DEPARTMENTS OF TRANSPORTATION, TREASURY AND GENERAL GOVERNMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 2004

WEDNESDAY, APRIL 2, 2003

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10:33 a.m., in room SD–124, Dirksen Senate Office Building, Hon. Richard C. Shelby (chairman) presiding.

Present: Senators Shelby, Bennett, Murray, and Dorgan.

DEPARTMENT OF TRANSPORTATION

FEDERAL AVIATION ADMINISTRATION

STATEMENT OF MARION C. BLAKEY, ADMINISTRATOR

OPENING STATEMENT OF SENATOR RICHARD C. SHELBY

Senator SHELBY. Good morning. The hearing is called to order.

Every year when it comes time to hold hearings on the upcoming fiscal year's budget request, it is likely that we will cover some of the same old ground. But, unlike other agencies or departments, the nature of the industry and facilities that the FAA regulates seem to be in a constant state of change.

A few years ago we were concerned about hub concentration and the anti-competitive behavior. More recently, we turned our concern to airline treatment of passengers and system-wide delays. Now, we wonder where all the passengers have gone, whether the hubs will survive, and if the traditional airline structure will remain intact or if we will see something substantially different emerge as a result of all the upheaval.

This is a very difficult time for virtually everyone involved in aviation: the passengers, communities, airports, airlines, aircraft manufacturers and the FAA. Passengers are anxious about flying in the aftermath of the September 11th attacks. The terrorist threat alerts exacerbate people's fears about the vulnerability of our air transportation system to terrorism attack, and military operations to free Iraq have further increased the public's concern about the safety of flying.

In addition, passengers are facing fewer choices in flight options as the air transportation market undergoes the first significant service contraction since deregulation.

Airports face increased operational and capital costs as they respond to increased security requirements at the same time that their revenues are declining because of reductions in flights, reduced revenues from concessionaires, and fewer passengers.

Communities that were struggling to maintain service levels are finding that challenge even more daunting as the fixed costs of initiating or maintaining a marginally justified service continue to rise.

Airlines not already in bankruptcy or headed into bankruptcy have little to be optimistic about. As an industry, air carriers did not have time to recover after the September 11th attacks and the sluggish economy that we have experienced for the past 3 years has compounded an already difficult financial situation.

Most carriers are not predicting meaningful growth in traffic or bookings for several months after the Iraq war is favorably concluded, and many more are not anticipating a firming in the yields for more than a year. Clearly, this is an industry on the ropes.

Aircraft manufacturers, for their part, are typically the first to feel the slowdown and the last to recover from it. Neither Boeing nor Airbus anticipates an upturn in the demand for aircraft until the middle of 2004 at the earliest. Airbus is struggling with the challenges of keeping the new A–380 within their revised cost and weight estimates, and Boeing is undertaking an aggressive new aircraft program with the 7E7 and is marshalling $10 billion to develop it. Clearly, both manufacturers are feeling the pressure of the industry downturn, but both are looking to the future.

This brings us to the FAA. Administrator Blakey, you have now been at the FAA just long enough to start putting your imprint on that organization and begin shaping your vision of what you want that agency to achieve under your stewardship.

I feel certain that you have begun turning the programs, budgets, policy, and regulatory processes and directed the career personnel to your vision of where the agency should head to support a safe and efficient air transportation system.

I know that this budget was largely completed before you became administrator, and I know that the budget constraints that we face make your job even more difficult. But I would like to explore with you where we are going to take the FAA in the next several years. The budget request for FAA operations anticipates an 8.1 percent growth, but it seems to me to be a current services budget with few new initiatives.

That kind of growth to deliver the same services, I believe, will be hard to justify or secure in the current environment.

I believe it is important to show what the FAA is doing to foster a safe and efficient system as we move forward. We need to show how the FAA is responding to the evolving air transportation system. We need to show what works in the FAA. We need to know where we need to reinvigorate our efforts. And we need to show where we can save and redirect sources to higher priorities.

More importantly, we need to show how the FAA program is changing in the aftermath of the 9/11 terrorist attacks. I am told that the agency's Operational Evolution Plan (OEP) has not evolved since that time and that troubles me. None of these things can be done if we sit passively by and expect that things will just

work themselves out. It is imperative that the FAA, that our government, implement innovative and aggressive approaches to dealing with our rapidly changing world.

I want to work with you to help make the FAA responsive to the needs of the public and the industry it regulates.

Today we are pleased to have Marion Blakey, the Administrator of the Federal Aviation Administration; Ken Mead, the Department of Transportation Inspector General; and Jeff Shane, the Under Secretary for Policy at the Department of Transportation as our witnesses.

Senator Murray?

STATEMENT OF SENATOR PATTY MURRAY

Senator MURRAY. Thank you, Mr. Chairman, and I want to thank you for calling this hearing on the aviation industry.

Our airlines, our airports, and our employees are facing an immediate crisis and they need our help. Thousands of hard-working Americans are being put out on the streets every week by the airlines or their suppliers. At home, tens of thousands of my constituents have lost their jobs because of the downturn in air travel. Together, these companies and their employees have faced the triple whammy of September 11th, a deteriorating economy, and now the war with Iraq. It is difficult to overstate the seriousness of the crisis facing this vital part of our Nation's transportation infrastructure.

Some carriers are emerging from bankruptcy. Others are entering it. And still others are desperately trying to avoid it. Some retired airline employees are seeing their monthly pension checks cut dramatically. And one of our Nation's largest carriers is facing the very real possibility of liquidation.

In just a half an hour from now the Senate will begin debating the war supplemental that we marked up in the Appropriations Committee yesterday. Yesterday, during markup, I offered an amendment to increase the size of the aviation relief package from $2.8 billion to $3.5 billion dollars. I am pleased that that amendment was adopted and that the full bill passed the committee on a unanimous and bipartisan basis. My amendment expanded the amount of relief provided to our airlines and addressed two gaping holes in the original proposal, the absence of assistance for our airports and the absence of help for the workers who have suffered the most during this crisis.

While our committee was reporting the war supplemental with $3.5 billion dollars in overall aviation relief, the House Appropriations Committee reported its version of the supplemental with roughly $3.2 billion in assistance. The House Committee version, however, did not include any help for workers.

The Administration's supplemental budget request included absolutely nothing for our airlines, our airports, or our aviation workers. Since then we have heard from the OMB Director and others that the Administration would not close the door on some form of aviation relief.

Unfortunately, it has not been clear what, if anything, the Bush Administration wants to do to address the crisis in our aviation industry.

That was until today. Today, we read that senior Bush Administration officials think that the packages approved by the House and Senate committees were too large and wrong-headed. Transportation Secretary Norm Mineta is quoted in the New York Times this morning saying that our committee's actions yesterday—and I quote—"show that a considerable gulf remains between Congress and the Administration regarding the amount and structure of this assistance."

Commerce Secretary Don Evans was quoted in an Associated Press (AP) story today saying we will work with the Congress to ensure that the airlines receive more reasonable assistance.

I fear that the Administration is long on rhetoric but short on detail. Time and again we hear that the Administration has a position, but they just do not tell Congress or the American people what it is.

Workers have lost their jobs. They are trying to figure out how to pay the mortgage this month. But instead of offering support, the Administration is failing them.

Mr. Chairman, this morning we are joined by President Bush's Under Secretary for Transportation Policy. I hope that this morning we will find out what the Bush Administration finds unreasonable in the committees' assistance package.

I have carefully reviewed the Under Secretary's formal testimony and I did not find any answers to those questions. I did find some nice multicolored charts documenting the problem, and a commitment by the Administration to continue to monitor the situation.

I hope the President does not object to helping thousands of workers who have lost their jobs through no fault of their own.

I want to put this in context. At a time when the President has proposed $700 billion more in tax cuts, I would hope he could find it in his heart to support less than 1/20 of 1 percent of that amount for our laid off workers.

And I would remind the Administration that 10,000 aviation industry workers have gotten pink slips since the start of the Iraq war.

I hope during our questions this morning we will finally get some clear answers on precisely where the Bush Administration stands on Congressional efforts to help this industry and its workers.

Let me close, Mr. Chairman, with another area where the Administration can do more, and that is carefully monitoring aviation safety. Many years ago, as we all know, during the bankruptcy and liquidation of Eastern Airlines, we learned that air carriers in difficult financial condition could be tempted to cut corners in the critical areas of maintenance and safety compliance.

It is the job of Administrator Blakey, who is here with us, to see that does not happen again. And it is the job of the Inspector General to make sure that Mrs. Blakey is doing her job.

So I look forward to asking both of them whether we should be concerned that the financial downturn in this industry could impact the overall safety of our aviation system.

Thank you, Mr. Chairman. I look forward to the questions.

Senator SHELBY. Senator Bennett.

Senator BENNETT. Thank you, Mr. Chairman. I do not have an opening statement and I look forward to hearing the witnesses and I will have some questions.

Senator SHELBY. Ms. Blakey, you will be first. Your written statement will be made part of the record, all of your written statement in its entirety. You can proceed as you wish. We welcome you to the committee.

