



Federal Aviation
Administration

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BUDGET IN BRIEF

Fiscal Year 2007



Assistant Administrator for Financial Services / Chief Financial Officer

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INTRODUCTION

Acting & Performing Like a Business: The FAA's efforts over the past three years to operate more like a business have paid real dividends, not just to the flying public but to the taxpayer as well. By implementing improved management tools, including better cost-accounting systems and instituting a pay-for-performance program, we've been able to make better use of our resources. It's paying off, and some tangible results are reflected in this budget request.

This year, we completed the largest A-76 competition in government and will see the first installment of cost savings (\$66 million) in FY 2007. The agency's network of automated flight services stations, which provide weather guidance and other assistance to the pilots of small airplanes, will be reduced from 58 to 20. The technology at the facilities is being enhanced, and the employees who left federal service as a result of this transition were given offers to work for Lockheed-Martin, the successful bidder for the contract.

The agency's emphasis on bottom-line results hasn't been easy. The FAA has slashed costs and slowed the rate of growth of our labor costs. Indeed, over the last three years, FAA's largest group of employees, the Air Traffic Organization (ATO), has shed approximately 20 percent of its non-safety workforce. This reduction of about 2,500 positions included the elimination of several layers of its management positions.

We also continue to apply effective management and financial principles to our labor negotiations. The simple fact of the matter is that we cannot and will not sign a contract that the taxpayer cannot afford. The existing NATCA contract, signed in 1998, was to have cost \$200 million for the first three years. The actual cost to the FAA exceeded \$1 billion over the same time period. Neither the FAA nor the taxpayer can afford a repeat performance. As a result, future labor agreements will be affordable and protect management's rights.

Saving money on labor contracts is only one piece of the equation. In addition, we are taking steps to achieve savings of 10 percent by FY 2010 in controller staff costs through productivity improvements. We achieved the first 3 percent of this goal in FY 2005 by recalibrating inefficient staffing standards, which enabled us to avoid the need to hire 459 controllers. Overall, we avoided approximately \$23 million in costs last year. In FY 2006 and 2007, we project a minimum of a 2 percent productivity improvement in each fiscal year.

We're making similar inroads with equipment. In FY 2005, we removed 177 navigation aids from service. This saved the taxpayer about \$2.7 million. This year, we plan to remove 100 more, followed by another 100 in 2007.

We're also scrutinizing our capital investments, revisiting business cases and weeding out programs whose benefits no longer justify the costs. And we are increasing our emphasis on programs that will save the agency money.

We're taking steps to save wherever possible. This year, we awarded centralized wireless contracts to take advantage of volume discounts. We are already realizing savings and ultimately expect to save over \$4 million per year. That's about 50 percent of what we used to spend. We have made these types of efforts part of our daily regimen. In fact, our five-year strategic plan, the FAA *Flight Plan*, sets cost savings and productivity improvement goals for all organizations in the agency.

In the longer term, these types of advances are the first step in a transformation that leads to the future.

Keeping Pace with Today's Challenges: The pace and depth of change in aviation is unparalleled. Business models evolve as rapidly as the technology changes: markets once dominated by wide body aircraft are now giving way to smaller jets. Entrepreneurs now are marketing microjets, which may one day become the "personal taxi" of the sky. Fractional ownership is making it easier for businesses to own and operate aircraft.

Even with the financial shake-up in the airline industry, all major forecasts project that the demand for air travel will outstrip the current projected capacity. By all accounts, Americans are flying in record numbers. Air travel is back to pre-September 11 levels and remains on track to carry more than 1 billion passengers by FY 2015.

The future portends a wide range of aircraft with divergent infrastructure, air traffic management, regulatory, and procedural requirements. We must be prepared to support a system that includes the A380 and the microjet (and everything in between). We must be able to support airlines, large and small, national and regional. We must continue to support a vibrant general aviation community. And most of all, we must provide this infrastructure in time to keep the U.S. economy growing while controlling the costs of that system.

In the context of these challenges, this budget request would commit the FAA to:

- Build on recent successes, creating an increasingly responsive and efficient agency;
- Lay the cornerstone of the future aviation system, leading to more flexible route structures and associated safety, capacity, and environmental benefits; and
- Support the industry in ways that effectively respond to rapidly changing business and technological environments.

Without question, the anticipated demand for air travel at a time of great pressure to reduce federal spending presents a significant challenge. Unfortunately, for the second year in a row, FAA also lost far more controllers and inspectors than it was able to hire. Since the start of FY 2004, FAA has experienced a net loss of 1,000 controllers and 231 safety inspectors. This budget request counters this trend, and provides the resources for the agency to fund our critical operational staffing and management needs:

- As outlined in the December 2004 Congressional report, *A Plan for the Future: The FAA's 10-Year Strategy for the Air Traffic Control Workforce*, we are expecting a continuous wave of controller retirements over the next 10 years, as approximately 72 percent of the organization's 15,000 controllers become eligible to retire. Bringing aboard new controllers is a complex process because it takes several years to train a controller. The pipeline of recruits and trainees must be filled in a deliberate, continuous fashion. An update to the plan will be released during the second quarter of FY 2006. Our FY 2007 budget request funds our updated hiring goal to hire 1,136 new air traffic controllers.
- Air carrier safety continues to be our number one priority. Our goal for FY 2007 will be to enhance safety through better oversight, operational, and research programs. This includes a request to increase our safety inspector workforce, in a direct response to the recent Office of Inspector General's report that recommended we expedite implementation of our new risk-based, commercial aviation safety oversight system.
- Our efforts to run the FAA in the most effective and efficient manner are further reflected in our NAS Plan Handoff program. Under this program we transition capital assets from their deployment under the Facilities and Equipment (F&E) appropriation to their operation and maintenance under the Operations appropriation, in accordance with generally accepted accounting principles (GAAP). Full funding for NAS Plan Handoff in

our Operations appropriation allows us to provide for the installation, maintenance, and training for operating these new capital assets, and addresses congressional and GAO criticisms about covering the operating costs for new systems in F&E for an indefinite period.

