Perspectives on FAA's FY 2007 Budget Request and the Aviation Trust Fund

Statement of
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Mr. Chairman and members of the Subcommittee:

We appreciate the opportunity to testify today regarding the Federal Aviation Administration's (FAA) fiscal year (FY) 2007 budget and the state of the Aviation Trust Fund. Financing FAA is one of the most important issues facing the Department, Congress, and the aviation industry. It is particularly important in light of the fact that the current FAA authorization—Vision 100—and the current ticket taxes expire in 2007.

Our office has an extensive body of work regarding cost control and financial issues within FAA. For example, in 1999 we reported that persistent cost growth in the Agency's operating account was "crowding out" critical capital investments in air traffic modernization and capacity-enhancing projects within the existing revenue base. This is still a concern today.

First, it is important that we recognize that FAA oversees the safest aviation system in the world. Prior to December 2005, when a Southwest Airlines aircraft skidded off the runway at Chicago Midway and struck a car killing a child in the vehicle, there had not been a large commercial air carrier fatal accident in this country in 4 years. Notwithstanding that tragic accident, the United States has maintained a remarkable safety record considering the many changes occurring within the industry, including financial uncertainty and rebounding air traffic.

In terms of traffic, FAA estimates that between FY 2004 and FY 2005 domestic passenger enplanements have risen about 7 percent (from 628 million in 2004 to 670 million in 2005). FAA also estimates that international passenger enplanements have risen about 12 percent over this same time frame (from 61 million in 2004 to 69 million in 2005). By 2015, FAA estimates that 1 billion passengers will board planes (both domestically and internationally) each year.

Although traffic is up, network air carriers continue to suffer huge losses as a result of soaring fuel costs and their high cost structures. Last year, eight air carriers were in bankruptcy, which represented about 35 percent of available capacity. Today, four remain under bankruptcy protection, representing about 17 percent of available capacity. But all the network carriers continue to work aggressively to move away from high cost structures by reducing in-house staff, renegotiating labor agreements, and increasing the use of outside repair stations.

It is against this backdrop that we would like to discuss FAA's FY 2007 budget request. An important message of our testimony this morning, Mr. Chairman, is that FAA's FY 2007 budget primarily focuses on short-term requirements, such as sustaining existing systems and equipment.

The long-term initiatives to address future capacity and the funding mechanisms necessary to implement them have not yet been defined. That is a critical issue for this Subcommittee and FAA as deliberations begin concerning FAA's next reauthorization and alternative methods for financing FAA.

Today, I would like to focus on two issues:
− Progress and challenges within FAA's three major accounts—Operations, Facilities and Equipment (F&E), and the Airport Improvement Program (AIP), and
− Observations on the current funding mechanisms for FAA.

FAA's FY 2007 Budget Request

Like the air carriers, FAA is in a tough financial environment and, like most Federal agencies, is facing the realities of an austere budget environment. Over the past 4 years, FAA's overall budget has remained relatively flat—between $13.7 billion and $14.3 billion. For FY 2007, FAA is requesting $13.7 billion, which is $561 million less than last year's appropriation. However, there are significant differences in the distribution of FAA's FY 2007 budget request among the Agency's various accounts. As shown in Table 1, the Operations account increased a little over 3 percent from last year's appropriations while the other 3 accounts were reduced. The F&E account is 2 percent less than last year, and the AIP account is almost 22 percent less than last year. Compared to the authorized levels in Vision 100, the budget request is $1.48 billion less—primarily in the AIP and F&E accounts.

Table 1: Comparison of Recent FAA Enacted Budgets and FY 2007 Requested and Authorized Levels
($ In Millions)

	FY 2004	FY 2005	FY 2006	FY 2007 (request)	FY 2007 (authorized)
Operations	$7,479	$7,707	$8,104	$8,366	$8,064
F & E	$2,871	$2,525	$2,555	$2,503	$3,110
AIP	$3,382	$3,497	$3,514	$2,750	$3,700
RE&D	$119	$130	$137	$130	$356
Total	**$13,851**	**$13,858**	**$14,310**	**$13,749**	**$15,230**

What we observed in 1999 continues to happen today. With FAA's overall budget remaining relatively flat, the increasing cost of FAA's operations continues to "crowd out" investments in FAA's capital and airport accounts. For example, between FY 2004 and FY 2007, FAA's overall budget decreased by about $100 million. However, during that period, FAA's operating costs increased by $887 million while FAA's F&E and AIP accounts were reduced by $368 million and $632 million, respectively.

Operations

FAA is requesting $8.4 billion for its FY 2007 operating budget, which is about $262 million above last year's enacted amount of $8.1 billion. The Air Traffic Organization represents $6.7 billion or nearly 80 percent of that request. The operations account is the largest portion of FAA's budget, representing nearly 61 percent of the Agency's FY 2007 request, whereas FAA's capital and airport account represent 18 and 20 percent respectively.

Since FY 1996, the first year of personnel reform, FAA's operating costs have increased from $4.6 billion to $8.4 billion requested for FY 2007, an increase of over 80 percent. Controlling operating cost growth remains a significant challenge for FAA—one that Administrator Blakey and her staff have consistently demonstrated a clear commitment to addressing.

