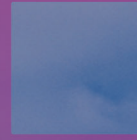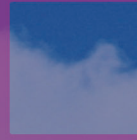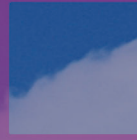# FEDERAL AVIATION ADMINISTRATION

FY 2002 PERFORMANCE AND ACCOUNTABILITY HIGHLIGHTS

FEDERAL AVIATION ADMINISTRATION

Mission Provide a safe, secure, and efficient global aerospace system that contributes to national security and the promotion of United States aerospace safety. As the leading authority in the international aerospace community, the Federal Aviation Administration (FAA) is responsive to the dynamic nature of customer needs, economic conditions, and environmental concerns.

U.S. Department of Transportation
Federal Aviation Administration

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FAA At-A-Glance

FAA Takes Flight

A little more than two decades after Wilbur and Orville Wright took flight over Kill Devil Hills, North Carolina, in December 1903, the U.S. Congress passed the Air Commerce Act of 1926. The act, which established an Aeronautics Branch within the Department of Commerce, was the cornerstone of the Federal government's regulation of civil aviation. This landmark legislation was passed at the urging of the aviation industry, which understood that the airplane could not reach its full commercial potential without Federal action to improve and maintain safety standards. In 1938, Congress passed the Civil Aeronautics Act to create an independent agency, the Civil Aeronautics Authority, with expanded authority to issue air carrier route certificates and regulate airfares.

At-A-Glance

Established 1958

FY 2002 Budget $14 billion

Employees 48,899

Headquarters 800 Independence Avenue, S.W.
Washington, DC 20591
www.faa.gov

Regional Offices 9

Technical Center, Atlantic City, NJ 1,456 employees

Aeronautical Center, Oklahoma City, OK 2,122 employees

Staffed Air Traffic Control Facilities 677

Unstaffed Air Traffic Control Facilities 9,836

"Flight remains one of the most stunning and magnificent human achievements. For millennia, the notion of taking to the sky was regarded as the very definition of the impossible. 'If God had intended for human beings to fly,' it was said, 'he would have given us wings.' Instead, we built wings for ourselves, and forever expanded our vision of the possible."

The U.S. Centennial of Flight Commission
www.centennialofflight.gov

The introduction of jet airliners and a series of midair collisions spurred passage of the Federal Aviation Act of 1958. This legislation established a new independent body, the Federal Aviation Agency, which had broader authority to enforce safety regulations. The Aviation Act entrusted safety rulemaking to the new agency and gave it sole responsibility for developing and maintaining a common civil-military system of air navigation and air traffic control. In 1967, FAA became an agency of the newly created Department of Transportation and was renamed the Federal Aviation Administration.

Today's FAA has 48,899 employees at its headquarters in Washington, DC, in regional offices, and in facilities around the country. This does not include civil aviation security personnel who are now under the administrative control of the Transportation Security Administration (TSA). FAA fulfills its mission through five lines of business that work together to create and maintain the world's preeminent national airspace system. These five lines of business are:

■ **Air Traffic Services:** Manages civil and military air traffic by developing and recommending national policies and establishing national programs, regulations, standards, and procedures for management of the airspace; operates air navigation and communications systems and facilities; maintains separation and control of aircraft; and provides flight assistance to aircraft.

■ **Regulation and Certification:** Oversees the safety of aircraft and the credentials and competency of pilots and mechanics; develops mandatory safety rules; and sets the standards that have helped make air travel among the safest modes of transportation in history.

■ **Airports:** Provides leadership in planning and developing a safe, secure, and efficient airport system; enhances environmental quality and avoids or minimizes adverse environmental impacts that might result from a proposed FAA action in support of airport development; and develops standards for the design and construction of facilities that enhance the safety of aircraft operations and security of airline passengers.

■ **Research and Acquisitions:** Supports and conducts research to meet increasing demands for higher levels of system safety, security, capacity, and efficiency; and plans, monitors, controls, schedules, and implements the acquisition of materiel, equipment, and services for the national airspace system and for interagency and international programs.

■ **Commercial Space Transportation:** Oversees the safety of commercial space launches and regulates the commercial space industry.

The Aviation and Transportation Security Act (Public Law 107–71), enacted on November 19, 2001, established TSA. On February 13, 2002, responsibility for Civil Aviation Security was transferred from FAA to TSA.

100 Years of Flight

"There is something quintessentially American about Orville and Wilbur Wright's historic achievement at Kitty Hawk on December 17, 1903. They worked independently, as most American heroes have done, free of the entanglements of large industrial or government organizations. Their intense preoccupation with their airplane was fueled not by economic necessity—income they already had, from their bicycle business—but mostly from their imaginative determination to cross one of the last technological barriers to human flight—stability in the air."

The U.S. Centennial of Flight Commission

A Message from the Administrator

Marion C. Blakey was sworn in on September 13, 2002 as the 15th Administrator of the Federal Aviation Administration. At the FAA, Ms. Blakey continues a long career of public service. In addition to serving as Chairman of the National Transportation Safety Board, Blakey served as Administrator of the National Highway Traffic Safety Administration and held key positions at the Department of Commerce, the Department of Education, the National Endowment for the Humanities, and the White House.

January 31, 2003

I am pleased to present highlights from the Federal Aviation Administration's (FAA's) *FY 2002 Performance and Accountability Report*. This year we met nine out of ten performance goals in the areas of safety, system efficiency, and organizational excellence. We also achieved a clean opinion on our financial statements.

FAA's highest priority is safety. Safety is not only the top priority from the standpoint of the public's interest, but it is also an economic necessity. People will only fly if they feel safe.

Through initiatives like Safer Skies (the FAA's data-driven approach to establishing and evaluating safety priorities) and the Airport Movement Area Safety System, (which provides air traffic controllers with visual and audio alerts of potential runway accidents), we were able to make last year one of the safest in the history of commercial and general aviation. Although we have made tremendous strides in improving aviation safety, there is more that can and will be done in the coming years, and aviation security will continue to require attention. While aviation security is now under the direction of the new Transportation Security Administration, we will continue ongoing and close coordination to ensure our respective safety and security programs are interrelated and coordinated.

Enhancing the efficiency of our national aviation system remains a high priority for the FAA. Working together with the aviation community, we continue to refine FAA's Operational Evolution Plan (OEP), which is designed to increase system capacity by more than 30 percent over the next 10 years. Since first released in June 2001, we have achieved a total capacity increase of 5 percent—2 percent more than expected. We have recently issued Version 5.0 of the plan, which emphasizes collaborative decision-making and better matching of capacity supply with air travel demand.

New runways are critical in meeting our OEP goals. Nineteen of the 35 major U.S. airports are now at various stages of planning and development for expanding capacity. Last year, we opened a new runway in Detroit that increased the departure rate by as much as 30 percent. Twelve more runways will open by 2008, including four next year in Denver, Houston, Miami, and Orlando.

Last year, the FAA installed the Traffic Management Advisor (TMA), a software program that smoothes the flow of aircraft into congested airports at six locations around the country. TMA is already responsible for capacity increases of 3 to 5 percent. To illustrate the importance of this tool, in Minneapolis/St. Paul a 5 percent capacity increase resulted in 3,000 more passengers boarding their connecting flights.

We also installed the User Request Evaluation Tool (URET), a conflict probe that provides controllers with advanced notice of potential in-flight conflicts, at six en route centers. Airlines are reporting savings of $1.5 million a month from the more direct routings made possible by URET. We plan to expand use to the remaining 14 en route centers over the next two years.

For improved flight performance in bad weather conditions, we installed the first Integrated Terminal Weather System (ITWS) in Atlanta. ITWS integrates information with forecasts from a host of sensors and sources and provides a visual weather display to controllers.

The FAA is also expanding the use of satellite navigation. As we are deploying GPS (global positioning system) technologies, we are also redesigning the nation's airspace. Combining airspace redesign with new technologies will improve efficiency and capacity by allowing approaches that minimize noise and offer greater access to runways in all weather conditions.

The FAA faces many challenges. In FY 2003, we will redouble our efforts to become a better-managed, more responsive agency, with an even stronger linkage between our budget and our results. We are also sensitive to the problems facing the aviation industry in the aftermath of September 11th. Working together with the aviation community, I am confident that we can improve the aviation system to achieve greater capacity, more efficiency, and even safer skies.

A hundred years ago, Orville and Wilbur Wright returned home to Dayton, Ohio, exuberant about the results of their glider flights in Kitty Hawk. They realized powered, manned, controlled flight was possible. With the same kind of ingenuity and vision that propelled the Wright brothers from the sands of a North Carolina beach into the history books, FAA intends to build on the power of aviation and chart the next century of flight that is worthy of the first.

Marion Blakey

Marion C. Blakey
Administrator

Management's Discussion and Analysis

A Vital Mission

The FAA is charged with providing a safe, secure, and efficient aviation system that contributes to national security and encourages civil aviation. To fulfill its mission, FAA establishes and enforces regulations and conducts oversight of the civil aviation industry.

FAA operates and maintains the nation's complex air traffic control system and the facilities and equipment that enable its optimal operation. FAA controllers supervise more than half of the world's air traffic—5,000 aircraft at any given moment and close to 7 million commercial, military, and general aviation aircraft each year. We conduct leading-edge research to continually improve safety and efficiency and assist in the development of a system of more than 5,000 public airports in the United States. FAA also regulates and licenses U.S. commercial space transportation activities.

Despite the many challenges that the aviation industry and the traveling public faced during fiscal year (FY) 2002—reduced traffic, increased security, and the uncertain future of many airlines—last year was one of the safest in aviation history. One challenge we faced was to provide war risk insurance to airlines that could no longer afford commercial policies, ensuring that these carriers could stay in the air. As of the end of FY 2002, 72 carriers had been extended $114 billion in war risk coverage. We also provided $57 million to 190 air carriers to pay for some of the added cost of war risk insurance bought from private insurers, helping carriers adjust to the new, higher insurance costs.