- In support of the President's Management Agenda (PMA) for improved financial management, internal controls and real property management, and addressing the higher level of complexity of our new Oracle-based financial system, we have bolstered the resources for the Financial Services Office. These enhancements will help ensure and safeguard the financial health and reliability of our nation's air transportation system.

In today's challenging budget environment, we've been forced to take a long hard look at our funding requirements. Our FY 2007 budget request for Grants-in-Aid to Airports is \$2.75 billion, which is significantly higher than AIR 21 levels but lower than recent years.

Ensuring We Prepare a Pathway to the Future: We are committed to increasing the system's capacity to accommodate traffic growth and to build a system for the future. We will lay the foundations for meeting these future needs by harvesting new technologies that will support the Integrated National Plan for the Next Generation Air Transportation System (NGATS). This new Plan is designed to bring together six cabinet-level groups to eliminate duplication and wasted resources.

The Plan is a roadmap that will leverage federal funds and define major systems decisions across agencies in the coming years. For the FAA, the Plan will drive numerous ongoing discussions, including:

- The size, role, and training needs of our workforce;
- The number of facilities maintained by the FAA;
- The transition from ground-based to satellite-based systems; and,
- The redesign of airspace.

The FY 2007 budget request is the right place to establish these priorities. We are requesting funding that will maintain the integrity of existing services while taking a meaningful step toward the future.

Overseeing the world's largest, most complex aviation system, our agency sets the standard for implementing advanced information technology. NGATS will replace antiquated radars and replace outmoded technology with advanced systems such as Automatic Dependent Surveillance - Broadcast (ADS-B). The capabilities of this new system for automatic dependent surveillance are already proven in the field. ADS-B provides:

- Automatic broadcast of aircraft position, altitude, velocity, and other data;
- Enhanced "visibility" of aircraft and vehicle traffic for pilots and air traffic controllers; and,
- Use of Global Positioning Systems; allowing us to reduce our reliance on ground-based infrastructure.

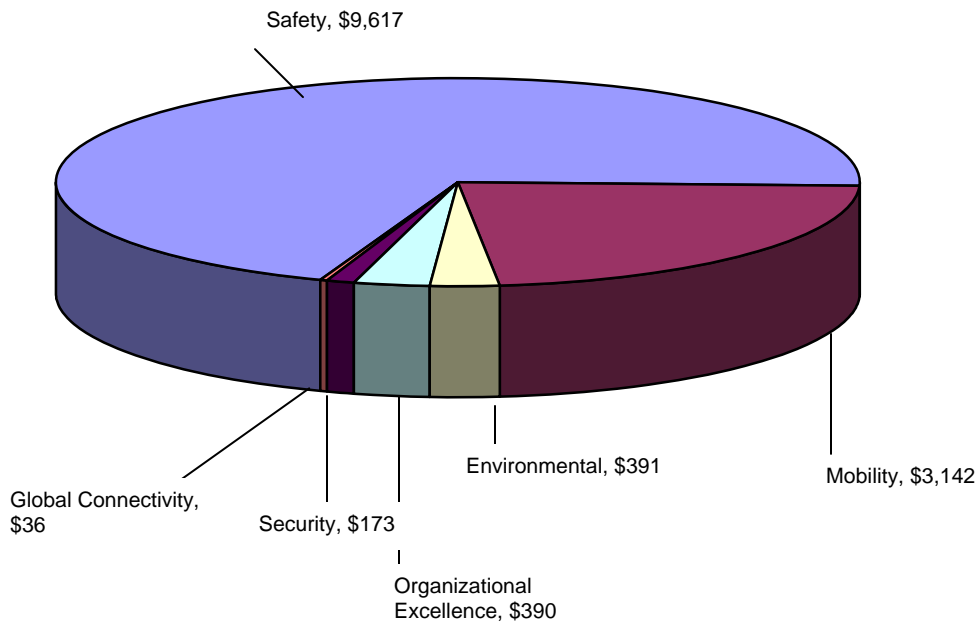
NGATS will also include System Wide Information Management (SWIM) capabilities that will provide advanced information distribution and sharing capabilities. Every year, FAA builds applications for air traffic management systems that require unique interfaces between the new application and existing systems. SWIM will replace those unique interfaces with a reusable interface. SWIM provides a number of operational benefits, such as:

- Common situational awareness;

- Standardized information security implementation; and,
- More cost effective applications.

Here at the FAA, we are changing the agency's structure with a major shift to a performance-based organization, and making tough choices with our funding. We are committed to wisely managing the taxpayer's investment -- and, making a difference. We're operating more like a business, and we're delivering the world's safest transportation system while doing so. We look forward to discussing the details of this request and working with you to implement this vision.

FY 2007 Request by Goal (\$ in millions)



The FAA mission is to promote aviation safety and mobility by building, maintaining, and operating the Nation's air traffic control system; overseeing commercial and general aviation safety through regulation and inspection; and providing support to improve the capacity and safety of our airports. The FY 2007 budget request of \$13.75 billion reflects the Administration's commitment to increase the performance and capacity of our aviation system and is directly related to the Agency's *Flight Plan 2006-2010*. The following tables break out the FY 2007 budget request by appropriation and strategic goal:

