Office of Inspector General
Audit Report

Fiscal Year 1998
Consolidated Financial Statements

Department of Transportation

Report Number: FE-1999-081
Date Issued: March 30, 1999

DEPARTMENT OF TRANSPORTATION
UNITED STATES OF AMERICA

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

Memorandum

Subject: ACTION: Report on Fiscal Year 1998 Consolidated Financial Statements, Department of Transportation FE-1999-081

Date: March 30, 1999

From: Kenneth M. Mead
Inspector General

Reply To Attn Of: Meche:x61496

To: The Secretary
Thru: The Deputy Secretary

I respectfully submit the Office of Inspector General (OIG) report on the Department of Transportation Consolidated Financial Statements for Fiscal Year (FY) 1998 ended September 30, 1998. This report is required by the Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994.

The audit report is the responsibility of the OIG. All other information--including the Management Discussion and Analysis, Consolidated Financial Statements, Notes, and Supplemental Information--is the joint responsibility of the Department of Transportation and its Operating Administrations (DOT). Our audit was limited to the Consolidated Financial Statements as of, and for the year ended, September 30, 1998.

Because of their impact on our audit opinion, we focused our efforts this year on the Federal Aviation Administration (FAA) and the U.S. Coast Guard (Coast Guard) actions taken on five previously reported material weaknesses that included real property (land, buildings, and structures), personal property (equipment), work-in-process, accounting for field spares, and inventory valuation. DOT also prepared, for the first time, and we audited the Consolidated Statement of Net Cost, Consolidated Statement of Changes in Net Position, Consolidated Statement of Budgetary Resources, and Consolidated Statement of Financing.

During FY 1998, FAA and Coast Guard completed significant corrective actions on property and inventory. FAA revised inventory prices from standard cost to weighted average cost, and performed a "wall to wall" inventory of spare parts at over 800 field units. FAA is establishing a perpetual accounting system for its spare part inventories located throughout the country. Coast Guard verified the existence and acquisition value of its vessels and aircraft. The Coast Guard also completed physical inventories at the Aircraft Repair and Supply Center, 25 airstations, and the Engineering and Logistics Center, and is implementing weighted average inventory pricing at both Centers.

During FY 1998, Coast Guard revised its estimating procedures for retired pay and medical benefits, and adjusted the recorded liability. An independent contractor, under contract with the OIG, concluded the estimating procedures were reasonable and the liability was accurately reported at $20 billion, an increase of $6 billion from last year's estimate.

In November 1997, DOT transferred the computer center operations supporting its financial management systems to the U.S. Department of Agriculture (USDA) National Information Technology Center in Kansas City, Missouri. The USDA OIG initiated a review of the internal control systems during FY 1998. The audit report is being prepared and should be issued in May 1999.

While improvements had been made, we still were unable to substantiate the valuation of property, plant, and equipment reported at $21 billion, because of the continuing property accounting weaknesses in FAA ($11.9 billion) and Coast Guard ($8.7 billion). Improvements are still needed in the accuracy and reliability of real property, personal property, and work-in-process records. The other DOT Operating Administrations accurately accounted for the remaining $363 million.

The acquisition cost of real property (land, buildings, and structures) was reported at $5.3 billion. For 117 FAA real property items with a recorded value of $790 million, we found 41 items recorded at $419 million were not properly valued; 34 items recorded at $141 million could not be supported; and 4 items valued at $50 million should be removed from property records. For example, a critical power system installed in 1992 was reported at $20 million. FAA was only able to provide contracts, purchase orders, payment records, and other support for $3.6 million.

For 221 Coast Guard real property items with a recorded value of $357 million, we found recorded amounts were not fair and reasonable because the Coast Guard (1) used inaccurate data to compute current value, historical cost, and depreciation, and (2) did not provide adequate documentation to support the value of current acquisitions. For example, Coast Guard reported a building at an estimated current replacement cost of $5.5 million, instead of an estimated historical cost of $1.3 million.

The acquisition cost of personal property (equipment) was reported at $9.9 billion. FAA disclosed the reported $4.1 billion acquisition value for its personal property was materially understated in its Financial Statements. The understatement of equipment is the result of years of expensing contract costs, associated with bringing equipment into operational status, that should have been added (capitalized) to the asset value. For example, the voice switching control systems, installed at 23 locations, were recorded at a total cost of $234 million, instead of the true cost of $1.1 billion. Based on an agreement with Coast Guard, we did not audit $871 million of personal property because it had not finalized plans for verifying the value of electronics equipment and small boats.

Work-in-process was reported at $2.9 billion. As property is acquired and buildings are constructed for specific projects, associated costs are charged to, and accumulated in, a work-in-process account until the projects are completed and systems are placed in service. When completed, the project costs should be transferred to the appropriate real or personal property accounts.

FAA was unable to provide supporting cost documentation to substantiate the $2.1 billion recorded in the work-in-process account. For example, FAA spent $1.2 million on a flight service station during FY 1998, but could only provide transaction histories for costs of $123,000, leaving $1.1 million unsupported. Based on an agreement with Coast Guard, we did not audit its work-in-process account reported at $777 million. Coast Guard is developing a new system for its work-in-process, which will be available in May 1999.

The value of inventory reported at $2.3 billion, particularly Coast Guard inventory reported at $1 billion, could not be substantiated. The Coast Guard inventory currently is valued at various methods, including last acquisition cost and standard prices. The Coast Guard has agreed to value its inventory using moving weighted average pricing. We will test the inventory valuation during FY 1999.

DOT, FAA, and Coast Guard agree property and inventory weaknesses exist, and have initiated plans to correct these material weaknesses by September 30, 1999. We agree with the corrective action plans, and we are closely monitoring resolution of these issues.

We encountered major problems with the new statements required for FY 1998. Operating costs of more than $41 billion were not properly presented on the Consolidated Statement of Net Cost. Material items on the Consolidated Statement of Budgetary Resources could not be substantiated. The reconciliation performed by the Statement of Financing identified reconciling/unexplained differences totaling $11.6 billion between the Consolidated Statement of Budgetary Resources and the Consolidated Statement of Net Cost. Four examples follow.

- DOT distributed its operating costs into three components on the Statement of Net Cost; Surface Transportation ($26.4 billion), Air Transportation ($9.1 billion), and Maritime Transportation ($5.4 billion). This presentation combined programs and activities with many separate and distinct goals, and did not link program costs to performance measures.

- The Highway Trust Fund beginning unobligated balance ($36.2 billion) represents the amount of budget authority carried forward from prior periods, which had not been used for highway projects. We reviewed the Federal-Aid Highways portion reported at $13 billion. We analyzed budget authority, congressional limitations, and expenditures since the beginning of FY 1992, but could not substantiate the balance. Similarly, we could not verify the beginning unobligated balance of $7.2 billion for FAA. Supporting documentation for these amounts could date back for years.

- The four DOT Operating Administrations responsible for the Highway Trust Fund did not review unliquidated obligations prior to certification. We identified about $562 million in obligations that were no longer needed, some of which were obligated for up to 14 years. For just highway projects, we found over $5.4 billion was obligated for projects that had no activity for at least 1 year, some of which had no activity as far back as 1988.

- During FY 1998, we participated in a review of unliquidated obligations with the Maritime Administration, and identified $87 million in unneeded obligations which were deobligated. These funds had been obligated from 1 to 11 years.

Because we could not determine the reliability of significant portions of the Consolidated Financial Statements, we are unable to express, and we do not express, an opinion on DOT's Consolidated Financial Statements as of, and for the year ended, September 30, 1998.

We identified three other significant issues. Although these issues are important, they would not prevent DOT from receiving an unqualified audit opinion.

- DOT was not in compliance with the Federal Financial Management Improvement Act of 1996 because the Department's accounting system was not used to prepare the Consolidated Financial Statements and the accounting system was not the only source of financial information. DOT made over 2,200 closing and adjusting entries, totaling over $220 billion, outside the accounting system to prepare the Consolidated Financial Statements.

- The Department's accounting system does not perform cost accounting, and the Department did not have the cost accounting data that are needed to effectively evaluate performance against strategic goals and outcomes. The new Departmental accounting system, currently expected to be fully operational by June 2001, will address these issues.

- The performance measures in the Management Discussion and Analysis did not provide information about the cost effectiveness of DOT programs, and did not relate to information presented in the Statement of Net Cost. Only 5 of the 32 performance measures included FY 1998 performance data.

To address the internal control weaknesses and compliance issues, we are making five new recommendations. Our report on the FY 1997 Consolidated Financial Statements contained four recommendations, and disclosed efforts were in process to complete corrective actions on 33 prior recommendations. During FY 1998, DOT took action to implement corrective actions on 13 recommendations. Efforts still are underway on 24 prior recommendations.

A draft of this report was provided to the Chief Financial Officer on March 24, 1999. He agreed with the recommendations. We considered his comments in preparing this report.

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

Attachments

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DEPARTMENT OF TRANSPORTATION
INSPECTOR GENERAL'S INDEPENDENT REPORT ON
FISCAL YEAR 1998 CONSOLIDATED FINANCIAL STATEMENTS

To the Secretary

The Department of Transportation (DOT), Office of Inspector General (OIG) audited the DOT Consolidated Financial Statements as of, and for the year ended, September 30, 1998. We were unable to express an opinion on the Consolidated Financial Statements because we could not substantiate property, plant, and equipment reported at $21 billion, and inventory reported at $2.3 billion on the Consolidated Balance Sheet. Operating costs of more than $41 billion were not properly presented on the Consolidated Statement of Net Cost. Material items on the Consolidated Statement of Budgetary Resources could not be substantiated. Finally, the reconciliation in the Consolidated Statement of Financing between the Consolidated Statement of Budgetary Resources and the Consolidated Statement of Net Cost identified reconciling/unexplained differences totaling $11.6 billion.

We also are reporting on internal accounting and administrative control systems, and compliance with laws and regulations as applicable to DOT's FY 1998 Consolidated Financial Statements. We performed the audit in accordance with Government Auditing Standards prescribed by the Comptroller General of the United States, and the Office of Management and Budget (OMB) Bulletin 98-08, Audit Requirements for Federal Financial Statements, as amended on January 25, 1999.

Our audit objectives for the FY 1998 Consolidated Financial Statements were to determine whether (1) the principal Financial Statements are presented fairly in accordance with OMB Bulletin 97-01 as amended on November 20, 1998; (2) DOT has an adequate internal accounting and administrative control structure; (3) DOT has complied with laws and regulations which (a) could have a direct and material effect on the Financial Statements, or (b) have been specified by OMB; (4) the information and manner of presentation in the Management Discussion and Analysis is materially consistent with the information in the Financial Statements; and (5) the internal control structure ensured the existence and completeness of reported data supporting performance measures.

This report presents our disclaimer of opinion on DOT's Consolidated Financial Statements as of, and for the year ended, September 30, 1998. The financial information in the Management Discussion and Analysis and Supplemental Information was materially consistent with the Consolidated Financial Statements. We are including our reports on the internal control structure, and compliance with laws and regulations, in Sections B and C of this report.

A. DISCLAIMER OF OPINION ON FINANCIAL STATEMENTS

Property, plant, and equipment, reported at $21 billion on the Consolidated Balance Sheet, could not be substantiated. More specifically, the Coast Guard and Federal Aviation Administration (FAA) real property (land, buildings, and structures), personal property (equipment), and work-in-process reported at $20.6 billion could not be substantiated. We were able to determine that FAA personal property was significantly understated. Inventory reported at $2.3 billion, particularly the Coast Guard inventory reported at $1 billion, could not be substantiated.

Operating costs of more than $41 billion were not properly presented on the Consolidated Statement of Net Cost. DOT distributed its operating costs into three components, Surface Transportation ($26.4 billion), Air Transportation ($9.1 billion), and Maritime Transportation ($5.4 billion). This presentation combined programs and activities with many separate and distinct goals, and did not link program costs to the 32 performance measures presented in the Management Discussion and Analysis.

We were unable to substantiate material items on the Statement of Budgetary Resources such as Beginning Unobligated Balance ($47.6 billion), Obligations Incurred ($46.1 billion), and Ending Obligated Balance ($48.6 billion). The reconciliation in the Statement of Financing identified reconciling/unexplained differences totaling $11.6 billion, and these differences were not adequately disclosed.

Because we could not determine the reliability of significant portions of the Consolidated Financial Statements, we are unable to express, and we do not express, an opinion on the DOT Consolidated Financial Statements as of, and for the year ended, September 30, 1998.

B. REPORT ON INTERNAL CONTROL STRUCTURE

While the purpose of our work was not to express, and we do not express, an opinion on internal controls, we found material internal control weaknesses that contributed to reportable conditions. Our work was limited to applicable internal controls designed to safeguard assets, prepare financial statements, and assure proper execution of budgetary transactions, and would not necessarily disclose all material internal control weaknesses.

MATERIAL WEAKNESSES

The following sections describe material weaknesses we identified, and their effect on the Consolidated Financial Statements and management of DOT operations. The financial statement weaknesses were reported to OMB and Congress as part of DOT's reporting under the Federal Managers' Financial Integrity Act.

Consolidated Balance Sheet

Property, Plant, and Equipment

We were unable to substantiate the acquisition value of property, plant, and equipment reported at $21 billion, because of the continuing property accounting weaknesses in FAA ($11.9 billion) and Coast Guard ($8.7 billion).

Real Property

The acquisition cost of real property (land, buildings, and structures) was reported at $5.3 billion. FAA reported real property at a total value of $2.5 billion. The FAA Real Property Record System included property that was not valued correctly or whose stated value was not supported. For 117 items with a recorded value of $790 million, we found 41 items recorded at $419 million were not properly valued; 34 items recorded at $141 million could not be supported; and 4 items valued at $50 million should be removed from property records.

For example, a critical power system installed in 1992 was reported at $20 million. FAA was only able to provide contracts, purchase orders, payment records, and other support for $3.6 million. In another example, a building demolished over 10 years ago was still on FAA's records at $1 million.

The Coast Guard reported real property valued at $2.6 billion. The Coast Guard recorded estimated cost for real property acquisitions prior to October 1, 1994, based on a model calculation, and actual cost for all other acquisitions. For 221 items with a recorded value of $357 million, we found recorded amounts were not fair and reasonable because the Coast Guard (1) used inaccurate data to compute current value, historical cost, and depreciation, and (2) did not provide adequate documentation to support the value of current acquisitions. This occurred because Coast Guard had not established an effective quality control process to ensure that reliable and accurate data were used.

For example, Coast Guard reported a building at an estimated current replacement cost of $5.5 million, instead of an estimated historical cost of $1.3 million. In another example, the estimated replacement value of an 18,000 square foot building was overstated by $2.2 million because the building size was inaccurately recorded at 30,000 square feet.

Personal Property

The acquisition cost of personal property (equipment) was reported at $9.9 billion. FAA disclosed the reported $4.1 billion acquisition value for its personal property was materially understated in its Financial Statements. The understatement of equipment is the result of years of expensing contract costs, associated with bringing equipment into operational status, that should have been added (capitalized) to the asset value. We have preliminarily identified that the value for five of the most costly equipment systems, currently in operation, needs to be increased by at least $1 billion. For example, the voice switching control systems, installed at 23 locations, were recorded at a total cost of $234 million, instead of the true cost of $1.1 billion. The exact amount of the undervaluation for the five systems, and other less expensive systems, is unknown at this time.

Coast Guard personal property was reported at $5.4 billion. Coast Guard verified the existence and acquisition value of its vessels and aircraft reported at $4.5 billion during FY 1998. Based on an agreement with Coast Guard, we did not audit the remaining personal property reported at $871 million because Coast Guard had not finalized its plans for verifying the value of electronics equipment and small boats.

Work-in-Process

Work-in-process was reported at $2.9 billion. As property is acquired and buildings are constructed for specific projects, associated costs are charged to, and accumulated in, a work-in-process account until the projects are completed and systems are placed in service. When completed, the project costs should be transferred to the appropriate real or personal property accounts.

FAA was unable to provide supporting cost documentation to substantiate the $2.1 billion recorded in the work-in-process account. We statistically sampled 185 FAA projects from 7,345 active work-in-process projects with accumulated costs estimated at $887 million. We were unable to obtain transaction histories on 34 percent of the projects. Without transaction histories, recorded amounts cannot be traced to supporting documentation, such as invoices or contracts. For example, FAA spent $1.2 million on a flight service station during FY 1998. FAA could only provide transaction histories for costs of $123,000, leaving $1.1 million unsupported.

FAA project costs are considered backlog if not removed from the work-in-process account within 6 months after project completion. FAA estimated its backlog at $1.3 billion as of September 30, 1998. Depreciation of assets begins only when completed projects are transferred to the appropriate asset account (real or personal property). For example, FAA completed construction of an air navigation facility in

1995 at a cost of $746,000. As of December 31, 1998, the facility remained in the work-in-process account. Consequently, the backlog in the work-in-process account causes an understatement of depreciation expenses on the Statement of Net Cost. For a sample of 251 backlog FAA projects, we found unrecorded depreciation was at least $62 million.

Coast Guard reported $777 million for its work-in-process. Based on an agreement with Coast Guard, we did not audit the Coast Guard account in FY 1998. Coast Guard is developing a new system for its work-in-process, which will be available in May 1999.

Corrective Action Plans on Property

Elimination of these material weaknesses in its property accounts is essential if DOT is to obtain an unqualified opinion on its FY 1999 Financial Statements. DOT agrees the material weaknesses exist, and has initiated corrective actions. Plans were developed by FAA and Coast Guard, and approved by the DOT Chief Financial Officer, to correct the real property, personal property, and work-in-process weaknesses by September 30, 1999. We agree with the corrective action plans, and we are closely monitoring the work to ensure resolution of issues with property, plant, and equipment. Since DOT has corrective actions underway, we are making no new recommendations.

Inventory

The value of inventory reported at $2.3 billion, particularly Coast Guard inventory reported at $1 billion, could not be substantiated. Statement of Federal Financial Accounting Standards Number 3, Accounting for Inventory and Related Property, requires inventory to be valued at either historical cost, or latest acquisition cost. The Coast Guard inventory currently is valued at various methods, including last acquisition cost and standard prices. The Coast Guard has agreed to value its inventory at the Aircraft Repair and Supply Center and the Engineering Logistics Center using moving weighted average pricing. We will test the inventory valuation during FY 1999.

Statement of Net Cost

The Statement of Net Cost is one of the new financial statements required by OMB Bulletin 97-01 for FY 1998. According to the Managerial Cost Accounting Implementation Guide, issued by the Joint Financial Management Improvement Program, the Statement of Net Cost is pertinent to reporting performance results, and provides financial information that can be related to outputs and outcomes of an entity's major programs and activities. According to OMB Bulletin 97-01, an entity should report performance measures that provide information about the cost effectiveness of programs, and should be linked to the programs featured in the Statement of Net Cost.

The Departmental Accounting and Financial Information System (DAFIS) does not perform cost accounting and the Department's Financial Statement Module does not produce the Statement of Net Cost. Because of the inability of DAFIS to generate cost accounting data, in July 1998, the Department issued guidance for preparing FY 1998 Financial Statements that required each Operating Administration to submit its operating cost in total, without identifying and allocating costs to major programs.

The Department prepared the Consolidated Statement of Net Cost that distributed $41 billion of operating costs into three components; Surface Transportation ($26.4 billion), Air Transportation ($9.1 billion), and Maritime Transportation ($5.4 billion). This presentation combined Operating Administrations and programs with many separate and distinct goals, and did not link program costs to the 32 performance measures presented in the Management Discussion and Analysis. (See discussion on Performance Data).

For example, the Maritime Transportation Costs category combined separate and distinct programs in Coast Guard and the Maritime Administration (MARAD), such as maintaining MARAD’s Ready Reserve Fleet, with Coast Guard’s Search and Rescue, Drug Interdiction, and civilian Boating Safety costs. DOT attempted to disclose operating costs by major program in a footnote, but full program costs were not displayed. For example, under Maritime Transportation Costs, DOT reported Coast Guard Operating Expenses of $2.8 billion as a major program cost. However, these costs represented total operating and maintenance costs that should have been allocated among the major Coast Guard programs.

The DOT Strategic Plan and the FY 1999 Performance Plan identify these five strategic goals: (1) Safety, (2) Mobility, (3) Economic Growth and Trade, (4) Human and Natural Environment, and (5) National Security. Success in each of these strategic goals will be measured by performance under various outcome goals. For example, eight specific outcome goals are presented for Safety, including reducing the number of transportation-related deaths, and reducing the dollar loss from high-consequence, reportable transportation incidents. The Statement of Net Cost, as currently presented, does not link cost with performance. DOT needs to develop cost accounting data that are needed to effectively evaluate performance against these goals and outcomes.

To improve financial management, DOT initiated a project to replace DAFIS as its core accounting system. The new system is being designed to produce financial statements, as well as cost accounting information. However, it will not be fully operational until June 2001. As discussed earlier, property accounting weaknesses continue to exist in

FAA and Coast Guard that impact the Statement of Net Cost. Until property issues are resolved, the depreciation expense will not be accurately reported.

Recommendations 1 and 2

We recommend the Chief Financial Officer:

- Identify the major programs to be presented in the FY 1999 Consolidated Statement of Net Cost, consistent with the goals and outcomes presented in the DOT Strategic and Performance Plans.

- Require the Operating Administrations to allocate operating costs among the programs presented, and report operating costs for these programs on the FY 1999 Consolidated Statement of Net Cost.

Statement of Budgetary Resources

The new Statement of Budgetary Resources provides information about how budgetary resources were made available to DOT as well as their status at yearend. We were unable to substantiate six material items including Beginning Unobligated Balance ($47.6 billion), Obligations Incurred ($46.1 billion), and Ending Obligated Balance ($48.6 billion).

Beginning Unobligated Balance

We could not verify the beginning unobligated balance of $47.6 billion. For example, the Highway Trust Fund beginning unobligated balance represents the amount of budget authority carried forward from prior periods, which had not been used for highway projects. To determine if this amount was reasonable, we reviewed the Federal-Aid Highways portion reported at $13 billion. We analyzed budget authority, congressional limitations, and expenditures since the beginning of FY 1992, but could not substantiate the balance. The beginning balance carried forward in 1992 was $8 billion. According to Federal Highway Administration (FHWA) representatives, supporting documentation for the remaining $8 billion could date back for years. Similarly, we could not verify the beginning unobligated balance of $7.2 billion for FAA.

Obligations Incurred

We were unable to obtain detailed supporting records from DAFIS to determine whether obligations incurred were accurately reported at $46.1 billion. For example, the following footnote disclosure was included in the FAA Financial Statements:

> In an effort to accurately reflect the status of budgetary resources, FAA compiled data from the SF-132, Appointment and Reapportionment Schedule, and the SF-133, Report on Budget Execution, to prepare the Statement of Budgetary Resources. Some of the budgetary account balances from the (DAFIS) general ledger were not accurate or were incomplete because the processes to record specific transactions were not available in the accounting system.

Similar conditions existed for the Highway Trust Fund. We reviewed the $21 billion Federal-Aid-Highways obligations incurred. While we were able to trace reported amounts into summary records, we were unable to validate summary accounts to supporting documents. According to DAFIS, there was $146 billion in obligation transactions. This amount substantially exceeded the $21 billion because each time a state charges a project or adjusts an obligation, DAFIS records the transaction against the obligations incurred account. However, DAFIS does not eliminate the basic transaction that was adjusted. We could not differentiate between the transactions supporting the $21 billion reported, and the transactions supporting the $146 billion reported in DAFIS. FHWA expects this problem will be corrected in FY 2000.

<u>Ending Obligated Balance</u>

Title 31, United States Code (U.S.C.) Section 1501 states obligations of the United States shall be recorded only when supported by documentary evidence. Title 31, U.S.C. Section 1108 states the head of an agency shall annually submit a certification, supported by records, showing compliance with Section 1501. For the Highway Trust Fund, we found documentary evidence existed to support initial obligations, and obligations were certified annually. However, the four DOT Operating Administrations responsible for the Highway Trust Fund did not review unliquidated obligations prior to certification. Treasury Financial Manual Bulletin 98-09 states:

> Agencies that have not reviewed their unliquidated obligations during the year must do so before yearend closing. This ensures that those transactions meeting the criteria . . . set forth in 31 U.S.C. 1501 have been properly recorded. Retain work papers and records on verifications to facilitate future audits.

Although the annual certifications were made that obligations were valid as of September 30, 1998, there was no documentation supporting this certification, and no review was made of unliquidated obligations during the year. The four Operating Administrations relied on states or grantees to identify unneeded obligations, but they were not doing so.

In December 1997, we estimated there was $500 million in unneeded obligations on highway projects, some of which were obligated for as long as 12 years. FHWA representatives agreed to conduct reviews to deobligate funds by the end of calendar year 1998. FHWA had not completed the review, and unneeded funds were still obligated as of September 30, 1998.

We requested FHWA to age their highway projects. Their inquiry against the database found more than $5.4 billion currently obligated for projects that had no activity for at least a year.

- As part of our current audit, we randomly selected 47 FHWA projects in six states with obligated balances of $98 million. We found 12 projects in 3 states had unneeded obligations totaling $5.2 million. For example, one project was completed 8 years ago and still had $568,000 in unneeded obligations. State officials agreed, and initiated actions to deobligate funds for use on other projects.

- We reviewed 67 FTA projects with unliquidated obligations totaling $83 million. We found 45 projects had an estimated $57 million in unneeded obligations. These funds had been obligated for an average of 8 years, and up to 14 years.

During FY 1998, we also participated in a review of unliquidated obligations with MARAD. Based on our statistical sample, we projected that at least $81 million was unneeded obligations. MARAD performed a complete review, and deobligated $87 million in unneeded obligations as of September 30, 1998. These funds had been obligated from 1 year to 11 years.

Recommendations 3 and 4

We recommend the Chief Financial Officer:

- Require the Operating Administrations to research and verify the beginning and ending unobligated balances before the FY 1999 Consolidated Statement of Budgetary Resources is prepared, and retain supporting documentation.

- Require the Operating Administrations to review outstanding obligations, at least during the annual certification process, and document their actions to close completed grants and contracts.

Statement of Financing

The Statement of Financing is a reconciliation of the budgetary information in the Statement of Budgetary Resources and the operating expense information in the Statement of Net Cost. The Statement of Financing also includes information about other financing sources from the Statement of Changes in Net Position. The reconciliation ensures there is a proper relationship between the financial and budgetary accounts in the entity's financial management system. The Statement of Financing uses data from the three other financial statements and contains no original data.

We traced amounts reported in the Statement of Financing to the corresponding amounts in other statements. The Highway Trust Fund, FAA, and Coast Guard presented amounts in accordance with appropriate Treasury guidance. However, the reconciliation performed by the Statement of Financing identified reconciling/unexplained differences totaling $11.6 billion. As a result, DOT was unable to determine if there was a proper relationship between its financial and budgetary records.

The Highway Trust Fund Statement of Financing reported a $10.4 billion reconciling difference between the two statements. FHWA officials indicated this discrepancy resulted from including trust fund transfers on the Statement of Financing. The FAA Statement of Financing reported an $877 million reconciling difference. FAA officials indicated this discrepancy was identified during the reconciliation of the two statements, but could not provide any other information. Coast Guard also had a $296 million reconciling difference, because the Aquatic Resources Trust Fund and Oil Spill Liability Trust Fund transfers were included on the Statement of Financing.

The Consolidated Statement of Financing did not adequately disclose these reconciling differences. The Highway Trust Fund and Coast Guard differences were reported as Intra-Departmental Transfers, and the FAA difference was reported as Other Miscellaneous Resources. The Department did not include a footnote disclosure explaining the reconciling differences. Consequently, readers of the Consolidated Financial Statements would not recognize DOT was unable to reconcile its financial and budgetary records.

According to Department of Treasury officials, other Federal agencies have had similar problems reconciling their financial and budgetary records and preparing the Statement of Financing. Treasury is currently reviewing its reconciliation guidance.

C. REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

Our objective was not to express, and we do not express, an opinion on overall compliance with laws and regulations. Our work was limited to selected provisions of laws and regulations, and would not necessarily disclose all material noncompliance.

Federal Financial Management Improvement Act of 1996

The Federal Financial Management Improvement Act of 1996 requires auditors to report whether agencies' financial management systems comply substantially with federal accounting standards, financial systems requirements, the government's standard general ledger at the transaction level, and Federal Financial Management Systems Requirements issued by the Joint Financial Management Improvement Program. DOT continues to be in noncompliance because (1) property, plant, and equipment, and inventory amounts presented on the Balance Sheet were inaccurate and not supported by financial records, (2) DAFIS was not used for preparation of the Financial Statements, and (3) the cost accounting data needed to effectively evaluate performance against performance goals and outcomes was not available.

Acquisition value of property, plant, and equipment could not be substantiated. For example, we were unable to substantiate the acquisition cost of real property reported at $5.3 billion, and personal property reported at $9.9 billion. DOT was unable to provide supporting cost documentation to substantiate the $2.9 billion recorded in the work-in-process account. Similarly, the value of inventory reported at $2.3 billion could not be substantiated.

DAFIS was not the only source of financial information used to prepare the Consolidated Financial Statements. OMB implementation guidance states that to be in substantial compliance with the Federal Financial Management Systems Requirements, the "agency core financial system, supported by other systems containing the detail data summarized in the core financial system, is the source of information used in the preparation of the annual financial statements. . . ." Because the core accounting system did not contain the most current financial information, DOT made more than 2,200 closing and adjusting entries, totaling $220 billion, outside DAFIS to prepare the Consolidated Financial Statements. These adjustments, at a minimum, should be recorded in DAFIS at the summary level. However, DOT could not record these adjustments in DAFIS because FY 1998 records were closed within 5 days after yearend. These issues will be addressed in the new Departmental accounting system currently expected to be fully operational by June 2001.

Federal Financial Accounting Standards Number 4 requires all Federal departments to have the capability in place, beginning in FY 1998, to meet requirements of the managerial cost accounting standards. Cost accounting is needed in the Federal Government to provide reliable and timely information on the full cost of Federal programs. However, DAFIS does not perform cost accounting and the Department's Financial Statement Module does not produce the Statement of Net Cost. The Department prepared a Consolidated Statement of Net Cost that distributed $41 billion of operating costs into three components and combined Operating Administrations and programs with many separate and distinct goals, and did not link program costs to performance measures.

Annual Certification of Obligations

Title 31, United States Code (U.S.C.) Section 1501 states obligations of the United States shall be recorded only when supported by documentary evidence. Title 31, U.S.C. Section 1108 states the head of an agency shall annually submit a certification, supported by records, showing compliance with Section 1501. However, as presented in our discussion on the Consolidated Statement of Budgetary Resources, unliquidated obligations were not reviewed prior to certification.

Performance Data

Under OMB Bulletin 98-08, our responsibility was to obtain an understanding of internal controls relating to the existence and completeness of performance data. DOT's FY 1999 Performance Plan contained 70 performance measures, of which 32 were included in the FY 1998 Consolidated Financial Statements. The presentation complied with requirements of OMB Bulletin 97-01 to report performance measures consistent with goals and objectives from the Department's strategic plan.

OMB Bulletin 97-01 also states:

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

We found performance measures did not provide information about cost effectiveness, FY 1998 financial data could not be linked to performance, and planned actions were not always reported.

<u>Measuring Cost Effectiveness</u>

DOT did not have systems in place to allocate costs by major programs. Therefore, the performance measures could not be linked to the Statement of Net Cost. The FY 1998 Consolidated Financial Statements also did not include any performance measures that related to financial operations or cost effectiveness. We found none of the measures was linked to the cost of achieving targeted results, or to the Statement of Net Cost.

For example, one goal is to reduce the rate of rail-related fatalities per million train miles. However, DOT did not have a system in place to link the cost of this program to the goal. Consequently, DOT did not report the FY 1998 cost data for reducing the rate of rail-related fatalities.

In developing its strategic and annual performance plans, DOT emphasized outcome-based measures (actual effects of the program). DOT did not focus on measuring outputs (targeted results) or allocating cost to measure benefits. For example, the Consolidated Financial Statements contain a performance measure assessing progress to reduce the fatal accident rate for commercial air carriers. While a narrative describing FAA's efforts to carry out its aviation safety program was included, the cost to achieve program goals was not reported, nor did the performance measure assess the effectiveness of dollars spent. Such a relationship between cost and program performance should be presented in the FY 1999 Consolidated Financial Statements.

DOT's current accounting system (DAFIS) does not have the capability to track program costs, or allocate payroll costs to programs. DOT is in process of replacing its accounting system, but it will not be fully operational until June 2001. In the interim, DOT needs to develop allocation techniques to capture costs that relate to performance measures.

Completeness and Timeliness of Performance Data

To comply with OMB Bulletin 97-01, current year performance data must be reported to compare with current year financial data. The FY 1998 Consolidated Financial Statements included 1998 performance data for 5 of 32 measures, 1997 data for 10, 1996 data for 11, 1995 data for 5, and 1994 data for 1 measure. For example, DOT presented a performance goal of making the national fixed-route bus system compliant with the American with Disabilities Act by the year 2003. DOT reported 63 percent of fleet buses were compliant in 1996, but did not show 1997 or 1998 compliance data. We identified six performance measures in the Highway Trust Fund Financial Statements that had no performance data. These measures were not used in the Consolidated Financial Statements.

Without timely and complete data, performance results cannot be compared to current year financial data. As part of our audit of the Consolidated Financial Statements, we did not test the validity or accuracy of performance data. This will be accomplished as part of selected program audits during FY 1999. The Department is in process of implementing a comprehensive system to control the quality of performance data.

Reporting of Planned Actions

The Management Discussion and Analysis reported planned actions to improve performance for 16 of 32 measures. For example, DOT reported planned actions to reduce the rate of air travel delays, but how to restrain the flow of undocumented migrants entering the United States was not addressed. In its Performance Plan, DOT reported two initiatives designed to restrain the flow of undocumented migrants. The Performance Plan also describes five initiatives to reduce recreation boating fatalities, and four other initiatives to save mariners and property in imminent danger. This available information should be incorporated in the Consolidated Financial Statements.

Recommendation 5:

We recommend the Chief Financial Officer, in coordination with the Operating Administrations, identify the performance measures that will be included in the FY 1999 Consolidated Financial Statements, develop cost allocation techniques to ensure the selected performance measures are related to the programs detailed in the Statement of Net Cost, and report actions to improve performance.

D. PRIOR AUDIT COVERAGE

DOT prepared its first Consolidated Financial Statements for FY 1996. The OIG's audit report on the FY 1996 Consolidated Financial Statements contained 11 material internal control weaknesses, 15 reportable conditions, and 77 recommendations to strengthen internal controls and establish the correctness of financial statement balances. The FY 1997 audit report stated efforts were still in process to complete action on 33 recommendations and included 4 new recommendations. Efforts are still underway to complete corrective actions on 24 prior recommendations.

Since we issued our report on DOT's FY 1997 Consolidated Financial Statements, we issued 15 reports related to the audit of the FY 1998 Consolidated Financial Statements (see exhibit).

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

Kenneth M. Mead
Inspector General

FINANCIAL-RELATED AUDIT REPORTS

TITLE	REPORT NUMBER	DATE ISSUED
Formal Reprogramming of Facilities and Equipment Appropriation, FAA	FE-1998-132	May 7, 1998
Replenishing Logistics Center Inventory, FAA	FE-1998-136	May 15, 1998
Actuarial Estimates for Retired Pay and Health Care Cost, USCG	FE-1998-151	June 2, 1998
Federal Agencies' Centralized Trial-Balance System Data, FY 1997	FE-1998-164	June 30, 1998
Control of Appropriations, FAA	FE-1998-167	July 6, 1998
Implementation of Cost Accounting System, FAA	FE-1998-186	August 10, 1998
Valuation of Logistics Center Inventory, FAA	FE-1998-202	September 10, 1998
Inventory of Field Spare Parts, FAA	FE-1998-209	September 29, 1998
Management of Grant Funds, FTA	FE-1999-016	November 6, 1998
Real Property, USCG	FE-1999-051	January 27, 1999
FY 1998 Financial Statements, FAA	FE-1999-070	March 8, 1999
Valuation of Vessels and Aircraft, USCG	FE-1999-075	March 24, 1999
Actuarial Estimates for Retired Pay and Medical Benefits, USCG	FE-1999-076	March 24, 1999
Quality Control Review of FY 1998 Saint Lawrence Seaway Development Corporation Financial Statements	QC-1999-078	March 29, 1999
FY 1998 Financial Statements, Highway Trust Fund	FE-1999-079	March 30, 1999

A MESSAGE FROM THE SECRETARY

I am pleased to present the Department of Transportation's (DOT) Consolidated Financial Statement for Fiscal Year 1998, which highlights our major programs and plans for the future, how these programs are benefiting the American public, and our financial position. This report now consolidates under one cover various program and financial information that was reported separately to the American public in past years.

President Clinton's commitment to "rebuild America" signaled his understanding that improvements needed to be made to the Nation's transportation system. This has resulted in a 41 percent increase in transportation investment above the last Administration's average. The effects of this investment are seen every day: the condition of our roads and bridges and transit systems has improved, our air is cleaner, and the highway fatality rate is at a record low.

And, there can be no better way to position transportation for the next century then the historic enactment this past year of the Transportation Equity Act for the 21st Century (TEA-21). This new law gives America record-level transportation investment, a guaranteed $198 billion over six years that has been fully paid for, as the President said when he signed it, "line by line and dime by dime." Just like transportation is about more than concrete, asphalt, and steel, TEA-21 is about people--giving them the opportunity to lead safer, better, more fulfilling lives. It will help us meet DOT's Strategic Goals to *enhance safety, improve mobility, promote economic growth and trade, protect our environment, and support national security.*

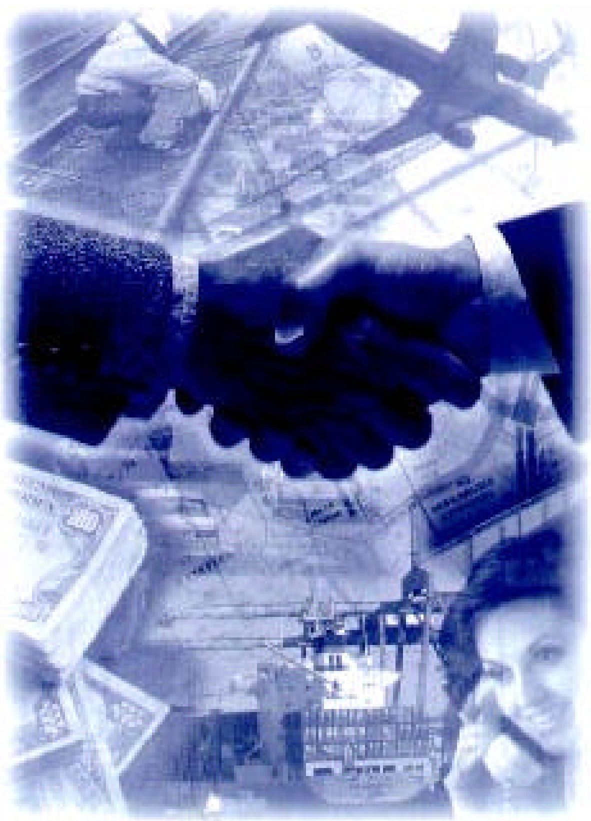
As important as "making the investment" is, it is equally important to be able to determine its effectiveness. In FY 1998 DOT formally submitted its first annual Performance Plan under the Government Performance and Results Act of 1993.

