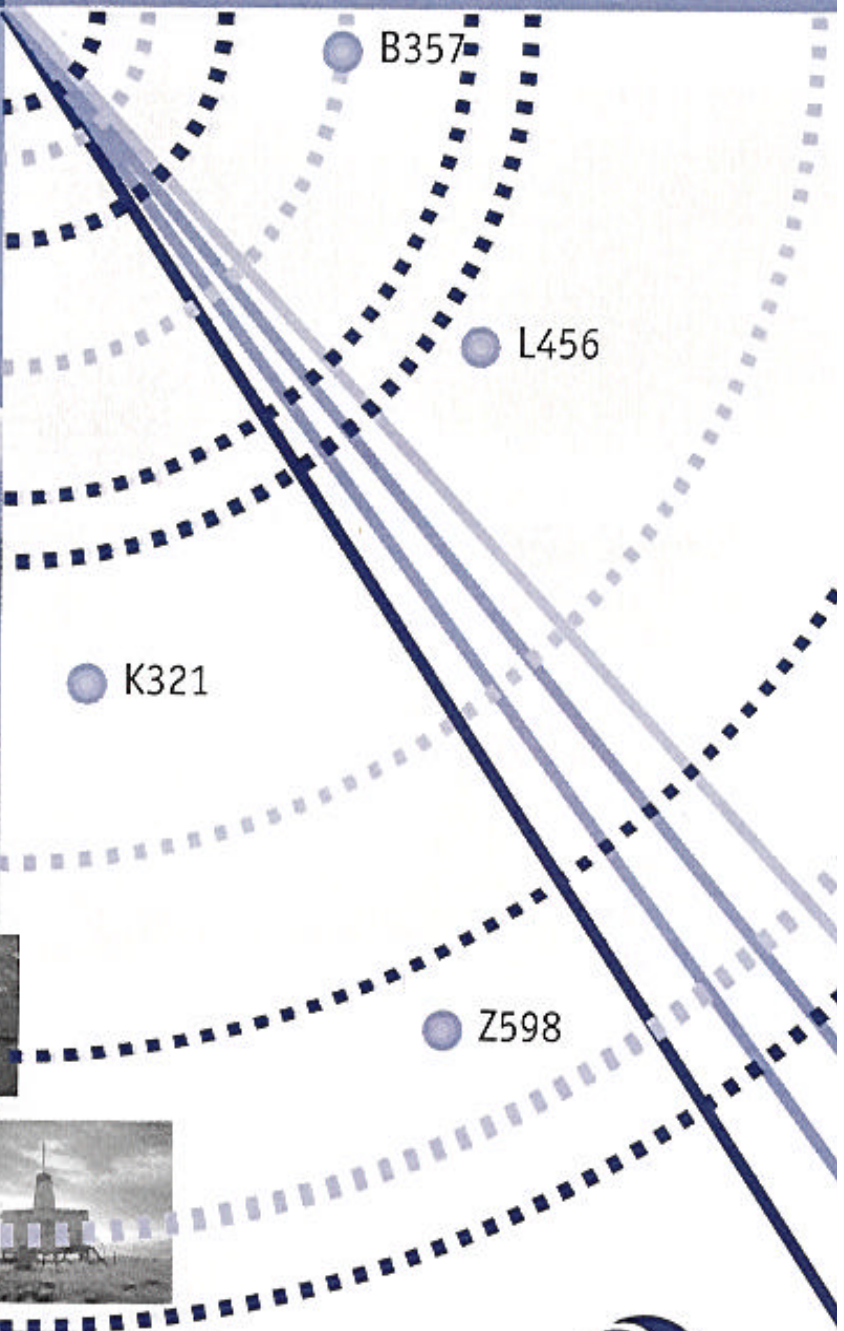
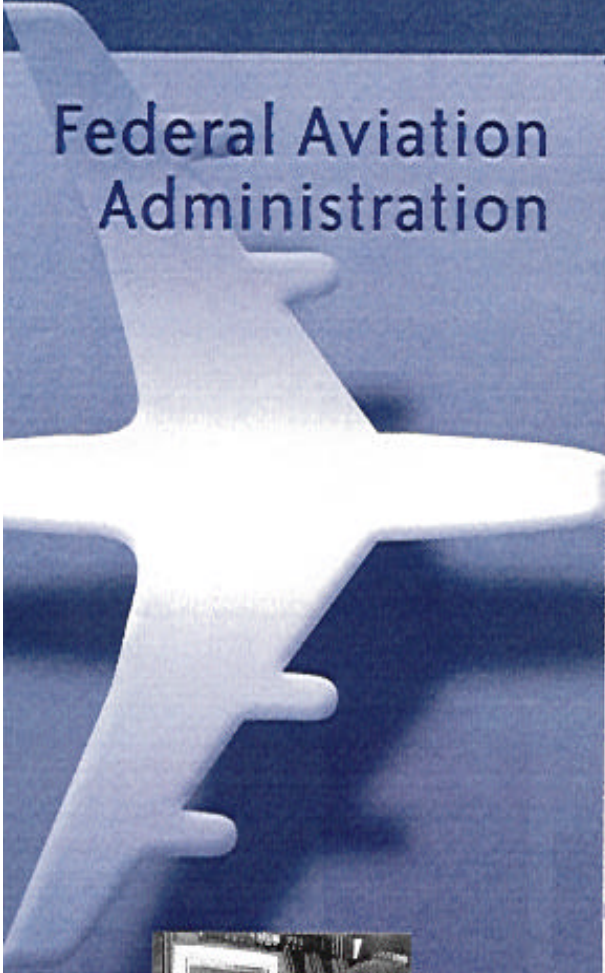


2000

Annual Report

Federal Aviation
Administration



U.S. Department of Transportation
Federal Aviation Administration

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A MESSAGE FROM THE ADMINISTRATOR

I am pleased to present the FY 2000 Annual Report of the Federal Aviation Administration (FAA). Along with our financial statements, the report describes our most significant program accomplishments and performance results — summing up the year’s work of our 49,000 skilled and dedicated employees. The safety and security of air travelers have always been our foremost missions. We also have an obligation to provide the American people with an efficient, technically advanced air transportation system capable of keeping pace with the growing demand for aviation services and to do so in a way that achieves the greatest possible improvement for each dollar spent.



The summer of 2000 placed our air traffic control system under enormous strain. Yet, despite the combined impact of bad weather, airline labor problems, and extremely heavy demand, most of the tens of millions of airline passengers who flew during this peak period reached their destinations on schedule. More importantly, everyone of the hundreds of thousands of flights arrived safely.

Those who were delayed, however, had good reason to complain. As Secretary of Transportation Norman Y. Mineta told the Congress, “congestion and delay not only waste our time as individuals, they also burden our businesses and our entire economy with inefficiency and higher costs.” Our top priority in the coming year, second only to safety, is to work with the Nation’s airlines and airports to find better ways to reduce aviation congestion and delay. For our part, we will continue to make our procedures more efficient, modernize our technology, and support efforts to expand airport capacity.

Let me briefly describe some of our activities this past year.

Our Spring/Summer 2000 Plan, announced last March, signaled a new working partnership between Government and the private sector. For the first time, FAA and the airlines actively collaborated in the real-time management of our airspace during the severe weather season.

We are finding ways to use our airspace more efficiently, pinpointing the “choke points” or bottlenecks in the system. This information led to 21 changes in procedures that will produce immediate benefits. Longer term, the total redesign of the national airspace, that is now ongoing, will help us to avoid gridlock in the next decade as we expect to see a 35-percent increase in commercial airline flights and a 21-percent gain in general aviation activity. Airspace redesign east of the Mississippi River should start to ease congestion within the next 5 years.

We have made real progress in modernizing our air traffic control system. Air route traffic control centers, nationwide, are now fully upgraded, and we have already seen a 50-percent reduction in delays due to equipment failure. Work is proceeding now to upgrade technology in the terminal environment—evidence that our “test, build, deploy” strategy is successful in maintaining momentum in the push toward modernization.

The introduction of Free Flight technology is making a measurable contribution. Limited deployment under Phase 1 has already produced a 5-percent increase in the arrival rate at Dallas/Fort Worth. Phase 2, announced in May 2000, will introduce other state-of-the-art capabilities. Progress in modernization has reinforced our belief that enhanced safety and increased efficiency are not competing priorities. As goals, they are fully compatible.

Expanding airport capacity, the third critical element in our coordinated effort to keep pace with aviation growth, became more viable with the passage this year of AIR 21—the Wendell H. Ford Aviation Investment and Reform Act for the 21st Century. AIR 21 addresses the capital needs of airports through an enlarged Airport Improvement Program (AIP), higher levels of passenger facility charges (PFC), and increased funding for air

traffic control modernization. By authorizing AIP funding for 3 years, this bill also provides the stability we need for long-term planning.

FAA's overall performance is being judged, to a considerable degree, on how well we deal with the problem of delay. This year, we are creating a new performance-based organization within the FAA to manage the operation of air traffic control services. It will be headed by a chief operating officer who will be hired through a nationwide competitive search. Overseeing the new organization is a five-member subcommittee of the FAA's Aviation Management Advisory Council that will function as a board of directors. This move introduces higher standards of accountability at the same time that it provides the requisite managerial resources to raise the level of performance significantly in the core business of the FAA. The establishment of this new organization is a major step toward development of a 21st century aviation system.

As we remain flexible in adapting to changing conditions, continue to modernize our technological base, and seize every opportunity to expand airport infrastructure, I am confident the FAA is well positioned to cope, not only with the problem of delay, but with whatever challenges may confront us in the coming year.

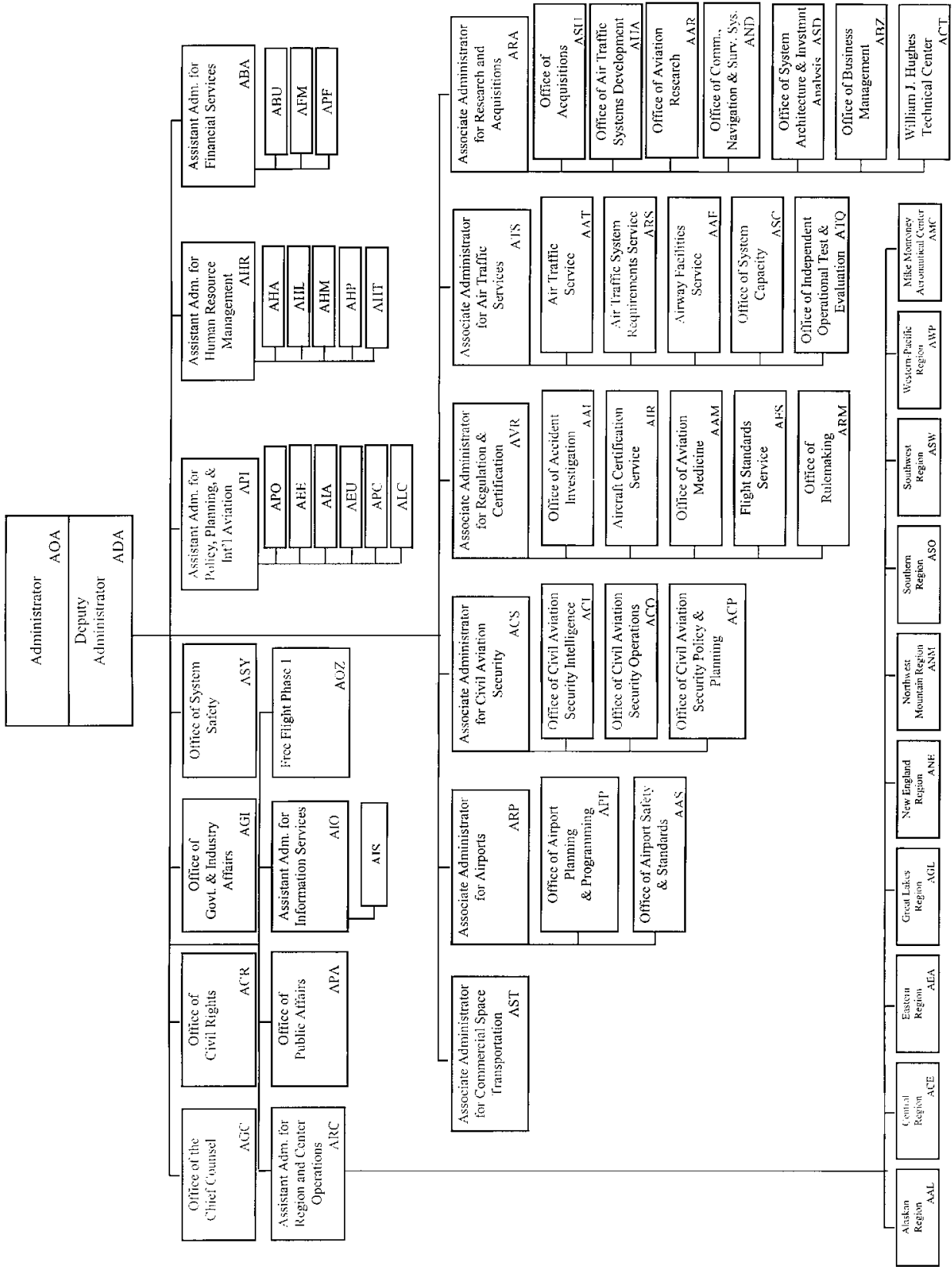


Jane F. Garvey
Administrator

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FEDERAL AVIATION ADMINISTRATION



INTRODUCTION

The FAA Annual Report for FY 2000, prepared in conformity with the Chief Financial Officers Act of 1990, documents FAA's recent accomplishments and financial initiatives. It consists of two chapters.

The first chapter contains a three-part Management Discussion and Analysis. The first part is an overview that includes a statement of the FAA's mission, a description of our overall organization, and a brief review of program accomplishments keyed to FAA's major lines of business. The second part contains financial highlights for FY 2000. The third part

provides a summary of the agency's strategic goals and a discussion of our performance in meeting those goals.

The second chapter presents the FAA's detailed financial statements for FY 2000. Opening with a message from the Chief Financial Officer, it continues with the auditor's report, the financial statements and notes, and required supplemental information pertaining to the agency's stewardship of its resources and other matters.

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MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

FEDERAL AVIATION ADMINISTRATION

The Federal Aviation Administration (FAA) is the leading Federal agency responsible for the safety of civil aviation and for guiding and helping develop commercial space transportation. FAA traces its creation to the enactment of the Air Commerce Act signed into law in 1926. That act established the framework for the safe and orderly growth of civil aviation and the management of the Nation's airways.

Today, the United States air transportation system is, by far, the busiest and most complex in the world. U.S. commercial airlines carry approximately 50 percent of the world's air travelers, and 19 of the world's 20 busiest airports are located here. The Nation's decade-long economic expansion has produced a sustained increase in demand for air traffic control services. Since 1990, the number of passengers traveling on U.S. commercial airlines has grown from 500 million to nearly 700 million, and the number is expected to reach one billion by 2011.

Air travelers rightly demand that our aviation system be safe and reliable. FAA's challenge is to meet – even exceed – these expectations and to do so in the face of continuous growth. Meeting this challenge requires steady progress in enhancing safety, improving security, and increasing the efficiency of air travel by modernizing the air traffic control system and expanding the capacity of the Nation's airports.

The activities, performance measures, and financial



Photo by Kev Cook

statements presented in this annual report provide information by which Congress and the public can assess the effective allocation of our resources to achieve our strategic objectives. The annual report also serves to highlight those issues that require the continuing commitment of resources.

FAA will continue to channel its resources to respond to calls for higher levels of safety under conditions of surging growth. We will make further progress in effectively integrating technological advances as part of our ongoing modernization. These imperatives are expressed in the specific goals of the FAA's Strategic Plan. One goal, in particular, takes precedence over all others: by 2007, FAA, in partnership with the National Aeronautics and Space Administration (NASA), is committed to reducing the already low U.S. aviation commercial fatal accident rate by 80 percent from the 1996 level.

In support of this goal, the FAA Administrator established the *Safer Skies* agenda with the aviation community in 1998. *Safer Skies* focuses on the prevention of accidents by addressing recurrent causes, sharing safety information, and improving certification and surveillance.

MISSION STATEMENT

FAA provides a safe, secure, and efficient global aerospace system that contributes to national security and the promotion of U.S. aerospace safety. As the leading authority in the international aerospace community, FAA is responsive to the dynamic nature of customer needs, economic conditions, and environmental concerns.

Major activities include:

- operating and maintaining the Nation's air traffic control system;
- regulating civil aviation safety and security and setting certification standards for air carriers, commercial operators, air agencies, and pilots;
- improving the baseline of aviation security;

- modernizing the National Airspace System (NAS) and speeding the transition to the next generation of air traffic control technology;
- administering the Airport Improvement Program (AIP) to improve the infrastructure and expand the capacity of the Nation's airports;
- promoting global aviation safety and security in collaboration with the International Civil Aviation Organization (ICAO) and other civil aviation authorities abroad;
- licensing and regulating the U.S. commercial space transportation industry.

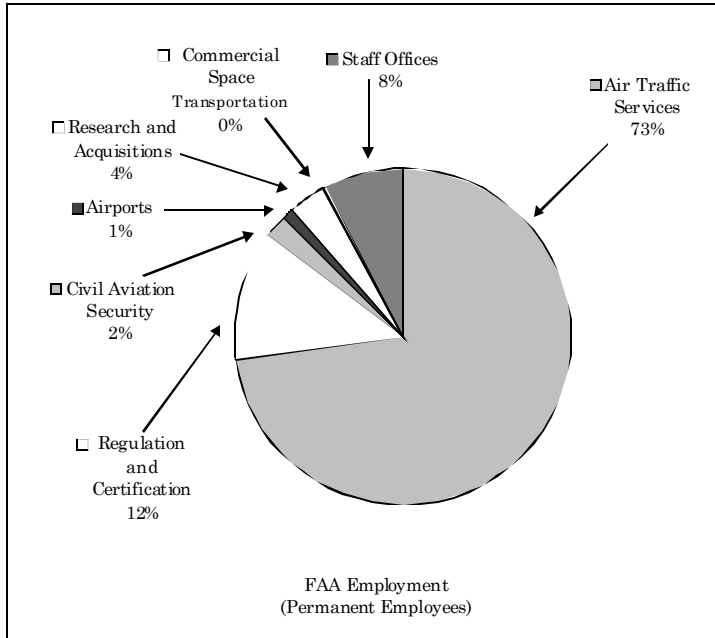
FAA HEADQUARTERS AND FIELD ORGANIZATION

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

ORGANIZATION

The FAA is headed by an Administrator who is assisted by a Deputy Administrator. Reporting to the Administrator are six Associate Administrators who

direct the principal functions that support the agency's mission. Also reporting to the Administrator are the Chief Counsel, nine Assistant Administrators, and one office director responsible for other key programs. FAA's field organizations – where more than 90 percent of all FAA employees work – are concentrated in nine geographical regions and two major centers, the Mike Monroney Aeronautical Center and the William J. Hughes Technical Center. Together, the FAA team of over 49,000 employees administers the world's busiest and safest civil aviation system.

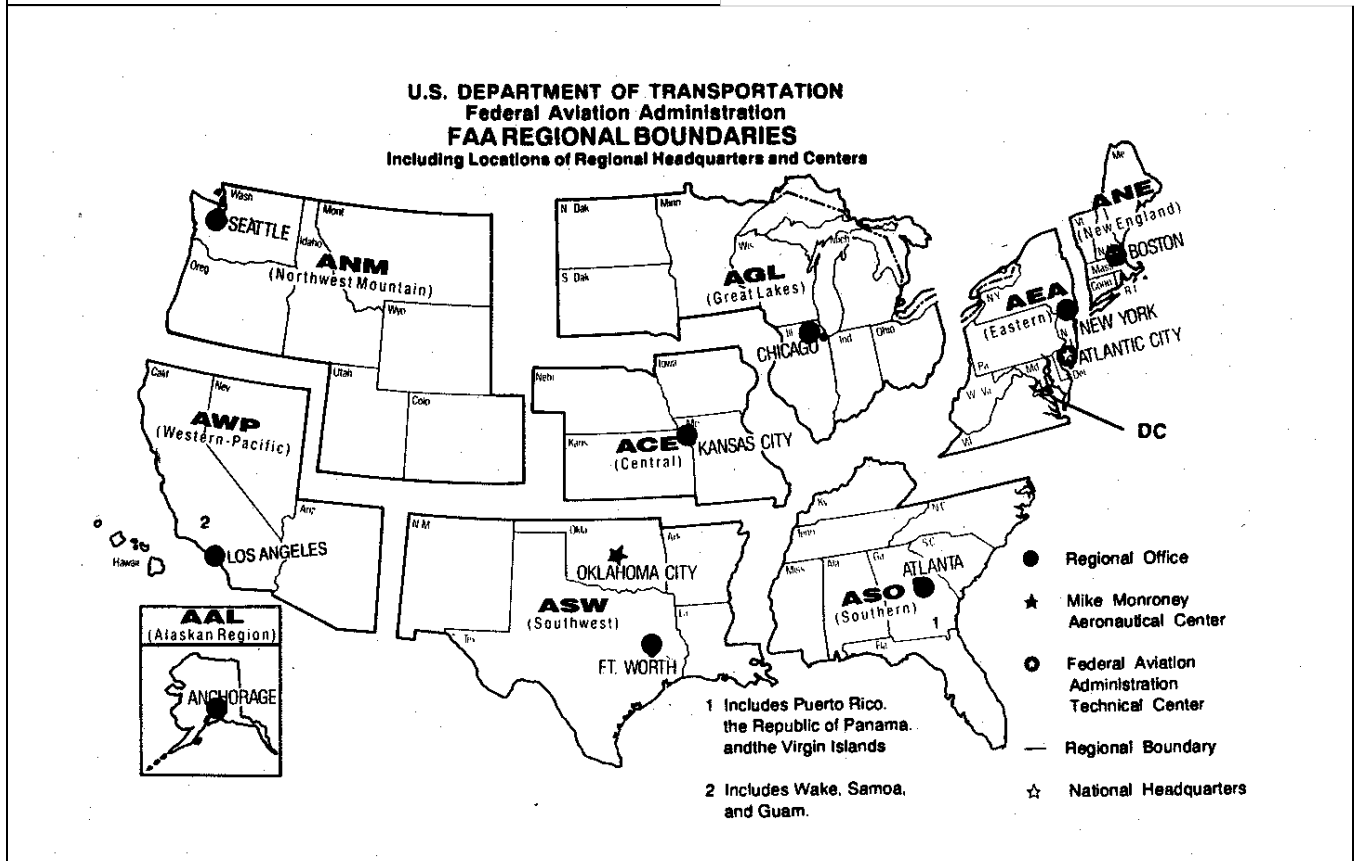


FAA is one of 10 operating arms of the Department of Transportation (DOT) and is a full partner in the ONE DOT Management Strategy – a program that emphasizes collaboration among departmental branches.

FY 2000 ACTIVITY HIGHLIGHTS

Safety Regulation and Certification

FAA aviation safety inspectors and technical staff oversee the safety of planes and the credentials





FAA aviation safety inspectors perform more than 275 thousand inspections and audits each year, helping make air travel among the safest modes of transportation.

and competency of pilots and mechanics, develop mandatory safety rules, and set the standards that ensure safety in the skies. FAA also evaluates foreign governments' oversight of their airlines serving U.S. airports and releases the results on its Web site (www.faa.gov/avr/iasa/index.htm) so that the public can know which countries meet international safety standards. FAA streamlined this program in May 2000 to make it easier for consumers to understand the rating categories.

