 2014. We will be attempting to fund the NextGen, and we will be getting there.

But unfortunately what will happen is we will hit that wall of operators and passengers when we are way too late at that point. That is the real problem here. We need the ability to have a cost-based system that can match the needs, the revenue, with the costs, so that we can, on a dynamic basis, support those capital investments. And they are significant to get to the NextGen on the time frame we need to get there.

Mr. COSTELLO. So I take that as saying that it is possible to get there?

Ms. BLAKEY. If you don't, if you are not concerned about delays and tremendous congestion in the system, and possibly real gridlock when you get out into another five years plus, that is where you really hit the problem. I think at that point, those who are trying to fly then will be looking at us and wondering why it was that we could not come up with a system for financing what is clearly a new and very different system.

Mr. COSTELLO. Thank you.

Mr. Scovel, you state in your testimony and your office has repeatedly said that at $2.5 billion in the F&E budget, that there is no way to achieve the next generation system, that you would basically be maintaining the current system. Do you still believe that?

Mr. SCOVEL. Yes, sir, we do. We note that in the fiscal 2008 budget request, FAA's request, $2.46 billion for modernization. Of that, however, about $2.3 billion is dedicated toward sustainment. We think FAA will be hard pressed to sustain the existing system and develop NGATS within a $2.4 billion to $2.5 billion capital budget. An investment level of $2.5 billion will provide funding for ADSB, SWIM and demonstration projects, as FAA has requested for the coming fiscal year. But it will not address the automation, communication, integration and development efforts as envisioned for NGATS by FAA in the JPDO.

The numbers we have seen suggest that FAA would need $500 million to $1 billion over the existing capital funding levels of $2.5 billion beginning in 2009 and for several years thereafter. These estimates are not too far removed, as you know, from the authorized levels called for in Vision 100.

I offer the following cautionary notes, however. First, FAA requirements for new NGATS automation systems are not yet well defined. Second, we don't know the extent to which FAA can successfully leverage R&D efforts from other Government agencies, such as NASA and DOD, particularly when some of the information that we have received from NASA indicates that they seem to be looking more to basic research in the future, rather than applied.

As we have stated in our testimony, there are significant adjustments needed for existing programs, such as ERAM and FTI. These are existing programs, Mr. Chairman, that must fit within the Next General Air Traffic Management System. They will need adjustments; those adjustments may be costly. They serve as platforms for the next generation systems.

Mr. COSTELLO. Mr. Scovel, if I can ask another question. Your office reported that last year, the FAA prepared a preliminary F&E cost estimate for NextGen and shared it with the industry. How did the preliminary cost estimates compare to the level of funding that the Administration is requesting for fiscal year 2008?

Mr. SCOVEL. Yes, sir. FAA's F&E funding request for fiscal year 2008 is consistent with estimates for currently funded programs that we have seen, and includes funds for NGATS demonstration projects. However, there is some difference with respect to when the increase in funds would be needed. The most recent estimates we have seen suggest that FAA will need a $500 million to $1 billion annual plus-up annually for fiscal year 2009 through fiscal year 2012 to fund NGATs over the current capital investment, as I mentioned.

Earlier estimates shared with industry in the April 2006 time frame are in the same range, but suggested that significant increases would begin in 2008. Critical decisions are needed in the near future that will impact how quickly those new capabilities may be deployed. These decisions include establishing requirements for ERAM software releases, investment decisions on sustaining existing radars and incorporation of weather information.

Mr. COSTELLO. Thank you.

Dr. Dillingham, I have a few questions for you as well and a couple of other questions concerning your work with the air traffic controllers and other things. I will come back to that in a second round. I want to be able to get to other members.

Let me recognize the Ranking Member, Mr. Petri, at this time.

Mr. PETRI. Thank you, Mr. Chairman. I have a couple of questions for this round, too.

Administrator Blakey, could you discuss the Administration's cost allocation study some, particularly in relationship to its assessment of whether commercial aviation is paying its full share, more than its share or less than its full share of the existing trust fund? Could you explain the situation?

Ms. BLAKEY. Certainly, I would be happy to. The FAA of course at this point does have, as our other witnesses have noted, a very sophisticated cost accounting system. We have worked with this Congress for a number of years to put that in place, and it is one of the finest anywhere. It certainly is one of the finest in Government.

So we are very acutely aware, therefore, of the costs in the system, and we have very accurate activity data. We have worked with Price-Waterhouse Coopers and other consultants on the cost allocation study, which looks at over 600 different factors in terms of the air traffic control system, and looks at the various levels of facilities and the kinds of costs that are imposed there, and also, of course, takes into account the various type of aircraft and the activity that is there.

What we have seen is that the commercial aviation arena is paying over 95 percent of the costs currently. Under the current cost allocation study that we have just issued today, they are paying about 95 percent, a bit over that, when 73 percent is what their actual use of the system would cost.

In contrast, the general aviation community is paying between 3 and 4 percent of the cost, and they are imposing 16 percent of the cost. Now, we have very detailed breakdown, and there is a great deal of background behind the cost allocation methodology and study. We do intend to brief Committee staff and Members as they would find helpful on this, because again, obviously it is a very detailed activity.

Mr. PETRI. Did the different communities or their associations have an opportunity to review and comment on the study? In particular, one point I am interested in getting your take on, and that is the argument that there is a kind of a, that partly this situation exists because there is, with the hub-spoke system, there is peak demand and intensive use of the system, and there is congestion pricing in effect, that because of the fixed schedules, there is less flexibility and therefore more cost from commercial aviation than from some of the other users. Could you discuss those factors, rather than just movements of planes and this kind of thing, the marginal cost, if you have to have a system that is robust at certain times of the day, rather than being able to spread it out, would it presumably fairly on those who are less flexible in causing that increase in use at that particular time?

Ms. BLAKEY. I would be happy to. To your first point, we have been working on this proposal, the Administration's proposal, for more than 18 months and have done a lot of consulting with the various aviation stakeholder groups. Now that we have brought forth our proposal and the newest cost allocation study, we are certainly briefing all of the groups involved and will be working with them in great detail on this. But we have also taken into account their views and methodology, which goes to the second part of your question, which is no, the cost allocation study does not consider a blip on the radar screen to be a blip, and all activity is even. In fact, we do accept the premise that the general aviation community has presented that there is a difference in the use of the system in terms of peaks, the hub system, demand, and congestion—all those issues, they are costs that the commercial aviation arena poses that the general aviation doesn't.

There is also the argument that the system was not initially built entirely around the demands of general aviation. That is all quite true. So is there an argument to be made that they are more marginal users of the system? We think that there is a significant difference there. And therefore, at every point in the cost allocation study where you could go to the side of saying, if it is general aviation it is more marginal use, and therefore you do not account for as great a cost, we have done so. I think it is fair to say that the cost allocation study we have done leans very heavily to the arguments of the general aviation community that they are more marginal users.

Mr. COSTELLO. Thank you, Mr. Petri.

Mr. DaFazio is recognized for five minutes.

Mr. DEFAZIO. Thank you, Mr. Chairman.

Administrator, good to see you again. You have such southern gentility to say what a pleasure it was to be before the Committee today. I am sure you have had more pleasurable days. But as you can see, there is tremendous concern about this new proposal.

I haven't seen the allocation study, I have been arguing over this issue for the 20 years or so I have been on the Committee. It obviously depends on certain assumptions. You say you consulted with the stakeholders. I mean, tell me, what was the consultation with GA like? Was it as warm and friendly as today's hearing? And did they ultimately accede to your conclusions, or are you just registering their objections and moving forward?

Ms. BLAKEY. You know, I think at the heart of this, of course, is no one wants to pay more. And I do understand that. But what I would say is this: that we have worked very hard to listen to the concerns of general aviation. That is why we are proposing a hybrid system. Most systems around the world, as you know, go to a straight user fee system. And we are proposing to you that there be a fuel tax for general aviation, because we accept that the burden that they are concerned about with a fee system would be greater than they should bear.

We have also, as I said, in the cost allocation, listened very much to the concerns of general aviation. And at any point where we felt that we could move to that in terms of specific costs, we have done so. Some parts of the stakeholder community have done a very sophisticated analysis of ways to approach cost allocation. And frank-

ly, they have argued against certain earlier forms of cost allocation. Ramsey pricing, for example, which again, we accept, and we have moved very strongly to one which is very transparent, is entirely cost-based and frankly, makes us extremely accountable for the costs involved.

Mr. DEFAZIO. I guess the question would be, why would we go through an extraordinary battle, reallocate costs to raise less money?

Ms. BLAKEY. In the long run, you will not be raising less money. You will be enabling us to make the kinds of————

Mr. DEFAZIO. Well, in the short run, we are raising less money. You must be making some assumptions about future enplanements or costs of tickets. Tickets are going up, enplanements are going up. So I am puzzled as to why you think that this other system would raise more money, unless you are intending to raise the tax even further and you don't think a gas tax of 50 cents a gallon, 56.4 cents for general, plus the 13.6, 70 cents a gallon, is going to have a depressive effect on the GA community. Supply and demand, I would assume that a lot of people are going to choose to fly less, so I would assume that you are not taking current levels of GA, but you must be projecting some downturn in GA. I don't know what you are projecting in commercial, but if we maintain the current system from the projections I see, we would raise more money every year for the indefinite future.

Ms. BLAKEY. When you look at the history of revenue coming into the Trust Fund, you will see wild fluctuations in the revenue coming in. It has not been predictable, and it has been a problem from the standpoint of the balance in the Trust Fund. Right now, the Trust Fund balance, an uncommitted balance, is at an historic low. I don't think that is arguable. It has been a decade since it has been this low.

Mr. DEFAZIO. In part because Congress mandated, because were concerned a number of bills ago, about there being too big of a balance and we mandated that it be spent down. So if we want to have an objective of having a large reserve or trust fund, we can say, no, we want to build the trust fund again and sort of redirect your efforts in that area. And if you could really raise $500 million or $600 million more with the current structure, and you can live on $500 million or $600 million less, then we could say, well, let's put that $500 million or $600 million in here, if we think we need a larger reserve, which I am not convinced we do. But we would be open to that argument. I certainly want to have a prudent reserve for potential downturns.

Ms. BLAKEY. I think the problem we are dealing with is there is no relationship between the price of a passenger airline ticket and the cost of running the system.

Mr. DEFAZIO. If I could, madam, there is very little relationship between anything known to mortals and the price of an airline ticket, the way the system works.

[Laughter.]

Ms. BLAKEY. I couldn't agree with you more, Congressman, having paid a few of those myself and been mystified.

So I think that is right. While I would agree with you that currently, right now, ticket prices are going up, the long-term forecasts

and projects that we and others in the airline industry and the manufacturing industry are that ticket prices are going down. So again, this is one of those things that we could probably debate, but you could look at the fluctuations on revenue and it is very erratic. And there is no relationship. Every business in America wants to tie its costs to its revenue. It is a very basic principle that we are adhering to here. We want it to be stable, we want it to be predictable. And as the costs of the NextGen go up, and we, the Congress and the user community believe————

Mr. DEFAZIO. I am out of time.

Ms. BLAKEY.—you should, that you have to reduce the costs.

Mr. DEFAZIO. And I won't be quite as blunt as my colleague, Dr. Ehlers, but I will say, I agree with his sentiment, but express it more delicately. I think we probably are belaboring it.

Let me ask one other question very quickly. PFC, I was sort of the father on the Democratic side of PFC many, many years ago. My idea for that was in particular, since I saw two airports in my State, one being in my home town, where one city had to raise all the revenue to build a new terminal and I live in the other city, so hey, I didn't have to pay the taxes. Wasn't that great. Well, I didn't think that was quite fair, because I use it a lot.

And then Portland, where we had people coming over from a neighboring State to use the airport. So I fostered this idea, and I think it has worked relatively well. I am concerned about both the increase proposed, and I assume that if you are increasing the segment, are you going to increase the total? I mean, right now it can't be more than $18 per round trip at $4.50 a segment. So if it is going to $6 a segment, are you proposing $24 per round trip? Because we are about to eat up all the money that you might save the airlines over here. They consider that a tax, you know, and they consider it to be their money. You are about to eat up all the money you might save over here in your new fee structure over here in higher PFCs.

Ms. BLAKEY. PFCs, yes, we are proposing that they go from $4.50 to $6 and there would be the same structure there as currently.

Mr. DEFAZIO. Twenty-four dollars?

Ms. BLAKEY. Yes. I would say that, of course, they are locally determined and project-based, and they have been very successful, frankly, in advancing infrastructure.

Mr. DEFAZIO. One last quick question. I am concerned that you are proposing to expand eligibility. In particular, I would look at, one of the expansions, I understand, is parking. Now, if I fly Eugene-Denver-Dulles and I pay a fee at PFC, I agree, I should pay a PFC to contribute to the terminal and other related activities. I never, ever have walked out of the Denver airport, probably never will, never parked a car there. Why should all of those people transiting that airport pay for a parking project? I am very concerned about any expansion in the scope.

We had to fight mass transit proposals that really weren't related, I mean, we had to fight a whole host of things when we started this program. We really have it fairly narrow, I think acceptable to the public. We are not seeing revenue diversion, which is the original reason PFCs were killed off 25 years ago or 30 years

ago. I really am concerned about any expansion. I just would leave that with you. Thank you.

Thank you, Mr. Chairman.

Mr. COSTELLO. I thank you.

Mr. Graves is recognized for five minutes.

Mr. GRAVES. Thank you, Mr. Chairman.

I have gotten indications, I know we keep talking about the trust fund is at the lowest point it has ever been. And it was just pointed out so eloquently, that we move to draw down the trust fund. But revenues into the trust fund are increasing, isn't that correct?

Ms. BLAKEY. Currently revenues are increasing, that is correct.

Mr. GRAVES. So revenues into the fund are increasing, but the trust fund is being drawn down, I am trying to get some things figured out here.

Mr. Scovel, you said that this next generation system is going to be anywhere from $500 million to a billion? That is a pretty broad anywhere between.

Mr. SCOVEL. Yes, sir, it is. That is what we estimated based on what we anticipated funding needs to be from 2009 to the next several, over the next several years.

Mr. GRAVES. And in the funding proposal, Administrator, we are going to pay for 25 activities related to, in terms of fees, some aircraft are going to pay 25 activities related to the FAA's regulation and certification activities, which only 12 of these have been defined. We don't know what the rest of them are, or at least they are not in the proposal, right? So we don't know, we are not sure which fees are going to be out there for certification and some of those other areas.

Ms. BLAKEY. I am sorry, I am not following you. We are going to work with the stakeholder community to actually set those. It is permissive and allows us to do it in that form. Not all of them were dollar set. The ones that are dollar set are the ones that are very specific to customers, individual customers.

Mr. GRAVES. And then we have, the FAA is going to then be able to adjust costs for inflation or whatever their allocation formula dictates. And I know you have an elaborate allocation. What I am getting at, the big picture here is, we don't know what this thing is going to cost, we don't know what it is going to be, we don't know when it is going to be put in place, we don't know what all the fees are going to be. There are so many things we don't know, Mr. Chairman. I would venture to say that, I have a hard time talking about funding anything when we don't know, we don't know what it is. We don't know what any part of it is. We have a great idea. It really sounds good.

Ms. BLAKEY. No, it is much more than an idea. It is much more than an idea. I can be much more specific about costs if that would be helpful to the Committee.

We are projecting, in fact, for NextGen costs, over the next five years, a cost of $4.6 billion for infrastructure. That is approximately running at a billion dollars a year. I can also give you figures that will go out to the year 2025, which is when we are hoping to complete the entire plan for the NextGen.

Now, I don't think the fact that we cannot tell you precisely what the capital investments will be all the way out to 2025 is unreason-

able, because there is not a corporation in America that could tell you what their capital investments are going to be that far out. There are changes in technology. But we do have out the concept of operations now, and we will be presenting this spring the enterprise architecture, which does give you the blueprint. And we have a number of demonstration programs, which are the backbone of the NextGen going right now.

Mr. GRAVES. Well, let's talk about the airports. If we are going to talk about, and we keep talking about congestion and all these delays in the system. Really, the fact of the matter is, congestion comes from just a few airports. It really does. I have been flying now every single week back and forth from DCA to Kansas City and then various places in between. Those are two airports that probably are under-utilized airports, Kansas City Center in the midwest probably doesn't have nearly as much traffic, because if I ask for a flight following I can get it. They don't have to tell me to wait.

But I know that there is congestion in some areas. And I would venture to say it is more a function of those runways and the amount of activity at that airport than it is necessarily the air traffic control system. I think we ought to be talking about fixing those areas specifically, instead of overhauling the whole system based on congestion in some of these under-utilized places.

I do have a little bit of problem too, Mr. Scovel, when you mention things like ComAir crashes meaning the backdrop for why we need to do this. That had nothing to do with the air traffic control system, absolutely nothing to do with it. And I resent the fact that we are using things like that to try to further a system like this and justify a system like this.

I am still extremely frustrated, Mr. Chairman. I apologize. But I am, this has really got me in a wad, it really does, for the entire aviation community. I know what to do about it, I don't think we ought to be talking about it if we don't know what it is we are talking about.

Mr. COSTELLO. I appreciate the gentleman's comments. Let me make two comments quickly before we recognize the next member. And actually, ask a point of clarification from the Administrator. When you mentioned the $4.6 billion over the next five years, is our assumption correct, then, that in your budget projections under the user fee system, that $4.6 billion is included?

Ms. BLAKEY. Yes, in fact, if you look at the out years in our projections, the investment in NextGen ramps up significantly. I think it is very accurate to say that, as with a system of this type, an approach of this type, you have the beginning, R&D stages and demonstration projects, and then you move into the implementation stage, when significant infrastructure investments have to be made.

Mr. COSTELLO. Your revenue requirements and projections meet that?

Ms. BLAKEY. They do.

Mr. COSTELLO. OK. And then the second point, if I can, Mr. Graves, to respond to the point that you made about ComAir, and it wasn't an air traffic control issue, the only thing I would point out is that it was very clear that two controllers should have been

on duty and only one was. I understand the cause. I understand. But the report clearly pointed out that it may not have had anything to do with the accident, but there should have been two controllers on duty and there was only one.

Let me recognize the gentleman from Illinois, Mr. Lipinski, for five minutes.

Mr. LIPINSKI. Thank you, Mr. Chairman. I want to start out by congratulating you on becoming chairman of the Subcommittee. I know you are going to do a great job. Certainly your wisdom was shown by one of the first things you did, I know, was come out to Midway Airport in my district. It shows your great wisdom in coming out there. I also want to congratulate Ranking Member Petri and I look forward to working together with you in this Congress.

I also want to thank Administrator Blakey for coming out there to Midway Airport. I appreciate your coming there and viewing the safety improvements and appreciate the cooperation and the help that you have given in helping to put in the EMAS system in there and make Midway Airport more safe. I just want to also take this opportunity to reiterate a point I made to you there in a letter in January, that I will oppose any expansion of Midway Airport, it is a very important issue back in the district. I think with the safety improvements there, we see things really looking up at Midway Airport.

I wanted to briefly mention, I know Chairman Costello is going to come back to this. I am concerned about the number of air traffic controllers and the impact that it is going to have on the system. I know Mr. Costello is going to come back to that in a second round.

So I just wanted to mention and ask a question, my concern here with the proposed budget is cutting the AIP. And with the capital improvements going on at Midway Airport and the program going on, the O'Hare modernization program, its tremendous impact, and not only locally in the Chicago area, but for the entire Nation, it would seem that by cutting the AIP funds that it would have a detrimental impact on this program. So I wanted to know what the impact is going to be and if you tell me it is not going to have a detrimental impact.

Ms. BLAKEY. Congressman, I appreciate your bringing up O'Hare, because I know we both share the commitment to making certain that we do everything possible to keep that project on track. O'Hare is the nerve center in terms of our transcontinental traffic all across the U.S., as we know. When O'Hare sneezes, all the rest of us get a cold, and right now, it has a pretty big cold. I was looking at it this morning in terms of delays and cancellations because of the weather.

Mr. LIPINSKI. I don't know if we can do anything about the snow in Chicago.

[Laughter.]

Ms. BLAKEY. That is beyond me, I will tell you that.

The level of AIP that we are proposing will absolutely keep our commitments, such as those to O'Hare, on track. Our letters of intent, our investments that are required there, will absolutely remain intact. In fact, the $2.75 billion will allow us to cover all of

the high priority safety, capacity, environmental and standard-setting work that we are committed to right now.

Mr. LIPINSKI. Thank you. I will yield back the balance of my time.

Mr. COSTELLO. The Chair would recognize Ms. Fallin for five minutes.

Ms. FALLIN. Thank you, Mr. Chair. Administrator Blakey, it is always good to see you.

Oklahoma is a very rural State, and we have over 100 federally-designated airports in our State. Our small airports depend upon the stability of funding for the AIP program. I know the Administration has proposed to cut the funding for that program by almost a billion dollars, almost in half. And Oklahoma estimates that it would lose a substantial amount of money for our smaller airports. In Oklahoma, we attract a lot of companies and jobs by expanding our airports in the rural communities, and have a lot of commercial and private aviation that goes in and out of our rural airports that helps bring in companies and jobs.

I also understand from our people in Oklahoma that the Essential Air Service grants program, which helps fund some of our commercial locations, airports, could also possibly be at risk of losing funding if the AIP programs are cut. So in light of us believing that there is a direct relationship between helping expand our airport service in our rural communities and economic development, the people of Oklahoma in the aviation industry have asked, what do you recommend or what do you think would happen if we do slash these funds and these programs to the rural communities who depend upon these programs, especially in light of economic development?

Ms. BLAKEY. I appreciate your question, because I certainly do recognize that rural airports in Oklahoma and in a lot of States are very critical, and they are part of the engine of expansion for the economy. I would highly recommend that we look together at greater length at the Administration's new reform proposal, because there is a tremendous amount of advantage for small airports in the way we are proposing to change the approach we take to AIP. What we have seen is that AIP is particularly critical to small airports. The larger airports are able to raise money through PFCs, bonding and other things, and do not rely on it as much of a critical source as do small airports.

So what we have done, therefore, is look at the formulas that are inherent in the current system, and they are very outdated, and look at the fact that we do need to support our smaller airports with more of the kind of funding that they can count on from AIP, on an entitlement basis, and we are able to do that, we think, much better and with much more targeting under a new system we are proposing than what we have before.

So I would point you to that, because there is a good bit of detail there, and I would like very much to talk with you about it.

Ms. FALLIN. OK. Thank you, Mr. Chairman. I yield back my time.

Mr. COSTELLO. Thank you. At this time, the Chair recognizes the gentleman from New York, Mr. Hall.

Mr. HALL. Thank you, Mr. Chairman, and thank you to our distinguished panel.

Administrator Blakey, I was wondering, and looking at the staffing numbers for air traffic controllers, which are low around the Nation, it seems to me that the FAA should have seen its controller crisis coming some time ago. When you have controllers who were hired between 1981 and 1984, and they are eligible to retire at age 50, anyone could have seen this retirement trend coming down the pike decades in advance. Yet the FAA only hired 13 controllers in 2004.

This year, the FAA is going to hire 1,420 after the FAA self-imposed work rules for controllers took effect. It would appear as though the FAA waited to handle the staffing crisis until after a new, disadvantageous pay structure was put in place in order to cut labor costs. Was this the motivation behind FAA's staffing strategy?

Ms. BLAKEY. No, not at all. In fact, of course the FAA has known for many years that because controllers retire at age 56—it is the mandatory age—we knew that we were going to have a large wave of controller retirements coming, and we had to prepare for it. That is the reason we have a very detailed controller staffing plan that we will be providing you an update on about the first of March.

In fact, the number of controllers that were hired back in 2004, that 13 figure, was because we were under real constraints in the budget that Congress was aware of—we were all aware of it—and it did not allow us to ramp up as much as we would have liked. Since then, however, we have been addressing that. And you will see in the controller hiring plan that we are going to be steadily doing this so that we will have a net increase each year as we need to to staff to the projected retirements as well as to the growth in traffic and to the fluctuations that we will see in various parts of the Country.

In response to the Inspector General's concern, and I think we agree with this, that we provide facility by facility estimates of what staffing should be, that will also be a part of that plan, which I think will be helpful to you. Because as you look at it, you will see that in parts of the Country we have significant requirements coming up, and in other parts we don't. There are parts of the Country where we have overstaffing, just like we have understaffing. On average, throughout the Country, we are hitting our staffing requirements.

It is frequent that the controllers union will be using figures that go back to 1998. They are very old figures that they call authorized figures. They were set as a part of a contract negotiation, not because of current staffing and retirement levels.

Mr. HALL. Well, that raises a question. Do you anticipate continuing forward with a rule that is imposed, or do you see the FAA at some point going to binding arbitration? Do you think that the work rule or the pay structure has anything to do with the retirements?

Ms. BLAKEY. Let me go to the first part of your question, then I will address the second. The FAA did just as the statutory requirement set by Congress mandated, which was that when we entered into contract negotiations—and the FAA has a very unusual

requirement that is not true of most parts of Government—and that is that we negotiate for pay. It is an extraordinarily difficult thing to do. But we went through a long period of negotiations with NATCA, with our controllers union, attempting to get a voluntary agreement. When we were unable to do so, and there were several key parts of the contract negotiation that were outstanding, all of which had to do with pay and various forms of compensation, as well as several key work rules, we then did as the statute requires and presented it to Congress. we presented our proposal, they were able to present theirs. And this was reviewed for 60 days by Congress.

