Federal Aviation Administration

FY 2008 PERFORMANCE AND ACCOUNTABILITY REPORT

Committed to Safety

In 1958, number of all-jet airliners in U.S. service (on August 23): 0.
In 2008, estimated number of jet airliners in the U.S. fleet: 4,032.

Credit: Jon Ross, FAA Image Library

On the Cover—*Credit (all photos):* Corbis

Mission

To provide the safest, most efficient aerospace system in the world.

Vision

To improve continuously the safety and efficiency of aviation, while being responsive to our customers and accountable to the public.

Values

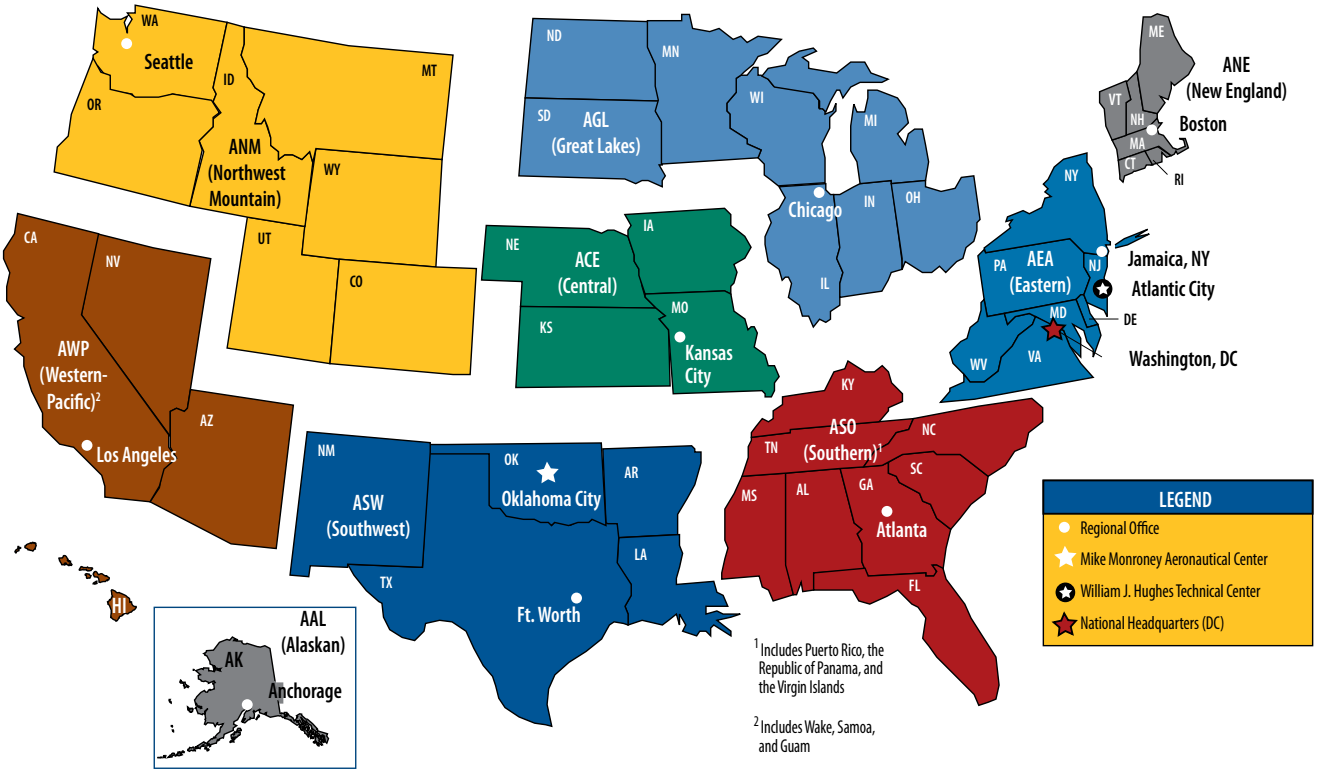
Safety is our passion. We are world leaders in aerospace safety.

Quality is our trademark. We serve our country, our customers, and each other.

Integrity is our character. We do the right thing, even if no one is looking.

People are our strength. We treat each other as we want to be treated.

Regional Map



FAA AT A GLANCE

Established	**1958**
Headquarters	**800 Independence Avenue, SW Washington, DC 20591 www.faa.gov**
FY 2008 Budget (enacted)	**$14.915 billion**
Total Employees	**46,521**
Headquarters	**6,008 employees**
Regional and Field Offices	**35,918 employees**
Technical Center *Atlantic City, NJ*	**1,063 employees**
Aeronautical Center *Oklahoma City, OK*	**3,532 employees**
FY 2008 Passengers on U.S. Carriers	**768.3 million (*estimate)***
FY 2008 Tower Operations	**58.6 million arrivals and departures (*estimate*)**

FOREWORD

The Federal Aviation Administration (FAA) is part of the Department of Transportation (DOT). By directives, the Office of Management and Budget (OMB), which implements the Chief Financial Officers Act of 1990 (CFO Act), requires us to prepare financial statements separate from those of DOT. The FAA is not required to prepare a separate Performance and Accountability Report (PAR). Instead, key FAA data and information are provided to DOT and consolidated into the required DOT PAR. We recognize, however, that to demonstrate accountability, we should present performance, management, and financial information using the same statutory and guidance framework. To demonstrate that accountability, since FY 2002 we have elected to produce our own PAR. In some cases, however, we may depart from the format required of CFO Act agencies.

Last year, we were proud to receive our fourth Association of Government Accountants' prestigious Certificate of Excellence in Accountability Reporting award. This award is indicative of the progress we have made in reporting financial and program performance and in candidly assessing our results.

We will continue our efforts to become a more results-oriented organization, focus on performance and financial accountability, and do our part to help DOT and the Federal Government excel in providing high quality services and products to the taxpayers we serve.

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This report and reports from prior years are available on the FAA website at **www.faa.gov/about/plans_reports/**.

In 1958, the FAA had 26,805 employees.
In 2008, there are 46,521 employees, the vast majority providing air traffic services and maintaining the airspace system.

Credit: FAA Image Library

Robert A. Sturgell
Acting Administrator

A MESSAGE FROM THE ADMINISTRATOR

The Federal Aviation Act of 1958 set safety as its cornerstone. We have kept safety as our top priority for 50 years. It is fitting that as we celebrate our golden anniversary, we are proud to be the international gold standard for aviation safety. At a time when we've never had more planes and passengers in the air, this is the safest period in aviation history.

Even still, we continue to face challenges to maintain this record. We performed a top-to-bottom audit of our oversight and maintenance programs that revealed a compliance rate of better than 98%. The International Civil Aviation Organization (ICAO) also completed an 18-month review that gave our safety programs an unqualified endorsement. Our runway safety efforts have produced enormous advances on the airport surface. We're deploying more state-of-the-art technology at a faster rate than ever before.

The transition from ground-tethered air traffic control to a newer, satellite-based system is well under way. The building blocks for the Next Generation Air Transportation System (NextGen) are being put in place with each day.

We face challenges outside the safety realm as well. The system has never been busier. While we saw a definite pause in passenger growth this year due to oil prices and credit market woes, we expect aviation demand will resume its robust growth in the future. Over the next few years, we expect international markets to grow twice as fast as domestic markets, trends for more, and larger regional jets with more than 50 seats, and increased corporate aviation. Even as some markets see a downturn, already congested airspace continues to see high demand, and so we must accommodate a sky that's already nearing capacity.

Despite the challenges we faced this fiscal year, we continued to meet our demands with an unprecedented safety record.

FY 2008 HIGHLIGHTS

- ***Safety.*** We are pushing to make a small number of runway incursions even smaller and challenging our industry partners to step up their actions to make runways safe. As a result, several solutions have been introduced including improving the markings and paint on taxiways at hundreds of airports around the country. We are also testing runway status lights—a series of strategically positioned lights—which intuitively tell the pilot it's safe to proceed. In addition, we will soon require airports to implement a Safety Management System (SMS). In airports where it is being tested, this systematic, proactive, and well-defined safety program is helping airport operators detect and correct safety problems before they result in an aircraft accident or incident. We continued progress on upgrading Runway Safety Areas (RSAs) to the extent practicable. Forty RSAs were improved in FY 2008.

- ***Capacity.*** Airfield construction remains the most effective method of increasing arrival and departure rates. Seven airports have airfield projects under construction (three new runways, one airfield reconfiguration, one runway extension, and two taxiways). The projects will be commissioned through 2012 and will provide these airports with the potential to accommodate about 400,000 more annual operations, decrease average delay per operation by almost 2 minutes, and significantly reduce runway crossings. Culminating a major set of projects that began 10 years ago, we will dedicate new runways at Dulles, O'Hare, and Seattle-Tacoma on November 20, 2008.

- ***International Leadership.*** We continue our work with our international partners and ICAO to harmonize global technological standards and to expand the use of global satellite navigation systems. This year, our efforts resulted in a signed memorandum with China to promote seamless NextGen operations around the globe. We also expanded our international environmental leadership role by signing an agreement with Airservices Australia and Airways New Zealand to establish the Asia and South Pacific Initiative to Reduce Emissions (ASPIRE).

- ***Organizational Excellence.*** In 2007, the anticipated wave of controller retirements began to hit record numbers. We expect these numbers to continue through 2009. We are on target to meet our recruiting goal to hire approximately 17,000 new air traffic controllers by 2017.

  We have embraced the President's vision to improve financial management throughout the Federal Government. We are actively engaging in a comprehensive pay-for-performance program, consolidating operations, improving internal financial management, reducing costs, and increasing benefits to our customers.

- ***NextGen.*** The move to NextGen is the key to achieving higher levels of safety, efficiency, and environmental performance. With Congress's urging, we are accelerating NextGen technologies such as Required Navigation Performance (RNP) and Area Navigation (RNAV) into busy areas like Chicago, Washington, D.C., and New York. In the Gulf of Mexico, we're adding Automatic Dependent Surveillance–Broadcast (ADS-B) coverage so that planes can fly closer together without compromising safety. This ensures more efficiency and capacity. We're testing and using Continuous Descent Arrival (CDA) at several facilities. CDA saves time and money while reducing carbon emissions and noise.

FUTURE CHALLENGES

Our accomplishments of the past year are significant. Yet we know that some of our biggest challenges are on the horizon, and we are strategically preparing to address them.

- ***Maintain Safety Record.*** Our safety record indicates that we have addressed every predictable risk factor that has caused accidents or incidents. Our challenge now is to identify any remaining risks and eliminate, minimize, or manage them.

- ***Baby Boomer Retirement.*** The transformation of our airspace comes at a very precarious time. In addition to air traffic controllers, we are starting to see Baby Boomers throughout our organization retiring. As our workforce turns over, we must develop the competencies in our human capital that are necessary to implement the complex technology and new processes that are inherent in NextGen.

- ***Keep NextGen on Time and on Budget.*** To safely and efficiently handle dramatic increases in the number and type of aircraft using our skies without being overwhelmed by congestion, we must fully fund NextGen and keep deployment of its components on schedule.

- ***State of the Industry.*** Record oil prices, a slowing economy, and increased competition are just a few factors that have created a number of significant challenges for airlines—challenges that certainly will change the face of the aviation industry in the years to come. We are already beginning to see that many carriers are raising fares, streamlining operations, and reducing service.

- ***At the Threshold of Space Tourism.*** In the past 20 years, there have been 180 launches without a fatality or property damage to the uninvolved public. With the first of many suborbital space tourism flights expected in 2010, our challenge is to maintain this spotless record. Also, with the coming surge in commercial activity, we need to be sure we have the resources to handle the increase in our licensing activity, permitting activity, and the number of inspections.

Our FY 2008 Performance and Accountability Report provides a detailed accounting of our performance and financial management to both the flying public and the aviation industry. Our strategic plan—the *Flight Plan*—focuses our performance on the top 29 agency targets that position us to meet the future successfully. We achieved 26 out of the 29 goals listed in the *Flight Plan*.

We are proud to have received an unqualified opinion with no material weaknesses from our auditors on our FY 2008 financial statements. Internally, we assess the vulnerability of our programs and systems through the Federal Managers' Financial Integrity Act (FMFIA) of 1982. I am pleased to report that, taken as a whole, the management controls and financial management systems in effect from October 1, 2007, through September 30, 2008, provide reasonable assurance that the objectives of both sections 2 and 4 of FMFIA are being met. Effective management controls are in place and our financial systems conform to Government-wide standards. We issued an unqualified statement of assurance and can state that the financial data is reliable and complete.

Since our inception 50 years ago, our mission has remained clear—to provide the safest, most efficient aerospace system in the world. We know this does not come without a significant effort. However, we also recognize that to be good stewards of the money entrusted to us by Congress, we must be efficient and provide an exceptional return on investment for the American taxpayer. Thanks to the 46,521 people of the FAA, we are doing just that.

Robert A. Sturgell
Acting Administrator
November 4, 2008

FAA—CELEBRATING A GOLDEN ANNIVERSARY

The FAA commemorated its 50th anniversary with a range of celebrations and activities throughout the year. One of the most impressive was the ceremony held in August, which celebrated 34 employees with 50 or more years of government service. All still work for the agency. The event also featured an exhibit about the next 50 years of aviation. The FAA website included a section dedicated to the anniversary (**www.faa.gov/about/history/50th/**). It featured a 50-year timeline, a detailed chronology, past administrators, and a "Today in Aviation History" section. FAA's employee website featured 50 Faces of FAA, where a different employee was featured daily for 50 days leading up the anniversary date. The agency is also updating its history in a new book recounting its past. Two galas in October marked the golden anniversary. The first took place at the National Air and Space Museum in Washington, D.C., and was organized by the American Institute of Aeronautics and Astronautics (AIAA). The second celebrated a double 50th anniversary. The FAA's William J. Hughes Technical Center held a 50th Anniversary Gala banquet, "Flying High at 50," near its base in Atlantic City, New Jersey. All Technical Center Federal employees, retirees, contractors, and friends, plus U.S. Navy and other veterans and volunteers of Naval Air Station Atlantic City were invited.

50 YEARS OF SERVICE… AND GOING STRONG

In the summer of 2007, 71-year-old Ervin Krause celebrated 50 years of government service with no immediate plans for retirement.

Krause, an airways transportation system specialist with the Centennial System Support Center in Colorado, is one of several employees with 50 years of service—or more, as in Krause's case—who traveled to Washington, D.C. in August for FAA's 50th Anniversary celebration at FAA Headquarters.

Like many employees who were hired at the dawn of the agency, Krause began his government career in the military. "I was looking for a job after I got discharged from the Air Force [in 1960]," recalled Krause. "[The FAA] had open announcements at that time, so I looked into it. I had an interview, and I was hired."

A 1959 photo of Ervin Krause

Krause came on-board in Los Angeles in May 1961. He immediately requested a transfer to Denver, and he's been there ever since.

Krause said the biggest change he's seen in the agency over the past 50 years is technology. "I started out changing brushes on a little motor generator," he recalled. "That was my first assignment—taking care of what we called a 'fan marker.' Nobody does that anymore."

The idea that he would one day be in the nation's capital celebrating the agency's 50th anniversary never even crossed Krause's mind when he first reported for duty nearly a half-century ago. "You don't think about those kinds of things," he said. "You just kind of think, put in your 30, reach 55, and retire. When you're a 20-something, that seems a long ways away."

Ervin Krause (right) with his family: wife Pam (left), son Chad (behind Pam), daughters Katie (center left) and Heidi.

—Adapted from an article appearing in FocusFAA, FAA's employee news service.

FAA—50 YEARS OF EXCELLENCE

While the cornerstone of the Federal Government's regulation of civil aviation began with the Air Commerce Act of May 20, 1926, it was not until 1958, with the approaching introduction of jet airliners and a series of midair collisions, that President Dwight D. Eisenhower signed the legislation to create the FAA.

The following timeline highlights the most significant events in the agency's 50-year history.

1958 The Birth of FAA

- The Federal Aviation Act of 1958 creates the Federal Aviation Agency. The legislation gives the new agency authority to combat aviation hazards and responsibility for safety rulemaking and developing and maintaining a common civil-military system of air navigation and air traffic control.
- The first administrator, Elwood "Pete" Quesada, is appointed.

1960–1970 Changing Duties

- The hijacking epidemic of the 1960s involves the agency in the field of aviation security.
- In 1968, Congress vests in FAA's Administrator the power to prescribe aircraft noise standards.
- The Airport and Airway Development Act of 1970 places the agency in charge of a new airport aid program funded by a special aviation trust fund. The same act makes FAA responsible for safety certification of airports served by air carriers.

1967 From Agency to Administration

- In 1966, Congress authorizes the creation of a cabinet department that would combine major Federal transportation responsibilities. This new Department of Transportation (DOT) begins full operations on April I, 1967. On that day, the Federal Aviation Agency becomes one of several modal administrations within DOT and receives a new name—Federal Aviation Administration (FAA).

1970s Air Traffic Controller Automation

- By the mid-1970s, FAA achieves a semi-automated air traffic control system based on a marriage of radar and computer technology. By automating certain routine tasks, the system allows controllers to concentrate more efficiently on the vital task of providing separation of aircraft. Data appearing directly on the controllers' scopes provides the identity, altitude, and groundspeed of aircraft carrying radar beacons.

1982 Introduction of the National Airspace System Plan

- To meet the challenge of traffic growth, due in part to the competitive environment created by the Airline Deregulation Act of 1978, FAA unveils the National Airspace System (NAS) Plan in January 1982. The new plan calls for more advanced systems for en route and terminal Air Traffic Control, modernized flight service stations, and improvements in ground-to-air surveillance and communication.

1970–1984 The PATCO Strikes

- While preparing the NAS Plan, FAA faces a strike by key members of its workforce. An earlier period of discord between management and the Professional Air Traffic Controllers Organization (PATCO) culminates in a 1970 "sickout" by 3,000 controllers.
- Although controllers gain additional wage and retirement benefits subsequent to the first strike, another period of tension leads to an illegal strike in August 1981. The Government dismisses over 11,000 strike participants and decertifies PATCO.
- By the spring of 1984, FAA ends the last of the special restrictions imposed to keep the airspace system operating safely during the strike.

1958–2001 Ongoing Structural Changes

- In 1961, FAA begins a decentralization process that transfers much authority to regional organizations rather than the centralized operation favored by the first Administrator.
- In 1987, Washington National and Dulles International Airports pass from FAA's management to that of an authority representing multiple jurisdictions.
- In 1988, "straightlining" gives managers at national headquarters more direction of field activities.
- In November 1994, a reorganization structures FAA along its six key lines of business to make better use of resources.
- In 1995, a seventh line of business is added when the Office of Commercial Space Transportation is transferred to FAA from the Office of the Secretary of Transportation (OST). The addition of this office gives the agency regulatory responsibilities concerning the launching of space payloads by the private sector.
- Reform legislation gives FAA increased flexibility regarding acquisition and personnel polices in 1996.
- Further legislation in 2000 prompts action to establish a new performance-based organization with responsibility for air traffic services within the agency.
- In the aftermath of the terrorist attacks of September 11, 2001, Congress creates a new Transportation Security Administration that relieves FAA of primary responsibility for civil aviation security.

1988–Present Technology for the Future

- The Aviation Safety Research Act of 1988 mandates greater emphasis on long-range research planning and on study of such issues as aging aircraft structures and human factors affecting safety.
- In February 1991, FAA replaces the NAS Plan with the more comprehensive Capital Investment Plan. The new plan includes higher levels of automation as well as new radar, communications, and weather forecasting systems.
- As the modernization program evolves, problems in developing ambitious automation systems prompt a change in strategy. FAA shifts its emphasis toward enhancing the air traffic control system through more manageable, step-by-step improvements. At the same time, the agency works to speed the application of the Global Positioning System satellite technology to civil aeronautics and introduces NextGen, a wide ranging transformation of the entire national air transportation system to meet future demands and avoid gridlock in the sky and in the airports.

A full history of the FAA can be found at www.faa.gov/about/history/chronolog_history/.

In 1958, about 49 million passengers boarded airplanes. In 2008, 768 million are expected.

Credit: Corbis

MANAGEMENT'S DISCUSSION AND ANALYSIS

FAA ORGANIZATION

The mission of the FAA, an agency of the U.S. DOT, is to provide the safest, most efficient aerospace system in the world. The FAA provides air traffic control services, establishes and enforces regulations, and oversees inspections that maintain the integrity and reliability of that system, which has fueled our economy and helped ensure our nation's prosperity for 50 years.

We operate 24 hours a day, 7 days a week, 365 days a year. We have a system composed of more than 67,000 facilities and pieces of equipment with FAA-operated or contract towers at almost 500 airports, and we are responsible for inspecting and certifying about 233,500 aircraft and 590,000 pilots. With almost 6,700 takeoffs and landings per hour, and more than 765 million passengers and 40 billion cargo revenue ton miles of freight a year, we safely guide approximately 60,000 flights through the world's preeminent NAS every day.

We fulfill our mission through four lines of business that work together to create, operate, and maintain the NAS. These lines of business are:

- ***Air Traffic Organization (ATO):*** Responsible for moving air traffic safely and efficiently. The customers of this performance-based organization are commercial, private, and military aviation. ATO is aligned around the services delivered to these customers. Approximately 35,000 ATO employees provide these services—the controllers, technicians, engineers, researchers, and support and management personnel whose daily efforts keep aircraft moving.
- ***Aviation Safety (AVS):*** Oversees the safety of aircraft and the credentials and competency of pilots and mechanics, develops mandatory safety rules, and sets the standards that have helped make air travel one of the safest modes of transportation in history.
- ***Airports (ARP):*** Provides leadership in planning and developing a safe, secure, and efficient airport system; manages the Airport Improvement Program (AIP), which provides grants to state and local governments; enhances environmental quality related to airport development; develops standards for the design and construction of airport facilities; establishes regulations for the safe operation of commercial service airports; and inspects airports for compliance.
- ***Commercial Space Transportation (AST):*** Oversees the safety of commercial space launches; regulates the U.S. commercial space industry, including human space flight; and encourages, facilitates, and promotes U.S. commercial space transportation.

From 1926, when President Calvin Coolidge initiated Federal oversight of air safety in the United States by signing the Air Commerce Act, to the creation of the Federal Aviation Agency in 1958, to our modern-day incarnation, the FAA and the aviation community have grown and worked together. We have shaped an industry that—like shipping and rail before it—conquered distance in a new way, lowered transportation costs, and created new opportunities that transformed the commercial landscape.

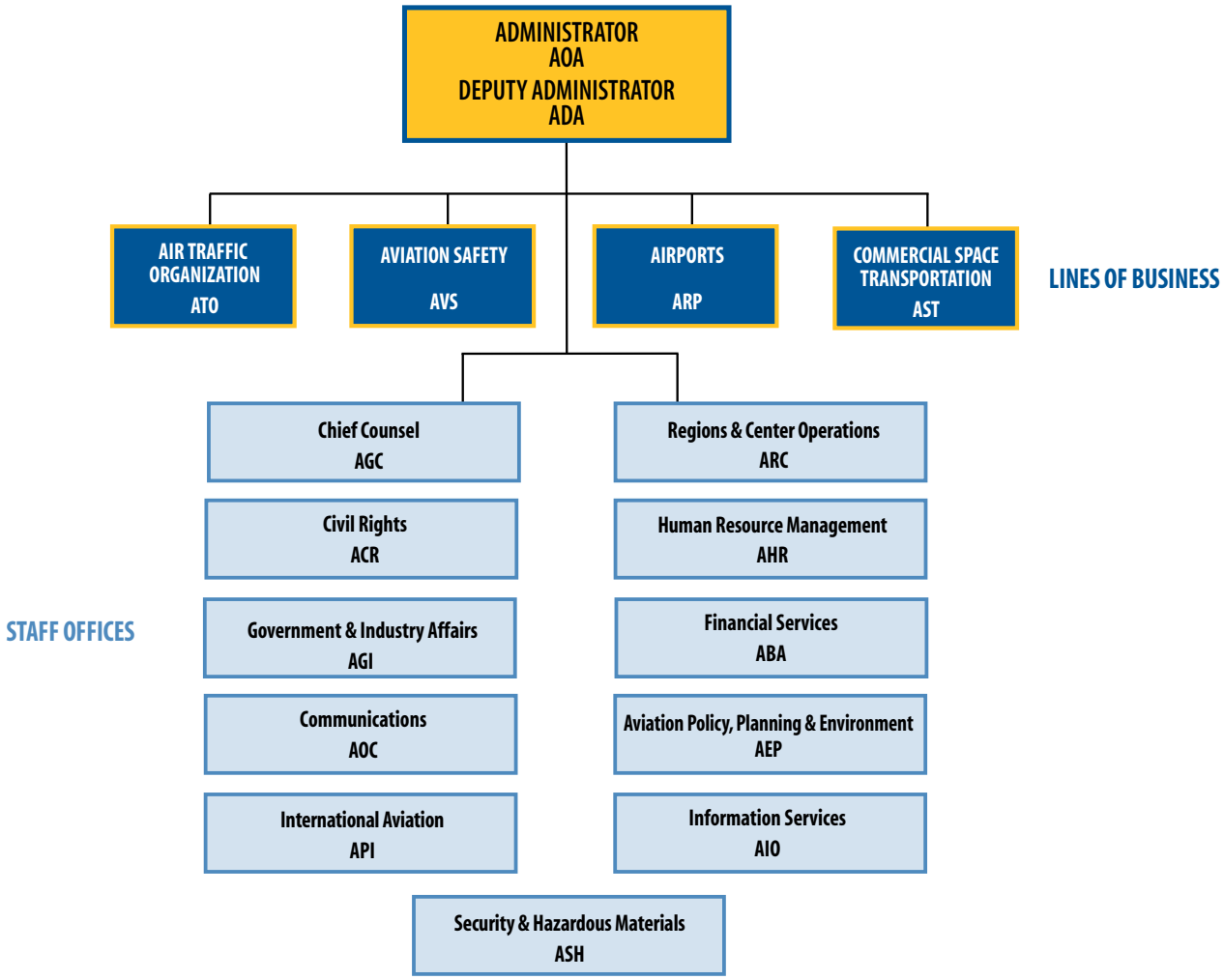
Today's FAA faces the challenge of expanding the capacity of our aviation system to meet future demand without compromising safety or harming our environment. With aviation and related industries supporting 11 million jobs and contributing $640 million to our annual economy, our success is critical.

A YEAR IN HIGHLIGHTS

Our workforce of over 46,500 professionals operates and maintains the most complex air traffic control system in the world with an annual budget of approximately $14.9 billion. More than half of the world's air traffic is managed by over 15,000 controllers, who ensure ever-increasing levels of safety. We conduct research to improve aviation safety and efficiency and provide grants to improve 3,354 eligible public-use airports in the United States. We also regulate commercial space launch activities to ensure public safety.

As we celebrate our 50th year, we have many accomplishments to be proud of. We highlight the most significant in the following sections.

FEDERAL AVIATION ADMINISTRATION ORGANIZATION



NEXTGEN ACCOMPLISHMENTS

NextGen is the FAA's plan to modernize the NAS through 2025. With Congress pushing for a faster transformation of our NAS, we continue to accelerate initiatives that yield the greatest and most immediate benefits to our stakeholders. As a result, we have shifted focus from planning to action.

The introduction and wide-spread use of precision navigation tools such as RNAV and RNP into busy areas represent the first step in our transition to NextGen. These technologies use an aircraft's onboard technology and the Global Positioning System (GPS) to fly more accurate and predictable flight paths, which improves efficiency, accuracy, and safety. We are also seeing benefits from the introduction of CDA. CDA uses a smooth descent—rather than the stepped-down approach required by current procedures—which saves time and money while reducing carbon emissions and noise. Flight demonstrations at Louisville's Standiford Field Airport and testing at Atlanta Hartsfield-Jackson International Airport have shown fuel savings averaging about 50 to 60 gallons, a reduction of up to 1,200 pounds of carbon dioxide for arrivals, and significant noise reduction. We started using CDA at Los Angeles International Airport on a permanent basis for some flights. If implemented nationwide, we estimate that CDA will save 100 million gallons of fuel annually.

We went operational with Airport Surface Detection Equipment–Model X (ASDE-X) at six new sites: Washington Dulles, Phoenix Sky Harbor, John F. Kennedy, and Los Angeles as well as Detroit Metro Wayne County

Airport and Ft. Lauderdale/Hollywood Airport. ASDE-X is a ground-breaking runway safety system that uses sensors around the airfield to detect plane and vehicle movements on the runways. This allows airlines to better manage movement of their aircraft in crowded ramp areas, which reduces gridlock and better enables aircraft to return to gates when required.

We have deployed the ground infrastructure for ADS-B in Southern Florida. ADS-B enables pilots in the cockpit to receive highly accurate weather and traffic data from satellites, which increases their situational awareness. The FAA will continue to test these technologies and others in an integrated test bed that focuses on Florida, the east coast, Texas, and the Gulf of Mexico and takes advantage of ADS-B. We continue to work on the rulemaking for ADS-B, which we expect to publish in 2010.

Another key NextGen transformation is the development of the Aviation Safety and Information Analysis and Sharing (ASIAS) system. The ASIAS program integrates a large number of previously unrelated data sources from both Government and industry into a comprehensive safety picture that can help identify emerging risks and enable earlier interventions against these risks before they lead to accidents.

In June, we released the NextGen Implementation Plan, an upgrade of the Operational Evolution Partnership (OEP) management plan. The new plan reflects the shift in focus over the past year from concept definition to tangible execution planning. It addresses the FAA's portion of the work needed to realize NextGen and is the basis for a series of pivotal investment and policy decisions over the coming years that will shape our future air transportation system.

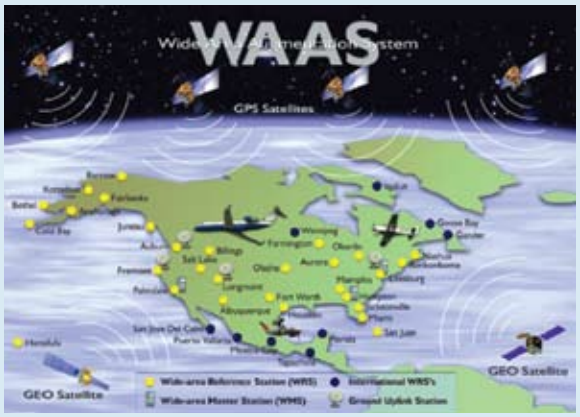
Organizationally, we've added a Senior Vice President for NextGen and Operations Planning. This gives us a clear decisionmaker and a distinct line of authority on issues relating to this cross-Governmental effort. Under this new position are:

- ***NextGen Integration and Implementation Office***, which develops and maintains the NextGen Implementation Plan. This office will be deeply involved in NextGen system integration, monitoring the progress of NextGen development and implementation and facilitating key collaboration processes.

WAAS EXPANDED INTO CANADA AND MEXICO

The FAA has taken a major step forward on the path to NextGen by expanding the Wide Area Augmentation System (WAAS) coverage into Canada and Mexico. WAAS improves the accuracy and integrity of GPS satellite signals and provides highly precise approaches that can be used regardless of the weather. This expansion brought nine new international wide-area reference stations online. As a result, users in Canada and Mexico will be able to land safely in difficult weather conditions.

WAAS also offers potential savings in fuel and operational costs. The WAAS infrastructure—which requires no navigation equipment at an airport—provides service that exceeds what is currently provided over 3,000 legacy facilities.



The use of WAAS-type navigation is spreading across the country and around the world.
Credit: FAA Image Library

WAAS works by having a network of ground reference stations collecting GPS satellite data. These data are sent through ground communications lines to master stations that calculate corrections to make the data more accurate and ensure its integrity. The correction data are broadcast to user aircraft through two or more geostationary satellite communications links. The aircraft use the WAAS signal, in addition to the GPS service, to fly area navigation and Localizer Performance with Vertical (LPV) instrument approaches, equivalent to the legacy Instrument Landing System (ILS).

The evolution of WAAS reached a milestone in September when the number of runways served by its procedures surpassed the number of runways served by ILS equipment. FAA has developed more than 1,000 WAAS approach procedures since the system was commissioned, and the expansion won't stop there. The FAA is developing hundreds of new WAAS procedures each year until every qualified runway in the NAS has one.

—Adapted from an article appearing in FocusFAA, FAA's employee news service.

TECHNICAL CENTER SELECTED AS HISTORIC AEROSPACE SITE

The nation's leading Federal laboratory for research, development, testing, and evaluation of aviation systems has gained historic status. The AIAA designated FAA's William J. Hughes Technical Center as an AIAA Historic Aerospace Site for its pivotal role in creating the nation's modern air traffic control system over the past 50 years.

Acting Administrator Robert A. Sturgell (left) and Tech Center Director Wilson Felder flank William J. Hughes at the ceremony designating the Center a historic aerospace site. The Center was named after Hughes.
Credit: FAA Image Library

The Technical Center has played an integral role in advancing key new technology for air traffic control, air-to-ground communications, weather detection, airport visual guidance, fire research, runway safety, aircraft surveillance systems, human factors, airport capacity, tower siting, reduced vertical separation minima, and many other initiatives. Early highlights include automation data processing center work to automate air traffic control (1961); the first wake vortex turbulence test by helicopter (1963); the first operational testing of an automated en route air traffic control system (1966); the introduction of visual approach slope indicator to provide improved guidance to runways (1966); and the first tower cab mockup to test controller work areas and do airport observations (1972).

The Technical Center joined an impressive list of other historic sites recognized by the AIAA, including the original Bendix Aviation Company in Teterboro, N.J.; the Boeing Red Barn in Seattle; Kitty Hawk, N.C.; the site of the first balloon launch in Annonay, France; and Tranquility Base on the moon.

—Adapted from an article appearing in FocusFAA, FAA's employee news service.

- ***Operations Planning***, which manages the FAA's research and development, Enterprise Architecture, system engineering, performance modeling, and other key NextGen functions.
- ***Joint Planning and Development Office (JPDO)***, whose focus remains on the long-term NextGen vision and facilitation of collaboration among Government agencies and other stakeholders that contribute to the overall NextGen effort.

OTHER MAJOR ACCOMPLISHMENTS

Safety Compliance Issues

While we made tremendous strides to improve safety this year, we also faced tremendous scrutiny. A noncompliance issue at Southwest Airlines raised concerns about our safety system, which led us to reexamine our airline oversight and maintenance program. We conducted an audit, which confirmed that our system works and that flying is safer today than at any time in the past. It also uncovered ways to increase the accountability of all parties, the FAA included, and strengthen both the reporting role and the regulatory process. As a result, we introduced several initiatives to address issues of responsibility, accountability, communication, and ethics and have made substantial progress toward their completion.

- We developed and implemented a Safety Issues Reporting System to provide employees an additional mechanism to raise safety concerns. This is in addition to existing channels, including the Administrator's Hotline and the Safety Hotline, which provide employees a method to raise concerns anonymously.
- We amended the voluntary disclosure reporting program to report compliance discrepancies by requiring additional signoffs by the appropriate air carrier officials. This ensures awareness and sensitivity at the highest levels at each airline.
- We initiated a rulemaking to address ethics policies to impose 2-year restrictions on the interaction former inspectors can have with the FAA in post-agency employment, bringing them in line with or exceeding existing restrictions for other Federal employees.

- We are working with manufacturers and air carriers to develop a system to improve the clarity of Airworthiness Directives to ensure effective implementation by the industry. We are eliminating ambiguity by using clear language and ensuring better overall coordination.
- We are expanding our ASIAS program to include Air Transportation Oversight System (ATOS) information, providing a new blend of data that will afford an additional look at nationwide safety trends.

Risk Reduction

Reducing the risk of runway incursions is one of the FAA's top priorities. Focused efforts including outreach to pilots, awareness, improved infrastructure, and technology are making a difference. The number of serious runway incursions dropped by more than 55% from FY 2001 through FY 2008.

Environmental Impact

Aviation represents less than 3% of the world's total for greenhouse gases. Nevertheless, we're looking at every possibility to find ways to be more environmentally friendly. This year, we signed a partnership agreement with Airways New Zealand and Airservices Australia to create ASPIRE. This initiative focuses on upgrading air traffic control standards and procedures for trans-Pacific flights. To show some potential efficiencies, Airways New Zealand operated a demonstration flight from Auckland to San Francisco. ASPIRE is the Asia-Pacific version of its European sister program, the Atlantic Initiative to Reduce Emissions, which launched last year. (See related article on page 12).

We are also exploring the potential of alternative fuels for aviation. This year, we helped form and are participating in the Commercial Aviation Alternative Fuels Initiative (CAAFI). CAAFI's participants, which include a cross-section of airlines, manufacturers, airports, fuel producers, Federal agencies, and international players, are implementing a roadmap to explore the use of alternative fuels for commercial aviation. CAAFI participants have already used coal-to-liquid and gas-to-liquid fuels in jets and completed a biofuels flight demonstration.

RAISING THE BAR ON SAFETY

With the expected growth in air transportation, the FAA must make even greater efforts and adopt new measures to continue improving aviation safety. SMS will help to do this by using and analyzing a wide variety of data points together to drive safety-related decisions rather than just assessing individual points. This holistic perspective will also give the FAA a better understanding of the risks caused by changes to the NAS so accidents can be prevented.

Credit: FAA Image Library

SMS will be implemented at all appropriate FAA organizations by 2012. With this disciplined, proactive, and standardized approach to managing risk, which is conducted before an error occurs, the FAA will improve its already impressive safety record.

—Adapted from an article appearing in FocusFAA, FAA's employee news service.

Air Traffic Controller Hiring

Our highly trained air traffic controllers play a critical role in achieving the outstanding level of aviation safety we enjoy in the United States. With more than 60% of the controller workforce eligible to retire over the next 10 years, the FAA is recruiting aggressively. We are offering a variety of incentives to recruit and retain controllers, including recruitment and relocation bonuses and repayment of student loans. To accelerate the hiring process for qualified individuals, we have implemented Pre-Employment Processing Centers (PEPCs), which are temporary screening centers throughout the country. (See page 25 for more information).

ASPIRING TO CLEANER FLYING

Credit: FAA Image Library

In September, the future of aviation got a breath of fresher air at San Francisco International Airport, in the form of an Airways New Zealand Boeing 777.

The plane landed in San Francisco where a group of reporters, gathered to witness and learn about the great potential of NextGen technologies, greeted the flight.

The Airways New Zealand flight demonstrated the positive effects of NextGen, especially its potential for helping commercial aviation reduce carbon emissions by millions of tons annually. The test flight between Auckland, New Zealand, and San Francisco used a wide array of NextGen technologies and procedures. NextGen improves aviation efficiency in all phases of flight: taxiing, takeoff, en-route, and landings. In addition to reducing fuel consumption—thereby reducing emissions—it provides for dramatic declines in noise related to air transportation.

Fuel-saving actions were apparent at the start of the flight. The Boeing 777 was able to taxi to the runway without delay because of NextGen technology. The airplane experienced an unimpeded climb-out on departure, followed a preferred route for the oceanic phase of the flight, and employed reduced vertical separation minima. The flight also benefited from frequent airborne rerouting that helped it save fuel, as well as a tailored arrival approach and a no-delay taxi to the gate.

The flight was planned by ASPIRE, a partnership involving the FAA, Airways New Zealand, and Airservices Australia. The group works to make commercial air travel more environmentally sustainable.

—Adapted from an article appearing in FocusFAA, FAA's employee news service.

U.S. citizens should be safe wherever they fly. We know that global harmonization of aviation systems will increase the safety, capacity, and efficiency of international aviation not only for U.S. carriers, but also for U.S. citizens traveling on foreign carriers. Adding to the complexity, we are on the precipice of explosive aviation growth in India, China, and the Middle East. As the world leader in aviation safety, it is our responsibility to guide and collaborate with these nations and others on best safety practices and technologies or risk them turning elsewhere for help. As a result, we're pulled in a lot of different directions. Limited resources means we can't be everywhere. But where we do focus our attention, we get results. This year, we focused on China, South Korea, Canada, Europe, Brazil, and India.

We continue our efforts to better execute and manage the budget resources that Congress provides. Our transformation over the past 5 years has been steady and sure. By implementing improved management tools, including better cost accounting systems, and by instituting a pay-for-performance program, we have made efficient use of our resources. We continue to improve business practices to help control costs and increase efficiency, as described in the section that follows.

INTEGRATING PERFORMANCE AND FINANCIAL INFORMATION

Efficiency and Cost-Effectiveness

Since FY 2005, the FAA has included a cost control target among the *Flight Plan* goals we track each month. As a result of this emphasis, part of the broader effort to operate more like a business, we have been able to achieve $189 million in recurring savings from efforts put in place from FY 2005 to FY 2007, as well as $70 million from efforts initiated during FY 2008. Our efforts in this area are described in this section.

Consolidation of Services and Facilities

We continue to consolidate staffing and facilities to capitalize on the synergies derived from cross-utilization of resources to reduce the unit cost of services. This effort also includes benefits derived from outsourcing services to obtain cost efficiencies.

Workers' Compensation Consolidation. We centralized responsibility for management of workers' compensation claims and achieved estimated cost avoidance of $25.8 million in FY 2008 and total savings of $61.9 million since FY 2003.

Information Technology (IT) Consolidation. As in most businesses, IT investments can be expensive and quickly become obsolete. To address this, we are becoming more proactive about IT decisions by implementing agency-wide initiatives to consolidate resources as well as physical facilities. This endeavor saved the FAA $27 million during FY 2008.

Competitive Sourcing

The single largest effort by the FAA, and the largest nonmilitary outsourcing initiative in the Federal Government, involved the A-76 sourcing of 58 flight service stations to Lockheed Martin in 2005. This initiative is expected to result in a cost savings and cost avoidance of over $2.1 billion from 2003 through 2015. As a result of this transaction, the FAA saved approximately $39.5 million in FY 2008. We expect an additional savings of approximately $46.5 million for FY 2009.

Strategic Sourcing and Demand Management

SAVES Program. The Strategic Sourcing for the Acquisition of Various Equipment and Supplies (SAVES) initiative is an ambitious effort begun in FY 2006 to implement private sector best practices in the procurement of administrative supplies, equipment, IT hardware, and courier services.

Seven national contracts in five different categories are managed through the SAVES program. Since the initiation of the contracts, we have exceeded our expected compliance rate. We now purchase 90% of our office supplies through our contracts, well above our target of 70%.

The SAVES Program has enabled FAA to have better financial oversight in addition to significant cost savings. Through the SAVES contracts, FAA achieved over $12 million in cost savings for FY 2008 and a total savings of $30 million since implementation. Overall we continue to save approximately

- 22% for office supplies;
- 26% for office equipment;
- 24% for IT hardware;
- 10% for courier/overnight services; and
- 13% for financial systems support.

Dell Blanket Purchase Agreement. The Office of Information Technology at the Mike Monroney Aeronautical Center manages a Blanket Purchase Agreement (BPA) with Dell Corporation for IT equipment including desktops, laptops, servers, printers, and monitors. We have realized cost savings of $31.8 million since inception of the BPA.

Expense Controls

The FAA has improved its oversight of the acquisition process to ensure the agency is a responsible steward of the taxpayer's money. The FAA has established three requirements to better manage the agency's resources and to ensure that we make sound business decisions.

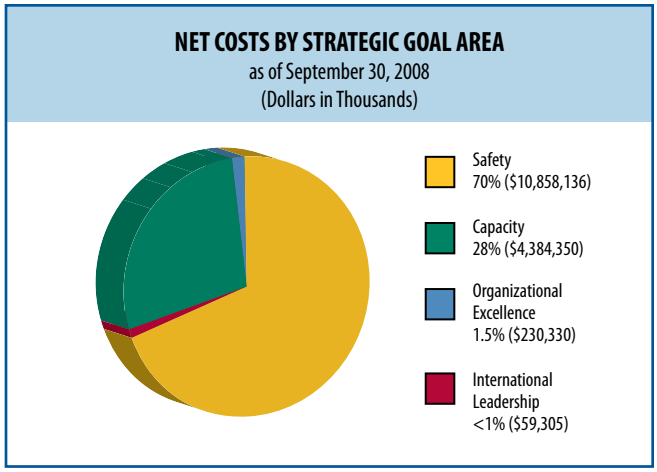
Procurements. In 2005, the Administrator directed the CFO to exercise greater oversight and fiscal control over all agency procurements costing $10 million or more. Since that time, the CFO has evaluated over 165 proposed acquisitions with an estimated contract value of $9 billion. With this process in place, we have established proper controls to effectively monitor contractor performance; enhanced our ability to accurately estimate and substantiate cost estimates; and improved our ability to articulate and define program requirements.

Support Service Contracts. The FAA requires that any proposed support service contract with a total value of $1 million or more, and with fewer than three bids must be approved by the Deputy Administrator. This approval process ensures that we rely on the competitive marketplace to obtain the best prices for the services that we buy.

Information Technology. To better coordinate IT efforts, any IT-related spending in excess of $250,000 must be approved by the CFO. This requirement ensures that our IT investments are coordinated and fit into the agency-wide IT strategy.

Alignment of FAA Costs and Goals

The alignment of the FAA's costs with its four strategic goal areas is captured in the Cost Accounting System (CAS)[1]. Projects entered into CAS by every organization are linked to one or more goals, and the percentage of funds that support each goal is identified. At the end of each fiscal year the total net costs for the FAA's four lines of business and for its combined staff offices and other programs are allocated among each of the agency's goals: Increased Safety, Greater Capacity, International Leadership, and Organizational Excellence.



Over $10.8 billion, or about 70% of the FAA's total net cost of more than $15.5 billion for FY 2008, was devoted to our primary goal, ensuring the safety of the NAS. The ATO spent nearly $7.7 billion, largely to maintain the safe separation of aircraft in the air and on the ground. ARP directed nearly $2 billion to establishing safe airport infrastructure. AVS spent slightly more than $1.1 billion on its programs to regulate and certify aircraft, pilots, and airlines, directly supporting the safety of commercial and general aviation. AST, the FAA staff offices, and other programs spent the remaining total—just less than $78 million—to further support the agency's safety mission.

Approximately $4.4 billion, or 28% of total net costs, was assigned to support the FAA's goal of expanding the capacity of the NAS, particularly through its pursuit of programs contributing to the NextGen initiative. ATO spent about $2.6 billion, largely to finance its facilities and equipment projects. ARP spent nearly $1.8 billion to enhance the capacity of the country's airports through runway projects and other efforts. AST directed almost $2.1 million on its efforts to expand capacity and AVS contributed approximately $1.3 million. The bulk of the FAA's remaining net costs, just over $230 million, supported its Organizational Excellence goal, to which nearly all the lines of business and staff offices contributed. The FAA committed the remainder, slightly over $59.3 million, to promoting its International Leadership goal.

