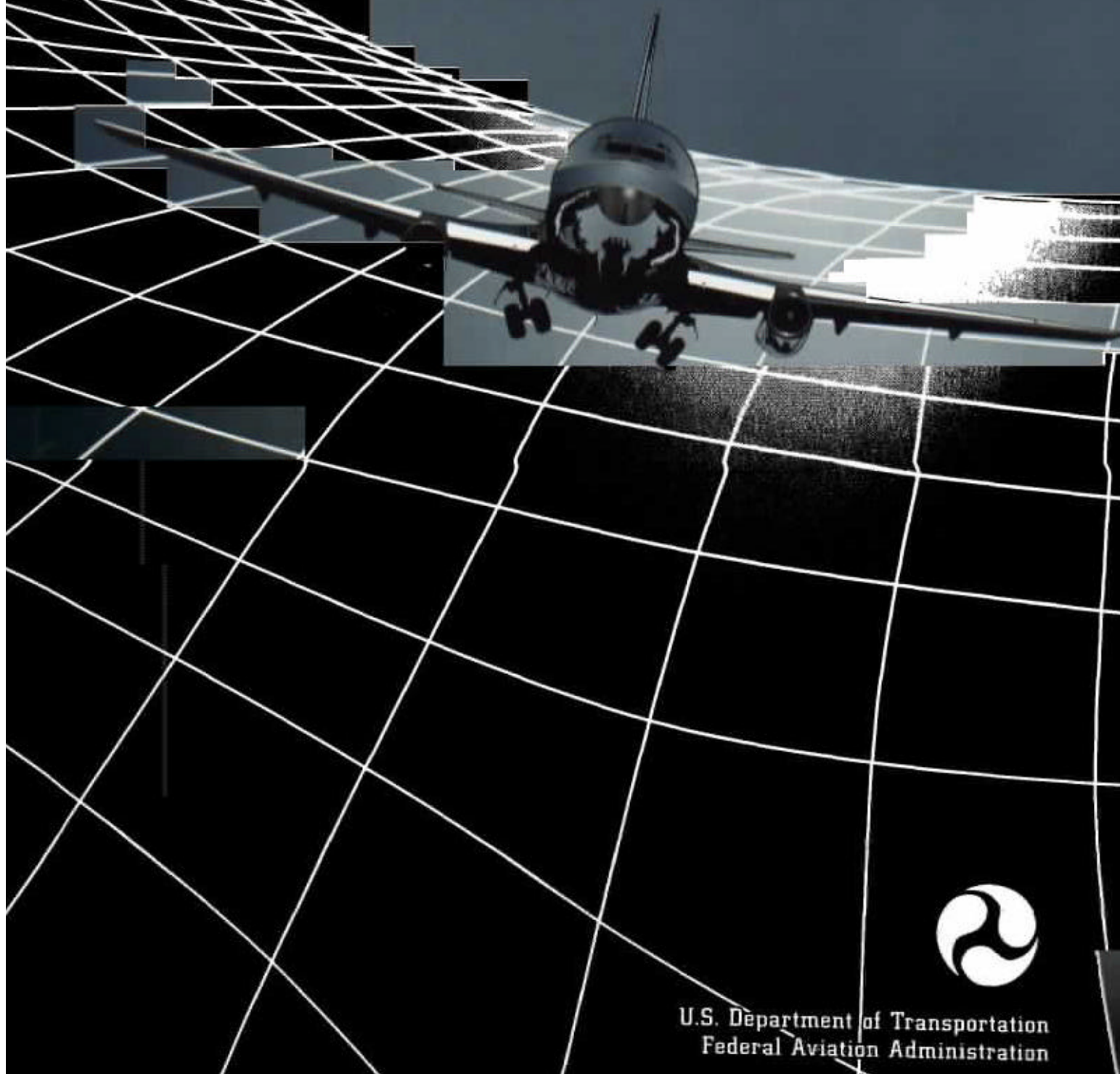


Federal Aviation
Administration

1999

ANNUAL REPORT



U.S. Department of Transportation
Federal Aviation Administration

A MESSAGE FROM THE ADMINISTRATOR

It is a privilege to present the Federal Aviation Administration's (FAA) Annual Report for FY 1999. This year, the FAA has received, for the first time, an unqualified or "clean" audit opinion from the Department of Transportation's Office of Inspector General. This is a significant event for the FAA, since the Chief Financial Officers Act of 1990 requires audited financial statements that fully disclose the agency's financial position and results of operations. The financial statement provides information not only for the effective allocation of resources, but also with which Congress, agency managers, the public, and others can assess financial performance and stewardship. The FAA's achievement will, I believe, go a long way toward enhancing our financial credibility and is a tribute to our people at headquarters and in every region and center who struggled to correct our previous financial statement audit findings.



I also commend the extraordinary effort of hundreds of FAA employees who helped make our transition to Y2K a total success. This undertaking required us to evaluate and certify 628 different systems under the pressure of an unmovable deadline – a daunting task by any measure.

The past 12 months continued a winning streak for American aviation. It was the eighth consecutive year of air traffic growth in the United States. Domestic air carriers, profiting from one of the strongest economies in our history, carried a record 664.5 million passengers in 1999. This trend will continue, with the number of air travelers increasing to more than one billion within a decade.

For the FAA, this growth means that aircraft operations at our air route traffic control centers will increase from 45.7 million next year to 59.4 million in 2011. To meet this demand, the FAA's aggressive modernization effort is progressing on three fronts: to sustain and renew our infrastructure; to add to the margin of safety in air travel; and to improve system capacity and efficiency. Safety, as always, is our first priority and the primary design requirement for all our new technologies.

To maintain the reliability of our current systems while renewing our aviation infrastructure, we have incorporated both major and minor changes in the air traffic control system. Thus far, we have installed and integrated more than 750 major systems and hardware components into the National Airspace System (NAS). During 1999, we replaced the host and oceanic computer system equipment used to control air traffic at 20 en route and 3 oceanic centers. We are also replacing the associated radar display systems at the 20 en route centers. During the spring of 2000, we will dedicate the last of the display system replacements, modernizing controller workstations at the en route centers and providing a powerful platform for future enhancements. STARS – the standard terminal automation replacement system -- is now running in both El Paso, Texas, and Syracuse, New York, and testing continues on the wide area augmentation system, which improves the navigational accuracy of the satellite-based global positioning system.

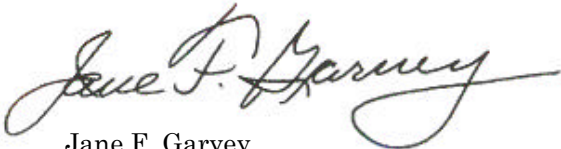
New technology will also enable us to reduce some of the risks to safety due to hazardous weather. In our modernization blueprint, we have included many weather initiatives to provide more precise and timely advisories en route and in the terminal areas. At major airports, installation of terminal Doppler weather radar provides warnings about potentially dangerous wind shear and microbursts.

Modernization will also improve the capacity and efficiency of the system, leading to fewer delays, lower costs, and better service. Key to our long-term success is Free Flight Phase 1 – the first step in an innovative approach to air traffic control that will eventually allow pilots, wherever practical, to choose their own routes and file flight plans that allow the most efficient and economical routes. The overall benefit is to enable our air traffic control system to accommodate the future increase in flights and provide more optimum routings for aircraft in the Nation's airspace.

Free Flight Phase 1 is a clear example of the FAA's "evolutionary, not revolutionary" approach to NAS modernization. Under this building block approach, we not only reduce the risks of cost overruns and schedule delays, but also take into account the changing nature of emerging technology. With our new incremental, evolutionary approach, we will be able to accommodate these changes and incorporate them into the NAS in a managed fashion.

The challenge facing the FAA is to finance the capital investments that will allow the agency to make key safety improvements, keep up with growing air travel demand, and improve efficiency of aircraft operations. Our initiatives in cost accounting, personnel, and acquisition reform and our strong partnership with industry will enable us to manage our resources and future demands placed on the NAS effectively.

The millennial celebrations that marked the close of 1999 signified for many our entry into a new era of great promise and exciting prospects. I believe aviation is rich in opportunities, and I am confident that, by harnessing the possibilities of advanced technology, the FAA will succeed in maintaining the high standards expected by a Nation and a world increasingly dependent upon safe and efficient air travel.



Jane F. Garvey
Administrator

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INTRODUCTION

The FAA Annual Report for FY 1999, prepared in conformity with the Chief Financial Officers Act of 1990, documents FAA's recent accomplishments and financial initiatives. It consists of two chapters.

The first chapter contains a three-part Management Discussion and Analysis. The first part is an overview that includes a statement of the FAA mission, a description of our overall organization, and a brief review of program accomplishments keyed to FAA's major lines of business. The second part contains financial highlights for FY 1999. The third part provides a summary of the agency's strategic goals

and a discussion of our performance in meeting those goals.

The second chapter presents the FAA financial statements for FY 1999. Opening with a message from the Chief Financial Officer, it continues with the auditor's report, the financial statements and notes, and required supplemental information pertaining to the agency's stewardship of its resources and other matters.

Readers who wish to learn more about the FAA and its programs are encouraged to visit our website at www.FAA.gov.

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Management Discussion and Analysis

OVERVIEW

THE FEDERAL AVIATION ADMINISTRATION

The Air Commerce Act, enacted by Congress in 1926, entrusted to a single agency the authority to regulate and foster civil aviation development. During the formative years that followed, aviation was the responsibility of a complex, tripartite structure within the Commerce Department. The rapid growth of air travel in the 1950's promoted calls for a separate agency, wholly dedicated to safe and efficient air transportation. Congress created the Federal Aviation Administration (FAA) in 1958, to operate and maintain the air traffic control system for both civil and military aviation. Since 1967, FAA has been an operating administration within the Department of Transportation (DOT). Legislation enacted in 1995 gave formal confirmation to the principle that safety is the agency's first and foremost priority.

During 1999, air travel in the United States recorded another year of impressive growth. Some 664 million people boarded U.S. commercial flights – roughly 20 million more than the previous year. The ability of the FAA to handle this heavy volume of traffic without compromising safety and security is a testimony to the dedicated professionalism of our workforce. The certain prospect of continued growth is a test of our ability to make wise and timely investments to ensure the future vitality of American aviation.

FAA's responsibilities extend virtually to every aspect of aviation and involve a wide range of stakeholder interests. While its historic concern has been U.S. aviation, increasingly it must work in partnership with counterpart agencies abroad to solve common problems arising from globalization. As the industry continues to rapidly expand, so do the complexity of vital issues and the degree of their inter-connectedness. Success in maintaining high levels of safety, security, and system efficiency requires constant coordination among airports and air carriers, aircraft manufacturers and technology suppliers, industry representatives and consumer groups, state and local governments at all levels, and international organizations. Many Federal entities are involved as well, including, among others, the National Aeronautics and Space Administration

(NASA), Department of Defense (DOD), the National Transportation Safety Board (NTSB), and the National Oceanic and Atmospheric Administration (NOAA). The FAA is the focal point of change within the aviation community, while at the same time it continues to perform the critical duties entrusted to it.

This annual report presents the work of the FAA from two different perspectives. One looks at the day-to-day operational activities that are so crucial in sustaining the Nation's economic growth and retaining the public's confidence in the safety of air travel. The second looks ahead to describe how the FAA is preparing for the future. The scale and complexity of the aviation industry require that we begin now to build the essential infrastructure necessary to meet the demand we anticipate in the years, even decades, ahead. The prudent apportionment of our limited resources between current and future needs is a constant challenge for FAA management.

FAA MISSION

The Federal Aviation Administration (FAA) provides a safe, secure, and efficient aerospace system that contributes to national security and the promotion of U.S. aerospace safety. In fulfilling this mission, the FAA manages and supports the operations, facilities, and equipment that provide the air traffic services of the National Airspace System (NAS), regulates and oversees civil aviation and commercial space transportation, and protects the users of commercial air transportation against terrorist and other criminal acts. The FAA also conducts research and acquires new equipment to improve aerospace safety and keep pace with the demand for air services, administers the Airport Improvement Program (AIP) for airport development, and oversees the Federal role in an extensive national airport system consisting of more than 3,000 public use airports. As the leading Federal agency responsible for aviation, the FAA is dedicated to providing air travelers with a technically advanced airspace system that meets the highest attainable levels of safety, security, and efficiency.

ORGANIZATION

The FAA is headed by an Administrator who is assisted by a Deputy Administrator. Reporting to the Administrator are six Associate Administrators who direct the principal functions that support the agency’s mission. Also reporting to the Administrator are the Chief Counsel, nine Assistant Administrators,

and two office directors responsible for other key programs. FAA’s field organizations – where nearly 90 percent of all FAA employees work – are concentrated in nine geographical regions and two major centers, the Mike Monroney Aeronautical Center and the William J. Hughes Technical Center. Together, the FAA team of over 48,000 employees administer the world’s busiest civil aviation system.

FAA HEADQUARTERS AND FIELD ORGANIZATION

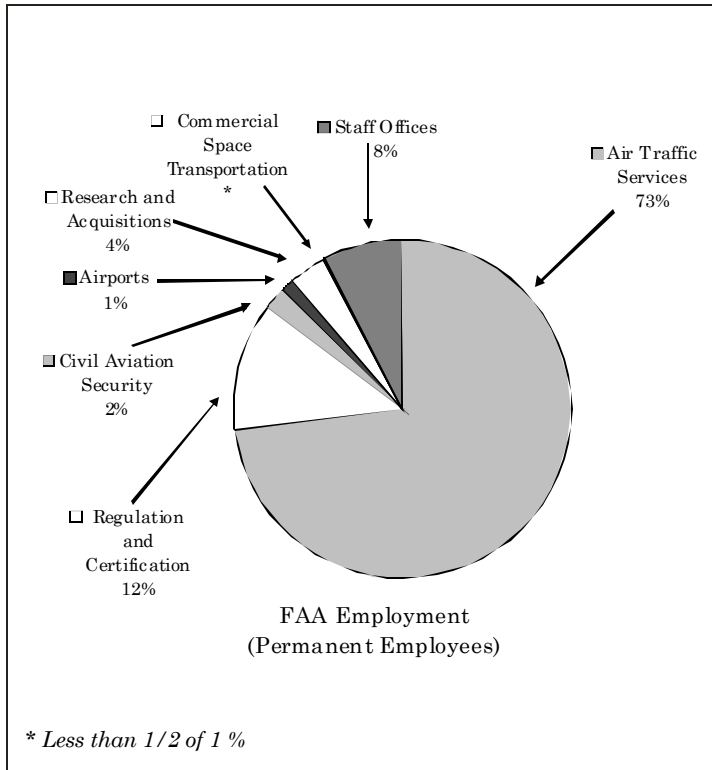
FAA HEADQUARTERS	FIELD ORGANIZATIONS
Associate Administrator for Regulation and Certification (AVR)	Assistant Administrator for Regional and Center Operations (ARC)
Associate Administrator for Civil Aviation Security (ACS)	Alaskan Region (AAL)
Associate Administrator for Air Traffic Services (ATS)	Central Region (ACE)
Associate Administrator for Research and Acquisitions (ARA)	Eastern Region (AEA)
Associate Administrator for Airports (ARP)	Great Lakes Region (AGL)
Associate Administrator for Commercial Space Transportation (AST)	New England Region (ANE)
Office of the Chief Counsel (AGC)	Northwest Mountain Region (ANM)
Office of Civil Rights (ACR)	Southern Region (ASO)
Office of Government and Industry Affairs (AGI)	Southwest Region (ASW)
Office of System Safety (ASY)	Western-Pacific Region (AWP)
Office of Public Affairs (APA)	Mike Monroney Aeronautical Center (AMC)
Office of Information Services (AIO)	William J. Hughes Technical Center (ACT)
Free Flight Phase 1 (FFP1)	
Assistant Administrator for Policy, Planning, and International Aviation (API)	
Assistant Administrator for Human Resource Management (AHR)	
Assistant Administrator for Financial Services (ABA)	

FY 1999 PRO GRAM HIGHLIGHTS

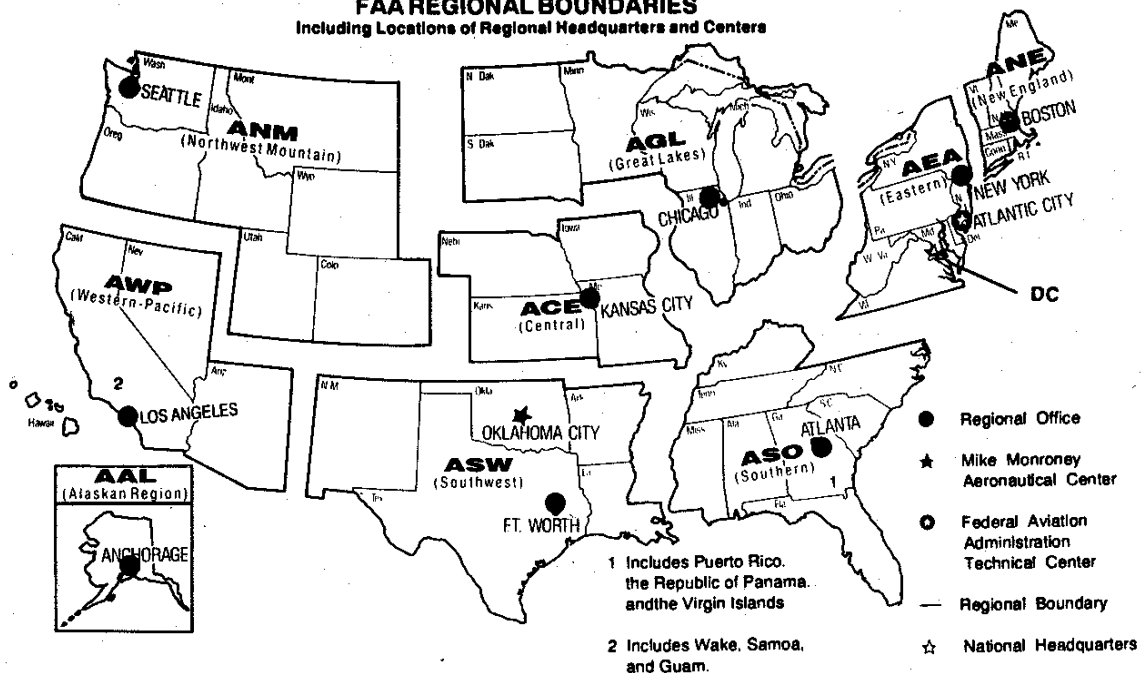
Regulation and Certification

The FAA oversees the safety of aircraft and the credentials and competency of pilots and mechanics, develops mandatory safety rules, sets high standards for civil aviation, and sponsors related research. In FY 1999, the FAA completed 275,450 inspections, evaluations, and audits, helping to make air travel among the safest modes of transportation. The FAA also evaluates foreign governments' oversight of their airlines serving U.S. airports and releases the results via its website (www.faa.gov) so that the public can know which countries meet international safety standards.

The FAA and its partners are committed to reducing the already low air carrier fatal accident rate in the United States by 80 percent by the year 2007. In support of this goal, FAA's *Safer Skies* agenda focuses on the most critical safety issues – controlled flight into terrain, loss of control, uncontained engine failures, runway incursions,



**U.S. DEPARTMENT OF TRANSPORTATION
Federal Aviation Administration
FAA REGIONAL BOUNDARIES
Including Locations of Regional Headquarters and Centers**



approach and landing, weather, pilot decision making, survivability, passenger seat belt use, carry-on baggage, child restraints, and passenger behavior.

- Since announcing *Safer Skies* in April 1998, the FAA has issued nine airworthiness directives (AD) to guard against uncontained engine failure, a Notice of Proposed Rulemaking (NPRM) on terrain awareness and warning systems, a series of proposed rule changes designed to improve the safety of flight in icing conditions, and launched a major consumer education campaign on carry-on baggage safety. As part of an initiative to address concerns about the effects of aging on aircraft non-structural systems, FAA issued AD's directives in FY 1999 instructing operators to inspect wiring within fuel tanks and fuel pumps on U.S. registered Boeing 747, 737, 727, and Airbus A300 aircraft.
- In October 1998, the FAA began a new approach for inspecting and monitoring air carriers. The Air Transportation Oversight System (ATOS) uses powerful analytical tools to identify the areas of highest risk so that the FAA can target its resources most effectively. A GAO report released in June 1999 concluded that ATOS promises to significantly strengthen the FAA's inspection effort and urged a more aggressive schedule of implementation.

Civil Aviation Security

The Federal Government recognizes aviation security as an important element in national security strategy and U.S. counterterrorism policy. The FAA works with local security, intelligence, and law enforcement agencies to protect passengers, personnel, aircraft, and critical national airspace facilities against terrorist and other criminal acts. Threats are monitored continuously and, when necessary, the FAA orders heightened precautions.

- As recommended by the White House Commission on Aviation Safety and Security, a total of 170 voluntary consortia, whose membership includes airport operators, airlines, local law enforcement, tenants, FAA security agents, and other Government officials, have been established at U.S. airports and are encouraged to meet regularly to identify, discuss and solve local security problems.
- FAA has purchased a total of 136 systems for screening checked baggage and 649 devices for

detecting traces of explosives in passengers' carry-on and check bags. These systems and devices have been deployed to 80 U.S. airports. There are now two models of certified explosive detection systems (EDS) from InVision Technologies and a third from L-3 Communications that will give FAA and the airlines a choice among types of systems and vendors, thus encouraging competition. Under existing contracts, the FAA can purchase up to 60 L-3 Communications examiner 3DX 6000 and up to 60 InVision CTX-9000 explosive detection systems over 3 years.

- In accordance with provisions of the Omnibus Consolidated and Emergency Supplemental Appropriations Act of 1999 (P.L. 105-277), all major air carriers have agreed in writing to assume operations costs for all installed EDS and other advanced technologies. They have also agreed to pay maintenance costs following the expiration of vendor warranties and the initial maintenance periods in the U.S. Government purchase contracts. Letters to this effect were received in November and December 1998 and in January 1999. Congress was notified that these agreements were signed by a letter delivered on January 25, 1999. FY-99 procurements were delayed until the provision of this law was met, but on March 31, 1999, FAA purchased 21 CTX-5500 EDS's from InVision Technologies for \$18.9 million. Three more were bought in June for \$2.7 million, and seven more were purchased in August 1999 for \$6.3 million.



InVision CTX-5500

- In 1998, FAA began deploying computer-based training (CRT) for security screeners to ensure high-quality, standardized training, provide opportunities for realistic practice with all types of threats, reduce overall training time, and combine training with performance testing. Thirty-seven airports are using the system.
- In addition to the computer-based training systems, the FAA has leased 30 advanced checkpoint x-ray units for operational evaluation that will use a threat image projection system to continuously train and monitor screener performance. If the evaluation is successful, up to 420 of these x-ray devices may be purchased.
- In April 1999, FAA issued an NPRM on "Security of Checked Baggage on Flights within the United States." The proposal would require airlines to use an automated passenger prescreening system to select checked bags for screening by explosives detection systems or by subjecting them to "bag matching" to make sure the bags do not fly unless the passengers are on board. The Computer-Assisted Passenger Prescreening System (CAPPS) streamlines passenger prescreening by automating the process, reduces passenger inconvenience by greatly reducing the need for physical searches of bags, and protects civil liberties by eliminating the human factor in passenger prescreening. More than 90 percent of the flying public already fly under this new passenger prescreening regime since all the major airlines and over 40 regional carriers are using the automated system voluntarily.
- Airport and air carrier vulnerability assessments were conducted throughout the year as recommended by the White House Commission on Aviation Safety and Security, and FAA facility security risk management assessments were performed as required by the Presidential Decision Directive on Critical Infrastructure Protection (PDD-63).
- Over 800 FAA special agents have been using labor intensive but realistic operational testing and special assessments, in combination with surveillance and scheduled inspections, to evaluate and improve airport and air carrier security and dangerous goods shipping operations. Agents unknown to air carrier and airport personnel simulate criminal and terrorist tactics based on

standard protocols. They also use the test results to educate screeners and their supervisors on the spot.

- FAA has worked with airport operators across the country to deploy additional FAA explosives detection canine teams to screen suspicious packages, cargo and bags, and to search airliners and terminals. The agency procures the dogs and funds training of both the dogs and their handlers to meet FAA explosives detection standards and monitors annual certification testing on each of the teams to ensure these standards are maintained. The number of FAA explosives detection canine teams rose from 87 teams and 26 airports in 1996 to 174 teams at 39 airports this year. Certified canine teams are now deployed at each of our busiest, major U.S. airports.

Air Traffic Services

FAA provides extensive, integrated support to pilots during every phase of a flight. Air traffic controllers at local airports direct airplanes that are taking off, landing, or flying within the visual range of their tower – usually about 5 miles. Controllers in terminal radar control facilities handle aircraft for one or more airports in a large metropolitan area, generally within 30 to 40 miles of the area's major airport. Controllers at 21 en route centers guide airplanes in flight from one city to another. Traffic management specialists at the David J. Hurley Air Traffic Control Systems Command Center (ATCSCC) in Herndon, Virginia, plan and balance the flow of air traffic, nationwide, to minimize delays and congestion. Flight service stations (FSS) operate around the clock to provide flight plan filing, weather data, and information briefings to pilots. A staff of highly skilled engineers and system specialists maintain and troubleshoot over 39,000 items of equipment, software, and hardware; assign and protect more than 40,000 aeronautical radio frequencies; and conduct some 11,000 flight inspections annually to ensure the safe operation of the Nation's air traffic control systems.

FAA is a 24-hour/ 7 days a week service delivery organization. On a typical day, FAA controllers handle approximately 200,000 takeoffs and landings, moving some 1.8 million passengers, and the number continues to grow. U.S. commercial air carrier passenger enplanements are expected to increase from 664 million in 1999 to 1 billion in 2011. During that period, the number of aircraft operations at FAA

air route traffic control centers is expected to grow 2.4 percent each year. Operations at FAA and contract towers will grow 2.2 percent annually. Maintaining the National Airspace System (NAS) in a safe and efficient manner, while providing for the anticipated growth in the use of the NAS, is the FAA's top priority.

Two initiatives – reducing the number of airport runway incursions and reducing aviation delay — received special attention during FY 1999.

Initiatives Aimed at Reducing Runway Incursions

From 1993 to 1998, the number of runway incursions — accidents involving aircraft on the ground — steadily increased. For calendar year 1999, however, preliminary numbers indicate that the number of runway incursions decreased to 322 compared to 325 for calendar year 1998. In FY 1999, FAA continued to focus its efforts on preventative measures such as awareness, education, and technological initiatives.

- FAA Runway Safety Program exhibits at major air events are drawing increased interest and understanding from the aviation community.
- Implementation of “Now” Strategies (inexpensive, near-term runway incursion reduction initiatives) is on course with 15 of 18 strategies completed.
- National Runway Incursion Action Teams (RIAT) visits were completed at 20 locations. Regional RIAT’s were conducted at seven additional locations.
- Mandatory refresher training for air traffic control specialists on runway incursions has been implemented.
- Deployment of airport surface detection equipment (ASDE) – with 38 of 40 systems installed at the end of FY 1999 – is nearing completion. The airport movement area safety system (AMASS) program continues work on an automation enhancement to the ASDE Model 3 to provide controllers with automatically generated visual and aural alarm alerts to aid in the prevention of loss of life and property as a result of runway incursions and other potential unsafe conditions.
- Over the past year, a dedicated team has been set up within the Air Traffic Service to coordinate a systematic approach for reducing the risk of runway incursions.