Should Congress have wanted to step in and increase the amount of the contract, that was a possibility that could have happened. It did not happen and we moved forward with the current contract. We do not anticipate reopening the contract.

Mr. HALL. Thank you for that explanation.

Ms. BLAKEY. But I would suggest to you this, that I think there has been a phenomenon that we saw in the latter part of the year in terms of controller retirements. We saw 116 more controllers retire in the latter part of the fiscal year than we anticipated. It is not a big percentage, it is less than 1 percent of the workforce, but nevertheless, we have adjusted our retirement projections up, because we want to be certain that if the contract is having an effect on some controllers who choose to leave early, and remember that our veteran workforce was held harmless financially, but if they do, we have adjusted the numbers up on retirements.

Mr. HALL. Thank you.

Just one more quick question if I may. It looks as though the President wants to cut the airport improvement program, looking at this budget. How can the FAA meet current needs, like for instance at Stewart, the airport in my district, which is looking at hopefully expansion and infrastructure that needs to be added? I am just curious how those things can happen at the same time.

Ms. BLAKEY. Well, as you know, we have had a lively interest in Stewart, because, of course, it is a former military base. We have been very interested in the recent phenomenon of the Port Authority then moving back there, because we too see that Stewart has tremendous potential.

I don't think there is any doubt about the fact that we will continue to be financially available to Stewart and the needs there, as the plans for the airport develops and specifics are put forward by, I expect at this point it will probably be, by the Port Authority. Is that correct?

Mr. HALL. I think so, yes.

Ms. BLAKEY. But we will be looking forward to working with you on that, because again, we know in the New York area that Stewart has an increasingly important role to play.

Mr. HALL. Thank you very much.

Ms. BLAKEY. You are welcome.

Mr. HALL. Thank you, Mr. Chairman.

Mr. COSTELLO. Let me mention, as the gentleman knows, we have discussed the issue of the contract between the FAA or the lack thereof and NATCA, and we intend to address that in this Congress.

Let me recognize at this time the gentleman from Michigan, my friend Mr. Ehlers, for five minutes.

Mr. EHLERS. Thank you, Mr. Chairman. I have a question for each of the inspector generals. First of all, for Mr. Scovel, some comments about ADSB. How do you see ADSB changing the current system, and what do you see as the likely time frame for adoption and implementation of ADSB?

Mr. SCOVEL. Thank you, sir. ADSB represents a tremendous step forward in terms of the technology available for both aircraft and ground control to understand where aircraft are, and frankly, to reduce separation between aircraft when it is fully implemented. There are two types of ADSB, as you may well know, ADSB in and ADSB out. They will be implemented at different time frames. But when it is fully operational, it will permit, under NGATS, significant improvements in capacity. I think that is the primary goal, certainly of FAA, in presenting that forward.

ADSB, we estimate, is a system that is on target, it is properly funded for the current fiscal year, in order to move it forward. I don't know what the current timetable is for its full implementation. I would defer to Administrator Blakey for that information. Perhaps she can respond to your question on that score, sir.

Mr. EHLERS. I am concerned about the financial aspects. Will that save our system money, compared to our current system, and if so, do you have any estimates of how much it would save?

Mr. SCOVEL. I don't have estimates on that, sir. It would be difficult for me to say at this point, will it save the system money. When we talk about improvements in capacity, arguably improvements in safety as well, it is hard to put a price tag on those achievements, should they come to pass, as we hope that they will.

We think, as I said, that ADSB, at least for the coming fiscal year, is properly funded. I don't have estimates going forward as to how much it will cost and whether it represents an improvement over the current system.

Mr. EHLERS. Long term, would you expect it to reduce the number of controllers needed?

Mr. SCOVEL. Possibly, yes, sir.

Mr. EHLERS. But you are not sure?

Mr. SCOVEL. I am not sure.

Mr. EHLERS. All right, thank you.

Mr. Dillingham, your comments about the NASA gap in your testimony, I am very concerned about that. Because the 10 to 20 year future of aviation is going to depend tremendously on resurface and development. There are so many things coming down the pike. That could affect us, could affect the system, certainly could affect the economic aspects of the industry itself. But right now I am just thinking about our role in this. If NASA is not keeping up with it, we don't really have enough money scheduled for FAA to do all the research, do we?

Mr. DILLINGHAM. I think the 2008 budget does call for an increase in the monies that would be available to do early demonstration work in NGATS, both in the research and engineering and development part of it, as well as in the F&E account. Whether it is going to be enough or not, I couldn't say. But it has been recognized that there is that gap in terms of technology and demonstra-

tion. It also has been recognized that this is something that has to be addressed very soon.

Mr. EHLERS. OK, I appreciate it, because I totally agree with that, and it is very frustrating that so much of the NASA budget is being devoted to space programs that some of these other programs are being shortchanged.

Finally, Ms. Blakey, I continue to admire your work. I hope you are not offended by my comment earlier about the proposal being dead on arrival. But I do know the Congress.

And I am very sincere about an offer to try to work with you and try to work out—I think it is entirely too easy for us in the Congress to sit here and fire away at proposals that the Administration brings here. I would like to lay some of the burden on the Congress itself to come up with ideas to address the problems. There is no question the problems are there, no question they have to be addressed. And if we just fire salvos at you all the time, we are not going to solve the problems. So I hope you understand, my suggestion was offered in the spirit of trying to reach some agreement with a good result.

With that I will yield back.

Mr. COSTELLO. I thank the gentleman.

The gentleman from Tennessee, Mr. Cohen, is recognized for five minutes.

Mr. COHEN. Thank you, Mr. Chairman.

Ms. Blakey, I am a freshman, so I don't know where you are from. It is obvious you are from a garden spot, but which one?

Ms. BLAKEY. Tupelo, Mississippi and Montgomery, Alabama. I claim both.

Mr. COHEN. Well, Tupelo is more like greater Memphis, so that is a garden spot.

[Laughter.]

Mr. COHEN. And being from Memphis, I was a little concerned about this information here that the accident rate for cargo carriers is over six times higher than commercial passengers. Being that I am a commercial passenger, I was kind of happy. But being that I am from Memphis, I am absolutely, positively concerned about the cargo rate. Why is that rate six times what it is for passenger traffic?

Ms. BLAKEY. I think you have to start with the fact that the accident rate and commercial fatal accident rate is at a remarkably low level. It is such a tiny, tiny percentage, that you are backed up against that, would be one point.

But secondarily, of course, cargo as you well know flies at night, and flies under difficult IFR conditions. You often have flights from small airports from where you are picking up cargo and flying back into the hubs. There are a number of challenges involved in the cargo arena. We have been working on this within the FAA and with not only the big cargo carriers, FedEx, UPS, et cetera, but a number of the smaller ones, and with their association, looking at good ways that we can help in terms of both pilot awareness, as well as the physical issues that go with the overnight delivery system. Some of it, of course, is day as well, but a lot of it does go to, as I say, more challenging circumstances and environment.

Mr. COHEN. So it is not due to maintenance of the aircraft, it is more with the circumstances of the flights?

Ms. BLAKEY. I think on the whole, you have a very safe maintenance record there. There are probably differences, again, among specific carriers.

Mr. COHEN. You mention in your remarks that the tarmac should be a takeoff area and not a holding tank. And that caused me a little concern there, because some folks have been kept on airplanes for like a long time, as if they are on a holding tank. I discussed with Representative DeFazio a bill he had some years ago, a passenger bill of rights that I think I am considering introducing this session. What do you think is a reasonable amount of time to be crammed in as cargo in a passenger plane on a tarmac as if you are in a holding tank, before the Government would want you to get off and be able to use the facilities?

Ms. BLAKEY. Well, I will tell you, as far as the FAA is concerned, we are striving to have on-time performance hit above almost 90 percent of the time.

Mr. COHEN. Yes, but this is when you are not having on-time performance.

Ms. BLAKEY. I understand. It is not, of course, the role of the FAA to tell the airlines what their customer service should be. But we do believe that the delays that we are experiencing right now in the system are a terrific problem. There is no question about it. We also understand that the airlines at this point need to step up to address some of the circumstances that have occurred recently that have really made headlines and I think have caused some genuine, legitimate concern and outcry from passengers.

Mr. COHEN. And since passengers pay most of the fees, it is the passengers who pay the fees, don't you think maybe three hours is beyond a reasonable time that somebody should be a hostage?

Ms. BLAKEY. As a passenger, I can tell you, three hours is way too long for me.

Mr. COHEN. I would like to thank you. Let me ask you this, too, about cell phones. I had lunch with Senator Alexander today. He is a friend and he also shares the idea that cell phones could be a cacophonous connection there. What can you assure us, your concerns about not seeing that there are 90 different people carrying on conversations at the same time?

Ms. BLAKEY. There is a lot of concern about that. It is surprising to me the amount of over the transom traffic I get on that particular point. Let me just tell you that where things stand right now is that whether or not there will be a move toward the possibility of cell phones on aircraft additionally is a call of the FCC. It goes to spectrum issues and other things.

After that, then it is the FAA's considered judgment that safety comes first before anything else. And any carrier that would propose to us that they wanted to allow cell phone usage on board the aircraft after the doors are shut would have to demonstrate that it would have no effect on the avionics and no effect on safety. That would be something that we would require as a threshold issue before we went any further.

Mr. COHEN. Thank you. I would suggest just from my own sensitivities, maybe, that if you allow that, you are going to have a lot more air marshals and air deputies.

[Laughter.]

Mr. COHEN. They will just take up too many seats, and you won't have those fees, those 750 fees, because I guess they fly for free. Do you have any proposals for consumer issues on passenger aircraft? Is that something you consider, things where maybe those people that pay all those fees get a little bit better peanuts or potato chip or something?

Ms. BLAKEY. I will tell you, as much as I am a passenger and am very, very concerned about the kinds of issues that are behind your question here, the FAA is a regulator. We have as our mission primarily the safety and the running of the NAS, and the system and capacity is our focus. When it comes to those kinds of consumer and significantly economic issues, we are prohibited from getting involved. The Department of Transportation and others do address some of those issues but they are not ones that we can address.

Mr. COHEN. Who prohibits you? It is not law, is it?

Ms. BLAKEY. If you have the regulatory enforcement role, that also has an economic sway and economic decision making, it really does run into points where you do have a conflict between those potentially. I think many, many years ago, the determination was made that others should have the authority, for example, on questions on consumer concerns, routes, what routes are warranted internationally, and a number of economic issues.

Mr. DEFAZIO. Will the gentleman yield for a moment?

Mr. COHEN. Yes.

Mr. DEFAZIO. Thank you.

Madam Administrator, until the ValueJet crash, despite my best efforts, the FAA was charged with promoting and regulating the industry, something which I always pointed to as an inherent conflict. The amendment was never accepted until after ValueJet, when Secretary Peña was very embarrassed after he had said how great the airline was, and the next day he grounded it, because in fact neglect and outsourcing of mechanical had caused death.

So people came to me and said, well, how about that amendment, where do you want it in the bill? So we stripped away that, but there is nothing to say that Congress could not charge the FAA with protecting the public, the traveling public, and charge you with that duty. There is no prohibition. If we were to say that we think it is a safety issue when you keep people on a plane for five hours on the tarmac or other issues that relate to that, smoking, historically, those sorts of things, those are regulatory issues that could fall within the purview of your agency.

Ms. BLAKEY. I have long since learned not to duel with Congressman DeFazio or Chairman Oberstar when it comes to the history and development of the FAA, because believe me, they can reach back into a lot of this, and certainly do. I would suggest this, that right now we have our hands pretty full. But if you all see fit to give us additional responsibilities, obviously we will step up.

Mr. DEFAZIO. Then we would have to give you a little more staff. Thank you, Madam Administrator.

Mr. COHEN. Thank you, Mr. Chairman. If I could just have one more minute, I would like to encourage the Committee to consider something about consumers————

Mr. COSTELLO. Can I just point you are already three minutes over your five. But please.

Mr. COHEN. That was it, just I think there should be some consumer concern. That is who pays the fees. I would like to make the observation that Elvis went from Tupelo to Memphis and I am surprised you went the other direction.

Ms. BLAKEY. I will keep that in mind.

Mr. COSTELLO. The Chair recognizes Mr. Dent for five minutes.

Mr. DENT. Thank you, Mr. Chairman.

Administrator Blakey, great to be with you. As you know, the Lehigh Valley International Airport is located in my district, LVIA. The Lehigh-Northampton Airport Authority, which owns and operates the airport, has recently updated its master plan. One of the major projects identified on that authority's airport layout plan is in response to the FAA's runway safety area program.

In order to achieve the current RSA standards for each runway, one of the airport's runways must be reconfigured at considerable expense. The use of the engineered materials arresting system, the EMAS, in this case, is not practical. So the scope involves bridging across a State road, placing overhead utilities underground and acquiring homes in the relocated runway protection zone and noise exposure area.

Even more, there are potential impacts to a nearby elementary school. The airport authority is in the process of completing an environmental assessment for the project, and all indications are that with the mitigation measures included, that the project is feasible to construct.

The primary concern that I have relates to the considerable funding that a project of this magnitude requires. It is possible that this work could require in excess of $40 million of Federal funding from the Agency's airport improvement program. That is on top of other AIP grant funding needs at LVIA.

At a time when the Administration is requesting a considerably lower amount of funding for the airport improvement program than has been typically authorized by Congress, how can my local airport authority and others throughout the Country, with deficient RSAs, reasonably expect to fund projects of this scale? That is my principal concern. We go through this whole process, the community gets alarmed, all the mitigation is done, the environmental assessment is complete, and then we get to the point of doing something and there is really not funding to deal with the issues.

So how would you respond? How should I respond to my airport on this issue?

Ms. BLAKEY. I would have to look in much greater detail at the specifics there to be more specifically helpful. But I would say this, that runway safety areas are a very high priority for us. We are striving around the country, wherever possible, to see that those meet the current standards that we have set, because we do believe that this is an important aspect of safety at our airports.

I am disappointed to learn that the EMAS system may not be feasible for Lehigh, because what we have found is that as airports

are continuing to evaluate that, it has proven to be quite a good alternative. For example, Midway, for a number of years, did not feel that that was the direction that they could go. And recently, just as Congressman Lipinski was noting and applauding, we have worked with them to install EMAS at Midway and it is working out quite well.

So I don't know, again, the specifics, but what I can tell you is we work very hard to fully fund the requests for RSAs, because we do see them as being important, and at the same time, trying to address the capital needs that airports may have for expansion and other kinds of enhancements.

Mr. DENT. I appreciate your willingness to work with the airport on this issue. Because quite understandably, the community does become quite alarmed when they hear about runway expansions or relocations or improvements. We raise quite a public disturbance. Then when the funding is not available, the question becomes, why are we going through the process.

Ms. BLAKEY. Well, again, RSAs are a very high priority. So we would certainly want to work with you to see what we can do to address the specifics there.

Mr. DENT. Thank you, and I will take you up on that offer.

Mr. COSTELLO. The Chair recognizes the gentleman from Missouri, Mr. Carnahan, for five minutes.

Mr. CARNAHAN. Thank you, Mr. Chairman, and welcome to the panel. It looks like we have had a good discussion here today.

I really want to focus on the issue, as you mentioned, numerous times, that safety was a primary concern, as it should be. I think we all agree with that.

But there is an issue, I think, with regard to our air traffic controllers that is really a vital part of that safety mission. In my home State of Missouri, we have 163 air traffic controllers, 38 of those at St. Louis TRACON. They are essential to me, my family, all of us that fly, the flying public. They have had a long history and service to aviation, with new technologies. Their training and retention is going to be even more important.

But I have a serious concern that many of us here on the Committee do of a lack of a contract, the high rate of retirements, and really their poor treatment and work environment. I think that all those things combined are a safety concern.

With regard to retention and recruitment, my question is really, what can you do, what do you plan to do to improve the work environment, the morale, the professional treatment of our air traffic controllers to be sure that we can retain and recruit and train those that we need for the future?

Ms. BLAKEY. Congressman Carnahan, I could not agree with you more that our air traffic controllers are an absolutely vital aspect of the safety of our system. They are consummate professionals and they do a terrific job every day. We are working very hard to ensure that the work environment, the circumstances in which they are trained and recruited, are all such that we will have the best and the brightest coming into the system, as well as holding onto the veterans that we have. That is why we did not change the compensation for our veteran workforce in terms of reducing what is a very generous salary structure right now. On average, with sal-

ary and benefits, our current controller workforce makes over $170,000 a year.

Let me talk to you a moment about new recruits, because I am sure you are concerned about how they come into the system. We have over 2,000 people who have volunteered and qualify that on the list, wanting to come in to become air traffic controllers, right now. At the end of the first year, on average, their compensation, cash compensation, and I am not in this case including the retirement benefits, will be on average $50,000. That is after the first year. After five years, they are going to hit just short of $95,000, cash compensation.

Now, as you can imagine, because I am sure looking at your overall constituents' workforce, it is not difficult to recruit people with that compensation. But I do want to assure you that in terms of work rules, in terms of basic fairness, in terms of the best technology for training and the best technology for them to work with, that is one of the great reasons we are so concerned about moving to the Next Generation system. Because we do see that the constraints in the system and the requirements that are going to be placed on controllers, we have to move to the new technologies and provide them with all the tools they are going to need to do the job that is really vital to all of us.

Mr. CARNAHAN. And do you see that anything additional can be done or should be done to really help to improve that overall environment?

Ms. BLAKEY. Well, certainly. I can tell you this: when I go into a brand new facility and our controllers are in a brand new tower and they have all of the best equipment, that is obviously a terrific boon to them. And we are working very hard to address those kinds of capital investments as we go along.

We also are making significant changes to training, so that we actually have simulators, just like pilots use, in some of our terminal facilities now. And we are making a much greater use of simulators in Oklahoma City, which is where our recruits and our Academy is. There are a number of things we are trying to do from that standpoint.

But I will also assure you of this: we will be working with NATCA because we see the controllers union having a very important role to play in terms of advising us. We can make changes that improve the work environment and improve morale. We are going to be working closely with them in the weeks and months and years to come. That is a commitment that is there and Pat Forrey and I have met on a number of occasions to discuss concerns that they have with the new contract and things we might do to again make improvements that will make a real benefit and a different style workforce. We are very interested, believe me.

Mr. CARNAHAN. Well, I would encourage that dialogue. Again, I think it is in all of our interests, and certainly the flying public to maintain that confidence, to maintain that work environment. Because they do need to make those kinds of split second decisions in their work that we all depend on. So thank you very much.

Mr. COSTELLO. I thank the gentleman.

At this time, Mr. Petri, I have a few remaining questions and then we will ask you if you have questions. There are no other members requesting time.

Dr. Dillingham, in your testimony, and we all have clearly documented, and I think the FAA has acknowledged that they experienced a higher rate of retirements from the air traffic controllers than expected. In your work, have you identified any factors that might have contributed to that situation, specifically the lack of a contract or the contract that has been imposed by the FAA or any other factors?

Mr. DILLINGHAM. Mr. Chairman, I think the discussion that was just completed supports the information that we have, as we looked into why the retirement sort of popped up the last couple of years, and that is, there was some dissatisfaction with the agreement, as well as the work rules that are being implemented at this point in time.

Mr. COSTELLO. Any other factors that you would want to point to?

Mr. DILLINGHAM. No, that was the main factor that was pointed to.

Mr. COSTELLO. So that was the major factor. Very good. The next question, on the Administration's proposal of $2.75 billion for the AIP program, I wonder if you might talk about the implications of if the Congress adopted $2.7 billion for the AIP, what are the implications for the small airports in this Country?

Mr. DILLINGHAM. Mr. Chairman, we are at sort of a disadvantage, because we have not been able to see the proposal that was submitted earlier this morning. But generally, from what we understand, the large and medium hubs will do all right. They will be able to find support for their infrastructure development through the private sector. It will be the smaller airports that would be most affected by it.

But again I say, we don't have the full picture in terms of the other elements that are in the proposal that might mitigate some of those effects on small airports. I want to point out though that small airports are really going to be important in the coming years, because as we look toward bringing in VLJs or very light jets, as we look toward making better use of the airports that we have, those small airports and regional airports are going to assume increasing importance.

Mr. COSTELLO. Very good. Thank you.

Administrator Blakey, this is the last question I have. This is on the 2008 financing part of the budget proposal. But I want to ask one more question, because you had talked about going to the hybrid user fee financing proposal. You mentioned about flexibility. I wonder if you might talk about, you have said a couple of times that revenue versus cost, you have to generate the revenue to meet your costs. And then you also talked about flexibility. I wonder if you might define what you mean, the flexibility in the hybrid system.

Ms. BLAKEY. The intent we had in creating the system, and this is from working very closely with this Committee and with the Congress, as well as the stakeholder community, is to put forward an annual budget that will cover the costs of the operation of the

system, very precisely, and will also cover the costs of making the capital investments that are needed as we ramp up to the NextGen system. We see the stakeholder community having a huge involvement there, and there is a new stakeholder board that has real responsibility in all of this. And again, Congress has the exact same oversight that they do now, and we would be working very closely together through the appropriations process, as well as through the authorizing process, to ensure that we are sensitive to the kinds of concerns that have been expressed today.

But the cost in the revenue, therefore, can be tied on a fee system on an annual basis. You simply adjust those, using the cost allocation. If they don't need to be adjusted, fine. If the unit costs go down, that is great. If they have to go up, they have to go up. The tax system, the fuel tax system is not quite as flexible as a fee system. But what we are proposing is on an every two year basis to be able to make adjustments to that, to match as closely as possible, again, the costs that that portion of the community is imposing on the system. That is the kind of flexibility I am referring to.

Mr. COSTELLO. You mentioned about the users being involved and you mentioned about Congressional oversight. I think that there are some people who are very concerned about who will have the final say in increasing fees. In other words, if the next generation costs are not contained and they continue to go up, does that mean that the FAA continues to raise fees for the users to meet those costs?

Ms. BLAKEY. I don't think there is any way you get to NextGen without it being a collaborative engagement with the stakeholder community. There is too much of it, frankly, that involves their own decisions, equipage and other things. For example, on ADS-B, we will be proposing a rulemaking this fall, an NPRM, that will go to how fast do you all feel that you can equip and how quickly should we require the capability to fly with ADS-B.

Those are collaborative decisions that have to be made together. And they have to be made with the full work and analysis that this Committee and others will apply. So there is no way to make this an arbitrary decision on the part of bureaucracy at 800 Independence Avenue. We have established, and I think really grown in, a cooperative engagement with the aviation community in a way that really is making a tremendous partnership there. That is what the NextGen is going to require, and that will determine how fast you make those investments.

I will tell you this, though—I think we also need to recognize the international environment in which we are engaged. U.S. leadership, U.S. technology has always been at the forefront in aviation. Europe is moving out smartly on their generation of the NextGen, SESAR. They are proposing very similar costs to the kind that we are projecting ourselves. Others around the world, Australia is already moving to ADS-B. We can't really sit back and sort of dither and say, well, we are not able to figure this out and we can't get our financing together, because we will be left behind and those technologies and those standards and those approaches will begin to really drive it. That is an environment that we cannot change, and that is happening.

So it is not just the tremendous congestion that we are facing, that billion passengers by 2015, but it is also the world in which we are living.

Mr. COSTELLO. I guess the point that I am making, that everyone is concerned about that I have heard from about user fees is the flexibility to raise those user fees and the incentive to control costs, if in fact you increase the user fees to match whatever your costs are. So that is a point that I wanted to make for the record, and that I have heard from many people who are concerned about turning this system over to a user fee system and giving the agency and others the ability to increase user fees at any time to match the costs.

At this time, I would recognize the Ranking Member, Mr. Petri for any questions or comments he may have.

Mr. PETRI. Thank you, Mr. Chairman. I have just a couple quick questions. The first is for Inspector General Scovel. We have been talking about cost-based user fees. My question is, does the FAA have a cost accounting system and a cost allocation system capable of supporting the development of cost-based user fees currently?

Mr. SCOVEL. Sir, as I noted in my opening statement, FAA does have a cost accounting system. It is designed primarily to support management decisions regarding performance. We believe that in its present configuration, this cost accounting system may not meet all user fee requirements. We can cite, I can cite one example for you, sir, and that is that FAA is proposing to charge airlines for services provided at the 30 largest airports, for instance. Some of those airports house both the air traffic control tower and the associated TRACON, the terminal radar approach control facility. In that case, the cost accounting system assigns costs to the joint facility without distinguishing, as I understand it currently, without distinguishing tower services from TRACON services, even though that TRACON may support several airports.

If deemed to have a significant impact on user fee calculations, we would recommend that FAA revise that aspect of the cost accounting system. There may well be other instances which my staff and I have not yet had an opportunity to address. But we would be happy to work on that for the Committee's benefit, sir.

