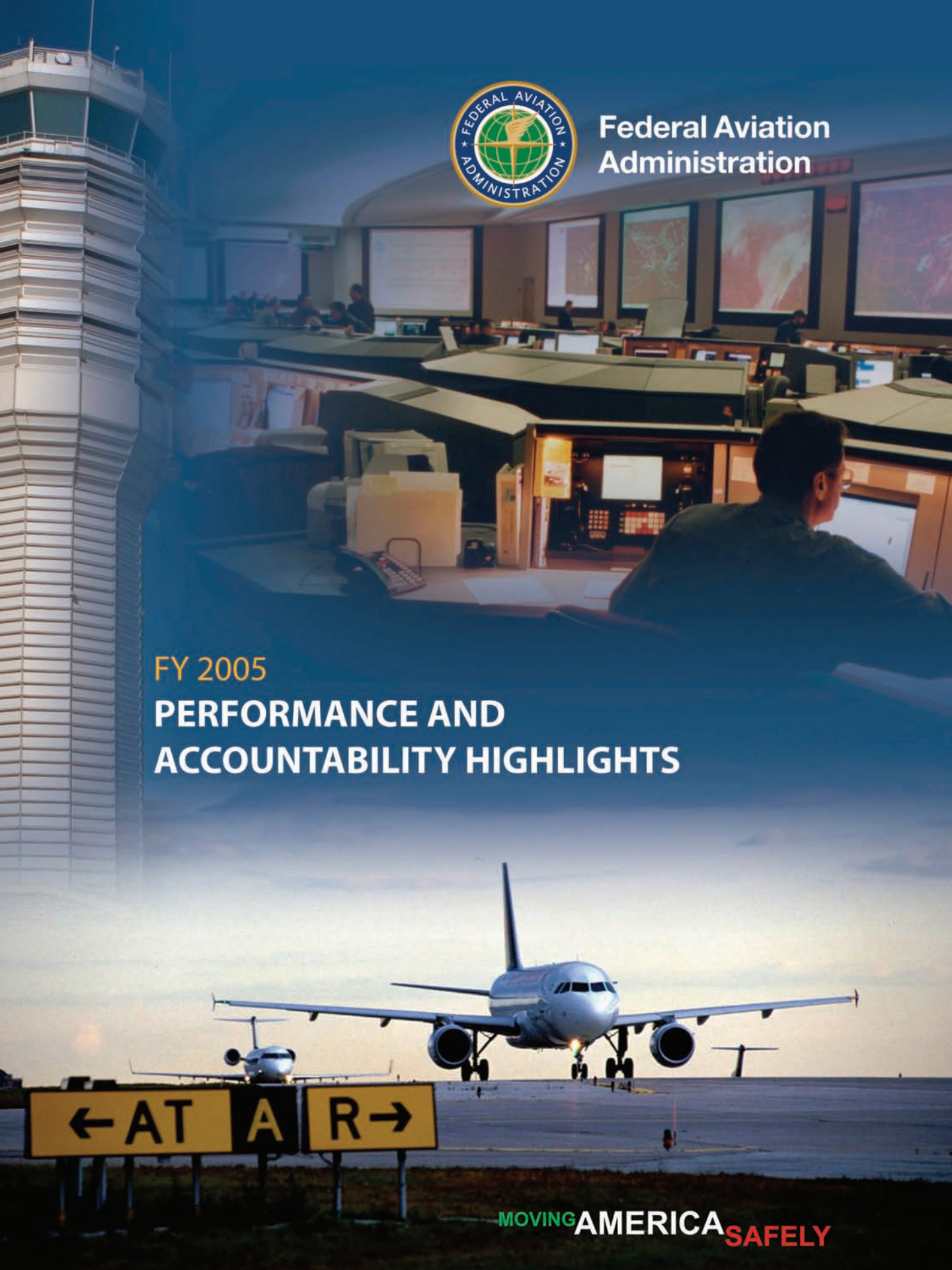

Federal Aviation
Administration
FY 2005
PERFORMANCE AND
ACCOUNTABILITY HIGHLIGHTS
←AT A R→
MOVING AMERICA SAFELY

FAA At a Glance

Established	1958
Headquarters	800 Independence Avenue, SW Washington, DC 20591 www.faa.gov
FY 2005 Budget (Enacted)	$13.828 billion
Total Employees	46,495
Headquarters	4,106 employees
Regional Offices	37,755 employees
Technical Center *Atlantic City, NJ*	1,244 employees
Aeronautical Center *Oklahoma City, OK*	3,390 employees
Passengers – U.S. Carriers	733.7 million (estimate)
Tower Operations	63 million arrivals and departures (estimate)

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.

Table of Contents





Mike Melvill, SpaceShipOne pilot; Administrator Blakey; Doug Shane, SpaceShipOne Director of Flight Operations; and Burt Rutan, president of Scaled Composites, stand with SpaceShipOne to celebrate winning the Ansari X Prize in October 2004.

A MESSAGE FROM THE ADMINISTRATOR

This is the safest 3-year period in the history of aviation. The challenge for the Federal Aviation Administration (FAA) remains not only maintaining this superb record, but also advancing our efforts to become a performance-based organization. This report details our specific achievements in raising the bar. Our goal is to pay immediate and continuous dividends on the taxpayer's investment.

- **Safety.** Moving passengers safely remains our number one priority. In FY 2005, the commercial air carrier fatal accident rate dipped to 0.017 fatal accidents per 100,000 takeoffs—the equivalent of 1 fatal accident per 5.9 million flights. The fatal accident rate for general aviation remains a concern. FAA continues to educate the pilot community and deploy new technology to drop the numbers. Mistakes made when directing air traffic—also known as operational errors—were up in the past year. We are taking actions on a number of fronts to improve our performance in FY 2006. For the fourth year in a row, serious runway incursions, instances where a plane comes too close to another plane or vehicle on the ground, were below the target.
- **Capacity.** Long lines on the tarmac are bad news, no matter which side of the counter you're on. With air traffic back to pre-September 11 levels and on track to reach more than 1 billion passengers by 2015, FAA continues to make inroads into improving the capacity of the system. In the past 6 years, we have opened eight new runways: Philadelphia, Phoenix, Detroit, Cleveland, Denver, Miami, Houston, and Orlando. Another eight runway projects will be up and running by 2009.
- **International Leadership.** FAA sets the pace for aviation across the globe. We continue to use our most important export—safety—as a means to ensure that the global system mirrors our own. The list of countries to which we provide support has reached 100. We're working with the International Civil Aviation Organization (ICAO) and Eurocontrol to harmonize safety, efficiency, and technology. We increased our technical interactions with China, India, and Brazil, and we plan to open new offices in India, South America, and the Middle East in 2006. Our aim is simple: making international air travel safe for the American flying public, while enhancing the technical and economic stability of aviation across the globe.
- **Aviation for the Next Generation.** New types of aircraft are already here. Last year, SpaceShipOne made the first flights designed to carry passengers into sub-orbit. Newer kinds of small aircraft, sometimes called "very light jets," will soon take to the sky and make air taxis a way of life. FAA must be prepared to ensure the safety of the next generation of aviation.
- **Financial Planning.** Together with the Department of Transportation (DOT) and our stakeholders, we are addressing the gap between FAA costs and revenues from the airline ticket taxes and fees that support our operations.
- **World Class Business Practices.** Continuous improvement in our business practices paid off in FY 2005 and will continue to benefit aviation and FAA for many years to come.
- **Competitive Sourcing.** In support of the President's Management Agenda, we awarded an A-76 sourcing of 58 flight service stations to Lockheed Martin. This is the single largest nonmilitary outsourcing initiative in the Federal Government. Since its inception, this initiative is expected to result in an estimated savings of $2.2 billion.





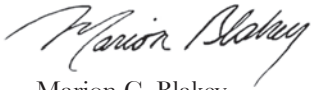
- **Labor Agreements.** Contract negotiations with FAA's two largest unions are under way. The National Air Traffic Controllers Association and the Professional Airway System Specialists together represent more than 22,000 FAA employees. Our goal is to reach new contracts that are both fair and fiscally responsible.
- **Organizational Excellence.** The Association of Government Accountants (AGA) awarded us a second consecutive Certificate of Excellence in Accountability Reporting for our *FY 2004 Performance and Accountability Report* (PAR). We were honored to receive the award and are up to the challenge of continued improvement posed by AGA. In addition, we received a Gold Award for our *FY 2004 Performance and Accountability Highlights* from the League of American Communication Professionals. This award recognized our publication as one of the top annual reports in the country.

An accompanying document, FAA's *FY 2005 Performance and Accountability Report* provides a detailed accounting of our service to both the flying public and the aviation industry. The financial and performance data contained in the PAR and this summary highlights document are reliable and complete. We improved our performance this year, attaining 28 out of 31 goals in the areas of safety, capacity, international leadership, and organizational excellence.

For the fifth consecutive year, we achieved an unqualified (clean) opinion from our auditors on our financial statements. However, this year we also received a material weakness in the area of timely processing of transactions and reconciliation of accounts. We have developed a plan to address this weakness, which will be implemented in phases during FY 2006.

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, 2004, through September 30, 2005, 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.

As this report makes clear, our efforts to provide a safe, secure, and efficient global aerospace system, together with our commitment to the highest standards of efficiency and integrity, will ensure that FAA continues to move America safely and to deliver an exceptional return on the investment on behalf of the American taxpayer.



Marion C. Blakey
Administrator

November 8, 2005

Management's Discussion and Analysis





The mission of the Federal Aviation Administration, an agency of the U.S. Department of Transportation (DOT), is to provide the safest, most efficient aerospace system in the world. FAA 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 almost 50 years.

These are exciting times for aviation. Micro-jets and unmanned aerial vehicles (UAVs) are taking to the skies. Entrepreneurs are working to make space travel fast, reliable, and affordable. These are also challenging times for the industry. Fuel costs are on the rise. Low cost carriers now have a 43% share of the market, up from 30% just 5 years ago. Legacy carriers are struggling financially. FAA must evolve and adapt to the changing landscape while continuing to ensure historically unprecedented levels of safety.

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, 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 challenges of moving America safely with the help of dedicated employees at its headquarters in Washington, DC, in regional offices, and in facilities around the world. We fulfill our mission through four lines of business that work together to create and maintain the world's preeminent national airspace system. 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 36,000 ATO employees provide these services—the controllers, technicians, engineers, researchers, and support and management personnel whose daily efforts keep the airplanes 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 airport authorities; enhances environmental quality related to airport development; develops standards for the design and construction of airport facilities; and 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 and regulates the commercial space industry.

A Year in Highlights

With a workforce of 46,495 professionals and an annual budget of approximately $13.8 billion, FAA operates and maintains the complex air traffic control system and the facilities and equipment that support it. More than half of the world's air traffic is managed by 14,540 controllers, who ensure ever-increasing levels of safety. We conduct research to improve aviation safety and efficiency and provide grants to improve 3,344 eligible public-use airports in the United States. FAA also regulates commercial space launch activities to ensure public safety.

Administrator Marion C. Blakey led FAA to a number of significant accomplishments in FY 2005. Aviation safety continued to improve at an impressive pace, and we renewed our pledge for constant vigilance to safeguard the flying public. As a result, FAA remains on track to meet the ambitious goal of reducing commercial air carrier fatal accidents by 80% from the 1994–1996 baseline. We once again introduced new technologies to keep passengers safe both in the air and on the ground.