Initiatives Aimed at Reducing Aviation Delay

During FY 1999, the rate of volume and equipment-related delays declined from 31.92 delays per 100,000 flight operations to 30.37 delays per 100,000 flight operations. This decrease was due to a number of FAA initiatives. The ATCSCC has placed increased emphasis on honoring commitments to aircraft, helping to eliminate the practice of “no notice holding.” Collaborative decisionmaking (CDM) was begun in 1997 and continues to be used in ground delay programs. The National Operations Control Center (NOCC) located within the ATCSCC was established in January 1999. The NOCC collaborates daily with traffic management to ensure NAS equipment services are available for use. A primary focus of NOCC is delay mitigation when the issue is FAA equipment.

Most aviation delays, however, are the result of weather. In FY 1999, bad weather accounted for about 69 percent of all delays. The significant increases in delays in the summer of 1999 were largely due to bad weather. An evaluation conducted by the FAA, in association with the Air Transport Association (ATA) and the National Air Traffic Controllers Association (NATCA), identified 167 remedial actions to undertake at the 33 en route and terminal facilities and the ATCSCC. Work on these items is ongoing. In a separate move, FAA Administrator Jane Garvey met with senior industry executives and NATCA representatives on August 5 and 6, 1999. During this and subsequent meetings, FAA laid out steps to take immediately to reduce delays. One was to expand the decisionmaking role of the ATCSCC, where controllers have a comprehensive grasp of weather and traffic conditions everywhere in the country. Longer-term improvements are expected from the National Airspace Redesign, which over the next 8 years will produce more open and flexible access to the airspace and more predictable traffic flow. Air Traffic will need to impose fewer flight restrictions and will be able to do a better job balancing sector demand and capacity over a wide range of conditions. The heavily congested airspace east of the Mississippi River will be the first to be redesigned.

Research and Acquisitions

FAA Acquisition and Research programs develop, validate, and acquire technology, systems, designs, and procedures that support directly the agency’s five principal operational and regulatory responsibilities:

air traffic services, certification of aircraft and aviation personnel, certification of airports, civil aviation security, and environmental standards for civil aviation.

Research priorities in FY 1999 included aircraft structures and materials; fire and cabin safety; crash injury-protection; explosive detection systems; improved ground de-icing operations; better tools to predict and warn of weather hazards, turbulence, and wake vortices; aviation medicine; and human factors.

- In FY 1999, FAA research led to the development, successful demonstration, and delivery of a prototype eddy-current sensor for inspecting titanium disks used in aircraft engines. Jentek Sensors, Inc., Waltham, Massachusetts, developed the eddy-current device, which is capable of detecting microscopic surface damage that can be the initiation site for cracks.
- The Aging Nonstructural Systems Research Program (NSRP) formally got underway in FY 1999. The objectives of the NSRP are to develop technologies and techniques to ensure the continued safe operation of aircraft electrical and mechanical systems. Research results will be used to support new and pending regulatory action and to facilitate compliance with new and existing regulations.
- FAA completed the construction of the Full-Scale Aircraft Structural Test Evaluation and Research (FASTER) facility at the FAA William J. Hughes Technical Center. FASTER is being used to test full-scale fuselage panel specimens under conditions representative of those seen by an aircraft in actual operation.

In August 1999, to reduce the risk of the spread of fire aboard aircraft, FAA ordered operators of 699 aircraft to replace insulation blankets covered with metalized Mylar. The announcement followed 8 months of extensive testing at the William J. Hughes Technical Center.

- In April 1999, the FAA commissioned the national Pavement Test Facility at the William J. Hughes Technical Center. This \$21 million dollar facility was a joint venture between the FAA and the Boeing Corporation. It is a unique facility that will enable fullscale testing of pavement test sections using various aircraft landing gear configurations under simulated wheelloading scenarios. The test

facility will be used extensively to develop improved pavement design and construction specifications and to evaluate impacts of proposed new large aircraft on airport pavement.

FAA published two reports in FY 1999, documenting tests demonstrating the severe fire hazards associated with the release of oxygen from pressurized bottles involved in a suppressed cargo fire and outlining thermal protection criteria for the bottle carrying cases (overpacks) to protect the bottles from being overheated by a fire. The FAA reported tests are discussed in a final rule issued by the Research and Special Programs Administration (RSPA) on August 19, 1999, which places restrictions on the shipment of pressurized oxygen bottles, including requiring that the bottles be placed in overpacks when transported aboard aircraft.

Among the remaining risks in air travel, weather ranks high. FAA is putting in place sophisticated technologies that provide advance warning of hazardous conditions. Major projects to increase safety include the integrated terminal weather system (ITWS) and the weather and radar processor (WARP). ITWS is a safety and planning tool that provides air traffic managers in control towers and terminal approach control facilities with real time weather products such as windshear and microburst predictions, storm cell hazards, gust front, and lightning detection. ITWS will be installed at 45 airports presently supported by terminal Doppler weather radar (TDWR). WARP is the primary tool used by en route air traffic management personnel to obtain, process, and display weather information.

- Freezing drizzle aloft has been suspected of causing several in-flight icing accidents and incidents over the past few decades. To learn more about the occurrences and characteristics of freezing drizzle and freezing rain aloft, FAA researchers are developing a centralized database of fine-scale measurements in these kinds of icing conditions. FAA is also sponsoring the development of an aircraft mounted wide area ice detection system. This effort is being performed under a cost-share contract with BFGoodrich Aerospace Aircraft Sensors Division. The prototype system was delivered in May 1999 and was installed in the FAA Technical Center's B-727 ground test vehicle for preliminary fit and functional checks.

In FY 1999, appropriate and approved human factors documentation was included in the development and

implementation plans for the standard terminal automation replacement system – early deployment capability (STARS-EDC); controller-pilot data link communications (CPDLC); Free Flight Phase 1 (FFP1); operational and supportability implementation system (OASIS); display system replacement – computer-human interface (DSR-CHI); and the host and oceanic computer system replacement (HOCSR), phases 1 and 2 acquisition programs. The programs were assessed as meeting human factors requirements commensurate with the status of the program’s development. The Human Factors Working Group, comprised of representatives from the FAA, labor union leadership, and industry, has developed a process to identify, monitor, and resolve human factors issues throughout the entire acquisition process so that these issues do not arise unexpectedly and too late in a program.



The first version of the standard terminal automation replacement (STARS) is now running in both El Paso, Texas, and Syracuse, New York.

Significant strides were also made in infrastructure renewal. Throughout 1999, FAA continued to push the modernization of the U.S. air traffic control system, upgrading or replacing as necessary the radar, communication switches, ground-based navigation aids, computer displays, radios and other equipment critical to the safety and efficiency of the NAS.

- The HOCSR has been completed at 20 FAA en route control centers and three oceanic centers. HOCSR vastly expands the main ATC computer’s capacity

while making it physically smaller, faster, more efficient and reliable.



DSR provides improved color displays, computer hardware, and software.

- The transition to the display system replacement (DSR) for the 30 year old radar displays used by en route air traffic controllers reached the halfway mark and will be completed by mid-2000.



The HOCSR components include a laptop computer with windows-driven software to monitor and maintain the equipment.

- The *Blueprint for NAS Modernization: An Overview of the National Airspace System (NAS) Architecture*, released in January 1999 guides the FAA's acquisition programs. Prepared in collaboration with aviation community, the NAS Architecture describes how the evolution of the national airspace will be managed to handle future growth in aviation while maintaining the highest safety standards.

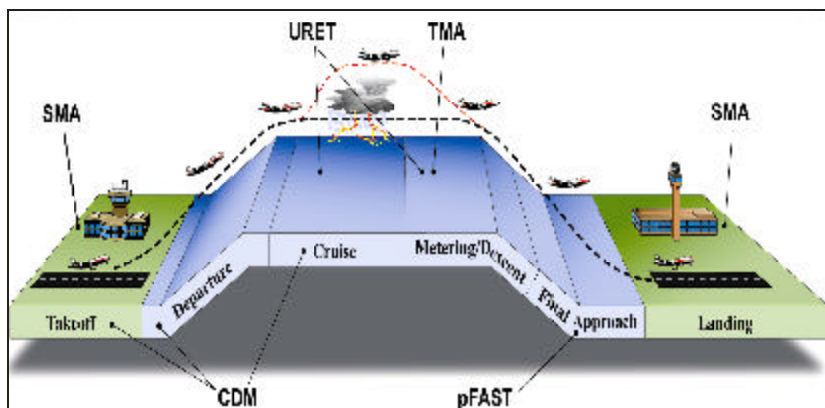
Free Flight Phase 1

To accommodate future growth, new technologies and capabilities must be introduced that increase the capacity and efficiency of the NAS. Because of its complexity, Free Flight will be introduced incrementally in the "build a little, test a little" mode of systems acquisition.

The first phase of the Free Flight program began in October 1998. Its objective is to make previously known, but not widely used, air traffic management capabilities quickly available to deliver early benefits to service providers and users of the NAS. These capabilities are: surface movement advisor (SMA), collaborative decision-making (CDM), traffic management advisor, (TMA) passive final approach spacing tool (pFAST), and the user request evaluation tool (URET).

- **SMA** – a tool that provides aircraft arrival information to airline ramp towers and operations centers— was delivered to Detroit Metropolitan and Philadelphia International Airports in December 1998.
- **CDM** tools that provide airline operations centers and the FAA with real-time access to current NAS status information and enable them to negotiate directly on user preferences are already in place nationwide and are estimated to have saved airline operators some four million minutes of delay.
- **TMA** and **pFAST** deliveries are scheduled to begin in January/February 2000. Both are part of the center TRACON automation system (CTAS) tool set that will assist controllers and traffic management specialists in sequencing, spacing, and assigning runways to aircraft. These capabilities will allow controllers to manage increased traffic demands at selected airports.

- **URET** is a powerful software tool that gives controllers a 20-minute strategic look-ahead capability to detect potential conflicts when considering pilots' requests for altitude and route changes. In September 1999, FAA chose Lockheed Martin to develop and deploy a production-quality URET. The system will be available to controllers in late 2001 through 2002.



Airports

FAA works to improve the infrastructure of the Nation's airports, in cooperation with airport authorities, local and state governments, and metropolitan planning authorities. As part of its safety oversight mission, the FAA certifies airports serving air carrier aircraft operating with more than 30 seats and periodically inspects those airports for compliance with established safety standards.

- In FY 1999, FAA's Office of the Associate Administrator for Airports awarded approximately \$1.958 billion in new AIP grants-in-aid obligations to improve and expand the Nation's airports. New grants awarded this fiscal year included the following: 868 grants totaling \$1,389.8 million for primary airports; 62 grants and \$64.0 million for nonprimary commercial service airports; 131 grants totaling \$149.0 million for reliever airports; 341 grants and \$211.2 million for general aviation airports; 45 grants worth \$13.7 million for airport system planning; and \$131 million in 37 State Block Grant Program grants. In addition, \$241.2 million was awarded for 115 grants to achieve noise compatibility for communities near airports. This amount included the purchase of noise-impacted land adjacent to airports, soundproofing residences and schools, and for other efforts to reduce noise.
- The collection of passenger facility charges, which

must be approved by the FAA, is an additional source of revenue for airports. During FY 1999, the FAA's airport personnel processed 111 passenger facility charge (PFC) applications, approving approximately \$3.5 billion in PFC collections to fund approximately 600 projects.

- The level of noise at the Nation's airports and surrounding areas continued to decline in FY 1999 as airlines, in compliance with the Airport Noise and Capacity Act of 1990, took older, noisier "Stage 2" airplanes out of service. The Act required that all civil aircraft over 75,000 pounds be the quieter "Stage 3" by January 1, 2000. In a Report to Congress released in August 1999, Transportation Secretary Rodney E. Slater announced that the Nation's commercial jet aircraft fleet is the quietest in history and will continue to achieve record low noise levels into the next century.

Commercial Space Transportation

The Office of Commercial Space Transportation oversees the safety of commercial space launches and regulates the growing commercial space industry. The organization licenses commercial space launches that take place in the United States or are conducted by U.S. citizens anywhere in the world.

- In May 1999, FAA – along with the Commercial Space Transportation Advisory Committee (COMSTAC) – announced the latest commercial space transportation forecasts. These forecasts project that an average of 51 commercial launches per year will occur worldwide through 2010, compared with 36 launches conducted in 1999.
- Among significant launches, in March 1999, an international consortium led by Boeing conducted a first-of-its-kind, licensed commercial launch of a rocket from the mid-Pacific, using a converted oil platform. Launching from a mid-ocean location on the Equator benefits from the maximum rotational forces of the Earth. Before issuing the license, the FAA conducted an extensive safety assessment.
- On April 21, 1999, following the industry review of the reusable safety guidelines, FAA issued an NPRM for Reusable Launch Vehicle and Reentry Licensing Regulation and is moving ahead with industry to fashion a regulatory program to address public safety issues. An NPRM was also issued in June 1999 that addresses licensing and safety requirements for operation of a launch site. A final

rule, Commercial Space Transportation Licensing Regulations, was issued on April 22, 1999. Work is also proceeding on the following rulemakings: requirements for financial responsibility for reentry activities, launches from non-Federal sites, and amateur rocket activity.

Agency Administration

FAA strives to make its operations more efficient and responsive by employing sound business practices, introducing advanced information systems, maintaining a highly skilled workforce, and operating a model workplace.

In June 1998, FAA inaugurated a pilot program within the Office of Research and Acquisitions (ARA) to test a new core compensation plan for the FAA. On April 23, 2000, the core compensation plan will be expanded throughout the agency to include all nonbargaining unit FAA employees. The new plan replaces the general schedule (GS) grade levels with 12 pay bands linked to market pay levels. The new plan is intended to help the FAA recruit highly qualified employees and to both retain and motivate the many strong performers already working at the agency.



The Zenit-3SL launches from its ocean-based platform

Two top administrative priorities in FY 1999 were the need to (1) obtain a clean audit opinion on the agency's FY 1999 Financial Statement, and (2) establish a cost-accounting system.

- Dedicated teams, co-chaired by financial and program staffs and the Office of the Inspector General (OIG), were formed to properly capitalize and document FAA's physical assets. At the end of FY 1999, all significant milestones prerequisite to an OIG audit had been completed. FAA is also working with OST and the OIG to modify the existing accounting system to capture the new standard general ledger accounts and to change or convert existing records to meet new reporting standards. FAA also accelerated development of a process improvement plan. This plan, when completed, will identify changes in systems and procedures necessary to ensure the continued integrity of our financial reporting and analysis.
- Two and a half years ago, FAA began taking steps to establish a cost-accounting system. Initial data from the cost accounting system for the FY 1998 cost of en route and oceanic services were released in late July 1999. FAA expects the cost-accounting system to be fully implemented in FY 2002.

FAA is a full partner in the ONE DOT Management Strategy – a program that emphasizes collaboration among departmental branches. In Kansas City, Missouri, for example, the FAA Regional Office is located in the same building with other DOT offices, making it more convenient for DOT area customers. ONE DOT also encourages employees to see themselves as leading the way to transportation excellence. In FY 1999, FAA hosted numerous events in support of the Garrett A. Morgan Technology and Transportation Futures Program and continued its active participation in the Welfare-to-Work program, support to Minority Business Enterprises, and other collaborative initiatives.

Year 2000 (Y2K) Compliance

- As of June 30, 1999, FAA had completed all Y2K fixes in its mission critical and noncritical computer systems and reported that all were Y2K compliant. As a further safeguard, FAA added a post-implementation phase to its approach. All enhancements, changes to the system, and deployment of new systems that FAA would normally undertake were closely monitored to ensure continued Y2K compliance.

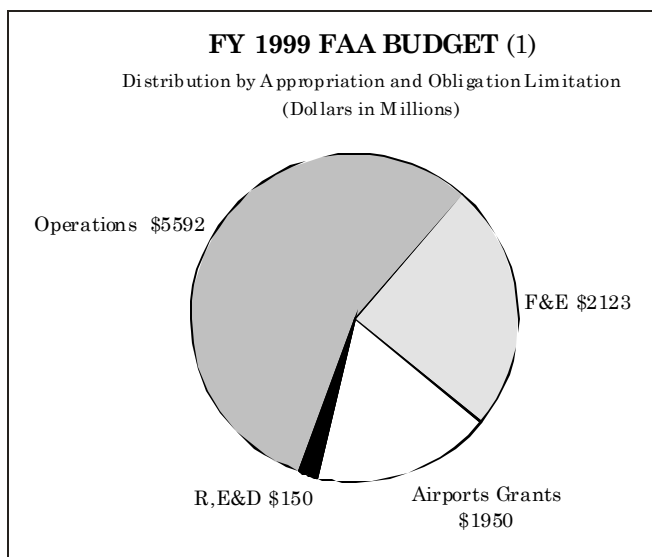
- FAA published a Business Continuity and Contingency Plan (BCCP) detailing what actions the agency would take should problems arise associated with Y2K. The plan built on other contingency plans already in place to deal with eventualities. The BCCP was reviewed and tested for operational soundness, including the staffing and communications required to support "Day One" (January 1, 2000) operations.
- On November 2, 1999, FAA announced that none of the Nation's 565 airports regulated by the FAA had been found to have Y2K problems that will affect the airport's ability to meet regulatory safety requirements during the year 2000 rollover. The announcement followed a review of those airports by FAA's Airports organization to ensure their readiness. Additionally, an NPRM was issued on July 21, 1999, that would require certain airport operators to conduct a one-time readiness check of selected airfield equipment and systems early on January 1, 2000, and report the results to FAA.
- FAA Administrator Jane Garvey encouraged airlines throughout the world to support the International Air Transport Association (IATA) Y2K Program. The FAA, with the endorsement of IATA, sponsored the resolution that led to the International Civil Aviation Organization's (ICAO) Y2K assessment criteria and the reporting of Y2K readiness. FAA also conducted extensive testing to ensure the adequacy of communications exchange with the approximately two dozen countries with which FAA has direct interface. FAA, OST, and the Department of Defense reviewed information gathered by ICAO and other sources on the Y2K readiness of foreign civil aviation authorities and made the results available to help U.S. citizens plan international travel.
- At midnight, December 31, 1999, the FAA's air traffic control system successfully managed the rollover to the year 2000 without incident. FAA continued to monitor and upgrade FAA systems throughout March 2000, ensuring that all systems safely transitioned through the February 29th Leap Day rollover. The total cost of the FAA Y2K effort was \$238 million.

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FY 1999 FINANCIAL HIGHLIGHTS

FAA BUDGET

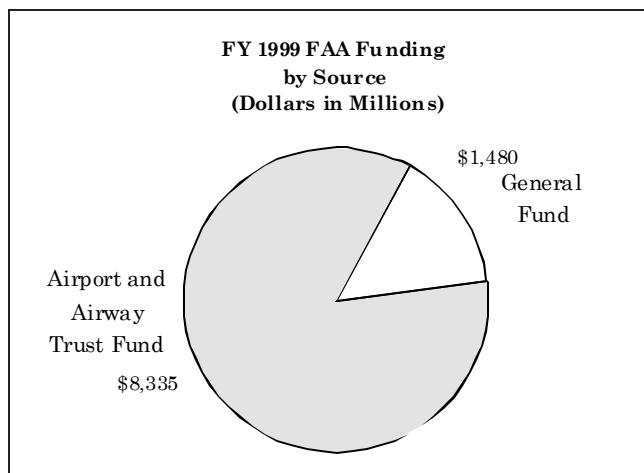
FAA is financed through annual and multi-year appropriations authorized by the Congress. The largest appropriation – Operations – funds the salaries and associated costs to operate and maintain the air traffic control system and to carry out its safety inspection, regulatory, and security responsibilities. The FAA budget also includes three capital investment programs: (1) the Facilities and Equipment (F&E) appropriation authorizes funds to modernize and expand the air traffic control system; (2) the Airport Improvement Program (AIP) provides grants funding to expand and improve the Nation’s public-use airports; and (3) the Research, Engineering, and Development appropriation provides funds to develop new aviation technology and systems.



(1) Excludes \$7.273M administrative/travel rescission per P.L. 106-51.

The Airport and Airway Trust Fund (Trust Fund), maintained through the deposit of aviation excise taxes, finances 100 percent of the F&E, AIP, and R,E&D capital investment programs. These critical capital investment programs are described in three regularly issued plans: the Aviation System Capital Investment Plan (CIP); the National Aviation Research Plan; and the National Plan of Integrated Airport Systems (NPIAS). In addition to funding the capital programs, the Trust Fund pays a portion of the FAA’s operating cost. From FY 1995 through FY 1999, the Operations appropriation has received

approximately 50 percent of its funding from the Trust Fund and the balance from the General Fund. Overall, in FY 1999, the Trust Fund financed nearly 74 percent of the FAA’s total budget.



Airport and Airway Trust Fund. The Airport and Airway Revenue Act of 1970 created the Trust Fund to provide a stable source of funding to finance investments in the airport and airway system and, to the extent funds were available, cover the operating costs of the airway system. The Act provided for the deposit of aviation excise taxes into the Trust Fund. Since its establishment, various changes have been made to the rate structure supporting the Trust Fund. The most recent changes were centered in the Taxpayer Relief Act of 1997 (P.L. 105-34), effective October 1, 1997:

- Extends aviation taxes for 10 years (through September 30, 2007).
- Retains existing freight waybill, general aviation fuel/gas taxes.
- Converts the 10 percent ad valorem tax on domestic passenger tickets to a combination ad valorem/flight segment tax over 3 years beginning October 1, 1997, where a domestic flight segment is a flight involving a single takeoff and a single landing. The timetable for these taxes is as follows:

9% plus \$1 per segment from Oct.1, 1997, through Sept. 30, 1998;

8% plus \$2 per segment from Oct.1, 1998, through Sept. 30, 1999;

7.5% plus \$2.25 per segment from Oct.1, 1999, through Dec. 31, 1999;

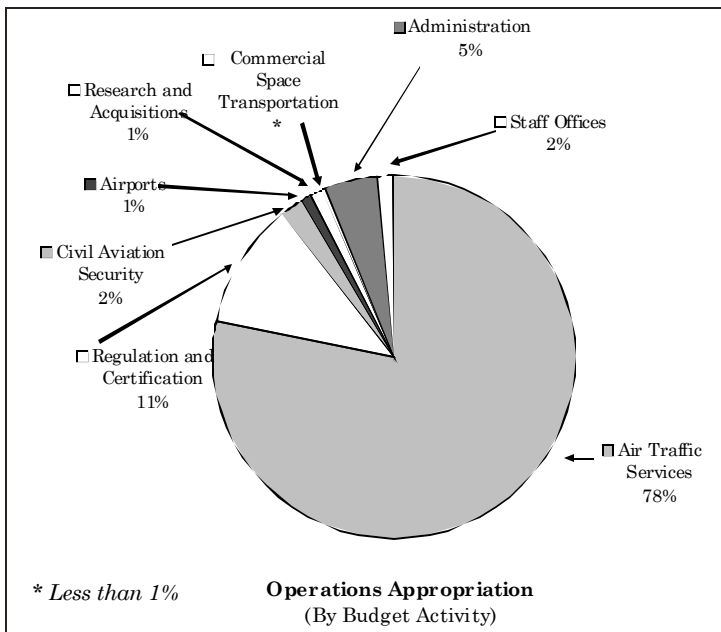
7.5% plus \$2.50 per segment from Jan.1, 2000, through Dec. 31, 2000;

7.5% plus \$2.75 per segment from Jan.1, 2001, through Dec. 31, 2001;

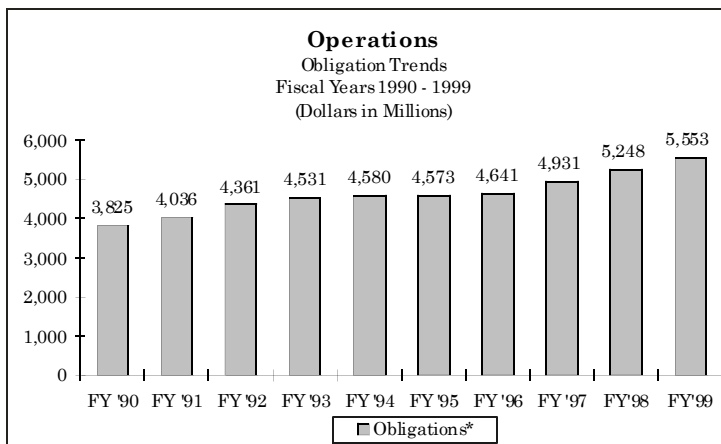
7.5% plus \$ 3 per segment from Jan.1, 2002, through Dec. 31, 2002.

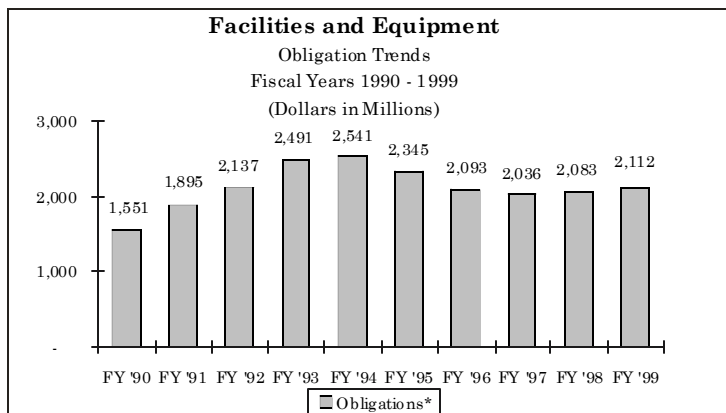
- After 2002, the \$3 segment rate will be indexed to the Consumer Price Index (CPI).
- Imposes a new 7.5 percent tax on payments to airlines for frequent flyer and similar awards by banks and credit card companies, merchants, frequent flyer program partners - other airlines, hotels, or rental car companies, and other businesses.
- Increases the current \$6 international departure tax to \$12 per passenger and adds a \$12 international arrival tax. If an intermediate stop exceeds 12 hours, subsequent domestic segments are taxed as domestic transportation. These taxes were indexed to the CPI as of January 1, 1999.
- Retains a special rule for flights between the Continental United States and Alaska or Hawaii at \$6 for departures. This tax is indexed to the CPI starting January 1, 1999.
- Lowers tax rate on flights to certain rural airports to 7.5 percent, and omits flight segment tax component.
- Transfers revenues from the 4.3-cents-per-gallon aviation fuel tax formerly dedicated to reduce the national U.S. deficit from the General Fund to the Airport and Airway Trust Fund.

While held by Treasury, Trust Fund monies are invested in Government securities. Any interest earned is deposited into the Trust Fund. Amounts are withdrawn from the Trust Fund as it is needed and transferred into each FAA appropriation to cover necessary outlays. The uncommitted balance in the Trust Fund, which was \$6.67 billion at the end of FY 1999, is expected to continually decrease if the proposed option to fund FAA's budget totally from the Trust Fund without any General Fund contributions materializing. Also, this is dependent on no change in the aviation taxes outlined above.