Mr. PETRI. I would be interested in, perhaps, if you have some recommendations or concerns that we can get. What resources are available and geared up to go ahead and get things in place? Because we are going to be arguing a lot, and then we will put something in effect, and it may be stuff that won't really—you know what I am saying, we will be getting ahead of ourselves.

Mr. SCOVEL. And I don't mean to say that it cannot be done. I am simply saying that in its current configuration and certain specific aspects, it may not support user fee calculations. So looking ahead, and as FAA fine tunes its proposal, we would expect that the agency would be able to address those points.

Mr. PETRI. And then I guess my last question is for Dr. Dillingham. I just would be interested if you could give us your own, if you have done it, your projection as to the growth of corporate aviation, where you have an assessment or a figure as to what you expect that growth to be. There are new companies out there with new planes.

Mr. DILLINGHAM. We have not looked specifically at the growth of corporate aviation. However, linked to your last question, we are right now conducting an analysis of the cost allocation system that FAA is using with regard to the user fee proposal. As a part of that, we are examining part of the basis of that cost allocation system, which includes the number of different types of GA aircraft that traverse the system, the corporate aircraft as well as the turbine. So to that extent, we will have some information reporting to this Subcommittee shortly about the point you just asked.

Mr. PETRI. Very good. Thank you.

Mr. COSTELLO. I thank the Ranking Member. And I thank our witnesses today for appearing before us.

I will give you a last opportunity to make a comment. I see the Administrator is about to come over the table. She has something to say. So I will give you the opportunity to make a brief statement if you would like.

Ms. BLAKEY. Well, I wish I had the energy at this point to come over the table. I am not quite sure that I could manage that.

But I did just want to add one thought. We are looking forward to briefing you all, briefing the staff at length on the cost accounting methodology and all the details there. And certainly, there may be some fine tuning that should be required before we move forward.

What I would say, though, is that our last audit did say that the cost accounting system that we have is suitable for use in terms of a user fee system. We do believe that when you get down to 600 different units that we are analyzing that there is a tremendous amount of granularity and accuracy here that we believe can be relied on. So we will be working very carefully with you all to make certain that that is all transparent.

The final point I would make, Mr. Chairman, is that in terms of the flexibility that you mentioned, I think it is important to note that we are talking about a system which requires the FAA to be very transparent, very accountable for its costs in a way we don't have to be now. So there is downward pressure on costs, and there is real accountability. That is one of the great advantages in a system where we are cost-based and fees are at stake. And every year we have to, as you say, open our books and be accountable. And if people don't want to pay for the services that we are providing at the cost we are providing, then we have got to really work with that concern on the part of the customer stakeholders. So it is a two-way street.

Mr. COSTELLO. I did not intend to comment, but I think I have to at this point. I won't go into some of my past experiences, but frankly, the users have no place else to go. It is not like they can shop around. They either get the services from you or they stay on the ground. But I appreciate your comments.

Dr. Dillingham?

Mr. DILLINGHAM. Just a couple of things, Mr. Chairman. I think it certainly is important to recognize that regardless of the funding mechanism that the Congress eventually approves, it is very important that some kind of reauthorization take place within a timely manner. We certainly, we don't have that cushion to fall back on as we have in the past. I think it is important to recognize that

the way FAA has been able to manage its acquisitions over the last three years is important as we move forward into the next generation. Because that is going to have a lot of acquisitions as well. The linkage there is the leadership or the cultural change agents, that have brought FAA to this point have a very short time left. The Administrator's tenure is short, and we know that Mr. Chew is leaving very soon. And that kind of leadership gap can definitely have an effect on the ability of the agency to keep moving forward and not sort of fall back to where it was in past decades. So I think it is important from both of those perspectives.

Mr. COSTELLO. Thank you. Mr. Scovel?

Mr. SCOVEL. Thank you, sir. If I may make tow points, and I will make them brief. To respond to Mr. Graves, sir, I regret if my opening statement left the impression with Mr. Graves or with any other member of the Committee that I cited the ComAir accident, that unfortunate event, as a commentary on the controllers' performance on that morning. I did not intend that. I think you were correct, sir, when you interpreted my remarks, sir, simply as highlighting the importance of safety, in the fact that that event was a reminder to all of us of the importance of that.

I should say that NTSB, of course, has the primary responsibility for investigating that accident, not my office. Although we have undertaken an examination of FAA's policy regarding two controllers in the tower rule and how it was implemented at Lexington and other facilities during the time period in question.

My second point, sir, refers back again to the cost accounting system. And to clarify a point attempted to be made by both me and Ms. Blakey concerning the audit, as the officer in the department responsible for the department's audits, it is my understanding that the audit supports the conclusion that the cost accounting system is sufficient to assign costs within or to service delivery points. It is rather a fine point, but it is one that I think needs to be made. Because when we are talking about user fees, that is really the next step down the line. Once we have assigned costs to service delivery points, then how are those costs to be allocated among users. And the audit itself did not address that question.

My earlier comments regarding the cost accounting system had to do with its present configuration, how it might support user fees and my opinion as stated, sir, was that while there may be some points that need fine tuning, as Ms. Blakey said, it is largely sufficient to do that. But we would urge the agency and the Committee, of course, to examine that question carefully.

Mr. COSTELLO. There is an advantage to going last.

[Laughter.]

Mr. COSTELLO. I thank the witnesses for being here today and there is no further business before the Subcommittee, so the hearing is adjourned. Thank you.

[Whereupon, at 4:30 p.m., the subcommittee was adjourned.]

REMARKS OF CONGRESSMAN BOSWELL
AVIATION SUBCOMMITTEE HEARING ON THE
FY 08 FAA BUDGET
FEBRUARY 14, 2007

Mr. Chairman, I am pleased you convened today's hearing to examine the FAA's FY 08 budget plan. As we prepare to begin the process of drafting the FAA Reauthorization bill, knowing the Administration's plan for funding the activities of the FAA, and how they plan to modernize the air traffic control system is critical. I, like other members of this subcommittee, are greatly concerned about whether the FAA is receiving sufficient resources to carry out their mission.

The Administration's proposal for changing the financing system of our aviation system is deeply troubling to me. For nearly four decades, the Congress has authorized appropriations for FAA operations, modernizing the air traffic control system, and improving airports. By all indications, it has proven to be stable and reliable. I don't see how we can't continue all of these FAA functions with our present funding mechanism, coupled with the traditional general fund contribution.

As a user of the air traffic control system as a general aviation pilot, like others on this subcommittee, I will strongly oppose shifting a greater burden of user fees onto general aviation. In my estimation, this is unfair and unwise. With three quarters of the world's general aviation aircraft operating in the U.S., this funding shift would have a tremendously adverse impact on this important sector of the economy. From the weekend flyer, to the fixed base operator, to many small remote airports, all would suffer from the increased user fees called for in this budget.

I am also concerned about the powers of an advisory board established to set user fee rates on an annual basis. This board, accountable to no one, would have broad powers to set rates without incentive to ensure costs are contained. The Congress, should and must, retain the ability to examine rates, because we are entrusted with overseeing a system which is truly a public asset.

I look forward to hearing today's testimony and beginning the process of reauthorizing the FAA and funding it properly.

OPENING STATEMENT OF
THE HONORABLE RUSS CARNAHAN (M0-3)
AVIATION SUBCOMMITTEE
TRANSPORTATION AND INFRASTRUCTURE COMMITTEE
U.S. HOUSE OF REPRESENTATIVES

Hearing on
FY 2008 Federal Aviation Administration Budget Request

Wednesday, February 14, 2007, 2:00 PM
2167 Rayburn House Office Building

Chairman Costello and Ranking Member Petri, thank you for holding this important hearing on the FAA's proposed FY2008 budget. Administrator Blakey, Director Dillingham, and Inspector General Scovel, I greatly appreciate that you have joined us today.

The Administration recently submitted its $14.077 billion budget request to fund the FAA through the next fiscal year. We all know that the FAA provides an essential service to our nation's transportation network. With the increasing stress that commercial, cargo and business aviation will place on our country's airspace in the coming years, we are now at a pivotal moment in FAA's organization. With the upcoming reauthorization, a high rate of retirement among air traffic controllers, and development of the Next Generation Air Transportation System, the FAA will face numerous challenges.

In order to effectively implement these initiatives, decreased investment in the FAA is not prudent at this time. For that reason, I am dismayed that the FY2008 budget request cuts essential FAA programs. The proposed user-fee financing system is expected to provide the Aviation Trust Fund with $600 million less in FY2008. In addition, the FAA has requested a 22% decrease in the Airport Improvement Program from expected FY2007 levels. Lastly, this budget proposal continues a recent FAA trend to request Facilities & Equipment funding well below congressionally authorized levels.

I very much appreciate today's testimony. However, as the FAA is preparing to implement many new initiatives, I am concerned that these cuts will severely impact the safety and productivity of our nation's aviation industry.

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STATEMENT OF REP. STEPHEN I. COHEN
SUBCOMMITTEE ON AVIATION HEARING
FY 2008 FAA BUDGET
FEBRUARY 14, 2007

I look forward to hearing from the witnesses appearing today before the Subcommittee to discuss the Administration's FY 2008 Federal Aviation Administration (FAA) Budget Request. There are many issues arising from the FAA budget request that concern me and that I would like to learn more about. First and foremost on the list is the issue of aviation safety. According to the FAA, the accident rate for cargo carriers is six times that for commercial passenger aviation, a fact which especially concerns me in light of Memphis International Airport's role as the world's busiest cargo airport. Additionally, 70% of the air traffic controller workforce will be eligible to retire over the next 10 years. The FAA says it will need to hire 11,800 controllers to replace those who will be hired, yet in FY 2006, only 1,116 new controllers were hired. Moreover, it takes several years for new controllers to get up to speed so they can fully handle the demands of their position. While the Administration contends that 2/3 of its FY 2008 FAA budget is dedicated to safety, I would like to know whether, in fact, even that amount is sufficient to fund aviation safety needs in light of the foregoing facts.

I am also interested in learning about the administration's reasons for seeking to change the funding system for the FAA from one based primarily on excise taxes to one based on user fees, and how this change benefits the FAA. I would also like to know more about what changes the FAA proposes to the Airport Improvement Program's funding formula so that airports can maintain their improvement funding. I will be listening carefully to the witnesses' testimony on these issues.

STATEMENT OF THE
THE HONORABLE JERRY F. COSTELLO
SUBCOMMITTEE ON AVIATION
HEARING ON
THE PRESIDENT'S FY2008 FEDERAL AVIATION ADMINISTRATION'S BUDGET
FEBRUARY 14, 2007

- I want to welcome everyone to the first hearing of the Aviation Subcommittee. In particular, I would like to welcome the new Ranking Member of the Aviation Subcommittee, Mr. Petri. In addition, I am pleased to welcome the Administrator of the Federal Aviation Administration (FAA), Marion Blakey; the new Department of Transportation Inspector General (DOT IG), Calvin Scovel; and Dr. Gerald Dillingham of the Government Accountability Office (GAO).

- I would also note that the FAA just released its Reauthorization Proposal this morning. The FAA's Reauthorization Proposal will be given detailed consideration in the Aviation Subcommittee's upcoming March hearings:

  March 14, 2007: FAA's Reauthorization Proposal.
  March 21, 2007: FAA's Financing Proposal.
  March 22, 2007: FAA's Operational and Safety Programs.
  March 28, 2007: FAA's Airport Improvement Program.

- This afternoon's hearing will focus on the Administration's proposed budget for the FAA. The Administration's FY 2008 FAA budget request has received much attention in the last week because it proposes to transform the FAA's current excise tax financing system to a hybrid cost-based user fee system. Under the FY2008 budget request, and as detailed in the FAA's reauthorization proposal, FAA's financing sources shift from a mix of fuel taxes, other excise taxes, and a general fund contribution to user fees, fuel taxes and a general fund contribution. This proposal would take effect in 2009. As I stated at the outset, the Subcommittee will hold a hearing on March 21st to discuss in detail the Administration's financing proposal and its present and future implications.

- However, I would make at least one initial observation about the proposed user fee financing proposal. While FAA has cited the need to

finance a major new air traffic control modernization initiative as a reason for reforming the current tax structure, the Administration's data indicates that in FY 2008, user fees and excise taxes under the new proposal would hypothetically yield approximately $600 million less in FY 2008 than maintaining the current tax structure and over $900 million less from FY2009 to FY2012. I question the wisdom of moving to a new financing system that will not generate as much revenue as the current tax structure when we clearly need to make critical investments now to ensure that our nation's air traffic control infrastructure is robust for the future.

- I also believe that the FY08 FAA budget request falls short in several respects.

- **Facilities and Equipment (F&E) Capital Programs**: In 2003, the FAA requested and received from Congress an authorization of approximately $3 billion per year for its capital program. Yet, for the past three years the Administration has requested roughly $2.5 billion per year for its F&E capital program. For FY 2008, the Administration is once again requesting $2.46 billion for capital spending. The Administration identifies $173 million of its $2.46 billion request, only 7 percent, as being directly related to the Next Generation Air Transportation System (NGATS).

- The DOT IG has stated that FAA cannot achieve its goal of technologically transforming the National Airspace System with a $2.5 billion (or less) F&E budget, and that a $2.5 billion funding level goes primarily toward sustaining the existing system, not new initiatives. Moreover, the Administration's FY 2008 capital spending request appears to be at odds with its own preliminary NGATS F&E cost estimate of a little more than $3 billion.

- **Airport Improvement Program**: The FY 2008 budget request provides $2.75 billion for the Airport Improvement Program (AIP) - $950 million less than the level authorized by VISION 100 for FY 2007 (there is no authorization for FY 2008) and $765 million less than the House-passed FY 2007 continuing resolution, H.J.Res. 20. Under the current formula for distributing AIP entitlement funding, virtually every airport that

currently receives AIP entitlement funding will have its entitlement reduced. Additionally, small airports might be particularly hard hit by the Administration's proposed AIP cut because AIP grants are a larger source of funding for smaller airports.

- **Essential Air Service**: Although it is not an FAA program, the FY 2008 budget provides only $50 million for the Essential Air Service (EAS) program - $77 million less than authorized by Congress almost $60 million less than provided in the House-passed FY 2007 continuing resolution. As a result of this dramatic cut, almost half the communities that receive EAS funding – 73 out of 147 - would be dropped from the program.

- **Staffing**: In addition, I am very concerned about future staffing levels for the FAA's controller and safety inspector workforces. In particular, over the next 10 years, approximately 70 percent of FAA's nearly 15,000 air traffic controllers will be eligible to retire. FAA estimates that it could lose more than 10,300 air traffic controllers by 2015. The FAA will need to hire approximately 11,800 controllers over the next 10 years to have enough recruits in the pipeline to meet the positions lost.

- Although the FAA hired 1,116 controllers in FY 2006, the total loss of controllers (including retirements) was higher than estimated – 583 actual versus 467 projected. Such acceleration of retirements could be directly attributable to the imposition of the FAA contract on the controllers. In FY 2007, the FAA plans to hire more than 1,386 controllers, and the FY 2008 request provides for another 1,420 air traffic controllers.

- However, hiring new controllers is a complex process. Controllers are highly skilled professionals and it takes several years to train a controller. According to the FAA, the failure rate for controller trainees in both the FAA Academy and in ATC facilities is approximately five and eight percent, respectively. Replacing a controller who retires must begin several years in advance.

- In addition, the DOT IG will testify today that the FAA's Controller Workforce Plan still has some major shortcomings including the lack of facility level staffing standards and associated costs of implementation. It

is imperative that FAA have a feasible plan to hire and train new controllers today. Otherwise, we will be left with a system that is woefully short-staffed and unable to accommodate the future demands for air transportation. I look forward to hearing from the DOT IG in this regard.

- I am also concerned about potential attrition in FAA's safety inspector workforce. It is my understanding that over one-third of FAA's safety inspectors will be eligible to retire by 2010. While the FAA's FY 2008 request provides for hiring an additional 177 safety inspectors over the next two years, I am concerned that the FAA does not have an accurate assessment of its staffing needs. Last year, the National Research Council reported that FAA lacks staffing standards for inspectors and recommended that the FAA undertake a holistic approach to determine its staffing needs.

- In addition, the DOT IG has noted in the past that the rapidly changing aviation environment -- from the increased use of outside maintenance vendors, to new classes of airspace users, such as unmanned aerial vehicles and very light jets – will place greater demand on FAA's inspector workforce. It is imperative that we make the investments in FAA's workforce now so that they can meet the new challenges for maintaining the highest level of safety in this ever changing aviation environment.

- With that, I want to again welcome the witnesses today and I look forward to the testimony.

Congresswoman Doris Matsui
Statement for the Record
T&I Aviation Subcommittee Hearing
FY 08 Federal Aviation Administration's Budget Request
February 14, 2007

Thank you Chairman Costello and Ranking Member Petri for holding this important hearing and to the witnesses for providing testimony. As we move toward considering FAA reauthorization, I know that all the Members of this Committee are taking a close look at the FAA's budget.

I will be keeping an open mind about this budget and the proposals that it contains. Under Chairman Costello's leadership, my priority is that this Committee craft the best possible policy for the future of the nation's aviation system.

Air travel is more important than ever to America's commerce and our way of life. My constituents in Sacramento depend on the FAA to oversee a safe and efficient air transit system. So it is important that the FAA's budget reflect a set of smart investments and strategic priorities.

America's airports and its air travel system face a variety of very serious challenges. Accordingly, the FAA's budget needs to strike a balance between urgent needs and long term priorities.

In the near future, this country could face some very problematic workforce shortages in terms of our air traffic controllers and our safety inspectors. The FAA's budget purports to address these urgent needs, but the Inspector General and GAO have indicated otherwise. Congress must ensure the FAA is getting ahead of the curve on staffing.

I am also concerned about the proposal for the Airport Improvement Program budget. Like so much of this nation's infrastructure, our airports are aging. They require upgrades and improvements to keep up with the demands of consumers and businesses. This budget would effectively cut Airport Improvement Program funding by 21.7 percent relative to levels in the FY 07 long-term CR. That is a big cut that could put a lot of improvement projects behind schedule or make projects impossible to finance altogether. So I think we really need to look at the effects of this cut and what it will mean to airports across the country.

And of course we are in a difficult budgetary environment. So we need to look at all these issues in a strategic way. I know many Members have serious reservations about the financing proposal contained in the FAA budget and the upcoming reauthorization proposal. You can be assured that I will be taking a hard look at that proposal to ensure that it will provide the FAA with sufficient resources to meet the variety of challenges the agency will be facing in the coming years and decades.

This is just the beginning of a busy year for this Subcommittee. I am looking forward to working with all the members of the Committee as we delve into the policy debate surrounding FAA reauthorization.

Thank you very much.

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Statement of Rep. Harry Mitchell
House Transportation and Infrastructure Committee
Subcommittee on Aviation
2/14/07

--Thank you Mr. Chairman.

--As we examine the President's FAA budget proposal, I wanted to express my concern about a couple of issues.

--First and foremost, I want to express my concern about safety.

2

--According to the FAA, over the next 10 years, 70 percent of its air traffic controllers will become eligible to retire.

--We need to make sure the FAA has the resources it needs to recruit, train and maintain controllers to replace these retirees, and keep the flying public safe.

--Second, I want to express my concern about efficiency. Last week's Washington Post reported some sobering statistics.

3

--According to paper:

"Airlines' on-time performance dropped for the fifth year in a row in 2006, with one in four flights arriving late or not at all, according to data released yesterday by the Bureau of Transportation Statistics."

" The airlines also mishandled a massive amount of luggage -- 4 million bags, or 6.7 for every 1,000 passengers, the industry's worst rate since 1990."

--I know we can do better.

--Lastly, I am concerned about airport maintenance and growth.

4

--The President's budget seeks a 21.7% cut in the Airport Improvement Program, which funds capital improvements at commercial airports. This program funds everything from runway and taxiway improvements to noise abatement projects.

--Noise abatement is critically important to the communities that surround Sky Harbor Airport...an airport which serves as a hub for Tempe based U.S. Airways. Sky Harbor has requested more than $10 million for noise

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abatement projects in FY-08, and a drastic cut to the Airport Improvement Program could put this funding at risk.

--I encourage my colleagues to keep these issues in mind as they consider the FAA's budget request.

--Thank you, Mr. Chairman. I yield back the balance of my time.

OPENING STATEMENT OF
THE HONORABLE JAMES L. OBERSTAR
SUBCOMMITTEE ON AVIATION
HEARING ON THE PRESIDENT'S FY 2008 FEDERAL AVIATION ADMINISTRATION BUDGET
FEBRUARY 14, 2007

I want to thank Chairman Costello and Ranking Member Petri for calling today's hearing on *The President's FY 2008 Federal Aviation Administration Budget.* Mr. Chairman, last November the American people sent a clear message that they want a new direction for this country and a change in the way that their government works. Making our government work better is a shared responsibility: shared between Democrats and Republicans; and shared between Congress and the Administration. It will require this Administration to forthrightly explain its challenges and requirements, and for Congress to work with the Administration to find solutions. That is the way this Committee will do business, and the American people deserve no less.

Madam Administrator, the FY 2008 budget request represents the Administration's first opportunity to come before this new Congress and clearly lay out its funding requirements. Unfortunately, I believe it is a missed opportunity. The threshold question before us today is: *Does the Administration's FY 2008 request support the FAA's mission of operating the largest and safest airspace system in the world?* On too many levels, the honest answer to this question has to be either "no" or "we just don't know."

First, the Next Generation Air Transportation System will no doubt be central in our upcoming FAA reauthorization discussions. Nevertheless, the Administration has yet to clearly define what precisely this Next Generation system is or to provide Congress with solid cost estimates. At the same time, the Administration cites the need to pay for this Next Generation system to aggressively promote a radical new tax and financing structure for the FAA. However, data provided in the Administration's FY 2008 budget request indicates that the new proposal would hypothetically yield approximately $600 million less in FY 2008 than maintaining the current tax structure and over $900 million less from FY2009 to FY2012.

What we do know about the Next Generation system is that it may not even be possible under the funding levels requested by the Administration for the last few years. For FY 2008, the Administration is requesting $2.46 billion for Facilities and Equipment (F&E) spending. This represents the fourth consecutive year the Administration is requesting roughly $2.5 billion for capital spending – well below the approximately $3 billion per year authorization it requested during the last FAA reauthorization cycle. The Administration identifies $173 million of its $2.46 billion request, only 7 percent, as being directly related to the Next Generation system. The Department of Transportation Inspector General (DOT IG) has repeatedly stated that the FAA cannot achieve its goal of technologically transforming the National

Airspace System with a $2.5 billion annual capital budget, since a $2.5 billion funding level goes primarily toward sustaining the existing system, not new initiatives. Moreover, the Administration's FY 2008 capital spending request appears to be at odds with its own preliminary Next Generation capital cost estimate of a little more than $3 billion.

Likewise, there is too much we do not know about the staffing challenges the FAA faces with its safety inspector and air traffic controller workforce. Regarding FAA safety inspectors, it has been estimated that well over one-third will be eligible to retire by 2010. To its credit, the FAA's FY 2008 request provides for hiring an additional 177 safety inspectors over the next two years. However, the National Research Council reports that the actual number of safety inspector slots needed is unknown because FAA lacks staffing standards for inspectors. At the same time, new classes of airspace users, such as commercial space launch vehicles, unmanned aerial vehicles (UAVs), and very light jets (VLJs) may place additional workload demands on the FAA:

- The FAA predicts 400-500 new VLJs per year starting in 2007, reaching 4,950 by 2017.
- The FAA issued 95 operating certificates for UAVs in 2006 and expects the number to increase annually to 428 in 2010.
- The FAA's oversight workload could greatly expand with expected increases in commercial space launches due to the emergence of a space tourism industry and spaceports.

The FAA also estimates that over the next 10 years, 70 percent of its 15,000 controller workforce will be eligible to retire. The Administration's FY 2008 request follows a new amended staffing plan and provides for another 1,420 new air traffic controllers. Nevertheless, the DOT IG has raised two major concerns with the FAA's controller staffing plan: first, the FAA's plan does not identify how much it will cost; and second, the plan does not address staffing needs by location. I look forward to hearing the DOT IG and the Government Accountability Office (GAO) elaborate on this important issue.

Additionally, I am disappointed that the Administration's budget request provides only $2.75 billion for the Airport Improvement Program (AIP) in FY 2008 -- $765 million less than the House-passed FY 2007 Continuing Resolution, H. J. Res. 20. Under the current formula for distributing AIP entitlement funding, virtually every airport that currently receives AIP entitlement funding will have its entitlement reduced. Additionally, small airports might be particularly hard hit by the Administration's proposed AIP cut because AIP grants are a larger source of funding for smaller airports.

Thank you once again, Mr. Chairman, for holding this hearing. I look forward to hearing from our witnesses.

Opening Statement
Congressman John T. Salazar
T&I Aviation Subcommittee Hearing
FY 2008 Budget Request for FAA
February 14, 2007

Thank you, Mr. Chairman.

Like many of my colleagues, I am very troubled by the funding cuts proposed in the president's budget.

Aviation in Colorado faces many unique challenges

My small rural communities rely on their regional airports as economic engines which connect them to the rest of the state and the country, and keeps rural Colorado a viable place for business to grow.