The Plan presents specific performance measures DOT will use to assess our FY 1999 progress towards meeting our Strategic Goals and to ensure the best possible management of our resources. It is most gratifying to have both the DOT Strategic Plan and the DOT Performance Plan graded by Congress as the best in government.

To help us lead the way to transportation excellence in the 21st Century, DOT is employing a "ONE DOT" management strategy, a strategy that builds on and emphasizes the collaborative work that is part of the history of the Department. The various DOT organizations have their own important and discrete responsibilities; however, "ONE DOT" will ensure that our collective efforts and actions are aligned with our mission and strategic goals. In this way, we can meet our greatest challenge---*to build a safe transportation system that is international in reach; intermodal in form; intelligent in character; and inclusive in service.* We at DOT are working hard to meet this challenge.

Rodney E. Slater

U.S. DEPARTMENT OF TRANSPORTATION
CONSOLIDATED FINANCIAL STATEMENT FY 1998



INTRODUCTION

DOT's third Consolidated Financial Statement presents to the American public, Congress, the Office of Management and Budget, and the transportation industry the Department's major programs' current and future performance and a brief description of how the public benefits from these programs; and defines our recent accomplishments and financial initiatives and position for FY 1998.

The specific improvements in our program and financial activities we are implementing and the progress and commitment we have made to meet our strategic goals and our new management strategy "ONE DOT" are described in the following sections of this report:

Management Discussion and Analysis consists of three sections:
(1) Departmental Overview; (2) Major Program Performance; and (3) Financial Management Performance Highlights.

- ***Departmental Overview*** provides a high level overview of the agency—in short, it provides a description of who we are, what we do and how well we meet the goals we have set.

- ***Major Program Performance*** activities are designed to ensure that America's transportation system meets the needs of the American people as we move into the 21st Century.

- ***Financial Management Performance Highlights*** DOT's progress with audited financial statements, the Federal Financial Management Improvement Act (FFMIA), the Federal Managers' Financial Integrity Act (FMFIA), Year 2000, Debt Collection and Cash Management.

Consolidated Financial Statements and Notes provide an important tool to promote and improve accountability and stewardship over the public resources entrusted to the Department. Preparing these statements was part of the Department's overall goal to improve financial management and to provide accurate and reliable information that is useful in assessing performance and allocating resources.

Auditor's Report determines whether (1) the financial statements present fairly the financial position and results of operations of DOT in accordance with OMB Bulletin 97-01; (2) DOT has an adequate internal accounting and administrative control structure; (3) DOT has complied with laws and regulations which (a) could have a direct and material effect on the financial statements or (b) have been specified by OMB; (4) the information and manner of presentation in the Management Discussion and Analysis and Supplemental Information sections are materially consistent with the information in the financial statements; and (5) supporting data for performance measures existed and were properly reported.

Required Supplemental Stewardship Reporting relates to areas of Federal Government accountability over certain resources entrusted to it and certain responsibilities assumed by it which are not measured in traditional financial reports. This new reporting requirement will focus on assets and investments made by the Government for the benefit of the Nation.

Additional Supplemental Information displays the breadth of scope of each

Operating Administration's financial activity shown in the consolidating statements by major functional area.

These and many more impacts on the public and on the transportation industry are described in this report.

Readers who would like to know more about our programs and our organization may view our Internet Web Site at **http://www.dot.gov**.

DEPARTMENTAL OVERVIEW

THE DEPARTMENT OF TRANSPORTATION

The United States (U.S.) Department of Transportation (DOT) is the Federal steward of the Nation's transportation system and speaks for transportation in the Federal Government. It was created in 1967 to develop transportation policies and programs that contribute to providing safe, fast, efficient, accessible and convenient transportation at the lowest cost—essentials to meet national objectives of economic growth and stability, security of the U.S., and the efficient use and conservation of resources.

Our Nation's transportation system is the largest in the world. It consists of about 4 million miles of public roads, almost 1.5 million miles of pipelines carrying natural gas and petroleum, over 5,000 public airports, 570 commercial harbors, 32,000 miles of navigable coastline, and 25,777 miles of inland waterways. Every day our roads carry over 6.6 billion vehicle miles of trucks and automobiles and over 2.5 billion ton-miles of goods. Every day our rails carry more than 56,000 people; our waterways carry 2.2 billion ton-miles of freight; our transit systems move 10 million passengers; and our airlines carry more than 1.5 million passengers domestically and overseas.

As we cross the bridge from the 20th to the 21st Century, we must be prepared to face global markets, environmental challenges, trans-national security threats, and a communication and information revolution.

As we look forward to the 21st Century, Secretary Rodney E. Slater has stretched our minds to ensure that we all believe transportation to be more than concrete, asphalt and steel. He reminds us that transportation is about providing opportunity for people, giving them mobility and choices. He envisions DOT offering a guiding light to enable safe transport of people and goods. Transportation ties our Nation together and ties America to the rest of the globe.

To keep our system strong, the Clinton Administration increased investment in transportation infrastructure by more than 20 percent during the first term over the previous 4 years. Spending for safety improvements increased by 61 percent. We have opened over 110 miles of new rail transit service since 1993. Our airlines are carrying 25 percent more passengers than they did in 1993. And, the condition and performance of our Nation's key bridges and highways has improved.

The Department continues to push forward in *Reinventing Government the common sense way.* Through streamlining, refocusing our efforts on our customers and on performance results, and using modern technologies, we are operating more efficiently and our work force is 11 percent smaller than it was in 1993.

DOT employs almost 100,000 civilian and military people located across the country and the world. It includes the following Operating Administrations (OAs):

DOT Operating Administrations

United States Coast Guard (USCG)

Federal Aviation Administration (FAA)

Federal Highway Administration (FHWA)

Federal Railroad Administration (FRA)

National Highway Traffic Safety Administration (NHTSA)

Federal Transit Administration (FTA)

Saint Lawrence Seaway Development Corporation (SLSDC)

Maritime Administration (MARAD)

Research and Special Programs Administration (RSPA)

Bureau of Transportation Statistics (BTS)

Surface Transportation Board (STB)

Transportation Administrative Service Center (TASC)

ONE DOT MANAGEMENT STRATEGY

These organizations within DOT, commonly referred to as Operating Administrations (OAs) are working together as ONE DOT. We aim to create the best transportation system for America. This transportation system is one that is *international in reach, intermodal in form, intelligent in character and inclusive in service.*

The ONE DOT management strategy was introduced in DOT's Strategic Plan to help us meet the challenges of a rapidly changing world by creating a balanced, integrated, and intermodal transportation system. This system will more closely reflect how people, communities and organizations function in the 21st Century. The ONE DOT concept builds on and emphasizes the collaborative work that is part of the history of the Department. This historical collaboration has resulted in: significant public initiatives such as the recently enacted Transportation Equity Act for the 21st Century; the leadership which DOT has assumed in welfare-to-work programs; rapid and effective responses to natural disasters; and other DOT efforts such as "Buckle Up America," "Safe Communities," "Moving Kids Safely," and the "Garrett A. Morgan Technology and Transportation Futures Program," to mention a few. The goal of the ONE DOT management strategy is to make collaboration as natural a part of our organizational behavior as our discrete modal activities.

Information about the progress of individual groups, success stories, messages from the Secretary and messages from our regions is shared throughout the Department and available on-line at **www.dot.gov/onedot.**

OUR MISSION STATEMENT

Serve the United States by ensuring a safe, fast, efficient, accessible and convenient transportation system that meets our vital national interests and enhances the quality of life of the American people, today and into the future.

STRATEGIC GOALS

The 1997 DOT Strategic Plan is the product of the contributions of many. Representatives from the Office of the Secretary (OST) and all the Operating Administrations worked as an integrated team to build the plan. It recognizes President Clinton's priorities outlined in his State of the Union address; Vice President Gore's guidance emanating from the Blair House papers and the management strategies integral to performing our missions successfully; Secretary Slater's often stated personal priorities of safety, infrastructure investment and common sense government; the requirement to set performance goals and to identify measures to gauge progress; and the priorities and concerns of DOT partners in State and local government as well as industry.

It sets five strategic goals for DOT:

- ***Safety:*** Promote the public health and safety by working toward the elimination of transportation-related deaths, injuries, and property damage.

- ***Mobility:*** Shape America's future by ensuring a transportation system that is accessible, integrated and efficient, and offers flexibility of choices.

- ***Economic Growth and Trade:*** Advance America's economic growth and competitiveness domestically and internationally through efficient and flexible transportation.

- ***Human and Natural Environment:*** Protect and enhance the community and the natural environment affected by transportation.

- ***National Security:*** Advance the Nation's vital security interests in support of national strategies such as the National Security Strategy and National Drug Control Strategy by ensuring that the transportation system is secure and available for defense mobility and that our borders are safe from illegal intrusion.

PERFORMANCE GOALS

DOT's first annual Performance Plan was completed and was delivered to Congress with the President's Budget for FY 1999. The FY 1999 DOT Performance Plan serves as the top-level link between the program activities found in each Operating Administration's budget and the Department's overall mission and strategic goals. The Performance Plan presents 73 performance measures, which the Department will use to assess its progress in FY 1999 towards achieving its long range strategic goals. The Plan organizes the presentation of these annual performance goals into five sections--one for each strategic goal area. Within these five DOT strategic goal areas, program activities and their associated budget resources are grouped together according to the annual performance goals they support. In this manner a clear line can be drawn from the mission to the strategic goal, and finally to the performance goals, strategies, and requested resources.

The following performance goals aim to achieve specific and measurable improvements toward our strategic goals:

DOT Strategic Goal: Safety

Highway

- ✓ Reduce the rate of highway-related injuries per 100 million vehicle-miles traveled, from 134 in 1997 to 127 in 1999 and 124 in 2000 (page 10).
- ✓ Reduce the rate of highway-related fatalities per 100 million vehicle-miles traveled, from 1.7 in 1997 to 1.6 in 1999 and 1.5 in 2000 (page 10).
- ✓ Reduce the percentage of highway fatalities that are alcohol-related from the 38.6 percent in 1997 to 36 percent in 1999 and less than 35 percent in 2000 (page 11).
- ✓ Increase the seat belt usage nationwide from 69 percent in 1997 to at least 80 percent by 1999 and 85 percent by 2000 (page 11).

Aviation

- ✓ Reduce the fatal aviation accident rate for commercial air carriers per 100,000 flight hours from the 1994-1996 baseline rate of 0.037 to 0.034 by 1999 and 0.033 by 2000 (page 16).
- ✓ Reduce the number of runway incursions to a level 15 percent below the 1997 baseline of 318 to at or below 270 incursions in 1999 and 2000 (page 17).
- ✓ Reduce the rate of operational errors and pilot deviations per 100,000 activities by 10 percent from 1994 baselines (0.54 errors and 0.11 deviations) to a 1999 target rate of 0.496 for errors and 0.099 for deviations and 2000 target rate of 0.486 and 0.097, respectively (page 17).

Maritime

- ✓ Rescue and save at least 93 percent of mariners reported in life-threatening danger (same as the 1996 baseline) (page 19).
- ✓ Reduce the number of recreational boating fatalities per 100 numbered (registered hours) from the 1997 baseline of 819 to 720 (or fewer) fatalities in 1999 and 2000 (page 20).

Rail

- ✓ Reduce the rate of rail-related fatalities per million train-miles from 1.71 in 1995 to 1.57 or less in 1999 and 1.54 or less in 2000 (page 21).
- ✓ Reduce the rate of rail-related crashes per million train-miles from 3.91 in 1995 to 3.44 or less in 1999 and 3.32 or less in 2000 (page 21).

Transit

- ✓ Reduce the transit injury rate per 100 million transit passenger miles from 127 in 1996 to 123.2 (or less) in 1999 and 122 in 2000 (page 23).
- ✓ Reduce the transit fatality rate per 100 million transit passenger miles from 0.52 in 1996 to 0.50 fatalities (or less) in 1999 and 2000 (page 23).

DOT Strategic Goal: Mobility

Highways and Bridges

- ✓ Reduce the percentage of bridges on the NHS that are deficient from 23.1 percent in 1998 to less than 22.8 percent in 1999 and 22.5 percent in 2000 (page 28).

- ✓ Increase the percentage of miles on the NHS that meet pavement performance standards for acceptable ride quality from 90.4 percent in 1996 to 91.5 percent in 1999 and 91.8 percent in 2000 (page 28).

Aviation

- ✓ Maintain in good or fair condition 93 percent of runway pavements at commercial service airports, reliever airports, as well as, selected general aviation airports in 1999 (same as the FY 1997 baseline) (page 29).

- ✓ Reduce the rate of air travel delays per 100,000 activities by 5.5 percent from 1992-1996 baselines of 181, to 171 in 2000 (page 30).

Transit

- ✓ Increase the percentage of key rail stations that are ADA-compliant from 19 percent in 1996 to 37 percent in 1999 and 47 percent in 2000; and for bus fleets, increase the percentage from 63 percent in 1996 to 73 percent in 1999 and 82 percent in 2000 (page 34).

- ✓ Reduce the average age of the motor bus fleets to 7.5 years or less, from a 1995 baseline of 8.1 years; and hold the average age of the rapid rail fleet at 22.6–while sustaining or expanding service (page 35).

DOT Strategic Goal: Economic Growth & Trade

Aviation

- ✓ Increase the number of flight segments that aircrafts are able to fly off Air Traffic Control preferred routes from 75 percent in 1996 to 80 percent in 1999 and 2000 (page 37).

Rail

- ✓ Increase the percentage of Amtrak trains arriving on time, from 78.6 percent in 1998 to 87 percent in 1999 (page 39).

Transit

- ✓ Increase the total of transit vehicle hours of service (rail and non-rail) from 183 million revenue vehicle hours of service in 1995 to 209 million in 2002 (page 41).

DOT Strategic Goal: Human and Natural Environment

Highway and Transit

Transit

- ✓ Increase the percentage of the urban population living within 0.25 miles of a public transit stop with service frequency of 15 minutes or less, from a CY 1996 baseline of 11.22 percent to 11.56 percent in CY 1999 and 11.68 in CY 2000 (page 44).

- ✓ Reduce on-road mobile source emissions by 2 percent from 1999, to a target of 62.7 million tons, from a 1996 baseline for 65.9 million tons (page 45).

Aviation

- ✓ Reduce the number of people in the U.S. exposed to significant aircraft noise by at least 64 percent from the 1995 baseline of 1.7 million to at or below 600,000 (page 46).

Maritime

- ✓ Reduce the rate of oil spilled into the water by marine sources from 1.37 gallons per million/gallons shipped in 1997, to 5.04 in 1999 and 4.83 in 2000 (page 47).

DOT Strategic Goal: National Security

Maritime

- ✓ Increase twenty-foot equivalent units (TEUs) capacity of ships or square feet of sealift capacity enrolled in the Maritime Security Program and Voluntary Intermodal Sealift Agreement from 160,852, or 13.6 million square feet in FY 1998 to 165,000 TEUs, or 14.5 million square feet in FY 1999 (page 50).

- ✓ Ensure that 100 percent of Ready Reserve Force non-notice activation meet assigned readiness activation, and that each ship is mission-capable for at least 99 percent of the days it is under DOD control in 1999 (page 52).

- ✓ Increase the percentage of mariners available compared to mariners needed to crew combined sealift and commercial fleets during national emergencies from 96.9 percent in 1997 to 100 percent in 1999 (page 53).

- ✓ Increase the seizure rate for illegal drugs, from 8.7 percent of the total amount shipped (the 1995-1997 average) to 12.5 percent in 1999 and 13 percent in 2000 (page 54).

- ✓ Restrain the flow of undocumented migrants by reducing the success rate from the FY 1995 of 23 percent to 13 percent or less over maritime routes in 1999 (page 54).

MAJOR PROGRAM PERFORMANCE

DOT STRATEGIC GOAL: SAFETY

Promotes the public health and safety by working toward the elimination of transportation-related deaths, injuries, and property damage.

The safety of America's transportation system is our top priority. Virtually all of our programs are designed to influence or encourage safety. DOT provides national leadership in transportation safety, integrating the efforts of all partners to advance our common goal – to minimize the cost to society of transportation-related fatalities, injuries and incidents.

HIGHWAY SAFETY

Through the efforts of NHTSA and FHWA, we administer safety programs, promote vehicle and highway infrastructure safety standards, test vehicle and equipment compliance, investigate defects, conduct research in technology and human factors relating to safety, maintain data on transportation incidents, injuries, and fatalities, and develop and enforce safety regulation on commercial motor vehicles. In addition, DOT conducts research and development programs to improve the tools we have to make the system safer.

NHTSA and FHWA also partner with States to promote education, legislation, enforcement programs, and infrastructure improvement through grants and technical assistance, while FRA joins them in addressing crashes at highway-rail grade crossings.

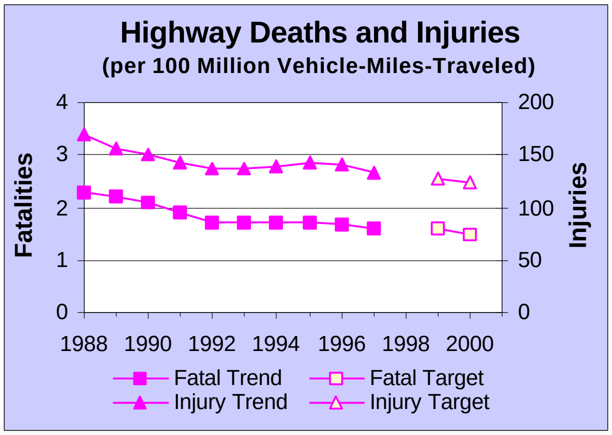
Highway Safety Programs

- ***Traffic Safety Programs*** administered by NHTSA encompass a range of program strategies to reduce crashes and their consequences. NHTSA administers the Safe Communities program which, through the creation of partnerships, enables communities to identify, understand and address their traffic safety problems. Traffic safety programs also include highway safety research activities, education and outreach efforts, particularly relating to air bag and child safety.

Traffic fatalities account for more than 90 percent of all transportation-related fatalities each year and traffic injuries represent 99 percent of all transportation-related injuries. In 1997 alone, 41,967 Americans died and 3.4 million were injured in motor vehicle crashes. This takes a heavy toll on American families and costs more than $150 billion in medical and other costs per year.

Vehicle-miles traveled (VMT) increased by 3.2 percent in 1997, a much higher increase than the Department had predicted. The average annual increase in VMT in recent years has been 2.2 percent. This 1997 change, coupled with a decrease in highway-related injuries, greatly reduced the injury rate from 141 in 1996 to 134 in 1997. The calendar year (CY) 1999 target has been changed to reflect an appropriate "stretch" in 1999 gains, and will be attributable mainly to ongoing NHTSA programs.

TEA-21 alcohol and seat belt incentive grants, and such programs as the "Buckle Up America" initiative will help DOT lower the injury rate at a greater pace, but their effects probably will not be seen until 1999.



Performance Indicator: Reduce the rate of highway-related injuries per 100 million vehicle miles traveled (VMT).
2000 Goal: 124 1999 Goal: 127 1997 Performance: 134 1996 Baseline: 141
Performance Indicator: Reduce the rate of highway-related fatalities per 100 million vehicle miles traveled.
2000 Goal: 1.5 1999 Goal: 1.6 1997 Performance: 1.7 1996 Performance: 1.7

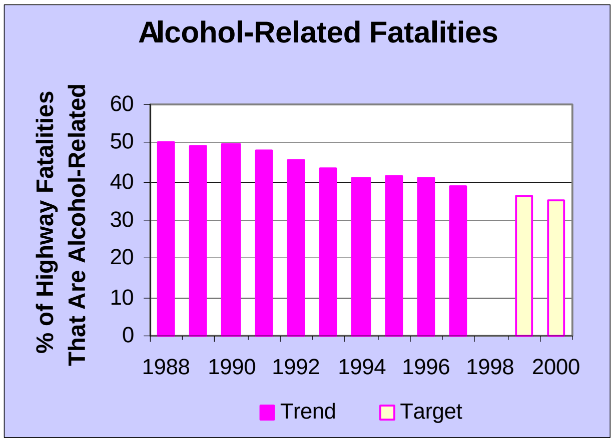
FHWA continues to work with NHTSA to advance the Speed Management Work Plan. They believe that a better understanding of speeding and its implications contributes to reducing the number of speed-related fatalities and injuries occurring on our highways. High priority safety problem areas and associated countermeasure plans are identified by the States.

Highway Safety Grants given to the States include Section 402 Formula Grants Program and Section 410 Alcohol-Impaired Driving Incentive Grants Program:

- ***Section 402 Formula Grants Program*** is a performance-based formula program that provides the States with the opportunity to set their own highway safety goals and develop program strategies to meet them. State programs are focused on national priorities including occupant protection, impaired driving prevention, police traffic services, emergency medical service/trauma care, traffic records, pedestrian/bicycle safety, motorcycle safety, speed control and roadway safety. States can use funds to form Safe Communities partnerships to address highway safety problems. By September 30, 1998, over 425 Safe Community programs were underway.

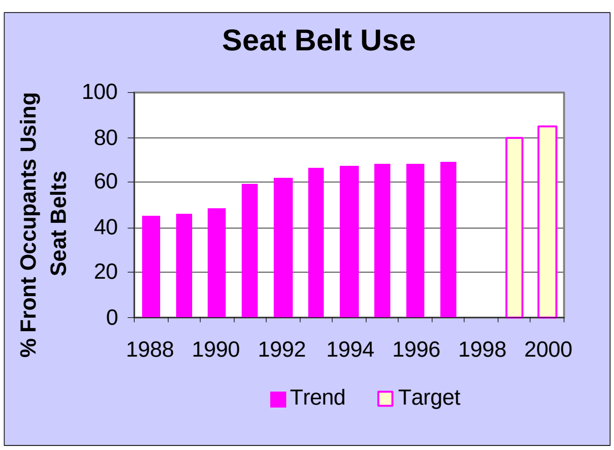
- ***Section 410 Alcohol-Impaired Driving Incentive Grant Program*** continues to provide effective incentives to motivate States to implement innovative strategies to reduce drunk and drugged driving. States can receive basic and supplemental grants based on specific actions, such as enactment of laws and implementation of programs to reduce impaired driving. A total of 38 States and the District of Columbia qualified for Section 410 grants in FY 1998.

  This program encourages stricter laws and enforcement and better training and outreach to reduce driving that is impaired by drug and alcohol use. Alcohol-related fatalities dropped below 40 percent for the first time in 1997 to 38.6 percent. The 1999 and 2000 goals are to reduce the number of alcohol-related fatalities to 36 percent and 35 percent respectively.



Performance Indicator: Reduce the percentage of highway fatalities that are alcohol-related.
2000 Goal: Reduce the number of alcohol-related highway fatalities to less than 35 percent. 1999 Goal: Reduce the number of alcohol-related highway fatalities to 36 percent. 1997 Performance: Reduced the number of alcohol-related highway fatalities to 38.6 percent. 1996 Performance: Reduced the number of alcohol-related highway fatalities to 40.9 percent.

- ***Occupant Protection Programs*** support the goals outlined in the Presidential Initiative for Increasing Seat Belt Use nationwide to 85 percent by 2000. National safety belt usage is currently 69 percent. In FY 1998, "Buckle Up America" was initiated to help the Department achieve these goals.



Performance Indicator: Increase the seat belt usage nationwide.
2000 Goal: Increase seat belt use rate to 85 percent. 1999 Goal: Increase seat belt use rate to 80 percent. 1997 Performance: 69 percent. 1996 Performance: 68 percent.

NHTSA continues to implement awareness and education activities concerning safety belt and child safety seat use. NHTSA coordinates the efforts of national organizations to complement new public and private sector efforts to reduce the aggressivity problem of air bags.

- ***Other Safety Programs*** work to increase the number of people educated about air bag safety, improve emergency medical services, and focus attention on pedestrians, bicyclists and older and younger drivers. As part of the President's Initiative on Drugs, Driving and Youth, NHTSA establishes strategies to combat youth drug use. In the highway research area, NHTSA continues to investigate and demonstrate methods to control speeding, aggressive driving and other unsafe driving acts, as well as, improve pedestrian and bicyclist safety.

As a result of NHTSA's programs, motor vehicle travel has become safer. Traffic fatalities have decreased from 51,091 in 1980 to 41,967 in 1997. The fatality rate per 100 million vehicle miles has fallen from 3.3 in 1980 to 1.7 in 1997. This has substantially increased the focus on providing technical assistance to the States in developing comprehensive strategies, targeting traffic law enforcement problems, and reducing the human loss and economic costs caused by traffic crashes. Emerging traffic safety issues such as aggressive drivers, drugged drivers, non-belted drivers and passengers, and red light running drivers, combining with speed create new challenges that make progress more difficult and require innovative strategies and a strong Federal role. The Department's Strategic Plan developed in 1997 guides program priorities. NHTSA's activities tie directly to DOT's Safety strategic goal and make contributions to other Departmental strategic goals.

NHTSA's programs have proven to be cost-effective. A NHTSA analysis of the Department's highway safety programs showed that society receives a return of $9 for each dollar spent on vehicle and highway safety. Programs administered by NHTSA are funded from the Highway Trust Fund and the General Fund. This funding supports research, highway safety and vehicle programs, and also provides grants to States and the National Driver Register.

Vehicles & Equipment Compliance Testing

- ***New Car Assessment Program*** provides consumers with relative crashworthiness information on passenger vehicles. NHTSA conducts frontal and side impact tests at 35 mph and 38.5 mph, respectively, to provide information to consumers for their purchasing decisions. This information also motivates vehicle manufacturers to provide higher levels of occupant protection through market forces. In FY 1998, 70 vehicles were crash tested. Fifty vehicles were tested and rated for frontal protection and 20 for side protection. NHTSA estimates that these tests, when combined with results valid from earlier model years, provided consumers with frontal safety information on 70 percent of model year 1998 vehicles sold in the U.S., and side impact information on 72 percent of model year 1998 passenger cars. Other vehicle safety information provided to consumers through the ***Consumer Information Program,*** includes the safety features available on new vehicles, child passenger safety guidelines, and the characteristics and proper use of anti-lock braking systems.

- ***Vehicle Safety Compliance*** ensures that all motor vehicles and motor vehicle equipment sold in the U.S. provide the safety benefits intended by Federal safety regulations or qualify for the appropriate exemptions. The compliance program administered by NHTSA incorporates the testing, inspection and investigation necessary to ensure compliance with the performance requirements of Federal Motor Vehicle Safety Standards.

  Since the inception of the National Traffic and Motor Vehicle Safety Act in September 1966 through December 1997, 3,402 investigations for possible non-compliance were initiated of which 3,382 have been completed and closed. In addition, from September 1966 through December 1997, civil penalties collected for Safety Act violations totaled more than $4 million.

- ***Auto Safety Hotline*** operated by NHTSA serves as the primary contact for consumers to report problems with motor vehicles or motor vehicle equipment that may warrant a safety defect investigation and also to provide consumers with timely information concerning motor vehicle safety such as recall information and general information to increase consumer understanding and awareness of highway safety. The Hotline (1-800-424-9393) received over 700,000 calls from consumers in 1998, seeking information on a wide variety of highway safety issues, from child seat installation, to recalls, to crash data on specific vehicles.

- ***Motor Carrier Safety Assistance Program (MCSAP)*** is designed to improve safety of trucks and buses on the Nation's highways, and, consistent with this goal, to reduce the number of accidents involving trucks. This is done through a combination of regulations on both the vehicle and driver, enforcement of such regulations, and grants to States for enforcement, all administered through the FHWA's Office of Motor Carriers.

  Regulations cover the full gamut of vehicle-related (e.g., truck size and weight, vehicle systems--such as brakes, maintenance activities, etc.) and driver-related (e.g., hours of service, physical condition, drugs and alcohol, training, etc.) functions.

  Enforcement is performed with a combination of Federal and State personnel, including 300 Federal investigators. State enforcement is carried out by a range of State associated enforcement organizations, including State police, highway patrol, public service commissions, and public utility commissions (about 4,000 people).

FY 1998
Commercial Vehicle Safety Inspections

	#Roadside Inspections	# Placed Out-of-Service	Out-of-Service Ratio
All Vehicles	2,073,666	431,470	.211
Non-Hazmat Vehicles	1,900,034	386,249	.234
Hazmat Vehicles	139,150	27,369	.179
Commercial Buses	34,482	3,852	.106
Drivers	2,073,666	161,530	.078

The MCSAP funds State enforcement of Federal truck and bus safety requirements or compatible State requirements. States may also use MCSAP funds for anti-drug and size and weight enforcement. Total contract authority for MCSAP in 1998 was $79 million. A portion of these funds are reserved for national priorities and border enforcement. The remaining funds are distributed to States by formula. Over 2 million different commercial motor vehicles have been inspected for safety in FY 1998. These safety inspections resulted in over 21 percent being taken out-of-service and over 161,000 drivers being placed out-of-service.

During October 1997, the system identified approximately 1500 "high-risk" motor carriers. The new system more effectively focuses FHWA compliance review resources toward "high-risk" motor carriers.

Safety Defect Investigations Program

- ***Safety Defect Investigations Program*** collects, analyses, and acts on information related to safety defects that affect the occurrence and severity of crashes. Investigations are conducted to ensure that manufacturers remove defective vehicles and items of motor vehicle equipment from the Nation's highways. NHTSA also analyzes recalls conducted by manufacturers to determine whether notification to owners, scope of vehicles or equipment covered and remedy performed are adequate. In 1998, there were 332 recalls involving more than 19 million vehicles, tires and pieces of equipment for safety problems. This is the highest number of vehicles recalled in a single year in NHTSA's history. One-fifth of the recall campaigns, representing 70 percent of the vehicles recalled, were influenced by NHTSA investigations.

Research in Technology and Human Factors Relating to Safety

- ***Research and Development Programs*** provide the foundation for improvements in the safety of motor vehicles and driver behavior. One major emphasis of the research program is currently on air bag aggressivity. Airbag research was conducted by the National Transportation Biomechanics Research Center. Research was also conducted on international harmonization, crash avoidance and maintaining and improving the critical data programs administered by the National Center for Statistics and Analysis.

  Biomechanics research is concerned with understanding the automotive injury process and developing methodologies capable of evaluating and effecting improvements in crash safety. Part of the research involves analyses conducted at trauma centers through Crash Injury Research and Engineering Network on the human consequences of real world crashes.

  Crash Avoidance research is conducted on new conventional vehicle technologies, which are steadily being introduced into the market by vehicle manufacturers. The safety attributes of collision avoidance systems are also evaluated under the Intelligent Transportation Systems program funded in the FHWA budget and administered by the Joint Program Office. Also funded in the FHWA budget is NHTSA's National Advanced Driving Simulator which will be an invaluable tool for evaluating driver-vehicle interactions and advanced driver information technologies, when completed in 2000. In September 1993, President Clinton, Vice President Gore, and the Chief Executive Officers of Chrysler, Ford, and General Motors announced establishment of the Partnership for a New Generation of Vehicles, which is aimed at strengthening U.S. competitiveness and protecting the environment. The NHTSA portion of the program will ensure that vehicles developed under the program meet existing and anticipated Federal vehicle safety standards.

- ***John A. Volpe National Transportation Systems Center (Volpe Center)*** provides Federal transportation and logistics expertise in research, analysis, development and deployment of transportation technologies for clients in DOT and other Federal agencies on a fee-for-service basis. The Volpe Center also serves as a bridge to industry, academia, and other government agencies to promote innovation in national and international transportation. In FY 1998, the Volpe Center obligated $205 million on about 300 projects. These projects include an advanced navigation system plan to increase the capacity and safety of the Panama Canal; further enhancements to the Advanced Traffic Management System used by the FAA; improved guidelines of Human Factors engineering for the design and evaluation of cockpit avionics, air traffic control, and high speed rail; and development for DOT's Office of Motor Carrier's safety performance monitoring system called SAFESTAT.

Transportation Incidents, Injuries and Fatalities Data

The National Center for Statistics and Analysis collects data vital to the vehicle and behavioral programs of NHTSA, FHWA and other Department programs, State and local governments, as well as vehicle manufacturers, insurers and highway safety public interest groups.

- ***Fatality Analysis Reporting System*** contains data on a census of fatal traffic crashes within the 50 States, District of Columbia and Puerto Rico.

- ***NHTSA General Estimates System (GES)*** data are obtained from a nationally representative probability sample selected from all police-reported crashes. Although various sources suggest that about half the motor vehicle crashes in the country are not reported to police, the majority of these unreported crashes involve only minor property damage and no significant personal injury. By restricting attention to police-reported crashes, the GES concentrates on those crashes of greatest concern to the highway safety community and the general public.

- ***National Driver Register (NDR)*** provides a critical transportation safety function by allowing State motor vehicle administrators to communicate with other States to identify problem drivers. The NDR is a central repository of identification information on individuals whose license to operate a motor vehicle has been revoked, suspended, canceled or denied in any State and is used by other transportation-related organizations such as the FAA, FRA, USCG, air carriers and employers in making licensing or certification decisions.

- ***Other Data Programs*** report statistics on motor vehicle theft and insurance related data, issue rules regarding vehicle theft prevention, set Corporate Average Fuel Economy (CAFE) standards, and support rulemaking actions and consumer information on Uniform Tire Quality Grading.

Safety Regulations on Commercial Motor Vehicles

- ***Odometer Fraud Programs*** enforce Federal laws and provide funds to States/localities to help them reduce odometer fraud. From 1989 through 1997, States completed 627 investigations and recovered more than $1.4 million in restitution.

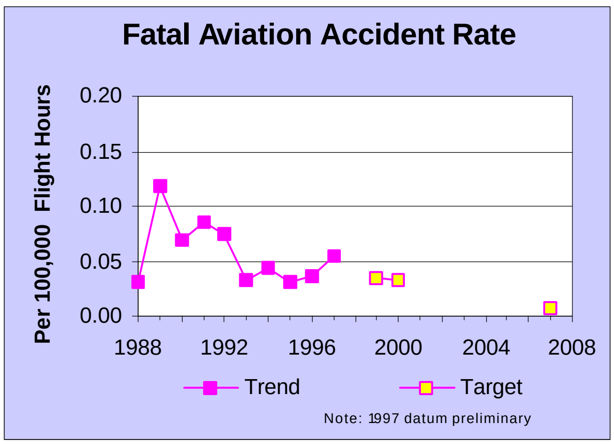
- ***Vehicle Safety Standards Program*** seeks to improve the crash avoidance and crashworthiness performance of motor vehicles through regulatory and non-regulatory alternatives. The program responds to rulemaking petitions and uses real world crash data, testing information, and studies on the costs of vehicle safety systems to support the development of and amendments to Federal motor vehicle safety standards (FMVSS). Work continues on advanced air bag performance, the development of an offset frontal test standard, and harmonization of vehicle safety standards with those of other countries.

AVIATION SAFETY

The FAA provides a safe, secure, and efficient global aerospace system that contributes to national security and the promotion of U.S. aerospace safety. In fulfilling this mission, FAA manages and supports the operations, facilities, and equipment that provide the air traffic services of the National Airspace System (NAS). FAA also develops necessary regulations, and sets technical standards. FAA licenses and oversees commercial space launches and the operation of commercial and state-sponsored launch sites. In addition, FAA conducts research to improve aerospace system safety, and provides grants for airport development in safety related areas.

In its position on the front line of aviation safety, the FAA works with contractors, the air transportation industry, the academic community, other agencies at the Federal, State, and local level, and with its international counterparts to identify root causes of accidents, and intervenes to prevent potential causes of accidents. As a result, the fatal accident rate is very low. By 2007, the FAA aims to reduce the U.S. aviation fatal accident rate by 80 percent from the 1996 levels.

The goal of this wide-ranging collaboration is to provide a technically advanced airspace system that meets the highest attainable levels of safety.



Performance Indicator: Reduce the fatal aviation accident rate for commercial air carriers per 100,000 flight hours.

2000 Goal:	Commercial Air Carriers	0.033
1999 Goal:	Commercial Air Carriers	0.034
1994-96 Baseline:	Commercial Air Carriers	0.037

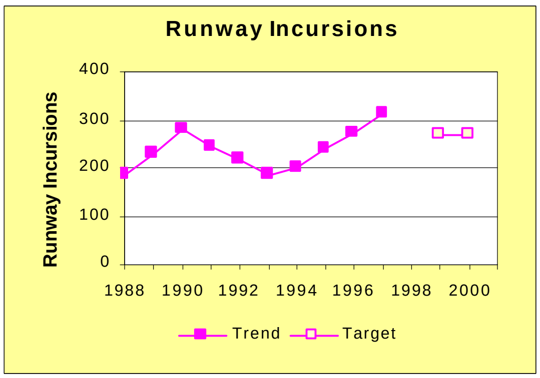
Operations, Facilities, and Equipment

- ***Air Traffic Services*** employees provide an integrated set of services to ensure that each aircraft operation is safe from the time pilots begin pre-flight activities until they shut down the aircraft at their destination. Air traffic controllers at local airports direct airplanes that are taking off, landing, or flying within the visual range of their tower – usually about 5 miles. Controllers in terminal radar control facilities handle aircraft for one or more airports in a large metropolitan area, generally within 30 to 40 miles of the area's major airport. Controllers at 21 en route centers guide airplanes in flight from one city to another. Flight service stations (FSS) provide flight plan filing, weather data, and information briefings to pilots. These services are available to civil and military users, 24-hours a day, 365 days a year. A staff of highly skilled engineers and system specialists maintain and troubleshoot over 39,000 items of equipment, software, and hardware; assign and protect more than 40,000 aeronautical radio frequencies; and conduct some 11,000 flight inspections annually to ensure the safe operation of the Nation's air traffic control systems.