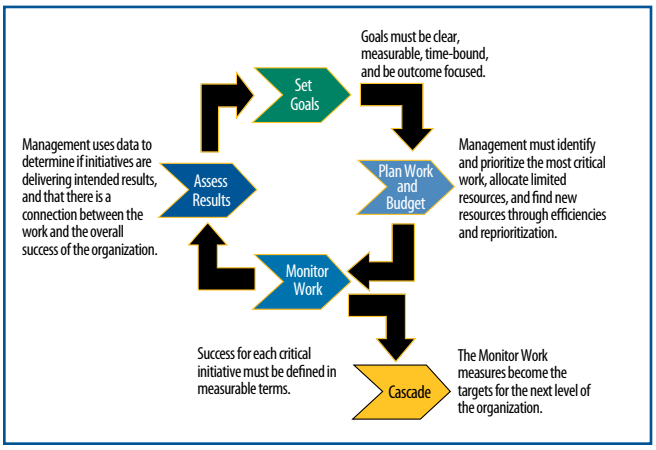
[1] For the source of the totals referred to in this section, see Note 11 to the FAA's financial statements, titled "Net Cost by Program and Other Statement of Net Cost Disclosures" on page 118.

PERFORMANCE HIGHLIGHTS

The FAA is charged with promoting the safety and efficiency of the nation's aviation system. With broad authority to enforce safety regulations and conduct oversight of the civil aviation industry, we maintain the system's integrity and reliability. A strategic plan, annual business plans, human capital plans, and the annual PAR create a recurring cycle of planning, program execution, measurement, verification, and reporting. This strong link between resources and performance shows our accomplishments and reinforces accountability for the way we spend taxpayer money.

Managing Performance

The FAA manages performance by using a four-step framework based on best practices from a number of private and public sector organizations (see the chart below). As we use this framework and instill management discipline into the processes, we anticipate a multiyear journey of learning and change.



The first step in the process, "Set Goals," includes consulting with management, stakeholders, and customers to identify areas for improvement.

YEAR-TO-YEAR PERFORMANCE GOALS ACHIEVED							
	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Performance Targets Met (Number)	9 of 10	9 of 12	24 of 30	28 of 31	27 of 30	24 of 30	26 of 29
Performance Targets Met (Percentage)	90%	75%	80%	90%	90%	80%	90%

The second step, "Plan Work and Budget," focuses on the critical work and resources required to achieve the goals. Following the framework, the FAA created a performance-based budget that links resource requirements to the *Flight Plan* and the DOT Strategic Plan. Our FY 2008 Budget in Brief is available at **www.faa.gov/about/budget/** and our *Flight Plan* is available at **www.faa.gov/about/plans_reports**.

The third step, "Monitor Work," develops measurement of the work required to achieve our goals. The FAA has developed organizational business plans for each line of business and staff office. These plans outline the initiatives, activities, and performance targets that link our work directly to the *Flight Plan*. Business plans are available at **www.faa.gov/about/plans_reports**.

"Assess Results" is the last and most important step in the performance management process. This year, we continued our practice of reviewing and discussing annual performance goals every month. In addition, we continued to focus more on discussing performance results, root causes of performance issues, and reallocation of resources to correct underperformance.

Our performance measures and targets support the FAA's mission to provide citizens with a safe, secure, and efficient global aviation system. The chart above provides a summary of our year-to-year performance goal achievement trend.

As indicated in the chart above, the FAA has expanded its strategic focus over the past 7 years. As we continue to mature in our strategic management processes and our focus becomes sharper, the number and mix of performance targets shift. On a yearly basis we review the plan to ensure we are on track to meet future challenges and to ensure that aviation remains an engine of economic growth.

When we first started preparing our annual PAR in FY 2002, the FAA had 10 performance goals in the strategic areas of Safety, System Efficiency, and Organizational Excellence. In 2003, the FAA refined its strategic plan and launched the first *Flight Plan* (FY 2004–2008). The *Flight Plan* provides the framework to match resources with initiatives for long-term change. The new *Flight Plan* was designed around four ambitious strategic goals: Increased Safety, Greater Capacity, International Leadership, and Organizational Excellence. These strategic goals detail how we will move forward into the future.

In FY 2004, to reflect the increasing emphasis on accountability within the FAA organizations, we added 18 new performance targets. Six of the new performance targets were associated with International Leadership and placed greater emphasis on our role as a leader in the global civil aviation system. In the Safety strategic goal area, we introduced Commercial Space Launch Accidents, marking a new era in space travel when the FAA licensed the first private manned space vehicle—SpaceShipOne.

This year—the fifth year of the *Flight Plan*'s implementation—the FAA had 29 performance measures and targets that focused our efforts to achieve enhanced aviation safety, increase system capacity, provide international leadership, and ensure organizational success. We met 26—a 90% success rate.

Safety. Safety is not only a top priority; it is also an economic necessity. People will fly only if they feel safe. They must trust the system and that trust must be earned. In FY 2008, we introduced a new safety performance metric and target for commercial air carriers. We believe the Commercial Air Carrier Fatality Rate is more relevant than the previous one, Commercial Air Carrier Accident Rate, because it measures the individual risk to the flying public rather than for each departure. We achieved five of seven safety goals, missing our targets for reducing accidents in Alaska and limiting Operational Errors. For a more complete discussion of all our safety measures, performance, and steps we plan to take in FY 2009, see page 47.

Capacity. Capacity is the backbone of air travel. Aviation can grow only if capacity grows. We aim to achieve increases in capacity in an environmentally sound manner. In FY 2008, we achieved six out of seven capacity goals and significantly exceeded our target for aviation noise exposure. We did not achieve our NAS On-Time Arrivals performance target due largely to adverse weather conditions, which played a significant part in increasing weather-related airport delays. For a more complete discussion of all our capacity measures, performance, and steps we plan to take in FY 2009, see page 52.

International Leadership. The FAA's goal is to make the international aviation system as safe and efficient as the one enjoyed in the United States. In FY 2008, we achieved all four international leadership goals. For a complete discussion of all our International Leadership measures, performance, and steps we plan to take in FY 2009, see page 57.

Organizational Excellence. FAA employees are our most valuable resource. Together, we operate the largest and safest aerospace system in the world. To do this efficiently, we must continually provide stronger leadership, a better-trained and safer workforce, enhanced cost-control measures, and improved decision making. In FY 2008, we achieved all 11 of our Organizational Excellence goals and significantly exceeded our target for Grievance Processing Time. Additionally, we revised the customer satisfaction measure to reflect a broader base of the customers we serve. For a more detailed discussion of all our organizational measures, performance, and steps we plan to take in FY 2009, see page 60.

PRESIDENT'S MANAGEMENT AGENDA

President George W. Bush's management agenda, announced in 2001, is a strategy for improving the management and performance of the Federal Government. The objective is a Federal Government that is citizen-centered, not bureaucracy-centered; results-oriented, not output-oriented; and market-based, actively promoting rather than stifling innovation through competition.

(continued on page 18)

FY 2008 PERFORMANCE AT A GLANCE

Performance Measure	FY 2008 Target	FY 2008 Results	FY 2008 Status	FY 2009 Target[1]
SAFETY				
Commercial Air Carrier Fatality Rate (rate of fatalities per 100 million on board)	8.7	0.4[2]	●	8.4
General Aviation Fatal Accidents	325	299[2]	●	319
Alaska Accidents (number of fatal and nonfatal accidents)	104	108[2]	▲	99
Runway Incursions (rate per million operations)	0.509	0.428[3]	●	0.472
Commercial Space Launch Accidents (number of fatalities, injuries, or damage to the uninvolved public)	0	0	●	0
Operational Errors (rate per million activities)	2.15	2.31[3]	▲	2.10
Safety Management System (number of significant changes in the NAS)	6	6	●	7
CAPACITY				
Average Daily Airport Capacity (35 OEP airports)	101,868	103,218[3]	●	103,328
Average Daily Airport Capacity (7 metropolitan areas)	33,676	35,988[3]	●	39,484
Annual Service Volume (ASV) (operations accommodated/number of runway projects)	1.00% (1 taxiway project)	1.06% (1 taxiway project)	●	1.00% (3 runway projects)
Adjusted Operational Availability (service hours for facilities supporting the 35 OEP airports)	99.70%	99.82%[3]	●	99.70%

FY 2008 PERFORMANCE AT A GLANCE				
Performance Measure	**FY 2008 Target**	**FY 2008 Results**	**FY 2008 Status**	**FY 2009 Target[1]**
NAS On-Time Arrivals (flights arriving no more than 15 minutes late)	88.00%	87.29%[3]	▲	88.22%
Noise Exposure	–12.00%	–38.00%[4]	●	–16.00%
Aviation Fuel Efficiency (cumulative reduction in fuel burned per mile flown)	–6.00%	–10.17%	●	–7.00%
INTERNATIONAL LEADERSHIP				
Aviation Safety Leadership (number of safety enhancements implemented by China)	5 CAST SEs	5 CAST SEs	●	5 CAST SEs
Bilateral Aviation Safety Agreements (BASAs) (number of new or expanded agreements)	2	4	●	1
External Funding (millions of dollars secured)	$15.00 M	$16.70 M	●	$ 18.00 M
NextGen Technologies (number of countries implementing technologies)	1	2	●	1
ORGANIZATIONAL EXCELLENCE				
STRATEGIC MANAGEMENT OF HUMAN CAPITAL				
Office of Personnel Management (OPM) Hiring Standard (external hires filled within OPM 45-day standard)	50.00%	79.00%	●	60.00%
Reduce Workplace Injuries (injury and illness cases per 100 employees)	2.68 per 100	2.25 per 100[5]	●	2.60 per 100
Grievance Processing Time (reduction in average days to complete processing)	–15.00%	–63.69%	●	–20.00%
Air Traffic Controller Workforce Plan (variance between plan and actual workforce level)	0% to 2% over Plan	1.66% over Plan	●	0% to 2% over Plan
IMPROVED FINANCIAL PERFORMANCE				
Cost Reimbursable Contracts (percentage of contracts closed out)	86.00%	91.67%	●	87.00%
Cost Control (number of activities per organization and achievements of targeted savings)	1 activity and savings	1 activity and savings	●	1 activity and savings
Clean Audit With No Material Weaknesses (NMW)	Clean Audit w/NMW	Clean Audit w/NMW	●	Clean Audit w/NMW
ACQUISITION MANAGEMENT				
Critical Acquisitions on Budget (percentage within projections)	90.00%	96.08%	●	90.00%
Critical Acquisitions on Schedule (percentage meeting project milestones)	90.00%	93.88%	●	90.00%
CUSTOMER SATISFACTION AND OPERATIONAL CAPABILITY				
Customer Satisfaction (average score for FAA American Customer Satisfaction Index [ACSI] surveys)	60	60.24	●	TBD
Information Security (number of cyber security events)	0	0	●	0

● Green: Goal Achieved
▲ Red: Goal Not Achieved

Notes:

For a detailed description of the performance measure, see performance goal tables in the Performance Results section. For information on data sources and estimating and finalization of results, see Completeness and Reliability of Performance Data.

TBD: To be determined

[1] FY 2009 targets are from the FY 2008–2012 *Flight Plan*.

[2] Preliminary estimate. Final data will be available in March 2010.

[3] Preliminary estimate. Final data will be available in January 2009.

[4] Projection from trends. Final data will be available in May 2009.

[5] Projection from trends. Final data will be available in November 2008.

FAA IS GETTING SMART WITH NEW ID CARDS

As part of its security upgrade, in February 2008 the FAA started issuing new personal identification verification (PIV) cards at its Washington Headquarters. Beginning in March, the agency began a phased deployment of the new ID card at its regions and centers.

The FAA will use a standardized and more stringent set of procedures for authorizing PIV cards. This will enhance security by making it harder for unauthorized persons to assume an identity not their own and gain access to agency facilities and systems.

This Government-wide effort is being conducted under the umbrella of a Homeland Security Presidential Directive (HSPD-12) that mandates not only a standardized identification card, but also includes uniform procedures for proving and vetting the identities of employees and contractors.

The PIV cards will make it easier for guards to identify Federal employees and contractors, and to conduct electronic verification and validation. The ID not only looks different, but it is also a "smart card" that in the future can be used to grant access to FAA facilities and information systems. The effort will better protect personal privacy and enhance physical and cyber security.

To receive a PIV card, all employees and contractors must meet with a security representative in person, be photographed, provide two forms of identification—including at least one government-issued ID—and have their index fingers scanned. After verification of this information, employees will meet with a different security officer who will use the stored fingerprints to verify the employee's identity, then give the employee the opportunity to store their own secret PIN number in the card. The security officer will then finalize the activation of the smart card with electronic certificates written to the chip and issue the new combined ID and "smart" access card to the cardholder.

The new PIV cards will have embedded chips that in the future will allow employees to access FAA facilities and information systems. *Credit:* FAA Image Library

—Adapted from an article appearing in FocusFAA, FAA's employee news service.

The President's Management Agenda (PMA) contains 5 Government-wide and 11 agency-specific goals to improve Federal management and deliver results that matter to the American people. Together, these goals are referred to as the PMA. The five Government-wide initiatives are Strategic Management of Human Capital, Commercial Services Management, Improved Financial Performance, Expanded Electronic Government, and Performance Improvement. In addition to these five initiatives, the FAA, as an agency within the DOT, participates in two additional agency-specific initiatives: Eliminating Improper Payments and Federal Real Property Asset Management.

OMB assesses all Federal departments through a quarterly Executive Branch Management Scorecard rating of green, yellow, or red for status and progress on each PMA initiative. While there are 13 agencies within the DOT that contribute to the overall PMA, the FAA's contribution is significant and has a major impact on the rating results. For the Federal Real Property Asset Management initiative, the FAA has over 99% of the real property within DOT, effectively driving the initiative and its results. For a more detailed description of the PMA, see the OMB website at **www.whitehouse.gov/omb/budintegration/pma_index.html**.

FY 2008 FAA Accomplishments

Strategic Management of Human Capital

Strategic Management of Human Capital involves an ambitious range of initiatives to ensure that planning and management of agency human capital is strategic, supports organizational performance, and ensures mission accomplishment. For the fourth consecutive year, DOT/FAA human capital accomplishments earned a "green" status rating on the PMA.

Workforce Planning. Recruiting a highly qualified, high-performing workforce in today's competitive environment remains an important FAA human capital challenge. We are implementing comprehensive recruitment, marketing, and outreach strategies to broaden agency applicant pools and meet the hiring needs of our controller, inspector, and other critical workforces. The increased outreach is reflected in FAA manager feedback that indicates that 72% agree that the hiring process is effective at attracting the right applicants, up from 68% last year.

Several joint initiatives with the Department of Veterans Affairs are expanding job opportunities for veterans. The FAA is able to offer veterans with disabilities access to on-the-job training to become air traffic controllers or airway transportation system specialists thanks to a new FAA Veteran's Training Program helping them transition into the civilian workforce. The agency can also offer eligible developmental controllers Montgomery GI Bill education benefits. These new veterans' training initiatives help contribute toward meeting future agency hiring goals for controllers and airway transportation system specialists.

As our controllers and other employees become eligible to retire over the coming decade, the FAA is building our next generation workforce. Agency workforce planning helps us prepare for and manage our shifting workforce demographics and ensure our future workforce viability. The annual updates of the FAA *Air Traffic Controller Workforce Plan* and *Aviation Safety Workforce Plan* present current staffing levels and forecasts of controller and aviation safety workforce attrition and hiring. To ensure strategic alignment between people, goals, and mission accomplishment, we completed the 2008 updates of the FAA and Line of Business/Staff Office workforce plans in parallel with the FAA's *Flight Plan* and organizational business plan updates.

The FAA continually assesses mission-critical workforces and prioritizes and invests in closing skill gaps as necessary to improve organizational performance and effectiveness. In 2008, the FAA participated in Government- and DOT-wide competency assessments for leaders, community planners, and human resource specialists and is continuing to make progress in closing critical gaps for engineers, information technologists, and acquisition specialists.

Leadership and Succession Management. The PMA and FAA Executive Leadership Succession Plan set forth specific expectations for ensuring the continuity of senior leadership through succession planning and executive development. The FAA implements the Senior Leadership Development Program, a systematic approach to executive level succession planning that balances agency-wide priorities with the specific needs of participating lines of business and staff offices. During FY 2008, the 28 participants received extensive feedback through a formal Assessment Center, worked with

INTERIM WEB PAGES PAVE THE WAY FOR E-ONBOARDING

Acquainting new employees with the FAA—and helping managers become acquainted with new employees—is about to get a little easier. FAA's Office of Human Resources has developed a pair of informational web pages: one for new hires, the other for their managers.

The first of the two pages, New Employee Processing, is an area of the public website to which new employees are now being directed upon receipt of their acceptance letter. The page provides new hires with information and links to important forms, as well as information on benefits. It details those things that must be done on or before the first day of employment.

The second page, the Manager's Orientation Checklist, is an internal page aimed at providing guidance to the managers who are taking on new employees. The page offers a standardized approach to new employee integration including a checklist so managers can note when various pre-employment tasks are completed by the new hire.

Currently this is still a manual process. The employee must print off the forms, bring them in, and submit them. Within the next 2 years, this process will be electronic, and more robust.

www.faa.gov/about/office_org/headquarters_offices/ahr/new_employee_onboard/

Being developed in conjunction with the Department of the Interior's National Business Center, the e-Onboarding initiative will create a standalone website where new hires and managers will log on to enter and retrieve employment information. Once the new system is in place, new hires will receive an email with login information for the e-Onboarding website about 2 weeks prior to their scheduled start date. Once logged in, the employee will verify the information from their application and be directed to fill out required forms online. All of this will help ensure that new employees are ready to start working on day one.

FAA is hopeful that this kind of advanced information will help reduce the anxiety felt by new employees, minimize Human Resource's manual data entry into various back-office systems, and improve data integrity across the organization.

—Adapted from an article appearing in FocusFAA, FAA's employee news service.

coaches and executive advisors to develop Individual Development Plans, and completed three core training events:

- "Policy Dynamics for Senior Managers" conducted by the Federal Executive Institute;
- the Brookings Institution's "Communicating for Success"; and
- "Leading Change and Organizational Renewal" offered through the Harvard Business School.

They also worked with executive coaches to leverage on-the-job leadership challenges including a high-level action learning project identified by the FAA Acting Administrator.

Performance Culture. We continue to strengthen our results- and performance-based culture through our compensation and agency performance management system. In 2008, Office of Personnel Management (OPM) evaluators determined that the FAA had an effective performance management system in place that shows alignment between individual performance plans and the FAA *Flight Plan*, measurable and results-focused standards, and processes for effective oversight and accountability.

The FAA implemented an e-Government solution that replaced about 46,500 FAA employees' current official personnel folders with electronic employee records, which provides employees with direct access to their employment folders. The FAA and the National Aeronautics and Space Administration (NASA) are jointly pursuing a new electronic employee orientation process that provides new employees with the valuable information they need to start their careers and checklists for supervisors regarding their on-boarding responsibilities for orienting the new employee. Studies show a link between a positive on-boarding experience and employee retention, productivity, and engagement (see related story on page 19).

The FAA Human Resource Management (HRM) organization is implementing an accountability review process to ensure consistent application of human capital policy and agency compliance with merit-system principles. To date, a team of Human Resources specialists have conducted five quality reviews of HRM operational policies and practices to identify and correct local and systemic issues. Service level agreements with lines of business establish additional accountabilities for efficient and effective delivery of HRM products and services.

Commercial Services Management

In FY 2008, we completed a study of the FAA's National Aeronautical Charting Office (NACO) and developed a plan for converting it into a High Performing Organization (HPO). The HPO plan calls for the adoption of modern, digital cartographic methods; enhanced data stewardship through database consolidation; business process reengineering; elimination of redundant positions; and a NACO model to increase efficiencies and the quality of products. The plan also uses a new pricing structure that is expected to increase NACO revenue by $44.5 million over the 5-year HPO period, fund modernization efforts, and reduce NACO's operational base funding needs. The NACO HPO plan is projected to save the FAA $45.5 million over the 5-year HPO period in both cost savings and cost avoidance and, by FY 2013, achieve yearly savings of 28% from the FY 2007 baseline. Implementation of the NACO HPO will begin in the first quarter of FY 2009 and continue through the 5-year HPO period.

Improved Financial Performance

During FY 2008, we continued to closely monitor the effectiveness of capitalization improvement efforts and the timely processing of construction in progress transactions. We also implemented organizational changes and added resources at the managerial and staff levels.

The FAA designed and tested an improved accounting process for reimbursable agreements. The redesign, which will be implemented in FY 2009, simplifies the accounting transaction flow and the monthly reconciliation process.

Expanded Electronic Government

The FAA's participation in the DOT's E-Government initiative during FY 2008 led to several important accomplishments in Capital Planning, IT Security, Enterprise Architecture (EA), and Government-wide Initiatives.

Capital Planning. In FY 2008, the FAA created its first IT portfolio to be managed by the Information

Technology Executive Board (ITEB), a senior level executive board chaired by the Chief Information Officer. The portfolio consists of over 60 investments with annual budgets exceeding $250 million. The Joint Resources Council (JRC) approved the ITEB portfolio baseline for FY 2010, as recommended by the ITEB, and we continue to work critical processes associated with the Government Accountability Office's (GAO's) IT Investment Management Framework. As the portfolio management capabilities mature, the FAA expects to improve investment performance by completing projects in less time, receiving a return/cost savings percentage of the total portfolio budget, and managing the FAA more like a business. The FAA institutionalized the Earned Value Management (EVM) practices, including surveillance and certification of EVM systems, supporting the *Flight Plan* goal of having more of our systems delivered on time and within budget.

To address the issues surrounding the inclusion of the NAS Modernization Program on GAO's High Risk List, the FAA is institutionalizing many best practices in investment management. To assist in its efforts, the FAA implemented a new portfolio management tool that includes components for OMB reporting, dashboards and executive decision support, business case development and analysis, project planning and scheduling, EVM, timekeeping, resource management, cost management, process workflows, risk management, dependencies, portfolio analysis, and predictive capability.

IT Security. Effective October 1, 2007, the FAA's and DOT's Cyber Security Incident Response Centers merged into a single, cutting edge, state-of-the-art Cyber Security Management Center (CSMC). The CSMC is designed to provide a centralized and cost effective approach to preventing and handling computer security events involving targeted DOT systems. The mission of the CSMC is to protect information technology assets of the DOT via the consolidation and optimization of cyber incident management policies, standards, practices, and tools. The FAA continues its efforts to protect its information infrastructure from malicious attack by ensuring that all systems have the appropriate security mechanisms in place. To this end, the FAA has performed initial certification and authorization on 8 systems, recertified 67 targeted systems, and is on track to complete self-assessments on its remaining IT systems by the end of 2008.

Enterprise Architecture (EA). The FAA continues to improve its EA. In FY 2008, the FAA updated the EA, expanding the scope of its information so as to better support investment decisionmaking. The architecture and technology boards chartered in 2006 became fully institutionalized and held regular meetings to share information and make decisions on architecture and technology issues. The scope of the FAA EA roadmaps approved through the governance boards was increased to add regulatory support and non-NAS roadmaps. In December 2007, the JRC approved the FAA EA, including the agency-wide roadmaps. The FAA EA program strengthened its emphasis on segment architecture development, continued work on its two major segments, and added two new segment architectures. The FAA lines of business (LOBs) increased their emphasis on completion and use of the EA, hiring several additional enterprise architects to coordinate work within the individual LOBs to help move the EA forward.

Government-wide Initiatives. The FAA continues to participate in eGovernment initiatives, thus contributing to DOT's successful eGovernment scorecard. The FAA participates in DOT's eGrants Executive Committee, which is responsible for developing the DOT's consolidated eGrant Management application. The FAA also participated in DOT's migration from its Docket Management System to the Federal Docket Management System. In addition, the FAA is collaborating with the National Archives and Records Administration to develop processes and best practices for e-Records Management.

Performance Improvement

The Performance Improvement initiative encourages agencies to develop efficiency in executing programs, implementing activities, and achieving results while avoiding wasted resources, effort, time, and money. To achieve this objective, we continue to ensure transparency about performance and the steps we are taking to correct deficiencies. We regularly and systematically measure program performance against pre-determined targets to track program viability, one of six criteria for reaching "green" status on the PMA report card. We continue to integrate performance information into budgetary decisionmaking to ensure resources are properly aligned with the FAA's mission and goal activities. We link the results of those activities back into

the annual budget planning process. We provide detailed information about how increases or decreases in our budget affect the achievement of our goals, and how the activities across the six DOT strategic goal areas work together.

FAA *Flight Plan*. Each fiscal year, the FAA's Management Board updates the *Flight Plan*, our 5-year strategic plan. The *Flight Plan* establishes strategic goals, corporate initiatives, and performance targets in the FAA's four strategic goal areas—Safety, Capacity, International Leadership, and Organizational Excellence. The plan is directly linked to performance results. The FAA Administrator holds monthly *Flight Plan* meetings on the status of our performance goals and the results are posted on the FAA's homepage.

Pay for Performance. Accountability for results is widespread throughout our organization, with 84% of our staff and executives under the pay-for-performance system. Agency achievement of *Flight Plan* performance targets are considered when annual pay raises are calculated. In addition, executives and managers have discretion in rewarding high-performing employees with incentives for quality work and innovation. Executives are also eligible for short-term incentive bonuses when specific performance thresholds are met or exceeded. The conversion to pay for performance allows the agency to flatten pay bands and tie achievement of goals to pay increases.

Improved Performance and Efficiency Measures. Another important focus of the Performance Improvement initiative is the OMB Program Assessment Rating Tool (PART) reviews. As part of the process, programs that have undergone a PART review develop and implement efficiency measures that are tracked in PARTWeb, OMB's web-based editing tool, and in our business plans. In FY 2008, OMB undertook a comprehensive review of all past PART assessments. This review highlighted the need for all efficiency measures to address program unit costs. In response, AVS implemented a new measure for the Cost of Safety Oversight for PART 145 Repair Service Stations. We also substantially revised or added new performance measures for several programs. Examples of the FAA's efficiency measures follow.

- **Air Traffic Overhead Rate.** To provide insight into cost effectiveness of General and Administration (G&A) and Mission Support resources needed to support the Air Traffic mission, we capture overhead rates. We regularly review current and historic performance and selected benchmarking with other air navigation service providers. The performance indicator informs management decisions on the mix, level, and allocation of G&A and Mission Support resources.

- **Cost per Controlled Flight.** This cost-based metric provides a broader historic picture of overall cost efficiency at the facility level, service level, and ATO level. Cost per Controlled Flight is reviewed as part of periodic benchmarking initiatives within the global air navigation service community.

- **Average Cost of Safety Oversight of Part 145 Repair Stations.** This new measure for AVS evaluates total safety oversight spent on this critical sector of aviation. The FAA plans to use the measure to benchmark regional performance and drive organizational efficiencies.

PART Review—ATO Technical Operations. Responsible for maintaining and modernizing equipment needed in the NAS to deliver air traffic services, ATO Technical Operations received an adequate rating on its PART review. The PART assessment indicates that the program has a clear purpose that focuses on maintaining and modernizing equipment needed to deliver air traffic services and has long-term outcome measures tied to specific programs and projects that support the accomplishment of DOT and FAA goals. It also indicates that ATO Technical Operations has evaluations of several program components including safety and capital acquisitions. To improve the performance of the program, ATO is baselining annual performance measures to set ambitious targets for those measures, undertaking a comprehensive study to evaluate program efficiencies, and broadening the evaluation of the program's operations.

Eliminating Improper Payments

The PMA strives to instill first class financial management practices in departments and agencies throughout the Executive Branch. Such efforts ensure that taxpayer dollars are spent wisely and efficiently,

appropriately accounted for, and protected from fraud or misuse. Improper payments are defined by the Improper Payment Information Act (IPIA) of 2002 as payments "that should not have been made or that were made in an incorrect amount." This definition includes all payments to an ineligible recipient, for an ineligible service, duplicate payments, payments for services not received, etc. The Act requires Federal agencies to annually review the susceptibility of all their programs and activities and to estimate the improper payments amounts and rates for those programs found to be susceptible.

Our excellent record of keeping improper payments to an insignificant amount caused OMB and DOT to change the focus of our improper payments efforts to grant payments made under the AIP.

During FY 2008, we applied that knowledge and methodology to a comprehensive effort to test 27 statistically selected airport improvement projects across the nation. We evaluated the validity and appropriateness of payments relative to the terms of the grant agreement by considering such issues as whether contracted goods or services (pavement, excavation, design services) were consistent with engineering specifications, the reasonableness of progress payments, and inspection reports supporting completed work.

In accordance with the IPIA and following the requirements of the OMB, DOT contracted with AOC Solutions to determine estimates of improper payments for FY 2008 in three DOT grant programs, including the AIP.

The review process involved a three-stage sampling plan to select a statistically representative sample of AIP payments and test their propriety. The sampling plan was designed to meet the OMB Circular A-123 requirements of no more than plus or minus 2.5% sampling error at a 90% confidence interval. It ensures a reliable nationwide estimate of improper payments made by the AIP program. No significant improper payments were identified during FY 2008 review. Two invoice line items were identified as improper payments totaling $1,237.00. These two items were noted in the work papers but not projected to the population universe because they were not part or the final (third stage) testing sample. The test results were submitted to OST for review to be compiled with the results of the other Operating Administration reviews to develop an estimate of improper payments for the DOT.

Federal Real Property Asset Management

The FAA, on behalf of the DOT, continues to provide inventory information and performance measures to the Federal Real Property Council. The data included metrics for the approximately 68,500 DOT real property assets and reported performance information on the following elements for each real property asset:

- Mission-criticality
- Facility condition index
- Utilization rate
- Annual operating costs

The data and performance measures are maintained in the Real Estate Management System application that serves as the single-point inventory database for DOT real property assets. During FY 2008, the FAA conducted a physical inventory of approximately 22,000 real property assets and again transmitted the data to the Federal Real Property Profile for inclusion in the full Federal real property inventory database.

In accordance with the Asset Management Plan and the Three-Year Timeline for Real Property, the FAA participated in periodic reviews of the real property asset data and removed more than 2,270 unneeded assets with a value of approximately $85 million in FY 2008.

Since the PMA initiative was established, the DOT's initiatives have resulted in disposals of more than $170 million worth of real property assets.Savings resulting from the disposition of property have been applied toward future disposition efforts, as well as updates, upgrades, repairs, and renovations of current assets.

In FY 2008, the OMB recognized DOT's real property achievements and rated the PMA real property initiative green in status and progress. The FAA team also received national-level honorable mention recognition by the General Services Administration (GSA) for exceptional real property innovation in Federal Government-wide property management initiatives.

FY 2008 INSPECTOR GENERAL'S SUMMARY OF CHALLENGES AND FAA ACTIONS

DEPARTMENT OF TRANSPORTATION OFFICE OF INSPECTOR GENERAL APPROACH

The OIG issues its annual report on DOT's top management challenges to provide a forward-looking assessment for the coming fiscal year. The report aids DOT's agencies in focusing attention on and mapping work strategies for the most serious management and performance issues facing DOT.

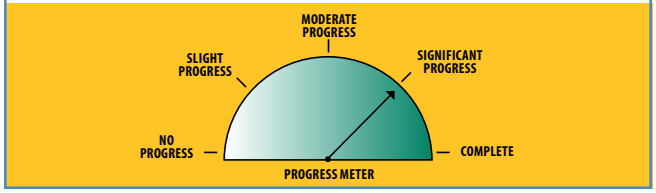
In selecting the challenges for each year's list, the OIG continually focuses on DOT's key strategic goals to improve transportation safety, capacity, and efficiency. In addition to the OIG's vigilant oversight of DOT programs, budgetary issues, and progress milestones, it also draws from several dynamic factors to identify key challenges. These include new departmental initiatives, cooperative goals with other Federal departments, recent changes in the nation's transportation environment and industry, as well as global issues that could have implications for the United States' traveling public. As such, the challenges included on the OIG's list vary each year to reflect the most relevant issues and provide the most useful and effective oversight to DOT agencies.

As required by *OMB Circular A-136*, the OIG's report briefly assesses DOT's progress in addressing the challenges identified. To track management challenges identified from year to year, the OIG provides an exhibit to the report that compares the current list of management challenges with the list published the previous fiscal year. In addition, the OIG may refine the scope of the management challenge from year to year based on program developments, external factors, or other information that becomes available.

Management Challenges are not issues that are easily solved. In many cases they require investments or upgrades to technology or substantial changes in long-standing procedures or program activities. To completely address a Management Challenge may take more than one fiscal year. Since the OIG may refine the scope of a Management Challenge based on new information, it can be difficult to provide a context showing how far the FAA has come in resolving a particular challenge. To provide perspective on the FAA's progress, the DOT assesses the achievements made toward resolving the challenge as currently defined and displays the results on a progress meter.

CHALLENGE: Addressing Long- and Short-Term Challenges for Operating, Maintaining, and Modernizing the National Airspace System

Hiring and training nearly 15,000 controllers over the next 10 years



One of the FAA's challenges over the next 10 years is hiring and training enough air traffic controllers to address the surge in retirements. The FAA has developed a strategy for this challenge and continues to modify and improve it as needed. The FAA's new hires come largely from three sources: experienced military controllers, Air Traffic Collegiate Training Initiative (CTI) partner schools, and the general public. This year the FAA has taken action in all three areas to greatly increase the qualified applicant pool and reduce the time and cost associated with hiring and training.

The FAA currently offers a recruitment bonus of up to $20,000 to previous military air traffic controllers. This allows the FAA to attract individuals with previous controller experience, which reduces time and costs associated with training. The FAA also offers relocation incentives and reassignment bonuses for current controllers and retention incentives for retirement-eligible controllers.

In 2007, the FAA revised the CTI evaluation process and added nine new schools. In 2008, to expand the base of approved CTI schools further, the FAA opened the

program for new schools to apply between February and March and approved 8 new schools, bringing the total to 31. The expansion of this program will allow the FAA to attract a large pool of qualified candidates with aviation-related college degrees.

In 2007, the FAA issued numerous public sector job announcements throughout the country, resulting in about 25,000 applications. The FAA continued this practice in 2008 and issued nationwide job announcements at a rate of about one per month, ensuring a continuous flow of applicants for vacant controller positions.

The FAA has improved the selection process with centralized selection and placement (CSP) panels that convene regularly throughout the year in Oklahoma City. There, the Air Traffic Organization selecting officials review referred applications and make selections. Each CSP panel takes place in a week and instant coordination and communication occur with each of the respective stakeholders. The FAA reviews many applications, resulting in hundreds of selections at each panel. The CSP panel compresses the selection process from several months to one week.

CSP panel selectees are invited to a PEPC for the remainder of their processing. PEPCs are a streamlined and effective initiative that compresses the pre-employment application and screening process into a week-long session by bringing candidates together in a centralized location that allows the FAA to (1) conduct job interviews, (2) finalize selections, (3) collect security information to initiate the clearance process, (4) conduct medical exams, drug testing, and psychological evaluations, and (5) process human resources paperwork. Traditionally, pre-employment processing took 6 months or more. The FAA has been able to cut time and costs in hiring by implementing the PEPCs. Ten PEPC sessions took place in FY 2008.

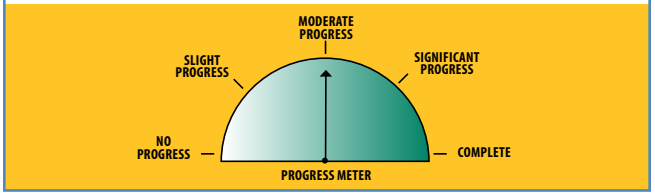
The FAA continues to make significant progress in the validation of accurate facility-level staffing standards. As part of the 2008 Controller Workforce Plan, the FAA included updated staffing ranges at the facility level for all 314 terminal and en route facilities. In 2007, the FAA completed its efforts to revise the standards for tower cabs and en route centers. As a result of the updated standards, the FAA was able to use data from all tower and en route facilities as input to the staffing ranges. In addition, the FAA has started updates to the Terminal Radar Approach Control staffing model and anticipates completion during the fall of 2008.

The FAA is increasing its use of simulators to reduce time and costs associated with training new controllers. The FAA awarded a contract for 24 Tower Simulation Systems (TSS) in December 2007. Installation of the TSS has begun in field facilities and the FAA Academy, with full installation to be completed in September 2009. The agency has also installed additional En Route Training Simulation Systems at six Air Route Traffic Control Centers (ARTCC) and the FAA Academy to increase training capacity.

The Deployable Air Traffic Training System (DATTS) is the FAA's newest simulation training initiative. DATTS is a portable commercial off-the-shelf mobile air traffic control training system designed for deployment of "just in time" or "as needed" training use. DATTS expands training and closes the gap of back-log trainees. The DATTS will be installed and tested at various field facilities and the FAA Academy in the coming months.

The FAA continues to use operations per controller as a baseline metric to measure controller productivity. This metric is tracked at the system level to provide a comprehensive view of terminal and en route operations. Due to decreasing levels of air traffic in recent years and the net increases to the controller workforce, the operations per controller metric for FY 2009 is projected to be 16% lower than in FY 2000. This recent downward trend clearly indicates that the FAA is proactively meeting the challenge of the air traffic controller retirement wave.

Keeping existing modernization projects on track



The FAA has created and implemented mitigation strategies to comprehensively address the need to keep modernization projects on track. Implementation

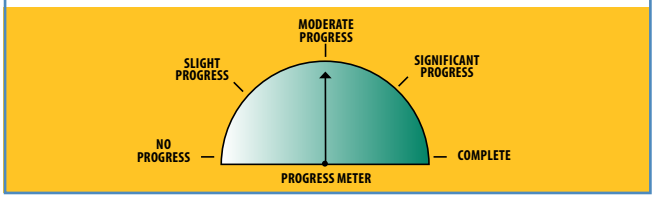
of executive and management reviews and wide-ranging processes have resulted in positive, measurable, and dramatic changes in how the FAA manages modernization projects.

A major EVM effort has been initiated across the agency. For all newly approved IT investments that have current year development, maintenance, and enhancement funding equal to or greater than $10 million, the FAA applies the EVM project management tool. The FAA also requires that these programs track and measure program performance in accordance with Earned Value Management Systems (ANSI/EIA STD-78 EVMS) guidelines. By applying this project management tool, the FAA ensures optimum project planning and control by effectively integrating the project scope of work with cost, schedule, and performance elements. The FAA is more than half way to full EVM implementation.

The agency is also transforming the way it manages acquisitions by implementing an objective measurement system to evaluate program performance. In conjunction with EVM processes, the FAA has implemented a series of 21 program reporting metrics. A comprehensive red/yellow/green assessment of program performance is available through a combination of financial, schedule, technical, resources, and external interest metrics as well as the program manager's overall assessment.

The FAA continues efforts to enhance its accountability and improve performance reporting. Among other initiatives, the Capital Investment Plan now includes baseline history for programs selected for acquisition performance measurement. In addition, the agency is developing standard operating procedures to address Program Planning, Baseline Management, and Program Performance Reporting. These processes and procedures will ensure continuity, discipline, and consistency in the way programs are planned, managed, and reviewed at all levels within the FAA. In addition, the FAA routinely conducts operational analysis and Post-Implementation Reviews to ensure our programs are operating in the NAS as intended and reports the results to senior FAA management.

Reducing cost, schedule, and technical risk with NextGen



Developing and executing NextGen is the most complex, high-risk undertaking the FAA has ever attempted and will require multibillion dollar investments from the Federal Government and airspace users. The recently appointed Senior Vice President for NextGen and Operations Planning, in cooperation with the NextGen Management Board and NextGen Review Board, leads NextGen implementation. The NextGen Integration and Implementation Office supports the Senior Vice President for NextGen and Operations Planning. This new structure will better enable the FAA to successfully implement NextGen through careful monitoring of cost, schedule, and technical risks.

During FY 2008, the NextGen Integration and Implementation Office took steps to acquire the necessary expertise to make NextGen a reality. The former OEP office and the FAA's chief systems engineers were brought together into the organization, and the FAA initiated recruitment actions for the NextGen solution set and integration managers and support staff. In addition, the FAA entered into an agreement with the National Academy of Public Administration to conduct a workforce needs analysis to identify the competencies needed for all segments of our NextGen workforce and to define strategies to obtain this expertise. A final report, *Identifying the Workforce to Respond to a National Imperative—The Next Generation Air Transportation System*, was delivered in September 2008. The report contains recommendations on acquisition workforce strategies, strategies to acquire and retain acquisition workforce competencies, and NextGen implementation challenges.

The FAA's NextGen Implementation Plan, which details our efforts to transform the NAS using 21st century technologies, was published in June 2008. Even with this plan, NextGen is not without complex engineering, integration, and human factors issues. The FAA continues to develop the enterprise architecture roadmap to attain the operational capabilities and improvements

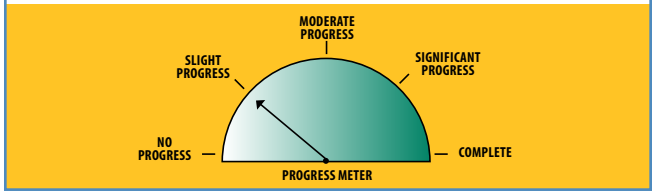
envisioned with NextGen. The FAA is also developing the critical path and risk matrix for NextGen to help lessen engineering and integration issues and to identify best practices in system integration for complex enterprises.

It is widely accepted that EVM is the best project control technique for early detection of project performance variances. The FAA's Acquisition Management System (AMS) requires all organizations responsible for major capital investment programs that involve development, modernization, or enhancement to develop and implement an EVM system.

NextGen's transformational programs, such as ADS-B and System Wide Information Management (SWIM), have already implemented EVM. We expect Data Communications and NAS Voice Switch to follow once the FAA makes and approves final investment decisions and establishes program baselines. Other enabling activities within the NextGen portfolio are still in the planning stages of the FAA's standard lifecycle work breakdown structure (i.e., concept development and feasibility studies, etc.), where EVM is less useful as a project control technique. The FAA has not yet decided whether to apply EVM to these planning efforts.

To complement the AMS, the FAA is looking at best practices to apply research and systems analysis and a technology readiness level framework. This will help to develop new technology and applications to meet approved service needs and transition mature technologies through research and systems analysis.

Maintaining FAA's aging air traffic control facilities



Today over 500 terminal and en route air traffic control systems and facilities are located throughout the country. The number and locations of these systems and facilities are driven by available technology. In preparation for the transition to NextGen, the FAA will need to replace or modernize an estimated 400 legacy systems and facilities.

In FY 2008, the FAA spent more than $300 million for the repair, modernization, and replacement of its air traffic control facilities. These projects involve replacement of obsolete infrastructure, asbestos and mold abatement, repair of roof leaks, and plumbing improvements. Specific examples of these initiatives follow.

- Mold remediation projects were completed at 29 facilities, including the Air Traffic Control Tower at Chicago O'Hare. An additional 18 mold remediation projects are planned for FY 2009. In FY 2009, the FAA will complete 15 status mold inspections as part of the ARTCC duct inspection process.
- Major asbestos abatement projects at nine ARTCCs. To date, the FAA has awarded one construction contract with the remaining projects in the engineering or procurement phases.
- Replacement of obsolete electrical and mechanical equipment as well as the installation of fire detection/protection systems in operations support and administrative areas.
- Mitigation of operational risks associated with mission-critical physical plant infrastructure failure modes at all ARTCCs.
- Alignment of unmanned facility infrastructure survey data with a passenger-focused facility impact database to establish a risk reduction methodology to deliver projects that maximize the protection of NAS capacity in the minimum time.

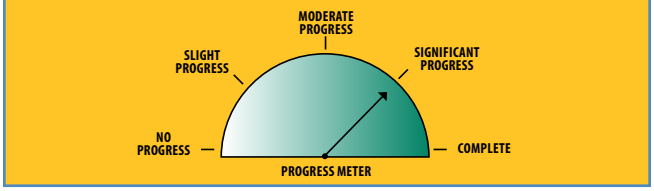
A key attribute of NextGen is that air traffic services can and will be provided without the constraints associated with legacy surveillance and communications infrastructure. Moving forward, the FAA will begin to provide networked services allowing for greater flexibility and service resilience. With these changes, opportunities will arise that allow us to transition to a more optimal allocation of services to facilities and to remove outdated infrastructure from the NAS.

In FY 2008, the FAA continued ongoing analysis of requirements for NextGen facilities. As part of the analysis, the FAA is evaluating several aspects related to future operations and facilities, including the transition of new operational requirements, physical security, and workforce impact. The analysis includes consideration

of existing en route and terminal facilities and how operational changes and technology advancements will change airspace assignment and facility requirements.

The analysis is being conducted as part of the Concept and Requirements Definition (CRD) phase of the Acquisition Management System process. The CRD product development is scheduled to be completed by the end of 2008. The artifacts that are created will be used to support an Initial Investment Analysis Readiness Decision, which is anticipated in February 2009. The products will be provided to the Chief Operating Officer as part of an overall package. Some of the products under development include Enterprise Architecture, Concept of Use, Preliminary Requirements Document, and Investment Analysis Plan.

Properly accounting for capital investment projects



Following extensive corrective actions undertaken during FY 2007, the FAA continued to standardize and improve its processes for monitoring and accounting for capital investment projects. These initiatives are described in the Capitalization Program Management Plan (PMP), approved in January 2008, which has been used to guide the Capitalization Program. The FAA has made significant progress against the PMP. The activities identified in the PMP have been substantially completed, with routine processing tasks and process improvements continuing in FY 2009.

The FAA identified and implemented process improvements to existing policy, procedures, business processes, and systems. The process improvement activities addressed the auditors' Notification of Findings and Recommendations as well as the lessons learned from the intensive clean-up activities undertaken during FY 2007.

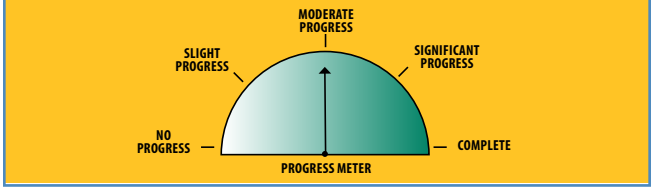
During FY 2008, the FAA developed a financial manual that documents the capitalization policies and procedures and continues to conduct staff training to further communicate policy, process, and procedure changes. The FAA also implemented a quality assurance review checklist and process to ensure accurate financial treatment of capital projects and related assets. The FAA established a National Program Capitalization Team to document and communicate decisions about capital programs to ensure timely and accurate capitalization of assets. In addition, the agency added 30 positions throughout the organization to enhance capitalization efforts.

The FAA continues to develop and implement process improvements, including a regional quality assurance process and standardized FAA capitalization processes in headquarters and the three regional service areas. We have implemented standardized business processes and quality reviews that have resulted in the FAA processing approximately 67% of assets within 65 days in FY 2008. Version 2 of the PMP has been developed to guide the agency through the next phase of capitalization process improvements and standardization in FY 2009.

CHALLENGE: Reducing Congestion in America's Transportation System

Congestion limits economic growth, wastes billions of gallons of fuel, and costs billions of dollars in lost productivity each year. This will likely remain a prominent challenge for some time, particularly with regard to air travel.

Reducing delays, improving airline customer service and meeting the anticipated demand for air travel in the near term



The FAA continues to work at reducing delays and meeting the anticipated demand for air travel. Implementation of NextGen is the long-term solution to increasing capacity of the NAS. In the meantime, the FAA and the DOT have implemented a number of initiatives to reduce delays in the near term.