A 22 percent reduction in the Airport Improvement Program (AIP) and a 2 percent reduction in Facilities & Equipment (F&E) funds would be devastating to my state, where construction costs alone have gone up 4 percent a year for the past 3 years.

I'm very skeptical of the user fee issue and the mechanism for how that would work.

The FAA estimates that, under the current tax structure, FY 2008 receipts would equal roughly $12.1 billion.

Yet under its user fee proposal, those receipts would apparently drop to $11.5 billion.

What is the justification for this net loss of $600 million?

If there is more need than funding today, why would we want to go to a new structure that reduces the investment in our nation's air transportation system?

In Colorado we are very concerned with the president's budget proposal.

Coloradans have been working with the FAA and airports around the state to develop Capital Improvement Plans to benefit the entire state. And many of these projects have been in the works for up to 10 years.

If the President's request for AIP is passed, many of these projects would be eliminated or delayed for many years.

One final issue of great importance to Colorado is the Essential Air Service (EAS) program.

EAS is vital to rural airports around my district and throughout the country.

Of the 100+ communities nationwide receiving EAS subsidies, Colorado has 3—all of them in my district.

As one who flies in and out of these airports frequently, I can tell you with certainty that these 3 rural airports would not be able to survive without these critical funds.

Continued investment in the EAS program and the AIP is a cornerstone for continued economic growth in rural Colorado and must be protected.

Colorado is a rapidly growing state and we face difficult challenges in providing for our diverse transportation needs.

I look forward to the witness testimony today and I hope we can address some of the issues I have raised.

Thank you.

STATEMENT OF MARION C. BLAKEY, ADMINISTRATOR, FEDERAL AVIATION ADMINISTRATION BEFORE THE COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE, SUBCOMMITTEE ON AVIATION ON THE FAA'S FY 2008 BUDGET, FEBRUARY 14, 2007.

Good afternoon, Chairman Costello, Congressman Petri and members of the subcommittee. As this is my first appearance before the 110th Congress, I would like to take this opportunity to acknowledge the new Chairman and Ranking Member of the subcommittee and say that I look forward to working with you on what I'm sure will be a broad range of issues. It is a pleasure to appear before you on behalf of the 44,000 men and women of the Federal Aviation Administration (FAA) to discuss our FY 2008 budget request. But before discussing next year's budget, I would like to touch briefly on the Administration's reauthorization proposal. I cannot overstate how important enacting the reauthorization proposal is to FAA's ability to meet the safety and capacity needs of our Nation's aviation system -- both in the short and long term.

Reauthorization Proposal

As most everyone knows, we have been working on this reauthorization proposal for over two years. FAA's aviation taxes and programmatic authorization under Vision 100 both expire on September 30th of this year. Given where we are as an agency and taking into account the significant challenges before us, we consider this a rare opportunity to make the critical programmatic and financing changes needed for FAA - and the aviation community as a whole - to move forward and meet those challenges while maintaining the safest, and most efficient aviation system in the world

FAA did not develop this proposal in a vacuum. We conducted extensive outreach to our stakeholders, and analyzed best practices from industry, other government agencies, and other countries.

Our legacy aviation system has served the country well, but it is in dire need of a major transformation. There is no way that the current system can handle future traffic increases without major delays. The Federal Government's commitment to being ready for the future is embodied in the Next Generation Air Transportation System (NextGen) initiative. This is a multi-agency, multi-year endeavor that is of the highest importance. A successful transformation to NextGen will require bold action and central planning over the next 20 years.

Unfortunately, the current financing mechanisms are not well suited to support the transformation to the Next Generation Air Transportation System (NextGen). This transformation is essential. As we look out into the future, we see a system that will need to grow to accommodate the demands of our stakeholders and the flying public. The current financing mechanisms – both in terms of taxes and spending – are not tied to FAA's cost to deliver services, and therefore are not scalable to meet these growing demands. To deliver the benefits of NextGen efficiently and on schedule, the financing system should be reformed so that both our income and our outgo are better tied to the services we provide.

I know you plan to have a series of hearings on reauthorization and I look forward to participating in what I know will be a robust discussion of the best way to proceed. Let me just emphasize how important I believe it is to move toward a stable, cost-based funding structure to ensure that FAA's costs and revenues are better aligned and that our stakeholders are treated equitably and reap the benefits of their investments in the system. That is what our proposal provides. It is a simple, transparent, and repeatable methodology to divide FAA's costs among users and services. It also contains other needed programmatic reforms that provide airports with greater financing flexibilities, address environmental and congestion challenges. All in all, I expect it will be a very interesting, and hopefully productive year.

FY 2008 Budget

I will now turn to the issue at hand. The FY 2008 budget requests a total of $14.1 billion to improve safety, reduce congestion, and improve global connectivity. The request supports our financing and programmatic reforms and focuses on accountability and performance. For several years, we have pushed to manage more effectively, rein in costs, and better respond to our customers' needs.

As always, safety is FAA's primary concern. Our collaboration with industry speaks for itself: efforts to improve operations have contributed to the safest period in aviation history. At the same time, the demand for FAA services has never been greater. We oversee about 50,000 flights per day. In 1995, the system supported about 545 million passengers. In 2005, it was 739 million. Forecasts estimate one billion passengers annually by 2015.

Given the anticipated growth—both in terms of passengers, and, critically, in the number of aircraft operations—we know that our services must adapt to meet the demand. We also know that the complexity of the future operating environment—with evolving fleet mixes, new aircraft, technology, and environmental constraints—must be approached in partnership with our customers. This budget demonstrates a long-term commitment to NextGen, not as a pie-in-the-sky vision, but as embodied by tangible systems, processes, and capital projects that will lead us to the future.

For FY 2008, FAA has prepared the budget in a new account structure that aligns with the financing reform proposal and the services that we provide. While the Grants-in-Aid for Airports (AIP); and Research, Engineering, and Development (R,E,&D) accounts remain, the Operations and Facilities and Equipment accounts have been replaced with two new accounts. There is a Safety and Operations account and an Air Traffic Organization (ATO) account that more closely align the accounts with our lines of business. Under our reauthorization proposal, beginning in FY 2009 these accounts would be funded by a combination of fees, taxes and general fund contribution. We

consider this structure to be more consistent with and supportive of our business-like approach by expanding our comprehensive pay-for-performance programs, consolidating operations, improving internal financial management, and delivering benefits to our customers.

Safety and Operations

The FY 2008 budget provides $2 billion for Safety and Operations. Most of the funds requested for Safety and Operations in FY 2008 support maintaining and increasing aviation safety and efficiency, reflecting the President's commitment in this area. Other significant amounts support reducing congestion and enhancing safety. Of this request, $1.1 billion is for the agency's Aviation Safety (AVS) office. This level supports increasing the AVS safety workforce by 177 inspectors and 173 other safety staff.

The FY 2008 budget requests $12.8 million for Commercial Space Transportation to continue its commitment to timely and responsive licensing and regulatory processes designed to enable a safe, secure, efficient, and internationally competitive U.S. space transportation industry. Commercial space transportation is an exciting area, and we are commited to supporting its continued growth. $758 million is requested for Staff Offices to fund administrative and managerial costs for FAA's regulatory, international, medical, engineering and development programs, as well as policy oversight and management functions.

Air Traffic Organization

As a Performance Based Organization (PBO), the Air Traffic Organization (ATO) continues to provide safe, secure, and cost effective air traffic services. The budget provides $7 billion for ATO operating expenses. In FY 2008, this will fund 1,420 new air traffic controllers to address the projected 1,276 controller retirements next year, resulting in a net increase of 144 controllers. In October 2005, ATO completed the largest non-military A-76 competition in history. That action will save the agency $51.7

million in FY 2008, with a 10 year projected savings and cost avoidance totaling almost $2.2 billion. The contract not only saves money, it also commits the vendor to modernize and improve the flight services we provide to general aviation pilots. In addition, the employees who left Federal service as a result of this transition were given offers to work for Lockheed Martin, the successful bidder of the contract.

In FY 2006, ATO consolidated its administrative and staff support functions from nine service areas to three. This will allow us to provide better service to customers while saving an estimated $360 to $460 million over the next ten years. In FY 2008, we anticipate savings of $29 million from Service Area Consolidation.

NextGen and Capital Needs

The ATO FY 2008 capital program budget requests $2.3 billion to support the ultimate NextGen vision – with $174 million requested for key NextGen activities detailed below – and continues to support the investments needed to keep the current National Airspace System (NAS) functioning. We know that it will take not only funding, but new management approaches, to transform today's aviation system to meet tomorrow's needs. We have done much in recent years to break down stovepipes and plan in a more integrated manner, but NextGen requires us to go further. The new OEP—formerly the Operational Evolution Plan, and now the Operational Evolution Partnership—is a big step in the right direction. OEP has gone from a 10 year rolling plan to a more comprehensive roadmap for how we get to NextGen. The emphasis is on "partnership"—within and between major FAA organizations, with the JPDO and its other partner agencies, the private sector, and, of course Congress.

One of our greatest challenges is our ability to define what the future system will look like. What technologies will it be comprised of? In the coming months, the JPDO will publish the first official NextGen Enterprise Architecture and Concept of Operations. The significance of these foundational documents should not be understated. They are essential to understanding the transformed operational environment, will allow us to

more precisely develop a plan for achieving it, and will provide the basis for architecture-based, quantitative resource planning. Our reauthorization proposal is designed to strengthen the key linkages needed to implement NextGen, and to deliver those resources when they are needed.

Given demand growth, we know it is important to improve operations well in advance of 2025. To do so, we are requesting funding to stage demonstrations and develop critical infrastructure that will better define how we can move to trajectory based operations and identify implementation opportunities. Ultimately, trajectory-based operations will allow pilots to select the most cost-effective, fuel-efficient routes, achieving substantial cost and time savings for our customers, while maintaining the highest levels of safety. Our capital request funds a growing list of NextGen transformational technologies. Most significantly, these include Automatic Dependent Surveillance-Broadcast, the next generation surveillance technology; System-Wide Information Management, which will provide a broad range of real-time information to users of the National Airspace System; and NextGen Network Enabled Weather, which will improve forecasting and information sharing and enhance safety. NextGen Demonstration and Infrastructure Development projects will be used to identify early implementation opportunities, refine longer-term objectives, and if results dictate, eliminate certain concepts from further consideration.

We are also requesting research funds to continue supporting the JPDO. As the unit that spearheads NextGen for the federal government, JPDO will continue defining the future operating environment, identifying demonstration opportunities, and working with the relevant agencies to implement them. We are also requesting funds to support wake turbulence research, the results of which will help us increase capacity while maintaining safety. In addition, research funds would be directed to environmental research, especially noise and emission control, critical to the design of the future system. And finally, we would fund further research on unmanned aircraft systems, a likely addition to the future fleet mix.

Grants in Aid for Airports(AIP)

The FAA is committed to a healthy national air transportation system. Airports are a key part of the system, and that includes small and medium-sized airports that rely on AIP funding to help meet their capital needs.

We have proposed changes to the Federal funding programs which will stabilize and enhance these funding sources for airports. With our proposed programmatic changes, the $2.75 billion proposed in our budget will be more than enough to finance airports' capital needs and meet national system safety and capacity objectives.

Research, Engineering, and Development (R,E,&D)

The FY 2008 request for RE&D is $140 million. The request includes $91.3 million for continued research on aviation safety issues. The remaining research funding is for reduced congestion and environmental issues, including $14.3 million for the Joint Planning and Development Office to continue defining and facilitating the transition to NextGen. An additional $3.5 million in support for JPDO is contained in the ATO capital request, related specifically to the work on the demonstration projects.

Flight Plan 2007 - 2011

The Flight Plan is FAA's rolling five-year strategic plan that we first undertook in 2004. As scheduled, we updated it last fall, with input from our internal and external stakeholders. The Flight Plan is organized around the agency's primary goals: increased safety; greater capacity; international leadership, and organizational excellence. The Flight Plan is our blueprint for managing the agency. It has made the FAA more business-like, performance-based, and customer-focused.

As part of our Flight Plan, each FAA organization now has its own individual business plan. Each of these plans is linked to the Flight Plan, budgeted and tied to what the customers need. The agency's business plan goals have been built into a performance-

based tracking system that is posted to the FAA website each quarter. It lists each of the agency's goals, performance targets, who is responsible, and the status of each. Using this data, the senior management team conducts a monthly review of our performance. When used with other cost and performance data, the Flight Plan information clearly and precisely identifies the effectiveness of a program across the entire agency. With this perspective, the agency is able to capitalize on successful strategies. Let me address our performance and requests under each of our goals.

Increased Safety

At FAA, safety is our top priority, and approximately 66 percent of our budget request, $9.4 billion, supports this goal. Over the last three years, the accident trends in both commercial and general aviation have been at all-time lows. Commercial space transportation continues its remarkable safety record, without a fatality, injury, or any significant property damage to the public. The Flight Plan continues our commitment to reduce commercial and general aviation fatal accidents. We continue to strive toward a three-year rolling average for our commercial airline fatal accident rate of 0.010 fatal accidents per 100,000 departures or below.

We have achieved the highest safety standards in the history of aviation. Even so, our goal is—as always—to continue to improve safety. We address our operational vulnerabilities to reduce risk. We work to improve airport infrastructure, safety management systems awareness, runway safety training, and new procedures. One major key to our successful safety efforts is cooperation among our stakeholders. We constantly work with our stakeholder groups to meet our safety goal. Each group helps us with technology, communications, and its own unique expertise. In our responsibility for safety oversight, we work with them to establish their own safety management systems that meet the highest standards of quality.

To help reduce runway incursions, we deployed the Airport Surface Detection Equipment-Model X (ASDE-X) warning system at five major airports in FY 2006. We

also strengthened the airfield paint markings standard for taxiway centerlines at 72 large airports to alert pilots when they are approaching hold short lines so they won't inadvertently enter a runway without a clearance. Our efforts also are helping controllers do their jobs more safely, especially when it comes to tracking and eliminating operational errors. In response to a long-standing recommendation by the Department of Transportation Inspector General and the National Transportation Safety Board to improve reports of operational errors, we've added a new initiative to automate data collection. The Traffic Analysis and Review Program—known as "TARP"—is a state-of-the-art traffic analysis and playback system that will improve operational error identification and quality assurance. We're putting the software in place for use next year, with all installations complete by 2011. The high-fidelity, near-real time playback feature of TARP will also support more effective and efficient air traffic controller training.

At airports, over 48 percent of our AIP grants go to safety-related projects, such as upgrades to runway safety areas, runway safety action team recommendations, purchase of airport rescue and fire fighting vehicles, and airfield signing, marking and lighting. AIP also supports projects that reduce runway incursions. For example, end-around perimeter taxiways at Atlanta and Dallas-Fort Worth will not only increase capacity, but will also reduce the risk of runway incursions by substantially reducing the number of runway crossings.

Three operating capabilities are key to handling the traffic demand forecast for 2025 and beyond: Navigation, Communications, and Surveillance. We have already developed design criteria as well as aircraft and operator requirements for Required Navigation Performance (RNP) approaches – a key element of NextGen's near term operational environment. We published 6 special RNP approaches in 2005, 28 in 2006, and set a goal of 25 each for FY 2007 and FY 2008. We will continue to develop and implement RNP procedures to reduce our already low airline fatal accident rate. In addition to its safety benefits, we expect RNP to help keep airports open in challenging environments and that could mean fewer canceled or diverted flights, thereby saving time and money.

The work of the Commercial Aviation Safety Team (CAST), which includes representatives from government, industry, and employee groups, has been instrumental in using data to drive decisions. The team's disciplined and focused approach to analyzing accidents and incidents, identifying precursors, and developing targeted implementation strategies helped to reduce the airline fatal accident rate over 60 percent in the last 10 years. We are also working with this team to develop new targets to more effectively measure performance in commercial aviation safety.

Finally, we continue our work to expand the growing field of commercial space transportation. In 2006, there were seven commercial launches. We are issuing experimental permits and are now ready to grant safety approvals of commercial space launch and reentry vehicles, safety systems, processes, services and personnel. We met our commercial space launch target and continued improvement of internal processes and partnerships with the Air Force, other government agencies, and the commercial space transportation industry.

Increasing Capacity

While safety is always our primary concern, our mission includes expanding capacity throughout the aviation system – both in the air and on the ground. The FY 2008 budget requests $3.6 billion to support expansion of capacity on the ground, in the form of new runways, and the continued deployment of new technologies that allow more efficient use of the system.

Given the anticipated growth— both in terms of passengers, and, critically, in the number of aircraft operations —we know that our services must adapt to meet the demand. We also know that the complexity of the future operating environment—with evolving fleet mixes, new aircraft, technology, and environmental constraints—must be approached in partnership with our customers.

The FAA Flight Plan identifies over 50 percent of AIP funding being used to increase capacity and decrease delays at the most congested airports in the country. These projects include new runways and runway extensions, new airports, and perimeter taxiways which not only improve capacity, but eliminate runway crossings which improves airfield safety.

Every day, our capacity accomplishments, such as Domestic Reduced Vertical Separation Minimum (DRVSM), help provide more economical and efficient aircraft operations. DRVSM created an additional six layers of cruise levels at higher altitudes enabling aircraft to operate at more fuel-efficient cruising altitudes while also increasing system capacity. Implemented in FY 2005, DRVSM was estimated to yield over $5.3 billion in savings from FY 2005 through FY 2016, but with the rise in jet fuel prices, the savings will exceed $13.4 billion, a 152 percent increase.

Advanced Technologies and Oceanic Procedures (ATOPs) are now available in 24 million square miles of airspace. Using ATOPS, the Atlantic routes will save airlines 6.5 million pounds of fuel and $8 million per year.

International Leadership

The United States established world leadership in aviation with a consistent commitment to make safety our most important export. Today, FAA has operational responsibility for about half of the world's air traffic, certifies more than two-thirds of the world's large jet aircraft, and provides technical assistance to more than 100 countries to improve their aviation systems. In FY 2006 alone, FAA provided technical guidance and training to 66 countries and 5 international organizations. The FY 2008 budget requests $78 million for global connectivity so FAA can be even more globally focused, helping to ensure that U.S. citizens can travel as safely and efficiently around the world as they do at home, and strengthen America's aviation leadership role in both safety and air traffic control.

We cooperate with bilateral and multilateral partners in Europe and Asia to negotiate executive agreements and implementation procedures supporting the transfer of aviation products to help lower accident rates in areas that are experiencing substantial growth in operations. We have also developed initiatives to collaborate with key international partners to implement NextGen technologies globally as they become available to improve aviation safety and capacity. Last June, the FAA entered into a cooperative agreement with European aviation organizations to participate in each other's air traffic management modernization programs to harmonize operations. These efforts are essential to seamless operation of aircraft.

We are also leading the world in the development of both private human spaceflight and commercial spaceports.

Environmental Stewardship

The FAA is committed to managing aviation's growth in an environmentally sound manner. Indeed, NextGen recognizes the need to develop and insert technology to reduce levels of aviation noise and emissions, thereby reducing environment as a constraint on capacity. The FY 2008 budget requests $354 million to support environmental stewardship for noise mitigation, fuel efficiency, and a comprehensive approach to both noise and emissions. We are on track to reduce the impacts of airport noise to more than 100,000 people over the next five years through AIP grants in our FY 2008 budget.

In April 2006, the Office of Airports issued its revised environmental guidance handbook. This handbook is the most recent product in our continuing efforts to meet the streamlining goals of Vision 100 and the President's Executive Order (13274) on environmental stewardship and streamlining of transportation infrastructure projects. Recent environmental review for capacity enhancing projects at O'Hare, Dulles, and Philadelphia Airports demonstrated this integration process produces meaningful results.

We are also working with our Center of Excellence for Aircraft Noise and Aviation Emissions Mitigation to foster breakthrough scientific, operations, and program advances. We call the Center "PARTNER", and it truly is an excellent partnership of government, academic, and industry participants. – led by MIT. Our work this year includes Continuous Descent Approaches to airports that can reduce noise, emissions, and fuel use; the feasibility of alternative fuels for aircraft; and assessing fuel burn reduction through enroute optimization. In FY 2008, with our reauthorization and budget request, we plan to expand PARTNER's work to develop and certify lower energy, emissions, and noise engine and airframe technology over the next ten years.

Security

While the U.S. Department of Homeland Security's TSA now has primary responsibility for transportation security, FAA still retains responsibility for the security of its personnel, facilities, equipment and data. The agency also works closely with TSA and other federal agencies to support aviation security, transportation security, and other national security matters.

FAA ensures the operability of the national airspace, which is essential to the rapid recovery of transportation services in the event of a national crisis. The budget request includes $246 million to continue upgrading and accrediting facilities, procure and implement additional security systems, enhance IT security, and upgrade Command and Control Communications equipment to meet the increased national security demands that have resulted since the September 11 attacks.

Organizational Excellence

The budget requests $384 million to support our organizational excellence initiatives. FAA's progress over the past four years has been steady, as we've embraced the vision of the President's Management Agenda (PMA) and its strategy to improve management throughout the federal government. Through the Flight Plan and PMA, we've made

significant gains in human capital, competitive sourcing and consolidations, financial performance -- including controlling costs; and, in terms of accountability to Congress, the taxpayers, and our customers.

Controlling Labor Costs/Pay-for-Performance – Human Capital Reform

We know that labor costs drive a significant share of our budget, and we have been working to slow the rate of growth of these costs, as was evidenced by our efforts in the recent controller negotiations, and our focus on back-filling positions with new employees at lower pay grades when possible. We're also increasing workforce productivity in several ways and we are on track to achieve cost efficiencies of 10 percent by FY 2010 in controller staff costs. We achieved the first five percent of this goal in FYs 2005-2006 by reducing staffing standards where appropriate and imposing greater scrutiny of the use of controllers on duties that take them away from controlling traffic. Our budget request assumes we will achieve controller productivity improvements of two percent in both FYs 2007 and 2008.

Through improved oversight and proactive management of our worker's compensation caseload we've slowed the growth of this program, which has resulted in $5.5 million in avoided costs in FY 2005 and $7 million in FY 2006. In FY 2007, this effort is expected to yield an additional $7 million in avoided costs.

I have mentioned in past the ATO's efforts to streamline its organization. Over the last several years, ATO reduced its overhead expenses by cutting multiple levels of senior management, reducing its executive ranks by 20 percent. In addition to the Service Area Consolidation noted above, ATO has used Activity Value Analysis to help streamline its operations, and eliminate and consolidate administrative staffs and support functions. Since FY 2003, the ATO non-safety workforce was reduced by 16 percent.

Much of the efficiencies I've noted are the result of the personnel reform that was granted to the agency in 1996. It has enabled FAA to transition from the traditional General-

Schedule pay system to pay for performance. Accountability for results is systemic throughout our organization, with 80 percent of our employees on a pay-for-performance system, including our executives. Flight Plan performance targets must be achieved before annual pay raises are calculated. The system provides discretion to reward high-performing employees, and incentives are available to ensure that quality work and innovation are rewarded.

In December 2003, we strengthened the approval process for negotiated agreements by requiring, among other things, an analysis of the budget impact of all proposed agreements.

Smarter Capital Investment Choices and Improved Performance

A capital investment team was created in 2004 to review financial and performance data. The team completes an evaluation of baseline performance and includes associated variances, obligations, schedule milestones and earned value management (EVM) data. EVM will provide an early warning for potential and actual variances as well as help the program manager develop corrective actions. The members of this team apply a business case approach to each project as the program is assessed. Since April 2004, over 100 projects have been reviewed. Seven major projects (a total of $60 million) have been significantly restructured and segmented. Three projects were terminated. These changes alone resulted in $460 million in lifecycle savings to FAA. In the fiscal year 2006 Flight Plan, all of our major capital programs were on schedule and we missed only a single program milestone. As we move to the NextGen environment, it will be critical to maintain rigorous oversight of our capital investments.

SAVES

The Strategic Sourcing for the Acquisition of Various Equipment and Supplies (SAVES) initiative is an ambitious effort begun in FY 2006 to implement best practices from the private sector in the procurement of administrative supplies, equipment, and IT hardware.

It is expected to achieve $5 million in savings in FY 2007 and annualized savings of $6 million thereafter.

Improved Financial Management Performance

We're making significant strides in improving our financial management. The Government Accountability Office (GAO) removed us from its high-risk list in 2006, a particular accomplishment since FAA Financial Management had been a high-risk item since 1999. We also received, for the third year in a row, the Association of Government Accountants' prestigious Certificate of Excellence in Accountability Reporting (CEAR) for our 2005 Performance and Accountability Report.

Closing

I'll end where I began. At FAA, our top priority is safety. Because of the growth forecasted in air traffic, however, we must also focus significant energy on training and transitioning to a NextGen air transportation system. Even with new efficiencies, the current system cannot meet future demand. America's ability to launch NextGen depends on the enactment of FAA financing and programmatic reform proposals and our FY 2008 budget request which supports them. I thank you for your time and look forward to discussing both these proposals and our budget request in greater detail today and in the coming weeks.