STATEMENT OF MARION C. BLAKEY

Ms. BLAKEY. Thank you very much, Chairman Shelby, Senator Murray, Senator Bennett.

I very much appreciate the opportunity to testify before you today. And it is a pleasure because this is my first opportunity as the Administrator of the Federal Aviation Administration.

Before I begin, I have to acknowledge the new Chairman of this committee, Senator Shelby, who hails from the great State of Alabama. Since that is where I got this accent, you can appreciate the fact that I am really looking forward to working with you.

Senator SHELBY. I was enjoying your speech.

Ms. BLAKEY. I hope so. I also would like to thank Ken Mead and our Under Secretary for Policy, Jeff Shane for the enormous amount of work they put into working with us at the FAA to ensure that we are doing the right thing for the aviation system.

REAUTHORIZATION PROPOSAL

On March 25th, Secretary Mineta sent to Congress the Administration's new reauthorization proposal. The Centennial of Flight Aviation Authorization Act or Flight 100, as we like to call it. Secretary Mineta has challenged the Department and the FAA to be safer, simpler, and smarter, as he puts it. And I think these guiding principles, you will find, do form the basis for Flight 100, as we move to provide better performance, more flexibility, and increased accountability.

To that end, we believe the Administration's proposal will serve as a strong foundation for the development of the reauthorization legislation because it builds on AIR–21, which I know you all worked very hard on. It also provides the kind of funding levels that will support important infrastructure improvements, safety initiatives, system efficiencies, and important research in the safety area. Most importantly, I would stress to you that Flight 100 adds no additional taxes, no economic demands on the ailing industry, and no new financial burdens for the American flying public.

FISCAL YEAR 2004 BUDGET REQUEST

Now, let me turn my attention to the purpose of today's hearing, or at least in part the purpose, and that is the President's 2004 budget for the FAA. The President has proposed a budget of $14 billion for the FAA, a lean budget but I believe a generous one, given these challenging times.

Specifically, his budget requests $7.6 billion for Operations, $2.9 billion for Facilities and Equipment, $3.4 billion for Airport Improvement Grants, and $100 million for Research, Engineering and Development. This represents a 3.7 percent increase from the 2003

enacted budget and provides funding for the 49,745 employees that work for the FAA.

SAFETY

Let me turn initially and most importantly to not only my number one priority, but I firmly believe the number one priority of this committee, and that is safety. The United States has a remarkable safety record in aviation. Almost 100 years after the Wright brothers first took to the skies, I am pleased to report that 2002 was one of the safest years in aviation history. Not a single fatality occurred on a U.S. commercial airline.

We are all proud of this achievement, but I know that none of us think we can rest on our laurels on this, either. Every day at the FAA we help to ensure the safety of an airline industry that is in serious economic peril. I know we all agree that safety cannot be shortchanged. No matter how tough the economic circumstances become, we have got to keep it in front of us.

For this reason, out of a total budget request of $14 billion, $8.7 billion will be used to support the FAA's safety goals. Full funding of the President's budget will provide needed funds for inspecting aircraft, operating and maintaining the air traffic control system, including hiring 302 additional air traffic controllers in anticipation of the retirements that we expect in that workforce.

Funds are also provided for inspecting hazardous materials, making additional AIP grants for airport safety, capacity, and security investments, noise mitigation, safety research, and I could go on.

But the point here is that specifically in the area of commercial aviation, we have a number of programs and initiatives that have been particularly responsible for the remarkable safety record I was alluding to. The FAA's Runway Safety Program has helped significantly reduce the number of high risk runway incursions, which of course lowers the risk of collisions. Runway incursions declined from 407 in 2001 to 339 in fiscal year 2002. The number of high risk incursions fell from 58 to 37.

The Airport Movement Area Safety System, AMASS, is now operational in 31 airports. And I am happy to say it has occasioned saves in San Francisco, Boston, and Detroit.

The Safer Skies Initiative is a joint Government and industry effort to reduce commercial fatal accidents by 80 percent by 2007. We have made significant progress on this very aggressive goal, and we are on track to meet it.

Now, I know no one here can forget the tragedy of TWA 800. This accident focused national attention on the critical need to improve fuel tank safety. For a number of years my old agency, the National Transportation Safety Board (NTSB), and others have been calling for a way to remove flammable oxygen from fuel tanks and substitute inert gas which would, of course, eliminate the explosion potential. But the designs were always deemed too heavy, too complicated, and too expensive to be viable.

Building on previous research on ground-based inerting, the FAA's researchers recently developed a relatively simple but effective way to generate nitrogen enriched air in flight. That is why I have this in front of me. It is a very, very simple solution, one

that involves no moving parts, one that is not heavy. Even at full scale, the inerting system that the FAA's research has developed will be less than a single passenger on board a flight, in terms of weight.

We are going to flight test the system next month. If it goes as we expect, it is going to be a major improvement in terms of aviation safety. So it is just one example of the kind of things that the funds that you all appropriate, make a real difference.

CAPACITY

Let me turn to capacity for a moment. I am very fond of the saying that the Aircraft Owner and Pilots Association likes, which is that a mile of road will get you a mile. A mile of runway will get you anywhere. It is something I think we have to remember as we are looking at capacity issues.

Given the current downturn, we do have a unique opportunity right now to increase capacity before we return to the pre-9/11 traffic levels. Increasing capacity, as you well know, can be accomplished in basically three ways: new technology, new operations, new pavement. That is what it really comes down to. We have to have all three. If we invest in them wisely, I am convinced that we are going to have the capacity we need.

Our Operational Evolution Plan calls for a 31 percent increase in capacity by 2010, and it is yielding results. We have a brand new version of the plan that I would love an opportunity to brief you all on, because it has identified choke points in the system and developed a much more intensive, dynamic communication system with the airlines that is really yielding a lot of results. We are seeing real changes in terms of bottom line efficiencies for the airlines in a way we never did before.

From the standpoint of new technology, and new procedures, the User Request Evaluation Tool gives controllers the ability to approve direct routes and is saving time and saving fuel.

We are also seeing terrific results from our new Traffic Management Advisor which gives us a way to control traffic at our busiest airports, in a way again that is promoting great efficiency.

What about the tough one, which is new pavement? The FAA's Operational Evolution Plan is tracking now on 12 airport projects that are scheduled for completion in the next 10 years. And the terrific news is four of them are going to come online this year—Houston, Denver, Miami and Orlando. They are all still on track to open this year. So that is really a major improvement for the system.

Additionally, the President's Executive Order on Environmental Streamlining, and the $3.4 billion investment included in the budget for AIP program funding, demonstrates the Administration's commitment to expanding capacity. With this level of funding and with some structural changes in the AIP formulas, the Administration is going to be better able to target projects of national significance while at the same time helping our smaller airports.

FINANCIAL MANAGEMENT AND COSTS CONTROL

Finally, it is clear to all of us at the FAA, that we have to do a better job managing our finances and controlling our costs. Certainly, the Inspector General has called this to our attention and,

as they say, we get it. I am pleased to report that the FAA has recently received another unqualified or clean audit opinion on our 2002 consolidated financial statements. I am also proud to say it is the second year in a row that this has happened. It gives us a firm foundation that we need to implement a new financial system that is coming online this fall, DELPHI, which will continue to help us implement a cost accounting system that means something.

Just as our safety decisions have to be driven by data, so must our management decisions as well. We now track 80 percent of our costs on a monthly basis at the FAA. But we have got to do a better job of using the data to manage those costs. As part of the cost accounting system, we are implementing a labor distribution system as well in the Air Traffic Services line of business. It is called Cru-X.

It is our commitment to also track, control, and look at the issue of how we are distributing our labor costs. Our air traffic controller workforce will use this data to assess controllers' workload and figure out whether we are hitting the performance measures we want to.

Recently, the Inspector General noted that the system needs to be improved. We agree. I am committed to making the changes we need to ensure the integrity of the cost information. With budget shortfalls and depleting trust fund revenues, we have to be diligent stewards of the public funds.

PERFORMANCE-BASED PAY SYSTEM

Furthermore, the FAA has worked hard to implement a performance-based pay system. You all gave us personnel reform and we are working very hard to take advantage of the flexibility it provides. But we have got a ways to go. Approximately 36 percent of our workforce right now is currently under the performance-based system. It is intended and will link the organizational goals that we are developing in the strategic planning process we are undertaking right now, so that every single individual has a clear line of sight from their job to what the organization sets out to do. I pledge you my commitment to implementing this system across the entire FAA.

PREPARED STATEMENT

With that, I will conclude the prepared statement and look forward to questions. Thank you.