During FY 2005, FAA employees

- Achieved a record of aviation safety that sets the standard for countries throughout the world.
- Managed increased demands on the system while working to minimize delays and congestion. During the past 6 years, FAA has worked with local governments to commission eight new runways, which added more than 1 million operations (takeoffs and landings) at major airports. We are now planning for eight new runway projects, which will further increase capacity.
- Began work on proposed legislation for a new system for financing the FAA in the future. The excise taxes, which go to the Airport and Airway Trust Fund (AATF), are set to expire in 2007 without Congressional reauthorization. Aviation infrastructure and FAA's operations are funded, in part, by taxes on airline tickets, which are deposited in the AATF. Dramatic changes in the airline industry have caused a decline in ticket taxes and fees, which means less money for FAA. A troubling gap has grown between the revenue that comes in and what it costs to run the FAA. The Administrator hosted an AATF Forum to elicit public input on reauthorization. FAA then developed and analyzed various options for closing and funding the gap. We developed and shared extensive data on who uses different parts of FAA services and what it costs to provide the services with the aviation community, who have and will continue to provide suggestions for how to shape a new financing system. In FY 2006, we will develop a specific legislative proposal for future revenue that is based on detailed cost and activity data and is informed by the advice of our stakeholders.
- Continued to transform the system through the Joint Planning and Development Office (JPDO). JPDO—a joint venture of FAA, the Departments of Defense, Commerce, Transportation, and Homeland Security, the National Aeronautics and Space Administration (NASA), and the White House Office of Science and Technology—is a test bed for new ideas. During FY 2005, JPDO began work on a network-enabled operations (NEO) demonstration project. NEO is a communications link that will provide a shared picture of the National Airspace System (NAS) to enhance security and improve communications.
- Sponsored research through FAA's Center of Excellence for Noise and the Environment on technologies that will reduce both fuel consumption and noise.
- Continued airport, aircraft, human factors, and weather research and development activities, which are ensuring aviation safety and improving capacity today and for the future.
- Improved business practices to help control costs and increase efficiency, as described in the section that follows.
- Maintained a focus on aviation as a global system and worked closely with international organizations to seek global solutions to safety, routing, procedural, technology, and environmental issues.
- Continued to work with airports around the country to boost system capacity by analyzing chokepoints, commissioning new runways, and taking advantage of precise





satellite navigation technologies to increase efficiency. Through such improvements, we were able to increase system capacity, maintain efficiency, and minimize delays.

Efficiency and Cost-Effectiveness

Over the past several years, we have made significant progress in making cost control a priority throughout FAA. During FY 2005 we focused on the following areas.

Consolidation of staffing and facilities addresses the synergies derived by cross-utilization of resources and facilities and the resulting reduction in the unit cost of services. This effort also includes benefits that are derived from outsourcing services to obtain cost efficiencies. FAA's consolidation activities include

- A-76 sourcing of 58 flight service stations to Lockheed Martin. This initiative will result in a cost savings of over $2.2 billion from 2003 through 2015.
- Centralization of all accounting offices. This effort will ultimately result in payroll savings of $3.5 million per year, which will begin accruing in FY 2007.
- Consolidation of services in recent years has included web services, application software, servers and help desk consolidations in many organizations such as Information Services; Aviation Policy, Planning, and Environment; Regions and Center Operations; and Security and Hazardous Materials.

Labor cost management is a major area of focus, given the size of our payroll and benefits budget of approximately $6 billion in FY 2005. FAA has already renegotiated costly memoranda of understanding (MOUs) and strengthened the approval process for future MOUs. A major initiative is, however, the current renegotiation of labor agreements with the objective of establishing affordable agreements and maximizing cost efficiency. FAA has also established a goal to achieve air traffic controller staff savings of 10% by FY 2010 through productivity improvements. Cost avoidance in FY 2005 was $23 million. A reduction of over 510 overhead and nonsafety staff resulted in cost savings of $34 million in FY 2005. In addition, many organizations are filling vacancies with employees at lower pay levels resulting in lower unit labor costs.

Strategic sourcing and demand management uses industry best practices to achieve savings in selected areas such as centralizing wireless contracts. We now have a centralized ordering system, clear approval processes, and incentives for users to control costs. We are already realizing savings from this initiative. When it is fully implemented, we will save over $4 million per year, 50% of what we previously spent. FAA also awarded an Oracle Enterprise License that will reduce our costs by almost $1 million per year. A similar blanket purchase agreement with Dell yielded cost avoidance of over $3 million this year. By the end of FY 2006 we will generate annualized savings of over $10 million for the next 3 years through a Strategic Sourcing initiative. Savings for some items could exceed 30%.

We have also implemented **new information tools and processes to manage costs and productivity.** New accounting, acquisition, cost accounting, and labor distribution systems have enabled us to better understand and manage unit costs and productivity. ATO has developed unit cost and productivity metrics, which have been incorporated into the strategic planning process. These metrics measure the cost to provide air navigation services to our users assessed on a "per flight" basis. They include the cost to provide en route services per flight hour, terminal costs per terminal operation, and flight service costs per customer contact. Furthermore, in June 2005, ATO deployed an enhanced version of its labor distribution system. This provided more visibility into tasks employees perform, including work performed by air traffic controllers when not "on position" controlling traffic.

BEYOND 2007

The Airport and Airway Trust Fund (AATF), which is funded by the excise tax on airline tickets, pays a large share of the FAA's operating expenses. This system has worked well for much of FAA's history; however, a troubling gap has grown recently between the revenue and what it costs to run the agency. The taxes and fees that support the AATF expire in 2007.

The drop in revenue is due, in large part, to changes in the aviation industry. In prior years, higher ticket prices helped keep the trust fund solvent, enabling FAA to make investments for the future while operating the world's safest transportation system. Competition between low-cost carriers has reduced ticket prices dramatically. Because over half of AATF receipts come from the 7.5% tax on airline tickets, these lower fares decrease revenue—without any corresponding reduction in workload. The increased workload is further compounded by the addition of next generation aircraft entering the system.

The Department of Transportation and FAA are working to address the problem. In April 2005, Secretary Norman Mineta and FAA Administrator Marion Blakey convened a forum of more than 150 leaders from government, industry, and Wall Street to discuss the issues and make recommendations. Over the coming months, FAA will work to help secure a consistent, stable revenue stream that is not tied to the price of an airline ticket, but rather reflects the actual costs of maintaining the safest and most efficient aviation system in the world.

www.faa.gov/airports_airtraffic/trust_fund/

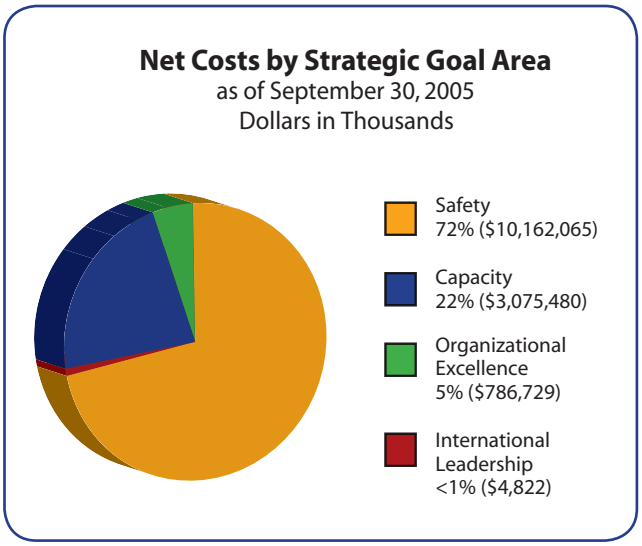
This year we also instituted several key finance-related measures to determine financial trends and assess financial operations. These measures focus on issues arising from our primary business processes and have been incorporated into the business plan that implements FAA's strategic plan. Results from this year's performance will serve as the baseline for the future and will be the basis for establishing a service agreement with the FAA Finance Center in Oklahoma City.

In addition, FAA has strengthened its Capital Planning and Oversight with greater reliance on the use of OMB Exhibit 300s (Business Case Justification) with detailed discussions of economic measures, as well as alternatives to the proposed investment. After a program has been approved, there are processes that enable us to monitor cost and schedule variances to better manage the programs.

In the area of expense controls, FAA has improved its oversight of the contract approval process to avoid duplication of services and ensure optimal pricing. Other analytic tools have also been put in place to enable efficient manpower scheduling and monitoring of productivity within the organization.

Alignment of FAA Costs and Goals

The alignment of FAA's costs with its four strategic goal areas is captured in the cost accounting system (CAS). More than $10 billion, or 72% of the $14.0 billion in total net cost for FY 2005, was devoted to our primary goal of ensuring a safe national airspace system (NAS). ATO spent $7.5 billion, largely to support keeping aircraft safely separated in the air and on the ground. ARP directed over $1.9 billion to establishing safe airport infrastructure. AVS spent slightly less than $500 million on its programs to regulate and certify aircraft, pilots, and airlines, directly supporting the safety of commercial and general aviation. AST, FAA staff offices, and other programs spent the remaining amount of $189 million to support the agency's safety performance targets and activities.



Just over $3 billion, about 22% of total net costs, is primarily assigned to supporting FAA's goal of improving the capacity of the NAS. ATO spent $1.3 billion, largely to support its facilities and equipment projects. ARP spent nearly $1.7 billion to enhance the capacity of the country's airports, through runway projects and other efforts. AST directed almost $4 million to its efforts to expand capacity.

The bulk of FAA's remaining net costs, over $700 million, supported its Organizational Excellence goal. Nearly all the lines of businesses and staff offices contributed to this goal. The remainder, about $4.8 million, was spent to promote FAA's International Leadership goal.

Risks and Trends

FAA's *Flight Plan* is a long-term strategic plan that charts the agency's goals through FY 2010. It provides the framework to match resources with initiatives for long-term change. It not only focuses on activities, but it also sets the direction for FAA and the national air and space community in a global transportation environment. It sets forth our goals and the performance measures to assess progress in meeting them.

FAA faces a number of challenges in implementing the *Flight Plan* and achieving results. These challenges include the following:





- Air traffic has returned to pre–September 11, 2001, levels. More than 700 million people flew last year, and the number of passengers is expected to climb to 1 billion by 2015. Dealing with these increases will demand even more from FAA resources, which are already feeling the strain.
- The financial difficulties facing the airlines and aviation manufacturers affect their ability and willingness to equip aircraft with new technologies that will enhance safety and capacity. Those difficulties also affect FAA, which is primarily funded by the AATF from taxes on airline tickets.
- Large capital investments in facility, infrastructure, and agency human capital needs will depend largely on the ability to closely link budget to performance and in part on the ability and willingness of Congress to fund such operations and responsibilities.
- The ability to improve safety or expand capacity in the United States and in the international arena depends in part on the willingness of authorities at the State, local, and international levels to cooperate and collaborate in areas such as building new airports, expanding runways, and implementing new technologies.
- Emerging threats to national or homeland security may cause FAA priorities to shift to meet new responsibilities.

Performance Highlights

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, the performance budget, human capital plans, and the annual Performance and Accountability Report create a recurring cycle of planning, program execution, measurement, verification, and reporting. This strong link between resources and performance shows what is being accomplished and reinforces accountability for the taxpayer money being spent.

In FY 2005, FAA marked the second year under its *Flight Plan*. These are the goals that we must meet to address the challenges facing aviation, as well as maintain U.S. leadership in aviation. Our *Flight Plan* is tightly aligned with DOT's mission, vision, goals, and performance measures.

This year, FAA had 31 performance measures and targets that focused our efforts to achieve enhanced aviation safety, increase system capacity, provide international leadership, and ensure organizational excellence. As part of our efforts to continuously improve reporting, we redesigned the FAA website and added a section that provides easy access to *Flight Plan* performance and results (www.faa.gov/about/plans_reports/).

Our performance measures support FAA's mission to provide citizens with a safe, secure, and efficient global aviation system.

- **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. Reducing the risk of aviation accidents remains a top priority. In FY 2005, we achieved five of eight safety goals.
- **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. Initiatives designed to boost system efficiency were successful in improving on-time arrival and airport capacity and efficiency while reducing exposure to aircraft noise and emissions. In FY 2005, we achieved all eight capacity goals.