- **New York Aviation Rulemaking Committee.** The New York Aviation Rulemaking Committee was formed in September 2007 to explore operational

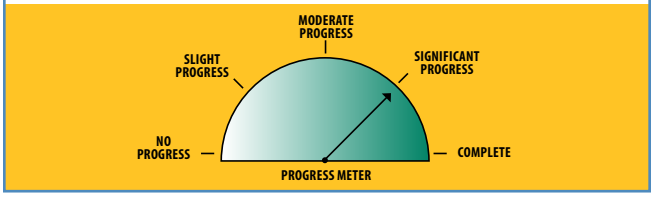
improvements, market-based mechanisms, and other options for addressing airspace congestion and flight delays in the New York metro area. The final report from 2007 summarizing the committee's discussions can be accessed at **www.faa.gov/library/reports/media/NY%20ARC%20Final%20Report.pdf**.

- **John F. Kennedy (JFK) International Airport Schedule Reduction and Temporary Order.** The FAA convened a scheduling reduction meeting for JFK Airport in October 2007 to address the problem of severe congestion and delays. The FAA was successful in meeting with air carriers operating at the airport and securing flight schedule reductions and the re-timing of peak period flights. As a result of this meeting, the FAA issued an order in January 2008 to codify these agreements and cap operations at the airport at 81 scheduled operations per hour. The cap addresses the congestion and delay that peaked in summer 2007. The order became effective in March 2008.

- **Newark Liberty International Airport Schedule Reduction and Temporary Order.** The FAA agreed with airlines serving Newark to reduce their schedules during peak periods and shift operations to off-peak periods. These and other measures adopted at Newark will prevent carriers from simply shifting the congestion from JFK to Newark. The FAA issued an order codifying these schedule agreements in May 2008. The order limits scheduled operations to 81 per hour. The order became effective in June 2008.

- **New York Area Operational Improvements.** Each day, about 30% of commercial air traffic passes through the New York airspace, where a substantial number of daily delays begin. The FAA is redesigning airspace in the region to improve traffic flow, affecting airports in New York, New Jersey, and Pennsylvania. The U.S. military worked with the FAA to make some of its airspace available for civilian airliners during the peak holiday travel periods in FY 2008. The use of the military airspace was so successful in mitigating congestion over the Thanksgiving and Christmas holidays in 2007 and the July 4th weekend in 2008 that the FAA is working with the Department of Defense to ensure that military airspace will be available for civilian use during future holidays.

Keeping planned infrastructure and airspace projects on schedule to relieve congestion and delays



New runways and runway extensions provide significant capacity increases. Since FY 2000, 15 new airfield projects have opened at the 35 busiest airports. The progress of each OEP runway and/or taxiway project is monitored by a team composed of representatives from key FAA organizations and outside stakeholders. The team is responsible for ensuring that the runway and/or taxiway project is commissioned on schedule, with all necessary equipment and airspace procedures in place, to achieve the full operational capability of the airfield project. The team provides quarterly updates to the NextGen Management Board, which is chaired by the FAA Deputy Administrator. Any issues relating to the runway project are discussed, assigned to an executive to resolve, and tracked by the integration team to ensure resolution.

In June of this year, a new center taxiway was opened at Los Angeles International Airport. In September 2008, Chicago O'Hare commissioned a 2,856-foot runway extension. In November 2008, three additional runways will open at Chicago O'Hare, Washington Dulles, and Seattle-Tacoma. With these three projects, the agency and local communities will deliver to the NAS the potential to accommodate an additional 245,000 airport operations per year.

In addition, there are four other airfield projects at major airports (runways at Philadelphia and Charlotte and taxiways at Dallas-Ft. Worth and Boston) under construction. These projects will be commissioned by 2010 and will provide the associated airports with the combined potential to accommodate an additional 80,000 annual operations, which will further reduce delays and improve efficiency.

To meet additional near-term needs, the FAA and local stakeholders will continue to pursue new airfield infrastructure to provide significant capacity, efficiency, and safety improvements. Currently under way are

environmental impact studies for proposed runway extensions at Fort Lauderdale International Airport and Portland International Airport, as well as an airfield reconfiguration at Philadelphia International Airport. Houston's Bush Intercontinental Airport is expected to begin the environmental process this year to examine alternatives to increase runway capacity. Salt Lake City International Airport is expected to begin an environmental study within the next few years to examine the impact of a runway extension.

Meeting the future capacity needs of the nation's airports will require innovative approaches, as well as continued emphasis on airport expansion and technological improvements. The FAA's report, *Capacity Needs of the National Airspace System: 2007–2025* (**www.faa.gov/airports_airtraffic/airports/resources/publications/reports/media/fact_2.pdf**) identifies 15 metropolitan areas that will experience significant population gains and economic growth resulting in additional capacity needs by 2025. Within these 15 metropolitan areas the FAA must promote regional planning, monitor aviation infrastructure investment, and identify additional airports with potential to accommodate future demand. The FAA and local communities are currently focusing on 8 of these metropolitan areas, which contain 14 major airports. These airports are expected to have the greatest capacity shortfalls. The FAA is working with these airports to develop potential solutions to address these future capacity shortfalls and expects to have initial results by the end of 2008.

The FAA continues to monitor the progress of airspace redesign projects as near-term commitments in the NextGen Implementation Plan. The FAA has made progress on critical projects in the past year that reduce airspace complexity and restrictions, departure delays, taxiing, flying times, and distance as well as increase routes.

In December 2007, the FAA implemented the first elements of the New York/New Jersey/Philadelphia Metropolitan Area Airspace Redesign. The new dispersal headings at Newark-Liberty and Philadelphia International airports, which allow controllers to use side-by-side separation on successive departures, have decreased departure delays by as much as 20%. For New York, the initial dispersal headings have provided up to 20% reduction in departure delays (when headings are in use) at Philadelphia and Newark.

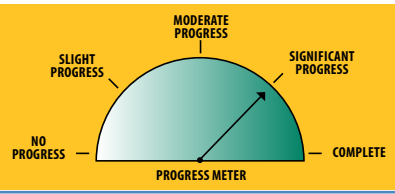
In April 2008, five new south departure routes were opened as part of the Chicago Airspace Project. These new routes work in conjunction with the airfield improvements at Chicago O'Hare to significantly decrease delays. In Chicago, on-time departure improvements were observed after the new southbound routes were put in place in April 2008.

In Houston, customers have identified positive changes due to a new departure route. However, due to severe weather this summer (several hurricanes and tropical storms), the FAA cannot quantify the impacts. In June 2008, two additional departure routes were implemented, one as part of the Houston Area Air Traffic System Airspace project and the other as part of the New York/New Jersey/Philadelphia Metropolitan Area Airspace Redesign and the New York Short-Term Initiatives. Throughout the year, the FAA has also completed several new sectors and airspace realignments, including the final phase of the Potomac Airspace Project. The airspace changes reduce complexity and congestion, supporting the aforementioned implementation of the new routes.

The NextGen Implementation Plan also describes new ways of designing and managing airspace that could be implemented within the next decade. The NextGen Management Board, NextGen Review Board, and NextGen Integration and Implementation Office are all focused on gaining shared commitment and moving to implementation.

CHALLENGE: Continuing to Make a Safe Aviation System Safer

Taking proactive steps to improve runway safety in light of recent serious incidents



Reducing runway incursions lessens the probability of accidents that potentially involve fatalities, injuries, and significant property damage. The definition of a runway incursion was changed in October 2007 to "any occurrence at an airport involving the incorrect presence of an aircraft, vehicle, or person on the protected area of a surface designated for the landing and takeoff of aircraft." The ICAO has also adopted this definition. Before its development, countries around the world used at least 20 different definitions for a runway incursion. With its adoption, the worldwide aviation community now has a single runway incursion definition, which will help in the search for common factors that contribute to these incidents.

Surface Safety Technology Implementation

In FY 2008, the FAA continued the Runway Status Lights (RWSL) program, which reduces the likelihood of runway accidents. In June 2008, the FAA announced that RWSL would be installed at 22 airports.

The ASDE-X, a runway safety tool developed to help prevent surface collisions and reducing critical Category A and B runway incursions, is currently installed at 17 airports. Additionally, the FAA is considering the use of low-cost, commercially available radar surveillance systems that would reduce the risk of runway incursions at certain small and medium-sized airports. The FAA issued a request for proposals in September 2008, inviting industry offers of candidate low-cost ground surveillance products at six additional pilot airports. Lower traffic levels and less complex operations at these airports allow ground operations to be safely conducted through visual and voice communication between controllers and pilots.

A low-cost ground surveillance system (LCGS) would further reduce the risk of ground incidents or accidents, especially during periods of low visibility. The LCGS will provide the basic infrastructure upon which additional runway safety applications such as RWSL and Surface Movement Guidance and Control Systems can be built.

A draft of the *National Runway Safety Plan* is being reviewed and will be published in October 2008.

Safety Promotion, Outreach, and Awareness

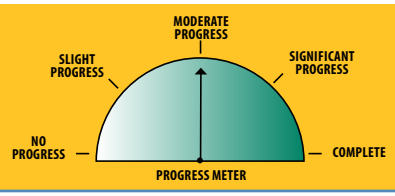
While pilots have traditionally acquired information about what runway or taxiway they are on by looking out their windshield, the FAA is making it easier for pilots to have an invaluable electronic tool in the cockpit—ADS–B. This technology provides a moving map display with "own ship position," changing and improving runway safety the way GPS has changed the way we safely navigate our cars. Proposals to participate in the test program have been sent to industry for a program evaluation and are expected to begin during the next 12 months and continue for several years.

In August 2007, the FAA and industry leaders identified short-term steps to improve runway safety. These "call to action" initiatives focused on improved procedures, increased training for airport and airline personnel, and enhanced airport markings, lighting, and signage. In the past year, the FAA has completed runway safety reviews at 20 initial call to action airports based on runway incursion data and wrong runway departure data. This has resulted in more than 100 short-term and numerous mid- and long-term initiatives. Most of the short-term initiatives identified have been completed. Additionally, 75 of the busiest airports enhanced taxiway centerline markings and the remaining smaller certificated airports must complete these marking enhancements by December 2009 or 2010, depending on their size. The FAA issued an Advisory Circular on March 31, 2008, strongly recommending that certificated airports require annual driver training for all persons with access to the movement area. The FAA has initiated rulemaking to require this annual driver training program at certificated airports.

The FAA also conducted a review of air traffic procedures that could contribute to runway incursions. The FAA implemented the first procedure change, explicit taxi clearances, in May, and the second change, which requires waiting until all runways are crossed along the taxi route before issuing the takeoff clearance, in August. The third change, requiring specific runway crossing clearances for each runway along the taxi route, may be implemented by December 2008.

Also, at Chicago O'Hare International Airport, the FAA launched a voluntary reporting system known as Air Traffic Safety Action Program that encourages a culture of non-retributive open communications about incidents and potential problems. The proposed Runway Safety Council, a joint FAA-industry group, will address root causes including human factors and accountability issues.

Ensuring consistency and accuracy in reporting and addressing controller operational errors



To address this challenge, the FAA will continue to focus on the development and implementation of an automated software prototype that will depict air traffic control separation conformance in the terminal environment nationwide. The Traffic Analysis and Review Program (TARP) will apply separation logic to targets, identify where applicable separation standards are not being maintained, and highlight incidents for further investigation.

Originally the FAA scheduled the completion of TARP implementation at all applicable terminal and en route facilities by December 2011. However, in March 2008, the FAA accelerated the TARP deployment schedule. Since the en route environment currently has the Operational Error Detection Program that identifies potential losses of separation, the FAA modified the TARP implementation strategy to focus first on the area with the greatest need—the terminal environment. The TARP audit tool implementation will now be complete at all applicable terminal facilities by December 2009. TARP for en route facilities will be completed by the end of FY 2011.

The FAA has developed an additional tool that complements TARP—the Continuous Data Recording Player Plus (CDRPP). CDRPP has TARP-like separation detection logic, playback functions, and near real-time data access. CDRPP will be used to review and automatically investigate potential losses of separation between aircraft initiated by traditional methods. The FAA has deployed CDRPP to all applicable terminal facilities.

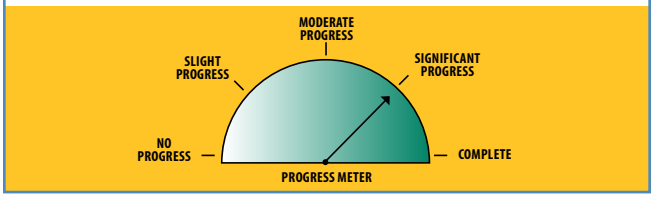
The En Route and Oceanic Services Unit will remain focused on reducing risk in the NAS through effective performance management. For FY 2009, En Route and Oceanic facilities will develop and implement strategies that address the primary causal factors found in their operational errors to create a safety culture within the facility, ensure the quality of on-the-job training, and properly disseminate weather information.

In addition to these initiatives, En Route and Oceanic Services will continue daily monitoring of performance and will pursue procedural development to enhance the safety of NAS operations. En Route and Oceanic Services will also continue their communication and awareness strategies, including bi-weekly quality assurance and training telephone conferences, a weekly quality assurance newsletter, and an annual quality assurance and training conference.

To ensure consistency and accuracy in reporting and addressing controller operational errors, in FY 2008 the FAA began providing briefings to operational field air traffic personnel to emphasize the joint goals of the agency toward safety and efficiency. The briefing addresses the responsibility and need for air traffic personnel to fully report all losses of separation for both operational errors and pilot deviations. It also includes discussion of the need to accurately capture the casual factors during investigation of every loss of separation. The FAA completed these briefings to most large terminal facilities and some of their associated en route facilities in March 2008.

The FAA is also ensuring more complete and accurate reporting of losses of separation through random audits of recorded radar data. Each month, ATO Safety selects approximately 15 terminal radar facilities and directs them to review 2 hours of radar data for dates and times specified by the Safety office. In addition, the FAA requires approximately three of these facilities to forward their radar data for the selected periods to ATO Safety for a second, independent review of separation. En Route and Oceanic Services facilities continue to use the audit process in FAA Order 7210.56.

Strengthening risk-based oversight systems for air carriers, external repair facilities, and aircraft manufacturers



The FAA continues to strengthen its risk-based oversight system and has expanded the ATOS to 107 certificate management teams (CMT)—the FAA teams that oversee the nation's Title 14 Code of Federal Regulations (14 CFR) part 121 air carriers.

This system-safety and risk-based process ensures that the FAA executes the agency's responsibilities to determine the continuing operational safety of 14 CFR part 121 air carriers. About one-third of the inspector workforce is assigned to ATOS CMT. The remainder of the safety oversight workforce will begin using risk-based oversight processes in 2012, when the FAA deploys these systems to certificate holders such as 14 CFR part 135 air carriers and part 145 repair stations.

The FAA continues to train the inspector workforce in risk-based management and has developed new risk-based training courses to teach inspectors how to use the redesigned ATOS process and tools. As of April 2008, all inspectors currently using ATOS (approximately 1,600) have taken the training. No inspector is allowed to perform ATOS work assignments until completing the training.

In September 2005, the FAA launched the enhanced repair station and air carrier oversight system. This risk-based oversight system standardizes the approach for surveillance of certificated repair stations and noncertificated facilities contracted to perform maintenance for air carriers. It also provides for the continuous assessment and prioritization of each repair station and noncertificated repair facility and provides a method of targeting areas of high risk. While the FAA has completed an update of 8900.1, Flight Standards Information Management System, we are continuing a review of the order for needed harmonization with the latest practices and surveillance of repair stations and air carrier outsourced maintenance providers. The revision to the order is expected to be released as completed and finalized in June 2009.

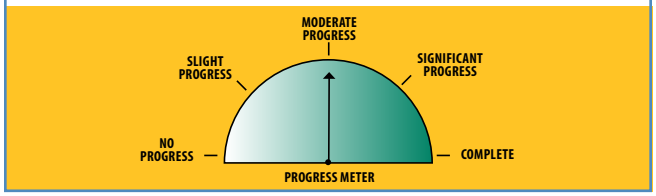
The FAA continues to effectively oversee manufacturers' compliance with the regulations. In the interest of safety and effective resource allocation, a risk management model is used to identify critical impact indicators that serve to categorize facilities according to their potential for producing nonconforming products and parts.

In June 2008, the FAA revised draft guidance to manufacturers to include a process that evaluates and selects suppliers based on their capability to perform all manufacturing activities, inspections, and tests necessary to meet the specified requirements. The FAA expects this guidance to be incorporated in Advisory Circular 21-20 by September 2009.

Also in June 2008, the FAA developed new risk indicators to be used by FAA manufacturing inspectors. The indicators emphasize the manufacturers' use of flight-critical parts suppliers. Risk indicators, used by FAA manufacturing inspectors to reduce the level of subjectivity in evaluating manufacturers so that inspectors' risk assessments are more consistent, were revised in January 2008.

The FAA will publish new guidance in March 2009 to require FAA manufacturing inspectors to review a manufacturer's prior audits of suppliers as part of the inspectors' analysis of risk and determination of resource targeting. Also, the FAA will complete revised manufacturing inspector training course content in September 2009.

Maintaining a sufficient number of inspectors



In March 2008, the AVS provided to Congress a 10-year *Aviation Safety Workforce Plan*. This plan ensures that the FAA has an adequate safety staff to address oversight needs as well as inspector attrition and anticipated changes in the aviation industry. The plan also addresses competencies and skills required of the AVS workforce to stay abreast of new technologies and to meet growing industry demands for service. At the end of FY 2008, AVS added 225 positions, 121 of which are Aviation Safety Inspectors (ASI), putting the agency above the planned end-of-year staffing level by 40 positions.

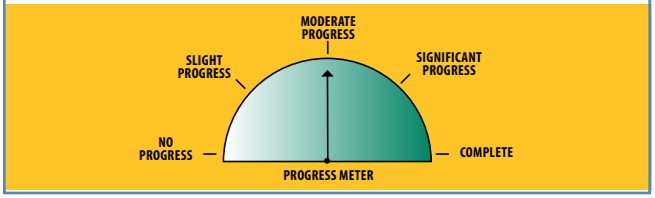
While approximately 35% of the FAA's safety inspectors and 14% its engineer workforce are eligible to retire, the agency's attrition rates for the past 3 years have averaged only 6% to 8%. This is because many of our staff are in their second career and are relatively new to the FAA. We anticipate attrition rates to remain at this rate for the next few years.

The FAA has also established recruitment plans to fill our most critical positions. The agency's Office of Human Resources Management continues to cultivate relationships and partnerships with the industry, professional organizations, and the educational communities to ensure positive publicity for the FAA in order to enhance recruiting opportunities. The agency has implemented newly revised qualification standards for the ASI occupation. Business and interpersonal competencies have been added to the Automated Staffing and Application Process for ASI. This addition will help to determine whether applicants possess the necessary competencies and personal qualities to successfully perform the ASI duties and to support the organization's safety mission.

The FAA concurred with the recommendations of the National Research Council of the National Academies' Aviation Safety Inspector Staffing Standards Study, to create a new staffing model to include the entire safety critical workforce. As of the fourth quarter of FY 2008, the new staffing model is in the identification phase. Based on current activities, including scheduled requirements gathering, AVS will implement the Aircraft Certification (AIR) inspector workforce component by November 2008 and the Flight Standards inspector workforce component by October 2009.

The information collected within the AIR and ASI components will serve as an initial baseline with the flexibility to update requirements as needed. At the direction of the senior leadership team, the FAA will add other workforce components to the staffing model in late FY 2009. At this time we cannot provide a specific date for a comprehensive model since all the requirements have been not yet defined and established for other AVS technical workforce occupations.

Strengthening oversight of the Airman Medical Certification program



The Airman Medical Certification Program is a critical safety program through which the FAA ensures that pilots are medically qualified and fit to pilot aircraft in the NAS. Each year the FAA processes approximately 460,000 airman medical certificate applications. After completing FAA training, physicians in private practice serve as Aviation Medical Examiners (AMEs). The FAA currently has approximately 4,500 AMEs designated to examine and evaluate airmen to determine whether they meet Title 14 CFR Part 67 airman medical standards. To conduct the examinations, AMEs must have detailed knowledge and understanding of FAA rules, regulations, policies, and procedures related to pilot medical standards and the certification process.

With advancements in medicine, including improved diagnoses and treatments, and the aging pilot population, the medical cases the FAA must review have become considerably more complex. As a result, the medical certification of pilots requires more analysis and time. The President's FY 2008 budget provided for 12 additional positions to address the growing medical certification workload and to ensure timely

certification of pilots. With these new resources, the FAA has hired additional personnel, including physicians, program analysts, and program assistants in the Regional Aerospace Medicine Divisions and at the Civil Aeromedical Institute in Oklahoma City.

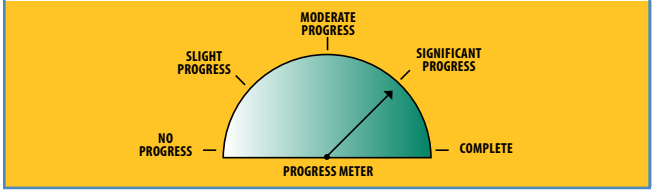
The FAA took several steps this year to improve its oversight of aviation medical examiners. The agency hired a senior program analyst to coordinate development of policies, procedures, and training and one additional analyst in each Regional Aerospace Medicine Division. It also developed new AME oversight policies, procedures, training, and a schedule for conducting at least 150 site visits per year.

To address concerns raised in a recent congressional hearing about the FAA's handling of falsified pilot medical certificates, the Office of Aerospace Medicine revised FAA Form 8500-8, Application for Airmen Medical Certificate, to obtain more information from applicants. Applicants will be asked whether they are receiving disability benefits from the Federal Government or any other source. If an applicant responds affirmatively to this question, examiners will follow up with the applicant to ascertain the nature of the disability and determine whether the medical issues related to the disability may disqualify them from being a pilot. The FAA began distribution of the revised forms in September 2008.

In April 2008, the FAA completed a modification of AME training to emphasize the importance of thoroughness in medical examinations, obtaining good patient histories, and correlating the findings from examinations and histories. The FAA will address the issue of falsification at future AME seminars and other AME trainings.

CHALLENGE: Strengthening the Protection of Information Technology Resources, Including the Critical Air Traffic Control System

Enhancing air traffic control system security and continuity planning



The NAS is one of the most complex aviation systems in the world—consisting of thousands of people, procedures, facilities, and equipment—that enable safe and expeditious air travel in the U.S. and over large portions of the world's oceans. Successful operation of the NAS relies on a system that continuously tracks the position, routes of flight, and movement of aircraft. ATC control activities are geographically distributed among ARTCCs, which are responsible for many thousands of square miles of airspace. The ARTCCs control aircraft from the time they depart terminal airspace (or in certain cases airports) to the time they arrive at another airport or terminal's airspace. Centers may also "pick up" aircraft that are already airborne and integrate them into the system. The need for protection of this information processing system cannot be overstated.

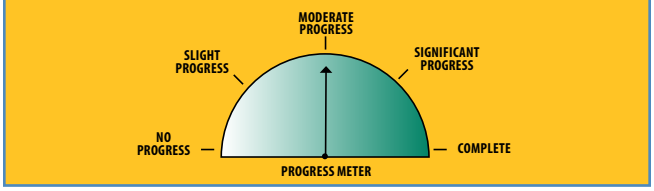
The FAA has experience dealing with partial and full outages of the information system at ARTCC. Today, in the event of a loss of a single ARTCC, adjacent centers can assume some of the workload of the failed ARTCC through procedures and existing automation system capability. To further enhance this "backup" capability, the FAA is working to implement a system security and business continuity solution to ensure recovery of as close to 100% of a lost ARTCC's ability, should an outage of a single ARTCC occur. The approach is to establish a "spare" ARTCC at the FAA's William J. Hughes Technical Center to assume control functions in the event of an outage in any one of the centers. While this approach may slightly reduce the overall performance of the overall NAS, this will enable the FAA to maintain operations and capacity during the outage.

The Hughes Technical Center serves as the national scientific test facility for the FAA. It was assigned the task of conducting a detailed impact analysis to determine how technical services would be affected by the loss of an ARTCC and the resultant activation of a spare ARTCC. It has been outfitted with most of the equipment and connectivity necessary to deliver air traffic services for any of the contiguous U.S. Air Traffic Control Centers. The Hughes Technical Center was at the forefront of the development of the recovery strategy. Tests and demonstrations were conducted throughout 2007 and 2008. At the completion of each test and demonstration, resource concerns were identified and addressed and a business continuity solution developed.

In addition to the development of the above business continuity strategy, several activities have taken place to identify and test for unauthorized software changes in fielded systems to assess the integrity of the existing NAS portfolio of systems and equipment. The FAA conducted a review of major systems, beginning with en route and oceanic/offshore operational facilities. The purpose was to determine the prevalence of undocumented system modifications to the national system baselines. Site visits have been conducted at 24 operational facilities collecting data on 16 major en route and oceanic/offshore systems. Analysis determined that there was a less than 10% deviation from the documented baselines. None of the modifications were of a malicious nature.

CHALLENGE: Managing Acquisition and Contract Operations More Effectively to Obtain Quality Goods and Services at Reasonable Prices

Increasing incurred-cost audits of procurement contracts to reduce unallowable charges



The Office of the Senior Procurement Executive (OSPE) issued Acquisition Policy Letter (APL) 2008-06 in April 2008 to establish a departmental plan for ensuring incurred-cost audits are obtained and audit report recommendations are resolved in a timely manner.

The policy letter requires Operating Administration Chief Contracting Officers to take action to revise their current FY 2008 contract audit plan to identify planned contract audits not implemented during FY 2007 or FY 2008 and included in FY 2009 audit plans, and to resolve any pending audit finding with questioned costs by November 20, 2008. They are also required to update and resolve the list of Defense Contract Audit Agency (DCAA)-reported unresolved questioned costs that are more than 6 months old as of October 2006 and report any costs recovered to the OSPE. Additionally, quarterly status reports are to be submitted to address audit hours used, resolved and unresolved questioned costs, and whether justifications have been placed in the contract files when audits were not requested.

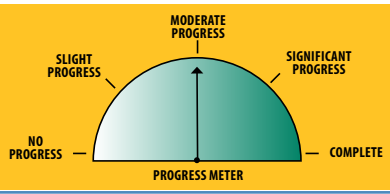
The OSPE continues to work with DCAA, the Operating Administrations, and the Office of Inspector General to find better methods for obtaining contract audit services.

The FAA was given separate contract authority in 1996 and therefore the authority to implement its own procurement policies. The agency, however, pursues acquisition policies similar to the OST on many issues, including this one. The FAA continues to emphasize incurred cost audits through a centralized audit program. For FY 2008, the agency provided $1.6 million to fund a central interagency agreement with the DCAA to order incurred cost type and other required audits for procurement contracts. An interagency agreement was executed in February 2008.

The FAA has also established an FY 2008 performance goal to require audits of cost-reimbursable contracts of $100 million or more. The Contracting Oversight Team, using the Procurement Acquisition Management System (PRISM) database, identified 86 cost-reimbursable type contracts, each with a total estimated potential value of $100 million or more. For FY 2008, the FAA issued audit requests for 43 contracts, deferred audits for 15 contracts per DCAA planning, and determined audits were not required for 28 contracts, accounting for 86 contracts. Overall, the FAA has issued audit requests for 155 contracts including incurred and other type audits. The Contracting Oversight Team, under the Acquisition Policy and Contracting Office, manages the central DCAA audit process and issues audit requests, maintains the audit database, and acts as a liaison with DCAA Headquarters and Branch offices.

The FAA also utilizes the National Acquisition Evaluation Program (NAEP), which provides oversight and evaluation of FAA acquisitions management practices. In FY 2008, the NAEP conducted reviews for the Southern, Southwest, Northwest, and Eastern Regional Contracts Offices, and two Headquarters Contracts Groups. The NAEP reviews include an evaluation of the appropriate use of DCAA audits for procurement contracts.

Fostering high ethical standards throughout the DOT and its contracting programs to maintain the public trust



The FAA uses an integrated and comprehensive approach to develop and deliver procurement ethics training. Training modules for 2008 included Getting What you Pay for on Services Contracts; Organizational Conflicts of Interest; Procurement Integrity; and Personal Services. The modules highlight current laws, regulations, and case studies of noncompliance.

Live training sessions, which reinforce ethics and contracting standards that promote the integrity of acquisition and grants management processes throughout DOT, have been conducted at FAA Headquarters and FAA Centers. DVDs of the presentations with voiceover discussion will be produced for those unable to attend sessions in person. In total, approximately 2,100 acquisition and program personnel including contracting officers, contracting officer technical representatives, program and project managers, procurement and other acquisition specialists who participate in cooperative agreement and grant matters, legal support personnel, and personnel who supervise acquisition matters received training.

MANAGEMENT INTEGRITY: CONTROLS, COMPLIANCE, AND CHALLENGES

Every year, the FAA program managers in the lines of business and staff offices assess the vulnerability of their program and activity management controls. On the basis of these assessments, reviews are conducted to determine their compliance with sections 2 and 4 of FMFIA. The head of the line of business or staff office then identifies in writing to the Administrator any potential material internal control weakness or system nonconformance. Those deemed material are consolidated in a memorandum with a Statement of Assurance signed by the Administrator and sent to the Secretary of DOT. Our response becomes part of the DOT Statement of Assurance sent to the President. To help resolve material weaknesses or nonconformances, we have developed a corrective action plan with specific milestones and deadlines. The plan and the status of each action are reviewed monthly, with results reported to DOT's Office of the Secretary.

In an October 24, 2007, memorandum, the Acting Administrator reported to the Secretary an unqualified statement of assurance. Last year, we had a qualified statement of assurance due to the limited scope of processes tested and a material weakness in the timely processing of transactions and accounting for Property, Plant, and Equipment. However, this year we continued to implement the "To Be" capitalization business process in FY 2008. With the implementation of improved business processes, standardization of activities, and the completion of the clean up of prior year capitalization activities, the material weakness identified in FY 2007 was downgraded to a significant deficiency in FY 2008. We will continue to implement process improvements and further standardize processes in FY 2009.

MANAGEMENT ASSURANCES

Federal Managers' Financial Integrity Act (FMFIA) Assurance Statement—Fiscal Year 2008

The Federal Aviation Administration is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the FMFIA and OMB Circular A-123, Management's Responsibility for Internal Control. These objectives are to ensure:

- Effective and efficient operations,
- Compliance with applicable laws and regulations, and
- Reliable financial reporting.

Internally, we assess the vulnerability of our programs and systems through FMFIA of 1982. We are pleased to report that, taken as a whole, the management controls and financial management systems in effect from October 1, 2007, through September 30, 2008, provide reasonable assurance that the objectives of both sections 2 and 4 of FMFIA are being met. Management controls are in place and our financial systems conform to Government-wide standards.

In addition, FAA conducted its assessment of the effectiveness of internal control over financial reporting, which includes internal control related to the preparation of its annual financial statements as well as safeguarding of assets and compliance with applicable laws and regulations governing the use of budgetary authority and other laws and regulations that could have a direct and material effect on the financial statements, in accordance with the requirements of Appendix A of OMB Circular A-123. The results of this evaluation provide reasonable assurance that FAA's internal control over financial reporting was operating effectively as of September 30, 2008. Due to unlimited scope of processes tested this year and no material weaknesses reported on our financial statements, FAA is issuing an unqualified statement of assurance.

Robert A. Sturgell
Acting Administrator
November 4, 2008

GRANTS MANAGEMENT POLICIES AND PRACTICES

Decisions on distributing AIP funds are centralized at the FAA Headquarters, with significant input from regional offices. While most of the day-to-day decisions for AIP project formulation are delegated to regional offices, the FAA Headquarters develops the policy to ensure that grants are implemented appropriately and that grantees are treated consistently. Policies for administering the program are included in an AIP handbook that is regularly updated through Policy Guidance Letters issued to regional offices and available to grant recipients. The FAA also ensures the consistent implementation of AIP by participating in airport industry trade conferences and training, posting statutory and policy changes on our public website, and requiring employees to attend annual training that focuses on improving business processes and updating personnel on policy changes.

We meet regularly with eligible airport sponsors to identify planning and development needs. Through this process, we develop the Airport Capital Improvement Plan, a 3- to 5-year plan that identifies the planning and development needs for airports nationwide, and prioritize eligible projects. Only projects identified in this plan are awarded grants. After a project has been identified, the airport sponsor can apply to the FAA regional or district office for a grant. We continue to support the development of an electronic grant application process. Typically, large grants are coordinated with other Federal, state, and local government agencies, such as the Environmental Protection Agency, the Department of Defense, and state aviation agencies.

AIP administration, including the requirements for sponsor and project eligibility, is based on multiyear authorizing legislation. The current authority expired under its own term on September 30, 2007. However, Congress has passed a series of short-term extensions until such time as they consider a longer multiyear program.

FINANCIAL HIGHLIGHTS

Discussion and Analysis of the Financial Statements

The FAA prepares annual financial statements in conformity with accounting principles generally accepted in the United States. The financial statements are subject to an independent audit to ensure that they are free from material misstatement and that they can be used to assess FAA performance.

FY 2008 Financial Statement Audit

The Chief Financial Officers Act of 1990 (Public Law 101–576), as amended by the Government Management Reform Act of 1994, requires that financial statements be prepared by certain agencies and commercial-like activities of the Federal Government and that the statements be audited in accordance with Government auditing standards. The FAA is required to prepare its own financial statements under OMB Bulletin No. 06–03, Audit Requirements for Federal Financial Statements. DOT's OIG is statutorily responsible for the manner in which the audit of the FAA's financial statements is conducted. The OIG selected KPMG LLP, an independent certified public accounting firm, to audit the FAA's FY 2008 financial statements. This firm also audited the FAA's FY 2002–FY 2007 financial statements.

In 2002, DOT's OIG and CFO, along with the FAA's CFO, established an Audit Coordination Committee to promote and encourage open communication among the OIG, FAA management, and the independent auditors to resolve issues that arise during the audit and to monitor the implementation of audit recommendations. The committee is chaired by the Director of the Office of Financial Management and includes representatives from the OIG, DOT's Office of Financial Management, the FAA's Assistant Administrator for Regions and Center Operations, and ATO's Chief Operating Officer. In 2006, committee participation was expanded to include representatives from the Chief Counsel's Office, the Assistant Administrator for Human Resources Management, Information Services, and Airports.

KPMG LLP has rendered an unqualified opinion on the FAA's FY 2008 financial statements.

Understanding the Financial Statements

The FAA's Consolidated Balance Sheets, Statements of Net Cost, Changes in Net Position and Financing, and Combined Statements of Budgetary Resources, have been prepared to report the financial position and results of operations of the FAA, pursuant to the requirements of the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. The following section provides a brief description of (a) the nature of each financial statement and its relevance to the FAA, (b) significant fluctuations from FY 2007 to FY 2008, and (c) certain significant balances, where necessary, to help clarify their link to FAA operations.

Balance Sheet

The balance sheet presents the amounts available for use by the FAA (assets) against the amounts owed (liabilities) and amounts that comprise the difference (net position).

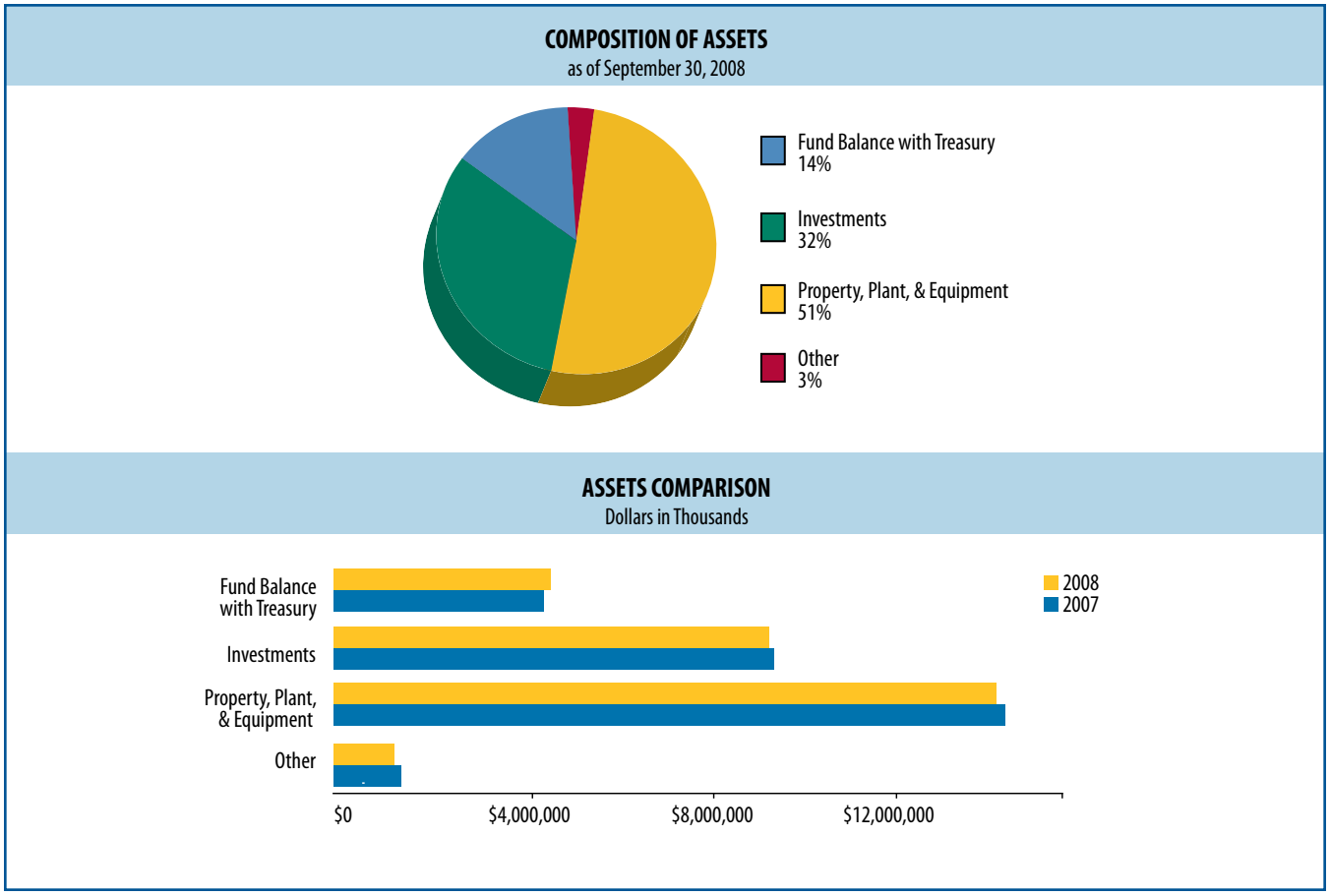
Assets

Total assets were $27.4 billion as of September 30, 2008. The FAA's assets are the resources available to pay liabilities or satisfy future service needs. The *Composition of Assets* chart depicts major categories of assets as a percentage of total assets.

The *Assets Comparison* chart presents comparisons of major asset balances as of September 30, 2007 and 2008.

Fund Balance with Treasury (FBWT) represents 14% of the FAA's current period assets and consists of funding available through Department of Treasury accounts from which the FAA is authorized to make expenditures to pay liabilities. It also includes passenger ticket and other excise taxes deposited to the Airport and Airway Trust Fund (AATF), but not yet invested. Fund balance with Treasury remained constant at $3.9 billion.

At $8.8 billion *Investments* represent 32% of the FAA's current period assets, and are principally derived from passenger ticket and other excise taxes deposited to the AATF. These amounts are used to finance the



FAA's operations to the extent authorized by Congress. Investments decreased slightly by $58.0 million.

At $13.8 billion, *Property, plant, and equipment, net* (PP&E) represents 51% of the FAA's assets as of September 30, 2008, and is primarily composed of construction-in-progress related to the development of NAS assets, and capitalized real and personal property. There was a decrease of $126.6 million in the total composition of PP&E as purchases of equipment and additions to construction-in-progress through the normal course of business were offset by retirements and depreciation.

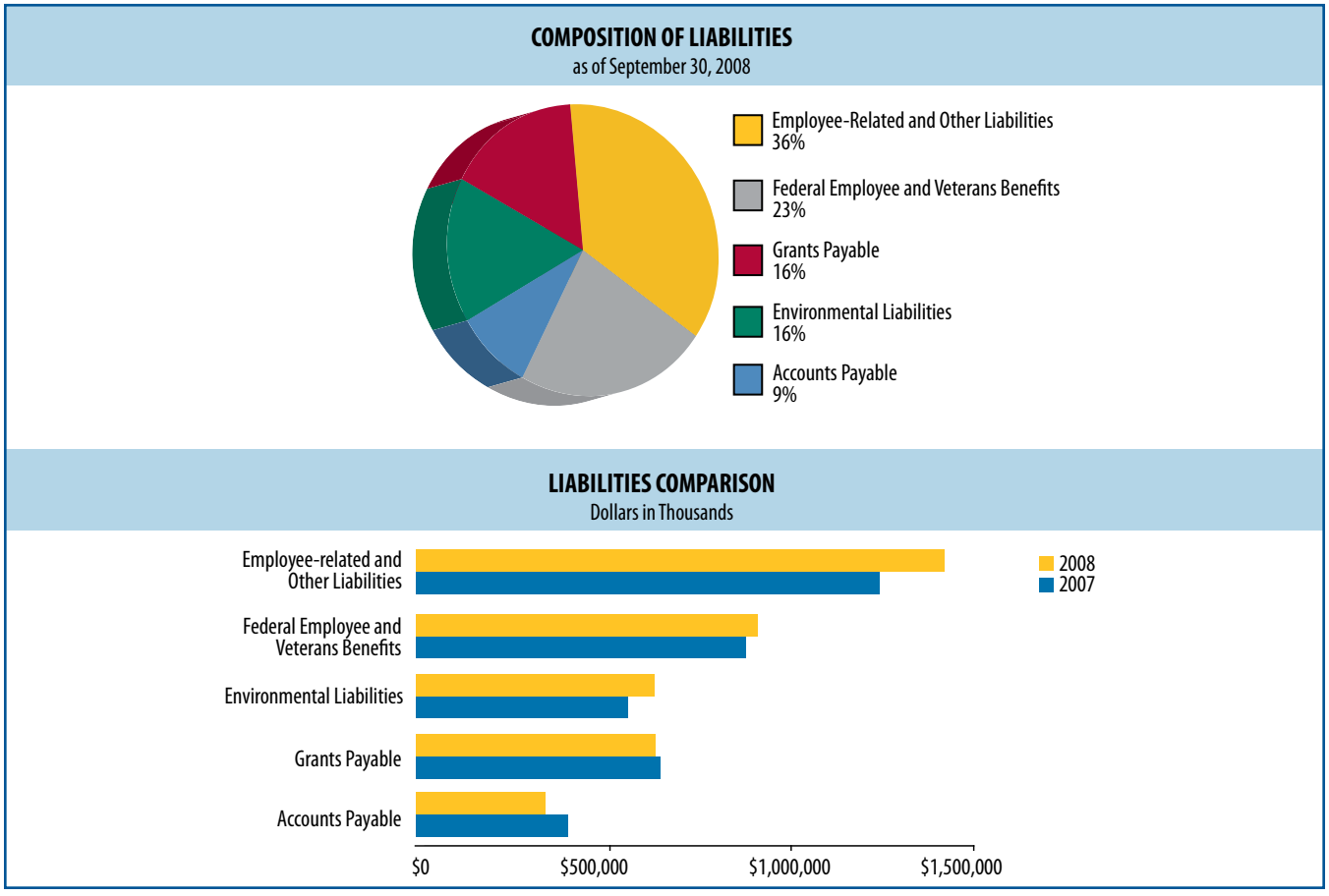
Liabilities

As of September 30, 2008, the FAA reported liabilities of $4.0 billion. *Liabilities* are probable and measurable future outflows of resources arising from past transactions or events. The *Composition of Liabilities* chart depicts the FAA's major categories of liabilities as a percentage of total liabilities.

The *Liabilities Comparison* chart presents comparisons of major liability balances between September 30, 2007 and September 30, 2008. Below is a discussion of the major categories.

At $1.4 billion, *Employee related and other liabilities* represent 36% of the FAA's total liabilities. These liabilities increased by $173.2 million and as of September 30, 2008, are comprised mainly of $114.5 million in Advances Received, $205.2 million in Federal employee's compensation act payable, $294.9 million in Accrued Payroll and Benefits, $472.9 million in Accrued Leave and Benefits, $109.4 million in legal claims liability and $61.7 million in Capital Lease Liability.

At $915.2 million, *Federal employee and veterans* benefits represent 23% of the FAA's current year liabilities, and consist of the FAA's expected liability for death, disability, and medical costs for approved workers' compensation cases, plus a component for incurred but not reported claims. The Department of Labor (DOL) calculates the liability for DOT, and DOT attributes a proportionate amount to the FAA based on actual workers' compensation payments to FAA employees over the preceding 4 years. This liability is updated an on annual basis at year end.



Environmental liabilities represent 16% of the FAA's total liabilities and were $637.8 million as of September 30, 2008, compared with $566.9 million a year earlier. Environmental liabilities include a component for remediation of known contaminated sites and the estimated environmental cost to decommission assets presently in service. The increase of $70.9 million is due primarily to the inclusion of the projected periodic costs of overhauling the equipment at the William H. Hughes Technical Center's combined water treatment plant.

The FAA's *grants payable* are estimated amounts incurred but not yet claimed by AIP grant recipients and represent 16% of liabilities. *Grants payable* decreased $11.7 million on a comparative basis. *Accounts payable* decreased $60.0 million and are amounts the FAA owes to other entities for unpaid goods and services.