Operations. Funds from the Operations appropriation are used to pay salaries and other costs required to operate and maintain the ATC system on a 24-hour basis. Other mission-critical expenses financed by this appropriation include salaries and associated costs for: (1) the planning, direction, and evaluation of FAA programs; (2) engineering for the establishment of air navigation facilities; (3) the development and enforcement of flight standards and civil air regulations; (4) the promulgation and enforcement of standards, rules, and regulations governing the physical fitness of airmen; (5) the administration of research and development programs; (6) the protection of the traveling public in commercial U.S. air transportation against terrorist and other criminal acts; (7) regulating commercial space transportation industry; and (8) national





integrated airport planning and the supervision of grants-in-aid for airport expansion and improvement.

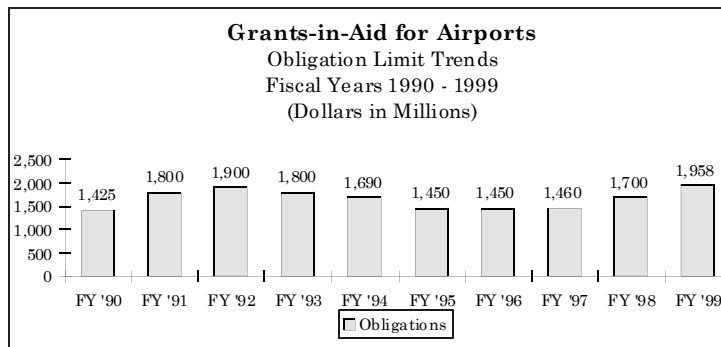
Facilities and Equipment (F&E). Funds from the F&E appropriation are used to modernize, expand, and replenish the ATC infrastructure. Examples of F&E programs include the deployment of improved controller-pilot data link communications; the replacement of aging ATC computer hardware and software in en route centers and terminal radar approach control facilities; the installation of advanced radar for airport surveillance to help prevent runway incursions and to warn of hazardous weather; the augmentation of GPS; the fielding of automated decision support tools that will enable controllers to allow users greater freedom to fly more direct routes; and the deployment of explosive detection systems (EDS) and other security devices for screening passengers, baggage, and cargo.

The *Blueprint for NAS Modernization: An Overview of the National Airspace System Architecture Version 4.0*, released in January 1999, describes the joint FAA and industry operational concept and long-term plan for evolving

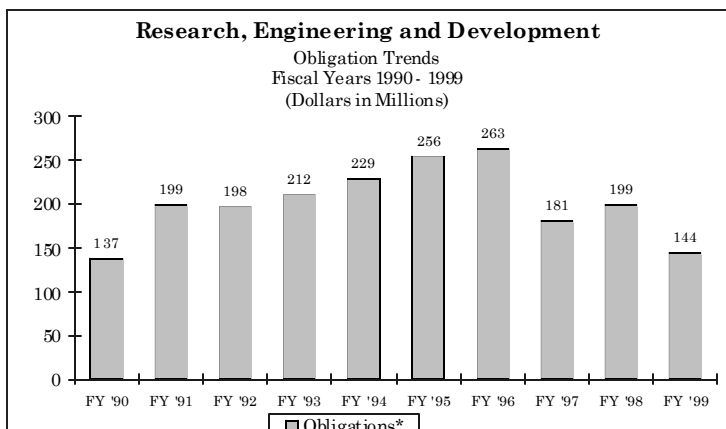
the NAS to handle future growth in aviation while enhancing safety. The *NAS Architecture* is the principal framework of NAS infrastructure investment decisions.

Research, Engineering and Development (R,E&D). The FAA's R,E&D programs are directed toward improving safety, security, capacity, efficiency, and ensuring the environmental compatibility of the NAS. Areas of primary focus include continued research in aircraft structures and materials; systems security research; improved aviation weather products, and resolution of environmental issues. FAA human factors and aviation medicine research will focus on how to best accommodate changes in equipment and procedures and other studies to reduce the risk of human error by agency personnel and air crewmembers.

Guided by *the NAS Architecture*, FAA publishes an annual R,E&D Plan which describes initiatives for NAS service improvements and development of the next generation air traffic management system.



Airport Improvement Program (AIP). Section 47104 of Title 49, U.S.C., authorizes the Secretary of Transportation to make project grants for airport planning and development under the AIP to maintain a safe and efficient nationwide system of public-use airports that meets both present and future needs of civil aeronautics. The payment of user taxes to the Federal Government by air travelers and shippers contributes to the Airport and Airway Trust Fund and makes it possible to fund one-fourth to one-third of all capital development at the Nation's public-use airports. Consequently, no Federal monies are withdrawn from the General Fund for federally assisted projects to maintain and enhance airport safety, preserve existing airport infrastructure, and expand capacity and efficiency throughout the



**STATEMENT OF OBLIGATIONS INCURRED BY APPROPRIATION
AND MAJOR OBJECT CLASSIFICATION**

(Values Rounded to the Nearest Thousand)

Fiscal Year 1999

	Operations	Facilities and Equipment	R,E&D	Grants-in- Aid for Airports	Totals
Personnel Compensation	\$3,369,977	\$188,136	\$26,095		\$3,584,208
Civilian Personnel Benefits	889,122	46,668	5,403		941,193
Benefits for Former Personnel	152				152
Travel and Transportation of Persons	93,274	34,981	2,854		131,109
Transportation of Things	27,665	3,727	192		31,584
Rent, Communications, and Utilities	427,291	54,402	251		481,944
Printing and Reproduction Service	10,720	309	92		11,121
Other Services	684,535	1,325,984	67,004		2,077,523
Supplies and Material	85,401	41,745	4,417		131,563
Equipment	40,200	256,266	3,116		299,582
Land and Structures	1,648	132,580			134,228
Investments and Loans					0
Grants, Subsidies, and Contributions	(1)	6,000	39,321	\$1,990,171	2,035,491
Insurance Claims and Indemnities	1,349	48,026			49,375
Interest and Dividends					
Refunds					
Total	\$5,631,333	\$2,138,824	\$148,745	\$1,990,171	\$9,909,073

(Percentage Rounded to the Nearest Tenth)

Fiscal Year 1999

	Operations	Facilities and Equipment	R,E&D	Grants-in- Aid for Airports	Totals
Personnel Compensation	59.8%	8.8%	17.5%		36.2%
Civilian Personnel Benefits	15.8%	2.2%	3.6%		9.5%
Benefits for Former Personnel					0.0%
Travel and Transportation of Persons	1.7%	1.6%	1.9%		1.3%
Transportation of Things	0.5%	0.2%	0.1%		0.3%
Rent, Communications, and Utilities	7.6%	2.5%	0.2%		4.9%
Printing and Reproduction Service	0.2%		0.1%		0.1%
Other Services	12.2%	62.0%	45.0%		21.0%
Supplies and Material	1.5%	2.0%	3.0%		1.3%
Equipment	0.7%	12.0%	2.1%		3.0%
Land and Structures		6.2%			1.4%
Investments and Loans					0.0%
Grants, Subsidies, and Contributions	0.0%	0.3%	26.4%	100.0%	20.5%
Insurance Claims and Indemnities	0.0%	2.2%			0.5%
Refunds					
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Note- Data source is the SF-225 produced from the Departmental Accounting and Financial Information System. This statement will not agree with the financial statement

airport system. The AIP program received four separate short-term reauthorizations during FY 1999 with the program lapsing on September 30, 1999.

The National Plan of Integrated Airport Systems (NPIAS) draws selectively from local, regional, and state planning studies to estimate the costs associated with establishing a system of airports adequate to meet the needs of civil aviation. Costs identified in the NPIAS are eligible (nominally) for Federal grants-in-aid. Over the next 5 years, airport development to keep pace with growing aviation demands will cost \$35.1 billion.

The Passenger Facility Charge (PFC) Program, authorized by the Aviation, Safety and Capacity Expansion Act of 1990, provides an additional source of capital funding for the expansion and preservation of airport infrastructure in the national air transportation system. This legislation allows public

agencies controlling commercial service airports, after receiving approval from the FAA, to charge enplaning passengers a \$1, \$2, or \$3 facility charge.

PFC collections and AIP funds are complementary in the overall funding of airport improvements. The majority of PFC approved projects are also eligible for further funding under the AIP. As of September 30, 1999, authorized collections for the 307 locations approved since 1992 totaled over \$24.2 billion. As of September 30, 1999, 69 percent of those primary airports eligible to collect PFC's were approved to do so. Collections, which first began on June 1, 1992, now produce revenue for airports at a rate exceeding \$1.4 billion per year.

Although these revenues are not considered Federal funds, the public agency's application to impose a PFC must be approved by the FAA.

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STRATEGIC GOALS

The development of mission-oriented goals, formulated in concert with the aviation community it serves, is a continuing process within the FAA. In 1998, FAA fine-tuned its strategic plan to advance the three goals central to its mission: safety, security, and system efficiency. These strategic goals recognize the priorities outlined by the White House Commission on Aviation Safety and Security; the priorities and concerns of the FAA's partners in state, local government, and industry; and FAA's longstanding commitment to provide the American people with the safest and most efficient airspace system possible.

- **Safety.** By 2007, reduce the U.S. air carrier fatal accident rates by 80 percent from the 1994/1996

levels.

- **Security.** Prevent security incidents in the aviation system. Improve by a specified percentage from a 1998 baseline.
- **System Efficiency.** Provide an aerospace transportation system that meets the needs of users and is efficient in the application of FAA and aerospace resources.

The strategic plan, supplemented by the FAA Annual Performance Plan, serves as a top-level link between the program activities found in the agency's budget. The following chart illustrates how, in FY 1999, the FAA continued to channel its resources in directions dictated by its strategic plan goals.

Funding Link to Agency Strategic Goals ¹
FY 2000

(Dollars in Thousands)			
STRATEGIC GOALS	Safety	Security	System Efficiency
Appropriation			
Operations			
Air Traffic Services			4,696,487.0
Aviation Regulation and Certification	667,631.0		
Civil Aviation Security		144,642.0	
Airports			50,608.0
Research and Acquisitions			183,740.0
Commercial Space Transportation	6,838.0		
Staff Offices	34,686.0	8,678.0	245,696.0
Total	709,155.0	153,320.0	5,176,531.0
Facilities and Equipment			
Engineering, Development, Test and Evaluation	51,802.0		448,276.1
Procurement and Modernization of ATC Facilities and Equipment	172,152.0	5,400.0	869,951.0
Procurement of non-ATC Facilities and Equipment	56,600.0	119,325.0	18,400.0
F & E Mission Support			268,006.1
Personnel and Related Expenses	43,745.2	21,456.8	243,885.8
Total	324,299.2	146,181.8	1,848,519.0
Research, Engineering and Development			
System Development and Infrastructure	3,057.0	397.0	13815.0
Capacity and Air Traffic Management Technology	4,000.0	0	12,000.0
Weather	9,459.0	0	6,306.0
Aircraft Safety Technology	39,639.0	0	0
System Security Technology	0	53,218.0	0
Human Factors and Aviation Medicine	26,107.0	0	100.0
Environment and Energy			3,481.0
Strategic Partnerships	568.0	568.0	285.0
Total	82,830.0	54,183.0	35,987.0
Grants in Aid to Airports			
Grants	62,400.0	9,800.0	1,528,800.0
Total	62,400.0	9,800.0	1,528,800.0

¹ FY 2000 Budget

PERFORMANCE GOALS

The FAA Annual Performance Plan defines those performance goals and indicators used to measure the agency's progress in achieving its strategic goals. The following performance goals underscore FAA's commitment to each of its mission-oriented goals:

Safety

- **Air Carrier Fatal Accident Rate.** Reduce the fatal aviation accident rate for commercial air carriers per 100,000 flight hours from the 1994-1996 baseline rate of 0.037 to 0.034 by 1999 and 0.033 by 2000
- **Runway Incursions.** Reduce the number of runway incursions to a level 15 percent below a 1997 baseline of 318 incursions to at or below 270 incursions in 1999 and 2000.
- **Operational Errors (Air Traffic).** Reduce the rate of operational errors and deviations per 100,000 activities by 10 percent from 1994 baselines (0.54 errors and 0.11 deviations) to a 1999 target rate of 0.496 for errors and 0.099 for deviations. The 2000 targets are 0.486 errors and 0.097 deviations per 100,000 activities.

Security

- **Aviation Security.** Increase the detection of explosive devices and weapons that may be brought aboard aircraft. (Detection rates are sensitive information protected under 14 CFR, Part 191. Performance goals and actual trend data will be made available to appropriate parties upon request.)

Efficiency

- **Runway Pavement Condition.** Maintain in good or fair condition at least 93 percent of runways at all commercial service airports and reliever airports, as well as selected general aviation airports.
- **Aviation Delay:** Reduce the rates of air travel delays by 5.5% from a 1992-1996 baseline of 181 delays per 100,000 activities.
- **Flight Route Flexibility:** Increase the number of flight segments that aircraft are able to fly off ATC-preferred routes to 80 percent from a 1996 baseline of 75 percent.
- **Aircraft Noise.** Reduce the number of people in the U.S. exposed to significant aircraft noise by at least 64 percent from the 1995 baseline of 1.7 million.
- **All Weather Access to Airports.** Increase access to the Nation's airports during adverse weather conditions by publishing 500 GPS/WAAS approaches per year for the next 2 years, from a prior year (FY 1995-1998) baseline of 1,453 approaches.

The progress reports that follow are primarily for 1998, as 1999 data will not be available until the DOT Performance Report is sent to Congress March 31, 2000. The 1999 data will be available on the DOT website at www.dot.gov.

AIR CARRIER FATAL ACCIDENT RATE

Why We Act. Commercial aviation is one of the safest forms of transportation. But when passengers board an airplane, they give up personal control and face an unfamiliar risk. While fairly rare, aviation accidents can have catastrophic consequences, with large loss of life. The public demands a high standard of safety and expects continued improvement. In 1997, the White House Commission on Aviation Safety and Security established a goal of reducing the fatal accident rate by 80 percent by 2007.

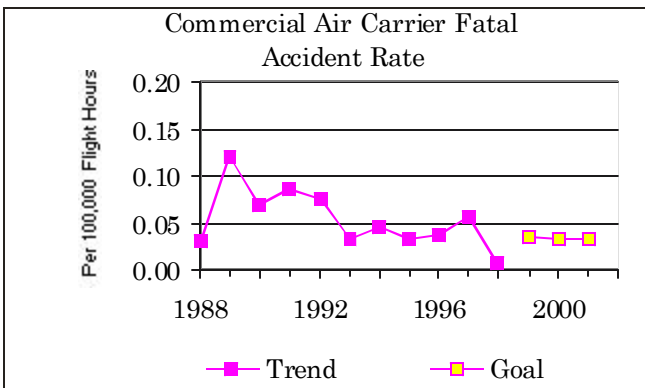
Performance Measure: Fatal aviation accidents (Commercial air carriers) per 100,000 flight hours.

Goals:	1999	2000	2001
	.034	.033	.031
1998 Performance:	.006		

into commercial aviation in the late 1960's, they have proven to be safer and more reliable than propeller driven aircraft.

Greater emphasis within the industry training programs on human factors and crew resource management and their importance may also be having a positive effect on aviation safety in the commercial section.

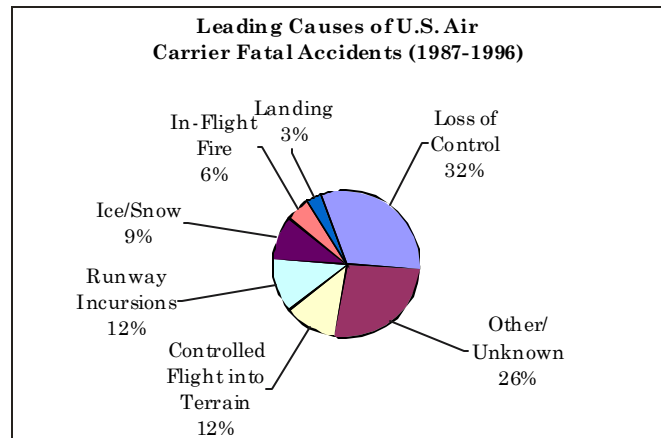
In 1998, the Certification, Standardization, and Evaluation Team (CSET) created an enhanced Certification Process Document (CPD), making identification of regulatory requirements for air carrier certification based on types of operations and types of aircraft significantly easier. By eliminating confusion on the applicability of rules, it ensures that all carriers would be certified at one level of safety.



Special Challenges: The fatal accident rate is very low, as most of the major causes of accidents have been identified, and FAA and the air transportation community have implemented numerous system changes to reduce the accident rate further.

What Happened in 1998: There was a single fatality related to commercial aviation during calendar year 1998, which involved a ground crewmember. With very low accident rates, year-to-year variance should be expected as results fluctuate as they follow longer trends in the industry. Viewed in this context, 1998's rate dropped from the unusually high rate in calendar year 1997 and continues the long-term trend toward improved safety in commercial aviation.

External factors influencing this goal in 1998 include the expanded use of small jet aircraft in the scheduled regional segment of the industry, which appears to be contributing to the marked safety improvements in that segment. Since the introduction of jet transports



Significant strides were made in using the Safety Performance Analysis System (SPAS), a computer-based decision support tool to help aviation safety inspectors identify certificate holders that may present a safety risk. Software enhancements continue to improve the functionality of the system. One hundred and thirty-five SPAS training classes at 11 sites were conducted during FY 1998, expanding the number of aviation safety inspectors training to exploit the full capability of SPAS.

A resource-targeting model was also developed in 1998 to provide an analytical tool for use in prioritizing workload requirements in terms of Aircraft Certification's highest safety priorities. The model is specifically designed to improve the effectiveness and efficiency of the Aircraft Certification Systems Evaluation Program.

FAA has identified and, in 1998, began implementing safety recommendations for flightcrew interacting with flight deck systems. Implementation of these human factors recommendations is underway in design, training, crew qualifications, and their associated regulatory material and processes.

Assessment of Current Year (FY 2000) Performance Plan: The long-term trend in commercial aviation safety remains on target for the FY 2000 goal; however, variance in year-to-year results should be expected because occurrences are so rare.

Strategies and FY 2001 Initiatives: FAA will continue to work with the aviation community and other governmental agencies to identify causal factors of accidents and intervene accordingly to prevent potential causes of future accidents. FAA's "Safer Skies" effort in the commercial aviation area includes the following six accident categories: controlled flight into terrain, loss of control, uncontained engine failure, runway incursion, approaches and landings, and weather. Task forces representing Government and industry are working on identifying intervention strategies designed to reduce or eliminate these threats to aviation safety. The runway incursion initiative, another important FAA safety program, is addressed under a separate performance goal.

- FAA's "Safer Skies" effort with the aviation industry in FY 2001 will feature implementation and further identification of selected interventions in controlled flight into terrain and uncontained engine failure. Causal analysis will begin for weather-related

accidents; recommended interventions will be identified for loss of control accidents; and detailed implementation plans will be completed for approach and landing accidents and runway incursions. For 2001, FAA targets a 20 percent reduction in fatal accidents in the 6 areas of the "Safer Skies" initiative, which will be the key factor in reducing the overall fatal accident rate.

- FAA's regulation and certification program establishes aviation safety standards, monitors safety performance, conducts aviation safety education and research, issues and maintains aviation certificates and licenses, and manages rulemaking.
- FAA's aviation medicine research program works to enhance cabin safety factors via studies that include crash injury protection provided by improved seat/restraints, emergency evacuation, and crew protective breathing systems; and is developing guidelines based on accident research, toxicological findings, and analyses of information from the aeromedical consolidated database to help prevent aircraft accidents, injuries, and death.
- FAA's research in safety technology supports the regulatory program, which sets safety standards for aircraft design and maintenance. Areas studied include fire-resistant materials for cabin interiors, fire detection equipment, inspection and maintenance of aging aircraft, and prevention of engine failures.

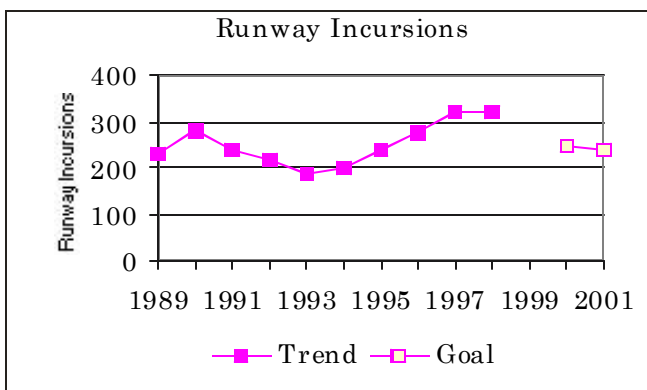
Other Federal Programs with Common Outcomes: FAA and NASA have harmonized their aviation safety goal that committed each agency to pursue activities that will directly contribute to an 80 percent reduction in the fatal air carrier accident rate by 2007. The two agencies are developing an integrated research plan that will support the achievement of the common goal.

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RUNWAY INCURSIONS

Why We Act: Runway incursions create dangerous situations that can lead to serious accidents. A runway incursion occurs when an aircraft, ground vehicle, or person occupies or crosses a runway that is in active use for takeoffs or landings. The largest aviation disaster in history (at Tenerife) resulted from a runway incursion. Reducing the number of runway incursions will lessen the probability of accidents that potentially involve fatalities, injuries, and significant property damage.

Performance Measure: Number of runway incursions.			
Goals:	<u>1999</u>	<u>2000</u>	<u>2001</u>
	270	248	241
1998 Performance:	325		



Special Challenges: Growth in airport operations has averaged over 3.5% per year. With an increased tempo of operations, the risk of incursions increases. Runway incursions are most likely to occur at complex, high volume airports. These airports typically have multiple parallel or intersecting runways; multiple taxiway and runway intersections; complex traffic patterns, and the need for vehicular and aircraft traffic to cross active runways.

What Happened in 1998. The total count of runway incursions has increased steadily between 1993 and 1998. Runway incursions fall into three general classifications: operational errors, pilot deviations, and vehicle/pedestrian deviations. For 1998, the breakdown was 28% operational errors, 56% pilot deviations, and 16% vehicle/pedestrian deviations. The main causal factors for runway incursions continue to be communications, airport knowledge, and cockpit procedures for maintaining orientation. The communications problem generally results from

instructions. In numerous incidents, the pilots continued onto or crossed active runways even though controllers had told them to hold. Lack of knowledge of the airport appears to be another significant factor, because pilots are uncertain about taxi routes. Cockpit-procedures become a problem when flightcrews become absorbed in other duties and do not pay adequate attention to controller's instructions. FAA is addressing these problems by producing education programs to enhance cockpit awareness for avoiding runway incursions.

The preliminary numbers for 1998 showed what may be a tapering off in the growth of runway incursions. There appears to be a smaller increase in runway incursions in 1998 (5 percent growth over 1997 instead of the 18-20 percent annual growth seen before). When this count is normalized to airport operations, the rate of incursions per 100,000 operations was 0.5 – the same rate as in 1997. While a continued increase in runway incursions is unacceptable, the apparent stabilization of rate may indicate that programs designed to lower risk are beginning to have an effect.

The principal external factor contributing to runway incursions is the increased capacity and volume at major airports, which increase the opportunity for runway incursions. In 1998, airport operations increased by 1.1 million over 1997's already high volume of 62,508,615 – a 1.8 percent increase.

In 1998, the FAA promoted awareness by preparing exhibits for conferences held by general aviation user groups and the Oshkosh Fly-In. The Runway Incursion Action Teams visited five airports with runway incursion incidents and developed action plans to reduce incursions at Cleveland, Los Angeles, and Long Beach.

Assessment of Current Year (FY 2000) Performance Plan. FAA is working to meet its CY 2000 goal of 248 runway incursions or less. As actions to educate pilots and use of the Runway Incursion Action Teams to reduce incursions have

shown positive results, FAA will continue and expand these efforts. The teams will visit 20 airports in 1999, and they will set an aggressive schedule for 2000. In addition, FAA is investigating and implementing new technologies such as AMASS and automatic dependent surveillance (ADS/B) to further reduce runway incursions.

Strategies and FY 2001 Initiatives: Since human error is the primary cause of runway incursions, FAA will continue to focus its efforts on training and technology that compensates for human error. The *Runway Safety Program* is a systemwide comprehensive plan to reduce incidents and accidents directly attributable to runway incursions and improve airport surface operations. The *Airport Surface Operations Safety Action Plan* identifies goals, objectives, and actions that can be met by management or procedural changes; training and awareness initiatives; improvements in airport navigation aids, signs and surface markings; and technology enhancements.

- FAA’s “Safer Skies” agenda includes a special focus on reducing runway incursions.
- FAA plans to continue development of procedures, training programs, and potential improvements to airports to reduce runway incursions. FAA will also begin procurement of a prototype low-cost surface detection system that could be used to assist controllers in locating airport surface traffic.
- FAA’s approximately 3,000 controllers assigned to the tower cab at airports have a major role in preventing runway incursions. They provide specific instructions to pilots and groundcrew on when aircraft and vehicles can be moved or must

stop and wait for other aircraft and vehicles to clear the runway or taxiway.

- FAA will upgrade airport surface detection systems and begin replacement of obsolete components at the 40 airports with surface detection systems.
- FAA will continue deploying the surface movement advisor – a computer display that makes it easier for controllers, airlines, and airport operators to share information on aircraft taxiing and better manage airport ground traffic.
- FAA’s Runway Incursion Program Implementation Plan provides for the continuation of training enhancements and awareness of surface incident problems. This plan includes increasing the number of Runway Incursion Action Team visit and improvements in determining trends and providing problem solution information to prevent incursions. Airport surface safety campaigns will continue to promote pilot and airport operator involvement in issues related to surface incident awareness.
- Installation/acceptance of airport movement area safety system (AMASS) production systems began in April 1999. As previously mentioned in this report, AMASS provides automatically generated visual and aural alarm alerts to controllers to aid in the prevention of loss of life and property that could result from runway incursions.

Other Federal Programs with Common Outcomes: DOD has developed software, based on radar images, for detection of aircraft and other vehicular movement to reduce runway incursions at military airports.

OPERATIONAL ERRORS (AIR TRAFFIC)

Why We Act: One of the fundamental principles of aviation safety is “separation” — the need to maintain a safe distance from other aircraft, terrain, obstructions, and certain airspace not designated for routine air travel. Air traffic controllers employ separation rules and procedures that define separation standards for many different environments where aircraft operate. Pilots flying under visual flight rules operate under a “see and avoid” policy. Pilots using instrument procedures rely on air traffic controllers’ instructions to guide them. When aircraft are allowed to violate these separation standards, an operational error occurs.

Performance Measure: Operational errors per 100,000 activities			
Goals:	<u>1999</u>	<u>2000</u>	<u>2001</u>
	.496	.486	.600
1998 Performance:	.55		
Performance Measure: Deviations per 100,000 activities			
Goals:	<u>1999</u>	<u>2000</u>	<u>2001</u>
	.099	.097	#
1998 Performance:	.18		
<i># Goal for deviations discontinued after FY 2000.</i>			

traffic complexities. From 1997 to 1998, air traffic volume rose by 3% and in 1999 increased at an annual rate of 4%.