Progress This Past Year. We would like to point out two notable accomplishments FAA made this past year to better manage its operating cost growth. First, FAA completed the A-76 process for its flight service functions. On October 4, 2005, employees of 58 flight service stations transitioned from Government service to the contractor—Lockheed Martin. FAA estimates that outsourcing this function should save the Agency more than $1.7 billion over the next 10 years. We plan to begin a review of this transition later this year to ensure that services continue to meet user needs and that the estimated savings are being realized.

In August 2005, FAA also completed deployment of its labor distribution system, which is critical for getting a handle on the actual costs and productivity of the Air Traffic Organization's employees—FAA's largest workforce. Labor distribution is the process of associating labor cost directly with activities and services by requiring employees to record their time worked on specific activities. The system is a critical component of FAA's cost accounting system, which was mandated by Congress in 1996.

Clearly, those efforts represent progress on the part of FAA toward its goal of becoming a performance-based and cost-driven organization. However, getting significant reductions in operating costs is difficult since over 70 percent of FAA's operating costs are made up of employee salary and benefits.

Some stakeholders, including FAA's own Management Advisory Committee, have advocated taking dramatic steps to reduce the Agency's costs, such as consolidating numerous facilities throughout the country and increasing outsourcing efforts. But those are complicated and difficult undertakings that require the collaboration of FAA's many stakeholders and may be the subject of further discussions during deliberations over the next reauthorization.

Challenges This Coming Year. FAA faces several challenges this year that have implications for the Agency's ability to live within its proposed FY 2007 operating budget. Those include completing negotiations for a new contract with controllers, addressing the expected surge in controller attrition, and maintaining a sufficient number of safety inspectors. FAA will also need to determine how to address the 1-percent Government-wide rescission for its FY 2006 appropriations.

- <u>Completing Negotiations Over a New Contract with Controllers.</u> A major challenge that FAA is currently facing is completing negotiations over a new collective bargaining agreement with the National Air Traffic Controllers Association (the union representing FAA's largest bargaining unit). A primary principle for FAA going into the negotiations was that it could not afford a new agreement similar to the existing agreement. According to FAA, the existing agreement cost the Agency $1.1 billion over the first 3 years of the contract. FAA has proposed several significant changes including hiring new controllers under a new pay system with pay bands that are less than the current pay system for controllers.

  Formal negotiations began in July 2005 and as of March 10, 2006, the parties had either agreed to or withdrawn 121 of 152 articles. However, the remaining 31 unresolved articles are some of the most difficult issues, including pay, annual leave, and work rules. FAA and the union recently agreed to mediation and extended the latest round of talks. That is an encouraging sign.

  There is a lot at stake. The outcome of the current negotiations has significant implications for FAA's future operating costs. It will also set the stage for labor/management relations between the Agency and the union over the next several years. Clearly, it is in the best interest of all stakeholders to complete the negotiations.

- <u>Addressing the Expected Surge in Controller Attrition.</u> Another challenge facing FAA is the hiring and training of nearly 12,500 new controllers through FY 2014 as controllers hired after the 1981 strike begin retiring. In December 2004, FAA issued the first in what will be a series of annual reports outlining FAA's plans for addressing that challenge. In our opinion, the plan is a good first step in that it lays out the magnitude of the issue and establishes broad measures for meeting the challenge. However, as we reported in May 2005, subsequent reports will need further details about the plan in two key areas.

  First, FAA's initial report did not identify how much the plan will cost to implement. The cost of hiring and training 12,500 new controllers will be substantial, particularly since it currently takes new controllers 2 to 5 years 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 salary and benefits of the certified controllers who instruct them one-on-one. The outcome of the negotiations with the controllers union will have a significant impact on the costs of the plan as well.

Second, the plan does not address hiring and staffing needs by location. Without this information FAA cannot have confidence in the number of controllers it needs. That level of detail is critical because there are over 300 FAA-operated air traffic control facilities—many with significant differences in the levels of air traffic they manage and the complexity of operations they handle, which are factors used to set controller salaries at individual locations.

We recommended that FAA address these issues in its next report to Congress, and establish baseline metrics for numerous productivity gains it plans to achieve over the life of the 10-year plan. FAA agreed with our recommendations and expects to issue its next report in April.

Identifying ways to reduce the costs and time of hiring and training new controllers will be an ongoing and critical issue for FAA for years to come. FAA will need to consider all opportunities to improve its hiring and training process. For example, in December 2005, we reported that FAA could reduce the time and costs of training new controllers by making certain educational requirements a prerequisite for candidates before they are hired. FAA agreed with our recommendation to evaluate this concept and has convened a task force to study the feasibility, with an expected completion date of October 2006.

- Maintaining a Sufficient Number of Safety Inspectors. While replacing retiring controllers is a critical issue for FAA, it is also important to maintain a safety inspector workforce sufficient to achieve the Agency's mission of safety oversight. In June we reported that while FAA has made progress in moving to a more risk-based approach to safety oversight, FAA inspectors could not effectively use the systems to monitor the rapidly occurring changes within the industry.