Statement of Net Cost

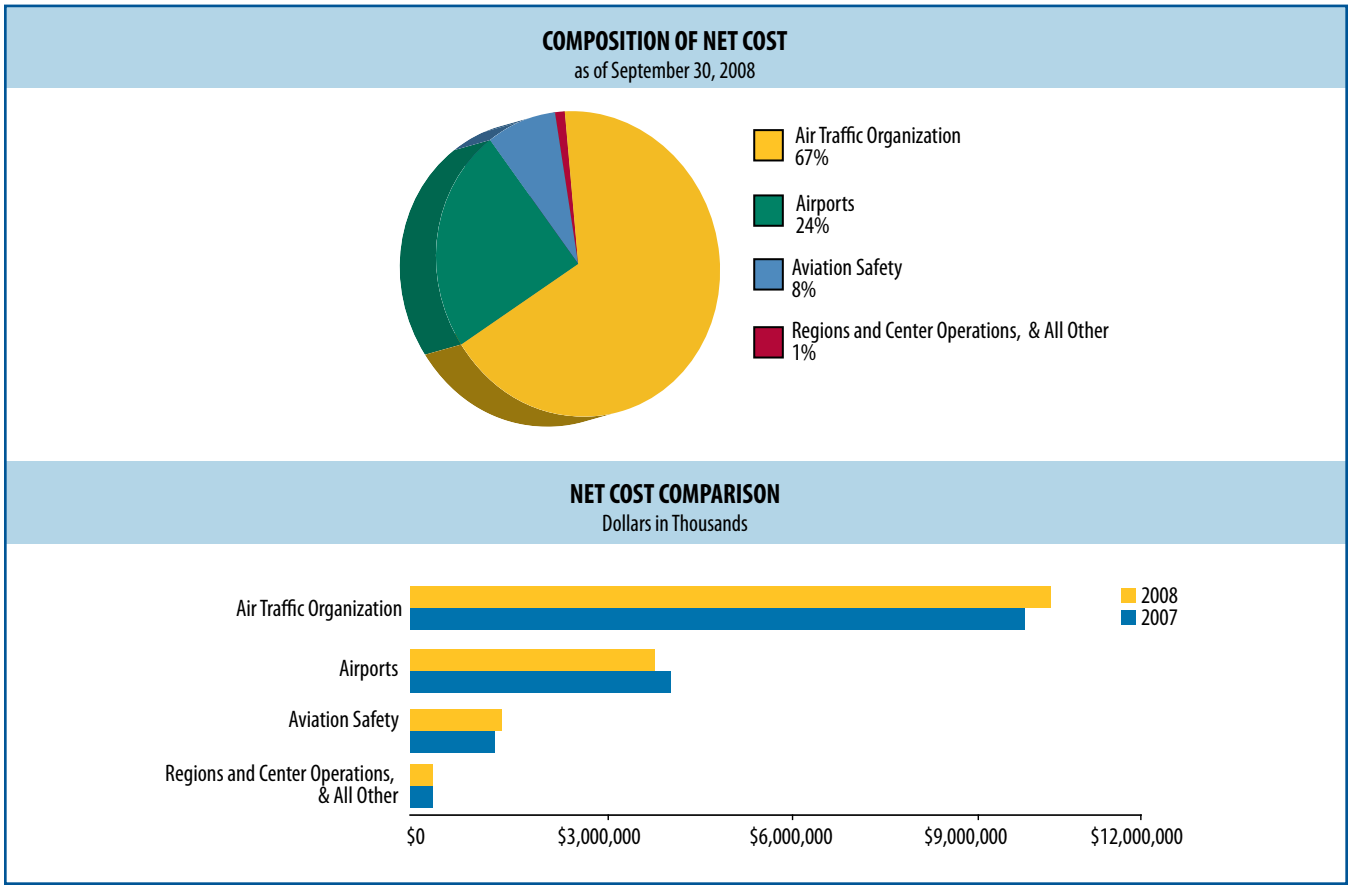
The Statement of Net Cost presents the cost of operating FAA programs. The gross expense less any earned revenue for each FAA program represents the net cost of specific program operations. The FAA has used its cost accounting system to prepare the annual Statement of Net Cost since FY 1999.

As of September 30, 2008, and September 30, 2007, the FAA's net costs were $15.5 billion and $14.8 billion, respectively. The *Composition of Net Cost* chart illustrates the distribution of costs among the FAA's lines of business.

The *Net Cost Comparison* chart compares September 30, 2007, and September 30, 2008 net costs.

With a net cost of $10.4 billion, the ATO is the FAA's largest line of business, comprising 67% of total net costs. ATO's net costs increased by $744.7 million, on a comparative basis, primarily from increases in costs related to expensed assets of $527.8 million, legal claims of $89.0 million and environmental clean-up and remediation of $77.3 million.

Airports is the FAA's second largest line of business with a net cost of $3.8 billion as of September 30, 2008, which is 24% of FAA's total net costs. Net costs decreased $170.0 million from the prior year and are composed mostly of Aviation Insurance Program grant disbursements.



The net cost of *Aviation Safety* represents 8% of FAA's total net costs, while *Region and Center Operations and All Other* comprise 1% of total net costs. The net costs of *Region and Center Operations* and *Aviation Safety* remained relatively constant compared to FY 2007.

Statement of Changes in Net Position

The *Statement of Changes in Net Position* presents those accounting items that caused the net position section of the balance sheet to change from the beginning to the end of the reporting period. Various financing sources increase net position. These financing sources include appropriations received and non-exchange revenue, such as excise taxes and imputed financing from costs absorbed on the FAA's behalf by other Federal agencies. The agency's net cost of operations and net transfers to other Federal agencies serve to reduce net position.

The FAA's cumulative results of operations for the period ending September 30, 2008, decreased $299.0 million, on a comparative basis, due primarily to a combination of increases in net cost of $717.7 million offset by increases in beginning balances of $29.3 million and financing sources of $389.4 million. Unexpended appropriations decreased $179.0 million primarily due to appropriations used of $2.5 billion from all eligible funds exceeding the current year's appropriation of $2.3 billion.

Statement of Budgetary Resources

This statement provides information on the budgetary resources available to the FAA as of September 30, 2008, and September 30, 2007, and the status of those budgetary resources.

Budget authority is the authority provided to the FAA by law to enter into obligations that will result in outlays of Federal funds. *Obligations incurred* result from an order placed, contract awarded, service received, or similar transaction that will require payments during the same or a future period. *Gross outlays* reflect the actual cash disbursed by Treasury for FAA obligations. The FAA reported total budget authority of $19.5 billion on September 30, 2008, compared to $19.7 billion on September 30, 2007. *Obligations incurred* increased $1.4 billion to $22.3 billion. *Gross outlays* increased from $20.8 billion to $22.0 billion.

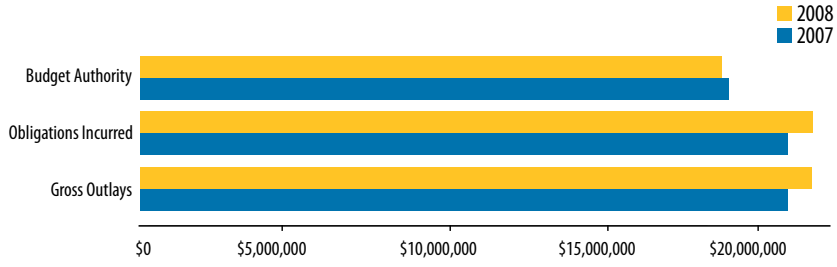
Stewardship Investments

Stewardship investments are substantial investments made by the FAA for the benefit of the nation, but do not result in physical ownership of assets by the FAA. When incurred, these amounts are treated as expenses in the Consolidated Statements of Net Cost. Our Required Supplementary Stewardship Information (RSSI) includes disclosure of stewardship investments over the past 5 years. These are disclosures of Airport Improvement Program grants by state/territory and research and development investments.

The distribution of total grants expense by state/territory has been relatively stable over the past 4 years. However, expenses began to increase in FY 2005 largely as a result of a significant increase in grant funding levels in FY 2001. Because these AIP projects are typically long-term, and the FAA recognizes the grants expense as the recipient accomplishes the improvement work, the substantial expansion of this program in FY 2001 is resulting in increased expenses in more recent years.

The FAA's research and development expenses decreased in FY 2008 primarily in the category of applied research. Some areas of focus this year included applying changes to wake separations during landings, predicting aircraft

STATEMENT OF BUDGETARY RESOURCES COMPARISONS
Dollars in Thousands

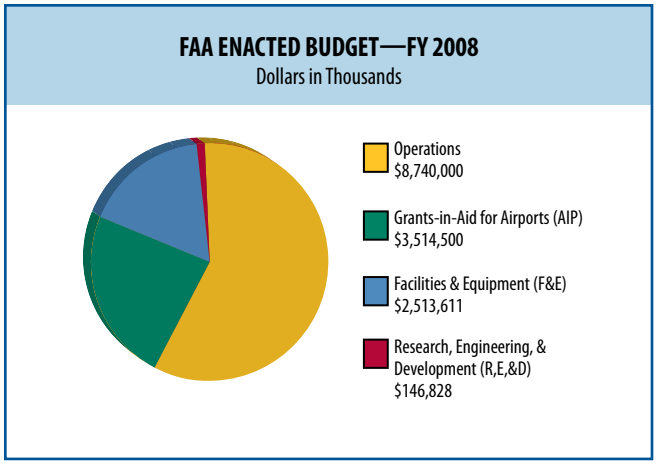


environmental performance scenarios to help monitor and improve aviation's impact on the environment, and testing composite fuselage materials for more effective inflight fire prevention.

Limitations of the Financial Statements

The FAA has prepared its financial statements to report its financial position and results of operations, pursuant to the requirements of the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994.

While the FAA statements have been prepared from its books and records in accordance with the formats prescribed by 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.



These statements should be read with the understanding that they are for a component of the U.S. Government, a sovereign entity. Liabilities not covered by budgetary resources cannot be liquidated without the enactment of an appropriation by Congress, and payment of all liabilities, other than for contracts, can be abrogated by the Federal Government.

Budgetary Integrity: FAA Resources and How They Are Used

For FY 2008, the Airport and Airway Trust Fund (AATF) provided approximately 84.3% of the FAA's enacted budget. Created by the Airport and Airway Revenue Act of 1970, the AATF derives its monies from excise taxes and earned interest. It provides a stable source of revenue to finance investments in the airport and airway system. To the extent funds are available, the fund also covers the operating costs of the airway system. Aviation excise taxes, which include taxes on domestic passenger tickets, freight waybills, general and commercial aviation fuel, and international departures and arrivals, are deposited into the fund. The Department of the Treasury maintains the fund and invests its monies in Government securities, and interest earned is deposited into the fund. Monies are withdrawn as needed and transferred into each FAA appropriation to cover obligations.

The FAA is financed through annual and multiyear appropriations authorized by Congress. The FY 2008 enacted budget of $14.915 billion was 2.6% higher than the FY 2007 enacted level. The Combined Statement of Budgetary Resources reflects funding enacted by the Consolidated Appropriations Act of 2008 (PL 110-161).

The FAA has four appropriations. The largest, Operations, is funded by both the Treasury's General Fund and the AATF. In FY 2008, the AATF provided over 73% of the revenue for Operations. The AATF is the sole revenue source for the FAA's three capital investment appropriations:

- Grants-in-Aid for Airports (AIP)
- Facilities and Equipment (F&E)
- Research, Engineering, and Development (R,E,&D)

Operations. The Operations appropriation finances operating costs, maintenance, communications, and logistical support for the air traffic control and air navigation systems. It funds the salaries and costs associated with carrying out the FAA's safety inspection and regulatory responsibilities as well. The account also covers administrative and managerial costs for the FAA's international, medical, engineering, and development programs and for policy oversight and overall management functions. The FY 2008 Operations

appropriation was $8.74 billion, approximately 4.4% more than in FY 2007, an increase primarily attributable to payroll and inflation costs.

AIP. The Secretary of Transportation is authorized to award grants for planning and development to maintain a safe and efficient nationwide system of public airports. These grants fund approximately one-third of all capital development at the nation's public airports. Grants are issued to maintain and enhance airport safety, preserve existing infrastructure, and expand capacity and efficiency throughout the system. The program also supports noise compatibility and planning, the military airport program, reliever airports, and airport program administration. FY 2008 funding for AIP was just over $3.5 billion—the same as the FY 2007 level. Similarly, funding for the Small Community Air Service program was unchanged from the FY 2007 level of $10 million.

F&E. The programs funded by the F&E appropriation are the FAA's principal means of modernizing and improving air traffic control and airway facilities, particularly through programs supporting NextGen. The account also finances major capital investments required by other agency programs as well as other improvements to enhance the safety and capacity of the national airspace system. F&E was funded at $2.5 billion in FY 2008, approximately the same level as in FY 2007. Major systems contributing to the NextGen effort included ADS–B, SWIM, En Route Automation Modernization, the Wide-Area Augmentation System, ASDE–X, NextGen Network Enabled Weather, the Next Generation VHF Air/Ground Communications System, and National Airspace System Voice Switch.

R,E,&D. The FY 2008 appropriation for R,E,&D was nearly $147 million—12.7% more than in FY 2007. R,E,&D funds were applied to research programs to improve the safety and effectiveness of the air traffic control system. In FY 2008, programs focused on the environment and energy, weather initiatives, JPDO activities, human factors, and aircraft safety. The increase over FY 2007 was largely due to expansion of programs in Advanced Materials/Structural Safety, Aviation Safety Risk Analysis/System Safety Management, and Wake Turbulence.

In 1958, U.S domestic passenger and cargo planes used 1.3 billion gallons of fuel. In 2008, the domestic passenger and cargo fleet is expected to use 13.7 billion gallons.

Credit: Corbis

PERFORMANCE RESULTS

SAFETY

GOAL: Achieve the lowest possible accident rate and constantly improve safety.

This remains one of the safest periods in aviation history for both commercial and general aviation. Over the past 5 years, nearly 3.6 billion airline passengers reached their destination safely. As the stewards of aviation safety in the United States, the FAA and its industry partners have built a system that operates some 34,000 scheduled commercial flights daily and has reduced the risks of flying to all-time lows.

FY 2008 **SAFETY** PERFORMANCE MEASURES AND RESULTS

Performance Measure	FY 2008 Target	FY 2008 Results	FY 2008 Status	FY 2009 Target[1]
Commercial Air Carrier Fatality Rate Cut the rate of fatalities per 100 million persons on board in half by FY 2025.	8.7	0.4[2]	●	8.4
General Aviation Fatal Accidents By FY 2009, reduce the number of general aviation and nonscheduled Part 135 fatal accidents from the 1996–1998 average of 385 per year to no more than 319 accidents per year. This measure will be converted from a number to a rate in FY 2009. The targets for FY 2009–2012 are under development.	325	299[2]	●	319
Alaska Accidents[3] By FY 2009, reduce accidents in Alaska for general aviation and all Part 135 operations from the 2000–2002 average of 130 accidents per year to no more than 99 accidents per year. This measure will be converted from a number to a rate after FY 2009. The targets for FY 2010–2012 are under development.	104	108[2]	▲	99
Runway Incursions By FY 2010, limit Category A and B (most serious) runway incursions to a rate of no more than 0.450 per million operations, and maintain or improve through FY 2012.	0.509	0.428[4]	●	0.472
Commercial Space Launch Accidents No fatalities, serious injuries, or significant property damage to the uninvolved public during licensed or permitted space launch and reentry activities.	0	0	●	0
Operational Errors Limit Category A and B (most serious) operational errors to a rate of no more than 1.95 per million activities by FY 2012.	2.15	2.31[4]	▲	2.10
Safety Management System By FY 2010, implement SMS in the Air Traffic Organization, Office of Aviation Safety, and Office of Airports. By FY 2012, implement SMS policy in all appropriate FAA organizations.	6	6	●	7

[1] FY 2009 targets are from the FY 2008–2012 *Flight Plan*.
[2] Preliminary estimate until March 2010.
[3] This measure includes both fatal and non-fatal accidents.
[4] Preliminary estimate until January 2009.
For information on data sources and estimating and finalization of results, see Completeness and Reliability of Performance Data.
● Goal Achieved
▲ Goal Not Achieved

COMMERCIAL AIR CARRIER FATALITY RATE

COMMERCIAL AIR CARRIER FATALITY RATE: FY 2008 TARGET AND RESULT		
TARGET		In FY 2008, the commercial air carrier fatality rate will not exceed 8.7 fatalities per 100 million people on board.
RESULT	●	0.4 *(preliminary estimate)* We met our target with a result of 0.4 fatalities per 100 million persons on board. *Note: This measure is new for FY 2008—no trend data are available.*

In FY 2008, the FAA introduced a new safety performance metric and goal for commercial air carriers. The metric measures fatalities per 100 million persons on board. The new metric is more relevant than the previous one because it measures the individual risk to the flying public rather than for each departure. Now all fatalities, including passengers, crewmembers, ramp workers, and ground fatalities, are counted equally. The goal is a 50% reduction in fatalities by 2025. To meet this goal, the FAA will continue to work in partnership with industry.

The FAA has met the target for the commercial air carrier fatalities per 100 million persons onboard. We achieved a rate of 0.4 fatalities per 100 million persons.

The U.S. aviation system has beaten that mark several times in recent years, making this the safest era, by far, in history. Yet the adopted goal remains a challenge. At 4.4, the target essentially means that a major accident in a small aircraft (typically 30 to 32 passenger seats) will assure failure in the out years. Unlike highway safety, where the scale of the numbers provides some statistical stability, aviation numbers involve years with few fatalities, interspersed with spikes in the wake of a singular catastrophic accident. Consequently, the FAA established interim goals, such as the goal of 8.7 for FY 2008, as recognition of the volatility in aviation measures, as we work our way to a sustained, low fatality rate.

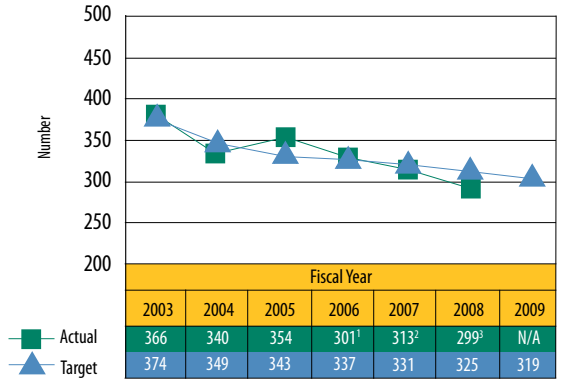
To read about FAA actions to strengthen risk-based oversight systems for air carriers, external repair facilities, and aircraft manufacturers, see MANAGEMENT CHALLENGE: Continuing to Make a Safe Aviation System Safer on page 31.

GENERAL AVIATION FATAL ACCIDENTS

GENERAL AVIATION FATAL ACCIDENTS: FY 2008 TARGET AND RESULT		
TARGET		Reduce the number of general aviation and nonscheduled Part 135 fatal accidents to 325.
RESULT	●	299 *(preliminary estimate)* the FAA met this goal, reducing the number of general aviation fatal accidents to 299.

The FAA has met the target this year for reducing general aviation (GA) fatal accidents. Since the FAA began using GA fatal accidents as a performance target 7 years ago, the target has been exceeded just once. In FY 2008, GA fatal accidents once again decreased from the previous year. The FAA and industry's collaborative safety initiatives continue to drive the GA fatal accident rate lower. We have consistently met our GA safety goals and successfully remained under our ceiling of 325 fatal accidents for FY 2008. The end of April 2008 marked a 3-year period that was the safest ever recorded in the history of GA. During these 3 years, the FAA continued its emphasis on enhancing GA safety and directed energies to creating an improved measure. The new safety metric tracks the GA fatal accident rate rather than the number of fatal accidents. The FAA has baselines for the new GA safety metric and goal, which will be implemented in FY 2009. The previous measure was not rate-based and did not reflect fleet activity levels and their relationship to the number of fatal accidents. The new performance measure is a true rate-based metric and tracks changes in the fatal accident rate for a fixed

NUMBER OF GENERAL AVIATION FATAL ACCIDENTS



[1] Revised from preliminary estimate of 299.
[2] Preliminary estimate until March 2009. Revised from original estimate of 314.
[3] Preliminary estimate until March 2010.

number of flight hours (per 100,000 flight hours). Our goal is to reduce GA fatal accidents over the next 10 years to no more one accident per 100,000 flight hours.

ALASKA ACCIDENTS

ALASKA ACCIDENTS: FY 2008 TARGET AND RESULT		
TARGET		Reduce accidents in Alaska for general aviation and all Part 135 operations to no more than 104 per year.
RESULT	▲	108 *(preliminary estimate)* We did not meet our goal for reducing Alaska accidents, resulting in 108 accidents in FY 2008.

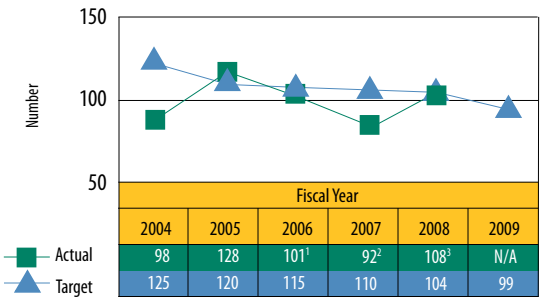
We did not meet our performance target of 104 Alaska Accidents. In 2008, there were 108 accidents, 4 over our target. Of these, 10 were fatal accidents (3 were Part 135). Sixty-nine of the accidents were attributed to takeoff or landing. In response, during FY 2008, the FAA continued its efforts and added new emphasis to several other initiatives.

The Medallion (Aviation Safety Action Program)

In FY 2008, the FAA continued to work jointly with the Alaska aviation community through a number of organizations and safety programs such as the Medallion Foundation, Alaska Air Carriers Association, Alaska Airman's Association, the FAA Safety Team, and Circle of Safety. This joint industry-FAA cooperative effort supports the *Flight Plan* strategy for sharing safety information.

In July, the Medallion Foundation launched the first in the world PA-18 simulator. This simulator, developed under a NASA grant, was built to reduce aviation accidents for the most common aircraft in Alaska. The Medallion Foundation is working with the FAA to obtain approval for many of the scenarios that will be available on the device. Eventually the scenarios will include all phases of flight, but initially will target landing and take off accidents with emphasis on airports. The scenarios will focus on improving flight instruction and pilot skills. The motion base for this simulator provides pitch, roll, and heave. Visuals are provided by three 46-inch flat screens to give 180 degrees of view, allowing the pilot to fly traffic patterns. Pilots who use these devices can simulate deteriorating weather and other scenarios that allow them to practice their decision-making skills. Working jointly with the FAA Certified Flight Instructor/ Designated Pilot Examiner (CFI/DPE) initiative, this program will help the aviation community raise the bar for safety in Alaska.

NUMBER OF ALASKA ACCIDENTS
Fatal and Nonfatal Accidents



[1] Revised from preliminary estimate of 102.
[2] Preliminary estimate until March 2009.
[3] Preliminary estimate until March 2010.

Improving Flight Instruction Initiative

The FAA is assisting CFIs to form groups in Anchorage and the Matanuska-Susitna Valley where more than half of the pilots reside. The groups convey national guidance as represented in the Flight Instructor Refresher Clinic, present Alaskan instructional accident experience, and promote dialog between CFIs and DPEs that identifies best training practices.

E-mails and post cards were sent in March 2008 to every pilot with a current medical certificate in Alaska. The communication emphasized the Alaska accident data and encouraged flight instruction. This message continues to be delivered via tri-fold pamphlets at local events.

The FAA and Medallion executed a "See your CFI before you fly" media blitz that began broadcasting on radio and television in April and May. This effort targets the historical rise of accidents each year in spring after months of not flying. It encourages pilots to work with their CFIs in a Medallion Foundation training device at no cost and/or in an aircraft.

Capstone

In addition to these training and education efforts, the FAA is using new technology in Alaska, such as the satellite-based Capstone navigation and terrain awareness avionics. The goal is for 4,000 aircraft owners

to use these loans to self-equip their aircraft with Capstone equipment, both private and commercial. We are also installing 221 additional weather cameras throughout the state. These cameras provide a real-time depiction of weather events throughout the state. The Alaskan pilot now has go/no go information that was previously unavailable.

Alaska's skyways are equivalent to the highway and road infrastructure found throughout the continental United States, making the use of general aviation aircraft essential to everyday life. This includes, but is not limited to, enabling children to attend school, traveling to medical appointments, and supplying communities with groceries, fuel, and mail. Therefore, the FAA understands and works to modernize flight service in Alaska.

RUNWAY INCURSIONS

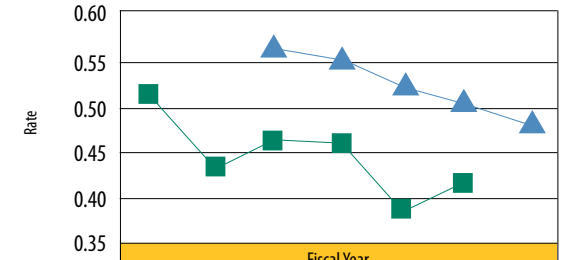
RUNWAY INCURSIONS: FY 2008 TARGET AND RESULT		
TARGET		Limit Category A and B (most serious) runway incursions to a rate of no more than 0.509 per million operations.
RESULT	●	0.428 *(preliminary estimate)* We met our goal, limiting runway incursions to a rate of 0.428 per million operations.

The FAA continued efforts to meet its FY 2010 performance target of limiting Category A and B runway incursions to a rate of no more than 0.450 per million operations, and to maintain or improve through 2012. This fiscal year we achieved a rate of 0.428 (preliminary estimate).

A runway incursion is any occurrence at an airfield involving the incorrect presence of an aircraft, vehicle, or person on the protected area of a surface designated for the landing and takeoff of aircraft. Reducing the number of runway incursions lessens the probability of accidents that potentially involve fatalities, injuries, and significant property damage.

In August 2007, the FAA and industry leaders identified short-term steps to improve runway safety. These "call to action" initiatives focused on improved procedures, increased training for airport and airline personnel, and enhanced airport markings, lighting, and signage.

RUNWAY INCURSION RATE
Per Million Operations
Highest Severity—Category A & B



	Fiscal Year	2003	2004	2005	2006	2007	2008	2009
Actual		0.510	0.444	0.460	0.507	0.393	0.428[1]	N/A
Target		N/A	N/A	0.557	0.551	0.530	0.509	0.472

[1] Preliminary estimate until January 2009.

In FY 2008, the FAA pursued a number of these initiatives to reduce runway incursions. The FAA has completed runway safety reviews at 20 initial "call to action" airports based on runway incursion data and wrong runway departure data. This has resulted in more than 100 short-term and numerous mid- and long-term initiatives. Most of the short-term initiatives identified have been completed and the longer-term initiatives are well underway.

To read more about FAA actions to improve runway safety, see MANAGEMENT CHALLENGE: Continuing to Make a Safe Aviation System Safer on page 31.

COMMERCIAL SPACE LAUNCH ACCIDENTS

COMMERCIAL SPACE LAUNCH ACCIDENTS: FY 2008 TARGET AND RESULT		
TARGET		No fatalities, serious injuries, or significant property damage to the uninvolved public during licensed or permitted space launch and reentry activities.
RESULT	●	0 We achieved this goal.

The U.S. commercial space launch industry has conducted 209 launches since 1989. In FY 2008, a total of 16 launches occurred. Of these, 11 were licensed launches and 5 were experimental permits for suborbital reusable launch vehicles. None of these launches resulted in a public casualty or injury.

These achievements demonstrate a robust commitment to safety by the U.S. space launch industry and the FAA. The licensing process is a major reason for the

FAA's excellent commercial space transportation safety record. The agency currently has 18 active licenses: 12 for expendable launch vehicles, 5 for launch site operators, and 1 experimental permit. FY 2008 was the second year that the FAA issued experimental permits authorizing the launch of suborbital reusable launch vehicles.

Safety inspections also contribute significantly to our ability to verify that licensees and permittees remain in regulatory compliance and continue to operate safely. We perform safety inspections of operators that include activities at launch and reentry sites, and at manufacturing facilities where activities occur that could affect the safety of a launch or reentry operation. Further, we partner with other Government agencies such as NASA and the Departments of State and Defense to ensure that licensed operations operate in accordance with U.S. national security and foreign policy interests.

OPERATIONAL ERRORS

OPERATIONAL ERRORS: FY 2008 TARGET AND RESULT		
TARGET	Limit Category A and B (most serious) operational errors to a rate of no more than 2.15 per million activities.	
RESULT	▲	2.31 *(preliminary estimate)* We did not meet this goal, reaching an operational errors rate of 2.31 per million activities. *Note: This measure was redefined in FY 2008—no trend data are available.*

One of the fundamental principles of aviation safety is separation—the need to maintain a safe distance from other aircraft, terrain, obstructions, and restricted airspace. Air traffic controllers employ rules and procedures that define separation standards for this environment. An operational error (OE) occurs when controllers fail to apply or follow the procedures that enforce separation and allow aircraft to end up too close to each other or to an obstruction. As traffic continues to increase, reducing the risk of operational errors remains one of the FAA's top priorities.

In FY 2008, the FAA revised the way it measures operational errors. The new separation conformance measure of proximity provides a consistent comparison of events. However, the conformity measure needs further refinement for enhanced utility. Several types of events currently fall outside the conformity index, such as errors involving military flights of two (e.g., a lead aircraft with another flying at its wing) and errors involving dependent ILS approaches. In FY 2009, we will add greater definition to operational error categories that we will track. These categories will give us a better understanding of which events are involved in the occurrence of operational errors. Also in FY 2009, the FAA will continue to develop an index to describe the central tendency and variance of losses of separation. The index will allow the FAA to measure performance over a period of time, similar to a stock index. This new measure will provide indicators that reflect both the risk of collision and the degree to which separation standards were maintained.

The FAA continues to focus on the development and implementation of an automated software prototype that will depict Air Traffic Control separation conformance in the terminal environment nationwide. The TARP will achieve the following:

- apply separation logic to targets,
- identify where applicable separation standards are not being maintained, and
- highlight incidents needing further investigation.

To read more about FAA actions to address controller operational errors, see MANAGEMENT CHALLENGE: Continuing to Make a Safe Aviation System Safer on page 31.

SAFETY MANAGEMENT SYSTEM

SAFETY MANAGEMENT SYSTEM : FY 2008 TARGET AND RESULT		
TARGET	Apply safety risk management to at least six significant changes in the NAS.	
RESULT	●	6 We met our goal by developing six significant changes in the NAS.

Safety Risk Management (SRM) is a systematic, explicit, and comprehensive approach for managing safety risk at all levels and throughout the entire scope of an operation and lifecycle of a system. It requires the disciplined assessment and management of safety risk. The SRM process ensures that safety-related changes are documented; risk is assessed and analyzed; unacceptable risk is mitigated; hazards are identified and tracked

to resolution; the effectiveness of the risk mitigation strategies is assessed; and the performance of the change is monitored throughout its lifecycle. Applying SRM prior to implementing changes to the NAS will ensure that unacceptable risk is not introduced. It will also improve the documentation of the processes used to ensure the safety of the NAS.

In FY 2008, we developed six important Safety Risk Management Documents focusing on unmanned Aerial Systems (UASs) in class "D" airspace, detailed taxi instructions, takeoff clearance, runway-to-runway crossing, explicit crossing, and end around taxiway. These actions help reduce the risk of runway incursions.

CAPACITY

GOAL: Work with local governments and airspace users to provide increased capacity in the U.S. airspace system

The air transportation system currently handles approximately 760 million passengers each year. We expect this number to reach one billion by 2016, and forecasts indicate increases in demand ranging from a factor of two to three by 2025.

In FY 2008, the demands on our NAS were never greater and the challenge to increase capacity intensified. The overall growth in numbers of aircraft, the diversity in the performance and type of aircraft operating (e.g., regional jets), and the increasing growth of low-cost carriers further exacerbated an already tenuous NAS. Along with these factors, adverse weather conditions were a major contributing factor to the increase in airport delays this year.

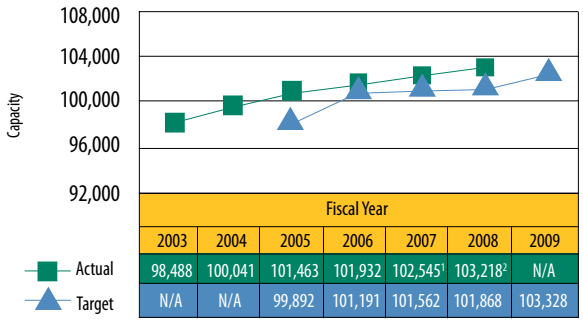
AVERAGE DAILY AIRPORT CAPACITY (35 OEP AIRPORTS)

AVERAGE DAILY AIRPORT CAPACITY (35 OEP AIRPORTS): FY 2008 TARGET AND RESULT		
TARGET		Achieve an average daily airport capacity for the 35 OEP airports of 101,868 arrivals and departures per day.
RESULT	●	103,218 *(preliminary estimate)* We achieved an average daily airport capacity of 103,218 for the 35 OEP airports.

OEP airports are commercial U.S. airports with significant activity. These airports serve major metropolitan areas and also serve as hubs for airline operations. More than 70% of passengers move through these airports. Delays at the 35 OEP airports have a ripple effect to other locations. For example, when delay trends at Miami International Airport (MIA) for the years 2000–2005 were analyzed, it was found that delay increases were not correlated with increases in traffic at MIA or at Miami Center, nor were they related to Florida weather. Rather, they were highly correlated with delays at the other OEP 35 airports. Therefore, improvements at the most congested airports will have a positive impact on other airports as well.

In FY 2008, we met our target, achieving an average daily airport capacity of 103,218 for the 35 OEP airports. Our top accomplishments for FY 2008 included the following:

AVERAGE DAILY AIRPORT CAPACITY
Arrivals and Departures at the 35 OEP Airports



Fiscal Year	2003	2004	2005	2006	2007	2008	2009
Actual	98,488	100,041	101,463	101,932	102,545[1]	103,218[2]	N/A
Target	N/A	N/A	99,892	101,191	101,562	101,868	103,328

[1] Revised from original preliminary estimate of 102,539.
[2] Preliminary estimate until January 2009.

FY 2008 **CAPACITY** PERFORMANCE MEASURES AND RESULTS

Performance Measure	FY 2008 Target	FY 2008 Results	FY 2008 Status	FY 2009 Target[1]
Average Daily Airport Capacity (35 OEP airports) Achieve an average daily airport capacity for the 35 OEP airports of 104,338 arrivals and departures per day by FY 2011 and maintain through FY 2012.	101,868	103,218[2]	●	103,328
Average Daily Airport Capacity (7 metropolitan areas) Achieve an average daily airport capacity for the seven major metropolitan areas of 39,484 arrivals and departures per day by FY 2009 and maintain through FY 2012.	33,676	35,988[2]	●	39,484
Annual Service Volume Commission nine new runway/taxiway projects, increasing the annual service volume of the 35 OEP airports by at least 1% annually, measured as a 5-year moving average, through FY 2012.	1.00% (1 taxiway project)	1.06% (1 taxiway project)	●	1.00% (3 runway projects)
Adjusted Operational Availability (35 OEP airports) Sustain adjusted operational availability of 99.7 percent for the reportable facilities that support the 35 OEP airports through FY 2012.	99.70%	99.82%[2]	●	99.70%
NAS On-Time Arrivals Achieve a NAS on-time arrival rate of 88.76 percent at the 35 OEP airports by FY 2011 and maintain through FY 2012.	88.00%	87.29%[2]	▲	88.22%
Noise Exposure Reduce the number of people exposed to significant noise by 4% each year through FY 2012, as measured by a 3-year moving average, from the 3-year average for calendar years 2000–2002.	–12.00%	–38.00%[3]	●	–16.00%
Aviation Fuel Efficiency Improve aviation fuel efficiency by another 1% over the FY 2007 level (for a total of 6%) through FY 2008, and 1% each subsequent year through FY 2012 to 10%, as measured by a 3-year moving average of the fuel burned per revenue mile flown, from the 3-year average for calendar years 2000–2002.	–6.00%	–10.17%	●	–7.00%

[1] FY 2009 targets are from the FY 2008–2012 *Flight Plan*.
[2] Preliminary estimate until January 2009.
[3] Projection from trends until May 2009.
For information on data sources and estimating and finalization of results, see Completeness and Reliability of Performance Data.
● Goal Achieved
▲ Goal Not Achieved

- **Release of Special Use Airspace.** The U.S. military worked with the FAA to make some of its airspace available for civilian airliners over the Thanksgiving and Christmas holidays in 2007 and the Memorial Day and Fourth of July weekends this summer. The military opened up airspace off the East Coast, which helped relieve the most congested regions—from Maine to Florida. The use of the military airspace was so successful that the FAA is working with the Department of Defense (DOD) to ensure military airspace will be available for civilian use during future holidays.

- **Traffic Flow Management and Route Initiatives.** Two successful 2007 initiatives, Airspace Flow Program (AFP) and Adaptive Compression Tool, were continued in 2008 to reduce delays, particularly during the summer months, when aviation is most affected by weather. AFPs manage traffic adjustments to changing weather patterns and act like ground delay programs for a piece of airspace. We expanded the use of AFPs and estimate that airlines saved about $68 million last summer. In addition, the continued use of the Adaptive Compression Tool had a positive effect on delays. The tool identifies unused arrival slots at

airports and immediately moves other flights into those slots. The use of the Adaptive Compression Tool saved airlines $27 million and more than one million delay minutes in its first year of operation.

In addition, the FAA redesigned the Western Atlantic Route system to introduce 50 nautical mile separation (down from 90) between properly equipped aircraft. This redesign allowed pilots flying in the western Atlantic a greater choice of routes and available altitudes.

To read more about FAA actions to relieve congestion and delays, see MANAGEMENT CHALLENGE: Reducing Congestion in America's Transportation System on page 28.

AVERAGE DAILY AIRPORT CAPACITY (7 METROPOLITAN AREAS)

AVERAGE DAILY AIRPORT CAPACITY (7 METROPOLITAN AREAS): FY 2008 TARGET AND RESULT		
TARGET	Achieve an average daily airport capacity for the seven major metropolitan areas of 33,676 arrivals and departures per day.	
RESULT	●	35,988 *(preliminary estimate)* We achieved an average daily airport capacity of 35,988 for the 7 metropolitan areas. *Note: This measure was redefined in FY 2008—no trend data are available.*

Growth in air travel has generally been accomplished by increasing the number of flights. Measuring the growth of airport capacity indicates the limit at which increased service can be accommodated without creating delay. Every year after thorough data analysis, the FAA identifies the metropolitan areas that will most affect total system aviation delays. Airport improvements, measured by increases in capacity at these airports, are likely to contribute the most to reduce the causes of system delay. In FY 2008, we focused on New York, Philadelphia, Charlotte, Las Vegas, Los Angeles, San Francisco, and Chicago metropolitan areas.

To read more about FAA actions to relieve congestion and delays, see MANAGEMENT CHALLENGE: Reducing Congestion in America's Transportation System on page 28.

ANNUAL SERVICE VOLUME

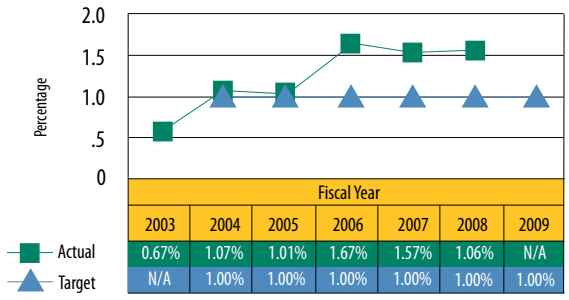
ANNUAL SERVICE VOLUME: FY 2008 TARGET AND RESULT		
TARGET	Complete one taxiway project and increase the ASV of the 35 OEP airports by at least 1%.	
RESULT	●	1.06% and one taxiway project We met our FY 2008 target, completing one taxiway project with a 1.06% increase in ASV.

The ASV measure is intended to estimate and track the increase in airport capacity at the 35 OEP airports. This measure is calculated as a 5-year moving average and estimates the benefit, in terms of additional aircraft operations, from runway construction projects. Runway construction projects include new runways, runway extensions, and airfield reconfigurations. Aircraft operations include air carrier, commuter, air taxi, general aviation, and military aircraft.

In June 2008, a new center taxiway was opened at Los Angeles International Airport and in September, Chicago O'Hare commissioned a 2,856-foot runway extension. Three additional runways will open at Chicago O'Hare, Washington Dulles, and Seattle-Tacoma in November 2008. With these three projects, the agency and local communities will deliver to the NAS the potential to accommodate an additional 245,000 airport operations per year.

To read more about FAA actions to relieve congestion and delays see, MANAGEMENT CHALLENGE: Reducing Congestion in America's Transportation System on page 28.

ANNUAL SERVICE VOLUME
Percentage Increase per Year



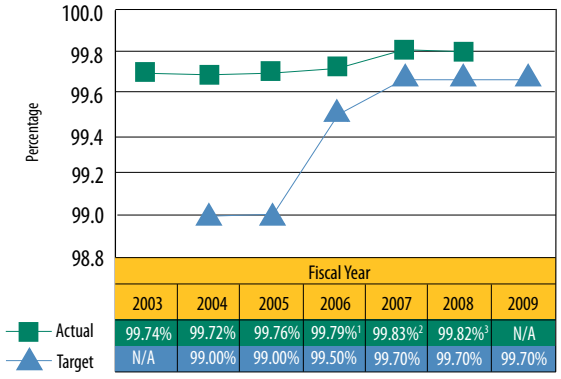
ADJUSTED OPERATIONAL AVAILABILITY

ADJUSTED OPERATIONAL AVAILABILITY: FY 2008 TARGET AND RESULT	
TARGET	Sustain adjusted operational availability at 99.70% for the reportable facilities that support the 35 OEP airports.
RESULT	99.82% *(preliminary estimate)* We met our goal, achieving a 99.82% for sustaining operational availability.

The equipment necessary to provide service directly affects the NAS performance. Loss of radar or communications equipment will affect the speed and number of aircraft that can be handled where that loss occurs. The ability of the NAS to continually provide guidance is crucial and affects both safety and capacity.

We exceeded our FY 2008 goal for sustaining adjusted operational availability at 99.70%, achieving a target result of 99.82% (preliminary estimate). Most of the unscheduled downtime for the fiscal year was due to equipment and power outages.

ADJUSTED OPERATIONAL AVAILABILITY
Percentage of Service Hours for Facilities Supporting the 35 OEP Airports



	2003	2004	2005	2006	2007	2008	2009
Actual	99.74%	99.72%	99.76%	99.79%[1]	99.83%[2]	99.82%[3]	N/A
Target	N/A	99.00%	99.00%	99.50%	99.70%	99.70%	99.70%

[1] Revised from preliminary estimate of 99.78%.
[2] Revised from preliminary estimate of 99.82%.
[3] Preliminary estimate until January 2009.

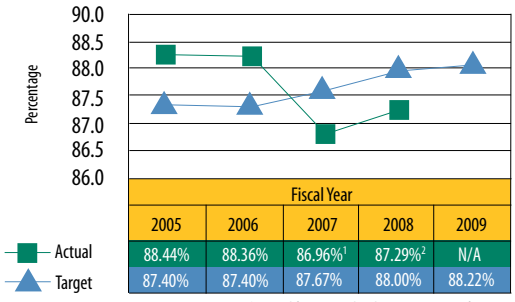
NAS ON-TIME ARRIVALS

NAS ON-TIME ARRIVALS: FY 2008 TARGET AND RESULT	
TARGET	Achieve a NAS On-Time Arrival rate of 88.00% at the 35 OEP airports.
RESULT	87.29% *(preliminary estimate)* We did not meet this goal, achieving a NAS On-Time Arrival rate of 87.29%.

Reducing delays is one of the biggest challenges facing the FAA. Commercial airline passenger delays in the United States amount to approximately $10 billion in costs each year. Increased traffic and congestion concentrated at several major airports, particularly in the New York metropolitan area, exacerbate the problem. Although a reduction in traffic of about 10% is expected during fall 2008 as airlines cut schedules due to high fuel prices, the large hub airports will probably not see significant delay reduction, because their schedules are not likely to be reduced. In addition to increases in air traffic, adverse weather conditions are a major contributing factor in airport delays. Approximately 70% of flight delays are caused by weather.

We did not achieve our FY 2008 NAS On-Time Arrivals performance target. Adverse weather conditions played a significant part in airport delays. In the first 6 months of FY 2008, the percentage of operations conducted in severe weather increased almost 25% compared to the same time period in FY 2007. Over 20% of operations at Boston, Newark, Philadelphia, and Chicago were conducted during moderate to severe weather conditions. Traffic management initiatives, such as ground delay programs and airspace flow programs, were used to

NAS ON-TIME ARRIVALS
Percentage of Flights No More Than 15 Minutes Late



	2005	2006	2007	2008	2009
Actual	88.44%	88.36%	86.96%[1]	87.29%[2]	N/A
Target	87.40%	87.40%	87.67%	88.00%	88.22%

[1] Revised from original preliminary estimate of 86.32%.
[2] Preliminary estimate until January 2009.

combat the effects of thunderstorms and maximize system efficiency as much as possible.

To help increase on-time arrival rates in the future, the FAA will continue to evaluate new tools and technologies to improve arrival times. These include greater collaboration with stakeholders (commercial airlines, business aviation, general aviation, military, OMB, and Congress), evaluation of separation standards, implementation of improved weather information tools, and airspace redesign where beneficial. Airspace redesign is one of the key components in optimizing U.S. airspace and allowing for increased capacity. Efficient airspace operations will require redesigning routes and changing the size and shape of airspace. This increased flexibility will help address volume, congestion, and weather in en route airspace.

The FAA anticipates that meeting the target of 88.22% in FY 2009 will be a challenge. We will continue to work at reducing delays and meeting the anticipated demand for air travel. Implementation of NextGen is the long-term solution to increasing capacity of the NAS.

To read more about FAA actions to relieve congestion and delays, see MANAGEMENT CHALLENGE: Reducing Congestion in America's Transportation System on page 28.

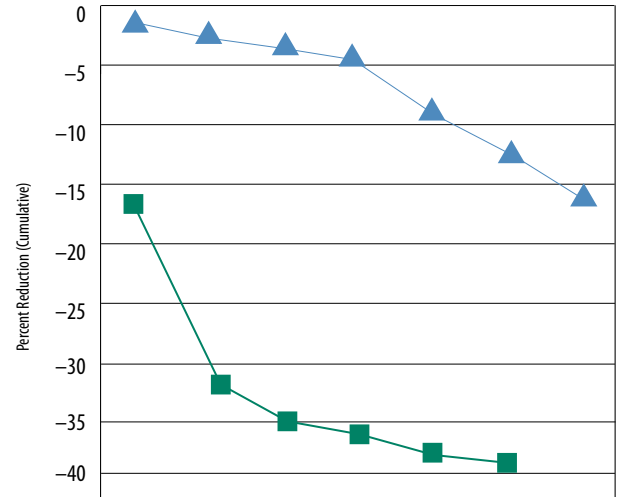
NOISE EXPOSURE

NOISE EXPOSURE: FY 2008 TARGET AND RESULT		
TARGET		Reduce the number of people exposed to significant noise, as measured by a 3-year moving average, to 12% below the 3-year average for calendar years 2000–2002.
RESULT	●	–38.00% *(projection from trends)* We exceeded our FY 2008 performance target by achieving a 38.00% reduction.

The significant reduction in noise exposure since the base year average has been driven by air carrier fleet and operational changes that took place in the aftermath of September 11, 2001. It was expected that a return to more typical fleet compositions and a return to air traffic growth would narrow the "positive gap." However, the return of fleet composition and air traffic to pre-9/11 levels has not occurred at the pace expected. Fuel prices are driving carriers to retire older, less efficient aircraft that produce more noise. Consequently, the actual number of residents exposed to significant noise remains well below the current target. To correct this variance, we increased the FY 2007 noise exposure target from a 1% to a 4% annual reduction and continued to calculate using a 3-year moving average from the base year from the 2000–2002 average. Although the number of residents exposed to significant noise is currently well below the target, a flattening of the exposure trend coupled with a more aggressive target has begun to narrow the margin.

The FAA continues to pursue a program of aircraft noise control, in cooperation with the aviation community and local governments, through aircraft source noise reduction, soundproofing, buyouts of homes and other noise-sensitive buildings near airports, operational flight control measures, and land use planning strategies. While the FAA is authorized to provide funds for airport noise compatibility projects, each project must be locally sponsored and approved by the FAA.

NUMBER OF PEOPLE EXPOSED TO SIGNIFICANT NOISE
Cumulative Percentage Reduction From Baseline



Fiscal Year	2003	2004	2005	2006	2007	2008	2009
Actual	–16.00%[1]	–32.00%[1]	–35.00%[1]	–36.00%[1]	–37.00%[2]	–38.00%[3]	N/A
Target	–1.00%	–2.00%	–3.00%	–4.00%	–8.00%	–12.00%	–16.00%

[1] Revised from original result due to improvement in noise exposure model.
[2] Revised from projection of –27.00%.
[3] Projection to be finalized in May 2009.