[The statement follows:]

PREPARED STATEMENT OF MARION C. BLAKEY

Chairman Shelby, Senator Murray, Members of the Subcommittee: Thank you for the opportunity to appear before you today to discuss the Federal Aviation Administration (FAA) and our budget request for fiscal year 2004. Before we begin, I would like to acknowledge the new Chairman of this Subcommittee, Senator Shelby from the great State of Alabama. I look forward to working closely with you as well as the other Members of this Subcommittee during my tenure as FAA Administrator. Finally, I would also like to recognize Kenneth Mead, Inspector General for the Department of Transportation. Thank you, Ken, for your commitment to work jointly with us to tackle our most pressing financial and performance challenges.

In the seven months I have served as Administrator, I have had the privilege to lead an agency whose mission is second to none—the safety of our Nation's aviation system. Our mission is carried out by thousands of talented, energetic, and dedi-

cated employees who care about the safety of the American people and our mission. It is an honor to represent them here today.

We at the FAA operate and maintain the Nation's complex air traffic control system and the facilities and equipment that enable its optimal operation. Our controllers control and monitor more than half of the world's air traffic—up to 5,000 aircraft in U.S. airspace at any given moment. FAA conducts state-of-the art research to continually improve safety and efficiency. We help improve the safety and capacity of more than 5,000 public-use airports in the United States. Our inspectors oversee more than 7,000 operators, including 139 major air carriers. Our maintenance technicians perform the maintenance, repair and engineering of over 62,000 facilities and pieces of equipment.

REAUTHORIZATION

I am pleased to say that on March 25, Secretary Mineta sent to Congress the Administration's reauthorization proposal—the Centennial of Flight Aviation Authorization Act, or Flight-100. I would like to thank Secretary Mineta and Deputy Secretary Jackson for their commitment and dedication to developing and supporting Flight-100.

I also want to thank them for their tremendous efforts in challenging the Agency to be Safer, Simpler, and Smarter. These three principles form the basis of Flight-100, but they also form the cornerstone of the entire Agency's mission—better performance, more flexibility, and increased accountability. Later in my remarks, I will address several of the Agency initiatives designed to meet these challenges.

To that end, we believe that the Administration's proposal will serve as a strong foundation for the development of reauthorization legislation. It builds upon AIR–21 in that it maintains our commitment to safety, capacity, and system efficiency. The funding levels in Flight-100 continue to support important infrastructure improvements, safety initiatives, system efficiencies and safety research. It adds no additional taxes, no economic demands on an economically troubled industry, and it provides no new financial burdens on the American people. I thank you for your consideration of Flight-100, and I look forward to continuing the dialogue on this, our blueprint for aviation in the future.

BUDGET

Let me now turn my attention to the purpose of our meeting today—the 2004 President's Budget. Our budget supports Flight-100 in that it contributes to our efforts to be Safer, Simpler, and Smarter.

To support our operations and capital investments, the President has proposed a fiscal year 2004 budget of $14 billion—a lean budget, but generous given these challenging times. Specifically, his budget requests $7.6 billion for operations, $2.9 billion for facilities and equipment, $3.4 billion for airport grants, and $100 million for research and development.

This represents a 3.7 percent increase from the 2003 enacted budget. Funding will support 49,748 employees.

I want to thank all the members of this Subcommittee for your tireless efforts and continued dedication to supporting the FAA's funding needs. Fully enacting the President's budget will permit the FAA to hire more controllers to prepare for an expected surge in retirements, make needed improvements in the National Airspace System (NAS), and fund safety, capacity, and security improvements at our Nation's airports. Your support for these investments will reap benefits for years to come, as FAA provides a safe and efficient aviation system that contributes to national security, promotes economic growth, and encourages the recovery of civil aviation.

SAFER, SIMPLER, SMARTER

Safety

First, let me address my number one priority, and that of every FAA employee—safety, both in the skies and on the ground. Under the superb leadership of Secretary Mineta, the Department's emphasis on safety has never been greater. The United States has a remarkable safety record. Almost 100 years after the Wright Brothers first took to the skies, FAA is proud to report that calendar year 2002 was one of the safest years in the history of the U.S. airlines, not a single fatal air carrier accident, and we continue to make progress in reducing the number of general aviation fatal accidents. We are proud of this achievement, but we will not rest on our laurels.

Safety must always be our top priority, especially with the airline industry in serious economic trouble. As a carrier reduces its schedule, its fleet and its personnel,

we must evaluate the impacts of these reductions and amend our surveillance plans as necessary. I recently met with the FAA managers overseeing USAirways and United Airlines to ensure that we have appropriately expanded our review of these carriers. The approach we are taking with these carriers is to focus our safety oversight on areas that may be more at risk during a financial crisis.

We will support the resurgence of the airline industry with some of our most effective mechanisms—continuing our investments in building capacity at our Nation's airports and putting safety first.

Out of a total budget request of $14 billion, $8.7 billion will be used to support FAA safety goals. Full funding of the President's Budget will provide needed funds for inspecting aircraft, expanding safety programs and hiring an additional 20 safety staff; operating and maintaining the air traffic control system; hiring 302 additional air traffic controllers (in anticipation of the first wave of controller retirements); returning the Hazardous Materials Program from TSA; purchasing airport surface movement detection equipment; making AIP grants for airport safety, capacity and security investments, as well as for noise mitigation and research on aviation safety.

In commercial aviation safety, several programs and initiatives were instrumental in reaching last year's high level of aviation safety. The Runway Safety Program helped reduce the number of high-risk runway incursions significantly, which in turn lessened the risk of collisions. Runway incursions declined from 407 in fiscal year 2001 to 339 in fiscal year 2002 due to our aggressive actions to reduce these incidents, and the number of high risk incursions fell from 53 in fiscal year 2001 to 37. The Airport Movement Area Safety System (AMASS), now operational at 31 major airports, has been officially credited with saves at San Francisco, Boston, and Detroit.

Our Safer Skies initiative, a joint government and industry effort to reduce commercial fatal accidents by 80 percent by 2007, made significant progress in addressing a number of factors that cause air carrier accidents. I am pleased to say that we are on track to accomplish this goal.

The Air Transportation Oversight System (ATOS) is another tool to increase air travel safety and, like Safer Skies, is targeted for increased funding in the President's Budget. Under ATOS, in addition to comparing carriers' performance to all the requirements of our regulations, aviation safety inspectors evaluate air carrier systems that impact safety. Using ATOS, we have identified weaknesses in air carrier programs and made sure that the carrier took corrective actions.

In fiscal year 2002, the FAA research program focused on key areas to reduce the size, weight and complexity of fuel tank inerting system designs. We developed a simple system to inert the critical fuel tanks (heated center tanks) in transport airplanes. The system has virtually no moving parts, resulting in high reliability, low installation weight, and low operating costs. The FAA's R&D program and the sharing of the data and system design have helped the industry, including the Boeing Company pursue inerting systems for the transport airplane fleet. The availability of a practical inerting system provides for a balanced approach of ignition prevention and flammability reduction. In fiscal year 2004, the research program will focus on high priority safety projects.

We have also strengthened our international safety focus. We are working with the International Civil Aviation Organization (ICAO), as well as other members of the international aviation community, to strengthen and further aviation safety. For example, ICAO and the Joint Aviation Authorities are both involved in the Commercial Aviation Safety Team (CAST), the commercial aviation side of Safer Skies. FAA also initiated the Global Aviation Information Network (GAIN), a program that promotes the global collection and sharing of safety information.

Though progress has been made, we agree with the Inspector General that more can be accomplished. We will continue to build upon our 2002 successes.

Security

Since the events of September 11, the focus of Congress and the American people has been on security, and understandably so. You and your colleagues should be applauded, along with TSA, on your joint efforts to improve aviation security. By federalizing baggage screeners, ensuring that all checked baggage is screened, and expanding the Federal air marshal program, your efforts have made air travel much more secure.

The FAA has played an important role by providing resources and in successfully transitioning our former security programs to TSA. And we continue to work closely with TSA to assure that our safety programs are interrelated and coordinated with their security programs—without redundancy and complications. We look forward to the healthy continuation of our partnership to restore the faith of the American people in aviation.

The President's Budget requests $198 million to secure FAA facilities and electronic systems. This includes $145 million in Operations to fund internal FAA security, including securing our many information systems and background checks of staff. Internal security is not a new activity, but was temporarily transferred to TSA in the fiscal year 2003 budget. Fully funding the President's Budget request would also provide 26 new controllers to support the North American Air Defense command and its expanded airspace security programs.

Capacity Building

While safety remains our first concern, we must also remain committed to expanding capacity throughout the aviation system—in the air and on the ground. While demand for passenger travel is down, it will return. The FAA must be ready for this recovery. Now is the time to focus on increasing airport capacity, while air traffic is temporarily reduced. Both the President's Executive Order on environmental streamlining and the $3.4 billion investment included in the budget for the AIP program demonstrate the Administration's commitment to expanding capacity. With this level of funding, coupled with some structural changes in AIP formulas, the Administration will be able to better target projects of national significance that provide the greatest system benefit and, at the same time, provide additional funding to airports that rely most on Federal assistance.