What Happened in 1998: The FAA’s Air Traffic Services (ATS) responsibility is the day-to-day safe operation of the Air Traffic Management (ATM) system. Rules and procedures are in place to assure separation. Violations of these rules are reported and counted as operational errors and deviations.

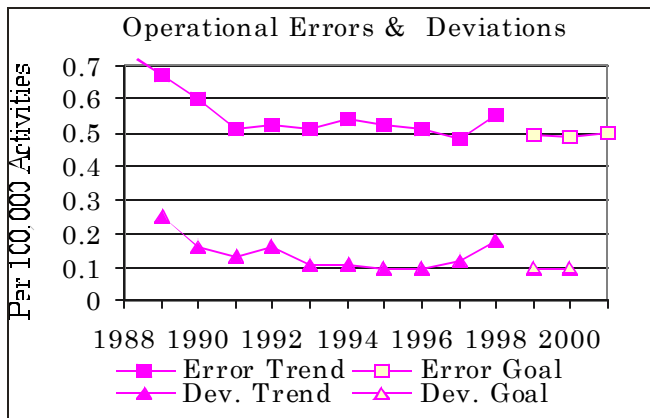
In 1998, operational errors were 0.55 per 100,000 facility activities, missing the goal of 0.504. Deviations were 0.18 per 100,000 facility activities, missing the goal of 0.101. FAA is studying the reasons for these increases, which may be the result of several factors including closer scrutiny of the data. Errors and deviations are recorded by Air Traffic Management facilities and are based on standard parameters that must be exceeded for an incident to be recorded. A survey of these facilities in August 1998 indicated a widespread misunderstanding of the procedures used in interpreting the data. The corrected interpretation of these procedures may explain a portion of the current increase.

Analysis has shown the top three causal factors for operational errors/deviations categories to be:

1. Failure to project future status of displayed data,
2. Failure to comprehend displayed data, and
3. Failure to detect displayed data.

The Office of Air Traffic Planning and Procedures is using information on causal factors to develop and improve procedures to help reduce the error rates. The Office of Air Traffic Resource Management is also using this information to address training issues.

Special evaluations were conducted on a case-by-case basis at facilities with increasing trends in operational errors/deviations. Processes common to all facilities were broken down into five areas and observed: traffic management relationships, quality



Special Challenges: Operational errors are a result of human error. FAA may already be approaching an expected level of human performance, in which case further automation would be needed. Analysis has shown that five factors are significant: traffic management relationships, quality assurance programs, training, management involvement, and control room environment. The most significant external factor influencing this measure is the increasing volume of air traffic activity, which adds to

assurance programs, training issues, management involvement, and control room environment. The observations were provided to Regional Quality Assurance Staffs for development of corrective initiatives.

In 1998, the FAA also had regional quality assurance staffs participate in twice-weekly tele-conferences to focus attention on operational error/deviation reduction efforts.

FAA developed and distributed quarterly analysis of causal factors and observed trends for recent operational errors/deviations and implemented an Air Traffic Quality Assurance Order. This provided renewed focus on the responsibilities of operational supervisors to provide recurring technical training to ATCS's to enhance control effectiveness.

Assessment of Current Year (FY 2000) Performance Plan: Until the nature of the recent increases in error and deviation data is understood, achieving the 2000 goals is uncertain. The data are being studied for anomalies in reporting. Data reporting issues suggest that it is not realistic to set a goal for operational errors at the level of detail implied by the FY 1999 and FY 2000 goals. Therefore, the FY 2001 goal has been set to only one decimal place.

FAA is conducting quarterly safety meetings with all Regional Quality Assurance Staff managers. These meetings disseminate operational error/deviation causal factors; review performance trends attributable to errors/ deviations; and identify, review and disseminate successful operational error/deviation reduction initiatives.

FAA has also developed a change to Air Traffic Quality Assurance Order 7210.56A to require facility management and regional Air Traffic Division

involvement in recertification following operational/error/deviation (effective May 1, 1999).

FAA developed a Quality Assurance Review (QAR) process to identify and correct controller performance deficiencies prior to occurrence of an operational error or deviation. QAR's provide the means to identify, investigate, and resolve performance deficiencies through corrective training (effective May 1, 1999).

Strategies and FY 2001 Initiatives: One of the major approaches to reducing operational errors is to provide a common understanding of procedures and policies among controllers and users. Training for controllers and pilots is central to this and will continue to be the focus of Air Traffic Service safety strategies. Technological improvements such as deployment of modern displays, new decision support tools, and improved communication systems will support better determination of aircraft location and reduce errors and miscommunication between pilots and controllers. FAA will:

- Address and reduce repeat incidents by individuals through meaningful individual skill enhancement/remedial training.
- Implement a requirement for facilities to provide corrective action to significant problems identified by facility evaluations within 5 days.
- Conduct special assessments of selected facilities that have increases in the operational error rate.
- Implement annual controller skill checks to identify deficiencies and areas where special training is needed.

Other Federal Programs with Common Outcomes: None.

RUNWAY PAVEMENT CONDITION

Why We Act: Deteriorated airport runway pavement can damage propellers, turbines, and airplane landing gear. Proper design, construction, and maintenance can slow this deterioration, but runways still need complete rehabilitation every 15 to 20 years. This means that during a typical year, five to seven percent of runways require rehabilitation. Federal airport funding helps achieve this necessary level of rehabilitation, and - combined with proper maintenance - helps keep runway condition at or above the minimum level needed to ensure efficient airport operation.

Performance Measure: Percent of runways in good or fair condition (commercial service, reliever, and selected general aviation airports).

Goals:	<u>1999</u>	<u>2000</u>	<u>2001</u>
	93%	93%	93%
1998 Performance:	95.1%		

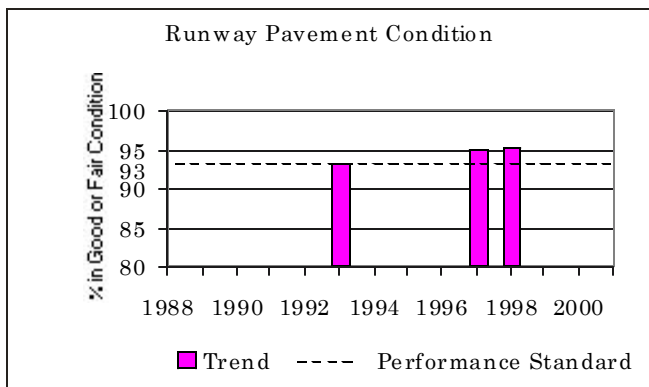
measures that should increase the effectiveness of state and Federal expenditures on airfield pavement.

External factors influencing this goal in 1998 include air carrier flight operations at commercial service airports, which have increased by 13 percent over the past 5 years. This volume of operations can increase wear on runway pavement. Countering this impact have been generally mild winters in 1997 and 1998, which may have helped in the accomplishment of runway resurfacing and repair.

Assessment of Current Year (FY 2000)

Performance Plan: The 1998 results exceed the FAA performance standard of at least 93% of runways in good or fair condition. A similar result is anticipated in 2000.

Strategies and FY 2001 Initiatives: Maintaining and rehabilitating runway costs less than total reconstruction of runways. Since FY 1995, AIP grant recipients have been required to show evidence of an airport pavement maintenance management program. An AIP demonstration program was conducted to fund crack sealing at nonprimary airports, and the FAA has proposed legislation to make this program permanent.



Special Challenges: Although runway rehabilitation is among the highest priorities of FAA's Airport Improvement Program (AIP), projects must be initiated by airport operators who pay a portion of the cost. The availability of grants for rehabilitation may detract from regular maintenance programs, which are usually funded entirely by the airport operator.

What Happened in 1998: In 1998, about 73% of commercial service airports had runways in good condition, and 24% were in fair condition. Only 3% were noted in poor condition.

State aviation agencies are increasing their use of computer-based pavement management systems to prioritize grants for runway pavement rehabilitation and to predict when different types of maintenance and rehabilitation are most likely to be cost effective,

- FAA will continue to give requests for runway rehabilitation a high priority in 2001. FAA estimates that approximately 200 runways will be rehabilitated with AIP aid in 2001. The availability of AIP funds for this purpose will have the most immediate influence on runway pavement condition.
- If the Administration's legislative proposal is statutorily enacted, AIP funds will be available for pavement maintenance at smaller airports.
- FAA will continue research to refine pavement design to accommodate new, larger aircraft that will impose very heavy wheel loads on pavement.
- In response to the General Accounting Office's July 1998 report "Airfield Pavement: Keeping Nation's Runways in Good Condition Could Require

Substantially Higher Spending,” the FAA will pursue more effective programs for inspecting and reporting the condition of runway pavement.

Other Federal Programs with Common Outcomes: None.

AVIATION DELAY

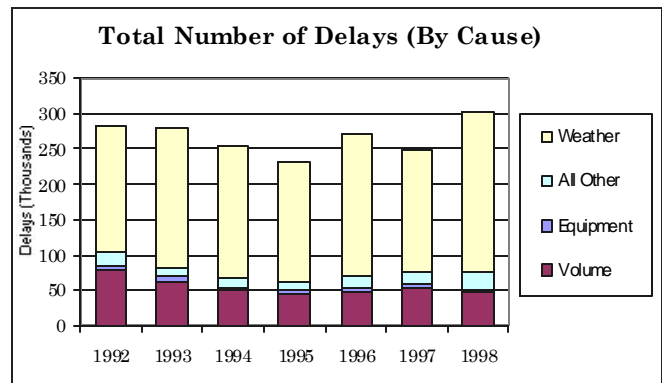
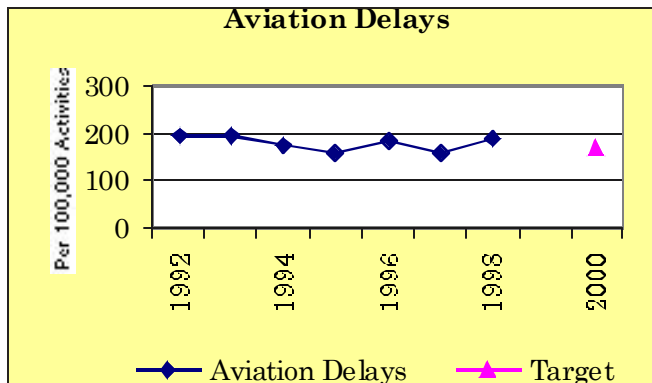
Why We Act: Commercial aviation delays are estimated to cost the airlines over \$3 billion a year. Passengers are directly affected by the inconvenience of delays in terms of missed flight connections, missed business meetings, and loss of personal time. With demand for passenger travel increasing each year, there are approximately 20 congested airports, each with an estimated average annual delay of over 20,000 hours, and delays throughout the system are projected to increase.

Performance Measure: Volume and equipment-related delays per 100,000 flight operations.			
Goals:	<u>1999</u>	<u>2000</u>	<u>2001</u>
	30.70	#	#
1998 Performance:	32.55		
Performance Measure: Aviation delays per 100,000 activities.			
Goals:	<u>1999</u>	<u>2000</u>	<u>2001</u>
	#	171	171
1998 Performance:	#		
<i># The measure for Aviation Delays was changed after 1999 to include all causes of delay, including weather.</i>			

100,000 flight activities. This met the FAA goal of 31.95 or less.

The 1998 results follow a multi-year trend of generally diminishing volume and equipment delays. These results may be due to a number of FAA initiatives. The Air Traffic Control Systems Command Center (ATCSCC) has placed increased emphasis on honoring commitments to aircraft, helping to eliminate the practice of “no notice holding.” Collaborative decision making (CDM) was begun in 1997 and continues to be used in ground delay programs. The increased dissemination (within 24 hours) of written maintenance alert information contributes to reduced equipment delays by preventing similar events that stem from a common cause.

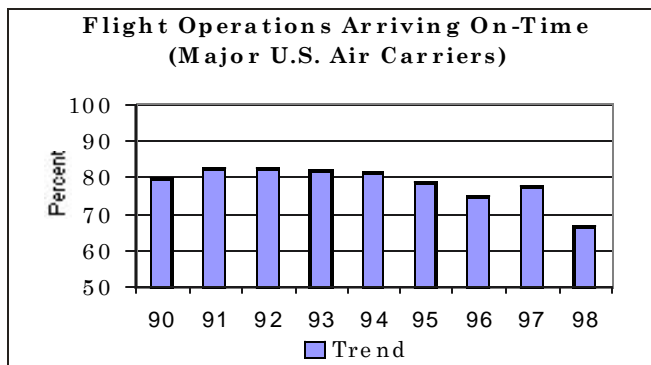
Most aviation delay and variance in delay is the result of weather. While FAA initiatives to improve weather prediction and flight routing can serve both to improve safety and to reduce delays, the FAA’s ability to manage weather delays is more limited, and aviation safety will always be the foremost concern in air traffic control.



Special Challenges: As traffic increases, delays are likely to increase. Consequently, maintaining the current delay rate in the face of increasing traffic represents a significant accomplishment. Due to the air traffic density and the amount of adverse weather, capacity constraints at large hub airports lead to delays throughout the National Airspace System (NAS).

What Happened in 1998: In FY 1998, the rate of volume and equipment-related delays was 31.92 per

Viewed from the perspective of airline passengers, the on-time arrival rate for the ten largest air carriers has generally declined in recent years despite a general improvement in FAA volume and equipment related delays. DOT tracks these arrival rates and reports this performance as a public service but sets no goals since this outcome is significantly influenced by industry equipment and operations.



The most significant external factor influencing the rate of volume and equipment delays is the steadily increasing use of the NAS. Increased volume leaves a small margin to absorb delays.

In other related FY 1998 activities, the Operations Network (OPSNET), which is used by air traffic to record delays and activity counts, was redesigned to ensure year 2000 compliance and provide more information on the conditions that have resulted in delays. The ATCSCC also continues to conduct training classes in order to provide more accurate view of delays in the system.

Assessment of Current Year (FY 2000)

Performance Plan: Current assessment of aviation delays shows that the FY 2000 target should be achievable with the current mix of strategies and initiatives. For FY 2000, the performance measure has been expanded to address all causes of delay, including weather.

Strategies and FY 2001 Initiatives: FAA strategies to reduce delays include NAS improvements, better weather reporting systems, and defining user priorities.

- FAA is implementing air traffic automation enhancements in Free Flight Phase I. By the end of 2001, the traffic management advisor will be installed and operating in seven centers; collaborative decision making tools will be fully developed and operational; the user request evaluation tool will be installed and operating at three centers; and the surface movement advisor will be operating at six airports.
- Existing controller workstations are being upgraded to run enhanced software (display system replacement). New equipment will improve system reliability and allow the new software to be added to existing controller automation tools.

- Existing computer processing hardware was replaced for the central computer complex in all 21 centers. The host and oceanic system computer replacement (HOSCR) provides faster processing of data, improved reliability and supportability, and is year 2000 compliant.
- Improved modeling of airspace capacity, development of better algorithms, completion of prototype development, and evaluation of new equipment for collaborative decision making with users will lead to new tools to improve traffic flows.
- FAA is developing two major systems to improve weather reporting, processing, and dissemination. The integrated terminal weather system (ITWS) will consolidate information from several sources, which is provided to airport towers. The weather and radar processor (WARP) will report weather information and integrate weather radar data provided to the FAA centers.
- In support of the two programs above, FAA is continuing to implement and improve existing weather sensors such as the NEXRAD weather radar, terminal Doppler weather radar, low level windshear alert system, a windshear detection channel for the terminal radar, and the automated surface observing system.
- FAA’s weather research program for 2001 will be developing a fog prediction model to better forecast when visibility will be adequate for airport operations and an enhanced wake turbulence monitoring system for San Francisco Airport and support for wake turbulence programs at other airports.

Other Federal Programs with Common Outcomes:

NASA has developed enhanced software tools for air traffic control in partnership with FAA. In addition, the FAA’s aggressive aviation weather research program, in collaboration with the National Weather Service (NWS) and other Government agencies is investing in improved numerical weather models to provide more detailed and timely hazardous weather detection and forecasting. Improved icing, turbulence, oceanic convection, and a National Ceiling and Visibility Forecast Program provide the tools for improved flight planning and collaborative decision making. The further development of the aviation gridded forecast system provides for tailored, route specific flight planning for safer, more efficient operations.

FLIGHT ROUTE FLEXIBILITY

Why We Act: Many of the most heavily traveled routes in the National Airspace System have published air traffic control (ATC) preferred routes, which are based on flying from one navigational aid to another to ensure accuracy in navigation. These routes are designed to minimize conflict in congested airspace, and they are an especially important tool in helping air traffic controllers organize traffic flow around major airports. However, these routes can differ significantly from the routes that pilots or flight planners would normally propose between two cities. They desire the capability to optimize their operations based on their own objectives and constraints, which vary flight by flight and user by user. By allowing aircraft to fly the most direct routes or choose other indirect routes to avoid weather, there can be time and cost savings or smoother flights that avoid turbulence. Enhanced automation aids now being developed facilitate the use of more direct routes.

Performance Measure: Percentage of flights that aircraft are able to fly off ATC-preferred routes.

Goals:	<u>1999</u>	<u>2000</u>	<u>2001</u>
	80.0%	80.0%	80.0%
1998 Performance:	76%		

It does provide flexibility to the industry and the potential for improved efficiency in certain situations. The impact of eliminating an ATC preferred route depends on the amount of traffic between the associated city pair. The impact increases as the amount of air traffic between the associated city pair increases.

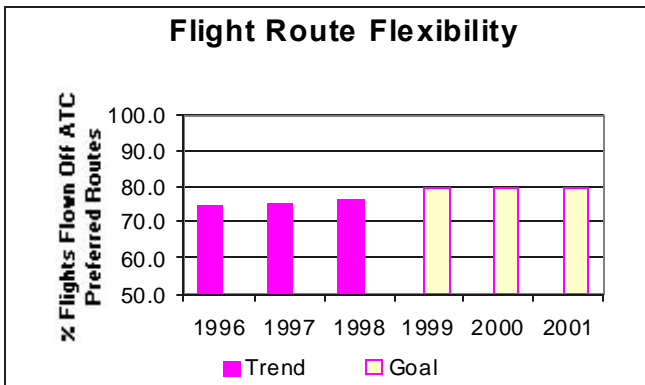
An external factor complicating goal achievement is the increase in air traffic activities, which have been growing at approximately 4% annually.

Activities in 1998 included a 180-day testing for the elimination of 68 published routes, which began in May 1998. The current preferred route database contains approximately 2,000 high altitude preferred routes.

Other initiatives that may have partially supported this goal are the National Route Program (NRP) and the Required Navigation Performance Standards (RNP-10). The NRP allows aircraft to file more efficient routes unimpeded by the preferred route system between 200 nautical miles from the departure airport and 200 nautical miles from the destination airport. The RNP-10 allows for reduced separation standards in the Pacific oceanic area that affords greater flexibility for route planning.

Also, in a continuing effort to reduce systemwide delays, a new procedure was implemented in 1998 that required all requests for preferred route restrictions to be coordinated through the Air traffic Control Systems Command Center (ATCSCC). The aim of this procedure was to prevent restrictions that might impact several en route centers and cause unnecessary customer delays in the air and on the ground.

Assessment of Current Year (FY 2000) Performance Plan: The FAA is on track to achieve



Special Challenges Growth in aviation increases the complexity of air traffic control, making it more difficult to allow unrestricted flights in all areas of the system. The goal of the program is to increase system flexibility as much as possible without interfering with safety.

What Happened in 1998: In 1998, 76.2% of flights were not subject to ATC preferred routes, falling just short of the FAA goal of 77%.

The aim in not assigning preferred routes is to give increased flexibility to aircraft, which may translate into improved scheduling efficiency and reduced flight miles. The action of not assigning or eliminating preferred routes does not automatically make a contribution to the goal of aviation efficiency.

the FY 2000 performance plan target with existing strategies and initiatives.

Strategies and FY 2001 Initiatives: FAA is implementing the Free Flight Phase I program to allow greater use of direct routes. The enhanced software tools and the Conflict Probe software allows controllers to better project future flightpaths and maintain separation for flights off the preferred routes.

- FAA is continuing to work closely with airlines to share NAS information to enhance collaborative decision making. Airlines often have priority preferences among their own flights and can indicate to FAA which flights are most important. Collaborative decision making is mostly by voice communication now, but software and hardware for automated collaborative decision making are being developed within the Free Flight Phase I Program.
- FAA will install and operate the user request evaluation tool at three centers which allows controllers to project aircraft flight paths into the future and clear pilots for direct routes. This

automation tool allows pilots to fly the most efficient routes between terminal control areas.

- FAA is continuing work on the software development necessary to enhance and expand the capability of Conflict Probe.
- FAA is considering methods for incorporating Published Preferred Route Reduction (P2R2) and DP/STAR into a single program, further enhancing flexibility while providing for increased complexity in the air traffic system.
- FAA is developing both equipment and procedures to allow more direct flights through restricted flight areas that are not in use.

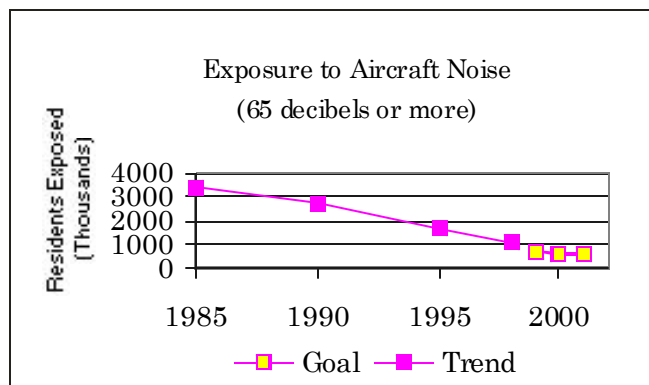
Other Federal Programs with Common Outcomes: FAA has coordinated with DOD for several years to allow direct flights. This coordination will involve the military sharing the airspace on a real-time basis rather than prescheduled timeframes. This enables the commercial airlines more route flexibility and will assist the FAA as wider scale use of direct flights are made.

AIRCRAFT NOISE EXPOSURE

Why We Act: Public concern and sensitivity to aircraft noise around airports is high. In recent years, noise complaints have increased even while quieter aircraft technology has been introduced. This aircraft noise is an undesired by-product of our mobility, and the Government acts to reduce the public's exposure to unreasonable noise levels.

Performance Measure: Number of people in the United States (in thousands) who are exposed to significant noise levels (65 decibels or more).

Goals:	1999	2000	2001
	680	600	600
Actual:	1,100		



Special Challenges: Much of the recent progress has been achieved by legislatively mandated transition of airplane fleets to newer-generation aircraft that produce less noise. Most of the gains from this change will be achieved by FY 2000. The Airport Noise and Capacity Act (ANCA) of 1990 set December 31, 1999, as the deadline for elimination of Stage 2 (older, noisier) aircraft weighing more than 75,000 pounds. Growth in aviation activity also works against easy progress.

What Happened in 1998: In 1998, about 1.1 million people were impacted by significant aircraft noise at the 250 largest civil airports with jet operations in the United States.

At the end of 1998, Stage 3 airplanes comprised 86.9 percent of the total fleet of large civil subsonic turbojet airplanes, compared to an estimated 45 percent in 1990 when Congress enacted the ANCA. Diminishing gains after FY 2000 reflect the full implementation of this Act.

1998 modeling used improved airport and population data. Therefore, while the airline fleet data indicate a higher introduction of airplanes that have been “hushkitted,” the overall noise exposure was slightly higher than projected. The new analysis still confirms that, as a result of the legislated phase-out program, the number of people exposed to significant aircraft noise exposure continues to drop.

External factors such as population growth, shifting population density, urban development around airports, and increasing flight activity all have impacted this goal. These factors have generally increased the numbers of people potentially exposed to aircraft noise. A positive factor in lowering noise exposure has been aircraft fleet recapitalization within the industry. Updated airline fleet data for 1998 indicate a higher than expected introduction of airplanes that have been “hushkitted” to comply with the Stage 3 noise standard.

Activities in 1998 included funding for noise reduction activities such as the soundproofing of residences and buildings used for educational or medical purposes in the vicinity of airports, the purchase of buffer zones around airports, and noise reduction planning.

FAA also monitored the annual Stage 2 phaseout compliance plans of the airlines and produced an annual report to Congress on the progress.

Assessment of Current Year (FY 2000)

Performance Plan: To estimate the number of people exposed to significant aircraft noise, FAA uses a statistical modeling technique using data from the 250 largest civil airports with jet operations in the United States. FAA is currently updating the model with additional results from individual airport studies to produce more accurate results. While the downward trend will not change, the new model may indicate higher numbers of residents exposed to aircraft noise. But no major shifts are expected in the trends. FAA will retain its 2000 target of 0.60 million people exposed to significant aircraft noise and continue to track the Stage 2 phaseout plans of the airplane operators.

Strategies and FY 2001 Initiatives: FAA pursues a program of aircraft noise control in cooperation with the aviation community through noise reduction at the source (development and adoption of quieter aircraft), soundproofing and buyouts of buildings near airports, operational flight control measures, and land use planning strategies.

- The FAA's Airport Improvement Program will continue to provide funds for such noise reduction activities as the soundproofing of residences and buildings used for educational or medical purposes near airports, purchase of buffer zones around airports and noise compatibility planning.
- The FAA will continue to develop noise research and assessment technologies
- FAA Air Traffic Services will implement

operational flight control measures to help reduce neighborhood exposure to aircraft noise.

- FAA will continue examination and validation of the methodologies used to assess aircraft noise exposure
- DOT will develop a research plan and program for international certification noise standards for turbojet airplanes that will be more stringent than the current Stage 3 standards.

Other Federal Programs with Common Outcomes: FAA is engaged with NASA in joint noise reduction technology research. The research objective is to identify technological concepts to reduce community noise impact of future subsonic jet airplanes by half (7 to 10 decibels), relative to 1992 technology, by the year 2001.

ALL WEATHER ACCESS TO AIRPORTS

Why We Act: Of the nearly 4,000 public use airports with paved runways in the United States, approximately 600 of these airports have an instrument landing system (ILS) that provides horizontal and vertical guidance for precision approaches. Precision approaches allow the ability to land during poor visibility. Since many airports have more than one runway, the total number of runways with precision landing guidance (including altitude guidance) is about 1,080. With the availability of GPS, augmented by the Wide Area Augmentation System (WAAS), the number of runways with precision approach capability will increase, thus lessening the impact of weather-related delays.

Performance Measure: Total number of published GPS airport approaches.

Goals:	<u>1999</u>	<u>2000</u>	<u>2001</u>
	1953	2453	#

1998 Performance: 1453

Performance Measure: Number of runways that are accessible in low visibility conditions

Goals:	<u>1999</u>	<u>2000</u>	<u>2001</u>
	#	#	1191

1998 Performance: #

The measure for Access to Airports was changed after 2000 to more accurately measure the outcomes of FAA actions.

access depends on both having a published approach and increasing the number of aircraft equipped to make precision approaches. To maximize the benefits to aviation users, FAA will need to develop approaches for all qualifying airports that do not currently have electronic aids to support an instrument approach, and aircraft not presently equipped will need to install a WAAS receiver.