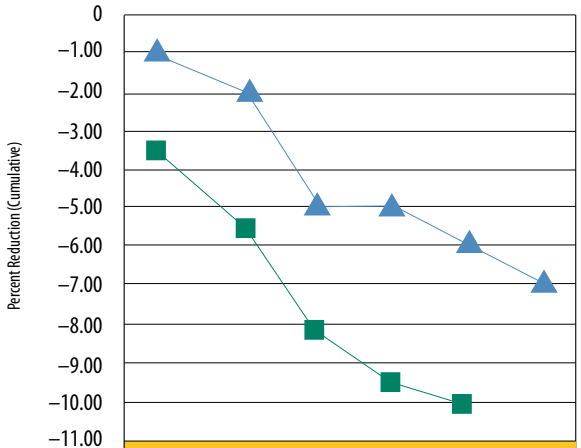
AVIATION FUEL EFFICIENCY

AVIATION FUEL EFFICIENCY: FY 2008 TARGET AND RESULT		
TARGET	Improve aviation fuel efficiency per revenue plane-mile by 6%, as measured by a 3-year moving average, from the 3-year average for calendar years 2000–2002.	
RESULT	●	–10.17% We exceeded our FY 2008 performance target by achieving a 10.17% reduction.

There is increasing concern over the potential impact of aircraft greenhouse gas emissions on global climate. The primary greenhouse gas from aircraft operations is carbon dioxide, which is directly related to the amount of fuel consumed.

The level of FY 2008 performance (10.17%) reflects continued improvement in fuel efficiency. This result takes into account 2007 operations relative to 2006 operations and is based on an increase in fuel burned (about 3.5%) with a greater increase in distance traveled (about 4.5%). This improvement in efficiency ensures the public that the aviation sector is continuing to do its part in reducing the environmental impact of aircraft operations while improving the system to accommodate the public's growing demand for air travel.

AVIATION FUEL BURNED PER MILE
Cumulative Percentage Reduction From Baseline



	Fiscal Year					
	2004	2005	2006	2007	2008	2009
Actual	–3.46%[1]	–5.84%	–8.23%	–9.52%[1]	–10.17%	N/A
Target	–1.00%	–2.00%	–5.00%	–5.00%	–6.00%[2]	–7.00%

[1] Revised from original result of –10.82%.
[2] Target revised from –5.00% in FY 2008.

Measuring and tracking fuel efficiency from aircraft operations allows the FAA to monitor improvements in aircraft/engine technology, operational procedures, and enhancements in the airspace transportation system. We measure performance against this target using an FAA-developed computer model that estimates aircraft fuel burn and emissions for variable year emissions inventories and for operational, policy, and technology-related scenarios.

INTERNATIONAL LEADERSHIP

GOAL: Increase the safety and capacity of the global civil aerospace system in an environmentally sound manner.

International leadership is the way the FAA advances safety and efficiency around the world, to wherever Americans might travel. The FAA is uniquely positioned for this undertaking in the global aviation community through expanded technical assistance to other civil aviation authorities and continued emphasis on bilateral agreements to help harmonize aviation safety and environmental quality around the world. Today, the agency has operational responsibility for about half of the world's air traffic, has certified more than two-thirds of the world's large jet aircraft, and has provided assistance to more than 130 countries to improve their aviation systems.

While safety is the FAA's top priority domestically and internationally, one cannot overlook the potential that global aviation has with respect to trade and commerce. Aviation systems within and among nations are lifelines to the future, freer trade, accelerated economic growth, and greater cultural exchange. Seamless global aviation is critical to an increasingly global economy that hinges on efficient supply chains and just-in-time manufacturing.

FY 2008 **INTERNATIONAL LEADERSHIP** PERFORMANCE MEASURES AND RESULTS				
Performance Measure	**FY 2008 Target**	**FY 2008 Results**	**FY 2008 Status**	**FY 2009 Target[1]**
Aviation Safety Leadership Work with the Chinese aviation authorities and industry to adopt 27 proven Commercial Aviation Safety Team (CAST) safety enhancements by FY 2011. This supports China's efforts to reduce fatal accidents to a rate of 0.030 fatal accidents per 100,000 departures by FY 2012.	5 CAST SEs	5 CAST SEs	●	5 CAST SEs
Bilateral Aviation Safety Agreements (BASAs) Conclude at least eight (new or expanded) bilateral safety agreements that will facilitate an increase in the ability to exchange aviation products and services by FY 2012.	2	4	●	1
External Funding Secure a yearly increase in international aviation development funding to strengthen the global aviation infrastructure. Increase the FY 2007 external funding baseline target of $12 million in $3 million increments for an FY 2012 target of $27 million.	$15.00 M	$16.70 M	●	$ 18.00 M
NextGen Technologies By FY 2012, expand the use of the NextGen performance-based systems to five priority countries.	1	2	●	1

[1] FY 2009 targets are from the FY 2008–2012 *Flight Plan*.
● Goal Achieved

AVIATION SAFETY LEADERSHIP

AVIATION SAFETY LEADERSHIP: FY 2008 TARGET AND RESULT		
TARGET		Assist China in implementing at least five of the mutually agreed upon safety enhancements (SE) to China's aviation system.
RESULT	●	5 CAST SEs Target met. The Chinese government implemented five CAST recommended SEs.

For FY 2008, the FAA and China agreed on a target of implementing at least five CAST safety enhancements within China. The Chinese government implemented five.

CAST was formed in 1997 as a joint government and industry organization dedicated to reducing the commercial air carrier fatal accident rate in the United States. It focused on the causes of major accidents and developed a series of safety enhancements that eliminated their precursors. These safety enhancements have contributed significantly to the improvement of the U.S. commercial aviation system and have had the same desired results when implemented around the world.

The FAA works with various countries in an advisory capacity to improve safety systems and processes around the world. Our efforts in China are one example of how we have a global impact.

BILATERAL AVIATION SAFETY AGREEMENT (BASAs)

BILATERAL AVIATION SAFETY AGREEMENTS (BASAs): FY 2008 TARGET AND RESULT		
TARGET		Conclude at least two (new or expanded) bilateral aviation safety agreements (BASAs) that will facilitate an increase in the ability to exchange aviation products and services.
RESULT	●	4 Target met. The FAA concluded four (new or expanded) BASAs.

BASAs promote aviation safety and environmental quality, enhance cooperation, and increase efficiency in the civil aviation system. The agreements are based on recognized comparability of U.S. and foreign systems for approval and surveillance of the aviation industry. By building a network of competent civil aviation authorities and concluding agreements with additional countries and/or regional authorities, the FAA increases safety and competitiveness globally. Improved global

understanding of U.S. safety regulations, processes, and procedures leads to better international regulatory oversight and evens the market by holding more international players to comparable standards.

In FY 2008, the FAA exceeded its performance target, concluding four new or expanded BASAs that will facilitate an increase in the ability to exchange aviation products and services thereby expanding opportunities for the global aviation industry.

- We completed negotiations with South Korea for one Executive Agreement and one BASA Implementation Procedures for Airworthiness (IPA). Both documents were signed at the 2008 Singapore Air Show. The BASA IPA allows the FAA to request technical assistance from the Korean Civil Aviation Safety Authority on matters related to South Korean suppliers to U.S. manufacturers.
- A revision to update the U.S./Canada BASA IPA was signed in June 2008. The changes include new provisions for Canadian acceptance of rebuilt U.S. engines and FAA-approved alterations data.
- An agreement between the United States and the European Community was signed in June 2008. The agreement provides for streamlined repair station certifications between the U.S. and Europe. When ratified, the agreement will also allow more European companies to apply for FAA design approvals.

We do not expect to conclude any new or expand existing BASA Executive Agreements or Implementation Procedures in FY 2009 and have not set a target for this performance measure in the next fiscal year. We are continuing to lay the groundwork for future BASAs with countries experiencing aviation industry growth, such as India.

EXTERNAL FUNDING

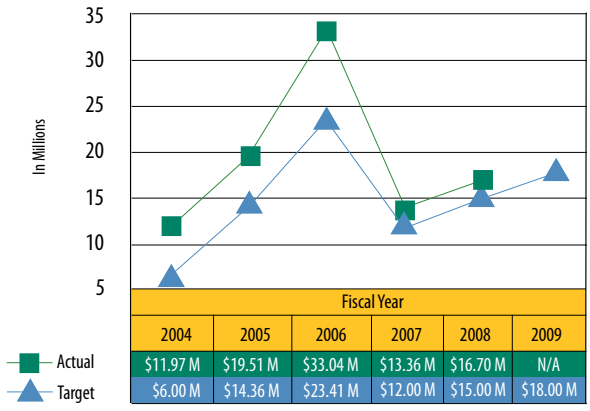
EXTERNAL FUNDING: FY 2008 TARGET AND RESULT		
TARGET	Secure $15 million in international aviation development funding to strengthen the global aviation infrastructure.	
RESULT	●	$16.70 million The FAA met its target, securing $16.70 million in FY 2008.

Our external funding performance goal seeks to influence the limited resources we are able to contribute to international safety and capacity efforts with technical and financial assistance from U.S Government organizations, multilateral banks, and industry to support global aviation system infrastructure projects.

In FY 2007, the FAA revised this target from a 20% annual increase to a specific dollar target, with subsequent annual increases in $3 million increments from the FY 2007 baseline of $12 million. We set the FY 2007 target below the previous year's result to adjust for the unusually high FY 2006 result, which was due to a one-time grant of $25 million for Afghanistan.

Thanks to hard work and continual outreach, the FAA's international team secured funds to surpass the $15 million target. The $16.70 million secured included the U.S. Department of State funding for an International Visitor Leadership Program project for Singapore, the U.S. Trade and Development Agency funds for developmental projects in India, and two orientation visits for Brazil's air traffic organization and civil aviation agency. The program benefited reconstruction programs by securing funds for shipping a radar system to Afghanistan and for a technical assistance project for the Iraqi Civil Aviation Authority.

EXTERNAL FUNDING[1]
Funding Secured per Year



	2004	2005	2006	2007	2008	2009
Actual	$11.97 M	$19.51 M	$33.04 M	$13.36 M	$16.70 M	N/A
Target	$6.00 M	$14.36 M	$23.41 M	$12.00 M	$15.00 M	$18.00 M

[1] Targets rebaselined in FY 2007.

NEXTGEN TECHNOLOGIES

NEXTGEN TECHNOLOGIES: FY 2008 TARGET AND RESULT		
TARGET	Expand the use of NextGen performance-based systems to one priority country.	
RESULT	●	2 The FAA expanded the use of NextGen performance-based systems to two priority countries, Australia and New Zealand, exceeding the FY 2008 target set at one priority country.

By working with international civil aviation authorities, organizations, and states, the FAA continues to enhance its international leadership role and ensure harmonization of NextGen technologies, procedures, and concepts with global, regional, and state-level air traffic management modernization efforts. This global harmonization of aviation systems will increase the safety, capacity, and efficiency of international aviation not only for the U.S. carriers, but also for U.S. citizens traveling on foreign flag carriers.

In FY 2008, the FAA, Airservices Australia, and Airways New Zealand launched ASPIRE, a forward-looking collaborative effort to accelerate the transition from today's operating norms to more advanced, efficient, and environmentally friendly concepts. For more information, see page 11 and related story on page 12.

ORGANIZATIONAL EXCELLENCE

GOAL: Ensure the success of the FAA's mission through stronger leadership, a better trained workforce, enhanced cost-control measures, and improved decisionmaking based on reliable data.

Organizational excellence is an ongoing challenge. As the aviation community continues to face a tough economic environment, the FAA faces many difficult management challenges as well. The FAA's central management strategy for achieving organizational excellence is to deliver the results described in the *Flight Plan* and to refine our focus on the PMA.

Our efforts this year focused on air traffic controller recruitment and placement as well as continued efforts to enhance our cost-control measures. We sustained success on the PMA–Human Capital, accomplishing our goals for the past 4 years.

STRATEGIC MANAGEMENT OF HUMAN CAPITAL

OPM Hiring Standard

OPM HIRING STANDARD: FY 2008 TARGET AND RESULT		
TARGET	In FY 2008, 50% of the FAA external hires will be filled within the OPM 45-day standard for Government-wide hiring.	
RESULT	●	79.00% We met our target, filling 79.00% of external hires within the OPM 45-day hiring standard. *Note: Air Traffic Controllers (series 2152s) and Executive Service positions are not included in this target.* *Note: This measure is new in FY 2008—no trend data are available.*

Throughout Government and industry, there is fierce competition to attract a skilled workforce. The FAA must hire adequate staff with the requisite competencies in a timely manner. Using the OPM 45-day hiring standard as a new FAA performance target in FY 2008,

FY 2008 **ORGANIZATIONAL EXCELLENCE** PERFORMANCE MEASURES AND RESULTS

Performance Measure	FY 2008 Target	FY 2008 Results	FY 2008 Status	FY 2009 Target[1]
STRATEGIC MANAGEMENT OF HUMAN CAPITAL				
OPM Hiring Standard By FY 2010, 70 percent of FAA external hires will be filled within OPM's 45-day standard for government-wide hiring.	50.00%	79.00%	●	60.00%
Reduce Workplace Injuries Reduce the total workplace injury and illness case rate to no more than 2.44 per 100 employees by the end of FY 2011 and maintain through FY 2012.	2.68 per 100	2.25 per 100[2]	●	2.60 per 100
Grievance Processing Time Reduce grievance-processing time by 30% (to an average of 102 days) by FY 2010 over the FY 2006 baseline of 146 days and maintain the reduction through FY 2012.	–15.00%	–63.69%	●	–20.00%
Air Traffic Controller Workforce Plan Maintain the air traffic control workforce at or above the projected annual totals in the Air Traffic Controller Workforce Plan.	0% to 2% over Plan	1.66% over Plan	●	0% to 2% over Plan
IMPROVED FINANCIAL PERFORMANCE				
Cost Reimbursable Contracts Increase cost reimbursable contract closeouts by 1% per year, from 86% in FY 2008 to 90% in FY 2012.	86.00%	91.67%	●	87.00%
Cost Control Organizations throughout the agency will continue to implement cost efficiency initiatives such as 10-15% savings for strategic sourcing for selected products and services; by the end of FY 2009, reduce leased space for Automated Flight Service Stations from approximately 510,000 square feet to approximately 150,000 square feet; 3% reduction in help desk operating costs through consolidations; and annual reduction of $15 million in Information Technology operating costs.	1 activity and savings	1 activity and savings	●	1 activity and savings
Clean Audit With No Material Weaknesses Obtain an unqualified opinion on the agency's financial statements (Clean Audit With No Material Weaknesses) each fiscal year.	Clean Audit w/ NMW	Clean Audit w/ NMW	●	Clean Audit w/ NMW
ACQUISITION MANAGEMENT				
Critical Acquisitions on Budget In FY 2008, 90% of major system acquisition investments are within 10% of annual budget and maintain through FY 2012.	90.00%	96.08%	●	90.00%
Critical Acquisitions on Schedule In FY 2008, 90% of major system acquisition investments are on schedule and maintain through FY 2012.	90.00%	93.88%	●	90.00%
CUSTOMER SATISFACTION AND OPERATIONAL CAPABILITY				
Customer Satisfaction Maintain the annual average of FAA surveys on the ACSI at or above the average Federal Regulatory Agency score in the previous fiscal year.	60	60.24	●	TBD
Information Security Achieve zero cyber security events that disable or significantly degrade FAA services.	0	0	●	0

TBD: To be determined

[1] FY 2009 targets are from the FY 2008–2012 *Flight Plan*.

[2] Projection from trends. Final data available in November 2008.

For information on data sources and estimating and finalization of results, see Completeness and Reliability of Performance Data.

● Goal Achieved

▲ Goal Not Achieved

we achieved greater efficiencies in hiring applicants who are new to the Federal Government. In anticipation of the forthcoming retirement bubble, it is in the agency's best interest to ensure that the hiring process nets the qualified individuals needed to achieve mission results and that we hire in a timely manner. Measuring hiring time is a critical step in improving this process.

Our OPM Hiring Standard performance goal measures the percentage of external hire (applicants outside the Federal Government) job offers made with the OPM 45-day standard. The OPM 45-day hiring process is defined as beginning one day after a vacancy announcement closes and ending the day a tentative or firm job offer is made to an applicant, whichever is first. Air traffic controllers (series 2152s) and executive service positions are not included in this target.

In addition to the emphasis on process efficiency, the FAA provides selecting officials an awareness of their ownership of a large part of the hiring process. This practice has promoted better understanding and working partnerships between selecting officials and local Human Resources staffing offices. Also, our internal review and emphasis on data integrity have led to a more standardized and documented data collection process. These procedures, along with our ongoing assessment and correction of process barriers, have contributed to our success in achieving the FY 2008 target for this performance goal.

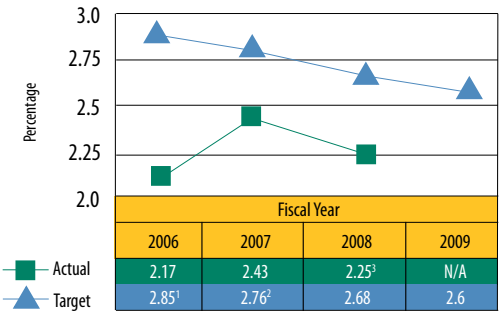
Reduce Workplace Injuries

REDUCE WORKPLACE INJURIES: FY 2008 TARGET AND RESULT		
TARGET		Reduce the total workplace injury and illness case rate to no more than 2.68 per 100 employees.
RESULT	●	2.25 *(projection from trends)* We met our goal, reducing the workplace injury and illness case rate to 2.25.

In FY 2008, we met our goal by reducing the workplace injury and illness case rate to 2.25 (projection from trends), down from last year's rate of 2.43 per 100 employees. Final case rates are usually available approximately 45 days after the end of the fiscal year.

This measure shows progress in reducing workplace injuries and illnesses, which in turn leads to improved productivity and quality of life for the FAA workforce

WORKPLACE INJURIES
Per 100 Employees



[1] Revised from projection of 2.21/100.
[2] Revised from projection of 2.56/100.
[3] Projection to be finalized in December 2008.

and lower cost for the FAA. Injury reduction is achieved throughout the FAA when employee awareness and participation are high, leadership supports the National Occupational Safety and Health (NOSH) activities, and risks are identified and mitigated.

The FAA's continued efforts to reduce the total workplace injury and illness case rate in FY 2008 included analyzing the types and causes of mishaps and evaluating and implementing various ways to prevent them. Additionally, we have begun to systematically apply Occupational Safety and Health (OSH) Administration recordkeeping criteria, which helps identify injury causes quickly and allows us to target solutions before those types of injuries recur.

Grievance Processing Time (GPT)

GRIEVANCE PROCESSING TIME (GPT): FY 2008 TARGET AND RESULT		
TARGET		Reduce average GPT by 15% to 124 days from the FY 2006 baseline of 146 days.
RESULT	●	–63.69% *(preliminary estimate)* We met our goal, achieving a 53-day average GPT for a 63.69% reduction. *Note: This measure was new in FY 2007—no trend data are available.*

In FY 2008, we aggressively tracked and processed 3,936 grievances, averaging 53 days in processing time for a 63.69% reduction, exceeding the 15% reduction target. Our continued efforts to reduce processing time for grievances supports our objective to resolve employee and union complaints at the lowest level possible, with the least amount of time, resources, and disruptions to the work environment and mission.

Air Traffic Controller Workforce Plan

AIR TRAFFIC CONTROLLER WORKFORCE PLAN: FY 2008 TARGET AND RESULT		
TARGET		Maintain air traffic control workforce at or up to 2% above the projected annual totals in the Air Traffic Controller Workforce Plan.
RESULT	●	1.66% We met our target, achieving 1.66% over the plan. *Note: This measure was new in FY 2007—no trend data are available.*

In FY 2008, the FAA achieved its target with an end-of-year air traffic control workforce level at 1.66% over the plan. The FAA took many actions to accomplish its aggressive hiring plan. By creating and implementing PEPCs, we have been able to cut time and costs in hiring. During FY 2008, we conducted 10 PEPCs and processed all clearance requirements for over 2,000 applicants, cutting the application processing time for controller candidates from 6 to 9 months to 2 to 3 months.

The FAA understands how critical it is to have an adequately staffed air traffic controller workforce. We continue to monitor staffing at all facilities and to take action at the facility level when adjustments become necessary due to changes in traffic volume, unanticipated retirements, or other attrition. All planning actions are completed for FY 2009, and we intend to hire at least 1,914 controllers during the year.

To read more about FAA actions to hire and train Air Traffic Controllers, see MANAGEMENT CHALLENGE: Addressing Long and Short-Term Challenges for Operating, Maintaining, and Modernizing the National Airspace System on page 24.

IMPROVED FINANCIAL PERFORMANCE

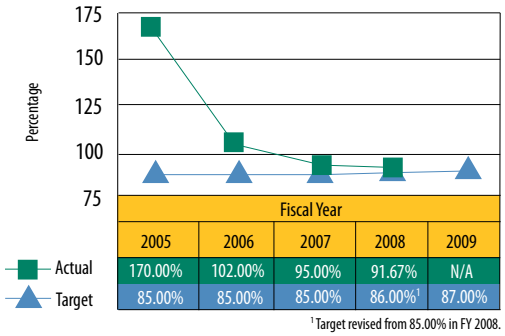
Cost Reimbursable Contracts

COST REIMBURSABLE CONTRACTS: FY 2008 TARGET AND RESULT		
TARGET		Close out 86% of eligible cost reimbursable contracts.
RESULT	●	91.67% The FAA exceeded its goal, closing out 55 contracts. Note: The percentage of contracts closed varies year-to-year due to the differing number of contracts eligible for closeout each year and the different circumstances that affect the closeout process.

In addition to losing the use of funds that could otherwise be recouped, a high number of unclosed contracts can create potentially large liabilities where final amounts are due to or from the contractor. By focusing on contracts eligible for closeout, the FAA can administer contracts more efficiently, reduce liability, pay only allowable and allocable charges under the agency's contracts, and remain diligent in the efficient and appropriate use of public funds.

To read more about FAA actions to reduce unallowable charges, see MANAGEMENT CHALLENGE: Managing Acquisition and Contract Operations More Effectively to Obtain Quality Goods and Services at reasonable Prices on page 36.

COST REIMBURSABLE CONTRACTS
Percentage of Eligible Contracts Closed Out



[1] Target revised from 85.00% in FY 2008.

Cost Control

COST CONTROL: FY 2008 TARGET AND RESULT		
TARGET		Approved organizations throughout the FAA will continue to implement cost efficiency initiatives. The agency will also achieve FY 2008 savings towards the four specific targets listed in the *Flight Plan*.
RESULT	●	One activity per approved organization and achievement of targeted savings. The FAA met its goal for the fourth consecutive year.

The FAA continues to take aggressive steps to stem the growth of its operating costs. Our Cost Control program provides the necessary impetus for implementing sustained and successful cost control activities. In FY 2008, we met our end-of-year goal. Organizations throughout the FAA implemented at least one cost saving or avoidance activity, accruing total cost efficiencies of approximately $82 million. These savings resulted from strategic sourcing of selected products and services, effective management of the Workers' Compensation Program, and reductions in helpdesk operating costs and IT costs.

Clean Audit With No Material Weaknesses

CLEAN AUDIT WITH NO MATERIAL WEAKNESSES: FY 2008 TARGET AND RESULT		
TARGET		Obtain an unqualified opinion on the agency's financial statements (Clean Audit with no material weaknesses [NMW]).
RESULT	●	Clean audit with no material weaknesses. The FAA met this target in FY 2008.

The unqualified opinion target is a critical indicator of an agency's financial condition, because it independently assesses the fair presentation of the FAA's financial statements and, in connection with that process, considers the internal controls over financial reporting.

In FY 2008, we obtained our target of receiving an unqualified opinion with no material weaknesses. This success follows a period of focused improvement to remediate an FY 2006 and FY 2007 material weakness in the area of timely processing of transactions and accounting for Property, Plant, and Equipment, including our Construction in Progress (CIP) account.

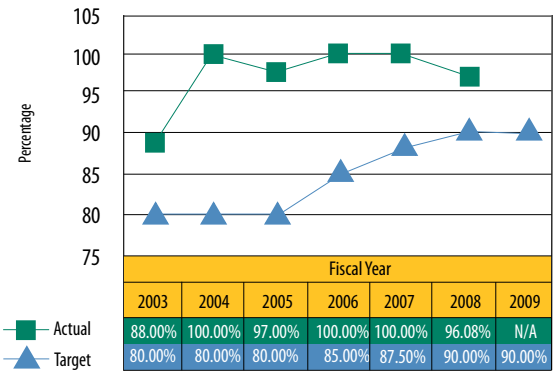
ACQUISITION MANAGEMENT

Critical Acquisitions on Budget/ Critical Acquisitions on Schedule

CRITICAL ACQUISITIONS ON BUDGET/CRITICAL ACQUISITIONS ON SCHEDULE: FY 2008 TARGET AND RESULT		
TARGET		Ensure that 90% of critical acquisition programs are on schedule and 90% of critical acquisition programs are within 10% of budget as reflected in the Capital Investment Plan.
RESULT	●	96.08% on budget 93.88% on schedule The FAA met its performance goals for both targets.

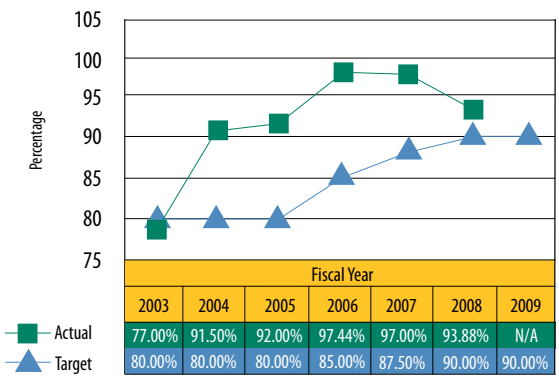
The FAA met these 2008 targets. We tracked 98 milestones against 51 acquisition programs for this performance measure. Through September 2008, the FAA met the cost targets for 96.08% of programs included in

CRITICAL ACQUISITIONS ON BUDGET
Percentage of Programs Within Planned Budget



	2003	2004	2005	2006	2007	2008	2009
Actual	88.00%	100.00%	97.00%	100.00%	100.00%	96.08%	N/A
Target	80.00%	80.00%	80.00%	85.00%	87.50%	90.00%	90.00%

CRITICAL ACQUISITIONS ON SCHEDULE
Percentage of Programs Meeting Scheduled Milestones



	2003	2004	2005	2006	2007	2008	2009
Actual	77.00%	91.50%	92.00%	97.44%	97.00%	93.88%	N/A
Target	80.00%	80.00%	80.00%	85.00%	87.50%	90.00%	90.00%

the goal and 93.88% of the scheduled milestones. Any program with a total budget-at-completion variance of less than 10% between the beginning and end of FY 2008 is considered to have met the established fiscal year cost performance goal.

Lifecycle acquisition management is built around a logical sequence of phases and decision points. The FAA uses these phases and decision points to determine and prioritize its needs, make sound investment decisions, implement solutions efficiently, and manage services and assets over their lifecycle. The overarching goal is continuous improvement in the delivery of safe, secure, and efficient services over time. The FAA ensures that taxpayer dollars spent through the FAA's acquisition programs achieve required performance outcomes by tracking cost and schedule milestones.

One of the most important steps in controlling costs is to ensure that capital programs, such as those that provide navigation, surveillance, computer processing capabilities, tools for air traffic controllers, telecommunications infrastructure, and weather information, are effectively managed. The FAA major capital programs are on track to meet established targets.

Beginning in FY 2009, the FAA will implement standard written criteria for selection of programs and milestones included in the agency's FY 2009 Cost and Schedule acquisition goals, as recommended by GAO and the DOT Inspector General. The milestones selected will include major efforts or events contributing to the completion of total program acquisition baseline or events that are of significant priority to the agency for advancing major programs.

To read more about what the FAA is doing to keep existing modernization projects on track and reducing cost and schedule with NextGen, see MANAGEMENT CHALLENGE: Addressing Long- and Short-Term Challenges for Operating, Maintaining, and Modernizing the National Airspace System on page 24.

CUSTOMER SATISFACTION AND OPERATIONAL CAPABILITY

Customer Satisfaction

CUSTOMER SATISFACTION: FY 2008 TARGET AND RESULT		
TARGET		Achieve an average score for the FAA surveys on the ACSI at or above the FY 2007 average Federal Regulatory Agency score of 60.
RESULT		60.24 We met our target for Customer Satisfaction achieving an ACSI score of 60.24.

The FAA uses the ACSI to measure customer satisfaction. The ACSI tracks trends in customer satisfaction and provides benchmarking insights into the consumer economy for companies, industry trade associations, and Government agencies. Surveys are administered by the National Quality Research Center at the University of Michigan Ross School of Business, in partnership with the Claes Fornell International Group, Foresee Results, and the Federal Consulting Group.

In FY 2008, the FAA revised the customer satisfaction measure to include four surveys reflecting a broader base of the customers we serve. The result for the customer satisfaction measure is the weighted average annual score of the FAA surveys conducted. The FAA score is measured against the Federal Regulatory Agency annual average ACSI score for the previous fiscal year (excluding the FAA), establishing our FY 2008 target at 60 or above. The FAA achieved a combined ACSI score of 60.24.

This year's four surveys, along with their individual results and total weight, are

- Airport Industry (Results: 69, weighted at 28%)
- Aviation Maintenance Technicians (Results: 54, weighted at 28%)
- Commercial Pilots (Results: 51, weighted at 28%)
- FAA Web Users (Results: 72, weighted at 16%).

The pilot and maintenance technician surveys scored low, highlighting dissatisfaction with FAA regulations and surveillance. All surveys have the requirement to complete action plans to increase future scores based on the results and comments received. We expect these action plans to be part of FY 2009 business plans.

Information Security

INFORMATION SECURITY: FY 2008 TARGET AND RESULT		
TARGET		Zero cyber security events that significantly disable or degrade FAA services.
RESULT	●	0 The FAA met its goal of zero cyber security events for the fourth consecutive year.

Hackers seek to disrupt or exploit critical infrastructure across the United States. One critical infrastructure, as identified by the President in HSPD-7, is our transportation system, including aviation. Accordingly, the FAA must be protected against the threat of cyber attacks.

During FY 2008, there were approximately 26 million monthly cyber attempts made on our network, with no successful cyber events that significantly disabled or degraded our service.

To read more about DOT/FAA actions to test and strengthen the information system security program, see MANAGEMENT CHALLENGE: Strengthening the Protection of Information Technology Resources, Including the Critical Air Traffic Control System on page 35.

COMPLETENESS AND RELIABILITY OF PERFORMANCE DATA

The FAA uses performance data extensively for program management, personnel evaluation, and accountability in prioritizing its facility evaluations and audits. The data are also used on a daily basis to track progress toward achieving performance goals.

The following are summaries of the FAA's processes for maintaining the completeness and reliability of its performance reporting. For a discussion of the management controls established by the FAA to ensure the quality of performance data, see Verification and Validation of Performance Information in the Performance Highlights section of this report.

Safety

Commercial Air Carrier Fatality Rate/General Aviation Fatal Accidents/Alaska Accidents

Fatality data for the Commercial Air Carrier measure and accident data for the General Aviation and Alaska measures come from the National Transportation Safety Board (NTSB) Aviation Accident Database. Aviation accident investigators under the auspices of the NTSB develop the data. The number of passengers on board used to calculate the Fatality Rate includes both passengers and crew members. Air carriers submit data for all passengers on board to the Office of Airline Information within the Bureau of Transportation Statistics (BTS). The crew estimate is based on fleet makeup and crew requirements per number of seats. For the current fleet, the number of crew is equal to about 7% of all Part 121 enplanements. The average number of cargo crew on board is 3.5 per departure, based on data from subscription services such as Air Claims, a proprietary database used by insurers to obtain information such as fleet mix, accidents, and claims.

Part 135 data also come from BTS and Air Claims databases, but are not as complete. The FAA Office of Aviation Policy, Planning, and Environment calls the operators where BTS data have gaps. Based on previous accident and incident reports, the average Part 135 enplanement is five per departure. Crew estimates for Part 135 are based on previous accident and incident data. Any error that might be introduced by estimating

crew will be very small and will be overwhelmed by the passenger census. Also note that the fatality rate is small and could significantly fluctuate from year to year due to a single accident.

Both accidents and departures are censuses, having no sampling error. While the number of crew on board is an estimate, crew staffing in fact varies only within a very small range for any given aircraft make and model. NTSB and the FAA's Office of Accident Investigation meet regularly to validate information on the number of accidents. Accident data are considered preliminary. NTSB usually completes investigations and issues reports on accidents that occur during any fiscal year by the end of the next fiscal year. Results are considered final when all those accidents have been reported in the NTSB press release published each March. FY 2008 results will therefore be final after the March 2010 press release. In general, however, accident numbers are not likely to change significantly between the end of the fiscal year and the date they are finalized.

The number of actual persons on board for any given period of time is considered preliminary for up to 18 months after the close of the reporting period. This is due to amended reports subsequently filed by the air carriers. Preliminary estimates are based on projections of the growth in departures developed by the FAA Office of Policy, Planning, and Environment. However, changes to the number of persons on board should rarely have an effect on the annual fatality rate. NTSB and the FAA's Office of Accident Investigation meet regularly to validate the accident and fatality count.

The FAA does comparison checking of the departure data collected by the BTS for the Commercial Air Carrier Fatal Accident Rate. However, the FAA has no independent data sources against which to validate the numbers submitted to BTS. The FAA compares its list of carriers to the DOT list to validate completeness.

To overcome reporting delays of 60 to 90 days, the FAA relies on historical data, partial internal data sources, and Official Airline Guide (OAG) scheduling information to project at least part of the fiscal year departure data. Due to reporting procedures in place, it is unlikely that calculation of future fiscal year departure data will be markedly improved. Lacking complete historical data on a monthly basis and independent sources of verification increases the risk of error in the activity data.

Most accident investigations are a joint undertaking—NTSB has the statutory responsibility, but in fact most of the accident investigations related to general aviation are conducted by the FAA Aviation Safety Inspectors without direct involvement of NTSB. The FAA's own accident investigators and other FAA employees participate in all accident investigations led by NTSB investigators.

Runway Incursions

Runway incursion data are recorded in the FAA National Airspace Information Monitoring System. Preliminary incident reports are entered by air traffic controllers and pilots. They are evaluated when received and can take up to 90 days to complete. Following the close of the fiscal year, the year-end data are typically not finalized for 90 days.

Surface operational error/deviation, surface pilot deviation, and vehicle/pedestrian deviation reports are reviewed on a daily basis to determine whether the incident meets the definition of a runway incursion. Runway incursions are a subset of all the incident data collected; completeness of the data is based on the reporting requirements for each of the incident types.

The FAA verifies and validates the accuracy of the data through reviews or preliminary and final reports. Reconciliation of the data is conducted monthly, and anomalies are explored and resolved. In cases where major problems are identified, a request to resubmit is issued. The FAA conducts annual reviews of reported data and compares them with data reported from previous years.

Commercial Space Launch Accidents

The source of commercial space launch data is the FAA's Office of the Associate Administrator for AST. AST monitors all licensed launch operations and maintains documented reports of each licensed event. These reports are generated by AST's assigned field inspectors and duty officers for a given launch event. They include all relevant details pertaining to the outcome of the licensed launch or reentry operation including the occurrence of any public fatalities, injuries, or property damage. AST also uses other sources of data such as the launch

vehicle operator and Federal, state, and local government officials.

AST's Licensing and Safety Division maintains and verifies reports that an accident resulting from a licensed launch operation has occurred and supports coordination with other Federal agencies, which may include the NTSB and the military on any subsequent investigations. If an accident occurs, the FAA and the NTSB will complete official reports fully documenting circumstances associated with the event.

Operational Errors

Air traffic controllers are required to report operational errors. In addition, the Operational Error Detection Patch (OEDP), a software program used by the FAA's air traffic facilities, detects possible operational errors and sends alert messages to supervisory personnel. Facility management reviews OEDP alerts and data provided from the National Track Analysis Program to determine if an operational error has occurred. The information is summarized in the FAA Air Traffic Operational Error and Deviation Database.

FAA's Air Traffic Order 7210.56 requires all facilities to submit operational error reports within 3 hours of the event. The data are typically not finalized for 90 days following the close of the fiscal year. The agency has implemented procedures that require facilities to conduct random audits of radar data to identify unreported operational errors. FAA Headquarters also conducts random audits of selected facilities based on the identification of unreported events. Facility management and personnel are subject to corrective action for noncompliance in reporting operational errors.

The FAA verifies and validates the accuracy of the data through reviews or preliminary and final reports. Reconciliation of the databases is conducted monthly and anomalies are explored and resolved. In cases where major problems are identified, a request to resubmit is issued. The FAA conducts annual reviews of reported data and compares the data with data reported from previous years.

Safety Management System

The SRM process ensures that safety-related changes are documented, hazards are identified and tracked to resolution, and the performance of each change is monitored throughout its lifecycle. ATO works with its operational service units to compile a repository of hazards associated with changes to the NAS in a database known as the FAA Hazard Tracking System. In addition, WebCM, a configuration management tool, is updated to require SRM on all NAS Change Proposals. These data are then used to audit the application of SRM.

Each ATO Service Unit is responsible for ensuring that safety analyses are documented, complete, and accurate. The FAA approves SRM documents and checks for service unit compliance with SRM through an audit process developed in 2007.

Capacity

Daily Airport Capacity (35 OEP Airports/ 7 Metropolitan Areas)

The Aviation System Performance Metrics (ASPM) database, maintained by the FAA's Office of Aviation Policy and Plans, provides the data for these measures. By agreement with the FAA, ASPM flight data are filed monthly by 23 major air carriers for all flights to and from most large and medium hubs. These data are supplemented by flight records contained in the Enhanced Traffic Management System (ETMS) and flight movement times provided by Aeronautical Radio, Inc. (ARINC). Also included within ASPM are arrival and departure rates provided by the individual facilities.

Fiscal year data are finalized approximately 90 days after the close of the fiscal year. The reliability of ASPM is verified on a daily basis by the execution of a number of audit checks, comparison to other published data metrics, and through the use of ASPM by over 1,500 registered users.

Annual Service Volume

ASV is calculated using the Runway Delay Simulation Model. The measure is derived from model estimates that are subject to errors in model specification. Delay curves are developed for each of the 35 OEP airports for the existing airport layout and with new runways where proposed. The calculation of airport capacity is based on demand schedules and fleet mixes, supplemented with flight counts and standard air traffic control procedures

for each airport. Demand schedules and fleet mixes are developed from recent OAG information. Flight counts are obtained from airport traffic control tower logs.

ATO's Capacity Analysis Group provides technical support to develop a consistent method of calculating the individual airport ASV through the Operations Planning Service at the FAA's Technical Center in Atlantic City, NJ. Recalculations of the original ASV studies have not been necessary. Once developed, the delay curves remain accurate unless a major change in fleet mix or operational characteristics occurs at an airport.

Adjusted Operational Availability

The National Airspace System Performance Analysis System (NASPAS) is the official source of equipment and service performance data for the FAA. NASPAS receives monthly updates of outage data from the National Outage Database (NODB). The Maintenance Management System (MMS) contains individual equipment outage data as recorded by the system specialist.

The FAA's Quality Assurance and Performance Team conducts monthly reviews of all Log Interrupt Reports entered into the MMS to ensure the data, which reside in the NODB, are as complete and accurate as possible.

NAS On-Time Arrivals

The FAA's ASPM database, supplemented by DOT's Airline Service Quality Performance (ASQP) causation database, provides the data for this measure. By agreement with the FAA, ASPM flight data are filed by certain major air carriers for all flights to and from most large and medium hubs. The data are further augmented by flight records contained in the ETMS and flight movement times provided by ARINC.

Fiscal year data are finalized approximately 90 days after the close of the fiscal year. The reliability of ASPM is verified on a daily basis by the execution of a number of audit checks, comparison to other published data metrics, and use of ASPM by over 1,500 registered users. ASQP data are filed monthly with DOT under 14 CFR Part 234, Airline Service Quality Performance Reports, which separately requires reporting by major air carriers on flights to and from all large hubs.

Noise Exposure

The FAA uses the Model for Assessing Global Exposure to the Noise of Transport Aircraft (MAGENTA) to estimate exposure to significant aircraft noise, defined as noise above the Day-Night Sound Level (DNL) of 65 decibels. MAGENTA uses the FAA's Integrated Noise Model (INM) to calculate DNL contours for the top 97 U.S. airports. These contours are superimposed on census data to determine the number of people residing within them. For smaller airports, the contour is calculated using statistical analysis of operations data. Individual airport data are summed, and the number of people relocated through the Airport Improvement Program is deducted from the total number exposed.

The U.S. version of MAGENTA uses updated population data from the 2000 census. The data source for airport traffic is the ETMS database, which includes unscheduled air traffic and allows for accurate modeling of freight, general aviation, and military operations. The ETMS also provides details on aircraft type for accurate distribution of aircraft fleet mix. Data on the number of people relocated through the Airport Improvement Program are collected from FAA regional offices. Local traffic utilization data are collected from individual airports and updated periodically.

The ETMS does not contain current-year data, so the FAA Terminal Area Forecast (TAF) is used to provide current and accurate information on projected increases at specific airports. The preliminary results reported at the end of the fiscal year are based on TAF projections. These results are finalized using actual ETMS data by the following May.

The noise exposure results for FY 2008 show a larger reduction in the number of people exposed than in previous years. This is due to several factors. An upgrade to the INM has produced changes to the airport noise contours. In addition, military operations for the KC-135 were updated based on more accurate information from the Air Force. Finally, errors were detected in the aircraft fleet beginning in 2004, resulting in noise contours that were larger than they should have been. As a result of these changes, the U.S. noise exposure results from FY 2000 to FY 2007 were reestimated so that percent changes for FY 2008 could be calculated against historical values in a consistent manner.

The noise exposure measure is derived from estimates that are subject to errors in model specification. The use of a 3-year average stabilizes noise trends, which can fluctuate from year to year and are affected by unusual events such as the 9/11 attacks and the subsequent economic downturn.

No actual count is made of the number of people exposed to aircraft noise. Aircraft type and event level are current. However, some of the databases used to establish route and runway utilization are now over 10 years old. Changes in airport layout, including expansions, may not be reflected. The FAA continues to update these databases as they become available. The benefits of federally funded mitigation, such as buyouts, are accounted for.

The noise studies obtained from U.S. airports have gone through a thorough public review process, either under the National Environmental Policy Act requirements or as part of airport noise compatibility programs. The Integrated Noise Model has been validated with actual acoustic measurements. External forecast data are from primary sources. The MAGENTA population exposure methodology has been thoroughly reviewed by the ICAO task group and was most recently validated for a sample of airport-specific cases.

Aviation Fuel Efficiency

The FAA measures aviation fuel consumption using the Aviation Environmental Design Tool /System for assessing Aviation Global Emissions (AEDT/SAGE) computer model, which uses radar-based data from the ETMS and OAG schedule information to generate annual inventories of fuel burn and total distance flown data for all U.S. commercial operations.

Potential seasonal and year-to-year variability can be expected when analyzing air traffic data and commercial aircraft operations. The use of a 3-year moving average for reporting the fuel efficiency measure smoothes this variability.

The extent to which enhancements are incorporated to improve model accuracy, via more robust aerodynamic performance modeling algorithms and database of aircraft/engine fuel burn information, will impact the overall results and thus the performance target. This could create some statistical variability from year to year if not properly taken into account. In cases where such enhancements have the potential to create a significant shift in baseline, annual inventories may need to be reprocessed and/or adjusted to ensure consistency and accuracy of results.

The extent to which aircraft fleet improvements cannot be sufficiently modeled because of a lack of manufacturer proprietary data may also influence the performance target results. In this case, attempts will be made to characterize such aircraft with the best publicly available information, recognizing that newer aircraft types in the fleet will likely exist in significantly lesser numbers, thus minimizing their influence upon the results.

Data used to measure performance against the target are assessed for quality control purposes. Input data for the AEDT/SAGE model are validated before proceeding with model runs. Radar data from the ETMS are assessed to remove any anomalies, checked for completeness, and preprocessed for input to the model. ETMS data are verified against the OAG information to avoid any duplication of flights in the annual inventory. Data from the AEDT/SAGE model are verified by comparing output from previous years and analyzing trends to ensure that they are consistent with expectations. In other cases monthly inventories may be analyzed to validate the results.

The measuring procedure used for this performance target is highly reliable. The processing of data through the AEDT/SAGE model, including the performance of algorithms, is not subject to random factors that could influence the results. However, the performance target is potentially influenced by factors outside the control of the FAA. For example, a major sustained disruption or enhancement in air traffic and/or a significant shift in commercial operations among airlines, including changes in fleet composition and missions, could have a profound effect on the results.

International Leadership

Aviation Safety Leadership

Proof of the implementation of CAST safety enhancements will come from a variety of sources, including, but not limited to, e-mail from U.S. officials who have attended meetings with Chinese aviation officials, minutes of meetings with the Chinese Aviation

Administration, and pronouncements by senior Chinese officials. Because China is a sovereign nation, the FAA does not have the means to independently verify implementation of these initiatives throughout China.

The measure is a simple count of the projects completed. Again, the FAA relies on the words and deeds of Chinese officials for verification. Over time, verification will also come when the accidents that the Chinese have do not display the precursors that the CAST safety enhancements are designed to prevent.

Bilateral Aviation Safety Agreements

The FAA tracks the execution of bilateral executive agreements and implementation procedures. Executive agreements are negotiated and maintained by the Department of State, and implementation procedures are negotiated and concluded by the FAA. The official signed documents are maintained at the FAA. This performance target is monitored monthly by tracking interim negotiation steps leading to completion of a BASA and tracking FAA internal coordination of the negotiated draft text.

The final signing of executive agreements is generally out of the FAA's control. Many sovereign nations view these agreements as treaties that require legislative approval. The FAA and the U.S. Government cannot control the timing of legislatures in other countries. Therefore, the FAA will count executive agreements only when signed. The negotiation of implementation procedures is more within the FAA's control.

The signed executive agreement constitutes evidence of completion. For implementation procedures, evidence will be some form of agreement between the parties that material negotiations are concluded but a formal signing ceremony is still pending. Evidence of completion can take the form of a signed agreement stating that fact, e-mail, meeting minutes, or other mutual agreement between the two parties that the implementation procedures agreement has been concluded.

External Funding

The success of this effort is measured in terms of the amount of new funding that the agency secures for international aviation infrastructure and capacity-building projects from external sources. The FAA develops the funding proposals, puts forward recommendations to funding organizations, and works closely with these sources to finalize the funding for each project.

The FAA tracks the progress of all funding proposals that it develops and supports. The funding secured from these proposals is the basis for measuring success. Public documents (press releases, letters, contracts, memorandums of agreement) are used to verify the amounts reported.