A phone call from the Pentagon spurred another singular achievement last year. The Department of Defense (DOD) had a simple question: Could FAA help establish a sophisticated radar net inside the United States, similar to the one the DOD maintains, to detect intruding aircraft crossing U.S. borders? In just three months, FAA and the DOD worked together to provide upgraded surveillance and radio communications capabilities equal to the most advanced systems used by the military.
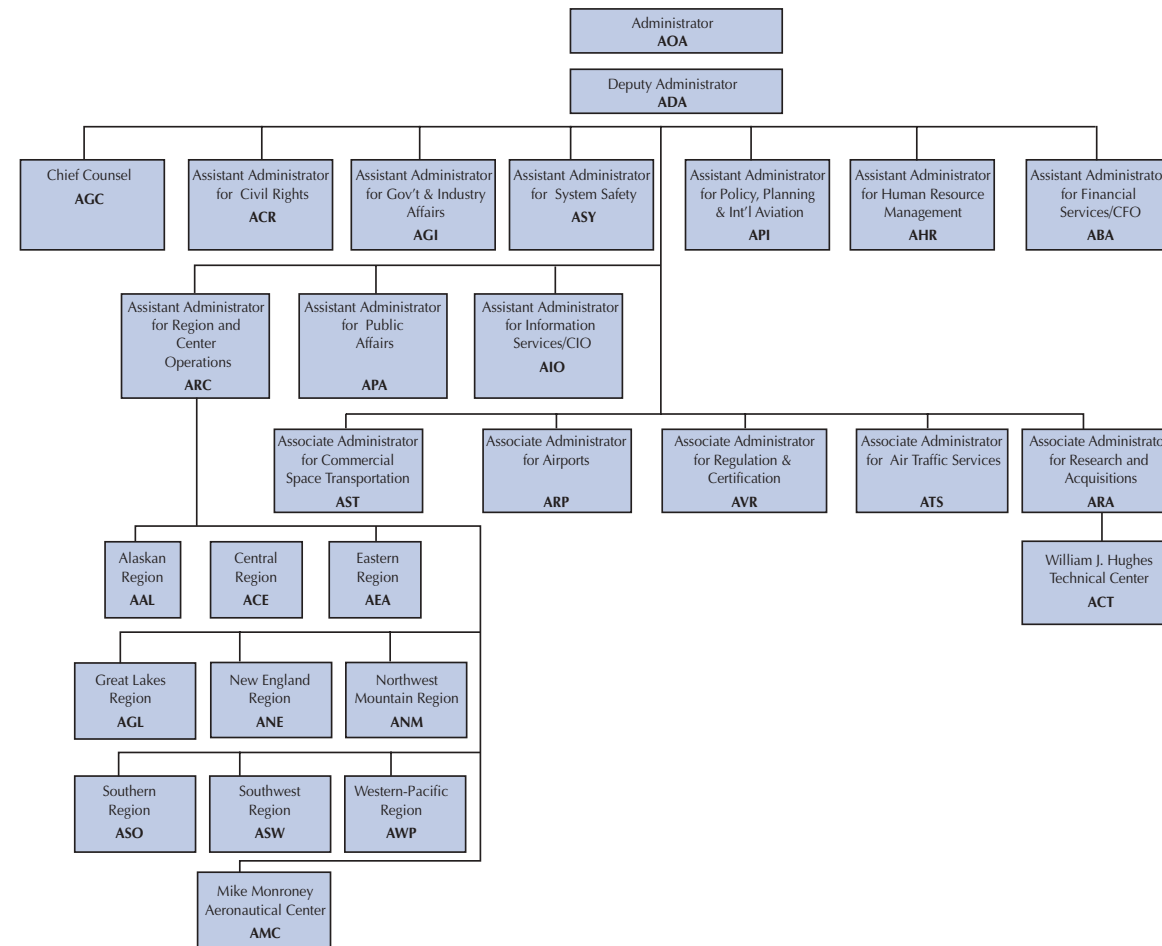
While dealing with the aftermath of the attacks on the World Trade Center and the Pentagon, we continued to deliver on our commitments to improve system efficiency and deploy new technologies, to improve safety, and to develop and implement new security procedures. We accelerated investments in advanced computer systems, including state-of-the-art weather radar systems; introduced innovative control procedures; created new in-air routes to minimize delays; and supervised the construction and expansion of airports, runways, and air traffic facilities. FAA's commitment to our customers—the traveling public and the carriers that transport them— is clear and unchanging: to create and maintain the safest and most efficient air transportation system in the world.

FAA controllers supervise more than half of the world's air traffic—5,000 aircraft at any given moment and close to 7 million commercial, military, and general aviation aircraft each year.

A Year in Highlights

FAA values the enduring partnerships we have forged with our employees, unions, the airlines, general aviation and commercial pilots, commercial space launch companies and site licensees, manufacturers, airports, and hundreds of communities around the country. We work with these partners to mitigate risks, further reduce noise pollution, and minimize environmental hazards. Without the cooperation of these partners, we could not have achieved the many successes highlighted in this report.

Federal Aviation Administration

Administrator
AOA

Deputy Administrator
ADA

Chief Counsel
AGC

Assistant Administrator for Civil Rights
ACR

Assistant Administrator for Gov't & Industry Affairs
AGI

Assistant Administrator for System Safety
ASY

Assistant Administrator for Policy, Planning & Int'l Aviation
API

Assistant Administrator for Human Resource Management
AHR

Assistant Administrator for Financial Services/CFO
ABA

Assistant Administrator for Region and Center Operations
ARC

Assistant Administrator for Public Affairs
APA

Assistant Administrator for Information Services/CIO
AIO

Associate Administrator for Commercial Space Transportation
AST

Associate Administrator for Airports
ARP

Associate Administrator for Regulation & Certification
AVR

Associate Administrator for Air Traffic Services
ATS

Associate Administrator for Research and Acquisitions
ARA

Alaskan Region
AAL

Central Region
ACE

Eastern Region
AEA

William J. Hughes Technical Center
ACT

Great Lakes Region
AGL

New England Region
ANE

Northwest Mountain Region
ANM

Southern Region
ASO

Southwest Region
ASW

Western-Pacific Region
AWP

Mike Monroney Aeronautical Center
AMC

On September 13, 2002, Marion C. Blakey was sworn in as the head of the Federal Aviation Administration. Assisted by a Deputy Administrator, Administrator Blakey provides overall leadership and management direction. Both the Administrator and Deputy Administrator are appointed by the President and confirmed by the Senate. Five Associate Administrators direct the organizations that carry out the agency's principal mission.
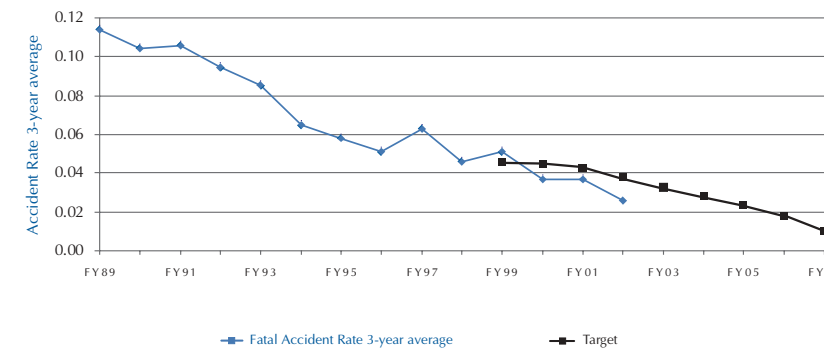
Making it Safer

Almost 100 years after the Wright brothers first took flight, FAA is proud to report that FY 2002 was one of the safest years in the history of commercial and general aviation. To achieve that milestone, we set and attained a number of ambitious safety goals. Despite our success, more must be done, and so we continue to focus on reducing the air carrier fatal accident rate still further—by 80 percent from the FY 1994–FY 1996 baseline—and limiting general aviation accidents involving fatalities to 331 per year by 2007.

Commercial Aviation Safety

Several programs and initiatives were instrumental in helping FAA reach last year's high level of aviation safety. The Runway Safety Program helped bring about a significant reduction in the number of high-risk runway incursions, which, in turn, lessened the probability of collisions that could involve fatalities, injuries, and significant property damage. We continued to install software that coordinates air traffic control radar with radar that monitors ground traffic. The Airport Movement Area Safety System (AMASS) was commissioned at 18 major airports and is now operating at 25 of 34 major airports, contributing to the reduction in runway incursions. FAA also undertook a number of runway improvements, including new markings and runway redesign, to more efficiently direct departures and landings. To further enhance safety, FAA's Safer Skies effort made significant progress in addressing a number of the factors that cause air carrier accidents—controlled flights into terrain and uncontained engine failures.

Commercial Air Carrier Fatal Accident Rate

Accident Rate 3-year average

0.12
0.10
0.08
0.06
0.04
0.02
0.00

FY89 FY91 FY93 FY95 FY97 FY99 FY01 FY03 FY05 FY07

■ Fatal Accident Rate 3-year average   ■ Target

While commercial aviation remains one of the safest forms of transportation available, the public demands a high standard of safety and expects continued improvement. As demand for commercial air transportation grows, government and industry must meet the new challenges to maintain and improve the current level of safety. Preliminary data indicate that FAA met its target of improving aviation safety by further reducing the fatal accident rate in FY 2002. We remain on target for an 80 percent reduction in the commercial air carrier fatal accident rate by 2007.