Even after September 11, FAA's Operational Evolution Plan (OEP) remains fundamentally sound—with a planned 31 percent increase in capacity by 2010. In response to the costly, frustrating, and unacceptable delays that plagued the system in the summers of 1999 and 2000, FAA made needed changes, such as identifying and addressing choke points in the system and developing and refining regular communications between the airlines and the FAA Command Center to deal with daily problems in the system.

The User Request Evaluation Tool (URET) gives controllers the ability to approve more direct routes and is saving airlines time and fuel. With this tool everyone wins. We're also seeing terrific results from the Traffic Management Adviser (TMA), which makes more efficient use of our busiest airports.

We believe that new runways added at the right airports are the single most effective way to increase capacity. Thus, FAA's OEP tracks 12 runways scheduled for completion in the next 10 years. During calendar years 2003 and 2004, Denver, Houston, Miami, and Orlando airports are expected to complete runway projects.

The importance of investing in airport infrastructure cannot be discussed only in terms of alleviating a congestion problem at a specific location. These investments provide relief to the entire air system. The economy relies on aviation to move people and products, and aviation relies on an efficient NAS to accommodate the capacity demands placed upon it. We must all work together—Congress, Federal, State and local governments, and industry stakeholders—to ensure that the future does not catch us unprepared for the return of air traffic to pre-September 11 levels and higher. Future generations depend upon us.

A SAFER, SIMPLER, SMARTER AND MORE BUSINESS-LIKE FAA

In my tenure as Administrator, it has become apparent that FAA's operational costs must be brought under control. Since any future growth must be manageable, our decisions must be made in an informed manner. Just as our safety decisions should be driven by data, so should all our management decisions. Consequently, we must accelerate our efforts to set up our new financial system, DELPHI, and complete the implementation of our Cost Accounting System (CAS) and Labor Distribution Reporting (LDR) initiative, and use these tools to drive analysis toward better decisions.

We will improve our cost accounting and acquisition processes, and we will become a performance-based organization. Currently, FAA has implemented cost accounting in two lines of business and several support organizations. And while we track 80 percent of our costs on a monthly basis, we still have a lot of work to do.

As part of our cost accounting system, we are implementing a labor distribution system in air traffic services called Cru-X, to account for and distribute labor costs. Our air traffic controller workforce will use this data to better assess their workload and performance. Recently, the Inspector General noted that we have additional work to do on internal controls related to this system. I am committed to making this change, and to assuring the integrity of our cost information. With budget shortfalls and depleting trust fund revenues, we must be diligent stewards of the public's funds.

Though we have made great strides, there is still much to be done. FAA received another unqualified or "clean" audit opinion on our fiscal year 2002 Consolidated Financial Systems. I am proud to say that this is the second year in a row that the

Agency has received such an opinion. This gives us the firm foundation that we need to implement DELPHI effectively and to continue to build our cost accounting system.

The Agency has worked hard to implement a performance based pay system. Approximately 36 percent of our employees are currently under the system—a system that links organizational goals with individual performance goals at every level. We must fully embrace a new way of thinking: pay equals performance. I pledge to you my full commitment to implementing such a system FAA-wide.

CONCLUSION

To ensure that FAA moves forward in all these areas, one of my top priorities is to provide consistency and predictability in the way FAA works with industry. I do not want any variations in FAA policy or practice in the regions or field offices. I want our industry partners in the United States and around the world to know what they can expect and count on when dealing with the FAA. The future of aviation is dependent upon all of us leveraging our reduced resources in support of the common goal: a safe and efficient aviation system for our children and generations to follow.

This year marks the centennial of the Wright Brothers' historic flight at Kitty Hawk. When you look back on those early days of aviation and compare how dangerous air travel was to its safety record of today, it is easy to congratulate ourselves and feel content with how far we've come. Yet, our pride should not give way to complacency. We must continue to set and work to achieve goals on safety, capacity and efficiency. Though we will face countless obstacles and difficult decisions, we must draw upon the strength and courage of great aviation pioneers, such as Lindbergh and Earhart, who set difficult goals and attained them. I am proud to take part in the future of aviation, and I stand ready to work with you, as together we enter the second century of flight. Thank you.

This concludes my prepared statement. I am happy to answer your questions at this time.

BIOGRAPHICAL SKETCH OF MARION C. BLAKEY

Marion Clifton Blakey was sworn in September 13, 2002 as the 15th Administrator of the Federal Aviation Administration. As Administrator, Blakey is responsible for regulating and advancing the safety of the Nation's airways as well as operating the world's largest air traffic control system. Prior to being named FAA Administrator, Blakey served as Chairman of the National Transportation Safety Board.

During her tenure as Chairman, Blakey managed a number of accident investigations including the crash of American Airlines flight 587. Blakey worked to improve the Board's accident reporting process and increased industry and regulatory responsiveness to NTSB safety recommendations. Additionally, Blakey strengthened the Board's advocacy and outreach programs to promote safer travel throughout all modes of transportation. She also furthered development of the NTSB Academy as a national and international resource to enhance aviation safety and accident investigations.

At the FAA, Ms. Blakey, continues a long career of public service. In addition to NTSB Chairman, Blakey has held four previous Presidential appointments, two of which required Senate confirmation. From 1992 to 1993, Blakey served as Administrator of the Department of Transportation's National Highway Traffic Safety Administration (NHTSA). As the Nation's leading highway safety official, she was charged with reducing deaths, injuries, and economic losses resulting from motor vehicle crashes. Prior to her service at NHTSA, she held key positions at the Department of Commerce, the Department of Education, and the National Endowment for the Humanities, the White House, and the Department of Transportation.

From 1993 to 2001, Blakey was the principal of Blakey & Associates, a Washington, DC public affairs consulting firm with a particular focus on transportation issues and traffic safety.

Ms. Blakey, born in Gadsden, Alabama, received her bachelor's degree with honors in international studies from Mary Washington College of the University of Virginia. She also attended Johns Hopkins University, School of Advanced International Studies for graduate work in Middle East Affairs.

Senator SHELBY. Mr. Mead?

OFFICE OF THE INSPECTOR GENERAL

STATEMENT OF KENNETH M. MEAD, INSPECTOR GENERAL

Mr. MEAD. Thank you, Mr. Chairman, Senator Murray, Senator Dorgan, Senator Bennett.

It is good to be here with Administrator Blakey and Under Secretary Shane, very good people and great to work with.

In your packages you have some slides. It has a blue wheel on the front. I will refer to those a couple of times.

This hearing is occurring, of course, against the backdrop of an industry in financial distress. As I was writing my statement, I had to change it by the hour because it is hard to know who is in bankruptcy and who is out. But as Senator Murray was pointing out, they are either in or right on the brink of bankruptcy, or just coming out of it.

I think it is important, though, for us all to recognize that this is due to a confluence of factors that include an unsustainable cost and fare structures that predate 9/11 by a long time. That pattern persisted and became more pronounced after 9/11 and now, with the war in Iraq, we are experiencing an even greater precipitous decline in bookings, particularly in the international area.

Of course, the airlines also point to increased security related expenditures.

This first chart, I tried to map out on this first chart the yellow and blue, what has happened with respect to business travel both before and after 9/11. You can see the steep drop in September, 2001.

But look to the left of that axis and you will note that business travel was down 20 percent just before 9/11. And in November 2002 compared to November 2000, leisure travel was down 19 percent and business was down 32 percent. What we are seeing, to some degree, is a continuation of some problems that existed before 9/11.

Even before the war with Iraq, major carriers were projecting losses of about $6 or 7 billion for 2003. With the war, and their assumption is a 90-day war, major carrier projections are about $10 to $11 billion. And the end is not in sight. We do not think you are going to see a recovery to the 2000 levels until 2005, 2006, which is consistent with FAA's aviation forecast.

Here are some other interesting metrics. In February 2003 actual flight operations were down 10 percent compared to February 2000. And an interesting dimension to that is there has been a huge increase in the use of regional jets, a 156 percent increase compared to a 17 percent decline in larger aircraft and a 46 percent decline in the use of turboprop aircraft.

Domestic emplanements are down nearly 8 percent in 2003 compared to January 2000. Much of the reduced demand represents what had been the highest fare business travelers. An interesting statistic here relates to the network carrier cost structure. About 10 to 20 percent of their passengers, the business travelers, were providing between 40 and 50 percent of the revenues. So when the business travel part of the market began to fall out, you can see why the airlines were hurting so much.

Another interesting statistic, last year break-even load factors, that is the average percentage of paying passengers on all flights that are needed to cover an airline's costs. For the industry as a whole it was 87 percent. In other words, 87 percent of that plane had to be full before an airline would start talking about turning a profit.

Actual load factors, though, were only averaging about 74 percent. One airline had a break-even load factor of over 100 percent. And you might say well, how can an airline fill more than 100 percent of its seats? The answer is it cannot. And that is why that airline is teetering on the edge of bankruptcy.

I know you are considering some relief packages and you and your staffs must be exhausted from the last few days. I would say that great care has got to be taken in framing a relief package. I think a relief package is warranted. But take care to not provide a cash subsidy that is going to simply allow the airlines to avoid making hard calls that many of them are already in the process of making. We do not want it to be a bailout.