On a typical day, FAA controllers handle approximately 174,000 takeoffs and landings, moving some 1.5 million passengers, and the number continues to grow. The FAA annual aviation forecast, released in March 1998, predicts that U.S. commercial air carrier passenger enplanements will grow from 595 million in 1997 to 924 million in 2009 – an annual growth rate of 3.5 percent over the next dozen years. During the same period, the number of aircraft operations handled is forecast to grow 1.5 percent annually, for a projected total of 75.4 million in 2009.

In FY 1998, FAA continued to test and phase in new automation products to assist controllers in meeting the growing demand for air traffic services safely and efficiently. These include tools to aid in sequencing aircraft, conflict detection, and collaborative decision making.

Reducing the number of runway incursions by 15 percent in 1999 is one of DOT's aviation safety goals. The 1997 baseline was 318 total. Growth in aviation operations has averaged over 1 percent per year. With an increased tempo of operations, the risk of incursions increases. Runway incursions are most likely to occur at complex, high volume airports. These airports are characterized by multiple parallel or intersecting runways; multiple taxiway/runway intersections; complex traffic patterns; and the need for traffic to cross active runways.

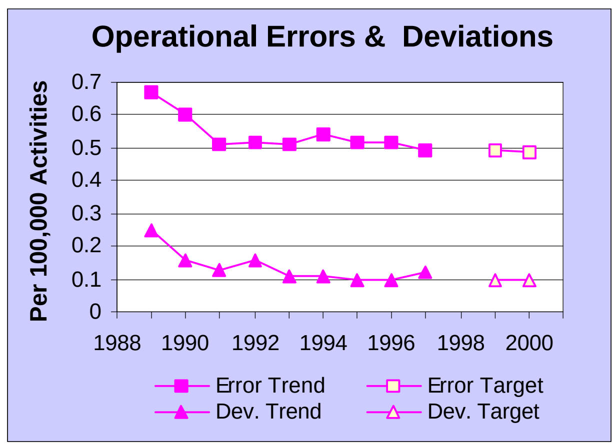


Performance Indicator: Reduce the number of runway incursions to a level of 15 percent below the 1997 baseline.
2000 Goal: At or below 270 incursions. 1999 Goal: At or below 270 incursions. 1997 Baseline: 318

DOT aims to reduce incursions by providing technologies that use multiple sensors including ground radars and automatic position reporting systems to detect the location of aircraft and vehicles, airport surface navigation aids, and enhanced software for detecting conflicts between aircraft on the runway and approaching aircraft, and signals at key points to warn pilots and ground equipment operators not to cross active runways.

Reducing the rate of operational errors and deviations to 0.496 or less and 0.099 or less, respectively, in 1999, is another aviation safety goal. The 1994 baseline was 0.54 (errors) and 0.11 (deviations). Operational errors and deviations are a result of human error. Studies have shown that five factors are significant: traffic management relationships, quality assurance programs, training, management involvement, and control room environment.

One of the major approaches to reducing operational errors and deviations is to provide a common level of understanding of procedures and policies among controllers and users. Training for controllers and pilots is central to this and will continue to be the focus of Air Traffic service safety strategy. Technological improvements such as deployment of modern displays, new software automation and decision tools, and improved communication systems will support better determination of aircraft location and resolution of potential conflicts between aircraft.



Performance Indicator: Reduce the rate of operational errors and pilot deviations per 100,000 activities by 10 percent from the 1994 baselines.
2000 Goal: Decrease the rates by 10% from 1994. Pilot Deviation Rate - 0.097 Operational Error Rate - 0.486 1999 Goal: Pilot Deviation Rate - 0.099 Operational Error Rate - 0.496 1994 Performance: Pilot Deviation Rate 0.11 Operational Error Rate 0.54

Regulations and Technical Standards for Equipment and People

As part of its safety oversight mission, the FAA certifies airports serving air carrier operations and inspects those airports for compliance with established safety standards. FAA oversees the safety of planes and the credentials and competency of pilots and mechanics, develops mandatory safety rules, and sets high standards for civil aviation. Each year, the FAA performs more than 347,000 inspections and investigations and takes approximately 12,000 enforcement actions, helping to make air travel among the safest modes of transportation. The FAA also evaluates foreign governments' oversight of their airlines serving U.S. airports. These results are published in FAA press releases so that the public can know which countries meet international safety standards.

Two new initiatives were announced during FY 1998 to raise the bar on safety. ***Safer Skies***, a focused data-driven safety agenda, seeks out the root cause of accidents, then targets resources to find and apply the right interventions. As part of the Safer Skies agenda, the FAA, in July 1998, provided expanded guidance for passengers and airlines on carry-on baggage regulations. The agency also announced that, at the close of FY 1998, it had doubled the number of cabin safety inspectors, assigning, for the first time, one for each of the major carriers. Also, in July, the FAA proposed eight airworthiness directives that call for the industry to inspect engine parts more closely, using new methods developed through FAA and industry research. Early that month, the FAA proposed new measures to reduce potential ignition sources in Boeing 747 center wing tanks. And, in August 1998, the FAA announced a proposed rule that will require all airplanes with turbine engines and six or more passenger seats to carry a terrain awareness warning system. The ***Air Transportation Oversight System (ATOS),*** announced on October 1, 1998, complements the Safer Skies agenda, and will change how the FAA oversees and inspects air carriers.

Commercial Space Launches

This program oversees the safety of commercial space launches and regulates the growing commercial space industry. The Office of Commercial Space Transportation licenses commercial space launches that take place in the U.S. or are conducted by U.S. citizens anywhere in the world. In January 1998, the FAA issued a space launch site operator's license to the Virginia Commercial Space Flight Authority to operate a commercial spaceport at NASA's Wallops Flight Facility at Wallops Island, Virginia. The FAA had previously issued similar licenses to facilities at Vandenberg Air Force Base, California, and Cape Canaveral Air Station, Florida. On September 8, 1998, the 100th U.S.-licensed commercial space launch occurred from Vandenberg Air Force Base, marking a milestone for what has become one of the fastest growing U.S. industries. The landmark launch was a Delta II launch vehicle which carried five satellites for the Iridium global wireless telephone system into low earth orbit.

Grants for Airport Development in Safety Related Areas

Airports, like the airlines, are vital links in the air transportation network. The FAA works in partnership with airport authorities, local units of government, metropolitan planning organizations, and States to revitalize and expand the Nation's airports.

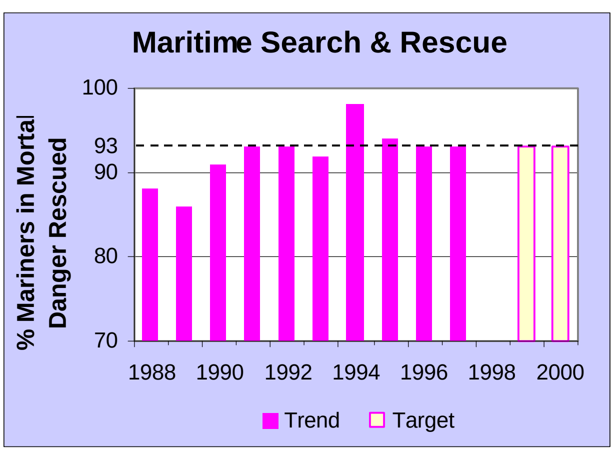
In FY 1998, airport planning personnel awarded an estimated $1.7 billion in grants to eligible airports to enhance capacity, improve safety and security, and mitigate noise. The collection of passenger facilities charges (PFC) provides an additional source of funding for airport expansion and preservation. PFC's, which must be approved by the FAA, currently produce revenue for airports totaling approximately $1.2 billion each year. In order to increase the investment options available to airports, the Clinton Administration has proposed raising the cap on PFC's from $3 to $5.

MARITIME SAFETY

The USCG responds to protect life and property at sea and provides technical and grant assistance for State programs in search and rescue and boating safety. The Coast Guard (CG) also maintains a volunteer force—the CG Auxiliary—to cost effectively advance recreational boating safety though courtesy examinations and training. The USCG also develops necessary safety regulations and standards; inspects for compliance; investigates incidents; licenses mariners; provides navigation systems; provides vessel traffic services (for select U.S. ports), and conducts research and development to advance maritime safety.

Search and Rescue Program

- ***Search and Rescue Program*** provides assistance to people or property in distress or in danger on the water. To accomplish this program, USCG employs vessels and aircraft to conduct searches and provide on-scene assistance. USCG has a policy of employing commercial search and rescue services, if available, where neither life nor property is in immediate danger. In 1997, the USCG saved 4,500 lives and nearly $2 billion in property as a result of their notification.



Performance Indicator: Percentage of mariners reported in life-threatening danger that are rescued.

1999 Goal: Save 93 percent or more.

1996 Performance: Saved 93 percent.

The USCG Auxiliary is an active, civilian, and volunteer organization that was established in 1939. The approximately 50,000 members are experienced boaters, and amateur or licensed pilots using their own assets. The USCG Auxiliary is a cost-effective supplement to the search and rescue and boating safety missions.

Marine Safety Program

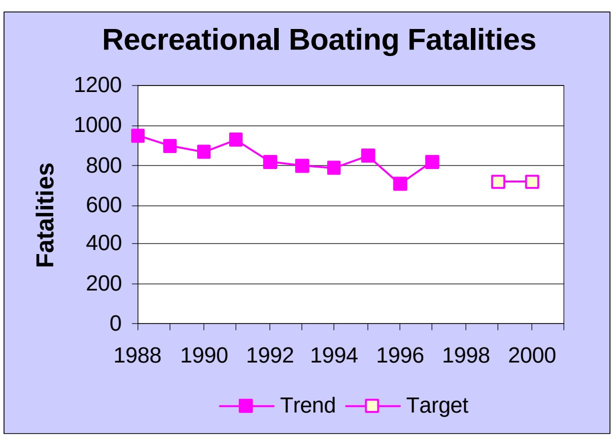
- ***Marine Safety Program*** consists of two subprograms, the *Commercial Vessel Safety Subprogram* and the *Recreational Boating Safety Subprogram* (RBS). The goal of the Marine Safety Program is to minimize deaths, injuries, property loss and environmental damage by developing safety standards for the design, construction, maintenance, and operation of U.S. commercial ships and offshore facilities such as oil drill rigs and for making grants to States for support of education, outreach and law enforcement programs.

- ***Commercial Vessel Safety Subprogram*** includes merchant vessel licensing, inspections and review of plans for new ship construction. To accomplish this, the USCG conducts annual safety inspections of these vessels and facilities. The USCG also issues Certificates of Documentation (similar to car registrations) for these vessels and facilities.

Various laws, including the Omnibus Budget Reconciliation Act of 1990, authorized the USCG to charge user fees for various marine safety activities such as the inspection of vessels. USCG collected approximately $26.4 million in FY 1998. This amount represented the total cost to the USCG for conducting these services. The amount of user fees collected over the last 6 years was approximately $136.2 million.

- ***Recreational Boating Safety Subprogram*** is designed to minimize fatalities, injuries, and property damage among the Nation's recreational boaters. The program is authorized to receive up to $70 million per year of Federal gasoline taxes attributable to motor boat use. Half of the amount is authorized to offset a portion of the Coast Guard's operating expenses for RBS services to the public (There are over 20 million recreational boats in the U.S.). The remaining half is authorized for grants to assist participating States in developing and carrying out State RBS programs. For FY 1998, Congress appropriated only the $35 million for grants to the States.

  Under provisions of the Clean Vessel Act of 1992, the amount available for State RBS grants through appropriation from the Boat Safety Account was supplemented by a transfer of $20 million from the Secretary of the Interior to the Secretary of Transportation.



Performance Indicators: Reduce the number of recreational boating fatalities per 100 numbered (registered boats).

2000 Goal: Reduce the number to 720 fatalities or less.

1999 Goal: Reduce the number to 720 fatalities or less

1997 Performance: 819 fatalities.

1996 Performance: 714 fatalities

The fatality rate has dropped from 28.7 per 100,000 estimated recreational boats when the program was created by the Federal Boat Safety Act of 1971. However, the number of fatalities reported to the USCG increased from 714 in 1996 (6.0 fatalities per 100,000 registered boats) to 819 (6.7 per 100,000 registered boats) in calendar year 1997.

RAIL SAFETY

FRA sets and enforces safety standards, investigates major train accidents, assists the rail industry in training its workforce on safety laws, and conducts research in technology and human factors (such as fatigue counter measures) relating to safety and promotes infrastructure improvements through grants to the AMTRAK. In addition, FRA joins with NHTSA and FHWA in saving lives through improved safety by educating the public on the dangers associated with highway-rail grade crossings.

Public Education on the Dangers Associated with Highway-Rail Grade Crossings

FRA pursues its safety programs through vigorous public outreach that makes people aware of the danger of highway-rail crossings as well as trespassing on railroad rights-of-way.

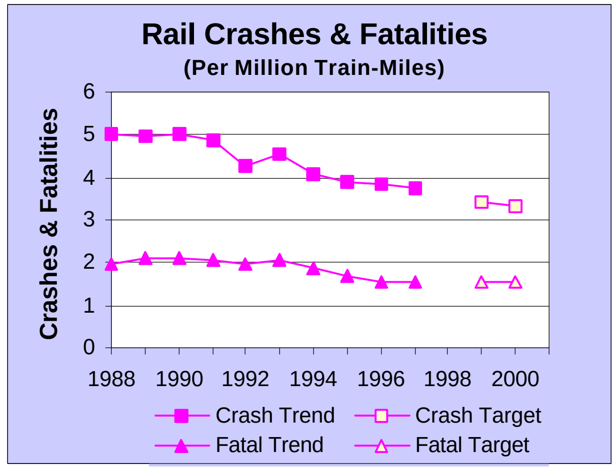
- ***School Bus Safety Alert*** was released nationally in 1998, to educate bus drivers about safety at rail crossings. This alert also served as the base for an alert being created for specific audiences such as truck drivers and drivers of vans and small buses used for transporting small groups. During FY 1998, FRA cooperated with the American Truckers Associations (ATA) to develop a Truck Driver Safety Alert. As with the School Bus Safety Alert, the Truckers Alert is a ONE DOT effort with the FHWA, NHTSA, and the FTA. The Truckers Alert was also used by FRA Region Four's crossing manager and the ATA to educate truck drivers about safety at rail crossings.

During FY 1998 FRA has continued to work with the Operation Lifesaver, Inc., (OLI) to promote outreach and public awareness of highway-rail crossing safety and trespass prevention programs and initiatives in order to reduce accidents and casualties. In FY 1998, grants to the OLI totaled $102,800.

- ***FRA Sponsored Roundtable*** chaired by the Secretary of Transportation was established to focus on developing best practices and a coordinated national campaign to reach professional drivers with life-saving messages. The roundtable consists of 30-40 key partners from other agencies and the railroad industry. The roundtable presents an excellent opportunity for DOT to partner with the National Transportation Safety Board (NTSB) and to work effectively as ONE DOT through the Safety Council.

Rail Safety Standards

- ***Railroad Safety Program*** protects railroad employees and the public by ensuring the safe operation of passenger and freight trains. Program efforts are directed to the enhancement of railroad safety through various programs and activities. These activities include the issuance and enforcement of safety regulations, investigations of train accidents, training of industry workers on safety laws, educating the public on dangers associated with railroading, and research and other cooperative efforts with industry to advance safety. FRA's Safety Office has established specific safety goals.



Performance Indicator: Reduce the rate of rail-related fatalities per million train-miles.	
2000 Goal: Reduce the rate to 1.54 or less. 1999 Goal: Reduce the rate to 1.57 or less. 1995 Performance: 1.71	
Performance Indicator: Reduce the rate of rail-related crashes per million train-miles.	
2000 Goal: Reduce the rate to 3.32 or less. 1999 Goal: Reduce the rate to 3.44 or less. 1995 Performance: 3.91	

During FY 1998, 638 railroads submitted accident and incident reports to FRA. These reports documented the railroad industry's accidents and incidents and are used by FRA to track the agency's performances.

Rail Industry Outreach

FRA's safety program includes 393 field safety inspectors and trainees. Inspectors and trainees are organized by five discipline areas -- motive power and equipment (MPE); operating practices; track; signal and train control; and hazardous materials (Hazmat). Safety inspectors are directly involved in monitoring the railroads to ensure that they are complying with Federal safety rules and regulations. During FY 1998 safety inspectors submitted 38,121 inspection reports that identified over 122,772 safety defects.

High Speed Ground Transportation Safety

During FY 1998 FRA's Next Generation High-Speed Rail Program activities included developing, demonstrating, and validating cost effective high-speed (125-150 mph) passenger rail technology for existing infrastructures; reducing upgrade costs for high-speed tracks to $2-3 million per mile; and making proven technology and methods available to States for high-speed rail implementation. Other goals involve three major areas:

Non-Electric Locomotive Area. FRA will demonstrate a self-contained locomotive unit with acceleration capabilities comparable to electric locomotives and without substantially increasing track forces, noise, or emission levels over conventional fossil fuel units.

Grade Crossing Hazards. FRA will demonstrate high-speed passenger operations on existing corridors on which grade crossings remain in place, but at safety levels equal to or better than present levels for conventional speeds.

Track Structure. FRA will demonstrate construction at 75 percent or less of present construction cost and track structures to withstand both heavy freight and high-speed passenger usage with cost no higher than what the present conventional practice permits.

Train Control Initiatives

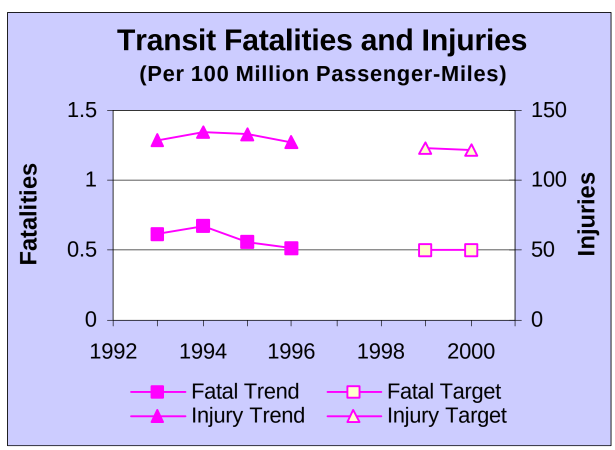
Under the Nationwide Differential Global Positioning System (NDGPS) Program, FRA expects to reduce the frequency of train collisions and over-speed accidents by a factor of 100 on lines where Positive Train Controls are installed. Specific outputs and outcomes are also being developed with the FHWA and the USCG. The USCG will serve as the lead agency for installing, operating, and maintaining the NDGPS network.

TRANSIT SAFETY

Safety Related Programs

The strategy for reducing the number of transit-related fatalities, injuries and incidents is to: implement policies and undertake activities (research, training, technical assistance, information dissemination, and oversight) that encourage transit decisions, practices, programs and operations which will have an impact on improving transit safety, improve and maintain the condition of the transit infrastructure (vehicles, tracks, and facilities) that has an impact on overall system safety and performance, and promote activities that increase the attractiveness of transit as a modal choice instead of other modes of transportation with higher accident and fatality rates.

FTA's goal is to reduce fatalities, injuries and incidents per 100 million transit passengers miles by one percent per year based on 1996 rates. As a result, in previous years, the rate of transit fatalities, injuries and incidents per 100 million passenger miles has declined.



Performance Indicator: Reduce the transit injury rate per 100 million transit passenger miles.
2000 Goal: Reduce the rate of injuries to 122 per 100 million transit passengers miles. 1999 Goal: Reduce the rate of injuries to 123.2 per 100 million transit passengers miles. 1996 Performance: 127 transit related injuries.
Performance Indicator: Reduce the transit fatality rate per 100 million transit passenger miles.
2000 Goal: Reduce the rate to 0.50 fatalities or less per 100 million transit passenger miles. 1999 Goal: Reduce the rate to 0.50 fatalities or less per 100 million transit passenger miles. 1996 Performance: 0.52 fatalities per 100 million transit passenger miles.

PIPELINE & HAZARDOUS MATERIALS TRANSPORTATION

Research and Special Programs Administration (RSPA) develops safety regulations and standards for the transportation of hazardous materials (classifying, handling, and packaging); maintains the Nation's largest database of hazardous materials information and incidents; conducts compliance inspections; provides special permits and approvals to support shippers needs; conducts hazardous materials research; and provides training, technical and grant assistance for States, territories and Indian tribes to supplement programs in hazardous materials emergency preparedness. RSPA also develops safety regulations and standards for oil and natural gas pipelines. RSPA reviews operator incident response plans and exercises and provides technical and grant assistance to States to conduct inspections and improve pipeline safety.

Hazardous Materials Programs

- ***Hazardous Materials (HAZMAT) Safety Program*** identifies hazardous materials and works with shippers and carriers who offer transportation or transport hazardous materials by highway, rail, water or air. In addition, RSPA coordinates its activities with national authorities through the United Nations Committee of Experts on the Transport of Dangerous Goods, especially with Canada and Mexico through the North American Free Trade Agreement, as well as with other Federal departments and agencies, State, and local government agencies. The scope of RSPA's HAZMAT activities include materials classification, packaging, hazard communication, operating practices, response planning, and HAZMAT employee training. The HAZMAT safety program employs risk management concepts. The Hazardous Materials Regulations prescribe, to the maximum extent possible, performance standards that permit the use of long-proven materials and technologies, as well as advanced, state-of-the-art processes and materials developed by the regulated industries that maximize safety while minimizing the cost of compliance.

  During FY 1998, RSPA continued its work to improve safety by developing a notice of proposed rulemaking to comprehensively address requirements for the new manufacture, permitted use, and periodic re-qualification of cylinders authorized for use in the transportation of compressed gases.

  In September 1998, RSPA adapted its current internet communications capability to conduct an electronic public meeting on an advance notice of proposed rulemaking concerning requirements for the transportation of infectious substances and genetically modified-microorganisms.

- ***Hazardous Materials Information*** focus primarily on customer service through its Hazardous Materials Information Center, which assists shippers, carriers, packaging manufacturers, enforcement personnel, and others in their understanding of requirements in order to maximize voluntary compliance. The Center also staffs the statutory mandated toll-free number (1-800-467-4922) to assist shippers, carriers, compliance enforcement officers, and other affected individuals, in their understanding of regulations under certain particular circumstances. In addition, it offers guidance to use when reporting possible violations of any regulation under the Federal Hazardous Material Transportation Law. Regulated hazardous materials include bulk shipments, like gasoline, anhydrous ammonia, and liquid nitrogen, as well as non-bulk shipments, like dynamite, radiopharmaceuticals, and a wide variety of hazardous chemicals used in industrial processes and consumer products.

Pipeline Safety Program

- ***Pipeline Safety Program*** ensures the safe, reliable, and environmentally sound operation of the Nation's pipeline transportation system. This national program regulates the design, construction, operation, maintenance, and emergency response procedures pertaining to natural gas and hazardous liquids, pipeline systems and liquefied natural gas (LNG) facilities. RSPA develops, issues, and enforces pipeline safety regulations.

  During FY 1998, RSPA successfully applied the risk management program framework collaboratively developed with the pipeline industry, State agencies and public representatives. Office of Pipeline Safety (OPS) is now working in partnership with participating companies, developing the foundations of company risk management programs that effectively identify and address the highest risks to safety, the environment, and service reliability. As OPS continues approving companies, more States and communities have the opportunity to participate in finding and addressing the kinds of risks that might have been missed in the past. OPS continues making timely reports on demonstration projects available to the public via its Internet-accessible information system, which receives approximately 450 hits per week from the general public.

  During FY 1998, OPS designed the System Integrity Inspection (SII) Pilot Program, a more broad-based and comprehensive examination of an operators' safety and integrity program than our traditional inspections allow. OPS believes the SII approach can provide a more nationally uniform focus on pipeline safety issues and greater consistency in oversight of the nation's pipelines. It is designed to help OPS consider individual operators' safety and environmental performance system wide by creating a more flexible environment for information exchange. The SII approach will focus on the most significant and potentially high impact safety, environmental, and regulatory issues.

- ***Pipeline Inspections*** of natural gas totaled over 387 and 379 of hazardous liquid pipelines during FY 1998. Other efforts include: damage prevention regulation; and DOT and States efforts to improve damage prevention legislation; and emphasis in our State grant program on improving one-call systems, education and enforcement of existing laws. In August, following passage of One Call legislation within TEA-21, an internal study of damage prevention best practices was initiated to identify and promote methods of reducing damage to all underground utilities. Pipeline operators, other underground utilities, highway departments, railroads, excavators, municipal governments, trade associations, and academia partner with us in this effort.

DOT STRATEGIC GOAL: MOBILITY

Shape America's future by ensuring a transportation system that is accessible, integrated, efficient, and offers flexibility of choices.

DOT's program activities impact our Nation's mobility through a number of common interventions and actions: direct operations (air traffic control or vessel traffic services), infrastructure investment (funding for the National Highway System, grants for transit improvement, and grants for airport improvement), rulemaking (where the adoption of new standards improves the efficiency of transportation), technology (fostering new materials and technologies to enhance mobility), and education (public awareness of transportation alternatives). Some of these interventions and actions reside entirely within the Federal Government, but most involve significant partnering with State and local authorities and with the transportation industry.

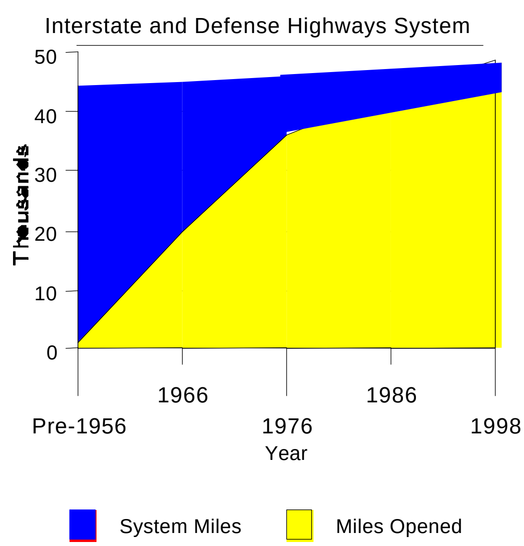
DOT provides national leadership in mobility, integrating the efforts of all partners to advance our common goal of ensuring a transportation system that is accessible, integrated, efficient, and offers flexibility of choices.

HIGHWAY MOBILITY

The program activity used to advance highway mobility reflects the efforts of FHWA. The Intelligent Transportation Systems (ITS) Joint Program Office, funded under FHWA, provides coordination across modal programs to enhance transportation efficiency. FHWA partners with State and other authorities to promote infrastructure development and improvement through direct funding, grants, and technical assistance. FHWA ensures efficient emergency response and restoration of damaged transportation infrastructure due to natural disasters or catastrophic events. FHWA also provides infrastructure support on federal lands.

Federal-Aid Highways and the National Highway System (NHS)

- ***Federal-Aid Highway (FAH) Program*** is the principal program for distributing Federal funds to the States to build and rehabilitate major highways and bridges. The States are reimbursed for eligible work after the work is performed. Federal-aid funding accounts for 99 percent of FHWA's budget authority.



This program provides for construction and preservation of the approximately 42,800 mile National System of Interstate and Defense Highways, generally financed on a 90 percent Federal, 10 percent State basis. It also provides for the improvement of approximately 800,000 miles of other Federal-aid primary, secondary, and urban roads and streets, with financing generally on a 75 percent Federal to 25 percent State basis. The FAH program also funds relocation assistance to those displaced by highway construction; improving access for the handicapped; encouraging the joint use and development of highway corridors; acquiring real property for right-of-way; encouraging disadvantaged business enterprises to participate in highway construction; and preserving public parks and recreation lands, wildlife and waterfowl refuges, historic sites, and the natural beauty of the countryside along highways.

Funding is specified by category in the highway authorization Acts. The major programmatic categories are:

- ***National Highway System (NHS)*** funds construction or reconstruction on about 155,000 miles of the principal highways in the Nation.

  The NHS was created by an Act of Congress in FY 1996. The 155,000 miles were designated in consultation with the States. In FY 1998, total obligations incurred by States for Federal-aid were $3.731 billion and the apportionment of Federal-aid amounted to $4.112 billion.

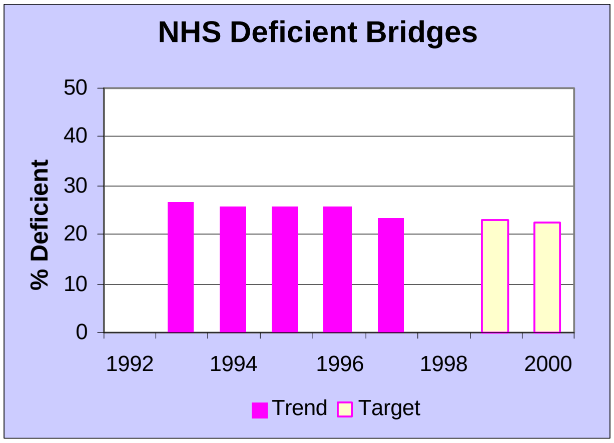
- ***Surface Transportation Program (STP)*** funds a flexible program that allows use of highway funds for a wide range of activities, including transit, safety and transportation enhancements which encompass numerous environmentally-related activities, and bicycle-pedestrian accommodations.

- ***Interstate Construction (IC)*** funds completion of the Interstate Highway System. Currently, 40 States have opened all designated Interstate mileage to traffic. Nationwide, 42,775 miles or 99.9 percent of the 42,795 mile system is open to traffic.

- ***Interstate Maintenance*** funds rehabilitating, resurfacing, restoring and reconstructing older segments of the Interstate Highway.

- ***Congestion Mitigation and Air Quality Improvement Act (CMAQ)*** funds environmental mitigation measures in the Clean Air Act non-attainment areas and STP activities in other areas. It is intended to reduce congestion and improve air quality. From 1992, the initial year authorized, to 1998, authorizations have grown from $340 million to over $1.193 billion annually. The CMAQ program offers States flexibility to fund a wide range of projects--the largest share thus far is funding transit projects (46.8 percent), followed by traffic flow (30.9 percent).

- ***Bridge Replacement and Rehabilitation (BRR)*** funds construction or repair on any bridge. The bridge inventory system has disclosed that for FY 1998 of all the bridges inventoried which are not on the Federal-aid System, 22.3 percent are structurally deficient and 12.3 percent obsolete; on the National Highway System, 6.9 percent are structurally deficient and 16.2 percent are obsolete; and on all other Federal-aid systems, 12.4 percent are structurally deficient and 13.8 percent are obsolete.



Performance Indicator: Reduce the percentage of bridges on the NHS that are deficient.

2000 Goal: 22.5 percent

1999 Goal: Less than 22.8 percent

1998 Performance: 23.1 percent

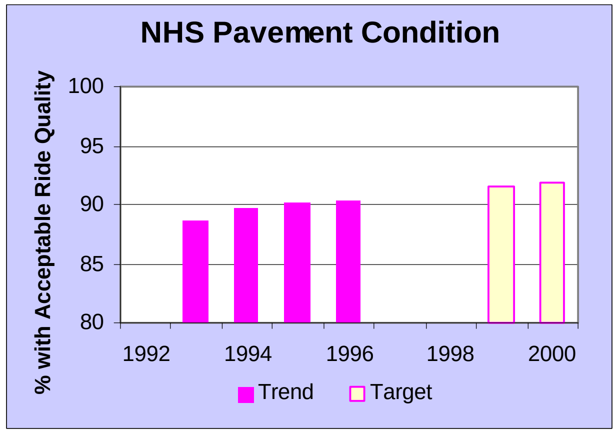
1997 Performance: 23.4 percent

To ensure that the percent of structurally deficient and obsolete bridges grows no larger, it is estimated that $5.2 billion of maintenance would be required each year for the next 15 years.

These six program categories account for about 79 percent ($117.4 billion) of the $142.5 billion for highways authorized by ISTEA and TEA-21 for 1992 through 1998. Much of the remainder of the authorized funding is for special interest projects ($8.8 billion), special State allocations to balance the money flowing into and out of the HTF from each of the States ($17.7 billion), and for several other miscellaneous categories.

America's mobility depends on the condition, service ability and structural integrity of the highway infrastructure, yet there is no national standard for measuring and reporting this information for highway pavement. In 1998, FHWA worked with American Association of State Highway and Transportation Officials (AASHTO) to implement pavement condition protocols (developed in FY 1997) in at least 5 States. FHWA and AASHTO have developed the "AASHTO Provisional Standards for Pavement Condition Data Collection," a method for the States to collect data on pavement rutting, cracking, faulting and roughness.

In preserving and enhancing the infrastructure of Federal-Aid Highways, FHWA continues to work closely with its partners and customers within DOT, in other Federal Agencies, and at the State and local levels of government to carry out the following activities and initiatives.



Performance Indicator: Increase percentage of kilometers (miles) on the NHS that meet the pavement performance standards for acceptable ride quality.

2000 Goal: Increase the percentage to 91.8 percent

1999 Goal: Increase the percentage to 91.5 percent

1996 Performance: 90.4 percent

Pavement condition affects traffic speed, vehicle operating cost, and safety. Improved condition makes travel safer and more efficient. The goal for FY 1999 will be influenced by previous years' funding, and by the funding and activity of State and local authorities. Increasing vehicle miles traveled will accelerate the deterioration of pavement, making this goal a challenge to achieve.

Other Programs

- ***Federal Lands Highway Program*** provides Highway Trust Fund (HTF) financing of the construction and improvement of Indian reservation roads, parkways and park roads, and public lands highways, including forest highways and discretionary public land highway funding. FHWA provides the direct Federal resources to manage this program in conjunction with the Departments of Interior and Agriculture.

  This program also provides direct construction management experience for persons in the FHWA engineering training program. In total, about \$3.1 billion was provided in ISTEA and TEA-21 for this program. FY 1998 authorization was \$536 million.

  In general, projects to be funded each year are selected by the Federal agency with jurisdiction over the Federal lands involved (i.e., the National Park Service with respect to parkways and park roads, the Forest Service for forest highways, and the Bureau of Indian Affairs/Tribal Governments for Indian reservation roads).

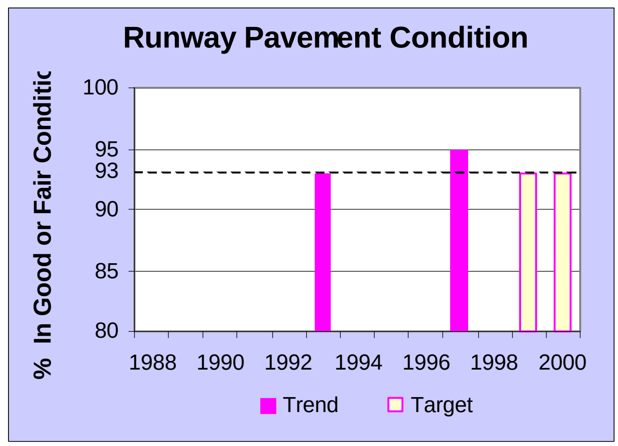
AVIATION MOBILITY

FAA seeks to improve the safe movement of people and goods through integrated processes. FAA manages and supports the operations, facilities, and equipment that provide the air traffic services of the NAS. FAA continues to provide the leadership and support necessary to plan, develop and maintain a system of airports in the U.S. to efficiently transport people and goods by air. FAA further develops and validates technologies, systems, designs, and procedures that directly support DOT's goal of improving mobility through an efficient, safe and broadly based aviation system.

Airport Improvement Program

Maintaining and rehabilitating runways costs less than total reconstruction of runways. Since FY 1995, Airport Improvement Program (AIP) grant recipients have been required to show evidence of an airport maintenance management program, including pavement maintenance.

Although runway rehabilitation is among the highest priorities of FAA's AIP, recipients of AIP grants may use those federal dollars for purposes other than runways. In addition, airports are reluctant to spend their own funds for runway maintenance, when grants are available to rehabilitate deteriorated runways.



Performance Indicator: Maintain in good or fair condition runway pavements at commercial service airports and reliever airports, as well as, selected general aviation airports.

1999 Goal: Maintain at least 93 percent of runway pavements in satisfactory condition.

1997 Performance: 93 percent.

Based on past years' averages, approximately 24 percent of available AIP grant funds will be directed toward runway construction projects. An AIP demonstration program is underway to fund crack sealing at non-primary airports.

Airport Accessibility

Developing aircraft approaches to runways requires accurate survey information for airport runway location and any obstacles near the flight path for approach. To use the approaches, aircraft will have to be equipped with Global Positioning System (GPS) receivers and pilots will require appropriate training. To maximize the benefits to aviation users, FAA will need to develop approaches for airports that have electronic aids and those that don't.

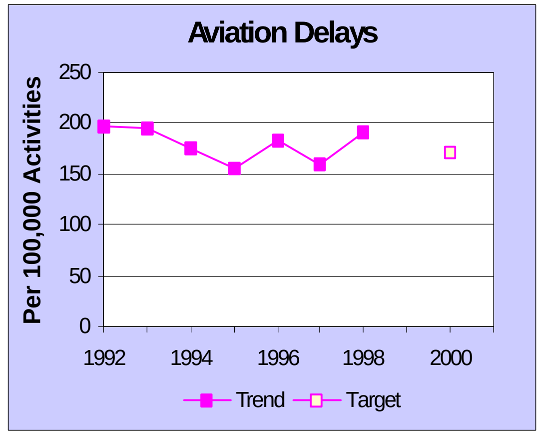
FAA is using automated tools to incorporate airport and obstruction data into the printed approach plates used by pilots. A large number of approaches is being developed each year to ensure that precision approach guidance can be used.

In 1998, 531 GPS procedures were developed, 528 were successfully flight inspected, and 516 were published for operational use, bringing the nationwide total to 1484 standard published instrument approach procedures (SIAPS).

The FAA has identified approximately 4,100 runway ends for which satellite-based approaches will be developed through a combination of GPS, wide area augmentation systems (WAAS), and local area augmentation systems (LAAS).

AIR TRAFFIC CONTROL (ATC) SERVICES

FAA manages and supports the operations, facilities and equipment that provide the air traffic services of the NAS. FAA also continues to provide the leadership and support necessary to plan, develop and maintain a system of airports in the U.S. that efficiently transports people and goods by air. FAA further develops and validates technologies, systems, designs, and procedures that directly support an efficient and safe aviation and space transportation system.



Performance Indicator: Reduce the rate air travel delays by 5.5 percent from 1992-1996 baselines.
2000 Goal: Reduce the number to 171 per 100,000 activities. 1992-96 Performance: 181 delays per 100,000 activities.