- *Partnership to Increase Aviation Safety.* In January 2000, President Clinton announced the implementation of the Aviation Safety Action Program (ASAP), a key *Safer Skies* initiative designed to encourage better reporting of safety concerns by aviation employees. ASAP will give FAA and airlines an important new source of information to prevent safety incidents and will help meet the Administration's goal of reducing the U.S. commercial aviation fatal accident rate by 80 percent by 2007. ASAP has three important features. It will (1) provide new sources of safety data, (2) create new incentives to report safety problems, and (3) heighten ability to reduce accidents and track problem areas.
- *Improved Airline Inspection.* The Air Transportation Oversight System (ATOS), announced in October 1998, is in place for the Nation's 10 largest airlines – those handling 95 percent of all U.S. passengers – and will ultimately include all U.S. airlines. ATOS will improve how the FAA oversees and inspects airlines. It is designed to identify safety trends in order to spot and correct problems at their root cause before an accident occurs. Feedback from the principal inspectors of the 10 air carriers and others

has resulted in a number of improvements since the program was begun. New, enhanced system safety and risk identification training has been developed, and ATOS policies and procedures are being revised based on lessons learned. Followup training was provided in FY 2000 for the 511 inspectors currently conducting ATOS surveillance. In July 2000, FAA began a special review of ATOS. The review will recommend where and how to improve and accelerate ATOS development and implementation.

- *Airline Safety Data.* On June 30, 2000, FAA proposed a rule to give the FAA access to key safety data from every U.S. airline participating in the Flight Operational Quality Assurance (FOQA) program. FOQA uses state-of-the-art flight data recorders to collect and analyze data on routine flights. FAA plans to use this information to identify aviation safety trends and target potential problems. Eight airlines have FOQA programs, one has FAA approval pending, and five others say they plan to initiate programs in the future.
- *Terrain Awareness and Warning System (TAWS).* A final rule was issued in March 2000 that requires the installation and use of TAWS equipment on turbine-powered airplanes with six or more passenger seats. The TAWS rule is aimed at eliminating accidents or incidents in which the airplane, under the flightcrew's control, is inadvertently flown into terrain, obstacles, or water. The TAWS requirement is a major component of the Administrator's *Safer Skies* agenda.
- *FAA/Boeing 737 Rudder Initiatives.* Following a year long, top-to-bottom analysis, FAA announced on September 14, 2000, near-term and long-term initiatives regarding the Boeing 737 rudder system. Long-term, the FAA will initiate rulemaking to mandate a redesign of the Boeing 737 rudder system. The redesign will increase the overall safety of the 737 by simplifying and enhancing the rudder system and eliminate known failure possibilities. Redesign and retrofitting of a modified rudder system on the entire 737 fleet will take several years. Boeing will have to develop and thoroughly test the new design and make sure its installation will not have unintended negative safety consequences. Near-term initiatives involve changes in operations and maintenance. On October 26, 2000, FAA issued an airworthiness directive (AD) that mandated a simplified

procedure to be used in the event of a jammed or restricted rudder and initiated associated training. Boeing and the FAA are reviewing and revising the maintenance program. If significant changes are identified, rulemaking to mandate the maintenance will be mandated in 2001.

- *FAA Flight Data Link.* General aviation aircraft are now able to get cockpit displays of digital weather graphics and text through an FAA-sponsored service inaugurated in July. The Flight Information Service Data Link (FISDL) service is offered without charge but requires a special cockpit display. Other text and graphic information is available through subscription. FISDL is a Government-industry partnership with Arnav Systems and Honeywell International.
- *Modified GE CF6 Engines Inspection Times.* Inspections of General Electric CF-6 engines will be performed on a more restricted schedule following an FAA AD issued in August 2000. The inspections are being done to detect cracking in the high-pressure compressor stage (3-9 spool) that could cause an uncontained engine failure. The compressor in an aircraft engine compresses the incoming air and speeds it up before it enters the combustion chamber to mix with fuel. The accelerated inspections were ordered following an uncontained engine failure experienced by a Varig Brasil Airlines Boeing 767 in June 2000. There are about 1,180 CF-6 engines in the U. S. fleet, approximately 1400 worldwide.
- *Insulation Replacement Rules Finalized.* A final rule issued on May 25, 2000, requires operators of 719 Boeing MD-80, MD-88, MD-90, DC-10, and MD-11 aircraft to replace insulation blankets covered with metalized Mylar. The agency proposed the rule in August 1999 to minimize the risk of fire spreading aboard these types of aircraft. Replacement materials must meet a new flame propagation standard based on an American Society for Testing and Materials flammability standard. FAA developed the new test standard with input from world-renowned fire experts.
- *Thermal Acoustic Insulation Rulemaking.* Notice of Proposed Rulemaking (NPRM) 00-09 was issued on September 8, 2000, to incorporate the new flame propagation standard into the regulations for new transport category airplanes. Newly type certificated airplanes and newly manufactured airplanes entering service under any of the

operating parts 3 years after the effective date of the regulation would be required to comply. NPRM 00-09 also proposed a new standard for burn through resistance of thermal acoustic insulation, which would apply to newly type certificated airplanes and newly manufactured airplanes entering Part 121 service 4 years after the effective date of the regulation.

- *Transport Airplane Fuel Tank Safety.* On October 26, 1999, FAA proposed rulemaking that would require increasing fuel tank safety. It proposed a Special Federal Aviation Regulation (FAR) that would require a design review to show that the design of existing airplane designs precludes ignition sources in fuel tanks; operational rules that would require mandatory fuel tank system maintenance actions; and a design rule that would, for the first time in civil aviation, require that new airplane designs minimize the exposure of fuel tanks to flammable vapors. In a separate action, on July 10, 2000, FAA tasked the Aviation Rulemaking Advisory Committee (ARAC) to provide recommendations to the FAA on future rulemaking that would reduce the acceptable level of fuel tank flammability to the lower levels that could be obtained using fuel tank inerting. The ARAC report is due by July 14, 2001, and will address rulemaking for existing inservice airplanes, newly manufactured airplanes, and new type design airplanes.
- *Aging Transport NonStructural Systems.* In response to a report from the White House Commission for Aviation Safety and Security, FAA Administrator Garvey established the Aging Transport Systems Rulemaking Advisory Committee (ATSRAC). ATSRAC was specifically chartered to: (1) review service histories, service bulletins, and service letters for the aging transport fleet which pertain to aging systems for possible mandatory action and provide recommendations to the FAA; (2) to conduct evaluations of inservice transport airplane models; (3) to provide recommendations to the FAA for improvements to airplane maintenance to better address aging airplane systems, including the study of inspection criteria for systems; and (4) to propose revisions to the FAR's and associated guidance material as may be appropriate to institutionalize the lessons learned from the aging systems program.

The work of ATSRAC and the FAA has yielded significant benefits. Fleet inspections are

completed, and a report on the findings of the nonintrusive inspections on 81 aircraft has been published. In addition to the fleet inspections performed under the nonintrusive inspection program, a review of aging airplane service history was performed. The intrusive inspections of six aging aircraft are complete. The result of these inspections has shown that there are no immediate safety problems, but there may be some follow-on corrective actions. Improvements are needed in maintenance and design practices. The major airlines that comprise the Air Transport Association of America have already taken steps to improve their own maintenance practices with respect to wiring by adopting Wiring Practices Guidelines. Through the work of the FAA and ATSRAC, awareness has been raised both domestically and internationally, with respect to wiring best practices and wiring safety. FAA is also working to develop training for its engineers and inspectors, developing a new wire system reporting code plus a process for reporting wire system problems and is leading the way in research and development with regard to aging systems.

- *Heart Device Proposal.* President Clinton announced a proposed rule in May that would require U.S. airlines to carry automatic external defibrillators and other medications on all U.S. domestic and international flights. Eight major and six regional airlines either currently carry or have made a commitment to carry the heart device, which can help save lives of airline passengers who suffer cardiac arrest in flight.

Civil Aviation Security

FAA works with local security, intelligence, and law enforcement agencies to protect passengers, personnel, aircraft, airports, and critical national airspace facilities against terrorist and other criminal acts. Threats are monitored continuously and, when necessary, the FAA orders heightened precautions. Internationally, FAA assesses the effectiveness of security measures both at foreign airports served by U.S. carriers and also at airports that are a last point of departure by foreign air carriers for service into the United States. Currently, the Foreign Airport Assessment Program covers 240 airports in over 100 countries.

Preventing security incidents in the aviation system requires constant vigilance. Areas of focus include improving the training, performance, and retention of



Screeners play a vital role in aviation security by detecting dangerous objects and keeping those objects from being brought on board passenger planes.

airport screeners; improving cargo security standards; deploying advanced security technology; strengthening security through consortia and partnerships with airport, airline, and law enforcement personnel; conducting unannounced, realistic operational tests of security systems; enhancing controls on access and movement in secure areas of airports; and safeguarding FAA personnel and the critical infrastructure support of the NAS.

- *Certification of Screening Companies.* On January 5, 2000, FAA proposed a rule that would require agency certification for companies hired by the airlines to perform security screening at airports. The rule would set standards for companies providing security screening, strengthen training and testing standards for screeners, and impose more stringent experience and training requirements on screening company managers and instructors.
- *Advanced Security Technology.* Subsequent to the initial release of the report of the White House Commission on Aviation Safety and Security in 1996, the deployment of advanced technology equipment for screening checked baggage at the Nation's airports has been a top priority of the Clinton Administration as well as the Congress.

The scope of the FAA's efforts to improve civil aviation security has focused on the deployment of explosives detection systems (EDS), explosives trace detection (ETD) devices, and advanced x-ray equipment (TRX) capable of projecting threat images to improve screener training and proficiency. The effort also includes deployment of mission-support elements that include screener-assist technologies and computer-based training aids.

By the end of FY 2000, the FAA had installed 133 EDS's (including 21 advanced technology units) for screening checked baggage, 665 ETD units for screening carry-on, checked baggage, and 186 TRX units at over 130 airports. The FAA expects to extend the deployment program to over 400 airports across the country.

During FY 2000, FAA awarded contracts worth up to \$50 million to three vendors for the purchase of up to 210 ETD units from each manufacturer. The FAA also signed contracts for the purchase of up to 60 units from a second manufacturer of EDS equipment.

As the deployment program expands to airports or air carrier stations with lower passenger activity, the FAA is sponsoring the development of more cost effective screening systems which provide equivalent detection capability but at a lower cost for initial purchase and operations. In addition, its size and throughput will be better matched at airports with reduced terminal space and passenger volume. FAA has awarded grants totaling \$8.6 million to develop prototypes of these lower cost EDS's.

- *FAA/United Kingdom Memorandum of Cooperation.* The FAA and the Civil Aviation Authority (CAA) of the United Kingdom agreed in September to work together to promote dangerous goods inspections and enforcement. The two countries will work together to investigate incidents and also agreed to share reports, documents, and other safety-related information.
- *Civil Aviation Security Consortia.* Voluntary consortia have been established at U.S. airports to identify, discuss, and solve security problems at the local levels. Consortia members include airport operators, airlines, local law enforcement, airport tenants, FAA security agents, and other Government officials.
- *Information System Security.* FAA is strengthening its safeguards against unauthorized access to its facilities and information. Risk assessments were conducted for mission critical systems, and 102 contracts were modified to tighten security procedures. Contracts related to nonmission critical systems will undergo similar risk assessments and revisions. These precautions were taken in parallel with the imposition of stricter security standards at FAA facilities. By the end of

FY 2000, 450 facilities had been assessed and 66 accredited as meeting the new, tougher requirements.

Global Aviation Information Network (GAIN)

Representatives from 20 government agencies met at the Fourth Global Aviation Information Network (GAIN) World Conference in June 2000, hosted by Airbus Industrie and Air France. The conference addressed issues related to collecting and sharing safety information, showcased analytical tools that are being used by airlines to extract useful information from large quantities of safety data, and demonstrated two prototype systems that can exchange airline safety event reports securely in near real time. GAIN was proposed by the FAA in 1996 as a way to promote and facilitate the voluntary collection and sharing of safety information among users in the international aviation community. Within FAA, the Office of System Safety is the focal point for the GAIN initiative.



Controllers in airport traffic control towers keep aircraft safely separated as they take off, land, and move along runways and taxiways.

Air Traffic Services

From the time pilots begin pre-flight activities until they shut down the aircraft at their destination, air traffic controllers provide an integrated set of services to ensure that each aircraft operation is safe. Controllers at local airport towers direct airplanes that are taking off, landing, or flying within the visual range of their tower – usually about 5 miles. Controllers in terminal radar approach control (TRACON) facilities handle aircraft for one or more airports in a large metropolitan area, generally within 30 to 40 miles of the area's major airport. Controllers at 21 air route traffic control centers (ARTCC) guide airplanes in flight from one city to another. Traffic management specialists at the David J. Hurley Air Traffic Control Systems Command Center

(ATCSCC) in Herndon, Virginia, plan and balance the flow of air traffic, nationwide, to maximize safety and minimize delays and congestion. Flight service stations (FSS) provide flight plan filing, weather data, and information briefings to pilots. They rely on a complex network of radar, computer, and communications systems that are kept operating at peak efficiency by highly trained electronics and environmental technicians.

- *Reducing Delays.* FAA and the airlines began working in the fall of 1999 to develop a new approach to managing operations during severe weather conditions. The “Spring/Summer 2000 Plan” announced by President Clinton on March 10, 2000, maximizes the use of available airspace, improves communications between FAA and the airline industry, and expands the use of new technology to help reduce delays.

Operational use of a new tool designed to help reduce delays at major airports in the northeastern part of the United States was announced May 31, 2000. The departure spacing program (DSP) is a coordination and planning tool that enables air traffic controllers to work more efficiently with traffic management coordinators to better use existing capacity for departing aircraft. Using DSP, controllers can coordinate rerouting to avoid severe weather and reduce the need for voice communication between air traffic control facilities by providing flight plan information and reports. The tool has been in use at LaGuardia, Kennedy, Newark, and Philadelphia airport towers and in radar control facilities in the New York area since April 2000. In the future, this program will be expanded to allow the FAA ATCSCC in Herndon, Virginia, to facilitate the flow of traffic into and out of all the northeast U.S. airports to maximize use of available airspace.

FAA has launched a special Web site, www.fly.faa.gov, to provide the latest information about delays at U.S. airports.

- *Enhancing Runway Safety.* FAA is collaborating with industry to increase awareness of runway safety – through education and training of pilots, controllers, and ground vehicle operations – and through technology. Outreach efforts during FY 2000 included a series of workshops held around the country to produce regional and local plans to reduce runway incursions, a runway safety human factors symposium, and a National Summit

convened in Washington on June 26-28, 2000.

FAA announced at the summit that it will buy a new low-cost ground surveillance system, called ASDE-X, for installation at 25 mid-size and smaller airports. The new airport surface detection equipment will provide detailed coverage of runways and taxiways at an airport and also alert air traffic controllers in the tower to impending collisions.

Testing of the Airport Movement Area Safety System (AMASS) – a computerized enhancement to the current airport ground radar that warns controllers visually and aurally of incursions that might lead to collisions – began at San Francisco in September and at Detroit in October 2000. Since undergoing a major program reevaluation in FY 1999, AMASS has met or exceeded each deadline in its revised schedule. With successful testing, commissioning at 34 airports should begin in 2001.

FAA is also evaluating other tools that have potential to enhance runway safety, such as GPS-based automatic dependent surveillance-broadcast (ADS-B) technology. ADS-B provides precise position information reports from aircraft and ground vehicles to the air traffic control tower and to other aircraft equipped with this technology.

On September 25, 2000, FAA issued a Broad Agency Announcement requesting demonstrations of any new or emerging technology that could increase safety at U.S. airports.

Free Flight

Free Flight is a new air traffic management concept that will ultimately allow pilots operating under instrument flight rules greater freedom to select their path and speed in real time. In Free Flight Phase 1 (FFP1), FAA will deploy five “core capability” production quality systems to selected sites by the end of 2002:

- *User Request Evaluation Tool (URET).* This decision support tool contains an automated conflict probe that enables controllers to manage user requests in en route airspace by identifying potential conflicts. It is able to predict loss of aircraft-to-aircraft separation up to 20 minutes ahead and aircraft-to-airspace up to 40 minutes ahead. URET core capabilities limited deployment is planned at seven centers. URET CCLD has accumulated over 500,000 hours of daily use at Memphis and Indianapolis Centers and has saved

airlines an estimated \$1 million per month in fuel costs.

- *Traffic Management Advisor (TMA)*. Under FFP1, eight centers will be equipped with TMA – a flow control tool that aids the en route controller and traffic managers in making efficient decisions regarding the metering, sequencing, and spacing of en route arrival aircraft. Three centers, Denver, Minneapolis, and Fort Worth, are now using TMA on a daily basis. Los Angeles Center expects to achieve initial daily use in November 2000. Fort Worth Center reports that using TMA has increased its aircraft acceptance rate by 5 percent.
- *Passive Final Approach Spacing Tool (pFAST)*. This automation tool aids the terminal controller in making efficient decisions regarding the sequencing and runway assignment of terminal arrival aircraft. In February 2000, pFAST was placed in daily use at the Dallas/Fort Worth TRACON for the airport’s south operation where it has helped boost capacity by adding eight or more takeoffs/landings per “rush.” Under FFP1, pFAST will be deployed to five TRACON’s.
- *Surface Movement Advisor (SMA)*. This tool facilitates the sharing of aircraft arrival information to airlines to augment decisionmaking regarding the surface movement of aircraft. Since its deployment in December 1999, SMA has avoided 3-5 costly diversions per week during inclement weather.
- *Collaborative Decision Making (CDM)*. These tools provide airline operations centers and the FAA with real-time access to current NAS status information and enable them to negotiate directly on user preferences. A computer-based link was launched in June 2000 that allows all pilots to see if normally restricted airspace is available. The information can be accessed online at www.fly.faa.gov/ois/.

Free Flight Phase 2 (FFP2), announced in May 2000, will introduce new capabilities from 2003 through 2005. FFP2 will (1) oversee the geographic expansion of FFP1 tools; (2) develop and deploy new capabilities, including the collaborative routing coordination tool and controller-pilot data link communications (CPDLC) technology; and (3) carry out R&D projects selected for their importance to this specific phase, such as wake vortex issues, departure integration, and departure management.

Research and Acquisitions

FAA provides the essential infrastructure and conducts research to meet increasing demands for higher levels of system safety, security, capacity, and efficiency. FAA’s comprehensive modernization plan has a three-fold purpose: (1) add safety features; (2) sustain the current system by replacing aging equipment and renewing the infrastructure; and (3) increase flight efficiency and flexibility for those who use our airports and airspace. FAA’s strategic plan to modernize the NAS, called NAS Architecture Version 4.0, is now available online at <http://www.nas-architecture.faa.gov>.

FAA’s Research, Engineering and Development (R,E&D) efforts encompass programs that support the reduction of risks associated with wake vortices, hazardous weather, and aircraft fatigue and corrosion; the development of less costly, more reliable security technologies; and the investigation of aviation human factors issues.



With DSR, controllers in ARTCC’s have modern tools that can be upgraded as needed to help deal with the strong growth in air traffic.

- *Display System Replacement*. NAS modernization reached a significant milestone in July when the last of 20 new display system replacements (DSR) was dedicated at the Washington ARTCC – an event marking the completion of the \$1.05 billion program to replace aging monochrome radar screens with color displays and an easy-to-use Windows-type navigating system and modern data processing technology.
- *Air Route Surveillance Radar*. In May 2000, FAA completed the commissioning of ARSR-4, an air route surveillance radar that provides better

position information and weather detection. The 12-year ARSR-4 program was a joint FAA/Department of Defense initiative. The new all-solid-state, long-range, three-dimensional radar provides aircraft position information to the FAA, Air Force, Navy, and Customs Service. The ARSR-4 also provides weather data to both the FAA and National Weather Service. The program consists of 43 operational systems deployed around the periphery of the continental United States and in Guam, Hawaii, and Guantanamo Bay, Cuba, plus a system used for support at the FAA Academy at the Mike Monroney Aeronautical Center in Oklahoma City.



Controllers at Eglin Air Force Base use the new STARS equipment to guide live traffic. Deployment at Eglin AFB enables the FAA to evaluate STARS performance in a representative operational environment

- **Standard Terminal Automation Replacement System (STARS).** The first version of STARS, the next generation upgrade of air traffic computers, displays, and software designed for the terminal area, is running in both El Paso, Texas, and in Syracuse, New York. A Department of Defense (DOD) version became operational at Eglin Air Force Base, Florida, in June 2000.
- **Potomac TRACON.** Construction of the Potomac TRACON, a new regional air traffic control facility to serve the entire Baltimore-Washington area, began in March 2000. Located at Vint Hill in Fauquier County, Virginia, the new facility will improve both the safety and efficiency of air travel in the region. Potomac TRACON will consolidate terminal radar control facilities at four airports - Baltimore-Washington International, Washington-Dulles International, Reagan Washington National, and Andrews Air Force Base - into one. Each of the four airports will continue



Controllers at terminal radar approach control facilities provide guidance to pilots as they enter and leave the immediate area of the airport.

to be served by its existing control tower. The Potomac TRACON is planned to be fully operational in May 2002. Combining four separate TRACON's into one will reduce operating and maintenance costs by an estimated \$2 million annually.

- **Controller-Pilot Data Link Communications (CPDLC).** FAA awarded a contract to Computer Sciences Corp. (CSC) of Rockville, Maryland, in February to begin software development and initial implementation of CPDLC Build 1A. Data link supplements verbal communications between pilots and controllers by transmitting digital nontime critical information on a separate frequency. CPDLC 1A will be deployed first at the Miami ARTCC in June 2003 with national deployment beginning 6 months later at the other 19 air route traffic control centers in the continental United States.
- **Satellite-Based Services in the 21st Century.** In February 2000, DOT and DOD jointly released the 1999 Federal Radionavigation Plan (FRP), which includes plans for two additional Global Positioning System (GPS) signals for civil use and a revised schedule for making the transition to GPS – the guidance system of the 21st century. The 1999 FRP has revised schedules for phasing down most land-based radionavigation systems to allow more time to transition to GPS. The plan calls for the Government to continue operating Loran-C, a land-based system currently in use, in the short term while the Administration continues to evaluate the long-term need for the system.
- **Safe Flight 21.** In Alaska and in the Ohio Valley, new satellite-based communications, navigation,

and surveillance operational demonstrations are underway to provide improved situational awareness for both pilots and controllers. Technologies include GPS, improved approaches, ADS-B, and providing flight plan and weather information via data link.

In August 2000, over 200 aviation industry officials viewed a demonstration of FAA's Capstone "in cockpit" technology that provides pilots with enhanced situational awareness. The technology was unveiled during a conference at the University of Alaska Anchorage's aviation complex. Capstone technology is another tool that pilots can use in making decisions about when and where to fly. Pilots can keep track of other nearby aircraft equipped with Capstone technology, as well as receive real-time weather graphics. A terrain advisory feature is also part of the system. Fifty-five aircraft are currently equipped under the federally funded demonstration program.

Tests were conducted in Louisville, Kentucky, in October 2000 to evaluate the use of ADS-B in the terminal area environment. The tests focused on ADS-B capabilities in improving approach and departure spacing as well as two surface situational awareness applications. The 3 days of testing were performed in collaboration with the Cargo Airline Association as part of the FAA's Safe Flight 21 Ohio River Valley trials.

Airports

FAA provides leadership in planning and developing a safe and efficient national airport system to satisfy the needs of aviation interests in the United States. As part of its safety oversight mission, FAA certifies airports serving air carrier aircraft operating with more than 30 seats and periodically inspects those airports for compliance with established safety standards.

- *Grants-in-Aid to Airports.* FAA distributes grants through the Airport Improvement Program (AIP) to maintain and enhance airport safety, preserve existing airport infrastructure, expand capacity and efficiency throughout the airport system, and reduce the impact of airport noise on the surrounding community. The AIP, which receives funds from the Airport and Airway Trust Fund maintained through the payment of user taxes, makes it possible to fund one-fourth to one-third of all capital development at the Nation's public use airports.



Washington Monument as seen from Reagan National Airport. Photo courtesy of Metropolitan Washington Airports Authority

In FY 2000, FAA's office of the Associate Administrator for Airports awarded approximately \$1.9 billion in new AIP grants-in-aid obligations to improve and expand the Nation's airports. New grants awarded included the following:

- 596 grants totaling \$1,416,971,592 for primary airports;
- 64 grants and \$58,995,548 for nonprimary commercial service airports;
- 99 grants and \$111,691,982 for reliever airports;
- 346 grants and \$224,224,470 for general aviation airports;
- 29 grants and \$11,207,519 for airport system planning;
- 16 State Block grants valued at \$121,768,854.

Included in the above were 84 grants and \$215,730,348 to achieve noise compatibility for communities near airports.