United States Government Accountability Office

GAO

Testimony
Before the Subcommittee on Aviation, Committee on Transportation and Infrastructure, House of Representatives

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FEDERAL AVIATION ADMINISTRATION

Challenges Facing the Agency in Fiscal Year 2008 and Beyond

Statement of Gerald L. Dillingham, Ph.D.
Director, Physical Infrastructure Issues

GAO-07-490T

GAO Accountability · Integrity · Reliability

Highlights

Highlights of GAO-GAO-07-490T, a report to Subcommittee on Aviation, Committee on Transportation and Infrastructure, House of Representatives

Why GAO Did This Study

FAA operates one of the safest air transportation systems in the world. It is, however, a system under strain. The skies over America are becoming more crowded every day. FAA faces the daunting task of safely integrating a growing influx of passengers and aircraft into the system and simultaneously leading the transition to the Next Generation Air Transportation System (NextGen)—a complicated effort to modernize the system. FAA's broad responsibilities to maintain and modernize the nation's air transportation system must be met in an uncertain budgetary and long-term fiscal environment. GAO's concerns about financing the nation's transportation system, including aviation, led GAO to designate this issue as high-risk.

This statement is based on recent reports and interviews with FAA officials. It focuses on FAA's challenges relating to (1) ensuring the continued safe operation of the nation's airspace system, (2) continuing to improve FAA's management while leading the transition to NextGen, and (3) funding issues concerning capital improvements for airports and FAA's reauthorization.

What GAO Recommends

In prior reports, GAO has made recommendations to address data and management problems. Although FAA has begun to address them, many have not been fully implemented.

www.gao.gov/cgi-bin/getrpt?GAO-GAO-07-490T.
To view the full product, including the scope and methodology, click on the link above. For more information, contact Gerald Dillingham, Ph.D., 202-512-2834, dillinghamg@gao.gov.

February 14, 2007

FEDERAL AVIATION ADMINISTRATION

Challenges Facing the Agency in Fiscal Year 2008 and Beyond

What GAO Found

To ensure continued safety within the national airspace system, FAA is using risk-based, data-driven safety programs to oversee the industry; however, the agency faces data and human resource challenges that affect its ability to fully implement these programs. GAO has previously recommended that FAA improve the accuracy and completeness of the safety data and analysis of that data needed to monitor safety trends, fully implement its safety programs, and assess their effectiveness to determine if they are focused on the greatest safety risk. FAA has made progress in this area but more remains to be done. FAA's ability to oversee the aviation industry will be further affected by its ability to hire, train, and deploy its primary workforce of safety inspectors, engineers, and air traffic controllers. The expansion of FAA's oversight program for air carriers will result in workload shifts for its inspectors that will make it important for FAA to improve its staffing process. In addition, the agency estimates that it will lose about 70 percent of the air traffic controller workforce over the next 10 years, primarily due to retirements.

FAA has made significant progress in implementing management processes and systems that use leading practices of private sector businesses; however, further work remains to institutionalize these efforts. For example, new and improved acquisition processes and oversight have contributed to FAA meeting its acquisition cost and schedule goals for the last three years. Additional work remains, though—FAA received a qualified opinion on its most recent financial audit as a result of lack of support for the accuracy of about $4.7 billion for equipment. Moreover, GAO has previously recommended that FAA should undertake additional efforts to consolidate its facilities and outsource some of its services to further cut costs. Some key challenges for the transition to NextGen include completing the design and cost estimates for NextGen and proposing how that cost will be funded. FAA will also need to assess its capacity to handle the technical and contract management expertise that will be required to oversee the implementation of NextGen.

FAA estimates that the total cost for planned airport development that is eligible for funding from the Airport Improvement Program (AIP) will be about $42 billion for 2007 through 2011. FAA's budget request for fiscal year 2008 proposes significant cuts in AIP. These cuts, along with changes to the way AIP is allocated among airports and possible increases in the cap on passenger ticket charges for airport projects, could have implications for the amount of funding available for planned airport development, especially at small airports. Additionally, the taxes that fund the Airport and Airway Trust Fund are scheduled to expire at the end of fiscal year 2007. Until Congress reauthorizes those taxes, FAA's ability to carry out programs related to airport development as well as some other programs throughout the agency may be in jeopardy, compounding the safety and management challenges facing FAA.

Mr. Chairman and Members of the Subcommittee:

I appreciate the opportunity to testify before you today as you consider the Administration's budget proposal for the Federal Aviation Administration (FAA) for fiscal year 2008. FAA operates one of the safest air transportation systems in the world. It is, however, a system under strain. The skies over America are becoming more crowded every day. Demand for air travel has increased in recent years, with over 740 million passengers flying in fiscal year 2006, climbing toward an estimated 1 billion passengers per year in 2015, according to FAA estimates. These passengers are expected to find more choices of aircraft in the years ahead, ranging from the jumbo Airbus A380 that can hold more than 500 passengers, to very light jets that might transport 6 or fewer passengers on any given flight. Already with increasing demand has come an increase in flight arrival delays; such delays are nearing the levels of 2000, a year in which 1 in 4 flights reached its destination behind schedule. And although the system remains extraordinarily safe, if the current accident rate continues while air traffic potentially triples in the next 20 years, this country would see nine fatal commercial accidents each year, on average. FAA thus faces the daunting task of safely integrating this expected influx of passengers and aircraft into the system and simultaneously leading the transition to the Next Generation Air Transportation System (NextGen)—an enormously complicated endeavor to transform the air traffic control system.

FAA's broad responsibilities to maintain and modernize the nation's air transportation system must be met in an uncertain budgetary and long-term fiscal environment. We recently reported that the federal government's financial condition and fiscal outlook are worse than many may understand.[1] Additionally, our concerns about financing the nation's transportation system, including the aviation system, led us to designate this issue as high-risk.[2] These circumstances provide the context for my testimony today. In particular, I will focus on some of the key challenges and issues facing FAA and the Congress as the fiscal year 2008 budget for FAA is considered. These challenges and issues are related to (1) ensuring the continued safe operation of the nation's airspace system, (2) continuing to improve FAA's internal management while leading the transition to NextGen, and (3) funding issues concerning capital improvements for airports and FAA's reauthorization. My statement is based on our recent reports and updates that we obtained through interviewing FAA officials and reviewing their documentation. We conducted this work in accordance with generally accepted government auditing standards.

In summary:

- To maintain and expand the margin of safety within the national airspace system, FAA is using risk-based, data-driven safety programs to oversee the industry; however, the agency faces data and human resource challenges that affect its ability to fully implement these programs. These challenges are especially important in light

[1]GAO, *Fiscal Stewardship: A Critical Challenge Facing Our Nation,* GAO-07-362SP (Washington, D.C.: January 2007).
[2]GAO, *High Risk Series: An Update,* GAO-07-310 (Washington, D.C.: January 2007).

of the agency not meeting its performance target for commercial air carrier safety for fiscal year 2006 because of recent fatal accidents and predictions of greatly increased air travel. FAA's approaches to safety require that the agency obtain accurate and complete data to monitor safety trends, fully implement its safety programs, and assess their effectiveness to determine if they are focused on the greatest safety risk. We have previously recommended that FAA improve the accuracy and completeness of its safety data and its analysis of that data. FAA has made progress in this area but more work remains. FAA's ability to oversee the aviation industry and ensure a safe national air space system will be further affected by its ability to hire, train, and deploy its primary workforce of safety inspectors, engineers, and air traffic controllers. The expansion of its oversight program for air carriers will result in workload shifts for its inspector workforce that will make it important for FAA to improve its staffing process and address its lack of a staffing model. In addition, the agency estimates that it will lose more than 10,000, or about 70 percent, of the air traffic controller workforce over the next 10 years, primarily due to retirements. In recent years, air traffic controllers have been retiring at a faster rate than FAA anticipated, exacerbating this hiring challenge.

- FAA has made significant progress in implementing management processes and systems that use leading practices of private sector businesses; however, further work remains to institutionalize these efforts. FAA's progress led us to remove its financial management from our high-risk list. Similarly, new and improved acquisition processes and oversight have contributed to FAA reporting that it has met its acquisition cost and schedule goals for the last three years. Nonetheless, making and institutionalizing further improvements in acquisition and investment management are still needed. For example, while FAA has established a cost estimating methodology for investments, it has not implemented it. In addition, during the last two fiscal years, FAA has reported cost savings and cost avoidance of $99.1 million and $81.9 million, respectively. Additional work remains, though—FAA received a qualified opinion on its most recent financial audit as a result of the agency's inability to support the accuracy and completeness of about $4.7 billion for equipment reported in the financial statements. Moreover, as we have previously recommended, FAA should undertake additional efforts to consolidate its facilities and outsource some of its services to further cut costs. FAA's focus on maintaining and improving its record of internal achievement will be further tested as it joins with its partners in the Joint Planning and Development Office in transitioning from planning to implementing NextGen. Some key challenges for the transition include completing the design and cost estimates for NextGen and proposing how that cost will be funded, especially in view of reduced funding for applied aeronautical research, which is necessary to achieve some critical NextGen capabilities. FAA will also need to assess if it has the necessary expertise to handle the technical and contract management that will be required to oversee the implementation of NextGen.

- Related to the challenge of modernizing the air traffic control system, FAA faces the challenge of ensuring that the nation's 3,400 airports develop the capacity to safely and efficiently handle the projected growth in the demand for air travel. FAA

estimates that the total cost for planned airport development that is eligible for funding from the Airport Improvement Program (AIP) will be about $42 billion for 2007 through 2011. FAA administers the AIP, which provides federal funds for capital development projects at the entire range of the nation's airports. In its fiscal year 2008 budget proposal, the Administration has proposed reducing funding for AIP grants and changing the allocation formula. Other changes being considered by FAA could increase available funds for airport development. The net effect of all these changes on the amount of funding available for planned airport development is uncertain. Additionally, the excise taxes that fund the Airport and Airway Trust Fund, such as those on ticket purchases by airline passengers and aviation fuel, are scheduled to expire at the end of fiscal year 2007. To avoid a lapse in revenue to the trust fund in fiscal year 2008 will require Congressional action. About 80 percent of the budget request for FAA would be funded by the trust fund and the remainder by the general fund. Without a continued flow of funds to the trust fund, FAA's ability to carry out AIP and other programs throughout the agency may be in jeopardy, compounding the safety and management challenges facing the agency.

FAA Faces Challenges in Ensuring the Safe and Efficient Operation of the Nation's Airspace System

Aviation safety is a priority goal for FAA. That priority is reflected in the Administration's budget for fiscal year 2008, which requests $1.9 billion to promote aviation safety and efficiency. To the credit of FAA and the aviation industry, U.S. commercial aviation has had an extraordinary safety record in recent years. In 1997, FAA established a goal to reduce the commercial fatal accident rate by 80 percent in 10 years and for many years the agency has made incremental progress toward that goal. However, increased air traffic, leading to congestion and delays, is straining the efficiency and potentially the safety of the nation's airspace system. Moreover, while commercial aviation safety trends have been positive over the last several years, FAA did not meet its performance target for commercial aviation accidents last year and does not expect to meet its target for 2007. If air traffic triples as expected over the next two decades and the accident rate of recent years is unchanged, there would be nine fatal commercial aviation accidents each year, on average.

To maintain a safe and efficient airspace system, especially if substantial growth in the industry materializes, it will be important for FAA to have well-established, efficient, and effective processes in place to provide an early warning of hazards that can lead to accidents. It will also need a skilled workforce to implement these processes. FAA is moving to a system safety approach to oversight and has established risk-based, data-driven safety programs to oversee the industry and a workforce that includes approximately 4,500 safety inspectors and engineers to implement those programs, about 15,420 air traffic controllers, and nearly 7,200 technicians responsible for maintaining FAA's air traffic control equipment and facilities. In addition, FAA leverages its inspector and engineer workforce through its "designee" programs, in which about 13,400 private individuals and over 200 organizations have been delegated to act on the agency's behalf. Our recent work has identified data limitations and human resource

challenges facing the agency that affect its ability to implement these programs and oversee aviation safety.

Data Limitations Affect FAA's Ability to Manage Risk

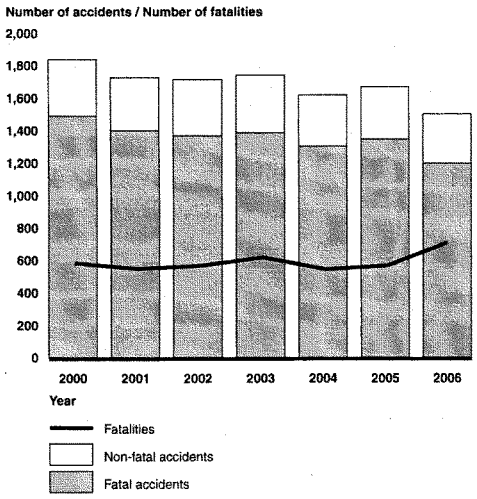
FAA's ability to identify and respond to trends and early warnings of safety problems and to manage risk is limited by incomplete and inaccurate data. While FAA has developed risk-based processes for monitoring and inspecting the aviation industry, in some cases, the implementation of those processes is hampered by the lack of reliable and complete data, which are important for identifying and mitigating safety risks. In other cases, FAA does not fully utilize the data it collects by evaluating or analyzing it for nationwide safety trends.

For example, FAA does not collect actual flight activity data for general aviation operators and air taxis. Instead, the agency uses an annual survey to query a sample of registered aircraft owners about the activity of their aircraft during the previous year. The National Transportation Safety Board[3] (NTSB) noted a number of problems with these data, such as historically low response rates, and concluded that FAA's data do not accurately portray changes in general aviation activity.[4] As a result, FAA lacks information to monitor the rate of general aviation accidents, which decreased from 1,715 in 2002 to about 1,500 in 2006. (See fig. 1.) Therefore, the agency cannot meaningfully evaluate changes in the number of general aviation accidents or determine the effect of its general aviation safety initiatives. NTSB made a number of recommendations to FAA to improve the accuracy of the survey data, such as improving the currency of aircraft owner contact information.

[3]NTSB, *Current Procedures for Collecting and Reporting U.S. General Aviation Accident and Activity Data* (Washington, D.C.: April 2005).

[4]In fiscal year 2006, FAA made changes to its survey, increasing the sample size from 30,000 to 75,000 and, according to the agency, responses increased from 15,000 to 32,000. However, the response rate still remains low.

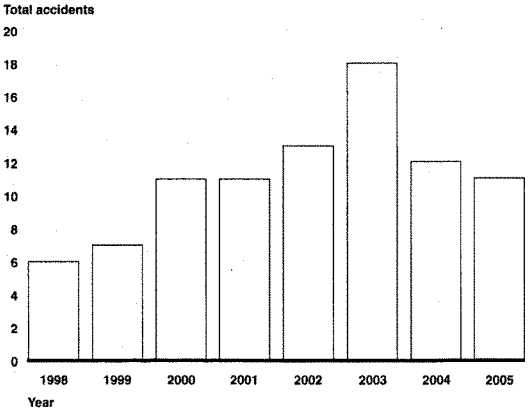
Figure 1: Number of General Aviation Accidents and Fatalities, 2000 through 2006



Source: NTSB.

As another example, FAA does not collect basic data to measure changes in the air ambulance industry, such as flight hours or number of trips flown. From 1998 through 2005, the air ambulance industry averaged 11 accidents per year, peaking at 18 accidents in 2003. (See fig. 2.) Without data about the number of flights or flight hours, FAA and the air ambulance industry are unable to identify whether the increased number of accidents has resulted in an increased accident rate, or whether it is a reflection of growth in the industry. Data describing the safety trends of the industry are essential to understanding the impact of FAA efforts to improve air ambulance safety.

Figure 2: Total Air Ambulance Accidents, 1998 to 2005



Source: GAO analysis of NTSB data.

In addition, while FAA receives important data, including self-reporting of safety violations, through its partnership programs with industry, the agency does not evaluate this information for nationwide trends. According to FAA officials, the Aviation Safety Action Program, Aviation Safety Reporting Program, and Voluntary Disclosure Reporting Program[5] allow the agency to be aware of many more safety incidents than are discovered during inspections and surveillance. Although FAA tracks the actions taken to resolve the individual safety violations that it learns about through these programs, it does not evaluate such information in the aggregate to identify trends in violations and their potential cause in order to improve safety. We recommended that FAA develop a continuous evaluative process for its industry partnership programs, and use it to create measurable performance goals for the programs and track performance towards those goals.[6] FAA has not taken these actions, but has begun to address other data issues.

FAA recognizes the critical nature of the issues associated with its data. To address its data limitations, FAA is in the early stages of planning the Aviation Safety Information Analysis and Sharing system—a comprehensive new data system that is expected to provide the agency with access to a vast amount of safety data that reside with entities such as NTSB and industry partners including airlines and repair stations. Working with the National Aeronautics and Space Administration (NASA), FAA began planning for the new system in 2006. Because this activity is in the early planning stages, our concerns about FAA's data remain relevant. The fiscal year 2008 budget for FAA proposes $32

[5]Participants in the Aviation Safety Action Program include employees of air carriers and repair station; participant in the Aviation Safety Reporting Program include all users of the national airspace system, including air traffic controllers; participants in the Voluntary Disclosure Reporting Program include air carriers, repair stations, and aviation manufacturers.

[6]GAO, *Aviation Safety: Better Management Controls are Needed to Improve FAA's Safety Enforcement and Compliance Efforts,* GAO-04-646 (Washington, D.C.: July 6, 2004).

million for safety databases and computer systems. As FAA prioritizes the activities that it undertakes with such funds, it will be important to continue addressing these critical data limitations.

FAA Faces Workload Challenges for its Safety Inspectors

Changes to FAA's oversight programs, such as the planned rapid expansion of the Air Transportation Oversight System (ATOS), from 16 air carriers in 2005 to approximately 115 air carriers by the end of 2007, will pose workload challenges for FAA's safety inspector workforce of about 3,600. As FAA moves air carriers under the ATOS program, it will also move inspectors to the program. As of January 2007, the 51 air carriers in ATOS were overseen by 829 safety inspectors. Unlike other FAA inspection programs, ATOS inspectors are dedicated to an air carrier and generally cannot be used to inspect other entities. Inspectors who are not part of ATOS, on the other hand, have duties in addition to inspecting air carriers—such as overseeing repair stations, designees, and aviation schools, and investigating accidents. In prior work, we found that about 75 percent of the non-ATOS inspectors had responsibility for more than 3 entities and about half had responsibility for more than 15. In addition, we found that ATOS requires more inspectors per airline than the traditional inspection approach.[7] As inspectors are transitioned to ATOS, the remaining inspectors will have to add those other entities to their workload. With the expansion of ATOS that will continue into fiscal year 2008, it will be important to monitor the magnitude of the shift in resources and the effect it may have on FAA's overall capability to oversee the industry.

Part of the challenge that FAA faces with regard to safety inspectors is improving its process for determining staffing needs. This is especially important as oversight activities and workload shifts with the expansion of ATOS and other program changes, yet FAA lacks staffing standards for safety inspectors. The National Academy of Sciences, under a congressional mandate, recently completed a study for FAA that analyzed FAA's staffing processes for safety inspectors.[8] The study identified a number of issues that FAA must address when developing a staffing model for safety inspectors. For instance, the study included concerns that the current staffing process does not focus resources in the areas of greatest need and the match between individual inspectors' technical knowledge and the facilities and operations they oversee is not always optimal. The study recommended a process for FAA to follow to develop a staffing model and identified key factors—such as changes in aircraft and systems, changes in FAA oversight practices including a shift to a system safety approach through programs like ATOS and increasing the use of designees, and new knowledge and skill demands—that should be considered in developing the model. In response to the Academy's recommendations, FAA expects to develop a staffing model, but the agency does not have a specific timeframe for initiating this effort. With nearly $1 billion of the fiscal year 2008 budget request for FAA covering personnel compensation and benefits

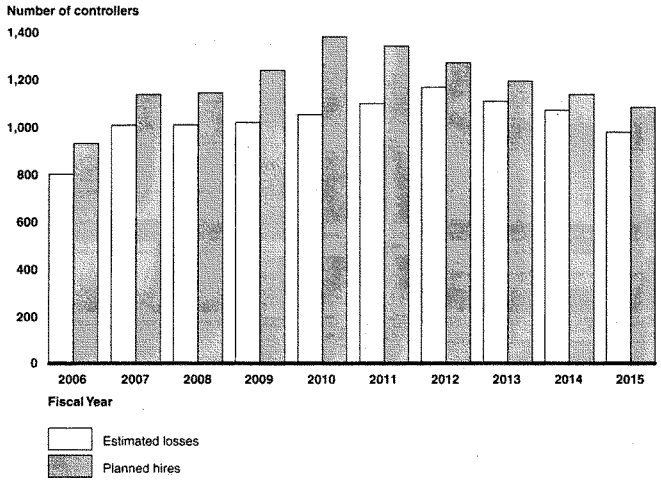
[7]GAO, *Aviation Safety: System Safety Approach Needs Further Integration into FAA's Oversight of Airlines*, GAO-05-726 (Washington, D.C.: Sept. 28, 2005).
[8]National Research Council, *Staffing Standards for Aviation Safety Inspectors* (Washington, D.C.: The National Academies Press, 2006).

for aviation safety and operations, these workload and staffing challenges are critical to address.

Hiring and Training Air Traffic Controllers Remains a Challenge

During the coming decade, FAA will need to hire and train thousands of air traffic controllers to replace those who will retire and leave for other reasons. FAA estimated it will lose 10,291 controllers, or about 70 percent of the controller workforce, during fiscal years 2006 through 2015, primarily due to retirements.[9] To replace these controllers and accommodate increases in air traffic while accounting for expected productivity increases, FAA plans to hire a total of 11,800 new controllers from fiscal year 2006 through 2015. In fiscal year 2006, FAA hired 1,116 controllers. The Administration's budget for fiscal year 2008 proposes about $4.4 billion for salaries and benefits for the air traffic organization account, which includes FAA's large air traffic controller workforce. The fiscal year 2008 proposal includes FAA's plans to hire 1,420 air traffic controllers, which would bring the total number of air traffic controllers to about 15,000. Figure 3 shows the estimated losses each year as well as the number of planned hires.

Figure 3: Estimated Controller Losses and Planned Hires, Fiscal Years 2006-2016



Source: FAA.
Note: FAA established these hiring targets in its 2006 controller workforce plan.

[9]The high percentage of retirements is attributable to the 1981 controller strike, when President Ronald Reagan fired over 10,000 air traffic controllers, and the consequent need to quickly rebuild the controller

Recent events may exacerbate the hiring situation. Data indicate that controllers are retiring at a faster rate than FAA anticipated. FAA projected 341 retirements for fiscal year 2005; 465 controllers actually retired—36 percent more than FAA's estimate. Similarly, in fiscal year 2006, 25 percent more controllers retired than FAA projected.[10] To meet its hiring target of 930 controllers in fiscal year 2006, FAA shifted about 200 of its planned hires from fiscal year 2007 to fiscal year 2006 by speeding up the initial screening and training process. According to FAA, it is on track to hire between 1,300 and 1,400 controllers in fiscal year 2007.[11] To keep on track, FAA has recently expanded its hiring sources, which had focused on individuals with prior FAA or Department of Defense (DOD) air traffic control experience and graduates from FAA's collegiate training initiative program, to include the general public. This strategy is needed, according to FAA officials, because DOD has recently become less of a hiring source for controllers due to military incentives for retaining controllers and higher salaries than FAA's entry-level salary.[12]

It is also important for FAA to ensure that air traffic control facilities have adequate staffing based on their unique traffic demands and the accuracy of FAA's retirement forecast. Historically, FAA has computed staffing standards, which are the number of controllers needed on a systemwide basis, but distribution of these totals to the facility level was a negotiated process. The staffing standards did not take into account the significant differences in complexity and workload among FAA's 300 terminal and enroute control facilities, which can lead to staffing imbalances. FAA has begun developing and implementing new staffing standards that use an algorithm that incorporates traffic levels and complexity of traffic at the facility level to determine the number of air traffic controllers needed, according to an FAA official. As FAA further refines its process for determining controller staffing needs, the ultimate objective is to assess the traffic level and complexity on a sector-by-sector basis to develop more accurate controller staffing requirements. This process is in the early stages of implementation and it is too early to assess the outcome. Such staffing standards for air traffic controllers as well as safety inspectors are important to ensure that FAA deploys its resources for fiscal year 2008 and later years in a cost-effective and risk-based manner.

FAA Faces Challenges in Furthering and Institutionalizing Management Improvements While Moving Toward Implementing NextGen

FAA has made significant progress in implementing management processes that use leading practices of private sector businesses, but further work remains to fully address past problems. Historically, those problems included chronic cost and schedule difficulties associated with operating and modernizing the nation's air traffic control

workforce. From 1982 through 1991, FAA hired an average of 2,655 controllers per year. These controllers will become eligible for retirement during the next decade.

[10]FAA estimated 467 retirements in fiscal year 2006 and 583 controllers actually retired.

[11]FAA originally planned to hire 1,136 controllers in fiscal year 2007 as shown in figure 3. In January 2007, FAA revised that hiring target to 1,386.