  In FY 2007, FAA's budget calls for an increase of 116 safety inspectors. However, it is unlikely that staffing gains over the next few years will be enough to offset the number of safety inspectors eligible to retire in coming years. For example, this year, 28 percent of the current inspector workforce (1,008 of 3,628) will be eligible to retire. By 2010, however, half of the safety inspector workforce (1,820 of 3,628) will be eligible to retire. In our opinion,

until its risk-based approach to safety oversight is effectively targeting resources to the areas of greatest risk, FAA needs to carefully evaluate its inspector staffing levels to sustain sufficient oversight in light of the potential attrition within that workforce.

- <u>Addressing the FY 2006 Government-wide Rescission.</u> Another challenge facing FAA this year is the 1-percent Government-wide rescission for FY 2006. The rescission will require FAA to cut about $82 million from its operating account. While the Agency is still determining how to incorporate the cut, FAA has included a long list of possible reductions in its FY 2007 budget request. Those possible reductions include deferring seven new starts for contract towers until 2007, reducing training for technical workforces, reducing overtime, continuing attrition in non-safety staff positions, and reducing expenditures in infrastructure support and maintenance, among many others.

  However, FAA is also considering reducing the planned number of controllers and safety inspectors it plans to hire in 2006, which could affect safety or operational efficiency. For example, in the FY 2006 Conference Report on the Department's appropriations, Congress provided FAA with a $12 million increase to fund additional safety inspectors.

  FAA has informed us that instead of increasing inspector staffing by 238 in FY 2006, it may only add 87. FAA needs to carefully evaluate this position given the changes in the industry and increased inspector workload demands.
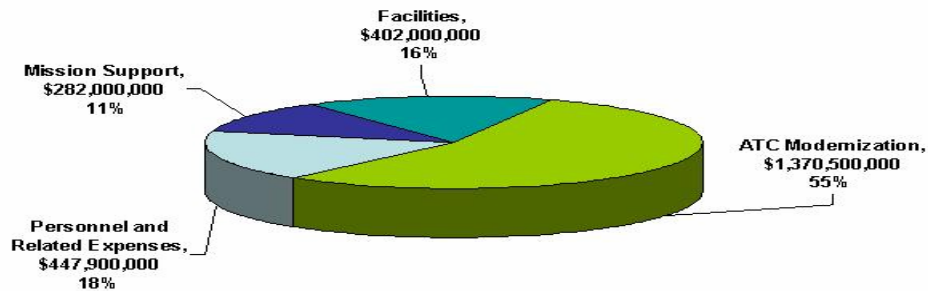
  FAA is also considering reducing funding for various airspace redesign projects. As we noted in May 2005, airspace redesign efforts are important to enhance the flow of air traffic, reduce delays, and get the most benefits from new runways. FAA is still considering how it plans to address the cuts, but with the fiscal year now half over, decisions need to be made and articulated to Congress.

Facilities and Equipment

FAA's capital account—or the F&E account—is the principal vehicle for modernizing the National Airspace System. It represents about 18 percent of the Agency's FY 2007 budget request. For FY 2007, FAA is requesting $2.5 billion for the Facilities and Equipment account, which is $50 million less than last year's appropriation. This is the fourth consecutive year that funding requests for the capital account are below authorized levels called for in Vision 100.

As illustrated in Figure 1, only about 55 percent of FAA's FY 2007 request for F&E (or $1.4 billion) will actually go for acquiring air traffic control systems, the remainder will be spent on personnel, mission support, and facilities.

Figure 1: FAA's FY 2007 Facilities and Equipment

Facilities, $402,000,000 16%

Mission Support, $282,000,000 11%

ATC Modernization, $1,370,500,000 55%

Personnel and Related Expenses, $447,900,000 18%

As we have noted in the past, the majority of FAA's capital account now goes for keeping things running (i.e., sustainment), not new initiatives. A review of the top 10 projects by dollar amount in the FY 2007 request shows that while some projects will form the platforms for future initiatives, the bulk of funds are requested for projects that have been delayed for years as well as efforts to improve or maintain FAA facilities or replace existing radars. Enclosure 1 provides information on the top 10 projects in FAA's FY 2007 budget request.

Over the last several years, FAA has deferred or cancelled a number of projects as funding for the capital account has remained essentially flat. This includes efforts for a new air-to-ground communication system, controller-pilot data link communications, and a new satellite-based precision landing system. FAA has also postponed making decisions on projects like the billion dollar *Standard Terminal Automation Replacement System.* These are some of the reasons why there is so much discussion about the next generation air traffic management system.

Notwithstanding a lack of clarity with respect to the cost and schedule of the next generation system, FAA is requesting F&E funds for two projects that are considered "building blocks" for the next generation system. These are not new programs per se and have been under development or been funded in previous budgets.

- Automatic Dependent Surveillance-Broadcast (ADS-B) is a satellite-based technology that allows aircraft to broadcast their position to others. In FY

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2007, FAA is requesting $80 million for this satellite-based technology. In prior budgets, ADS-B was funded under the *Safe Flight 21 initiative* which demonstrated the potential of ADS-B and cockpit displays in Alaska and the Ohio River Valley. FAA expects to make a decision about how quickly to implement ADS-B and at what cost later this year.

- System Wide Information Management (SWIM) is a new information architecture that will allow all 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 is requesting $24 million for this program in FY 2007.