- *Passenger Facility Charge (PFC) Program.* The collection of PFC's, which must be approved by the FAA, provides an additional source of capital funding for improving airports. The Wendell H. Ford Aviation Investment and Reform Act for the

21st Century (AIR-21) signed into law on April 5, 2000, authorized the collection of new \$4.00 and \$4.50 PFC levels. Prior to AIR-21, the highest authorized PFC level was \$3.00 per enplaned revenue passenger. The uniform industrywide start date for collection of the new levels is April 1, 2001.

- *Military Airport Program (MAP).* FAA selected Cecil Field in Jacksonville, Florida, to be the twelfth military airbase to be converted to civilian or joint-use. A former naval air station, Cecil Field has four runways, including one 12,000 feet in length. The MAP increases national airport system capacity by providing financial assistance for the redevelopment of former military airfields near major metropolitan areas. To date, MAP has added 36 runways with a potential capacity of more than 4.9 million annual aircraft operations.
- *Environmental Safeguards.* Deicing is an essential procedure for flight safety. Deicing materials can, however, contaminate nearby land and surface waters. FAA has been working with NASA and industry to develop new techniques and materials for deicing that may reduce environmental pollution. In August 2000, FAA issued an Advisory Circular (AC) change that provides standards and recommendations to build infrared aircraft deicing facilities. The change also adds anaerobic bioremediation as an alternative method to mitigate the runoff effects of de/anti-icing products.
- *Wildlife Hazard Management.* Most collisions between aircraft and wildlife occur when the plane is taking off, climbing, descending, or landing. In January 2000, FAA published a manual, "Wildlife Hazard Management at Airports" containing specific information on the nature of wildlife strikes, legal authority, regulations, wildlife management techniques, wildlife hazard assessments, and sources of help and information.
- *New Airport Design Standards.* An AC containing the standards for the power and control unit for "land and hold short" lighting systems was issued in August 2000. A draft AC issued in April described the standards for the design and installation of runway and taxiway edge lighting systems. A revision to the "Guide Specifications for Devices Used to Board Airline Passengers with Mobility Impairments," issued in March 2000, added standards for ramps.

Commercial Space Transportation

The Office of Commercial Space Transportation oversees the safety of commercial space launches and regulates the growing commercial space industry. The organization licenses commercial space launches that take place in the United States or are conducted by U.S. citizens anywhere in the world. In FY 2000, FAA officials observed 12 commercial space launches, including the successful launch on May 24, 2000, of the first flight of the new Lockheed Martin Atlas III vehicle carrying the Eutelsat W4 satellite from Cape Canaveral. In July, FAA officials also observed the successful firing of a Sea Launch rocket from a seagoing launch platform sailing near the Equator on the Pacific Ocean. A previous launch in March failed.

- *Reusable Launch Vehicles.* In September 2000, FAA issued a final rule establishing operational requirements for launches of reusable launch vehicles (RLV) and the authorized conduct of commercial space reentry activities. The final rules fulfill the FAA's safety mandate by limiting risk to the public from RLV and reentry operations. A second final rule authorized the Associate Administrator for Commercial Space Transportation to determine financial responsibility requirements for licensees authorized to launch and reenter an RLV.
- *Licensing Regulations.* To date, most commercial launches have occurred principally at Federal launch ranges under safety procedures developed by those operators. On October 19, 2000, FAA issued a final rule that establishes specific licensing and safety requirements for operating a launch site, whether that site is located on or off a Federal launch range. The rules are intended to enable the development and use of launch sites, while protecting the public from the risks associated with activities at those sites.
- *FAA/NASA Cooperative Agreement.* In November 1999, FAA and NASA signed a Memorandum of Understanding that promotes collaborative use of the two agencies' cooperative commercial space research and development activities. In particular, research findings will be shared about RLV technology, maintenance and operations, launch and reentry site infrastructure, and its integration into the NAS. Other areas of cooperation will focus on training and health requirements for crew and passengers and the environmental effects of space transportation systems.

FAA Administration

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

- *Unqualified Audit Opinion.* FAA received an unqualified (i.e., “clean”) audit from the DOT Inspector General for fiscal year 1999, marking the first time the FAA has achieved approval of its financial statements since the audits began in FY 1992.
- *FAA Management Advisory Council.* The first seven members of the FAA Management Advisory Council were sworn in on September 19, 2000. Congress mandated the Council in 1996 to advise the Administrator on policy, spending, funding, and regulatory matters affecting the aviation industry. The Council will consist of 18 members, 10 of whom are appointed by the President to represent aviation interests. Five members are appointed by the Secretary and will serve as a subcommittee focusing on air traffic services. There also is one designee each from DOT, the DOD, and an air traffic services union.
- *Overflight Fees.* An interim final rule went into effect August 1, 2000, that requires aircraft operators to pay fees for air traffic control services provided to aircraft that operate in U.S. airspace but do not take off or land in the United States. The authority to charge fees to aircraft conducting U.S. overflights is contained in the Federal Aviation Reauthorization Act of 1996. The interim final rule bases its new overflight fees on the agency’s costs as calculated by the FAA’s recently developed cost accounting system (CAS).
- *Core Compensation Program.* On April 23, 2000, some 6,500 employees transferred to a new market-based, performance-based compensation system closely linked to the strategic goals of the organization. The new core compensation plan replaces the general schedule (GS) grade levels with 12 pay bands linked to market pay levels. An executive compensation system became effective on the same date for senior executives.
- *FAA Accountability Board.* The FAA Accountability Board was established 2 years ago to ensure that managers and supervisors respond appropriately and quickly to allegations of sexual

harassment and misconduct of a sexual nature. The Board’s scope was expanded in July 2000 to include allegations of harassment or other misconduct that create a hostile or offensive work environment. This includes harassment based on an individual’s race, color, religion, gender, sexual orientation, national origin, age, or disability. The oversight provided by the Accountability Board responds to the Administrator’s goal to make FAA a model employer in the Federal Government.

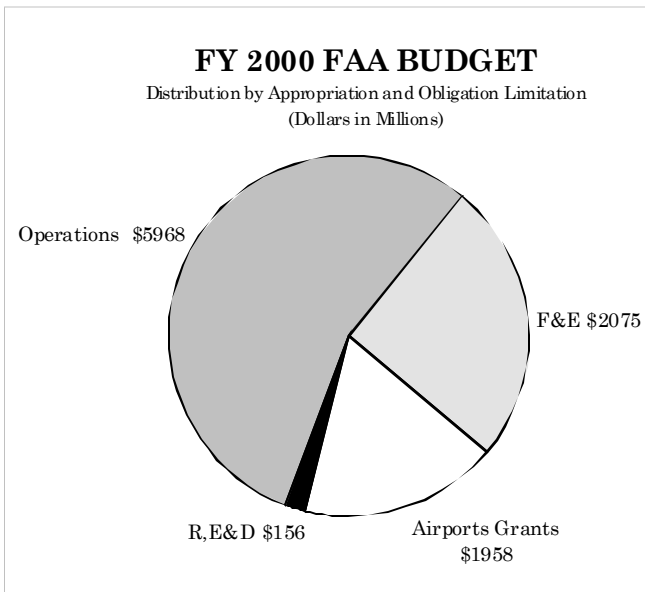
- *Opportunity for All.* In December 1999, Administrator Garvey established the National EEO Mediation Program and distributed mediation procedures to all supervisors and managers. The program will provide a more efficient manner of addressing Equal Employment Opportunity (EEO) complaints through alternative dispute resolution and ensure that mediation is at all stages of the complaint process.
- *Cost/Performance Management (CPM).* FAA made CPM one of its highest priority programs during FY 2000. To accomplish this effort, FAA established a CPM framework that will facilitate associating cost with performance. In the future, we will be facilitating FAA’s lines of business (LOB) in using CPM as an integral part of managing FAA programs. As part of this initiative, FAA continued to make strong progress in implementing the CAS. We implemented the CAS for flight service station services within the Air Traffic Services (ATS) LOB. We also improved our treatment of costs for ATS en route and oceanic services and identified business requirements for ATS terminal services. These activities paved the way to fully implement CAS within ATS, the FAA’s largest LOB, by the first quarter of FY 2001. In addition, we advanced from annual production processing to quarterly production processing and established processes and procedures that will enable monthly production processing in FY 2001. Also, because labor cost is such a large percentage of total FAA cost, we established a labor distribution reporting program to facilitate the implementation of labor distribution reporting within all FAA LOB’s.

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FY 2000 FINANCIAL HIGHLIGHTS

FAA BUDGET

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



The Airport and Airway Trust Fund (Trust Fund), maintained through the deposit of aviation excise taxes, finances 100 percent of the F&E, AIP, and R,E&D capital investment programs. These critical capital investment programs are described in three regularly issued plans: the Aviation System Capital Investment Plan (CIP); the National Aviation Research Plan; and concept planning for the National Plan of Integrated Airport Systems (NPIAS). In addition to funding the capital programs, in FY 2000, the Trust Fund paid 100 percent of the FAA’s operating cost. From FY 1995 through FY 2000, the Operations appropriation has received between 34 to

100 percent of its funding from the Trust Fund and the balance from the General Fund.

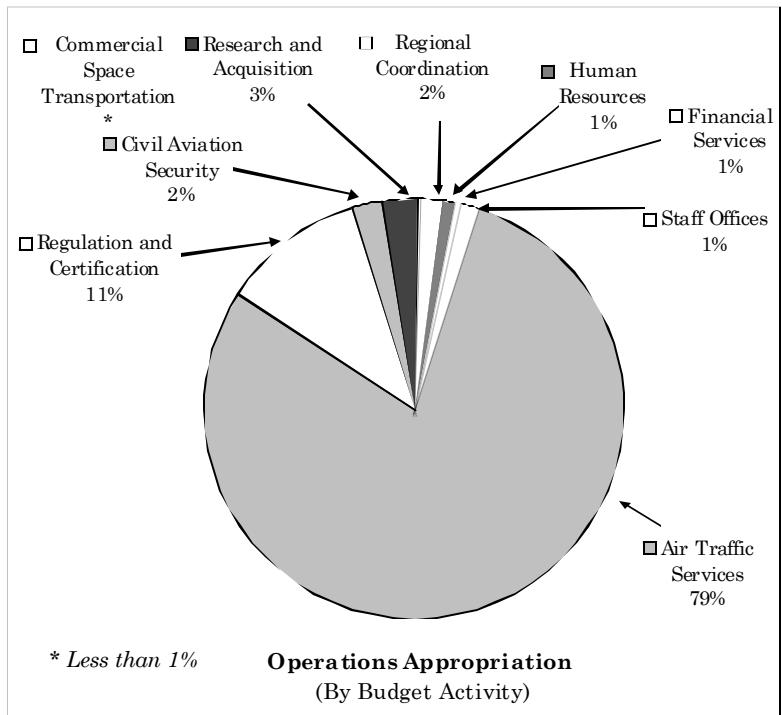
Airport and Airway Trust Fund. The Airport and Airway Revenue Act of 1970 created the Trust Fund to provide a stable source of funding to finance investments in the airport and airway system and, to the extent funds were available, cover the operating costs of the airway system. The Act provided for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

- Extends aviation taxes for 10 years (through September 30, 2007).
- Retains existing freight waybill, general aviation fuel/gas taxes.
- Converts the 10 percent ad valorem tax on domestic passenger tickets to a combination ad valorem/flight segment tax over 3 years beginning October 1, 1997, where a domestic flight segment is a flight involving a single takeoff and a single landing. The timetable for these taxes is as follows:
 - 9% plus \$1 per segment from Oct.1, 1997, through Sept. 30, 1998;
 - 8% plus \$2 per segment from Oct.1, 1998, through Sept. 30, 1999;
 - 7.5% plus \$2.25 per segment from Oct.1, 1999, through Dec. 31, 1999;
 - 7.5% plus \$2.50 per segment from Jan.1, 2000, through Dec. 31, 2000;
 - 7.5% plus \$2.75 per segment from Jan.1, 2001, through Dec. 31, 2001;
 - 7.5% plus \$3 per segment from Jan.1, 2002, through Dec. 31, 2002.
- After 2002, the \$3 segment rate will be indexed to the Consumer Price Index (CPI).
- Imposes a new 7.5 percent tax on payments to airlines for frequent flyer and similar awards by banks and credit card companies, merchants,

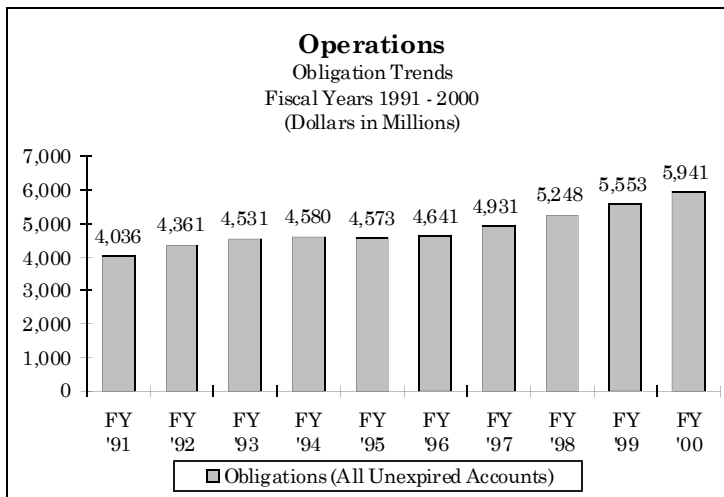
frequent flyer program partners - other airlines, hotels, or rental car companies, and other businesses.

- Increases the current \$6 international departure tax to \$12 per passenger and adds a \$12 international arrival tax. If an intermediate stop exceeds 12 hours, subsequent domestic segments are taxed as domestic transportation. These taxes were indexed to the CPI as of January 1, 1999.
- Retains a special rule for flights between the Continental United States and Alaska or Hawaii at \$6 for departures. This tax is indexed to the CPI starting January 1, 1999.
- Lowers tax rate on flights to certain rural airports to 7.5 percent, and omits flight segment tax component beginning October 1, 1997.
- Transfers revenues generated by the 4.3 cents-per-gallon aviation fuel tax from the General Fund to the Airport and Airway Trust Fund. These revenues were formerly dedicated to reduce the national U.S. deficit.

While held by Treasury, Trust Fund monies are invested in Government securities. Any interest earned is deposited into the Trust Fund. Amounts are withdrawn from the Trust Fund as they are needed and transferred into each FAA appropriation to cover necessary outlays. The uncommitted balance in the Trust Fund was approximately \$7.6 billion at the end of FY 2000.

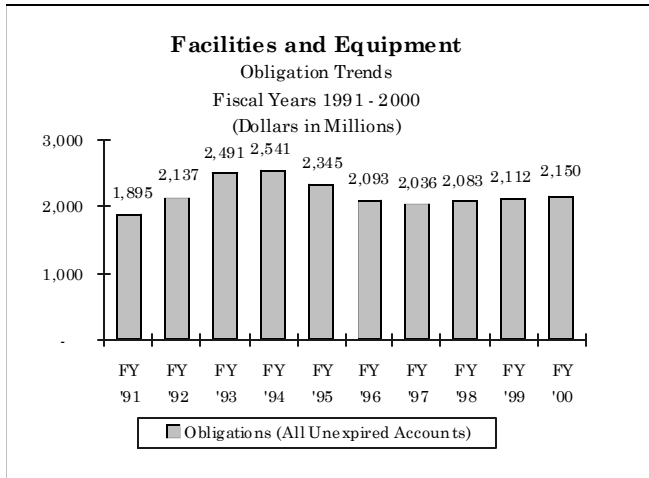


required to operate and maintain the ATC system on a 24-hour basis. Other mission-critical expenses financed by this appropriation include salaries and associated costs for: (1) the planning, direction, and evaluation of FAA programs; (2) engineering for the establishment of air navigation facilities;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



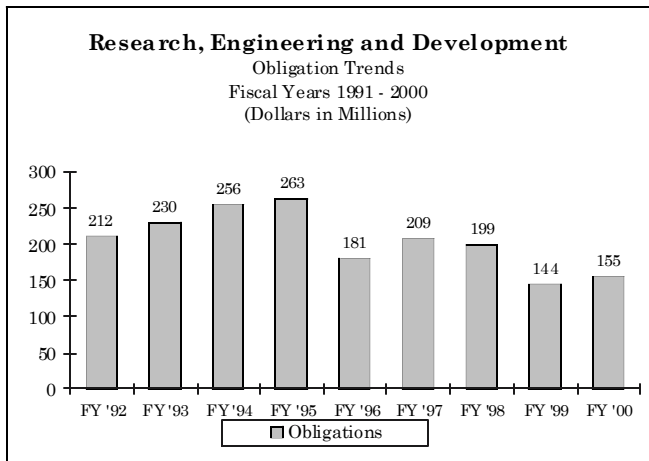
Operations. Funds from the Operations appropriation are used to pay salaries and other costs

Facilities and Equipment (F&E). Funds from the F&E appropriation are used to modernize, expand, and replenish the ATC infrastructure. Examples of F&E programs include the deployment of improved controller-pilot data link communications; the replacement of aging ATC computer hardware and software in en route centers and terminal radar approach control facilities; the installation of advanced radar for airport surveillance to help prevent runway incursions and to warn of hazardous weather; the augmentation of GPS; the fielding of automated



decision support tools that will enable controllers to allow users greater freedom to fly more direct routes; and the deployment of explosive detection systems (EDS) and other security devices for screening passengers, baggage, and cargo.

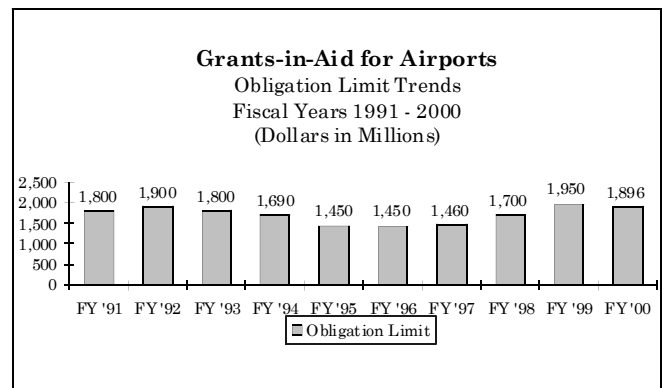
The Blueprint for NAS Modernization: An Overview of the National Airspace System Architecture Version 4.0, released in January 1999, describes the joint FAA and industry operational concept and long-term plan for evolving the NAS to handle future growth in aviation while enhancing safety. The NAS Architecture is the principal framework of NAS infrastructure investment decisions.



R,E&D. The FAA's R,E&D programs are directed toward improving safety, security, capacity, efficiency, and ensuring the environmental compatibility of the NAS. Areas of primary focus include continued research in aircraft structures and materials; systems security research; improved aviation weather products, and resolution of

environmental issues. FAA human factors and aviation medicine research will focus on how to best accommodate changes in equipment and procedures and other studies to reduce the risk of human error by agency personnel and air crewmembers.

Guided by the NAS Architecture, FAA publishes an annual National Aviation Research Plan which describes initiatives for NAS service improvements and development of the next generation air traffic management system.



Airport Improvement Program (AIP). Section 47104 of Title 49, U.S.C., authorizes the Secretary of Transportation to make project grants for airport planning and development under the AIP to maintain a safe and efficient nationwide system of public-use airports that meets both present and future needs of civil aeronautics. The payment of user taxes to the Federal Government by air travelers and shippers contributes to the Airport and Airway Trust Fund and makes it possible to fund one-fourth to one-third of all capital development at the Nation's public-use airports. Consequently, no Federal monies are withdrawn from the General Fund for federally assisted projects to maintain and enhance airport safety, preserve existing airport infrastructure, and expand capacity and efficiency throughout the airport system. In FY 2000, for the first time, Congress allowed the use of AIP funds for the administrative expenses related to this program.

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

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

(In Millions of Dollars)
Fiscal Year 2000

	Operations	Facilities and Equipment	R,E&D	Grants-in-Aid for Airports	Totals
Personnel Compensation	\$3,584	\$201	\$32	\$35	\$3,852
Civilian Personnel Benefits	957	43	7	7	1,014
Benefits for Former Personnel	1				1
Travel and Transportation of Persons	93	37	3	1	134
Transportation of Things	22	2			24
Rent, Communications, and Utilities	454	65	1	1	521
Printing and Reproduction Service	11				11
Other Services	660	1,330	70	1	2,061
Supplies and Material	84	38	4		126
Equipment	29	274	3		306
Land and Structures	1	148			149
Grants, Subsidies, and Contributions	45	12	35	1,851	1,943
Total	\$5,941	\$2,150	\$155	\$1,896	\$10,142

(Percentage Rounded to the Nearest Tenth)
Fiscal Year 2000

	Operations	Facilities and Equipment	R,E&D	Grants-in-Aid for Airports	Totals
Personnel Compensation	60.3%	9.3%	20.6%	1.8%	38.0%
Civilian Personnel Benefits	16.1%	2.0%	4.5%	0.4%	10.0%
Benefits for Former Personnel	0.0%	0.0%	0.0%	0.0%	0.0%
Travel and Transportation of Persons	1.6%	1.7%	1.9%	0.1%	1.3%
Transportation of Things	0.4%	0.1%			0.2%
Rent, Communications, and Utilities	7.6%	3.0%	0.6%	0.1%	5.1%
Printing and Reproduction Service	0.2%				0.1%
Other Services	11.1%	61.9%	45.2%	0.1%	20.3%
Supplies and Material	1.4%	1.8%	2.6%		1.2%
Equipment	0.5%	12.7%	1.9%		3.0%
Land and Structures	0.0%	6.9%		0.0%	1.5%
Grants, Subsidies, and Contributions	0.8%	0.6%	22.6%	97.6%	19.2%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

* Obligations Incurred balances that are reflected on the financial statements include unexpired and expired accounts; this chart reflects only those reported to OMB for unexpired accounts.

The Passenger Facility Charge (PFC) Program, authorized by the Aviation, Safety and Capacity Expansion Act of 1990, provides an additional source of capital funding for the expansion and preservation of airport infrastructure in the national air transportation system. This legislation allows public agencies controlling commercial service airports, after receiving approval from the FAA, to charge enplaning passengers a \$1, \$2, or \$3 facility charge.

PFC collections and AIP funds are complementary in the overall funding of airport improvements. The majority of PFC approved projects are also eligible for

further funding under the AIP. As of September 30, 2000, authorized collections for the 316 locations approved since 1992 totaled over \$27.6 billion. As of September 30, 2000, 59 percent of those commercial service airports eligible to collect PFC's were approved to do so. Collections, which first began on June 1, 1992, now produce revenue for airports at a rate exceeding \$1.5 billion per year.

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

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FAA STRATEGIC PLAN

STRATEGIC PLAN

The FAA's Strategic Plan sets forth the overall vision, mission, and direction of the agency as we respond to the challenges and changes facing aviation in the 21st century. The Plan focuses upon three of the most important mission goals and the specific outcomes which FAA programs are dedicated to achieve:

- **Safety.** By 2007, reduce U.S. aviation fatal accident rates by 80 percent from 1996 levels.
- **Security.** Prevent security incidents in the aviation system
- **System Efficiency.** Provide an aerospace transportation system that meets the needs of users and is efficient in the application of FAA and aerospace resources.

The FAA Strategic Plan covering this year's Financial Statement was established in 1998 and is intended to guide FAA activities for 5 to as much as 20 years into the future. The FAA Achievement Plan, published in June 2000, describes the major actions FAA is undertaking now – in the next 1 to 5 years – to achieve the strategic goals.

ANNUAL PERFORMANCE PLAN

The FAA Annual Performance Plan defines a set of specific performance goals and outcome indicators FAA will use to measure its progress toward

achieving its three overarching strategic goals. The FAA Strategic Plan and the Annual Performance Plan serve as a top-level link to the program activities found in the agency's fiscal year budget request. Taken together, they guide the FAA in its ceaseless effort to provide the American people with the safest and most efficient airspace system possible.

The eight performance goals highlighted on the following pages are key elements in the DOT Strategic Plan and reflect the priorities established by the White House Commission on Aviation Safety and Security and the concerns of the FAA's partners in industry and in government, both state and local.