(continued on page 12)

FY 2005 PERFORMANCE AT A GLANCE

Performance Measure	FY 2005 Target	FY 2005 Results	FY 2005 Status	FY 2006 Target
SAFETY				
Commercial Air Carrier Fatal Accident Rate	0.023	0.017[1]	●	0.018
General Aviation Fatal Accidents	343	350[1]	▲	337
General Aviation Alaska Accidents	120	128[1]	▲	115
Runway Incursions (number/rate)	36/0.557	29/0.460[2]	●	0.551[3]
Composite Safety Index	Present Index	Index Presented	●	N/A
Commercial Space Launch Accidents	0	0	●	0
Operational Errors (number/rate)	637/3.92	680/4.27[2]	▲	4.20[3]
Safety Risk Management (number of changes)	3	3	●	3
CAPACITY				
Average Daily Airport Capacity (35 Operational Evolution Plan [OEP] airports)	99,892	101,463[2]	●	101,191
Average Daily Airport Capacity (8 metropolitan areas)	43,080	44,324[2]	●	43,338[4]
Annual Service Volume	1.00%	1.01%	●	1.00% (4 runways)
Adjusted Operational Availability (35 OEP airports)	99.00%	99.76%[2]	●	99.50%
NAS On-Time Arrivals	87.40%	88.44%[2]	●	87.40%
Noise Exposure	-3.00%	-27.00%[5]	●	-4.00%
Aviation Fuel Efficiency	-2.00%	-5.84%[5]	●	-3.00%
Oceanic En-route Change Requests	75.00%	76.24%	●	N/A





FY 2005 PERFORMANCE AT A GLANCE

Performance Measure	FY 2005 Target	FY 2005 Results	FY 2005 Status	FY 2006 Target
INTERNATIONAL LEADERSHIP				
Environmental Standards and Practices (number of milestones)	2	2	●	N/A
Aviation Safety Leadership (number of countries)	2	27	●	N/A
Bilateral Agreements (products and services)	2	2	●	1
Intellectual and Financial Assistance	20.00%	63.00%	●	20.00%
Support for International Civil Aviation Organization (new aviation authorities)	2	3	●	N/A
NAS Technologies (number of countries)	1	1	●	N/A
ORGANIZATIONAL EXCELLENCE				
Employee Attitude Survey (cumulative percent increase)	1.50%	2.00%	●	3.00%
Cost Control (number of activities per organization)	1	1	●	At least 1
Critical Acquisition Budget	80.00%	97.00%	●	85.00%
Critical Acquisition Schedule	80.00%	92.00%	●	85.00%
Information Security	0	0	●	0
Customer Satisfaction	64	66	●	65
Performance Plans	85.00%	94.29%	●	N/A
Cost-Reimbursable Contracts	85.00%	170.00%	●	85.00%
Mission Critical Positions	6.00%	35.00%	●	10.00%
Flight Plan Targets[6]	90.00%	90.00% (28/31)	●	N/A

● Green: Goal Achieved
▲ Red: Goal Not Achieved

Notes:
N/A: Goal discontinued for FY 2006.
1) Preliminary estimate. Final data will be available in May 2007.
2) Preliminary estimate. Final data will be available by January 2006.
3) Target for FY 2006 has been changed from a number to a rate.
4) Measure was changed during FY 2005. South Central Florida replaced Boston as one of the eight metropolitan areas where arrival capacity is measured.
5) Preliminary estimate. Final data will be available in May 2006.
6) This target is not included when calculating the percentage of targets achieved.

RESPONDING TO KATRINA

Less than 24 hours after Hurricane Katrina made landfall in the Gulf Coast, the FAA mobilized employees and equipment and sent them to the hurricane-stricken region. Within 72 hours, all airports were open for business, with the exception of New Orleans Lakefront Airport, which suffered extensive water damage.

FAA employees supported Operation Air Care—the largest airlift operation ever undertaken in the United States. Over the course of 5 days, from September 2 to 7, nearly 400 civilian and military aircraft safely evacuated more than 23,000 people, while delivering much-needed relief supplies.

During that time, Louis Armstrong New Orleans International Airport became one of the nation's busiest airports. Guided by FAA air traffic controllers and on-ground personnel, 3,300 flights per day—four times the normal air traffic levels—were able to safely complete their missions.

FAA employees continue to work around the clock to staff air traffic facilities, repair navigational aids and infrastructure, and provide safety oversight in support of ongoing evacuation and relief efforts.

www.faa.gov/news/disaster_response/

(continued from page 9)

- **International Leadership.** FAA's goal is to make the international aviation system as safe and efficient as the one enjoyed in the United States. During FY 2005, we continued to promote safety by broadening the international network of partnerships with civil aviation authorities around the world. In FY 2005, we achieved all six of our goals in this area.
- **Organizational Excellence.** To fulfill our mission, we must be a world-class organization. This requires greater fiscal responsibility, stronger leadership, more collaboration, and performance-based management. We continue to make great strides in improving the business processes that support efforts to improve aviation safety and system efficiency, and in FY 2005 we were able to achieve all nine of our organizational excellence goals.

Despite the challenges, FY 2005 was a year of impressive success for FAA. As traffic increases, so do the challenges we face in building organizational excellence to improve safety and increase capacity. Through the combined efforts of our employees and industry partners, we were able to achieve 28 of 31 goals—a 90% success rate. The Performance at a Glance chart on pages 10 and 11 provides a snapshot of our results.

SAFETY

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

Safety is our primary responsibility. It is central to the public's interest and the economic health of aviation. Although commercial aviation continues to be one of the safest forms of transportation, the public demands continued improvement in safety. General aviation also plays an important role in both the U.S. transportation system and the economy. We continue to focus our efforts on reducing the incidence of all types of general aviation accidents.

FAA's *Flight Plan* establishes numerous objectives and initiatives to maintain the lowest aviation accident rates ever recorded. We recognize that complacency will undermine the gains in this area, and we therefore make continuous improvement in overall safety an essential task. We assess safety through eight performance measures. The following sections describe our performance in improving safety through the achievement of targets for these measures, of which we met five in FY 2005.

[Goal Achieved]

Commercial Air Carrier Fatal Accident Rate

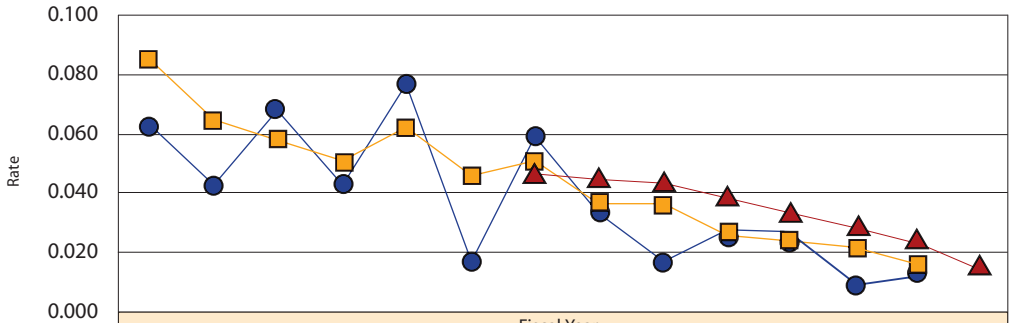
Commercial aviation is one of the safest forms of transportation. While rare, aviation accidents can have catastrophic consequences, with large loss of life. The public demands a high standard of safety and expects continued improvement.

This is one of the safest periods in aviation history. The NAS operates approximately 32,000 scheduled commercial flights daily. Since the last fatal jet airliner accident involving passengers in November 2001, more than two billion airline passengers have safely reached their destination.

While maintaining its regulatory and enforcement role, FAA continues to partner with the aviation community in improving safety, which is reflected in three basic long-term strategies: (1) prevent accidents by addressing recurrent causes; (2) improve certification and surveillance; and (3) share safety data and information with aviation partners. These strategies are at the heart of most of FAA's significant and long-term safety programs.

FAA also worked in FY 2005 to increase aviation safety by preventing fuel tank explosions. We submitted a Notice of Proposed Rulemaking to require reducing the level of flammable vapors in fuel tanks to the level achieved when fuel tanks are made chemically

Commercial Air Carrier Fatal Accident Rate
Per 100,000 Departures



	Fiscal Year	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Fatal Accident Rate		0.063	0.043	0.068	0.043	0.077	0.017	0.059	0.033	0.017	0.028	0.027	0.009[1]	0.016[2]	N/A
3-Year Average		0.085	0.065	0.058	0.051	0.063	0.046	0.051	0.037	0.037	0.026	0.024	0.021[1]	0.017[2]	N/A
Target		N/A	N/A	N/A	N/A	N/A	N/A	0.046	0.045	0.043	0.038	0.033	0.028	0.023	0.018

[1] Preliminary estimate until May 2006.
[2] Preliminary estimate until May 2007.

unreactive—a process called inerting. This rule would apply to current aircraft in service, new production aircraft, and new kinds of aircraft designs in the transport category.

FAA continued efforts to improve use of onboard technology that can enable pilots to navigate aircraft to any point in the world using only geographical coordinates. Required Navigation Performance (RNP) is an important step in moving the United States from an exclusively ground-based navigation system to one located within the aircraft itself. By providing pilots precise guidance to all runways, RNP can help prevent two major types of accidents—controlled flight into terrain and accidents that occur during the approach and landing phase of flight. In addition, RNP will enable pilots to land in weather conditions that would ordinarily require diversion to alternate airports.

In addition to these safety initiatives, FAA also engaged in hands-on preventive measures in FY 2005, such as increased security screening of cargo to root out fireworks and other hazardous materials. Those efforts aided in the detection of many undeclared hazardous materials, allowing us to safeguard airline passengers through increased investigation of violations of hazardous material regulations.

Through these initiatives and strategies, we were able to exceed our FY 2005 goal of reducing the rate of commercial air carrier fatal accidents, achieving a rate of 0.017 fatal accidents per 100,000 departures.

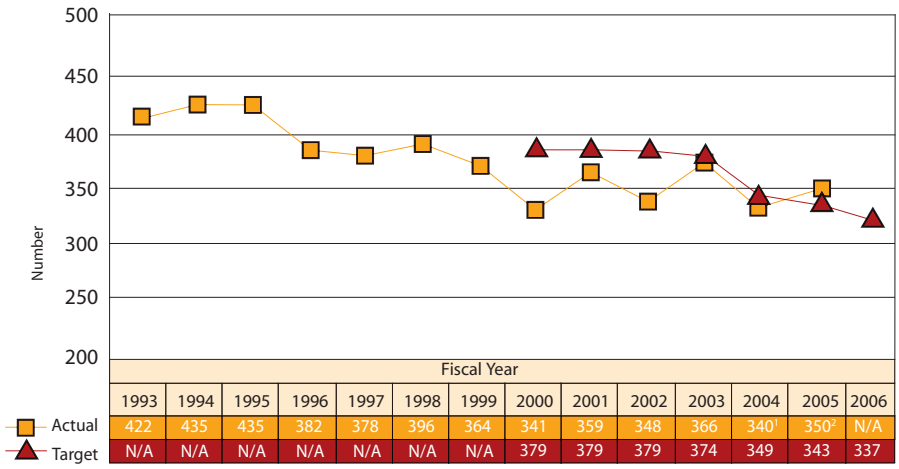
General Aviation Fatal Accidents & General Aviation Alaska Accidents

[Goals Not Achieved]

FAA was challenged to meet this year's goal for reducing general aviation fatal accidents. We believe that increased flight activity, the increased use of turbine aircraft, and pilots exceeding their limitations contributed to a higher number of accidents this year.

Although most people are familiar with FAA's role in commercial aviation, they may not be aware that it also oversees the safety of almost 300,000 general aviation aircraft in the United States. The majority of aviation fatalities have occurred in this segment of aviation. Since 1988, there has been a gradual trend downward in the number of general aviation accidents, but progress has not been steady.

Number of General Aviation Fatal Accidents



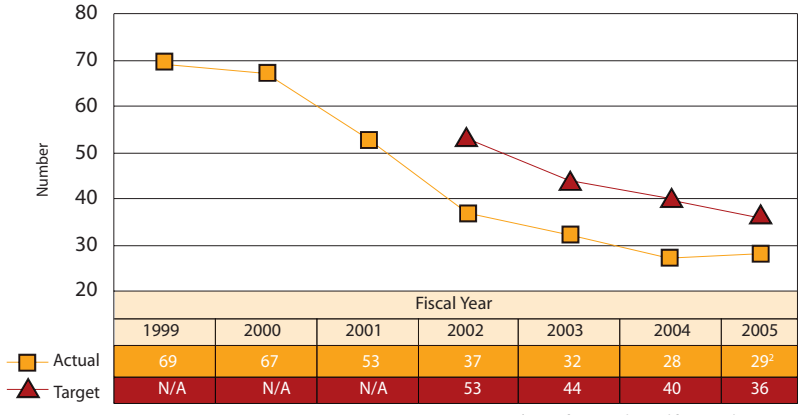
Fiscal Year	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Actual	422	435	435	382	378	396	364	341	359	348	366	340[1]	350[2]	N/A
Target	N/A	N/A	N/A	N/A	N/A	N/A	N/A	379	379	379	374	349	343	337

[1] Preliminary estimate until May 2006.
[2] Preliminary estimate until May 2007.

We have continued to work proactively to meet our goal of reducing general aviation accidents. Because of the challenges weather and terrain present in Alaska and the broad use of general aviation as a means of transportation, FAA's *Flight Plan* focuses specifically on reducing general aviation accidents in Alaska. Two programs in particular, Circle of Safety and CAPSTONE, appear to be making a difference. Circle of Safety is a consumer education program that works with passengers and organizations to share responsibility and take a more active role in their own flight safety. CAPSTONE helps provide pilots information on their positions relative to terrain, as well as real-time weather information in the cockpit. FAA worked with various members of the general aviation community in FY 2005, including aeromedical evacuation, charter services, and other members of the community, to push education and training on night landings, weather, medical evacuations, and other areas of concern.