Onward and Upward

Satellite technology makes it possible for us to enjoy live national or worldwide television and radio broadcasts, place international telephone calls, have high-speed Internet access and nationwide paging services, receive weather forecasts, respond to emergencies and disasters, and pay by credit card at a retail store. Getting those satellites into space is the responsibility of the commercial space transportation industry.
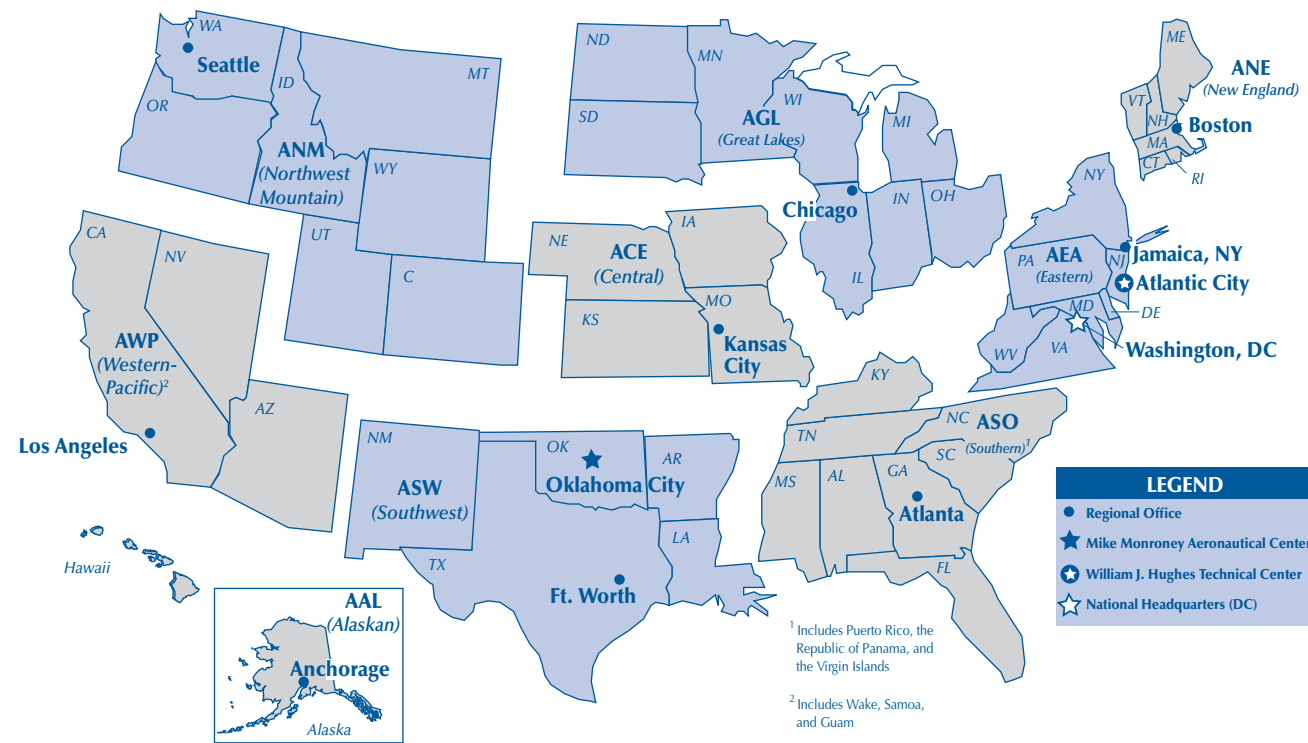
During FY 2002, FAA supervised 8 licensed launches, with up to 12 more expected next year. We also oversee the operation of 4 nonfederal spaceports, and at least 5 more such space launch and reentry sites are under development.

According to a 2001 study commissioned by FAA, commercial space transportation has already contributed more than $61 billion to the U.S. economy through the manufacture of launch vehicles, the design and construction of satellites and satellite equipment, satellite services, and related space industries. In the coming decades, FAA expects the commercial space industry to grow, especially with the development of a new generation of both expendable and reusable launch vehicles that will reduce the cost of transporting satellites to orbit and carry human passengers on suborbital and orbital flights.

FAA Regional Boundaries
Including Locations of Regional Headquarters and Centers

LEGEND
- ● Regional Office
- ★ Mike Monroney Aeronautical Center
- ✪ William J. Hughes Technical Center
- ☆ National Headquarters (DC)

[1] Includes Puerto Rico, the Republic of Panama, and the Virgin Islands

[2] Includes Wake, Samoa, and Guam

While we were able to decrease operational errors by 9 percent from FY 2001, we did not achieve our target. An operational error is a failure to apply or follow the rules and procedures that ensure the safe separation of aircraft. In our ongoing efforts to reduce operational errors, we are aggressively seeking to identify the factors that cause those errors and to implement technology improvements, such as the deployment of modern displays, new decision support tools, and improved communication systems, to eliminate those factors. We are also providing additional training so that pilots and controllers have a common understanding of separation standards, policies, and procedures.

FAA recognizes that partnerships are key to identifying and addressing problems and achieving safety goals. With the National Aeronautics and Space Administration and DOD, for example, we are implementing interagency safety plans to reduce human error and improve system-wide safety. FAA's partnership with the aviation community has led to the voluntary establishment of the Advanced Qualification Program, under which more than 56,900 airline pilots were trained. In addition, the Aviation Safety Action Program, under which thousands of safety reports have been submitted by 31 employee groups from 20 airlines, and the Flight Operational Quality Assurance Program, under which 11 U.S. airlines routinely collect and analyze digital flight data, will enable the FAA to intervene and correct adverse safety trends.

General Aviation Safety

FAA oversees the safety and operation of almost 300,000 general aviation aircraft in the United States. These aircraft include single-seat home-built airplanes, rotorcraft, balloons, and highly sophisticated extended-range turbojets. General aviation activities include student training, crop dusting, fire fighting, law enforcement, news coverage, sightseeing, industrial work, on-demand air taxi service, and corporate transportation, as well as personal use and recreational flying.

Our strategy for improving general aviation safety is to establish a proactive partnership with the general aviation community to identify problems and implement solutions. In 2002, we published and distributed educational materials to pilots, including information about instrument flight and how to find and use the latest weather information. We also upgraded general aviation–related equipment, such as automated flight service stations (air traffic facilities that provide pilot briefings, en-route communications, search and rescue services, assistance to lost aircraft and to aircraft in emergency situations), automated weather observation systems, and communications systems that provide weather and altimeter settings to pilots.

General Aviation Fatal Accidents
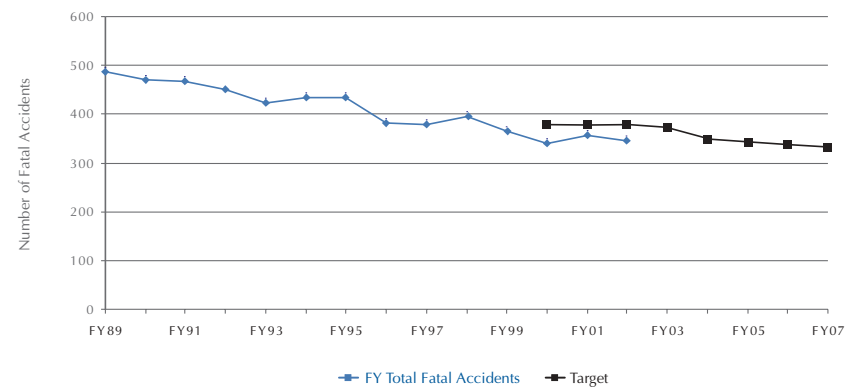
General aviation includes all segments of the aviation industry except commercial air carriers and the military. Some general aviation aircraft operate in hazardous environments, such as agricultural application, external-load operations, fire fighting, and the patrol of pipelines/power lines. The majority of aviation fatalities are related to general aviation. Preliminary data indicate that FAA met its target of reducing general aviation fatal accidents.

Keeping It Safe

Last year, FAA continued installing the Airport Movement Area Safety System (AMASS) at 34 of the country's busy airports. AMASS helps prevent runway collisions by providing air traffic controllers with visual and audio alerts of conditions that might cause runway accidents.

AMASS enhances the Airport Surface Detection Equipment Model 3 (ASDE-3) radar. The system works by processing surveillance data from the ASDE-3 and the terminal automation system. It then determines conflicts between the position, velocity, and acceleration of arriving aircraft and other aircraft or vehicles on the ground. Developing AMASS into a useful, reliable warning system to meet user requirements has been an extremely complex technical challenge.

In our continuing effort to improve runway safety, FAA is working closely with the aviation community to promote awareness and support increased education and training for pilots, controllers, airport personnel, and vehicle operators. We believe that education is the best way to improve runway safety and give passengers an extra margin of safety on the ground.

One example of a program designed to improve general aviation safety is Capstone in Alaska. Because of the state's unique geography, general aviation plays a key role in meeting the transportation needs of Alaska's citizens. Alaska's difficult terrain is a primary factor in the number of general aviation accidents that occur there. Capstone uses the latest in digital avionics and GPS technology to significantly improve aviation safety in a part of the country where extreme weather and rugged, remote destinations can be a recipe for accidents. Under Capstone, installation of advanced equipment in general aviation aircraft operating in the Yukon-Kuskokwim Delta began in November 1999, and expansion of ground infrastructure and data collection will continue through December 2004. An interim analysis by the University of Alaska and the MITRE Corporation's Center for Advanced Aviation System Development indicates that Capstone-equipped aircraft have 40 percent fewer accidents than aircraft without the Capstone avionics.

Other Safety Measures

Operational errors and runway incursions are two other safety measures.

Operational Errors by Year—Number
Less than 80% Separation

— Actual Operational Errors   ■ Target
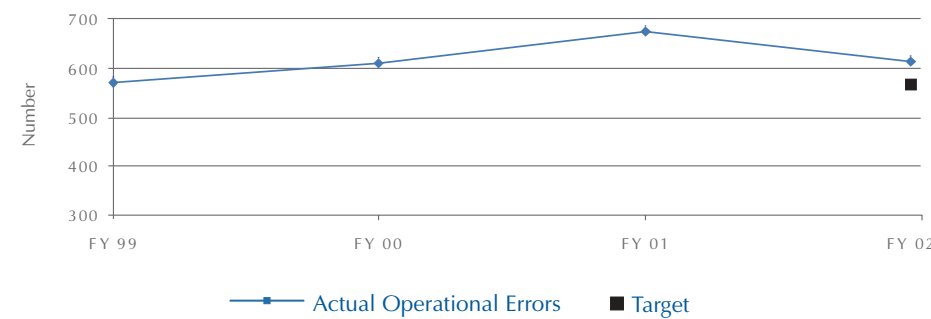
One of the fundamental principles of aviation safety is separation—the need to maintain a safe distance from other aircraft, terrain, obstructions, and certain airspace not designated for routine air travel. Air traffic controllers employ rules and procedures that define separation standards for the variety of environments in which aircraft operate. Pilots flying under visual flight rules operate under a "see and avoid" policy, while those using instrument procedures rely on controllers' instructions to guide them. An operational error occurs when controllers fail to apply or follow the rules and procedures that define separation standards and separation is less than required. Although FAA did not meet its target for reducing operational errors in FY 2002, we were successful in reducing operational errors by 9 percent from the prior year.