**Federal Aviation Administration
FY 2007 Budget Request**

| <u>ACCOUNTS</u> | <u>FY 2005 ACTUAL¹</u> | <u>FY 2006 ENACTED²</u> | <u>FY 2007 REQUEST</u> | <u>Change FY 2006 FY 2007 Request</u> |
|---|---------------------------------------|--|----------------------------|---|
| Operations | \$7,706,537 | \$8,104,140 | \$8,366,000 | \$+261,860 |
| (General) (Non-Add) | (2,827,809) | (2,618,550) | (2,921,000) | (+302,450) |
| (Trust) (Non-Add) | (4,878,728) | (5,485,590) | (5,445,000) | (-40,590) |
| Facilities and Equipment (TF) | \$2,524,780 | \$2,555,200 | \$2,503,000 | \$-52,200 |
| Hurricane Supplemental (Non-Add) | (\$5,000) | (\$40,600) | | (\$-40,600) |
| Research, Engineering and Development (TF) | \$129,880 | \$136,620 | \$130,000 | \$-6,620 |
| Contract Authority (Vision 100) | \$3,500,000 | \$3,600,000 | \$3,700,000 | \$+100,000 |
| Pop-up contract authority (49 USC 48112) | \$473,320 | \$538,000 | \$607,000 | \$+69,000 |
| Transferred to other accounts | (\$5,000) | | | |
| Rescission of contract authority | (\$296,787) | (\$1,068,000) | (\$1,557,000) | (\$+489,000) |
| Subtotal Grants-in-Aid | \$3,676,533 | \$3,070,000 | \$2,750,000 | (\$-320,000) |
| Small community air service pilot prog. (Non-Add) | (\$20,000) | (\$9,900) | | (\$-9,900) |
| Other Budget Authority | \$25,000 | | | |
| Obligation Limitation (Non-add) | \$3,472,000 | \$3,514,500 | \$2,750,000 | \$-764,500 |
| TOTAL. Federal Aviation Administration | \$10,386,197 | 10,795,960 | 10,999,000 | \$+203,040 |
| Contract Authority | \$3,500,000 | \$3,600,000 | \$3,700,000 | \$+100,000 |
| Pop-up contract authority | \$473,320 | \$538,000 | \$607,000 | \$+69,000 |
| Rescission on contract authority | (\$296,787) | (\$1,068,000) | (\$1,557,000) | (\$+489,000) |
| Proprietary Receipts: | | | | |
| Miscellaneous Recoveries & Refunds | [\$49] | [\$275] | [\$275] | [\$0] |

¹ FY 2005 reflects 0.80% across-the-board rescission per P.L. 108-447 and Hurricane Supplemental funding for \$25M in Grants-in-Aid for Airports as Other Budget Authority and \$5.1M in Facilities and Equipment per P.L. 108-324.

² FY 2006 reflects 1% across-the-board rescission and Hurricane Supplemental funding for \$40.6M in Facilities and Equipment per P.L. 109-148

TABLE 1

Fiscal Year 2007 President's Budget Request By Goal

(Dollars in Millions)

| | Operations | Facilities & Equipment | Research, Engineering and Development | Airport Improvement Program | Total |
|-------------------------------|--------------|------------------------|---------------------------------------|-----------------------------|---------------|
| Safety | 7,642 | 480 | 91 | 1,404 | 9,617 |
| Mobility | 481 | 1,663 | 22 | 976 | 3,142 |
| Global Connectivity | 32 | 4 | 0 | 0 | 36 |
| Environment | 5 | 62 | 17 | 308 | 391 |
| Security | 65 | 57 | 0 | 51 | 173 |
| Organizational Excellence | 141 | 237 | 0 | 11 | 390 |
| Total, FY 2007 Request | 8,366 | 2,503 | 130 | 2,750 | 13,749 |

Table 2

Highlights

Operations: The FY 2007 budget requests \$8.4 billion for FAA Operations. Most of the funds requested for FAA Operations in FY 2007 support the goal of maintaining and increasing aviation safety, reflecting the President's commitment in this area. Other significant amounts support mobility and security.

- **Safety** – The request includes \$7.6 billion to inspect aircraft and ensure the safety of flight procedures. This includes an increase of \$18.2 million to hire and train 1,136 air traffic controllers, resulting in a net gain of 132 controllers; \$8 million to expand the Air Transportation Oversight System, \$4.8 million for new aviation safety requirements; and \$5.7 million for future aviation safety initiatives. The request supports continued development of the Air Traffic Organization (ATO), which was formed in FY 2004 to improve the delivery of air traffic services by adopting "best business-like" practices. It also includes funding for operating and maintaining the air traffic control system, developing a replacement air traffic data and telecommunications system, commercial space transportation, and a share of agency overhead support costs.
- **Mobility** - The request includes \$480.9 million to improve air traffic efficiency by various means, including improving the flow of air traffic through better airspace design.
- **Global Connectivity** – The request includes \$32 million to expand the agency's international leadership role and to help improve safety. FAA will expand its training and technical assistance programs that help civil aviation authorities meet international standards, as well as promoting seamless global operations.
- **Environmental Stewardship** – The request includes \$5 million to continue the agency's commitment to manage aviation's growth in an environmentally-sound manner and has an aggressive plan to accomplish this through mitigation, operational measurements and standards.

- **Security** - While NAS security is critical to the security of the flying public, most of the \$65 million requested focuses on enhancing the security of its personnel, facilities, and communications.
- **Organizational Excellence** - The request includes \$141 million which funds activities for two primary sets of goals: The President's Management Agenda initiatives and the *Flight Plan* performance targets.

Facilities and Equipment: The FAA requests \$2.5 billion to continue to improve and modernize the equipment central to the NAS. The request includes:

- **Safety** – The request includes \$479.7 million for projects that support safety performance goals to reduce aviation fatalities, such as improvements to weather sensing and reporting systems, safety information databases and computer systems to assist safety inspections, improvements to flight services for general aviation, and runway incursion research and new technology.
- **Mobility** – The request includes \$1.7 billion for projects to support mobility goals to reduce aircraft delays, such as replacement of older radars, oceanic automation to improve flight route flexibility, and significant infrastructure improvements to reduce outages caused by older, less capable facilities and equipment.
- **Global Connectivity** –The request includes \$3.7 million for projects to support navigation aids.
- **Environmental Stewardship** – The request includes \$61.9 million for projects to support environmental performance goals, such as replacing fuel tanks at FAA facilities, removing environmental hazards, and cleaning up hazardous materials at identified sites.
- **Security** – The request includes \$57.2 million for projects to support security goals, including \$35 million for security of NAS facilities and \$12 million for information security.
- **Organizational Excellence** – The request includes \$237.5 million for projects to support telecommunications infrastructure and competitive sourcing initiatives.

Research, Engineering, and Development: The budget requests \$130 million, including \$88 million for continued research on aviation safety issues. The remaining research funding is for mobility and environmental issues, including \$18 million for the Joint Planning and Development Office.

Grants-in-Aid for Airports: The budget request includes \$2.75 billion for planning and development of the Nation's airports, including grants for security, safety, capacity, and noise-reduction projects. Funding also includes \$75 million for administrative expenses, and \$17.9 million for airport technology research.