[12]Under FAA's recent contract with air traffic controllers, most current controllers continued to receive their existing base salaries and benefits, while new controllers are hired at lower wages.

system as well as weaknesses in FAA's financial management. In 1995, we declared FAA's air traffic control modernization program a high-risk initiative because of its cost, complexity, and systemic management and acquisition problems. In 1999, we also placed FAA on the high-risk list for financial management, noting weaknesses that rendered the agency vulnerable to fraud, waste, and abuse by undermining its ability to manage operations and limiting the reliability of financial information provided to the Congress. FAA has made significant progress in both areas and we removed FAA's financial management from our high risk list in 2005. However, additional work is needed in managing its acquisitions and finances and is crucial to developing a sustainable capability for delivering priority systems on budget and on time. In addition, FAA, in partnership with other federal agencies, is embarking on the development of NextGen—one of the federal government's most complex and comprehensive undertakings in recent times. FAA faces challenges associated with moving forward from planning to implementing NextGen.

Progress Has Been Made but Further Work Remains to Institutionalize Recent Management Improvements

FAA has taken actions to operate in a more business-like manner and enable the agency to more economically and efficiently manage the $14.1 billion requested for its fiscal year 2008 budget. Since we designated FAA financial management as high-risk in 1999, FAA has made significant improvements, including implementing a new financial management system called Delphi[13] and developing a cost accounting system. Additionally, FAA received unqualified opinions from auditors on its annual financial statements for fiscal years 2001 through 2005, in spite of material internal control weaknesses that the auditors identified. This progress led us to remove FAA financial management from our high risk list in 2005.

Nonetheless, external auditors issued a qualified opinion on FAA's fiscal year 2006 financial statements for the first time since 2000 and repeated a material internal control weakness that was reported in 2005. The opinion and internal control report stemmed from FAA's inability to support the accuracy and completeness of the construction-in-progress account, reported in the financial statements as $4.7 billion. Difficulties with this account, which includes costs for projects such as radars, runway guidance systems, and aviation safety and security systems, have been a longstanding concern. FAA has begun work to address this problem. However, it will be important for FAA to develop a systematic solution to this problem, so that it does not recur.

FAA's efforts towards improved financial management also include establishing a cost control and cost reduction program. According to agency officials, each line of business—such as FAA's Air Traffic Organization (ATO), which is responsible for managing and modernizing the air traffic control system—is annually required to propose at least one cost control initiative, and the Administrator tracks and reviews progress on these initiatives monthly. According to FAA, these initiatives have yielded a

[13]Delphi is a commercial off-the-shelf financial management system that was acquired by the Department of Transportation and fully implemented in FAA in 2003.

total of $99.1 million in cost savings and $81.9 million in cost avoidance for fiscal years 2005 and 2006. Additional cost control efforts include outsourcing flight service stations, which FAA estimates will save $2.2 billion over 10 years, and restructuring its administrative service areas from 9 separate offices to 3, which FAA estimates will save up to $460 million over 10 years. We have ongoing work that is assessing FAA's cost control strategy and identifying additional cost savings opportunities that may exist. For example, we have previously reported the need for FAA to pursue further cost control options, such as exploring additional opportunities for consolidating facilities and contracting out more of its services.[14]

FAA has taken steps to improve its software acquisition and investment management processes and for the last 3 years has reported meeting its cost and schedule targets for the acquisition of major system acquisitions, including air traffic control systems.[15] These improvements are particularly important since FAA plans to spend about $9.4 billion from fiscal year 2007 through fiscal year 2011 to upgrade and replace air traffic control systems. To better manage its information technology investments, including its software intensive air traffic control systems, and address problems we have identified,[16] FAA has changed its acquisition management guidance to require review of all investments—new systems as well as systems in service. In addition, FAA has established a cost estimating methodology for its investment. FAA has also developed and applied a process improvement model to assess the maturity of its software and systems capabilities resulting in, among other things, enhanced productivity and greater ability to predict schedules and resources. Further, FAA has made progress in expanding its enterprise architecture—a comprehensive guide to its plans for acquiring new systems—to include the initial requirements for NextGen.

However, making further improvements and institutionalizing them throughout the agency will continue to be a challenge for FAA. For example, FAA's acquisition management guidance does not clearly indicate whether the reviews of in-service systems include reevaluations of projects' alignment with strategic goals and objectives, as we recommended. In addition, the agency has yet to implement its cost estimating methodology. Furthermore, FAA has not established a policy to require use of its process improvement model on all major acquisitions for the national air space system. Additionally, as FAA begins to detail the scope and system requirements of NextGen, it will be important to adapt and expand the enterprise architecture for the national air space system to guide these future plans. Until the agency fully addresses these residual issues, it will continue to risk program management problems affecting cost, schedule,

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[14]GAO, *National Airspace System: Transformation will Require Cultural Change, Balanced Funding Priorities, and Use of All Available Management Tools,* GAO-06-154 (Washington, D.C.: Oct. 14, 2005).
[15]We have on-going work examining FAA's procedures for measuring its acquisition performance.
[16]GAO, *Federal Aviation Administration: Stronger Architecture Program Needed to Guide Systems Modernization Efforts,* GAO-05-266 (Washington, D.C.: Apr. 29, 2005); GAO, *Air Traffic Control: System Management Capabilities Improved, but More can be Done to Institutionalize Improvements,* GAO-04-901, (Washington, D.C.: Aug. 20, 2004); and GAO, *Information Technology: FAA Has Many Investment Management Capabilities in Place, but More Oversight of Operational Systems is Needed,* GAO-04-822, (Washington, D.C.: Aug. 20, 2004).

and performance. With a multi-billion dollar acquisition budget, addressing these actions are as critical as ever.

Institutionalizing these financial, acquisition, and information technology improvements will be a challenge for FAA, especially in view of the imminent departure of the Chief Operating Officer later this month and the departure of the Administrator, who will reach the end of her 5-year term this September. We have reported that the experiences of successful transformations and change management initiatives in large public and private organizations suggest that it can take 5 to 7 years or more until such initiatives are fully implemented and cultures are transformed in a sustainable manner. Such changes require focused, full-time attention from senior leadership and a dedicated team.[17]

Progress Continues to Be Made in Planning for NextGen, but Challenges to Successful Implementation Remain

Work to determine the capabilities and requirements that will be needed for NextGen and to produce a comprehensive vision for that system is nearing completion; however, given the staggering complexity of this ambitious effort to modernize and transform the air traffic control system over the next two decades, it will not be easy to move from planning to implementation. To plan NextGen, Congress authorized the creation of the Joint Planning and Development Office (JPDO) in 2003. JDPO is housed within FAA and the Administration's fiscal year 2008 budget includes $14.3 million to support JPDO. To carry out its planning function, JPDO is required to operate in conjunction with multiple government agencies.[18] JPDO's approach requires unprecedented collaboration and consensus among many stakeholders—federal and nonfederal—about necessary system capabilities, equipment, procedures, and regulations. Recently, JPDO has made progress in developing key planning documents, including a cost estimate for NextGen. However, as efforts move forward to implement NextGen, it will be important to identify the source and funding for completion of intermediate technology development and determine how FAA can best manage the complex implementation and integration of NextGen technologies. Without a timely transition to NextGen capabilities, JPDO officials estimate a future gap between the demand for air transportation and available capacity that could cost the U.S. economy billions of dollars annually.

JPDO Has Made Progress toward Finalizing Key Planning Documents and Developing a Cost Estimate

FAA and the other JPDO partners have been working to refine the vision for NextGen and achieve a general consensus on that vision. The bulk of JPDO's planning has been to

[17]GAO-06-154.

[18]In addition to FAA, these agencies include the Departments of Transportation, Commerce, Defense, and Homeland Security; the National Aeronautics and Space Administration (NASA); and the White House Office of Science and Technology Policy.

develop three critical documents—a concept of operations,[19] enterprise architecture,[20] and operational improvement roadmaps.[21] Once these key documents are completed in the next few months, it will be important to synchronize them with partner agency planning documents, including FAA's implementation plan for NextGen—the Operational Evolution Partnership (OEP)—and to continue to use the documents to drive agency budget decisions. The OEP is intended as a comprehensive description of how the agency will implement NextGen, including the required technologies, procedures, and resources. JPDO is continuing to work with the Office of Management and Budget (OMB) to develop a unified, cross-agency program for NextGen funding requests.

Given the criticality of NextGen, another important planning document—possibly the most important for Congress—is a comprehensive estimate of the costs to JPDO partner agencies, particularly FAA, for the required research, development, systems acquisitions, and systems integration. Such an estimate does not yet exist. As we reported in November 2006,[22] a limited, preliminary cost estimate concluded that FAA's budget under a NextGen scenario would average about $15 billion per year through 2025, or about $1 billion more annually (in today's dollars) than FAA's fiscal year 2006 appropriation.[23] A JPDO official told us they have submitted a limited NextGen cost estimate to OMB with the 2008 budget request. As of February 9, 2007, JPDO had not publicly released its cost estimate for NextGen. According to the Department of Transportation, the Administration's budget for fiscal year 2008 includes $175 million to support key FAA investments in NextGen.

According to JPDO officials, their current estimate focuses only on the near-term capital needs for FAA's ATO portfolio. To develop what they believed would be a more accurate cost estimate, JPDO also focused on the funding necessary to achieve only the capabilities of the NextGen system around 2016, rather than the long-term 2025 capabilities. JPDO then laid out the major systems and investments required by ATO to achieve the mid-term vision and the related costs for ATO.

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[19]The concept of operations describes how the transformational elements of NextGen will operate in 2025. It is intended to establish general stakeholder buy-in to the NextGen end state, transition path, and business case.

[20]The enterprise architecture follows from the concept of operations and describes the system in more detail (using federal enterprise architecture and DOD enterprise architecture frameworks). It will be used to integrate planning efforts and drive partner agency guidance.

[21]The operational improvement roadmaps lay out a timeline for deploying and integrating NextGen systems.

[22]GAO, *Next Generation Air Transportation System: Progress and Challenges Associated with the Transformation of the National Airspace System,* GAO-07-25 (Washington, D.C.: Nov. 13, 2006).

[23]This preliminary estimate—developed by the Research, Engineering and Development Advisory Committee, an advisory committee to FAA—indicates that the cost for a status quo scenario (i.e., no NextGen) would also be about $15 billion per year through 2025. This is due primarily to the expectation that, under the NextGen scenario, capital expenditures would be higher than under the status quo scenario in the near term, but operations costs would be lower because of productivity improvements in the longer term.

While JPDO's new estimate will be a step toward understanding the costs of NextGen, this estimate is still incomplete. Much work remains to develop a comprehensive cost estimate for NextGen that includes the costs to the rest of FAA (beyond ATO), the other JPDO partner agencies, and industry. A JPDO official told us the agency is working to develop a comprehensive estimate and plan to have one ready to submit with the 2009 budget request. This comprehensive estimate is intended to describe the business case for NextGen and detail the investments that will be required by all the JPDO partner agencies to achieve the NextGen vision by 2025.

Both JPDO and FAA Face Challenges as NextGen Moves from Planning to Implementation

The successful implementation of NextGen will depend, in part, on resolving the uncertainty over which entities will fund and conduct the research and development necessary to achieve some key NextGen capabilities and to support the operational roadmaps. In the past, a significant portion of aeronautics research and development, including intermediate technology development, has been performed by NASA. However, our analysis of NASA's aeronautics research budget and proposed funding shows a 30 percent decline, in constant 2005 dollars, from fiscal year 2005 to fiscal year 2011. To its credit, NASA plans to focus its research on the needs of NextGen. However, NASA is also moving toward a focus on fundamental research and away from developmental work and demonstration projects. FAA has determined that research gaps now exist as a result of both NASA's cuts to aeronautical research funding and the expanded requirements for NextGen coming from JPDO. These gaps are in the activities of applied research and development—activities that will be required to implement new policies, demonstrate new capabilities, set parameters for certification of new systems, and develop technologies for transfer to industry.

It will be important for both FAA and JPDO to find ways, in the near term, to keep the necessary research and development on track to support implementation of NextGen by 2025. In 2006, officials from FAA and JPDO initiated an assessment of NextGen research and development requirements. Their goal was to identify specific research initiatives that were not currently funded, but which they said must be initiated no later than fiscal year 2009 to comply with the operational roadmaps. The preliminary findings from this assessment led to increased budget requests for FAA to help lessen the research and development gaps. However, JPDO officials noted that a research and development gap remains, with items in the research and development pipeline that need funding to take them from concept to development. Other options for addressing the gap are for JPDO and FAA to further explore ways to leverage the research being conducted in other agencies or to partner with industry or academia. For example, JPDO and FAA have already identified research within DOD on alternative fuels that, with a modest investment, could be leveraged to include civil aviation. Currently, it is unknown how all of the significant research and development activities inherent in the transition to NextGen will be conducted or funded.

Another issue with regard to NextGen implementation will be FAA's ability to manage the systems acquisitions and integration needed to implement a system as broad and

complex as NextGen. In the past, a lack of expertise contributed to weaknesses in FAA's management of air traffic control modernization efforts. Industry experts with whom we have spoken continue to question whether FAA will have the technical expertise needed to implement NextGen. In November, we recommended that FAA examine its strengths and weaknesses with regard to the technical expertise and contract management expertise that will be required to define, implement, and integrate the numerous complex programs inherent in the transition to NextGen.[24] In response to our recommendation, FAA is considering convening a blue ribbon panel to study this issue and make recommendations to the agency about how to best proceed with its management and oversight of the implementation of NextGen. We believe that such a panel could help FAA begin to address this challenge.

Funding Issues May Affect Airports' Investment and Other FAA Programs

As it modernizes the national airspace system to meet the nation's future air transportation needs, FAA must not only transform the air traffic control system, but also work with airport operators to provide increased capacity at airports to safely handle the projected growth in the demand for air travel. This latter responsibility will include overseeing airports' efforts to adapt their infrastructure to accommodate the introduction of very light jets, and in the case of the largest airports, the new large Airbus A380. Airports are an integral part of the nation's transportation system and maintaining their safety and efficiency is an important FAA responsibility. To this end, FAA administers the Airport Improvement Program (AIP), which provides federal funds for development projects at the entire range of the nation's 3,400 airports—from small general aviation airports to the very largest that handle several million passengers per year. The Administration has proposed cuts in AIP funding and is considering possible changes to the AIP allocation formula as well as increasing the cap on passenger facility charges[25] for airport development projects. Any change in the level or allocation of these funds could have implications for funding airport capital projects. Not only AIP grants but also portions of other FAA programs receive funds from the Airport and Airway Trust Fund, which is largely financed by excise taxes on ticket purchases by airline passengers and aviation fuel. Since these taxes are scheduled to expire at the end of September 2007, ensuring that there is no lapse in revenue to the trust fund will require Congressional action.[26] Without a continued flow of funds to the trust fund, FAA's ability to carry out AIP and other programs during fiscal year 2008 may be in jeopardy.

FAA's Recent Estimate of Planned Capital Development Similar to Past Estimate

FAA estimates the total cost for planned airport projects that are eligible for AIP funding, including runways, taxiways, and noise mitigation and reduction efforts, will be about $42 billion for fiscal years 2007 through 2011.[27] This estimate is little changed from the

[24]GAO-07-25.

[25]Passenger facility charges are fees airports can charge passengers to fund FAA approved projects.

[26]Congress also would need to renew FAA's authority to spend from the trust fund.

[27]FAA's estimate, in nominal dollars, is based on the agency's National Plan of Integrated Airport Systems, which FAA published in September 2006.

agency's last estimate in 2004 for the period 2005 to 2009. FAA's current estimate indicates that over half of the planned development will occur at large and medium hub airports.[28] The Airports Council International—North America (ACI-NA) also provides estimates of planned airport development. ACI-NA includes both AIP-eligible projects and ineligible projects and, as a result, has higher estimates.

Historically, airports have received funding for capital development from a variety of sources. As we reported in 2003, the single largest source of financing for airports is tax-exempt bonds, followed by AIP grants and passenger facility charges. Tax exempt bonds are currently supported by airport revenue and, in some cases, by passenger facility charges. Access to these funding sources varies according to airports' size and funding capabilities. Large and medium hub airports depend primarily on tax-exempt bonds, while the smaller airports rely principally on AIP grants.[29] Passenger facility charges are a particularly important source of capital for large and medium hub airports because they have the majority of commercial service passengers.

FAA Funding Proposals Would Change How Airport Development is Financed

The Administration has proposed changing the federal role in financing airport development in its fiscal year 2008 budget proposal, which also includes a reauthorization proposal for FAA that will be submitted later this month. Funding for AIP grants would be reduced and the allocation formula changed. The Administration's reauthorization proposal is expected to provide details on these proposed changes. It is, therefore, currently unclear how a number of issues will be addressed.

The reauthorization proposal may clarify the impact on smaller airports,[30] which received about two-thirds of AIP grants in fiscal year 2004. As noted earlier in my statement, smaller airports rely primarily on AIP grants for capital funding. In recent years, statutory changes in the distribution of AIP grants have increased the share to smaller airports.[31] However, under the fiscal year 2008 budget proposal, funding changes would especially impact smaller airports if the current allocation formulas are unchanged in the forthcoming reauthorization proposal. First, primary airport entitlements[32] under AIP would be cut in half from the fiscal year 2006 level. In turn, the small airport fund, which is funded from AIP entitlement amounts that large and medium hub airports must turn

[28]Commercial service airports are categorized by the number of enplanements. Large hubs are those airports that account for at least one percent of total passenger enplanements. Medium hubs account for between 0.25 and 1 percent of total passenger enplanements.

[29]Any increase in the issuance of bonds exempt from federal taxation has an impact on federal revenue.

[30]Smaller airports include small hub, nonhub, other commercial service, reliever (high capacity general aviation airports in major metropolitan areas that provide pilots with an alternative to using congested hub airports) and general aviation airports.

[31]For example, FAA's 2000 authorization (Pub. L. No. 106-181) boosted funding for nonprimary airports and small primary airports by increasing the portion of AIP passenger entitlement funds that must be turned back by large and medium hub airports. Under AIP, airports that collect passenger facility charges must forfeit a certain percentage of their AIP entitlement funds, which are then distributed to smaller airports. In fiscal year 2004, smaller airports received a total of about $380 million as a result of these turn backs.

[32]Entitlements are AIP funds apportioned to airport sponsors and states for eligible projects based on formulas.

back if they impose passenger facility charges,[33] would also be reduced by half. Second, state entitlements for non-primary[34] commercial service and general aviation airports would be reduced from 20 percent to 18.5 percent of total AIP obligations. Finally, discretionary set aside grants for reliever airports would be eliminated under the fiscal year 2008 budget proposal. Table 1 shows the effect on the amounts available for various types of AIP grants at different funding levels including the $2.75 billion requested in the Administration's budget and the actual funding level for fiscal year 2006.

Table 1: Estimated AIP Distribution Under Alternative Funding Levels (in millions)

	Alternative funding levels			
	$2,750 (proposed FY 2008)	**$3,000**	**$3,250**	**$3,550 (actual FY 2006)**
Primary airports entitlements	$496.0	$496.0	$857.7	$888.0
Entitlements for non-primary, general aviation and reliever airports	487.9	534.1	242.0	299.5
Other entitlements[a]	103.0	111.8	516.5	526.6
Carryover entitlements[b]	447.8	447.8	447.8	431.7
Small airport fund	214.2	214.2	428.4	428.4
Discretionary set aside grants for reliever airports	0.0	0.0	4.3	5.6
All other discretionary and set aside grants[c]	888.3	1,083.3	640.4	844.6
TOTAL AIP funds available for grants[d]	**$2,637.2**	**$2,887.2**	**$3,137.1**	**$3,424.4**

[a]Includes grants for Alaskan airports and cargo service airports.
[b]Funds that some airports can claim to use in the fiscal year in which the amount was apportioned and two fiscal years immediately after that year.
[c]Funds that are available for use on AIP eligible projects at FAA's discretion. This includes funds set aside for such things as noise planning and programming, reliever airports and capacity, safety, security, and noise projects. It also includes discretionary grants that can be used for any AIP eligible project at any airport.
[d]The funding available for grants after the 2006 rescission and deductions for airport research, other programs, and administrative costs.
Source: FAA

To help offset any reductions in AIP grants, FAA is also considering allowing airports to collect more revenue from passenger facility charges, which large airports generally prefer. Airlines, however, have been generally opposed to an increase in these charges because they have little control in how passenger facility charges are spent and because they believe these charges reduce passenger demand for air travel. Nonetheless, if airports were to increase charges, additional airport revenue could be generated. Increasing the cap on passenger facilities charges would primarily benefit larger airports because these charges are a function of passenger traffic. However, as already noted, under AIP, large airports that collect passenger facility charges must forfeit a certain percentage of their AIP formula funds. These forfeited funds are subsequently divided

[33]Small airport fund grants must be spent at small hub primary airports, general aviation airports (including reliever airports), and nonhub commercial airports.
[34]Non-primary airports are commercial service airports that have from 2,500 to 10,000 annual passenger enplanements. These airports are used mainly by general aviation.

between the small airport fund, which is to receive 87.5 percent, and the discretionary fund, which is to receive 12.5 percent. Thus, under current law, smaller airports would benefit indirectly from any increases in passenger facility charges and help offset reductions in AIP funding.

FAA and the Congress Will Face a Challenge Funding FAA Programs in Fiscal Year 2008 if Reauthorization is Not Timely

With the excise taxes that fund the Airport and Airway Trust Fund scheduled to expire at the end of fiscal year 2007, Congress will need to act if there is to be no lapse in revenue to the trust fund to fund FAA. If the taxes are neither reauthorized by that time nor replaced by other revenue sources for the trust fund, the only revenues to the trust fund will be interest earned on the fund's cash balance. FAA estimates that two previous lapses in 1996-1997 resulted in the trust fund not receiving about $5 billion in revenue.

As of the end of fiscal year 2006, the trust fund's uncommitted balance—surplus revenues in the trust fund against which no commitments, in the form of budget authority, have been made—was less than $2 billion. The Administration's budget proposal projects that the uncommitted balance will be about $2 billion at the end of fiscal year 2007. If today's level of monthly tax revenue continues, a 2- to 3-month lapse in fiscal year 2008 could reduce the revenue to the trust fund enough to cause the uncommitted balance to fall to zero in fiscal year 2008. Most of FAA's funding comes from the trust fund—the fiscal year 2008 budget request for FAA proposes about 80 percent of the agency's funding from the trust fund with the remainder from the general fund. If the trust fund balance falls to zero, continuation of FAA's programs—including efforts to address some of the safety and management challenges that I have discussed—would depend on providing additional general revenues.

GAO Contact and Staff Acknowledgements

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FAA's FY 2008 Budget Request: Key Issues Facing the Agency

Statement of
The Honorable Calvin L. Scovel III
Inspector General
U.S. Department of Transportation

Mr. Chairman and Members of the Subcommittee,

We appreciate the opportunity to testify today regarding the Federal Aviation Administration's (FAA) fiscal year (FY) 2008 budget request. Our testimony will focus on the key issues that will frame FAA's financial requirements over the next several years. Clarifying those requirements early this session is important as Vision 100[1] and the current ticket taxes expire this September and Congress and the Administration begin deliberations regarding the next FAA reauthorization.

FAA is facing a significant issue—how to move forward with the next generation air transportation system. The current system handles over 700 million passengers per year, a number that will grow to over 1 billion travelers by 2015. This system must also be poised for the introduction of thousands of very light jets[2] over the same timeframe. This influx of new aircraft will strain the Agency's air traffic control systems and its inspection and certification workforces.

FAA oversees the safest and most complex aviation system in the world. In 2006, FAA centers—facilities that manage high-altitude traffic—handled 46 million operations, which approximate the activity levels in 2000. However, with respect to delays, operational performance of the National Airspace System (NAS) slipped slightly in 2006 with one in four flights arriving late, the worst level since 2000.

Safety is FAA's highest priority. For more than 4 years, FAA and the U.S. aviation industry have experienced one of the safest periods in aviation history. This is a remarkable accomplishment given the many changes occurring within the industry. For example, network air carriers continue to work aggressively to reduce costs by reducing in-house staff, renegotiating labor agreements, and increasing the use of external repair facilities. To address these changes, FAA is working to implement and refine risk-based safety oversight systems for air carriers, repair stations, and aircraft manufacturers.

However, the August 27, 2006, crash of Comair Flight 5191 serves as a stark reminder that a priority for all stakeholders must be to make a safe system even safer. FAA must remain attentive to runway incursions (potential collisions on the ground) and operational errors (potential collisions in the air). In recent years, FAA has made progress in reducing the number of runway incursions from a high of 407 in FY 2001 to a low of 323 in FY 2003, and the most serious incidents have decreased from a high of 69 in FY 1999 to a low of 28 in FY 2004. Since 2003, the number of runway incursions has leveled off, but very serious runway incursions continue to occur. We

[1] Vision 100 - Century of Aviation Reauthorization Act, Pub. L. No. 108-176 (2003).

[2] These are small, "affordable" aircraft that will carry up to six passengers. Priced as low as $1 million per aircraft, very light jet manufacturers anticipate that these aircraft will find a niche among corporate and private owners and as on-demand air taxi services. According to FAA, up to 5,000 very light jets will vie for airspace by 2017.

are currently reviewing FAA's actions to address runway incursions at four major airports and will issue our report later this year.