Most Serious Runway Incursions by Year—
Number and Rate

■ Actual   ■ Target   —■— Actual Rate   —■— Target Rate
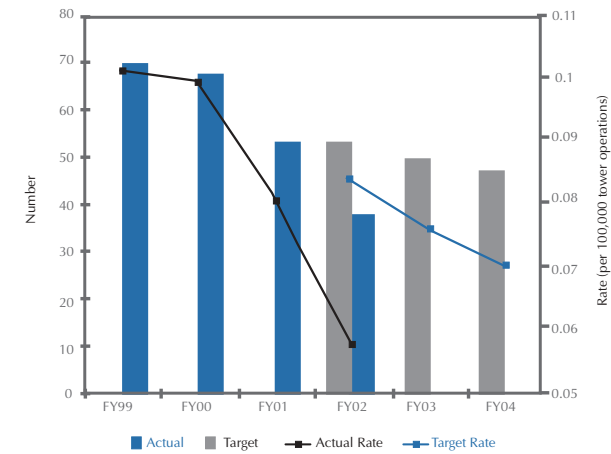
Runway incursions create dangerous situations that can lead to serious accidents. A runway incursion is any occurrence at an airport involving an aircraft, vehicle, person, or object on the ground that creates a collision hazard or results in a loss of separation between aircraft taking off, intending to take off, landing, or intending to land at an airport. Incursions involve an aircraft with another aircraft, vehicle, person, or object on the ground. Reducing the number of runway incursions lessens the probability of accidents that potentially involve fatalities, injuries, and significant property damage. FAA met its FY 2002 targets for reducing the number and rate of the most serious (Category A&B) runway incursions.

Enhancing Security

In February 2002, the job of overseeing the security of the aviation system became the responsibility of the newly created TSA. Except for employees working on internal FAA security and the Hazardous Material Program, all aviation security personnel will be transferred from FAA to TSA, marking one of the largest personnel transfers in FAA's history. FAA continues to supply equipment, advice, and training to TSA.

FAA and other agencies concerned with the threat of domestic and international terrorism also collaborated to determine how best to allocate security resources. Even before the September 11th terrorist attacks, FAA was working with commercial air carriers to voluntarily implement a computer-assisted passenger-screening program at more than 130 airports nationwide.

One notable security enhancement initiative last year was the fortification of cockpit doors, which required FAA to quickly formulate standards and implement new regulations. FAA will continue to collaborate with TSA on the development of technologies to benefit aircraft safety and security, such as structural and systems hardening. In the area of information systems security, or cybersecurity, FAA continued efforts to provide security certification and authorization packages for all new systems; built a state-of-the-art Computer Security Incident Response Center that operates 24 hours a day, 7 days a week; hardened Internet access points; and deployed boundary protection capability throughout its networks.

A Vision for Tomorrow

Before September 11, 2001, our national airspace system handled almost 2 million passengers, 40,000 tons of cargo, and 60,000 nonscheduled flights each day. Congested airspace and demand at the busiest airports led to delays and a lack of efficiency, flexibility, and predictability throughout the system. Traffic and delays, which decreased immediately after the terrorist attacks, are now forecast to reach pre-September 11th levels by FY 2004.

To deal with the challenges presented by growing air travel demand, FAA worked with the entire aviation community to create a blueprint that will guide our efforts to enhance and modernize the airspace system. In June 2001, FAA released the Operational Evolution Plan (OEP)—a dynamic, comprehensive, and integrated document that uses an evolutionary, one-step-at-a-time approach to modernization. New runways, new routes, new tools, and airspace redesign are the core changes OEP addresses in this 10-year strategic plan. Each set of solutions outlined represents the aviation community's commitment to make investments and implement changes that will increase capacity and enhance efficiency to create an aviation system for the 21st century.

Eliminating Bottlenecks

Passengers are directly affected by delayed or cancelled flights, missed connections, and later-than-expected arrivals. To ensure that the national airspace system can meet increasing demand, FAA continued work on a number of fronts. A key component of our efforts to improve efficiency and increase system capacity is the Operational Evolution Plan (OEP), a detailed, comprehensive 10-year strategic plan developed in partnership with the aviation industry and other Federal agencies. Among the priorities outlined in the OEP are the modernization of on-ground and in-plane equipment, adoption of advanced routing procedures, and installation of state-of-the-art weather radar and navigational aids. Redesign of the system of spacing between planes is also under way. By 2010, FAA expects that OEP implementation will result in a 30 percent increase in system capacity.

The construction of new runways is one of the most effective methods of increasing capacity. In FY 2002, one large hub airport (Detroit Metropolitan–Wayne County Airport) commissioned a new runway and projected a 21 percent increase in airport capacity. In FY 2003, two large hub airports (Denver International and Miami International) are scheduled to commission new runways, and 10 new runways at large hub airports are scheduled to open between FY 2004 and FY 2009.

Work is under way to consolidate various air traffic management activities into a performance-based organization led by a chief operating officer. This new organization will coordinate research and development, modernization, operation, and maintenance efforts to boost efficiency throughout the aviation system. In coming years, this new organization will help improve air travel by:

- Removing roadblocks to innovation and quickening the pace of improvements.

- Involving air traffic controllers in developing and refining control systems to ensure rapid deployment.

- Providing pilots with more flexibility to choose the fastest, most economical routes.

- Reengineering America's airspace to handle more airplanes and reduce or eliminate delays and congestion.

One important initiative designed to help eliminate bottlenecks in the system is Free Flight. The idea is simple: establish a series of national and international corridors (much like our current system of interstate highways) through which aircraft can fly. Of course, flying an airplane is not as simple as driving from one city to the next, since airplanes occupy thousands of feet of vertical airspace and must avoid intense weather systems such as thunderstorms. Even so, given such constraints, allowing pilots to choose the most efficient routes should increase system capacity. Free Flight will rely on the latest technological advances to change airplane spacing, provide advanced weather information, allow more accurate navigation on board and on the ground, and free the national airspace system from slowdowns and congestion. Free Flight Phase 1, which was delivered on time and within budget, provided tools that allowed people to succeed. FAA is using the success of Free Flight to design other programs that will help increase system capacity and efficiency.

Percentage of On-Time Arrivals by Year
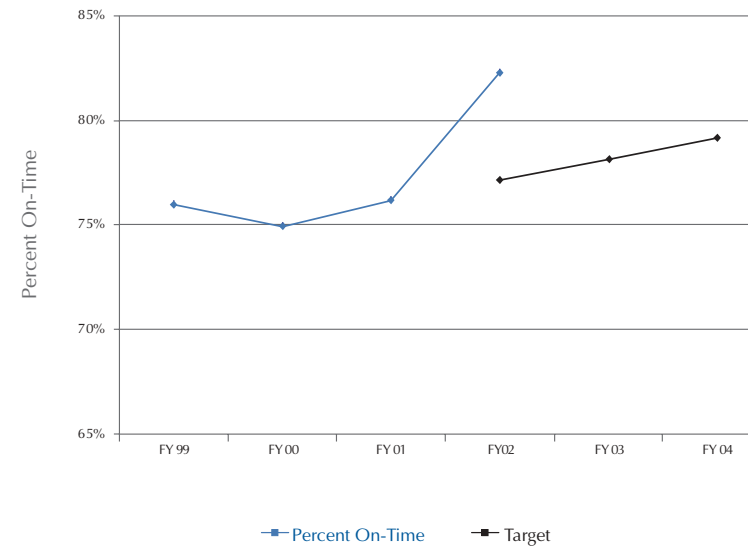
Commercial aviation delays cost the airlines and the traveling public both time and money. Delays, which are projected to increase as passenger travel demand recovers and continues to rise, are usually caused by air traffic congestion and adverse weather. FAA met its FY 2002 target for reducing delays and increasing the rate of on-time arrivals.

Airport Daily Arrival Capacity
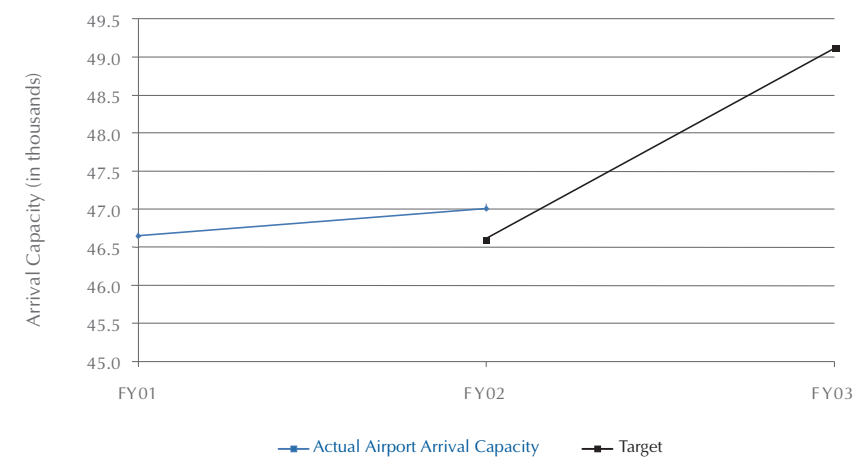
System capacity is one of many measures that we use to determine the effectiveness of our national airspace system's ability to manage demand. One of the metrics used to assess system capacity is average daily arrival capacity, which is the sum of the arrival rates at 32 large hub airports. FAA exceeded its target for maintaining airport arrival capacity.

Circling the Globe

FAA plays a vital role in improving aviation safety, security, and system efficiency around the world through our collaboration with our counterparts in more than 188 countries and through the International Civil Aviation Organization (ICAO) headquartered in Montreal. FAA works with other nations to provide technical assistance and training to promote aviation safety worldwide. FAA also encourages our international partners to im-prove and encourage compliance with international aviation safety standards in all aspects of the global aviation industry. In FY 2002, the agency was instrumental in establishing global standards for airport safety and security and for encouraging ICAO to adopt FAA standards for the fortification of cockpit doors. FAA also consulted with countries on several continents to help their civil aviation officials meet ICAO requirements, thus improving safety and lowering the cost of travel to certain developing countries.

Safeguarding the Environment

FAA is committed to further reducing the number of people exposed to excessive airport noise levels. With the advent of quieter aircraft, improved airport planning, and funds for projects designed to minimize noise, we estimate that fewer than 379,000 people were exposed to excessive aircraft noise last year—a significant reduction from the 1975 level of 7.5 million people. Engine emissions also remain a concern, as projections indicate an increase in air traffic over the coming decade. One promising development is the increased use of newer, smaller, lower-emission jets, which will reduce the number of older, larger jets with more polluting engines. We are also working with industry and other government agencies to ensure that future engines, large or small, have a less detrimental environmental impact.

While research continues on quieter engine technology, other projects designed to minimize noise will be the principal means for reducing the numbers of people exposed to airport noise for the foreseeable future. In FY 2002, FAA approved the commitment of over $600 million for these other projects. FAA proposed, and subsequently implemented, six environmental streamlining initiatives to expedite environmental impact statements for major airport projects. These initiatives, which tackle resource, process, product, and interagency coordination problems, can streamline environmental reviews and reduce project delays.