Despite these efforts, we did not achieve our FY 2005 goal of reducing general aviation fatal accidents to 343 and general aviation accidents in Alaska to 120. We continue to work with the general aviation community to improve safety awareness and continue to advance FAA's Aviation Safety Program. The General Aviation Joint Steering Committee (JSC), a partnership of FAA and major general aviation associations, recently commissioned three major workgroups to focus on the most critical areas currently in general aviation. Each of these new subgroups will develop initiatives in the next fiscal year designed to reduce risk and lower the number of fatal accidents.

Number of Runway Incursions[1]
Highest Severity Category A & B



Fiscal Year	1999	2000	2001	2002	2003	2004	2005
Actual	69	67	53	37	32	28	29[2]
Target	N/A	N/A	N/A	53	44	40	36

[1]Target for FY 06 changed from number to rate.
[2]Preliminary estimate until January 2006.

[Goal Achieved]

Runway Incursions

A runway incursion is any occurrence at an airport involving an aircraft, vehicle, person, or object on the ground that creates a collision hazard or results in a loss of separation with an aircraft taking off, intending to take off, landing, or intending to land. Reducing runway incursions lessens the probability of accidents that potentially involve fatalities, injuries, and significant property damage.

We continue to develop and coordinate efforts to improve runway safety including a variety of education and awareness materials focused on air traffic controllers, pilots, and airport drivers to help reduce the number of serious runway incursion incidents. Other tools, such as air traffic control memory aids, better airport surface markers, and public service announcements, have contributed to the reduction of runway collisions at major U.S. airports. Aviation Surface Detection Equipment Model X (ASDE-X) maps moving objects on the airport grounds or those approaching by air, which helps controllers detect potential runway collisions. In FY 2005, FAA deployed ASDE-X at three additional locations. The agency expects to install this equipment at 14 additional U.S. airports by 2009.

FAA and industry have made significant progress in reducing runway incursions. There were 29 (preliminary estimate) of the most serious types of runway incursions, significantly lower than our FY 2005 goal of 36. This performance continues a downward trend that began 5 years ago.

Composite Safety Index (CSI)

[Goal Achieved]

FAA's target for FY 2005 was to complete development of a single, comprehensive index that can provide the public with a general indication of the safety of the U.S. civil aviation system. The proposed CSI is a 3-year rolling average of the yearly values for fatalities per "person departures." These departures are defined as the number of persons on board each flight, including the crew, which then accounts for all potential exposure. FAA will use this index to work with the aviation community to assess the overall level of aviation safety. The CSI was presented to the Administrator for review in August 2005 and will be included in the updated FY 2006 *Flight Plan*.

Commercial Space Launch Accidents

[Goal Achieved]

Commercial space launches generate tremendous benefits to society by delivering payloads such as telecommunications satellites and remote-sensing devices to orbit. FAA continues to maintain its perfect record of no commercial space launch accidents while safeguarding the public from the potential consequences of such an accident.

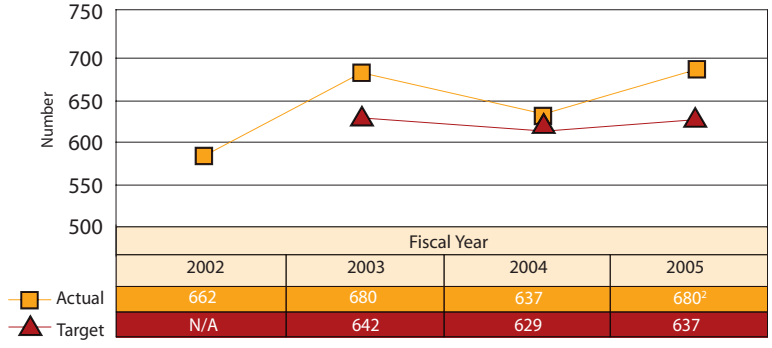
Operational Errors

[Goal Not Achieved]

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. An operational error occurs when air traffic controllers fail to apply or follow air traffic procedures that enforce separation and allow aircraft to end up too close to each other or to an obstruction.

We estimate that we will exceed our FY 2005 performance limit of 637 most serious operational errors by more than 6% (680 operational errors). Although we missed our target, we have seen improvements in overall performance. These improvements, which were due to

Number of Operational Errors[1]
Highest Severity Category A & B



[1]Target for FY 06 changed from number to rate.
[2]Preliminary estimate until January 2006.

much of the work done in FY 2005, including

- Conducting checks of certification skills.
- Scheduling regular quality assurance teleconferences with air traffic facilities and producing a regular newsletter for controllers.
- Encouraging collaboration between two ATO units—En Route and Oceanic Services, and Terminal Services—and the Controller Training Division to improve training content and identify simulation solutions.

[Goal Achieved]

Safety Risk Management

In FY 2004, FAA developed the *Safety Management System (SMS) Manual*, which describes the requirements for the various components/functions of the SMS, including safety risk management. Safety risk management 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 safety risk management 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.

In FY 2005, we met our target of applying safety risk management in three areas: the East St. Louis Air Traffic Control Tower, ASDE-X safety, and en route software modification projects.

CAPACITY

GOAL: Work with local governments and airspace users to provide capacity that meets projected demand in the U.S. airspace system in an environmentally sound manner.

After the terrorist attacks of September 11, 2001, the demand for air travel decreased dramatically. Traffic has increased over the past 3 years and has returned to pre–September 11 levels. While the airlines continue to struggle with the effects of September 11 and to reinvigorate their industry, we are preparing for a return to heavy demand. During FY 2005, work continued with local governments and airspace users to improve the design and performance of both aircraft and ground systems. These improvements will accommodate more traffic while easing delays; increase safety and security while addressing noise and air quality; and foster efficient, predictable, and flexible domestic and international air travel.

As airspace systems become ever more interconnected, additional partnerships have been developed within the national and international aviation community. We continue to focus on aviation as a global system and work closely with international organizations to seek global solutions to safety, routing, procedural, equipment, and environmental issues. We assessed system capacity through the eight performance measures described below.

[Goal Achieved]

Average Daily Airport Capacity (35 OEP airports)

In FY 2005, FAA's capacity measure was modified to include both arrival and departure capacity (replacing the daily arrival capacity measure and arrival efficiency rate used previously). Therefore, trend information is not available. Each airport facility determines the number of arrivals and departures it can handle for each hour of each day. These numbers are the airport's called arrival and departure rates for that hour. This metric is determined by computing the sum of the arrivals and departures that facilities can land and depart





per month divided by the number of days in the month. (This is a dynamic measure that changes daily based on factors such as weather and runway availability.) The annual capacity level for the 35 OEP airports is the weighted sum of the monthly capacity levels.

The *Flight Plan* performance target was to increase average daily capacity for the 35 OEP airports to 99,892 in FY 2005. Preliminary data indicate that the average for the year was 101,463 flights.

Average Daily Airport Capacity (8 metropolitan areas)

[Goal Achieved]

Similar to the measure above, FAA's capacity measure for the eight metropolitan areas was modified in FY 2005. Therefore, trend information is not 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 affecting delay. The selected eight metropolitan areas contain both the most congested airspace and the airports with the greatest constraints on airport expansion. Airport improvements, measured by increases in capacity at these airports, are likely to contribute the most to reduce the causes of system delay.

The *Flight Plan* performance target was to increase average daily capacity for the eight metropolitan areas to 43,080. Preliminary data indicate that the average for the year was 44,324 flights.

Annual Service Volume

[Goal Achieved]

The annual service volume goal is in place to prevent unreasonable delays at airports. Since this measure was new in FY 2004, trend data will not be available until next year. In FY 2005, we increased capacity at the 35 OEP airports by 1.01%. Even though we did not open any new runways in FY 2005, eight new runways have opened over the past 6 years and the Cleveland runway has been extended.

Adjusted Operational Availability

[Goal Achieved]

The availability of the equipment necessary to provide service directly affects the performance of the NAS. 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 provide continuous guidance is crucial and affects both safety and capacity. The adoption of this metric has the additional advantage of linking three capacity measures. NAS on-time arrivals are affected by the airport and en-route capacity, which are directly impacted by the availability of the equipment and facilities supporting that capacity. Since this measure was redefined in FY 2005, trend data will not be available until FY 2007. We exceeded our FY 2005 target to sustain operational availability at 99% for facilities that support the 35 OEP airports, with a result of 99.76%.

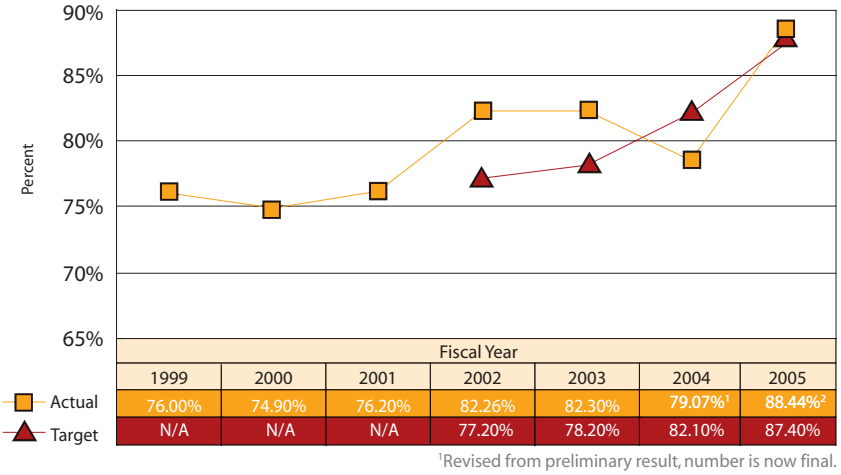
NAS On-Time Arrivals

[Goal Achieved]

The Air Traffic Control System Command Center (ATCSCC) confers daily with airline industry representatives to coordinate traffic around factors that could potentially cause delays. By planning before the day begins, FAA and industry work together to ensure that aircraft operate on time. FAA programs and initiatives outlined in the OEP, such as airspace redesign, revised air traffic control procedures, and the introduction of new technology, are expected to further improve on-time arrivals.

Since FY 2000, several new runways at major metropolitan airports have been commissioned. In order to maximize the capacity of the new runways, FAA redesigned the surrounding airspace. These changes include new improvements, routes, and sector structure to allow aircraft to use the new runways.

Percent of On-Time Arrivals by Year



Fiscal Year	1999	2000	2001	2002	2003	2004	2005
Actual	76.00%	74.90%	76.20%	82.26%	82.30%	79.07%[1]	88.44%[2]
Target	N/A	N/A	N/A	77.20%	78.20%	82.10%	87.40%

[1]Revised from preliminary result, number is now final.
[2]Preliminary estimate until January 2006.

FAA continues to develop criteria and guidance materials that will be used for new area navigation (RNAV) and RNP routes and procedures. Use of RNP permits greater flexibility and standardizes airspace performance requirements. By adopting RNAV and RNP and leveraging existing and emerging cockpit capabilities, the FAA in collaboration with the aviation community will be able to improve airspace and procedures design, leading to increased capacity and improved efficiency. We published RNP special approach procedures for Palm Springs, Portland, and San Francisco. We also published the first public RNP procedure in the world at Washington Reagan National Airport in September 2005. FAA implemented 58 RNAV arrival and departure procedures including major implementations at Atlanta Hartsfield and Dallas-Fort Worth. We also implemented 24 RNAV routes during FY 2005, including 20 high-altitude and four low-altitude routes providing flexibility and efficiency in the NAS.

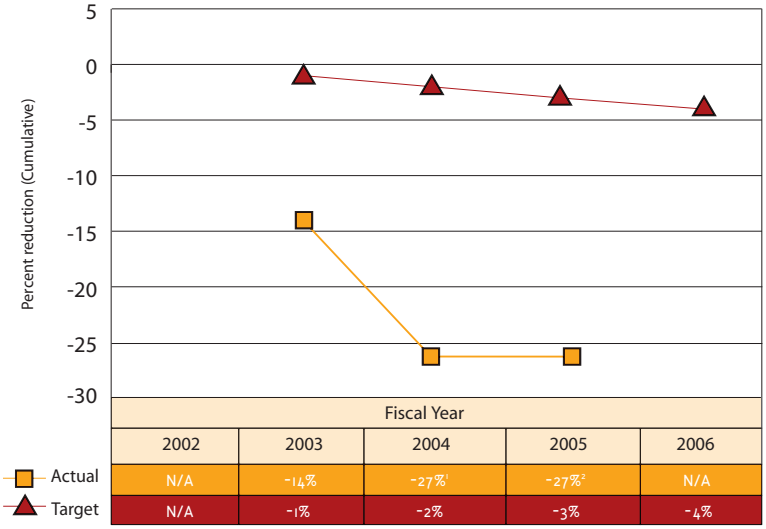
We exceeded our FY 2005 target of 87.40% of flights arriving less than 15 minutes late due to NAS-related delays, achieving an on-time rate of 88.44%.