Progress and Challenges with Key Air Traffic Control Modernization Projects.
We are not seeing the massive cost growth and schedule delays we have seen with FAA major acquisitions in the past. This is due to this Administration's efforts to take a more incremental approach to major acquisitions and decisions to defer several complex and challenging efforts. Last year, we reported that 11 of 16 major acquisitions accounted for cost growth of $5.6 billion[1]. Most of this cost growth occurred before the establishment of the Air Traffic Organization. It was also a reflection of efforts to re-baseline programs, which identified costs that had been pent up for years, and not reflected in prior cost estimates.

Many efforts are maturing and completing them within existing cost and schedule parameters is critical to allow room for future initiatives. Only one initiative, *FAA Telecommunications Infrastructure*, has the potential to reduce FAA's operating costs which is a top priority within the Agency. There are number of programs that require attention.

- En Route Automation Modernization (ERAM) is intended to replace the Host computer network—the central nervous system for facilities that manage high-altitude traffic. FAA is requesting $375.7 million for ERAM, which is this program's peak single year funding level according to FAA's Capital Investment Plan. With an acquisition cost of $2.1 billion, this program continues to be one of the most expensive and complex acquisitions in FAA's modernization portfolio. The monthly burn rate for ERAM will increase from $28 million a month in FY 2006 to $31 million per month in FY 2007. This year is critical for ERAM because the system is scheduled to come out of the lab environment and begin real world testing. Cost increases or schedule slips with ERAM will have a cascading

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[1] OIG Report Number AV-2005-061, "Report on the Status of FAA's Major Acquisitions: Cost Growth and Schedule Delays Continue to Stall Air Traffic Modernization", May 26, 2005. OIG reports and testimonies can be found on our website: www.oig.dot.gov.

impact on other capital programs and directly affect the pace of efforts to transition to the next generation system.

- FAA Telecommunications Infrastructure (FTI). FAA is requesting $28 million for its effort to replace its entire telecommunications system for air traffic control. In a recently issued draft report to FAA, we concluded that FTI is a high-risk program—with a lifecycle cost estimate of $2.4 billion ($310 million estimated acquisition costs and $2.1 billion estimated operations costs) through 2017—five years longer than originally planned. We also concluded that FAA is unlikely to meet its December 2007 revised completion date. In fact, only months after being re-baselined in December 2004, the program began falling behind its site acceptance schedule (which is primarily the installation of FTI equipment) and has not recovered.

  After site acceptance, three other critical steps are required to transition FTI services into the NAS and begin achieving cost savings. FTI is not likely to be completed on time because FAA has not developed a detailed, realistic master schedule for all critical steps, including identifying when each service will be accepted, when services will be cut over to FTI, and when existing (legacy) services will be disconnected. Further, until FAA develops a realistic master schedule, it will be difficult to obtain a binding commitment from the FTI contractor to complete the transition by December 2007.

  Because the primary purpose of the FTI program is to lower operating costs, which depend on deploying the system on schedule, expected benefits from reducing operating costs are eroding. For example, FAA did not realize $32.6 million in reduced operating costs in FY 2005 that it expected due to the limited progress made in disconnecting legacy circuits. Additionally, unless FAA accelerates FTI service cutover and legacy circuit disconnect rates substantially (almost 10-fold over FY 2005), the Agency will not realize about $102 million in estimated cost savings for FY 2006.

- Advanced Technologies and Oceanic Procedures (ATOP). FAA is requesting $31.3 million for ATOP. ATOP is a new automated system for managing oceanic air travel. FAA is now using ATOP in New York and Oakland full time, and Anchorage began initial operations earlier this month. Experience thus far indicates that ATOP can reduce flight times and has significant productivity benefits for controllers. We note that software development for ATOP has proven far more difficult and time-consuming than expected. FAA has increased the value of the fixed-price contract several times to keep the effort on schedule and is using more non-

fixed-price elements of the contract, which are at higher rates than what was established at contract award. FAA needs to establish metrics for ATOP's productivity enhancements that will help the Agency determine how many controllers it needs at facilities that manage oceanic traffic.

- Terminal Modernization and Aging Displays. The cost to complete terminal modernization remains an unknown, long standing issue. FAA is now requesting $93.5 million for terminal automation in FY 2007. Facing cost growth of over $2 billion for the *Standard Terminal Automation Replacement System* (STARS), FAA changed its approach to terminal modernization and created a new effort, called *Terminal Automation Modernization/Replacement* (TAMR). Based on TAMR results, FAA decided to upgrade the displays at four sites and replace the entire system at five small sites. This leaves over 100 sites that still need modernization.

  Of particular concern is the replacement of aging displays at four large terminal sites, such as Chicago and Denver. As we noted in November 2004, recurrent problems with the aging displays have safety implications. FAA decided to award a competitive contract to replace the displays. FAA has not yet issued the proposal to replace these displays, but expects to complete this effort by 2008 and is exploring ways to expedite the deployment.

FAA Must Strengthen Controls Over Support Service Contracts. FAA needs to strengthen its controls over its support service contracts to eliminate overspending and ensure that quality services are being procured. In FY 2005, FAA invested about $750 million in F&E funds for acquiring support services. About $300 million of these services were obtained under three multiple-award "umbrella" procurement programs, under which companies are pre-qualified to perform individual tasks. We reviewed one of these procurement programs and found that it was not meeting FAA's needs for rapid acquisitions, quality services, or fair prices. We found the agreement was not structured to take advantage of innovative procurement techniques and contained no incentives for suppliers to save costs.