Fiscal Year Results

Most of the performance results contained in this report are for FY 1999 (October 1998 to September 1999). Some, most notably safety data, are defined by calendar years (January 1999 to December 1999). The relevant reporting period, whether CY or FY, is indicated throughout this report.

Results for 2000 will be available on the DOT Web site after the DOT Performance Report is sent to Congress in March 2001.

In the next section, the following 2000 performance goals are grouped together under the agency's three mission-oriented goals.

STRATEGIC GOAL	PERFORMANCE GOAL
Safety	<i>Air Carrier Fatal Accident Rate.</i> Reduce the fatal aviation accident rate for commercial air carriers by 12% from a 1994-1996 baseline of 0.037 fatal accidents per 100,000 flight hours to 0.034 by 1999 and 0.033 by 2000 with the reduction to be achieved in 6 key areas as outlined in the Safer Skies agenda.
	<i>General Aviation Fatal Accident Rate.</i> Maintain the number of fatal general aviation accidents at 379 in 2000, the 1996-1998 average.
	<i>Operational Errors (Air Traffic).</i> Reduce the rate of operational errors and deviations by 10 percent from the 1994 baselines. The 2000 target is 0.486 errors and 0.097 deviations per 100,000 activities.
	<i>Runway Incursions.</i> Reduce the number of runway incursions to a level 15 percent below a 1997 baseline of 292 incursions. The CY 2000 target is at or below 248 incursions.

STRATEGIC GOAL	PERFORMANCE GOAL
Security	FAA has established performance goals aimed at increasing the detection of explosive devices and weapons that may be brought aboard aircraft, ensuring compliance with security requirements that prevent unauthorized access to parked aircraft or other restricted areas of the airport, and increasing the number of FAA facilities accredited as fully meeting security standards. Because detection rates are sensitive information protected under CFR 14 Part 191, no aviation security performance indicators are included in this report.
System Efficiency	Aviation Delays. Reduce the rate of air travel delays by 5.5 percent from a 1992-1996 baseline of 181 delays per 100,000 activities. The FY 2000 target is 171 per 100,000 activities.
	Runway Pavement Conditions. Maintain in good or fair condition at least 93 percent of runways at all commercial service airports and reliever airports, as well as selected general aviation airports.
	Flight Route Flexibility. Increase the number of flight segments that aircraft are able to fly off ATC-preferred routes to 80 percent from a 1996 baseline of 75 percent. The 2000 goal is 80 percent.
	Aircraft Noise Exposure. Reduce the number of people in the U.S. exposed to significant aircraft noise by at least 64 percent from the 1995 baseline of 1.7 million. The FY 2000 target is at or below 600,000.

SAFETY

AIR CARRIER FATAL ACCIDENT RATE

Commercial aviation is one of the safest forms of transportation. But when passengers board an airplane, they give up personal control and face an unfamiliar risk. While fairly rare, aviation accidents can have catastrophic consequences, with large loss of life. The public demands a high standard of safety, and expects continued improvement.

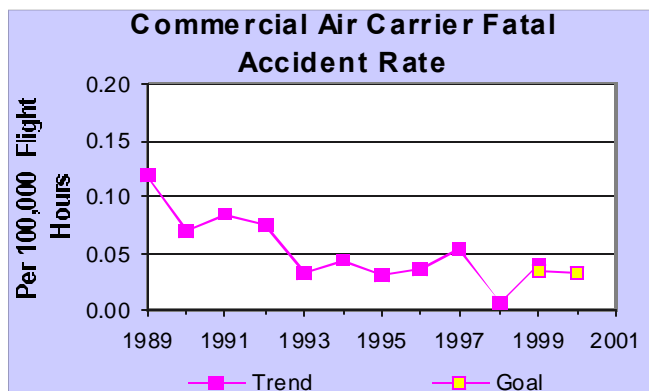
In absolute terms, the fatal accident rate in commercial aviation is very low. One of the primary reasons for this is the use of jet aircraft. Since the introduction of jet transports into commercial aviation in the late 1950's, they have proven to be safer and more reliable than propeller-driven aircraft. The expanded use of small jet aircraft in the scheduled regional segment of the industry appears to be contributing to the marked safety improvements in that segment, as well. Technological and procedural improvements have also contributed to a lower accident rate. FAA and DOT will continue to work with the aviation community and other governmental agencies to identify root causes of accidents and intervene accordingly to prevent potential causes of future accidents.

Based on preliminary data, the air carriers fatal accident rate for calendar year 1999 was .040 per 100,000 flight hours, missing the goal of .034 by .006. There were two major-carrier fatal accidents, one of which involved passengers. Of the five commuter fatal accidents, two involved passengers. Four of them occurred in Alaska, one of which involved passengers on-board. The seven air carrier fatal accidents resulted in 24 fatalities.

To achieve the long-range goals, the FAA and its partners need to focus their efforts on those causal factors that contribute to the majority of fatal accidents. FAA's "Safer Skies" effort in the commercial aviation area includes the following six accident categories: controlled flight into terrain, loss of control, uncontained engine failure, runway incursion, approaches and landings, and weather. While having little immediate impact on fatal accident rates year to year, identifying and implementing corrective actions in these areas will positively impact the fatal accident rate in the future. In 1999, under the Safer Skies Agenda, FAA and its partners completed selection and prioritization and began implementation of high pay off interventions for the areas of uncontained engine failure, controlled flight into terrain, and approach and landing. Causal analysis for approach and landing were completed and recommended strategies for interventions submitted for review by the joint Government-private sector team. All initiatives relating to cabin safety were completed as planned.

FAA has also completed work on revising guidance (including rules and advisory circulars) in such areas as fuel tank safety; aging aircraft nonstructural systems; aircraft performance and handling in icing conditions; terrain awareness and warning system; aircraft powerplant; crashworthiness; and, structures.

In the area of industry oversight, continued refinements have been made in both inspection resources targeting and automated systems designed to support aviation safety oversight of operations.



Performance Measure: Number of aviation accidents (U.S. commercial air carriers) per 100,000 flight hours.
2000 Goal: .033
1999 Goal: .034
1999 Performance: .040

SAFETY

GENERAL AVIATION FATAL ACCIDENTS

Aviation accidents overall have caused about 1,000 deaths a year in recent years, with the majority of these in general aviation (GA), which for the purpose of this performance goal includes on-demand air taxi. These public, private, and corporate aircraft provide a wide range of services — like crop dusting, firefighting, law enforcement, news coverage, sightseeing, industrial work, and corporate transportation — in addition to personal and recreational flying. GA is an important element of the U.S. transportation system and the U.S. economy.

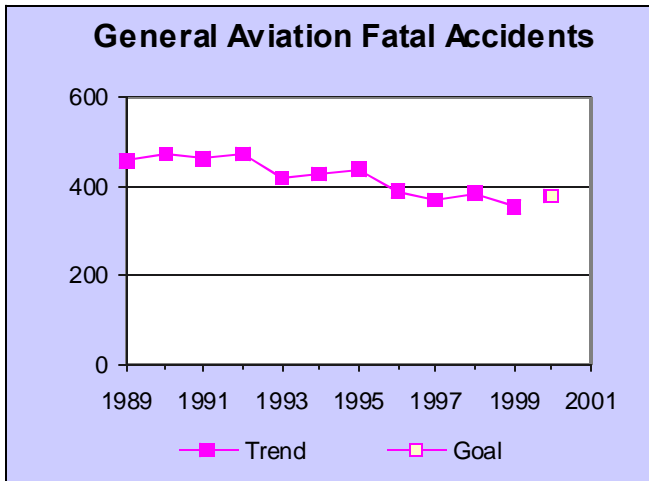
General aviation comprises a diverse set of aviation activities and includes all segments of the aviation industry except commercial air carriers and the military. The activities conducted are extensive and varied, including student training, business and

corporate travel, air shows, aircraft and component manufacturing and maintenance, personal and recreational flying, and the host of businesses, technologies, research, airports and services that support flight operation. Aircraft range from single-seat homebuilt aircraft, rotorcraft, and balloons to highly sophisticated extended-range turbojets. Some elements of general aviation operate in hazardous environments, such as agricultural application, external-load operations, firefighting, and power line patrol. The level of risk is inherently higher for these elements.

Based on preliminary data, in 1999, there were 354 general aviation fatal accidents, 29 fewer than in 1998. Since 1988, there has been a gradual trend downward in the number of general aviation accidents although, on a year-to-year basis, progress has not been smooth.

Major recent interventions, which we believe are having a positive effect on the current fatal accident decline in general aviation, include:

- In 1999, under the Safer Skies Agenda, FAA and its partners completed selection and prioritization of high pay-off interventions for the areas of controlled flight into terrain and weather.
- Development of a number of products in the FAA's Aviation Safety Program; e.g., decisionmaking training aids, personal minimums checklist video and CD-ROM, water survival video, and a GA pilot education program with the Aircraft Owners and Pilots Association (AOPA) Air Safety Foundation, and General Aviation Manufacturers Association (GAMA) on runway incursions.
- FAA's Aviation Safety Program has launched an educational campaign to increase the use and installation of seat belts/shoulder harnesses in GA aircraft.
- Over the past 5 years, the AOPA Air Safety Foundation has conducted over 1,200 safety seminars, disseminating critical safety information through these seminars and on its Web site. It has distributed hundreds of thousands of safety advisories on topics of weather and decisionmaking.



Performance Measure: Number of fatal general aviation accidents.
2000 Goal: 379
1999 Goal: N/A
1999 Performance: 354

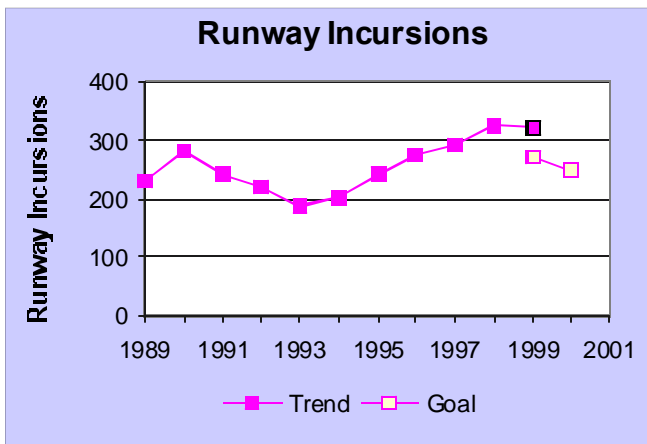
- FAA published Advisory Circular 23.1309-C, *Equipment, Systems and Installations in Part 23 Airplanes*, and 23.1311-1A, *Installation of Electronic Display in Part 23 Airplanes*. These advisory circulars will allow for more realistic reliability standards for general aviation airplanes and will also allow for new, less expensive avionics to be installed in the general aviation fleet. This will help to reduce the “loss of situational awareness” and weather accidents.
- The FAA signed agreements with contractors for Flight Information Services Data Link systems. These systems will enable pilots to receive text, graphical weather, and other national airspace information directly into the cockpit display. This unique Government and industry partnership will greatly improve information availability for pilots, thereby enhancing flight safety.

SAFETY

RUNWAY INCURSIONS

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

Growth in airport operations has increased an average of 3.5 percent per year from 1996 through 1998, and the same rate of increase continued in 1999. With increased operations, the risk of incursions increases. Runway incursions are most likely to occur at complex, high volume airports. These airports typically have multiple parallel or intersecting runways; multiple taxiway and runway intersections; complex traffic patterns; and the need for vehicular and aircraft traffic to cross active runways.



Performance Measure: Number of runway incursions.
2000 Goal: 248
1999 Goal: 270
1999 Performance: 321

The 1999 runway incursion target was not met. However, it is worth noting that while operations increased, runway incursions did not. In fact, the number of runway incursions actually declined slightly from 325 for 1998 to 321 in 1999. This was the first year runway incursions have not increased since 1993.

The issue of runway incursions is complex and involves performance and human factors issues associated with pilots, controllers, and vehicle operators. While a number of new initiatives were implemented in 1999, most will take several years to show measurable results. As initiatives mature, we expect to see the number of runway incursions decreasing at a faster pace. Runway incursions have decreased 6 of the last 7 months compared to the previous year.

The three leading causal factors for runway incursions continue to be pilot-controller communications, lack of familiarity with an airport, and lack of situational awareness.

Pilot-controller communication problems generally result from misunderstood control instructions. In numerous incidents, pilots proceeded onto or crossed an active runway even after acknowledging controller-issued hold-short instructions. Pilots are encouraged through mass mailings, aviation articles, and seminars on tower operations to read back runway hold-short instructions verbatim.

Additionally, controllers' ability to hear and confirm proper read-back of hold-short instructions is being improved through the use of mandatory computer-based instruction courses. Controllers are also mandated to perform monthly refresher training on surface safety-related topics.

Pilot lack of familiarity with an airport including airport signage, markings, and lighting; runway exiting procedures; and taxi procedures is another significant factor in runway incursions. In 1999, the Runway Safety Program, in conjunction with AOPA, posted digitized airport diagrams on the Internet. Pilots are encouraged to download and review airport/taxi diagrams prior to departing. In addition,

standardized taxi routes are being implemented at select airports.

A large percentage of runway incursions are also attributed to a lack of situational awareness by controllers, pilots, vehicle operators, and pedestrians. FAA implemented education and training initiatives designed specifically to increase the level of situational awareness of all individuals associated with airport operations. Additionally, the FAA has drafted an advisory circular (AC) on standardized cockpit procedures for airport surface operations.

Technological initiatives to improve airport ground operations, such as AMASS, GPS, and ADS-B, are in various states of development and testing for

potential acquisition and implementation.

Implementation of “Now Strategies” (near-term runway incursion reduction initiatives) is on course with 16 of 18 established initiatives completed. Examples of “Now Strategies” include mandatory monthly air traffic management-airport operator meetings at the top 20 airports and runway incursion prevention training for controllers.

National Runway Incursion Action Team (RIAT) visits were conducted at 20 airports. Regional RIAT’s were conducted at seven additional locations.

SAFETY

OPERATIONAL ERRORS AND DEVIATIONS (AIR TRAFFIC)

One of the fundamental principles of aviation safety is “separation” – the need to maintain a safe distance from other aircraft, terrain, obstructions, and certain airspace not designated for routine air travel. Air traffic controllers employ separation rules and procedures that define separation standards for many different environments where aircraft operate. Pilots flying under visual flight rules operate under a “see and avoid” policy. Pilots using instrument procedures rely on air traffic controllers’ instructions to guide them. When aircraft are allowed to violate these separation standards, an operational error occurs. In 1999, operational errors totaled 937, or 0.57 per 100,000 facility activities, missing the goal of 816, or 0.496. The Office of Air Traffic Planning and Procedures is using information on causal factors to develop and improve procedures to help reduce the error rates. The Office of Air Traffic Resource

Management is also using this information to address training issues. The top three causal factors are:

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

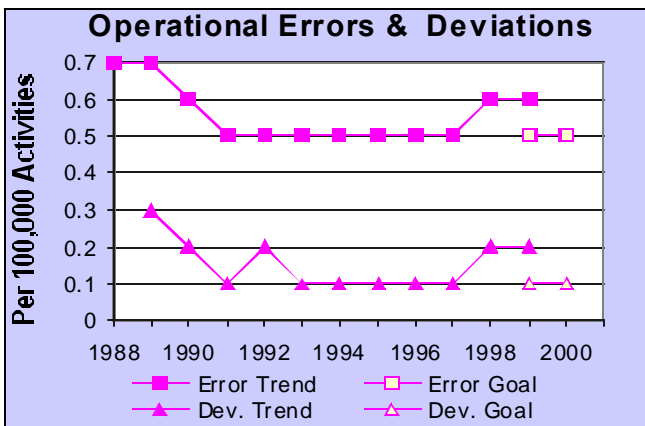
Special evaluations have been conducted on a case-by-case basis at facilities with increasing numbers of operational errors. Processes common to all facilities were broken down into five areas and observed: traffic management relationships, quality assurance programs, training issues, management involvement, and control room environment. Additional emphasis has been placed on increased involvement of facility managers including mandated time-in-operational-quarters requirements.

FAA continues to conduct quarterly safety meetings with all regional Quality Assurance staff managers. These meetings include presentations on operational error causal factors; reviews of performance trends attributable to errors; and identification, review, and dissemination of successful operational error reduction initiatives.

FAA developed a change to Order 7210.56A, Air Traffic Quality Assurance, effective May 1, 1999, to require facility management and regional air traffic division involvement in controller recertification following an operational error or deviation.

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

FAA believes that some portion of the increase in operational errors since 1997 is attributable to improved data reporting. In August 1998, the FAA discovered and corrected a misunderstanding of the procedures used in interpreting separation reported by the National Track Analysis Program (NTAP) and the data provided by the operation error detection patch (OEDP). This correction should result in an increase in the number of operational errors reported.



Performance Measure: Operational errors and deviations per 100,000 activities. incursions.		
	<u>Errors</u>	<u>Dev.</u>
2000 Goal:	.486	.097
1999 Goal:	.496	.099
1999 Perf.:	.57	.18

SECURITY

Protecting the users of commercial air transportation against terrorist and other criminal acts is a national security concern. The United States and its citizens are often the cited targets for terrorist groups seeking to challenge power or to influence international relations. Because terrorists seek to destroy public confidence in the safety of air travel and disrupt this vital segment of the U.S. and world economies, the continued growth of commercial air transportation depends on the effectiveness of aviation security. FAA's goals in the security performance area include

actions to increase the detection of explosive devices and weapons that may be brought aboard aircraft, prevent unauthorized access to parked aircraft, and ensure that FAA facilities fully meet security standards.

Sensitive security information is protected, at a minimum, by 14 C.F.R. Part 191. The actual target levels will be released to appropriate parties under separate cover in keeping with the provisions outlined in the Government Performance and Results Act.

SYSTEM EFFICIENCY

AVIATION DELAY

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

Due to the air traffic density and the amount of adverse weather, capacity constraints at large hub airports lead to delays throughout the National

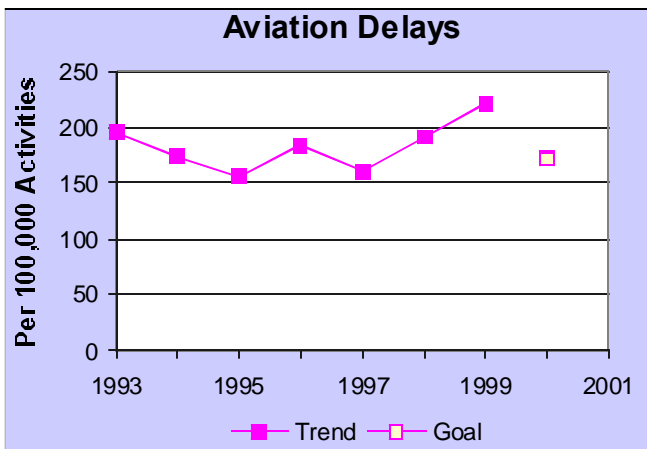
Airspace System (NAS). As traffic increases further throughout the system, delays are likely to increase. Consequently, maintaining the current delay rate represents a significant accomplishment.

In FY 1999, the rate of volume and equipment-related delays was 30.37 per 100,000 flight activities, which exceeded the FAA goal of 30.70 or less. However, when weather delays are included, the rate of aviation delays per 100,000 activities increased to 220 from about 200 in 1998.

The 1999 results follow a multi-year trend of generally diminishing volume and equipment delays. Equipment delays have increased, but when combined with volume, there is an overall decrease. These results may be due to a number of FAA initiatives. The Air Traffic Control System Command Center (ATCSCC) has placed increased emphasis on honoring commitments to aircraft, helping to eliminate the practice of “no notice holding.” Collaborative decision making (CDM) was begun in 1997 and continues to be used in ground delay programs. The National Operations Control Center (NOCC) located within the ATCSCC was established in January 1999. The NOCC collaborates daily with Traffic Management to ensure NAS equipment services are available for use. A primary focus of NOCC is delay mitigation when the issue is FAA equipment. The increased dissemination, within 24 hours, of written maintenance alert information contributes to reduced equipment delays by preventing similar events that stem from a common cause.

Some of the decrease in volume and equipment delay may also be attributed to a change in the method for reporting volume-related delays in 1997 which reclassified some volume delays as weather delays. The change to a new performance measure in FY 2000, which includes all causes of delay including weather, will eliminate problems related to misclassification.

Most aviation delay and variance in delay is the result of weather. In FY 1999, bad weather accounted for about 69 percent of all delays. This is a 13 percent increase over 1998. While FAA initiatives to improve weather prediction and flight routing can serve both



<p>Performance Measure: Aviation delays per 100,000 activities.</p> <p>2000 Goal: 171</p> <p>1999 Goal: #</p> <p>1999 Performance: 220</p> <p># The measure for Aviation Delay was changed after 1999 to include all causes of delay, including weather.</p>

to improve safety and to reduce delays, the FAA's ability to manage weather delays is more limited, and

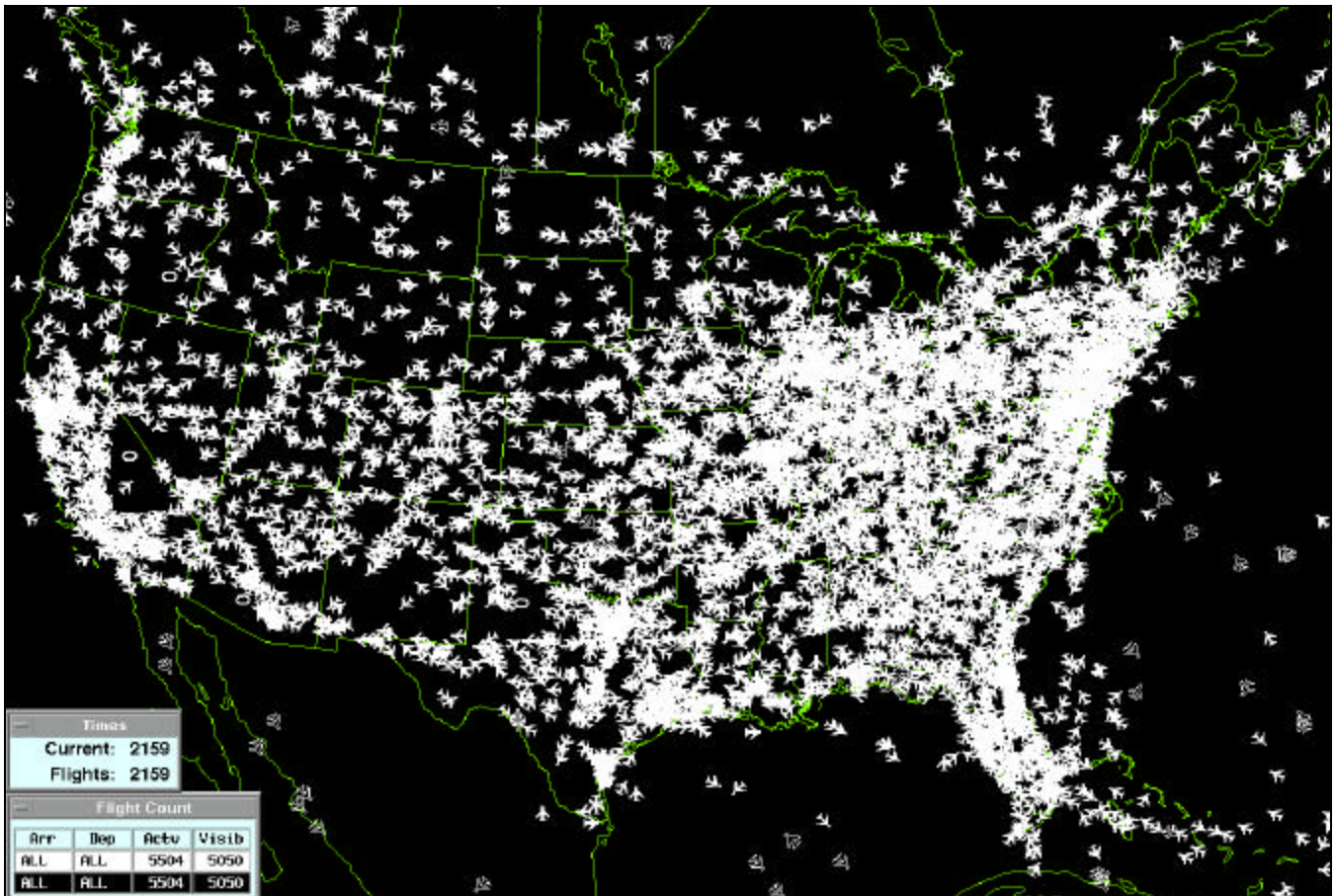
aviation safety will always be the foremost concern in air traffic control.