And I might add, I think it has been pretty unseemly for airlines to come up here to Congress and ask for financial aid from the taxpayers for not the first, but the second time when the senior executives are getting very large bonuses. I think the American taxpayer would wonder what is wrong with this picture.

The second factor is that you require any airline security costs that Congress judges are eligible be documented. And that the airlines have some evidence of that $4 billion that they are claiming is justifiable. I do not think we want a repeat of what happened last year when Congress thought it was going to be $1 billion and it eventually ended up being about $300 million.

Third. That it be a limited duration. This is an important issue, a limited duration package will allow you to come back to revisit it if it is necessary.

And finally, I am not sure that the packages consider how we are going to treat the foreign carriers that come here and pay these fees. We want to make sure that we do not develop an equity argument whereof they pay a fee and we reimburse domestic carriers. I would expect that there would be some expectation that they be reimbursed as well.

I would like to move to a word on small communities. You hear a lot of anecdotal evidence that service to small communities is declining. It is not just anecdotal. I have a chart, chart 2 cuts up the United States into quadrants. And you can see that on the average you have lost about 19 percent of service to your small, medium non-hub communities. The Northeast is particularly hard hit—about 33 percent of their service has been lost. I know an important matter on your agenda is the essential air service program.

I now would like to turn to FAA. I think it is very important to recognize that this agency oversees the largest and safest air transportation system in the world. FAA deserves a lot of credit for that. I think Ms. Blakey's safety background is going to serve the Nation extremely well in that regard.

But this agency urgently needs to get its costs under control. Why? Well, projected tax receipts to the Aviation Trust Fund for 2004 have dropped from approximately $12.5 billion to around $10

billion. Over the next 4 years the projected trust fund tax revenues are down and you are going to have about $10 billion less than you were counting on.

While these projections have dropped precipitously, FAA's spending has not. Budgets increased from about $8 billion in 1996 to $14 billion in 2004. That is about 70 percent. Over half of that, though, is for increased operations cost, which are mostly payroll costs.

The committee should know that personnel reform was a key element of the move to make FAA performance-based. But to date, the reality has been increasing workforce costs and significantly higher salaries.

The new compensation system for controllers, FAA's largest workforce, was a big cost driver. They have a very good pay package. The average base salary for fully certified controllers, exclusive of overtime, is now about $106,000. In 1998 it was about $72,000. That is a 47 or 48 percent increase.

Even though FAA is supposed to be a performance-based organization, only 36 percent of the employees actually get paid based on individual performance. The rest is largely automatic.

In terms of acquisitions, for air traffic control, five major acquisitions out of 20 that we tracked have experienced cost growth of over $3 billion and that cost growth alone is equivalent to 100 percent of a full year's appropriation for acquisitions. I do not think continued cost growth of that magnitude is sustainable, especially given the decline in revenues.

In some ways, it is the same picture the airlines were facing. I think FAA, under Ms. Blakey's leadership, needs to redouble its efforts to be a performance-based organization.

On the safety front, there are a couple of areas I would like to mention. One is FAA has had some progress in reducing operational errors and runway incursions, but they are still much too high. They are experiencing one involving a commercial airliner every 10 days. That means that once every 10 days a commercial airliner is coming very close to just barely avoiding a collision, either on the ground or in the air. And so more progress is needed there.

Close attention also is needed with respect to the level of oversight being provided to repair stations. Some metrics, in 1996, 36 percent of airline maintenance costs went to repair stations. Now it is 47 percent, and you can expect it to grow. For some airlines, 64 to 77 percent of their maintenance is being outsourced. So we should expect a corresponding shift in the FAA's vigilance and attention to that area.

And finally, a pending wave of controller retirements. There is some debate about how many controllers will retire and when. And that is one reason we need this Cru-X cost accounting system or labor distribution system so we can find out where the controllers are that are going to retire and how to plan accordingly.

But the number that some are using is that by 2010 you could lose about 7,000 controllers. This is about half the controller workforce. It takes about 5 years right now to train a controller to full proficiency.

PREPARED STATEMENT

And finally, a security related matter on the airports that I would encourage the Congress to resolve. Nobody knows who will pay for the installation of these SUV-sized explosive detection machines at airports. The airports, I am sure, have visited you. And when they say this is of concern to them, they have a legitimate point. This is not an inconsequential cost item, Mr. Chairman. We peg it at about $3 to $4 billion. So some resolution is needed on that point.

That concludes my statement, sir.

[The statement follows:]

PREPARED STATEMENT OF KENNETH M. MEAD

Mr. Chairman and Members of the Subcommittee, we appreciate the opportunity to testify today as the Subcommittee begins deliberations on the fiscal year 2004 appropriation for the Federal Aviation Administration (FAA).

This hearing is occurring against the backdrop of an industry in financial distress—two airlines representing more than 20 percent of the industry are in bankruptcy, and several others are teetering on the brink. This is due to a confluence of factors that include unsustainable cost and fare structures that clearly predate 9/11 and, with the advent of the war in Iraq, precipitous declines in travel bookings. The airlines also point to increased security-related expenditures for passenger screening, insurance, and Federal security taxes as contributing factors to their financial condition.

Great care must be taken to ensure that any relief package provided by Congress (1) does not provide a cash subsidy that allows a way for airlines to avoid making the hard calls necessary to become sustainable, including lowering labor costs (including management salaries and bonuses) and increasing productivity of capital; (2) require that any airline security-related costs that Congress judges are eligible for reimbursement be supported by documentary evidence that clearly demonstrates that claimed costs were actually incurred; and (3) be of limited duration.

The issue of service to small- and medium-sized communities is related to the financial condition of the airline industry. In an effort to stem losses, airlines have reduced service in the smallest communities by 19 percent in the past 5 years. Funding levels for the Essential Air Service Program (EAS), which is one vehicle for restoring access to air service in small communities, will be an important issue for the Committee's consideration this year. It should be noted, however, that maintenance of service in small communities will be most successful where restructuring of the cost structures of the network carriers is most successful.

As for FAA, it is important to recognize that the agency oversees the largest and safest air transport system in the world, but FAA urgently needs to do considerably more to bring its costs under control. FAA's budget has increased from $8.2 billion in 1996 to $14 billion in fiscal year 2004—an increase of $5.8 billion, or over 70 percent. Over half of this increase is attributable to sharply rising costs in FAA's operations, which are made up primarily of salaries (about 74 percent of FAA's fiscal year 2004 Operations budget). From 1998 (when FAA began implementing new pay systems), salaries within the agency have increased 41 percent whereas the overall increase for the Federal workforce in Washington, DC, for example, was about 30 percent.

In terms of acquisitions, 5 major acquisitions out of 20 that we track have experienced substantial cost growth totaling more than $3 billion, which is equivalent to an entire year's budget for FAA's modernization account. These same 5 acquisitions have also experienced schedule slips of 3 to 5 years.

Continued cost growth of this magnitude is unsustainable given the financial state of the airline industry, multi-billion dollar declines in projected Aviation Trust Fund receipts, and greater dependence on the General Fund to pay for FAA's operations. We do not believe the answer to cost growth at FAA lies in an increase in taxes, fees, or other charges, which are already significant. Given the weak demand environment, any further increases are likely to reduce airline revenues and further threaten the financial health of the industry. Just as the airlines have had to rethink the basics of their business, FAA also must re-examine how it does business and redouble its efforts to become performance based in deed as well as in word. Administrator Blakey is taking steps to move the agency in that direction.

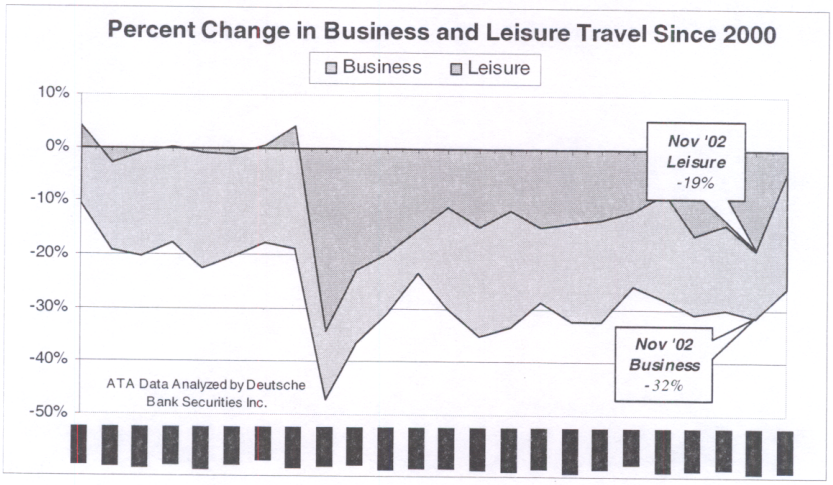
In terms of safety, we feel the imperatives for FAA are: (1) further reducing operational errors (when planes come too close together in the air) and runway incursions (potential collisions on the ground)—in 2002, a commercial aircraft was involved in at least one serious runway incursion or operational error every 10 days; (2) providing adequate oversight of air carrier maintenance in view of shifts in carrier practices from in-house to outsourced (from 1996 to 2001, outsourcing maintenance by major air carriers increased from 37 percent of total maintenance costs to 47 percent); and (3) addressing pending controller retirements.