Capacity-related delays are most prevalent at large hub airports that have significant constraints on increasing runway capacity. Equipment failures, volume of air traffic, and runway closures are other significant causes of delays.

MARITIME MOBILITY

MARAD, USCG, FHWA, and FRA foster partnerships to identify and develop infrastructure improvements to move freight more efficiently, including improvements in navigation channels and landside access routes to ports and intermodal freight transport systems and partnering with industry and other government organizations reduce barriers to intermodal transportation through adoption of national/international standards.

The USCG provides navigation systems for U.S. waterways, maintains an Aids to Navigation servicing fleet and infrastructure to support a network of floating and fixed aids to navigation; operates and maintains radio-aids to navigation; and operates Vessel Traffic Services in 8 U.S. ports. Additionally, the USCG regulates the construction, maintenance, and operation of railroad, road and highway bridges across navigational waters.

- ***Aids to Navigation Program*** operates and maintains 50,000 Aids to Navigation. These aids consist of both short range and long range aids. Short range aids to navigation such as buoys, signals and lights (including lighthouses) are established and maintained by a fleet of 37 seagoing and coastal buoy tenders. This fleet will be reduced to 30 during the next few years as a new generation of buoy tenders become operational.

  The long range radio-navigation transmitters include Loran and the Differential Global Positioning System.

  The Aids to Navigation Program measure bears on the level of mobility through navigable waterways. It is influenced by program effort, reliability of equipment, and personnel performance. The goal of 99.7 percent lies well above traditional levels of performance, which have ranged between approximately 98.2 percent and 99.2 percent for the last four years. Future measures may center more directly on movement of commerce, or accident prevention.

- ***Ice Operations Program*** uses large polar icebreakers to support the National Science Foundation and Department of Defense icebreaking requirements in the Arctic and Antarctic. Domestic icebreakers facilitate U.S. maritime transportation through ice-laden domestic waters.

  The USCG is the lead Federal agency in managing and operating the Nation's icebreaker fleet.

RAIL MOBILITY

FRA supports National Railroad Passenger Corporation (AMTRAK) as it progresses towards operating self-sufficiency, develops technologies to support high-speed rail, and conducts research and development to support the safe expansion of capacity and improve the performance of the U.S. rail system. FRA is also engaged in the preparation of comprehensive Transportation Plans for the Northeast Corridor (NEC) with Amtrak, commuter operators, State Departments of Transportation and freight railroads. These Plans will continue to analyze capital investment options to insure that intercity passenger trains achieve trip-time goals established by legislation, while at the same time adding a capacity to allow for continued growth in commuter operations.

National Railroad Passenger Corporation (Amtrak)

- ***Grants to the National Railroad Passenger Corporation (Amtrak) Program*** will assist Amtrak's move toward financial stability and very high-quality passenger service. Amtrak was established in 1970 through the Rail Passenger Service Act and is operated and managed by members appointed by the Executive Branch of the Federal Government.

  The Amtrak Board of Directors, led by the Department of Transportation, and the Corporation's managers are committed to reducing Amtrak's net operating loss to zero while maintaining a national passenger rail system. Achieving this goal will require Amtrak to continue its capital investments, improve operating efficiency, increase revenues, provide a higher quality of service, and operate a system that reflects sound market and economic analysis.

As part of the program, FRA evaluates Amtrak's quarterly and year-to-date financial and service performances and projected year-end progress toward attaining a goal of zero Federal operating subsidy by the year 2002. Operating Grants to Amtrak in 1998 totaled $344,000,000 and are derived from general fund appropriations.

The FY 1998 funding is consistent with FRA and DOT's commitments and is demonstrated by Amtrak's efforts to improve performance. FRA has established performance goals that will measure Amtrak progress towards attaining their goals.

Amtrak FY 1998 Performance

Measurements	FY 1998 Goals	FY 1998 Actuals*	Results
Service Quality:			
On-Time performance	84.8%	78.6%	-6.2%
Customer Satisfaction Index	86.0%	84.0%	-2.0%
Complaint Index	80.0%	79.0%	-1.0%
Injuries (reduce 15% per year)	1927	1810	117 fewer injuries
Financial:			
Passenger Miles (million)	5,384	5334	-0.9%
Passenger Revenues**/ (million)	$1,025.8	$1,001.0	-$24.8
Total Revenues (million)	$1,766.2	$1,711.2	-$54.4
Yield (cents)	18.4	17.8	-3.3%
Budget Results (million)	($98.5)	($104.0)	-$5.5
Operating Results	1.48	1.48	0%

*/Represent Amtrak's 12-months preliminary estimates
**/ Excludes 403(b) State payments for capital maintenance.

FRA tracks the findings of the regular scheduled Amtrak customer satisfaction surveys of Federal capital investment in passenger rail mobility – the index components include on-time performance, comfort, ride, quality, and equipment condition. These findings are expressed as a Customer Satisfaction Index (CSI). CSI provides a leading indicator of passenger demand and revenues, providing an indication of Amtrak's progress towards operating self-sufficiency (a key desired outcome of Federal capital investment). From an index baseline of 76 percent in FY 1995, it is expected that the CSI will improve to 87 percent by FY 1999. The FY 1998 goal is 86 percent. The preliminary CSI for FY 1998 is 84 percent. Based on this preliminary data Amtrak is expected to reach its goal of 86 percent for the 1998 calendar year.

Northeast Corridor Improvement Program (NECIP)

- ***Northeast Corridor Improvement Program (NECIP)*** began as a $2 billion program to upgrade Amtrak's main line between Washington, DC and Boston, MA. Amtrak's main line between Washington, DC and Boston, MA is divided into two segments-- Segment One: Washington, DC to New York City, NY and Segment Two: New York City, NY to Boston, MA. Upgrading the rail lines for these segments will help Amtrak improve trip-time and passenger capacity along the Northeast Corridor.

  FRA's current goal is to complete the NECIP by the year 2000 and ensure that it matches world standards. Part of the NECIP is to have Amtrak achieve its goal of a 3 hours trip-time between New York City, NY and Boston, MA by the year 2000. When this program is completed, rail passenger service along the entire 457 mile corridor between Washington, DC and Boston, MA will rank among the premier rail service in the world.

An essential component of achieving 3-hour travel times between New York City, NY and Boston, MA is the introduction of tilting high-speed all-electric trainsets. Approximately 18 percent of fabrication work is completed and 99 percent of design work is completed. Full trainset testing will begin in January 1999.

The first high-speed trainset is due to begin limited revenue service in October 1999. Full revenue service over the entire Northeast Corridor is scheduled for July 2000. This schedule will permit the significant reduction of New York City, NY and Boston, MA trip-time, but achievement of the 3-hour performance goal will depend on factors beyond the trainset project.

Several construction projects have already been started along the corridor. These projects include track improvements, upgrades to control systems, fencing and grade crossing elimination, and improvement to service facilities and stations. Over 40 percent (New Haven to Boston segment) of the electrification needed to achieve 3-hour service between New York City, NY and Boston, MA is completed. Electrification of the total Northeast Corridor (New York to Boston segment) is on schedule to be completed during FY 1999. During FY 1998, FRA tracked Amtrak's work-season performance towards completing the Northeast Corridor. Based on preliminary data Amtrak is expected to meet its 1998 goals.

NECIP Performance 1998 Work Season

Goals	Work Season Performance*
Complete 14,000 Catenary Pole Foundations	12,498 Catenary Pole Foundations completed
Set 8000 Catenary Poles	6,611 Catenary Poles set
Set 5,700 Cantilever Arms	4,109 Cantilever Arms set
String 1,500,000 ft of Messenger & feeder Wire	1,239,217 ft of Messenger & Feeder Wire strung

*The FY 1998 work season includes data for the period January 1998 – July 1998.

TRANSIT MOBILITY

Transit investment improves the quality of life for over 80 million Americans who live in transit-intensive urbanized areas and many rural Americans who depend on transit for basic mobility. Ten million people rely on transit every day to get to jobs, schools, stores, and health care facilities. Another 25 million use transit less frequently, but on a regular basis. In many cases, the elderly, persons with disabilities, and the economically disadvantaged are the ones who most rely on transit for their basic mobility.

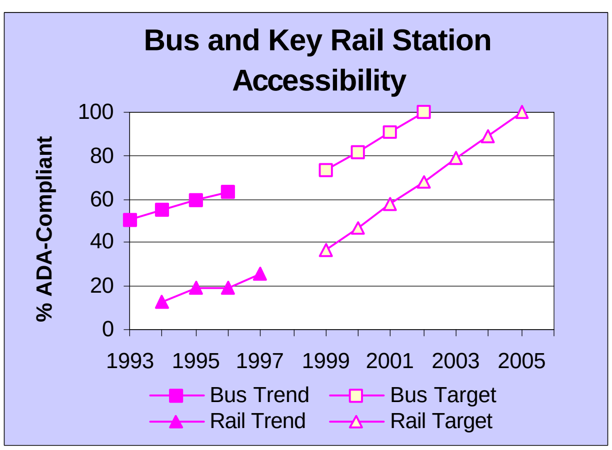
By providing basic mobility to millions of American workers, by contributing to the revitalization of urban neighborhoods, and by saving America approximately $15 billion a year in costs associated with traffic congestion, transit is proving to be a wise investment with multiple benefits to society.

Accessibility

Eighty million Americans live in transit-intensive urban areas and benefit from transit. Among the Americans who use transit are the senior citizens who may be unable to drive automobiles. Americans who live below the poverty line also rely on transit as their primary means of transportation. Nationally, only six percent of those on welfare own an automobile. Finally, transit is important to Americans with disabilities. Many of these individuals are unable to drive a car and need access to a dependable transit system.

- ***Americans With Disabilities Act (ADA).*** Since the ADA enactment in 1990, FTA has been working to make public transit bus, rail and paratransit service accessible to persons with disabilities. One major goal in this effort is to make the national fixed-route bus system 100 percent lift- or ramp-equipped by 2003. Prior to enactment in 1990, approximately 35 percent of the buses in the active fleet of over 50,000 transit vehicles were lift-equipped, and many of the lifts did not work.

  Since 1993, the percentage of accessible fleet buses has increased from 50 percent to 63 percent in 1996. By the end of 1999, nine years after enactment, the active fleet is projected to be approximately 73 percent lift or wheelchair ramp equipped. FTA will influence the goal through Federal transit infrastructure investments, which speeds the rate at which transit operators can transition to ADA compliant facilities and equipment.



Performance Indicator: Increase the percentage of bus fleet and key rail stations are compliant with the Americans with Disabilities Act.

2000 Goal: 82 percent of bus stations and 47 percent of key rail stations will be ADA compliant.

1999 Goal: 73 percent of buses will be accessible (lift or wheelchair- equipped) and 37 percent of key rail stations will be accessible.

1996 Performance: 63 percent of bus stations and 19 percent of key rail stations were ADA compliant.

Infrastructure Investment

- ***Average age of bus and rail fleets in years*** is one indicator of the condition of the rolling stock and transit infrastructure in general. It has limitations, however, as the age of rolling stock is not necessarily a clear indicator of condition. FTA is working on data that more directly measure the condition of rolling stock and facilities.

  For optimal performance, the average age of the bus and rail car fleets should be about 6 and 12.5 years, respectively. In 1996, the average ages of transit buses and rapid rail cars were 8.4 years and 20.1 years, respectively. Since there is a 2 to 4 year lag from the time an obligation is made to purchase a bus to its delivery to the transit operator, these figures indicate the increase in capital funding initiated in FY 1993 appears to be bringing down the average age of the bus fleet. Rail cars are replaced on a less consistent basis than buses due to the relative small size of the rapid rail fleet.

Performance Indicator: Reduce the average age of bus and railcar fleets in years.
2002: Achieve Motor Bus average age of 7.5 years or lower and maintain Rapid Rail Cars average at 22.6 years while sustaining or expanding service. 1996 Performance: 8.4 years was the average ages of Motor Buses and 20.1 years for Rapid Rail Cars. 1995 Performance: 8.1 years was the average averages of Motor Buses and 19.3 years was the age for Rapid Rail Cars.

Older transit vehicles provide less reliable service and comfort to passengers, and are less energy and pollution efficient. Older transit vehicles also have higher maintenance costs, so average age is a proxy for operating costs. The five-year trend line in age of rail fleet increased between 1991 and 1995; average age has been somewhat stable. DOT's goal is to maintain the average rail fleet age and achieve a lower average bus age.

Increased funding provided in TEA-21 will result in a slightly faster replacement of the motor bus fleet. However, because of a trend toward investing more heavily in bus facilities, we expect that additional funding will only have a modest effect on average fleet ages.

DOT Strategic Goal: Economic Growth and Trade

Advance American's economic growth and competitiveness domestically and internationally through efficient and flexible transportation.

DOT's program activities impact our Nation's competitiveness and prosperity through a number of common interventions and actions: direct operations (such as efficient air traffic control or vessel traffic services), infrastructure investment (funding for the National Highway System), grants for transit improvement, grants for airport improvement, rulemaking (such as allocation of airport slots or the elimination of trade barriers), technology (fostering new materials and technologies to enhance the efficiency and flexibility of transportation operations); and transportation-related education and public awareness. Some of these interventions and actions reside entirely within the Federal Government, although most involve significant partnering with State and local authorities and with the transportation industry. DOT provides national leadership in guiding transportation's contribution to economic growth and trade, integrating the efforts of all partners to advance our common goal – advancing American's economic growth and competitiveness through efficient and flexible transportation.

Infrastructure Investment

FHWA partners with States and other authorities to promote infrastructure development and improvement through direct funding, grants and technical assistance. The DOT Joint Program Office coordinates work on Intelligent Transportation Systems (ITS) and other cross-modal initiatives designed to reduce highway congestion and improve safety.

- ***Intelligent Transportation Systems (ITS) Program*** is designed to research, develop, and operationally test advanced vehicle and highway systems; develop an automated highway system; and promote such technology as a means to increase the efficiency of the Nation's highways.

  The program funds States, local governments, and private entities to develop and test new technologies, processes, procedures, and other activities that have the potential to enhance the efficiency of transportation infrastructure (e.g., increase the capacity of an existing highway by increasing the average speed), or improve operations of the vehicle using the infrastructure. ISTEA and TEA-21 provided about $730 million in contract authority for 1992 through 1998 ($95 million was authorized in 1998 for ITS standards and research, and $101 million for deployment).

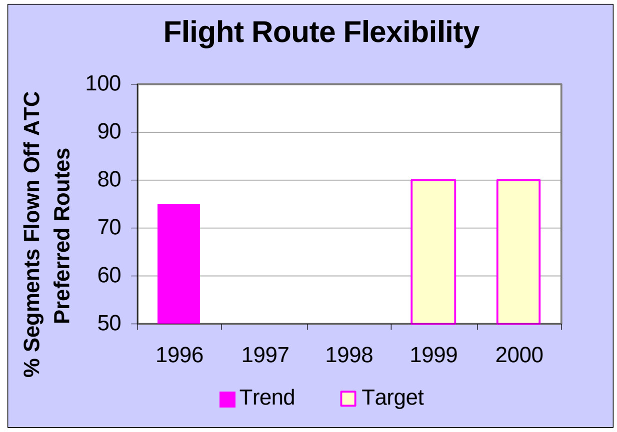
  Over the life of ISTEA and TEA-21 the ITS program has tested and proved the viability of numerous technologies and applications. Over 83 operational tests, 28 of which are completed, are demonstrating the viability of first generation ITS technologies and services. We are now seeing products and services refined by operational test program--such as Boston SmarTraveler's real-time travel information service or Help, Inc.'s Pre-Pass electronic clearance system for trucks--become self sufficient and competitive in the marketplace.

AIR TRAFFIC CONTROL (ATC) SERVICES

With Free Flight Phase I, FAA is aiming to improve the spacing of traffic streams into major airports and maximize the use of available capacity. FAA is also developing improved weather reporting.

Some of FAA's current and ongoing activities include: (1) Bringing on-line and making operational air traffic control (ATC) equipment and aeronautical navigation equipment now being delivered as part of the modernization of the ATC system;
(2) Replacing the aging computer equipment at all en route centers with the display system replacement (DSR), and in terminal facilities with the standard terminal automation replacement system (STARS). This new equipment will further reduce the number of outages, reduce delays, and allow optimum use of capacity to accommodate growth in operations; (3) Developing and exploiting Global Positioning System (GPS) satellite navigation; (4) Implementing, at various locations, new procedures that take advantage of additional runway and airport capacity increases; (5) Deploying prototype automation tools, such as the passive final approach spacing tool (pFAST), to aid in evaluating the final approach environment, provide sequencing of departures, and increase airport acceptance rates; (6) Replacing obsolete long range radar with an all solid-state system that offers enhanced range, extended coverage, and vastly improved weather detection;
(7) Developing the integrated terminal weather system (ITWS) to link all relevant weather data available in the terminal area; and
(8) Deploying improved weather systems, such as the terminal doppler weather radar (TDWR), automated surface observing system (AWOS), and the weather radar processor (WARP) to detect and mitigate the impacts of weather.

There are significant savings for longer routes, but the shorter routes are not as likely to benefit because of the limitations while climbing from or descending to an airport. Growth in aviation increases the complexity of air traffic control and makes it more difficult to allow flights off the preferred routes.



Performance Indicator: Increase the number of flight segments that aircrafts are able to fly off ATC preferred routes.

2000 Goal: 80 percent

1999 Goal: 80 percent

1996 Performance: 75 percent

DOT is implementing the Free Flight Phase I program to allow greater use of direct routes. The enhanced software tools and the Conflict Probe software allows controllers to better project future flight paths and maintain separation for flights off the preferred routes.

Some of FAA's current and ongoing activities include: (1) Implementing, by the year 2002, the core capabilities of Free Flight Phase I in partnership with the users and FAA labor organizations; (2) Beginning evaluation of two-way probe capability at both Indianapolis and Memphis centers; (3) Awarding the hardware procurement contract for the pFAST to aid controllers in making decisions more efficiently regarding the sequencing and runway assignment of terminal arrival aircraft; (4) Awarding the hardware procurement contracts for the traffic management advisor (TMA) to aid controllers in the sequencing and spacing of en route arrival aircraft; and (5) Deploying the surface management advisor (SMA) at Detroit Metro and Philadelphia airports to facilitate the sharing of information to airlines and to enhance decision making regarding the surface movement of aircraft.

MARITIME VESSEL TRAFFIC SERVICES

The USCG conducts a domestic ice operations program to free vessels beset in ice, establish and maintain ice-free tracks, and escort commercial vessels through ice in the Great Lakes and the Northeast. This action speeds the movement of goods and improves the reliability of commerce – a major economic mission of the Coast Guard. Through icebreaking, certain vital industries are able to avoid more expensive transportation modes and costly overstocking of needed material to carry them through the ice season. The USCG also provides Aids to Navigation (see Maritime Mobility Section referenced on page 31), which improve the speed and reliability of vessel movement.

- ***Ice Operations Programs*** provide capability to support national defense, scientific research and other national interests in Polar Regions. Domestic icebreakers facilitate U.S. maritime transportation through ice-laden domestic waters. In 1997, this program provided services and assets to assure the safety operation of vessels that carried more than 95 percent of maritime traffic.

SHIPBUILDING COMPETITIVENESS GLOBALLY

MARAD's shipbuilding and trade strategic goal guides the agency in carrying out its mission by assisting U.S. shipyards in becoming more competitive in the world shipbuilding markets.

- ***Maritime Guaranteed Loan (Title XI) Program*** promotes the growth and modernization of the U.S. merchant marine fleet and U.S. shipyards in support of MARAD's shipbuilding strategic goal. The program enables companies to obtain long-term financing from the private sector on terms and conditions and at interest rates that may otherwise be unavailable in the commercial market. Under the Title XI Program, the Federal Government guarantees full payment to the lender of the unpaid principal and interest in the event of default. Funds guaranteed under this program are obtained from the private sector to aid in U.S. shipyard construction and reconstruction of merchant vessels and U.S. shipyard modernization projects.

Beginning in FY 1992, the Credit Reform Act required MARAD to obtain appropriations to cover the estimated subsidy cost of new Title XI Loan Guarantees. Appropriations are also required to fund administrative expenses. An appropriation of $32 million was approved for FY 1998 subsidy costs and $3.725 million for administrative expenses. In FY 1998, approvals of $734 million were issued for Title XI financing. As of September 30, 1998, Title XI loan guarantees in force totaled approximately $2.89 billion, covering approximately 731 vessels. MARAD had one default in FY 1998.

MARAD's Title XI Program helps to improve the U.S. shipbuilding competitiveness globally and meets our national security needs. Since 1994, this program has issued approval for 366 ship construction projects and 6 shipyard modernization projects, together totaling over $2.9 billion. Nearly 37 percent of the amount approved has been for eligible export vessels. Continued financing of shipyard modernization projects through the Title XI program will directly aid in furthering the transition of U.S.

shipyards from military to commercial shipbuilding.

INTERNATIONAL MARITIME TRADE

- ***Capital Construction Fund (CCF) Program*** supports MARAD's shipbuilding strategic goal by assisting operators to accumulate their own capital in order to build, acquire, and reconstruct vessels through the deferral of Federal income taxes on eligible deposits. Operators may defer taxes on funds deposited in the CCF and withdraw the money at a later date to build or acquire vessels. In general, the taxable income of the operator is reduced to the extent deposits of money are made into the fund. The outstanding fund balances amounted to $1.1 billion at the end of FY 1998, with 142 fund holders. There have been cumulative deposits of $6.5 billion since program inception to accomplish construction and acquisition programs.

- ***Ocean Freight Differential (OFD) Program*** supports MARAD's trade strategic goal to guide the agency in carrying out its mission to increase the U.S. maritime industry's participation in foreign trade. In general, a portion of all exports of food and humanitarian assistance paid for by the Department of Agriculture and the Agency for International Development must be shipped on U.S. flag vessels.

  The Government pays the differential between shipping costs on U.S. flag vessels and foreign flag vessels. P.L. 99-198 increased from 50 to 75 percent the amount of agricultural commodities under specified programs that must be carried on U.S. flag vessels. In general, the differential shipping costs are covered by the Federal agency shipping the goods, but MARAD is required to reimburse the Department of Agriculture for ocean freight differential costs for the added tonnage above 50 percent but not exceeding the additional 25 percent. These reimbursements are funded through borrowing from the Treasury.

  During the past eleven years, MARAD reimbursed the Department of Agriculture $388 million for its OFD obligations. This resulted in just over 15 million metric tons of additional agricultural food aid cargo for U.S. flag carriers at an average OFD rate of $26 per metric ton.

RAIL TECHNOLOGY

FRA will support the National Railroad Passenger Corporation (Amtrak) as it progresses towards operating self-sufficiency, and develop technologies to support high-speed rail. More specifically, FRA is engaged in the preparation of comprehensive Transportation Plans for the Northeast Corridor (NEC) with Amtrak, commuter operators, State Departments of Transportation and freight railroads. These Plans will insure that intercity passenger trains achieve trip-time goals established by legislation, while at the same time adding capacity to allow for continued growth in commuter operations.

Performance Indicator: Increase the percentage (system wide) of Amtrak trains arriving on time.
1999 Goal: 87 percent 1998 Performance: 78.6 percent

National Railroad Passenger Corporation (AMTRAK) Program

FRA's financial assistance to railroads principally involves grants to the Amtrak for operating expenses, capital projects, and infrastructure improvements on the rail corridor between Boston, MA and Washington, DC. Grants assist Amtrak's move toward financial stability and very high-quality passenger service.

Technologies to Support High-Speed Rail

As of July 1998, $431 million has been spent (51 percent of cost baseline and 44 percent of current cost estimate). Approximately 18 percent of fabrication work is completed and 99 percent of design work is completed. Work at the Ivy City equipment maintenance facilities is ahead of schedule and car bodies are being assembled at Barre, VT. High horsepower locomotive tests will begin at the Pueblo, CO, Test Center where the equipment is 90 percent fabricated. Full trainset testing will begin January 1999.

The first high-speed trainset is due to begin limited revenue service in October 1999. Full revenue service over the entire Northeast Corridor is scheduled for July 2000. This schedule will permit the significant reduction of New York City, NY and Boston, MA trip-time, but achievement of the 3-hour performance goal will depend on factors beyond the trainset project.

Several construction projects have already been started along the corridor. These projects includes track improvements, upgrades to control systems, fencing and grade crossing elimination, and improvement to service facilities and stations. During FY 1998, FRA tracked Amtrak's progress of the Northeast Corridor.

GRANTS FOR TRANSIT IMPROVEMENTS

FTA will provide investment in transportation infrastructure and technologies to address changes in travel demands, improve the reliability of equipment, reduce travel time, and reduce the real cost of transit. FTA will invest in infrastructure to improve intermodal connections and reduce delays due to intermodal transfers. These actions will advance efficiency of transit and help support the economic growth in areas served.

Accessible, integrated, efficient, and flexible transportation is an enabler of economic growth and trade and is another way the DOT can influence the true economic cost of transportation.

Economic Growth and Competitiveness Domestically and Internationally

One of transit's most important benefits is its ability to move many people efficiently and to reduce the economic costs of congestion. Congestion annually costs more than $40 billion in lost time and fuel in our major metropolitan areas. Without transit, the nationwide costs in these metropolitan areas would be $15 billion higher. Transit takes drivers off the road and improves the commute times of transit riders and automobile users alike. Targeted investments in high-quality transit in strategic corridors can significantly improve overall door-to-door travel times for both transit and highway users.

FTA will provide investments in transportation infrastructure and technologies to address changing travel demands, improve the reliability of equipment, reduce travel time, and reduce the real cost of transit. FTA will invest in infrastructure to improve intermodal connections and reduce delays due to intermodal transfers. These actions will advance efficiency of transit and help support the economic growth in areas served.

FTA's ultimate goal is to increase the amount of transit service supplied Vehicle Revenue Hours one percent per year. As a measure of transit service supply, revenue vehicle hours are a reasonable indicator of the degree to which transit is generating mobility and accessibility benefits.

Performance Indicator: Increase the total transit revenue hours of service (rail and non-rail).
2002 Goal: At or about 209 million transit revenue vehicle hours.
1999 Goal: Increase by one percent per year the amount of transit service supplied.
1995 Performance: 183 million transit revenue vehicle hours.

Investments in transit infrastructure ensure transit succeeds in meeting all of its strategic goals. Analysis of the 1995 National Transit Database (NTD) shows that the national transit infrastructure consists of 135,564 total transit vehicles, 9,582 miles of rail track, 2,620 rail stations, and 1,165 maintenance facilities.

FTA estimates that an investment of $9.7 billion each year over the next 20 years will be required to maintain the Nation's transit facilities and equipment in their current state of repair and to meet projected increases in travel demand. To improve the condition and performance will require an annual investment of $14.2 billion. Funding at this level would increase the comfort and frequency of transit service. Most rush hour riders would be guaranteed seats and would experience shorter waiting times for buses and trains. In FY 1997, FTA's programs funded the following major types of capital investment: $762 million for 7,021 new buses and vans, $820 million for bus facilities and equipment, $352 million for new and renovated rail cars, $1.66 billion for "older" fixed-guideway repair and rehabilitation, and $922 million for the construction of new fixed-guideway systems.

In 1996, Federal funds accounted for 50 percent of total transit capital investment, with State and local sources providing the remainder.

- ***Full Funding Grant Agreements (FFGAs)*** were awarded valued at over $2.7 billion for new fixed guideway construction (four additional FFGAs). These projects include an aggregate local commitment of over $700 million and an overmatch of $200 million, indicating a strong, long-term local commitment to the provision of high-quality public transit service. Since January 1993, FTA has signed FFGAs for 21 projects totaling $8.3 billion. When State and local funds are also considered, these projects will result in the investment of over $14 billion in new mass transit infrastructure. Due to FTA's long term commitment to new starts, directional route miles on rail transit have grown from 5,761 miles in 1985 to 8,206 miles in 1995, a growth rate of 4.2 percent per year.

GARRET A. MORGAN TECHNOLOGY AND TRANSPORTATION FUTURES PROGRAM

Research and Special Programs Administration (RSPA) is the lead Operating Administration within DOT for Garret A. Morgan Technology and Transportation Futures Program, an education outreach program targeted at students of all ages. The program is accomplished through a broadreaching DOT effort that involves every Operating Administration and OST office. RSPA also oversees the University Grants Program, which provides funding grants for transportation-related studies across the Nation.

- ***Garrett A. Morgan Technology and Transportation Futures Program*** was built on partnerships with transportation and education communities. This program features four key components: improving student's math, science and technology skills; strengthening the links between the transportation sector and community colleges, junior colleges, and technical schools; expanding transportation programs at undergraduate and graduate institutions; and easing the transition from school to work in the transportation field. The life-long learning component will stimulate collaborative partnerships to ensure the availability and accessibility of continuing education programs for transportation professionals. The Program was recognized in Colin Powell's America's Promise Report Card as one that will help fulfill its commitment by reaching 250,000 students.

Through this program, we intend to reach students of all ages through specific activities, such as internships, job shadowing, career days, video conferences, classroom visits, teacher externships and website visits that inform them of the opportunities available in the transportation field and ensure they have the skills and knowledge required for transportation jobs. We will develop a database to count the number of students participating in the program, using report forms submitted by our employees and our partners. By leveraging our resources with those of our partners in the transportation and education communities, our goal is to reach 350,000 in calendar year (CY) 1999 and 1 million by end of CY 2000.

SURFACE TRANSPORTATION BOARD (STB)

The STB promotes substantive and procedural regulatory reform in the economic regulation of surface transportation, and provides a forum for dispute resolution and facilitation of appropriate business transactions. In performing its mission, the STB will continue to streamline case processing and applicable regulations, to ensure that market-based transactions in the public interest are facilitated in a forum for efficient dispute resolution and application of legal and equitable principles, and to develop new opportunities for various sectors of the industry to work together to find creative solutions to persistent industry and/or regulatory problems.

During FY 1998, STB took over 1200 actions, involving adjudications and rulemakings, resolving or otherwise acting upon matters such as rail consolidations, abandonments, and line constructions and sales; review of rail labor arbitral decisions; and rail rates and services. Some of these actions also related to motor carrier undercharge rate cases, intercity bus mergers and pooling matters, motor collective ratemaking, and non-rail rate matters, such as pipeline rate cases. In performance of its goals, the STB has issued several rulemakings streamlining regulations and the regulatory process including rail rate and exemption proceedings, expediting rail line abandonments and discontinuance proceedings, and exempting selected commodities and services from economic regulation.

With respect to rail restructuring, the STB issued a decision approving the control of Conrail by CSX and Norfolk Southern railroads, with various competitive, environmental, labor, and operational reporting and monitoring. The STB continued its annual oversight of the Union Pacific/Southern Pacific merger and initiated a proceeding focusing on rail transportation in the Houston area. The STB has continued its proceeding dealing with the rail service emergency in the West. With regard to rate complaints, the STB affirmed its decision in Arizona Public Services Company that certain rates for the movement of coal were unreasonably high, prescribing a rate that represents a 35 percent reduction from the rate earlier charged by Santa Fe railroad. The STB also issued a decision permitting Amtrak to transport express traffic over rail lines provided that this transportation is ancillary to genuine passenger service. The STB has established a joint task force with the Department of Agriculture to address shipper and railroad information needs relating to recurring seasonal problems affecting grain transportation.

DOT STRATEGIC GOAL: HUMAN AND NATURAL ENVIRONMENT

Protect and enhance communities and the natural environment affected by transportation.

Transportation makes our communities more livable, enhancing the quality of our lives and environment. Transportation generates undesired consequences too, such as pollution, congestion, and the use of valuable land. DOT's objective is to advance the benefits of transportation while minimizing its negative impacts on our environment through a number of common interventions and actions: infrastructure investment (such as community focused transit development, investments in low-emissions transit vehicles, and the creation of meaningful alternatives to auto use, such as transit, walking paths and bikeways,) rulemaking (such as standards and regulations to reduce spills of transported material), compliance (enforcement and partnering to achieve standards), technology (fostering new materials and technologies to limit aircraft noise and lower vehicle emissions), and education (such as consumer awareness and campaigns to influence personal behavior). DOT programs can be aggregated into five major areas of environmental intervention and action: highway & transit, aviation, maritime (including pollution reduction and living marine resource protection), pipeline & hazardous materials.

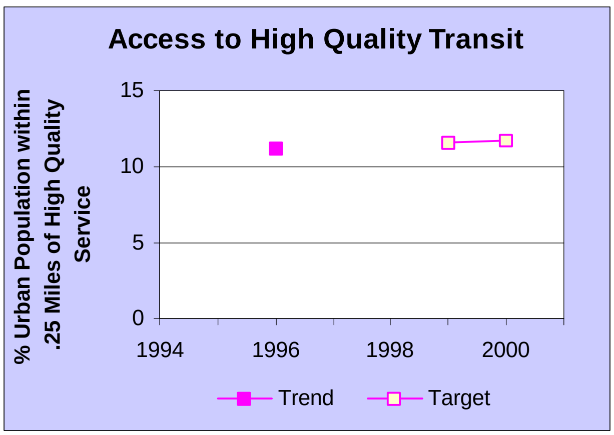
HIGHWAY & TRANSIT

FHWA and FTA will partner with States, Metropolitan Planning Organizations, urban centers, and communities to strengthen the links between transit, highway, and communities, as reflected in sustainable transportation and land use decisions, improved options of transportation, and reduced environmental impacts. Livable Communities activities stress planned and designed, community-oriented, and customer friendly transportation facilities and services. For FTA, a key supporting activity will be ongoing capital investment in transit infrastructure. FHWA implements and oversees the Congestion Mitigation and Air Quality (CMAQ) Improvement Program, which targets transportation investment to reduce mobile source emissions and to reduce congestion. FHWA supports research on transportation and air quality analysis, develops/provides information on effective approaches to improve air quality, and evaluates emissions impacts and cost-effectiveness of transportation. FHWA also works to mitigate the environmental impacts of highway siting and improve wetland habitats. NHTSA's Partnership for New Generation Vehicles (PNGV) initiative advances our understanding of the relationship between vehicle design characteristic, vehicle crash-worthiness, and occupant protection. This will ensure that the increased fuel efficiency and reduced emissions of PNGV-developed vehicles are achieved without compromising safety.

Livable Communities

Transit's role in advancing our human and natural environment is strongest where pedestrian access to transit and other services reached by transit enable households and businesses to function with reduced use of the automobile (livable communities). Livable community benefits depend on transit's ability to serve as a desirable alternative to the automobile for a variety of trip purposes, particularly non-work trips, and to influence development patterns in a way that results in shorter trips and more walking trips.

- ***Livable Communities Initiative*** works to improve the quality of life in communities through an active and participatory planning process which results in transit facilities that are customer-friendly and community-oriented, and which promote local land-use and transportation policies supportive of transit. At present there are projects in 21 communities totaling over $51 million. Thirteen projects are within National Empowerment Zones/Enterprise Communities (EZ/ECs) with a total investment of over $32 million. In addition, FTA continues to work with communities on transit-oriented development land use planning, sustainable transportation, and smart growth issues. The concepts embodied in the Livable Communities effort have been incorporated into the planning process that is part of all new starts projects.



Performance Indicator: Increase the percentage of the urban population living within .25 miles or a public transit stop with service frequency of 15 minutes or less (non rush hour).
2000 Goal: 11.68 percent 1999 Goal: 11.56 percent 1996 Performance: 11.22 percent

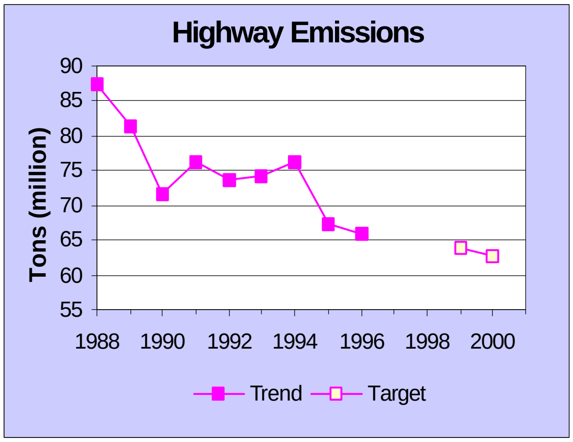
Congestion Mitigation Air Quality (CMAQ) Improvement Program

FHWA implements and oversees the CMAQ Improvement Program, which targets transportation investment to reduce mobile source emissions and reduce congestion. FHWA supports research on transportation and air quality analysis, develops/provides information on effective approaches to improve air quality, and evaluates emissions impacts and cost-effectiveness of transportation.

- ***CMAQ Improvement Program*** funds environmental mitigation measures in the Clean Air Act non-attainment areas and Surface Transportation Program (STP) activities in other areas. It is intended to reduce congestion and improve air quality. Since 1992, the initial year authorized, to 1998, obligations have grown from $340 million to over $1.192 billion annually. The CMAQ program offers States flexibility to fund a wide range of projects-- the largest share thus far is funding transit projects (46.8 percent), followed by traffic flow (30.9 percent).

Other Highway Programs

A transportation/air quality public education campaign was implemented in 3 pilot sites across the country in September. In addition, preliminary studies were done to identify examples of Federal-aid highway projects involving efforts to characterize, protect, and restore important habitat and ecosystem linkages. The FHWA has identified a variety of activities carried out by our field offices and the State DOTs including the identification, documentation, and mitigation of impacts to significant wildlife habitats and wildlife travel corridors. Identification of these projects and activities indicate that the Federal-aid highway program has included, and continues to include measures to evaluate, protect, restore and enhance ecosystems, particularly their values and functions.



Performance Indicator: Reduce on-road mobile source emissions.
2000: Reduce by 2 percent from 1999, to a target of 62.7 million tons. 1996 Performance: 65.9 million short tons of mobile source emissions (mobile source emissions of carbon monoxide, hydrocarbons, nitrogen oxides, and PM-10) as reported in the latest Trends Report (January 1998).

RAIL

During FY 1998, FRA also continued to work with other Federal agencies, the rail industry, and States to assure that reasonable air quality standards for locomotives are developed by Environmental Protection Agency (EPA). FRA has worked with the EPA to ensure that Amtrak and commuter railroads were not unduly burdened by regulations and final rules issued by the EPA. As a result of FRA's efforts, the EPA granted passenger rail service providers five additional years to comply with the emission standards; agreed to work with DOT and rail passenger service providers to ensure reasonable compliance cost; and agreed to develop a mechanism rewarding existing and continuing investments in electrification.