Air Traffic Control System Command Center at Herndon, Va. Controllers here observe the "big picture" of traffic patterns nationwide and take action to speed the flow.



The NOCC provides status information on NAS equipment 24 hours per day, 7 days a week.



There are from 4,000 to 6,000 aircraft operating in the National Airspace System (NAS) during peak periods. This equates to approximately 50,000 aircraft operations per day. The following picture shows over 5,000 aircraft operating in the system at one time.

SYSTEM EFFICIENCY

RUNWAY PAVEMENT CONDITIONS

Deteriorated airport runway pavement can damage propellers, turbines, and airplane landing gear. Proper design, construction, and maintenance can slow this deterioration, but runways still need complete rehabilitation every 15 to 20 years. This means that during a typical year, 5 to 7 percent of runways require rehabilitation. Federal airport funding helps achieve this necessary level of rehabilitation and — combined with proper maintenance — helps keep runway condition at or above the minimum level needed to ensure efficient airport operation.

Runway rehabilitation is among the highest priorities of FAA’s Airport Improvement Program (AIP), but projects must be initiated by airport operators who pay a portion of the cost. The availability of grants for rehabilitation may detract from regular maintenance

programs, which are usually funded entirely by the airport operator.

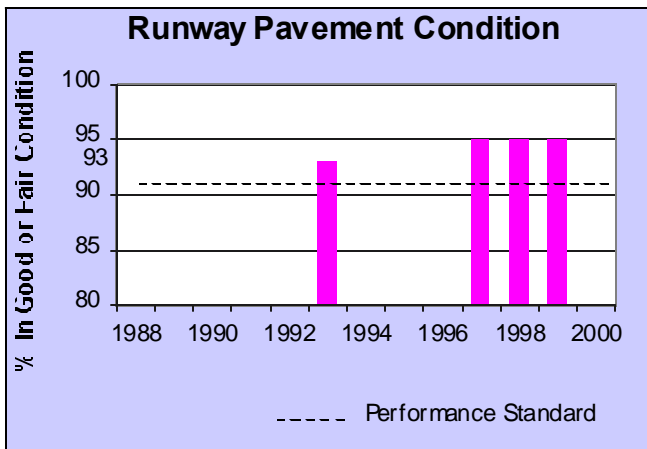
The goal of maintaining over 93 percent of runway pavement in good or fair condition was met in 1999. Ninety-five percent of the runways at airports included in the National Plan of Integrated Airport Systems (NPIAS) were reported in good or fair condition. At NPIAS airports with commercial service, 98 percent of runways were in good or fair condition.

State aviation agencies made increasing use of computer-based pavement management systems to predict when pavement maintenance and rehabilitation are needed and most likely to be cost effective. These measures enhance the effectiveness of state and Federal expenditures on airfield pavement.

The National Pavement Test Facility was completed at the William J. Hughes Technical Center. This will enable FAA to conduct full-scale tests of aircraft landing gear configurations on test pavement sections to obtain data to improve pavement design and construction.

In FY 1999, the FAA issued 210 grants for about \$297 million to help rehabilitate runways. In addition, a 3-year Pavement Maintenance Pilot Program involving six states was completed. Under this program, about \$1.2 million in AIP funds were used to pay for routine pavement maintenance at 52 nonprimary airports. This program was the first under AIP to participate in costs other than capital planning and development. It focused on lower activity airports that might otherwise have been unable to pay for cost-effective preventative maintenance. The pilot program was successful, and the FAA proposed legislation for a permanent program.

External factors influencing this goal in 1999 include air carrier flight operations at commercial service airports, which have increased by 5 percent over the past 5 years. More frequent operations can increase wear on runway pavement and shorten the time predicted between construction and rehabilitation.



<p>Performance Measure: Percent of runways in good or fair condition (commercial service, reliever and selected general aviation airports).</p>
<p>2000 Goal: 93%</p>
<p>1999 Goal: 93%</p>
<p>1999 Performance: 95%</p>

SYSTEM EFFICIENCY

FLIGHT ROUTE FLEXIBILITY

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

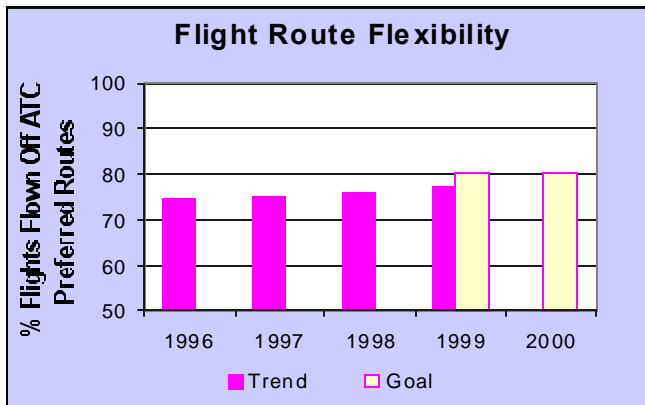
automation aids now being developed facilitate the use of more direct routes.

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

In FY 1999, 77.4 percent of flights were not subject to ATC preferred routes, falling just short of the FAA goal of 80 percent. However, this is a slight improvement over FY 1998 (76.2 percent).

The aim of not assigning preferred routes is to give increased flexibility to aircraft, which may translate into improved scheduling efficiency and reduced flight miles. The action of not assigning or eliminating preferred routes does not automatically make a contribution to the goal of aviation efficiency. It does provide flexibility to the industry and the potential for improved efficiency in certain situations. The impact of the elimination of an ATC preferred route depends on the amount of traffic between the associated city pair. The impact increases as the amount of air traffic between the associated city pair increases. Air traffic activities grew at a rate of 4 percent from 1998 to 1999.

In FY 1999, FAA eliminated 170 published routes. There was a small saving in distance flown from eliminating two of the special high altitude routes. Other initiatives that have partially supported the goal of increased flexibility are the North American Route Program (NRP) and the Departure Procedures (DP)/Standard Terminal Arrival Route (STAR) program. The NRP allows filing of more efficient routes unimpeded by the Preferred Route system, which begins 200 miles from the departure and ends 200 miles from the arrival destination. DP/STAR expands the utilization of the NRP by establishing procedures that increase ingress and egress points for aircraft operators transitioning to NRP. DP/STAR provides significant benefit to both the air traffic system and system users in some of the most heavily traveled airspace around the major metropolitan areas.



Performance Measure: Percentage of flights that aircraft are able to fly off ATC-preferred routes.
2000 Goal: 80%
1999 Goal: 80%
1999 Performance: 77.4%

SYSTEM EFFICIENCY

AIRCRAFT NOISE EXPOSURE

Public concern and sensitivity to aircraft noise around airports is high. This aircraft noise is an undesired by-product of our mobility, and the Government acts to reduce the public's exposure to unreasonable noise levels.

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

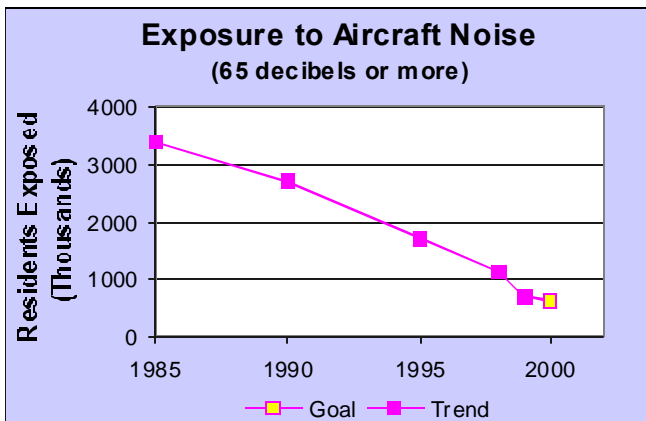
The projections and rate of population reduction are the result of the phaseout of older, noisier airplanes, Stage 2. Since the phaseout occurred on schedule and is now 100 percent complete, the numeric goal is being met. In the future, FAA will report on results using a new, more accurate methodology to assess the number of people exposed to significant levels of aircraft noise around airports. The model development is being done in conjunction with the Committee on Aviation Environmental Protection (CAEP) under the International Civil Aviation Organization (ICAO).

At the end of 1998, airplanes that met the most stringent FAA noise standard (Stage 3 airplanes) comprised 86.9 percent of the total fleet of large civil subsonic turbojet airplanes, compared to an estimated 45 percent in 1990 when Congress enacted ANCA. After December 31, 1999, all civil jet airplanes over 75,000 pounds and operating in the contiguous United States met the Stage 3 noise standard.

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

Activities in 1999 included funding for noise reduction activities such as soundproofing of residences and buildings used for educational or medical purposes in the vicinity of airports, the purchase of buffer zones around airports, and noise reduction planning.

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



<p>Performance Measure: Number of people (in thousands) who are exposed to significant noise levels (65 decibels or more).</p>
<p>2000 Goal: 600</p>
<p>1999 Goal: 680</p>
<p>1999 Performance: 680</p>

MANAGEMENT REPORT OF THE CHIEF FINANCIAL OFFICER

When we began our implementation of a cost accounting system, we did not expect, a few years later, to be on the leading edge of the Government's efforts in instituting a managerial cost accounting system and in establishing an agencywide labor distribution reporting system. Few Federal agencies, at least of the size and the complexity of the FAA, have chosen to institute a managerial cost accounting system that fully allocates its costs to projects and activities; most agencies have opted to conduct cost studies. Few agencies in the Federal sector have moved beyond estimates of labor to institute a labor distribution system that will capture actual labor costs, a significant component of most agencies' budgets — for the FAA a \$4.9 billion cost.

In FY 1999, the Cost Accounting System produced the annual cost of en route and oceanic services, which were used as the basis for overflight fees. In FY 2000, we produced the cost data on a quarterly basis and added flight services. During FY 2001, we instituted monthly reporting and will add costs associated with terminals services. By the end of FY 2002, we will complete implementation of the cost accounting system in other FAA lines of business and offices. This program promises to establish a disciplined process for more effectively managing our organizations based on results.

To truly manage our costs, we needed to significantly improve our understanding of FAA labor costs. In FY 2000, we established a formal Labor Distribution Reporting program to put in place processes for capturing the time employees spend working on projects and activities. We also established the Cost and Performance Management Program to link cost and performance measures with our strategic planning, performance management, and budget processes.

At the same time that these efforts were underway, we established and staffed a formal team to work with the Department of Transportation's Office of the Secretary to transition to a new, off-the-shelf accounting system, DELPHI. When implemented, DELPHI will be a fully integrated financial management and asset system. Significant resources have been devoted to setting up and implementing this system.

We received a qualified financial statement audit opinion this year, due to concerns about our accuracy of computing depreciation and net book value. The correct valuation and depreciation of our property, about \$16.8 billion, has been a longstanding audit focus. We have established our baseline asset balances and developed disciplined processes for documenting the historical cost of assets. We also developed a method to calculate and accumulate depreciation expense outside of our accounting and property systems, which lack this capability. Unfortunately, despite considerable effort from hundreds of people in engineering, logistics, and accounting in Washington, D.C. and across the country, we received a qualified opinion on our FY 2000 financial statements. The valiant efforts of so many were not without benefit and merit. However, our property systems are old and stand alone from our financial system. It is our hope that an integrated financial system that calculates depreciation and tracks the disposition of assets is the answer to the manual processes that take place today. With the opportunity to implement a new accounting system, we look forward to integrating our property and financial systems within the DELPHI program.

All this was accomplished in addition to our ongoing work. Our headquarters and regional accounting personnel processed over 8 million accounting transactions this year to provide service to all 50 states, plus U.S. territories. All the while, we continued to experience challenges due to limited resources and tight budgets. I am confident,



however, that with the help of our dedicated and professional staff, we will continue to maintain the highest standards of accountability.

These FY 2000 financial statements have been prepared in accordance with the Chief Financial Officers Act of 1990 with guidance on form and content provided by the Office of Management and Budget (OMB) and the Federal accounting standards provided by the Federal Accounting Standards Advisory Board (FASAB). Questions regarding this annual report may be directed to the Financial Statements, Analysis and Control Branch, AFM-310, 800 Independence Avenue, S.W., Washington, DC 20591.



Donna R. McLean
Chief Financial Officer



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

Memorandum

Subject: **ACTION:** Report on Fiscal Year 2000
Financial Statements, FAA
FI-2001-036

Date: March 1, 2001

From: Kenneth M. Mead
Inspector General

Reply To
Attn. of: Meche:x61496

To: The Secretary

I respectfully submit the Office of Inspector General (OIG) report on the Federal Aviation Administration (FAA) Financial Statements for the Fiscal Year (FY) 2000 that ended September 30, 2000. This report is required by the Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994.

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

To assist us, the Department of the Treasury (Treasury) Office of Inspector General audited the schedule of assets and liabilities, and the related schedule of activity for the FAA accounts (referred to as the Corpus account) administered by the Treasury Bureau of Public Debt. The Treasury OIG issued an unqualified opinion on these FY 2000 schedules. The General Accounting Office performed agreed-upon procedures on tax revenue receipts at the Internal Revenue Service and distributions to the Airport and Airway Trust Fund account, and identified no material discrepancies.

This report presents our qualified opinion on the FAA Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and Statement of Financing as of, and for the year ended, September 30, 2000.

Last year, although FAA received an unqualified opinion on its FY 1999 Financial Statements, we reported a material internal control weakness in the accounting for FAA property, plant, and equipment. These FAA accounts include about \$17 billion of assets and keep track of property supporting air traffic control modernizations and other major property investments. To obtain an unqualified opinion in FY 1999, FAA had to undertake extraordinary, expensive, and labor-intensive efforts. In our report last year, we cautioned that such efforts were not sustainable for the long term. Accordingly, in a separate report, we recommended that FAA acquire a commercial, off-the-shelf.

integrated property management system, and FAA agreed. Results-oriented organizations need good financial systems that automatically generate accurate and reliable financial data. In FAA's case, such a financial system is essential because of the size and complexity of its property accounts.

During FY 2000, FAA tried but was unsuccessful in implementing an integrated property management system to support the FY 2000 FAA Financial Statements. This conversion process was terminated because FAA realized the detailed research and corrective action necessary to resolve a \$479 million difference between the old and new systems could not be accomplished in time for the financial statement audit. The balances in both systems should have been equal. Consequently, FAA calculated depreciation expense (\$751 million) and the net book value (\$11.5 billion) of its property using electronic spreadsheets outside the existing property systems.

Nonfinancial personnel performed the conversion to a new real property system, and FAA did not establish adequate controls over changes being made to financial data. As a result of this conversion process, among other things, the number of real property items went from 14,000 to 18,000, and increased the net book value of real property by \$158 million. Converting data from one system to another should not have resulted in any changes to the recorded balance. Material errors were made during the conversion. For example:

FAA property records showed an air traffic control tower was constructed in 1942 for \$18 million and was fully depreciated as of September 30, 1999. During the conversion, FAA added about \$900,000 of improvements and nonfinancial personnel changed the acquisition date to 2000 in the property database. As of September 30, 2000, this 58-year old facility was shown on FAA property records as a new building with a net book value of \$18.9 million, which overstated net book value by \$18 million.

The total amounts associated with these errors could not be substantiated which caused us to issue a qualified opinion on the FY 2000 FAA Financial Statements.

Last year, we also reported that FAA had not established procedures to fully accrue liabilities and expenses at yearend and to use actual costs for estimating environmental and disposal liabilities. During FY 2000, FAA established adequate procedures and produced a fair and reasonable estimate of accrued liabilities and expenses at yearend.

For the FY 2000 FAA Financial Statements, we identified two issues involving compliance with laws and regulations. While these issues are important, they did not affect our audit opinion.

- The performance measures presented in the Management Discussion and Analysis did not provide information about the cost-effectiveness of programs nor relate to

the Statement of Net Cost. The nine performance measures were based on 1999 rather than 2000 performance data. None of the nine measures was linked to the cost of achieving targeted results.

- FAA was not in compliance with the Federal Financial Management Improvement Act of 1996 because the Department's accounting system did not comply with the United States Government standard general ledger and did not provide the data necessary for preparing the FAA Financial Statements. FAA also had a material internal control weakness concerning its property accounts and had not fully implemented a managerial cost accounting system. The Department plans to have a compliant accounting system fully operational by December 31, 2001. FAA plans to have a fully operational cost accounting system by September 30, 2002.

Because these two compliance issues are common to FAA and other Department of Transportation (DOT) internal agencies, we will address these issues in our report on the FY 2000 DOT Consolidated Financial Statements.

We are making one recommendation in this report. As we recommended last year, we are again recommending that FAA implement a commercial, off-the-shelf, integrated property management system. To ensure accuracy, FAA also needs to establish tight controls over input data, validate the data, and maintain supporting documents for independent review and validation. As an added measure, FAA should establish a procedure within its property systems that financial information and acquisition dates cannot be changed without approval of the FAA Chief Financial Officer.

A draft of this report was provided to the FAA and DOT Chief Financial Officers on February 28, 2001. They agreed with the report. FAA engaged independent accountants to review and refine real and personal property files and computations, and these results will be available in 15 days. The FAA Chief Financial Officer stated that should added steps be needed, FAA is prepared to devote the resources necessary.

Upon receipt and review of the independent accountant's results, we will work closely with FAA to independently review data input into the new property system to ensure accuracy and supportability.

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

Attachments

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DEPARTMENT OF TRANSPORTATION
INSPECTOR GENERAL'S INDEPENDENT AUDIT REPORT
ON THE FEDERAL AVIATION ADMINISTRATION
FISCAL YEAR 2000 FINANCIAL STATEMENTS

To the Federal Aviation Administrator

The Department of Transportation (DOT), Office of Inspector General (OIG), audited the Federal Aviation Administration (FAA) Financial Statements as of, and for the year ended, September 30, 2000, and issued a qualified opinion. Except for the reported amounts for depreciation expense (\$751 million) and net book value of property, plant, and equipment (\$11.5 billion), in our opinion, the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and Statement of Financing were fairly presented, in all material respects, in conformance with Generally Accepted Accounting Principles.

We also are reporting on internal controls and compliance with laws and regulations applicable to the Fiscal Year (FY) 2000 FAA Financial Statements. We performed audit work at FAA Headquarters offices; its nine regional offices; the Mike Monroney Aeronautical Center; and the William J. Hughes Technical Center. We examined, on a test basis, evidence supporting the amounts and disclosures in the FAA Financial Statements. We assessed the accounting principles and estimates used by management. We evaluated the overall presentation of the FAA Financial Statements.

Using statistical sampling techniques, we tested 196 real property items totaling \$784 million (from a universe of \$3.3 billion), 192 personal property items totaling \$381 million (from personal property changes totaling \$535 million), 169 work-in-process items totaling \$362 million (from \$1 billion), 111 construction-in-progress items totaling \$473 million (from \$1.1 billion), 447 expense transactions totaling \$1.5 billion (from \$8.6 billion), 193 obligation transactions totaling \$812 million (from \$9.8 billion), and 264 undelivered orders totaling \$813 million (from \$5 billion).

We performed the audit in accordance with Government Auditing Standards as prescribed by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin 01-02, Audit Requirements for Federal Financial Statements.

Our audit objectives for the FY 2000 FAA Financial Statements were to determine whether: (1) principal FAA Financial Statements are presented fairly, in all material respects, in conformance with Generally Accepted Accounting Principles; (2) FAA has adequate internal controls over financial reporting, including the safeguarding of assets; (3) FAA has complied with laws and regulations that could have a direct and material

effect on the FAA Financial Statements or have been specified by OMB, including the Federal Financial Management Improvement Act of 1996; (4) financial information in the Management Discussion and Analysis is materially consistent with the information in the principal FAA Financial Statements; (5) internal controls ensured the existence and completeness of reported data supporting performance measures; and (6) supplementary and stewardship information is consistent with management representations and the FAA Financial Statements.

Except for performance measures, which were based on 1999 performance data (Part C of this report), the financial information in the Management Discussion and Analysis was materially consistent with the FY 2000 FAA Financial Statements. The supplementary and stewardship information also was materially consistent with management representations and the FAA Financial Statements.

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

A. QUALIFIED OPINION ON FINANCIAL STATEMENTS

Last year, we reported a material internal control weakness in the accounting for FAA property, plant, and equipment. During FY 2000, FAA tried but was unsuccessful in implementing an integrated property management system to support the FY 2000 FAA Financial Statements. Consequently, FAA calculated depreciation expense (\$751 million) and the net book value (\$11.5 billion) of its property using electronic spreadsheets outside the existing property systems. These amounts could not be substantiated.

Except for the reported depreciation expense and net book value of property, plant, and equipment, in our opinion, the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and Statement of Financing as of, and for the year ended, September 30, 2000, were fairly presented, in all material respects, in conformance with Generally Accepted Accounting Principles.

B. REPORT ON INTERNAL CONTROLS

Our objective was not to express, and we do not express, an opinion on internal controls. Our work was limited to applicable internal controls designed to ensure reliable financial reporting, including the safeguarding of assets. We obtained an understanding of the internal controls, determined whether the controls had been placed in operation, assessed control risk relevant to the assertions embodied in the financial statements, and performed tests of controls to determine our auditing procedures for the purpose of expressing our opinion on the FY 2000 FAA Financial Statements.

Because of inherent limitations in internal controls, misstatements and losses may occur and not be detected. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. We identified one material internal control weakness.

MATERIAL WEAKNESS

The following section describes a material internal control weakness concerning FAA's property, plant, and equipment. The Department reported this material weakness to the President and Congress on December 27, 2000, under the requirements of the Federal Managers' Financial Integrity Act of 1982.

Property, Plant, and Equipment

During FY 1999, FAA made extraordinary and labor-intensive efforts to overcome accounting and financial system weaknesses with its property accounts. As a result of these efforts, FAA reported \$10.8 billion (total acquisition cost of \$15.5 billion less accumulated depreciation of \$4.7 billion) as the net book value for property, plant and equipment as of September 30, 1999. Our audit work substantiated the reported amounts, and we issued an unqualified opinion on the FY 1999 FAA Financial Statements.

Although FAA was able to support property amounts for FY 1999, we reported the deficiencies in the existing property systems as a material internal control weakness, and recommended that FAA acquire a commercial, off-the-shelf, integrated property management system that would be compatible with the Department's new accounting system. FAA agreed with our recommendation.

FY 2000 Activity

During FY 2000, FAA began implementing its new integrated property management system to consolidate property assets, compute depreciation, and maintain a record of asset changes. Using the new system, FAA input the substantiated property balances as of September 30, 1999, and provided the output as support for the amount to be reported in its FY 2000 Financial Statements. Although the beginning balances in the new system should have equaled the substantiated balance as of September 30, 1999, the balances were off by \$479 million. FAA could not reconcile the differences and used existing property systems to support the FY 2000 Financial Statements.

In November and December, we statistically tested the acquisition value of FAA real property (\$3.3 billion), personal property changes (\$535 million), work-in-process (\$1 billion) and construction-in-progress (\$1.1 billion) at 12 FAA locations and found

acquisition values to be substantiated. At that time, FAA had not computed depreciation and net book values for audit testing. Later, FAA calculated depreciation expense (\$751 million) and the net book value (\$11.5 billion) of its property, plant and equipment in electronic spreadsheets outside the existing property systems. We determined these amounts could not be substantiated for the following reasons.

Real Property

In April 2000, FAA converted from its Real Property Record (RPR) system to a new Real Estate Management System (REMS) to account for its real property. Nonfinancial personnel performed the conversion, and FAA did not establish adequate controls over changes being made to financial data. As a result of this process, the number of real property items went from about 14,000 as of September 30, 1999, to about 18,000 as of September 30, 2000. FAA also reduced accumulated depreciation and increased net book value of real property by \$158 million from balances reported as of September 30, 1999. Converting data from one system to another should not have resulted in any changes to the balances as of September 30, 1999.