What Happened in 1998: 516 GPS approaches were published during FY 1998. This number exceeds the production goal of 500 approaches and resulted in a total of 1,453 approaches nationwide.

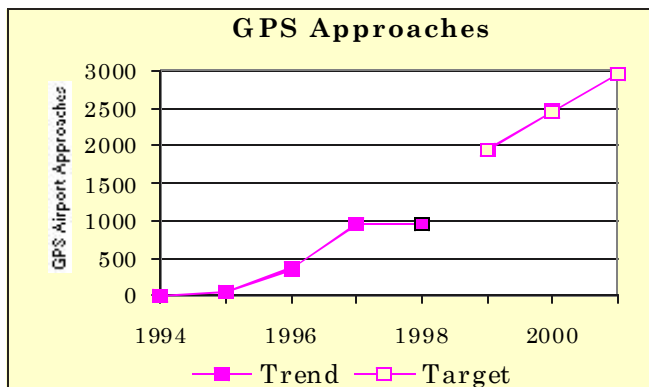
FAA's objective is to improve access to airports during low visibility conditions. The number of published global positioning system approaches is one measure of improved user access. Although it may be impossible to measure the exact benefits because there are no towers at many of the smaller airports, increased schedule reliability for commuters and air taxis, as well as improved access for all of general aviation, will result from increasing the number of published approaches.

In 1998, FAA also began developing special nonprecision GPS procedures to provide improved access for hospital heliports, enabling emergency medical service helicopters to operate in IFR conditions.

Assessment of Current Year (FY 2000)

Performance Plan: FAA has established the goal of publishing 500 approach procedures per year through the year 2000. An estimated 4,100 GPS wide area augmentation system (WAAS) precision approaches will be developed over the next several years. In addition, approximately 500-600 approaches are required to support GPS local area augmentation system (LAAS) precision approaches and will be accomplished over several years.

Strategies and FY 2001 Initiatives: To improve all weather access to airports, FAA is focusing on



Special Challenges: Developing the approaches requires accurate survey information for airport runway location and any obstacles near the flight-path for approach. These surveys are performed by the National Geodetic Survey. Increasing all weather

increasing the number of runways with precision landing guidance availability and providing pilots with the information needed to fly precision approaches. An increase in the number of GPS and WAAS approach procedures published will continue to support this initiative.

- FAA's WAAS program will fund the development of the approaches. Information is generated specific to the airport location, and an "approach plate" is published which gives the altitudes and path to the runway for the approach.
- WAAS provides accuracy and integrity information that is necessary to fly precision approaches. Initial WAAS operational capability will be established with two communication satellites providing position corrections. In 2001, FAA will continue development of WAAS to full operational capability including software and hardware upgrades to the operating system.
- FAA requested funding for the addition of a second

frequency (1227 MHz for non-safety-of-life applications) and a third frequency (1176 MHz for safety-of-life applications such as civil aviation) to the GPS satellites. The new frequencies will decrease interference problems and further improve the accuracy corrections to the basic GPS signal.

Other Federal Programs with Common Outcomes: The basic enabling technology for precision approaches is the GPS satellite navigation system developed and maintained by DOD. An Interagency GPS Executive Board, including DOD, DOT (FAA and USCG), Department of Commerce, and Department of State, was established to begin to implement the two new civil GPS frequency signals on the GPS satellites. This group will work together to coordinate civil and military outreach and report the progress on international acceptance of the recommended third civil GPS signal. FAA will continue to coordinate with NOAA for map information and the Office of National Geodetic Survey for airport surveys.

MANAGEMENT REPORT OF THE CHIEF FINANCIAL OFFICER

FAA spends \$10 billion annually to improve and maintain the safest, most efficient aviation system possible for the 655 million commercial passenger enplanements and thousands of cargo and private flights which occur annually. Our mission depends on our ability to properly manage and track the flow of resources through the agency. In an era of tight budgets and lean Government, we must continue to invest the public funds entrusted to us in the most cost-effective way possible.

As we began FY 1999, two goals were at the top of our agenda. The first was to obtain a clean audit opinion on our Financial Statements. The second was to establish a comprehensive cost accounting system.

In order to properly capitalize and document the FAA's physical assets, we set up dedicated teams, co-chaired by FAA financial and program management and the Office of the Inspector General (OIG). At the end of FY 1999, all significant milestones prerequisite to an OIG audit had been completed, together with the OIG's fieldwork. On February 29, 2000, the FAA received an unqualified opinion (clean audit) on the FY 1999 Financial Statements from the OIG. FAA is also working with the Office of the Secretary (OST) and the OIG to modify the existing accounting system to capture the new standard general ledger accounts and to change or convert existing records to meet new reporting standards. Our new DOT-wide accounting system, DELPHI, is scheduled for FAA implementation in 2001. FAA convened a cross functional group and accelerated development of a capitalization process improvement plan to identify priorities for FAA-wide action. The plan identifies changes in procedures and priorities that become necessary to ensure the continued integrity of our financial asset systems.



Our second goal began 2 ½ years ago, when FAA started developing a cost accounting system. This system will be key to providing FAA with the type of cost data necessary to manage the organization in the most efficient way possible. In FY 2000, FAA will finalize the cost data for Air Traffic Services in the en route, oceanic, and flight service station environments. Starting in FY 2001, we will complete the implementation of the Air Traffic Service line of business by providing cost information on the terminal and tower environment. The entire project for all offices and lines of business is expected to be completed in FY 2002.

I am very pleased with the accomplishments FAA has made this year. The advances in financial practices and our efforts toward establishing a cost accounting system have been impressive. These accomplishments are the result of a hard working dedicated workforce. Our future challenges will be to maintain these advances by continuing to achieve a clean opinion and by using the cost accounting information to improve our business practices. I believe these challenges are significant, and we are prepared to succeed.

The FY 1999 financial statements have been prepared in accordance with the Chief Financial Officers Act of 1990 with guidance on form and content provided by the Office of Management and Budget (OMB) and the Federal accounting standards provided by the Federal Accounting Standards Advisory Board (FASAB). Questions regarding this annual report may be directed to the Financial Statements, Analysis and Control Branch, AFM-310, 800 Independence Avenue, S.W., Washington, DC 20591.

A handwritten signature in black ink that reads "Donna R. McLean". The signature is fluid and cursive.

Donna R. McLean
Chief Financial Officer

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U.S. Department of
Transportation
Office of the Secretary
of Transportation
Office of Inspector General

Memorandum

Subject: INFORMATION: Report on Fiscal Year 1999
Financial Statements, FAA
FE-2000-060

Date: February 29, 2000

From: Kenneth M. Mead *K.M.M.*
Inspector General

Reply To
Attn. of: Meche:x61496

To: The Secretary
Thru: The Deputy Secretary

I respectfully submit the Office of Inspector General (OIG) report on the Federal Aviation Administration (FAA) Financial Statements for the Fiscal Year (FY) 1999 ended September 30, 1999. This report is required by the Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994.

The audit report is the responsibility of the OIG. All other information—including the Management Discussion and Analysis, Financial Statements, Notes, and Supplemental Information—is the responsibility of FAA.

This report presents our unqualified opinion on the FAA Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and Statement of Financing as of, and for the year ended, September 30, 1999.

To assist us, the Department of the Treasury (Treasury) OIG audited the schedule of assets and liabilities, and the related schedule of activity for the FAA accounts (referred to as the Corpus account) administered by the Treasury Bureau of Public Debt. The Treasury OIG issued an unqualified opinion on these FY 1999 schedules. The General Accounting Office performed agreed-upon procedures on the tax revenue receipts at the Internal Revenue Service and distributions to the Airport and Airway Trust Fund, and identified no material discrepancies.

During FY 1999, FAA overcame major problems with its financial records by hiring additional contractors, detailing employees, and using extensive overtime and compensatory time. As a result, FAA was able to provide sufficient evidence supporting all material lines on the FY 1999 FAA Financial Statements.

FAA needs to make financial management system improvements. If such improvements are not made, FAA will have to continue the same type of extraordinary, expensive, and labor-intensive efforts in the future. Such efforts are not sustainable for the long term and unnecessarily expend significant amounts of resources to maintain accurate records, which should routinely be produced by the accounting systems.

We identified five areas involving weaknesses in internal controls and compliance with laws and regulations. While these issues are important, they did not affect our audit opinion.

- FAA was able to support the cost in its property, plant, and equipment accounts by using alternative procedures and labor-intensive methods. These procedures and methods included preparing an electronic spreadsheet from multiple sources to compute depreciation for about 30,000 property items, manually researching and creating documentation files supporting \$1.5 billion in cost for about 20,000 backlogged job orders in work-in-process, and performing detailed manual searches of expense transactions back to 1982 to identify personal property costs. In a separate report, we recommended that FAA acquire a commercial, off-the-shelf, integrated property management system. FAA agreed.
- FAA had not established procedures to fully estimate and accrue liabilities, thereby underestimating goods and services received by grantees at yearend. As a result, both liabilities and expenses would have been understated by about \$103 million. FAA made appropriate adjustments on its FY 1999 Financial Statements. This issue is common to FAA and other Department of Transportation (DOT) Operating Administrations. Therefore, we will address this departmentwide issue in our report on the FY 1999 DOT Consolidated Financial Statements.
- During FY 1999, FAA revised its estimate of environmental and disposal liabilities from \$3.2 to \$1.3 billion. The \$1.9 billion reduction was necessary because FAA used unsupported budget information and occupational safety and health environmental compliance costs that had nothing to do with cleanup or disposal liabilities. FAA also decided to retain certain facilities that previously had been identified for decommissioning, so no liability needed to be reported. We will address this departmentwide issue in our report on the FY 1999 DOT Consolidated Financial Statements.
- The performance measures presented in the Management Discussion and Analysis did not provide information about the cost effectiveness of programs, and did not relate to the Statement of Net Cost. The nine performance measures were based on 1998 rather than 1999 performance data. None of the measures was linked to the cost of achieving targeted results. This departmentwide issue will be addressed in our report on the FY 1999 DOT Consolidated Financial Statements.

- FAA was not in compliance with the Federal Financial Management Improvement Act of 1996 because liabilities were not fully accrued at yearend, the Department's accounting system and FAA's property systems did not provide all data for the FAA Financial Statements, and a managerial cost accounting system was not implemented. The Department plans to have a compliant system operational by June 30, 2001. FAA plans to have its cost accounting system ready in FY 2002. Because corrective actions are ongoing, we are making no recommendations.

A draft of this report was provided to the FAA Chief Financial Officer on February 25, 2000. She agreed with the report.

We appreciate the cooperation and assistance of FAA and DOT representatives. If we can answer questions or be of any further assistance, please call me at (202) 366-1959, or John Meche at (202) 366-1496.

Attachments

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DEPARTMENT OF TRANSPORTATION
INSPECTOR GENERAL'S INDEPENDENT AUDIT REPORT
ON THE FEDERAL AVIATION ADMINISTRATION
FISCAL YEAR 1999 FINANCIAL STATEMENTS

To the Federal Aviation Administrator

The Department of Transportation (DOT), Office of Inspector General (OIG), audited the Federal Aviation Administration (FAA) Financial Statements as of, and for the year ended, September 30, 1999. In our opinion, the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and Statement of Financing were fairly presented, in all material respects, in conformance with Generally Accepted Accounting Principles.

We also are reporting on internal controls and compliance with laws and regulations applicable to the Fiscal Year (FY) 1999 FAA Financial Statements. We performed audit work in the FAA Headquarters offices; its nine regional offices; the Mike Monroney Aeronautical Center; and the William J. Hughes Technical Center. We examined the validity of financial transactions and interviewed financial management officials. We examined, on a test basis, evidence supporting the amounts and disclosures in the FAA Financial Statements. We assessed the accounting principles and estimates used by management. We evaluated the overall presentation of the FAA Financial Statements.

We performed the audit in accordance with Government Auditing Standards prescribed by the Comptroller General of the United States, and the Office of Management and Budget (OMB) Bulletin 98-08, Audit Requirements for Federal Financial Statements, as amended.

Our audit objectives for the FY 1999 FAA Financial Statements were to determine whether (1) the principal FAA Financial Statements are presented fairly, in all material respects, in conformance with Generally Accepted Accounting Principles; (2) FAA has adequate internal controls over financial reporting, including the safeguarding of assets; (3) FAA has complied with laws and regulations that could have a direct and material effect on the FAA Financial Statements or have been specified by OMB; (4) the financial information in the Management Discussion and Analysis is materially consistent with the information in the principal FAA Financial Statements; (5) the internal control structure ensured the existence and completeness of reported data supporting performance measures; and (6) FAA stewardship information is consistent with management representations and the FAA Financial Statements.

Except for performance measures, which were based on 1998 performance data (Part C of this report), the financial information in the Management Discussion and Analysis

was materially consistent with the FY 1999 FAA Financial Statements. The FAA stewardship information was consistent with management representations and the FAA Financial Statements.

We are including our reports on the internal control structure, and compliance with laws and regulations, in Parts B and C of this report.

A. OPINION ON FINANCIAL STATEMENTS

In our opinion, the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and Statement of Financing as of, and for the year ended, September 30, 1999, were fairly presented, in all material respects, in conformance with Generally Accepted Accounting Principles.

B. REPORT ON INTERNAL CONTROL STRUCTURE

While the purpose of our work was not to express, and we do not express, an opinion on internal controls, we found internal control weaknesses that contributed to reportable conditions. Our work was limited to applicable internal controls designed to ensure reliable financial reporting, including the safeguarding of assets against loss from unauthorized use. We obtained an understanding of the design of the internal controls, determined whether the controls have been placed in operation, assessed control risk relevant to the assertions embodied in the Financial Statements, and performed tests of the internal controls. Because of inherent limitations in any internal control structure, misstatements and losses may occur and not be detected.

MATERIAL WEAKNESS

The following section describes a material weakness we identified and its impact on the FAA Financial Statements and management of FAA operations. The financial statement weaknesses were reported to The President and Congress on December 29, 1999, as part of the Department's report required by the Federal Managers' Financial Integrity Act of 1982.

Property Systems

FAA was able to provide sufficient evidence supporting the cost in its property, plant, and equipment accounts as of September 30, 1999, by using alternative procedures and labor-intensive methods. However, these manual and labor-intensive methods are expensive, are prone to errors, mistakes, and inaccuracies, and cannot be sustained. The existing FAA property systems were not designed as an integrated system to accurately account for property costs and to compute depreciation. The lack of sufficient controls over a \$10.8 billion account represents a material internal control weakness. We recommended in Report FE-2000-058 that FAA acquire a commercial,

off-the-shelf, integrated property management system. FAA agreed with our recommendation.

REPORTABLE CONDITIONS

The following sections describe reportable conditions we identified and discuss their effect on the FAA Financial Statements and management of FAA operations.

Accrual of Liabilities to Grantees

Statement of Federal Financial Accounting Standard Number 1 requires agencies to recognize a liability for unpaid goods and services that have been accepted at yearend. Goods and services are accepted and paid by grantees, and subsequently reimbursed by FAA. Invoices for goods and services that are not available when financial statements are prepared should be estimated for financial statement purposes. The intent of accruing liabilities at yearend is to properly report liabilities and expenses in the appropriate accounting period.

FAA had not established procedures to fully accrue liabilities at yearend. During FY 1999, FAA estimated and accrued liabilities of \$53 million for goods and services received by grantees at yearend. We tested the estimate and found it did not include all goods and services that had been accepted but not yet billed to FAA. As a result, both liabilities and expenses would have been understated on the Balance Sheet and Statement of Net Cost by about \$103 million. FAA revised the estimate and appropriately reported liabilities on the Balance Sheet and expenses on the Statement of Net Cost as of September 30, 1999. FAA also adjusted liabilities that were underestimated prior to FY 1999.

Environmental and Disposal Liabilities

DOT guidelines, implementing Statement of Federal Financial Accounting Standards 5 and 6, state that for any known or identified environmental liability, the Operating Administrations will include on the Financial Statements the estimated cleanup cost if the liability is probable and can be reasonably estimated. When management decides to dispose of, or decommission, existing assets, it should identify the associated environmental cleanup and/or disposal costs. In its FY 1998 Financial Statements, FAA reported environmental and disposal liabilities at \$3.2 billion.

We examined the \$3.2 billion estimate and found it was based on unsupported budget information, and included occupational safety and health environmental compliance costs that had nothing to do with cleanup or disposal liabilities. FAA agreed its estimate needed to be revised.

During FY 1999, FAA reviewed the environmental liability account and its estimating procedures. As a result of this work, FAA reduced its environmental and disposal liabilities from \$3.2 billion to \$1.3 billion as of September 30, 1999.

We examined the validity of FAA's actions. We found the \$1.9 billion reduction included \$723 million for environmental remediation because FAA changed its estimating procedures to use actual costs associated with known cleanup sites rather than unsupported budget estimates. A total of \$515 million of cost was eliminated for occupational safety and health environmental compliance because these costs had nothing to do with cleanup or disposal liabilities. The remaining \$690 million reduction in liability occurred because FAA decided it would have to retain certain facilities that previously had been identified for decommissioning, so no liability needed to be reported.

Based on our detailed testing work, in our opinion the \$1.3 billion reported by FAA for environmental and disposal liabilities is fair and reasonable as of September 30, 1999.

C. REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

Our objective was not to express, and we do not express, an opinion on compliance with laws and regulations. Our work was limited to selected provisions of laws and regulations that would have a direct and material effect on the FAA Financial Statements or have been specified by OMB, and would not necessarily disclose all material noncompliances.

Performance Data

Under OMB Bulletin 98-08, our responsibility is to obtain an understanding of internal controls relating to the existence and completeness of performance data. FAA is responsible for establishing and maintaining adequate internal controls. The FY 1999 DOT Performance Plan contained 70 performance measures, of which 9 were in the FY 1999 FAA Financial Statements. The presentation complied with requirements of OMB Bulletin 97-01 to report performance measures consistent with goals and objectives from agencies' strategic plans.

Linking to the Statement of Net Cost and Measuring Cost-Effectiveness

OMB Bulletin 97-01 states:

Entities should strive to develop and report objective measures that . . . provide information about the cost effectiveness of programs. The reported measures . . . should be linked to the programs featured in the Statement of Net Cost.

FAA did not have systems in place to allocate costs by major program. Consequently, the performance measures could not be linked to the Statement of Net Cost. For

example, one FAA measure is to maintain at least 93 percent of runways in good or fair condition. FAA did not report the FY 1999 cost data for this measure.

The performance measures presented in the FAA Financial Statements did not provide information about cost-effectiveness. None of the measures was linked to the cost of achieving targeted results, or to the Statement of Net Cost. For example, one FAA measure is to decrease the number of people exposed to significant aircraft noise in the United States. FAA did not report the FY 1999 cost data for decreasing aircraft noise.

The Departmental Accounting and Financial Information System (DAFIS) does not have the capability to track program costs. However, DOT is in the process of replacing DAFIS, and plans to have the new accounting system in full operation by June 30, 2001. FAA also is developing a separate cost accounting system. FAA plans to have its cost accounting system fully operational by FY 2002.

Internal Control Environment

We performed various procedures to assess the internal control environment relating to performance data. While our review disclosed no material internal control weaknesses, we were not required to, and we did not, test the validity or accuracy of performance data as part of the FAA Financial Statement audit. FAA is facing a significant management challenge to ensure its data are complete. FAA is relying on third party organizations outside the Federal Government for some of its performance data, which are coming from external sources such as commercial airlines and airports.

Although not part of the Financial Statement audits, the OIG began performing audits during FY 1999 addressing performance measures and data. More of these audits will be accomplished as part of selected program audits. For example, one of our FY 1999 performance audits found FAA had not implemented controls to ensure the accuracy and completeness of runway incursion data. The runway incursion performance measure is one of the nine performance measures in the FY 1999 FAA Financial Statements. FAA has a goal to reduce runway incursions from 325 in calendar year 1998 to 241 in calendar year 2001. We found investigative reports of runway incursions were not being prepared and forwarded by field offices within the required timeframe to enable FAA Headquarters to validate the incident as a runway incursion.

The Department is in the process of implementing a system to further enhance the quality of all performance data.

Federal Financial Management Improvement Act of 1996

The Federal Financial Management Improvement Act (FFMIA) of 1996 requires auditors to report whether agencies' financial management systems comply substantially with Federal financial management system requirements, Federal

accounting standards, and the Government's standard general ledger at the transaction level. FAA was not in compliance because liabilities were not fully accrued at yearend, DAFIS and the FAA property systems did not provide the data necessary for preparation of the FAA Financial Statements, and a managerial cost accounting system had not been implemented. FAA made 324 adjustments totaling \$29 billion outside DAFIS to prepare the Financial Statements. These adjustments were recorded in the financial statements module, a tool used to prepare the annual financial statements, but were not recorded or retained in DAFIS.

On December 29, 1999, the Secretary of Transportation reported that the Department was not in substantial compliance with FFMIA because the existing core accounting system was not the primary source of information used for preparation of Financial Statements. The Secretary also reported the Department had not fully implemented the requirements of Managerial Cost Accounting Standards, because the Department's accounting system did not have the capability to capture cost by program. The Department is working to correct these conditions by June 30, 2001, when a new, commercial off-the-shelf, FFMIA compliant, accounting system is planned to be fully implemented. FAA also is developing its own cost accounting system which is scheduled to be fully operational by FY 2002.

D. PRIOR AUDIT COVERAGE


OIG has been auditing FAA Financial Statements since FY 1992. Our FY 1996 audit report included 35 recommendations to strengthen internal controls and improve accounting procedures. Our FY 1998 audit report stated corrective actions were still underway on 17 recommendations. During FY 1999, FAA completed action on all of our prior recommendations.

Since our report on the FY 1998 FAA Financial Statements, we issued six financial-related reports. The reports were:

- On May 5, 1999, in Report FE-1999-096, we found DOT accurately reported its non-tax delinquent debt of \$148 million for FY 1997.
- On May 20, 1999, in Report FE-1999-103, we identified computer security weaknesses in FAA's administration of systems used to support DOT financial applications. We recommended that FAA identify and cancel user accounts for contractors and DOT employees who no longer work for DOT, certify all database users, restrict access to a certain program only to security representatives, and determine whether four vulnerable programs should be disabled or modified. FAA agreed and took corrective actions.

- On August 4, 1999, in Report FE-1999-119, we reported the FAA labor system for facilities and equipment projects provided adequate support for accumulating estimates of labor costs for financial statement reporting purposes.
- On September 27, 1999, in Report FE-1999-131, we identified \$672 million of recorded obligations departmentwide that no longer represented valid financial liabilities. We recommended a departmentwide policy requiring at least annual reviews of inactive obligations. On December 28, 1999, the Department issued a policy for annual reviews of obligations. FAA either deobligated or reprogrammed a total of \$255 million to other active projects.
- On December 17, 1999, in Report FE-2000-024, we found improvements were needed in the FAA cost accounting system and procedures used to estimate overflight costs. We recommended that FAA use FY 1999 cost data, update its labor standards as a short-term improvement, and establish a labor distribution system. FAA agreed and is taking corrective actions.
- On February 28, 2000, in Report FE-2000-058, we reported that FAA made an extraordinary and labor-intensive effort to overcome accounting and financial system weaknesses with its property accounts during FY 1999. Although FAA was able to provide sufficient evidence supporting the cost of its property, plant, and equipment as of September 30, 1999, FAA's existing property systems were not producing the data for the financial statement, representing a material internal control weakness. We recommended that FAA acquire a commercial, off-the-shelf, integrated property management system. FAA agreed with the recommendation.

This report is intended for the information of FAA and DOT. However, this report is a matter of public record, and its distribution is not limited.


 Kenneth M. Mead
 Inspector General

LIMITATIONS OF THE FINANCIAL STATEMENT

- The financial statements have been prepared to report the financial position and results of operations of the Federal Aviation Administration, pursuant to the requirements of 31 U.S.C. 3515(b).
- While the statements have been prepared from the books and records of the FAA in accordance with the formats prescribed by the Office of

Management and Budget (OMB), the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

- The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides resources to do so.