NextGen Technologies

The FAA's ATO Operations Planning International Office manages and oversees international cooperation and is also actively involved in the global efforts of the JPDO NextGen Global Harmonization Working Group. As such, the ATO Operations Planning International Office monitors all activity related to NextGen supporting technologies, procedures, and concepts and determines which country or state cooperative activity will ultimately close out this performance target for FY 2008.

As the owner of this performance target, the ATO Operations Planning International Office collects all pertinent documentation related to its completion. The office also coordinates with other supporting FAA offices to cross-check and validate the reported results.

Organizational Excellence

Strategic Management of Human Capital

OPM Hiring Standard

To compute hiring time, the FAA uses data extracted from its Automated Staffing and Application Process (ASAP) system. ASAP was developed by the agency to automate the application and hiring process. AHR staffing specialists across the country fill jobs through external sources using ASAP. ASAP tracks pertinent steps in the hiring process and can be used to record the time it takes to fill positions.

The FAA has implemented several practices to ensure the integrity of data in ASAP. For example, monthly teleconferences with regional staffing personnel provide a forum for discussions about efficiencies in hiring processes, resulting in more standardization and streamlined practices. In addition, monthly and quarterly

monitoring of the hiring process ensures more proactive management of hiring processes.

ASAP is a dynamic system, with hiring actions entered continually by field and headquarters staffing specialists. Because the system is constantly updated, monthly reports reflect only the data entered before the report's cut-off date. The job offer data are finalized and stabilized for the year-end status report.

Reduce Workplace Injuries

The data source for the number of workplace injury cases is the Department of Labor (DOL) SHARE Initiative website (**www.dol.gov/esa/owcp/share/**), which summarizes injuries and illnesses reported by the various agencies. The data source for the number of employees is the DOT Workforce Demographics website (**http://dothr.ost.dot.gov/workforceinfo/index.htm**). The SHARE data reports are available quarterly, with an approximate 1-month lag time. The FAA reports the case rates quarterly, with a 1-month lag time. Because of the lag in data availability, the most current data available are used to project the results to the end of the fiscal year. The most current data from both websites cover three quarters of the fiscal year.

Data quality is high because the computation follows a well-established formula from the DOL and the data sources for each variable in the formula are Federal department-level databases. The key source of possible inaccuracy is the data entry for the injury and illness reports. The FAA has consolidated workers' compensation case management for headquarters, all nine regions, and both centers, further increasing data accuracy. In addition, some FAA safety professionals use the Safety Management Information System to cross-check mishap reports against workers' compensation claims to improve data accuracy.

Grievance Processing Time

The FAA uses its Grievance Electronic Tracking System (GETS) for tracking and processing grievances. Data are entered and updated by authorized labor relations users in regions, centers, and headquarters.

Grievances are identified and tracked by a unique identifying number that is assigned by GETS only after critical information (e.g., submission date) is entered into the system. Similarly, to close a record requires the entry of a decision date. A monthly report is produced to verify completeness, accuracy, consistency, and timeliness of GETS data.

The GETS database has built-in control elements that must be populated before a record can be accepted into the database. Completed records are not deleted and can be used for multiple purposes. Both current records and completed records can be measured.

Air Traffic Controller Workforce Plan

Data on the total number of air traffic controllers on board are collected and compiled monthly by the ATO Office of Finance.

The source of the ATO staffing data is the Federal Personnel Payroll System Datamart. The staffing data are collected and compiled monthly. Completeness is guaranteed through validation of the reports generated from the Datamart. The reliability of these reports is ensured by (1) obtaining the staffing data from the same source each month; (2) resources in the Financial Metrics Team that produce reports when the data are available; and (3) a review of the staffing data to ensure that all controllers are coded correctly and show up in the controller staffing level. Data fields requiring corrections are directed to the appropriate ATO Vice President for action.

Improved Financial Performance

Cost Reimbursable Contracts

The FAA's procurement management system, PRISM, is used to identify cost reimbursable-type contracts for which performance has ended. On a monthly basis, closed contracts are reported by either the contracting officer who closed out the contract(s) or the contractor tasked with closing out FAA contracts.

The FAA's Contract Support Systems branch maintains a database of all closed contracts. In addition, closed contract files are received in the branch for distribution to central archives. There is a slight risk of underreporting the number of closed contracts if any are not reported and entered into the database. However, contract closeouts are proactively managed by the group managers. Only contracts that are closed out completely, with no outstanding issues, are entered into the database.

Cost Control

Each FAA organization proposes a cost saving, cost avoidance, and/or productivity improvement activity. This proposed cost control measure undergoes thorough management review to validate the viability of the proposal and associated computations. The individual organizations are responsible for maintaining files containing supporting documentation for their activity to ensure verification by audit. Risk of inaccurate reporting is minimal.

The data are subjected to a four-layer data verification process to ensure accuracy and reliability. First, the report information is checked against original templates submitted by FAA organizations. Second, the accuracy and reliability of the data are independently confirmed. Third, FAA management checks the information before it is submitted to the FAA's CFO. Last, the CFO and senior financial management staff conduct a final data verification review prior to final approval of the cost control report.

Clean Audit With No Material Weaknesses

The FAA's performance against this target is reported in the independent auditors' report, issued as a result of their audit of the FAA's annual financial statements, related footnotes, and required supplementary information. The auditors' report and the financial statements are published annually.

Acquisition Management

Critical Acquisitions on Budget/Critical Acquisitions on Schedule

The FAA tracks and reports the status of all schedule and cost performance targets using an automated database, known as Simplified Program Information Reporting and Evaluation (SPIRE). The performance status for each program tracked in SPIRE is reported monthly to the ATO Executive Committee through the ATO Strategic Management Process and to the FAA Administrator through FAA *Flight Plan* meetings.

The programs selected each fiscal year represent a cross section of programs within the ATO. They include programs that have an Exhibit 300 as well as "buy-by-the-pound" programs. The latter are typically not required to undergo a standard acquisition life cycle process. Each DOT organization maintains its own quality control checks for cost, schedule, and technical performance data of each major systems acquisition in accordance with OMB Circulars A-11, A-109, and A-130, Federal Acquisition Regulations, and Departmental orders implementing those directives and regulations.

Customer Satisfaction and Operational Capability

Customer Satisfaction

The ACSI is a uniform and independent measure of household consumption experience. This measure provides a recognized, independent source of customer satisfaction information that can be used to benchmark against other ACSI scores for regulatory and Federal Government satisfaction indices. Using a weighted average of customer satisfaction scores as a measure allows us to broaden the FAA's indicators of customer satisfaction to include nine customer bases: commercial pilots, general aviation pilots, mechanics, repair stations, air carriers, and customers of the Air Traffic Organization's services, manufacturers, airports, and web users. Four FAA offices (including AVS, ATO, ARP, and the Office of Communications) are responsible for conducting the surveys and providing their final results to the Office of Planning, Policy, and Environment, which calculates the score for the FAA average.

Information Security

Data on cyber security attacks are collected by the DOT/FAA CSMC, which is part of AIO. AIO maintains sensors on the DOT/FAA networks. As outlined in FAA Order 1370.82A, the CSMC is the focal point for information on all cyber incidents in the FAA. The CSMC works collaboratively with other information systems security components in the Federal Government to validate cyber incidents on FAA and departmental systems. This process provides the most accurate and up-to-date measure of the level of incidents. The FAA and the DOT use current and historical data to validate trends, which indicate an increase in the number and complexity of cyber attacks.

ASSESSING PROGRAMS

Program Evaluation. A critical component of managing our performance is the periodic evaluation of FAA programs. Performance measures show if intended

outcomes are occurring and assess any trends. Program evaluation uses analytic techniques to assess the extent to which our programs are contributing to those outcomes and trends.

Aircraft Delay Reduction. More than one in four flights either arrived late or was canceled in 2007—making it one of the worst years for delays in the past decade. Flight delays are typically the worst at the New York metropolitan airports. The purpose of this study was to assess the effect of FAA's Aircraft Delay Reduction Program on flight delays and cancellations that have plagued the U.S. aviation system. The U.S. GAO conducted a study of

- the trends in the extent and principal sources of flight delays and cancellations over the past 10 years;
- the status of Federal Government actions to reduce flight delays and cancellations by the summer of 2008; and
- the extent to which these actions may reduce delays and cancellations for the summer 2008 travel season. [See GAO-08-934T at **www.gao.gov/new.items/d08934t.pdf**]. Although GAO's scope covers the NAS as a whole, its work highlighted the New York region.

The study based its conclusions on an analysis of DOT data on airline on-time performance, a review of relevant documents and reports, and interviews with officials from DOT, FAA, airport operators, and airlines, as well as aviation industry experts and associations on the status and potential impact of the Federal Government's actions to reduce delays.

Findings. The annual number of domestic airline flight delays and cancellations has increased about 62% while the annual number of scheduled flights has increased by 38% since 1998. In the New York area, the trend is even more pronounced. Cancellations in recent years have become more problematic as the airlines are now operating with fewer empty seats per flight.

Data provide an incomplete picture of the sources of flight delay. Current on-time performance data do not capture the full extent of delays or cancellations due to reporting practices by some airlines. Data also fail to capture the extent to which passengers' average travel times have increased due to the fact that DOT tracks flights, not passengers, which leaves out passenger delays due to missed connections from other delays or overbooked flights.

The FAA has implemented actions to reduce delays. The GAO study commended the DOT and the FAA for taking steps to reduce mounting flight delays and cancellations for the 2008 summer travel season. DOT and the FAA worked with the aviation industry to develop and implement several actions—capacity enhancing initiatives, demand management policies, and air traffic procedures—to reduce congestion and delays for the summer 2008 travel season.

Actions may help reduce delays, but the extent of delay reduction in the summer of 2008 will likely be limited. The growing air traffic congestion and delay problem is the result of many factors, including airline practices, inadequate investment in airport and air traffic control infrastructure, and how aviation infrastructure is priced. Addressing this problem involves difficult choices, which affect the interests of passengers, airlines, airports, and local economies. If not addressed, congestion problems will intensify as the growth in demand is expected to increase over the next 10 years.

Recommendations. No recommendations were made as part of this GAO evaluation. The findings and conclusions served as testimony to the U.S. Senate's Committee on Commerce, Science, and Transportation, Subcommittee on Aviation Operations, Safety, and Security. However, the DOT and the FAA continue work on short-term mitigation and long-term planning.

Short-term Solutions. Solutions that lessen the short-term impact are capacity-enhancing initiatives and demand management policies. One capacity-enhancing initiative is the New York/New Jersey/Philadelphia Airspace Redesign, which is projected to reduce flight delays by 20% after full implementation in 2012. Demand management policies are being pursued for the three major New York airports that will limit the number of scheduled and unscheduled flights, prompting a reduction in delays by up to 41% depending on the airport. The proposed rules for LaGuardia, John F. Kennedy International, and Newark Liberty International are expected be become effective in December 2008 and expire in 2018.

Long-term Solutions. The FAA's long-term objective is to reduce congestion by increasing capacity to

accommodate demand. To address capacity in the medium to long term, DOT is working full-time to develop and implement NextGen technology so the air traffic system will be able to accommodate more traffic, more efficiently.

Operational Error Program

An OIG audit of the FAA's Investigating and Reporting of OEs was initiated in November 2007. The objectives of the audit are to

- determine whether the FAA has adequate policies and procedures in place to ensure the accuracy and consistency of operational error reporting and
- review the roles and responsibilities of the ATO and FAA's Aviation Safety lines of business in reporting and investigating operational errors.

The OIG is in the process of concluding the study and will have a final report in early FY 2009.

In 1958, there were 9 fatal commercial air accidents in the United States resulting in 145 fatalities.

In 2008, and for the past 2 years, there have been *no fatal passenger airline accidents* and no fatalities among the more than 1.5 billion passengers who have flown during this time period.

Credit: Corbis

Ramesh K. Punwani
Assistant Administrator for Financial Services/
Chief Financial Officer

A MESSAGE FROM THE CHIEF FINANCIAL OFFICER

Safety is our number one mission. Yet while always keeping this mission as our beacon, we must also be mindful of how we spend the taxpayer's dollars.

I am proud of our many achievements this year to better execute and manage the budget resources that Congress provides. At the FAA, "acting more like a business" is not just a slogan. We continue to make every effort to control our operating costs. We are improving the discipline with which programs and contracts are first approved, bettering the tracking and monitoring of approved programs, and reducing our overhead costs so that more of the taxpayer dollars are spent on a safe, efficient, and accessible aviation system.

The following accomplishments of FY 2008 underscore our commitment to improve our financial management.

- We achieved an unqualified opinion on our FY 2008 financial statements with no material weaknesses.
- For the fourth time in 5 years, the AGA awarded us top honors for our 2007 Performance and Accountability Report. This is considered the highest form of recognition in Federal Government management reporting.
- We received our fifth consecutive award from the League of American Communication Professionals for the FY 2006 Performance and Accountability Highlights, recognizing it as one of the top Government annual reports in the country.
- 84% of our employees are now on the pay-for-performance system, including our executives. This means that performance targets must be achieved before annual pay raises are calculated. As part of this system, we provide incentives to ensure quality work and reward innovation.
- We have worked to slow the growth in labor costs through back-filling positions with new employees at lower pay grades when possible and increased workforce productivity by cutting multiple levels of management and better managing our worker's compensation caseload.
- The outsourcing of our flight service station function has saved $278 million since its inception and will save $2.1 billion through 2015.
- We created a capital investment team to review potential capital investments based upon financial and performance data. To date, business case reviews have identified $460 million in lifecycle savings by restructuring and/or terminating 10 programs. We also have improved the tracking of spending on approved programs so that both cost and schedule performance are closely monitored using Earned Value Management methods.

- We are expecting to achieve $9 million in savings annually—a savings of 10 to 15% from current costs—through the Strategic Sourcing for the Acquisition of Various Equipment and Supplies (SAVES) initiative. The initiative has been extended to cover wireless contracts as well as Enterprise License agreements with Oracle and Dell.
- We upgraded our general ledger, purchasing, and cost accounting systems so we can produce top quality financial data for decisionmaking.

Our financial management transformation over the past 5 years has been steady and sure, but there is still a significant amount of work to do to maximize our efficiency. We are on track. Our aggressive strategies to improve performance and best practices from the corporate world are resulting in billions of saved dollars and avoided costs. Our incentive is simple. We know that every dollar saved can be used to make our aviation system safer.

Ramesh K. Punwani
Assistant Administrator for Financial Services/Chief Financial Officer
November 4, 2008

OIG QUALITY CONTROL REVIEW

Memorandum

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

Subject: ACTION: Quality Control Review of Audited Financial Statements for FY 2008 and FY 2007, Federal Aviation Administration
Report Number: QC-2009-0008

Date: November 13, 2008

From: Calvin L. Scovel III
Inspector General

Reply to Attn. of: JA-20

To: The Secretary
Acting Federal Aviation Administrator

The audit of the Federal Aviation Administration's (FAA) Financial Statements as of and for the years ended September 30, 2008, and September 30, 2007, was completed by KPMG LLP of Washington, D.C. (see Attachment). We performed a quality control review of the audit work to ensure that it complied with applicable standards. These standards include the Chief Financial Officers Act, as amended; Generally Accepted Government Auditing Standards; and Office of Management and Budget Bulletin 07-04, "Audit Requirements for Federal Financial Statements," as amended.

KPMG concluded that FAA's consolidated financial statements presented fairly, in all material respects, the financial position of FAA as of September 30, 2008, and September 30, 2007, and its net costs, changes in net position, and budgetary resources, for the years then ended, in conformity with accounting principles generally accepted in the United States. KPMG reported two internal control significant deficiencies but no material weaknesses. The report did not identify any instances of noncompliance with laws and regulations.

FAA should be commended for corrections leading to the downgrading of the material weakness associated with its accounting for Property, Plant, and Equipment, including the Construction in Progress account, to a significant deficiency. This material weakness was reported in the last three consecutive years and resulted in a qualified audit opinion on FAA's Fiscal Year 2006 financial statements. Similarly, FAA slipped from an unqualified audit opinion to a qualified audit opinion in Fiscal Year 2000 due to deficiencies in this area.

FAA must remain vigilant in sustaining good financial management operations and continue improving its accounting for Property, Plant, and Equipment.

Significant Deficiencies

1. Timely Processing of Transactions for Property, Plant, and Equipment, including the Construction in Progress Account
2. Information Technology Controls over FAA and Third-Party Systems and Applications

KPMG made 11 recommendations for corrective action, we agree with all and, therefore, are making no additional recommendations. FAA concurred with the significant deficiencies, agreed with the recommendations; and committed to implement corrective actions by March 31, 2009. In accordance with DOT Order 8000.1C, the corrective actions taken in response to the recommendations are subject to follow-up. In our opinion, the audit work performed by KPMG complied with applicable standards.

We appreciate the cooperation and assistance of FAA, Office of Financial Management, and KPMG representatives. If we can answer any questions, please call me at (202) 366-1959; David Dobbs, Principal Assistant Inspector General for Auditing and Evaluation, at (202) 366-1427; or Rebecca C. Leng, Assistant Inspector General for Financial and Information Technology Audits, at (202) 366-1407.

Attachment

INDEPENDENT AUDITORS' REPORT

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

Administrator, Federal Aviation Administration
Inspector General, U.S. Department of Transportation:

We have audited the accompanying consolidated balance sheets of the U.S. Department of Transportation Federal Aviation Administration (FAA) as of September 30, 2008 and 2007, and the related consolidated statements of net cost, changes in net position, and the combined statements of budgetary resources (hereinafter referred to as "consolidated financial statements") for the years then ended. The objective of our audits was to express an opinion on the fair presentation of these consolidated financial statements.

We did not audit the financial statements of the FAA Franchise Fund (FF), a component entity of the FAA, as of September 30, 2008. The financial statements of the FF were audited by other auditors whose report, dated November 4, 2008, has been furnished to us, and our opinion, insofar as it relates to the amounts included for the FF, is based solely on the report of the other auditors.

In connection with our fiscal year 2008 audit, we also considered the FAA's internal controls over financial reporting and tested the FAA's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on the consolidated financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Summary

As stated in our opinion on the consolidated financial statements, based on our audits and the report of the other auditors, we concluded that the FAA's consolidated financial statements as of and for the years ended September 30, 2008 and 2007, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

Our consideration of internal controls over financial reporting resulted in the following conditions being identified as significant deficiencies:

A. Timely Processing of Transactions for Property, Plant, and Equipment, including the Construction in Progress Account

B. Information Technology Controls over FAA and Third-Party Systems and Applications

However, neither of the significant deficiencies are considered to be material weaknesses.

The results of our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* and OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*.

The following sections discuss our opinion on the FAA's consolidated financial statements; our consideration of the FAA's internal controls over financial reporting; our tests of the FAA's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements; and management's and the auditors' responsibilities.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of the U.S. Department of Transportation Federal Aviation Administration (FAA) as of September 30, 2008 and 2007, and the related consolidated statements of net cost, changes in net position, and the combined statements of budgetary resources (hereinafter referred to as "consolidated financial statements") for the years then ended. We did not audit the amounts included in the consolidated financial statements related to the financial statements of the FAA Franchise Fund (FF), a component of the FAA, which reflect 2.6% of total assets and 20% of exchange revenue (after elimination of inter-agency revenues), as of and for the year ended September 30, 2008. The financial statements of the FF as of and for the year ended September 30, 2008, were audited by other auditors whose report dated November 4, 2008, has been provided to us and our opinion, insofar as it relates to the amounts included for the FF's financial statements, is based solely on the report of the other auditors.

In our opinion, based on our audits and the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Federal Aviation Administration as of September 30, 2008 and 2007, and its net costs, changes in net position, and budgetary resources for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in Notes 1 and 12, the consolidated financial statements reflect actual excise tax revenues deposited in the Airport and Airway Trust Fund through June 30, 2008 and excise tax receipts estimated by the Department of Treasury's Office of Tax Analysis for the quarter ended September 30, 2008.

The information in the Management's Discussion and Analysis, Required Supplementary Information, and Required Supplementary Stewardship Information sections is not a required part of the consolidated financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The information in the Performance Results Section is presented for purposes of additional analysis and is not required as part of the consolidated financial statements. This information has not been subjected to auditing procedures and, accordingly, we express no opinion on it.

Internal Control Over Financial Reporting

Our consideration of the internal control over financial reporting was for the limited purpose described in the Responsibilities section of this report and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the FAA's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that

there is more than a remote likelihood that a misstatement of the FAA's consolidated financial statements that is more than inconsequential will not be prevented or detected by the FAA's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the FAA's internal control.

In our fiscal year 2008 audit, we consider the deficiencies described in Exhibit I to be significant deficiencies in internal control over financial reporting. However, we believe that neither of the significant deficiencies described in Exhibit I are material weaknesses. Exhibit II presents the status of prior year significant deficiencies.

Compliance and Other Matters

The results of our tests of compliance described in the Responsibilities section of this report, exclusive of those referred to in FFMIA, disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04.

The results of our tests of FFMIA disclosed no instances in which the FAA's financial management systems did not substantially comply with the (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.

* * * * * * *

Responsibilities

Management's Responsibilities. Management is responsible for the consolidated financial statements; establishing and maintaining effective internal control; and complying with laws, regulations, contracts, and grant agreements applicable to the FAA.

Auditors' Responsibilities. Our responsibility is to express an opinion on the fiscal year 2008 and 2007 consolidated financial statements of the FAA based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 07-04. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the FAA's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements;
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall consolidated financial statement presentation.

We believe that our audits, and the report of the other auditors, provide a reasonable basis for our opinion.

In planning and performing our fiscal year 2008 audit, we considered the FAA's internal control over financial reporting by obtaining an understanding of the FAA's internal control, determining whether

internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to express an opinion on the effectiveness of the FAA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the FAA's internal control over financial reporting.

As part of obtaining reasonable assurance about whether the FAA's fiscal year 2008 consolidated financial statements are free of material misstatement, we performed tests of the FAA's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, including the provisions referred to in Section 803(a) of FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the FAA. However, providing an opinion on compliance with laws, regulations, contracts, and grant agreements was not an objective of our audit, and, accordingly, we do not express such an opinion.

The FAA's response to the findings identified in our audit is presented in Exhibit I. We did not audit the FAA's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the U.S. Department of Transportation and FAA management, the U.S. Department of Transportation Office of Inspector General, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 4, 2008

Independent Auditors' Report **EXHIBIT I**
Significant Deficiencies in Internal Control

SIGNIFICANT DEFICENCIES

A. Timely Processing of Transactions and Accounting for Property, Plant, and Equipment, including the Construction in Progress Account (Repeat/Update)

Background: The FAA constructs significant capital assets, such as radar, navigational, communications, and other technology equipment that is used to operate the United States National Airspace System. The FAA's Property, Plant and Equipment (PP&E) portfolio totals approximately $13.8 billion, including Construction in Progress (CIP) of approximately $2.3 billion. CIP consists of thousands of projects which range in size from a few thousand dollars to hundreds of millions of dollars. Most of the projects involve sophisticated technology that may take years to develop from concept to deployment. CIP is often deployed in multiple units and locations, causing FAA to allocate accumulated CIP to general property, plant, and equipment as each asset is deployed in various locations. The allocation of cost to a single deployed asset can involve complex calculations of incurred and projected direct and indirect costs. The rapid advancement of technology and changes in FAA programs sometimes causes the FAA to abandon projects resulting in an expense of capitalized amounts before deployment.

In FY 2006, FAA management was unable to assert to the accuracy and completeness of certain CIP and related balances at September 30, 2006. Consequently, we were unable to complete our audit procedures over those balances and related accounts. We also reported that FAA's material weakness in internal controls over its CIP balances and related accounts was uncorrected. In FY 2007, the FAA executed an extensive corrective action plan, involving a complete review of the CIP balance reported by FAA at September 30, 2006. Management's review of CIP resulted in a restatement during FY 2007 of its 2006 consolidated financial statements including a reclassification of CIP to general property, plant, and equipment of $1.7 billion and a charge to expense of more than $900 million, in addition to other corrections of FY 2006 PP&E related expenses. In FY 2007, we continued to report a material weakness in internal controls over PP&E, including CIP.

Conditions: During fiscal year 2008, we noted:

1. Weaknesses in the controls over the additions and adjustment to PP&E (excluding CIP) at the FAA regional level. As of March 31, 2008, we noted 17 instances where assets were capitalized with balances less than the capitalization threshold of $25,000 totaling $.1 million, 18 instances where assets were capitalized at the regional level when the programs were determined to be expensed projects at the national level totaling $7.4 million, 2 instances of incorrect useful lives totaling $.5 million, and 7 instances where the recording of an asset in two parts (one regional and one headquarters) occurred. As a result of the high error rate, we were unable to determine the accuracy of the regional additions and adjustments totaling $116 million as of March 31, 2008. In order to address the control weaknesses at the regional level, FAA implemented additional controls over regional projects and conducted a thorough review of all additions/adjustments to regional PP&E throughout the remainder of FY 2008. As a result of FAA's review, we noted a $34 million overstatement of expenses as of September 30, 2008 recorded in the current year but related to prior year activity. We further noted that regional additions and adjustments to PP&E were fairly stated as of September 30, 2008.

2. Weaknesses in the controls over the additions to CIP at the headquarters and regional level. We noted 7 instances where FAA personnel at the headquarters and regional level

were not following established policies and procedures related to the capitalization of CIP transactions totaling $1.9 million, which projected to a potential overstatement of CIP of approximately $33.9 million as of September 30, 2008. Specifically, we noted instances of costs capitalized to CIP that did not meet the capitalization threshold, maintenance and repair costs capitalized to CIP, and routine non-capitalizable costs recorded as CIP.

3. Weaknesses in the controls over FAA's quarterly PP&E accrual. In FY 2007, the FAA updated their *Accounting Capitalization Desk Guide* through FAA Policy 2007-1, *Timeliness of Asset Capitalization and In-Service Dates*, to ensure that assets are capitalized within 75 calendar days of placing the assets in-service. As a result of FAA changing their capitalization policy to 75 days, an accrual is necessary at the end of each quarter to account for assets that have been deployed and placed in service, but not capitalized from CIP to PP&E. During FY 2008, we noted instances where FAA did not accrue for all projects placed in service at period end (March 31, 2008) totaling $33.8 million and situations where FAA did not accrue for project "trailing dollars" totaling $1.8 million. "Trailing Dollars" are expenditures necessary to bring the PP&E to a form and location suitable for its intended use, but had not been accrued to the asset task when the asset was capitalized from CIP to PP&E. We noted that these errors were not initially identified by FAA as a "look-back" process was not in place for the first six months of the year. FAA implemented a "look-back" process for the remainder of the fiscal year, however, we identified a potential understatement of PP&E in the amount of $15 million as of September 30, 2008 related to costs incurred as of year-end not capitalized into PP&E.

4. A lack of adherence to policies and procedures by program offices to ensure the timely removal of fixed assets from the accounting system upon retirement. Through inspection of retirement documentation and physical observation of general property, plant, and equipment on-hand, we noted 4 instances where an asset no longer existed and was not removed from the fixed assets subsidiary ledger in a timely manner totaling $4.2 million in net book value as of September 30, 2008.

5. Improper expensing during FY 2008 of CIP projects. Specifically, we noted that the FAA expensed approximately $17 million of CIP projects with balances less then $25,000 that related to prior year activity. Therefore, the expenses were recorded in the incorrect fiscal year. In addition, we noted that FAA expensed approximately $20.5 million of CIP projects with current balances between $25,000 and $100,000, in preparation for the new capitalization threshold of $100,000 to be in place as of October 1, 2008. However, expensing these projects during FY 2008 was not in accordance with FAA's current policies and procedures. As a result of both issues noted above, current year operating expense was overstated by $37.5 million, and CIP was understated by $20.5 million.

6. Improper up-front coding of a headquarters project as capital when the project met the criteria for expense coding. Up-front coding is the process utilized by FAA when initially establishing a project as either capital or expense. If a project is coded as capital all costs are capitalized to CIP and if coded as expense all costs are recorded to expense when incurred. As a result of the improper up-front coding, we noted that FAA capitalized approximately $2 million to CIP that should have been recorded to operating expense. FAA's subsequent review of up-front coding adjusted the amount to operating expense prior to September 30, 2008.

Independent Auditors' Report **EXHIBIT I**
Significant Deficiencies in Internal Control

7. Improper classification of CIP projects during FY 2008. Specifically, we noted that FAA's CIP balance as of August 31, 2008 included costs of approximately $76K for a project that should have been expensed, which projected to an overall overstatement in CIP of approximately $1 million. FAA subsequently corrected the error prior to September 30, 2008.

8. Correction of asset useful life, date placed in service, and/or asset cost during FY 2008 due to input errors in the prior year. Specifically, we noted 2,690 assets in service as of September 30, 2007 had an appropriate change in their useful life, date placed in service, and/or asset cost during FY 2008, which resulted in a net overstatement of current year depreciation expense of $1.9 million.

Cause/Effect: In FY 2004, the FAA implemented a new accounting system. During the conversion, some CIP data was transferred at the summary level which made the identification of some assets in CIP more difficult, causing assets to remain in CIP long after they had been placed in service or abandoned, and required manual intervention to review and capitalize assets. Historically, communication has been weak between the FAA's accounting offices, the intermediary lines of business finance staff or comptrollers, and program/project managers. Until recently, programmatic and operating personnel did not always adhere to policies and procedures to enable the timely recording of PP&E placed in service. This created a challenge in recording transfers from CIP to PP&E in a timely manner. Communication has improved during FY 2008 and a strong effort was put in place to develop and implement policies and procedures to address the weaknesses noted in the prior year audits. However, as new policies and procedures were implemented, the FAA was faced with the challenge of properly implementing these controls throughout the agency. Weaknesses noted during FY 2008 are the result of the newly developed policies and procedures not operating effectively or not being implemented throughout the FAA. Finally, accounting for FAA CIP is very complex, with many variables and inputs that affect the capitalized value, including estimates, indirect costs, projection of future spend rates, timing and number of asset deployments. Property, plant, and equipment (including CIP) as of September 30, 2008 is overstated (net) by approximately $4.5 million. In addition, related expenses as of September 30, 2008 are overstated by approximately $33.4 million. If FAA is unable to correct these conditions early in FY 2009 the CIP, PP&E and related financial statement balances may not be fairly stated at any point during FY 2009, and in future years.

Criteria: Statement of Federal Financial Accounting Standards (SFFAS) No. 6, *Accounting for Property, Plant, and Equipment*, requires that:

- Constructed PP&E be recorded as CIP until the asset is placed in service, at which time it is to be transferred to general PP&E, and depreciation expense should be taken over the estimated useful life of the asset;
- PP&E is recorded at historical cost with an adjustment recorded for depreciation. In the absence of such information, estimates may be used based on a comparison of similar assets with known values or inflation-adjusted current costs; and
- PP&E accounts be adjusted for disposals, retirements and removal of PP&E, including associated depreciation.

Independent Auditors' Report **EXHIBIT I**
Significant Deficiencies in Internal Control

OMB Circular No. A-123, *Management's Responsibility for Internal Control*, states that transactions should be promptly recorded, properly classified and accounted for in order to prepare timely and reliable financial and other reports. Documentation for transactions, management controls, and other significant events must be clear and readily available for examination.

GAO's *Standards for Internal Control in the Federal Government* states that internal controls should generally be designed to ensure that on-going monitoring occurs in the course of normal operations. Management is responsible for developing control activities, which are the policies, procedures, techniques, and mechanisms that enforce management's directives and help ensure that actions address risks. The activities include reviews by management at the functional or activity level; proper execution of transactions and events; accurate and timely recording of transactions and events; and appropriate documentation of transactions and internal control.

Recommendations: Properly accounting for PP&E and CIP transactions will require a commitment of resources, detailed policies and procedures, and clear communications with programmatic personnel for key inputs. FAA senior management personnel have developed a plan to actively monitor PP&E, including CIP activity. However, the new policies and procedures implemented during FY 2008 were either not in place or operating effectively for the entire fiscal year. As FAA continues to implement and revise its policies and procedures and train personnel, we recommend that the FAA:

1. Fully comply with the existing policies and procedures, including policies on capitalization thresholds, asset retirements, up-front coding, and procedures for timely entry of transactions in the fixed asset subsidiary ledger, to ensure that CIP and related PP&E balances are accurate, complete and exist throughout the year.
2. Ensure that supporting documentation for capitalization of PP&E, including CIP, is properly managed, maintained and available for examination upon request.
3. Implement a three-year rolling inventory of personal and real property that is owned by the FAA and input the results into the Delphi property records.
4. Continue to strengthen communication and reporting between Financial Management, Air Traffic Organization-Airports, Air Traffic Organization-Finance, and Region and Center Operations to ensure that all assets that are deployed and placed in service but not capitalized from CIP to PP&E are properly accounted for in the quarterly PP&E accrual. Continue the validation of the quarterly accrual utilizing the "look-back" process implemented during FY 2008.
5. Continue reviewing the useful life and date placed in service of capitalized assets. In addition, implement procedures to track the effect of changing the useful life, date placed in service, and/or cost of an asset on current year and prior year depreciation expense on a quarterly basis.
6. Continue improving the functionality of IT systems to automate transactions wherever possible and reduce the extent of manual intervention to record routine transactions involving CIP and PP&E.
7. Continue training and strengthening communication between the field, regions, and the operating accounting offices to ensure that they follow newly implemented guidance resulting from the Corrective Action Plans over PP&E, including CIP.

Independent Auditors' Report **EXHIBIT I**
Significant Deficiencies in Internal Control

FAA's Response: The FAA has reviewed the significant deficiency related to PP&E, including CIP, and agrees with KPMG's recommendations. We are committed to implementing KPMG's recommendations by March 31, 2009 as well as to continuously improving our property accounting practices related to the timeliness and quality controls over our capitalization process. In FY 2009, we will continue to emphasize the need for improved communication with the regional offices, closer monitoring of our quarterly accruals, automated improvements, and adequate supporting documentation throughout the year. As we further standardize, we believe these actions will resolve the conditions that resulted in this significant deficiency and, at the same time, improve our overall business process.

B. Information Technology Controls over FAA and Third-party Systems and Applications (Repeat/Update)

Background: The FAA relies on extensive information technology to administer internal controls over the performance of financial management related activities and the preparation of financial statements. Information Technology (IT) systems are essential to ensure the integrity, confidentiality, availability, and accuracy of critical data. Effective IT general controls are typically defined by the GAO's *Federal Information System Controls Audit Manual* (FISCAM) in six key control areas: entity-wide security program planning and management, access control, application software development and change control, system software, segregation of duties, and service continuity.

Conditions: During our FY 2008 audit, we noted that FAA made progress in improving various aspects of IT general controls weaknesses that were reported as a significant deficiency in FY 2007. However, during FY 2008 we noted weaknesses still exist related to access controls, application software development and change control, segregation of duties, and system software.

1. **Access controls** – weaknesses noted related to Delphi (core accounting system used by FAA), System of Airport Reporting (SOAR), Purchasing Request Information System Management (PRISM), Cost Accounting System (CAS), and Consolidated Automated System for Time and Labor Entry (CASTLE).
2. **Application software development and change control** – weaknesses noted related to Delphi, SOAR, CAS, and PRISM.
3. **Segregation of duties** – weaknesses noted related to CASTLE.
4. **System Software** – weaknesses noted related to Delphi, SOAR, CAS, and PRISM.

Cause/Effect: Effective policies and procedures have not been implemented to ensure that controls are in place and operating effectively in the information technology environment.

The deficiencies noted could adversely affect the FAA's ability to record, process, summarize, and report financial data consistent with the assertions of management in the FAA's consolidated financial statements.

Independent Auditors' Report **EXHIBIT I**
Significant Deficiencies in Internal Control

Criteria: The *Federal Information Security Management Act* (FISMA) passed as part of the *E-Government Act of 2002,* mandates that Federal entities maintain IT security programs in accordance with National Institute of Standards and Technology (NIST) guidance.

The Federal Financial Management Improvement Act (FFMIA) set forth legislation prescribing policies and standards for executive departments and agencies to follow in developing, operating, evaluating, and reporting on financial management systems. The purpose of FFMIA is: (1) to provide for consistency of accounting by an agency from one fiscal year to the next, and uniform accounting standards throughout the Federal Government; (2) require Federal financial management systems to support full disclosure of Federal financial data, including the full costs of Federal programs and activities; (3) increase the accountability and credibility of federal financial management; (4) improve performance, productivity and efficiency of Federal Government financial management; and (5) establish financial management systems to support controlling the cost of Federal Government.

OMB Circular No. A-130, *Management of Federal Information Resources*, Appendix III, requires Federal agencies to establish adequate security controls for information collected, processed, transmitted, stored, or disseminated in general support and application systems commensurate with the risk and magnitude of harm resulting from the loss, misuse, or unauthorized access to or modification of information.

National Institute of Standards and Technology Special Publication Number 800-53, *Recommended Security Controls for Federal Information Systems*, addresses minimum security control requirements that Federal agencies should implement in their general support and application systems that are consistent with the control issues addressed in this report.

Recommendations: We recommend that the FAA:

1. **Access controls** – Implement policies and procedures to enforce appropriate password controls throughout the FAA.

2. **Application Software Development and Change Control** – Enhance existing policies and procedures related to software development and change control to include the documentation of compensating controls to reduce the likelihood of the related vulnerability being exploited and centrally maintain documentation of the associated risk acceptances.

3. **Segregation of Duties** – Implement policies and procedures to ensure compliance with segregation of duties requirements.

4. **System Software** – Enhance existing policies and procedures related to system software to include the documentation of compensating controls to reduce the likelihood of the related vulnerability being exploited and centrally maintain documentation of the associated risk acceptances.

FAA's Response: The FAA has reviewed the significant deficiency related to information technology controls over the FAA and third-party systems applications and agrees with KPMG's recommendations. The FAA, through the Chief Information Officer, is committed to maintaining system security and will implement KPMG's recommendations no later than March 31, 2009. We will also work with any third parties that operate systems for the FAA to ensure that these systems comply with KPMG's recommendations as well.

Independent Auditors' Report
Significant Deficiencies in Internal Control

EXHIBIT II

STATUS OF PRIOR YEAR SIGNIFICANT DEFICIENCIES AND NON-COMPLIANCE WITH SIGNIFICANT LAWS AND REGULATIONS

Prior Year Condition	As Reported At September 30, 2007	Status As Of September 30, 2008
Timely Processing of Transactions and Accounting for Property, Plant, and Equipment, including the Construction in Progress Account (Repeat/Update)	**Material weakness:** There were certain internal control weaknesses related to the timeliness of transaction processing and accounting for PP&E, including CIP transactions.	**Continue as a significant deficiency:** Although the FAA was successful in implementing new policies and procedures to address the prior year issues, weaknesses still remain in the timely and accurate recording of property, plant, and equipment, including CIP transactions.
Information technology controls over FAA and third-party systems and applications	**Significant deficiency:** Certain general controls related to the FAA's primary financial applications owned by the FAA and the DOT need to be strengthened.	**Continue as a significant deficiency:** Certain general control weaknesses continue to exist related to FAA's primary financial applications.
Management Oversight and Reporting of Inventory	**Significant deficiency:** There were certain internal control weaknesses related to the reporting of inventory transactions. Specifically, we noted instances of double counting of transactions between inventory and CIP, inconsistent inventory allowance calculations, and improper classification of inventory accounts.	**No longer considered a significant deficiency.**
Non-compliance with the *Federal Financial Management Improvement Act*	**Instance of non-compliance:** The FAA's financial systems did not comply with U.S. Government Standard General Ledger at the transaction level and management was unable to account for transactions and present balances in its periodic financial statements in accordance with applicable accounting standards, as of and for the year ended, September 30, 2007.	**No longer considered an instance of non-compliance.**

FINANCIAL STATEMENTS

U.S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
CONSOLIDATED BALANCE SHEETS
As of September 30
(Dollars in Thousands)

Assets	2008	2007
Intragovernmental		
Fund balance with Treasury (Note 2)	$ 3,926,742	$ 3,895,095
Investments, net (Note 3)	8,846,350	8,904,357
Accounts receivable, prepayments, and other (Note 4)	195,119	374,209
Total intragovernmental	12,968,211	13,173,661
Accounts receivable, prepayments, and other, net (Note 4)	134,695	108,347
Inventory, operating materials, and supplies, net (Note 5)	538,837	507,527
Property, plant, and equipment, net (Notes 6 and 9)	13,765,187	13,891,770
Total assets	$ 27,406,930	$ 27,681,305
Liabilities		
Intragovernmental liabilities		
Accounts payable	$ 11,521	$ 20,379
Employee related and other (Note 8)	379,002	332,249
Total intragovernmental liabilities	390,523	352,628
Accounts payable	335,937	387,036
Grants payable	642,041	653,790
Environmental (Note 7, 15 & 16)	637,825	566,886
Employee related and other (Notes 8, 9 & 16)	1,037,837	911,410
Federal employee benefits (Note 10)	915,242	883,982
Total liabilities	3,959,405	3,755,732
Commitments and contingencies (Notes 9 & 16)		
Net position		
Unexpended appropriations—earmarked funds (Note 12)	920,894	1,097,039
Unexpended appropriations—other funds	-	2,877
Subtotal unexpended appropriations	920,894	1,099,916
Cumulative results of operations—earmarked funds (Note 12)	11,182,229	11,647,347
Cumulative results of operations—other funds	11,344,402	11,178,310
Subtotal cumulative results of operations	22,526,631	22,825,657
Total net position	23,447,525	23,925,573
Total liabilities and net position	$ 27,406,930	$ 27,681,305

The accompanying notes are an integral part of these financial statements.

U.S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
CONSOLIDATED STATEMENTS OF NET COST
For the Years Ended September 30
(Dollars in Thousands)

Line of business programs (Note 11)	2008	2007
Air Traffic Organization		
Expenses	$ 10,596,417	$ 9,825,077
Less earned revenues	(171,211)	(144,601)
Net costs	10,425,206	9,680,476
Aviation Safety		
Expenses	1,161,014	1,018,315
Less earned revenues	(6,142)	(5,566)
Net costs	1,154,872	1,012,749
Airports		
Expenses	3,753,840	3,923,719
Less earned revenues	(165)	(114)
Net costs	3,753,675	3,923,605
Commercial Space Transportation		
Expenses	11,257	10,768
Net costs	11,257	10,768
Non line of business programs		
Regions and center operations and other programs		
Expenses	557,994	604,529
Less earned revenues	(370,883)	(417,673)
Net costs	187,111	186,856
Net cost of operations		
Total expenses	16,080,522	15,382,408
Less earned revenues	(548,401)	(567,954)
Total net cost	$ 15,532,121	$ 14,814,454

The accompanying notes are an integral part of these financial statements.

U.S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION
UNEXPENDED APPROPRIATIONS
For the Years Ended September 30
(Dollars in Thousands)

	2008 Earmarked Unexpended appropriations	2008 Other funds Unexpended appropriations	2008 Totals Unexpended appropriations	2007 Earmarked Unexpended appropriations	2007 Other funds Unexpended appropriations	2007 Totals Unexpended appropriations
Beginning balances	$ 1,097,039	$ 2,877	$ 1,099,916	$ 426,474	$ 2,877	$ 429,351
Budgetary financing sources						
Appropriations received (Note 14)	2,342,939	-	2,342,939	2,746,317	-	2,746,317
Appropriations transferred-in/out	-	-	-	621	-	621
Rescissions, cancellations, and other	(20,393)	-	(20,393)	(65,511)	-	(65,511)
Appropriations used	(2,498,691)	(2,877)	(2,501,568)	(2,010,862)	-	(2,010,862)
Total budgetary financing sources	(176,145)	(2,877)	(179,022)	670,565	-	670,565
Ending balances	$ 920,894	$ -	$ 920,894	$ 1,097,039	$ 2,877	$ 1,099,916

The accompanying notes are an integral part of these financial statements.

U.S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION
CUMULATIVE RESULTS OF OPERATIONS
For the Years Ended September 30
(Dollars in Thousands)

	2008 **Earmarked** Cumulative results of operations	2008 **Other funds** Cumulative results of operations	2008 **Totals** Cumulative results of operations	2007 **Earmarked** Cumulative results of operations	2007 **Other funds** Cumulative results of operations	2007 **Totals** Cumulative results of operations
Beginning balances	$ 11,647,347	$ 11,178,310	$ 22,825,657	$ 12,775,897	$ 10,020,495	$ 22,796,392
Budgetary financing sources						
Appropriations used	2,498,691	2,877	2,501,568	2,010,862	-	2,010,862
Nonexchange revenue—excise taxes and other (Note 12)	12,283,879	(5,119)	12,278,760	12,372,397	1,170	12,373,567
Transfers-in/out without reimbursement	(111,563)	-	(111,563)	(132,708)	58,062	(74,646)
Other financing sources						
Transfers-in/out without reimbursement	(1,898,366)	1,898,366	-	(2,447,251)	2,447,463	212
Imputed financing from costs absorbed by others (Note 13)	514,478	49,852	564,330	474,119	59,605	533,724
Total financing sources	13,287,119	1,945,976	15,233,095	12,277,419	2,566,300	14,843,719
Net cost of operations	13,752,237	1,779,884	15,532,121	13,405,969	1,408,485	14,814,454
Net change	(465,118)	166,092	(299,026)	(1,128,550)	1,157,815	29,265
Ending balances	$ 11,182,229	$ 11,344,402	$ 22,526,631	$ 11,647,347	$ 11,178,310	$ 22,825,657

The accompanying notes are an integral part of these financial statements.

U.S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
COMBINED STATEMENTS OF BUDGETARY RESOURCES
For the Years Ended September 30
(Dollars in Thousands)

Budgetary resources (Note 14)	**2008**	**2007**
Unobligated balance brought forward, transfers and other	$ 2,753,668	$ 2,305,222
Recoveries of prior year obligations	471,076	291,059
Budget authority	19,485,521	19,725,794
Spending authority from offsetting collections	7,174,115	6,502,604
Nonexpenditure transfers, net	(41,566)	(46,331)
Temporarily not available pursuant to public law	-	-
Permanently not available	(4,697,732)	(5,058,781)
Total budgetary resources	$ 25,145,082	$ 23,719,567
Status of budgetary resources		
Obligations incurred	$ 22,322,802	$ 20,965,899
Unobligated balance available	1,395,626	1,347,769
Unobligated balance not available	1,426,654	1,405,899
Total status of budgetary resources	$ 25,145,082	$ 23,719,567
Change in obligated balance		
Obligated balance, net, beginning of period	$ 8,513,195	$ 8,494,510
Obligations incurred	22,322,802	20,965,899
Gross outlays	(21,955,876)	(20,817,520)
Recoveries of prior years unpaid obligations, actual	(471,076)	(291,059)
Change in uncollected customer payments from Federal sources	62,499	161,365
Obligated balance, net, end of period	$ 8,471,544	$ 8,513,195
Unpaid obligations	$ 8,904,432	$ 9,008,582
Uncollected customer payments from Federal sources	(432,888)	(495,387)
Obligated balance, net, end of period	$ 8,471,544	$ 8,513,195
Outlays		
Gross outlays	$ 21,955,876	$ 20,817,520
Collections, net of offsetting receipts	(7,237,024)	(6,663,969)
Distributed offsetting receipts	(1,970)	(103)
Net outlays	$ 14,716,882	$ 14,153,448

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The financial statements have been prepared to report the financial position, net cost of operations, changes in net position, and status and availability of budgetary resources of the FAA. The statements are a requirement of the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. They have been prepared from, and are fully supported by, the books and records of the FAA in accordance with (1) the hierarchy of accounting principles generally accepted in the United States of America and standards approved by the principals of the Federal Accounting Standards Advisory Board (FASAB), (2) Office of Management and Budget (OMB) Circular Number A-136, *Financial Reporting Requirements*, and (3) Department of Transportation (DOT) and FAA accounting policies, which are summarized in this note. These statements, with the exception of the Statement of Budgetary Resources, are different from financial management reports, which are also prepared pursuant to OMB directives that are used to monitor and control the FAA's use of budgetary resources. The statements are subjected to audit, as required by OMB Bulletin Number 07-04, *Audit Requirements for Federal Financial Statements*.