[Goal Achieved]

Noise Exposure

In cooperation with the aviation community, we pursue a program involving noise reduction at the source (development and adoption of quieter aircraft), soundproofing and buyouts of buildings near airports, flight control measures, and land use planning. We are authorized to provide funds for soundproofing and residential relocation, but each project must be locally sponsored and be a part of a noise compatibility program prepared by the airport sponsor and approved by FAA. Our target for reduction of significant noise is based on our experience and reflects the relocation of people from the DNL (day/night sound level) 65 dB contour through grant funding, but is also affected by market forces that drive changes in commercial aircraft fleets and operations.

Percent Reduction in Number of People Exposed to Significant Noise



Fiscal Year	2002	2003	2004	2005	2006
Actual	N/A	-14%	-27%[1]	-27%[2]	N/A
Target	N/A	-1%	-2%	-3%	-4%

[1]Revised from preliminary result of -23%.
[2]Preliminary estimate until May 2006.

The estimates of the number of people exposed to significant noise





are calculated from a U.S. version of the Model for Assessing Global Exposure to the Noise of Transport Aircraft (MAGENTA). The FY 2005 estimate is based on an updated version of MAGENTA that produces significant improvement in measuring the number of people exposed to significant noise levels around U.S. airports.

We exceeded this performance target by reducing the number of people exposed to significant noise by 27% (preliminary estimate). The improvement since FY 2003 grew out of a confluence of external factors—the economic downturn, the impact of September 11th, and the severe acute respiratory syndrome (SARS) outbreak. These factors produced a dramatic downturn in operations as well as a large-scale premature retirement of older aircraft, which resulted in reduced noise exposure. As the industry continues to recover from these events, the improvements witnessed over the past 2 years will not be sustained.

Aviation Fuel Efficiency

[Goal Achieved]

Concern over aviation's contribution to both global climate change and local air quality continues to grow. Our FY 2005 performance target was to improve aviation fuel efficiency per revenue plan-mile by 1% per year through FY 2009, as measured by a 3-year moving average, from the 3-year average for calendar years 2000 through 2002. We measure this target using the System for Assessing Aviation Global Emissions (SAGE)—a computer model that estimates aircraft fuel burn and emissions for variable year emissions inventories and for operational, policy, and technology-related scenarios. For FY 2004, performance was calculated using operational data from one representative week during the month of May to be a 4.51% improvement in fuel efficiency for the 3-year efficiency average (2001–2003) compared to the baseline. For FY 2005 performance, we used an enhanced SAGE model that allowed analysis of full year operational data. For comparative consistency, we re-computed the analysis completed under the FY 2004 *Flight Plan* including the baseline fuel efficiency.

We exceeded our goal for improving aviation fuel efficiency for FY 2005 with a 5.84% improvement over the baseline. However, this year's performance results should not be used as an indicator of future performance. Air carrier fleet and operational changes that took place in the aftermath of September 11th continue to influence fuel efficiency improvements. We expect that a return to more typical fleet compositions and flight mission lengths, along with air traffic growth, will result in decreased fuel efficiency.

Oceanic En-route Change Requests

[Goal Achieved]

Air carriers and pilots want to change their altitude to minimize fuel burn and flight time. When fuel load or traffic patterns change, it is beneficial for flights to be able to change their altitude in real time. Additionally, the amount of fuel burned on the long oceanic flights is very dependent on whether aircraft can fly at their optimal altitude. If oceanic air traffic facilities are getting more requests to change altitudes and can accommodate those requests, that means the system is flexible and responsive to user needs.

This measure was newly introduced this year, and as the year progressed, we found that oceanic operational metrics require better oceanic data, modeling, and analysis to forecast how increases in traffic volume affect performance. Rather than have this measure serve as a major objective for the agency, we will focus instead on implementation of the Advanced Techniques and Oceanic Procedures (ATOP) software and develop sound, baselined metrics. We achieved full operational use of ATOP at the New York Air Route Traffic Control Center (ARTCC) in June 2005 and at the Oakland oceanic facility in October 2005. We plan implementation at the Anchorage ARTCC in March 2006. We exceeded our target of granting at least 75% of requests for route changes, with a result of 76.24%, despite the fact that the total number of requests increased by 66.94%.

INTERNATIONAL LEADERSHIP

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

The United States has long been a leader in the global civil aviation system. In addition to controlling nearly half the world's air traffic, FAA provides direct and indirect aviation assistance to 129 countries. As a leader, we must promote safety by broadening the international network of partnerships with civil aviation authorities around the world to make air travel as safe and efficient abroad as it is at home. The following sections describe our FY 2005 performance in improving efficiency through the achievement of targets for all six measures.

[Goal Achieved]

Environmental Standards and Practices

FAA established two milestones to measure progress toward targets for this goal, both of which were achieved.

- Reach agreement with other members of the ICAO Committee on Aviation Environmental Protection (CAEP) on an approach for evaluating the use of existing models and potential models under development (e.g., Aviation Environmental Design Tool and Aviation Portfolio Management Tool [AEDT-APMT] for the analysis of trade-offs between noise and emissions and among emissions).
- Determine the feasibility of building upon the draft ICAO Circular on Operational Opportunities to Minimize Fuel Use and Reduce Emissions to expand the use of the most cost-effective practices industry-wide and to explore their use as a basis for future voluntary agreements.

The establishment of global environmental standards promotes seamless international operations in cooperation with bilateral, regional, and multilateral aviation partners. The lack of international agreement on environmental standards and practices creates significant difficulties to the effective operation of an industry in which an aircraft takes off somewhere in the world every few seconds. It also can result in misapplication of limited regulatory and financial resources in a manner that fails to achieve cost-effective solutions to aviation's environmental impacts. It is important as well to ensure that internationally agreed standards and practices are acceptable to the United States.

[Goal Achieved]

Aviation Safety Leadership

Technical assistance to improve aviation safety abroad is the very core of FAA's international program. A primary focus of this effort is to transfer knowledge and skills to help developing countries comply with international aviation safety standards. FAA's technical assistance activities thereby provide greater safety for U.S. citizens and air carriers traveling and operating abroad. Another focus of our technical assistance effort is to support an interoperable and seamless global aviation system based on common use of the latest technologies. Such a system will not only be safer, but also more efficient.

Technical assistance is delivered under government-to-government agreements. The measure of success and baseline are the number of agreements concluded between FAA and other governments to provide technical assistance and training to improve the level of safety overseas. We exceeded our FY 2005 goal to provide new or expanded technical assistance to two key countries, concluding agreements with 27 countries. In setting this target, we underestimated our expected progress. We will review this target and establish a different measure for FY 2006.

[Goal Achieved]

Bilateral Agreements (Products and Services)

The purpose of a Bilateral Aviation Safety Agreement (BASA) is to promote aviation safety and environmental quality and to enhance cooperation and increase efficiency in matters





related to civil aviation. By building a network of competent civil aviation authorities and concluding agreements with additional countries and regional authorities, FAA can increase safety globally. Improved global understanding of U.S. safety regulations, processes, and procedures leads to better international regulatory oversight. Since BASAs are based on recognized comparability of U.S. and foreign systems for approval and surveillance of the aviation industry, they allow us to rely on the capabilities and technical expertise of other civil aviation authorities in particular areas of aviation safety, thereby minimizing duplication of effort as well as opening new lines of communication between authorities.

BASAs benefit the aviation industry by reducing duplication and streamlining the reciprocal acceptance of products and services. With the increasing globalization of aircraft manufacturing and airline operations, interdependency between the United States and foreign industry is outpacing FAA's ability to conduct oversight throughout the globe. By entering into agreements with other authorities, we can better focus on U.S. safety priorities, as described earlier in the *Safety* section of this report, and rely on competent civil aviation authorities for certain safety oversight activities.

FAA achieved its goal by concluding two BASAs, recognizing safety certification and approval systems with Australia and China.

Intellectual and Financial Assistance

[Goal Achieved]

Often countries that could benefit the most from FAA technical assistance are the least able to afford our help. FAA has no grant program to finance international technical assistance. This initiative seeks to leverage the limited resources we are able to contribute to international safety and capacity efforts by implementing a methodology to increase intellectual and financial assistance from U.S. Government organizations, multilateral banks, and industry to support global aviation system infrastructure projects.

FAA's role in lobbying international funding organizations has significantly increased the level of technical assistance provided to other countries for aviation safety improvements. Our efforts represent an important opportunity to influence the development of global safety standards and procedures, particularly in developing countries and regions.

We exceeded our goal for FY 2005 of increasing funding by 20% over last year, arranging $19.5 million in funds for technical assistance and infrastructure development programs, an increase of 63% over the FY 2004 funding level of nearly $12 million.

Support for ICAO

[Goal Achieved]

FAA conducts extensive activities with ICAO. We support several on-going ICAO safety and technical programs, including the Universal Safety Aviation Oversight (USAO) program and numerous ICAO panels that address a range of aviation activities.

We have also promoted increased U.S. representation at ICAO through a special Fellowship program that loans FAA employees to ICAO Headquarters on a temporary basis for various safety, technical, and legal assignments. In FY 2005, two FAA Fellows were placed in the Air Navigation Bureau and one Fellow in the Legal Bureau. We were also able to place two FAA employees and one private sector individual into permanent ICAO positions. In addition, we placed a FAA senior executive as the ICAO Air Navigation Commissioner, a key ICAO executive-level position.

To support the ICAO goals of fostering the development of regional safety organizations, FAA cooperated with the East African Community (EAC), the Regional Aviation Safety Oversight System (RASOS) in the Caribbean, the Latin American Civil Aviation Commission (LACAC) in South America, and regional Cooperative Development of Operational Safety and Continuing Airworthiness Project (COSCAP) organizations and the Pacific Aviation Safety Office (PASO) organization in the Asia-Pacific region.

Our target was to support the creation of two new regional aviation organizations in FY 2005. FAA was instrumental in supporting an Asian Development Bank grant of $1.95 million to help establish the Pacific Aviation Safety Office (PASO), a new aviation safety and security organization in the Pacific that will be operational by 2010. In Latin America, FAA organized the first senior-level meeting with LACAC in February 2005 and provided training to LACAC member countries to enhance airworthiness certification in the region. In Africa, we supported the development of a regional safety and air navigation authority for the East African Community.

[Goal Achieved]

NAS Technologies

Throughout the year in support of all NAS Technologies initiatives and supporting target activities, ATO continued to support its international counterparts in planning for and implementation of technologies and systems that are interoperable with those in the NAS. Specific to meeting the FY 2005 target, ATO conducted a critical technical meeting with the Japan Civil Aviation Bureau (JCAB) in Tokyo on July 11–14, 2005, to address the future direction and content of our cooperation related to satellite navigation. Japan is building a system that augments the Global Positioning System (GPS) with two Multi-function Transport Satellites (MTSATs). This system is known as the MTSAT Satellite Augmentation System (MSAS). MSAS is based primarily on U.S. Wide Area Augmentation System (WAAS) technology. During the July 2005 meeting, ATO presented and discussed its assessment of an operational certification roadmap for the MSAS. As the only organization in the world to certify a satellite-based augmentation system for operational use, ATO's assistance is critical in enabling JCAB to prepare MSAS for timely operational certification. The ATO and JCAB committed to plan additional joint activities to support JCAB efforts to provide safety, capacity, and efficiency enhancements for civil aviation. The activities leading up to this meeting, and the discussions at the meeting, mark the completion of the FY 2005 performance target to assist one country with the implementation of a U.S. NAS technology.

ORGANIZATIONAL EXCELLENCE

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

Organizational excellence is an ongoing challenge. Our performance measures this year continued with an external focus on improving customer satisfaction and the launch of a more concerted internal effort to improve our business processes. These internal improvements included better management of our acquisitions, faster hiring for mission critical positions, strengthening the linkage between employee performance and agency goals, shoring up the security of our information, and reducing costs. The following sections discuss our organizational results and initiatives.

[Goal Achieved]

Employee Attitude Survey (EAS)

This performance metric measures employees' perceptions of critical management processes and practices using 12 specific survey items. Meeting the target requires the percentage of positive results for these items to be 40% by FY 2008, 5 points above the FY 2003 baseline. The interim FY 2005 target was a 1.5% increase, or 36.5%. The EAS FY 2005 performance metric result was 37% positive (2% over the baseline), a half percentage point above the target.