Contracts awarded under this program were also poorly managed. For example, 87 of the 114 contracts awarded under the agreement were either sole-sourced or based on one bid. Our review of 10 sample contracts found that if all options were exercised, FAA would have spent at least $12 million and possibly up to $22 million more on these contracts alone than if it acquired these same services through one of FAA's other contracting vehicles.

FAA agreed with our recommendation to terminate the program and is in the process of implementing corrective actions to strengthen its controls over support service contracts. The Administrator has issued instructions that FAA take a fundamental look at its controls to avoid unnecessary payments for these services. New controls are being added, including amending policies to require competitive bidding on all support service contracts of $1 million or more and requiring the Deputy Administrator's approval before allowing awards with fewer than three bids.

Clearly, these are steps in the right direction—the key now is follow through. Moreover, given the current budget environment, we believe that better management of support service contracts represents an important area for potential savings.

The Joint Program and Development Office and the Next Generation Air Traffic Management System. Major questions facing the Congress and the aviation community focus on how quickly and at what cost FAA can transition to the next generation air traffic management system to meet the forecasted demand for air travel. FAA's Joint Program and Development Office (JPDO) was mandated by Congress to develop a vision for the next generation air traffic management system and align the research efforts of several Federal agencies. FAA is requesting $18 million specifically for the JPDO through the Agency's Research, Engineering, and Development account.

The capital requirements and timeframes for implementing the next generation system remain unknown. Although the JPDO recently provided a progress report to the Congress, it was silent on complex implementation issues about how much funding will be needed and when. We understand that FAA plans to convene workshops with industry to help determine the requirements and cost of the next generation system. This will be a central issue in the discussion about how best to finance FAA and the shape, size, and direction of the capital program for the next decade. Also, to move forward FAA will have to decide what modifications to existing efforts are needed and which ones need to be accelerated or cancelled.

Airport Improvement Program

After several years of funding increases for AIP, FAA is proposing a reduction in AIP funding for the second year in a row. FAA's FY 2007 request of $2.7 billion is $764 million less than last year's appropriation and nearly $1 billion less than called for in Vision 100. FAA's FY 2007 budget request results in a 23 percent reduction in airport grants from last year's appropriation. The bulk of the planned reductions ($624 million) will occur in "formula" grants as illustrated in Table 2.

Table 2: Reduction in AIP Formula Grants FY 2006 versus FY 2007
($ in Thousands)

	FY 2006 Enacted	FY 2007 Estimate	$ Reduction	% Reduction
Primary Airports	$887,980	$496,000	$391,980	44.1%
Cargo Service Airports	$119,851	$92,651	$27,200	22.7%
Alaska Airports	$21,345	$10,673	$10,672	50.0%
States (General Aviation)	$684,863	$489,724	$195,139	28.5%

The significant reduction to those grants occurs because of special provisions of FAA's current authorization. Those provisions require that whenever AIP funding is $3.2 billion or more, as has been the case in recent years, grant funding levels were calculated based on the individual formula and that amount was then doubled. However, since this year's request is less than $3.2 billion, grant funding levels are calculated based on the formula alone and are not doubled.

With the decrease in available AIP funds, FAA needs to better manage airport grants. One area we examined was how airports disposed of land acquired for noise mitigation purposes. Based on a review of 11 airports, we found that FAA could recover an estimated $242 million for the Trust Fund or for other noise mitigation projects with improved oversight of noise land and its disposal. Each of the 11 airports in our review had AIP-funded noise land, ranging from nominal acreage at several airports to hundreds of acres at others, that either was no longer required for noise compatibility purposes or did not have a documented need for airport development. Given the current budget environment, we believe this is another area for potential savings.

In addition to AIP funds, 326 of the larger U.S. airports collect passenger facility charges (PFCs) to finance capital projects. FAA estimates that airports will collect $2.5 billion in PFCs during 2006. 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 airport's capital expenditure plans. For example, one major airport— Chicago O'Hare—based part of its financing plan for expanding the airport on a PFC increase from the current maximum of $4.50 to $6.00 per segment. How airport projects are funded and the level of the PFC charge will be important issues as the Congress decides how to best finance FAA.

Observations on FAA's Current Funding Mechanisms

The Airport and Airway Trust Fund was created in 1970 to provide 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 and for one time items such as security funding after the September 11th attacks.

After several years of decline, Trust Fund revenues are increasing and now exceed pre-September 11th levels. As shown in Figure 2, in FY 2005 the Trust Fund collected $10.7 billion in revenue, the second consecutive year Trust Fund revenues have increased. FAA estimates that revenues will increase to $11.1 billion in FY 2006 and $11.8 billion in FY 2007.