**U. S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
CONSOLIDATED BALANCE SHEET
As of September 30, 1999**

(Dollars in Thousands)

Assets

Intragovernmental	
Fund Balance with Treasury (Note 2)	\$ 751,507
Investments (Note 3)	12,655,469
Accounts Receivable, Net (Note 4)	42,228
Other (Note 5)	<u>162,970</u>
Total Intragovernmental Assets	\$ 13,612,174
Accounts Receivable, Net (Note 4)	\$ 32,383
Loans Receivables and Related	
Foreclosed Property, Net (Note 6)	381
Cash and Other Monetary Assets (Note 7)	63,091
Inventory and Related Property, Net (Note 8)	910,141
General Property, Plant, and Equipment, Net (Note 9)	10,848,880
Other (Note 5)	<u>63,378</u>
Total Assets	\$ 25,530,428

Liabilities

Intragovernmental Liabilities:	
Accounts Payable	\$ 33,722
Environmental Cleanup Costs (Note 10)	328,992
Debt (Note 11)	24
Other Intragovernmental Liabilities (Note 12)	<u>298,069</u>
Total Intragovernmental Liabilities	\$ 660,807
Accounts Payable	\$ 538,917
Loan Guarantees	-
Federal Employee and Veterans Benefits (Note 14)	965,669
Environmental Cleanup Costs (Note 10)	986,976
Other Liabilities (Note 12 & 13)	<u>1,340,474</u>
Total Liabilities	\$ 4,492,843

Net Position Balances:

Unexpended Appropriations (Note 15)	\$ 349,703
Cumulative Results of Operations	<u>20,687,882</u>
Total Net Position	\$ 21,037,585
Total Liabilities and Net Position	\$ 25,530,428

U.S. DEPARTMENT OF TRANSPORTATION
 FEDERAL AVIATION ADMINISTRATION
 CONSOLIDATED STATEMENT OF NET COST
 For the Year ended September 30, 1999

Programs (Note 16 & 17)	
Air Traffic Service	
Intragovernmental	\$ 766,046
With the Public	4,352,951
Total	<u>5,118,996</u>
Less Earned Revenues	<u>(38,256)</u>
Net Air Traffic Service Costs	<u>\$ 5,080,741</u>
Regulations & Certification	
Intragovernmental	\$ 107,381
With the Public	617,080
Total	<u>724,461</u>
Less Earned Revenues	<u>(1,240)</u>
Net Regulations & Certification Costs	<u>\$ 723,221</u>
Research & Acquisition	
Intragovernmental	\$ 74,999
With the Public	1,204,582
Total	<u>1,279,581</u>
Less Earned Revenues	<u>(30,813)</u>
Net Research & Acquisition Costs	<u>\$ 1,248,768</u>
Airports	
Intragovernmental Administration	\$ 24,665
With the Public Grants Program	1,537,188
Administration	51,032
Total	<u>1,612,885</u>
Less Earned Revenues	<u>(18)</u>
Net Airports Costs	<u>\$ 1,612,867</u>
Civil Aviation Security	
Intragovernmental	\$ 19,985
With the Public	133,200
Total	<u>153,185</u>
Less Earned Revenues	<u>(868)</u>
Net Civil Aviation Security Costs	<u>\$ 152,317</u>
Commercial Space	
Intragovernmental	\$ 787
With the Public	5,512
Total	<u>6,299</u>
Less Earned Revenues	<u>(180)</u>
Net Commercial Space Costs	<u>\$ 6,119</u>
Other Programs	
Intragovernmental	\$ 65,942
With the Public	197,632
Total	<u>263,574</u>
Less Earned Revenues	<u>(66,958)</u>
Net Other Program Costs	<u>\$ 196,616</u>
Costs Not Assigned to Programs	\$ 187,333
Less Earned Revenues Not Attributed to Programs	<u>\$ (13,080)</u>
Net Cost of Operations	<u>\$ 9,194,902</u>

U. S. Department of Transportation
 FEDERAL AVIATION ADMINISTRATION
 CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
 As of September 30, 1999

(Dollars in Thousands)

Net Cost of Operations	\$	(9,194,902)
Financing Sources		
Appropriations Used		1,421,564
Taxes and Other Non-Exchange Revenues (Note 18)		11,125,469
Donations (Non-Exchange Revenue)		129,266
Imputed Financing (Note 19)		354,525
Transfers-In		18,122
Transfers-Out		(19,519)
Other		-
Total Financing Sources	\$	<u>13,029,427</u>
Net Results of Operations	\$	<u>3,834,525</u>
Prior Period Adjustments (Note 20)		3,636,556
Net Change in Cumulative Results of Operations		7,471,081
Increase (Decrease) in Unexpended Appropriations		13,232
Change in Net Position		<u>7,484,313</u>
Net Position Beginning of Period	\$	<u>13,553,272</u>
Net Position End of Period	\$	<u>21,037,585</u>

FY 1999 FAA ANNUAL REPORT

U. S. Department of Transportation
 FEDERAL AVIATION ADMINISTRATION
 COMBINED STATEMENT OF BUDGETARY RESOURCES
 For the year ended September 30, 1999

(Dollars in Thousands)

Budgetary Resources (Note 21)	
Budget Authority	\$ 13,638,200
Unobligated Balances - Beginning of Period	9,727,100
Spending Authority From Offsetting Collections	4,230,985
Adjustments	(12,729,374)
Total Budgetary Resources	\$ 14,866,911
Status Of Budgetary Resources	
Obligations Incurred	\$ 14,154,788
Unobligated Balances-Available	479,739
Unobligated Balances-Not Available	232,384
Total Status of Budgetary Resources	\$ 14,866,911
Outlays	
Obligations Incurred	\$ 14,154,788
Less: Spending Authority From Offsetting	
Collections and Adjustments	(4,484,097)
Obligated Balance, Net Beginning of Period	5,059,898
Obligated Balance Transferred, Net	-
Less: Obligated Balance, Net - End of Period	(5,224,006)
Total Outlays	\$ 9,506,583

**U. S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
COMBINED STATEMENT OF FINANCING
For the year ended September 30, 1999**

(Dollars in Thousands)

Obligations and Nonbudgetary Resources	
Obligations Incurred	\$ 14,154,788
Less: Spending Authority for Offsetting	
Collections and Adjustments	(4,484,097)
Donations not in the Budget	129,266
Financing Sources for Cost Subsidies	354,525
Transfers-in (out)	(1,398)
Exchange Revenue not in the Budget	(6,765)
Nonexchange Revenue Not in the Entity's Budget	35,522
Less: Trust or Special Fund Receipts Related to Exchange Revenue in the Entity's Budget	(137,203)
Other (Year-End Accounts Payable Accruals)	150,504
Total Obligations as Adjusted, and Nonbudgetary Resources	<u>\$ 10,195,142</u>
Resources That Do Not Fund Net Cost of Operations	
Change in Amount of Goods, Services, and Benefits	
Ordered but not yet Received or Provided	\$ (29,003)
Change in Unfilled Customer Orders	36,118
Costs Capitalized on the Balance Sheet	
General Property, Plant & Equipment	(3,238,387)
Loans	20
Purchase of Inventory	(96,517)
Purchases of Non-Government Investments	-
Adjustment to Cost Capitalized on the Balance Sheet	4,984
Financing Sources that Fund Costs of Prior Periods (Note 22)	(1,948,570)
Collections That Decrease Credit Program Receivables or Increase Credit Program Liabilities	-
Adjustment for Trust Fund Outlays that do not Affect Net Cost	
Other - Identified Prior Period Adjustments	3,718,407
Total Resources That Do Not Fund Net Cost of Operations	<u>\$ (1,552,948)</u>
Costs That Do Not Require Resources	
Depreciation and Amortization	\$ 540,918
Bad Debt Related to Uncollectible Non Credit Reform Receivables	-
Fixed Price Variation	(31,699)
Revaluation of Assets and Liabilities	-
Gain on Disposition of Assets	(181,509)
Cost of Goods Sold	142,317
Other	(22,456)
Total Costs That Do Not Require Resources	<u>\$ 447,571</u>
Financing Sources Yet To Be Provided (Note 22)	<u>\$ 105,137</u>
Net Cost Of Operations	<u><u>\$ 9,194,902</u></u>

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

These consolidated financial statements have been prepared to report the financial position, the net cost of operations, the changes in net position, the status and availability of budgetary resources, and the reconciliation between proprietary and budgetary accounts of the Federal Aviation Administration (FAA). The statements are required by 31 U.S.C. 3515, the Chief Financial Officers Act of 1990, and as amended by the Federal Financial Management Act of 1994, which is Title IV of the Government Management Reform Act of 1994. They have been prepared from the books and records of FAA in accordance with (1) the hierarchy of accounting principles and standards approved by the principals of the Federal Accounting Standards Advisory Board, (2) the Office of Management and Budget's (OMB) Bulletin 97-01, Form and Content of Agency Financial Statement, and (3) the Department of Transportation (DOT) and FAA's accounting policies which are summarized in this note. These statements, with the exception of the statement of Budgetary Resources, are, therefore, different from the financial management reports, also prepared by the FAA pursuant to OMB directives that are used to monitor and control the FAA's use of budgetary resources.

The FAA applies accounting principles and standards and complies with operating policies and procedures established, issued, and implemented by the General Accounting Office (GAO), the OMB, and the Department of Treasury, as recommended by the Federal Accounting Standards Advisory Board (FASAB), which is recognized by the American Institute of Certified Public Accountants (AICPA) as the entity to establish the Generally Accepted Accounting Principles (GAAP) for the Federal Government. The financial statements have been prepared in accordance with the following hierarchy of accounting principles and standards, which constitutes another comprehensive basis of accounting:

1. Individual Standards agreed to by the Director of OMB, the Comptroller General, and the Secretary of the Treasury and published by OMB and the General Accounting Office;
2. Interpretations related to the Statement of Federal Financial Accounting Standards (SFFAS) issued by

OMB in accordance with the procedures outlined in OMB Circular A-134, "Financial Accounting Principles and Standards";

3. Requirements contained in OMB Bulletin 97-01, Form and Content, and its amendments in effect for fiscal year 1998;
4. The Department of Transportation (DOT) accounting policies and reporting requirements;
5. FAA accounting policies summarized in this note and FAA Order No. 2700.31, Uniform Accounting Systems Operations Manual, and related documentation containing the FAA-specific accounting policy; and
6. Accounting principles published by authoritative standard-setting bodies and other authoritative sources (1) in the absence of other guidance in the first five parts of this hierarchy and (2) if the use of such accounting standards improves the meaningfulness of these financial statements.

B. Reporting Entity

The FAA was created in 1958. The FAA's mission is to operate the Nation's air traffic control system and to regulate the aviation's safety and security. FAA is responsible to provide U.S. air travelers with an efficient, safe, secure, and technically advanced airspace system.

The FAA activities as per Treasury designation can be grouped into four funds.

Entity	Title
1. Trust Fund	Airport and Airway Trust Fund
	Cash and Investments
	Grants-in-Aid
	Facilities and Equipment
	Research and Development
	Programs Administered by Other Agencies
2. Revolving Fund	Aviation Insurance Program
3. Franchise Fund	Administrative Services
4. All Others (Unsegmented)	Operations
	Facility and Equipment Development

	Aircraft Purchase Loan Guarantee - Borrowing Authority for Program Expenses - Appropriation to Liquidate Borrowed Funds and Accrued Interest
	General Fund Miscellaneous Receipts
	Suspense Clearing Accounts
	Items Not Classified by Financing Source

The Airport and Airway Trust Fund (Trust Fund) financed approximately 74 percent of the fiscal year (FY) 1999 total budget. The only appropriations receiving General Fund financing are the Operations appropriation and, when enacted, the appropriation to liquidate debts to the Treasury incurred for the Aircraft Purchase Loan Guarantee Program. (No such liquidating appropriation was enacted in FY 1999.) Approximately 26 percent of the FY 1999 funding of the Operations appropriation was financed by the General Fund, and the remainder was funded by the Trust Fund. Infusing funds from the Trust Fund to the Operations appropriation is accomplished by periodic transfers. Once a transfer is made, the corresponding portion of the Operations account derived from the Trust Fund is accounted for under the General Fund Operations appropriation symbol, thus losing the identity of the source.

C. Budgets and Budgetary Accounting

Congress annually enacts appropriations to permit the FAA to incur obligations for specified purposes. For FY 1999, the FAA was accountable for Trust Fund appropriations, General Fund appropriations, a Revolving Fund, a Franchise Fund, and borrowing authority. The FAA recognizes budgetary resources as assets when cash (funds held by Treasury) is made available through Treasury General Fund warrants and Trust Fund transfers. See paragraph B above.

D. Basis of Accounting

Transactions are recorded on an accrual accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when earned, and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Trust

Fund revenues derived from excise taxes are treated differently. They are recorded on the basis of cash transferred from the General Fund to the Trust Fund. Transactions are also classified by fund account. This is accomplished by assigning to each transaction a unique attribute (Treasury symbol) identifying the corresponding appropriation and its period of availability.

Budgetary accounting facilitates complying with legal controls on the use of Federal funds.

E. Revenues and Other Financing Sources

Congress enacts annual, multi-year, and no-year appropriations to be used, within statutory limits, for operating and capital expenditures. Additional amounts are obtained from service fees (e.g., landing and registry fees) and through reimbursements for services performed for domestic and foreign governmental entities.

The Trust Fund is sustained by excise taxes collected by the Internal Revenue Service (IRS) from airway system users. The IRS records excise tax revenues deposited in the General Fund on a cash basis; Treasury transfers an equivalent amount from the General Fund to the Trust Fund. The Trust Fund also earns interest from investments in Treasury securities. Interest income is recognized as revenue on the accrual basis.

Appropriations are recognized as a financing source when expended. Revenues from service fees and reimbursements are recognized concurrently with the recognition of accrued expenditures for performing the services.

F. Fund Balances with the U.S. Treasury and Cash

The U.S. Treasury processes cash receipts and disbursements. Funds at the Treasury are available to pay agency liabilities. The FAA maintains petty cash (imprest funds) outside the Treasury to facilitate small purchases. The FAA does not maintain cash in commercial bank accounts. The FAA does not maintain any foreign currency balances. Foreign currency payments are made either by the Treasury or the Department of State and are reported by the FAA in the U.S. dollar equivalent.

G. Investment in U.S. Government Securities

Unexpended funds in the Trust Fund and Aviation Insurance Revolving Fund are invested in U.S. Government securities. A portion of the Trust Fund investments is liquidated semi-monthly in amounts needed to provide cash for the FAA appropriation accounts. The Revolving Fund investments are usually held to maturity. Investments, redemptions, and reinvestments are controlled and processed by the Treasury.

H. Accounts and Loans Receivable

The FAA's financial statement includes the activities and balances of relevant Treasury General Fund Miscellaneous Receipt accounts. The FAA maintains accountability for defaulted loans under the Aircraft Purchase Loan Guarantee Program. Upon default, the FAA established accounts receivable in the General Fund Miscellaneous Receipts account to reflect the amount due from the borrower for principal and interest. The FAA also established an intragovernmental liability to offset the accounts receivable which represents an asset of the Treasury, not the FAA.

I. Operating Materials and Supplies

Operating materials and supplies consist primarily of unissued materials and supplies that will be consumed in normal operations. In FY 1998, the FAA discontinued the use of standard cost and began valuing materials and supplies using moving weighted average. Other classifications of materials and supplies are valued on the basis of actual prices paid.

Adjustments for the proper valuation of reparable, excess, obsolete, and unserviceable items are made to the appropriate allowance account at fiscal yearend. The allowance for reparable items is recognized as a current period expense. The allowance for excess, obsolete, and unserviceable items is recognized as a gain or a loss. Operating materials and supplies are reclassified as expenses or work in progress when consumed or issued.

J. Property, Plant and Equipment (PP&E)

FAA capitalizes an acquisition if its costs exceed \$25,000 and has a useful life exceeding 2 years. The FAA reports general PP&E at original acquisition cost.

Depreciation expense is calculated using the

straight-line method. No depreciation expense is recognized on an asset during the fiscal year it is put in service.

A full year's depreciation will be recognized during the asset's final year of use. The FAA does not recognize residual value of its PP&E, except for aircraft, which are depreciated to a 25% salvage value. The FAA adopted this depreciation policy in FY 1998 and, at that time, recognized accumulated depreciation for prior years as well. The useful life classifications for capitalized assets are as follows:

Asset Classification	Useful Life (years)
Offices, Buildings, Warehouse Buildings, Residential Properties, Air Traffic Control Towers, and En Route Air Traffic Control Centers	40
Mobile Homes, Aircraft	20
Original Roads, Sidewalks, Parking Lots, and All Other Structures	15
Printing, Photographic, and Projection Equipment	13
Capital Improvements, Facility Modifications, Leasehold Improvements (or expiration of lease whichever comes first), Portable and Installed Communications Equipment Excluding Air Navigation and Air Traffic Control Facilities, and Avionics Equipment	10
Office Furniture and Equipment including the following categories: Prototype and Experimental, Research and Development Test, Shop, Emergency Readiness, Training, Portable Test and Rack Mounted Test Equipment for Air Navigation and Air Traffic Control Facilities, Aircraft Test Equipment, and Other Nonclassified Equipment	7
Vehicles and Automatic Data Processing Equipment	5

The FAA has established the following categories of economic service life for some of its personal property and facilities and equipment assets.

<u>Functional Area</u>	<u>Economic Service Life (Range)</u>
Decision Support Systems	4-20
Communications	10-20
Weather	15-20
Navigation/Landing	20
Surveillance	20
Facilities	40
Facilities' Support Equipment	20
Mission Support	20
User Equipment	10-20

Buildings acquired under capital leases are amortized over the lease term. If the lease agreement contains a bargain purchase option or otherwise provides for transferring title of the asset to the FAA, the building is depreciated over a 40-year service life.

Construction in progress is valued at actual (direct) costs, plus applied overhead and other indirect costs as accumulated by the regional project materiel system.

The General Services Administration (GSA) receives payment for real property that is under its control and is used by the FAA. Payments are made from an appropriation to the Office of the Secretary of Transportation (OST), part of which (corresponding to the FAA costs) is derived from the Trust Fund.

K. Prepaid and Deferred Charges

Advance payments are generally prohibited by law; there are some exceptions, such as subscriptions. When permitted, payments made in advance of the receipt of goods and services are recorded as prepaid charges at the time of prepayment and recognized as expenses when the related goods and services are received.

L. Liabilities

A liability represents the amount to be paid by the FAA as the result of a transaction or event that has already occurred. The FAA, absent of an appropriation, cannot liquidate any liabilities.

Liabilities for which an appropriation has not yet been enacted are, therefore, classified as unfunded liabilities, and there is no certainty that such appropriation will be enacted.

M. Borrowing Payable to the Treasury

Borrowing involves loans from the Treasury to fund expenses in the Aircraft Purchase Loan Guarantee Program. Treasury renews the debt obligation until the FAA receives an appropriation to liquidate the principal and interest. No such appropriation was enacted for FY 1999.

N. Interest Payable to the Treasury

The FAA owes interest to the Treasury based on its debt to the Treasury as a result of borrowing for the Aircraft Purchase Loan Guarantee Program.

O. Annual, Sick, and Other Leave

Annual leave is accrued as it is earned, and the accrual is reduced as leave is taken. At each bi-weekly pay period, the balance in the accrued annual leave account is adjusted to reflect the latest pay rates and unused hours of leave. Funding will be obtained from future financing sources to the extent that current or prior year appropriations are not available to fund annual leave earned but not taken. Sick leave and other types of nonvested leave are expensed when taken.

In FY 1998, under the National Air Traffic Controller Association (NATCA) agreement, Article 25, Section 13, Air Traffic Controllers covered under the Federal Employees Retirement Systems (FERS) became eligible, upon retirement, for a sick leave buy back option.

P. Accrued Workers' Compensation

A liability is recorded for estimated and actual future payments to be made for workers' compensation pursuant to the Federal Employees' Compensation Act (FECA). The liability consists of the net present value of estimated future payments calculated by the U.S. Department of Labor (DOL) and the unreimbursed cost paid by DOL for compensation paid to recipients under FECA. The actual costs incurred are reflected as a liability because FAA will reimburse DOL 2 years after the actual payment of expenses. Future Appropriations will be used for the reimbursement to DOL.

Q. Retirement Plan

The FAA employees who participate in the Civil Service Retirement System (CSRS) are beneficiaries of the FAA's matching contribution equal to 7 percent of pay to their annuity account in the Civil Service Retirement and Disability Fund.

On January 1, 1987, the Federal Employees Retirement System (FERS) went into effect pursuant to Public Law 99-335. FERS and Social Security automatically cover most employees hired after December 31, 1983. Employees hired prior to January 1, 1984, could elect, either to join FERS and Social Security or to remain in CSRS. FERS offers a savings plan to which the FAA automatically contributes 1 percent of pay and matches any employee contribution up to an additional 4 percent of pay. For FERS participants, the FAA also contributes the employer's matching share for Social Security.

Beginning in fiscal year 1997, the FAA began to recognize the cost of pensions and other retirement benefits during the employees' active years of service. The Office of Personnel Management (OPM) actuaries determine pension cost factors by calculating the value of pension benefits expected to be paid in the future and communicate these factors to the FAA for current period expense reporting. OPM also provides information regarding the full cost of health and life insurance benefits. The FAA recognized the offsetting revenue as imputed financing sources for the extent of these additional expenses that will be paid by OPM.

R. Contingencies

The FAA recognizes losses for contingent liabilities when such losses are probable and reasonably estimable.

Note 2. Fund Balances with Treasury

(Dollars in Thousands)

	Obligated	Unobligated & Available	Unobligated & Restricted	Total
Trust Fund	\$ 1,999,733	\$ (1,885,059)	\$ (194,213)	\$ (79,539)
Operations General Fund	636,346	23,103	41,114	700,563
Franchise Fund	5,214	2,212		7,426
Revolving Fund	(76,047)	125	76,113	191
Other Funds	122	122,744	-	122,866
Total	\$ 2,565,368	\$ (1,736,875)	\$ (76,986)	\$ 751,507

Unobligated and restricted fund balances represent balances of appropriations for which the period of availability for (voluntary) obligation has expired. These balances are only available for upward adjustments of obligations incurred during the period for which the appropriation was available for obligation or for paying claims attributable to the appropriation. Pursuant to 31 USC 1552, appropriation accounts are canceled at the close of the fifth fiscal year following the last fiscal year for which they were available for obligation. Fund balances in the amount of \$130.7 million in canceled appropriations at fiscal yearend were removed from the balance sheet. The amount withdrawn biweekly from the Trust Fund is based on cash outlays, not on obligational authority, to minimize interest costs. Negative unobligated balances are covered by invested funds in the Airport and Airway Trust Fund.

Note 3. Investments

(Dollars in Thousands)

	Cost	Amorti- zation Method	Unmortized (Premium) Discount	Investments Net	Other Adjustments	Market Value Disclosur e
Intragovernmental Securities: Nonmarketable, Par Value						
Trust Fund (1)	\$ 12,413,727		\$	\$ 12,413,727		\$ -
Nonmarketable, Market-Based						
Aviation Insurance		Interest				
Revolving Fund (2)	74,293	Method	(2,200)	72,093	-	-
Subtotal	12,488,020		(2,200)	12,485,820	-	-
Accrued Interest	169,649			169,649		-
Total	\$ 12,657,669			\$ 12,655,469		\$ -

A total of \$12.4 billion was invested in U.S. Treasury Certificates of Indebtedness as of September 30, 1999, at a rate of 6.25 percent, maturing June 30, 2000.

(1) Nonmarketable par value Treasury securities are special series debt securities, issued by the Bureau of the Public Debt to Federal accounts, and are purchased and redeemed at par (face value) exclusively through Treasury's Finance and Funding Branch. The securities are redeemed at face value on demand; thus, investing entities recover the full amount invested, plus interest. The Trust Fund investments are made by the Fund's trustee, the Secretary of the Treasury.

(2) Nonmarketable, market-based Treasury securities are debt securities that the Treasury issues to Federal entities without statutorily fixed interest rates. Although the securities are not marketable, their terms (prices and interest rates) mirror the terms of marketable Treasury securities. FAA amortizes premiums and discounts on market-based Treasury securities over the life of the security using the interest method. The following amounts are invested in market-based Treasury securities:

	Maturity Date	Effective Interest Rate	Amount
1	12/09/1999	4.25%	\$ 14,107,000
2	03/30/2000	4.48%	24,615,000
3	06/22/2000	4.89%	16,727,000
4	09/14/2000	4.95%	18,844,000
			<u>\$ 74,293,000</u>

Note 4. Accounts Receivable

(Dollars in Thousands)

	Gross Accounts Due	Allowance for Uncollectible Amounts	Net Amount Due
Intragovernmental Receivables	\$ 42,228	\$ -	\$ 42,228
Other Receivables	<u>39,186</u>	<u>(6,803)</u>	<u>32,383</u>
Total Receivables	<u>\$ 81,414</u>	<u>\$ (6,803)</u>	<u>\$ 74,611</u>

A delinquency notice is sent to each debtor when billings remain uncollected for 30 days after the Bill for Reconciliation of Uncollectible Amounts:

	<u>Intragovernmental</u>	<u>Other</u>
Beginning Balance	\$ -	\$ (5,868)
Additions	-	(4,237)
Reductions	-	3,302
Ending balance	<u>\$ -</u>	<u>\$ (6,803)</u>

Collection date. A second delinquency notice is sent another 30 days later if the debtor does not respond. Salary or retirement offset action may be taken when the debtor is a current or former Federal employee. Other attempts at collection may be taken for debtors who are not current or former Federal employees. In 1997, the FAA implemented certain provisions of the Debt Collection Improvement Act of 1996, P.L.1041-34, which requires, among other things, that Federal agencies submit accounts receivable that are over 180 days delinquent to the Department of Treasury (Treasury) for collection. Treasury may take such actions as tax refund offset, consumer reporting, and referral to collection agencies. An allowance for uncollectible accounts receivable is established either based upon a monthly review of outstanding accounts and the failure of all collection efforts, management determines that collection is unlikely to occur, or when an account for which no allowance has already been established is submitted to Treasury for collection. Accounts receivable in appropriations canceled on September 30, 1999, pursuant to 31 USC 1552, are no longer FAA assets. Accordingly, accounts receivable balances totaling \$466,660 in canceled appropriations at fiscal yearend were removed from the balance sheet.

Note 5. Other Assets

(Dollars in Thousands)

Other Entity Assets Intragovernmental

Advances and Prepayments	\$ 97,793 (1)
Undistributed Foreign Costs	920
Undistributed Costs - Treasury Clearing	710
Other Assets - Undistributed	<u>63,547 (2)</u>
Total Other Assets Intragovernmental	<u>\$ 162,970</u>

Other Entity Assets

Advances and Prepayments	<u>63,378 (3)</u>
Total Other Entity Assets	<u>\$ 226,348</u>

(1) Represents advance payments to other Federal Government entities under 31 USC, 1535 for agency expenses not yet incurred or for goods or services not yet received.

(2) Includes assets transferred between FAA regions. Transferred items remain in the undistributed asset account until removed by the recipient region. Transfer transactions may include some expenses.

(3) Represents advance payments to employees for agency expenses not yet incurred.

Note 6. Loans and Loan Guarantees, Non-Federal Borrowers

(Dollars in Thousands)

Defaults on Pre-1992 Guaranteed Loans:

Aircraft Purchase Loan Guarantee Program	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Defaulted Guaranteed Loans Receivable, Net
	<u>\$ 711</u>	<u>\$ 7</u>	<u>\$ (337)</u>	<u>\$ -</u>	<u>\$ 381</u>

FAA has no direct loan programs, but FAA administers the Aircraft Purchase Loan Guarantee Program. Authorization for issuing new loan guarantees expired in 1988. The only remaining program function is to maximize recoveries from defaulted loans.

Accounts receivable from debtors on account of defaulted guaranteed loans are reported net of an allowance for estimated uncollectible amounts. The Federal Credit Reform Act was enacted after the authority to issue new guarantees expired and, therefore, does not apply to FAA's loan guarantees.

Administrative expenses to maintain residual values in this program are minimal. FAA has no full-time employees administering the program.

Note 7. Cash, Foreign Currency and Other Monetary Assets

(Dollars In Thousands)

Imprest Fund	\$ 54
Undeposited Collections	<u>63,037</u>
Total Cash, Foreign Currency, and Other Monetary Assets	<u>\$ 63,091</u>

Note 8. Inventory and Related Property

(Dollars in Thousands)

Operating Material and Supplies:

	<u>Value</u>	<u>Allowance</u>	<u>Net Value</u>	<u>Valuation Method</u>
Items Held For Use	\$ 806,539	\$ -	\$ 806,539	Moving Weighted Avg
Excess, Obsolete Unserviceable	31,756	(10,106)	21,650	Moving Weighted Avg
Items Held for Repair	234,153	(152,201)	81,952	Moving Weighted Avg
Total Inventory and Related Property	<u>\$ 1,072,448</u>	<u>\$ (162,307)</u>	<u>\$ 910,141</u>	

Inventory and related property consist of general operating material and supplies, aircraft parts, and spare parts located at field facilities. FAA uses the moving weighted average cost method to value operating materials

and supplies. In FY 1999, FAA conducted an inventory of 100 percent of its spare parts. FAA currently expenses operating materials and supplies as issued or consumed.

Items are considered for repair based on condition levels and if the maximum repair cost does not exceed 65 percent of the original cost. The allowance method is used to account for operating materials and supplies held for repair, reducing the net carrying value of such items to 35 percent of their original cost. Current period expenses are recognized for the amount of the annual increase or decrease to the allowance account. In FY 1999, FAA recognized \$12.3 million increase in the allowance for items held for repair.

Scrap and salvage items are written down to zero value and may be sold for nominal amounts. FAA transfers excess items for disposal into the Governmentwide automated disposal system. Disposal proceeds may go to the General Fund or to an FAA appropriation, depending on the nature of the item and the disposal method. FAA may not donate items.