[Goal Achieved]

Cost Control

For FY 2005 we elected to develop better ways to control costs. Our original Cost Control target, to use cost savings to fund *Flight Plan* initiatives, was largely achieved in FY 2004





but has been replaced. As part of the revised FY 2005–2009 *Flight Plan*, each line of business and staff office was directed to identify at least one cost savings activity. Additionally, the Office of Financial Controls was established and charged with overseeing the FAA's cost reduction ideas and activities. Also noteworthy was the establishment of a Strategic Sourcing initiative in which an outside firm will assist FAA in reducing expenditures in certain procurement categories. The firm's fee will be a percentage of the savings achieved.

FAA met its cost control target. Each organization contributed a cost reduction activity for the year resulting in cost savings or cost avoidance. Benefits of over $80 million accrued during the course of the year, with many cost savings activities added as the year progressed.

Critical Acquisition Budget & Schedule

[Goals Achieved]

Thirty-five critical acquisition programs are tracked against these performance measures and they have positively exceeded targets for both cost and schedule variance in FY 2005. In the past 3 years, FAA has implemented processes for variance tracking and reporting that have strengthened control over major acquisitions and resulted in significant performance gains. Maintaining and meeting critical program schedules and cost targets for equipment and technical solutions ensure the operational efficiency of the NAS.

FAA succeeded in meeting its goal of ensuring that 80% of major system acquisition investments are within 10% of budget, achieving 97% compliance. We also met our goal of completing 80% of acquisition schedule milestones, achieving 92% compliance.

Information Security

[Goal Achieved]

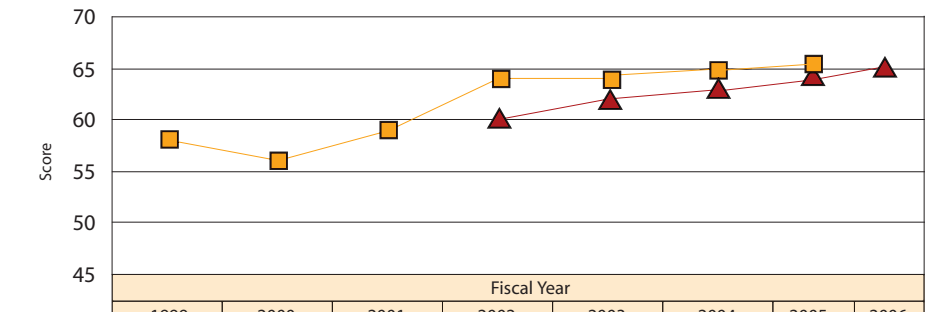
During FY 2005 FAA completed development and implementation of an IT Business Plan to protect IT assets in accordance with numerous executive and legal requirements. We also completed 100% of security reviews of our IT Systems (96% were reviewed in FY 2004), eliminated 20% of targeted vulnerabilities, maintained an average of no more than 0.10 or fewer vulnerabilities as measured against the SANS (SysAdmin, Audit, Network, Security) Institute top 20. We planned for implementation of smart card technology to comply with Homeland Security Presidential Directive 12. We succeeded in meeting our target of zero cyber security events that significantly disable or degrade FAA services.

Customer Satisfaction

[Goal Achieved]

Over the past 7 years, we have used the American Customer Satisfaction Index (ACSI) to measure satisfaction with U.S. commercial pilots. The ACSI is a national indicator of the quality of goods and services available to the American public. It is a weighted average measuring overall satisfaction, customer expectations, and perceived quality. Commercial pilots are asked about air traffic control personnel and services, pilot certification processes, and the clarity of regulations and how they contribute to aviation safety. This year's results show continued improvement. FAA succeeded in increasing its ASCI score to 66 in FY 2005.

Customer Satisfaction Survey of Commercial Pilots



	1999	2000	2001	2002	2003	2004	2005	2006
Actual	58	56	59	64	64	65	66	N/A
Target	N/A	N/A	N/A	60	62	63	64	65

[Goal Achieved]

Performance Plans

This target requires 100% of employee performance plans to be directly related to FAA strategic goals and the performance plans of employees' organizations by FY 2009. The FY 2005 target was 85%, with a 5% increase for each succeeding fiscal year. FAA's Office of Human Resource Management (AHR) distributed guidance to FAA line and staff offices on assessing the current level of compliance to performance plan alignment.

The final analysis of the reports shows that 94.29% of FAA employees, managers, and executives had individual performance plans linked to the strategic goals in the *Flight Plan* and organizational business goals. This exceeds the 85% goal for FY 2005.

[Goal Achieved]

Cost-Reimbursable Contracts

FAA greatly exceeded its goal of closing 85% of eligible flexibly priced contracts. FAA uses its Global Contracts List database, as well as its procurement/acquisition management system, to track contracts becoming eligible for closeout as well as actual closeouts accomplished by its contracting officers. The target required the closeout of 82 contracts in FY 2005. By the end of the fiscal year, we had successfully closed a total of 140 flexibly priced contracts, 58 more contracts than required, or 170% of the FY 2005 target.

[Goal Achieved]

Mission Critical Positions

This performance target measures the time to fill FAA mission critical positions (MCPs), including Air Traffic Controller, Transportation Specialist, Engineer, Aviation Safety Inspector, Engineering and Electronics Technician, and IT Specialist positions. Our FY 2005 target for filling MCPs was 76 days, which represents a 6% reduction from the baseline of 81 days established in FY 2003. The *Flight Plan* goal is to achieve a 20% reduction in the number of days required to fill MCPs by FY 2008—from 81 days to 65 days.

In FY 2004, FAA decided to eliminate Air Traffic Controllers from the performance target because the hiring process for these positions was far more complex and time consuming than for the other mission critical positions. Air Traffic Controllers also accounted for 37% of the mission critical hiring activity in FY 2004. A comprehensive study of hiring practices for the Air Traffic Controller position was recently completed, and these results along with other factors will be considered in determining how to set a challenging standard for filling Air Traffic Controller positions. Upon completion of study analyses, we will consider whether Air Traffic Controllers should be analyzed separately or reintroduced into the analysis of the other mission critical positions.

We exceeded our target of filling MCPs within 76 days. In FY 2005, it took a median of 53 days to fill MCPs, excluding Air Traffic Controller positions. This represents a 35% reduction over the FY 2003 baseline. Retrospectively, we recalculated the FY 2003 baseline without air traffic controllers and it was 62 days. We decided to retain the original targets, because the hiring process for MCPs is unstable and affected by changes in the relative number of MCPs filled, budget considerations, and internal policies and procedures.

[Goal Achieved]

Flight Plan Targets

FAA achieved 28 of its 31 performance targets—a 90% success rate. We did not achieve our goals for reducing general aviation fatal accidents, accidents in Alaska, and operational errors. Among performance targets achieved, the commercial air carrier fatal accident rate, at 0.017 per 100,000 departures, is the lowest annual rate in the history of aviation. NAS on-time arrivals, at 88.44%, were much stronger than expected, exceeding the target of 87.40%.





President's Management Agenda

The President's Management Agenda (PMA) is a set of initiatives designed to make the Federal Government more citizen centered, results oriented, and market based. The Organizational Excellence targets in the *Flight Plan* support DOT's goal to achieve "green" on the PMA. FAA contributed major initiatives to this effort, most notably in the areas of Competitive Sourcing, Budget and Performance Integration, and Real Property Asset Management.

FY 2005 PRESIDENT'S MANAGEMENT AGENDA SCORECARD FOR THE DEPARTMENT OF TRANSPORTATION

Initiative	Status	Progress
Strategic Management of Human Capital: Design a strategy to address workforce gaps, eliminate skill gaps, develop performance-based incentives, ensure citizen-centered organizations, and ensure a robust leadership pipeline.	●	●
Competitive Sourcing: Develop a competitive sourcing plan for activities designated commercial in nature, with the goal of providing higher quality, more cost-effective services to the public.	●	●
Improved Financial Performance: Implement financial management systems capable of producing more timely and accurate information for decision-making, and maintain unqualified opinions on financial statements.	▲	●
Expanded Electronic Government: Better justify and track IT projects, and participate in Government-wide initiatives to automate transactions, reduce redundancies, and increase efficiencies.	●	●
Budget and Performance Integration: Develop budgets aligned with outcome goals, and present resource requests in the context of past results. Estimate the full costs of programs, and document program effectiveness.	●	●
Real Property Asset Management: Complete and maintain an inventory of Agency real property, and develop an asset management plan with deadlines for optimizing costs.	▲	●
Eliminating Improper Payments: Reduce improper payments through identification of at-risk programs and establishment of a plan for corrective action. Set recovery targets and, where appropriate, work to meet them.	▲	●
Research and Development Investment Criteria: Promote coordination of R&D management to ensure accountability, improve program quality, and align decisions and budget proposals with R&D investment criteria.	●	●

Key:
"Status" indicates DOT's success in fulfilling the initiative. "Progress" indicates the rate at which DOT is moving toward success.

● Green: OMB's core criteria met.
◆ Yellow: Some but not all of OMB's core criteria met; no "red" conditions.
▲ Red: At least one of OMB's core criteria has not been met.

For a more detailed description of the President's Management Agenda, see the OMB website at www.whitehouse.gov/omb/budintegration/pma_index.html.

CONTRACT FOR THE FUTURE

FAA and NATCA opened contract negotiations in July 2005. Before negotiations began, FAA Administrator Marion Blakey urged both sides to quickly reach an agreement that fairly compensates controllers and provides the flexibility needed to address changing air travel patterns. The Administrator was optimistic that the air traffic controllers share FAA's desire to seek fair and quick resolution to the contract talks.

Provisions in the current agreement have also delayed the introduction of certain new air traffic control systems and restricted our ability to staff facilities to meet changes in air traffic volumes and patterns. FAA needs fundamental changes in the contract if the agency is to afford new systems and inspectors to improve safety and to modernize the air traffic control system to reduce delays and congestion. FAA called on the union to join in achieving a balanced labor agreement that allows the agency to finance the air traffic control system going forward while still providing a fair compensation package to its professional controllers—already among the highest paid civil servants.

Contract negotiations come during a critical time for FAA and the aviation industry, both of which are attempting to reduce costs and transform their operations to meet ever-increasing consumer demand with limited revenue—in FAA's case, a declining Airport and Airway Trust Fund. In December 2003, FAA and NATCA signed a 2-year extension of the 1998 agreement.

www.faa.gov/ahr/policy/agree/agrees/term/index.cfm

Financial Highlights





A MESSAGE FROM THE CHIEF FINANCIAL OFFICER

FY 2005 has been a year of significant accomplishments. I am particularly proud of our continued success in meeting our Organizational Excellence goals, which support our ability to provide the traveling public with safe, secure, and efficient air travel.

Notable accomplishments included

- Honored with our second consecutive Certificate of Excellence in Accountability Reporting from the Association of Government Accountants for our FY 2004 Performance and Accountability Report. FAA was 1 of only 10 Federal Government agencies to receive this distinction. We are all justly proud of this accomplishment. In addition, our FY 2004 Performance and Accountability Highlights publication received a Gold Award from the League of American Communication Professionals, recognizing it as one of the top annual reports in the country.
- Received an unqualified opinion on our financial statements—the fifth consecutive year that FAA has received an unqualified audit opinion.
- Implemented quality control processes to ensure improved financial statement integrity.
- Awarded a contract for the operation of 58 Flight Service Stations to Lockheed Martin. We estimate that this competitive sourcing initiative—one of the largest ever undertaken by a Federal Government agency—will save FAA $2.2 billion from FY 2003 through 2015.
- Improved our financial management systems. The new DELPHI general ledger system has been stabilized and we have focused on enhancing our cost accounting system that produces fully allocated cost information for operating departments. With this tool, we will be able to provide managers with meaningful managerial cost data to make better resource allocation decisions.
- Neared completion on our ISO 9001 certification in our AVS line of business. We expect this to be awarded next year. By implementing a quality management system, FAA will have achieved a standard of operational excellence that is recognized and respected throughout the world.
- Implemented a major initiative to achieve cost efficiencies within FAA operations. Each line of business has undertaken specific cost reduction and cost avoidance actions that we track monthly at *Flight Plan* status meetings. We have developed a plan to expand this initiative to include productivity measurement and improvement in FY 2006. FAA has also begun contract negotiations with FAA's largest unions.
- Revised and updated our *Flight Plan* to reflect the new realities facing both FAA and its industry partners.

Although we received an unqualified opinion on our financial statements for the fifth consecutive year, we received an internal control material weakness in the area of timely processing of transactions and reconciliation of accounts. We have already established a quality control team and are proactively assigning resources to correct the processes that resulted in the internal control material weakness.