In cooperation with the National Park Service, FAA is also developing air tour implementation plans for each National Park unit. The plans include any adjacent tribal lands where commercial air tours operate. The objective is to mitigate or prevent any significant adverse effects on the park environment while ensuring aviation safety

A Foundation for Excellence

FAA has made impressive strides in building a foundation for organizational excellence. The five management focus areas within the President's Management Agenda provide a framework for, and further impetus to, FAA's organizational excellence initiatives. During the past year, we made substantial progress in our efforts to modernize FAA management systems. In the coming year, we will continue our efforts to implement the DELPHI financial management system. Concurrent with DELPHI implementation, we will implement a new acquisition system with improved integration of the financial and acquisition functions.

Over the past year, six more organizations within FAA began using cost accounting to better understand and track the costs of the products and services they provide. We also took aggressive action to improve control over property accounting and mitigate its financial risk, a long-standing material internal control weakness. Because of continuous improvement in financial management and reporting, we received an unqualified opinion on our financial statements, providing a solid foundation for further analysis and discussion of our performance and strategic investments in safety, security, and system efficiency.

FAA continues to work with the Department of Transportation (DOT) and the Office of Management and Budget (OMB) toward achieving a "green light" in each of the President's Management Agenda initiatives. "Getting to green" in all five initiatives is one of FAA's organizational excellence goals for the coming year. Our FY 2002 scores are presented on page 19.

Another organizational excellence goal is to achieve a high level of customer satisfaction. We continued to measure customer satisfaction by surveying commercial pilots. The survey helps us determine how we are viewed and what areas need improvement. One approach to improving customer satisfaction is our plain language initiative, which emphasizes clear, unambiguous communication to ensure that our regulations and procedures are understood. As the program matures, we will use focus groups to identify areas that need clarification and use a survey to track results.

President's Management Agenda Scorecard

INITIATIVE	FY 2002 STATUS	PROGRESS
Human Capital: Develop an FAA-wide human capital workforce strategy to address future workforce gaps, eliminate skill gaps in critical occupations, develop performance-based incentives for the workforce, remove unneeded management layers, and develop the right mix of skills in the workforce that reflect the new emphasis on E-Government and Competitive Sourcing.	● (blue)	● (gray)
Competitive Sourcing: Compete 5 percent of eligible commercial positions in FY 2002, 10 percent in FY 2003 (for a cumulative 15 percent by the end of FY 2003), and to eventually compete 50 percent at an undetermined future date.	● (blue)	● (gray)
Financial Management: Develop financial management systems capable of producing more timely and accurate information, maintain a record of unqualified opinions on our financial statements, continue to improve accounting controls, and develop full cost accounting capability.	● (blue)	● (gray)
E-Government: Better justify and track cost and performance of information technology projects, as well as participate in government-wide initiatives that automate how the public deals with the government, such as the FirstGov.gov initiative, E-Grants, standardization of data, and customer relationship management.	● (blue)	● (gray)
Budget/Performance Integration: Better integrate budget and performance functions by integrating budget and performance staff work; developing plans and budgets with outcome goals, output targets, and resources requested in the context of past results; charging full budgetary costs of programs; and documenting program effectiveness.	○ (white)	● (gray)

KEY TO FY 2002 STATUS

The "status" column measures where FAA/DOT are in meeting the initiative. Agencies get a green rating by reaching the required score. Agencies must maintain scores between evaluations to maintain a green. The "progress" column measures the rate at which FAA and DOT are moving toward green. Agencies get a green rating when implementation is advancing according to plan.

● Indicates that the agency has met all of OMB's core criteria for the initiative.

● Indicates that at least one of the conditions identified by OMB for that initiative is in need of correction.

○ Indicates achievement of some but not all of OMB's core criteria for the initiative and that the agency has no "red" conditions.

For a more detailed discussion of the President's Management Agenda, see the Office of Management and Budget website at www.whitehouse.gov/omb/budget/fy2002/pma_index.html.

Facing Challenges

In a January 2001 report to Congress, the General Accounting Office (GAO) identified a number of challenges that FAA must address to improve safety, increase efficiency, and achieve organizational excellence. In addition, the DOT Inspector General identified his top management challenges facing DOT in FY 2003, listing several FAA-specific challenges. These include: (1) reducing the risk of aviation accidents due to operational errors and runway incursions; (2) reversing FAA's spiraling operating costs; (3) improving system capacity; and (4) reauthorizing the Wendell H. Ford Aviation Investment and Reform Act for the 21st Century (AIR–21). More information on the Inspector General's challenges is provided in the DOT *FY 2002 Performance and Accountability Report.*

Safety

GAO recommended a number of improvements in the areas of aviation safety, airport security, and air traffic control computer security. These include more focused performance goals and evaluation procedures for the Safer Skies initiatives, improved hiring and training of security checkpoint screeners, and further action to secure FAA's air traffic control computer systems to reduce the possibility of intrusion or attacks.

To address GAO's recommendations, we have revamped our safety performance goals to advance our annual goal of reducing fatal accidents and reducing high-risk runway incursions and operational errors. We have met our goal of reducing fatal accidents for the past several years and are on track to achieve our long-term goal of reducing fatal accidents by 80 percent. To improve air traffic control computer system security, we standardized and upgraded eight Internet access points, deployed 40 network intrusion detection devices, and continued efforts to identify and address the vulnerabilities of our computer systems. We are also on target to meet the following milestones outlined in the report:

■ Publish required navigation performance criteria by July 2003. These criteria will mandate the use of satellite-based navigation systems, including precision landings at airports, improve safety of approach and landing, and reduce controlled flight into terrain.

■ Develop and implement a 3-year operational error prevention plan by September 2005.

■ Develop and implement continuous, noninvasive monitoring of our information technology assets and services by September 2003.

Safety Management Challenges

One of the most critical management challenges that we face is the increase in known safety risks, such as runway incursions and operational errors. While we were able to reduce operational errors by 9 percent compared with FY 2001, we did not meet our target. We will continue to pursue a number of initiatives to address this problem, and we are currently identifying and evaluating technologies that can be put to use quickly in high-risk airports.

We are also studying the feasibility of expanding the Air Transportation Oversight System (ATOS) to include smaller commercial air carriers and providing complete system safety and risk analysis training for all ATOS-assigned field inspectors. Designed to identify safety trends in order to spot and correct problems before accidents occur, ATOS is now in place for the 10 largest airlines, which handle 95 percent of U.S. passengers, and will ultimately include all U.S. airlines.

With ATOS, FAA inspectors look at an airline as a whole to see how the many elements of its operations—from aircraft to pilots to maintenance facilities to flight dispatch—interact to meet Federal standards. By collecting and analyzing data on the many airline systems, inspectors are better able to target areas for improvement. ATOS has already enabled us to create a targeted, more effective surveillance plan. As we expand ATOS, we will also continue to address deficiencies in aircraft maintenance programs at some major air carriers by publishing detailed requirements and delivering updated policies and procedures and training courses to the inspection work force.

Efficiency

FAA has undertaken a comprehensive program to modernize the air traffic control system. This program includes replacing and updating voice communication systems and introducing enhanced automation aids and improved weather systems. We face significant management challenges in meeting the modernization schedule and controlling the costs of new technologies. The OEP will be key to our ability to meet those challenges. The plan builds on successful Free Flight program techniques; includes objective, measurable results; and coordinates FAA modernization efforts with those of industry so that our investments yield timely benefits. We have assigned responsibility for delivering each new capability to an executive, who will coordinate both acquisition and operational integration performance. The performance measures for OEP projects are directly tied to organizational measures, ensuring that resources are aligned with our commitment to increase capacity.

Maximizing Investments

The GAO recognized that FAA has made progress in addressing acquisition problems but said that reforms are not yet complete and recommended additional changes. We have instituted an Air Traffic Services Oversight Board and refined the OEP to establish agreement and understanding with the aviation community on modernization improvements. To demonstrate significant improvement in the acquisition arena, we will meet the following modernization milestones on time:

■ Complete a successful independent operational test and evaluation on the first full production of the Standard Terminal Automation Replacement System at Philadelphia by September 2003.

■ Install the Integrated Terminal Weather System, Weather System Processor, and Low-Level Wind Shear Alert System at identified OEP airports by September 2003.

Making the Grade

An article in the May 15, 2002, edition of *Government Executive* magazine gave FAA an improved grade on its Federal Performance Project report card. The project, a partnership between *Government Executive* and The George Washington University Department of Public Administration, is designed to determine how well Federal agencies are managed. FAA improved in four categories—human resources management, information management, financial management, and physical asset management—and maintained its rating in managing for results. FAA improved its overall grade to a "B," making it one of the better-managed agencies in the Federal government.

Organizational Excellence

Strategic Human Resource Planning: DOT and FAA, along with the entire Federal government, face a wave of retirements. These retirements pose a large-scale planning challenge. While this exodus of talent will not happen overnight, we must plan now to maintain required levels of experience and expertise in our civilian and contract workforce. Succession planning, as well as managing and maintaining adequate institutional knowledge, will be crucial to our ability to carry out our functions during this period of high workforce turnover. DOT has developed a Strategic Human Capital Management Plan to address the President's Management Agenda and GAO's management challenge. As part of this effort, we are also developing a corporate Human Capital Plan, which is aligned with DOT's plan, the FAA budget, and our performance objectives.

Financial Management: We continued to implement far-reaching changes to FAA financial management during FY 2002. These changes demonstrate our commitment to the principles of sound financial management and to the goals articulated in the President's Management Agenda. To address GAO concerns about weaknesses in FAA accounting and financial management and to meet the challenge of producing accurate and timely financial information, we implemented five of the six auditor recommendations to establish greater controls in accounting for FAA property. When DELPHI, a new, integrated financial management system, is implemented, the remaining auditor recommendation relating to property accounting will be implemented. DELPHI will streamline and speed reporting, eliminate cumbersome manual entries and adjustments, and integrate property accounting with the core accounting system.

Before implementing DELPHI, we established central control over property accounting by instituting an interim fixed asset system. New business processing rules for property transactions were also put into place during FY 2002. In addition, FAA's Administrator formed the National Capitalization Team, a cross-functional group responsible for enhancing oversight and control over property accounting.