Note 9. Property, Plant and Equipment, Net

(Dollars in Thousands)

Class of Fixed Assets	Deprec Services		Acquis Value	Accum. Deprec	Net Book Value FY 1999
	Method	Life			
Land	None	None	\$ 77,445	\$ -	\$ 77,445
Buildings & Structures	SL	15-40	3,062,081	(1,426,948)	1,635,133
Leasehold Improvements	SL	*	32,612	-	32,612
Aircraft	SL	20	406,180	(139,027)	267,153
Aircraft Engines	SL	7	2,761	-	2,761
ADP Software	None	*	28,451	-	28,451
Equipment	SL	5-20	9,328,273	(3,081,140)	6,247,133
Assets Under Capital Lease	SL	Term-40	154,039	(51,033)	103,006
Construction in Progress	None	None	2,401,710	-	2,401,710
Property Not in Use	*	*	53,476	-	53,476
			<u>\$ 15,547,028</u>	<u>\$ (4,698,148)</u>	<u>\$ 10,848,880</u>

(1) In FY 1999, FAA validated and documented the historical cost basis of its Buildings and Structures primarily through the use of cost estimation models, based on dates placed in service, size, and support documentation. The cost basis of Buildings and Structures was decreased by \$43.2 million (a prior period adjustment) as a result of this analysis.

(2) In FY 1999, FAA performed “top-down” analyses of the budgets, contracts, and expenditures for its major systems of the NAS acquired during the past two decades. These analyses identified the capitalizable costs of each system, resulting in a revised valuation for each major system in use. The restated Equipment asset costs are now supported by documentation compiled through this “top-down” study. The cost basis of Equipment assets was increased by \$4.0 billion as a result of these analyses.

(3) FAA established performance measures for its Construction in Progress (CIP) portfolio in FY 1999 and identified 17,000 project records (with costs of \$1.5 billion) due to be closed out to in-service assets by yearend. All such records have been closed out by September 30, 1999, and the yearend CIP balance represents only active projects. For these remaining 9,000 projects, FAA has established central documentation files that substantiate these costs.

(4) In FY 1999, FAA recognized a gain on fixed assets of \$10 million for excess and surplus property in Utilization Screening and Disposition (USD) system.

(5) Based on these revised property balances, FAA recalculated accumulated depreciation as of September 30, 1999. The accumulated depreciation for Buildings and Structures was increased \$97 million as of that date (a prior period adjustment) to reflect a new balance of \$1.4 billion. The accumulated depreciation for Equipment was increased by \$565 million to reflect a new balance of \$3.1 billion. Depreciation expense was determined for 1999 on these assets, based on the new property values.

Note 10. Environmental and Disposal Liabilities

(Dollars in Thousands)

	<u>Intragovernmental</u>	<u>Other</u>	<u>Total</u>
Environmental Remediation	\$ 26,392	\$ 79,176	\$ 105,568
Environmental Cleanup and Decommissioning	<u>302,600</u>	<u>907,800</u>	<u>1,210,400</u>
<i>Total Environmental Liabilities</i>	<u>\$ 328,992</u>	<u>\$ 986,976</u>	<u>\$ 1,315,968</u>

In FY 1999, FAA reviewed all its environmental liabilities. It concluded that OSHA/Environmental Compliance and Air Traffic Control (ATC) at DOD base closures are not a liability to the agency. This resulted in a decrease of \$515.4 million; \$512.2 million for OSHA/Environmental Compliance and \$3.2 million for Air Traffic Control (ATC) at DOD base closures. The environmental remediation and decommissioning cleanup costs computed for FY 1999 included a restatement and correction of amounts previously reported by FAA program offices. Because of the changes in approach to handling both environmental and decommissioning cost, the past cost estimates were reduced in FY 1999 and would not be properly included in current calculation of fees.

(1) In FY 1999, FAA revised its procedures for estimating its environmental remediation liability by basing the estimates on known cleanup sites, not budget projections. FAA's liability for environmental cleanup and decommissioning as of September 30, 1999, is \$105.6 million. This resulted in a \$723.3 million decrease, of which \$700.2 million is a prior period adjustment and \$23.1 million is a current year expense. The \$700.2 million is the difference between the FY 1998 \$828.9 million reported amount and the revised amount of \$128.7 million. The \$23.1 million is the difference between the revised \$128.7 million amount and the \$105.6 million.

(2) FAA's liability for environmental cleanup and decommissioning costs as of September 30, 1999, was \$1.2 billion. The decrease of \$.7 billion was based on changes in assumptions previously used for the investment analysis of the Satellite Navigation program.

(3) In FY 1999, FAA complied with Statement of Federal Financial Accounting Standards #6, Chapter 4, by implementing the Option #2 method, i.e., recognizing the annual change in environmental liabilities as a current year cost associated with assets placed in service in the current year. When FAA is able to collect new aviation user fees and the portion of environmental costs expected to be recovered is material, FAA will convert to the Option 1 method, i.e., amortize the environmental costs over the life of the asset.

Note 11. Debt

(Dollars in Thousands)

	Beginning Balance	Net Borrowing	Ending Balance
Other Debt:			
Aircraft Purchase Loan			
Guarantee Program			
Debt to the Treasury	\$ 24	\$ -	\$ 24
Total Debt	\$ 24	\$ -	\$ 24

Note 12. Other Liabilities

(Dollars in Thousands)

Other Intragovernmental Liabilities

	Non- Current Liability	Current Liability	Total
Advances from Others	\$ -	\$ 16,447	\$ 16,447
Accrued Payroll & Benefits to Other Agencies	-	46,002	46,002
Proceeds From Replacement of Property	-	12	12
Other	-	47,745	47,745
<i>Liabilities Covered by Budgetary Resources</i>	<u>\$ -</u>	<u>\$ 110,206</u>	<u>\$ 110,206</u>
Federal Employees Compensation Act	<u>\$ 104,035</u>	<u>\$ 83,828</u>	<u>\$ 187,863</u>
<i>Liabilities Not Covered by Budgetary Resources</i>	<u>\$ 104,035</u>	<u>\$ 83,828</u>	<u>\$ 187,863</u>
<i>Total Other Intragovernmental Liabilities</i>	<u>\$ 104,035</u>	<u>\$ 194,034</u>	<u>\$ 298,069</u>

Other Intragovernmental Liabilities

Advances from Others, Unclassified	\$ -	\$ 3,007	\$ 3,007
Accrued Payroll & Benefits to the Employees	-	193,171	193,171
Liability for Unapplied Collections	-	28,010	28,010
Other Accrued Liabilities	-	118,088	118,088
<i>Liabilities Covered by Budgetary Resources</i>	<u>\$ -</u>	<u>\$ 342,276</u>	<u>\$ 342,276</u>
Accrued Unfunded Annual Leave & Assoc. Benefits	\$ 374,754	\$ -	\$ 374,754
Sick Leave Compensation Benefits for Air Traffic Controllers	37,684	-	37,684
Capital Leases (Note 13)	89,104	-	89,104
Contingent Liabilities for Legal Claims	470,756		470,756
Contingent Liabilities for Return Rights	17,300	8,600	25,900
<i>Liabilities Not Covered by Budgetary Resources</i>	<u>\$ 989,598</u>	<u>\$ 8,600</u>	<u>\$ 998,198</u>
<i>Total Other Liabilities</i>	<u>\$ 989,598</u>	<u>\$ 350,876</u>	<u>\$ 1,340,474</u>

(1) Accrued payroll and employee benefits represent the unpaid pay period September 23 through September 30, 1999.

(2) An unfunded liability is recorded for unreimbursed actual cost to be made for workers' compensation pursuant to the Federal Employees' Compensation Act (FECA) to the Department of Labor (DOL), which administers the Federal Employees' Compensation Fund. Funding for the amount charged to FAA is normally appropriated for the fiscal year ending 2 years after the FAA accounting period in which the expense was incurred. Therefore, FAA's FY 1999 accrued liability includes workers' compensation benefits paid by DOL for the periods July 1, 1997, through June 30, 1998; July 1, 1998, through June 30, 1999; and July 1, 1999, through September 30, 1999.

(3) The estimated liability for accrued wages include annual, home, and military and compensatory hours plus the agency's cost of employee benefits associated with such compensated absences for the period ending September 30, 1999.

(4) In FY 1998, under the National Air Traffic Controllers Association (NATCA) agreement, Article 25, Section 13, Air Traffic Controllers covered under the Federal Employees Retirement Systems (FERS) became eligible, upon retirement, for a Sick Leave Buy Back Option. Under this option, an employee who attains the required number of years of service for retirement shall receive a lump sum payment for forty (40) percent of the value of his or her accumulated sick leave as of the effective date of their retirement. The total estimated sick leave buy back contingency for FAA for those air traffic controllers eligible for retirement, based on current sick leave balances, for FY 1999 is \$37.6 million.

(5) In FY 1999, FAA recognized \$470.8 million for legal claims that have been asserted and are pending. Of this amount, \$56.2 million was estimated to be paid from agency appropriations and \$414.6 million to be paid from the permanent appropriation for judgments, awards, and compromise settlements (Judgment Fund) administered by the Department of Justice. The \$470.8 million is \$37.4 million higher than the \$433.4 million that was recognized in FY 1998. The \$37.4 million difference was recognized as an FY 1999 expense. FAA's maximum exposure for loss for contingent liabilities associated with legal claims is \$14.8 billion.

Effective in FY 1999, the Office of Management and Budget initiated a change in the standard for recognizing loss contingencies for pending or threatened litigation and asserted claims. The change, which was contained in Statement of Recommended Accounting Standards Number 12, dated December 1998, amended paragraph 38 of Statement of Federal Financial Accounting Standards (SFFAS) No. 5 by replacing the phrase "more likely than not" in the second bullet, with the word "likely."

(6) Contingent Liabilities for the Return Rights Program decreased by \$6 million from \$31.9 million in FY 1998 to \$25.9 million in FY 1999. Because of evidence that the FY 1998 liability may have been overstated, the \$6 million decrease was treated as a prior period adjustment. The program covers temporary assignments for 2 to 4 years. At the beginning of FY 1999, approximately 518 employees who previously had accepted transfers to overseas or certain domestic locations were contractually entitled to a future return move at Government expense. The typical cost per move is \$50,000. The liability may be overstated because not every employee remaining in the program will exercise his or her right. If every employee in the program did exercise his or her right, the liability would be as follows:

FY 2000	\$ 8,600,000
FY 2001	\$ 11,900,000
FY2002	\$ 5,350,000
FY2003	\$ 50,000
	<u>\$ 29,900,000</u>

Note 13. Leases

FAA as Lessee

(Dollars in Thousands)

Summary of Assets Under Capital Leases:

Land & Buildings:	\$ 154,039
Less: Accumulated Amortization	<u>51,033</u>
Net Assets Under Capital Lease	<u><u>\$ 103,006</u></u>

Future Payments Due

Fiscal Year	
Year 1 (FY 2000)	\$ 16,182
Year 2 (FY 2001)	14,823
Year 3 (FY 2002)	14,620
Year 4 (FY 2003)	14,398
Year 5 (FY 2004)	14,339
After 5 Years (FY 2005 to Contract End)	<u>82,748</u>

Total Future Lease Payments	157,110
Less: Imputed Interest	<u>68,006</u>
Total Capital Lease Liability	<u><u>\$ 89,104</u></u>

Liabilities not covered by budgetary resources \$ 89,104

Capital Leases

Capital leases cover land and buildings at the MMAC in Oklahoma City, Oklahoma and at the WJHTC in Pomona, New Jersey. (Operating leases discussed in the following section cover other real property.) FAA leases the MMAC land and buildings from the Oklahoma City Airport Trust at \$12 million per year. FAA leases real property, including the WJHTC technical building, from the Atlantic County Improvement Authority at \$4.8 million per year.

FAA's capital lease payments are funded annually. The following represents capital lease accounting treatment under generally accepted accounting principles:

- (1) Capital lease assets are recorded at the net present value of the total minimum lease payments over the lease duration, valued at the lease inception.
- (2) In FY 1996, FAA implemented the depreciation/amortization provision of SFFAS No. 6, which is applicable to assets acquired under capital lease. The total assets, valued at \$154 million under capital lease for FY 1999, is \$38 million less than the \$192 million reported in FY 1998. The \$38 million asset reduction is attributable to a correction in the method for computing leased assets. The \$38 million was treated as a prior period adjustment.
- (3) Amounts due within the current fiscal year corresponding to the principal portion of the lease payments are recorded as current year obligations. The remaining principal payments are recorded as unfunded lease liabilities. The imputed interest is funded and expensed annually. Interest amounts imputed to subsequent years (aggregating \$68 million) are not recorded as unfunded liabilities in the Departmental Accounting and Financial Information System (DAFIS).

Operating Leases:

(Dollars in Thousands)

Fiscal Year	Future Payments Due			
	Land & Buildings	Mach & Equipment	Other	Total
Year 1 (FY 2000)	\$ 56,075	\$ 0	\$ 324	\$ 56,399
Year 2 (FY 2001)	46,235	0	324	46,559
Year 3 (FY 2002)	38,635	0	248	38,883
Year 4 (FY 2003)	31,164	0	201	31,365
Year 5 (FY 2004)	24,001	0	201	24,202
After 5 Years (FY 2005 to Contract End)	116,487	0	4,535	121,022
Total Future Operating Lease Payments	<u>\$ 312,597</u>	<u>\$ 0</u>	<u>\$ 5,833</u>	<u>\$ 318,430</u>

FAA leases property, aircraft, equipment, and telecommunications under operating leases. Such leases are funded annually and expensed as recurring charges in DAFIS. Unfunded liabilities and future funding requirements for operating lease payments due in future years are not recorded in DAFIS.

The cumulative amount due on operating leases after 5 years does not include estimated payments for leases with annual renewal options. Estimates of the lease termination dates are subjective, and any projection of future lease payments would be arbitrary.

FAA as Lessor:

Operating Leases

(In Thousands of Dollars)

Fiscal Year	Future Payments Due			
	Land & Buildings	Mach & Equipment	Other	Total
Year 1 (FY 2000)	\$ 4,295	\$ 90	\$ 0	\$ 4,385
Year 2 (FY 2001)	4,380	90	0	4,470
Year 3 (FY 2002)	4,466	90	0	4,556
Year 4 (FY 2003)	4,554	90	0	4,644
Year 5 (FY 2004)	4,622	90	0	4,712
After 5 Years (FY 2005 to Contract End)	150,401	0	0	150,401
Total Future Operating Lease Payments	<u>\$ 172,718</u>	<u>\$ 450</u>	<u>\$ 0</u>	<u>\$ 173,168</u>

FAA leases Ronald Reagan Washington National Airport and Washington Dulles International Airport to the Metropolitan Washington Airports Authority, the airports' sponsor. The lease took effect in March 1987 at \$3 million per year for a 50-year term. Subsequent annual rental payments are adjusted by applying the Implicit Price Deflator for the Gross National Product published by the Department of Commerce. Additionally, the parties may renegotiate the level of lease payments attributable to inflation costs every 10 years. Upon lease expiration, the airports and facilities, originally valued at \$244 million, together with any improvements thereto, will revert to the Federal Government. In addition, FAA leases equipment to foreign governments and leases parcels of Government-owned land, generally for agriculture.

Note 14. Federal Employee and Veterans Benefits Payable

Dollars in Thousands

Other Post-Employment Benefits	
Federal Employees Compensation Act:	
Actuarial Liabilities	\$ 965,669
Total	<u>965,669</u>

Note 15. Unexpended Appropriations

(Dollars in Thousands)

	<u>Operations General Fund</u>	<u>Other Funds</u>	<u>Total</u>
(1) Unobligated			
(a) Available	\$ 23,103	\$ 44	\$ 23,147
(b) Unavailable	41,114	967	42,081
(2) Undelivered Orders	<u>320,859</u>	<u>910</u>	<u>321,769</u>
Sub-total	\$ 385,076	\$ 1,921	\$ 386,997
Other Differences	<u>(37,294)</u>	<u>-</u>	<u>(37,294)</u>
Total Unexpended Appropriations	<u>\$ 347,782</u>	<u>\$ 1,921</u>	<u>\$ 349,703</u>

The differences represent the amount of undelivered orders and accounts payable that exceed the total amount of unrequisioned cash authority, the Treasury cash balance and the unobligated authority, and other differences carried forward from prior years.

Note 16. Total Cost and Earned Revenue by Budget Functional Classification

(Dollars in Thousands)

Functional Classification:	<u>Total Cost</u>	<u>Earned Revenue</u>	<u>Net Cost</u>
Transportation Programs	\$ 9,316,209	\$ (123,115)	\$ 9,193,094
Community and Regional Development Programs	1,794	-	1,794
General Government Programs	14	-	14
Total Cost	<u>\$ 9,318,017</u>	<u>\$ (123,115)</u>	<u>\$ 9,194,902</u>

Note 17. Net Cost by Programs

FAA's six lines of business represent the programs reported on the Statement of Net Cost. Assigned cost centers to each line of business permit the direct accumulation of costs. Other costs that are not directly traced to each line of business, such as agency overhead, are allocated by applying ratios representing the cost for each line of business cost compared to total expenses, excluding grants.

Note 18. Taxes and Other Nonexchange Revenue

(Dollars in Thousands)

Passenger Ticket Tax	\$ 7,486,262
Waybill Tax	411,791
International Departure Tax	1,484,443
Fuel Taxes	1,012,870
Tax Refunds and Credits	(3,887)
Investment Income	733,990
Other Nonexchange Revenue	-
	<hr/>
Total Taxes and Other Nonexchange Revenue	<u>\$ 11,125,469</u>

Taxes are collected by the Department of the Treasury (Treasury) Internal Revenue Service for FAA's Airport and Airway Trust Fund. These taxes can be withdrawn only as authorized by various FAA appropriations. The amounts reflected above are taxes reported to FAA by Treasury. Treasury estimates taxes to be collected each quarter and adjusts the estimates by actual collections.

Note 19. Imputed Financing:

(Dollars in Thousands)

Office of Personnel Management	\$ 327,902	(1)
Dept. of Justice Judgment Fund	<u>26,623</u>	(2)
	<hr/>	
Total Imputed Financing	<u>\$ 354,525</u>	

(1) In FY 1999, FAA recognized as imputed financing the amount of accrued pension and post-retirement benefit expenses for current employees. The assets and liabilities associated with such benefits are the responsibility of the administering agency, OPM.

(2) In FY 1999, amounts paid by the Judgment Fund in settlement of claims or court assessments against the FAA were recognized as imputed financing.

Note 20. Prior Period Adjustments

In FY 1999, FAA recorded the following prior period adjustments:

(Dollars in Thousands)

Reconciliation of General Ledger to Property Systems	\$ (3,020,557)
Prior Period Depreciation	805,712
Revision of Environmental Remediation Cleanup Cost Estimates	(700,181)
Correction Environmental Cleanup and Disposal Costs	(471,500)
Reduction of Environmental Liability for OSHA/Environmental Compliance	(512,200)
Sick Leave Compensation Correction	(28,846)
Correction to Gain and Loss General Ledger Accounts	192,698
Airport Improvement Program - Correct Grant Current Year Expenses	155,667
Other Adjustments	<u>(57,349)</u>
Total Prior Period Adjustment	<u><u>\$ (3,636,556)</u></u>

Note 21. Statement of Budgetary Resources Disclosures

The statement accurately represents the agency's status of budgetary resources for FY 1999 and was largely prepared from the budgetary accounts in the DAFIS trial balance. Those line items required on the statement, but not supported by DAFIS, were derived from the equivalent DAFIS proprietary accounts and budgetary financial documents, e.g., the SF-132, Apportionment and Reapportionment Schedule, and the SF-133, Report on Budget Execution. In the Budgetary Resources section, Budget Authority and Unobligated Balances - Beginning of Period are derived from budgetary financial documents. In the Status of Budgetary Resource section, Unobligated Balances Available and Not Available are also derived from budgetary financial documents. In the Outlays section, Obligations Incurred and Obligated Balances are derived from budgetary and proprietary accounts. The budgetary resource documents used to support the line items, e.g., the SF-132 are certified by FAA and approved by OMB. The outlays and other budgetary balances are reconciled with Treasury and OMB monthly, quarterly, and annually.

The net amount of budgetary resources obligated for undelivered orders at the end of FY 1999 was \$4.4 billion.

The Aircraft Purchase Guarantee Program is funded under the authority to borrow from the U.S. Treasury granted by Congress in the DOT and Related Agencies Appropriation Act, 1983. Borrowing authority is implemented through a blanket promissory, which provides FAA with a line of credit for the full amount of borrowing authority granted by Congress. Because authorization for issuing new loan guarantees expired in 1988, FAA has not issued any new guaranteed loans. In FY 1999, FAA had an outstanding loan which it refinanced through an advance from Treasury, which is payable with interest on September 30, 2000. Although FAA does have borrowing authority, it is seeking a liquidating appropriation to pay off the remaining note with Treasury and end the program.

Under congressional legislation, in FY 1998, FAA was authorized \$1.95 billion in contract authority and liquidating authority for \$1.6 billion, which are derived from the Airport and Airway Trust Fund and available until expended, for the Grants-in-Aid Programs. The contract authority available at the end of FY 1999 was \$101 million.

Congress mandated permanent indefinite appropriations for the Facilities and Equipment, Grants-in-Aid, and Research, Development & Engineering in order to fully fund special projects that were ongoing and spanned several years.

FAA does not have any differences between the information reported on the statement and the amounts described as “actual” in the Budget of the United States Government for FY 1999.

FAA incurred several adjustments to its budgetary resources in FY 1999. The Facilities & Equipment Fund was increased by \$20 million and the Research, Engineering and Development Fund was increased by \$220,000 through funds transferred from the OMB Information Technology and Related Expenses (Y2K Emergency Fund). The Operations appropriation was reduced by \$50 million for funds transferred to the Essential Air Service and Rural Airport Improvement Program Fund.

Note 22. Financing Sources yet to be Provided

(Dollars in Thousands)

Decreases:

Other Accrued Liabilities	\$ (5,123)
Environmental Liability	(1,928,332)
Capital Leases	<u>(15,115)</u>
Financing Sources That Fund Costs of Prior Periods	<u>\$ (1,948,570)</u>

Increases

Federal Employee Compensation Act (FECA Actuarial)	\$ 38,889
Federal Employee Compensation Act (FECA Actual)	6,799
Contingent Liabilities for Legal Claims	37,312
Other Liabilities	<u>22,137</u>
Total Financing Sources Yet to be provided.	<u>\$ 105,137</u>

Note 23. Custodial Activity

(Dollars in Thousands)

Revenue Activity:	
Sources of Cash Collections:	
Tax Revenues	\$ -
Miscellaneous	<u>21,831,535</u>
Total Cash Collections	<u>21,831,535</u>
Accrual Adjustments (+/-)	306,585
Total Custodial Revenue	<u>\$ 22,138,120</u>
Disposition of Collections:	
Transferred to Treasury General Fund	\$ 21,831,535
Increase (Decrease in Amounts Yet to be Transferred)	306,585
Refunds and Other Payments	-
Retained by the Reporting Entity	-
Net Custodial Revenue Activity	<u>\$ -</u>

Note 24. Other Disclosures

Contract Negotiations. FAA had a total of \$131.8 million in commitments (funds reserved for possible future obligations) under unexpired Facilities and Equipment and Research, Engineering, and Development appropriations. The commitments were for purchases of goods and services for which contract negotiations have not been completed (i.e., agency obligations had not been incurred) at the end of FY 1999.

Contract Options. As of September 30, 1999, FAA had \$18.8 billion in unobligated contracts. The terms of these contracts give FAA the unilateral right to purchase additional equipment or services or to extend the contract terms. Exercising this right would require the obligation of funds in future years.

Letter of Intent. FAA has authority under 49 U.S.C. 47110(e) to issue letter of intent (LOI) to enter into AIP grant obligations; but LOI's do not create obligations. FAA has issued LOI's covering FY 1988 through FY 2010 in the aggregate amount of \$2.9 billion. FAA had obligated \$1.8 billion of this total amount from FY 1988 through FY 1999, leaving \$1.1 billion unobligated as of September 30, 1999. FAA anticipates obligating \$149 million of this total amount in FY 2000.

AIP Grants. The FY 1999 AIP grant authority totaled \$1.95 billion, including over \$1 billion in entitlements to specific locations. The sponsors of these entitlements claimed all but \$136 million. This amount will be available from unused or newly enacted contract authority to those sponsors through FY 2001 or 2002 in the case of nonhub primary airport locations.

Aviation Insurance Program. FAA is authorized to issue hull and liability insurance under the Aviation Insurance Program for air carrier operations where commercial insurance is not available on reasonable terms where the operation to be insured is necessary to carry out the U. S. Government's foreign policy. No claims for losses were pending as of September 30, 1999.

FAA may issue (1) premium insurance, for which a risk-based premium is charged to the air carrier and (2) nonpremium insurance. FAA maintains standby nonpremium war-risk insurance policies for 48 air carriers

having approximately 1,050 aircraft available for Defense or State Department charter operations. No coverage was extended during 1999.

FAA normally insures only a small number of air carrier operations at any time and establishes a maximum liability for losing one aircraft. In many cases, that maximum liability for both hull loss and liability is \$1 billion; but it is usually less and, because FAA can use its regulatory authority to stop flights to high-risk areas and/or terminate insurance coverage, the range of possible liability to FAA in any year is assumed to be between zero and \$2 billion. Since the inception of the program (including the predecessor Aviation War Risk Insurance Program dating back to 1951) only four claims ranging between \$626 and \$122,469 have been paid.

FY 1999 FAA ANNUAL REPORT

U.S. Department of Transportation
 FEDERAL AVIATION ADMINISTRATION
 Stewardship Investment
 Non Federal Physical Property
 Airport Improvement Program

For the Fiscal Year Ended September 30, 1999

(Dollars in Thousands)

State/Territory	FY 1998	FY 1999
Alabama	\$ 15,556	\$ 18,134
Alaska	77,949	70,802
Arizona	47,243	53,135
Arkansas	19,291	21,694
California	101,897	106,161
Colorado	44,768	43,452
Connecticut	1,348	4,971
Delaware	284	197
District of Columbia	206	54
Florida	60,752	71,746
Georgia	41,604	43,556
Hawaii	7,142	12,131
Idaho	12,532	15,578
Illinois	74,514	63,596
Indiana	21,213	27,467
Iowa	16,983	30,450
Kansas	11,250	7,451
Kentucky	43,116	32,741
Louisiana	20,338	24,442
Maine	5,505	4,943
Maryland	9,765	18,136
Massachusetts	22,615	15,259
Michigan	47,890	50,995
Minnesota	23,430	27,902
Mississippi	9,788	14,393
Missouri	35,996	30,089
Montana	13,367	16,727
Nebraska	13,015	14,240
Nevada	30,420	22,981
New Hampshire	11,743	8,789
New Jersey	9,918	25,906
New Mexico	5,327	10,149
New York	67,664	86,754
North Carolina	31,226	50,572
North Dakota	10,980	8,263
Ohio	33,843	46,374
Oklahoma	5,240	14,949
Oregon	17,682	16,138
Pennsylvania	63,025	57,544

FY 1999 FAA ANNUAL REPORT

U.S. Department of Transportation
 FEDERAL AVIATION ADMINISTRATION
 Stewardship Investment
 Non Federal Physical Property
 Airport Improvement Program

For the Fiscal Year Ended September 30, 1999

(Dollars in Thousands)

State/Territory	<u>FY 1998</u>	<u>FY 1999</u>
Rhode Island	2,692	10,813
South Carolina	15,419	22,926
South Dakota	10,112	8,893
Tennessee	34,885	36,477
Texas	98,154	103,308
Utah	12,910	8,808
Vermont	5,219	4,141
Virginia	21,733	31,069
Washington	18,405	44,454
West Virginia	19,564	12,592
Wisconsin	30,406	25,512
Wyoming	9,337	7,871
American Samoa	1,329	676
Guam	1,260	10,341
Northern Mariana Island	3,272	4,027
Puerto Rico	10,482	7,163
Trust Territory of Pacific	479	27
Virgin Islands	2,384	9,231
Administration	52,075	75,680
Grand Total.....	<u>\$ 1,436,541</u>	<u>\$ 1,612,867</u>

STEWARDSHIP INVESTMENT

Non-Federal Physical Property.