Notes 4 and 8 include the necessary information to present "other assets" and "other liabilities" as defined by OMB Circular Number A-136. This presentation is used to support the preparation of the consolidated financial statements of the U.S. Government.

Unless specified otherwise, all dollar amounts are presented in thousands.

B. Reporting Entity

The FAA, which was created in 1958, is a component of the DOT, a cabinet-level agency of the Executive Branch of the U.S. Government. The FAA's mission is to provide 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, the FAA is responsive to the dynamic nature of customer needs, economic conditions, and environmental concerns. The FAA reporting entity is composed of the following major funds:

- **Airport and Airway Trust Fund (AATF).** The AATF is funded by excise taxes that the Internal Revenue Service (IRS) collects from airway system users. These receipts are unavailable until appropriated by the U.S. Congress. Once appropriated for use, the FAA transfers AATF receipts necessary to meet cash disbursement needs to several other funds, from which expenditures are made. The AATF fully finances the following additional FAA funds:
  - Grants-in-Aid to Airports—AATF. As authorized, grants are awarded with Grants-in-Aid to Airports funding and used for planning and development to maintain a safe and efficient nationwide system of public airports. These grants fund approximately one-third of all capital development at the nation's public airports and are administered through the Airport Improvement Program.
  - Facilities and Equipment—AATF. The Facilities and Equipment funds are the FAA's principal means of modernizing and improving air traffic control and airway facilities. These funds also finance major capital improvements required by other FAA programs as well as other improvements to enhance the safety and capacity of the national airspace system.
  - Research, Engineering, and Development—AATF. Research, Engineering, and Development funds finance long-term research programs to improve the air traffic control system.
- **Operations General Fund and Operations—AATF.** Operations finances operating costs, maintenance, communications, and logistical support for the air traffic control and air navigation systems. It also finances the salaries and costs associated with carrying out the FAA's safety and inspection and regulatory responsibilities. Operations—AATF is financed through transfers

from the Airport and Airway Trust Fund. For administrative ease in obligating and expending for operational activities, those funds are then in turn transferred to the Operations General Fund, which is supplemented by appropriations from the U.S. Treasury. Expenditures for operational activities, whether originally funded by the AATF or the General Fund of the U.S. Treasury, are generally made from the Operations General Fund.

- **Aviation Insurance Revolving Fund.** Revolving funds are accounts established by law to finance a continuing cycle of operations with receipts derived from such operations usually available in their entirety for use by the fund without further action by the U.S. Congress. The Aviation Insurance Revolving Fund provides products that address the insurance needs of the U.S. domestic airline industry not adequately met by the commercial insurance market. The FAA is currently providing war-risk hull loss and passenger, crew, and third-party liability insurance as required by the Homeland Security Act of 2002 as amended by the Federal Aviation Administration Extension Act of 2008. Current insurance coverage expires on December 31, 2008.

- **Administrative Services Franchise Fund (Franchise Fund).** The Franchise Fund is a revolving fund designed to create competition within the public sector in the performance of a wide variety of support services.

- **Other Funds.** The consolidated financial statements include other funds such as (a) Aviation Overflight User Fees, which is a special fund in which receipts are earmarked by law for a specific purpose; (b) Facilities, Engineering, & Development General Fund; and (c) General Fund Miscellaneous Receipts accounts established for receipts of non-recurring activity, such as fines, penalties, fees, and other miscellaneous receipts for services and benefits.

The FAA has rights and ownership of all assets reported in these financial statements. The FAA does not possess any nonentity assets.

C. Budgets and Budgetary Accounting

Congress annually enacts appropriations to permit the FAA to incur obligations for specified purposes. In FY 2008 and 2007, the FAA was accountable for amounts made available in appropriations laws from the AATF, Revolving Funds, a Special Fund, and General Fund appropriations. The FAA recognizes budgetary resources as assets when cash (funds held by the U.S. Treasury) is made available through Department of Treasury General Fund warrants and transfers from the AATF.

D. Basis of Accounting

Transactions are recorded on both an accrual accounting basis and a budgetary accounting 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. Budgetary accounting facilitates compliance with legal requirements on the use of Federal funds. All material intraagency transactions and balances have been eliminated for presentation on a consolidated basis. However, the Statement of Budgetary Resources is presented on a combined basis, in accordance with OMB Circular A-136.

Intragovernmental transactions and balances result from exchange transactions made between the FAA and another Federal Government reporting entity, while those classified as "with the public" result from exchange transactions between the FAA and non-Federal entities. For example, if the FAA purchases goods or services from the public and sells them to another Federal entity, the costs would be classified as "with the public," but the related revenues would be classified as "intragovernmental." This could occur, for example, when the FAA provides goods or services to another Federal Government entity on a reimbursable basis. The purpose of this classification is to enable the Federal Government to prepare consolidated financial statements, and not to match public and intragovernmental revenue with costs that are incurred to produce public and intragovernmental revenue.

E. Revenues and Other Financing Sources

Congress enacts annual, multi-year, and no-year appropriations to be used, within statutory limits, for operating, capital, and grant expenditures. Additional amounts are obtained from service fees (e.g., landing, registry, and overflight fees), war risk insurance premiums (see note 16), and through reimbursements for products and services provided to domestic and foreign governmental entities.

The AATF is sustained by excise taxes that the IRS collects from airway system users. Excise taxes collected are initially deposited to the General Fund of the U.S. Treasury. The IRS does not receive sufficient information at the time the taxes are collected to determine how these payments should be distributed to specific earmarked funds. Therefore, the U.S. Treasury makes initial semi-monthly distributions to earmarked funds based on estimates prepared by its Office of Tax Analysis (OTA). These estimates are based on historical excise tax data applied to current excise tax receipts. The FAA's September 30, 2008, financial statements reflect excise taxes certified by the IRS through June 30, 2008, and excise taxes estimated by OTA for the period July 1 through September 30, 2008, as specified by the Statement of Federal Financial Accounting Standards (SFFAS) Number 7, *Accounting for Revenue and Other Financing Sources*. Actual tax collections data for the quarter ended September 30, 2008, will not be available from the IRS until December 2008. When actual amounts are available from the IRS, generally 3 months after each quarter-end, adjustments are made to the estimated amounts and the difference is accrued as an intragovernmental receivable or payable. FAA management does not believe that the actual tax collections for the quarter ended September 30, 2008, will be materially different from the OTA estimate based on historical results.

The AATF also earns interest from investments in U.S. Government securities. Interest income is recognized as revenue on the accrual basis of such collections for those quarters.

Appropriations are recognized as a financing source when expended. Revenues from services provided by the FAA associated with reimbursable agreements are recognized concurrently with the recognition of accrued expenditures for performing the services. War-risk insurance premiums are recognized as revenue on a straight-line basis over the period of coverage. Aviation overflight user fees are recognized as revenue in the period in which the flights took place.

The FAA recognizes as an imputed financing source the amount of accrued pension and post-retirement benefit expenses for current employees paid on the FAA's behalf by the Office of Personnel Management (OPM), as well as amounts paid from the U.S. Treasury Judgment Fund in settlement of claims or court assessments against the FAA.

F. Taxes

The FAA, as a Federal entity, is not subject to Federal, state, or local income taxes and, accordingly, no provision for income taxes has been recorded in the accompanying financial statements.

G. Fund Balance With the U.S. Treasury

The U.S. Treasury processes cash receipts and disbursements. Funds held at the Treasury are available to pay agency liabilities. The FAA does not maintain cash in commercial bank accounts or foreign currency balances. Foreign currency payments are made either by Treasury or the Department of State and are reported by the FAA in the U.S. dollar equivalent.

H. Investment in U.S. Government Securities

Unexpended funds in the AATF and Aviation Insurance Revolving Fund (war-risk premiums) are invested in U.S. Government securities at cost. A portion of the AATF investments is liquidated semi-monthly in amounts needed to provide cash for FAA appropriation accounts, to the extent authorized. The Aviation Insurance Revolving Fund investments are usually held to maturity. Investments, redemptions, and reinvestments are held and managed under the direction of the FAA by the U.S. Treasury.

I. Accounts Receivable

Accounts receivable consists of amounts owed to the FAA by other Federal agencies and the public. Amounts due from Federal agencies are considered fully collectible. Accounts receivable from the public include, for example, overflight fees, fines and penalties, reimbursements from employees, and services performed for foreign governments. These amounts due from the public are presented net of an allowance for loss on uncollectible accounts based on historical collection experience or an analysis of the individual receivables.

The FAA reports deposits in transit when the U.S. Treasury has not yet recognized FAA's collections received from the public or other Federal entities.

J. Inventory

Within the FAA's Franchise Fund, inventory is held for sale to FAA field locations and other domestic entities and foreign governments. Inventory consists of materials and supplies used to support the National Airspace System (NAS) and is predominantly located at the FAA Mike Monroney Aeronautical Center in Oklahoma City. Inventory cost includes material, labor, and applicable manufacturing overhead and is determined using the weighted moving average cost method.

FAA field locations trade nonoperational repairable components with the Franchise Fund. These components are classified as "held for repair." An allowance is established for repairable inventory based on the average historical cost of such repairs. The cost of repair is capitalized and these items are reclassified as "held for sale."

Inventory may be classified as excess, obsolete, and unserviceable if, for example, the quantity exceeds projected demand for the foreseeable future or if the item has been technologically surpassed. An allowance is established for excess, obsolete, and unserviceable inventory based on the condition of various inventory categories as well as the FAA's historical experience with disposing of such inventory.

K. Operating Materials and Supplies

In contrast to inventory, which is held for sale by the Franchise Fund, operating materials and supplies are used in the operations of the agency. Operating materials and supplies primarily consist of unissued materials and supplies that will be used in the repair and maintenance of FAA owned aircraft. They are valued based on the weighted moving average cost method or on the basis of actual prices paid. Operating materials and supplies are expensed using the consumption method of accounting.

Operating materials and supplies "held for use" are those items that are consumed on a regular and ongoing basis. Operating materials and supplies "held for repair" are awaiting service to restore their condition to "held for use."

Operating materials and supplies may be classified as excess, obsolete, and unserviceable if, for example, the quantity exceeds projected demand for the foreseeable future, or if the item has been technologically surpassed. An allowance is established for "held for use" and excess, obsolete, and unserviceable operating materials and supplies based on the condition of various asset categories as well as the FAA's historical experience with disposing of such assets.

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

The FAA capitalizes acquisitions of PP&E when the cost equals or exceeds $25,000 and the useful life equals or exceeds 2 years. The FAA records PP&E at original acquisition cost. However, where applicable, the FAA allocates an average cost of like assets within a program, commonly referred to as unit costing. The FAA purchases some capital assets in large quantities, which are known as "bulk purchases." If the cost per unit is below the capitalization threshold of the FAA, then these items are expensed.

Depreciation expense is calculated using the straight-line method. Depreciation commences the first month after the asset is placed in service. The FAA does not recognize residual value of its PP&E.

Real property assets such as buildings, air traffic control towers, en route air traffic control centers, mobile buildings, roads, sidewalks, parking lots, and other structures are depreciated over a useful life of up to 40 years.

Personal property assets such as aircraft, decision support systems, navigation, surveillance, communications and weather-related equipment, office furniture, internal use software, vehicles, and office equipment are depreciated over a useful life of up to 20 years.

Buildings and equipment 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 (CIP) is valued at actual direct costs plus applied overhead and other indirect costs.

The FAA occupies certain real property that is leased by the DOT from the General Services Administration. Payments made by the FAA are based on the fair market value for similar rental properties.

The FAA conducts a significant amount of research and development into new technologies to support the NAS. Until such time as the research and development project reaches "technological feasibility," the costs associated with the project are expensed in the year incurred.

M. Prepaid Charges

The FAA generally does not pay for goods and services in advance, except for certain reimbursable agreements, subscriptions, and payments to contractors and employees. 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.

N. Liabilities

Liabilities covered by budgetary or other resources are those liabilities for which Congress has appropriated funds or funding is otherwise available to pay amounts due. Liabilities not covered by budgetary or other resources represent amounts owed in excess of available, congressionally appropriated funds or other amounts. The liquidation of liabilities not covered by budgetary or other resources is dependent on future congressional appropriations or other funding, including the AATF. Intragovernmental liabilities are claims against the FAA by other Federal agencies.

O. Accounts Payable

Accounts payable are amounts the FAA owes to other Federal agencies and the public. Accounts payable to Federal agencies generally consist of amounts due under interagency reimbursable agreements. Accounts payable to the public primarily consist of unpaid goods and services received by the FAA in support of the NAS, and estimated amounts incurred but not yet claimed by Airport Improvement Program grant recipients.

P. Annual, Sick, and Other Leave

Annual leave is accrued as it is earned, and the accrual is reduced as leave is taken. For each bi-weekly pay period, the balance in the accrued annual leave account is adjusted to reflect the latest pay rates and unused hours of leave. Liabilities associated with other types of vested leave, including compensatory, credit hours, restored leave, and sick leave in certain circumstances, are accrued based on latest pay rates and unused hours of leave. Sick leave is generally nonvested, except for sick leave balances at retirement under the terms of certain union agreements. Funding will be obtained from future financing sources to the extent that current or prior year appropriations are not available to fund annual and other types of vested leave earned but not taken. Nonvested leave is expensed when used.

Q. Accrued Workers' Compensation

A liability is recorded for actual and estimated future payments to be made for workers' compensation pursuant to the Federal Employees' Compensation Act (FECA). The actual costs incurred are reflected as a liability because the FAA will reimburse the Department of Labor (DOL) 2 years after the actual payment of expenses by the DOL. Future appropriations will be used for the reimbursement to DOL. The liability consists of (1) the net present value of estimated future payments calculated by the DOL, and (2) the unreimbursed cost paid by DOL for compensation to recipients under the FECA.

R. Retirement Plan

FAA employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). The employees who participate in CSRS are beneficiaries of the FAA's matching contribution, equal to 7% of pay, distributed to their annuity account in the Civil Service Retirement and Disability Fund.

FERS went into effect on January 1, 1987. 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% of pay and matches any employee contribution up to an additional 4% of pay. For FERS participants, the FAA also contributes the employer's matching share for Social Security.

The FAA recognizes the imputed cost of pensions and other retirement benefits during an employee's active years of service. 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 FAA for current period expense reporting. OPM

also provides information regarding the full cost of health and life insurance benefits. The FAA recognizes the offsetting revenue as imputed financing sources to the extent these expenses will be paid by OPM.

S. Grants

The FAA records an obligation at the time a grant is awarded. As grant recipients conduct eligible activities under the terms of their grant agreement, they request payment by the FAA, typically via an electronic payment process. Expenses are recorded at the time of payment approval during the year. The FAA also recognizes an accrued liability and expense for estimated eligible grant payments not yet requested by grant recipients. Grant expenses, including associated administrative costs, are classified on the Consolidated Statements of Net Cost under the line of business program "Airports."

T. Use of Estimates

Management has made certain estimates and assumptions when reporting assets, liabilities, revenue, and expenses and in the note disclosures. Actual results could differ from these estimates. Significant estimates underlying the accompanying financial statements include (a) the allocation of AATF receipts by the OTA, (b) legal, environmental, and contingent liabilities, (c) accruals of accounts and grants payable, (d) accrued workers' compensation, (e) allowance for doubtful accounts receivable, (f) allowances for repairable and obsolete inventory balances, (g) allocations of common costs to CIP, and (h) the allocation of an average cost of like assets within a program, commonly referred to as unit costing.

U. Environmental Liabilities

The FAA recognizes two types of environmental liabilities: environmental remediation, and cleanup and decommissioning. The liability for environmental remediation is an estimate of costs necessary to bring a known contaminated site into compliance with applicable environmental standards. The increase or decrease in the annual liability is charged to current year expense.

Environmental cleanup and decommissioning is the estimated cost that will be incurred to remove, contain, and/or dispose of hazardous materials when an asset presently in service is shut down. The FAA estimates the environmental cleanup and decommissioning costs at the time an FAA-owned asset is placed in service. For assets placed in service through FY 1998, the increase or decrease in the estimated environmental cleanup liability is charged to expense over the life of the associated asset. Assets placed in service in FY 1999 and after do not have associated environmental liabilities.

FAA environmental liabilities are recorded using un-inflated estimates. There are no known possible changes to these estimates based on inflation, deflation, technology, or applicable laws and regulations.

V. Contingencies

Liabilities are deemed contingent when the existence or amount of the liability cannot be determined with certainty pending the outcome of future events. The FAA recognizes contingent liabilities in the accompanying balance sheet and statement of net cost when they are both probable and can be reasonably estimated. The FAA discloses contingent liabilities in the notes to the financial statements (see Note 16) when the conditions for liability recognition are not met or when a loss from the outcome of future events is more than remote. In some cases, once losses are certain, payments may be made from the Judgment Fund maintained by the U.S. Treasury rather than from the amounts appropriated to the FAA for agency operations. Payments from the Judgment Fund are recorded as an "Other Financing Source" when made.

W. Earmarked Funds Reporting

The FAA adopted the SFFAS Number 27, *Identifying and Reporting Earmarked Funds*, effective October 1, 2005. SFFAS Number 27 defines "earmarked funds" as those being financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and financing sources are required by statute to be used for designated activities, benefits, or purposes and must be accounted for separately from the Government's general revenues. The FAA's financial statements include the following funds, considered to be "earmarked":

- Airport and Airway Trust Fund (AATF)
- Operations—AATF
- Operations General Fund
- Grants-in-Aid for Airports—AATF
- Facilities and Equipment—AATF

- Research, Engineering, and Development—AATF
- Aviation Insurance Fund
- Aviation User Fees

The AATF is funded by excise taxes that the IRS collects from airway system users. These receipts are unavailable until appropriated by the U.S. Congress. Once appropriated for use, the FAA transfers AATF receipts necessary to meet cash disbursement needs to several other funds, from which expenditures are made. Those funds that receive transfers from the AATF are the Operations Trust Fund, Grants-in-Aid for Airports, Facilities and Equipment, and Research, Engineering, and Development, all of which are funded exclusively by the AATF. These funds represent the majority of FAA annual expenditures. In addition, the Operations General Fund is primarily funded through transfers from Operations—AATF, but is also supplemented by funding from the General Fund of the U.S. Treasury through annual appropriations. Because the Operations General Fund is primarily funded from the AATF, and because it is not reasonably possible to differentiate cash balances between those originally flowing from the AATF versus General Fund appropriations, the Operations General Fund is presented as an earmarked fund. The earmarked funds from the Facilities and Equipment fund are used to purchase or construct property, plant, and equipment (PP&E). When earmarked funds are used to purchase or construct PP&E, they are no longer available for future expenditure, have been used for their intended purpose, and therefore are classified as other funds on the balance sheet and the statement of changes in net position. The intended result of this presentation is to differentiate between earmarked funds available for future expenditure and earmarked funds previously expended on PP&E projects and therefore unavailable for future expenditure.

Additional disclosures concerning earmarked funds can be found in Note 12.

Note 2. Fund Balance with Treasury

Fund balance with Treasury account balances as of September 30, 2008 and 2007, were:

	2008	2007
Earmarked and other funds, excluding AATF	$ 2,754,364	$ 2,849,721
Franchise fund	255,873	266,668
Aviation Insurance Revolving Fund	68,133	63,128
AATF (Note 12)	848,372	715,578
Total	$ 3,926,742	$ 3,895,095

Status of fund balance with Treasury

Unobligated balance		
Available	$ 1,395,626	$ 1,347,769
Not available	1,426,654	1,405,899
Obligated balance not yet disbursed	1,104,462	1,141,427
Total	$ 3,926,742	$ 3,895,095

Unobligated fund balances are either available or not available. Amounts are reported as not available when they are no longer legally available to the FAA for obligation. However, balances that are not available can change over time, because they can be used for upward adjustments of obligations that were incurred during the period of availability or for paying claims attributable to that time period.

Note 3. Investments

As of September 30, 2008 and 2007, the FAA's investment balances were as follows:

	2008			
Intragovernmental Securities	Cost	Amortized (Premium) Discount	Investments (Net)	Market Value Disclosure
Nonmarketable par value	$ 7,673,709	$ -	$ 7,673,709	$ 7,673,709
Market-based	1,087,268	(533)	1,086,735	1,086,735
Subtotal	8,760,977	(533)	8,760,444	8,760,444
Accrued Interest	85,906		85,906	
Total	$ 8,846,883	$ (533)	$ 8,846,350	$ 8,760,444

	2007			
Intragovernmental Securities	Cost	Amortized (Premium) Discount	Investments (Net)	Market Value Disclosure
Nonmarketable par value	$ 7,930,943	$ -	$ 7,930,943	$ 7,930,943
Market-based	884,882	1,521	886,403	886,403
Subtotal	8,815,825	1,521	8,817,346	8,817,346
Accrued Interest	87,011		87,011	
Total	$ 8,902,836	$ 1,521	$ 8,904,357	$ 8,817,346

The Secretary of the Treasury invests AATF funds on behalf of the FAA. FAA investments are considered investment authority and available to offset the cost of operations to the extent authorized by Congress. As of September 30, 2008 and 2007, $7.7 billion and $7.9 billion were invested respectively in U.S. Treasury Certificates of Indebtedness. Nonmarketable par value Treasury Certificates of Indebtedness are special series debt securities issued by the Bureau of Public Debt to Federal accounts and are purchased and redeemed at par (face value) exclusively through the Federal Investment Branch of the U.S. Treasury's Bureau of Public Debt. The securities are held to maturity and redeemed at face value on demand; thus, investing entities recover the full amount invested plus interest. Investments as of September 30, 2008, mature on various dates through June 30, 2009, and investments as of September 30, 2007, matured on various dates through June 30, 2008. The annual rate of return on Certificates of Indebtedness is established in the month of issuance. The average rate of return for certificates issued during FY 2008 and FY 2007 was 4.3% and 4.9%, respectively.

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. The FAA invests Aviation Insurance Fund collections in nonmarketable, market-based securities and amortizes premiums and discounts over the life of the security using the interest method. As of September 30, 2008, these nonmarketable, market-based securities had maturity dates ranging from November 2008 to August 2013 and have an average rate of return of approximately 4.3%.

The U.S. Treasury does not set aside assets to pay the future expenditures of the AATF and the Aviation Insurance Fund. Instead, the cash collected from the public for the AATF and the Aviation Insurance Fund is deposited to the U.S. Treasury and used for general Government purposes. Treasury securities are issued to the FAA as evidence of the collections by the AATF and Aviation Insurance Fund. Treasury securities are an asset to the FAA and a liability to the U.S. Treasury. Because the FAA and the U.S. Treasury are both parts of the U.S. Government, these assets and liabilities offset each other from the standpoint of the U.S. Government as a whole. For this reason, they do not represent an asset or a liability in the U.S. Government-wide financial statements.

To the extent authorized by law, the FAA has the ability to redeem its Treasury securities to make expenditures. When the FAA requires redemption of these securities, the U.S. Government finances those expenditures out of accumulated cash balances by raising tax or other receipts, borrowing from the public, repaying less debt, or curtailing other expenditures. This is the same way that the U.S. Government finances all other expenditures.

Note 4. Accounts Receivable, Prepayments, and Other Assets

Accounts receivable, prepayments, and other assets as of September 30, 2008 and 2007, were composed of the following:

	2008	2007
Intragovernmental		
Accounts receivable	$ 105,968	$ 337,983
Prepayments and other	89,151	36,226
Intragovernmental total	195,119	374,209
With the public		
Accounts receivable, net	51,589	56,834
Prepayments	28,124	27,166
Deposits in transit and other	54,982	24,347
With the public total	134,695	108,347
Total accounts receivable, prepayments, and other	$ 329,814	$ 482,556

Intragovernmental prepayments represent advance payments to other Federal Government entities for agency expenses not yet incurred or for goods or services not yet received.

Accounts receivable from the public are shown net of allowances for uncollectible amounts of $10.9 million and $12.4 million, as of September 30, 2008 and 2007, respectively.

Note 5. Inventory, Operating Materials, and Supplies

As of September 30, 2008 and 2007, inventory, operating materials, and supplies were as follows:

Inventory	2008	2007
Held for sale, net	$ 66,427	$ 51,673
Held for repair, net	390,876	370,746
Raw materials, finished goods, and other, net	15,708	17,996
Excess, obsolete, and unserviceable, net	-	-
Inventory total, net	473,011	440,415
Operating materials and supplies		
Held for use, net	48,845	49,856
Held for repair, net	16,981	17,256
Excess, obsolete, and unserviceable, net	-	-
Operating materials and supplies total, net	65,826	67,112
Total inventory, operating materials, and supplies, net	$ 538,837	$ 507,527

Inventory, operating materials, and supplies, presented above, are shown net of the following allowances:

Inventory	2008	2007
Held for sale	$ (96)	$ (6,631)
Held for repair	(96,240)	(95,600)
Raw materials, finished goods, and other	(10,591)	(17,996)
Excess, obsolete, and unserviceable	(19,583)	-
Inventory allowances total	(126,510)	(120,227)
Operating materials and supplies		
Held for use	-	(826)
Held for repair	(17,972)	(17,255)
Excess, obsolete, and unserviceable	(526)	(480)
Operating materials and supplies total	(18,498)	(18,561)
Total allowances	$ (145,008)	$ (138,788)

Inventory is considered held for repair based on the condition of the asset or item, and the allowance for repairable inventory is based on the average historical cost of such repairs.

The FAA transfers excess items for disposal into the Government-wide automated disposal system. Disposal proceeds, recognized upon receipt, may go to the U.S. Treasury's General Fund or to an FAA appropriation, depending on the nature of the item and the disposal method.

Note 6. Property, Plant, and Equipment, Net

Property, plant, and equipment balances at September 30, 2008 and 2007 were as follows:

	2008		
Class of fixed asset	Acquisition value	Accumulated depreciation	Net book value
Real property, including land	$ 4,928,461	$ (2,588,037)	$ 2,340,424
Personal property	19,290,502	(10,266,822)	9,023,680
Assets under capital lease (Note 9)	166,387	(125,137)	41,250
Construction in progress	2,341,968	-	2,341,968
Property not in use	95,013	(77,148)	17,865
Total property, plant, and equipment	$ 26,822,331	$ (13,057,144)	$ 13,765,187

	2007		
Class of fixed asset	Acquisition value	Accumulated depreciation	Net book value
Real property, including land	$ 4,765,283	$ (2,441,132)	$ 2,324,151
Personal property	18,125,252	(9,420,105)	8,705,147
Assets under capital lease (Note 9)	166,387	(111,373)	55,014
Construction in progress	2,787,868	-	2,787,868
Property not in use	93,593	(74,003)	19,590
Total property, plant, and equipment	$ 25,938,383	$ (12,046,613)	$ 13,891,770

The FAA's CIP relates primarily to NAS assets, which are derived from centrally funded national systems development contracts, site preparation and testing, raw materials, and internal labor charges.

Assets temporarily not in use, including decommissioned assets awaiting disposal, are reflected in FAA financial records as Property Not in Use.

Note 7. Environmental Liabilities

The FAA's environmental liabilities as of September 30, 2008 and 2007 were as follows:

	2008	2007
Environmental remediation	$ 384,381	$ 316,748
Environmental cleanup and decommissioning	253,444	250,138
Total environmental liabilities	$ 637,825	$ 566,886

The FAA's increase in the remediation liability from FY 2007 is primarily a result of the projected periodic cost of overhauling the equipment at the William H. Hughes Technical Center's combined water treatment plant.

Additional information on environmental projects is disclosed in Note 16.

Note 8. Employee-Related and Other Liabilities

As of September 30, 2008 and 2007, the FAA's employee related and other liabilities were as follows:

	2008		
Intragovernmental	Non-current liabilities	Current liabilities	Total
Advances received	$ -	$ 48,017	$ 48,017
Accrued payroll & benefits payable to other agencies	-	67,523	67,523
Other liabilities	-	13,617	13,617
Liabilities covered by budgetary or other resources	-	129,157	129,157
Federal Employees' Compensation Act payable	118,177	86,994	205,171
Other	-	44,674	44,674
Liabilities not covered by budgetary or other resources	118,177	131,668	249,845
Intragovernmental total	118,177	260,825	379,002
With the public			
Advances received and other	-	66,473	66,473
Accrued payroll & benefits payable to employees	-	227,360	227,360
Liabilities covered by budgetary or other resources	-	293,833	293,833
Accrued unfunded annual & other leave & assoc. benefits	48,386	344,989	393,375
Sick leave compensation benefits for air traffic controllers	63,595	15,930	79,525
Capital leases (Note 9)	49,271	12,400	61,671
Legal claims	-	109,450	109,450
Other accrued liabilities	99,983	-	99,983
Liabilities not covered by budgetary or other resources	261,235	482,769	744,004
Public total	261,235	776,602	1,037,837
Total employee related and other liabilities	$ 379,412	$ 1,037,427	$ 1,416,839

	2007		
	Non-current liabilities	Current liabilities	Total
Intragovernmental			
Advances received	$ -	$ 46,379	$ 46,379
Accrued payroll & benefits payable to other agencies	-	75,464	75,464
Other liabilities	-	11,219	11,219
Liabilities covered by budgetary or other resources	-	133,062	133,062
Federal Employees' Compensation Act payable	113,426	85,761	199,187
Liabilities not covered by budgetary or other resources	113,426	85,761	199,187
Intragovernmental total	113,426	218,823	332,249
With the public			
Advances received and other	-	101,989	101,989
Accrued payroll & benefits payable to employees	-	182,483	182,483
Liabilities covered by budgetary or other resources	-	284,472	284,472
Accrued unfunded annual & other leave & assoc. benefits	46,423	330,992	377,415
Sick leave compensation benefits for air traffic controllers	65,405	13,319	78,724
Capital leases (Note 9)	57,612	14,499	72,111
Legal claims	-	14,200	14,200
Other accrued liabilities	84,488	-	84,488
Liabilities not covered by budgetary or other resources	253,928	373,010	626,938
Public total	253,928	657,482	911,410
Total employee related and other liabilities	$ 367,354	$ 876,305	$ 1,243,659

Accrued payroll and benefits to other agencies consist of FAA contributions payable to other Federal agencies for employee benefits. These include the FAA's contributions payable toward life, health, retirement benefits, Social Security, and matching contributions to the Thrift Savings Plan.

An unfunded liability is recorded for the actual cost of workers' compensation benefits to be reimbursed to the DOL, pursuant to the FECA. Because DOL bills the FAA 2 years after it pays such claims, the FAA's liability accrued as of September 30, 2008, includes workers' compensation benefits paid by DOL during the periods July 1, 2006, through June 30, 2008, and accrued liabilities for the quarter July 1, 2008, through September 30, 2008. The FAA's liability accrued as of September 30, 2007, included workers' compensation benefits paid by DOL during the period July 1, 2005, through June 30, 2007, and accrued liabilities for the quarter July 1, 2007, through September 30, 2007.

The estimated liability for accrued unfunded leave and associated benefits includes annual and other types of vested leave, and sick leave under the terms of certain collective bargaining agreements, including the National Air Traffic Controllers Association (NATCA) agreement, Article 25, Section 13. For example, the NATCA agreement gives air traffic controllers, who are covered under FERS, the option to receive a lump sum payment for 40% of their accumulated sick leave as of their

effective retirement date. Based on sick leave balances, this liability was $79.5 million and $78.7 million as of September 30, 2008 and 2007, respectively.

The FAA estimated that 100% of its $109.5 million and $14.2 million legal claims liabilities as of September 30, 2008 and 2007, respectively, would be paid from the permanent appropriation for judgments, awards, and compromise settlements (Judgment Fund) administered by the Department of Treasury.

Other Accrued Liabilities with the Public is composed primarily of accruals for utilities, leases, and travel obligations. Total liabilities not covered by budgetary resources are presented in Note 15.

Note 9. Leases

Capital Leases

Following is a summary of the FAA's assets under capital lease as of September 30, 2008 and 2007:

	2008	2007
Land, buildings, and machinery	$ 166,387	$ 166,387
Accumulated depreciation	(125,137)	(111,373)
Assets under capital lease, net	$ 41,250	$ 55,014

As of September 30, 2008, the FAA's future payments due on assets under capital lease were as follows:

Future payments due by fiscal year
(Liabilities not covered by budgetary or other resources)

Year 1 (FY 2009)	$ 13,502
Year 2 (FY 2010)	12,833
Year 3 (FY 2011)	11,816
Year 4 (FY 2012)	8,637
Year 5 (FY 2013)	5,709
After 5 years	54,240
Less: Imputed interest	(45,066)
Total capital lease liability	$ 61,671

The FAA's capital lease payments are authorized to be funded annually as codified in the United States Code, Title 49, Section 40110(c)(1), which addresses general procurement authority. The remaining principal payments are recorded as unfunded lease liabilities. The imputed interest is funded and expensed annually.

Operating Leases

The FAA has operating leases for real property, aircraft, and telecommunications equipment. Future operating lease payments due as of September 30, 2008, were as follows:

Year 1 (FY 2009)	$ 156,789
Year 2 (FY 2010)	147,791
Year 3 (FY 2011)	123,399
Year 4 (FY 2012)	105,909
Year 5 (FY 2013)	51,550
After 5 years	157,143
Total future operating lease payments	$ 742,581

Operating lease expense incurred during the years ended September 30, 2008 and 2007, was $201.0 million and $190.5 million, respectively, including General Services Administration (GSA) leases that have a short termination privilege but the FAA intends to remain in the lease. The operating lease amounts due after 5 years do 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.

Note 10. Federal Employee and Veterans Benefits Payable

As of September 30, 2008 and 2007, FECA actuarial liabilities were $915.2 million and $884.0 million, respectively. The DOL calculates the FECA liability for DOT, and DOT allocates the liability amount to the FAA based on actual workers' compensation payments to FAA employees over the preceding 4 years. FECA liabilities include the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred but not reported claims. The estimated liability is not covered by budgetary or other resources and thus will require future appropriated funding.

Note 11. Net Cost by Program and Other Statement of Net Cost Disclosures

The FAA's four lines of business represent the programs reported on the Statement of Net Cost. Cost centers assigned 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.

The following are net costs for the years ended September 30, 2008 and 2007, by strategic goal:

For the Year Ended September 30, 2008

	Strategic Goal Areas				
Line of business programs	Safety	Capacity	Organizational Excellence	International Leadership	Total
Air Traffic Organization	$ 7,678,165	$ 2,592,749	$ 105,295	$ 48,997	$ 10,425,206
Aviation Safety	1,131,312	1,270	13,050	9,240	1,154,872
Airports	1,970,680	1,782,621	374	-	3,753,675
Commercial Space Transportation	9,160	2,097	-	-	11,257
Non line of business programs					
Regions and center operations and other	68,819	5,613	111,611	1,068	187,111
Total net cost	$ 10,858,136	$ 4,384,350	$ 230,330	$ 59,305	$ 15,532,121

For the Year Ended September 30, 2007

	Strategic Goal Areas				
Line of business programs	Safety	Capacity	Organizational Excellence	International Leadership	Total
Air Traffic Organization	$ 7,109,342	$ 2,515,956	$ 18,393	$ 36,785	$ 9,680,476
Aviation Safety	993,305	1,418	11,343	6,683	1,012,749
Airports	2,059,893	1,863,712	-	-	3,923,605
Commercial Space Transportation	8,298	2,468	2	-	10,768
Non line of business programs					
Regions and center operations and other	6,615	9,343	170,710	188	186,856
Total net cost	$ 10,177,453	$ 4,392,897	$ 200,448	$ 43,656	$ 14,814,454

The following is the FAA's distribution of FY 2008 and FY 2007 net costs by intragovernmental related activity versus with the public:

	For the Year Ended September 30, 2008		
Line of business programs	Intra-governmental	With the Public	Total
Air Traffic Organization			
Expenses	$ 2,139,999	$ 8,456,418	$ 10,596,417
Less earned revenues	(170,683)	(528)	(171,211)
Net costs	1,969,316	8,455,890	10,425,206
Aviation Safety			
Expenses	174,605	986,409	1,161,014
Less earned revenues	(6,117)	(25)	(6,142)
Net costs	168,488	986,384	1,154,872
Airports			
Expenses	18,138	3,735,702	3,753,840
Less earned revenues	-	(165)	(165)
Net costs	18,138	3,735,537	3,753,675
Commercial Space Transportation			
Expenses	1,693	9,564	11,257
Net costs	1,693	9,564	11,257
Non line of business programs			
Regions and center operations and other programs			
Expenses	83,917	474,077	557,994
Less earned revenues	(17,718)	(353,165)	(370,883)
Net costs	66,199	120,912	187,111
Net cost of operations			
Total expenses	2,418,352	13,662,170	16,080,522
Less earned revenues	(194,518)	(353,883)	(548,401)
Total net costs	$ 2,223,834	$ 13,308,287	$ 15,532,121

Line of business programs	For the Year Ended September 30, 2007 Intra-governmental	With the Public	Total
Air Traffic Organization			
Expenses	$ 2,121,741	$ 7,703,336	$ 9,825,077
Less earned revenues	(143,584)	(1,017)	(144,601)
Net costs	1,978,157	7,702,319	9,680,476
Aviation Safety			
Expenses	158,478	859,837	1,018,315
Less earned revenues	(2,231)	(3,335)	(5,566)
Net costs	156,247	856,502	1,012,749
Airports			
Expenses	17,955	3,905,764	3,923,719
Less earned revenues	-	(114)	(114)
Net costs	17,955	3,905,650	3,923,605
Commercial Space Transportation			
Expenses	1,676	9,092	10,768
Net costs	1,676	9,092	10,768
Non line of business programs			
Regions and center operations and other programs			
Expenses	94,081	510,448	604,529
Less earned revenues	(100,381)	(317,292)	(417,673)
Net costs	(6,300)	193,156	186,856
Net cost of operations			
Total expenses	2,393,931	12,988,477	15,382,408
Less earned revenues	(246,196)	(321,758)	(567,954)
Total net costs	$ 2,147,735	$ 12,666,719	$ 14,814,454

Note 12. Earmarked Funds

The FAA's earmarked funds are presented among two classifications. The first includes the AATF and all related funds that receive funding from the AATF: the Operations Trust Fund, Grants-in-Aid for Airports, Facilities and Equipment, and Research Engineering and Development, all of which are funded exclusively by the AATF. The AATF classification also includes the Operations General Fund, which is primarily funded through transfers from Operations—AATF, but is additionally supplemented by the General Fund of the U.S. Treasury through annual appropriations. Because the Operations General Fund is primarily funded from the AATF, and because it is not reasonably possible to differentiate cash balances between those originally flowing from the AATF versus general fund appropriations, the Operations General Fund is presented as an earmarked fund. In addition, this note presents only the earmarked funds that retain available financing sources. As such, the balances in the PP&E fund, though funded from the Facilities and Equipment earmarked fund, are reported as other funds and therefore are excluded.

The second classification of earmarked funds includes the Aviation Insurance Revolving Fund and Aviation User Fees.

Airport and Airway Trust Fund

The FAA's consolidated financial statements include the results of operations and financial position of the AATF. The U.S. Congress created the AATF with the passage of the Airport and Airway Revenue Act of 1970. The Act provides a dedicated source of funding to the nation's aviation system through the collection of several aviation-related excise taxes. The IRS collects these taxes on behalf of the FAA's AATF. These taxes can be withdrawn only as appropriated by the U.S. Congress. Twice a month, Treasury estimates the amount collected and adjusts the estimates to reflect actual collections quarterly. The total taxes recognized in FY 2008 included OTA's estimate of $2.6 billion for the quarter ended September 30, 2008. This amount was unchanged from OTA's FY 2007 estimate for the quarter ended September 30, 2007.

Other Earmarked Funds

- The FAA has authority under the Aviation Insurance Program to insure commercial airlines that may be called upon to perform various services considered necessary to the foreign policy interests of the United States, when insurance is not available commercially or is available only on unreasonable terms and conditions. The insurance issued, commonly referred to war-risk insurance, covers losses resulting from war, terrorism, or other hostile acts. The FAA reported premium insurance revenues of $171.3 million and $171.0 million for the periods ended September 30, 2008 and 2007, respectively. The Aviation Insurance Program activity is reported below as other earmarked funds. The Aviation Insurance Program is discussed further in Note 16.

- Aviation User Fees, commonly referred to as overflight fees, are charged to commercial airlines that fly in U.S. controlled air space but neither take off nor land in the United States. The FAA reported overflight fees of $58.5 million and $50.3 million for the periods ended September 30, 2008 and 2007, respectively. Aviation User Fees activity is reported below as other earmarked funds.

Fiscal data as of and for the years ended September 30, 2008 and 2007, are summarized in the following charts. Intraagency transactions have not been eliminated from the amounts presented.

Balance Sheet	AATF	Other Earmarked Funds	Total Earmarked Funds
		2008	
Assets			
Fund balance with Treasury	$ 848,372	$ 2,748,123	$ 3,596,495
Investments, net	7,746,547	1,099,803	8,846,350
Accounts receivable, net	-	3,913,411	3,913,411
Other assets	-	2,569,494	2,569,494
Total assets	$ 8,594,919	$ 10,330,831	$ 18,925,750
Liabilities and net position			
AATF amounts due to FAA	$ 3,772,307	$ -	$ 3,772,307
Other liabilities	-	3,050,320	3,050,320
Unexpended appropriations	-	920,894	920,894
Cumulative results of operations	4,822,612	6,359,617	11,182,229
Total liabilities and net position	$ 8,594,919	$ 10,330,831	$ 18,925,750
Statement of net cost			
Program costs	$ 13,466,390	$ 692,130	$ 14,158,520
Less earned revenue:		-	
Aviation insurance premiums	-	(171,271)	(171,271)
Overflight user fees	-	(58,498)	(58,498)
Other revenue	-	(176,514)	(176,514)
Net cost of operations	$ 13,466,390	$ 285,847	$ 13,752,237
Statement of changes in net position			
Cumulative results, beginning of period	$ 6,046,786	$ 5,600,561	$ 11,647,347
Nonexchange revenue:			
Passenger ticket tax	8,260,611	-	8,260,611
International departure tax	2,462,375	-	2,462,375
Investment income	429,572	-	429,572
Fuel taxes	624,493	-	624,493
Waybill tax	521,040	-	521,040
Tax refunds and credits	(55,957)	-	(55,957)
Other revenue	82	41,663	41,745
Budgetary financing sources	-	2,387,128	2,387,128
Other financing sources	-	(1,383,888)	(1,383,888)
Unexpended appropriations	-	920,894	920,894
Net cost of operations	(13,466,390)	(285,847)	(13,752,237)
Change in net position	$ (1,224,174)	$ 1,679,950	$ 455,776
Net position, end of period	$ 4,822,612	$ 7,280,511	$ 12,103,123

	2007		
Balance Sheet	**AATF**	**Other Earmarked Funds**	**Total Earmarked Funds**
Assets			
Fund balance with Treasury	$ 715,578	$ 2,810,935	$ 3,526,513
Investments, net	8,006,774	897,583	8,904,357
Accounts receivable, net	179,673	3,048,845	3,228,518
Other assets	-	2,850,676	2,850,676
Total assets	$ 8,902,025	$ 9,608,039	$ 18,510,064
Liabilities and net position			
AATF amounts due to FAA	$ 2,855,239	$ -	$ 2,855,239
Other liabilities	-	2,910,439	2,910,439
Unexpended appropriations	-	1,097,039	1,097,039
Cumulative results of operations	6,046,786	5,600,561	11,647,347
Total liabilities and net position	$ 8,902,025	$ 9,608,039	$ 18,510,064
Statement of net cost			
Program costs	$ 12,695,908	$ 1,169,634	$ 13,865,542
Less earned revenue:			
Aviation insurance premiums	-	171,022	171,022
Overflight user fees	-	50,305	50,305
Other revenue	-	238,246	238,246
Net cost of operations	$ 12,695,908	$ 710,061	$ 13,405,969
Statement of changes in net position			
Cumulative results, beginning of period	$ 6,398,812	$ 6,377,085	$ 12,775,897
Nonexchange revenue:			
Passenger ticket tax	8,321,262	-	8,321,262
International departure tax	2,212,814	-	2,212,814
Investment income	473,252	-	473,252
Fuel taxes	835,128	-	835,128
Waybill tax	568,591	-	568,591
Tax refunds and credits	(67,229)	-	(67,229)
Other revenue	64	28,515	28,579
Budgetary financing sources	-	1,878,154	1,878,154
Other financing sources	-	(1,973,132)	(1,973,132)
Unexpended appropriations	-	1,097,039	1,097,039
Net cost of operations	(12,695,908)	(710,061)	(13,405,969)
Change in net position	$ (352,026)	$ 320,515	$ (31,511)
Net position, end of period	$ 6,046,786	$ 6,697,600	$ 12,744,386

Note 13. Imputed Financing Sources

The FAA recognizes as imputed financing the amount of accrued pension and postretirement benefit expenses for current employees. The assets and liabilities associated with such benefits are the responsibility of the administering agency, the OPM. Amounts paid from the U.S. Treasury's Judgment Fund in settlement of claims or court assessments against the FAA are also recognized as imputed financing. For the fiscal years ended September 30, 2008 and 2007, imputed financing was as follows:

	2008	2007
Office of Personnel Management	$ 550,856	$ 517,911
Treasury Judgment Fund	13,474	15,813
Total imputed financing sources	$ 564,330	$ 533,724

Note 14. Statement of Budgetary Resources Disclosures

The Required Supplementary Stewardsip Information section of this report includes a schedule of budgetary resources by each of the FAA's major fund types. Budget authority as reported in the Combined Statements of Budgetary Resources includes amounts made available to the FAA from general, earmarked, and special funds. In contrast, appropriations received as reported in the Consolidated Statements of Changes in Net Position pertain only to amounts made available to the FAA from general funds. The following is a reconciliation of these amounts:

	2008	2007
Combined Statement of Budgetary Resources—budget authority	$ 19,485,521	$ 19,725,794
Less amounts made available to FAA from AATF dedicated collections	(17,042,518)	(16,884,638)
Net transfers of budget authority and other	(41,566)	(46,331)
Less special fund aviation user fees	(58,498)	(48,508)
Consolidated Statement of Changes in Net Position—appropriations received	$ 2,342,939	$ 2,746,317

The FAA had rescissions of budgetary resources in FY 2008 to Grant-in-Aid to Airports of $270.5 million. In FY 2007, the FAA did not have any rescissions of budgetary resources as a result of operating under a continuing resolution.