To further underscore our commitment to financial management, we have made achieving a clean audit opinion a corporate performance goal that affects all employees. Finally, we have made substantial progress in implementing an agency cost accounting system, putting the FAA ahead of most other Federal agencies in the government-wide effort to identify the cost of managing its programs, and linking cost to performance.

Government Performance and Results Act: The Government Performance and Results Act requires Federal agencies to develop five-year strategic plans, annual performance plans, and annual performance reports. DOT's strategic and performance plans have been recognized as among the best in the government. To build on this success, DOT and FAA must improve the reliability and timeliness of performance data and provide better linkage between budgets and performance results. We acknowledge that increasing the validity, reliability, timeliness, and comparability of performance data will be a challenging task. To improve our ability to provide timely and reliable performance data, the Bureau of Transportation Statistics is developing data standards, training people in the collection and interpretation of transportation data, and coordinating data series across the Department. In FY 2002, DOT developed leading indicators for its strategic goals and most of its performance measures to help anticipate trends in each of these outcomes. DOT also completed an assessment of data quality for its major data collection systems, and documented the major sources of error in all performance measures. By the end of FY 2004, consensus data standards will be in use throughout DOT.

Beginning with our FY 2002 performance plan, we have more closely linked the budget with each performance goal. This performance plan allocates the budget request to specific outcomes and performance goals. We will continue to refine our attribution process in subsequent plans to aid strategic decision-making.

Looking to the Future

As FAA attempts to identify the broad trends shaping flight, we anticipate future needs to more effectively guide present planning. Although we may not be able to predict the precise contours of our aviation future, we are working on several fronts to advance aviation technology and improve safety and system efficiency.

Aircraft manufacturers are already experimenting with new composite materials that will reduce aircraft weight by as much as 30 percent. Lighter planes will fly faster, burn less fuel, and produce fewer emissions. Cockpits are being redesigned to incorporate the latest communication, navigation, and surveillance equipment. This new equipment will maximize efficiency and help pilots cope with severe weather. Within the next two decades, airplanes will become even more automated, allowing commercial pilots to concentrate on monitoring complex aircraft systems to ensure optimum performance. In such advanced vehicles, security, and especially cyberterrorism, will be a concern. Airplanes will need computer diagnostics, a quick fix for viruses, and manual backup systems that will allow pilots to bypass automated systems and fly the airplane the old-fashioned way.

As we look to the future, FAA will build on past successes to face the challenges ahead. While we made great strides in improving safety, enhancing security, and increasing efficiency, we must persist in our efforts to build an aviation system for the next 100 years of flight. As the aviation community adjusts to changes in demand and economic conditions, so FAA must make mid-course corrections to address new realities.

Charles Lindbergh saw aviation as part of the continuum of human endeavor. The men and women of FAA will work with our partners around the globe to realize the enormous potential of flight for fostering economic growth and enriching our lives.

"The invention of the airplane was a fundamental turning point in history. It redefined the way we fought our wars; revolutionized travel and commerce; fueled the process of technological change; and helped to shape a world in which the very survival of a nation would depend on its scientific and technical prowess. Flight is, and will continue to be, one of humankind's most significant accomplishments."

The U.S. Centennial of Flight Commission

Financial Review

A Message From the Chief Financial Officer

January 31, 2003

The Federal Aviation Administration is pleased to issue highlights from our *FY 2002 Performance and Accountability Report*. This report is an integrated presentation of programmatic and management performance, including how we have responded to our financial management and management control responsibilities. The report, which describes our business priorities and accomplishments during FY 2002, is based on data that are complete and reliable. We remain committed to the highest standards of management integrity, and we pledge to continue improving our management and accountability processes.

We have made tremendous progress in our efforts to modernize management systems and practices, and to improve internal controls. Our FY 2002 accomplishments include:

- An unqualified opinion on our financial statements, providing a solid foundation for a discussion of agency performance and strategic investments in safety, security, and aviation system efficiency.
- Improved control over property accounting by instituting new business rules for property transactions and creating a National Capitalization Team responsible for enhancing oversight and control over property accounting.
- Substantial progress in implementing DELPHI—a new, integrated core accounting system. When operational, DELPHI will be a fully integrated, state-of-the-art financial management system.
- Implementation of cost accounting in six new organizations and 21 percent of employees tracking their time by project and activity in labor distribution reporting.

In the year to come, we will continue to build a solid foundation for organizational excellence. Our most significant challenge will be to bring DELPHI online. Last year we made major strides in implementing the new system. The DELPHI team completed solution design activities to ensure the system would meet the FAA's business requirements. In addition, the team provided formal process-based training on the functionality of DELPHI to over 900 end users. Although we made progress, we encountered problems in our efforts to convert old systems. Despite the technical issues we face, we are committed to resolve the problems and modernize our management systems.

In addition to improving financial management, our areas of focus in FY 2003 will be the other government-wide initiatives outlined in the President's Management Agenda—human capital, competitive sourcing, e-government, and budget and performance integration. We will also address the material weakness and reportable conditions identified during the annual independent audit of our financial statements. Our auditors identified one material internal control weakness related to the process for determining legal liabilities, which will be corrected in 2003.

Thanks to the men and women of FAA, the United States has the safest, most efficient aviation system in the world. In 2003, we will continue to invest in innovations to our business operations to ensure that the agency is prepared for the next century of flight.

Chris Bertram
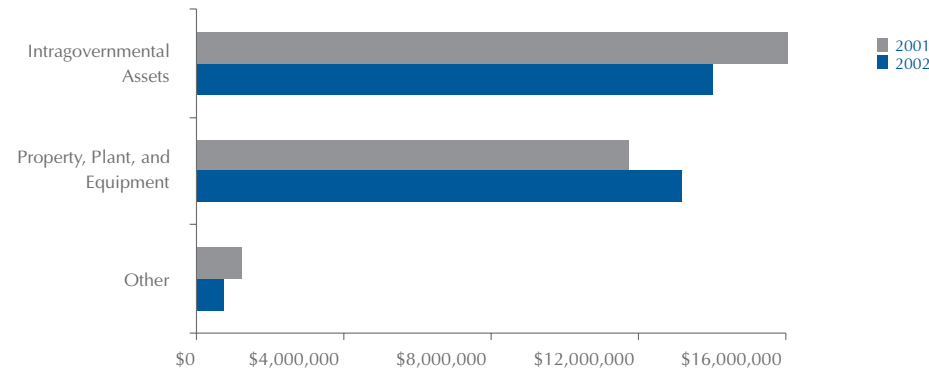Chief Financial Officer

Financial Highlights

Highlights of our FY 2002 financial performance appear in the pages that follow. For a more detailed discussion of FAA's financial statements, see our *FY 2002 Performance and Accountability Report,* which is available on the FAA web site at www2.faa.gov/aba/html_fm/finst.html.

2002 Assets

Intragovernmental Assets 49%

Other 3%

Property, Plant and Equipment 48%
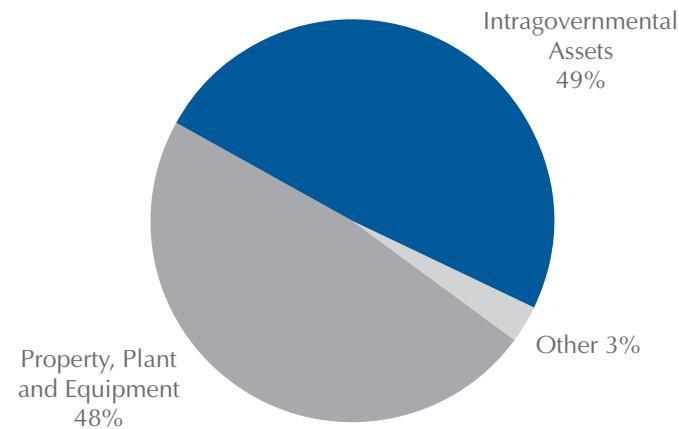
On September 30, 2002, FAA's assets totaled $28 billion. FAA's assets are the resources available to pay liabilities or satisfy future service needs.
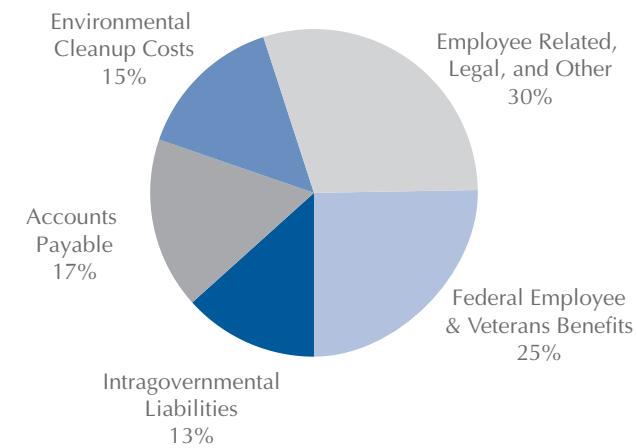
2002 Liabilities

Environmental Cleanup Costs 15%

Employee Related, Legal, and Other 30%

Accounts Payable 17%

Federal Employee & Veterans Benefits 25%

Intragovernmental Liabilities 13%

At the end of FY 2002, FAA reported liabilities of $3.9 billion. Liabilities are probable and measurable future outflows of resources arising from past transactions or events.

Assets Comparison (Dollars in Thousands)

Intragovernmental Assets

Property, Plant, and Equipment

Other

2001
2002

$0 $4,000,000 $8,000,000 $12,000,000 $16,000,000

Liabilities Comparison (Dollars in Thousands)

Intragovernmental Liabilities

Accounts Payable

Environmental Cleanup Costs

Employee Related, Legal, and Other

Federal Employee & Veterans Benefits

2001
2002

$0 $500,000 $1,000,000 $1,500,000

Intragovernmental Assets primarily includes fund balances with the U.S. Treasury and investments of passenger ticket and other excise taxes deposited to the Airport and Airway Trust Fund (Trust Fund). Fund balances with the U.S. Treasury are resources from Department of Treasury accounts from which FAA is authorized to make expenditures to pay liabilities. It includes passenger ticket and other excise taxes deposited to the Trust Fund, but not yet invested. The September 30, 2002, balance of intragovernmental assets decreased about $2 billion from the prior year. Decreased investments result from less exise tax revenues following the terrorist attacks of September 11, 2001, together with correspondingly reduced investment interest revenue.