Airport Improvement Program. FAA makes project grants for airport planning and development under the Airport Improvement Program (AIP) to maintain a safe and efficient nationwide system of public-use airports that meets both present and future needs of civil aeronautics. FAA works to improve the infrastructure of the Nation's airports, in cooperation with airport authorities, local and state governments, and metropolitan planning authorities. In FY 1999, FAA issued 1,489 grants to improve and expand the Nation's airports.

U.S. Department Of Transportation
 Federal Aviation Administration
 Stewardship Investment
 Research and Development

For the Fiscal Year Ended September 30, 1999

(Dollars in Thousands)

Expenditures	<u>1998</u>	<u>1999</u>
Applied Research	\$ 103,274	\$ 104,544
Development	48,237	18,358
R&D Plant	11,254	14,290
Administration	54,179	36,466
Total	\$ <u>216,944</u>	\$ <u>173,658</u>

Stewardship Investment

Research and Development.

Research. FAA conducts research and provides the essential air traffic control infrastructure to meet increasing demands for higher levels of system safety, security, capacity, and efficiency.

Research priorities in FY 1999 included aircraft structures and materials; fire and cabin safety; crash injury-protection; explosive detection systems; improved in-flight icing and ground de-icing operations; better tools to predict and warn of weather hazards, turbulence and wake vortices; aviation medicine, and human factors.

U.S. Department Of Transportation
 Federal Aviation Administration
 Supplementary Information
 Deferred Maintenance
 For the Fiscal Year Ended September 30, 1999
 (Dollars in Thousands)

Category	Method	Asset Condition*	Costs to Return to Acceptable Condition		
			FY 1998	FY 1999	
Land		-	-	-	(1)
Buildings	Condition Assessment Survey	4&5	18,214	17,539	
Other Structures and Facilities	Condition Assessment Survey	4&5	1,231	37,442	
Aircraft and Aircraft Engines		-	-	-	(2)
National Airspace System (NAS) Equipment		-	-	-	(3)
General Purpose Equipment		-	-	-	(4)
Assets Under Capital Lease		-	-	-	
Total			19,445	54,981	

* Condition Rating Scale:

- 1: Excellent
- 2: Good
- 3: Fair
- 4: Poor
- 5: Very Poor

Information on FAA's deferred maintenance is based on condition assessment survey (annual inspection). Standards (orders) are provided for evaluating the fixed assets condition. These standards are combined with FAA's technicians' knowledge, past experiences, and judgment to provide the following:

- * Minimum and desirable condition descriptions
- * Suggested maintenance schedules
- * Standard costs for maintenance actions
- * Standardized condition codes

There have not been material changes in the standards in recent years.

FAA recognizes maintenance expense as incurred. However, maintenance was insufficient during the past several years and resulted in deferred maintenance on Buildings and Other Structures and Facilities.

- (1) No material maintenance was deferred on land.
- (2) Maintenance was not deferred on the FAA aircraft. The aircraft maintenance was ensured through the aircraft maintenance, inspection, preventive maintenance, and alteration programs of the Flight Inspection Maintenance Division programs.
- (3) The FAA did not defer maintenance on NAS equipment. The maintenance of the Airway Facilities (AF) systems, subsystems, and equipment in the NAS is guided by the general principle of ensuring availability and reliability of air traffic control, navigation, and communication services. In order to minimize the quantity and duration of service interruption and outages, both planned and unplanned, AF does not generally defer the maintenance of the electronic equipment. Various reasons may cause a maintenance cycle to be skipped, but the maintenance is performed during the next cycle. FAA Order 6000.30 states the minimum standards for reliability and availability of NAS equipment. AF's following initiatives ensure the highest possible levels of performance of NAS equipment:

- * Periodic and preventive maintenance programs
- * Maintenance of backup equipment for key services in case of equipment interruption or missed maintenance
- * Competent technical maintenance staff

- (4) The amount recorded as FAA's general purpose equipment was not material, therefore, no material maintenance was deferred on these equipment.

FY 1999 FAA ANNUAL REPORT

U.S. Department Of Transportation
 Federal Aviation Administration
 Supplementary Information
 Intra-Governmental Transactions
 For the Fiscal Year Ended September 30, 1999

(Dollars in Thousands)

Intra-Governmental Assets				
<u>Agency</u>	<u>Fund Balance with</u>	<u>Accounts Receivable</u>	<u>Investments</u>	<u>Other</u>
Department of the Treasury	\$ 751,507	\$ 778	\$ 12,655,469	\$ 162,970
Office of the Vice President		7		
Department of Agriculture		93		
Department of Commerce		605		
Department of the Interior		993		
Department of Justice		95		
Department of the Navy		1,096		
Department of the Army		100		
General Services Administration		27		
National Science Foundation		9		
Department of the Air Force		8,216		
Fed. Emergency Mgmt. Agcy.		221		
National Aeronautics & Space Adm		452		
Department of Energy		66		
US Trade & Development Agency		247		
Department of Defense		7,093		
Other Agencies		22,130		
Total	<u>\$ 751,507</u>	<u>\$ 42,228</u>	<u>\$ 12,655,469</u>	<u>\$ 162,970</u>

Intra-Governmental Liabilities

<u>Agency</u>	<u>Accounts Payables</u>	<u>Debt Borrowings from Other Agencies</u>	<u>Environmental</u>	<u>Other</u>
Other Agencies	\$ 33,722	\$ 24	\$ 328,992	\$ 110,206
Department of Labor				\$ 187,863
Total	<u>\$ 33,722</u>	<u>\$ 24</u>	<u>\$ 328,992</u>	<u>\$ 298,069</u>

<u>Agency</u>	<u>Expenses</u>
Department of the Treasury	\$ 73
Department of Justice	26,623
Office of Personnel Management	902,213
Department of Agriculture	150
Department of Commerce	275
Department of the Interior	90
Department of Justice	20
Department of the Army	8
General Services Administration	50
Department of Health & Human Services	127
Department of Defense	198
Department of Labor	84,885
Department of Transportation	16,739
Other	5,499
Total Expenses	<u>\$ 1,036,950</u>

FY 1999 FAA ANNUAL REPORT

U. S. Department of Transportation
 FEDERAL AVIATION ADMINISTRATION
 SUPPLEMENTARY STATEMENT OF BUDGETARY RESOURCES
 AS OF SEPTEMBER 30, 1999

(Dollars in Thousands)

	Airport & Airway Trust Fund Corpus	Trust Fund Grants-in-Aid to Airports	Trust Fund Facilities & Equipment	Trust Fund Research, Eng. & Development
BUDGETARY RESOURCES				
Budget Authority	\$ 3,365,643	\$ 2,410,000	\$ 2,121,255	\$ 150,367
Unobligated Balances - Beginning of Period	9,151,040	-	443,040	7,940
Spending Authority From Offsetting Collections		-	27,506	4,872
Adjustments	(12,516,610)	(414,285)	139,264	8,406
Total Budgetary Resources	<u>\$ 74</u>	<u>\$ 1,995,715</u>	<u>\$ 2,731,066</u>	<u>\$ 171,585</u>
STATUS OF BUDGETARY RESOURCES				
Obligations Incurred	\$ 74	\$ 1,990,171	\$ 2,233,188	\$ 157,042
Unobligated Balances-Available	-	5,545	362,536	13,639
Unobligated Balances-Not Available	-	-	135,343	904
Total Status of Budgetary Resources	<u>\$ 74</u>	<u>\$ 1,995,715</u>	<u>\$ 2,731,066</u>	<u>\$ 171,585</u>
OUTLAYS				
Obligations Incurred	\$ 74	\$ 1,990,171	\$ 2,233,188	\$ 157,042
Less: Spending Authority From Offsetting Collections and Adjustments	-	(45,715)	(166,771)	(13,369)
Obligated Balance, Net Beginning of Period	-	2,502,678	1,664,699	184,340
Obligated Balance Transferred, Net	-	-	-	-
Less: Obligated Balance, Net - End of Period	-	(2,882,220)	(1,535,870)	(154,355)
Total Outlays	<u>\$ 74</u>	<u>\$ 1,564,913</u>	<u>\$ 2,195,247</u>	<u>\$ 173,658</u>

FY 1999 FAA ANNUAL REPORT

U. S. Department of Transportation
 FEDERAL AVIATION ADMINISTRATION
 SUPPLEMENTARY STATEMENT OF BUDGETARY RESOURCES
 AS OF SEPTEMBER 30, 1999

(Dollars in Thousands)

Aviation Insurance Revolving	Franchise Fund	Operations	Other Funds	Intra- Agency Eliminations	Consolidated Total
\$ -	\$ -	\$ 5,590,934	\$ -	\$ -	\$ 13,638,200
72,428	951	50,780	921	-	9,727,100
3,502	17,785	4,177,320	-	-	4,230,985
2	-	54,712	(863)	-	(12,729,374)
<u>\$ 75,932</u>	<u>\$ 18,736</u>	<u>\$ 9,873,745</u>	<u>\$ 58</u>	<u>\$ -</u>	<u>\$ 14,866,911</u>
\$ 315	\$ 17,751	\$ 9,756,244	\$ 4	\$ -	\$ 14,154,788
75,429	-	22,547	44	-	479,739
188	985	94,954	10	-	232,384
<u>\$ 75,932</u>	<u>\$ 18,736</u>	<u>\$ 9,873,745</u>	<u>\$ 58</u>	<u>\$ -</u>	<u>\$ 14,866,911</u>
\$ 315	\$ 17,751	\$ 9,756,244	\$ 4	\$ -	\$ 14,154,788
(3,504)	(17,785)	(4,236,895)	(58)	-	(4,484,097)
189	3,953	703,855	183	-	5,059,898
-	-	-	-	-	-
<u>(141)</u>	<u>(5,214)</u>	<u>(646,088)</u>	<u>(118)</u>		<u>(5,224,006)</u>
<u>\$ (3,142)</u>	<u>\$ (1,294)</u>	<u>\$ 5,577,116</u>	<u>\$ 11</u>	<u>\$ -</u>	<u>\$ 9,506,583</u>

U. S. Department of Transportation
 FEDERAL AVIATION ADMINISTRATION
 AVIATION INSURANCE REVOLVING FUND
 BALANCE SHEET

As of September 30, 1999

(Dollars in Thousands)

Assets		
Intragovernmental		
Fund Balance with Treasury	\$	191
Investments		72,092
Total Intragovernmental Assets	\$	<u>72,283</u>
Total Assets	\$	<u><u>72,283</u></u>
Liabilities		
Other Intragovernmental Liabilities		<u>3</u>
Total Intragovernmental Liabilities	\$	<u>3</u>
Accounts Payable	\$	3
Other Liabilities		<u>26</u>
Total Liabilities	\$	<u><u>32</u></u>
Net Position Balances:		
Cumulative Results of Operations		<u>72,251</u>
Total Net Position	\$	<u><u>72,251</u></u>
Total Liabilities and Net Position	\$	<u><u>72,283</u></u>

U. S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
AVIATION INSURANCE REVOLVING FUND
STATEMENT OF NET COST
For the year ended September 30, 1999

(Dollars in Thousands)

Costs:

Programs

Public	\$	383
Less Earned Revenues		(3,503)
Net Program Costs	\$	<u>(3,120)</u>

Net Cost Of Operations	\$	<u><u>(3,120)</u></u>
-------------------------------	----	-----------------------

U.S. Department of Transportation
 FEDERAL AVIATION ADMINISTRATION
 AVIATION INSURANCE REVOLVING FUND
 STATEMENT OF CHANGES IN NET POSITION
 For the year ended September 30, 1999

(Dollars in Thousands)

Net Cost of Operations	\$	3,120
 Financing Sources		
Imputed Financing		13
Total Financing Sources	\$	<u>13</u>
 Net Results of Operations	 \$	 3,133
 Net Change in Cumulative Results of Operations		 3,133
 Change in Net Position		 3,133
 Net Position Beginning of Period		 <u>69,118</u>
 Net Position End of Period	 \$	 <u><u>72,251</u></u>

FY 1999 FAA ANNUAL REPORT

U. S. Department of Transportation
 FEDERAL AVIATION ADMINISTRATION
 FRANCHISE FUND
 BALANCE SHEET
 As of September 30, 1999

(Dollars in Thousands)

Assets		
Intragovernmental		
Fund Balance with Treasury	\$	7,426
Accounts Receivable, Net		299
Total Intragovernmental Assets	\$	<u>7,725</u>
Accounts Receivable, Net	\$	2
General Property, Plant, and Equipment, Net		2,447
Other		4
Total Assets	\$	<u><u>10,178</u></u>
Liabilities		
Intragovernmental Liabilities:		
Accounts Payable	\$	(239)
Other Intragovernmental Liabilities		1,455
Total Intragovernmental Liabilities	\$	<u>1,216</u>
Accounts Payable	\$	2,506
Other Liabilities		1,862
Total Liabilities	\$	<u><u>5,584</u></u>
Net Position Balances:		
Cumulative Results of Operations	\$	<u>4,594</u>
Total Net Position	\$	<u><u>4,594</u></u>
Total Liabilities and Net Position	\$	<u><u>10,178</u></u>

U. S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
FRANCHISE FUND
STATEMENT OF NET COST
For the Fiscal Year Ended September 30, 1999

(Dollars in Thousands)

Costs:

Programs

Intragovernmental	\$	17,158
Less Earned Revenues		<u>(16,593)</u>
Net Program Costs	\$	<u>565</u>

Net Cost Of Operations \$ 565

U.S. Department of Transportation
 FEDERAL AVIATION ADMINISTRATION
 FRANCHISE FUND
 STATEMENT OF CHANGES IN NET POSITION
 For the Fiscal Year Ended September 30, 1999

(Dollars in Thousands)

Net Cost of Operations	\$	(565)
Financing Sources		
Imputed Financing		<u>577</u>
Total Financing Sources	\$	<u>577</u>
Net Results of Operations	\$	12
Prior Period Adjustments		<u>28</u>
Net Change in Cumulative Results of Operations		41
Increase (Decrease) in Unexpended Appropriations		-
Change in Net Position		40
Net Position Beginning of Period		<u>4,554</u>
Net Position End of Period	\$	<u><u>4,594</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

ADMINISTRATIVE SERVICES FRANCHISE FUND

Background/Fund Establishment

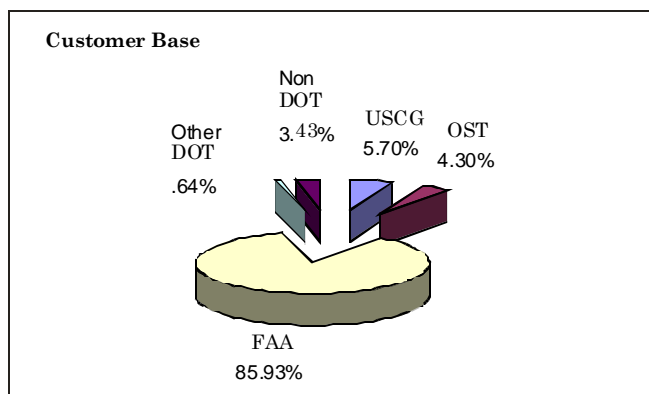
The franchise concept is designed to create competition within the public sector for the performance of a variety of support services. This allows for the establishment of an environment to maximize the use of internal resources through the consolidation and joint-use of like functions and to gain the efficiencies and economies of scale associated with the competitive offering of services to other Government agencies.

The Government Management Reform Act (GMRA) of 1994, Public Law 103-356, provided for the establishment of six franchise fund pilot programs. The six pilots were authorized by the President's Chief Financial Officers (CFO) Council prior to submission of the FAA Franchise Fund proposal. However, the CFO Council's Franchise Fund Working Group strongly endorsed the FAA proposal and recommended submission to Congress as a franchise-like operation. This endorsement resulted in congressional approval, and the Administrative Services Franchise Fund was established in FY 1997.

Services

The Administrative Services Fund offers a wide variety of services. These include international training, accounting, payroll, travel, duplicating, multi-media, information technology, and management training.

The customer base for Franchise Fund services includes DOT and non-DOT Government agencies. The FY-99 revenue percentages by customer are



identified in the customer base pie chart.

Benefits/Accomplishments

Benefits from the franchise environment occur incrementally over time through efficiencies and economies of scale associated with development of partnerships and consolidation of like functions plus the addition of new customers. During the first 3 years of operation, activities within the Administrative Services Franchise Fund have identified a number of advantages, benefits, and results from participation in the fund. The general impacts/benefits are:

- A more businesslike orientation
- Customer-driven decisions
- Emphasis on the cost of doing business and the full recovery of costs
- Reduction in the delivery price of some products/services
- Flexibility of the revolving fund environment including reduction of year-end crunch
- Use of retained earnings to build a base for equipment upgrades, improved services, etc.
- Renewed employee enthusiasm and the sense of challenge
- Development and refinement of specific measurement processes
- Identification of partnering/consolidation opportunities

Specific accomplishments include:

- Centralized/consolidated international training activities at the FAA Academy at no additional cost.
- Increased FAA influence on global aviation system and improvement of overall safety through advancement of the international training program.
- Absorbed a reduction in the printing budget allocation with no commensurate reduction in service level.
- Consolidated two services (multi-media and printing) into one division with a single manager (instead of two) resulting in ability to shift resources to the working level.
- Purchased equipment upgrades in printing and multi-media to improve technology, increase capability, and replace worn-out units through use

of the retained earnings provisions of the revolving fund. This resulted in improved service delivery and would not have been possible using the annual appropriation cycle alone.

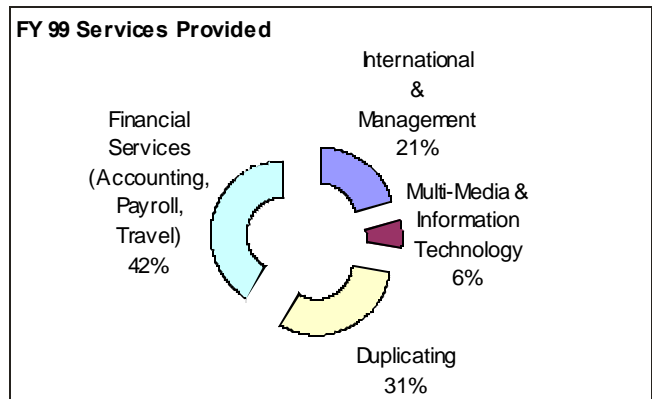
- A cost avoidance of approximately \$2.8 million annually due to significantly lower prices than local quick print competitors (\$0.025 versus \$0.07 per impression).
- Reduced cost per impression from \$0.025 to \$0.023 (8%) in FY 1999 resulting from efficiencies gained through new technology and economies of scale associated with new customers and increased product output.
- Centralized permanent change of station (PCS) processing within the agency.
- Negotiated an agreement with one new customer for collections processing, one new customer for PCS processing, and one new customer for accounting services.

FY-99 Fund Activity

The fund provided services totaling \$17.3 M in FY-99. The following is a graphic presentation of the

distribution of customer reimbursement by service activity for FY 1999.

In addition, collections of \$769K were made during FY-99 for services to be performed in FY-00. The breakdown of this \$769K deferred revenue is: \$67K deferred revenue collected by International & Management Training; \$244K deferred revenue collected by Multimedia & Information Technology; \$15K deferred revenue collected by Printing & Distribution; and \$443K deferred revenue collected by Financial Services.



GLOSSARY of ACRONYMS

A

AATF	Airport and Airway Trust Fund (<i>also Trust Fund</i>)	ASI	aviation safety inspector
AC	advisory circular	ASOS	automated surface observing system
ACSI	Airport Certification Safety Inspector	ASR	airport surveillance radar
AD	advisory directive	AT	air traffic
ADR	alternative dispute resolution	ATA	Air Transport Association
AEAP	Atmospheric Effects of Aviation Project	ATC	air traffic control
AF	airway facilities	ATCBI	air traffic control radar beacon interrogator
AGARS	advanced general aviation research simulator	ATCSCC	Air Traffic Control Systems Command Center
AIP	Airport Improvement Program	ATCT	airport traffic control tower
AMASS	airport movement area safety system	ATFM	air traffic flow management
AMS	acquisition management system	ATOS	Air Transportation Oversight System
ANCA	Airport Noise and Capacity Act	ATS	Air Traffic Services
ANPRM	Advanced Notice of Proposed Rulemaking	AVN	Aviation System Standards
ANS	FAA NAS Transition and Implementation Office	B	
APMS	automated performance measuring system	BCCP	Business Continuity and Contingency Plan
AQP	advanced qualification program	C	
ARA	Office of Research and Acquisition	CAEP	Committee on Aviation Environmental Protection
ARAC	Aviation Rulemaking Advisory Committee	CAMI	Civil Aeromedical Institute
ARFF	aircraft rescue and firefighting	CAPS	computer-assisted passenger screening
ARSR	air route surveillance radar	CAS	cost-accounting system
ARTCC	air route traffic control center	CBT	computer-based training
ARTS	automated radar terminal system	CCLD	core capability limited deployment
ASCEP	Aircraft Certification Systems Evaluation Program	CDC	computer display channel
ASDE	airport surface detection equipment	CDM	collaborative decisionmaking
		CERAP	center radar approach control

CFO	Chief Financial Officer	EMS	emergency medical service
CHI	computer-human interface	ERS	early resolution system
CIP	Aviation System Capital Investment Plan	ETD	explosives trace detector
CMD	FAA Center for Management Development	F	
CMS	curriculum modernization system	F&E	facilities & equipment
COMSTAC	Commercial Space Transportation Advisory Committee	FAA	Federal Aviation Administration
COTS	commercial off-the-shelf	FAATSAT	FAA telecommunications satellite
CPD	Certification Process Document	FANS	Future Air Navigation System
CPDLC	controller-pilot data link communications	FASAB	Federal Accounting Standards Advisory Board
CRS	child restraint system	FASTER	Full-Scale Aircraft Structural Test Evaluation and Research
CSET	Certification, Standardization, and Evaluation Team	FDIO	flight data input/output
CSRS	Civil Service Retirement System	FECA	Federal Employees' Compensation Act
CTAS	center/TRACON automation system	FERS	Federal Employees' Retirement System
D		FFP1	Free Flight Phase 1
DAFIS	Departmental Accounting and financial Information System	FLIR	forward-looking infrared
DBE	disadvantaged business enterprise	FOQA	flight operations quality assurance
DCCR	display channel complex rehost	FQIS	fuel quantity indication system
DOD	Department of Defense	FSS	flight service station
DOL	Department of Labor	FY	fiscal year
DOT	Department of Transportation	G	
DOTS	dynamic ocean track system	GA	general aviation
DSR	display system replacement	GAIN	global analysis and information network
DYSIM	dynamic simulation	GAO	General Accounting Office
E		GPS	global positioning system
EAA	Experimental Aircraft Association	GSA	General Services Administration
EDS	explosives detection system	H	
EEO	equal employment opportunity	HOCSR	host and oceanic computer system replacement

I		MRM	maintenance resource management
IAIPT	FAA/NASA Interagency Air Traffic Management Integrated Product Team		
		N	
IASA	International Aviation Safety Assessment	NAS	National Airspace System
IATA	International Air Transport Association	NASA	National Aeronautics and Space Administration
ICAO	International Civil Aviation Organization	NASAO	National Association of State Aviation Officials
IFR	instrument flight rules		
ILS	instrument landing system	NATCA	National Air Traffic Controllers Association
IPT	integrated product team	NEXCOM	next generation air ground communications
IRS	Internal Revenue Service		
ITWS	integrated terminal weather system	NEXRAD	next generation weather radar
IVT	interactive video teletraining	NIMS	NAS Infrastructure Management System
		NMCC	National Maintenance Control Center
J		NOCC	National Operations Control Center
JRC	FAA Joint Resource Council	NPIAS	National Plan of Integrated Airport Systems
		NPRM	Notice of Proposed Rulemaking
L		NRP	National Route Program
LAAS	local area augmentation system	NSRP Program	Non-Structural Systems Research Program
LLWAS	low level windshear alert system	NSSA	National Safe Skies Alliance
LOB	lines of business	NTSB	National Transportation Safety Board
LOI	letter of intent		
LTP	LAAS test prototype		
		O	
M		OASIS	operational and supportability implementation system
MAP	Military Airports Program	OCC	Office of Chief Counsel
MCC	maintenance control center	ODL	oceanic data link
MLS	microwave landing system	ODRA	Office of Dispute Resolution for Acquisitions
MMAC	Mike Monroney Aeronautical Center	OIG	Office of the Inspector General
MOA	memorandum of agreement	OMB	Office of Management and Budget
MOPS	minimum operational performance standards	OPSNET	Operations Network
MOU	memorandum of understanding		

OST	Office of the Secretary of Transportation	SIAPS	standard instrument approach procedures
OTA	Office of Tax Analysis	SMA	surface movement advisor
P		SOP	Safety Oversight Program
P2R2	Published Preferred Route Reduction	SPAS	safety performance analysis system
PFAST	passive final approach spacing tool	SPEARS	Screeners Proficiency Evaluation and Reporting System
PFC	passenger facility charge	STARS	standard terminal automation replacement system
POET	post operations flight evaluation tool		
PP&E	property, plant and equipment	T	
PVD	plan view display	TAWS	terrain awareness and warning system
Q		TDWR	terminal Doppler weather radar
QAR	Quality Assurance Review	TERP	terminal instrument procedures
R		TFM	traffic flow management
R,E&D	research, engineering & development	TGF	target generation facility
RAPID	repair assessment procedure and integrated design	TIP	threat image projection
RFE	Russian Far East	TMA	traffic management advisor
RIAT	Runway Incursion Action Teams	TMU	traffic management unit
RNP-10 Standards	Required Navigation Performance	TRACON	terminal radar control
ROC	regional operations center	U	
S		URET	user request evaluation tool
SATMS	space and air traffic management system	USAF	United States Air Force
SATNAV	satellite navigation	USCG	United States Coast Guard
SATORI	systematic air traffic operations research initiative	V	
SEIPT	Security Equipment Integrated Product Team	VLTA	very large transport aircraft
SFFAS	Statement of Federal Financial Accounting Standards	VSCS	voice switching and control system
		VTABS	VSCS training and backup switch
		W	
		WAAS	wide area augmentation system
		WARP	weather and radar processor

WJHTC William J. Hughes Technical Center
WOC Washington Operations Center
WSP weather systems processor

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