It is against this backdrop that we would like to discuss FAA's FY 2008 budget request. We note that Congress is considering a year-long continuing resolution that, if enacted as approved by the House, would fund FAA at or above the levels requested for FY 2007. The funding levels under consideration should allow FAA to operate the NAS without degrading operations or safety.

FAA is presenting its $14.1 billion budget request in a new format and structure that mirror its plans to reform how the Agency is financed. Currently, FAA is financed by two mechanisms: excise taxes (primarily those from ticket taxes on airfare) and a contribution from the General Fund. We understand that FAA's reauthorization proposal will be the subject of another series of hearings.

The focus of our testimony today, Mr. Chairman, is that regardless of the funding mechanism ultimately decided upon by Congress, a number of "front and center" issues demand attention and will shape FAA's requirements over the next several years. These include the following:

- **Addressing an Expected Surge in Air Traffic Controller Retirements:** Last Friday, we issued the results of our review[3] of FAA's progress in implementing its controller workforce plan. The plan details FAA's strategy for hiring approximately 11,800 new controllers to replace those expected to leave over the next 10 years. The plan also outlines various initiatives to increase controller productivity and decrease on-the-job training time and costs.

  Overall, we found that FAA continues to make progress in implementing a comprehensive staffing plan that addresses the expected surge in controller retirements. For example, we found that FAA has significantly improved its hiring process and has made progress in reducing the time and costs to train new controllers. However, further progress is still needed in key areas.

  First, FAA is still developing accurate facility-level staffing standards, which are a foremost necessity in effectively placing newly hired controllers where they will be most needed. Planning by location is critical because FAA has over 300 terminal and en route air traffic control facilities with significant differences in the types of users they serve, the complexity of airspace they manage, and the levels of air traffic they handle.

[3] OIG Report Number AV-2007-032, "FAA Continues To Make Progress in Implementing Its Controller Workforce Plan, but Further Efforts Are Needed in Several Key Areas," February 9, 2007. OIG reports and testimonies can be found on our website: www.oig.dot.gov.

Second, FAA reached its goal of reducing controller staffing by 3 percent for FY 2005, but it is unknown whether the initiatives established in the 2004 Plan were actually effective in helping achieve that reduction.

Finally, FAA still has not identified the estimated total costs associated with this workforce plan. Detailed cost estimates are critical so that the Agency's stakeholders can clearly understand the resources required to execute the plan.

- **Having Sufficient Safety Inspectors To Provide Oversight of a Dynamic Aviation Industry:** Controller staffing will have the larger impact on FAA's budget. However, FAA also faces substantial safety oversight challenges due to the potential attrition in its inspector workforce while the aviation industry is rapidly changing. FAA currently has 3,865 inspectors to oversee domestic and foreign aspects of the largest, most complex aviation system in the world. Over one-third of these inspectors (44 percent) will be eligible to retire by 2010.

  FAA is requesting $1.11 billion, or $71 million more than last year's request, to fund safety-related functions. With this additional funding, FAA plans to hire an additional 203 inspectors. However, FAA must continue to closely monitor inspector staffing levels to ensure that it maintains a sufficient number of inspectors to perform safety oversight. In 2006, FAA hired 538 inspectors, but lost 226 (181 to retirements and 45 for other reasons).

  FAA will never have an inspection workforce that is large enough to oversee all aspects of aviation operations, but it is important for the Agency to ensure that its inspectors are located where they are most needed. The National Research Council recently completed its study[4] of FAA's current methods of allocating inspector resources and concluded that the Agency's current model is not effective. FAA must develop a reliable staffing model to ensure it has the right number of inspectors at the right locations.

- **Keeping Existing Modernization Efforts on Track and Reducing Risks With the Next Generation Air Transportation System (NGATS):** FAA is requesting $2.46 billion for its capital programs in FY 2008, the majority of which is for the Air Traffic Organization's capital efforts. The FY 2008 request also includes funding for key NGATS initiatives, such as Automatic Dependent Surveillance–Broadcast (ADS-B) and System Wide Information Management (SWIM), as well as for demonstration projects.

  At the request of this Subcommittee, we are reviewing the progress of 18 projects with a combined cost of $17 billion. We do not see the massive cost growth and

[4] Study completed by the National Research Council of the National Academies, "Staffing Standards for Aviation Safety Inspectors," September 20, 2006.

schedule slips that we have seen in the past with FAA major acquisitions. However, there are projects, such as FAA's Telecommunications Infrastructure program, that are at risk of not achieving expected cost savings and benefits because of schedule slips.

Also, there are other short-term concerns that FAA should address now. For example, FAA needs to replace aging controller displays at four large facilities (Chicago, Denver, St. Louis, and Minneapolis) that manage traffic in the vicinity of airports. We recommended action on this matter over 2 years ago in November 2004, but FAA does not expect to finish replacing these displays until 2008. FAA should seek ways to accelerate completion of this effort.

As we note in our report, requested by this Subcommittee and issued earlier this week,[5] the development and transition to NGATS is one of the most complex efforts that FAA has ever undertaken. We have seen cost estimates suggesting that FAA would need $500 million to $1 billion annually over existing planned funding levels for NGATS. FAA is refining its estimates and should release them shortly. However, we caution that there may still be unknowns with respect to requirements for new software, intensive automation systems, and data communications. Further, considerable development will be required to refine concepts and determine how systems can be certified as safe.

Therefore, we recommended that FAA provide Congress with costs on three vectors—research and development, adjustments to existing projects, and funds for new initiatives. This will help decision makers understand the magnitude of the effort and how additional funds will be used. Given the high-risk nature of the effort, we also believe that FAA needs to articulate a strategy for how this extraordinarily complex effort will be managed (beyond conducting demonstration projects) and what expertise will be required to prevent past problems and successfully deliver new capabilities.

- **Using the Cost Accounting System To Improve Operations:** A multibillion-dollar organization such as FAA must have a cost accounting system that provides visibility into the cost of its operations to help management shape decisions and establish priorities. Since 1996, FAA has spent over $66 million to complete implementation of a cost accounting system. This system now covers all of FAA's lines of business and captures the annual labor costs of most of its personnel, the latter having a total value of about $7 billion—the single largest cost item to FAA. Overall, FAA's cost accounting system is properly designed to assign costs to the Agency's lines of business and can be used to measure performance.

[5] OIG Report Number AV-2007-031, "Joint Planning and Development Office: Actions Needed To Reduce Risks With the Next Generation Air Transportation System," February 12, 2007.

However, further progress is needed to enhance operational efficiency and ensure the accuracy of financial data in the cost accounting system.

I would now like to discuss these matters in greater detail.

FAA'S FY 2008 BUDGET

FAA is requesting $14.1 billion for FY 2008, an increase of $328 million from its FY 2007 budget request. However, this represents a reduction of $233 million from the FY 2006 budget, the last budget enacted into law.

FAA is presenting its budget request in a new format and structure that mirror its plans to shift from the current excise taxes to a structure that relies on, among other things, cost-based user fees. FAA anticipates that the new financing system will be implemented in FY 2009. For FY 2008, FAA has realigned its four accounts to better reflect its lines of business and proposed financing system.

The budget request shows the Operations and Facilities & Equipment (F&E) accounts realigned into two new accounts. The first account combines the Agency's safety oversight, Commercial Space Transportation, and staff offices into a single account called Safety and Operations. The second account combines most of the Facilities and Equipment account with the Air Traffic maintenance and other Operations account functions into the Air Traffic Organization (ATO) account. The Airport Improvement Program (AIP) and the Research, Engineering, and Development (RE&D) accounts remain the same. FAA's budget funds these four accounts as follows:

- For the Safety and Operations account, FAA is requesting $1.88 billion (13 percent of FAA's total budget), an increase of $91 million over last year's request for comparable functions. For safety-related functions, such as safety inspectors and certification activities, FAA is requesting $1.11 billion, an increase of $71 million from last year's request.

- For the ATO account, FAA is requesting $9.3 billion (66 percent of FAA's total budget), an increase of $228 million over comparable functions in the FY 2007 request. For the operation and maintenance of the air traffic control system, the Agency is requesting $6.96 billion, an increase of $261 million over last year's request. FAA is also requesting $2.34 billion in capital program funds for the ATO, a decrease of $33 million from last year's request. Capital projects associated with other functions, such as safety, are now included in the Safety and Operations account.

- For the AIP account, FAA is requesting $2.75 billion (20 percent of FAA's total budget), the same amount requested for FY 2007. However, this represents a $765 million decrease from the amounts provided in FY 2006. To put this figure

into context, since FY 2001, the AIP account has been authorized at $3.2 billion or higher each year.

- Finally, FAA is requesting $140 million for the RE&D account (1 percent of FAA's total budget), an increase of $10 million from the FY 2007 request.

To demonstrate in terms of the old and new budget presentation, Table 1 summarizes the FY 2008 budget request in last year's four-account format.

Table 1. FAA Budgets FY 2006 Through FY 2008

($ in Millions)

Account	FY 2006 Actual	FY 2007 Continuing Resolution (House)	FY 2008* Request
Operations	$8,104	$8,393	$8,726
Facilities & Equipment	$2,555	$2,519	$2,462
Airport Improvement Program	$3,515	$3,515	$2,750
Research, Engineering, and Development	$137	$130	$140
Total	**$14,310**	**$14,557**	**$14,077**

Source: FAA's FY 2008 Budget Request and FAA's Office of the Budget

*We summarized FAA's FY 2008 budget request using the previous format for comparative purposes.

Note: Figures may not add up exactly due to rounding.

The FY 2008 budget would be financed by the two mechanisms currently used to fund FAA: excise taxes deposited into the Airport and Airway Trust Fund and a General Fund contribution. The Trust Fund, which was created in 1970, provides FAA with a dedicated revenue source for funding aviation programs. Initially envisioned as a means to fund the infrastructure and modernization needs of the National Airspace System, the Trust Fund also pays for large portions of FAA's operating budget, the Essential Air Service Program, and for one-time items (e.g., security funding after the September 11th attacks). The General Fund is used to make up the difference between Trust Fund revenues and the unfunded portion of FAA's budget.

For FY 2008, FAA expects the Trust Fund to contribute $11.5 billion, or 81 percent, toward its total budget and the General Fund to contribute $2.6 billion, or 19 percent. These amounts are similar to what has been budgeted in the previous 4 years. Table 2 shows the contribution from each of the funding sources toward FAA's proposed new accounts.

Table 2. Funding Source Contributions
($ in Millions)

Account	Airport and Airway Trust Fund	General Fund	Total
Air Traffic Organization	$7,915 (85%)	$1,393 (15%)	$9,308
Safety and Operations	$672 (36%)	$1,208 (64%)	$1,879
Airport Improvement Program	$2,750 (100%)	$0 (0%)	$2,750
Research, Engineering, and Development	$123 (88%)	$17 (12%)	$140
Total	**$11,459 (81%)**	**$2,618 (19%)**	**$14,077**

Source: FAA's FY 2008 Budget Request to Congress
Note: Percentages in table are toward the total budget.
Note: Figures may not add up exactly due to rounding.

WORKFORCE CHALLENGES

Controlling operating cost growth will remain a significant challenge for FAA as it faces several workforce challenges in the coming year. Our office has an extensive body of work regarding cost control and financial issues within FAA. For example, in 1999, we reported[6] that persistent cost growth in the Agency's operating account (primarily salary-driven) was "crowding out" critical capital investments in the Agency's modernization account. This is still a challenge today. As FAA focuses on increasing workforce productivity and decreasing costs, it must also continue to address the expected increase in air traffic controller and safety inspector retirements and ensure that it has the right number of controllers and inspectors at the right locations.

FAA Continues To Make Progress in Implementing Its Controller Workforce Plan, but Further Efforts Are Needed in Several Key Areas

In December 2004, FAA issued the first in a planned series of congressionally directed annual reports that outline the Agency's plans for hiring new controllers to replace those expected to leave over the next 10 years. The 2004 plan also outlined various initiatives for increasing controller productivity and for decreasing on-the-job training time and costs. FAA issued a June 2006 update to the 2004 plan, which

[6] OIG Report Number AV-1999-066, "Federal Aviation Administration's Financing and Cost Control," March 22, 1999.

revised projected hiring to approximately 11,800 new controllers over the next 10 years.

In June 2006, we began a review of FAA's progress in implementing key initiatives of its controller workforce plan and issued our final audit report last Friday. Overall, we found that FAA continues to make progress in implementing a comprehensive and complex staffing plan. For example, we found that FAA made significant improvements by centralizing many aspects of its hiring process. We also found that FAA made progress in reducing the time and costs to train new controllers, primarily through greater use of simulator training at the FAA Training Academy, and implemented a new national database to track on-the-job training statistics.

Further progress is needed, however, in several key areas.

First, FAA is still in the process of validating facility-level staffing standards, which are a foremost necessity in effectively placing newly hired controllers where they will be most needed. Planning by location is critical because FAA has over 300 terminal and en route air traffic control facilities with significant differences in the types of users served, the complexity of airspace managed, and the levels of air traffic handled. Without accurate facility-level planning, FAA runs the risk of placing too many or too few controllers at these locations.

FAA is aware of this concern and is validating its facility staffing standards down to the sector and position level for each location in order to develop accurate staffing ranges for all of its facilities. FAA expects to complete this assessment for its 21 en route centers (its largest facilities) in early 2007. However, FAA does not expect to complete the entire project, including terminal facilities, until late 2008. Given the goal of increasing controller productivity, the lengthy training time, and the significant expenditures that will be required to hire and train new controllers over the next 10 years, FAA must ensure this project remains on track.

We recommended that FAA report in its next annual update to the workforce plan in March 2007 the progress made in validating facility staffing standards, including the number of facilities completed, the staffing ranges established for each location, and the estimated completion date for all remaining facilities. FAA concurred with our recommendation and agreed to include a section on the progress made in the next update of the plan.

Second, FAA reached its goal of reducing controller staffing by 3 percent for FY 2005, but it is unknown whether the initiatives established in the 2004 Plan were effective in helping achieve that reduction. FAA introduced several initiatives in the 2004 Plan intended to improve workforce efficiency and controller productivity. Those initiatives include efficiencies such as reducing the use of sick leave by

8 percent, ensuring appropriate use of workers' compensation benefits, and increasing scheduling efficiencies.

FAA achieved a 3-percent productivity gain in FY 2005 by decreasing total controller staffing by 3 percent, a goal established in the 2004 Plan. However, it is unclear what, if any, additional impact FAA's productivity initiatives had on controller productivity because FAA did not establish baseline metrics for measuring their effectiveness. We recommended that FAA establish baseline metrics for the initiatives and update the Plan annually to reflect actual progress in achieving each initiative and ultimately in achieving its goal to reduce controller staffing by 10 percent. FAA agreed to continue to provide status updates for the initiatives but stated that estimating the contribution of each initiative would be labor intensive and costly and would divert resources.

We believe that FAA should reconsider its position. Without the metrics to determine if the productivity initiatives are driving the reductions in staffing, FAA runs the risk of simply having fewer controllers controlling more traffic. This is important given that the Agency is still validating its staffing needs at the facility level.

Third, FAA has not identified the total costs associated with the plan. FAA's 2006 Update does not identify the annual and total costs for hiring, training, and certifying new controllers to meet future requirements. The cost of hiring and training over 11,800 new controllers will be substantial, particularly since it currently takes 2 to 5 years for new controllers to become fully certified. During that time, FAA incurs the cost of the trainee's salary and benefits as well as the cost of the salaries and benefits of the certified controllers who instruct trainees individually.

FAA submitted some of the cost details associated with the 2004 Plan in its FY 2008 budget submission. For example, FAA requested $15.9 million to hire and train new controllers in FY 2008. Of that amount, $5.9 million is to hire 1,420 new controllers in FY 2008 and the remaining $10 million is to support classroom and laboratory training for approximately 3,900 controllers hired since FY 2005.

We recommended that FAA develop detailed cost estimates and offsets so that the Agency's stakeholders clearly understand the resources required to execute the plan.

An Evolving Aviation System Requires That FAA Maintain a Sufficient Number of Safety Inspectors Positioned in the Right Locations

Safety is and must remain FAA's highest priority. Although accidents have occurred in recent years, the United States continues to maintain the safest aviation system in the world. While much credit is due to safety systems that air carriers have built into their operations, FAA regulations and inspectors play an important role in providing an added layer of safety oversight. As shown in Table 3, this oversight covers a vast

network of operators and functions, which make up the largest, most complex aviation system in the world.

Table 3. FAA Inspectors' Workload

Commercial Air Carriers	123	Flight Instructors	90,555
Repair Stations	4,927	FAA Designee Representatives	11,000
Active Pilots	744,803	Aircraft	347,326
Approved Manufacturers	1,738	FAA-Licensed Mechanics	320,293

Source: FAA

FAA's 3,865 inspectors must oversee both domestic and foreign aspects of these operations—a task made more difficult by the rapidly changing aviation environment. To ensure that the system remains safe, FAA must maintain a sufficient number of inspectors.

FAA needs effective oversight systems to maximize inspector resources. FAA will never have an inspection workforce that is large enough to oversee every aspect of aviation operations. As a result, FAA has been working toward using risk-based safety oversight systems—that is, systems that target inspection resources to areas of greatest risk.

Without question, risk-based oversight is the best approach; however, our past reports have identified a wide range of areas in which FAA should strengthen its inspector oversight. For example, air carriers continue to increase their use of external maintenance facilities, but FAA still needs to implement better processes to determine where air carriers send their critical maintenance. In December 2005, we reported[7] that FAA must understand the full extent and type of work that is being performed by non-certificated repair facilities. These facilities are not licensed or routinely visited by FAA inspectors but perform critical maintenance, such as engine replacements. FAA has yet to develop a process to determine which non-certificated repair facilities perform this type of maintenance for air carriers. Until FAA knows where critical maintenance is performed, it cannot ensure it has focused its inspection resources to areas of greatest risk.

[7] OIG Report Number AV-2006-031, "Review of Air Carriers' Use of Non-Certificated Repair Facilities," December 15, 2005.

FAA developed a risk-based oversight system for FAA-certified repair stations; however, it only recently completed full implementation of the system. If used effectively, the new repair station oversight system should significantly improve FAA's ability to target resources to areas of higher risk in this growing segment of the aviation industry.

A changing aviation environment requires strategic inspector placement. The pace at which changes are occurring in today's aviation environment makes it imperative that FAA place sufficient resources in areas where they are most needed. FAA has made at least two attempts to develop a staffing model to determine the number of inspectors needed and the best locations for placement. Neither model, however, provided FAA with an effective approach to allocate inspector resources. At the request of this Subcommittee, the National Research Council completed a study in September 2006 of FAA's current methods for allocating inspector resources. This study validated our concern expressed in many of our past reports—that FAA's current method of allocating inspectors is antiquated and must be redesigned to effectively target inspectors to those areas of higher risk.

In particular, the Council reported that the changing U.S and global aviation environments have important implications that will be key drivers of future inspector staffing needs. For example, airlines' outsourcing of aircraft maintenance, FAA's shift to a system safety oversight approach, and safety inspectors' attrition and retirement are all important changes that must be considered in determining staffing needs. This year, 28 percent (1,085 of the 3,865) of the current inspector workforce will be eligible to retire. By 2010, more than one-third, or 44 percent, of the workforce will be eligible to retire. To counter this trend, FAA requested funding to hire an additional 203 aviation safety inspectors in its 2008 budget submission.

Unless FAA develops an effective staffing model, however, it will not be able to make effective use of the resources that it obtains. Further, the Council stressed that FAA must ensure that its safety inspectors are sophisticated database users, with knowledge of system safety principles and an analytical approach to their work. In addition, inspectors must maintain their capabilities to conduct thorough on-site inspections of air carrier, aircraft maintenance, and aircraft manufacturer operations.

At the same time, FAA must prepare for emerging safety issues, such as very light jets and unmanned aerial vehicles. For example, by 2017, approximately 5,000 new aircraft known as very light jets will be an integral part of the U.S. aviation system. These aircraft will be flown by a new class of pilots with mixed levels of expertise and will vie for airspace with commercial jets. Three models of very light jets were certified in 2006 for operation. As these become operational, FAA inspectors will face new oversight challenges in every aspect of FAA's operations, including inspector oversight of pilot training and aircraft maintenance and air traffic control.

CHALLENGES FACING FAA'S MODERNIZATION EFFORTS

FAA faces challenges in maintaining existing systems while developing and implementing new capabilities to meet the anticipated demand for air travel. For FY 2008, FAA is requesting $2.46 billion in capital funds, the majority of which ($2.3 billion) is for ATO efforts to modernize the National Airspace System. Since FY 2005, capital funding requests have been essentially flat, falling within the range of $2.4 billion to $2.5 billion and well below the levels authorized in the Vision 100 Act.

Over the last several years, increasing operating costs have crowded out funds for the capital account. Another trend has been FAA's decision to cancel, defer, and segment acquisitions while the capital budget stayed essentially flat. Further, only about 50 percent of FAA's capital budget goes to air traffic systems; the remainder goes to personnel, mission support, and facilities. Although the majority of FAA's capital funds will go for sustainment, FAA is requesting funds for two key technologies for NGATS.

- **Automatic Dependent Surveillance-Broadcast (ADS-B)**[8] is a satellite-based technology that allows aircraft to broadcast their position to others. FAA requested $80 million in FY 2007 for this satellite-based technology and is requesting $85.7 million for FY 2008. FAA expects to award a contract for the installation and maintenance of the ADS-B ground infrastructure in 2007. However, a number of challenges must be addressed; these include conducting human factors work and determining how air and ground elements will be certified as safe. FAA may have to rely on a rulemaking initiative to help speed equipage.

- **System Wide Information Management (SWIM)** is a new information architecture that will allow airspace users to securely and seamlessly access a wide range of information on the status of the National Airspace System and weather conditions. It is analogous to an internet system for all airspace users. FAA requested $24 million for this program in FY 2007 and is requesting $21.3 million for FY 2008. We note that SWIM is scheduled to be reviewed by FAA's Joint Resources Council in the spring of 2007.

At the request of this Subcommittee, we are updating our work on progress and problems with FAA's major acquisitions and efforts to move toward NGATS. We are tracking 18 programs with a combined acquisition cost of $17 billion. Today, we will

[8] The first phase of ADS-B implementation, known as *ADS-B out*, is expected to replace many ground radars that currently provide aircraft surveillance with less costly ground-based transceivers. Aircraft would be equipped with ADS-B out, which broadcasts a signal to these transceivers. However, implementing ADS-B out is just the first step to achieving the larger benefits of ADS-B, which would be provided by *ADS-B in*. ADS-B in would allow aircraft to receive signals from ground-based transceivers or directly from other aircraft equipped with ADS-B. This could allow pilots to "see" nearby traffic and, consequently, transition some responsibility for maintaining safe separation from the air traffic controllers to the cockpit.

highlight (1) progress and problems with key modernization efforts and (2) actions required to reduce risk with NGATS.

Progress With Major Acquisitions: FAA Needs To Keep Major Acquisitions On Track

We do not see the massive cost growth we have seen in the past with FAA acquisitions. However, we found that several projects require significant attention because of their size, recent problems, or importance to the NGATS transition.

En Route Automation Modernization (ERAM): This program is intended to replace the "HOST" computer network—the central nervous system for facilities that manage high-altitude traffic. FAA requested $375.7 million for ERAM in FY 2007 and is requesting $368.8 million for FY 2008. The first ERAM system is scheduled to be fielded by December 2009.

With an acquisition cost of $2.1 billion and a monthly expenditure or "burn rate" of $31 million, this program continues to be one of the most expensive and complex acquisitions in FAA's modernization portfolio. While currently on track, considerable testing and integration work lies ahead. The next major milestone is completion of systems integration, which is planned for April 2007. ERAM cost increases or schedule slips would have a cascading impact on other capital programs and could directly affect the pace of the overall transition to NGATS.

Federal Aviation Administration Telecommunications Infrastructure (FTI): The purpose of the FTI program is to replace seven telecommunications networks that are owned and leased by FAA with a single network that will provide FAA with telecommunications services through 2017. FAA expects FTI to significantly reduce its operating costs after the new network is completed. In FY 2007, FAA requested $28 million for the FTI program and is requesting $8.5 million for FY 2008. However, the vast majority of FTI is funded out of the Operations Account. For example, for FY 2008, FAA estimates it will need $211 million to support FTI operations and another $91 million to support the existing system.

In April 2006,[9] we reported that FTI was a high-risk, schedule-driven effort that was unlikely to meet its December 2007 completion date. We found that FAA needed to improve management controls over FTI by developing a realistic master schedule and an effective transition plan. To its credit, FAA has taken positive steps by revising its schedule and developing an effective transition plan that was coordinated with all affected parties. As a result of these steps, the Agency extended the FTI completion date to December 2008, a 1-year schedule delay.

[9] OIG Report Number AV-2006-047, "FAA Telecommunications Infrastructure Program: FAA Needs To Take Steps To Improve Management Controls and Reduce Schedule Risks," April 27, 2006.