FUEL EFFICIENCY AND REDUCED EMISSIONS

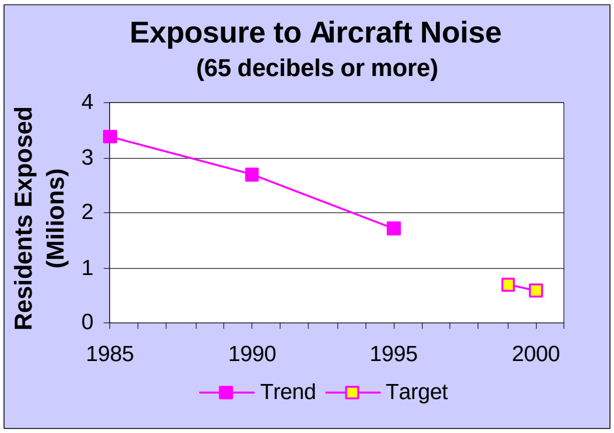
NHTSA's Partnership for New Generation Vehicles (PNGV) initiative advances our understanding of the relationship between vehicle design characteristic, vehicle crash-worthiness, and occupant protection. This will ensure that the increased fuel efficiency and reduced emissions of PNGV-developed vehicles are achieved without compromising safety.

- Vehicle Safety Standards Program seeks to improve the crash avoidance and crashworthiness performance of motor vehicles through regulatory and non-regulatory alternatives. The program responds to rulemaking petitions and uses real world crash data, testing information, and studies on the costs of vehicle safety systems to support the development of and amendments to Federal motor vehicle safety standards (FMVSS).

AIRCRAFT NOISE

The FAA provides grants-in-aid for the mitigation of the noise impacts of aviation, such as soundproofing of residential and public buildings, and relocation assistance. The FAA also conducts research into the reduction of aviation noise.

The level of noise at the Nation's airports and surrounding areas continues to decline as airlines take older, noisier airplanes out of service. In a Report to Congress released in September 1998, the FAA reported that the proportion of quieter airplanes used by U.S. airlines increased from 75.5 percent to 79.8 percent. The improvement largely reflects compliance by the airlines with legislation passed in 1990 requiring that older, noisier airplanes be replaced by quieter airplanes by the year 2000.



Performance Indicator: Reduce the number of people in the U.S. exposed to significant aircraft noise (Decibel Noise Level of 65 dB or greater).
2000 Goal: Reduce by 64 percent 1999 Goal: Reduce by at least 60 percent from the 1995 baseline. 1995 Performance: Approximately 1.7 million.

MARITIME SPILLS

The USCG develops construction and operating standards for the waterborne shipment of goods that help prevent the accidental release of these goods into the environment; conducts over 50,000 inspections annually to ensure that U.S. and foreign vessels and waterside facilities are maintained and operated in a proper manner; and responds to oil and chemical spills to mitigate the environmental impact. The USCG also works to reduce the number of marine accidents through improved standards for commercial vessels and crew, and research to reduce the risk of maritime pollution.

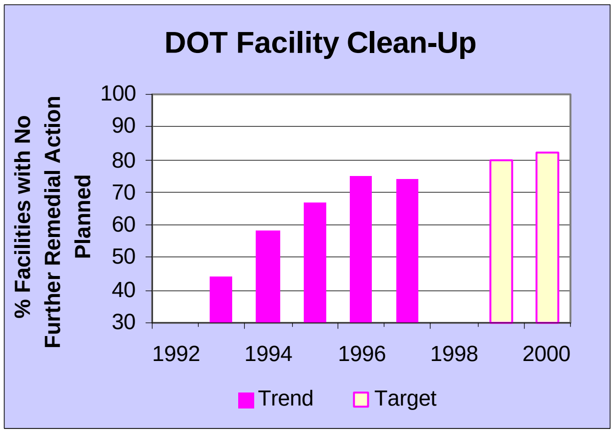
- ***Marine Environmental Protection Program*** goal is to minimize damage from potential spills of oil and hazardous materials. As one of the program's responsibilities, the USCG administers the Oil Spill Liability Trust Fund.

Oil Pollution Act of 1990 (OPA) specifies that the responsibility for cleaning up oil spills lies with the spiller; however, Congress appropriates $50 million annually for emergency response to oil spills. This includes government costs for USCG or EPA responses when the spiller cannot be identified or does not respond. The balance of the $1 billion in the Fund is available to adjudicate and pay claims for specific types of losses attributable to a spill.

The USCG also oversees the development and approval of industry plans for the cleanup of oil spills, as required by the OPA. It represents the Department of Transportation in the development of a multi-agency National Contingency Plan for responding to oil spills.

During FY 1998, the USCG managed over 1220 active cases, including many begun in prior years. FY 1998 commitments for removal efforts for these cases totaled $50.7 million and another $6.0 million was spent to adjudicate and pay claims.

A major responsibility of the USCG is the enforcement of the International Convention for the Prevention of Pollution from ships, known as MARPOL. Included in this enforcement mandate are oil pollution, noxious liquid pollution, and plastic garbage pollution.



Performance Indicator: Reduce the rate of oil spilled into the water by maritime sources.
2000 Goal: 4.83 gallons/million gallon shipped. 1999 Goal: 5.04 gallons/million gallons shipped. 1997 Performance: 1.37 gallons/million gallons shipped. 1996 Performance: 6.66 gallons/millions gallons shipped.

DOT STRATEGIC GOAL: NATIONAL SECURITY

Advance the Nation's vital security interests in support of national strategies such as the National Security Strategy and National Drug Control Strategy by ensuring that the transportation system is secure and available for defense mobility and that our borders are safe from illegal intrusion.

DOT programs impact national security through a number of common interventions and actions: direct operations (such as operating vessels and conducting law enforcement), infrastructure investment (such as more secure facilities design and materials), rulemaking (such as equipment or training standards), compliance (enforcement and partnering to achieve standards), technology (fostering new materials and technologies to enhance security), and education (such as consumer awareness, and campaigns to influence personal behavior). Some of these interventions and actions reside entirely within the Federal Government, but many involve partnering with State and local authorities and the transportation industry. DOT programs that are designed to impact our national security can be aggregated into three major areas of: highway, aviation, and maritime (including defense readiness and law enforcement).

HIGHWAY INFRASTRUCTURE INVESTMENT

The FHWA and the Military Traffic Management Command agreed to address a number of issues, which were mutually determined to be of highest priority in national defense mobility coordination. The measure of success for this goal is appropriately their level of satisfaction with the resolution of a number of factors which include the (1) Improvements of the capacity and operation of the highway system to support mobilization; (2) Increased level of satisfaction of Department of Defense (DOD) partners with highway transportation services to support mobilization initiatives and; (3) Initiation of activities to update State Emergency Highway Traffic Regulation (EHTR) plans.

AVIATION TECHNOLOGY

FAA develops regulations, sets technical standards, inspects for compliance, investigates incidents, and provides intelligence analysis relating to aviation security. FAA also conducts airport vulnerability assessments and facility risk assessments, researches and develops aviation systems security technology, and provides enforcement activity.

The FAA works with local security, intelligence, and law enforcement agencies to protect passengers, personnel, aircraft, and critical national airspace facilities against terrorist and other criminal acts. Threats are monitored continuously and, when necessary, the FAA orders heightened precautions. As part of a massive overhaul of the U.S. aviation security system, the FAA has deployed nearly 400 trace detection devices and 62 certified explosive detection systems at airports nationwide. In addition, the number of canine teams, trained to search out hidden explosives, has grown from 87 teams at 26 airports in 1996 to 140 teams at 38 airports. In May 1998, the FAA announced that it is introducing a new computer-based tool to help airlines improve the selection and training of employees who operate the X-ray screening checkpoints at the Nation's busiest airports. The new system will be available in up to 79 airports by year-end 1998.

Along with these initiatives, the FAA has a cadre of 130 security inspectors who oversee the movement of hazardous materials by air. Trained both in hazardous materials regulations and cargo security procedures, these agents work to prevent the transportation of dangerous goods in a manner that could jeopardize flight safety.

MARITIME OPERATION OF VESSELS

The mission of Maritime Administration (MARAD) is to build on our maritime heritage and strengthen the maritime industry for the continued security and prosperity of the Nation. MARAD advances the capability of the maritime industry to provide total logistic support to military services during war or national emergencies by maintaining an inactive National Defense Reserve Fleet, including a surge component, the Ready Reserve Force, to support emergency and national security sealift needs, undertaking emergency planning and coordination, promoting port and intermodal development; administering war risk insurance; operating the U.S. Merchant Marine Academy; and providing support to six State/Region maritime colleges.

- ***Maritime Security Program (MSP)*** provides funding to maintain a U.S. flag merchant fleet crewed by U.S. mariners to serve both the commercial and national security needs of the U.S. Payments are made to U.S. carriers for 47 dry cargo ships ($2.1 million per ship per year) employed in U.S. international liner trades. This program is authorized through FY 2005, and is subject to annual appropriations. In exchange for the payment, the U.S. carrier agrees to provide Department of Defense (DOD) with "assured access" to modern and efficient U.S. flag commercial liner ships and intermodal equipment and systems, including terminal facilities. The MSP also provides a base of experienced U.S. merchant mariners to transport DOD contingency and sustainment cargoes anywhere in the world.

MSP FINANCIAL HISTORY[1]
As of October 1, 1998

FY	96	97	98	99	00	01 - 05
Requested	100	54	35.5	97.65	98.7	98.7/YR
Enacted	46	54	35.5	89.65	TBD	TBD
$$ Available	46	100	92.3	97.65	TBD	TBD
Payout	0	43.2	81.4	TBD	TBD	TBD
Carry Over	46	56.8	8*	TBD	TBD	0

The MSP was enacted into law in the first quarter of FY 1997. A carryover of $46 million unobligated from FY 1996 combined with the FY 1997 appropriation of $54 million became available to commence funding the MSP in FY 1997. For certain vessels, the commencement of MSP payments was dictated by the timing of reflagging to U.S. registry or the termination of existing Operating Differential Subsidy (ODS) contracts. Consequently, phase in of the MSP has been gradual. MARAD made MSP payments of $81.4 million in FY 1998 and anticipates payment of $98.3 million for FY 1999, assuming ODS transition schedules remain as anticipated. The estimated total of MSP outlays through FY 2005 will be approximately $818 million, which is

[1] Total 10 Year Payout=Approximately $818 million (18% under $1.0 billion)

18 percent less than the 10 year authorized level of $1 billion provided in the Maritime Security Act of 1996. The primary focus of the MSP is the achievement of MARAD's national security strategic goal. In addition, the mariners serving on board the MSP fleet help ensure a skilled American mariner workforce to crew U.S. ships in emergencies. MARAD is pursuing a two-pronged strategy to achieve its national security strategic goal which emphasizes provision of a relatively modest amount of Federal maritime support dollars to carefully selected carriers in order to retain "assured access" to a world-class U.S. flag intermodal sealift capability at the lowest possible cost.

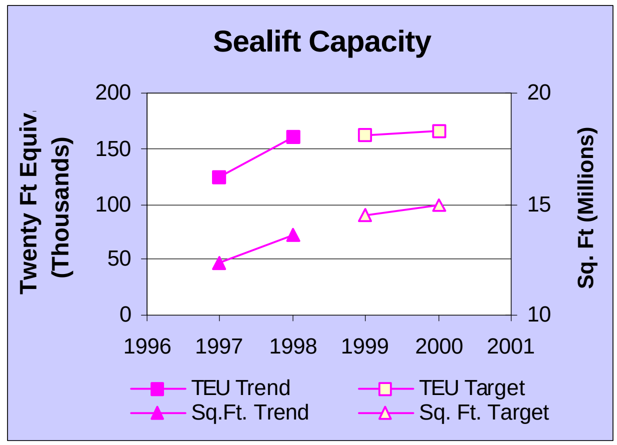
Without this capacity, the Nation's vital national military and economic interests would be compromised as it would be prohibitively expensive for the government to own sufficient shipping resources to sustain projected U.S. military operations in an emergency. In FY 1998, MARAD, in partnership with DOD's U.S. Transportation Command launched the Voluntary Intermodal Sealift Agreement (VISA) to provide a contractual mechanism for the U.S. Government to obtain assured access to commercial sealift resources during emergencies. These synergistic programs, combined with the U.S. Government's reserve sealift fleets, will ensure that sufficient resources will be available to meet DOD surge and sustainment requirements.

Performance Indicator: Increase the twenty-foot equivalent units (TEUs) capacity of ships or square feet of sealift capacity enrolled in the Maritime Security Program and Voluntary Intermodal Sealift Agreement.

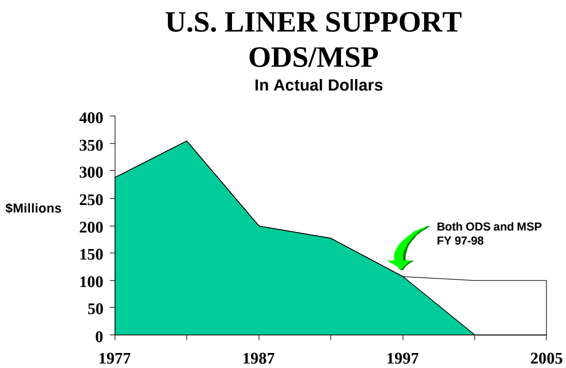
1999 Goal: Capacity of 165,000 TEUs or 14.5 million square feet.

1998 Performance: Capacity of 160,852 TEUs of 13.6 million square feet.

1997 Performance: Capacity of 124,000 TEUs or 13.0 million square feet.



- ***Operating Differential Subsidy (ODS) Program*** provides subsidies to U.S. ship operators to place U.S. flag vessels on a parity with those of foreign competitors. These are 20 year contracts between the Federal Government and subsidized vessel operators. Subsidy is provided for wages in all cases, and maintenance and repair and insurance costs in some cases. Appropriations are provided to liquidate contract authority. Payments were about $37.7 million in FY 1998 and will continue at a declining level until FY 2003 as existing contracts expire and final accounting and contract reconciliation occur.



Current law requires that most subsidized ships be built in U.S. shipyards. The statutory life of ODS ships is 25 years for dry cargo ships and 20 years for tankers. Currently there is 1 liner operator with 2 vessels and 3 bulk operators (7 vessels) under subsidy. The ODS program, which is the predecessor of the MSP, is being phased out as the MSP is implemented. The Federal Government's level of direct financial support to the U.S.-flag liner industry is clearly being reduced from the expiring ODS program to the new MSP program, while maintaining a core U.S.-flag liner fleet and American seafarers serving in international trade.

INACTIVE NATIONAL DEFENSE RESERVE FLEET AND READY RESERVE FORCE PROGRAMS

- ***National Defense Reserve Fleet (NDRF) and Ready Reserve Force (RRF) Programs'*** primary focus is on the achievement of MARAD's national security strategic goal. NDRF retention ships, except the RRF component, are in a deep lay-up condition. The 220 ships in the NDRF can be activated to help meet U.S. shipping requirements during a national emergency above which the RRF and commercial fleets can satisfy. Of the 220 NDRF ships, 72 non-retention ships are being held, slated for disposal. NDRF ships are preserved and maintained by MARAD. MARAD spends about $287 million annually to maintain the NDRF, which is valued at $894 million. The NDRF ships are primarily cargo ships and tankers.

- ***Ready Reserve Force (RRF)*** was established in 1976, as a subset of the NDRF. Of the 220 ships currently in the NDRF, 91 are RRF ships. RRF ships are upgraded and maintained to be fully operational and tendered to the DOD within 4 to 30 days after notification.

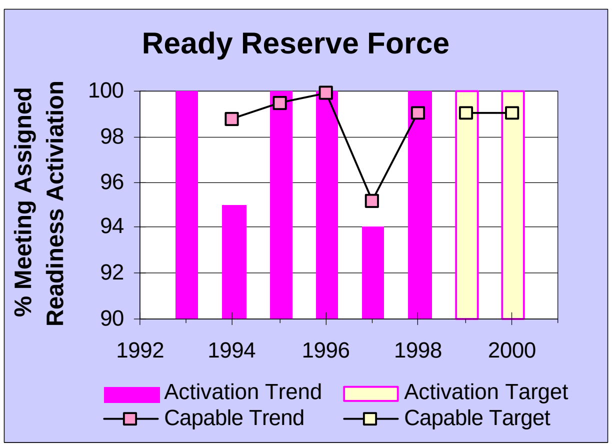
RRF	FY 1998 Actual	FY 1999 Goal
# of Sea Trials	57	62
# of Ships	91	91
Funding[1]	$310	$271.4

[1] (Dollars in Millions)

The RRF is composed of special types of cargo ships, not available on short notice from the commercial fleet. The RRF is structured to transport Army and Marine Corps unit equipment and initial resupply for armed forces deploying anywhere in the world during the critical initial period before adequate numbers of commercial ships can be obtained.

All RRF vessels must have both a high degree of military utility and a significant remaining useful life. MARAD contracts with commercial U.S. ship managers for maintenance and repair, activation, manning, and operation of the RRF. The readiness of the RRF program is tested regularly through non-notice activation of randomly selected ships, or through scheduled activation for military cargo operations or exercises. The first large-scale activation of the RRF was to support Operation Desert Shield/ Desert Storm. This activation led to renewed interest in the importance of the RRF program to the national military strategy and resulted in additional funding for maintenance and testing, as well as, for the use of Reduced Operating Status (ROS) merchant crews on high priority ships to further elevate their state of readiness.

The NDRF/RRF program is currently funded by DOD through the National Defense Sealift Trust Fund. MARAD and DOD have established excellent financial management relations to ensure DOD requirements are met at the best cost possible.



Performance Indicators: Provide reserve strategic sealift resources to meet DOD surge and other National security requirements by:

(1) Percentage of Ready Reserve Force non-notice activations which meet assigned readiness activation, and
(2) Percent of days each ship is mission-capable while under DOD control.

1999 Goal: (1) 100 percent
(2) 99 percent

1998 Performance: (1) 100 percent
(2) 98.8 percent

1996 Performance: (1) 100 percent
(2) 99.9 percent

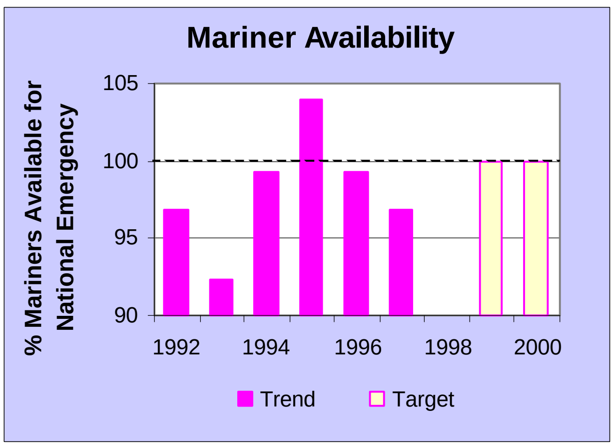
USCG Defense Readiness Program

- ***USCG Defense Readiness Program*** provides unique capabilities for national defense that does not duplicate the other armed forces. By statute, the USCG may become a part of the Department of the Navy upon the declaration of war by the Congress. In FY 1997, the USCG received approximately $300 million from the DOD budget for this mission. Activities include joint exercises with the Navy, port security, and training and assisting the Navy with overseas deployments such as the Gulf War.

  USCG is a multi-missioned maritime service and one of the Nation's five Armed Forces. Unlike the other military services, the USCG does not concentrate primarily on the role of national defense. Drawing upon its other missions, the USCG must have operating units with the combat capability necessary to function as an armed force.

Maritime Education and Training

MARAD provides world-class maritime education and training at the U.S. Merchant Marine Academy at Kings Point, NY and provides Federal support for six State/Region maritime academies through direct payments to the schools, incentive payments to cadets and maintenance and repair of ships provided to the schools as primary training aids. Support for the education and training of U.S. citizen seafarers helps to meet MARAD's national security strategic goal by ensuring that American mariners with appropriate skills are available to crew commercial and government-owned cargo ships in times of national emergencies.



Performance Indicator: Increase the percentage of mariners available compared to mariners needed to crew combined sealift and commercial fleets during national emergencies.

FY 1999 Goal: 100 percent

FY 1997 Performance: 96.9 percent

War Risk Insurance Fund (WRIF) Program

- ***War Risk Insurance Fund (WRIF) Program*** encourages continued flow of U.S. foreign commerce during periods when commercial insurance cannot be obtained on reasonable terms and conditions to protect vessel operators and seamen against losses resulting from war. This program offers the advantage of avoiding the high rates charged by commercial insurers, which DOD or other Federal agencies would have to pay when chartering or hiring shipping into certain areas. During the Operation Desert Shield/Desert Storm of 1990-1991, MARAD's Title XII War Risk Insurance Program saved the U.S. Government in excess of $436 million in higher cost commercial insurance premiums. To provide higher readiness to meet emergency requirements, MARAD also administers a stand-by War Risk Insurance Fund Program. As of September 30, 1998, there were 267 binders on vessels and barges providing eligibility for hull protection and indemnity and Second Seamen's war risk insurance. One new assured received six binders during FY 1998. The WRIF total available funding was approximately $29.0 million. During FY 1998, $1.4 million in investment income and had a total expense of about $58 thousand.

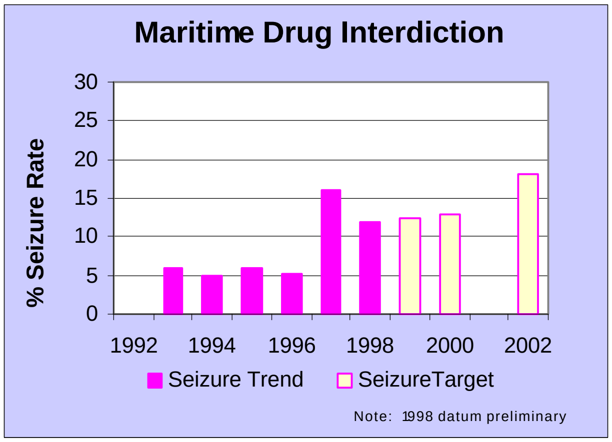
Enforcement of Laws and Treaties Program

- ***Enforcement of Laws and Treaties Program*** involves enforcement of all Federal laws on the highseas subject to U.S. jurisdiction and on U.S. flag vessels anywhere in the world. USCG vessels and aircraft interdict drug smugglers and illegal immigrants and enforce U.S. fisheries regulations. In 1997 alone, the USCG intercepted 2,100 illegal migrants and interdicted 205,000 pounds of illegal drugs.

USCG Drug Smugglers Interdictions

The USCG works with other Federal departments and agencies, including the Departments of Commerce, Justice, Treasury and Defense in carrying out this program. Of particular interest are three bases in the Caribbean, which the USCG operates, with the Drug Enforcement Agency (DEA) and the Bahamian Government. These bases, jointly known as Operation Bahamas, Turks and Caicos (OPBAT), are manned by USCG personnel. The OPBAT mission is to capture and arrest drug smugglers.

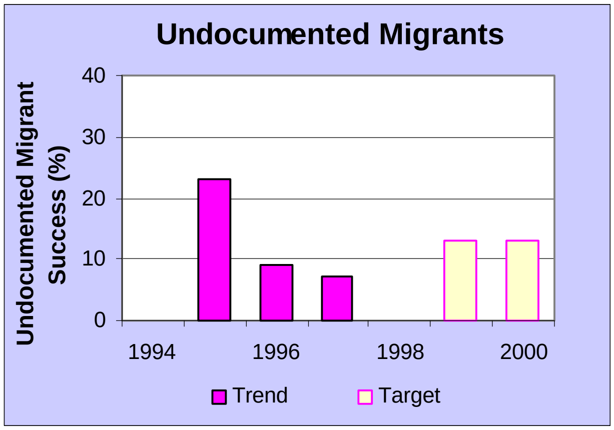
In FY 1998, the USCG and the other agencies involved in the war against drugs mounted two major operations: Operation Gulf Shield and Operation Border Shield. These two operations involved saturating two areas off the Texas and California shores with air, shore and surface assets. So far these operations proved to be extremely successful. Also, in August 1998, the USCG acting in concert with the Customs service seized 5,149 tons of cocaine from the Motor vessel ISANAR.



Performance Indicator: Increase the seizure rate for illegal drugs.	
2002 Goal: 18 percent 2000 Goal: 13 percent 1999 Goal: 12.5 percent 1995-97 Performance: 8.7 percent	

USCG Illegal Immigrants Interceptions

The USCG intercepts illegal immigrants off the U.S. coastal waters. In 1997 alone, they intercepted 2,100 illegal migrants. Undocumented migrant success rate is equal to the estimated number of illegal migrants entering the U.S. via maritime channels divided by the number of potentially bound for the U.S. via same channels.



Performance Indicators: Restrain the flow of undocumented migrants by reducing the success rate.	
1999 Goal: 13 percent 1995 Performance: 23 percent	

BUREAU OF TRANSPORTATION STATISTICS (BTS)

The Intermodal Surface Transportation Efficiency Act (ISTEA) established the Bureau of Transportation Statistics (BTS) in DOT. The mission of BTS is to compile, analyze, and make accessible information on the Nation's transportation systems; to collect information on intermodal transportation and other areas as needed; and to enhance the quality and effectiveness of the statistical programs of DOT through research, the development of guidelines, and the promotion of improvements in data acquisition and use. Key customers served by BTS are Federal, State, and local governments; transportation-related associations and the broader transportation community; private business and industry; and consumers.

BTS develops and disseminates transportation knowledge to enable good decisions to be made quickly, while using appropriate data. Decisions made based on the transportation information provided impact areas such as transportation infrastructure investment, policies and planning, as well as economic policy, safety, national defense, and national welfare.

OFFICE OF INSPECTOR GENERAL (OIG)

The Inspector General (IG) Act of 1978, as amended, established the Office of the Inspector General (OIG) as an independent and objective unit within the Department. The OIG is committed to fulfilling its statutory mission and assisting the Secretary and senior department officials in achieving a visionary and vigilant DOT. As prescribed by the Inspector General Act, the OIG (1) conducts and supervises independent and objective audits and investigations relating to the programs and operations of the Department; (2) promotes economy, effectiveness, and efficiency within the Department; (3) prevents and detects fraud, waste, and abuse in Departmental programs and operations; (4) receives, and as appropriate, investigates complaints from any person or entity, including Congress; (5) reports violations of law to the U.S. Attorney General; (6) notifies the Secretary of Transportation and Congress of serious or flagrant problems in DOT or its programs; (7) reviews existing and proposed legislation and regulations; (8) keeps the Congress and Secretary fully informed about problems and deficiencies and the necessity for and progress of corrective actions; (9) protects the identity of whistleblowers; and (10) prepares and submits semiannual reports to the Congress and Secretary.

In addition to fulfilling its statutory mission, the OIG is committed to advancing the Department's "ONE DOT" management strategy (see page 4). The OIG is fully supportive of the Secretary's three major priorities to: (1) improve safety; (2) enhance strategic investment in transportation infrastructure; and (3) achieve common sense government. The OIG designs its work to assist the Secretary in achieving these priorities as well as the five goals established in DOT's Strategic Plan.

Also, the OIG works closely with DOT officials to find solutions to problems, identifies actions that will make DOT programs more efficient, and assists in overseeing the implementation of DOT regulations.

To assess the outcome and effectiveness of OIG performance in terms of meeting our statutory responsibilities, we have adopted all of the performance measures developed by the President's Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE). In addition to the PCIE performance measures, we expanded the Advisory Functions measure to track Freedom of Information Act requests, Congressional and other requests for information, proactive initiatives, and Congressional testimony provided. We have also added a measure to track our annual performance agreement tasks and activities in support of DOT's five strategic goals and six corporate management strategies. These measures assess the outcome and effectiveness of OIG performance in terms of meeting its statutory responsibilities and are focused on quantitative results. The OIG will continue to redefine and expand these measures in the future to capture OIG's support of the Secretary's goals, DOT's Strategic Plan, and our success in preventing problems and acting proactively. The OIG's current performance measures are listed below with FY 1998 results:

- ***Statistics Defined by the IG Act and Related Performance Information*** capture results from investigations and audits.

Investigative Results	FY 1998
Indictments	104
Convictions	120
Fines	$5.5
Court Ordered Restitutions/Civil Judgments	$6.5
Recoveries	$9.8
Years Sentenced	119.5
Years Probation	220
Debarments and Other Administrative Actions	141

(Dollars in Millions)

Audit Results	FY 1998
Costs Questioned/Funds to be Put to Better Use	$1,072.3

Management Decisions to Seek Recoveries	$742.1
CFO Audit Adjustments	$98,084.3

(Dollars in Millions)

- ***Non-Monetary Program Improvements*** measure implementation of the IG Act requirement to provide policy direction for Agency programs and operations.

Non-Monetary Program Improvements	FY 1998
Recommendations Issued	226
Recommendations Resolved	268

- ***Performance Agreement Results*** measure the implementation of our annual performance agreement tasks and activities in support of DOT's five strategic goals and six corporate management strategies.

Performance Agreement Results	FY 1998
Number of Performance Agreement Items	33
Number Initiated	33
Number Completed	23

- ***OIG Advisory Functions*** measure implementation of the IG Act requirement to keep the Secretary and Congress informed of problems and deficiencies, review existing and proposed legislation and regulations, as well as measuring requests for technical assistance by DOT agencies, participation in PCIE-initiated projects, Freedom of Information Act requests, Congressional and other requests for information, proactive initiatives, and Congressional testimony provided.

Advisory Functions	FY 1998
Proactive Functions Completed (PCIE Projects, Training DOT employees)	93
Congressional Testimony	14
Inquiries Received	446
Inquiries Completed	384
FOIA Requests Received	139
FOIA Requests Processed	200
Legislation Reviewed	61
Regulations Reviewed	67

- ***Hotline Complaints*** show the implementation of the IG Act requirement to receive and investigate complaints or information concerning possible violations of laws, rules or regulations, waste, abuse, or dangers to the public health and safety.

Hotline Results	FY 1998
Hotline Complaints Received	482
Reviewed by OIG	171
Referred to Operating Administrations or Other Agencies*	311

* OIG tracks the disposition of these complaints

FINANCIAL MANAGEMENT PERFORMANCE HIGHLIGHTS

DOT's budget is supported primarily by two types of revenue sources: (1) trust funds and direct receipts, and (2) general funds. Trust funds derive from revenue from special fees, such a motor fuel taxes and airline ticket taxes. More than two-thirds of the Department's funding is derived from trust funds and other fees. The two largest trust funds, the Highway Trust Fund and the Airport and Airways Trust Fund, account for most of DOT's funding and support the Department's programs for maintaining and improving transportation infrastructure. General revenue funds are obtained from the general taxes of the United States.

TRANSPORTATION EQUITY ACT FOR THE 21ST CENTURY (TEA-21)

On June 9, 1998, the President signed into law the Transportation Equity Act for the 21st Century (TEA-21) authorizing highway, highway safety, transit, and other surface transportation programs for the next 6 years. TEA-21 builds on the initiatives established in the Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA). This new Act combines the continuation and improvement of current programs with new initiatives to meet the challenges of improving safety as traffic continues to increase at records levels, to protect and enhance communities and the natural environment while providing transportation, and to advance America's economic growth and competitiveness through efficient and flexible transportation.

Significant Features of TEA-21 include:

- ✓ Assurance of a guaranteed level of Federal funds for surface transportation through FY 2003.
- ✓ Extension of the Disadvantaged Business Enterprises program.
- ✓ Strengthening of safety programs across DOT.
- ✓ Continuation of the program structure established under the ISTEA legislation and addition of new programs.
- ✓ Investment in research and its application.
- ✓ Extension of the highway-user taxes through September 30, 2005, at the same rates in effect prior to TEA-21 enactment.

Significant Features of TEA-21 Financing Include:

- ✓ ***Guaranteed Spending Levels*:** Highway and transit discretionary programs are guaranteed a floor (a minimum level of spending) by new budget categories which effectively establish a budgetary "firewall" between each of those programs and all other domestic discretionary programs.
- ✓ ***Authorizations and Spending:*** The minimum level of spending for highways is keyed to the projected receipts of the Highway Account of the Highway Trust Fund and will be

adjusted as new receipt projections and actual receipts become available. The guaranteed funding for transit programs has a single component—the minimum level of spending amount—which is not keyed to Trust Fund receipts.

- ✓ ***Increases and Decreases:*** A portion of any increase in receipts to the Highway Account is reserved for the Federal-aid highway and highway safety construction programs allocated by the Secretary of Transportation—programs that are not apportioned by statutory formula. Should decreases be necessary, the reductions would be made in succeeding fiscal years and applied proportionally to all Federal-aid highway and highway safety construction programs except Emergency Relief.

- ✓ ***Obligation Limitations:*** Spending limitations are applied to most programs. However, obligation limitations set aside each year for certain programs do not expire if not used by the end of the fiscal year, but can be carried over to future years.

INNOVATIVE FINANCING

DOT continues to build on opportunities provided by transportation legislation by using innovative financing techniques that move construction projects ahead faster, cut red tape, and supplement Federal funds with private and non-Federal public investment. The Transportation Infrastructure Finance and Innovation Act (TIFIA) of TEA-21 will continue this practice by filling gaps in market funding and leveraging additional non-Federal resources. It will provide Federal assistance to major transportation projects of critical national importance, or which cross jurisdictions or traditional modal boundaries and sometimes have trouble getting funded despite their value. This will be done through direct Federal loans, loan guarantees, and standby lines of credit. Project selection is based on the extent to which it generates economic benefits, leverages private capital, and promotes innovative technologies.

Another major innovative financing initiative is State Infrastructure Banks (SIBs). SIBs use Federal seed capital to leverage private investment through loans and credit enhancement assistance, and are meant to serve as ongoing, revolving loan funds. As projects are implemented, loans are repaid to the SIB, and the proceeds are used for new projects in a continuing cycle. Previously 35 States were authorized to capitalize SIBs. TEA-21 establishes a new SIB pilot program for 4 more States.

AUDITED FINANCIAL STATEMENTS

For FY 1997 DOT prepared its second audited consolidated financial statement which presented to the American public a comprehensive overview of DOT's major programs, overall financial position, and resulting benefits and services.

The separate Saint Lawrence Seaway Development Corporation financial statement, prepared per the requirements of the Government Corporation Control Act, received a clean opinion, as it has since its inception.

The separate Highway Trust Fund financial statement, which accounts for approximately 60 percent of the Department's current budgetary resources, received a qualified opinion from the OIG. It would have received an unqualified opinion for the second year in a row barring problems with Treasury records (outside the control of DOT) resulting in the OIG being unable to obtain independent verification or otherwise satisfy themselves as to the reasonableness of trust fund revenues at Treasury.
The separate Federal Aviation Administration (FAA) financial statement

received a disclaimer of opinion due primarily to weaknesses relating to supporting records for property, plant and equipment and operating materials and supplies. Similar problems exist with the Coast Guard, where problems were also noted with the actuarial liability for post-retirement health care benefits and military retirement pay.

The problems encountered in the separate DOT financial statements impacted the DOT consolidated financial statement as such that it received a disclaimer of opinion. DOT continues to take necessary corrective actions on identified findings to move towards unqualified audit opinions.

FY 1997 was the first year for which the OIG also reviewed DOT compliance with the provisions of the Federal Financial Management Improvement Act (FFMIA) of 1996. The OIG viewed DOT as not in substantial compliance with FFMIA, mainly due to unfinished work relating to FAA and Coast Guard property and inventory, weaknesses in Departmental Accounting and Financial Information System (DAFIS) support of financial statement balances, Coast Guard actuarial liability problems, and uncompleted Year 2000 assessments. Year 2000 assessments have now been reported to OMB as completed. Remedial plans for the remaining items have been developed and actions are in progress to bring DOT into compliance with FFMIA.

Financial Statement Progress

	FY 92	FY 93	FY 94	FY 95	FY 96[2]	FY 97
Financial Statements						
Prepared	9	9	9	8[1]	4	4
Audited	4	5	9	8	4	4
Results of Audits						
Opinions: Unqualified	1	1	2	4	2	1
Qualified	--	1	2	3	--	1
Disclaimed	3	3	5	1	2	2

[1] Only eight FY 1995 statements were prepared and audited because, in FY 1994, Washington Metropolitan Area Transit Authority refinanced its debt eliminating any federal liability and reporting responsibility.

[2] Coverage of DOT accounts changed from FY 1995 to FY 1996 with the Government Management Reform Act requirement that financial statements, beginning with FY 1996, be prepared and audited for all DOT activities instead of trust, revolving, and commercial funds only. Except for three stand-alone statements, the FY 1996 consolidated financial statement replaced most individual statements reducing the number of statements from eight to four.

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT

DOT has one outstanding material weakness reportable under the Federal Managers' Financial Integrity Act of 1982 (FMFIA). DOT's Intermodal Data Network which connects local area networks within DOT agencies was found vulnerable to unauthorized access. This material weakness was identified in FY 1996 and was considered on target for correction as of December 1998. Appropriate procedures have already been established, and all that remains is to finalize security directives and disaster recovery plans.

FMFIA Section 2: Material Weaknesses Pending
Intermodal Data Network vulnerability to unauthorized access.
FMFIA Section 4: Material Noncoformances Pending
None

We reported an additional material weakness for FY 1998 concerning FAA headquarters' Property Management Program. Many improvements have been made in FAA's property area. We conducted physical inventories and have been reconciling the property systems with the general ledger accounts in DAFIS. We are continuing to develop detailed support files for work-in-process, and have provided tools for FAA personnel to assist in the reconciliation of all property accounting systems.

The General Accounting Office, in a report entitled "Air Traffic Control: Weak Security Practices Jeopardize Flight Safety," included 14 recommendations. Three of the recommendations pertained to the physical security of FAA facilities and most of the remaining 11 recommendations addressed information systems security for National Airspace Systems. We are working to ensure these weaknesses are corrected. Additionally, certain physical security vulnerabilities at the FAA Logistics Center's warehouse in Oklahoma City were identified during the past year. Structural and procedural changes have been effected to mitigate these vulnerabilities.

Finally, we have been working hard to set up and reinforce internal controls throughout the department to eliminate fraud. The FAA Central Region had an embezzlement of funds over an extended period, which a national review team determined was primarily due to deviation from the prescribed internal control systems and procedures that were adequate to safeguard Government assets. A plan was developed to rectify this situation, and an on-site evaluation in December 1997 ensured that procedures were being administered effectively.

YEAR 2000 (Y2K)

The Year 2000 program is a top priority in the Department. In January 1999, the Department reported 53 percent of its mission-critical systems were Year 2000 compliant. Of those systems requiring repair (307), 24 percent completed the implementation phase; 79 percent completed the validation phase; and 98 percent completed the renovation phase.