On January 27, 2001, FAA provided its calculation of accumulated depreciation, net book value, and depreciation expense for real property. We found that during the conversion process FAA inappropriately changed property acquisition dates in its database. As a result, FAA incorrectly calculated depreciation and net book values.

For example, FAA property records showed an air traffic control tower was constructed in 1942 for \$18 million and was fully depreciated as of September 30, 1999. During the conversion, FAA added about \$900,000 of improvements, and nonfinancial personnel changed the acquisition date to 2000 in the property database. As of September 30, 2000, this 58-year old facility was shown on FAA property records as a new building with a net book value of \$18.9 million, which overstated the net book value by \$18 million.

To better quantify our results, we expanded our review of real property to include buildings valued at more than \$100,000 at 20 FAA enroute centers (216 items totaling \$398 million). We found that 58 (27 percent) of the 216 items had incorrect acquisition dates, resulting in a \$78 million overstatement of net book value. FAA could not explain why these dates were changed. Based on our sample results, we estimated that 500 real property items had incorrect acquisition dates as of September 30, 2000.

In addition to overstating net book values as a result of inappropriately changing property acquisition dates, FAA also encountered problems computing depreciation using a commercial software program. We found that the software did not properly account for cost changes resulting from improvements and disposals.

For example, a base building and tower was on the property record as one facility with an acquisition value of \$15.5 million. During the conversion, the asset was split into two items, one for the tower and one for the base building. While the total cost for the two items remained at \$15.5 million, the software program inaccurately computed accumulated depreciation at \$31.5 million, or more than double the acquisition value.

Personal Property (Equipment)

On January 13, 2001, FAA presented its calculation of accumulated depreciation, net book value, and depreciation expense for personal property. Our analytical procedures identified problems with acquisition dates and depreciation calculations. For example, a display system replacement was commissioned in 1998 for \$41 million. During FY 2000, FAA added a \$10 million improvement to the system and changed the acquisition date to 2000. Therefore, as of September 30, 2000, the system is on the property records as a new facility and the net book value is overstated by about \$16 million.

FAA agreed that acquisition dates on some property items were changed inappropriately, and that its commercial software program made errors when calculating depreciation.

Recommendation

As in last year's report, we are again recommending that FAA implement a commercial, off-the-shelf, integrated property management system. To ensure accuracy, FAA also needs to establish tight controls over input data, validate the data, and maintain supporting documents for independent review and validation. As an added measure, FAA should establish a procedure within its property systems that financial information and acquisition dates cannot be changed without approval of the FAA Chief Financial Officer.

FAA Chief Financial Officer Comments

FAA essentially agrees with the report. Based on initial findings of the OIG, FAA engaged independent accountants to review and refine real and personal property files and computations. FAA will make the results available within 15 days. Should added steps be needed, FAA is prepared to devote the resources necessary.

OIG Response

Upon receipt and review of the independent accountant's results, we will work closely with FAA to independently review data input into the new property system to ensure accuracy and supportability.

C. REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

Our objective was not to express, and we do not express, an opinion on compliance with laws and regulations. Our work was limited to selected provisions of laws and regulations that would have a direct and material effect on the FY 2000 FAA Financial Statements or have been specified by OMB, including the Federal Financial Management Improvement Act of 1996, and would not necessarily disclose all material noncompliances. We identified two compliance issues.

Performance Data

Under OMB Bulletin 01-02, our responsibility is to obtain an understanding of internal controls relating to the existence and completeness of performance data. FAA is responsible for establishing and maintaining adequate internal controls. The FY 2000 DOT Performance Plan contained 66 performance measures, of which 9 were in the FY 2000 FAA Financial Statements. The presentation complied with the requirements of OMB Bulletin 97-01 and related technical amendments to report performance measures consistent with goals and objectives from agencies' strategic plans.

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

OMB Bulletin 97-01 and related technical amendments state:

Entities should strive to develop and report objective measures that . . . provide information about the cost effectiveness of programs. The reported measures . . . should be linked to the programs featured in the Statement of Net Cost To further enhance the usefulness of the information, agencies should include an explanation of what needs to be done and what is planned . . . to improve financial or program performance.

As we reported last year, FAA still did not have systems in place to allocate costs by major program. Consequently, the performance measures could not be linked to the Statement of Net Cost. For example, one FAA measure is to reduce the number of runway incursions to 248 for the FY 2000 goal. FAA did not report FY 2000 cost data for its efforts in this area.

The performance measures presented in the FAA Financial Statements also did not provide information about cost-effectiveness. None of the measures was linked to the cost of achieving targeted results, or to the Statement of Net Cost. For example, one FAA goal is to measure the number of flight segments that aircraft are able to fly outside the air traffic control preferred routes. FAA did not report the FY 2000 cost data for this measure.

The Departmental Accounting and Financial Information System (DAFIS) does not have the capability to track program costs. However, DOT is in the process of replacing DAFIS, and plans to have the new accounting system fully operational by December 31, 2001. FAA also is developing a separate cost accounting system, which is expected to be fully operational by September 30, 2002.

Assessing Internal Controls

We performed various procedures to assess the internal controls relating to performance data. While our work disclosed no material internal control weaknesses, we were not required to, and we did not, test the validity or accuracy of performance data as part of the FAA Financial Statement audit. However, FAA is facing a significant management challenge to ensure that incoming data are accurate and complete.

FAA is relying on third-party organizations, such as commercial airlines and airports, outside the Federal Government for some of its performance data. FAA also used 1999 performance data. Although FAA had some FY 2000 data, the Department instructed all DOT agencies to present 1999 data for consistency across DOT.

Although not part of the Financial Statement audits, the OIG performed audits in FYs 1999 and 2000 addressing performance measures and data. OIG will continue to address performance measures as part of program audits. For example, OIG conducted a performance audit and found that FAA operational errors are at risk of being underreported because only enroute centers have an automated system that documents when operational errors occur. FAA agreed to take action to improve the reporting of operational errors. Furthermore, the Department is continuing its efforts to further enhance the quality of all performance data.

Reporting of Planned Actions

To enhance the usefulness of performance information, OMB Bulletin 97-01 and related technical amendments encourage entities to include an explanation of what is planned to improve financial or program performance. The Management Discussion and Analysis overview of the FY 2000 FAA Financial Statements included general comments on how to improve performance; however, specific plans to improve financial performance through performance measures were not included. For example, the financial needs for the planned action to improve the percent of runway pavement in good or fair condition was not addressed.

Federal Financial Management Improvement Act of 1996

The Federal Financial Management Improvement Act (FFMIA) of 1996 requires auditors to report whether the agencies' financial management systems comply substantially with the requirements of Federal financial management systems, Federal accounting standards, and the United States Government standard general ledger at the transaction level. On January 4, 2001, OMB issued revised guidance to be used for determining compliance with FFMIA for financial reports and audits of the FY 2000 Financial Statements.

FAA was not in compliance with FFMIA because DAFIS did not comply with the standard general ledger and did not provide the data necessary for preparing the FAA Financial Statements. FAA also had a material internal control weakness concerning its property accounts and had not fully implemented a managerial cost accounting system. FAA made 393 adjustments, totaling about \$7 billion, outside DAFIS to prepare the FY 2000 Financial Statements. These adjustments were recorded in the financial statement module, a tool used to process the adjustments. However, FAA did not use the financial statement module to prepare the financial statements and the adjustments were not recorded in DAFIS.

The Department plans to have a compliant accounting system fully operational by December 31, 2001. FAA also plans to have a compliant cost accounting system by September 30, 2002.

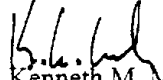
On December 27, 2000, as required by the Federal Managers' Financial Integrity Act of 1982, the Secretary of Transportation reported that FAA had a material weakness concerning its property accounts and that the Department was taking remedial and progressive actions to bring the Department into substantial compliance with FFMIA.

D. PRIOR AUDIT COVERAGE

Our report on the FY 1999 FAA Financial Statements contained no recommendations. However, our report on the FY 1999 DOT Consolidated Financial Statements recommended that the DOT Chief Financial Officer establish procedures requiring DOT internal agencies to accrue liabilities for goods and services received at yearend, and provide additional guidance to DOT internal agencies to use actual cost for estimating environmental cleanup and disposal liabilities. During FY 2000, FAA established adequate procedures and produced a fair and reasonable estimate of accrued liabilities and expenses at FY 2000 yearend.

On February 28, 2000, we reported on FAA property, plant, and equipment. We recommended FAA acquire a commercial, off-the-shelf, integrated property management system that is compatible with the Department's new accounting system. During FY 2000, FAA tried but was unsuccessful in implementing an integrated property management system to support the FY 2000 Financial Statements. FAA plans to have a fully integrated property accounting system by November 12, 2001.

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


Kenneth M. Mead
Inspector General

LIMITATIONS OF THE FINANCIAL STATEMENT

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

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

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

FY 2000 FAA ANNUAL REPORT

**U. S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
CONSOLIDATED BALANCE SHEET
As of September 30, 2000**

(Dollars in Thousands)

Assets

Intragovernmental		
Fund Balance with Treasury (Note 2)	\$	886,325
Investments (Note 3)		13,355,134
Accounts Receivable, Net (Note 4)		267,438
Other (Note 5)		<u>45,030</u>
Total Intragovernmental Assets	\$	<u>14,553,927</u>
Accounts Receivable, Net (Note 4)	\$	36,593
Loans Receivables and Related		
Foreclosed Property, Net (Note 6)		283
Cash and Other Monetary Assets (Note 7)		69,354
Inventory and Related Property, Net (Note 8)		988,158
General Property, Plant, and Equipment, Net (Note 9)		11,529,336
Other (Note 5)		<u>52,642</u>
Total Assets	\$	<u><u>27,230,293</u></u>

Liabilities

Intragovernmental Liabilities:		
Accounts Payable	\$	130,245
Environmental Cleanup Costs (Note 10)		453,936
Debt (Note 11)		26
Other Intragovernmental Liabilities (Note 12)		<u>344,564</u>
Total Intragovernmental Liabilities	\$	<u>928,771</u>
Accounts Payable	\$	488,952
Loan Guarantees		0
Federal Employee and Veterans Benefits (Note 14)		944,533
Environmental Cleanup Costs (Note 10)		1,361,808
Other Liabilities (Note 12 & 13)		<u>1,333,068</u>
Total Liabilities	\$	<u><u>5,057,132</u></u>

Net Position Balances:

Unexpended Appropriations (Note 15)	\$	125,217
Cumulative Results of Operations		<u>22,047,944</u>
Total Net Position	\$	<u><u>22,173,161</u></u>
Total Liabilities and Net Position	\$	<u><u>27,230,293</u></u>

**U.S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
CONSOLIDATED STATEMENT OF NET COST
For the Year Ended September 30, 2000**

(Dollars in Thousands)

Programs (Note 16 & 17)

Air Traffic Service	
Intragovernmental	\$ 1,006,551
With the Public	<u>5,660,107</u>
Total	6,666,658
Less Earned Revenues	<u>(33,777)</u>
Net Air Traffic Service Costs	\$ 6,632,881

Regulations & Certification	
Intragovernmental	\$ 109,663
With the Public	<u>623,641</u>
Total	733,304
Less Earned Revenues	<u>(1,650)</u>
Net Regulations & Certification Costs	\$ 731,654

Research & Acquisition	
Intragovernmental	\$ 115,019
With the Public	<u>456,916</u>
Total	571,935
Less Earned Revenues	<u>(30,679)</u>
Net Research & Acquisition Costs	\$ 541,256

Airports	
Intragovernmental	
Administration	\$ 8,203
With the Public	
Grants Program	1,320,097
Administration	<u>46,993</u>
Total	1,375,293
Less Earned Revenues	<u>-</u>
Net Airports Costs	\$ 1,375,293

Civil Aviation Security	
Intragovernmental	\$ 28,356
With the Public	<u>156,467</u>
Total	184,823
Less Earned Revenues	<u>(921)</u>
Net Civil Aviation Security Costs	\$ 183,902

Commercial Space	
Intragovernmental	\$ 1,102
With the Public	<u>6,175</u>
Total	7,277
Less Earned Revenues	<u>(20)</u>
Net Commercial Space Costs	\$ 7,257

Other Programs	
Intragovernmental	\$ 66,794
With the Public	<u>106,200</u>
Total	172,994
Less Earned Revenues	<u>(43,895)</u>
Net Other Program Costs	\$ 129,099

Costs Not Assigned to Programs	146,304
Less Earned Revenues Not Assigned to Programs	<u>(11,695)</u>
	\$ <u>9,735,951</u>

FY 2000 FAA ANNUAL REPORT

U. S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
As of September 30, 2000

(Dollars in Thousands)

Net Cost of Operations	\$ (9,735,951)
Financing Sources	
Appropriations Used	244,500
Taxes and Other Non-Exchange Revenues (Note 18)	10,747,853
Donations (Non-Exchange Revenue)	2,624
Imputed Financing (Note 19)	414,210
Transfers-In	1,194
Transfers-Out	(87,607)
Other	-
Total Financing Sources	\$ <u>11,322,774</u>
Net Results of Operations	\$ <u>1,586,823</u>
Prior Period Adjustments (Note 20)	\$ (226,759)
Net Change in Cumulative Results of Operations	\$ 1,360,064
Increase (Decrease) in Unexpended Appropriations	(224,488)
Change in Net Position	1,135,576
Net Position Beginning of Period	<u>21,037,585</u>
Net Position End of Period	\$ <u><u>22,173,161</u></u>

FY 2000 FAA ANNUAL REPORT

U. S. Department of Transportation
 FEDERAL AVIATION ADMINISTRATION
 COMBINING STATEMENT OF BUDGETARY RESOURCES
 For the year ended September 30, 2000

(Dollars in Thousands)

Budgetary Resources (Note 21)

Budget Authority	\$	8,935,269
Unobligated Balances - Beginning of Period		13,155,599
Spending Authority From Offsetting Collections		185,921
Adjustments		(863,173)
Total Budgetary Resources	\$	<u><u>21,413,616</u></u>

Status Of Budgetary Resources

Obligations Incurred	\$	10,477,792
Unobligated Balances-Available		10,826,197
Unobligated Balances-Not Available		109,627
Total Status of Budgetary Resources	\$	<u><u>21,413,616</u></u>

Outlays

Obligations Incurred	\$	10,477,792
Less: Spending Authority From Offsetting Collections and Adjustments		(355,911)
Obligated Balance, Net Beginning of Period		5,217,499
Obligated Balance Transferred, Net		-
Less: Obligated Balance, Net - End of Period		(5,792,299)
Total Outlays	\$	<u><u>9,547,081</u></u>

FY 2000 FAA ANNUAL REPORT

**U. S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
COMBINED STATEMENT OF FINANCING
For the year ended September 30, 2000**

(Dollars in Thousands)

Obligations and Nonbudgetary Resources

Obligations Incurred	\$	10,477,792
Less: Spending Authority for Offsetting		
Collections and adjustments		(355,911)
Donations not in the Budget		2,624
Financing Sources for Cost Subsidies		414,210
Transfers-in (out)		(86,414)
Exchange Revenue not in the Budget		(4,438)
Nonexchange Revenue Not in the Entity's Budget		12,700
Less: Trust or Special Fund Receipts Related to Exchange Revenue in the Entity's Budget		(146,764)
Other (Year-End Accounts Payable Accruals)		<u>191,291</u>
Total Obligations as Adjusted, and Nonbudgetary Resources	\$	<u><u>10,505,090</u></u>

Resources That Do Not Fund Net Cost of Operations

Change in Amount of Goods, Services, and Benefits		
Ordered but not yet Received or Provided	\$	(606,885)
Change in Unfilled Customer Orders		73,320
Costs Capitalized on the Balance Sheet		
General Property, Plant & Equipment		(1,372,425)
Loans		98
Purchase of Inventory		(78,017)
Purchases of Non-Government Investments		-
Adjustment to Cost Capitalized on the Balance Sheet		(212)
Financing Sources that Fund Costs of Prior Periods (Note 22)		(51,026)
Collections That Decrease Credit Program Receivables or Increase Credit Program Liabilities		-
Adjustment for Trust Fund Outlays that do not Affect Net Cost		37
Other - Identified Prior Period Adjustments		<u>(152,370)</u>
Total Resources That Do Not Fund Net Cost of Operations	\$	<u><u>(2,187,480)</u></u>

Costs That Do Not Require Resources

Depreciation and Amortization	\$	751,133
Bad Debt Related to Uncollectible Non Credit Reform Receivables		
Fixed Price Variation		
Gain on Disposition of Assets		(61,060)
Cost of Goods Sold		143,768
Other		<u>(43,204)</u>
Total Costs That Do Not Require Resources	\$	<u><u>790,637</u></u>

Financing Sources Yet To Be Provided (Note 22) \$ 627,704

Net Cost Of Operations \$ 9,735,951

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

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

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

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

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

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

B. Reporting Entity

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

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

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

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

The Airport and Airway Trust Fund (Trust Fund) financed approximately 98 percent of the FY 2000 total budget. The only appropriations receiving General Fund financing are the Facilities, Engineering and Development appropriation and, when enacted, the appropriation to liquidate debts to the Treasury incurred for the Aircraft Purchase Loan Guarantee Program. (No such liquidating appropriation was enacted in FY 2000.) The Operations appropriation was financed completely by the Airport and Airway Trust Fund. FAA records a receivable based on the total amount designated in the Public Law, and revenue is recognized when FAA makes a draw down from the AATF cover expenditures.

C. Budgets and Budgetary Accounting

Congress annually enacts appropriations to permit the FAA to incur obligations for specified purposes. For FY 2000, the FAA was accountable for Trust Fund appropriations, General Fund appropriations, a Revolving Fund, a Franchise Fund, and borrowing authority. The FAA recognizes budgetary resources as assets when cash (funds held by Treasury) is made available through Treasury General Fund warrants and Trust Fund transfers. See paragraph B above.

D. Basis of Accounting

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

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

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

E. Revenues and Other Financing Sources

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

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

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

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

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

G. Investment in U.S. Government Securities

Unexpended funds in the Trust Fund and Aviation Insurance Revolving Fund are invested in U.S.

Government securities. A portion of the Trust Fund investments is liquidated semimonthly in amounts needed to provide cash for the FAA appropriation accounts. The Revolving Fund investments are usually held to maturity. Investments, redemptions, and reinvestments are controlled and processed by the Treasury.

H. Accounts and Loans Receivable

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

I. Operating Materials and Supplies

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

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

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

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

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

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

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

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

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

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

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

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

K. Prepaid and Deferred Charges

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

L. Liabilities

A liability represents the amount to be paid by the

FAA as the result of a transaction or event that has already occurred. The FAA, absent of an appropriation, cannot liquidate any liabilities. Liabilities for which an appropriation has not yet been enacted are, therefore, classified as unfunded liabilities, and there is no certainty that such appropriation will be enacted.

M. Borrowing Payable to the Treasury

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

N. Interest Payable to the Treasury

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

O. Annual, Sick, and Other Leave

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

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

P. Accrued Workers' Compensation

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

reimbursement to DOL.

Q. Retirement Plan

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

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

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

R. Contingencies

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

Note 2. Fund Balances with Treasury

(Dollars in Thousands)

	<u>Obligated</u>	<u>Unobligated & Available</u>	<u>Unobligated & Restricted</u>	<u>Total</u>
Trust Fund	\$ 2,977,773	\$ (2,003,690)	\$ (183,576)	\$ 790,507
Operations General Fund	87,516	3,359	62,707	153,582
Franchise Fund	4,943	4,024		8,967
Revolving Fund	(71,788)	(8,026)	79,953	141
Other Funds	<u>114</u>	<u>(66,986)</u>	<u>-</u>	<u>(66,872)</u>
Total	<u>\$ 2,998,558</u>	<u>\$ (2,071,319)</u>	<u>\$ (40,916)</u>	<u>\$ 886,325</u>

Unobligated and restricted fund balances represent balances of appropriations for which the period of availability for (voluntary) obligation has expired. These balances are only available for upward adjustments of obligations incurred during the period for which the appropriation was available for obligation or for paying claims attributable to the appropriation. Pursuant to 31 USC 1552, appropriation accounts are canceled at the close of the fifth fiscal year following the last fiscal year for which they were available for obligation. Fund balances in the amount of \$11.6 million in canceled appropriations at fiscal yearend were removed from the balance sheet. The amount withdrawn biweekly from the Trust Fund is based on cash outlays, not on obligational authority, to minimize interest costs. Negative unobligated balances are covered by invested funds in the Airport and Airway Trust Fund.

Note 3. Investments

(Dollars in Thousands)

	<u>Cost</u>	<u>Amorti- zation Method</u>	<u>Unamortized (Premium) Discount</u>	<u>Investments Net</u>	<u>Other Adjustments</u>	<u>Market Value Disclosure</u>
Intragovernmental Securities:						
Nonmarketable, Par Value						
Trust Fund (1)	\$ 13,096,852		\$ -	\$ 13,096,852	\$ -	\$ -
Nonmarketable, Market-Based						
Aviation Insurance		Interest				
Revolving Fund (2)	<u>75,932</u>	Method	<u>2,581</u>	<u>78,513</u>	<u>-</u>	<u>-</u>
Subtotal	\$ 13,172,784		<u>\$ 2,581</u>	<u>\$ 13,175,365</u>	<u>\$ -</u>	<u>\$ -</u>
Accrued Interest	<u>\$ 182,350</u>					<u>\$ -</u>
Total	<u>\$ 13,355,134</u>					<u>\$ -</u>

FY 2000 FAA ANNUAL REPORT

A total of \$13.1 billion was invested in U.S. Treasury Certificates of Indebtedness as of September 30, 2000, at a rate of 6.5 percent, maturing June 30, 2001.

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

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

	Maturity Date	Effective Interest Rate		Amount
1	12/08/2000	5.33%	\$	14,798,000
2	03/01/2001	5.90%		25,823,000
3	05/31/2001	5.79%		17,993,000
4	08/30/2001	5.75%		19,899,000
			\$	78,513,000

Note 4. Accounts Receivable

(Dollars in Thousands)

	Gross Accounts Due	Allowance for Uncollectible Amounts		Net Amount Due
Intragovernmental Receivables	\$ 267,438	\$ -	\$	267,438
Other Receivables	39,803	(3,210)		36,593
Total Receivables	\$ 307,241	\$ (3,210)	\$	304,031

Reconciliation of Uncollectible Amounts:

	<u>Intragovernmental</u>	<u>Other</u>	
Beginning Balance	\$ -	\$ (6,803)	
Additions	-	(2,884)	
Reductions	-	6,477	
Ending balance	\$ -	\$ (3,210)	

A delinquency notice is sent to each debtor when billings remain uncollected for 30 days after the Bill for Collection date. A second delinquency notice is sent another 30 days later if the debtor does not respond. Salary or retirement offset action may be taken when the debtor is a current or former Federal employee. Other attempts at collection may be taken for debtors who are not current or former Federal employees. In 1997, the

FAA implemented certain provisions of the Debt Collection Improvement Act of 1996, P.L.1041-34, which requires, among other things, that Federal agencies submit accounts receivable that are over 180 days delinquent to the Department of Treasury (Treasury) for collection. Treasury may take such actions as tax refund offset, consumer reporting, and referral to collection agencies.

An allowance for uncollectible accounts receivable is established either based upon a monthly review of outstanding accounts and the failure of all collection efforts, management determines that collection is unlikely to occur, or when an account for which no allowance has already been established is submitted to Treasury for collection. Accounts receivable in appropriations canceled on September 30, 2000, pursuant to 31 USC 1552, are no longer FAA assets. Accordingly, accounts receivable balances totaling \$116,732 in canceled appropriations at fiscal year end were removed from the balance sheet.