I continue to be impressed by FAA's high levels of performance and accountability. Because of our hard work, FAA has a modern financial management system that provides our managers with better information about the real costs of our programs and initiatives. The firm foundation we have built will enable us to meet the greatest challenges we face in moving America safely—improving safety, increasing capacity, and managing our business more effectively while facing a shrinking budget and the changing aviation industry.

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

November 8, 2005

Chief Financial Officer Ramesh Punwami recently accepted FAA's second consecutive Certificate of Excellence in Accountability Reporting from the Association of Government Accountants.

FINANCIAL HIGHLIGHTS

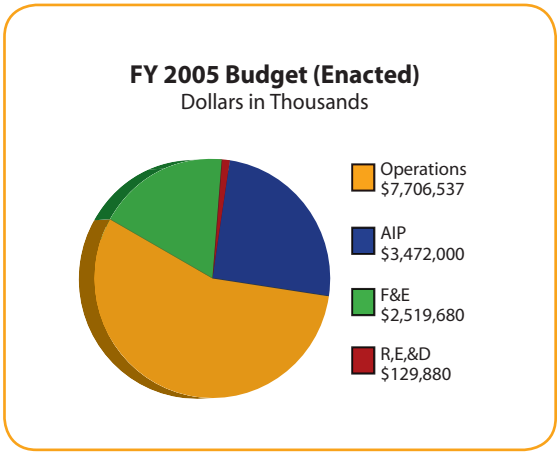
Highlights of our FY 2005 financial performance appear on the pages that follow. For a more detailed discussion of FAA's financial statements and accompanying notes, see our *FY 2005 Performance and Accountability Report*, which is available on the FAA website at www.faa.gov/about/plans_reports/.

The Airport and Airway Trust Fund provides approximately 80% of FAA's FY 2005 budget. Created by the Airport and Airway Revenue Act of 1970, the trust fund 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. Interest earned is deposited into the fund. Monies are withdrawn as needed and transferred into each FAA appropriation to cover obligations.

FAA is financed through annual and multiyear appropriations authorized by Congress. The FY 2005 enacted budget of $13.8 billion is 1% less than the FY 2004 level. The FY 2005 levels include an across-the-board rescission of 0.8%.

FAA has four appropriations. The largest, Operations, is funded by both the Treasury's General Fund and the Airport and Airway Trust Fund. In FY 2005, the Trust Fund provided 63% of the revenue for Operations. The Trust Fund is the sole revenue source for FAA's three capital investment appropriations: Facilities and Equipment (F&E); Research, Engineering and Development (R,E&D); and Grants-in-Aid for Airports (AIP).

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 FAA's safety inspection and regulatory responsibilities. The account also covers administrative and managerial costs for FAA's international, medical, engineering, and development programs, and for policy oversight and overall management functions. The FY 2005 Operations appropriation was $7.7 billion, a 3% increase over FY 2004 primarily attributable to payroll and inflation costs.



F&E. The programs funded by the F&E appropriation are FAA's principal means of modernizing and improving air traffic control and airway facilities. 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 2005, about 12% less than FY 2004.

R,E&D. The FY 2005 appropriation for R,E&D was $130 million, 9% more than in FY 2004. R,E&D funds long-term research programs to improve the air traffic control system. In FY 2005, programs focused on the environment and energy, weather initiatives, JPDO activities, human factors, and aircraft safety.

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





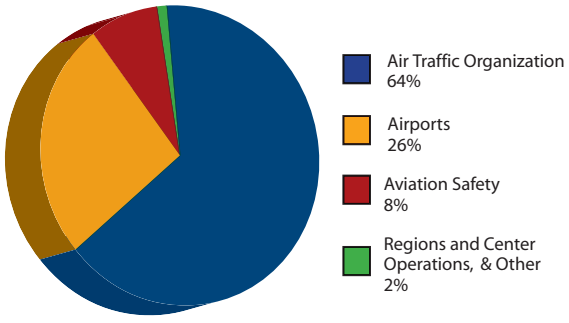
infrastructure, and expand capacity and efficiency throughout the system. The program also supports noise compatibility and planning, the military airport program, reliever airports, and airport program administration. FY 2005 funding for AIP was $3.5 billion, a 2.7% increase over the FY 2004 level, and for the fourth consecutive year it included approximately $20 million for the Small Community Air Service program. Besides the Government-wide rescission of 0.8%, the bill rescinded $265 million in contract authority added to AIP in FY 2004.

FAA's summarized net cost of operations is shown on page 34. For the fiscal years ending September 30, 2005 and 2004, FAA's net costs were $14.0 billion, compared to $12.2 billion in FY 2004. Net cost is total program cost less related earned revenue.

The **Composition of Net Costs** chart illustrates the distribution of costs among FAA's lines of business. The **Net Cost Comparison** chart compares FY 2004 and FY 2005 net costs.

With a net cost of $8.9 billion, the *Air Traffic Organization* is FAA's largest line of business, comprising 64% of total net costs. Air Traffic Organization's net costs increased in FY 2005 primarily from increased depreciation expense as additional National Airspace System assets moved from construction-in-progress status to in-service; a greater number of assets below the capitalization threshold were charged to expense in FY 2005; and accrued payroll, benefits, and leave expenses increased due to increased employee leave balances and a greater number of unpaid days of payroll at the end of FY 2005 than in FY 2004.

Composition of Net Cost
as of September 30, 2005



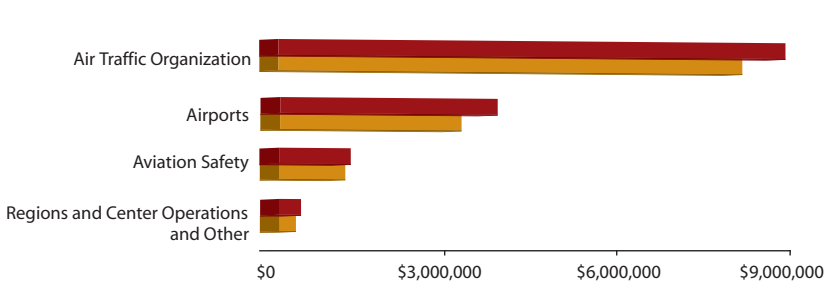
With a net cost of $3.7 billion in FY 2005, 26% of FAA's total net costs, *Airports* is our second largest line of business. Net costs increased $734.9 million, from $3.0 billion in FY 2004. The Wendell H. Ford Aviation Investment and Reform Act for the 21st Century (P.L. 106-181) increased Airport Improvement Program funding by more than $1 billion in FY 2001. Funding levels for Airports programs have continued to increase by $100 million or more each year since. Airport improvement projects typically take several years to complete, and FAA reports the associated expense as the grant recipient accomplishes the improvement work. Thus, FAA's net *Airports* costs increased in FY 2005 as the project lifecycle associated with these grants continued.

The net cost of *Aviation Safety* represents 8% of FAA's total net costs, while *Regions and Center Operations and Other Programs* comprise the remaining 2% of total net costs. The net costs of these components were relatively unchanged from FY 2004 to FY 2005.

FAA's summarized assets, liabilities, and net position are also shown on page 34.

Total assets were $28.6 billion at the end of FY 2005. FAA's assets are the resources available to pay liabilities or satisfy future service needs.

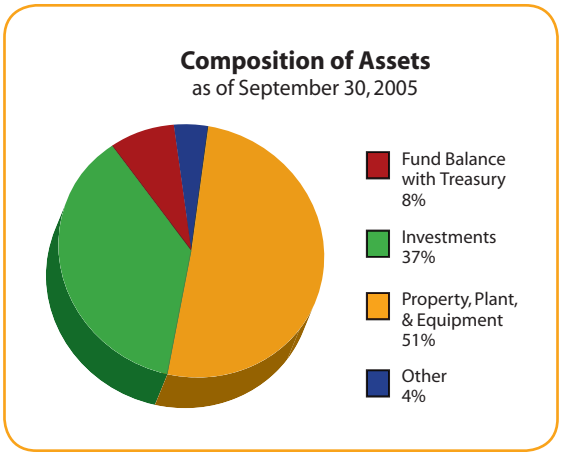
Net Cost Comparison
Dollars in Thousands



The *Composition of Assets* chart below depicts major categories of assets as a percentage of total assets.

The *Assets Comparison* chart below presents comparisons of major asset balances as of September 30, 2004 and 2005.

Fund balance with Treasury represents 8% of FAA's current year assets and consists of funding available through Department of Treasury accounts from which 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 decreased $427.6 million, primarily because FAA left more funds invested in the AATF at year-end than in the prior year.



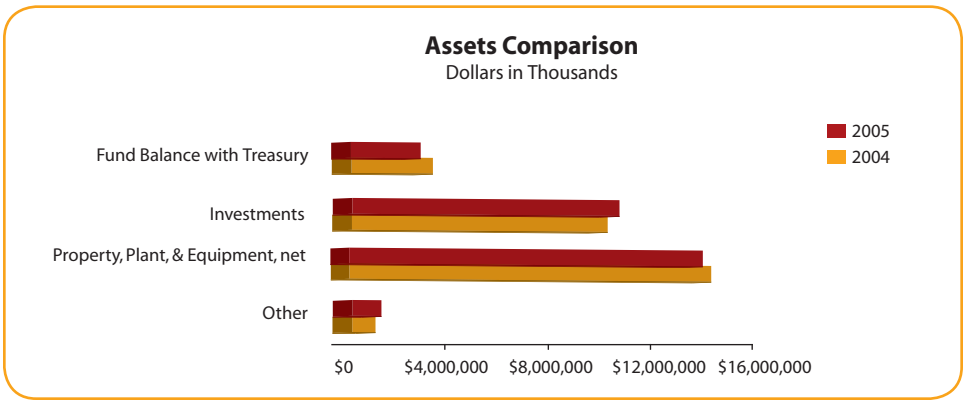
At $10.7 billion, *Investments* represent 37% of FAA's current year assets and are principally derived from passenger ticket and other excise taxes deposited to the AATF. These amounts are used to finance FAA's operations to the extent authorized by Congress. Investments increased $347.5 million due to an increase in tax revenues deposited into the AATF in FY 2005.

At $14.4 billion, *Property, plant, and equipment, net* (PP&E) represents 51% of FAA's assets as of September 30, 2005, and consists primarily of construction projects related to the development of NAS assets, and capitalized real and personal property. There was a negligible decrease 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 expense during FY 2005.

At the end of FY 2005, FAA reported liabilities of $3.7 billion. Liabilities are probable and measurable future outflows of resources arising from past transactions or events. The *Composition of Liabilities* chart depicts FAA's major categories of liabilities as a percentage of total liabilities.

The *Liabilities Comparison* chart presents comparisons of major liability balances between FY 2004 and FY 2005. A discussion of the significant fluctuations between the two years follows.

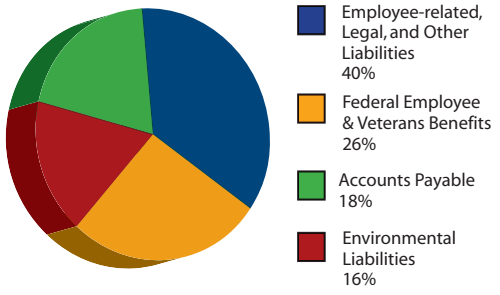
At $1.5 billion, *Employee related, legal, and other liabilities* represent 40% of FAA's total liabilities. These liabilities increased $211.0 million from FY 2004 to FY 2005, partly as a result of accrued unfunded liabilities related to Hurricane Katrina relief efforts. Also, accrued payroll, benefits, and annual leave increased because there was a greater number of unpaid days of payroll at the end of FY 2005 and employee leave balances grew.



At $942.3 million, *Federal employee and veterans benefits* represent 26% of FAA's current year liabilities and consist of 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 FAA based on actual workers' compensation payments to FAA employees over the preceding 4 years.

Environmental liabilities represent 16% of FAA's total liabilities and were relatively stable at $596.5 million as of September 30, 2005, and $606.3 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.