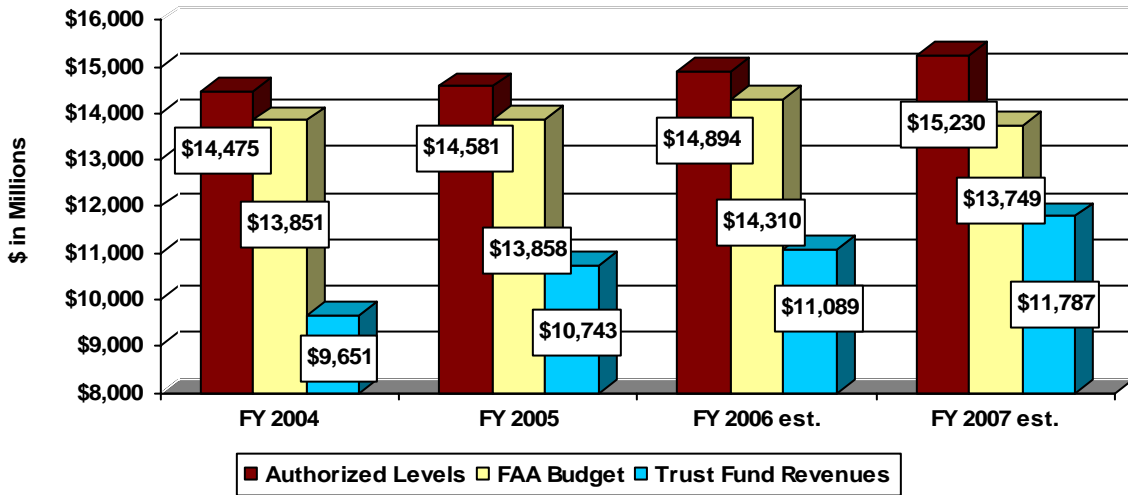**Figure 2: Airport and Airway Trust Fund Revenues**
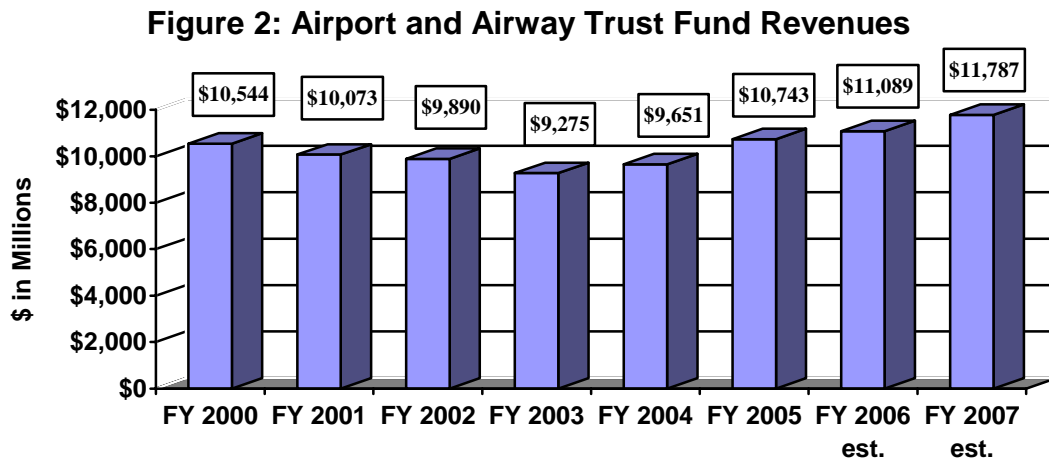
There are several reasons for this increase. First, airfares are slowly rising. According to the Air Transportation Association, the average cost of a ticket for a 1,000-mile flight increased from $108.70 in September 2004 to $117.90 in September 2005, an increase of over 8 percent. In addition, the number of people flying has increased substantially over the past year. In its recently released aviation forecast, FAA estimates that domestic passenger enplanements rose an estimated 7 percent between FY 2004 and FY 2005, and international passenger enplanements have risen an estimated 12 percent over this same time frame.

These changes have resulted in more passengers paying higher airfares, increasing collections of the 7.5 percent ticket tax. FAA estimates that collections of this tax rose from $4.6 billion in FY 2004 to $5.0 billion in FY 2005. In addition, increasing domestic and international passenger traffic have resulted in higher segment and international tax collections. FAA estimates that segment tax collections rose from $1.7 billion in FY 2004 to $1.9 billion in FY 2005, while international tax collections rose from an estimated $1.4 billion in FY 2004 to an estimated $1.8 billion in FY 2005.

Even though Trust Fund revenues are returning to levels seen in FY 2000, they have not kept pace with FAA's budget. For FY 2007, FAA's budget request exceeds projected Trust Fund revenues by nearly $2 billion. In addition, FAA's current 4-year authorization (Vision 100) calls for higher funding levels of modernization projects than has been enacted in recent years. These authorized levels are also significantly higher than Trust Fund revenues. As shown in Figure 3, FAA's authorized spending level for FY 2007 is more than $3.4 billion higher than projected Trust Fund revenues.

Figue 3: Comparison of FAA Authorized Levels and Budgets and Airport and Airway Trust Fund Revenues

	FY 2004	FY 2005	FY 2006 est.	FY 2007 est.
Authorized Levels	$14,475	$14,581	$14,894	$15,230
FAA Budget	$13,851	$13,858	$14,310	$13,749
Trust Fund Revenues	$9,651	$10,743	$11,089	$11,787

Legend: ■ Authorized Levels □ FAA Budget ■ Trust Fund Revenues

General Fund Contribution. Historically, the General Fund has been used to make-up some of the difference between Trust Fund revenues and FAA's budget and many would argue that it is appropriate for the General Fund to play a part in funding FAA. As shown in Figure 4, FAA estimates that the General Fund will contribute $2.9 billion towards FAA's FY 2007 total budget, or about 21 percent of the request. This amount is similar to what has been contributed in the previous three FAA budgets.