FAA also increased its acquisition costs to develop the FTI network by $8.6 million (from $310.2 to $318.8 million) and increased its operations costs to provide life-cycle support by about $100 million (from $3.0 to $3.1 billion). This cost growth is further eroding anticipated cost savings. By December 2004, FAA's expected benefits dropped from $820 million to $672 million. By the end of FY 2006, we estimated that benefits had dropped to about $415 million. However, FAA has not yet independently validated FTI cost and benefits estimates—an action that we recommended and FAA agreed to take—so actual costs and benefits remain unknown.

In May 2006, we began a follow-up review of FTI. FAA is making significant progress in delivering FTI services, and 8,611 of about 20,000 services were operating on FTI as of December 31, 2006. However, FAA continues to face challenges in making the transition to FTI. For instance, FAA currently has a large backlog of re-work amounting to about 20 percent of the total number of services that FAA attempted to transition to the FTI network. Additionally, transitioning digital services, such as critical radar and flight data, to FTI continues to be problematic. For example, FAA put a "national hold" on transitioning flight data services between air route traffic control centers until a solution is identified.

Further, FAA needs to ensure that it has an effective strategy to address FTI reliability and customer service problems that have led to a number of serious outages (i.e., unscheduled outages leading to flight delays). For example, on January 9, 2007, the Salt Lake City Center experienced a 3-hour outage that caused 90 departure delays due to an FTI maintenance contractor trying to upgrade operational FTI equipment.

Overall, key watch items for FTI include addressing schedule delays caused by the growing backlog of re-work, improving FTI reliability and customer service, and validating cost savings. FAA also needs to complete negotiations to extend its bridge contract for LINCS (FAA's largest and costliest existing network), which expires in March 2007. (Currently, only about 34 percent of LINCS circuits have been cutover to FTI.) Until negotiations are complete, the total cost to transition to FTI remains unknown. We will report on the FTI program later this year.

Airport Surface Detection Equipment-Model X (ASDE-X): We are currently reviewing ASDE-X, which is an important safety initiative planned to reduce the risks of accidents on runways. In FY 2007, FAA requested $63.6 million for the ASDE-X program and is requesting $37.9 million for FY 2008.

ASDE-X is FAA's latest effort designed to provide controllers with positive identification of aircraft and vehicle positions on the airport surface. It is planned to improve airport safety by operating in all-weather and low-visibility conditions (e.g., fog, rain, and snow) when controllers cannot see surface movement on ramps, runways, and taxiways.

ASDE-X was initially designed to provide a low-cost alternative to FAA's ASDE-3 radar systems but has evolved into a different program. FAA made a significant change to the scope of the program in September 2005 and now intends to upgrade 25 ASDE-3 systems with ASDE-X capabilities and install the system at 10 other airports that currently lack surface surveillance technology. In September 2005, FAA revised ASDE-X costs to $549.8 million. Additionally, the ASDE-X completion date has slipped from 2007 to 2011. We remain concerned about the possibility of further cost increases and schedule slips, and uncertainty remains regarding when key safety features (such as automatic alerts for intersecting runways) will be delivered. We plan to issue a report on these issues later this year.

Air Traffic Management (ATM): ATM includes the Traffic Flow Management–Modernization (TFM-M) program and the Collaborative Air Traffic Management Technologies (CATMT) program. TFM-M modernizes the TFM system, which is the Nation's single source for capturing and disseminating air traffic information to reduce delays and make maximum use of system capacity. CATMT provides new decision support tools to deliver additional user benefits and increase effective NAS capacity. At a cost of $450 million, these are two key efforts for coordinating air traffic across the NAS and managing the adverse impacts of bad weather. In FY 2007, FAA requested $79 million for ATM programs and is requesting $91 million for FY 2008.

Although the TFM-M effort has not experienced cost increases or schedule delays, we are concerned about risks and what will ultimately be delivered. Our concerns are based on the fact that FAA and the contractor significantly underestimated the size and complexity of TFM-M software development. FAA was pursuing TFM-M through a cost-reimbursable agreement, meaning that all risk for cost growth rested with the Government. FAA is modifying the contract and adjusting the approach of work to be performed.

The current risks for TFM-M focus on developing complex software, integrating TFM-M with other NAS systems, and stabilizing requirements. We note that interfaces with weather platforms and ERAM have yet to be defined.

There are three near-term issues with FAA's major acquisitions that require attention:

- **Replacement of Aging Controller Displays:** FAA's FY 2008 request calls for $40 million for efforts aimed at modernizing controller displays and related automation systems at terminal facilities. In the past, FAA's modernization efforts focused exclusively on the Standard Terminal Automation Replacement System (STARS). Faced with cost growth in excess of $2 billion for STARS, FAA rethought its terminal modernization approach, shifted to a phased process, and

renamed it Terminal Automation Modernization-Replacement (TAMR).[10] In 2005, FAA approved modernizing five small sites and replacing the aging displays at four large, complex facilities. This leaves over 100 sites that still need modernization.

Without question, the most urgent concern facing terminal modernization is how quickly FAA can replace aging displays at the four large sites that are particularly critical to the NAS—Chicago, Denver, St. Louis, and Minneapolis. FAA chose not to compete this work based on a joint proposal from two contractors and instead decided to modify the current STARS contract to include the work. Although this was expected to expedite replacement of the aging displays, the time spent revising the contract to establish cost, schedule, and design parameters caused FAA to lose the time advantage from foregoing competition. As a result, the aging displays will not be replaced until 2008. We recommended action on this matter over 2 years ago in November 2004. FAA should seek ways to accelerate completion of this effort.

- **Upgrading Power Distribution at Air Route Traffic Control Centers and Several Terminal Facilities:** After electrical outages in southern California delayed over 300 flights in July 2006, FAA determined that it needed to upgrade its emergency power back-up systems at all facilities managing high altitude air traffic to prevent a recurrence of this failure at other locations.[11] However, cost profiles are not included in the Agency's current Capital Investment Plan, and some reprioritization of efforts may be required. FAA must establish cost and schedule parameters for these efforts and fund them accordingly.

- **Resolving Problems With FAA's New Automation System for Managing Oceanic Air Traffic:** Since September 2005, FAA controllers have experienced recurring failures (loss of data-link communication with aircraft and aircraft position jumps) with its new system—the Advanced Technology and Oceanic Procedures (ATOP)—at the Oakland, California, site. These problems directly limit the potential capacity and productivity benefits from the new automation system.

  According to controllers, these incidents represent potentially hazardous safety conditions that need to be resolved. The larger separation distances required between aircraft over the oceans than for those in domestic airspace have allowed controllers to manage these problems. However, benefits from the new automation system, such as reduced separation, have not been fully realized. FAA

[10] OIG Report Number AV-2005-016, "Terminal Modernization: FAA Needs To Address Its Small, Medium, and Large Sites Based on Cost, Time, and Capability," November 23, 2004.

[11] For additional details, see our letter to Senator Boxer regarding equipment outages in southern California (CC-2006-279, November 7, 2006).

needs to resolve the problems that it has identified with communication service providers and aircraft avionics and adjust ATOP software as needed to realize expected benefits.

Reducing Risks Associated With the Next Generation Air Traffic Management System

The overarching question facing FAA's capital account focuses on how to move forward with the next generation air traffic management system (NGATS). This is a high-risk effort of unprecedented scope and complexity that also involves complex policy questions as well as billion-dollar investments by FAA (new systems) and airspace users (new avionics).

In our report, requested by this Subcommittee, we highlighted a number of actions that FAA and the Joint Planning and Development Office (JPDO) need to take to make the shift from research to implementation and reduce risk with this extraordinarily complex effort:

FAA needs to develop realistic cost estimates, quantify expected benefits, and establish a road map for industry to follow. We have seen preliminary estimates for NGATS from FAA and other agencies. Generally, these estimates suggest that FAA will need between $500 million and $1 billion annually for the next 5 years over current capital investment levels. Considerable development will be required, and there are unknowns with respect to performance requirements for new automation systems and data-link communications. Another cost driver focuses on the extent to which FAA intends to consolidate facilities based on modern technology. When reporting NGATS costs to Congress, we recommended that FAA report costs on three vectors—research and development needed, adjustments to existing projects, and costs for new initiatives. FAA agreed and stated it will be building a comprehensive cost estimate this year.

More work remains to set expectations, requirements, and milestones. At workshops, industry participants have asked FAA for a "service roadmap" that (1) specifies required aircraft equipage in specific time increments, (2) bundles capabilities with clearly defined benefits and needed investments, and (3) uses a 4- to 5-year equipage cycle that is coordinated with aircraft maintenance schedules. Once concepts and plans have matured, it will be important for FAA to provide this information to industry.

FAA needs to review ongoing modernization projects and make necessary cost, schedule, and performance adjustments. As FAA's budget request points out, 30 existing capital programs serve as "platforms" for NGATS. We recommended that FAA review ongoing modernization programs to determine what adjustments in cost, schedule, and performance will be required. This is critical because NGATS planning documents suggest that billions of dollars will be needed to adjust ongoing programs,

like ERAM and TFM-M. Moreover, over 25 critical decisions must be made about ongoing programs in the FY 2007 to FY 2008 timeframe that will directly impact how quickly new capabilities can be deployed. These decisions include how to establish requirements for future ERAM software releases, how to make investment decisions about supporting existing radars, and how to incorporate weather information into SWIM.

FAA and the JPDO need to develop approaches for risk mitigation and systems integration. FAA and the JPDO must articulate how past problems that affected modernization efforts (such as cost growth, schedule slips, and performance shortfalls) will be mitigated and what specific skill sets will be required to do so. The transition to NGATS will pose complex software development and integration problems and require synchronized investments between FAA and airspace users over a number of years. In response to our report, FAA plans to address our concerns later this year.

FAA is requesting $50 million in its FY 2008 budget for demonstration projects, which are important opportunities to reduce risk. FAA has in the past had problems with certifying systems as safe that led to cost growth and schedule slips. Therefore, we recommended, and FAA agreed, that planned NGATS demonstration projects develop sufficient data to establish a path for certifying new systems and identify the full range of adjustments to policies and procedures needed for success.

ACQUISITION AND CONTRACTING ISSUES

Providing increased attention to ensure that procurement and acquisition activities are conducted in an efficient and effective manner and that taxpayer dollars are protected from fraud and abuse is a Government-wide priority, and we have focused significantly more audit and investigative resources on procurement and acquisition issues. In our testimony today, we would like to highlight two specific watch areas for FAA: support services contracts and the transition of flight services to contract operations.

Support Services Contracts

FAA's use of support service contracts is an important watch item for Congress. FAA faces challenges for each phase of the acquisition cycle, including planning, awarding, and administering support services contracts. In FY 2006, FAA obligated about $930 million for support services using numerous contracts and three multiple-award "umbrella" procurement programs.

On September 21, 2006, we issued a report[12] on our review of the RESULTS program (one of the three multiple-award programs), for which FAA has awarded about

[12] OIG Report Number FI-2006-072, "Audit of the Federal Aviation Administration's RESULTS National Contracting Service," September 21, 2006.

$543 million since program inception. We found that the program was not properly established or managed. Continued use of this program would cost FAA tens of millions of dollars in higher costs. FAA terminated this procurement program in 2006 and started strengthening oversight of all support service contracts. FAA needs to pay special attention to the following.

Verification of Labor Qualification and Rates: Labor costs generally account for the largest portion of support service contract costs. Our RESULTS audit and FAA's own review identified incidents when contractor staff did not meet the expected qualifications for positions billed. For example, we found an employee on a contract was originally billed as an administrative assistant at an hourly rate of $35. Four months later, the same employee was billed as an analyst at an hourly rate of $71 without any proof of additional qualifications. Verifying contract labor qualification for the rates billed could potentially save FAA millions of dollars for support services.

In conjunction with our RESULTS audit, the FAA Administrator announced an Agency-wide initiative to strengthen internal controls over procurement. FAA also reviewed one of its other multiple-award programs, BITS II, and found similar problems. For example, FAA found evidence that multiple contractors had extensively billed FAA for employees at labor rates that were higher than their actual education and experience warranted, as specified by terms of the contract.

FAA referred this matter to us for investigation. In one case, we found that a contractor invoiced FAA for the services of an employee in the labor category of "Senior Management Analyst" at a rate of $100 per hour, instead of the proper rate of $40 per hour based on the employee's qualifications. Specifically, the "Senior Management Analyst" category required an individual with 12 years of direct experience, yet the employee in question had only 2 years of experience. As a result of our investigation to date, 8 of 13 contractors have agreed to repay a total of $6.5 million in inflated billings under administrative settlements with FAA.

Review of Contractor-Proposed Prices: Our audit found that FAA awarded contracts without sufficient competition and price analyses. FAA now requires that the Deputy Administrator approve all new contracts valued over $1 million that are awarded on a sole-source basis. While this is a step in the right direction, FAA still needs to strengthen its review of contractor-proposed prices. When facing inadequate competition from bidding contractors, FAA's contracting officers are required to perform a price analysis to assess the fairness of contractor-proposed prices. We found that this control was not working in many incidents. For example, we found a case where the independent Government cost estimate was prepared by the contractor to whom the contract was awarded. We plan to follow up on FAA's use of price and cost analysis techniques to ensure the reasonableness of prices in contract proposals.

FAA Has Implemented a Series of Internal Controls To Manage the Transition of Flight Services to Contract Operations and Is Entering the Most Critical Phase of the Transition

On February 1, 2005, FAA awarded a 5-year, fixed-price incentive contract (with 5 additional option years) to Lockheed Martin to operate the Agency's 58 flight service stations in the continental United States, Puerto Rico, and Hawaii. The contract, worth about $1.8 billion, represents one of the largest non-defense outsourcing of services in the Federal Government.

FAA anticipates that by contracting out flight service facilities, it will save $2.2 billion over the 10-year life of the agreement. On October 4, 2005, Lockheed Martin took over operations at the 58 flight service stations. In May 2006, we began a review of FAA's controls over this transition process.

Overall, we found that FAA has implemented effective controls over the initial transition of flight service stations to contract operations. These controls include contractual performance measures that require the contractor to achieve acceptable levels of safety, operational performance, and service and internal mechanisms that oversee the operational and financial aspects of the program.

We also found that the Agency uses these controls to monitor contract flight service stations and, in some cases, penalizes the contractor for poor performance. To date, FAA has imposed approximately $9 million in financial penalties against the contractor for failing several contractual performance measures; FAA is requiring the contractor to submit corrective action plans to resolve the deficient performance measures.

However, FAA and the contractor are now entering the next and most critical phase of the transition. Beginning this month, the contractor plans to complete, test, and implement a new software operating system for flight service stations and consolidate the existing 58 sites into 3 hub and 17 refurbished locations—all within 5 months. Any slips in that schedule could have significant implications to the costs and anticipated savings of the transition.

One critical tool that could assist FAA in monitoring this transition—a variance report comparing estimated and actual first-year costs—has not been completed. This tool would allow FAA to identify cost overruns, determine the reasons for the overruns, and allow for adjustment to ensure that savings are realized. According to the FAA Flight Services Program Director, the Program Office has recently received the necessary cost accounting data and expects to complete the first report sometime this month. We will review the completed variance report and expect to issue our report assessing FAA's progress during the next phase of the transition later this year.

USING THE COST ACCOUNTING SYSTEM TO IMPROVE OPERATIONS

Since 1996, FAA has spent over $66 million to implement a cost accounting system. Regardless of the financing system ultimately decided upon by Congress, FAA must have an effective cost accounting system. A multibillion-dollar organization such as FAA must have a cost accounting system that provides visibility into the cost of its operations to help management shape decisions and establish priorities.

FAA has substantially completed its cost accounting system. It covers all lines of business and captures the annual labor costs of substantially all its personnel, the latter having a total value of about $7 billion—the single largest cost item to FAA. Overall, FAA's cost accounting system is properly designed to assign costs to service organizations for performance monitoring. However, to enhance operational efficiency, FAA must ensure the accuracy of financial data in the cost accounting system.

Financial transactions in FAA's core accounting system are used to compile financial statements for audits and to feed the cost accounting system, which in turn assigns accumulated costs to responsible service organizations. Accordingly, the integrity of the cost accounting system depends on the reliability of its financial accounting system. FAA received a qualified audit opinion on its FY 2006 financial statements because it could not adequately support the Construction in Progress (CIP) account balance, which totaled $4.7 billion as of September 30, 2006, in its financial accounting system. As a result, costs assigned to service organizations in the cost accounting system could contain significant errors.

FAA is in the process of completing a cost allocation system to develop user fees for its Air Traffic Organization services. According to FAA, however, it may not include construction-related costs in its user fees. Regardless of whether construction-related costs will be used to support user fees, FAA needs to enhance the integrity of its underlying financial data processes to make sound business decisions. FAA is making a concerted effort to correct this deficiency, improve its practice of tracking capital investments, and make proper adjustments in its accounting records. We will continue to closely monitor FAA's corrective actions.

AIRPORT ISSUES

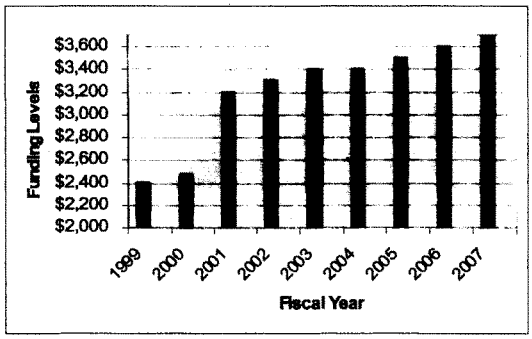
In the coming months, Congress and aviation stakeholders will discuss important questions about how to fund airport improvement projects. Airport Improvement Program (AIP) funding levels for FY 2008 are an important topic of today's testimony. Further, key issues during the reauthorization debate will be AIP and passenger facility charges (PFC) funding levels, project priorities, and project eligibility.

Airport Improvement Program

FAA is requesting $2.75 billion for the AIP in FY 2008. Since the current authorization, Vision 100, expires in FY 2007, no AIP authorization target exists for FY 2008. However, the FY 2008 request is a substantial reduction over the FY 2007 authorized level in Vision 100.

The AIP supports the airport system by providing funds to primarily enhance safety and security, maintain the infrastructure, increase capacity, and mitigate airport noise in surrounding communities. AIP authorized funding has steadily increased over the last 9 years. As shown in Figure 1, authorized funding increased by approximately 54 percent from 1999 to 2007. Since 2001, the AIP has been authorized at $3.2 billion or higher in funding each year.

Figure 1. AIP Authorized Funding Levels, 1999 to 2007
($ in Millions)



Sources: 1999-2003 Wendell H. Ford Aviation Investment and Reform Act for the 21st Century and 2004-2007 Vision 100-Century of Aviation Reauthorization Act.

As shown in Table 4, 2 of the last 3 years' budget requests have been significantly less than authorized levels. The FY 2007 budget request for AIP funding of $2.75 billion was nearly $1 billion less than authorized under Vision 100 for FY 2007.

Tabl 4. AIP Authoriz d and Budg t Request Funding L vels 2005 to 2007

Fiscal Year	Authorized (in thousands)	Budget Request (in thousands)
2005 (Vision 100)	$3,500	$3,500
2006 (Vision 100)	$3,600	$3,000
2007 (Vision 100)	$3,700	$2,750

Source: FAA Budget Requests from FY 2005 through FY 2007

However, Congress has provided FAA with close to the Vision 100 authorized amounts in FY 2005 and FY 2006. Under the FY 2007 continuing resolution, the AIP will be funded at the 2006 level of $3.5 billion. That would be a $200 million reduction from the FY 2007 authorized level, but would prevent any reduction in "formula grants."[13]

With the decrease in available AIP funds, FAA must take a more proactive role managing and overseeing airport grants. Since the early 1990s, we have identified hundreds of millions of dollars in airport revenue diversions, revenues that should have been used for the capital or operating cost of an airport but instead were used for non-airport purposes. In the last 4 years, we reported on revenue diversions of more than $50 million at seven large airports, including one airport whose sponsor—a local government agency—diverted about $40 million to other projects not related to the airport.

FAA is now taking a more active role to identify airport revenue diversions, but airports must do their part to ensure that airport revenues are not used for non-airport purposes. Similarly, as we testified last year, ensuring that airports dispose of land acquired for noise mitigation purposes when the land is no longer needed for noise compatibility purposes or airport development would also provide additional funds for airport projects. Our review in 2005 of 11 airports identified approximately $242 million that could be used for other noise mitigation projects at the respective airports or returned to the Airport and Airways Trust Fund.

With growing demands for airport improvement projects and potentially less AIP funding available, AIP funds must be directed to the Nation's highest priority projects while meeting the unique needs of small airports. During our current review of the AIP, we found that FAA policies and procedures, for the most part, ensure that these high priority projects are funded with AIP funds. We also found, however, that the

[13] FAA distributes a category of AIP funding called formula grants to primary airports (commercial airports with at least 10,000 passenger boardings per year), cargo service airports, and states (for general aviation and smaller airports) according to statutory provisions. These grants are calculated using specific formulas.

AIP Military Airport Program set-aside[14] (MAP) can result in low priority projects being funded at an airport that meets set-aside program requirements while higher priority projects at other airports could go unfunded.

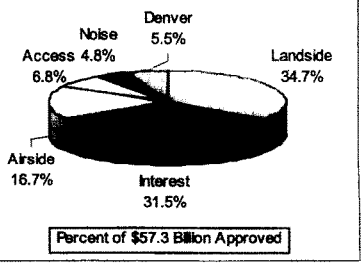
In order to meet the required level of MAP set-aside funding of approximately $34 million per year, the majority of projects being funded are comprised of lower priority projects as rated under FAA's numerical rating system. FAA ranks projects on a scale of 0 to 100. Projects rated at 40 or above are generally funded by FAA. However, in FY 2006, 18 of 26 (69 percent) MAP projects with ratings ranging from 17 to 36 were funded at an estimated cost of $31 million, as a result of the MAP set-aside funding requirements. For example, one project, with a rating of 19, was funded at a cost of more than $2.2 million to rehabilitate a parking lot.

Given the growth in projected passenger traffic and the Department's commitment to accelerate major airport infrastructure projects by giving priority treatment and resources to capacity projects, it may be time to reexamine AIP funding levels and the type of projects funded. We will be reporting on FAA's prioritization of AIP funds later this year.

Passenger Facility Charges (PFCs)

In addition to AIP funds, passenger facility charges (PFCs) have become an important funding mechanism for airports. For instance, between 1992 and 2006, FAA approved the collection of $57.3 billion in PFCs. Of this amount, airports have collected approximately $22 billion, with another $2.6 billion anticipated for 2007. In comparison, airports received about $35.2 billion in AIP grants between 1992 and 2006, with FAA requesting another $2.75 billion for 2007. Overall, airports anticipate using 34.7 percent of PFC collections to finance landside projects (e.g., terminals, security, and land), another 31.5 percent for bond interest payments, 16.7 percent for airside projects (e.g., runways, taxiways, and equipment), 6.8 percent for access roadways, 4.8 percent for noise abatement, and 5.5 percent for the Denver International Airport (see Figure 2).[15]

Figure 2. Approved PFC Uses by Category CYs 1992 to 2006



Source: OIG analysis of FAA data

[14] Under Vision 100, the AIP discretionary fund is subject to three statutory set-aside programs that benefit (1) noise compatibility planning to mitigate airport noise in surrounding communities; (2) the Military Airport Program to convert former military fields to civilian airfields; and (3) certain reliever airports.

Currently, PFCs are capped at $4.50 per segment of flight (a maximum of $18.00 on a round trip). The current cap on PFCs is an important matter for this Committee and has significant implications for major airports' capital expenditure plans. Over 75 percent (248 of 328 airports) of the airports collecting a PFC charge the maximum amount. The current cap has led some airports to collect PFCs for extremely long periods of time in order to cover the cost of their projects, including: Clarksburg, WV (50 years); Miami, FL (34 years); Detroit, MI (25 years), and Denver, CO (25 years). Overall, 45 percent of airports collecting a PFC have set collection periods longer than 10 years. Other airports are anticipating future increases in the cap as part of their financing plans, such as O'Hare International Airport. How future airports projects are funded and the level of AIP funding and PFC charges will be important issues as the Congress decides how best to finance FAA.

An important issue regarding PFCs is FAA's reliance on airport sponsors for PFC oversight. Unlike AIP grants, DOT and FAA officials have concluded that the Agency lacks clear authority to prevent airports from contracting with suspended or debarred companies for projects funded by PFCs. This is significant because, of the 838 projects that FAA approved in FY 2006 to receive PFC funding, 194 are to be funded solely by PFCs and 93 others via PFCs and other non-AIP funding sources. Moreover, of the associated $2.7 billion in approved PFC collections, an estimated $1.8 billion (67 percent) will go for projects funded solely by PFCs or a combination of PFC and other non-AIP funding sources. According to FAA, however, companies suspended or debarred for committing fraud on other government contracts cannot be excluded from projects funded solely with PFCs. Congress should consider legislation to address this risk area.

That concludes my statement, Mr. Chairman. I would be happy to address any questions you or other Members of the Subcommittee may have.

[15] FAA tracks Denver's PFC separately due to its large size and because it was used to fund the new airport, not specific projects.

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