As of September 30, 2008 and 2007, the amount of budgetary resources obligated for undelivered orders was $8.3 billion and $8.2 billion, respectively.

Budget authority on the FY 2007 Combined Statement of Budgetary Resources includes contract authority of $4.2 billion and expired funds of $.1 billion that are not presented in the Budget of the United States Government. Also, obligations incurred on the FY 2007 Combined Statement of Budgetary Resources include $21.1 million of expired funds and $658.4 million of certain reimbursable and revolving fund obligations incurred that are not presented in the Budget of the United States Government. As a result, the FAA's FY 2007 Combined Statement of Budgetary Resources differs from FY 2007 "actuals" reported in the appendix of the *FY 2008 Budget of the United States Government* available at **www.whitehouse.gov/omb/budget/fy2009/**. As of the date of issuance of the FAA's FY 2008 Combined Statement of Budgetary Resources, the Budget of the United States Government for FY 2010, which will contain "actual" FY 2008 amounts, was not yet published. The Office of Management and Budget is expected to publish this information early in calendar year 2009.

OMB Circular A-136 requires the following additional Combined Statement of Budgetary Resources disclosures:

- 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.
- The FAA does not have obligations classified as "exempt from apportionment." However, during FY 2008 and FY 2007, direct and reimbursable obligations incurred against amounts apportioned under categories A and B, as defined in OMB Circular No. A-11, Part 4, *Instructions on Budget Execution*, were as follows:

	2008		2007	
	Direct	Reimbursable	Direct	Reimbursable
Category A	$ 6,959,806	$ 416,908	$ 6,114,486	$ 396,088
Category B	14,686,661	259,427	14,193,011	262,314
Total	$ 21,646,467	$ 676,335	$ 20,307,497	$ 658,402

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. At the end of FY 2007, $49.5 million of obligated balances were in appropriations cancelled at year-end pursuant to 31 U.S.C. 1552 and thus have not been brought forward to FY 2008. Additionally, transfers in FY 2008 to DOT for Essential Air Services also reduced balances available for obligation.

Note 15. Financing Sources Yet To Be Provided

The following table shows the relationship between liabilities not covered by budgetary or other resources as reported on the balance sheets as of September 30, 2008 and 2007, and the change in components of net cost of operations that will require or generate resources in future periods.

	2008	2007	Change
Legal claims (Note 8)	$ 109,450	$ 14,200	$ 95,250
FECA payable (Note 8)	205,171	199,187	5,984
FECA actuarial (Note 10)	915,242	883,982	31,260
Environmental liabilities (Note 7 & 16)	637,825	566,886	70,939
Unfunded annual & other leave & associated benefits (Note 8)	393,375	377,415	15,960
Sick leave compensation benefits (Note 8)	79,525	78,724	801
Other accrued liabilities (Note 8)	144,657	84,488	60,169
Increases—components of net cost of operations requiring or generating resources in future periods (Note 17)			280,363
Capital leases (Notes 8 and 9)	61,671	72,111	(10,440)
Decreases—resources that fund expenses recognized in prior periods (Note 17)			(10,440)
Total liabilities not covered by budgetary resources	2,546,916	2,276,993	269,923
Total liabilities covered by budgetary resources	1,412,489	1,478,739	(66,250)
Total liabilities	$ 3,959,405	$ 3,755,732	$ 203,673

Note 16. Commitments, Contingencies, and Other Disclosures

Reauthorization. Effective October 1, 2008, the FAA is operating under a continuing resolution (CR), Public Law 110-329, for its appropriation and many of its programmatic and financing authorities. The CR will be in effect through March 6, 2009, and includes a provision that allows the FAA to collect aviation-related excise taxes and to continue spending at fiscal 2008 rates. It also provides sufficient contract authority for the Airport Improvement Program.

Without legislative action, many of the FAA's programmatic and financing authorities, including Airport Improvement Program contract authority and the authority to collect excise taxes into and make expenditures from the AATF, will expire after March 6, 2008. The outcome of future legislative and executive negotiation of these matters is uncertain.

Contract Options. As of September 30, 2008, the FAA had contract options of $3.69 billion. These contract options give the 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.

Airport Improvement Program. The Airport Improvement Program provides grants for the planning and development of public-use airports that are included in the National Plan of Integrated Airport Systems. Eligible projects generally include improvements related to enhancing airport safety, capacity, security, and environmental concerns. The FAA's share of eligible costs for large and medium primary hub airports is 75% with the exception of noise program implementation, which is 80%. For remaining airports (small primary, reliever, and general aviation), the FAA's share of eligible costs is 95%.

The FAA has authority under 49 U.S.C. 47110(e) to issue letters of intent to enter into Airport Improvement Program grant agreements. The FAA records an obligation when a grant is awarded. Through September 30, 2008, the FAA issued letters of intent beginning in FY 1988 and extending through FY 2020 totaling $5.7 billion. As of September 30, 2008, the FAA had obligated $4.6 billion of this total amount, leaving $1.1 billion unobligated.

Through September 30, 2007, the FAA issued letters of intent beginning FY 1988 and extending through FY 2020 totaling $5.6 billion. As of September 30, 2007, the FAA had obligated $4.3 billion of this total amount, leaving $1.3 billion unobligated.

Aviation Insurance Program. The FAA is authorized to issue hull and liability insurance under the Aviation Insurance Program for air carrier operations for which commercial insurance is not available on reasonable terms and when continuation of U.S. flag commercial air service is necessary in the interest of air commerce, national security, and the foreign policy of the United States. The FAA may issue (1) nonpremium insurance, and (2) premium insurance for which a risk-based premium is charged to the air carrier, to the extent practical.

During FY 2008, the FAA provided premium war-risk insurance to 77 airlines. For these airlines, combined hull and liability per occurrence coverage limits range from $100 million to $4 billion. The FAA also provided nonpremium war-risk insurance to 38 carriers with 1,667 aircraft for Department of Defense charter operations for Central Command and standby nonpremium war-risk insurance policies for 8 carriers for State Department charter operations.

As of September 30, 2008, there are no pending aviation insurance claims. There is approximately $1.1 billion available in the Aviation Insurance Revolving Fund to pay claims to carriers covered by premium insurance. If premium insurance claims should exceed that amount, additional funding could be appropriated from the General Fund. The Department of Defense and State Department have agreed to pay claims to the carriers covered by nonpremium insurance.

Legal Claims. As of September 30, 2008 and 2007, the FAA's contingent liabilities for asserted and pending legal claims reasonably possible of loss were estimated at $80.6 million and $23.7 million, respectively.

Environmental Liabilities. As of September 30, 2008, the FAA has estimated contingent liabilities, categorized as reasonably possible, of $114.1 million related to environmental remediation. Contingency costs are defined for environmental liabilities as those costs that may result from incomplete design, unforeseen and unpredictable conditions, or uncertainties within a defined project scope.

Note 17. Reconciliation of Net Cost of Operations to Budget

This note reconciles the resources available to FAA to finance operations and the net cost of operating FAA programs.

Resources used to finance activities	2008	2007
Budgetary resources obligated		
Obligations incurred	$ 22,322,802	$ 20,965,899
Less: Spending authority from offsetting collections and receipts and recoveries of prior year obligations	7,645,191	6,793,663
Obligations, net of offsetting collections	14,677,611	14,172,236
Other resources		
Transfers in/(out) without reimbursement	-	212
Imputed financing from costs absorbed by others	564,330	533,724
Net other resources used to finance activities	564,330	533,936
Total resources used to finance activities	15,241,941	14,706,172
Resources used to finance items not part of the net cost of operations		
Change in budgetary resources obligated for goods, services, and benefits ordered but not yet received	(103,627)	(322,969)
Resources that fund expenses recognized in prior periods (decreases in unfunded liabilities) (Note 15)	10,440	138,694
Resources that finance the acquisition of assets	1,249,137	1,261,156
Other resources or adjustments to net obligated resources that do not affect net cost of operations	11,367	(15,678)
Total resources used to finance items not part of net cost of operations	1,167,317	1,061,203
Total resources used to finance net cost of operations	**14,074,624**	**13,644,969**
Components of net cost of operations that will not require or generate resources in the current period		
Components requiring or generating resources in future periods		
Increases in annual leave liability and other unfunded liabilities (Note 15)	280,363	36,434
Components not requiring or generating resources in future periods		
Depreciation and amortization	1,130,852	1,163,413
Other	46,282	(30,362)
Total components of net cost of operations that will not require or generate resources	1,177,134	1,133,051
Total components of net cost of operations that will not require or generate resources in the current period	**1,457,497**	**1,169,485**
Net cost of operations	**$ 15,532,121**	**$ 14,814,454**

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

U.S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
Stewardship Investment
Non-Federal Physical Property
Airport Improvement Program
For the Fiscal Years Ended September 30
Unaudited

State/Territory	2008	2007	2006	2005	2004
Alabama	$ 53,568	$ 58,006	$ 75,753	$ 59,571	$ 55,527
Alaska	228,082	238,486	182,020	210,446	153,237
Arizona	87,839	64,170	100,235	85,226	52,286
Arkansas	40,313	41,002	48,454	42,342	23,198
California	402,378	377,060	330,255	322,128	236,031
Colorado	54,327	95,914	90,421	61,916	101,792
Connecticut	13,388	8,279	9,154	9,991	8,511
Delaware	11,163	12,109	7,127	9,707	2,813
District of Columbia	5,652	47,131	-	5,657	555
Florida	157,214	209,219	210,656	181,151	145,690
Georgia	118,644	78,564	70,484	128,053	96,081
Hawaii	41,556	74,179	45,815	33,097	21,020
Idaho	21,905	22,307	30,687	24,855	22,677
Illinois	116,104	197,470	111,302	152,307	106,145
Indiana	66,825	57,649	69,098	45,537	49,219
Iowa	37,843	33,501	32,866	34,064	24,282
Kansas	22,059	32,735	32,497	25,864	24,118
Kentucky	32,981	62,393	70,784	64,216	51,904
Louisiana	58,036	66,659	59,783	79,747	59,438
Maine	26,631	24,413	16,960	26,324	45,987
Maryland	30,575	52,523	54,956	38,864	39,450
Massachusetts	42,092	30,217	70,894	27,907	23,495
Michigan	121,795	99,889	120,606	137,814	125,928
Minnesota	68,027	64,822	88,144	67,267	50,472
Mississippi	69,768	69,488	40,229	41,696	39,061
Missouri	104,980	91,667	92,826	116,612	89,848
Montana	28,997	50,018	45,161	27,877	36,754
Nebraska	17,051	30,227	31,567	28,633	25,280
Nevada	51,045	58,106	95,972	56,148	58,418
New Hampshire	24,337	49,344	17,327	22,245	7,996
New Jersey	111,692	88,620	94,207	53,960	55,174
New Mexico	23,273	27,373	27,799	19,761	12,756

U.S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
Stewardship Investment
Non-Federal Physical Property
Airport Improvement Program
For the Fiscal Years Ended September 30
Unaudited

State/Territory	2008	2007	2006	2005	2004
New York	$ 80,292	$ 121,806	$ 124,315	$ 118,853	$ 86,382
North Carolina	97,242	70,696	79,245	102,669	44,668
North Dakota	19,395	26,433	17,530	23,074	29,007
Ohio	150,547	113,446	126,327	100,776	118,138
Oklahoma	33,975	40,475	43,459	42,941	31,272
Oregon	35,154	34,823	43,946	53,329	33,793
Pennsylvania	119,807	90,909	135,097	126,833	105,293
Rhode Island	13,177	24,985	16,085	11,901	10,861
South Carolina	34,553	24,614	43,391	38,246	23,772
South Dakota	29,557	24,161	18,489	22,065	20,915
Tennessee	76,141	96,290	78,238	45,678	47,298
Texas	299,473	212,737	260,496	235,495	174,336
Utah	56,319	49,935	38,669	41,200	26,008
Vermont	6,234	10,234	7,325	4,333	6,657
Virginia	64,932	104,667	97,613	82,330	70,688
Washington	97,078	111,797	97,519	168,764	73,153
West Virginia	25,256	34,623	35,917	26,991	20,637
Wisconsin	48,781	50,008	55,632	53,074	60,615
Wyoming	19,323	18,687	25,509	38,536	33,544
American Samoa	5,195	9,732	4,792	9,615	6,328
Guam	18,683	29,920	12,428	11,137	2,244
Northern Mariana Island	12,151	20,024	13,302	10,274	8,014
Puerto Rico	16,578	9,760	26,024	16,209	9,323
Virgin Islands	6,892	4,732	1,114	4,702	2,726
Administration	96,965	74,685	75,640	82,415	86,485
Totals	$ 3,753,840	$ 3,923,719	$ 3,852,141	$ 3,712,423	$ 2,977,300

The FAA makes project grants for airport planning and development under the Airport Improvement Program to maintain a safe and efficient nationwide system of public-use airports that meets both present and future needs of civil aeronautics. The 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 Years Ended September 30
Unaudited

Expenses	FY 2008	FY 2007	FY 2006	FY 2005	FY 2004
Applied Research	$ 88,114	$ 102,782	$ 106,390	$ 103,659	$ 91,743
Development	814	844	587	547	478
Administration	33,519	32,050	30,566	29,163	28,643
R&D Plant	3,498	4,217	3,821	5,287	4,230
Total	**$ 125,945**	**$ 139,893**	**$ 141,364**	**$ 138,656**	**$ 125,094**

The FAA conducts research and provides the essential air traffic control infrastructure to meet increasing demands for higher levels of safety, efficiency, and environmental improvement.

Research priorities include aircraft structures and materials; fire and cabin safety; crash injury protection; explosive detection systems; ground de-icing operations and decreased in-flight ice buildup; better tools to predict and warn of weather hazards, turbulence, and wake vortices; aviation medicine; and human factors. Human factors refer to research on how people (e.g., air traffic controllers and pilots) perform when interacting with, for example, technology and equipment, under various conditions. Optimizing this interaction contributes toward higher levels of safe air travel.

The following are some of the FAA's top FY 2008 research and development accomplishments.

- **Oceanic Trajectory-Based Operations Proof of Concept Demonstration.** The FAA demonstrated that four-dimensional trajectory-based air traffic management can provide more efficient aircraft-centric oceanic routes and reduce fuel burn and environmental footprint. The initial demonstrations resulted in approximately 330 gallons of fuel savings and a reduction of approximately 6,700 pounds of CO_2 emissions.
- **Air Traffic Control Change in Applying Wake Separations.** The FAA approved a national air traffic control order permitting controllers at specific airports with closely-spaced parallel runways (spaced less than 2,500 feet apart) to use an aircraft separation procedure that mitigates the effects of wake turbulence and allows 6 to 10 additional landings per hour on those runways. The procedure will be used when weather conditions would otherwise force controllers to use a separation procedure equivalent to having all aircraft land on a single runway.
- **Predicting Aircraft Environmental Performance Scenarios.** The FAA completed validations of current technology 300-passenger twin-aisle and 150-passenger single-aisle aircraft, which cover a significant portion of the commercial fleet, using the Environment Design System. The system estimates source noise, exhaust emissions, performance, and economic parameters for aircraft designs under different technological, policy, and market scenarios. It will lead to more effective regulations to reduce aviation environmental impacts within the ICAO Committee on Aviation Environmental Protection and help focus industry and research and development efforts on the most cost beneficial technologies.

- **In-flight Fire Exposure of Aluminum and Composite Fuselage Materials.** Composite materials are replacing aluminum in today's aircraft, however the performance of composites under in-flight and post crash fire conditions is essentially unknown. Live fire tests were performed to determine performance of both aluminum and composite hull materials when exposed to an internal fire in flight. The panels are effective at preventing burnthrough, even though the resin is flammable because they have some insulating effect. The fire did damage the exposed face of the panel, burning the resin away and exposing the fiber. Once the outer layer of resin is burned away, however, the exposed fiber material acts like a fire blocking layer, limiting further damage. Burnthrough did not occur within the time frame of these tests, which were up to 25 minutes. Off-gassing from the heated composite panel did produce a flammable mixture in the box resulting in a flash fire. Further work in this area is needed to determine the magnitude of this hazard and the implications on safety.

REQUIRED SUPPLEMENTARY INFORMATION

U.S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
Supplementary Information
Deferred Maintenance
As of September 30, 2008
Unaudited

Category	Method	Asset condition*	Costs to return to acceptable condition
Buildings	Condition assessment	4&5	$ 116,785
Other structures and facilities	Condition assessment	4&5	$ 124,828

* Condition Rating Scale: 4—Poor; 5—Very Poor

Deferred maintenance is maintenance that was not performed when it should have been, or was scheduled to be performed but was delayed until a future period due to a lack of resources or funding. The FAA reports deferred maintenance only on assets with condition ratings of 4 and 5, in compliance with the Statement of Federal Financial Accounting Standards (SFFAS) Number 6, "Accounting for Property, Plant, and Equipment", SFFAS Number 8, "Supplemental Stewardship Reporting" and SFFAS Number 14, "Amendments to Deferred Maintenance Reporting" (amends SFFASs 6 and 8).

Deferred maintenance is estimated using condition assessment surveys and includes the following buildings, structures, and facilities: Enroute, Terminal, FAA Technical Center, FAA Aeronautical Center, and unstaffed facilities. The FAA recognizes maintenance expense as incurred.

U. S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
Schedule of Budgetary Resources by Major Fund Type
As of September 30, 2008
Unaudited

	Trust Fund Grants-in-Aid to Airports	Trust Fund Facilities & Equipment	Trust Fund Research, Eng. & Development	Aviation Insurance Revolving	Franchise Fund	Operations	Other Funds	Combined Total
Budgetary Resources								
Unobligated balance brought forward and transfers	$ 203,054	$ 1,117,706	$ 31,341	$ 939,626	$ 162,635	$ 288,338	$ 10,968	$ 2,753,668
Recoveries of prior year obligations	160,164	168,813	10,523	53	42,546	88,977	-	471,076
Budget authority	8,074,000	2,471,327	146,831	-	-	8,740,000	53,363	19,485,521
Spending authority from offsetting collections	10,973	54,090	6,901	199,545	403,080	6,499,577	(51)	7,174,115
Nonexpenditure transfers, net	-	-	-	-	-	-	(41,566)	(41,566)
Temporarily not available	-	-	-	-	-	-	-	-
Permanently not available	(4,669,500)	-	(6,015)	-	-	(22,217)	-	(4,697,732)
Total Budgetary Resources	$ 3,778,691	$ 3,811,936	$ 189,581	$ 1,139,224	$ 608,261	$ 15,594,675	$ 22,714	$ 25,145,082
Status of Budgetary Resources								
Obligations incurred	$ 3,675,919	$ 2,665,659	$ 150,600	$ 2,480	$ 415,352	$ 15,412,792	$ -	$ 22,322,802
Unobligated balances available	102,772	1,047,013	32,911	4,668	173,561	34,701	-	1,395,626
Unobligated balances not available	-	99,264	6,070	1,132,076	19,348	147,182	22,714	1,426,654
Total Status of Budgetary Resources	$ 3,778,691	$ 3,811,936	$ 189,581	$ 1,139,224	$ 608,261	$ 15,594,675	$ 22,714	$ 25,145,082
Change in Obligated Balances								
Obligated balance, net, beginning of period	$ 5,367,986	$ 1,800,673	$ 122,913	$ 8,975	$ 104,032	$ 1,108,611	$ 5	$ 8,513,195
Obligations incurred	3,675,919	2,665,659	150,600	2,480	415,352	15,412,792	-	$ 22,322,802
Gross outlays	(3,819,303)	(2,559,690)	(119,172)	(5,575)	(379,211)	(15,072,922)	(3)	(21,955,876)
Recoveries of prior year obligations, actual	(160,164)	(168,813)	(10,523)	(53)	(42,546)	(88,977)	-	(471,076)
Change in uncollected customer payments from Federal sources	-	48,068	(6,382)	-	(34,665)	55,478	-	62,499
Obligated balance, net, end of period	$ 5,064,438	$ 1,785,897	$ 137,436	$ 5,827	$ 62,962	$ 1,414,982	$ 2	$ 8,471,544
Obligated balance, net, end of period								
Unpaid obligations	$ 5,064,498	$ 1,876,366	$ 146,645	$ 5,827	$ 139,659	$ 1,671,435	$ 2	$ 8,904,432
Uncollected customer payments from Federal sources	(60)	(90,469)	(9,209)	-	(76,697)	(256,453)	-	(432,888)
Total unpaid obligated balance, net end of period	$ 5,064,438	$ 1,785,897	$ 137,436	$ 5,827	$ 62,962	$ 1,414,982	$ 2	$ 8,471,544
Net Outlays								
Gross outlays	$ 3,819,303	$ 2,559,690	$ 119,172	$ 5,575	$ 379,211	$ 15,072,922	$ 3	$ 21,955,876
Offsetting collections	(10,986)	(102,085)	(604)	(199,930)	(368,415)	(6,555,055)	51	(7,237,024)
Distributed offsetting receipts	-	-	-	-	-	-	(1,970)	(1,970)
Net Outlays	$ 3,808,317	$ 2,457,605	$ 118,568	$ (194,355)	$ 10,796	$ 8,517,867	$ (1,916)	$ 14,716,882

U. S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
Schedule of Budgetary Resources by Major Fund Type
As of September 30, 2007
Unaudited

	Trust Fund Grants-in-Aid to Airports	Trust Fund Facilities & Equipment	Trust Fund Research, Eng. & Development	Aviation Insurance Revolving	Franchise Fund	Operations	Other Funds	Combined Total
Budgetary Resources								
Unobligated balance brought forward and transfers	$ 39,713	$ 1,037,373	$ 28,805	$ 742,563	$ 159,302	$ 287,688	$ 9,778	$ 2,305,222
Recoveries of prior year obligations	177,493	56,976	2,984	-	2,393	51,213	-	291,059
Budget authority	8,691,480	2,481,346	130,243	-	-	8,374,217	48,508	19,725,794
Spending authority from offsetting collections	5,522	99,916	4	202,764	382,068	5,812,330	-	6,502,604
Nonexpenditure transfers, net	-	-	-	-	-	-	(46,331)	(46,331)
Temporarily not available	-	-	-	-	-	-	-	-
Permanently not available	(5,020,000)	-	(1,981)	-	-	(36,800)	-	(5,058,781)
Total Budgetary Resources	$ 3,894,208	$ 3,675,611	$ 160,055	$ 945,327	$ 543,763	$ 14,488,648	$ 11,955	$ 23,719,567
Status of Budgetary Resources								
Obligations incurred	$ 3,691,167	$ 2,557,905	$ 128,714	$ 5,701	$ 381,128	$ 14,200,297	$ 987	$ 20,965,899
Unobligated balances available	6,264	1,055,933	26,510	999	162,635	95,428	-	1,347,769
Unobligated balances not available	196,777	61,773	4,831	938,627	-	192,923	10,968	1,405,899
Total Status of Budgetary Resources	$ 3,894,208	$ 3,675,611	$ 160,055	$ 945,327	$ 543,763	$ 14,488,648	$ 11,955	$ 23,719,567
Change in Obligated Balances								
Obligated balance, net, beginning of period	$ 5,733,848	$ 1,689,580	$ 149,184	$ 8,296	$ 59,759	$ 853,843	$ -	$ 8,494,510
Obligations incurred	3,691,167	2,557,905	128,714	5,701	381,128	14,200,297	987	20,965,899
Gross outlays	(3,877,723)	(2,513,372)	(152,724)	(5,021)	(375,121)	(13,892,574)	(985)	(20,817,520)
Recoveries of prior year obligations, actual	(177,493)	(56,976)	(2,984)	-	(2,393)	(51,213)	-	(291,059)
Change in uncollected customer payments from Federal sources	(1,812)	123,538	724	-	40,660	(1,745)	-	161,365
Obligated balance, net, end of period	$ 5,367,987	$ 1,800,675	$ 122,914	$ 8,976	$ 104,033	$ 1,108,608	$ 2	$ 8,513,195
Obligated balance, net, end of period								
Unpaid obligations	$ 5,368,043	$ 1,939,212	$ 125,741	$ 8,976	$ 146,065	$ 1,420,543	$ 2	$ 9,008,582
Uncollected customer payments from Federal sources	(56)	(138,537)	(2,827)	-	(42,032)	(311,935)	-	(495,387)
Total unpaid obligated balance, net end of period	$ 5,367,987	$ 1,800,675	$ 122,914	$ 8,976	$ 104,033	$ 1,108,608	$ 2	$ 8,513,195
Net Outlays								
Gross outlays	$ 3,877,723	$ 2,513,372	$ 152,724	$ 5,021	$ 375,121	$ 13,892,574	$ 985	$ 20,817,520
Offsetting collections	(3,709)	(223,452)	(727)	(202,764)	(422,729)	(5,810,588)	-	(6,663,969)
Distributed offsetting receipts	-	-	-	-	-	-	(103)	(103)
Net Outlays	$ 3,874,014	$ 2,289,920	$ 151,997	$ (197,743)	$ (47,608)	$ 8,081,986	$ 882	$ 14,153,448

ADMINISTRATIVE SERVICES FRANCHISE FUND

Background

Public Law 104-205, "Department of Transportation and Related Agencies Appropriation Act, 1997," authorized the FAA to establish an Administrative Services Franchise Fund (Franchise Fund). The Franchise Fund is designed to create competition within the public sector in the performance of a wide variety of support services. It allows for the establishment of an environment to maximize the use of internal resources through the consolidation and joint-use of like functions and the recognition of economies of scale and efficiencies associated with the competitive offering of services to other Government agencies.

The FAA's Franchise Fund is composed of several programs, within which it offers a wide variety of services. These services include accounting, travel, duplicating, multi-media, information technology, logistics and material management, aircraft maintenance, international training, and management training. The Franchise Fund's major customers are FAA lines of business programs. Other customers include Department of Transportation (DOT) entities, non-DOT Government agencies, and international government entities.

Description of Programs and Services

Several programs within the Franchise Fund are organized around an Enterprise Services Center (ESC) concept, designed to integrate the key components necessary to be a full service financial management provider. The efficiencies and economies of scale created by this integration offer the opportunity to compete for customers seeking a provider of financial management services. As new customers come on board, this further reduces the cost of providing the services by spreading the fixed cost of operations over a larger customer base. There are three components of the ESC, all falling within the single Franchise Fund:

- Enterprise System—configuration and support of application software and databases
- Financial Operations—transaction processing, financial reporting, and analysis services
- Information Technology—hosting, telecommunications, information system security, and end user support services

During FY 2005, OMB selected ESC as a Financial Management Center of Excellence (COE). As a COE, the ESC now has the ability to compete to provide financial management services for other Government agencies. The ESC currently provides financial management services to all DOT agencies, the National Endowment for the Arts, Commodity Futures Trading Commission, Institute of Museum and Library Services, and the U.S. Government Accountability Office and also has several proposals out to other agencies.

In addition to being selected as a COE, the ESC was chosen by the FAA Administrator to serve as the consolidated provider of all financial management services for all FAA organizations. The ESC committed to providing an improved level of service, meeting all Joint Financial Management Improvement Program (JFMIP) requirements.

The Franchise Fund also includes the following program areas:

The **Aircraft Maintenance and Engineering Group** in the office of Aviation System Standards is located at the Mike Monroney Aeronautical Center (Aeronautical Center) in Oklahoma City. It provides total aircraft support including maintenance, quality assurance, and overall program management. This service includes preventive as well as repair/overhaul and/or modification requirements and reliability and maintainability studies. The Aircraft Maintenance and Engineering Group can provide full or partial support depending on customer requirements, from short-term preventive maintenance or one time engineering tasks to more involved activities such as a full complement of maintenance services with quality assurance and engineering support.

The **Center for Management and Executive Leadership** (CMEL), located at Palm Coast, Florida, provides nontechnical training in support of the FAA mission. The center designs and delivers face-to-face centralized training both onsite and at field locations. Students also complete more than 5,000 distance learning programs each year. CMEL is fully accredited with commendations by the Commission on Occupational Education, and the American Council on Education has determined that CMEL courses are worthy of upper division college credit. The Federal, professional, and local communities also recognize CMEL as a premier resource for leadership and teambuilding training.

The **International Training Division** (ITD) in the FAA Academy at the Aeronautical Center in Oklahoma City delivers technical assistance and training to enhance international aviation safety and security while promoting U.S. aviation system technologies, products, and services overseas. The products and services of the ITD include training program management, instructional services, training design/development/revision, technical training evaluations, and consulting services tailored to meet specifically defined needs of the FAA and its international customers.

The **FAA Logistics Center**, also located at the Aeronautical Center, provides comprehensive logistics support and a highly sophisticated level of maintenance and repair services to ensure the safety of the flying public and to satisfy the critical needs of the NAS and related requirements. Services include materiel management (e.g., provisioning, cataloging, acquisition, inventory management, inventory supply), reliable and cost-effective depot-level repair of line replaceable units, life cycle and performance cost analysis, logistics automation, distribution services, disposal of items no longer required, and technical support in the repair and maintenance of national airspace and related equipment.

U.S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
FRANCHISE FUND
Condensed Information
ASSETS, LIABILITIES, and NET POSITION
(Dollars in Thousands)

	As of September 30	
	2008	2007
Assets		
Fund balance with Treasury	$ 255,873	$ 266,809
Accounts receivable, net	6,082	1,875
Inventory and related property, net	457,302	422,419
General property, plant, and equipment, net	6,540	9,838
Other	491	263
Total assets	$ 726,288	$ 701,204
Liabilities		
Accounts payable	$ 15,440	$ 26,000
Advances from others	160,340	171,038
Employee related	15,169	13,222
Other	4,309	10,367
Total liabilities	195,258	220,627
Net position		
Cumulative results of operations	531,030	480,577
Total net position	531,030	480,577
Total liabilities and net position	$ 726,288	$ 701,204

U.S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
FRANCHISE FUND
Condensed Information
REVENUES AND EXPENSES
(Dollars in Thousands)

		For the years ended September 30	
		2008	2007
Enterprise Services Center	Revenues	$ 109,592	$ 99,971
	Expenses	127,695	111,627
	Profit/(loss)	(18,103)	(11,656)
Aircraft Maintenance and Engineering Group	Revenues	51,722	42,154
	Expenses	54,521	52,017
	Profit/(loss)	(2,799)	(9,863)
FAA Academy	Revenues	13,929	11,730
	Expenses	13,475	11,367
	Profit/(loss)	454	363
FAA Logistics Center	Revenues	266,208	297,673
	Expenses	228,781	259,636
	Profit/(loss)	37,427	38,037
Total Consolidated	Revenues	441,451	451,528
	Expenses	424,472	434,647
	Profit/(loss)	$ 16,979	$ 16,881

U.S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
FRANCHISE FUND
Condensed Information
FINANCING SOURCES AND NET POSITION
(Dollars in Thousand)

	Cumulative results of operations	
	2008	2007
Beginning balance, net position	$ 480,577	$ 416,025
Financing sources		
Transfers-in/out without reimbursement	(16,240)	(11,594)
Imputed financing from costs absorbed by others	49,714	59,265
Total financing sources	33,474	47,671
Profit (loss)	16,979	16,881
Ending balance, net position	$ 531,030	$ 480,577

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In 1958, there were 107,072 active aviation mechanics. In 2008, that number has grown to 322,852.

Credit: Corbis

OTHER ACCOMPANYING INFORMATION

Inspector General's Top Management Challenges for FY 2009

Near each fiscal year end, the DOT Office of Inspector General (OIG) identifies and reports the top challenges that management will face in the following fiscal year. This report of top challenges is prepared for the DOT as a whole and includes certain challenges that pertain specifically to the FAA. At the time of publication of the FAA's FY 2008 PAR, the OIG's report had not been finalized. Therefore, we have included excerpts of the draft that pertain to the FAA.

OIG Top Challenges for FY 2009

Enhancing Aviation Safety and Maintaining Confidence in FAA's Ability To Provide Effective Oversight of a Rapidly Changing Industry

- Maintaining confidence in the FAA's oversight of air carriers and certification and production of new segments of the aircraft industry
- Following through on longstanding commitments to improve oversight of external repair facilities
- Improving runway safety by implementing new technologies, making airport-specific changes, and reinvigorating FAA initiatives

Enhancing Mobility and Reducing Congestion in America's Transportation System

- Reducing delays and improving airline customer service as the airlines struggle with higher fuel costs
- Keeping airport infrastructure and airspace projects on track

Operating the National Airspace System While Developing and Transitioning to the Next Generation Air Transportation System

- Hiring and training 17,000 new controllers through 2017
- Keeping existing projects on track and reducing risks with NextGen
- Sustaining the FAA's extensive network of aging facilities

Protecting Against Increasing Cyber Security Risks and Enhancing the Protection of Personally Identifiable Information

- Enhancing security protection of the air traffic control system as a critical national infrastructure

Improving Contract Operations and Maintaining Procurement Integrity

- Developing and maintaining a competent acquisition workforce to support the DOT's mission
- Improving award-fee contracting processes to better achieve acquisition objectives
- Ensuring that suspended or debarred contractors do not obtain Government contracts or assistance agreements
- Ensuring that the greater acquisition workforce maintains high ethical standards

Management Response

We agree that the FAA faces significant challenges in aviation and, as outlined in the FAA's FY 2008 PAR, we have aligned our resources and performance targets so that we can be successful. The challenges stated above will be met by focusing on improving safety, increasing capacity, and achieving organizational excellence.

Making a safe aviation system even safer is an ongoing challenge. Our safety record indicates that we have addressed every predictable risk factor that could cause an accident or incident. Our challenge now is to identify any remaining risks and eliminate, minimize, or manage them. We have already taken steps to address a number of OIG's recommendations regarding our oversight of the air carriers as well as the outsourcing of aircraft maintenance. In general, we believe that introducing additional management controls in programs such as the Voluntary Disclosure Reporting Program (VDRP) and the Air Transportation Oversight System (ATOS) will be beneficial. These are extremely valuable programs in terms of their contributions to the FAA's safety mission.

We are also redoubling our efforts to continue reducing runway incursions and operational errors. We have challenged our industry partners to step up their actions to make runways safe, and they are responding by improving the markings and paint on taxiways at hundreds of airports around the country. In addition, we are expanding our runway status lights program, which will eventually be installed at 22 airports, and we have reached agreements with four airlines to fund in-cockpit runway safety systems in exchange for critical operational data. In the coming year, we will continue the accelerated deployment of the Traffic Analysis and Review Program (TARP) that identifies loss of separation incidents for further investigation.

Reducing delays while keeping the system safe is a must. We are on track in planning and implementing new runway projects and have begun more significant communication with our aviation stakeholders to help resolve delays and improve service to the flying public. We continue to work with DOT to meet our funding challenges and ensure planned infrastructure improvements remain on course.

Pursuing our organizational excellence goals directly supports many challenges cited by the OIG. Our people are our most valuable resource. Hiring and training the next generation of air traffic controllers and aviation safety inspectors is key to our success, and we are aggressively pursuing our hiring goals. Equally important, we must ensure that there is a pipeline of candidates to support our acquisition workforce needs now and well into the future. To modernize the NAS requires adept management of highly complex, multi-year initiatives, like NextGen. This initiative requires multiple contract vehicles to successfully deploy the technology that keeps our aviation system the safest in the world. We will manage and close out our contracts on time, capitalize the assets they produce in a timely manner, ensure the information technology used is secure, and keep our facilities that house these assets in good condition. All of this must be managed with the highest of ethical standards. These challenges are all significant, but we are prepared to measure our performance routinely and hold ourselves accountable to the American taxpayers.

Summary of Audit Results and Management Assurances

Financial Statement Audit Summary

Table 1 is a summary of the results of the independent audit of the FAA's consolidated financial statements, as well as information on the material weakness reported by the FAA's auditors in connection with the FY 2007 audit.

Management Assurances Summary

Table 2 is a summary of management assurances related to the effectiveness of internal control over the FAA's financial reporting and operations, and its conformance with financial management system requirements under Sections 2 and 4, respectively, of the Federal Manager's Financial Integrity Act (FMFIA). The last portion of Table 2 is a summary of the FAA's compliance with the Federal Financial Management Improvement Act (FFMIA).

TABLE 1. SUMMARY OF FINANCIAL STATEMENT AUDIT

Audit Opinion	FY 2008—unqualified		
	FY 2007—unqualified		
Restatement	No		
Material Weakness	FY 2007—number of material weaknesses	Revised and Reissued	FY 2008—number of material weaknesses
Timely Processing of Transactions and Accounting for Property, Plant, and Equipment, Including the Construction in Progress (CIP) Account.	1	0	0

TABLE 2. SUMMARY OF MANAGEMENT ASSURANCES			
Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)			
Statement of Assurance	Unqualified statement of assurance		
Material Weakness	FY 2007—number of material weaknesses	Revised and Reissued	FY 2008—number of material weaknesses
Timely Processing of Transactions and Accounting for Property, Plant, and Equipment, Including the Construction in Progress (CIP) Account.	1	0	0
Total Material Weaknesses	**1**	**0**	**0**
Effectiveness of Internal Control over Operations (FMFIA § 2)			
Statement of Assurance	Unqualified statement of assurance		
Material Weakness	FY 2007—number of material weaknesses	Revised and Reissued	FY 2008—number of material weaknesses
Timely Processing of Transactions and Accounting for Property, Plant, and Equipment, Including the Construction in Progress (CIP) Account.	1	0	0
Total Material Weaknesses	**1**	**0**	**0**
Conformance with Financial Management System Requirements (FMFIA § 4)			
Statement of Assurance	Systems conform to financial management system		
Non-Conformances	FY 2007—number of material weaknesses	Revised and Reissued	FY 2008—number of material weaknesses
No Non-Conformances	0	0	0
Compliance with Federal Financial Management Improvement Act (FFMIA)			
		Agency	Auditor
Overall Substantial Compliance		Yes	Yes
1. System Requirements		Yes	
2. Accounting Standards		Yes	
3. USSGL at Transaction Level		Yes	

Improper Payment Information Act of 2002

The Improper Payments Information Act of 2002 and OMB Circular A-123 Appendix C guidance require Federal agencies to review all programs and activities annually, identify those that may be susceptible to significant erroneous payments, and determine an annual estimated amount of erroneous payments made in those programs. The FAA reports its progress on reducing erroneous payments to both the President and Congress. Our FY 2008 review did not identify any programs or activities at risk for "significant erroneous payments" in accordance with OMB's criteria (i.e., programs with erroneous payments exceeding both $10 million and 2.5% of program payments). (Refer to the President's Management Agenda section, page 16, for more information).

In 1958, FAA air traffic control towers handled 26.6 million takeoffs and landings. In 2008, FAA and contract towers will handle approximately 44.2 million operations.

Credit: FAA Image Library

GLOSSARY OF ACRONYMS

ACRONYM	NAME
AAL	Alaskan (Regional Office)
AATF	Airport and Airway Trust Fund
ABA	Financial Services, Office of Chief Financial Officer (FAA Staff Office)
ACE	Central (Regional Office)
ACR	Civil Rights (FAA Staff Office)
ACSI	American Customer Satisfaction Survey
ADA	Office of the FAA Deputy Administrator
ADS-B	Automatic Dependent SurveillanceñBroadcast
AEA	Eastern (Regional Office)
AEDT	Aviation Environmental Design Tool
AEP	Aviation Policy, Planning, & Environment (FAA Staff Office)
AFP	Airspace Flow Program
AGA	Association of Government Accountants
AGC	Chief Counsel (FAA Staff Office)
AGI	Government & Industry Affairs (FAA Staff Office)
AGL	Great Lakes (Regional Office)
AHR	Human Resource Management (FAA Staff Office)
AIAA	American Institute of Aeronautics and Astronautics
AIO	Information Services (FAA Staff Office)
AIP	Airport Improvement Program
AIR	Aircraft Certification
AME	Aviation Medical Examiner
AMS	Acquisition Management System
ANE	New England (Regional Office)
ANM	Northwest Mountain (Regional Office)
AOA	FAA Office of the Administrator
AOC	Communications (FAA Staff Office)
API	International Aviation (FAA Staff Office)
APL	Acquisition Policy Letter
ARC	Regions and Center Operations (FAA Staff Offices)
ARINC	Aeronautical Radio, Inc.
ARP	Airports (FAA Line of Business)
ARTCC	Air Route Traffic Control Center
ASAP	Automated Staffing and Application Process
ASDE-X	Airport Surface Detection Equipment Model X
ASH	Security and Hazardous Materials (FAA Staff Office)
ASI	Aviation Safety Inspectors

ACRONYM	NAME
ASIAS	Aviation Safety and Information Analysis and Sharing
ASO	Southern (Regional Office)
ASPIRE	Asia and South Pacific Initiative to Reduce Emissions
ASPM	Aviation System Performance Metrics
ASQP	Airline Service Quality Performance
AST	Commercial Space Transportation (FAA Line of Business)
ASV	Annual Service Volume
ASW	Southwest (Regional Office)
ATO	Air Traffic Organization (FAA Line of Business)
ATOS	Air Traffic Oversight System
AVS	Aviation Safety (FAA line of business)
AWP	Western Pacific (Regional Office)
BASA	Bilateral Aviation Safety Agreement
BCP	Business Continuity Plan
BPA	Blanket Purchase Agreement
BTS	Bureau of Transportation Statistics
CAAFI	Commercial Aviation Alternative Fuels Initiative
CAS	Cost Accounting System
CAST	Commercial Aviation Safety Team
CDA	Continuous Descent Arrival
CASTLE	Consolidated Automated System for Time and Labor Entry
CDRPP	Continuous Data Recording Player Plus
CEAR	Certificate of Excellence in Accountability Reporting
CFI	Certified Flying Instructor
CFO	Chief Financial Officer
CFR	Code of Federal Regulations
CIP	Construction in Progress
CMEL	Center for Management and Executive Leadership
CMT	Certificate Management Teams
COE	Center of Excellence
CR	Continuing Resolution
CRD	Concept and Requirements Definition
CSMC	Cyber Security Management Center
CSP	Centralized Selection and Placement
CSRS	Civil Service Retirement System
CTI	Air Traffic Collegiate Training Initiative
DATTS	Deployable Air Traffic Training System

ACRONYM	NAME
DC	District of Columbia
DCAA	Defense Contract Audit Agency
DNL	Day-Night Sound Level
DOD	Department of Defense
DOL	Department of Labor
DOT	Department of Transportation
DPE	Designated Pilot Examiner
EA	Enterprise Architecture
ESC	Enterprise Services Center
ETMS	Enhanced Traffic Management System
EVM	Earned Value Management
F&E	Facilities and Equipment
FAA	Federal Aviation Administration
FASAB	Federal Accounting Standards Advisory Board
FBWT	Fund Balance with Treasury
FECA	Federal Employees' Compensation Act
FERS	Federal Employees Retirement System
FF	Franchise Fund
FFMIA	Federal Financial Management Improvement Act
FISCAM	Federal Information System Controls Audit Manual
FISMA	Federal Information Security Management Act
FMFIA	Federal Managers' Financial Integrity Act
FY	Fiscal Year
G&A	General and Administration
GA	General Aviation
GAO	Government Accountability Office
GETS	Grievance Electronic Tracking System
GPS	Global Positioning System
GPT	Grievance Processing Time
GSA	General Services Administration
HPO	High Performing Organization
HRM	Human Resource Management
HSPD	Homeland Security Presidential Directive
ICAO	International Civil Aviation Organization
IG	Inspector General
ILS	Instrument Landing System
INM	Integrated Noise Model
IPA	Implementation Procedures for Airworthiness
IPIA	Improper Payment Information Act
IRS	Internal Revenue Service

ACRONYM	NAME
ISS	Information Systems Security
IT	Information Technology
ITD	International Training Division
ITEB	Information Technology Executive Board
JFK	John F. Kennedy
JFMIP	Joint Financial Management Improvement Program
JPDO	Joint Planning and Development Office
JRC	Joint Resources Council
LCGS	Low-Cost Ground Surveillance System
LOB	Lines of Business
LPV	Localizer Performance with Vertical
MAGENTA	Model for Assessing Global Exposure to the Noise of Transport Aircraft
MIA	Miami International Airport
MMS	Maintenance Management System
NACO	National Aeronautical Charting Office
NAEP	National Acquisition Evaluation Program
NAS	National Airspace System
NASA	National Aeronautics and Space Administration
NASPAS	National Airspace System Performance Analysis System
NATCA	National Air Traffic Controllers Association
NextGen	Next Generation Air Transportation System
NIST	National Institute of Standards and Technology
NMW	No Material Weaknesses
NODB	National Outage Database
NOSH	National Occupational Safety and Health
NTSB	National Transportation Safety Board
OAG	Official Airline Guide
OE	Operational Error
OEDP	Operational Error Detection Patch
OEP	Operational Evolution Partnership
OIG	Office of the Inspector General
OMB	Office of Management and Budget
OPM	Office of Personnel Management
OSH	Occupational Safety and Health
OSPE	Office of the Senior Procurement Executive
OST	Office of the Secretary of Transportation
OTA	Office of Tax Analysis
PAR	Performance and Accountability Report
PART	Program Assessment Rating Tool

ACRONYM	NAME
PATCO	Professional Air Traffic Controllers Organization
PEPC	Pre-Employment Processing Centers
PIV	Personal Identification Verification
PMA	Presidentís Management Agenda
PMP	Program Management Plan
PP&E	Property, Plant, and Equipment
PRISM	Procurement Acquisition Management System
R,E,&D	Research, Engineering, and Development
RNAV	Required Area Navigation
RNP	Required Navigation Performance
RSA	Runway Safety Area
RSSI	Required Supplementary Stewardship Information
RWSL	Runway Status Lights
SAGE	System for Assessing Aviation Global Emissions
SAVES	Strategic Sourcing for the Acquisition of Various Equipment and Supplies
SE	Safety Enhancement
SFFAS	Statement of Federal Financial Accounting Standards
SHARE	Safety, Health and Return to Employment Presidential Initiative
SMS	Safety Management System
SOAR	System of Airport Reporting
SPARTCC	Spare ARTCC (Air Route Traffic Control Center)
SPIRE	Simplified Program Information Reporting and Evaluation
SRM	Safety Risk Management
SWIM	System Wide Information Management
TAF	Terminal Area Forecast
TARP	Traffic Analysis Review Program
TBD	To Be Determined
TSS	Tower Simulation Systems
UAS	Unmanned Aerial System
VDRP	Voluntary Disclosure Reporting Program
WAAS	Wide-Area Augmentation System

In 1958, there were 354,365 active pilots.
In 2008, there are 590,349 active pilots.

Credit: Corbis

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This *FY 2008 Performance and Accountability Report* is a collaborative endeavor on the part of many FAA employees and contractors. We would like to acknowledge and thank them for their hard work and commitment in successfully preparing this report and supporting the audit of the financial statements.

WE WELCOME YOUR COMMENTS!

Thank you for your interest in the FAA's *FY 2008 Performance and Accountability Report.* We welcome your comments on how we can make this report more informative for our readers.

Please send your comments to

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This report and reports from prior years are available on the FAA website at **www.faa.gov/about/plans_reports/**. For a printed copy, call (202) 267-3018 or email Allison.Ritman@faa.gov.

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