Composition of Liabilities
as of September 30, 2005

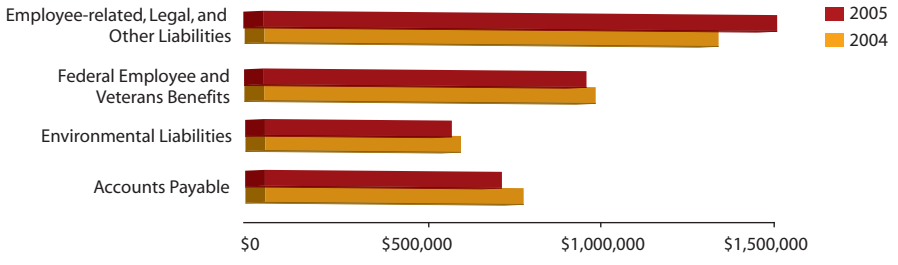


FAA's *Accounts payable* represent 18% of liabilities and were relatively constant from FY 2004 to FY 2005. Accounts payable are amounts FAA owes to other entities for unpaid goods and services and estimated amounts incurred but not yet claimed by Airport Improvement Program grant recipients.

FAA's *summarized changes in net position* are shown on page 34. Net position varies from the beginning to the end of a reporting period are due to various financing sources received that serve to increase net position. These financing sources include appropriations received and non-exchange revenue, such as excise taxes and imputed financing from costs absorbed on FAA's behalf by other Federal agencies. Financing sources are offset by the agency's net cost of operations and net transfers to other Federal agencies, which serve to reduce net position.

FAA's net position decreased during FY 2005, from $25.1 billion as of September 30, 2004, to $25.0 billion as of September 30, 2005, because net cost of operations exceeded financing sources. While excise taxes were $1.0 billion greater in FY 2005 than in FY 2004, net cost increases surpassed these additional financing sources, and we received $176.0 million less in general fund appropriations in FY 2005. Net cost increases included Hurricane Katrina relief efforts; grants expenses resulting from the expansion of the Airport Improvement Program; accrued payroll expenses resulting from a greater number of unpaid days of payroll at the end of FY 2005; increased employee leave balances; increased depreciation expense as additional NAS assets moved from construction-in-progress status to in-service; and a greater number of assets below the capitalization threshold charged to expense in FY 2005.

Liabilities Comparison
Dollars in Thousands



SUMMARY OF FINANCIAL INFORMATION

FAA's independent auditor, KPMG LLP, rendered an unqualified audit opinion on FAA's FY 2005 financial statements. The DOT Office of Inspector General presented KPMG's audit report to the FAA Administrator on November 14, 2005.

The summary financial information in this highlights report was derived from FAA's audited FY 2005 and FY 2004 financial statements, which were prepared pursuant to the requirements of the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994.

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

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

Summarized Changes in Net Position represents the difference between FAA's financing sources and its net cost of operations.

The audited consolidated financial statements are available in FAA's FY *2005 Performance and Accountability Report*, which is available from

Office of Financial Management, AFM-1
Federal Aviation Administration
800 Independence Avenue, SW
Room 612
Washington, DC 20591
E-mail: Allison.Ritman@faa.gov
Fax: (202) 493-4191

FAA's *FY 2005 Performance and Accountability Report* is also available on the FAA website at www.faa.gov/about/plans_reports/.





KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

Administrator, Federal Aviation Administration:

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the Federal Aviation Administration (FAA) as of, and for the years ended, September 30, 2005 and 2004 (not presented herein) and have issued our report thereon dated November 8, 2005.

The accompanying summary financial information of the FAA as of, and for the years ended, September 30, 2005 and 2004, as explained in the notes thereto, is not a presentation in conformity with accounting principles generally accepted in the United States of America. In our opinion, the accompanying summary financial information is fairly stated, in all material respects, in relation to the portion of the financial statements from which it has been derived.

KPMG LLP

November 8, 2005

Federal Aviation Administration
Summarized Net Cost of Operations
For the Years Ended September 30
(dollars in thousands)

	2005	2004
Lines of Business		
Air Traffic Organization	$ 8,931,418	$ 8,079,011
Airports	3,711,927	2,977,068
Aviation Safety	1,075,118	939,728
Commercial Space Transportation	14,073	12,527
Non Line of Business Programs		
Regions and center operations and other programs	296,560	185,660
Net Cost of Operations	$ 14,029,096	$ 12,193,994

Federal Aviation Administration
Summarized Assets, Liabilities, and Net Position
As of September 30
(dollars in thousands)

	2005	2004
Assets		
Fund balance with Treasury	$ 2,413,102	$ 2,840,663
Investments	10,665,560	10,318,029
Accounts receivable, advances, and other, net	487,930	389,272
Inventory and related property	626,086	585,709
Property, plant, and equipment, net	14,432,466	14,469,731
Total Assets	$ 28,625,144	$ 28,603,404
Liabilities		
Accounts payable	$ 671,268	$ 710,046
Environmental cleanup costs	596,536	606,261
Employee related, legal, and other	1,457,588	1,246,553
Federal employee and veterans benefits	942,276	954,463
Total liabilities	3,667,668	3,517,323
Net Position		
Unexpended appropriations	1,268,894	999,146
Cumulative results of operations	23,688,582	24,086,935
Total net position	24,957,476	25,086,081
Total Liabilities and Net Position	$ 28,625,144	$ 28,603,404

Federal Aviation Administration
Summarized Changes in Net Position
For the Years Ended September 30
(dollars in thousands)

	2005	2004
Net Position - Beginning of Year	$ 25,086,081	$ 24,317,956
Financing Sources		
Excise taxes and associated revenue	10,700,024	9,674,509
Appropriations received	2,856,927	3,032,925
Net transfers out	(106,549)	(174,170)
Imputed financing and other	450,089	428,855
Total financing sources	13,900,491	12,962,119
Net Cost of Operations	(14,029,096)	(12,193,994)
Net Position - End of Year	$ 24,957,476	$ 25,086,081





Notes to the Summary Financial Information

Reporting Entity. FAA, created in 1958, is a component of the DOT, a cabinet-level agency of the Executive Branch of the United States Government. FAA accomplishes its mission through different lines of business.

- **Air Traffic Organization (ATO)** operates the Nation's air traffic control system and conducts research to meet increasing demands for higher levels of system safety, efficiency, and environmental improvement. ATO plans, monitors, controls, schedules, and implements the acquisition of materiel, equipment, and services for the national airspace system and for interagency and international programs.
- **Airports** is responsible for planning and developing a safe, secure, and efficient airport system; enhancing environmental quality and avoiding or minimizing adverse environmental impacts that might result from a proposed FAA action in support of airport development; and developing standards for the design and construction of facilities that enhance the safety of aircraft operations and security of airline passengers.
- **Regulation and Certification** oversees the safety of aircraft and the credentials and competency of pilots and mechanics; develops mandatory safety rules; and sets the standards that have helped make air travel among the safest modes of transportation in history.
- **Commercial Space Transportation** oversees the safety of commercial space launches and regulates the commercial space industry.
- **Regions and Center Operations and Other** includes the costs to operate the FAA's nine regional offices and the Mike Monroney Aeronautical Center.

Basis of Presentation. The summary financial information is intended to provide users an overview of the financial status and activities of FAA and is derived from and should be read in conjunction with the financial statements contained in FAA's *FY 2005 Performance and Accountability Report*. The summary financial information is not a presentation in accordance with accounting principles generally accepted in the United States of America.

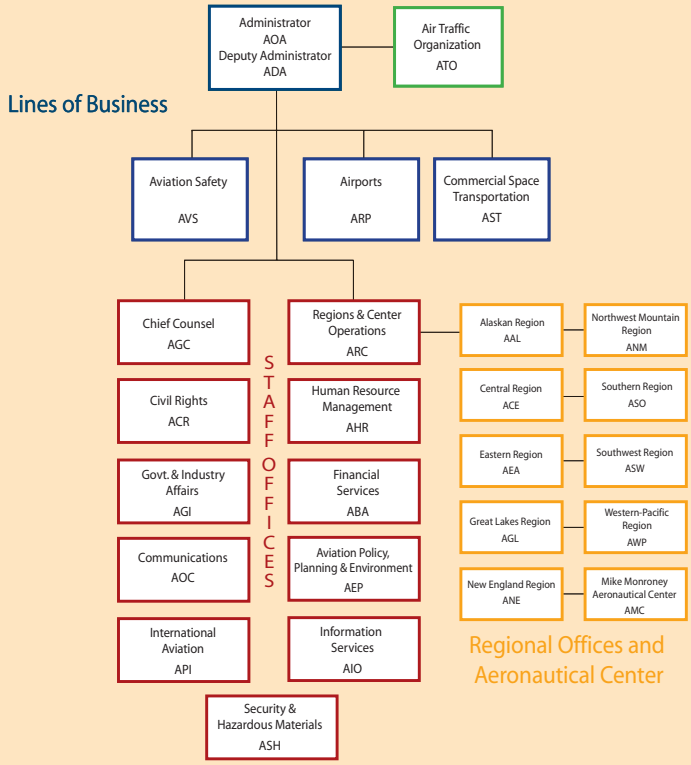
Assets. *Fund balance with Treasury* consists of funding available through Department of Treasury accounts from which FAA is authorized to make expenditures to pay liabilities. Investments consist primarily of Airport and Airway Trust Fund (AATF) excise tax collections, which Congress has not appropriated to FAA and which is invested in U.S. Treasury securities. *Accounts receivable, advances, and other, net* consist primarily of amounts owed to FAA by other Federal agencies and the public, and advance payments to other Federal entities for agency expenses not yet incurred, or for goods and services not yet received. *Property, plant, and equipment, net* consists primarily of equipment and related property that FAA uses to operate the Nation's air traffic control system. Repair parts, used to keep the air traffic control system operational, constitute the majority of *Inventory and related property*.

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

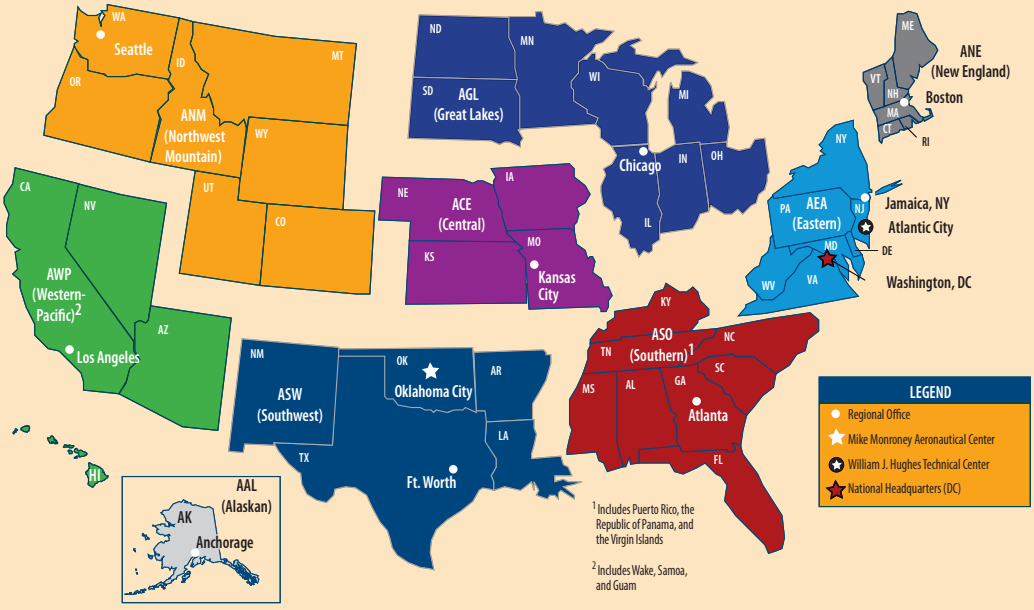
Budgetary Financing Sources. FAA is funded primarily from excise taxes collected by the Internal Revenue Service from airway system users and deposited to the AATF. Annually, Congress enacts annual, multi-year, and no-year appropriations from the AATF and the General Fund of the U.S. Treasury to be used, within statutory limits, to fund FAA's net operating and capital expenditures. *Net transfers out* represent amounts transferred between FAA and other Federal entities. *Imputed financing and other* principally includes FAA costs paid by other Federal entities, such as the Office of Personnel Management, which funds a portion of retirement costs for Federal employees.

Net Position. Net position consists of unexpended appropriations and cumulative results of operations. As of September 30, 2005 and 2004, unexpended appropriations were $1,268.9 million and $999.1 million and cumulative results of operations were $23,688.6 million and $24,086.9 million, respectively. Cumulative results of operations represent certain assets of the FAA, less liabilities that will be funded by future budgetary resources and congressional appropriations.

Federal Aviation Administration Organization



Federal Aviation Administration Regional Map



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Federal Aviation Administration: www.faa.gov
FAA Offices: http://faa.gov/about/office_org/
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FAA Operational Evolution Plan (OEP): http://faa.gov/programs/oep/
National Transportation Library: http://ntl.bts.gov
U.S. Department of Transportation: www.dot.gov

Acknowledgments

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