On the security front, an important issue will be resolving who will pay for the next phase of explosives detection systems integration into airport baggage systems. This is a multi-billion dollar item.

STATE OF THE AIRLINE INDUSTRY

Most of the major domestic airlines are in a precarious financial condition. Several airlines are in bankruptcy and others are teetering on the brink.[1] As a group, the major carriers reported net losses totaling over $11 billion in 2002, which followed a year where their combined losses totaled $7.5 billion. For 2003, even before the United States went to war with Iraq, major carriers were projecting losses of between $6 billion and $7 billion. Now that the United States is at war, the airlines have increased their estimated losses to between $10 billion and $11 billion, based on a 90-day war. And the end is not yet in sight, as current forecasts now extend the timeframe for recovery from 2004 to 2005 or 2006.

In February 2003, actual flight operations were down 10 percent compared to February 2000. Overall, domestic enplanements were down nearly 8 percent in January 2003 compared to January 2000. Much of the reduced demand represents what had once been the higher fare business travelers. By some estimates, business travelers account for 50 percent of airline revenues although they typically represent only 20 percent of airline travel. As the following figure illustrates, business travel in November 2002 was nearly one-third less than it was in November 2000.



In the third quarter 2002, breakeven load factors[2] for the industry as a whole were 87 percent, while actual load factors averaged only 74 percent. One airline in that period experienced breakeven load factors of over 100 percent. How can an airline fill more than 100 percent of its seats? The answer is it cannot, which is why that carrier is on the brink of bankruptcy.

In response to the economic downturn and increased costs following 9/11, airlines have reduced their workforces, modified schedules, eliminated flights, closed offices and facilities, and retired aircraft. Negotiations are underway to reduce employment expenses throughout the industry by an additional $10 billion. Several airlines have used the bankruptcy process to restructure their costs, including renegotiating their

[1] As of April 1, 2003, the two carriers in bankruptcy were United Airlines and Hawaiian Airlines. USAirways emerged from bankruptcy protection on March 31, 2003.

[2] The average percentage of paying passengers on all flights needed to cover airline costs.

labor contracts and their debt instruments. Still, financial conditions continue to be weak, exacerbated now by the ongoing war in Iraq.

Based on a scenario of a 90-day war, the airlines project that their losses will be $4 billion higher in 2003 than the $6.7 billion they had originally projected. The losses would be driven by decreased passenger demand, higher fuel prices, and lower airfares. The airlines attest that they have already incurred over $4 billion in additional security costs since 9/11, including passenger screening fees, new security taxes, increased insurance costs, freight restrictions, cockpit door fortification, and the Federal Air Marshall program.

A case could be made for providing some form of financial relief to assist airlines in the short term; such as extending the Federal war risk insurance program and extending the Air Transportation Stabilization Board loan guarantee program. Loan guarantees, if prudently incurred, can help to stabilize the financial condition of the industry. They may also prove a prudent, short-term market intervention if used to finance a realistically restructured airline's exit from bankruptcy.

Other forms of potential relief, including reimbursing the airlines for security improvements, eliminating or reducing the Passenger Security Tax and Air Carrier Security Fee, and drawing down the Strategic Petroleum Reserve, should be considered in the following context.

The airlines are requesting a very large sum of money from the American taxpayers. In that regard, we are concerned, as are American taxpayers, about the appearance of large executive pay packages that are still in place for top executives at some of the airlines with large operating losses. Financial aid is not a substitute for self-help. This must come in the form of restructuring labor costs and management salaries, as well as increasing productivity of capital.

Policy decisions are being made that could affect the competitive balance of the airline industry, and the implications of providing financial assistance for any reason need to be carefully considered. The airline industry is important to the economy of the United States and certainly financial assistance at this juncture would help preserve the industry in the short term. But it should be noted that while all airlines have had to incur the increased financial burden of operating in a post 9/11 environment, not all airlines are suffering equally. In fact, two airlines. Southwest and JetBlue, earned profits last year. These airlines were successful because their cost structures represent a more realistic picture of a post-deregulation competitive airline industry. Care should be taken not to penalize carriers who have adapted or revised their cost structures to forms that are sustainable, even during an economic crisis.

Consideration should also be given to how financial assistance to the airline industry will be viewed by our international counterparts. To the extent possible, any relief package should be structured to limit the possibility of being criticized as an unfair airline subsidy.

The airlines are especially vulnerable to the effects of this war and the terrorist attacks that may accompany it. But it should not be forgotten that during wartime, many industries suffer financial losses–travel agents, retail outlets, cruise lines, and hotels—to name a few. Therefore, it is essential that a financial aid package designed to assist just one affected industry—the airlines—include narrowly defined relief terms and be of limited duration.

If the decision is made to provide some sort of assistance to the airlines, the following guidelines should apply.

—The effects of 9/11 and the war in Iraq have no doubt affected the airlines' costs and revenues, but the fact is that many airlines had unsustainable cost structures long before these events took place. Any financial assistance that is forthcoming should not result in a bail-out for failures in the competitive marketplace that occurred prior to 9/11. Funding that is not tied specifically and demonstrably to direct security-related costs simply postpones the restructuring that will be necessary in order for the major network carriers to remain viable. Most of the current financial woes of the industry should be solved by the marketplace.

—Documentation of which costs are being claimed and in what amount must be provided by the airlines and verified to ensure that funds provided under a security relief package are not subsidizing financial losses unrelated to security. Clarity is needed concerning whether financial assistance will be restricted to future war-related costs or security-related costs already incurred by the industry. Whichever costs are deemed eligible, the airlines must be held absolutely accountable for documenting the costs the aid is applied towards.

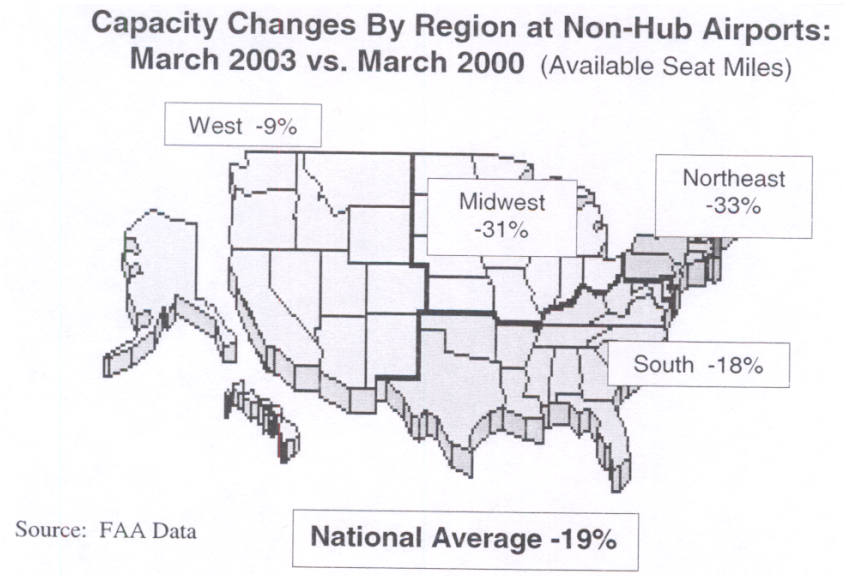
—Financial assistance aimed at providing short-term war relief should be just that: short term. Aid, if provided, should be of limited duration and should not come to be expected by the industry on a recurring basis. Given the uncertainty

of what could happen over the course of the coming year, an aid program should terminate at the end of a firmly fixed time period with the option to revisit the terms of the program if conditions warrant.

SERVICE TO SMALL AND MEDIUM SIZED COMMUNITIES

Financial problems for major airlines may ultimately affect the air service to small- and medium-sized communities. The major network carriers serve these communities through their mainline service and regional affiliates by connecting passengers from these communities to the major airlines' hubs. At the current time, low-cost carriers are not a solution for many small- and medium-sized communities if their service declines. The low-cost carrier business models focus on serving dense markets that make it economical to fly multiple frequencies in large-volume jets. That model would not be sustainable in these small- or medium-sized communities. Maintenance of service in these markets will be most successful where the restructuring of the network carriers is most successful.