Figure 4: General Fund Contributions Toward FAA's Budget ($ in Billions)

FY 2004	FY 2005	FY 2006 est.	FY 2007 est.
$3.0/22%	$2.8/20%	$2.6/18%	$2.9 /21%
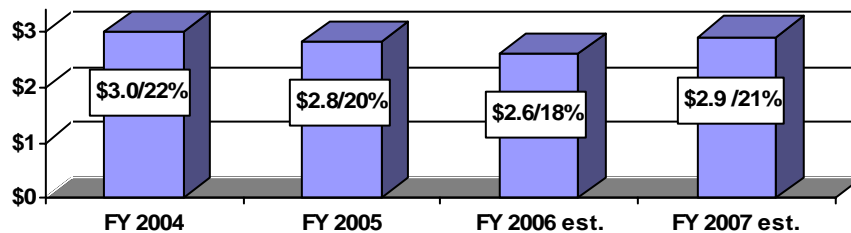
However, the Federal Government is operating in a deficit environment and is seeking ways to reduce discretionary spending. This year's 1-percent across-the-board spending reduction is a result of this environment, and FAA may not be able to rely on the General Fund to subsidize larger parts of its budget not covered by the Trust Fund.

__Uncommitted Balance of the Trust Fund.__ In the past, differences between FAA's budget and the Trust Fund revenues and General Fund contribution have been made up by drawing down the Trust Fund's uncommitted balance. But those actions have depleted that balance. As shown in Figure 5, between the end of FY 2001 and the end of FY 2006, the uncommitted balance of the Trust Fund has gone from $7.3 billion to a projected $1.7 billion. Over the next several years, using the uncommitted balance of the Trust Fund to make up differences between the Trust Fund revenues and General Fund contributions may no longer be a viable option as a stop-gap measure. The low uncommitted balance would also provide no buffer for FAA's budget should the excise taxes lapse, as was the case in 1997.

**Figure 5: Airport and Airway Trust Fund Uncommitted Balance
at the End of the Fiscal Year**
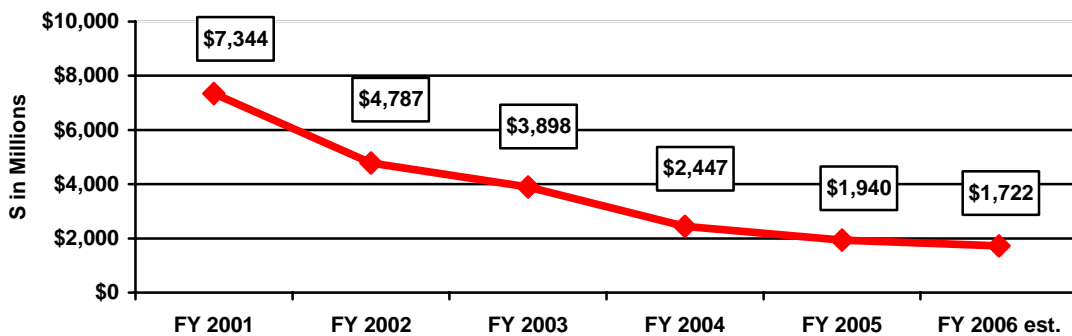
As we face the next reauthorization, it is clear that other options need to be considered.   Both Secretary Mineta and Administrator Blakey have begun discussions with FAA's stakeholders about alternative methods for financing FAA. However, as discussions regarding the next reauthorization begin, a much better understanding of FAA's requirements for the next generation air traffic control system is needed. Although FAA's JPDO recently provided a progress report to Congress, it was silent on complex implementation issues and how much funding will be needed and when. This will be a central issue in discussions about how best to finance FAA and the shape, size, and direction of FAA's capital needs for the next decade.

That concludes my statement. I would be happy to answer any questions that you or other members of the Committee might have.

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Fiscal Year 2007 10 Largest F&E Projects

Project	FY 07 Request ($ in Millions)	Comments
ERAM	$375.7	En Route Automation Modernization: Replaces the Host computer hardware and software, including the Host back-up system and associated support infrastructure at 20 air route traffic control centers.
Terminal ATC Facilities Replacement	$124.0	The air traffic control towers (ATCT) and terminal radar approach control (TRACON) facilities that cannot meet present day requirements are being identified for replacement. The proposed list of projects for FY 2007 will be based on FAA's Facilities Master Plan for infrastructure replacement and improvement.
WAAS	$122.4	Wide Area Augmentation System: Provides the augmentation needed to make the GPS satellite signal fully usable for en route, terminal and non-precision approaches. We note that WAAS will primarily benefit general aviation users because commercial airliners already have on-board capabilities similar to WAAS.
ADS-B National Implementation	$80.0	Automatic Dependent Surveillance—Broadcast: An air-to-air/air-to-ground communications, navigation, and surveillance technology that relies on GPS to broadcast the positions of properly equipped aircraft and surface vehicles.
TFM-Infrastructure Modernization	$78.9	The Traffic Flow Management (TFM) system provides direct mission support to FAA by ensuring efficient flow of air traffic through the National Airspace System.
ASDE-X	$63.6	Airport Surface Detection Equipment-Model X: Provides surveillance equipment to help prevent runway incursions at airports.
ARTCC Modernization	$51.0	Part of FAA's continued efforts to modernize and sustain the 21 Air Route Traffic Control Centers (ARTCC), and the San Juan and Guam Combined Center Radar Approach Control facilities in order to minimize delays or outages caused by infrastructure failure.