Due to the complex nature of various FAA systems, such as the National Airspace System, and the magnitude of the testing process, FAA does not project completion of validation activities for many of its systems until March 1999. Completion of implementation activities is expected in June

1999. FAA has accelerated schedules for 42 of its systems, and will continue to look for acceleration opportunities. Senior management in DOT and FAA continue to aggressively monitor progress in this area.

Over the past year, DOT-wide financial systems have made considerable progress in remedying their Year 2000 deficiencies. By the end of 1998, all four Department-wide financial applications, the Departmental Accounting and Financial Information System (DAFIS), the Consolidated Uniform Payroll System (CUPS), the Integrated Personnel and Payroll System (IPPS), and the Consolidated Personnel Management Information System (CPMIS), were fully renovated and became fully validated in January 1999. The latter resulted from an aggressive testing program of both simulated and forward date testing made possible by the installation of two Year 2000 test environments on ICEMAN, the United States Department of Agriculture- contracted computing platform on which the Department-wide financial applications operate. By the end of January 1999, ICEMAN moved to a Year 2000 production platform, and all the financial applications are now operating on that platform.

A necessary link for operational capability in a Year 2000 environment is telecommunications. All major DOT telecommunications systems that support the Department-wide, feeder, and extractor financial systems were upgraded for Year 2000 purposes during 1998. We continue to track the progress of the Government-wide telecommunications systems, i.e., FTS 2000, on which our DOT telecommunications systems rely.

Despite the considerable time, resources, talent, and energy in making these Department-wide financial applications Year 2000 ready, they will not be permanently "Year 2000 fixed." DAFIS, for example, employs a temporary fix called Windowing, for performing Year 2000 date calculations and comparisons. The ultimate solution is to migrate the current system to take advantage of commercial off-the-shelf (COTS) software that is fully Year 2000 compliant--a process that is currently taking place in our DELPHI Program.

Costs to Address Year 2000 Issues

The Department s total estimated Year 2000 costs at the end of January 1999, were $375.5 million with FAA estimating it needed $304.6 million and USCG about $42.6 million as indicated in the chart on page 64. Increasing Department Year 2000 cost estimates have been attributed to the following factors:

- accelerating project schedules to comply with OMB milestones;
- increasing independent verification and validation costs;
- contingency plan development costs;
- increases in personnel costs, including program management functions;
- additional costs associated with outreach initiatives; and, unanticipated replacement of non-Year 2000 compliant hardware and software.

	1996	1997	1998	1999	2000	Total
DOT excluding FAA & USCG	$0.0	$3.9	$7.9	$15.0	$1.5	$28.3
USCG	$0.4	$1.1	$8.2	$32.2	$0.7	$42.6
FAA	$0.0	$6.2	$105.8	$188.6	$4.0	$304.6
All DOT	$0.4	$11.2	$121.9	$182.0	$6.2	$375.5

DOT Year 2000 Risks

The following issues have had some impact on DOT systems to date, and may have more severe impact in the near future:

- Lack of private sector progress in resolving Year 2000 problems, especially in the telecommunications industry, has the potential for government-wide, nationwide, and worldwide impact. It has been estimated that as much as 90 percent of the government's telecommunications traffic uses public telecommunications facilities. The maritime community also relies on the global communication network to move cargo around the world. Problems with telecommunications Year 2000 readiness could have a worldwide ripple effect on all users.

- Timely delivery of Y2K compliant commercial off-the shelf (COTS) products has been a complicating factor in the remediation efforts of some DOT OAs. Because DOT is a large user of Microsoft products, particularly the FAA and USCG, both organizations have met with Microsoft representatives to learn the status of compliant software products

- Lack of international progress in resolving transportation sector Year 2000 problems is a concern. It is believed that major aviation countries are making progress with their Year 2000 remediation efforts, but lesser-developed countries are cause for more serious concern. There is insufficient information about foreign airports to confirm their Year 2000 readiness, and there are concerns about foreign commuter/charter carriers. In the maritime industry, 90 percent of ships that call in U.S. ports are of foreign flag, coming to the U.S. with cargo from overseas, yet there is little information available as to their Year 2000 readiness.

Business Continuity and Contingency Planning (BCCP)

Although each OA is responsible for addressing its specific contingency planning and continuity of core business function needs, the Chief Information Office distributed General Accounting Office’s Year 2000 Computing Crisis: Business Continuity and Contingency Planning document to all OAs and discussed business continuity plans with them.

FAA completed its draft BCCP in December 1998, and is currently circulating it internally for review. The FAA BCCP will be finalized and released by June 30, 1999. Once published, the document will be supplemented with periodic updates as needed. For each high-level core business process within FAA, including the National Airspace System

(NAS), risk matrices identify a risk(s), business priority, mitigation strategy and milestones, and a contingency plan for each risk. Existing local facility contingency plans and emergency operations procedures are key to the NAS component of the FAA s BCCP. The FAA's BCCP will leverage to the greatest extent possible these existing contingency plans because they are regularly exercised. Finally, the FAA is preparing risk matrices for other core business processes such as finance and accounting, personnel and logistics.

The USCG launched a major BCCP initiative in September 1998. Planning guidance directed all units to develop local BCCPs by April 1, 1999. Model plans completed in January 1999, are making their way throughout the Service. These model plans contain a wide range of mission-related factors and a generic set of threats designed to alert Coast Guard units about the types of issues they should consider in their plans. In addition, planning assist teams are supporting units with field preparedness. Once the Coast Guard's BCCP is drafted and reviewed internally, it will be tested through one or more command post exercises by July 31, 1999. Ongoing maintenance and periodic updates to the plan will be made as necessary through the remainder of 1999.

BCCP requirements are also being addressed in the other OAs. The complexity of the process varies depending on the nature of the mission.

More detailed information on DOT's Year 2000 status and efforts can be obtained from DOT's quarterly report located on the DOT Y2K Transportation Sector website at www.y2ktransport.dot.gov.

Debt Collection

Oracle Financials ™ Accounts Receivable Module is being implemented in the Coast Guard to provide users with easy-to-retrieve information regarding amounts owed to the Coast Guard. This system will give users many features not available in the current system. These include management alerts (flags) which will inform the appropriate personnel when required actions should be taken regarding billing, collection, or referral to Treasury of specific receivables. In addition, it will allow for more accurate and faster billings and quicker collections through the use of electronic lockbox transmissions. Several improvements will be available to support interactions with customers, including customizable billing letters which can provide better explanations of charges; recording of customer calls into electronic files which should reduce misunderstandings; and the ability to service customers when the DAFIS system is offline.

The Debt Collection Improvement Act of 1996 provides for referral of debts over 180 days delinquent to Treasury for offset or collection (cross-servicing). DOT continues to work with Treasury of debts appropriate for cross-servicing. In addition, DOT has referred over $89 million of delinquent debt to the Department of Justice as of September 30, 1998.

Debt Management Performance Highlights ($ in Millions)

	FY 1997	FY 1998
Direct Loans and Non-Credit Receivables	$633	$1,146
Collection of Receivables	247	152
Delinquent Debt	182	191
Write Offs	14	22
Tax Refund Offsets	.3	0
Referred to DOJ*	80	89

**Includes loan guarantee defaults*

CASH MANAGEMENT

The Debt Collection Improvement Act of 1996 requires electronic funds transfer (EFT) of all new payments made after July 25, 1996 and *all* payments made after January 1, 1999. DOT met the first requirement and established milestones for meeting the FY 1999 target. Good progress is being made. In the Federal Government Direct Deposit/EFT Program for employee payments, DOT's participation rate is well over 95 percent as of September 30, 1998. DOT recently created a one-stop sign up program for new employees for direct deposit of salary, travel reimbursements, etc. Efforts continue on moving vendor and miscellaneous payments to EFT.

Payment Performance Highlights

	FY 1997		**FY 1998**	
	# of Transactions	**% of Total**	**# of Transactions**	**% of Total**
EFT:				
Salaries	2,335,000	95.1	2,642,000	96.8%
USCG Ret. Pay	350,000 est.	87.5	367,000	93.9%
Vendor & Misc.	374,000	39.0	555,000	55.0%
Prompt Pay:				
On Time	513,259	92.7	487,220	92.7%
Interest Penalties	30,765	5.6	31,708	6.0%

LIMITATIONS OF THE FINANCIAL STATEMENTS

- The financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 U.S.C. 3515(b).

- While the statements have been prepared from the books and records of the entity in accordance with the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

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

U.S. Department of Transportation
Consolidated Balance Sheet
For the Period Ended September 30, 1998
(Dollars in Thousands)

		1998 DOT Total
Assets		
Entity:		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	$	19,369,862
Investments (Note 3)		27,767,859
Accounts Receivable, Net (Note 4)		388,075
Interest Receivable (Net)		135,687
Other Assets (Note 5)		337,203
Total Intragovernmental Assets:	$	47,998,686
Investments (Note 3)		27
Accounts Receivable, Net (Note 4)		102,329
Interest Receivable (Net)		148
Loans Receivable and Related Foreclosed Property, Net (Note 6)		343,628
Cash and Other Monetary Assets (Note 7)		63,115
Inventory and Related Property, Net (Note 8)		2,190,619
General Property, Plant and Equipment, Net (Note 9)		13,821,827
Other Assets (Note 5)		204,197
Total Entity	$	64,724,576
Non-Entity:		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	$	47
Investments (Note 3)		934,240
Interest Receivable (Net)		11,428
Total Intragovernmental Assets:	$	945,715
Accounts Receivable, Net (Note 4)		10,055
Total Non-Entity	$	955,770
Total Assets	$	65,680,346

The accompanying notes are an integral part of these statements.

U.S. Department of Transportation
Consolidated Balance Sheet
For the Period Ended September 30, 1998
(Dollars in Thousands)

		1998 DOT Total
Liabilities		
Liabilities Covered by Budgetary Resources:		
Intragovernmental:		
Accounts Payable	$	8,524,068
Interest Payable		11,586
Debt (Note 10)		317,159
Other Intragovernmental Liabilities (Note 11)		314,525
Total Intragovernmental Liabilities:		9,167,338
Accounts Payable		1,576,054
Liabilities for Loan Guarantees (Note 6)		135,619
Lease Liabilities (Note 12)		687
Other Liabilities (Note 11)		370,697
Total Liabilities Covered by Budgetary Resources	$	11,250,395
Liabilities Not Covered by Budgetary Resources:		
Intragovernmental:		
Debt (Note 10)	$	24
Environmental Cleanup Costs (Note 13)		59,762
Other Intragovernmental Liabilities (Note 11)		221,144
Total Intragovernmental Liabilities:	$	280,930
Lease Liabilities (Note 12)		103,532
Federal Employee and Veterans' Benefits (Note 14)		21,056,390
Environmental Cleanup Costs (Note 13)		3,277,178
Other Liabilities (Notes 11 & 15)		1,233,171
Total Liabilities Not Covered by Budgetary Resources	$	25,951,201
Total Liabilities	$	37,201,596

The accompanying notes are an integral part of these statements.

U.S. Department of Transportation
Consolidated Balance Sheet
For the Period Ended September 30, 1998
(Dollars in Thousands)

		1998 DOT Total
Net Position (Note 16)		
Unexpended Appropriations	$	9,353,380
Cumulative Results of Operations		19,125,370
Total Net Position		28,478,750
Total Liabilities and Net Position	$	65,680,346

The accompanying notes are an integral part of these statements.

U.S. Department of Transportation
Consolidated Statement of Net Cost
For the Period Ended September 30, 1998
(Dollars in Thousands)

		1998 DOT Total
Program Costs (Notes 17 & 18)		
Surface Transportation:		
Intragovernmental	$	57,944
Public		26,496,518
Total		26,554,462
Less Earned Revenues		(150,882)
Net Program Costs	$	26,403,580
Air Transportation:		
Intragovernmental	$	504,322
Public		8,677,118
Total		9,181,440
Less Earned Revenues		(99,149)
Net Program Costs	$	9,082,291
Maritime Transportation:		
Intragovernmental	$	957,451
Public		5,032,601
Total		5,990,052
Less Earned Revenues		(587,807)
Net Program Costs	$	5,402,245
Cross-Cutting Programs		
Intragovernmental	$	54,483
Public		1,212
Total		55,695
Less Earned Revenues		(55,695)
Net Program Costs	$	-
Cost Not Assigned to Programs	$	191,587
Less Earned Revenues Not Attributed to Programs		(33,661)
Deferred Maintenance (Note 19)		
Net Cost of Operations	$	41,046,042

The accompanying notes are an integral part of these statements.

U.S. Department of Transportation
Consolidated Statement of Changes in Net Position
For the Period Ended September 30, 1998
(Dollars in Thousands)

		1998 DOT Total
Net Cost of Operations	$	(41,046,042)
Financing Sources:		
Appropriations Used		10,076,703
Taxes and Other Non-Exchange Revenue (Note 20)		39,799,313
Donations		96,575
Imputed Financing		407,551
Transfers-In		157,006
Transfers-Out		(10,879,734)
Other		25,069
Net Results of Operations	$	(1,363,559)
Prior Period Adjustments (Note 21)		(19,011,428)
Net Change in Cumulative Results of Operations	$	(20,374,987)
Increase (Decrease) in Unexpended Appropriations		(1,909,063)
Change in Net Position	$	(22,284,050)
Net Position, Beginning of Period		50,762,800
Net Position, End of Period	$	28,478,750

The accompanying notes are an integral part of these statements.

U.S. Department of Transportation
Consolidated Statement of Budgetary Resources
For the Period Ended September 30, 1998
(Dollars in Thousands)

		1998 DOT Total
Budgetary Resources (Note 22):		
Budget Authority (Line 1)	$	51,175,157
Unobligated Balances - Beginning of Period and Net Transfers (Line 2)		47,614,843
Spending Authority From Offsetting Collections (Line 3)		5,429,585
Adjustments (Lines 4-6)		(20,948,250)
Total Budgetary Resources (Line 7)	$	83,271,335
Status of Budgetary Resources:		
Obligations Incurred (Line 8)	$	46,122,245
Unobligated Balances - Available (Line 9)		7,894,857
Unobligated Balances - Not Available (Line 10)		29,254,233
Total, Status of Budgetary Resources (Line 11)	$	83,271,335
Outlays:		
Obligations Incurred (Line 8)	$	46,122,245
Less: Spending Authority From Offsetting Collections and Adjustments (Lines 3A, B, D, & 4A)		(5,744,168)
Obligated Balance, Net - Beginning of Period (Line 12)		47,997,603
Obligated Balance Transferred, Net (Line 13)		(43)
Less: Obligated Balance, Net - End of Period (Line 14)		(48,564,275)
Total Outlays (Line 15)	$	39,811,362

The accompanying notes are an integral part of these statements.

U.S. Department of Transportation
Consolidated Statement of Financing
For the Period Ended September 30, 1998
(Dollars in Thousands)

		1998 DOT Total
Obligations and Nonbudgetary Resources:		
Obligations Incurred	$	46,125,050
Less: Spending Authority for Offsetting Collections & Adjustments		(5,751,986)
Donations Not in Budget		96,576
Financing Imputed for Cost Subsidies		407,550
Transfers-In (Out)		(10,721,370)
Exchange Revenue Not in Budget		4,509
Intra-Departmental Transfers		(1,700)
Inventory Revaluation		30,129
Other Miscellaneous Resources		33,266
Total Obligations as Adjusted, and Non-Budgetary Resources	$	30,222,024
Resources That Do Not Fund Net Cost of Operations:		
Change in Amount of Goods, Services, & Benefits Ordered But Not Yet Received or Provided	$	(512,282)
Costs Capitalized on the Balance Sheet		10,878,088
Financing Sources That Fund Costs of Prior Periods		(5,126,697)
Prior Period Adjustments		(11,928,471)
Intra-Departmental Transfers		10,668,827
Other Miscellaneous Resources		(986,819)
Total Resources That Do Not Fund Cost of Operations	$	2,992,646

The accompanying notes are an integral part of these statements.

U.S. Department of Transportation
Consolidated Statement of Financing
For the Period Ended September 30, 1998
(Dollars in Thousands)

		1998 DOT Total
Cost That Do Not Require Resources:		
Depreciation & Amortization	$	481,537
Revaluation of Assets and Liabilities		(470,596)
Loss on Disposition of Assets (FAA)		511,737
Inventory Free Issues (USCG)		196,396
Other Miscellaneous Costs		210,032
Total Costs That Do Not Require Resources	$	929,106
Financing Sources Yet To Be Provided (Note 23)	$	6,902,266
Net Cost of Operations	$	41,046,042

The accompanying notes are an integral part of these statements.

Note 1. Significant Accounting Policies:

A. Basis of Presentation

The Departmental consolidated financial statement has been prepared to report the financial position and results from operations of the Department of Transportation (DOT), as required by the Chief Financial Officers Act of 1990 (CFO Act), as amended by the Federal Financial Management Act of 1994 (FFMA), Title IV of the Government Management Reform Act of 1994 (GMRA). The statement has been prepared from the books and records of DOT in accordance with Office of Management and Budget (OMB) requirements for form and content for entity financial statements and DOT's accounting policies and procedures. OMB Bulletin 97-01, including the Technical Amendments, and Treasury Financial Transmittal Letter No. S2 97-01 were used to prepare the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and Statement of Financing. This was the first year that all five of these financial statements have been prepared. They are different from the financial reports prepared pursuant to OMB directives that are used to monitor and control the use of budgetary resources.

The Balance Sheet presents agency assets and liabilities, and the difference between the two, which is the agency net position. Agency assets are separated by entity assets (those which are available for use by the agency) and non-entity assets (those which are managed by the agency by not available for use in its operations). The balance sheet also separately presents agency liabilities covered by budgetary resources (funded) from those not covered by budgetary resources (unfunded).

The Statement of Net Cost presents the gross costs of programs less earned revenue to arrive at the net cost of operations for both programs and for the agency as a whole. The Statement of Changes in Net Position reports the beginning net position, the items which caused the net position to change during the reporting period (such as the net cost of operations), to arrive at the ending net position.

The Statement of Budgetary Resources provides information about how budgetary resources were made available as well as their status at the end of the period. Recognition and measurement of budgetary information reported on this statement is based on budget terminology, definitions, and guidance in OMB Circular A-34, "Instructions on Budget Execution," dated December 26, 1995. The statement illustrates in a condensed and consolidated format the information that Circular A-34 requires to be reported on the Report of Budget Execution (SF-133).

The Statement of Financing is intended to be a statement illustrating reconciliation between the proprietary information reported in the Statement of Net Cost and the budgetary information reported in the Statement of Budgetary Resources. Recognition and measurement of budgetary information reported on this statement is also based on budget terminology, definitions, and guidance in OMB Circular A-34. Since DOT custodial activity is incidental to Departmental operations and not material, a Statement of Custodial Activity was not prepared. However, sources and dispositions of collections have been disclosed in a note to the financial statements.

In addition to the new financial statement formats required for FY 1998, the following Federal Accounting Standards Advisory Board (FASAB) Statements of Federal Financial Accounting Standards (SFFAS) were effective for FY 1998:

SFFAS No. 4	Managerial Cost Accounting Concepts and Standards for the Federal Government
SFFAS No. 6	Accounting for Property, Plant and Equipment
SFFAS No. 7	Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting
SFFAS No. 8	Supplementary Stewardship Reporting

Note 1. Significant Accounting Policies:

The Department is also required to be in substantial compliance with the Federal Financial Management Improvement Act (FFMIA) of 1996. FFMIA requires agencies to comply substantially with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the U.S. Government Standard General Ledger at the transaction level.

B. Reporting Entity

DOT serves as the focal point in the Federal Government for the Coordinated National Transportation Policy. It is responsible for ensuring the safety of all forms of transportation; protecting the interests of consumers; international transportation agreements; conducting planning and research for the future; and helping cities and states meet their local transportation needs through financial and technical assistance.

The Department is comprised of the Office of the Secretary and the DOT Operating Administrations, each having its own management and organizational structure and collectively providing the necessary services and oversight to ensure the best transportation system possible. The Departmental consolidated financial statement represents the financial data, including various trust funds, revolving funds, appropriations and special funds of the following organizations:

Office of The Secretary (OST)
Federal Aviation Administration (FAA)
United States Coast Guard (USCG)
Federal Highway Administration (FHWA)
Federal Railroad Administration (FRA)
National Highway Traffic Safety Administration (NHTSA)
Maritime Administration (MARAD)
Federal Transit Administration (FTA)
Bureau of Transportation Statistics (BTS)
Surface Transportation Board (STB)
Office of Inspector General (OIG)
Research and Special Programs Administration (RSPA)
Transportation Administrative Service Center (TASC)

The Saint Lawrence Seaway Development Corporation (SLSDC) is also an entity of DOT. However, since it is subject to separate reporting under the Government Corporation Control Act and the dollar value of its activities is not material to Departmental totals, SLSDC's financial data have not been consolidated in the DOT financial statements. However, condensed information about SLSDC's financial position is included in Note 26.

C. Budgets and Budgetary Accounting

DOT follows standard Federal budgetary accounting policies and practices in accordance with OMB Circular A-34, Instructions on Budget Execution. Each year, Congress provides each Operating Administration within DOT appropriations to incur obligations in support of agency programs. For FY 1998, the Department was accountable for trust fund appropriations, general fund appropriations, revolving funds and borrowing authority. DOT recognizes budgetary resources as assets when cash (funds held by Treasury) is made available through warrants and trust fund transfers.

D. Basis of Accounting

Transactions are generally recorded on an accrual accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when earned, and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. An exception to this rule is the Airport and Airway Trust Fund revenues from excise taxes. They are recorded on the basis of cash transferred from the

Note 1. Significant Accounting Policies:

Treasury General Fund. Budgetary accounting facilitates compliance with legal constraints and controls over the use of Federal funds.

E. Revenues and Other Financing Sources

DOT receives the majority of the funding needed to support all of its programs through appropriations. The Highway Trust Fund, Airport and Airway Trust Fund, Aquatic Resources Trust Fund, and the Treasury General Fund fund some of these appropriations. DOT receives annual, multi-year and no-year appropriations that may be used, within statutory limits, for operating and capital expenditures. Additional amounts are obtained from service fees (e.g., landing and registry fees) and through reimbursable agreements for services performed for domestic and foreign governmental entities. Additional revenue is earned from gifts from donors, interest/dividends on invested funds, loans and cash disbursements to banks. Other revenue is received from administering the Hazardous Materials Registration Program, fines and penalties for noncompliance with hazardous materials and pipeline safety regulation. Administrative fees and user fees are additional revenue sources relative to Pipeline Safety for the Department. Interest income received is recognized as revenue on the accrual basis. Appropriations are recognized as revenues as the related program or administrative expenses are incurred.

F. Funds with the U.S. Treasury and Cash

DOT does not generally maintain cash in commercial bank accounts. Cash receipts and disbursements are processed by the U.S. Treasury. The funds with the U.S. Treasury are appropriated, revolving, and trust funds that are available to pay current liabilities and finance authorized purchases. DOT has substantially reduced the number of petty cash (imprest) funds outside the U.S. Treasury to reduce the amount of cash paid outside of Treasury. This reduces the amount of interest that must be paid to borrow funds. DOT does not maintain any balances of foreign currencies.

G. Loans Receivables

Loans are accounted for as receivables after funds have been disbursed. For loans obligated prior to October 1, 1991, loan principal, interest, and penalties receivable are reduced by an allowance for estimated uncollectable amounts. The allowance is estimated based on past experience, present market conditions, and an analysis of outstanding balances. Loans obligated after September 30, 1991, are reduced by an allowance equal to the present value of the subsidy costs (due to the interest rate differential between the loans and Treasury borrowing, the estimated delinquencies and defaults net of recoveries, the offset from fees, and other estimated cash flows) associated with these loans.

H. Inventory and Operating Materials and Supplies

Inventory primarily consists of supplies that are for sale or used in the production of goods for sale. Operating materials and supplies primarily consist of unissued supplies that will be consumed in future operations. Valuation methods for supplies on hand at yearend include historical cost, last acquisition price, standard repair cost, weighted average, and moving weighted average. Expenditures or expenses are recorded when the materials and supplies are consumed or sold.

I. Investments in U.S. Government Securities

Investments that consist of U.S. Government Securities are reported at cost or amortized cost net of premiums or discounts. Premiums or discounts are amortized into interest income over the term of the investment using the interest or straight-line method. The Department's intent is to hold investments to maturity, unless they are needed to cover losses on loan guarantees, finance programs, or otherwise sustain the operation of the organization. Investments, redemptions, and reinvestments are controlled and processed by the Department of the Treasury.

Note 1. Significant Accounting Policies:

J. Property and Equipment

DOT agencies have varying methods of determining the value of property and equipment and how it is depreciated. DOT currently has a provisional capitalization threshold of $200,000 for structures and facilities, used only by USCG, and $25,000 for other property, plant and equipment. Capitalization at lesser amounts is encouraged. Construction in progress is valued at direct (actual) costs plus applied overhead and other indirect costs as accumulated by the regional project material system. The system accumulates costs by project number assigned to the equipment or facility being constructed.

New FASAB standards effective for FY 1998 have resulted in two significant changes to the financial statement presentation of property and equipment. The first change is the removal of DOT stewardship assets, heritage assets and national defense property, plant, and equipment, from the Balance Sheet. Information on DOT stewardship assets, as well as stewardship investments, is now presented in a Required Supplementary Stewardship Reporting section. The second change is a new requirement to depreciate all general property, plant, and equipment. This resulted in the recording of a significant amount of accumulated depreciation in this first year of reporting.

K. Prepaid and Deferred Charges

Payments in advance of the receipt of goods and services are recorded as prepaid charges at the time of prepayment and recognized as expenses when the related goods and services are received.

L. Liabilities

Liabilities represent amounts expected to be paid as the result of a transaction or event that has already occurred. Liabilities for which an appropriation has not yet been enacted are classified as unfunded liabilities, and there is no certainty that the appropriation will be enacted. Also, the Government, acting in its sovereign capacity can abrogate liabilities arising from other than contracts.

M. Borrowings Payable to Treasury

FAA borrowing involves loans from the Treasury to fund expenses form the Aircraft Purchase Loan Guarantee Program. Treasury renews the debt obligation until FAA receives an appropriation to liquidate the principal and interest. No appropriation was enacted for FY 1998.

FRA has direct loans from Treasury and guaranteed loans made by the Federal Financing Bank (FFB) to railroads and guaranteed by FRA under provisions of the Railroad Rehabilitation and Improvement Program, the Amtrak Corridor Improvement Program and the Alameda Corridor Improvement Program. FRA records these loans as though they were direct loans.

OST borrows from the Treasury to finance loans to disadvantaged transportation-related businesses using revolving lines of credit. These OST loans are made through the Short Term Lending Program that provides assistance to disadvantaged, minority and women-owned businesses and is administered by the Office of Small and Disadvantaged Business Utilization.

N. Interest Payable to Treasury

FAA owes interest to Treasury based on its debt to Treasury as a result of borrowing for the Aircraft Purchase Loan Guarantee Program. Through FRA, the Amtrak Corridor Improvement Program and Railroad Rehabilitation Programs are required to make periodic interest payments to Treasury based on their debt to the U.S. Government.

Note 1. Significant Accounting Policies:

O. Contingencies

Criteria for recognizing contingencies are that they are probable and reasonably estimable. For example, material contingent liabilities for claims are recognized if (1) they have been asserted, or, if not yet asserted, in the opinion of General Counsel are more likely to be asserted than not; (2) in the opinion of General Counsel, they are more likely to be paid than not; and (3) the probable payment can be estimated by General Counsel.

DOT recognizes material contingent liabilities in the form of claims, legal action, administrative proceedings and environmental suits that have been brought to the attention of the Office of Chief Counsel. It is the opinion of management and legal counsel that the ultimate resolution of these proceedings, actions and claims, will not materially affect the financial position or results of operations.

P. Annual, Sick, and Other Leave

Annual leave is accrued as it is earned, and the accrual is reduced as leave is taken. In FY 1998, accruals for other leave (e.g., credit hours, compensatory leave, home leave, and military leave) are also recorded in the financial statement. Under the Transportation Administrative Service Center, the liability for accrued annual leave is a funded item. To the extent current or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources. Sick leave and other types of non-vested leave are expended as taken.

In FY 1998, under the National Air Traffic Controller Association (NATCA) agreement, Article 25, Section 13, Air Traffic Controllers covered under the Federal Employees Retirement Systems (FERS) became eligible, upon retirement, for a sick leave buy back option. Under this option, an employee who attains the required number of years of service for retirement shall receive a lump sum payment for forty percent of the value of his or her accumulated sick leave as of the effective date of their retirement.

Q. Retirement Plan

For DOT employees who participate in the Civil Service Retirement System (CSRS), DOT contributes a matching contribution equal to 7 percent of pay. On January 1, 1987, FERS went into effect pursuant to Public Law (P.L.) 99-335. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, could elect to either join FERS and Social Security or remain in CSRS. A primary feature of FERS is that it offers a savings plan to which DOT automatically contributes 1 percent of pay and matches any employee contribution up to an additional 4 percent of pay. For most employees hired since December 31, 1983, DOT also contributes the employer’s matching share for Social Security.

Employing agencies are required to recognize pensions and other post retirement benefits during the employees’ active years of service. Reporting the assets and liabilities associated with such benefits is the responsibility of the administering agency, the Office of Personnel Management. Therefore, DOT does not report CSRS or FERS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to employees.

The USCG Military Retirement System is a defined benefit plan which covers all active duty and reserve members of the USCG. This plan was established under authority of the United States Code, Titles 10 and 14. This system is funded on a “pay-as-you-go” basis.

R. Comparative Data

Comparative data for the prior year has not been presented because this is the first year for preparing the new Statement of Net Cost, Statement of Changes in Net Position, and Statement of Financing.

Note 2. Fund Balances with Treasury:

A. Fund Balances (Dollars in Thousands)

	Entity Assets	Non-Entity Assets	Total
(1) Trust Funds	$ 9,582,063	$ -	$ 9,582,063
(2) Revolving Funds	1,060,796	-	1,060,796
(3) Appropriated Funds	8,761,908	-	8,761,908
(4) Other Fund Types	(34,905)	47	(34,858)
Total	$19,369,862	$ 47	$ 19,369,909

B. Fund Balances with Treasury are the aggregate amounts of the entity's accounts with Treasury for which the entity is authorized to make expenditures and pay liabilities. Other Fund Types (4) include Budget Clearing Accounts, which temporarily hold collections pending clearance to the applicable account, Deposit Funds, which are established to record amounts held temporarily until ownership is determined, and Special Funds for Essential Air Service and Rural Airport Improvement. The negative balance for entity assets, other fund types, is primarily comprised of USCG deposit funds.

Note 3. Investments:

(Dollars in Thousands)

	Cost	Amortized (Premium) Discount	Investments (Net)	Other Adjustments	Required Market Value Disclosure
A. Entity					
l. Intragovernmental Securities:					
(1) Marketable	$ 71,783	$ (383)	$ 71,400	$ (560)	$ 70,840
(2) Non-Marketable: Par Value	9,737,133	(34,529)	9,702,604	-	9,702,604
(3) Non-Marketable: Market-Based	17,996,564	(2,149)	17,994,415	-	17,994,415
Total	$27,805,480	$(37,061)	$27,768,419	$ (560)	$27,767,859
2. Other Securities					
(1) Private Corporation Stock	$ 27	$ -	$ 27	$ -	$ 27
Total	$ 27	$ -	$ 27	$ -	$ 27
B. Non-Entity					
l. Intragovernmental Securities:					
(1) Non-Marketable: Par Value	$ 950,829	$(16,589)	$ 934,240	$ -	$ 934,240
Total	$ 950,829	$(16,589)	$ 934,240	$ -	$ 934,240

C. Marketable Federal Securities can be bought and sold on the open market. Non-marketable par value Treasury securities are special series debt securities that Treasury issues to Federal entities at face value (par value). The securities are redeemed at face value upon maturity; thus, investing entities recover the full amount invested, plus interest. Non-marketable market-based Treasury securities are debt securities that Treasury issues to Federal entities without statutorily-determined interest rates.

Note 3. Investments:

Although the securities are not marketable, their terms (prices and interest rates) mirror the terms of marketable Treasury securities. Amortization is done using the interest or straight-line method. Private corporation stock consists of common stock in USCG's Gift Fund. Non-Entity Investments consist of USCG Sports Fish Investments, which are part of the Aquatic Resources Trust Fund. Although this account is managed by the Department of Interior, DOT is responsible for preparing financial statements.

Note 4. Accounts Receivable:

(Dollars in Thousands)

	Gross Amount Due	Allowance for Uncollectable Amounts	Net Amount Due
A. Entity:			
1. Intragovernmental:	$ 388,075	$ -	$ 388,075
2. Public:	229,365	127,036	102,329
Total Entity Receivables	$ 617,440	$ 127,036	$ 490,404
B. Non-Entity:			
1. Public:	$ 12,583	$ 2,528	$ 10,055
Total Non-Entity Receivables	$ 12,583	$ 2,528	$ 10,055
Total Receivables	$ 630,023	$ 129,564	$ 500,459

C. Reconciliation of Uncollectable Amounts

Uncollectable Amounts:

	Entity Public	Non-Entity Public
Beginning Balance	$ 83,660	$ 392
Additions	63,501	2,815
Reductions	20,125	679
Ending Balance	$ 127,036	$ 2,528

Allowance for Uncollectable Amounts is based on historical data or actual amounts that are determined to be uncollectable based upon review of individual receivables.

Note 5. Other Assets

A. Entity: (Dollars in Thousands)

1. Intragovernmental:	
(1) Advances & Prepayments	$ 212,053
(2) Undistributed Payments	125,150
Total Intragovernmental	$ 337,203
2. Public	
(1) Advances to States for Rights of Way	$ 182,275
(2) Other Advances & Prepayments	21,914
(3) Undistributed Payments	8
Total Other Entity Assets	$ 204,197

B. Other Assets, Entity, Intragovernmental, are comprised of advance payments to other Federal Government entities for agency expenses not yet incurred and for goods or services not yet received, and undistributed payments (such as to the Department of Defense) for which DOT is awaiting documentation. Other Assets, Entity, Public, are comprised of FHWA advances to the States for rights of way, advances to employees and contractors, and undistributed payments for which DOT is awaiting documentation.

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

A. DOT operates the following loan or loan guarantee programs:

(1) Amtrak Corridor Improvement Loan
(2) Railroad Rehabilitation Loan Program
(3) Alameda Corridor Transportation Authority Loan
(4) Small & Disadvantaged Business Utilization
(5) Aircraft Purchase Loan Guarantee Program
(6) Federal Ship Financing Fund (Title XI)
(7) Maritime Guaranteed Loan

B. Direct Loans Obligated Prior to FY 1992 (Present Value Method):

(Dollars in Thousands)

Loan Programs	Loans Receivable, Gross	Interest Receivable	Value of Assets Related to Direct Loans
(1) Amtrak Corridor Improvement Loan	$ 5,191	$ -	$ 5,191
(2) Railroad Rehabilitation Loan Program	56,369	1,660	58,029
Total	$ 61,560	$ 1,660	$ 63,220

C. Direct Loans Obligated After FY 1991:

Loan Programs	Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Direct Loans
(2) Railroad Rehabilitation Loan Program	$ 3,821	$ 101	$ (297)	$ 3,625
(3) Alameda Corridor Transportation Auth Loan	280,000	9,824	(32,262)	257,562
(4) Small & Disadvantaged Business Utilization	5,969	-	(613)	5,356
Total	$289,790	$ 9,925	$(33,172)	$ 266,543

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

D. Defaulted Guaranteed Loans from Pre-1992 Guarantees (Allowance for Loss Method):

Loan Guarantee Programs	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance For Loan Losses	Defaulted Guaranteed Loans Receivable, Net
(5) Aircraft Purchase Loan Guarantee	$ 496	$ 235	$ (337)	$ 394
(6) Federal Ship Financing Fund (Title XI)	18,904	-	(5,433)	13,471
Total	$ 19,400	$ 235	$ (5,770)	$ 13,865

E. Liability for Loan Guarantees (Estimated Future Default Claims, pre 1992):

Loan Programs	Liabilities for Loan Guarantees for Post-1991 Guarantees, Present Value	Total Liabilities for Loan Guarantees
(7) Maritime Guaranteed Loan	$ 135,619	$ 135,619
Total Liabilities for Loan Guarantees		$ 135,619

F. Subsidy Expense for Post-1991 Direct Loans

1. Current Year's Direct Loans

Loan Programs	Interest Differential	Defaults	Fees	Total
(2) Railroad Rehabilitation Loan Program	$ -	$ -	$ 7	$ 7
(3) Alameda Corridor Transportation Auth Loan	8,252	-	-	8,252
(4) Small & Disadvantaged Business Utilization	-	302	-	302
Total	$ 8,252	$ 302	$ 7	$ 8,561

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

2. Direct Loan Modifications and Reestimates

Loan Programs	Modifications	Reestimates
(1) Amtrak Corridor Improvement Loan	$ -	$ (517)

G. Subsidy Expense for Post-1991 Loan Guarantees

1. Current Year's Loan Guarantees

Loan Programs	
(7) Maritime Guaranteed Loan	$ 36,926
Total	$ 36,926

2. Total Loan Guarantee Subsidy Expenses

Loan Programs	
(7) Maritime Guaranteed Loan	$ 36,926
Total	$ 36,926

H. Administrative Expense:

Direct Loans

Loan Programs	
(4) Small & Disadvantaged Business Utilization	$ 91
Total	$ 91

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

Loan Guarantees

Loan Programs

(7) Maritime Guaranteed Loan	$ 3,725
Total	$ 3,725

I. Direct loan obligations or loan guarantee commitments prior to FY1992, and the resulting direct loan or loan guarantees, are reported at the value of the outstanding loan. Direct loan obligations or loan guarantee commitments made after FY 1991, and the resulting direct loan or loan guarantees, are governed by the Federal Credit Reform Act. The Act provides that the present value of the subsidy costs (i.e., interest rate differentials, interest subsidies, estimated delinquencies and defaults, fee offsets, and other cash flows) associated with direct loans and loan guarantees be recognized as a cost in the year the direct or guaranteed loan is disbursed. Foreclosed property is valued at the net realizable value. Estimated liabilities for losses on pre-1992 loan guarantees are based on an analysis of subsidy amounts for individual loans.