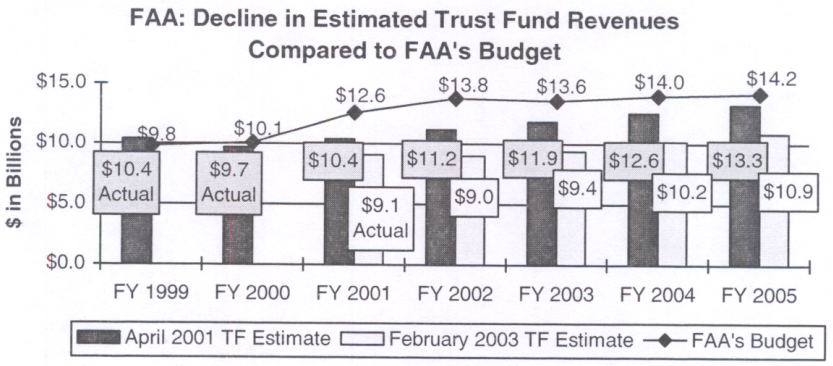
In the smallest communities—those served by non-hub airports—service has been declining for the past 5 years. Between March 1998 and March 2003, non-hub airports nationwide lost 19 percent of their commercial air service as measured by available seat miles. Between March 2000 and March 2003, non-hub airports in the Northeast and Midwest lost approximately one-third of their service.



The Essential Air Service Program is a tool that these small communities rely on for attracting air service to their communities. The funding levels for this program will be an important matter for the Committee's consideration this year.

GENERAL STATE OF FAA

As a result of the slow economy and the decline in air travel, there has been a significant decrease in tax revenues coming into the Aviation Trust Fund. Projected tax receipts to the Aviation Trust Fund for fiscal year 2004 have dropped from approximately $12.6 billion estimated in April 2001 to about $10.2 billion estimated in February 2003. Over the next 4 years, Aviation Trust Fund tax revenues are expected to be about $10 billion less than projections made in April 2001. Although Trust Fund projections are down for next year, FAA's spending request is not; increasing from $13.6 billion this year to $14.0 billion next year. If this $3.8 billion gap between Trust Fund revenues and FAA's budget ($10.2 billion to $14.0 billion) is financed by the General Fund, it would represent a rough doubling of such spending compared to recent years.



(FY 2002 figures include onetime anti-terrorist supplemental funding.)

While there have been suggestions that this gap could be closed by increasing taxes or fees on airlines and air passengers, we urge extreme caution in this area. Taxes and fees are already high. For example, a non-stop round-trip ticket costing $200 may consist of nearly $33 in taxes, fees, and airport passenger facility charges or 16 percent of the fare. On a connecting flight, the taxes on a $200 ticket could be up to $51, or nearly 26 percent of the fare. Any further increases are likely to reduce airline revenues, given the weak demand environment and will further threaten the financial health of the industry.

Over the past 5 years, FAA has had some notable accomplishments—successfully managing the Y2K computer problem, obtaining a clean opinion on agency-wide financial statements, bringing new Free Flight controller tools on-line, deploying the Display System Replacement on time and within budget, and expeditiously shutting the system down safely on 9/11. However, a key focus for FAA now must be effective cost control. This, in our opinion, is a primary challenge facing FAA for the next several years.

Operating as a Performance Based Organization.—In 1996, Congress acted to make FAA a performance-based organization by giving the agency two powerful tools–personnel reform and acquisition reform. The expectation was that FAA would operate more like a business—that is, services would be provided to users cost effectively and major acquisitions would be delivered on time and within budget. FAA was also directed to establish a cost accounting system so that FAA and others would know where funds were being spent and on what. It is now over 6 years later and we do not see sufficient progress toward FAA's becoming performance-based or toward achieving the outcomes that Congress envisioned.

—*Personnel Reform.*—Personnel reform was a key element of the move to make FAA performance-based. But to date, the reality has been increasing workforce costs and significantly higher salaries. From 1998 (when FAA began implementing new pay systems), salaries within the agency have increased 41 percent whereas the overall increase for the Federal workforce in Washington, D.C., for example, was about 30 percent.

The new pay system for controllers (FAA's largest workforce) was a significant cost driver. The average base salary for fully certified controllers is now over $106,000, which is exclusive of premium pay and overtime. That figure represents a 47 percent increase over the 1998 average of $72,000, and compares to an average salary increase of about 32 percent for all other FAA employees during the same period. Although linking pay and performance was a key tenet of personnel reform, only about 36 percent of FAA employees receive pay increases based on individual performance. The remaining FAA employees receive largely automatic pay increases.

In our work, we also found there are between 1,000 and 1,500 side bar agreements or Memorandums of Understanding (MOUs) that are outside the national collective bargaining agreement with controllers. Many serve very legitimate purposes, but some can add millions to personnel costs. For example, one MOU we reviewed allows controllers transferring to larger consolidated facilities to begin earning the higher salaries associated with their new positions substantially in advance of their transfer or taking on new duties. At one location, controllers received their full salary increases 1 year in advance of their transfer

(in some cases going from an annual salary of around $54,000 to over $99,000). During that time, they remained in their old location, controlling the same air space, and performing the same duties.

We found that controls over MOUs are inadequate. FAA management does not know the exact number or nature of these agreements, there are no established procedures for approving MOUs, and their cost impact on the budget has not been analyzed. It is important for FAA to get a handle on this process because many MOUs involve issues pertaining to deploying new equipment. We briefed Administrator Blakey on our concerns regarding MOUs; FAA is now in the process of identifying those MOUs that are problematic or costly and has begun a dialogue with the controller's union to address them.

—*Acquisition Reform.*—FAA has learned from past mistakes and its "build a little, test a little" approach has clearly avoided failures on the scale of the multi-billion dollar Advanced Automation System acquisition. But the bottom line is that significant schedule slips and substantial cost growth for major air traffic control acquisitions are all too common. The following chart provides cost and schedule information on 5 of 20 projects we track that were largely managed since FAA was granted acquisition reform.

Program	Estimated program costs (dollars in millions)		Percent cost growth	Implementation schedule	
	Original	Current		Original	Current
Wide Area Augmentation System	$892.4	[1] $2,922.4	227	1998–2001	2003–[2 3]
Standard Terminal Automation Replacement System.	940.2	[2] 1,690.2	80	1998–2005	2002–[2 3]
Airport Surveillance Radar–11	752.9	916.2	22	2000–2005	2003–2008
Weather and Radar Processor	126.4	152.7	21	1999–2000	2002–2003
Operational and Supportability Implementation System.	174.7	251.0	44	1998–2001	2002–2005

[1] This includes the cost to acquire geostationary satellites and costs are under review.
[2] Costs and schedules are under review by FAA.
[3] To be determined.

These five acquisitions have experienced substantial cost growth totaling more than $3 billion, which is equivalent to an entire year's budget for FAA's modernization account (Facilities and Equipment). These same five acquisitions have also experienced schedule slips of 3 to 5 years. Problems with cost growth, schedule slips, and performance shortfalls have serious consequences. They result in costly interim systems, a reduction in units procured, postponed benefits (in terms of safety and efficiency), or "crowding out" other projects. For example, in fiscal year 2002 alone, FAA reprogrammed over $40 million from other modernization efforts to pay for cost increases in the Standard Terminal Automation Replacement System (new controller displays for FAA's terminal facilities).

FAA needs to set priorities and link the Operational Evolution Plan (OEP) (FAA's blue-print for enhancing capacity), with the agency's budget and address uncertainties with how quickly airspace users will equip with new technologies in the Plan (estimated at $11 billion). FAA is retooling the OEP, and both FAA and industry officials told us that considerable benefits may be obtained through airspace changes, new procedures, and taking advantage of systems currently onboard aircraft—all of which do not require major investments by airlines. According to senior FAA officials, hard decisions about funding OEP initiatives and related major acquisitions will need to be made. In addition, FAA needs to develop metrics to assess progress with major acquisitions.

—*Cost Accounting System.*—To effectively operate as a performance-based organization, FAA needs an accurate cost accounting system to track agency costs and provide managers with needed cost data by location. Without a reliable cost accounting system, FAA cannot credibly claim to be, nor can it function as, a performance-based organization.

At the direction of Congress, FAA began developing its cost accounting system in 1996, which was estimated at that time to cost about $12 million and be completed in October 1998. Now, after nearly 7 years of development and over $38 million, FAA still does not have an adequate cost accounting system, and it expects to spend at least another $7 million to deploy the cost accounting system throughout FAA. Although FAA's cost accounting system is producing cost data for two of its lines of business, it still does not report costs for each facility location. For example, for the Terminal Service in fiscal year 2001, about $1.3 bil-

lion of $2.4 billion was reported in lump-sum totals and not by individual facility locations.

FAA also needs an accurate labor distribution system to track the costs and productivity of its workforces. Cru-X is the labor distribution system FAA chose to track hours worked by air traffic employees. As designed, Cru-X could have provided credible workforce data for addressing controller concerns about staffing shortages, related overtime expenditures, and to help determine how many controllers are needed and where. That information in turn is especially important given projections of pending controller retirements. Unfortunately, Cru-X has not been implemented as designed. We hope it will be in the coming year.