When Congress directed the FAA to realign our operations and manage more like a business, we rose to the challenge. Our FY 2007 budget request is 2.7 percent lower than the FY 2006 enacted level, but we upheld our commitments to increase the safety, capacity, and efficiency of the national aviation system. We are responding to Congress' directive to act more like a bottom-line business while maintaining our focus on safety.

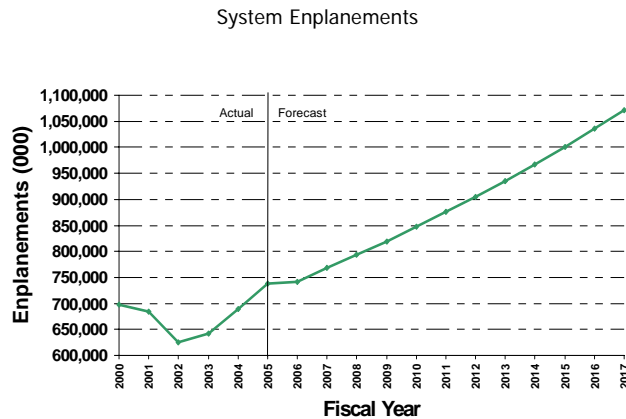
Safest Period in Aviation History

Safety is job one. Our work is paying off, as the fatal accident rate for commercial aviation is the lowest in aviation history. Over the past three years, there have been only .015 fatal accidents per hundred thousand takeoffs. That's about one fatal accident per every seven million flights and represents the dedication of the aviation community, our inspectors, our technicians, our controllers, and our pilots. Aviation is an integral part of the overall economy, representing about nine percent of America's Gross Domestic Product. We operate and maintain the most complex aviation system in the busiest airspace in the world, while setting the gold standard for safety.

Getting to this point hasn't been easy. We've been working to reshape the agency, for we know that real change can't happen without a fresh approach and strong leadership. This is precisely what we've done with our largest group of employees that account for more than 70 percent of the agency: the FAA's ATO. In a top-to-bottom reorganization that streamlined and brought a new approach to how we operate, this organization marked its second anniversary in February. We've made real gains by streamlining our organization to be more efficient and better use the taxpayer's dollars. We've laid the foundation to create an effective performance-based organization through our *Flight Plan* and business planning processes, and this is managed by a team focused on keeping costs down.

Travel is Up

The FAA is working to provide better service to the aviation industry, which is going through a difficult period of economic turbulence. Travel is up, and projected passenger growth is expected to be about 10.3 percent higher than it was in 2000. But even with this resurgence in passenger numbers, fundamental restructuring is under way as the aviation industry battles bankruptcy challenges.



2005-2006: 0.3%
 2006-2007: 3.9%
 2007-2017: 3.4%

Figure 1

Trust Fund and Cost Control

The Airport and Airway Trust Fund, which is funded primarily by a set of excise taxes on commercial airline tickets, pays most of the FAA's expenses. The taxes that currently support the Trust Fund expire at the end of FY 2007.

The decline in Trust Fund revenues is due, in large part, to changes in the aviation industry. The rapid growth of low cost carriers in the U.S., combined with increased price sensitivity on the part of business travelers, has reduced ticket prices dramatically. Over half of Trust Fund tax receipts come from a 7.5 percent tax on airline tickets, these lower fares (all else being equal) decrease Trust Fund revenue – without a corresponding decrease in FAA workload. While we expect the decline in inflation-adjusted yield (revenue per passenger mile) to moderate, the long-term outlook continues to be a gradual decrease. In addition, over the last several years, a large portion of commercial airline traffic has shifted to regional jets, which increases air traffic control workload without increasing tax revenue. Airlines continue to take more deliveries of smaller aircraft; by 2008, the U.S. regional jet fleet will be four times the size it was in 2000. Expected growth in business jets and next generation aircraft, such as very light jets, may further compound the problem, as these aircraft will drive additional workload without commensurate increases in Trust Fund revenue. Potential growth in unmanned aerial vehicles may also complicate future air traffic control requirements.

The Department of Transportation and FAA are working to address the problem. In April 2005, The Secretary and the Administrator convened a forum of more than 150 leaders in government, industry, and the financial community to begin a comprehensive dialogue about the upcoming funding reauthorization. Since that forum, FAA has continued to reach out to our stakeholders and solicit input on how to structure the FAA's funding stream beginning in FY 2008, after the current excise taxes expire. Our goal is a funding structure that creates a clear link between our revenue stream and the cost of providing services to our customers. In Spring 2006, the Department of Transportation will propose a new cost-based financing system for the FAA. A stable, cost-based revenue stream can ensure funding for operation and capital needs, provide incentives to customers to use resources efficiently, and provide incentives to the FAA to operate efficiently and control costs.

The FAA is already becoming more efficient through our cost control efforts. Our financial and cost accounting systems are producing results, and we've already achieved success at cutting costs. In another cost-saving move, we contracted out the network of automated flight service stations, which will save the taxpayer more than \$2.2 billion. We will also continue the cost control efforts begun in 2005 that require each organization to develop and implement at least one cost efficiency each year. But cost cutting alone will not enable us to close the existing gap between the revenue stream into the Trust Fund and FAA costs. Clearly our largest cost driver is our labor costs. Although we've made good strides in boosting productivity, reducing layers in our organization, and bringing a more disciplined process to drafting our labor agreements, our salary and benefit costs steadily outpace our cost savings. In addition to cost control initiatives, the agency has also implemented increased oversight of procurements including a requirement that the Chief Financial Officer approve any procurements, request costing \$10 million or more. As the FAA reexamines its financial structure, we are examining all of our expenses, including our labor costs, because cost control is a necessary part of responsible financial management.

INCREASED SAFETY

The FAA's priority is to improve safety, and the FY 2007 budget reflects the agency's steadfast commitment to this goal. Safety is not only a top public interest priority; it is also an economic necessity. People fly only if they feel safe. They must trust the system and their trust must be upheld. Although commercial aviation is in the safest three-year period in transportation history, safety requires more than no accidents. We've taken the taxpayer's investment in the FAA and translated it into a model for safety.