Note 5. Other Assets

(Dollars in Thousands)

Other Entity Assets Intragovernmental

Advances and Prepayments	\$ 43,576 (1)
Undistributed Foreign Costs	188
Undistributed Costs - Treasury Clearing	947
Other Assets - Undistributed	<u>319 (2)</u>
Total Other Assets Intragovernmental	<u>\$ 45,030</u>

Other Entity Assets

Advances and Prepayments	<u>52,642 (3)</u>
Total Other Entity Assets	<u>\$ 97,672</u>

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

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

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

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

(Dollars in Thousands)

Defaults on Pre-1992 Guaranteed Loans:

Aircraft Purchase Loan Guarantee Program	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Defaulted Guaranteed Loans Receivable, Net
	<u>\$ 613</u>	<u>\$ 7</u>	<u>\$ (337)</u>	<u>\$ -</u>	<u>\$ 283</u>

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

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

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

Note 7. Cash, Foreign Currency and Other Monetary Assets

(Dollars In Thousands)

Imprest Fund	<u>\$ 4</u>
Undeposited Collections	<u>69,350</u>
Total Cash, Foreign Currency, and Other Monetary Assets	<u>\$ 69,354</u>

Note 8. Inventory and Related Property

(Dollars in Thousands)

Operating Material and Supplies:

	<u>Value</u>	<u>Allowance</u>	<u>Net Value</u>	<u>Valuation Method</u>
Items Held For Use	\$ 877,734	\$ -	\$ 877,734	Moving Weighted Avg
Excess, Obsolete Unserviceable	32,054	(13,376)	18,678	Moving Weighted Avg
Items Held for Repair	<u>262,131</u>	<u>(170,385)</u>	<u>91,746</u>	Moving Weighted Avg
Total Inventory and Related Property	<u>\$ 1,171,919</u>	<u>\$ (183,761)</u>	<u>\$ 988,158</u>	

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

Items are considered for repair based on condition levels and if the maximum repair cost does not exceed 65 percent of the original cost. The allowance method is used to account for operating materials and supplies held

for repair, reducing the net carrying value of such items to 35 percent of their original cost. Current period expenses are recognized for the amount of the annual increase or decrease to the allowance account. In FY2000, FAA recognized \$ 18.2 million increase in the allowance for items held for repair.

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

Note 9. Property, Plant and Equipment, Net

(Dollars in Thousands)

Class of Fixed Assets	Deprec Method	Services Life	Acquis. Value	Accum. Deprec.	Net
					Book Value FY 2000
Land	None	None	\$ 84,422	\$ -	\$ 84,422
Buildings & Structures	SL	15-40	3,198,406	(1,403,311)	1,795,095
Leasehold Improvements	SL	-	27,619	-	27,619
Aircraft	SL	20	395,361	(173,474)	221,887
Aircraft Engines	SL	7	2,761	-	2,761
ADP Software	None	-	54,062	(30,063)	23,999
Equipment	SL	5-20	10,017,381	(3,659,425)	6,357,956
Assets Under Capital Lease	SL	Term-40	109,319	(27,995)	81,324
Construction in Progress	None	None	2,934,273	-	2,934,273
Property Not in Use	-	-	95,244	(95,244) (*)	0
			<u>\$ 16,918,848</u>	<u>\$ (5,389,512)</u>	<u>\$ 11,529,336</u>

In FY 2000, FAA implemented a replacement Real Property System for its Land, Buildings, and Structures. The Real Estate Management System (REMS) serves as the subsidiary record and was used to support the acquisition value for FAA Financial Statement reporting.

FAA reviewed its Facilities and Equipment Major System Acquisition costs expended during FY2000 and identified more than \$553 million of additional capital costs. A capitalization percentage was applied to the FY2000 expenditures based on results from the FY 1999 “top-down” detailed analysis of two decades of NAS system acquisition. These capital costs were properly included as part of the Construction-in-Progress account balances.

FAA initiated an allocation process for its headquarters Construction-in-Progress capital accounts. This allocation process moves centrally funded capital expenditures to individual Region job orders in the Work-in-Process. The total amount that was distributed to the regions in FY2000 was approximately \$1.2 billion.

FAA continued to track its Work-in-Process account with performance measures so that project closeout to in-use assets was completed in a timely manner. Closeout is required within 6 months after new assets/capital improvements are placed in service. During FY 2000, more than \$1 billion of Work-in-Process was closed to the in-use asset accounts. In addition, the regions continue to maintain Work-in-Process centralized folders that support all accumulated project costs.

In total, FAA recognized approximately \$95 million (*) in current and prior year losses for Property Not in Use. Of this amount \$37.4 million was recognized as a loss on fixed assets for excess and surplus property in the Utilization Screening and Disposal System (USD) in FY2000.

Note 10. Environmental and Disposal Liabilities

(Dollars in Thousands)

	<u>Intragovernmental</u>	<u>Other</u>	<u>Total</u>
Environmental Remediation	\$ 110,486	\$ 331,458	\$ 441,944
Environmental Cleanup and Decommissioning	343,450	1,030,350	1,373,800
Total Environmental Liabilities	<u>\$ 453,936</u>	<u>\$ 1,361,808</u>	<u>\$ 1,815,744</u>

In FY 2000 the FAA reported total environmental remediation costs of \$ 441 million, which represents a \$336 million increase from FY 1999. The increase in the environmental remediation liability is due to an increase in the number of contaminated sites identified. In FY 1999 the FAA identified 239 sites for cleanup; in FY 2000 the number of cleanup sites increased to 436.

FAA's liability for environmental cleanup and decommissioning costs as of September 30, 2000, was \$1.4 billion. This represents a \$200 million increase of the \$1.2 billion reported in FY 1999 for the ground based navigation aids. The estimate changed because the program office used a different system; i.e., Capability and Architecture Tool Suite, instead of Satellite Navigation for producing the estimates.

In FY 2000, FAA conducted a review of the assets commissioned in FY 1999 and 2000 to determine if environmental contamination and removal of hazardous materials would be necessary upon decommissioning of these assets. In response to more stringent environmental regulations, the FAA created a new division to serve as the agency's advocate for environmental compliance. The division is responsible for reviewing and eliminating the environmental impact of all assets commissioned by the FAA. As a result of the FAA's proactive measures regarding environmental contamination, the review panel concluded that the environmental cleanup and disposal costs attendant to assets commissioned in FY 1999 and 2000 to be minimal.

Note 11. Debt

(Dollars in Thousands)

Not Covered by Budgetary Resources	<u>Beginning Balance</u>	<u>Net Borrowing</u>	<u>Ending Balance</u>
Other Debt:			
Aircraft Purchase Loan			
Guarantee Program			
Debt to the Treasury	\$ 24	\$ 2	\$ 26
Total Debt	<u>\$ 24</u>	<u>\$ 2</u>	<u>\$ 26</u>

Note 12. Other Liabilities

(Dollars in Thousands)

Other Intragovernmental Liabilities

	Non-Current Liability	Current Liability	Total
Advances from Others	\$ -	\$ 27,325	\$ 27,325
Accrued Payroll & Benefits to Other Agencies	-	36,645	36,645
Proceeds From Replacement of Property	-	12	12
Other	-	88,567	88,567
<i>Liabilities Covered by Budgetary Resources</i>	<u>\$ -</u>	<u>\$ 152,550</u>	<u>\$ 152,549</u>
Federal Employees Compensation Act	<u>\$ 108,681</u>	<u>\$ 83,334</u>	<u>\$ 192,015</u>
<i>Liabilities Not Covered by Budgetary Resources</i>	<u>\$ 108,681</u>	<u>\$ 83,334</u>	<u>\$ 192,015</u>
<i>Total Other Intragovernmental Liabilities</i>	<u>\$ 108,681</u>	<u>\$ 235,884</u>	<u>\$ 344,564</u>

Other Liabilities

Advances from Others, Unclassified	\$ -	\$ 2,758	\$ 2,758
Accrued Payroll & Benefits to the Employees	-	239,790	239,790
Liability for Unapplied Collections	-	(86,437)	(86,437)
Other Accrued Liabilities	-	96,965	96,965
<i>Liabilities Covered by Budgetary Resources</i>	<u>\$ -</u>	<u>\$ 253,077</u>	<u>\$ 253,076</u>
Accrued Unfunded Annual Leave & Assoc. Benefits	\$ 398,093	\$ -	\$ 398,093
Sick Leave Compensation Benefits for Air Traffic Controllers	43,715	-	43,715
Capital Leases (Note 13)	87,765	-	87,765
Contingent Liabilities for Legal Claims	537,768	-	537,768
Contingent Liabilities for Return Rights	12,651	-	12,651
<i>Liabilities Not Covered by Budgetary Resources</i>	<u>\$ 1,079,993</u>	<u>\$ -</u>	<u>\$ 1,079,993</u>
<i>Total Other Liabilities</i>	<u>\$ 1,079,993</u>	<u>\$ 253,077</u>	<u>\$ 1,333,068</u>

(1) Accrued payroll and employee benefits represent the unpaid pay period September 10 through September 30, 2000.

(2) An unfunded liability is recorded for unreimbursed actual cost to be made for workers compensation pursuant to the Federal Employees' Compensation Act (FECA) to the Department of Labor (DOL), which administers the Federal Employees' Compensation Fund. Funding for the amount charged to FAA is normally

appropriated for the fiscal year ending 2 years after the FAA accounting period in which the expense was incurred. Therefore, FAA's FY 2000 accrued liability includes workers' compensation benefits paid by DOL for the periods July 1, 1998 through June 30, 1999; July 1, 1999 through June 30, 2000; and July 1, 2000 through September 30, 2000.

(3) The estimated liability for accrued wages includes annual, home, and military, and compensatory hours (credit hours and restored) plus the agency's cost of employee benefits associated with such compensated absences for the period ending September 30, 2000.

(4) In FY 1998, under the National Air Traffic Controller Association (NATCA) agreement, Article 25, Section 13, Air Traffic Controllers covered under the Federal Employees Retirement Systems (FERS) became eligible, upon retirement, for a Sick Leave Buy Back Option. Under this option, an employee who attains the required number of years of service for retirement shall receive a lump sum payment for forty (40) percent of the value of his or her accumulated sick leave as of the effective date of their retirement. The total estimated sick leave buy back contingency for FAA for those Air Traffic Controllers eligible for retirement, based on current sick leave balances, for FY 2000 is \$43.7 million.

(5) In FY 2000, FAA recognized \$537.8 million for legal claims that have been asserted and are pending. Of this amount, \$85 million was estimated to be paid from agency appropriations and \$453 million to be paid from the permanent appropriation for judgments, awards, and compromise settlements (Judgment Fund) administered by the Department of Justice. The \$537.8 million is \$67 million higher than the \$470.8 million that was recognized in FY 1999. The \$67 million difference was recognized as a FY 2000 expense. FAA's maximum exposure for loss for contingent liabilities associated with legal claims is \$ 14.9 billion.

(6) Contingent Liabilities for the Return Rights Program decreased by \$13.25 million from \$25.9 million in FY 1999 to \$12.65 million in FY 2000. Because of evidence that the FY 1999 liability may have been overstated, the \$13.25 million decrease was treated as a prior period adjustment. The program covers temporary assignments for 2 to 4 years. At the end of FY 2000, approximately 253 employees who previously had accepted transfers to overseas or certain domestic locations were contractually entitled to a future return move at Government expense. The typical cost per move is \$50,000. The liability may be overstated because not every employee remaining in the program will exercise his or her right. If every employee in the program did exercise his or her right, the liability would be as follows:

FY 2001	\$5,100,000
FY 2002	\$6,600,000
FY 2003	<u>\$950,000</u>
	<u>\$12,650,000</u>

Note 13. Leases

FAA as Lessee

Capital Leases

(Dollars in Thousands)

Summary of Assets Under Capital Leases:

Land, Buildings & Machinery:	\$ 109,319
Less: Accumulated Amortization	<u>(27,995)</u>
Net Assets Under Capital Lease	<u>\$ 81,324</u>

Future Payments Due

Fiscal Year

Year 1 (FY 2001)	\$ 15,885
Year 2 (FY 2002)	15,707
Year 3 (FY 2003)	15,016
Year 4 (FY 2004)	14,957
Year 5 (FY 2005)	14,197
After 5 Years (FY 2005 to Contract End)	78,902
Less: Imputed Interest	<u>(66,899)</u>
Total Capital Lease Liability	<u>\$ 87,765</u>

Liabilities Not Covered by Budgetary Resources \$ -

Liabilities Not Covered by Budgetary Resources \$ 87,765

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

- (1) Capital lease assets are recorded at the net present value of the total minimum lease payments over the lease duration, valued at the lease inception.
- (2) In FY 1996, FAA implemented the depreciation/amortization provision of SFFAS No. 6, which is applicable to assets acquired under capital lease. The total assets, valued at \$109 million under capital lease for FY 2000, is \$45 million less than the \$154 million reported in FY 1999. FAA's FY2000 Capital Lease liability of \$87.8 million was only \$1.3 million less than the amount reported in FY1999.
- (3) Amounts due within the current fiscal year corresponding to the principal portion of the lease payments are recorded as current year obligations. The remaining principal payments are recorded as unfunded lease liabilities. The imputed interest is funded and expensed annually. Interest amounts imputed to subsequent years (aggregating \$67 million) are not recorded as unfunded liabilities in the Departmental Accounting and Financial Information System (DAFIS).

Operating Leases:

(Thousands of Dollars)

Future Payments Due				
Fiscal Year	<u>Land & Buildings</u>	<u>Mach & Equipment</u>	<u>Other</u>	<u>Total</u>
Year 1 (FY 2001)	\$ 45,685	\$ 2,809	\$ 264	\$ 48,757
Year 2 (FY 2002)	41,143	2,721	245	44,109
Year 3 (FY 2003)	37,818	2,732	227	40,777
Year 4 (FY 2004)	33,655	2,444	208	36,307
Year 5 (FY 2005)	30,887	1,881	199	32,967
After 5 Years (FY 2006 to Contract End)	<u>71,848</u>	<u>3,370</u>	<u>142</u>	<u>75,360</u>
Total Future Operating Lease Payments	<u>\$ 261,035</u>	<u>\$ 15,957</u>	<u>\$ 1,285</u>	<u>\$ 278,277</u>

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

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

FAA as Lessor:

Operating Leases

(Thousands of Dollars)

Future Payments Due				
Fiscal Year	<u>Land & Buildings</u>	<u>Mach & Equipment</u>	<u>Other</u>	<u>Total</u>
Year 1 (FY 2001)	\$ 4,264	\$ 90	\$ 57	\$ 4,411
Year 2 (FY 2002)	4,682	90	52	4,824
Year 3 (FY 2003)	5,142	90	50	5,282
Year 4 (FY 2004)	5,644	90	41	5,775
Year 5 (FY 2005)	6,200	0	35	6,236
After 5 Years (FY 2006 to Contract End)	<u>146,222</u>	<u>0</u>	<u>34</u>	<u>146,257</u>
Total Future Operating Lease Payments	<u>\$ 172,155</u>	<u>\$ 358</u>	<u>\$ 270</u>	<u>\$ 172,783</u>

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

Note 14. Federal Employee and Veterans Benefits Payable

(Dollars in Thousands)

Other Post-Employment Benefits	
Federal Employees Compensation Act:	
Actuarial Liabilities	<u>\$ 944,533</u>
Total	<u><u>\$ 944,533</u></u>

Note 15. Unexpended Appropriations

(Dollars in Thousands)

	<u>Operations General Fund</u>	<u>Other Funds</u>	<u>Total</u>
(1) Unobligated			
(a) Available	\$ 3,359	\$ 54	\$ 3,413
(b) Unavailable	62,707	1	62,708
(2) Undelivered Orders	<u>95,081</u>	<u>173</u>	<u>95,254</u>
Sub-total	\$ 161,147	\$ 228	\$ 161,375
Other Differences	<u>(37,104)</u>	<u>946</u>	<u>(36,158)</u>
Total Unexpended Appropriations	<u><u>\$ 124,043</u></u>	<u><u>\$ 1,174</u></u>	<u><u>\$ 125,217</u></u>

Differences include a cash balance recorded by Treasury in an erroneous Treasury symbol (6901301) for \$3.2 million, a rescission for \$11.8 million in Treasury Symbol 6971301, and possible discrepancies in recording cumulative amounts totaling \$21.5 million, which were transferred from the reimbursable to the direct apportionment. The remaining differences include FSM adjustments.

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

A. Gross Cost and Earned Revenue by Budget Functional Classification Code

	(Dollars in Thousands)		
	<u>Total Cost</u>	<u>Earned Revenue</u>	<u>Net Cost</u>
Functional Classification:			
Transportation Programs	\$ 9,857,853	\$ (122,639)	\$ 9,735,214
Community and Regional Development Programs	690	-	690
General Government Programs	47	-	47
Total Cost	<u><u>\$ 9,858,590</u></u>	<u><u>\$ (122,639)</u></u>	<u><u>\$ 9,735,951</u></u>

B. Intragovernmental Gross Cost and Earned Revenue by Budget Functional Classification

	(Dollars in Thousands)		
	<u>Total Cost</u>	<u>Earned Revenue</u>	<u>Net Cost</u>
Functional Classification:			
Transportation Programs	\$ 1,334,622	\$ (84,811)	\$ 1,249,811
Community and Regional Development Programs		-	
General Government Programs		-	
 Total Cost	 <u>\$ 1,334,622</u>	 <u>\$ (84,811)</u>	 <u>\$ 1,249,811</u>

Note 17. Net Cost by Programs

FAA's six lines of business represent the programs reported on the Statement of Net Cost. Assigned cost centers to each line of business permit the direct accumulation of costs. Other costs that are not directly traced to each line of business, such as agency overhead, are allocated by applying ratios representing the cost for each line of business cost compared to total expenses, excluding grants. Subsequent to closing FY 2000, FAA completed an analysis of its 1999 Research and Acquisitions (ARA) costs. Specifically, \$773 million of contract expenditures included in the \$1.3 billion of costs presented on the FY1999 Consolidated Statement of Net Cost were reviewed. After analyzing the nature of the project charges (capital vs. expense), FAA concluded that \$397 million of capital charges were included in the \$773 million.

Note 18. Taxes and Other Nonexchange Revenue

	(Dollars in Thousands)
Passenger Ticket Tax	\$ 7,158,909
Waybill Tax	522,969
International Departure Tax	1,384,659
Fuel Taxes	909,144
Tax Refunds and Credits	(45,761)
Investment Income	817,933
Other Nonexchange Revenue	-
 Total Taxes and Other Nonexchange Revenue	 <u>\$ 10,747,853</u>

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

Note 19. Imputed Financing:

(Dollars in Thousands)

Office of Personnel Management	\$	330,870	(1)
Dept. of Justice Judgment Fund		<u>83,340</u>	(2)
Total Imputed Financing	\$	<u><u>414,210</u></u>	

(1) In FY 2000, FAA recognized as imputed financing the amount of accrued pension and post-retirement benefit expenses for current employees. The assets and liabilities associated with such benefits are the responsibility of the administering agency, OPM.

(2) In FY 2000, amounts paid by the Judgment Fund in settlement of claims or court assessments against the FAA were recognized as imputed financing.

Note 20. Prior Period Adjustments

(Dollars in Thousands)

Airport Improvement Program - Correct Grant Current Year Expenses	\$	139,138
Correction of ARA Labor Production Applied Overhead		(64,893)
Correction of Explosive Detection System to Property System		(60,967)
Corrections to Unexpended Appropriations		57,817
Reconciliation of General Ledger to Property Systems		64,812
Reconciliation of Property Not in Use General Ledger Acct		43,630
Other Adjustments Relating to Property		24,235
Other		<u>22,987</u>
Total Prior Period Adjustment	\$	<u><u>226,759</u></u>

Note 21. Statement of Budgetary Resources Disclosures

The statement accurately represents the agency's status of budgetary resources for FY 2000 and was largely prepared from the budgetary accounts in the DAFIS trial balance. Because DAFIS is not standard general ledger compliant, some line items required on the statement were derived from the equivalent DAFIS proprietary accounts rather than the specified budgetary accounts or from the SF-132, Apportionment and Reapportionment Schedule, and the SF-133, Report on Budget Execution. In the Budgetary Resources section, Budget Authority and Unobligated Balances - Beginning of Period are derived from budgetary financial documents. In the Status of Budgetary Resource section, Unobligated Balances Available and Not Available are also derived from budgetary financial documents. Spending authority from offsetting collections are derived from budgetary accounts and the SF-132. In the Outlays section, Obligations Incurred and Obligated Balances are derived from budgetary and proprietary accounts. The budgetary resource documents used to support the line items, e.g., the SF-132 are certified by FAA and approved by OMB. The outlays and other budgetary balances are reconciled with Treasury and OMB monthly, quarterly, and annually.

The net amount of budgetary resources obligated for undelivered orders at the end of FY 2000 was \$5 billion.

The Aircraft Purchase Guarantee Program is funded under the authority to borrow from the U.S. Treasury granted by Congress in the DOT and Related Agencies Appropriation Act, 1983. Borrowing authority is implemented through a blanket promissory, which provides FAA with a line of credit for the full amount of borrowing authority granted by Congress. Because authorization for issuing new loan guarantees expired in 1988, FAA has not issued any new guaranteed loans.

Under Congressional legislation in FY 2000, FAA was authorized \$ 1.95 billion in contract authority and liquidating authority for \$ 1.75 billion, which are derived from the Airport and Airway Trust Fund and available until expended, for the Grants-in-Aid Programs. The contract authority available at the end of FY 2000 was \$65 thousand.

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

FAA does not have any material differences between the information reported on the statement and the amounts described as FY 2000 "actual" in the Budget of the United States Government for FY 2002. As of the date of the financial statement, the budget has not been passed into law and is still draft. However, no change to the FY 2000 actual amount is anticipated.

Unobligated balances of budgetary resources for unexpired accounts are available in subsequent years until expiration upon receipt of an apportionment from OMB. Unobligated balances of expired accounts are not available.

FAA incurred several adjustments to their budgetary resources in FY 2000. The Facilities & Equipment Fund was reduced by \$40.5 million and Grants-in-Aid for Airports was reduced by \$54 million.

The Statement of Budgetary Resources is a combining statement and, as such, intraentity transactions have not been eliminated.

Note 22. Financing Sources Yet to be Provided

(Dollars in Thousands)

Decreases:

Other Accrued Liabilities	\$ 21,332
Federal Employee Compensation Act (FECA Actuarial)	21,136
Contingent Liabilities Sick Leave/Return Rights	7,219
Capital Leases	<u>1,339</u>
Financing Sources That Fund Costs of Prior Periods	<u>\$ 51,026</u>

Increases

Accrued Other Liabilities	\$ 56,763
Environmental Liability	499,776
Federal Employee Compensation Act (FECA Actual)	4,152
Contingent Liabilities for Legal Claims	<u>67,013</u>
Total Financing Sources Yet to be provided.	<u>\$ 627,704</u>

The Statement of Financing is a combining statement and, as such, intraentity transactions have not been eliminated. The recognized liabilities not covered by budgetary resources equal the total financing sources yet to be provided.

Note 23. Custodial Activity

(Dollars in Thousands)

Revenue Activity:	
Sources of Cash Collections:	
Tax Revenues	\$ -
Miscellaneous	<u>21,942</u>
Total Cash Collections	21,942
Accrual Adjustments (+/-)	1,811
Total Custodial Revenue	<u>\$ 23,753</u>
Disposition of Collections:	
Transferred to Treasury General Fund	\$ 21,942
Increase (Decrease in Amounts Yet to be Transferred)	1,811
Refunds and Other Payments	-
Retained by the Reporting Entity	<u>0</u>
Net Custodial Revenue Activity	<u>\$ -</u>

Note 24. Other Disclosures

Contract Negotiations. FAA had a total of \$88.9 million in commitments (funds reserved for possible future obligations) under unexpired Facilities and Equipment, and Research, Engineering and Development appropriations. The commitments were for purchases of goods and services for which contract negotiations have not been completed (i.e., agency obligations had not been incurred) at the end of FY 2000.

Contract Options. As of September 30, 2000, FAA had \$13.1 billion in unobligated contracts. The terms of these contracts give FAA the unilateral right to purchase additional equipment or services or to extend the contract terms. Exercising this right would require the obligation of funds in future years.

Letter of Intent. FAA has authority under 49 U.S.C. 47110(e) to issue letter of intent (LOI) to enter into AIP grant obligations; but LOIs do not create obligations. FAA has issued LOIs covering FY 1988 through FY 2010 in the aggregate amount of \$3.2 billion. FAA had obligated \$2 billion of this total amount from FY 1988 through FY 2000, leaving \$1.2 billion unobligated as of September 30, 2000. FAA anticipates obligating \$191 million of this total amount in FY 2001.