Project	FY 07 Request ($ Million)	Comments
Terminal Modernization and Aging Displays	$93.5	Standard Terminal Automation Replacement System (STARS): Replaces controller and maintenance workstations with color displays, processors, and computer software at terminal air traffic control facilities. Facing cost growth with STARS, FAA changed its approach to terminal modernization limiting STARS deployments to analyze its options beyond the initial deployment phase for STARS and created a new effort called Terminal Automation Modernization/Replacement (TAMR).
Airport Traffic Control Tower/TRACON Facilities-Improvements	$44.2	To upgrade and improve aging ATCT/TRACON facilities and equipment to provide an acceptable level of service and to meet current and future operational requirements. This program also improves the capability of facilities to withstand a seismic event in accordance with FEMA and DOT directives.
ASR-11, ASR-7 & 8 Replacement	$44.1	Airport Surveillance Radar-11: Replaces aging analog radar with digital radar at small terminal facilities.
Total	**$1,077.4**	

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1998 – 2005

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- Audit of the Management of Land Acquired Under Airport Noise Compatibility Programs – AV-2005-078, September 30, 2005
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- Report on Controller Staffing : Observations on FAA's 10-Year Strategy for the Air Traffic Controller Workforce – AV-2005-060, May 26, 2005
- Airspace Redesign Efforts Are Critical To Enhance Capacity but Need Major Improvements – AV-2005-059, May 13, 2005
- FAA Administration and Oversight of Regionally Issued Contracts – AV-2004-094, September 28, 2004
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- Short- and Long-term Efforts to Mitigate Flight Delays and Congestion – CR-2004-066, June 17, 2004
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- Safety, Cost and Operational Metrics of the Federal Aviation Administration's Visual Flight Rule Towers – AV-2003-057, September 4, 2003
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- FAA's National Airspace System Implementation Support Contract – AV-2003-002, November 15, 2002
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- Automated Flight Service Stations: Significant Benefits Could be Realized by Consolidating AFSS Sites in Conjunction with Deployment of OASIS – AV-2002-064, December 7, 2001

- Compensation Issues Concerning Air Traffic Managers, Supervisors, and Specialists – AV-2001-064, June 15, 2001
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- Staffing: Supervisory Reductions Will Require Enhancements in FAA's Controller-in-Charge Policy – AV-1999-020, November 16, 1998
- Personnel Reform: Recent Actions Represent Progress but Further Effort Is Needed To Achieve Comprehensive Change – AV-1998-214, September 30, 1998

Acquisition and Modernization
- FAA's En Route Modernization Program Is On Schedule But Steps Can Be Taken to Reduce Future Risks – AV-2005-066, June 30, 2005
- Status of FAA's Major Acquisitions: Cost Growth and Schedule Delays Continue To Stall Air Traffic Modernization – AV-2005-061, May 26, 2005
- Report on Terminal Modernization: FAA Needs To Address Its Small, Medium, and Large Sites Based on Cost, Time, and Capability – AV-2005-016, November 23, 2004
- Observations on FAA's Controller-Pilot Data Link Communications Program – AV-2004-101, September 30, 2004
- FAA's Advanced Technologies and Oceanic Procedures – AV-2004-037, March 31, 2004
- FAA Needs To Reevaluate STARS Costs and Consider Other Alternatives – AV-2003-058, September 10, 2003
- Status of FAA's Major Acquisitions – AV-2003-045, June 27, 2003
- Integrated Terminal Weather System: Important Decisions Must Be Made on the Deployment Strategy – AV-2003-009, December 20, 2002
- FAA's Progress in Developing and Deploying the Local Area Augmentation System – AV-2003-006, December 18, 2002
- Follow-up Memo to FAA on STARS Acquisition – CC-2002-087, June 3, 2002
- Letter Response to Senator Richard Shelby on FAA's Advanced Technologies and Oceanic Procedures (ATOP) – CC-2001-210, April 12, 2002
- Status Report on the Standard Terminal Automation Replacement System – AV-2001-067, July 3, 2001
- Efforts to Develop and Deploy the Standard Terminal Automation Replacement System – AV-2001-048, March 30, 2001

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- Review of Air Carriers' Use of Non-Certified Repair Facilities – AV-2006-031, December 15, 2005
- FAA Safety Oversight of an Air Carrier Industry in Transition – AV-2005-062, June 3, 2005
- Report on New Approaches Needed in Managing FAA's Hazardous Materials Program Federal Aviation Administration – SC-2005-015, November 19, 2004
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These reports can be reviewed on the OIG website at http://www.oig.dot.gov.