Property, Plant, and Equipment (PP&E) represents 48 percent of FAA's assets as of September 30, 2002, and primarily comprises construction-in-progress related to the development of National Airspace System assets, and capitalized real and personal property. PP&E increased $1.4 billion, substantially related to construction in progress, due to several factors, including significant civil aviation security-related additions following the attacks of September 11, 2001, and a significant number of projects that were under development during FY 2002, and thus not ready to be placed in use by year-end.
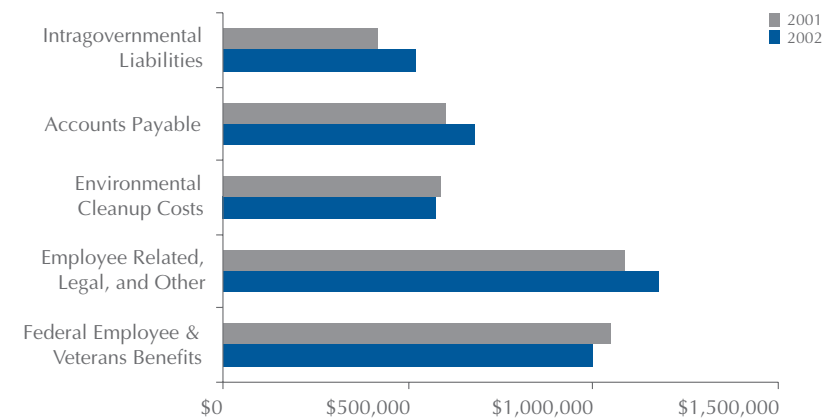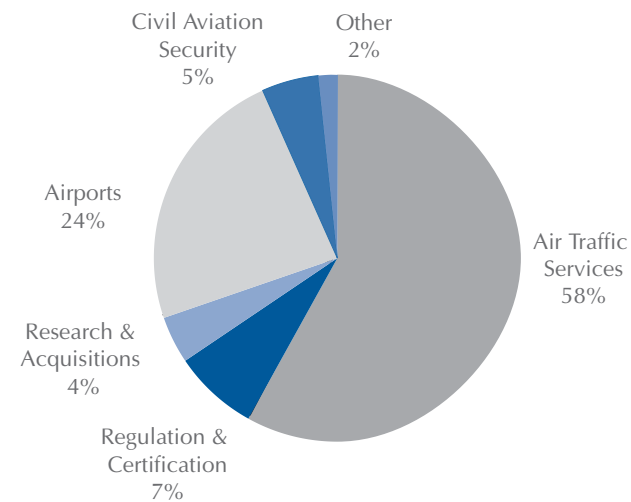
Intragovernmental Liabilities are liabilities to other Federal agencies, including amounts owed to the U.S. Treasury for subsequent excise tax adjustments. Excise taxes are deposited to the Trust Fund quarterly based on estimates by Treasury's Office of Tax Analysis. The amounts are subsequently adjusted when estimates are certified. Intragovernmental liabilities increased $104.3 million, primarily due to a downward adjustment of FY 2002 excise taxes, following certification of the estimate. The prior year estimate was adjusted upward following certification, and thus there was no comparative liability as of September 30, 2001.

Employee Related, Legal, and Other Liabilities increased $92 million, from $1,084 million to $1,176 million as of September 30, 2001 and 2002, respectively. This change is primarily related to increases in accrued payroll and benefits to employees and the value of their accrued annual and other leave, such as compensatory time. These liabilities increased because of (a) increases in number of employee annual and other leave hours, (b) one additional day of unpaid payroll at the end of FY 2002 as compared to FY 2001, and (c) compensation increases.
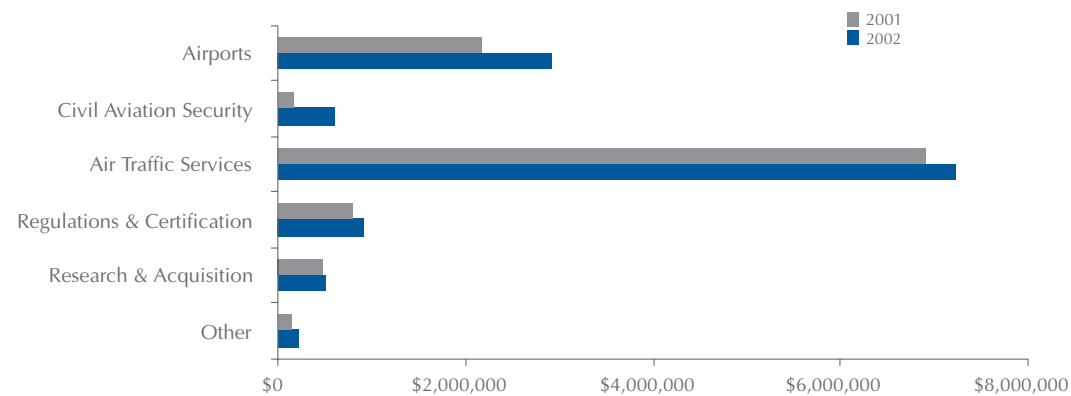
2002 Net Cost

- Air Traffic Services 58%
- Airports 24%
- Regulation & Certification 7%
- Civil Aviation Security 5%
- Research & Acquisitions 4%
- Other 2%

For the fiscal year ending September 30, 2002, FAA's net costs were $12.4 billion. Net cost is total program cost less related earned revenue.

Net Cost Comparison
(Dollars in Thousands)

- Airports
- Civil Aviation Security
- Air Traffic Services
- Regulations & Certification
- Research & Acquisition
- Other

$0 $2,000,000 $4,000,000 $6,000,000 $8,000,000

■ 2001
■ 2002

Airports net cost increased $755 million, from $2,179 million in FY 2001 to $2,934 million in FY 2002. The Wendell H. Ford Aviation Investment and Reform Act for the 21st Century increased Airport Improvement Program funding by more than $1 billion in FY 2001. Airport improvement projects typically take two to three years to complete, and FAA reports the associated expense as the grant recipient accomplishes the improvement work. Thus, FAA's net airports costs continued to increase in FY 2002, as the project lifecycle associated with these grants continued.
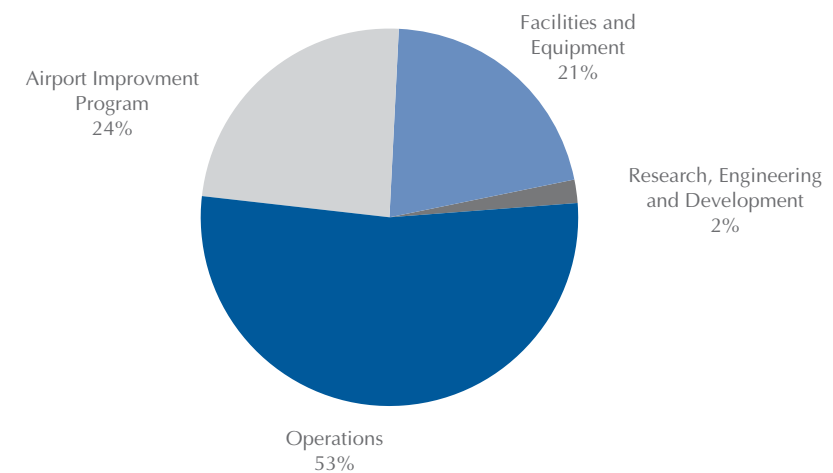
Civil Aviation Security net cost increased from $160.4 million in FY 2001 to $613.9 million in FY 2002, net of earned revenue, due to the increased security actions following the terrorist attacks of September 11, 2001. Although TSA assumed responsibility for civil aviation security functions on February 13, 2002, the FAA incurred substantially increased costs in this area through that date, and we continued to fund certain of these security-related activities thereafter.

Air Traffic Services is FAA's largest line of business, comprising 58 percent of total net costs. Air Traffic net cost increased $329 million, from $6,906 million in FY 2001 to $7,236 million in FY 2002, net of earned revenue, primarily due to personnel compensation and benefit increases.

Regulation and Certification net cost increased $124.8 million, from $798.7 million in FY 2001 to $923.5 million in FY 2002, net of earned revenue, principally as a result of (1) increased personnel compensation and benefits and (2) reimbursements to airlines for costs associated with the Enhanced Airplane Security Program (EASP). These costs include, for example, strengthening cockpit doors.

Region and Center Operations (included in Other) net cost increased $97.1 million, from $118.8 million in FY 2001 to $215.9 million in FY 2002, net of earned revenue, primarily resulting from $90 million of payments made by FAA in FY 2002 following the terrorist attacks of September 11, 2001. These payments included, for example, reimbursement to the Metropolitan Washington Airports Authority for revenue losses due to the temporary closure of Ronald Reagan National Airport.

2002 Budget
by Appropriation

- Operations 53%
- Airport Improvment Program 24%
- Facilities and Equipment 21%
- Research, Engineering and Development 2%

Airport and Airway Trust Fund. Approximately 92 percent of the FAA's FY 2002 budget was provided by the Airport and Airway Trust Fund, which derives its funds from excise taxes and interest generated by the Fund. The Airport and Airway Trust Fund, created by the Airport and Airway Revenue Act of 1970, provides a stable source of funding to finance investments in the airport and airway system and, to the extent funds are available, covers the operating costs of the airway system. Aviation excise taxes, which include taxes on domestic passenger tickets, freight waybills, general and commercial aviation fuel/gas, and international departures and arrivals, are deposited into the Trust Fund. FAA is financed through annual and multi-year appropriations authorized by the Congress. Its FY 2002 enacted budget was $13.528 billion.

Operations. The Operations appropriations fund the salaries and associated costs to operate and maintain the air traffic control system and to carry out FAA's safety inspection and regulatory responsibilities. Funding for Operations in FY 2002 increased $475 million over FY 2001, including $200 million in an emergency supplemental appropriation. Much of the increase was attributable to mandatory pay increases and growth in the controller workforce. In FY 2002, Congress imposed separate funding levels for individual organizations funded by the Operations appropriations.

Facilities and Equipment (F&E). Funds from the F&E appropriation are used to modernize, expand, and replenish the air traffic control infrastructure. Between FY 2001 and FY 2002, there was a 13 percent increase in funding, which includes $108.5 million in the emergency supplemental appropriation. Funding increases supported major systems, such as the en route and terminal automation programs, next generation weather radar, the oceanic automation program, communications, and satellite navigation.