Note 7. Cash and Other Monetary Assets:

(Dollars in Thousands)

		Entity Assets
A.	Cash	$ 3,189
B.	Other Monetary Assets	
	(1) FAA Undeposited Collection	59,650
	(2) Coast Guard Cadet Savings Accounts	276
	Total Other Monetary Assets	$ 59,926
C.	Total Cash and Other Monetary Assets	$ 63,115

D. Cash consists of imprest fund balances.

Note 8. Inventory and Related Property:

(Dollars in Thousands)

	Inventory Amount	Allowance for Losses	Inventory, Net
A. Inventory:			
(1) Inventory Held for Current Sale	$ 55,528	$ 569	$ 54,959
Total Inventory	$ 55,528	$ 569	$ 54,959

	Operating Materials & Supplies Amount	Allowance for Losses	Operating Materials & Supplies, Net
B. Operating Materials and Supplies:			
(1) Items Held for Use	$ 1,710,350	$ -	$ 1,710,350
(2) Items Held in Reserve for Future Use	36,946	-	36,946
(3) Excess, Obsolete and Unserviceable Items	49,772	6,417	43,355
(4) Items Held for Repair	484,863	139,854	345,009
Total Operating Materials & Supplies	$ 2,281,931	$ 146,271	$ 2,135,660
Total Inventory and Related Property			$ 2,190,619

C. All DOT inventories are in Coast Guard. Valuation methods used include standard price/specific identification and last acquisition price. Inventories are to be consumed in accordance with Coast Guard directives.

DOT operating materials and supplies are in Coast Guard, FAA, and MARAD. Valuation methods used include historical cost, last acquisition price, standard repair cost, weighted average, and moving weighted average. The allowance is used to reduce operating materials and supplies held for repair to 35 percent of their original cost for FAA. The only restrictions on use are that Coast Guard consumption must be in accordance with Coast Guard Directives and FAA is not permitted to donate.

Note 9. General Property, Plant and Equipment:

(Dollars in Thousands)

	Depreciation Method*	Service Life *	Acquisition Value	Accumulated Depreciation	Net Book Value
Classes of Fixed Assets:					
A. Land			$ 162,731	$ -	$ 162,731
B. Buildings and Structures	SL	Various	5,172,166	2,609,511	2,562,655
C. Furniture and Fixtures	SL	Various	33,395	15,626	17,769
D. Equipment	SL	Various	4,842,353	2,151,512	2,690,841
E. ADP Software	SL	Various	35,707	878	34,829
F. Assets Under Capital Lease	SL	>20	192,008	91,888	100,120
G. Leasehold Improvements	SL	Various	27,861	-	27,861
H. Aircraft	SL	11-20	1,938,281	897,813	1,040,468
I. Ships and Vessels	SL	11-20, >20	2,909,390	1,217,257	1,692,133
J. Other Vehicles	SL	1-5	9,818	9,534	284
K. Construction in Progress			5,274,622	-	5,274,622
L. Small Boats	SL	Various	124,280	71,501	52,779
M. Property Not in Use			88,471	-	88,471
N. Other Miscellaneous Property	SL	Various	169,426	93,162	76,264
Total			$20,980,509	$ 7,158,682	$13,821,827

O. Effective for FY 1998, DOT stewardship assets, heritage assets and national defense property plant, and equipment were removed from the balance sheet and included in required supplemental stewardship reporting. This policy change, in addition to completion of property validations, verifications, and reconciliations, has resulted in an almost $6 billion reduction in property acquisition amounts. Since FY 1998 was also the first year that depreciation was required for all general purpose property, plant and equipment, reported accumulated depreciation increased by almost $7 billion, for a net book value decrease in property of about $13 billion from the amount reported for FY 1997.

*** Keys:**

Depreciation Method	Range of Service Life
SL - Straight Line	1-5 - 1 to 5 years
	6-10 - 6 to 10 years
	11-20 - 11 to 20 years
	>20 - Over 20 years

Note 10. Debt:

A. Debt Covered by Budgetary Resources

(Dollars in Thousands)

	Beginning Balance	Net Borrowing	Ending Balance
1. Debt			
(1) Debt to the Treasury	$ 193,969	$ 119,369	$ 313,338
(2) Debt to the Federal Financing Bank	3,945	(124)	3,821
Total Debt Covered by Budgetary Resources	$ 197,914	$ 119,245	$ 317,159

2. Classification of Debt	
(1) Intragovernmental Debt	$ 317,159
(2) Debt Held by the Public	-
Total Debt Covered by Budgetary Resources	$ 317,159

B. Net Borrowing indicates current year activity. Debt covered by budgetary resources is for FRA direct loans to railroads and for OST direct loans in the Short Term Lending Program administered by the Office of Small and Disadvantaged Business Utilization.

C. Debt Not Covered by Budgetary Resources

	Beginning Balance	Net Borrowing	Ending Balance
1. Debt			
(1) Debt to the Treasury	$ 21	$ 3	$ 24
Total Debt Not Covered by Budgetary Resources	$ 21	$ 3	$ 24

Note 10. Debt:

2. Classification of Debt

(1) Intragovernmental Debt	$	24
(2) Debt Held by the Public		-
Total Debt Not Covered by Budgetary Resources	$	24

D. Debt not covered by budgetary resources is for the FAA Aircraft Purchase Loan Guarantee Program.

Note 11. Other Liabilities:

A. Other Liabilities Covered by Budgetary Resources:

(Dollars in Thousands)

	Non-Current Liabilities	Current Liabilities	Total
1. Intragovernmental			
(1) Advances and Prepayments from Others	$ 85	$ 230,365	$ 230,450
(2) Accrued Pay & Benefits to Other Agencies	113	59,053	59,166
(3) Fines, Penalties and Forfeitures	-	6,253	6,253
(4) Deposit Funds	-	4,529	4,529
(5) Undistributed Collections	-	2,125	2,125
(6) Recoveries, Refunds and Cancelled Checks	-	2,039	2,039
(7) General Fund Proprietary	-	1,558	1,558
(8) Deferred Credits	-	1,455	1,455
(9) Items on Loan	-	543	543
(10) Other Accrued Liabilities	-	6,407	6,407
Total	$ 198	$ 314,327	$ 314,525
2. Public			
(1) Accrued Pay & Benefits to the Public	$ 4,218	$ 327,369	$ 331,587
(2) Undistributed Collections	-	14,692	14,692
(3) Advances and Prepayments from Others	(8,469)	12,921	4,452
(4) Deposit Funds	9,224	4,352	13,576
(5) Deferred Credits	-	4,357	4,357
(6) Other Accrued Liabilities	-	2,033	2,033
Total	$ 4,973	$ 365,724	$ 370,697

B. Other Liabilities Not Covered by Budgetary Resources:

	Non-Current Liabilities	Current Liabilities	Total
1. Intragovernmental			
(1) FECA Billings	$ 117,501	$ 89,229	$ 206,730
(2) Accrued Pay & Benefits to Other Agencies	3,272	72	3,344
(3) Other Accrued Liabilities	-	11,070	11,070
Total	$ 120,773	$ 100,371	$ 221,144

Note 11. Other Liabilities:

2. Public			
(1) Accrued Pay & Benefits to the Public	$ 440,708	$ 318,782	$ 759,490
(2) Legal Claims	433,444	8,287	441,731
(3) FAA Return Rights Program	22,150	9,800	31,950
Total	$ 896,302	$ 336,869	$ 1,233,171

C. Accrued pay and benefits pertain to unpaid pay and benefits for September 23-30, 1998. Undistributed Collections represent liabilities pending transfer to Treasury.

Agency expenses for payments made under the Federal Employees Compensation Act (FECA) are forwarded to the Department of Labor (DOL). Funding for FECA is normally appropriated to agencies in the fiscal year two years subsequent to the actual FECA billing from DOL.

Note 12. Leases:

A. ENTITY AS LESSEE:

Capital Leases:

Summary of Assets Under Capital Lease (by category):

	(Dollars in Thousands)
(1) Land and Buildings	$ 192,008
(2) Machinery and Equipment	-
(3) Other	-
(4) Accumulated Amortization	(91,888)
Net Assets Under Capital Lease	$ 100,120

Description of Lease Arrangements: Capital leases cover land and buildings at FAA's Mike Monroney Aeronautical Center (MMAC) in Oklahoma City, Oklahoma, and at the William J. Hughes Technical Center (WJHTC) located in Pomona, New Jersey. FAA leases the MMAC land and buildings from the Oklahoma City Airport Trust for $12 million per year. FAA leases various real property, including the WJHTC technical building, from the Atlantic County Improvement Authority for $4.8 million per year. FAA's capital lease payments are funded annually.

Future Payments Due:

Fiscal Year	Asset Category (1)	Asset Category (2)	Asset Category (3)	Totals
Year 1 (1999)	$ 19,452	$ -	$ -	$ 19,452
Year 2 (2000)	14,308	-	-	14,308
Year 3 (2001)	12,862	-	-	12,862
Year 4 (2002)	12,867	-	-	12,867
Year 5 (2003)	12,735	-	-	12,735
After 5 Years (2004+)	78,813	-	-	78,813
Total Future Lease Payments	$ 151,037	$ -	$ -	$151,037
Less: Imputed Interest	(46,818)	-	-	(46,818)
Net Capital Lease Liability	$ 104,219	$ -	$ -	$104,219
Liabilities Covered by Budgetary Resources				$ 687
Liabilities Not Covered by Budgetary Resources				$103,532

Note 12. Leases:

Operating Leases:

Description of Lease Arrangements: Operating leases cover USCG leases for real property with lease terms up to 20 years, FAA leases for property, aircraft, equipment, and telecommunications which are funded and expensed annually, and a RSPA lease for the Transportation Safety Institute North Campus.

Future Payments Due:

Fiscal Year	Asset Category (1)	Asset Category (2)	Asset Category (3)	Totals
Year 1 (1999)	$ 46,316	$ 322	$ 2,708	$ 49,346
Year 2 (2000)	40,451	228	1,909	42,588
Year 3 (2001)	33,675	235	1,905	35,815
Year 4 (2002)	28,488	242	1,877	30,607
Year 5 (2003)	22,481	249	1,885	24,615
After 5 Years (2004+)	57,429	3,643	11,772	72,844
Total Future Lease Payments	$ 228,840	$ 4,919	$ 22,056	$255,815

B. ENTITY AS LESSOR:

Capital Leases:

Description of Lease Arrangements: In March 1998, FAA entered into a capital lease agreement with the South Jersey Transit Authority (SJTA) for the sum of $1 for a term of 50 years. The properties under the lease will be transferred to SJTA at the end of the lease term or upon compliance with the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA), Section 120. FAA recognized a loss of $27.4 million for buildings and other structures and $.7 million for equipment as a result of this capital lease.

Operating Leases:

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

Note 12. Leases:

Future Projected Receipts:

Fiscal Year	Asset Category (1)	Asset Category (2)	Asset Category (3)	Totals
	(1)	(2)	(3)	
Year 1 (1999)	$ 4,193	$ 90	$ 2	$ 4,285
Year 2 (2000)	4,279	90	2	4,371
Year 3 (2001)	4,297	90	2	4,389
Year 4 (2002)	4,712	90	2	4,804
Year 5 (2003)	5,169	90	2	5,261
After 5 Years (2004+)	170,750	90	2	170,842
Total Future Operating Lease Receivables	$ 193,400	$ 540	$ 12	$193,952

Note 13. Environmental Cleanup Costs:

A. Not Covered by Budgetary Resources

	(Dollars in Thousands) Total
1. Intragovernmental	
(1) USCG Environmental Remediation	$ 59,762
Total Intragovernmental	$ 59,762
2. Public	
(1) FAA Decommissioning Cleanup	$ 1,900,000
(2) FAA Environmental Remediation	828,900
(3) FAA Environmental Compliance	512,200
(4) MARAD Environmental Remediation	32,878
(5) FAA Air Traffic Control at Closed DOD Bases	3,200
Total Other	$ 3,277,178

B. Environmental cleanup and remediation generally occur under the Resource Conservation and Recovery Act of 1976 (RCRA), the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA or Superfund), or the Toxic Substances Control Act (TSCA). These laws require owners or operators to follow a prescribed method (generally including identification, assessment, remediation, and long-term monitoring) of contaminated properties. At the point in time when contamination is identified, a liability exists.

Types of contamination currently include: fuels from above and underground storage tanks; solvents and chemicals, and other hazardous substances; ATON batteries improperly disposed of; PCBs from leaking electrical transformers; and lead paint in soils from improper facility maintenance procedures. Environmental contamination and required cleanup may be associated with normal operations or may be the result of an accident.

FAA decommissioning cleanup is estimated cleanup costs which will result from future decommissioning of FAA facilities and equipment. FAA environmental compliance includes environmental, occupational safety and health compliance, and energy conservation. FAA air traffic control at closed DOD bases pertains to FAA continuing to provide air traffic control functions for civilian users of the National Airspace System near certain DOD bases scheduled for closure. FAA's costs include those for equipment, real property, and personnel relocation.

Note 14. Federal Employee and Veterans' Benefits:

A. Not Covered by Budgetary Resources

	(Dollars in Thousands) Value of Projected Plan Benefits
1. Pensions:	
USCG Retired Pay	$ 14,453,200
2. Other Retirement Benefits:	
USCG Military Health Care	5,542,900
3. Other Post-Employment Benefits:	
Federal Employees Compensation Act Actuarial Liability	1,060,290
Total Not Covered by Budgetary Resources	$ 21,056,390

B. The Coast Guard Military Retirement System (covering both retirement pay and health care benefits) is funded through annual appropriations and, as such, is essentially a pay-as-you-go system. Consequently, the only assets in the system are unintentional overpayments in the past which are due to be repaid by participants. The unfunded figures reported above reflect the actuarial accrued liability for both retired pay and health care benefits. Calculation of these numbers is a multi-step process. First, an "actuarial present value of accumulated plan benefits" is derived from the future payments that are attributable under the retirement plan's provisions to a member's credited service as of the valuation date (e.g., benefits to retired members or their beneficiaries). The accumulated plan benefits are converted to a present value of future benefits by applying assumptions to reflect the time value of money and the probability of payment between the valuation date and expected date of payments. The significant actuarial assumptions used in this conversion include: life expectancy, cost of living increases, and investment return. The present value of future benefits is then converted to an unfunded accrued liability by subtracting the present value of future employer/employee normal contributions as well as any assets in the system. Since this valuation is based on demographic data as of September 30, 1997, the resulting unfunded accrued liability is projected to September 30, 1998, by taking into account expected changes during the course of FY 1998 (e.g., normal cost/interest expenses, expected payments to retirees and annuitants, and interest).

Federal Employees' Compensation Act liabilities include the expected benefits for death, disability, medical, and miscellaneous costs for approved compensation cases. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. Consistent with past practice, those projected annual benefit payments have been discounted to present value using the Office of Management and Budget's economic assumptions for 10-year Treasury notes and bonds.

Note 14. Federal Employee and Veterans' Benefits:

Interest rate assumptions utilized for discounting were as follows:

1998	1997
5.60% in year 1, and thereafter	6.24% in year 1, 5.82% in year 2, 5.60% in year 3, 5.45% in year 4, 5.40% in year 5, and thereafter

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits, wage inflation factors (cost of living adjustments or COLAs) and medical inflation factors (consumer price index medical or CPIMs) are applied to the calculation of projected future benefits. These factors are also used to adjust the methodology's historical payments to current year constant dollars. The methodology also includes a discounting formula to recognize the timing of compensation payments as thirteen payments per year instead of one lump sum per year. The projected number of years of benefit payments is 37 years.

The compensation COLAs and CPIMs used in the projections were as follows:

FY	COLA	CPIM
1989	4.47%	6.98%
1990	4.43%	8.40%
1991	5.03%	9.36%
1992	5.00%	7.96%
1993	2.83%	6.61%
1994	2.77%	5.27%
1995	2.57%	4.72%
1996	2.63%	4.00%
1997	2.77%	3.11%
1998	2.70%	2.77%
1999	1.50%	3.56%
2000	1.70%	3.81%
2001	2.17%	3.93%
2002+	2.30%	3.93%

The model's resulting projections were analyzed to insure that the amounts were reliable. The analysis is based on three tests: (1) a comparison of the current year projections to the prior year projections, (2) a comparison of the prior year projected payments to the current year actual payments, excluding any new case payments that had arisen during the current year, and (3) a comparison of the current year actual payment data to the prior year actual payment data. Based on the outcome of this analysis, ad hoc adjustments were made to correct any anomalies in the projections.

Note 15. Contingencies:

Legal Proceedings. FAA recognized contingent liabilities of $433.4 million for certain legal claims. This represents a decrease in the amount of $4.8 million from FY 1997. Such claims are those that have been brought to the attention of the FAA Office of Chief Counsel (OCC) and that (1) have been asserted, or, if not yet asserted, in the opinion of the OCC are more likely to be asserted than not; (2) in the opinion of the OCC are more likely to be paid than not; and (3) for which the OCC can estimate the probable payment. Of these contingent liabilities for legal claims recognized, approximately $96.1 million could be payable from agency appropriations and approximately $337.3 million could be payable from the permanent appropriation for judgments, awards, and compromise settlements (Judgment Fund) administered by the Department of Justice. The maximum exposure associated with such claims is $81.4 billion. Therefore, FAA's exposure to loss for such contingent liabilities in excess of the amount recognized is $81 billion.

Coast Guard has sixteen claims pending before the Board of Contract Appeals or court of Federal Claims for a total of $5.8 million. The probability of outcome is uncertain, and the amount of loss, if any, cannot be reasonably estimated. Coast Guard currently is defending 142 pending formal Equal Opportunity Commission cases. While most have a maximum potential liability of up to $500,000, actual liability cannot be reasonably estimated, but is expected to be a mere fraction of the potential. Six discrimination cases are pending in the Federal courts, but the likelihood of a material adverse outcome to the Coast Guard is considered to be remote. Various admiralty, military compensation, and Federal Tort Claims Act claims pending may be paid but should not be of a material amount. For claims that have been referred for litigation to the Department of Justice, there is a reasonable possibility that some claims will be paid out of the Judgment Fund, with an aggregated range of loss of up to $2.5 million.

Coast Guard may be held responsible for cleaning up toxic or hazardous substances at many of its currently-owned and formerly-owned facilities. The potential range for loss is estimated up to $4.6 million. There is a reasonable possibility of an adverse outcome, but the amount of loss, if any, cannot be reasonably estimated. The Coast Guard has received Notice of Intent to Sue concerning its ATON battery recovery and disposal program. There is a reasonable possibility of an adverse outcome, and the amount of loss in that instance is estimated at more than $750,000. The Coast Guard is a responsible party in sixteen cases under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA). There is a reasonable possibility of an adverse outcome in at least some of these cases, with an aggregated potential loss of up to $4.0 million payable from the Judgment Fund. There are an additional ten CERCLA cases in which there is a reasonable possibility of an adverse outcome, but the range of loss cannot be estimated.

The Oil Spill Liability Trust Fund exists for the purpose of administratively paying claims relating to oil spills. There are 2,164 claims against the fund for a total of $75.2 million pending adjudication by the National Pollution Funds Center. An adverse outcome is probable in the aggregate, but the amount of loss cannot be reasonably estimated. There are three actions pending in Federal Court against the fund with a total of $6.7 million at issue. Although the Coast Guard is contesting each of these claims, there is a reasonable possibility of an adverse outcome in each. The amount of loss, if any, cannot be reasonably estimated.

Note 15. Contingencies:

Return Rights Program. FAA contingent liabilities for the Return Rights Program decreased by $9.6 million from $41.5 million in FY 1997 to about $31.9 million in FY 1998. The program covers temporary assignments for 2 to 4 years. At the beginning of FY 1998, approximately 854 employees who previously had accepted transfers to overseas or certain domestic locations were contractually entitled to a future return move at Government expense. The typical cost per move is $50,000. The liability may be overstated because not every employee remaining in the program will exercise his or her rights. If every employee in the program did exercise his or her rights, the liability would be as follows:

FY 1999	9,800,000
FY 2000	8,600,000
FY 2001	13,550,000
	$31,950,000

Aviation Insurance Program. FAA may issue aircraft hull and liability insurance under the Aviation Insurance Program for certain air carrier operations. FAA's authority to issue insurance is limited to situations where commercial insurance is not available on fair and reasonable terms and where the operation to be insured is necessary to carry out the U.S. Government's foreign policy. No claims for losses were pending as of September 30, 1998.

The categories of insurance issued by FAA are: (1) premium insurance, for which a risk-based premium is charged to the air carrier; and (2) non-premium insurance. Non-premium insurance, which represented all of the insurance issued by FAA in FY 1998, is issued for air carrier operations under contract to or on behalf of a U.S. Government agency, provided that the agency has an agreement with FAA to indemnify FAA against all losses covered by the insurance. FAA maintains standby non-premium war-risk insurance policies for 48 air carriers having approximately 936 aircraft available for Defense or State Department charter operations.

FAA normally insures only a small number of air carrier operations at any time. Airspace and airport capacity in areas where FAA insurance coverage would apply is usually very limited, so that FAA expects to be able to terminate insurance coverage and/or insured air carrier operations in high-risk areas after the loss of no more than two aircraft. Thus, probably no more than two FAA-insured aircraft could be lost before the FAA exercises its regulatory authority to stop flights to the area of loss. FAA establishes maximum liability for losing one insured aircraft at the limit of commercial insurance that applied to that aircraft before FAA issued its insurance. This liability covers third party losses. In many cases, FAA's maximum liability is $1 billion; usually it is less. Assuming a loss of not more than two aircraft per year, the maximum expected insurance liability for any year would be $2 billion. Since inception of the program (including the predecessor, the Aviation War Risk Insurance Program, dating back to 1951), only four claims, ranging from $626 to $122,469, respectively have been paid.

Note 16. Net Position:

A. Unexpended Appropriations

	(Dollars in Thousands)
(1) Unobligated	
a. Available	$ 2,273,696
b. Unavailable	160,446
(2) Undelivered Orders	6,919,238
Total	$ 9,353,380

B. Cumulative Results of Operations

Trust Fund Equity Balances:

(1) Unobligated	
a. Available	$ 8,911,569
b. Unavailable	2,443,490
(2) Undelivered Orders	8,685,635
Total	$ 20,040,694

DOT trust fund equity balances included above are for the Highway Trust Fund, the Airport and Airways Trust Fund, the Oil Spill Liability Trust Fund, and the Aquatic Resources Trust Fund.

Note 17. Total Cost and Earned Revenue by Budget Functional Classification:

(Dollars in Thousands)

	Total Cost	Earned Revenue	Net Cost
Functional Classification:			
050 National Defense	$ 100,779	$ -	$ 100,779
400 Transportation	41,872,796	927,882	40,944,914
450 Community and Regional Development	302	-	302
800 General Government	47	-	47
Total Cost	$ 41,973,924	$ 927,882	$ 41,046,042

Note 18. Net Cost by Program:

	(Dollars in Thousands)	
Program Costs		
1. Surface		
Federal Aid Highways		
Surface Transportation	$ 6,290,272	
Misc. Federal Aid Highway Programs	5,269,282	
Interstate Maintenance	3,083,217	
Bridge Programs	2,079,994	
National Highway System	2,039,397	
Mass Transit	1,869,314	
Congestion Mitigation and Air Quality	872,109	
Minimum Guarantee	739,545	
Federal Transit Administration	2,421,024	
Federal Railroad Administration Grants	479,434	
Federal Highway Program	412,603	
Northeast Corridor	391,089	
National Highway Traffic Safety Administration	184,343	
Other Rail Programs	67,274	
Research and Special Programs Administration	66,882	
Rail Safety	54,737	
High Speed Trainsets	30,500	
Alameda Corridor	20,538	
Rail Research	16,067	
Surface Transportation Board	15,959	
Total Surface Program Costs		$26,403,580
2. Air		
Air Traffic Services	$ 5,728,196	
Airports	1,436,541	
Research and Acquisition	1,044,382	
Regulation and Certification	690,423	
Civil Aviation Security	156,039	
Other Aviation Programs	19,683	
Commercial Space	7,027	
Total Air Program Costs		$ 9,082,291
3. Maritime		
Coast Guard Operating Expenses	$ 2,826,653	
Coast Guard Retired Pay	1,660,731	
Coast Guard Acquisition and Construction	430,980	
Coast Guard Oil Spill Liability	86,705	
Maritime Security Program	81,431	
Maritime Operation and Training	74,350	

Note 18. Net Cost by Program:

Coast Guard Reserve Training	67,370	
Coast Guard Boat Safety	47,881	
Other Coast Guard Programs	31,206	
Maritime Operating Differential Subsidy	37,049 `	
Other Maritime Programs	36,851	
Maritime Title XI Loan Program	21,038	
Total Maritime Program Costs		$ 5,402,245

Note 19. Deferred Maintenance:

(Dollars in Thousands)

DOT Entity	Category	Method	Asset Condition*	Cost to Return to Acceptable Condition**
FAA	Buildings	Condition Assessment Survey	4 & 5	$ 18,214
	Other Structures and Facilities	Condition Assessment Survey	4 & 5	$ 1,231
MARAD	Vessels, Ready Reserve Force	Condition Assessment Survey	3	$ 19,093
	Real Property, Anchorage	Condition Assessment Survey	4	$ 7,500
	Real Property, Buildings	Condition Assessment Survey	5	$ 12,515

*Condition Rating Scale:
- 1 - Excellent
- 2 - Good
- 3 - Fair
- 4 - Poor
- 5 - Very Poor

**Acceptable Condition is:

FAA Buildings	3 - Fair
FAA Structures and Facilities	3 - Fair
MARAD Vessels, Ready Reserve Force	1 - Excellent - Ships are seaworthy and ready for mission assignments within prescribed time limits.
MARAD, Real Property, Anchorage	3 - Fair - Adequate water depth, shore power, and mooring capabilities.
MARAD, Real Property, Buildings	3 - Fair - Buildings are safe and inhabitable.

Note 19. Deferred Maintenance:

Other Information: Deferred Maintenance is maintenance that was not performed when it should have been or was scheduled to be performed and delayed until a future period. Maintenance is keeping fixed assets in acceptable condition, and includes preventative maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve assets in a condition to provide acceptable service and to achieve expected useful lives.

No material maintenance was deferred on FAA land, aircraft, National Airspace Equipment, general purpose equipment, or assets under capital lease. MARAD reports no material deferred maintenance for other vessels or equipment.

Note 20. Taxes and Other Non-Exchange Revenue:

(Dollars in Thousands)

A. Taxes and Other Non-Exchange Revenue:	FY 1998
(1) Gasoline, Fuel, Tires, etc.	$26,627,765
(2) Passenger Ticket Taxes	6,190,226
(3) Investment Income	2,289,714
(4) Transfer from FTA Trust Fund to General Fund	2,260,000
(5) International Departure Taxes	947,775
(6) Airway Fuel Taxes	702,336
(7) Aquatic Resources Trust Fund Taxes	405,165
(8) Way Bill Taxes	313,503
(9) Treasury Revenue	64,112
(10) Fines and Penalties	8,746
(11) Oil Spill Liability Taxes	110
(12) Tax Refunds and Credits	(43,191)
(13) Miscellaneous Non-Exchange Revenue	33,052
	$39,799,313

B. Taxes are collected by the Department of the Treasury (Treasury) Internal Revenue Service for DOT's Highway Trust Fund, the Airport and Airways Trust Fund, the Aquatic Resources Trust Fund, and the Oil Spill Liability Trust Fund. These taxes can be withdrawn only as authorized by various DOT appropriations. Treasury estimates taxes to be collected each quarter and adjusts the estimates by actual collections. The adjustment for actual collections lags about six months after the estimate. Historically there has been a variance between the estimate and actual. Therefore, a precise determination of tax collections as of September 30, 1998, will not be available until March 1999.

The Taxpayer Act of 1997 (P.L. 105-34) delayed the collection date of excise taxes for the Airport and Airways Trust Fund until the first quarter of FY1999. Because of the delayed deposit rule these receipts, otherwise due in the fourth quarter of FY 1998, were not included in the tax receipt amounts reported for FY 1998. The Treasury Office of Tax Analysis estimated the tax receipt amount as approximately $1.1 billion for the tax quarter ending September 30, 1998, that would be due in October 1998.

Note 21. Prior Period Adjustments:

A. Prior Period Adjustments:	(Dollars in Thousands) FY 1998
(1) Property Adjustments	$ (12,220,355)
(2) Unfunded Coast Guard Medical Liability Adjustments	(3,463,191)
(3) Unfunded Coast Guard Pension Liability Adjustments	(1,537,000)
(4) FAA and Coast Guard Cleanup Cost Implementation	(1,538,631)
(5) Miscellaneous FAA Adjustments	(296,061)
(6) FAA Airport Improvement Grant Adjustments	(145,602)
(7) Inventory and Related Material Adjustments	214,868
(8) FAA Judgment Fund Adjustments	(38,879)
(9) Highway Trust Fund Reclassification of Advances	19,578
(10) STB Federal Employees' Compensation Act Adjustments	(5,026)
(11) Highway Trust Fund Close out Liability Account	(890)
(12) Cash Difference Adjustments	(511)
(13) Other Miscellaneous Adjustments	272
Total	$ (19,011,428)

B. Property adjustments were due to removal of stewardship assets from the balance sheet, a change in the capitalization threshold, property reconciliations, revaluation of assets, and depreciation adjustments. Cleanup cost implementation resulted from new accounting policy in regard to recognition of cleanup costs. Inventory and related property adjustments are changes in values for inventory, operating materials and supplies, and field spares.

Note 22. Statement of Budgetary Resources:

		(Dollars in Thousands)
		FY 1998
A. The Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period:	$	42,871,195
B. Available Contract Authority at the End of the Period:	$	5,308,190
Available Borrowing Authority at the End of the Period:	$	102,405

Describe Repayment Requirements, Financing Sources for Repayment, and Other Terms of Borrowing Authority:

Borrowing Authority pertains to FRA. The principal on current borrowing authority matures in the year 2035. Until such time as the debtor's repayment schedule equals or exceeds interest expense to Treasury, FRA will borrow the required amounts yearly.

The FAA Aircraft Purchase Guarantee Program is funded under the authority to borrow from the U.S. Treasury granted by Congress in the DOT and Related Agencies Appropriation Act, 1983. Borrowing authority is implemented through a blanket promissory, which provides FAA with a line of credit for the full amount of borrowing authority granted through Congress. Because authorization for issuing new loan guarantees expired in 1988, FAA has not issued any new guaranteed loans. In FY 1998 FAA had an outstanding loan which was refinanced through an advance from Treasury, which is payable with interest on September 30, 2000. Although FAA does have borrowing authority, it is seeking a liquidating appropriation to pay off the remaining note with Treasury and end the program.

C. Adjustments During the Reporting Period to Budgetary Resources Available at the Beginning of the Year:	$	(652,627)

Provide a Complete Explanation of These Adjustments:

Adjustments consist of rescissions and prior year recoveries.

Note 22. Statement of Budgetary Resources:

D. Describe Existence, Purpose, and Availability of Permanent Indefinite Appropriations:

FRA has permanent indefinite appropriations to provide subsidy adjustments under the Credit Reform Act for potential defaults on direct loans to railroads. Availability extends throughout the life of the loan program.

E. Describe Information About Legal Arrangements Affecting the Use of Unobligated Balances of Budget Authority, Such as Time Limits, Purpose, and Obligation Limitations:

Annual appropriations provide for obligations in the year of apportionment. Unobligated amounts may be used for upward adjustments of existing obligations through the five-year expired status. Unobligated balances of no-year appropriations may be reapportioned each year.

F. Reconcile and Explain Any Differences from the Balance Sheet, such as for Contract Authority:

HTF has unfunded contract authority of about $49.3 billion, of which about $31.2 billion is obligated and about $18.1 billion is unobligated. FAA has unfunded contract authority of about $296 million, of which about $221 million is obligated and about $75 million is unobligated.

Note 23. Financing Sources Yet to be Provided:

	(Dollars in Thousands) FY 1998
A. Financing Sources Yet to be Provided: (From Statement of Financing)	$ 6,902,266
Prior Year USCG Retired Pay	13,982,109
Prior Year Environmental Remediation	2,555,284
Prior Year Federal Employees' Compensation Act Billings and Actuarial Liabilities	1,238,784
Prior Year Accrued Pay and Benefits	671,006
Prior Year Contingent Liabilities	465,394
Prior Year Capital Leases	101,656
Prior Year Unadjudicated Claims	7,558
Other Miscellaneous	27,144
Liabilities Not Covered by Budgetary Resources	$ 25,951,201

B. Financing Sources Yet to be Provided from the Statement of Financing are limited to FY 1998 activities while Liabilities Not Covered by Budgetary Resources also include unfunded activities from prior years.

Note 24. Dedicated Collections:

	(Dollars in Thousands)	
	FY 1998	
	Aquatic Resources Trust Fund	Oil Spill Liability Trust Fund
Investments	$ 1,002,564	$ 1,082,936
Other Assets	31,507	39,299
TOTAL ASSETS	**$ 1,034,071**	**$ 1,122,235**
Liabilities Payable	$ -	$ 9,058
Other Liabilities	24,782	-
TOTAL LIABILITIES	**$ 24,782**	**$ 9,058**
TOTAL NET POSITION	**$ 1,009,289**	**$ 1,113,177**
TOTAL LIABILITIES AND NET POSITION	**$ 1,034,071**	**$ 1,122,235**
NET COST	$ (47,881)	$ (86,705)
OTHER FINANCING SOURCES	133,365	48,550
OTHER CHANGES IN FUND BALANCE	-	(3,116)
TOTAL CHANGES IN FUND BALANCE	$ 85,484	$ (41,271)
BEGINNING NET POSITION	923,805	1,154,448
TOTAL NET POSITION	**$ 1,009,289**	**$ 1,113,177**

Highway Trust Fund and Airport and Airways Trust Fund dedicated collections are described in their stand-alone financial statements.

Note 25. Custodial Activity:

Revenue Activity:

Sources of Cash Collections:	(Dollars in Thousands)
(1) Fines and Penalties	$ 24,539
(2) USCG Yacht and Boat Fees	14,791
(3) USCG General Fund Property Collections	2,370
(4) Miscellaneous Receipts	1,103
(5) USCG Registration and Filing Fees	1,042
(6) Refunds and Recoveries	37
(7) Marine Inspections	11
Total Cash Collections	$ 43,893
Accrual Adjustment	1,105
Total Custodial Revenue	$ 44,998
Disposition of Collections:	
Transferred to Treasury (General Fund):	$ 43,893
(Increase) Decrease in Amounts to be Transferred	1,105
Net Custodial Revenue Activity	$ -

Note 26. Saint Lawrence Seaway Development Corporation:

Condensed FY 1998 Information:	(Dollars in Thousands)
Cash and Short-Term Time Deposits	$ 11,700
Long-Term Time Deposits	1,412
Accounts Receivable	211
Inventories	273
Property, Plant and Equipment	86,460
Deferred Charges	1,688
Other Assets	576
TOTAL ASSETS	**$ 102,320**
Current Liabilities	$ 1,913
Actuarial Liabilities	1,688
TOTAL LIABILITIES	**$ 3,601**
Invested Capital	$ 101,283
Cumulative Results of Operations	(2,564)
TOTAL NET POSITION	**$ 98,719**
TOTAL LIABILITIES AND NET POSITION	**$ 102,320**

HERITAGE ASSETS SUMMARY
ANNUAL STEWARDSHIP INFORMATION, SEPTEMBER 30, 1998
NUMBER OF PHYSICAL UNITS

	Units as of 09/30/97	Additions	Withdrawals	Units as of 09/30/98
Heritage Assets:				
Collections:				
Artifacts	16,176	1,058	0	17,234
Display Models	492	44	0	536
Museum	74	0	(2)	72
Other Collections	150	59	0	209
Total Collections	16,892	1,161	(2)	18,051
Real Property:				
Buildings and Structures	569	0	0	569
Memorials	3	0	0	3
Recreational Areas	3	0	0	3
Other Historical Areas	17	0	0	17
Total Real Property Heritage Assets	592	0	0	592

Artifacts are those of the U.S. Coast Guard and can be divided into three general areas: ship equipment, lighthouse and other aids-to-navigation items, and military uniforms.

Ship equipment is generally acquired when the ship is decommissioned and includes small items such as sextants, ship clocks, wall plaques, steering wheels, bells, binnacles, engine order telegraphs, and ship name boards. Conditions vary, but much is worn out from decades of use.

Aids-to-navigation items include fog and buoy bells, lanterns, lamp changing apparatus, and lighthouse lenses. Buoy equipment tends to be worn out and is usually replaced only when new technology makes it obsolete. Classical lighthouse lenses vary greatly in condition. The condition is normally dependent on how long the item has been out of service and not maintained. Most of the good lenses go to local museums or Coast Guard bases as display items.

Military uniforms are generally donated by retired Coast Guard members, and include clothing as well as insignia and accoutrements. Most clothing is in fair to good condition, particularly full dress items which saw little daily wear.

Display Models are mostly of Coast Guard vessels and aircraft. These are often builders' models. In addition to being accurate and valuable, they are generally in very good condition. Builders' models are acquired by the Coast Guard as part of the contracts with the ship or aircraft builders.

Museum and Other Collections are owned by the Maritime Administration. They are merchant marine artifacts, composed of ships' operating equipment, obtained from obsolete ships. They are inoperative and in need of preservation and restoration.

Buildings and Structures include Union Station in Washington, D.C. Union Station is an elegant and unique turn-of-the-century rail station in which one finds a wide variety of elaborate, artistic workmanship characteristic of the period. Union Station is listed on the National Register of Historic Places. The station consists of the renovated original building and a parking garage which was added by the U.S. Park Service. The Federal Railroad Administration received title to Union Station through appropriated funds and assumption of a mortgage. Union Station Redevelopment Corporation, a non-profit group instrumental in the renovation of the station, sublets the operation of the station to Union Station Venture Limited. Mortgage payments are made by Union Station Venture Limited which manages the property.

The bulk of the additional real property designated heritage assets is Coast Guard lighthouses. These lighthouses have been acquired by the Coast Guard during the normal course of construction over the years, and have since been designated as "historic" due to their significance in American history, architecture, archaeology, engineering, or culture.

NATIONAL DEFENSE PROPERTY, PLANT, AND EQUIPMENT SUMMARY
ANNUAL STEWARDSHIP INFORMATION, SEPTEMBER 30, 1998
NUMBER OF PHYSICAL UNITS

	Units as of 09/30/97	Additions	Withdrawals	Units as of 09/30/98
National Defense Reserve Fleet (NDRF) Vessels:				
Ready Reserve Fleet	96	0	(5)	91
Other NDRF Vessels	47	11	(3)	55
Total National Defense PP&E Vessels	143	11	(8)	146

All DOT National Defense Property, Plant, and Equipment (PP&E) is in the Maritime Administration. Since *non-preservation* ships in the National Defense Reserve Fleet do not meet the criteria for National Defense PP&E, the residual value of scrap ships remains in General PP&E. The Ready Reserve Fleet (RRF) is a component of the National Defense Reserve Fleet (NDRF). A vessel downgraded from RRF is still a NDRF asset and its removal from the RRF does not affect the total of the NDRF.