AIP Grants. The FY 2000 AIP grant authority totaled \$1.85 billion, including over \$965 million in entitlements to specific locations. Of this amount the sponsors have claimed \$868 million in entitlements. This amount will be available from unused or newly enacted contract authority to those sponsors through FY2001 or 2002 in the case of non hub primary airport locations.

Aviation Insurance Program. FAA is authorized to issue hull and liability insurance under the Aviation Insurance Program for air carrier operations where commercial insurance is not available on reasonable terms where the operation to be insured is necessary to carry out the U. S. Government's foreign policy. No claims for losses were pending as of September 30, 2000.

FAA may issue (1) premium insurance, for which a risk-based premium is charged to the air carrier, and (2) non-premium insurance. FAA maintains standby non-premium war-risk insurance policies for 48 air carriers having approximately 1,050 aircraft available for Defense or State Department charter operations. No coverage was extended during 2000.

FAA normally insures only a small number of air carrier operations at any time and establishes a maximum liability for losing one aircraft. In many cases, that maximum liability for both hull loss and liability is \$1.75 billion; but it is usually less, and because FAA can use its regulatory authority to stop flights to high-risk areas, and/or terminate insurance coverage, the range of possible liability to FAA in any year is assumed to be

between zero and \$3.5 billion. Since the inception of the program (including the predecessor Aviation War Risk Insurance Program dating back to 1951) only four claims ranging between \$626 and \$122,469 have been paid.

Other Legal Claims. FAA normally processes their legal claims through traditional judicial and administrative forums; however there are certain claims; e.g., EEO cases and contract disputes, that are under the alternative dispute resolution program, which are resolved using consensual dispute resolution techniques such as mediation and neutral evaluation. In FY 2000, FAA had identified \$5.4 million for these cases.

FY 2000 FAA ANNUAL REPORT

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

For the Fiscal Year Ended September 30, 2000

(Dollars in Thousands)

State/Territory	FY 1998	FY 1999	FY2000
Alabama	\$ 15,556	\$ 18,134	\$ 19,653
Alaska	77,949	70,802	51,788
Arizona	47,243	53,135	58,381
Arkansas	19,291	21,694	17,534
California	101,897	106,161	87,617
Colorado	44,768	43,452	29,860
Connecticut	1,348	4,971	1,788
Delaware	284	197	2,515
District of Columbia	206	54	83
Florida	60,752	71,746	64,694
Georgia	41,604	43,556	43,911
Hawaii	7,142	12,131	6,567
Idaho	12,532	15,578	13,106
Illinois	74,514	63,596	66,003
Indiana	21,213	27,467	24,141
Iowa	16,983	30,450	16,169
Kansas	11,250	7,451	7,378
Kentucky	43,116	32,741	26,205
Louisiana	20,338	24,442	29,200
Maine	5,505	4,943	3,828
Maryland	9,765	18,136	14,900
Massachusetts	22,615	15,259	14,560
Michigan	47,890	50,995	27,363
Minnesota	23,430	27,902	30,561
Mississippi	9,788	14,393	9,281
Missouri	35,996	30,089	35,137
Montana	13,367	16,727	13,157
Nebraska	13,015	14,240	8,534
Nevada	30,420	22,981	32,106
New Hampshire	11,743	8,789	8,582
New Jersey	9,918	25,906	10,012
New Mexico	5,327	10,149	7,671
New York	67,664	86,754	57,671
North Carolina	31,226	50,572	26,084
North Dakota	10,980	8,263	11,490
Ohio	33,843	46,374	45,691
Oklahoma	5,240	14,949	8,678
Oregon	17,682	16,138	9,847
Pennsylvania	63,025	57,544	34,011

FY 2000 FAA ANNUAL REPORT

**U.S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
Stewardship Investment
Non Federal Physical Property
Airport Improvement Program
For the Fiscal Year Ended September 30, 2000**

(Dollars in Thousands)

State/Territory	FY 1998	FY 1999	FY2000
Rhode Island	2,692	10,813	11,705
South Carolina	15,419	22,926	11,792
South Dakota	10,112	8,893	12,301
Tennessee	34,885	36,477	39,237
Texas	98,154	103,308	111,585
Utah	12,910	8,808	14,328
Vermont	5,219	4,141	1,157
Virginia	21,733	31,069	41,109
Washington	18,405	44,454	35,498
West Virginia	19,564	12,592	7,400
Wisconsin	30,406	25,512	26,278
Wyoming	9,337	7,871	14,972
American Samoa	1,329	676	241
Guam	1,260	10,341	3,399
Northern Mariana Island	3,272	4,027	1,610
Puerto Rico	10,482	7,163	9,179
Trust Territory of Pacific	479	27	138
Virgin Islands	2,384	9,231	2,411
Administration	52,075	75,680	55,196
Grand Total.....	\$ 1,436,541	1,612,867	1,375,293

STEWARDSHIP INVESTMENT

Non-Federal Physical Property.

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

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

For the Fiscal Year Ended September 30, 2000

(Dollars in Thousands)

Expenditures		<u>1998</u>		<u>1999</u>		<u>2000</u>
Applied Research	\$	103,274	\$	118,834	\$	99,777
Development		48,237		18,358		7,175
R&D Plant		11,254		14,290		12,800
Administration		<u>54,179</u>		<u>36,466</u>		<u>46,219</u>
Total	\$	<u><u>216,944</u></u>	\$	<u><u>187,948</u></u>	\$	<u><u>165,971</u></u>

Stewardship Investment

Research and Development.

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

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

NOTE: The numbers in FY 99 as reported above are based on the actual numbers, they differ from the numbers reported in FY 1999, which were based on estimates.

FY 2000 FAA ANNUAL REPORT

**U.S. Department Of Transportation
FEDERAL AVIATION ADMINISTRATION
Supplementary Information
Intragovernmental Transactions
For the Fiscal Year Ended September 30, 2000**

(Dollars in Thousands)

Intragovernmental Assets

<u>Agency</u>	<u>Fund Balance with Treasury</u>	<u>Accounts Receivable</u>	<u>Investments</u>	<u>Other</u>
Department of the Treasury	\$ 886,325	\$ 226,265	\$ 13,355,134	\$
Department of Agriculture		12		
Department of Commerce		1,130		
Department of the Interior		1,372		
Department of Justice		544		
Department of Labor		5		
Department of State		3,925		
Department of the Army		45		
Department of the Navy		729		
General Services Administration		42		
Department of the Air Force		6,443		7,742
Fed. Emergency Mgmt. Agcy.		46		
National Aeronautics & Space Adm		3,991		
Department of Energy		362		
Department of Education		20		
Department of Defense		3,692		
Department of Transportation		6,948		
Other Agencies		11,867		37,288
Total	\$ 886,325	\$ 267,438	\$ 13,355,134	\$ 45,030

Intragovernmental Liabilities

<u>Agency</u>	<u>Accounts Payables</u>	<u>Debt Borrowings from Other Agencies</u>	<u>Environmental</u>	<u>Other</u>
Other Agencies	\$ 130,245	\$	\$ 453,936	\$ 115,904
Department of the Treasury		26		
Department of Labor				192,015
Office of Personnel Management				36,645
Total	\$ 130,245	\$ 26	\$ 453,936	\$ 344,564

**U.S. Department Of Transportation
FEDERAL AVIATION ADMINISTRATION
Supplementary Information
Intragovernmental Transactions
For the Fiscal Year Ended September 30, 2000**

(Dollars in Thousands)

Intragovernmental Expenses and Revenues

Agency	<u>Expenses</u>	<u>Revenues</u>
Department of the Treasury	\$ 7,449	\$ 7,449
Department of Agriculture	112	112
Department of Commerce	516	516
Department of the Interior	139	139
Department of Justice	84,110	771
Department of Labor	20	20
Department of Labor - FECA **	84,364	
Department of Navy	9,633	9,633
Office of Personnel Management**	937,826	
Department of the Army	476	476
Veterans Administration	90	90
General Services Administration	69	69
Department of the Air Force	16,418	16,418
Fed. Emergency Mgmt. Agcy.	601	601
Health & Human Services	112	112
National Aeronautics & Space Adm	3,470	3,470
Department of Defense	437	437
Department of Transportation	16,350	16,350
Other Agencies	172,430	
		<u>28,149</u>
Total Expenses	<u>\$ 1,334,622</u>	<u>\$ 84,811</u>

** *Unfunded Expenses not associated with revenue*

Intragovernmental Non-Exchange Revenue

	<u>Transfers-In</u>	<u>Transfers-Out</u>
Department of Commerce	\$ 39	\$ 15
Department of the Treasury	136	20
Department of Health and Human Services	343	
Office of the Secretary of Defense - Defense Agencies	51	5,221
Department of Interior		31
Department of Navy		41
Department of Army		6,498
Social Security Administration		21
General Services Administration		1,555
Department of the Air Force		1,972
Department of Housing and Urban Development		16
Department of Justice		11
Other Agencies	625	10,247
	<u>\$ 1,194</u>	<u>\$ 25,648</u>

FY 2000 FAA ANNUAL REPORT

**U.S. Department Of Transportation
FEDERAL AVIATION ADMINISTRATION
Supplementary Information
Deferred Maintenance
For the Fiscal Year Ended September 30, 2000**

(Dollars in Thousands)

Category	Method	Asset Condition*	Costs to Return to Acceptable Condition		
			FY 1998	FY 1999	FY 2000
Land			-	-	-
Buildings	Condition Assessment Survey	4&5	\$ 18,214	\$ 17,539	\$ 30,971
Other Structures and Facilities	Condition Assessment Survey	4&5	1,231	37,442	59,290
Aircraft and Aircraft Engines		-	-	-	-
National Airspace System (NAS) Equipment		-	-	-	-
General Purpose Equipment		-	-	-	-
Assets Under Capital Lease		-	-	-	-
Total			<u>\$ 19,445</u>	<u>\$ 54,981</u>	<u>\$ 90,261</u>

* Condition Rating Scale:

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

Information on FAA's deferred maintenance is based on condition assessment survey (annual inspection).

Standards (orders) are provided for evaluating the fixed assets condition. These standards are combined with FAA's technicians' knowledge, past experiences, and judgment to provide the following:

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

There have not been material changes in the standards in recent years. FAA recognizes maintenance expense as incurred. However, maintenance was insufficient during the past several years and resulted in deferred maintenance on Buildings and Other Structures and Facilities.

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

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

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

FY 2000 FAA ANNUAL REPORT

**U. S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
SUPPLEMENTARY STATEMENT OF BUDGETARY RESOURCES
AS OF SEPTEMBER 30, 2000
(Dollars in Thousands)**

	Airport & Airway Trust Fund Corpus	Trust Fund Grants-in-Aid to Airports	Trust Fund Facilities & Equipment	Trust Fund Research, Eng. & Development
BUDGETARY RESOURCES				
Budget Authority	\$ (2,070,700)	\$ 2,799,474	\$ 2,075,000	\$ 156,495
Unobligated Balances - Beginning of Period	12,516,610	-	454,575	14,542
Spending Authority From Offsetting Collections Adjustments	-	(840,553)	64,283 (9,716)	3,252 9,283
Total Budgetary Resources	\$ 10,445,910	\$ 1,958,921	\$ 2,584,142	\$ 183,572
STATUS OF BUDGETARY RESOURCES				
Obligations Incurred	\$ 37	\$ 1,958,856	2,301,292	\$ 167,706
Unobligated Balances-Available	10,445,873	65	239,801	13,412
Unobligated Balances-Not Available	-	-	43,049	2,454
Total Status of Budgetary Resources	\$ 10,445,910	\$ 1,958,921	\$ 2,584,142	\$ 183,572
OUTLAYS				
Obligations Incurred	\$ 37	\$ 1,958,856	\$ 2,301,292	\$ 167,706
Less: Spending Authority From Offsetting Collections and Adjustments	-	(63,282)	(136,132)	(12,536)
Obligated Balance, Net Beginning of Period	-	2,882,220	1,531,327	154,355
Obligated Balance Transferred, Net	-	-	-	-
Less: Obligated Balance, Net - End of Period	-	(3,199,772)	(1,619,747)	(143,554)
Total Outlays	\$ 37	\$ 1,578,022	\$ 2,076,740	\$ 165,971

FY 2000 FAA ANNUAL REPORT

**U. S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
SUPPLEMENTARY STATEMENT OF BUDGETARY RESOURCES
AS OF SEPTEMBER 30, 2000
(Dollars in Thousands)**

<u>Aviation Insurance Revolving</u>	<u>Franchise Fund</u>	<u>Operations</u>	<u>Other Funds</u>	<u>Combining Total</u>
\$ -	\$ -	\$ 5,975,000	\$ -	\$ 8,935,269
75,429	985	93,403	54	13,155,599
4,008	31,426	82,952	-	185,921
22	71	(22,281)	2	(863,173)
<u>\$ 79,459</u>	<u>\$ 32,482</u>	<u>\$ 6,129,074</u>	<u>\$ 56</u>	<u>\$ 21,413,616</u>
\$ 249	\$ 29,684	\$ 6,019,967	\$ -	\$ 10,477,792
78,190	2,727	46,076	54	10,826,198
1,020	71	63,031	2	109,627
<u>\$ 79,459</u>	<u>\$ 32,482</u>	<u>\$ 6,129,074</u>	<u>\$ 56</u>	<u>\$ 21,413,616</u>
\$ 249	\$ 29,684	\$ 6,019,967	\$ -	\$ 10,477,792
(4,030)	(31,496)	(108,433)	(2)	(355,911)
141	5,214	644,124	118	5,217,499
-	-	-	-	-
<u>(149)</u>	<u>(4,943)</u>	<u>(824,022)</u>	<u>(111)</u>	<u>(5,792,299)</u>
<u>\$ (3,789)</u>	<u>\$ (1,541)</u>	<u>\$ 5,731,636</u>	<u>\$ 5</u>	<u>\$ 9,547,081</u>

**U. S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
FRANCHISE FUND
BALANCE SHEET
As of September 30, 2000
(Dollars in Thousands)**

Assets	
Intragovernmental	
Fund Balance with Treasury	\$ 8,967
Accounts Receivable, Net	447
Other (Note 5)	10
Total Intragovernmental Assets	<u>\$ 9,424</u>
Accounts Receivable, Net	\$ 1
General Property, Plant, and Equipment, Net	2,014
Total Assets	<u><u>\$ 11,439</u></u>
Liabilities	
Intragovernmental Liabilities:	
Accounts Payable	\$ (238)
Other Intragovernmental Liabilities	1,542
Total Intragovernmental Liabilities	<u>\$ 1,304</u>
Accounts Payable	\$ 3,859
Other Liabilities	1,812
Total Liabilities	<u><u>\$ 6,975</u></u>
Net Position Balances:	
Cumulative Results of Operations	\$ 4,464
Total Net Position	<u><u>\$ 4,464</u></u>
Total Liabilities and Net Position	<u><u>\$ 11,439</u></u>

**U. S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
FRANCHISE FUND
STATEMENT OF NET COST
For the Fiscal Year Ended September 30, 2000**

(Dollars in Thousands)

Costs:

Programs

Intragovernmental	\$	32,209
Less Eamed Revenues		<u>(31,231)</u>
Net Program Costs	\$	<u>978</u>

Net Cost Of Operations \$ 978

**U.S. Department of Transportation
 FEDERAL AVIATION ADMINISTRATION
 FRANCHISE FUND
 STATEMENT OF CHANGES IN NET POSITION
 For the Fiscal Year Ended September 30, 2000
 (Dollars in Thousands)**

Net Cost of Operations	\$	(978)
 Financing Sources		
Imputed Financing		599
Transfers-In		219
Total Financing Sources	\$	<u>818</u>
 Net Results of Operations	 \$	 (160)
 Prior Period Adjustments		 <u>31</u>
 Net Change in Cumulative Results of Operations		 (129)
 Change in Net Position		 (129)
 Net Position Beginning of Period		 <u>4,594</u>
 Net Position End of Period	 \$	 <u>4,464</u>

U. S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
AVIATION INSURANCE REVOLVING FUND
BALANCE SHEET
As of September 30, 2000
(Dollars in Thousands)

Assets		
Intragovernmental		
Fund Balance with Treasury	\$	140
Investments		75,932
Total Intragovernmental Assets	\$	<u>76,072</u>
Total Assets	\$	<u><u>76,072</u></u>
Liabilities		
Other Intragovernmental Liabilities		5
Total Intragovernmental Liabilities	\$	<u>5</u>
Accounts Payable	\$	4
Other Liabilities		21
Total Liabilities	\$	<u><u>30</u></u>
Net Position Balances:		
Cumulative Results of Operations		76,042
Total Net Position	\$	<u><u>76,042</u></u>
Total Liabilities and Net Position	\$	<u><u>76,072</u></u>

**U. S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
AVIATION INSURANCE REVOLVING FUND
STATEMENT OF NET COST
For the year ended September 30, 2000**

(Dollars in Thousands)

Costs:

Programs

Public	\$	219
Less Eamed Revenues		<u>(4,009)</u>
Net Program Costs	\$	<u>(3,790)</u>

Net Cost of Operations	\$	<u><u>(3,790)</u></u>
-------------------------------	-----------	------------------------------

**U.S. Department of Transportation
 FEDERAL AVIATION ADMINISTRATION
 AVIATION INSURANCE REVOLVING FUND
 STATEMENT OF CHANGES IN NET POSITION
 For the year ended September 30, 2000
 (Dollars in Thousands)**

Net Cost of Operations	\$	3,790
Financing Sources		
Imputed Financing		10
Net Results of Operations		<u>3,800</u>
Prior Period Adjustments		<u>(9)</u>
Net Change in Cumulative Results of Operations		3,791
Change in Net Position		3,791
Net Position Beginning of Period		<u>72,251</u>
Net Position End of Period	\$	<u><u>76,042</u></u>

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REQUIRED SUPPLEMENTARY INFORMATION

ADMINISTRATIVE SERVICES FRANCHISE FUND

Background/Fund Establishment

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

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

Services

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

The customer base for Franchise fund services includes DOT and non-DOT Government agencies.

Benefits/Accomplishments

The objective of the franchise program is to enhance the support provided to the core programmatic mission of FAA. Benefits from the franchise environment occur incrementally over time through efficiencies and economies of scale associated with development of partnerships and consolidation of like functions plus the addition of new customers. Activities within the Administrative Services Franchise Fund have identified a number of advantages, benefits, and results from participation in the fund. The franchise has been the catalyst for

management initiatives relating to improved business practices that have resulted in the following general impacts/benefits:

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

Specific accomplishments include:

- Centralized/consolidated the international training activities at the FAA Academy at no additional cost.
- Increased FAA influence on global aviation system and improvement of overall safety through advancement of the international training program.
- Increased the number of international training students by 27 percent in FY 2000, and increased the number of international resident training courses by 30 percent.
- Established an international training carryover reserve to supplement operating income during periods of variable cash flow.
- Used the international training revolving fund carryover provision to: create an Air Traffic simulation lab for international students, establish a generic computer training interface to allow development of country-specific or generic airspace, develop two new Air Traffic courses and one Aviation Security course, and renovate a dedicated classroom for international courses.
- Shortened turnaround time for routine printing jobs from 10 to 4 days
- Purchased equipment upgrades in printing and

multimedia to improve technology, increase capability, and replace wornout units through use of the retained earnings provisions of the revolving fund. This resulted in improved service delivery and would not have been possible using the annual appropriation cycle alone.

- Achieved a cost avoidance of approximately \$700,000 in FY 2000 from lower in-house impression costs in the print shop.
- Maintained an 8 percent reduction in printing impression costs implemented in FY 1999 resulting from efficiencies gained through new technology and economies of scale associated with new customers and increased product output.

- Centralized permanent change of station (PCS) processing for all of FAA resulting in a cost avoidance of approximately \$100,000, increased customer satisfaction, improved travel voucher processing time, and reduced overall staffing large as a result of providing travel services to multiple DOT customers.
- Reduced payroll account cost by streamlined processing procedures allowing consolidation of a larger number of accounts per pay technician.

Enhanced the FAA's clean financial statement posture through support actions relating to expansion of the franchise to include the FAA Logistics Center.

GLOSSARY of ACRONYMS

A

AATF	Airport and Airway Trust Fund	CDM	collaborative decisionmaking
AC	advisory circular	CFO	Chief Financial Officer
AD	advisory directive	CFR	Code of Federal Regulations
ADS-B	automatic dependent surveillance-broadcast	CIP	Aviation System Capital Investment Plan
AF	Airway Facilities	CPDLC	controller-pilot data link communications
AIP	Airport Improvement Program	CPM	cost/performance management
AMASS	airport movement area safety system	CSRS	Civil Service Retirement System
ANCA	Airport Noise and Capacity Act	CY	calendar year
AOPA	Aircraft Owners and Pilots Association		
ARAC	Aviation Rulemaking Advisory Committee		
ARSR	air route surveillance radar	D	
ARTCC	air route traffic control center	DAFIS	Departmental Accounting and Financial Information System
ASAP	Aviation Safety Action Program	DOD	Department of Defense
ASDE	airport surface detection equipment	DOL	Department of Labor
AT	air traffic	DOT	Department of Transportation
ATC	air traffic control	DP	departure procedures
ATCSCC	ATC system command center	DP/STAR	departure procedures/standard terminal arrival route
ATCT	airport traffic control tower	DSR	display system replacement
ATOS	Air Transportation Oversight System		
ATS	Air Traffic Services	E	
ATSRAC	Aging Transport Systems Rulemaking Advisory Committee	EDS	explosives detection system

C

CAEP	Committee on Aviation Environmental Protection		
CAS	cost accounting system	F	
CATS	Capability and Architecture Tool Suite	F&E	Facilities and Equipment
CCLD	core capability limited deployment	FAA	Federal Aviation Administration
		FAR	Federal Aviation Regulations

FY 2000 FAA ANNUAL REPORT

FASAB	Federal Accounting Standards Advisory Board	L	
		LOB	lines of business
FAST	final approach spacing tool	LOI	letter of intent
FECA	Federal Employee's Compensation Act		
FERS	Federal Employees Retirement System	M	
FFP1	Free Flight Phase 1	MAP	Military Airports Program
FFP2	Free Flight Phase 2	MMAC	Mike Monroney Aeronautical Center
FISDL	flight information service data link		
FOQA	flight operations quality assurance	N	
FRP	Federal Radionavigation Plan	NAS	National Airspace System
FSS	flight service station	NASA	National Aeronautics and Space Administration
FY	fiscal year	NATCA	National Air Traffic Controllers Association
G			
GA	general aviation	NOCC	National Operations Control Center
GAAP	Generally Accepted Accounting Principles	NPIAS	National Plan of Integrated Airport Systems
GAIN	Global Aviation and Information Network	NPRM	Notice of Proposed Rulemaking
GAMA	General Aviation Manufacturers Association	NRP	North American Route Program
GAO	General Accounting Office	NTAP	National Track Analysis Program
GMRA	Government Management Reform Act	NTSB	National Transportation Safety Board
GPS	global positioning system	NWS	National Weather Service
GSA	General Services Administration	O	
		OEDP	operation error detection patch
		OIG	Office of the Inspector General, Department of Transportation
I			
ICAO	International Civil Aviation Organization	OMB	Office of Management and Budget
		OPM	Office of Personnel Management
IFR	Instrument Flight Rules	OST	Office of the Secretary of Transportation
IRS	Internal Revenue Service		
ISIS	integrated standby instrument system		

P		SMA	surface movement advisor
PCS	permanent change of station	STAR	standard terminal arrival route
PFAST	passive final approach spacing tool	STARS	standard terminal automation replacement system
PFC	passenger facility charge		
PP&E	property, plant and equipment	T	
		TAWS	terrain awareness and warning system
Q		TIP	threat image projection
QAR	quality assurance review process	TMA	traffic management advisor
		TRACON	terminal radar approach control
R		U	
R,E&D	Research, Engineering and Development	URET	user request evaluation tool
RIAT	runway incursion action team	USD	utilization screening and disposal system
RLV	reusable launch vehicle		
S		W	
SFFAS	Statement of Federal Financial Accounting Standards	WJHTC	William J. Hughes Technical Center

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