Out of a total request of \$13.8 billion, about 70 percent, or \$9.6 billion, will contribute to our efforts to improve our already historic safety record. This includes further progress in reducing commercial and general aviation fatality accidents, the numbers of runway incursions, and HAZMAT incidents. It also includes our commitment to prevent commercial space launch accidents. Our overarching goal is to measure and achieve the lowest possible accident rate, while constantly improving safety.



Safety Oversight

In order to increase aviation safety oversight commensurate with expanding activity and the introduction of new aviation equipment and business practices, the budget requests \$18.5 million for additional staff and technical training. Within this total, \$8.0 million is requested to add 116 aviation safety inspectors to strengthen our safety oversight of the aviation industry. The request also includes \$3.1 million and 32 additional positions for the Air Traffic Safety Oversight office - a recently established office under the Associate Administrator for Aviation Safety with the responsibility for providing an independent safety oversight and review of the ATO's operations. The request also includes increases to support the introduction of unmanned aerial systems into the commercial aviation system (+\$916K and 12 staff), increased surveillance of compliance by aviation personnel with drug and alcohol restrictions (+\$487K and +6 staff), and promote safety management and international safety (+\$1.1 million and +14 staff).

Controller Retirements and Hiring

In addition, we're especially hard at work with air traffic control. In December 2004, the Agency submitted our Air Traffic Controller Workforce Plan to Congress. We are currently updating the Plan, which will be released during the second quarter of FY 2006. This plan provides a comprehensive 10-year strategy to make sure we have the right number of controllers in place at the right time to address the controller retirement bubble. In 2007, we plan to hire 1,136 controllers, which is offset by an estimated loss of 1,005 for a net gain of 132 controllers. Our funding request of \$18.6 million is consistent with the 10-year plan and will enable us to meet the future needs of the national airspace system.

NAS PLAN Hand-Off

The National Airspace System (NAS) continues to grow in size and complexity as new systems are procured and fielded. In 1998 the NAS had 38,209 operational facilities. As of December 31, 2005 there were 41,099 facilities, an increase of 2,890 operational facilities, averaging growth of 412 systems per year.

The NAS Plan Handoff program request is a direct result of F&E acquisition programs fielding systems as they become operational, and varies each year depending on the number of systems being deployed. These newly fielded systems impact the Operations Appropriation, which is required to pick up the additional operational and maintenance expenses. Many of the items in the NAS Handoff request are first generation systems for which there is no existing funding in the FAA's base. This year's request for \$93.9 million provides funding to train FAA's maintenance staff, as well as cover the loss of second level engineering, telecommunications, infrastructure, and logistics level support requirements.

Commercial Space Transportation

The FAA requests \$12 million to maintain our record of zero commercial space accidents. In FY 2007, we expect to conduct five inspections of licensed launch and reentry sites and ten inspections of launch and reentry operations.

Challenges Remain

Despite these tremendous successes, there are safety areas that still present considerable challenges. In 2005 we were slightly below the annual performance target on the overall number of general aviation accidents. We've set aggressive targets for the general aviation community and ourselves in this area. We exceeded the FY 2005 target for accidents by 7 (350 fatal accidents (preliminary) versus the target of 343). Our target for FY 2007 is 331, and to achieve this we still need to improve our performance. Our on-going and collaborative efforts with the general aviation community through the General Aviation Joint Steering Committee are focused on improving safety awareness and training.

FAA continues to work hard to reduce operational errors made by controllers when directing aircraft. As a result, the ATO has implemented a number of initiatives focused on education and training of our tower controllers, pilot and vehicle operators, and process improvement for facility operations. Our goal is to have our front-line managers and staff more engaged in monitoring safety and quality, and collecting more data to quickly identify trends. We want to reduce these errors and believe that taking these steps will improve our performance.

MOBILITY

While safety is our primary concern, our mission includes expanding capacity throughout the aviation system -- both in the air and on the ground. The FY 2007 budget requests \$3.1 billion to expand capacity and improve mobility. This request supports expansion of capacity on the ground with new runways, as well as the continued deployment of new technologies for increasing the efficiency of the existing system.

Beginning in FY 2005, FAA worked with our industry and government partners to deliver two key technologies: Domestic Reduced Vertical Separation Minimum (DRVSM) and Advanced Technologies and Oceanic Procedures (ATOP). DRVSM alone, by increasing en route capacity and the ability to avoid severe weather, is expected to result in savings for the airlines that could reach \$5 billion through 2016. These two technologies helped operators participate in reduced separation standards. This will allow them to fly more aircraft in a given airspace and the most fuel-efficient routes—safely.

The Next Generation Air Transportation System

In 2003, President Bush and Congress took the first critical steps towards transformation of the Air Transportation System with the enactment of VISION 100 which mandated a multi-government agency and formally created the Joint Planning and Development Office (JPDO) to manage and coordinate the development of the Next Generation Air Transportation System (NGATS). The overarching vision was for a system that addresses critical safety and economic needs in civil aviation, while fully integrating environmental impact, national defense and homeland security improvements – and in a coordinated, cost-effective manner that avoids duplication of effort. The interagency efforts involves the White House Office of Science and Technology Policy, Department of Defense, Department of Homeland Security, Department of Commerce, and National Aeronautics and Space Administration, and the FAA.

Our FY 2007 request for JPDO is for \$18.1 million for the Joint Planning and Development Office supports critical system engineering and planning efforts for the NGATS.

The new NGATS integrated National Plan is a roadmap that will leverage federal funds and define major systems decisions across agencies in the coming years. For the FAA, the Plan will drive numerous ongoing discussions, including:

- The size, role, and training needs of our workforce;
- The number of facilities maintained by the FAA;
- The transition from ground-based to satellite-based systems; and,
- The redesign of airspace.

The FY 2007 budget request is the right place to establish these priorities. We are requesting funding that will maintain the integrity of existing services while taking a meaningful step toward the future.