NATIONAL DEFENSE PROPERTY, PLANT, AND EQUIPMENT SUMMARY
ANNUAL STEWARDSHIP INFORMATION, SEPTEMBER 30, 1998
ACQUISITION COSTS
(Dollars in Thousands)

	FY 1998
National Defense Reserve Fleet (NDRF) Vessels:	
Ready Reserve Fleet	$ 18,094
Other NDRF Vessels	-0-
Total National Defense PP&E Acquisition Costs	$ 18,094

The Ready Reserve Fleet (RRF) is a component of the National Defense Reserve Fleet (NDRF). Capital acquisition in FY 1998 was limited to the Spar Deck Expansion Project.

NONFEDERAL PHYSICAL PROPERTY
ANNUAL STEWARDSHIP INFORMATION, SEPTEMBER 30, 1998
TRANSPORTATION INVESTMENTS
(Dollars in Thousands)

		FY 1998
Surface Transportation:		
Federal Highway Administration		
Federal Aid Highways (Highway Trust Fund)	$ 19,967,116	
Other Highway Trust Fund Programs	119,276	
General Fund Programs	173,230	
Appalachian Development System	187,173	
Federal Transit Administration		
Discretionary Grants	$ 1,872,945	
Formula Grants	1,729,350	
Washington Metro	183,626	
Interstate Transfer Grants	2,693	
Total Surface Transportation		$ 24,235,409
Air Transportation:		
Federal Aviation Administration		
Airport Improvement Program	$ 1,436,541	
Total Air Transportation		$ 1,436,541
Total Nonfederal Physical Property Investments		$ 25,671,950

The **Federal Highway Administration** reimburses states for construction costs on projects related to the Federal Aid Highway system of roads. The main programs in which the states participate are the National Highway System, Interstate Systems, surface transportation, and congestion mitigation/air quality improvement. The states' contribution is ten percent for the Interstate System and twenty percent for most other programs.

The **Federal Transit Administration** provides grants to state and local transit authorities and agencies.

Discretionary grants provide capital assistance to finance acquisition, construction, reconstruction, and improvement of facilities and equipment. Discretionary grants fund the categories of new starts, fixed guideway modernization, and bus and bus-related activities.

Formula grants provide capital assistance to urban and nonurban areas and may be used for a wide variety of mass transit purposes, including planning, construction of facilities, and purchases of buses and railcars. Funding also includes providing transportation to meet the special needs of elderly individuals and individuals with disabilities.

Washington Metro provides funding to support the construction of the Washington Metrorail System.

Interstate Transfer Grants provided Federal funding from FY 1976 through FY 1995 to allow states and localities to fund transit capital projects substituted for previously withdrawn segments of the Interstate Highway System.

The **Federal Aviation Administration** (FAA) makes project grants for airport planning and development to maintain a safe and efficient nationwide system of public-use airports that meet both present and future needs of civil aeronautics. FAA works in partnership with states, local units of government, metropolitan planning organizations, and airport authorities. In FY 1998 FAA made a total of 1,040 new grants to improve and expand the nation's airports. In FY 1998 the FAA grant focus was on awarding funds to eligible airports to enhance capacity, improve safety and security, and mitigate noise.

HUMAN CAPITAL INVESTMENT EXPENSES
ANNUAL STEWARDSHIP INFORMATION, SEPTEMBER 30, 1998
(Dollars in Thousands)

		FY 1998
Surface Transportation:		
Federal Highway Administration		
National Highway Institute Training	$ 2,716	
Federal Transit Administration		
National Transit Institute Training	3,849	
Research and Special Programs Administration		
Hazardous Materials (Hazmat) Training	3,116	
Total Surface Transportation		$ 9,681
Maritime Transportation:		
Maritime Administration		
State Maritime Academies Training	$ 7,900[1]	
Additional Maritime Training	453	
Total Maritime Transportation		$ 8,353
Total Human Capital Investments		$ 18,034

[1] Does not include funding for the Student Incentive Payment (SIP) Program which produces graduates who are obligated to serve in a reserve component of the United States armed forces.

The National Highway Institute conducts various training courses for all aspects of **Federal Highway Administration**. Students are typically state and local police, state highway department employees, public safety and motor vehicle employees, and U.S. citizens and foreign nationals engaged in highway work of interest to the U.S. Types of courses given and developed are modern developments, technique, management, planning, environmental factors, engineering, safety, construction, and maintenance.

The National Transit Institute of the **Federal Transit Administration** develops and offers training courses to improve transit planning and operations. Technology courses cover such topics as alternative fuels, turnkey project delivery systems, communications-based train controls, and integration of advanced technologies.

The **Research and Special Programs Administration** administers Hazardous Material Training (Hazmat). The purpose of Hazmat Training is to train state and local emergency personnel on the handling of hazardous materials in the event of a hazardous material spill or storage problem.

The **Maritime Administration** (MARAD) provided direct payments of $200,000 each to the six State Maritime Academies which MARAD recognizes as regional maritime academies. MARAD also provides funding to the State Maritime Academies through maintenance and repair of a training vessel owned by MARAD and loaned to each of the five sea coast maritime academies for use in at-sea training and as shore-side laboratories. Additional maritime training funding provides firefighting training to over 1,900 maritime personnel each year at three locations throughout the country. In addition, MARAD's National Sealift Training Program provides instruction in defense communications, maritime security and sealift readiness to approximately 50 senior deck officers each year.

RESEARCH AND DEVELOPMENT INVESTMENTS
ANNUAL STEWARDSHIP INFORMATION, SEPTEMBER 30, 1998
(Dollars in Thousands)

		FY 1998
Surface Transportation:		
Federal Highway Administration		
Intelligent Transportation Systems	$ 189,612	
Other Applied Research and Development	123,739	
Federal Transit Administration		
Applied Research and Development:		
Transit Planning and Research	$ 5,966	
Transit University Transportation Centers	2,556	
Research Training and Human Resources	24	
Discretionary Grants	48	
Research and Special Programs Administration		
Applied Research and Development:		
Research and Technology	$ 1,738	
Pipeline Safety	792	
Hazardous Materials	313	
Emergency Transportation	35	
Total Surface Transportation		$ 324,823

Air Transportation:

Federal Aviation Administration

Research and Development Plant	$ 54,179	
Other Applied Research and Development	151,511	
Administration	11,254	
Total Air Transportation		$ 216,944

Maritime Transportation:

U.S. Coast Guard

Applied Research, Development, Test and Evaluation:

Marine Safety	$ 9,134	
Enforcement of Laws and Treaties	4,095	
Marine Environmental Protection	3,122	
Aids to Navigation	2,622	
Total Maritime Transportation		$ 18,973

Total Research and Development Investments	$ 560,740

The **Federal Highway Administration's** research and development programs are earmarks in the appropriations bills for the fiscal year. Typically these programs are related to safety, pavements, structures, and environment. Intelligent Transportation Systems was created to promote automated highways and vehicles to enhance the national highway system.

The **Federal Transit Administration** supports research and development in the following program areas:

> Research and development in Transit Planning and Research supports two major areas: the National Research Program and the Transit Cooperative Research Program. The National Research Program funds the research and development of innovative transit technologies such as safety-enhancing commuter rail control systems, hybrid electric buses, and fuel cell and battery-powered propulsion systems. The Transit Cooperative Research Program focuses on issues significant to the transit industry with emphasis on local problem-solving research.

Transit University Transportation Centers, combined with funds from the Highway Trust Fund, provide continued support for research, education, and technology transfer.

Research and development activities were funded under the Research Training and Human Resources program until FY 1993. Since FY 1993, these activities have been funded under the Transit Planning and Research Program.

Discretionary Grants funded the National Research Program in FY 1992.

The **Research and Special Programs Administration** funds research and development activities for the following organizations and activities:

The Office of Pipeline Safety is involved in research and development in information systems, risk assessment, mapping, and non-destructive evaluation.

The Office of Hazardous Materials is involved in research, development, and analysis in regulation compliance, safety, and information systems.

The Office of Emergency Transportation is involved in research and development in mapping software for the Crisis Management Center, transportation policy, and outreach efforts.

The Office of Research and Technology is involved in research and development for the University of Technology and Education.

The **Federal Aviation Administration** (FAA) conducts research and invests in essential infrastructure to meet increasing demands for higher levels of system safety, security, capacity, and efficiency. Critical areas of research and development include explosive detection, weather, aircraft structures, noise mitigation, human factors, and satellite navigation. For air-traffic control, the FAA is introducing new technologies such as satellite navigation using the global positioning system (GPS), data link communications, and collaborative decisionmaking tools.

The **U.S. Coast Guard** funds research, development, testing, and evaluation in the following program areas:

The goal of the Marine Safety Program is to improve safety both in the commercial and public maritime communities as well as within the Coast Guard, without encumbering operational performance or the economic competitiveness of the U.S. maritime industry. An active research program in the areas of risk management, fire safety, human error reduction, and ship design will lead to overall improvements in the safety of our marine system by preventing accidents, loss of life, and environmental damage. The results from this

research are also used to develop national and international maritime and vessel safety standards.
The Enforcement of Laws and Treaties Program supports Comprehensive Law Enforcement research. These research projects evaluate detection capability improvements, including identifying new technology to counter threats to Coast Guard detection and search devices, resulting in increased probability of detecting illegal smuggling. This research supports the Coast Guard's maritime security goal and the Department's national security goal.

The goal of the Marine Environmental Protection Program is to make significant advances in Coast Guard performance in its role as a spill response organization by developing improved training, surveillance, response, and countermeasure systems for emergency response. The results of these efforts are incorporated into Coast Guard planning and management tools to enable a faster, more efficient, and less chaotic response during major spills as well as being used as the basis for developing new technologies or methods for controlling and removing oil or other hazardous substances after a spill.

The goal of the Aids to Navigation program is to improve the efficiency of our waterways by developing and evaluating technologies for navigation and traffic monitoring, and providing tools to the waterways manager for making decisions on where resources may best be invested in our nation's waterways to achieve the greatest benefits. This work also supports the Department's goal for an Intelligent Transportation System infrastructure and provides technological and operational improvements that have the potential to increase the rate at which goods can move safely through our waterways. Improvements in the design and operations of our waterways provide significant benefits to the nation in terms of reducing transportation costs and increasing the volume of goods transported on our waters. The efficiency and effectiveness of our waterways contributes directly to the economic health and vitality of the nation.

U.S. Department of Transportation
Consolidating Balance Sheet
For the Period Ended September 30, 1998
(Dollars in Thousands)

Assets	HTF	FAA	USCG	All Other	(Eliminations)	1998 DOT Total
Entity:						
Intragovernmental:						
Fund Balance with Treasury (Note 2)	$ 8,649,096	$ 1,569,560	$ 1,491,495	$ 7,672,929	$ (13,218)	$ 19,369,862
Investments (Note 3)	17,925,534	8,618,510	1,152,974	70,841	-	27,767,859
Accounts Receivable, Net (Note 4)	3,383	54,894	106,844	233,000	(10,046)	388,075
Interest Receivable (Net)	-	134,128	1,518	41	-	135,687
Other Assets (Note 5)	5,155	160,330	125,396	73,801	(27,479)	337,203
Total Intragovernmental Assets:	$ 26,583,168	$ 10,537,422	$ 2,878,227	$ 8,050,612	$ (50,743)	$ 47,998,686
Investments (Note 3)	-	-	27	-	-	27
Accounts Receivable, Net (Note 4)	15,861	26,318	48,759	11,391	-	102,329
Interest Receivable (Net)	-	-	-	148	-	148
Loans Receivable and Related Foreclosed Property, Net (Note 6)	-	394	-	343,234	-	343,628
Cash and Other Monetary Assets (Note 7)	-	59,710	3,392	13	-	63,115
Inventory and Related Property, Net (Note 8)	-	819,580	1,016,704	354,335	-	2,190,619
Gen Property, Plant, & Equipment, Net (Note 9)	41,272	8,375,113	5,227,209	178,233	-	13,821,827
Other Assets (Note 5)	184,311	8,462	11,166	258	-	204,197
Total Entity	$ 26,824,612	$ 19,826,999	$ 9,185,484	$ 8,938,224	$ (50,743)	$ 64,724,576
Non-Entity:						
Intragovernmental:						
Fund Balance with Treasury (Note 2)	$ -	$ -	$ -	$ 47	$ -	$ 47
Investments (Note 3)	-	-	934,240	-	-	934,240
Interest Receivable (Net)	-	-	11,428	-	-	11,428
Total Intragovernmental Assets:	$ -	$ -	$ 945,668	$ 47	$ -	$ 945,715
Accounts Receivable, Net (Note 4)	-	-	9,652	403	-	10,055
Total Non-Entity	$ -	$ -	$ 955,320	$ 450	$ -	$ 955,770
Total Assets	$ 26,824,612	$ 19,826,999	$ 10,140,804	$ 8,938,674	$ (50,743)	$ 65,680,346

Unaudited

Department of Transportation
Consolidating Balance Sheet
For the Period Ended September 30, 1998
(Dollars in Thousands)

	HTF	FAA	USCG	All Other	(Eliminations)	1998 DOT Total
Liabilities						
Liabilities Covered by Budgetary Resources:						
Intragovernmental:						
Accounts Payable	$ 8,072,434	$ 179,788	$ 140,612	$ 12,208	$ 119,026	$ 8,524,068
Interest Payable	-	-	-	11,586	-	11,586
Debt (Note 10)	-	-	-	317,159	-	317,159
Other Intragovernmental Liabilities (Note 11)	11,114	69,097	67,008	203,686	(36,380)	314,525
Total Intragovernmental Liabilities:	$ 8,083,548	$ 248,885	$ 207,620	$ 544,639	$ 82,646	$ 9,167,338
Accounts Payable	740,922	505,979	132,833	196,855	(535)	1,576,054
Liabilities for Loan Guarantees (Note 6)	-	-	-	135,619	-	135,619
Lease Liabilities (Note 12)	-	687	-	-	-	687
Other Liabilities (Note 11)	14,646	189,008	131,286	35,757	-	370,697
Total Liabilities Covered by Budgetary Resources	$ 8,839,116	$ 944,559	$ 471,739	$ 912,870	$ 82,111	$ 11,250,395
Liabilities Not Covered by Budgetary Resources:						
Intragovernmental:						
Debt (Note 10)	$ -	$ 24	$ -	$ -	$ -	$ 24
Environmental Cleanup Costs (Note 13)	-	-	59,762	-	-	59,762
Other Intragovernmental Liabilities (Note 11)	2,432	181,065	14,894	22,753	-	221,144
Total Intragovernmental Liabilities:	$ 2,432	$ 181,089	$ 74,656	$ 22,753	$ -	$ 280,930
Lease Liabilities (Note 12)	-	103,532	-	-	-	103,532
Federal Employees and Veterans' Benefits (Note 14)	12,379	926,780	20,072,211	45,020	-	21,056,390
Environmental Cleanup Costs (Note 13)	-	3,244,300	-	32,878	-	3,277,178
Other Liabilities (Note 11 & 15)	25,575	873,466	300,639	33,491	-	1,233,171
Total Liabilities Not Covered by Budgetary Resources	$ 40,386	$ 5,329,167	$ 20,447,506	$ 134,142	$ -	$ 25,951,201
Total Liabilities	$ 8,879,502	$ 6,273,726	$ 20,919,245	$ 1,047,012	$ 82,111	$ 37,201,596

Unaudited

Department of Transportation
Consolidating Balance Sheet
For the Period Ended September 30, 1998
(Dollars in Thousands)

Net Position (Note 16)	HTF	FAA	USCG	All Other	(Eliminations)	1998 DOT Total
Unexpended Appropriations	$ -	$ 336,470	$ 1,316,016	$ 7,837,985	$ (137,091)	$ 9,353,380
Cumulative Results of Operations	17,945,110	13,216,803	(12,094,457)	53,677	4,237	19,125,370
Total Net Position	$ 17,945,110	$ 13,553,273	$(10,778,441)	$ 7,891,662	$ (132,854)	$ 28,478,750
Total Liabilities and Net Position	$ 26,824,612	$ 19,826,999	$ 10,140,804	$ 8,938,674	$ (50,743)	$ 65,680,346

Unaudited

U.S. Department of Transportation
Consolidating Statement of Net Cost
For the Period Ended September 30, 1998
(Dollars in Thousands)

	HTF	FAA	USCG	All Other	(Eliminations)	1998 DOT Total
Program Costs (Notes 17 & 18)						
Surface Transportation:						
Intragovernmental	$ 40,374	$ -	$	$ 15,826	$ 1,744	$ 57,944
Public	22,258,994	-	-	4,222,723	14,801	26,496,518
Total	22,299,368	-	-	4,238,549	16,545	26,554,462
Less Earned Revenues	(56,238)	-	-	(64,311)	(30,333)	(150,882)
Net Program Costs	$ 22,243,130	$ -	$ -	$ 4,174,238	$ (13,788)	$ 26,403,580
Air Transportation:						
Intragovernmental	$ -	$ 520,990	$ -	$ -	$ (16,668)	$ 504,322
Public	-	8,677,118	-	-	-	8,677,118
Total	-	9,198,108	-	-	(16,668)	9,181,440
Less Earned Revenues	-	(116,296)	-	-	17,147	(99,149)
Net Program Costs	$ -	$ 9,081,812	$ -	$ -	$ 479	$ 9,082,291
Maritime Transportation:						
Intragovernmental	$ -	$ -	$ 957,451	$ -	$ -	$ 957,451
Public	-	-	4,322,218	710,383	-	5,032,601
Total	-	-	5,279,669	710,383	-	5,990,052
Less Earned Revenues	-	-	(128,143)	(459,664)	-	(587,807)
Net Program Costs	$ -	$ -	$ 5,151,526	$ 250,719	$ -	$ 5,402,245
Cross-Cutting Programs						
Intragovernmental	$ -	$ -	$ -	$ 202,209	$ (147,726)	$ 54,483
Public	-	-	-	1,212	-	1,212
Total	-	-	-	203,421	(147,726)	55,695
Less Earned Revenues	-	-	-	(203,421)	147,726	(55,695)
Net Program Costs	$ -	$ -	$ -	$ -	$ -	$ -

Unaudited

U.S. Department of Transportation
Consolidating Statement of Net Cost
For the Period Ended September 30, 1998
(Dollars in Thousands)

	HTF	FAA	USCG	All Other	(Eliminations)	1998 DOT Total
Cost Not Assigned to Programs	$ -	$ -	$ -	$ 304,919	$ (113,332)	$ 191,587
Less Earned Revenues Not Attributed to Programs	-	-	-	(148,082)	114,421	(33,661)
Deferred Maintenance (Note 19)						
Net Cost of Operations	$ 22,243,130	$ 9,081,812	$ 5,151,526	$ 4,581,794	$ (12,220)	$ 41,046,042

Unaudited

U.S. Department of Transportation
Consolidating Statement of Changes in Net Position
For the Period Ended September 30, 1998
(Dollars in Thousands)

	HTF	FAA	USCG	All Other	(Eliminations)	1998 DOT Total
Net Cost of Operations	$ (22,243,130)	$ (9,081,812)	$ (5,151,526)	$ (4,581,794)	$ 12,220	$ (41,046,042)
Financing Sources:						
Appropriations Used	-	3,312,612	3,899,912	2,880,448	(16,269)	10,076,703
Taxes and Other Revenue (Note 20)	28,335,114	8,725,972	478,227	2,260,000	-	39,799,313
Donations	-	(774)	97,349	-	-	96,575
Imputed Financing	-	355,732	27,456	24,363	-	407,551
Transfers-In	-	11,691	145,315	-	-	157,006
Transfers-Out	(10,372,609)	(64,268)	(441,499)	(1,358)	-	(10,879,734)
Other	-	-	30,129	-	(5,060)	25,069
Net Results of Operations	$ (4,280,625)	$ 3,259,153	$ (914,637)	$ 581,659	$ (9,109)	$ (1,363,559)
Prior Period Adjustments (Note 21)	18,688	(5,528,065)	(13,425,847)	(76,204)	-	(19,011,428)
Net Change in Cumulative Results of Operations	$ (4,261,937)	$ (2,268,912)	$ (14,340,484)	$ 505,455	$ (9,109)	$ (20,374,987)
Increase (Decrease) in Unexpended Appropriations	-	(380,032)	(89,751)	(1,318,035)	(121,245)	(1,909,063)
Change in Net Position	$ (4,261,937)	$ (2,648,944)	$ (14,430,235)	$ (812,580)	$ (130,354)	$ (22,284,050)
Net Position, Beginning of Period	22,207,047	16,202,217	3,651,794	8,704,242	(2,500)	50,762,800
Net Position, End of Period	$ 17,945,110	$ 13,553,273	$ (10,778,441)	$ 7,891,662	$ (132,854)	$ 28,478,750

Unaudited

U.S. Department of Transportation
Consolidating Statement of Budgetary Resources
For the Period Ended September 30, 1998
(Dollars in Thousands)

	HTF	FAA	USCG	All Other	(Eliminations)	1998 DOT Total
Budgetary Resources (Note 22):						
Budget Authority (Line 1)	$ 33,456,013	$ 11,184,553	$ 4,032,687	$ 2,512,116	$ (10,212)	$ 51,175,157
Unobligated Balances - Beginning of Period and Net Transfers (Line 2)	36,198,070	7,229,820	2,458,298	1,829,995	(101,340)	47,614,843
Spending Authority From Offsetting Collections (Line 3)	47,263	2,033,195	292,885	3,301,188	(244,946)	5,429,585
Adjustments (Lines 4-6)	(20,926,068)	114,148	6,528	(140,399)	(2,459)	(20,948,250)
Total Budgetary Resources (Line 7)	$ 48,775,278	$ 20,561,716	$ 6,790,398	$ 7,502,900	$ (358,957)	$ 83,271,335
Status of Budgetary Resources:						
Obligations Incurred (Line 8)	$ 25,323,837	$ 11,338,673	$ 4,271,207	$ 5,458,340	$ (269,812)	$ 46,122,245
Unobligated Balances - Available (Line 9)	5,405,381	522,739	372,848	1,683,034	(89,145)	7,894,857
Unobligated Balances - Not Available (Line 10)	18,046,060	8,700,304	2,146,343	361,526	-	29,254,233
Total, Status of Budgetary Resources (Line 11)	$ 48,775,278	$ 20,561,716	$ 6,790,398	$ 7,502,900	$ (358,957)	$ 83,271,335
Outlays:						
Obligations Incurred (Line 8)	$ 25,323,837	$ 11,338,673	$ 4,271,207	$ 5,458,340	$ (269,812)	$ 46,122,245
Less: Spending Authority From Offsetting Collections and Adjustments (Lines 3A, B, D, & 4A)	(99,514)	(2,161,115)	(341,577)	(3,389,303)	247,341	(5,744,168)
Obligated Balance, Net - Beginning of Period (Line 12)	35,693,844	5,074,554	1,273,908	5,851,944	103,353	47,997,603
Obligated Balance Transferred, Net (Line 13)	-	-	-	(43)	-	(43)
Less: Obligated Balance, Net - End of Period (Line 14)	(36,442,471)	(5,038,337)	(1,286,624)	(5,697,075)	(99,768)	(48,564,275)
Total Outlays (Line 15)	$ 24,475,696	$ 9,213,775	$ 3,916,914	$ 2,223,863	$ (18,886)	$ 39,811,362

Unaudited

U.S. Department of Transportation
Consolidating Statement of Financing
For the Period Ended September 30, 1998
(Dollars in Thousands)

Obligations and Nonbudgetary Resources:	HTF	FAA	USCG	All Other	(Eliminations)	1998 DOT Total
Obligations Incurred	$ 25,323,837	$ 11,338,673	$ 4,271,207	$ 5,452,639	$ (261,306)	$ 46,125,050
Less: Spending Authority for Offsetting Collections & Adjustments	(99,514)	(2,161,115)	(341,577)	(3,385,560)	235,780	(5,751,986)
Donations Not in Budget	-	(774)	97,349	1	-	96,576
Financing Imputed for Cost Subsidies	-	355,732	27,456	24,362	-	407,550
Transfers-In (Out)	(10,372,609)	(52,577)	(296,184)	-	-	(10,721,370)
Exchange Revenue Not in Budget	8,591	(40)	(45,117)	41,075	-	4,509
Intra-Departmental Transfers	(2,339,697)	-	-	2,337,997	-	(1,700)
Inventory Revaluation	-	-	30,129	-	-	30,129
Other Miscellaneous Resources	-	20,736	-	22,374	(9,844)	33,266
Total Obligations as Adjusted, and Non-Budgetary Resources	$ 12,520,608	$ 9,500,635	$ 3,743,263	$ 4,492,888	$ (35,370)	$ 30,222,024
Resources That Do Not Fund Net Cost of Operations:						
Change in Amount of Goods, Services, & Benefits Ordered But Not Yet Received or Provided	$ (661,967)	$ (122,275)	$ 119,139	$ 143,542	$ 9,279	$ (512,282)
Costs Capitalized on the Balance Sheet	873	2,995,785	7,881,741	(311)	-	10,878,088
Financing Sources That Fund Costs of Prior Periods	(1,440)	(85,504)	(5,015,651)	(24,102)	-	(5,126,697)
Prior Period Adjustments	-	(3,517,446)	(8,411,025)	-	-	(11,928,471)
Intra-Departmental Transfers	10,372,609	-	296,218	-	-	10,668,827
Other Miscellaneous Resources	-	(876,930)	4,887	(127,891)	13,115	(986,819)
Total Resources That Do Not Fund Cost of Operations	$ 9,710,075	$ (1,606,370)	$ (5,124,691)	$ (8,762)	$ 22,394	$ 2,992,646

Unaudited

U.S. Department of Transportation
Consolidating Statement of Financing
For the Period Ended September 30, 1998
(Dollars in Thousands)

	HTF	FAA	USCG	All Other	(Eliminations)	1998 DOT Total
Cost That Do Not Require Resources:						
Depreciation & Amortization	$ (591)	$ 180,059	$ 276,791	$ 25,278	$ -	$ 481,537
Revaluation of Assets and Liabilities	13,059	(483,498)	-	(157)	-	(470,596)
Loss on Disposition of Assets (FAA)	-	511,737	-	-	-	511,737
Inventory Free Issues (USCG)	-	-	196,396	-	-	196,396
Other Miscellaneous Costs	(21)	133,222	35,598	40,477	756	210,032
Total Costs That Do Not Require Resources	$ 12,447	$ 341,520	$ 508,785	$ 65,598	$ 756	$ 929,106
Financing Sources Yet To Be Provided (Note 23)	$ -	$ 846,027	$ 6,024,169	$ 32,070	$ -	$ 6,902,266
Net Cost of Operations	$ 22,243,130	$ 9,081,812	$ 5,151,526	$ 4,581,794	$ (12,220)	$ 41,046,042

Unaudited

TRANSPORTATION ADMINISTRATIVE SERVICE CENTER (TASC)

TASC embodies the basic concept of the National Performance Review (NPR) to make government work better and cost less. By using a combination of federal staff working in partnership with private sector contractors, TASC delivers quality services at competitive prices to DOT and other governmental entities. As a business-like operation, TASC recovers its operating costs through fees.

TASC Business Practices
Worklife Wellness
Facilities Service Center
Information Services
Learning and Development
Space Management
Security Operations
Information Systems Management Consulting
Information Technology Operations
Acquisition Services
Human Resources Services

During FY 1998, TASC continued to improve its management framework and infrastructure, which in turn, improves its ability to operate as a strong self-sustaining organization. TASC continues to focus on being the provider of choice for support services in over 70 areas to the Department's Operating Administrations as well as non-departmental customers. TASC increased its total revenue from $107.4 million in FY 1997 to $140.2 million in FY 1998, an increase of $32.8 million, including a 143 percent increase in revenue from non-DOT customers. In FY 1998, revenue from non-DOT customers made up 21 percent of total TASC revenue. A majority of this non-DOT revenue was generated from Information Technology Omnibus Procurement (ITOP) services provided to various organizations in the Department of Defense and Year 2000 services provided to the numerous non-DOT customers. Since its inception, TASC has continued progress in reducing costs. In FY 1998, TASC reduced service charges to procure contract printing by 50 percent and reduced TASC Computer Center rates by 15 percent. TASC has also increased the number of services that are billed through fees based on usage rather than cost allocation. When established in 1996, only 4 percent of TASC activities were billed on usage based fees. Beginning in FY 1999, 45 percent of TASC activities will be billed through this methodology. Usage based fee activities give TASC customers more control over costs.

Another major accomplishment is the continued success of the ITOP program. In 1996, ITOP began as a highly visible, Government-wide, 7 year, $1.13 billion information technology service program that embodies the tenets of the National Performance Review and various procurement reform legislation of recent years. As a result of ITOP's enormous success, the program has utilized its $1.13 billion contract value in less than 3 years, greatly exceeding expectations.

Consequently, TASC is in the process of awarding ITOP II, a 7-year, and $10.0 billion version of the original ITOP program. Based on the continued high demand for this service, we anticipate that the program will continue to be a success.

Transportation Administrative Service Center
Statement of Financial Position
As of September 30, 1998
(Dollars in Thousands)

ASSETS		**FY 1998**
Cash		24,785
Accounts Receivable		14,476
Travel Advances		
Other Advances		59
Other Assets:		
Prepayments		374
Fixed Assets:		
Equipment - Personal Property	24,854	
Less: Accumulated Depreciation	(16,010)	8,844
Automated Data Processing Software	1,495	
Less: Accumulated Depreciation	(658)	837
Leasehold Improvements	787	
Less: Accumulated Depreciation	(686)	101
Total Assets		49,476
LIABILITIES		
Accounts Payable:		
Government Agencies		3,503
Commercial Vendors		17,730
Accrued Liabilities:		
Advances from Others		512
Advances from Others - WCF Operations		7,444
Salaries and Wages		1,921
Annual Leave		1,509
Actuarial Liability		857
Total Liabilities		33,476
CAPITAL		
Total Equity (See Equity Statement)		16,000
Total Liabilities and Capital		49,476

Transportation Administrative Service Center
Statement of Equity
As of September 30, 1998
(Dollars in Thousands)

	FY 1998
EQUITY INVESTED	9,822
EQUITY AVAILABLE FOR REINVESTMENT	9,852
CAPITAL INVESTMENTS - UNFILLED ORDERS	298
CUMULATIVE RESULTS FROM OPERATIONS	(3,115)
FUTURE FUNDING REQUIREMENTS	(857)
TOTAL EQUITY	16,000

Transportation Administrative Service Center
Statement of Revenue and Expense
For Period Ended September 30, 1998
(Dollars in Thousands)

REVENUE:	FY 1998
OST	11,003
USCG	19,933
FAA	39,196
FRA	1,433
NHTSA	7,563
FTA	5,060
SLSDC	151
RSPA	2,528
MARAD	2,779
OIG	1,510
FHWA	17,695
Others 1/	30,428
REVENUE FROM BILLINGS	139,279
Employee Parking Fees	700
Coin Operated Copiers	43
TASC Fitness Center Fees	183
TOTAL REVENUE	140,205
LESS: ACTUAL EXPENSES :	
Customer Service Revenue	1
Disability Plan Project	12
Drug Awareness/Testing	(5)
Alcohol Awareness	2
Drug and Alcohol Program	2,436
Departmental Program	720
Personnel Operations	1,772
DOT Connection - CSC	(1)
DOT Connection	806
Unemployment Compensation	1,019
Consolidated Federal Funds Report	60
Single Audit Clearinghouse	145
Federal Laboratory Consortium	22
Deferred Billing	(142)
WCIS	40
Telecommunications - Other	5,888

Transportation Administrative Service Center
Statement of Revenue and Expense
For Period Ended September 30, 1998
(Dollars in Thousands)

FTS	1,563
IDN	745
Voice Mail	409
Telecommunications - Moves/Changes	785
Voice Mail - NHTSA	116
Custom Routing Service	43
Telecommunications - Local Services	643
Telecommunications - Maintenance	771
Telecommunications - USCG	81
Telecommunications - Miscellaneous Expense	665
Telecommunications - Special Services	699
TCC Services	21,323
Year 2000 Service Bureau	2,020
Departmental E-Mail	882
Departmental Internet/Intranet	257
Local Area Network	1,281
Custom Services	187
PC Maintenance	36
Hardware/Software Supply	152
Telecommuting Services	16
Accounting Services	6
Health and Fitness - NASSIF	(18)
TASC Fitness Center	302
Motor Pool	665
Mail	1,690
Postage	2,787
Equipment Accounting Section	106
Transit Benefits	3,837
Parking Management	127
Transit Fare Media	(104)
Employee Parking Fees	700
Shuttle Bus	247
Warehouse	620
Building Management - NASSIF	2,971
Special Building Services	220
Building Delegation	2,996
OSHA	2
Satellite Copiers	566
Coin Operated Copiers	33
In-House Plant	1,954
Special Publications Distribution Services	24
Printing - Contracted	8,157
Contract Administration	698

Transportation Administrative Service Center
Statement of Revenue and Expense
For Period Ended September 30, 1998
(Dollars in Thousands)

Copy Centers - NASSIF	611
Copy Centers - FOB10A	300
Copy Centers - Transpoint	314
Photo - In House	298
Photo - Contracted	52
Initial Distribution	1,179
Subsequent Distribution	1,330
Library - NASSIF	1,722
Library - FOB10A	865
Library - Transpoint	254
Library - Technical Services	45
Special Library Services	25
Graphics - In House	748
Graphics - Contracted	134
Graphics	413
Procurement Operations	414
ITOP	2,120
ITOP - Non-DOT Contract	20,708
Procurement - Non-DOT	993
Contract Information System	60
Presentation Service	13
Multi Media Services	556
Sign Language Interpretation	204
Space Management	1,071
TASC Rent	1,885
Security & Investigations - OST	421
OST Transportation	93
Passports & Visas	129
Building Security - NASSIF	1,361
Building Security - FOB10A	1,097
Building Security - Transpoint	957
Other Security & Investigations	1,481
Personnel Security	257
Adjudicative Service	184
Computer Center Training	670
Training & Organizational Development	579
DAFIS Operations	6
DAFIS Production/Maintenance	6,255
DAFIS Evolution	3,287
DAFIS Services	226
Docket Management System Operation	1,902

Transportation Administrative Service Center
Statement of Revenue and Expense
For Period Ended September 30, 1998
(Dollars in Thousands)

Docket Management System	(2)
Procurement Streamline	81
IPPS Operations	5,588
Applications - Pool Services	2,097
Applications - Dedicated	2,578
Applications - Non-DOT	12
Technology Group	108
Docket Management Development	871
CPMIS	567
TOTAL EXPENSES	**141,154**
FY 1998 NET RESULTS FROM OPERATIONS	**(949)**
FY 1997 CUMULATIVE RESULTS	**(2166)**
CUMULATIVE RESULTS FROM OPERATIONS	**(3,115)**

1/ Represents the net of billings to Non-DOT customers.

FEDERAL AVIATION ADMINISTRATION (FAA) ADMINISTRATIVE SERVICE FRANCHISE FUND

BACKGROUND/ FUND ESTABLISHMENT

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

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

SERVICES

The Administrative Services Fund offers a wide variety of services. These include international training, accounting, payroll, travel, duplicating, multi media, information technology, and management training. In addition, new services are planned for subsequent years including logistics support in FY 2000.

The customer base for Franchise fund services includes DOT and non-DOT government agencies. The FY 1998 revenue percentages by customer is identified in the following pie chart

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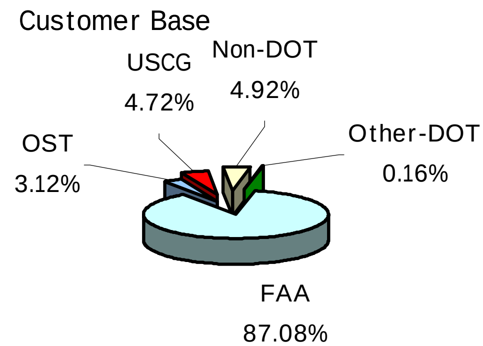

BENEFITS/ACCOMPLISHMENTS

Benefits from the franchise environment occur incrementally over time through efficiencies and economies of scale associated with development of partnerships and consolidation of like functions plus the addition of new customers. During the first two years of operation, activities within the Administrative Services Franchise Fund have identified a number of advantages, benefits, and results from participation in the fund. The general impacts/benefits are:

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

Specific accomplishments include:

- Centralized/consolidated the international training activities at the FAA Academy at no additional cost.
- Increased FAA influence on global aviation system and improvement of overall safety through advancement of the international training program.
- Absorption of a reduction in the printing budget allocation with no commensurate reduction in service level.
- Consolidation of two services (multi media and printing) into one division with a single manager (instead of two) resulting in ability to shift resources to the working level.
- Purchase of equipment upgrades in printing and multi media to improve technology, increase capability, and replace worn-out units through use of the retained earnings provisions of the revolving fund. This resulted in improved service delivery and would not have been possible using the annual appropriation cycle alone.
- A cost avoidance of approximately $2.8 million annually due to significantly lower prices than local quick print competitors ($0.025 versus $0.07 per impression).
- A proposed reduction in cost per impression from $0.025 to $0.023 (8 percent) in FY 1999 resulting from efficiencies gained through new technology and economies of scale associated with new customers and increased product output.
- Projected savings of $40,000 in FY 1999 maintenance costs through movement of mainframe printing to the printing and distribution team from another organization. Reduction of payroll technician personal compensation and benefit cost per payroll account by 17.5 percent over two years.
- Addition of a new customer for permanent change of station (PCS) processing and laid the groundwork for centralization of PCS processing within the agency.
- Negotiated an agreement with a new customer for collections processing.

FY 1998 Fund Activity

The fund provided services totaling $21,667 thousand in FY 1998. The graphic below is a presentation of the distribution of customer reimbursement by service activity for FY 1998.

In addition, collections of 615K were made during FY 1998 for services to be performed in FY 1999. The breakdown of this 615K deferred revenue is: 274K deferred revenue collected by International and Management Training; 204K deferred revenue collected by Multimedia & Information Technology, and 137K deferred revenue collected by Financial Services. Additional fund information is presented in the FY 1998 FAA Annual Report.