Airport Improvement Program (AIP). The Secretary of Transportation is authorized to award grants for airport planning and development to maintain a safe and efficient nationwide system of public airports. These grants make it possible to fund one-fourth to one-third of all capital development at the Nation's public airports. Grants are issued to maintain and enhance airport safety, preserve existing airport infrastructure, and expand capacity and efficiency throughout the airport system. An increase of $579 million over the FY 2001 enacted level was for airport improvement projects to enhance capacity, improve safety and security, and mitigate noise.

The increase included an emergency supplemental appropriation of $175 million to reimburse airports for the direct costs of meeting new security requirements imposed after September 11th. Congress directed FAA to distribute the funds in a manner that would assist airports facing the greatest financial challenges in complying with the new security directions. FAA received 317 applications that requested a total of $445 million in assistance. We found that smaller airports suffered the greatest effects, while medium-sized and large airports had a greater capacity to absorb the additional costs. Our fund allocations reflected these findings. Almost 200 non-hub airports received $35.6 million to fund 100 percent of their eligible costs, while 67 small hub airports received $28.3 million to fund 50 percent of their eligible project costs. Almost 70 medium/large hub airports received $111.1 million in assistance.

For FY 2003, we are working with TSA and the Office of the Secretary, DOT, to develop a plan to use AIP funds to finance security capital requirements, targeting AIP expenditures for security at the same level as in FY 2002. Funding security at this level will assure that sufficient AIP resources are available to finance other national priorities, including safety, environmental initiatives and major capacity projects. To fund long-term security requirements, such as modifying airport terminals to accommodate screening equipment, and purchasing and installing surveillance cameras, TSA is working with Congress and the FAA to establish a TSA-administered grant program.

Research, Engineering, and Development (RE&D). Funding for RE&D increased $58 million from the prior year and included $50 million in an emergency supplemental appropriation. This additional funding allowed for an increased focus on security, environment and energy, human factors, and aircraft safety, which supports the Safer Skies initiative.

Financial Information

Summary Financial Information

FAA's independent auditor, KPMG LLP, rendered an unqualified audit opinion on FAA's FY 2002 financial statements. KPMG's audit report was presented by the OIG to the FAA Administrator on January 24, 2003.

The summary financial information was derived from the FAA's audited FY 2002 financial statements, which were prepared pursuant to the requirements of the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994.

The **Summarized Net Cost of Operations** presents the annual cost of operating FAA's lines of business.

The **Summarized Changes in Net Position** shows that FAA's net position is $24.0 billion in FY 2002. FAA's $12.4 billion net cost of operations exceeds financing sources by $1.1 billion, resulting in a reduction of net position.

The **Summarized Assets, Liabilities, and Net Position** presents the resources available to use (assets) against the amounts owed (liabilities) and the amounts that comprise the difference (net position).

The audited consolidated financial statements are contained in the FAA's *FY 2002 Performance and Accountability Report,* which is available from:

Office of Financial Management, AFM–1
Federal Aviation Administration
800 Independence Avenue, SW
Washington, DC 20591
E-mail address: Susan.Lee@faa.gov
Fax number: (202) 267–5271

FAA's *FY 2002 Performance and Accountability Report* is also available on the Internet at www2.faa.gov/aba/html_fm/finst.html.

KPMG

2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

Administrator, Federal Aviation Administration:

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the Federal Aviation Administration (FAA) as of and for the year ended September 30, 2002 (not presented herein) and have issued our report thereon dated January 24, 2003.

The accompanying summary financial information of the FAA, as of and for the year ended September 30, 2002, as explained in note 2 thereto, is not a presentation in conformity with accounting principles generally accepted in the United States of America. In our opinion, the accompanying summary financial information is fairly stated, in all material respects, in relation to the portion of the financial statements from which it has been derived.

KPMG LLP

January 24, 2003

SUMMARY FINANCIAL INFORMATION

Federal Aviation Administration

Summarized Net Cost of Operations
For the year ended September 30, 2002

	Amounts (in thousands)
Lines of Business	
Air Traffic Services	$ 7,313,772
Airports	2,933,542
Regulation and Certification	924,614
Research and Acquisitions	586,991
Commercial Space Transportation	11,361
Civil Aviation Security	804,822
Other	
Regional/Center Operations and Other	391,605
Cost of Operations	12,966,707
Less Earned Revenue	(522,788)
Net Cost of Operations	$ 12,443,919

Notes to the Summary Financial Information

1. Reporting Entity. The Federal Aviation Administration (FAA), created in 1958, is a component of the U.S. Department of Transportation (DOT), a cabinet-level agency of the Executive Branch of the United States Government. The FAA accomplishes its mission through different lines of business.

- *Air Traffic Services* operates the nation's air traffic control system.

- *Airports* is responsible for planning and developing a safe, secure, and efficient airport system; enhancing environmental quality and avoiding or minimizing adverse environmental impacts that might result from a proposed FAA action in support of airport development; and developing standards for the design and construction of facilities that enhance the safety of aircraft operations and security of airline passengers.

- *Regulation and Certification* oversees the safety of aircraft and the credentials and competency of pilots and mechanics; develops mandatory safety rules; and sets the standards that have helped make air travel among the safest modes of transportation in history.

- *Research and Acquisitions* supports and conducts research to meet increasing demands for higher levels of system safety, security, capacity, and efficiency; and plans, monitors, controls, schedules, and implements the acquisition of materiel, equipment, and services for the national airspace system and for interagency and international programs.

- *Commercial Space Transportation* oversees the safety of commercial space launches and regulates the commercial space industry.

The Aviation and Transportation Security Act, Public Law 107-71 enacted on November 19, 2001, established the Transportation Security Administration (TSA) and required that *Civil Aviation Security* functions and responsibilities of the FAA be transferred to the TSA not later than three months after the date of enactment. The TSA assumed responsibility for the Civil Aviation Security functions from the FAA on February 13, 2002.

Region/Center Operations and Other includes the costs to operate the FAA's nine regional offices and the Mike Monroney Aeronautical Center.

2. Basis of Presentation. The summary financial information is intended to provide users an overview of the financial status and activities of the FAA and is derived from and should be read in conjunction with the financial statements contained in the FAA's *FY 2002 Performance and Accountability Report*. The summary financial information is not a presentation in accordance with accounting principles generally accepted in the United States of America.

SUMMARY FINANCIAL INFORMATION

Federal Aviation Administration

Summarized Changes in Net Position
For the year ended September 30, 2002

	Amounts (in thousands)
Net Position - October 1, 2001	$ 25,126,328
Budgetary Financing Sources	
Excise taxes and non-exchange revenue	9,625,942
Appropriations received	1,112,481
Imputed financing and other	579,345
Total financing sources	11,317,768
Net Cost of Operations	(12,443,919)
Net Position - September 30, 2002	$ 24,000,177

Notes to the Summary Financial Information (continued)

3. Budgetary Financing Sources. The FAA is funded primarily from excise taxes collected by the Internal Revenue Service from airway system users and deposited into the Airport and Airway Trust Fund (AATF). Annually, Congress enacts annual, multi-year, and no-year appropriations from the AATF and the General Fund of the U.S. Treasury to be used, within statutory limits, to fund the FAA's net operating and capital expenditures. As shown on the *Summarized Net Cost of Operations*, the FAA also earns revenue from the sale of goods and services to other entities and from users fees. *Imputed financing and other* represents FAA costs paid by other entities, such as the Office of Personnel Management, which funds a portion of retirement costs for Federal employees.

4. Net Position. Net position consists of unexpended appropriations and cumulative results of operations, which total $482 million and $23,518 million, respectively. Cumulative results of operations represent certain assets of the FAA less liabilities, which will be funded by future budgetary resources and Congressional appropriations.

Federal Aviation Administration

Summarized Assets, Liabilities, and Net Position
As of September 30, 2002

	Amounts (in thousands)
Assets	
Intragovernmental assets, including funds with the U.S. Treasury and investments	$ 14,052,179
Property, plant, and equipment, net	13,175,768
Inventory, related property, and other	718,990
Total Assets	$ 27,946,937
Liabilities	
Intragovernmental liabilities	$ 521,693
Accounts payable	677,182
Environmental cleanup costs	574,676
Employee related, legal, and other	1,176,106
Federal employee and veterans benefits	997,103
Total Liabilities	3,946,760
Net Position	
Unexpended appropriations	481,919
Cumulative results of operations	23,518,258
Total Net Position	24,000,177
Total Liabilities and Net Position	$ 27,946,937

Notes to the Summary Financial Information (continued)

5. Assets. Intragovernmental assets consists primarily of $10,997 million of AATF funds, which Congress has not appropriated to the FAA, and which is invested in U.S. Treasury securities. *Property, plant, and equipment* consists primarily of equipment and related property that the FAA uses to operate the nation's air traffic control system. Repair parts, used to keep the air traffic control system operational, constitute the majority of *Inventory, related property and other*.

6. Liabilities. Intragovernmental liabilities consists primarily of the FAA's contributions owed to other Federal entities for life, health, retirement, and Social Security benefits and matching contributions to the Thrift Savings Plan. *Accounts payable* represents amounts owed to vendors for goods and services that the FAA has received. Environmental cleanup costs represents the accrued costs to correct known environmental hazards and decommission existing assets. *Employee related, legal, and other* consists primarily of accrued personnel compensation and legal liabilities considered probable of loss. *Federal employee and veterans benefits* represents the actuarial liability for future benefits payable for death, disability, medical, and miscellaneous costs for FAA employees under the Federal Employees Compensation Act.

Future Flight

Imagine an airplane with an immune system that allows it to automatically heal its skin or one that flies with curved control surfaces that could adjust thousands of times per minute, like feathers on the wings of a bird. Consider an aircraft that can seat 600 people, weighs half as much as today's planes, and can fly three times as far. While this may sound like science fiction, it may, in fact, be the future of flight.

Rapid advances in microelectronics and materials are bringing us closer to airplanes that are more like living organisms than machines. The emerging field of nanotechnology promises to revolutionize air travel. Manufacturers will be able to routinely incorporate "smart" materials with built-in information processing into devices the size of molecules that can be controlled by equally miniaturized electronics. Tomorrow's airplanes could self-repair or self-correct in flight and contain redundant systems to handle almost any airborne emergency. These airplanes of the future will be faster and more maneuverable, enabling airlines to transport more passengers and cargo more safely and efficiently.

FAA's research, engineering, and development program has historically provided a solid foundation for advances in aviation. Our strong commitment to research is vital to future flight, and we will continue developing new technologies to help ensure the safety and efficiency of the global aviation system.

U.S. Department of Transportation
Federal Aviation Administration

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