Overseeing the world's largest, most complex aviation system, FAA sets the standard for implementing advanced information technology. NGATS will replace antiquated radars and replace outmoded technology with advanced systems such as Automatic Dependent Surveillance - Broadcast (ADS-B). The budget provides an initial investment of \$80 million for this revolutionary technology. ADS-B provides:

- Automatic broadcast of aircraft position, altitude, velocity, and other data;
- Enhanced "visibility" of aircraft and airport vehicle traffic for pilots and air traffic controllers; and,
- Improved use of Global Positioning Systems; allowing us to reduce our reliance on ground-based infrastructure.

The budget also includes \$24 million to begin developing System Wide Information Management (SWIM) capabilities that will make possible advanced information distribution and sharing capabilities. Every year, FAA builds applications for air traffic management systems that require unique interfaces between the new application and existing systems. SWIM will replace those unique interfaces with a reusable interface. SWIM provides a number of operational benefits, such as:

- Common situational awareness across the air traffic system and among federal agencies;
- Standardized information security implementation; and,
- Reduced costs for developing new applications.

New Runways Being Commissioned

In 2006, FAA will commission four new runways, adding greater capacity at some of our busiest airports, including Minneapolis-St. Paul, Cincinnati/Northern Kentucky, Lambert-St. Louis, and Hartsfield-Jackson Atlanta. In FY 2007, a new runway at Boston Logan is scheduled to open.

Enroute Automation Modernization

The FY 2007 budget also includes \$375.7 million to continue the Enroute Automation Modernization initiative (ERAM). This is a critical program that replaces obsolete hardware and software of the main host computer system that is the backbone of enroute air traffic operations. The most significant ERAM benefits are improved efficiency, capacity, and safety by providing controllers with newer, faster, and more capable technology to manage the continuing growth in air traffic. The modern en route automation system will also accommodate the development of functions that are expected to provide significant savings to users through more fuel efficient routes, reduced flight times and delays, and increased controller productivity.

Airport Improvement Program

The FY 2007 budget request includes \$2.75 billion for the Grants-in-Aid for Airports program. This is a lower funding level than we've seen in recent years, and reflects a strategy of funding operations and safety programs as a first priority. The FAA will be able to reach all high priority safety, capacity, and security projects at the requested funding level. Funding also includes \$75 million for administrative expenses, and \$17.9 million for airport technology research. To put the FY 2007 request in perspective, the FY 2000 AIP appropriated level was \$1.9 billion. The FY 2007 request of \$2.75 billion represents about a 45 percent increase over the FY 2000 amount.

GLOBAL CONNECTIVITY

Today, the FAA has operational responsibility for about half of the world's air traffic. We certify nearly three-quarters of the world's large jet aircraft. We have provided assistance to more than 100 countries to help them to improve their aviation systems. Safety may be our most important export. Even so, we still must become even more globally focused to ensure that U.S. citizens

can travel safely around the world. We also must continue to be a catalyst for the harmonized implementation of safety and capacity enhancing technology around the world. The FY 2007 budget requests \$35.5 million to support international leadership and global connectivity.

Roadmap for Safety

It is clear that the FAA's role in advancing the international leadership of the United States in aviation goes well beyond the borders of the Far East and Latin America. The numbers and the activity point to the need for a globally regulated sky, and we are working to shape that destiny. Based on our long history with Europe we are working together to identify the next generation of air traffic management technologies and practices. The agency believes that together we can create a roadmap for the global community. To give us the tools that we need, we are working to negotiate and sign Bilateral Aviation Safety Agreements with key countries around the world. These agreements benefit everyone -- passengers, the Agency, and the aviation industry. Also, through our efforts with other International Civil Aviation Organization members, we will continue to develop and implement global safety and certification standards in order to improve efficiency and trade.

ENVIRONMENTAL STEWARDSHIP

As we increase capacity, we've been careful to ensure environmental responsibility. The FY 2007 budget requests \$391.2 million to support environmental stewardship for noise mitigation, fuel efficiency enhancements, and a comprehensive approach to addressing both noise and emissions.

SECURITY

While the Transportation Security Administration (TSA) of the Department of Homeland Security now has primary responsibility for transportation security, the FAA still retains responsibility for the security of its personnel, facilities, equipment and data. FAA provides financial and other assistance to help airports meet security requirements. Security projects required by statute or regulation carry the highest priority for AIP funding. The agency works closely with TSA and other federal agencies to support aviation security, transportation security, and other national security matters.

FAA insures the operability of the national airspace system through the facilities, equipment, and personnel of the air traffic control system, which is essential to the rapid recovery of transportation services in the event of a national crisis. The budget request includes \$173 million to continue upgrading and accrediting facilities, procure and implement additional security systems, and upgrade Command and Control Communications equipment to meet the increased national security demands since the September 11th attacks.

ORGANIZATIONAL EXCELLENCE

To fulfill our mission the FAA must become a world-class organization. The agency is committed to finding and eliminating barriers to equity and opportunity. We believe that fairness and diversity fortify our strength. Furthermore, we must give our staff the tools and resources they need to overcome the challenges we face and to become more accountable and cost efficient. In turn, our employee compensation and salary increases are becoming performance-based, allowing the agency to pay for results and reward success.

In simple terms, our objectives are to: strategically manage our human capital, improve our financial performance, and to control costs while delivering quality customer service. The FY 2007 budget requests \$437 million for organizational excellence initiatives.

Flight Plan 2006-2010

One of the major reasons we are confident in our stewardship of the FAA is our *Flight Plan*. The *Flight Plan* is FAA's rolling five-year strategic plan that we first undertook in 2004. As scheduled, we updated it last fall, with input from our stakeholders. The *Flight Plan* is organized around the agency's primary goals: Increased Safety, Greater Capacity, Increased U.S. International Leadership, and Organizational Excellence. It is our blueprint for managing the agency. It serves to focus our efforts on what is most important to our stakeholders.

The plan has made the FAA more businesslike, more performance-based, more customer-centered, and more accountable. It's dynamic, adaptable, and cost-driven. Most "strategic plans" are distinguished only by their place on a dusty bookshelf. Our *Flight Plan* is costed out and contains specific measures and targets that we track monthly at the most senior levels. It has become our marching orders toward success. We have set a goal toward becoming more accountable to the taxpayer, and we work hard every day to reach it.

Monthly Reviews Track Progress

As part of our *Flight Plan*, each FAA organization now has its own individual business plan. Each of these plans is linked to *the Flight Plan*, costed out, and tied to the budget. FAA works on what the customers need, and does not take on tasks we can't afford. The agency's business plan goals have been built into a performance-based tracking system that are posted to the FAA website each quarter. It lists each of the goals, performance targets, who's responsible, and the status of each. Using this data, the senior management team conducts a monthly review of our performance. When used with other cost and performance data, the *Flight Plan* information lets us see, clearly and precisely, the effectiveness of a program across the entire agency. With this perspective, the agency is able to capitalize on successful strategies corporately.

Financial Management

In support of the President's Management Agenda (PMA), we're making significant strides in improving our financial management. Over the past several years, we have made significant progress in making cost control a priority throughout FAA. We have implemented information tools and processes to manage costs and productivity. We implemented Delphi and a new cost

accounting system. Last year marked our fifth year to receive a clean audit from the Department of Transportation's Office of the Inspector General.

Our business and budget planning activities are more closely aligned than ever, and they both include explicit cost savings initiatives. Each organization must include at least one cost reduction activity in its annual business plan, which is then reviewed by the management board monthly for progress. These identified cost savings and avoidance initiatives are integral to FAA's strategy to absorb unavoidable adjustments.

Ongoing improvements in financial performance will focus on providing more timely and accurate financial information used by management to inform decision-making and drive improved results in FAA operations. Planned business process improvements will focus on quicker capitalization of our projects, streamlined processes for managing agency reimbursable agreements, and training and improvement efforts to reduce financial data quality problems.

In particular, the FAA is planning to improve the utilization of information from DELPHI, our financial management system. DELPHI gives the FAA more accurate financial data and allows the agency to better manage its spending on operations as well as capital investments in assets that will ensure the safety of the airways. To improve operational efficiency in accounting operations, imaging capability for invoices will be added to the DELPHI system for fast and efficient payment processing. Enhancement to the DELPHI system will include the addition of commitment accounting to improve the quality of budget execution throughout the agency.

Each year, the FAA procures more than \$1.3 billion in contract services. The newly created Office of Financial Controls will implement increased controls over agency procurements. It will ensure that funding used for contract services reflect wise investments, duplication of effort is avoided, and excessive labor rate are not included in contracts. Any procurement request resulting in contract award of increase in the scope of an existing contract, where the total value of the contract or added work exceeds \$10 million, will be thoroughly reviewed by the Office of Financial Controls before it is signed. The office will also lead the development of line of business-specific cost control/efficiency initiatives.

HSPD-12

In support of Homeland Security Presidential Directive-12 (HSPD-12), FAA will procure the necessary infrastructure and services to begin issuing IDs that meet the control objectives of the Directive for all FAA and contract employees in accordance with the agency's ID Media Program. This includes, but is not limited to a card management and authentication systems and associated licenses.

APPENDIX

| FEDERAL AVIATION ADMINISTRATION BUDGET | | | |
|--|------------------------|-------------------------|-------------------------|
| (Dollars In Millions) | | | |
| | 2005 Actual | 2006 Enacted | 2007 Request |
| Operations | 7,707 | 8,104 | 8,366 |
| Facilities & Equipment | 2,525 | 2,555 | 2,503 |
| Research, Engineering, and Development | 130 | 137 | 130 |
| Airport Grants (Ob Lim) | 3,472 | 3,515 | 2,750 |
| Airport Grants (Other Budget Authority (Hurricane Relief) | 25 | 0 | 0 |
| TOTAL | 13,859 | 14,310 | 13,749 |

* rounding

Table 3

| SUMMARY OF FAA FY 2007 INCREASES AND DECREASES | | | | | |
|--|-------------------|---------------------------------------|---|--|---------------|
| (Dollars In Millions) | | | | | |
| | Operations | Facilities & Equipment | Research, Engineering & Dev. | Airport Grants (Ob Lim) | Total |
| FY 2006 Base | 8,104 | 2,555 | 137 | 3,515 | 14,310 |
| Pay Inflation Adjustments | 228 | 16 | 1 | 2 | 247 |
| Non-Pay Inflation Adjustments | 46 | 4 | 0 | 0 | 50 |
| Annualization of FY 2006 Initiatives | 30 | 3 | 0 | 1 | 34 |
| Non-recurring Costs or Savings | -219 | 0 | 0 | 0 | -219 |
| Base Re- engineering, Reductions or Adjustments | 137 | -75 | -8 | -770 | -716 |
| FY 2007 Current Services Levels | 8,325 | 2,503 | 130 | 2,748 | 13,706 |
| Program Initiatives | 41 | 0 | 0 | 2 | 43 |
| FY 2007 Request | 8,366 | 2,503 | 130 | 2,750 | 13,749 |

Table 4

APPENDIX

Airport and Airway Trust Fund

Section 9502 of Title 26, U.S. Code, provides for amounts equivalent to the funds received in the Treasury for the passenger ticket tax and certain other taxes paid by airport and airway users to be transferred to the Airport and Airway Trust Fund. In turn, appropriations are authorized from this fund to meet the obligations for airport improvement grants, facilities and equipment, research, engineering and development, a portion of operations, payment to air carriers and the Bureau of Transportation Statistics Office of Airline Information.

Status of Funds (in millions of dollars)

| Identification code: 20-8103-0-7-402 | FY 2005 Actual | FY 2006 Estimate | FY 2007 Request |
|--|-------------------|---------------------|--------------------|
| Balance, start of year: | | | |
| 0100 Uninvested balance | 11,669 | 11,290 | 10,199 |
| 0199 Total balance, start of year | 11,669 | 11,290 | 10,199 |
| Cash Income during the year: | | | |
| Current law: | | | |
| Receipts | | | |
| 1280 Aviation excise taxes [021-00-810310-0] | 10,314 | 10,651 | 11,341 |
| Offsetting receipts (intragovernmental): | | | |
| 1200 Interest: Airport and airway trust fund [021-00-810320-0] | 429 | 438 | 446 |
| Offsetting collections: | | | |
| 1281 Grants-in-aid for airports [021-12-8106-0] | 1 | 1 | 1 |
| 1282 Facilities and equipment [021-12-8107-0] | 84 | 135 | 193 |
| 1283 Research, engineering and development(021-12-8108-0) | 2 | 16 | 16 |
| 1299 Income under present law | 10,830 | 11,241 | 11,997 |
| 3299 Total cash income | 10,830 | 11,241 | 11,997 |
| Cash outgo during year: | | | |
| Current law | | | |
| 4500 Payments to air carriers [021-12-8304-0]..... | -53 | -55 | -24 |
| 4501 Trust fund share of FAA operations [021-12-8104-0] .. | -4,883 | -5,490 | -5,445 |
| 4502 Grants-in-aid for airports [021-12-8106-0] | -3,531 | -3,799 | -3,706 |
| 4503 Facilities and equipment [021-12-8107-0] | -2,600 | -2,802 | -2,806 |
| 4504 Research, engineering and development [021-12-8108-0] | -142 | -186 | -186 |
| 4599 Outgo under current law (-) | -11,209 | -12,332 | -12,167 |
| 6599 Total Cash outgo (-)..... | -11,209 | 12,332 | 12,167 |
| Unexpended balance, end of year: | | | |
| 8799 Total balance, end of year | 11,290 | 10,199 | 10,029 |
| Commitments against unexpended balance, end of year | | | |
| 9801 Obligated balance (-) | -7,974 | - | -6,398 |
| | | 7,564 | |
| 9802 Unobligated balance (-) | -1,376 | -913 | -925 |
| Total commitments | -9,350 | -8,477 | -7,323 |
| Uncommitted Balance, end of year | 1,940 | 1,722 | 2,706 |

Figure 5

Employment

PERSONNEL RESOURCE -- SUMMARY
TOTAL FULL-TIME EQUIVALENTS

| | <u>FY 2005 ACTUAL</u> | <u>FY 2006 ENACTED</u> | <u>FY 2007 REQUEST</u> |
|--|---------------------------|----------------------------|----------------------------|
| DIRECT FUNDED BY APPROPRIATION | | | |
| Operations | 41,593 | 40,580 | 40,836 |
| Facilities & Equipment | 2,792 | 2,884 | 2,884 |
| Research, Engineering & Development | 260 | 298 | 298 |
| Grants-in-Aid for Airports | 497 | 534 | 554 |
| Aviation Insurance Revolving Fund | 5 | 5 | 5 |
| SUBTOTAL, DIRECT FUNDED | 45,147 | 44,301 | 44,577 |
| REIMBURSEMENTS/ALLOCATIONS | | | |
| Operations | 103 | 120 | 120 |
| Facilities & Equipment | 48 | 55 | 55 |
| Grants-in-Aid for Airports | 3 | 4 | 4 |
| Administrative Services Franchise Fund | 1,220 | 1,220 | 1,397 |
| SUBTOTAL, REIMBURSE./ALLOC. | 1,374 | 1,399 | 1,576 |
| GRAND TOTAL FTEs | 46,521 | 45,700 | 46,153 |

Table 5

APPENDIX

**FY 2007 BUDGET REQUEST BY APPROPRIATION
Federal Aviation Administration
Appropriations, Obligation Limitations, and Exempt Obligations**

(\$000)

| APPROPRIATION/PROGRAM ACTIVITY | FY 2005 ACTUAL | | FY 2006 ENACTED | | FY 2007 REQUEST | |
|--|-------------------|---------------|-------------------|---------------|-------------------|---------------|
| | <u>(\$000)</u> | <u>FTEs</u> | <u>(\$000)</u> | <u>FTEs</u> | <u>(\$000)</u> | <u>FTEs</u> |
| Operations | | | | | | |
| Air Traffic Organization | 6,354,349 | 32,605 | 6,698,258 | 31,419 | 6,704,223 | 31,550 |
| Aviation Safety | 903,281 | 6,425 | 948,957 | 6,416 | 981,668 | 6,547 |
| Commercial Space Transportation | 11,511 | 52 | 11,641 | 59 | 11,985 | 59 |
| Financial Services | 50,245 | 100 | 50,473 | 132 | 94,708 | 145 |
| Human Resource Management | 68,116 | 496 | 69,244 | 532 | 87,850 | 610 |
| Region and Center Operations | 147,476 | 854 | 149,237 | 917 | 272,821 | 802 |
| Information Services | 35,663 | 88 | 35,751 | 92 | 36,779 | 95 |
| Administrator | 4,099 | 28 | 4,175 | 28 | 4,321 | 28 |
| Civil Rights | 8,747 | 71 | 8,935 | 79 | 9,300 | 79 |
| Government and Industry Affairs | 1,256 | 11 | 1,373 | 12 | 1,426 | 12 |
| Communications | 4,147 | 31 | 4,235 | 34 | 6,226 | 40 |
| Chief Counsel | 35,936 | 239 | 36,638 | 252 | 38,435 | 255 |
| Policy Planning and Environment | 11,449 | 79 | 11,784 | 84 | 13,435 | 84 |
| International | 12,780 | 68 | 13,957 | 69 | 14,995 | 70 |
| Security and Hazardous Materials | 57,482 | 446 | 59,483 | 455 | 87,503 | 460 |
| Total, Operations | 7,706,537 | 41,593 | 8,104,141 | 40,580 | 8,365,675 | 40,836 |
| Facilities and Equipment | 2,524,780 | 2,792 | 2,555,200 | 2,884 | 2,503,000 | 2,884 |
| Research, Engineering and Development | 129,880 | 260 | 136,620 | 298 | 130,000 | 298 |
| Grants-in-Aid for Airports (Ob Lim) | 3,472,000 | 497 | 3,514,500 | 534 | 2,750,000 | 554 |
| Aviation Insurance Revolving Fund | | 5 | | 5 | | 5 |
| Total, FAA | 13,833,197 | 45,147 | 14,310,461 | 44,301 | 13,748,675 | 44,577 |

Table 6