Aviation Safety.—After several years of continuous increases in operational errors and runway incursions, FAA has made progress in reducing these incidents. In fiscal year 2002, operational errors decreased 11 percent to 1,061 and runway incursions decreased 17 percent to 339 from fiscal year 2001 levels. Despite FAA's progress, the number of these incidents is still too high considering the potential catastrophic results of a midair collision or a runway accident. On average, in fiscal year 2002, at least one commercial aircraft was involved in a serious runway incursion or operational error (in which a collision was barely avoided) every 10 days. We will be issuing our report on operational error and runway incursions shortly.

FAA also needs to pay close attention to the level of oversight it provides for repair stations. Since 1996, there has been a significant increase in air carriers' use of these facilities. In 1996, major air carriers spent $1.6 billion for outsourced maintenance (37 percent of total maintenance costs), whereas in 2001, the major air carriers outsourced $2.9 billion (47 percent of total maintenance costs). As of September 2002, four major carriers were outsourcing between 64 and 77 percent of their maintenance.

In spite of this increase in the use of repair stations, FAA's surveillance continues to target more resources on air carriers' in-house maintenance facilities than repair stations. In fact, repair stations are required to be inspected by FAA only once annually. In addition, some FAA-certified foreign repair stations are not inspected by FAA inspectors at all because foreign civil aviation authorities review repair stations on FAA's behalf.

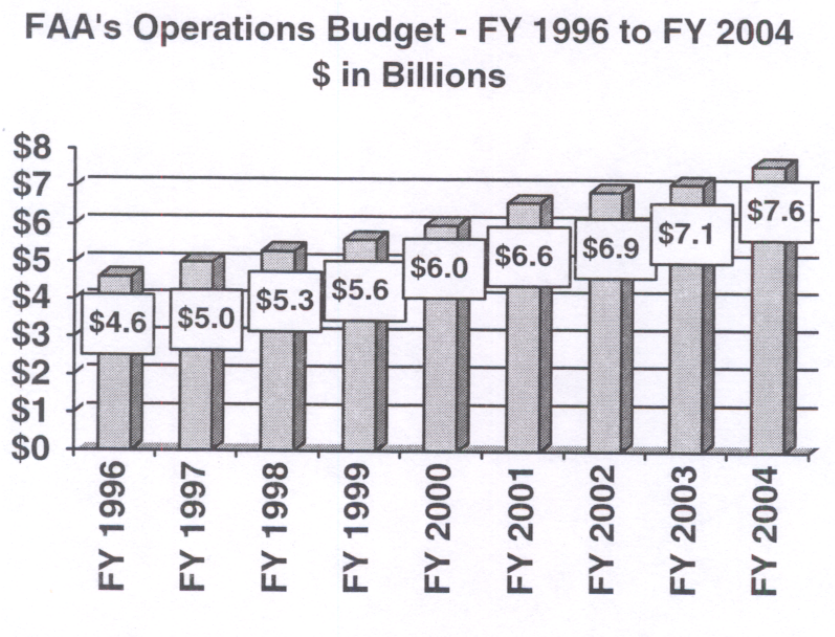
This trend in outsourcing maintenance is likely to continue, and FAA needs to consider the shift in maintenance practices when planning its safety surveillance work. We will be issuing our report on FAA's oversight of repair stations shortly.

Another significant issue is the pending wave of controller retirements. In May 2001, FAA estimated almost 7,200 controllers could leave the agency by the end of fiscal year 2010. In general, the training process to become a certified professional controller can take up to 5 years. Given that time lag, FAA needs to take actions now to address when and where new controllers will be needed. The pending retirements underscore the need for an accurate labor distribution system. We will be starting an audit of controller training in the next several weeks.

Mr. Chairman, let me conclude by discussing a major issue for airports—funding the next phase of explosives detection systems (EDS) integration. Thus far, nearly all EDS equipment has been lobby-installed. The planned next step (integrating the EDS equipment into airport baggage systems) is by far the most costly aspect of full implementation. We have seen estimates that put the costs of those efforts between $3 and $5 billion. A key question is who will pay for those costs as well as other costs still to be determined, such as improving access controls and acquiring new screening technologies.

MAKING FAA A PERFORMANCE-BASED ORGANIZATION THROUGH CONTROLLING COSTS IN OPERATIONS AND MAJOR ACQUISITIONS

Controlling Operating Cost Increases.—Although Congress envisioned that personnel reform would result in more cost-effective operations, this has not occurred. Since 1996, FAA's operating costs have increased substantially. As shown in the following graph, FAA's operations budget has increased from $4.6 billion in fiscal year 1996 to $7.6 billion in fiscal year 2004. Given the decline in Aviation Trust Fund revenues and the financial situation of the airlines, a continuation of this growth can no longer be sustained.



FY 2002 figures exclude onetime anti-terrorist supplemental funding.

Much of the increase in operations costs has been a result of salary increases from collective bargaining agreements negotiated under FAA's personnel reform authority. The 1998 collective bargaining agreement with the National Air Traffic Controllers Association (NATCA), which created a new pay system for controllers, was a significant cost driver. Under the agreement, most controllers' salaries increased substantially. For example,

—The average base salary for fully certified controllers has now risen to over $106,000—a 47 percent increase over the 1998 average of about $72,000 (as shown in the table below). This compares to an average salary increase for all other FAA employees during the same period of about 32 percent, and for all Government employees in the Washington, D.C. area of about 30 percent.

AVERAGE BASE SALARIES FOR FAA EMPLOYEES

Average base salary (including locality)	Fully certified air traffic controllers	Non-controller FAA employees
2003	[1] $106,580	$78,080
1998	$72,580	$59,200
Percentage Increase From 1998 to 2003	46.8	31.9

[1] After 4.9 percent increase.

Following the NATCA agreement, other FAA workforces began organizing into collective bargaining units as well. Today, FAA has 48 collective bargaining units as compared to 19 collective bargaining units in 1996.

The increase in bargaining units has complicated FAA's plans for fielding its agency-wide compensation system (created in April 2000), because FAA's 1996 reauthorization requires that FAA negotiate compensation with each of its unions. This has also complicated FAA's plans to create a link between pay and performance. Although linking pay and performance was a key tenet of personnel reform, only about 36 percent of FAA employees receive pay increases based on individual performance. The remaining FAA employees receive largely automatic pay increases.

We also found, that outside the national collective bargaining agreement with NATCA, FAA and the union have entered into hundreds of side bar agreements or MOUs. These agreements can cover a wide range of issues such as implementing

new technology, changes in working conditions and, as a result of personnel reform bonuses and awards, all of which are in addition to base pay. We found that FAA's controls over MOUs are inadequate. For example, there is:

—no standard guidance for negotiating, implementing, or signing MOUs;
—broad authority among managers to negotiate MOUs and commit the agency;
—no requirement for including labor relations specialists in negotiations; and
—no requirement for estimating potential cost impacts prior to signing the agreement.

In addition, FAA has no system for tracking MOUs, but estimates there may be between 1,000 and 1,500 MOUs agency-wide. While most MOUs serve very legitimate purposes, we reviewed a number of MOUs that had substantial cost implications. For example,

—As part of the controller pay system, FAA and NATCA entered into a national MOU providing controllers with an additional cost of living adjustment. As a result, at 111 locations, controllers receive between 1 and 10 percent in "Controller Incentive Pay," which is in addition to Government-wide locality pay. In fiscal year 2002, the total cost for this additional pay was about $27 million.
—One MOU we reviewed allows controllers transferring to larger consolidated facilities to begin earning the higher salaries associated with their new positions substantially in advance of their transfer or taking on new duties. At one location, controllers received their full salary increases 1 year in advance of their transfer (in some cases going from an annual salary of around $54,000 to over $99,000). During that time, they remained in their old location, controlling the same air space, and performing the same duties.

Administrator Blakey is aware of our concerns regarding MOUs and has begun a dialogue with NATCA to address this issue.

Improving Management of Major Acquisitions.—FAA spends almost $3 billion annually on a wide range of new radars, satellite-based navigation systems, and communication networks. Historically, FAA's modernization initiatives have experienced cost increases, schedule slips, and shortfalls in performance. While progress has been made with Free Flight Phase 1, problems persist with other major acquisitions. In 1996, Congress exempted FAA from Federal procurement rules that the agency said hindered its ability to modernize the air traffic control system. Now, after nearly 7 years, FAA has made progress in reducing the time it takes to award contracts, but acquisition reform has had little measurable impact on bottom line results—bringing large-scale projects in on time and within budget. The following chart provides cost and schedule information on 5 of 20 projects we track that have been managed since FAA was granted acquisition reform.

Program	Estimated program costs (dollars in millions)		Percent cost growth	Implementation schedule	
	Original	Current		Original	Current
WAAS	$892.4	[1] $2,922.4	227	1998–2001	2003–[2 3]
STARS	940.2	[2] 1,690.2	80	1998–2005	2002–[2 3]
ASR–11	752.9	916.2	22	2000–2005	2003–2008
WARP	126.4	152.7	21	1999–2000	2002–2003
OASIS	174.7	251.0	44	1998–2001	2002–2005

[1] This includes the cost to acquire geostationary satellites and costs are under review.
[2] Costs and schedules are under review.
[3] To be determined.

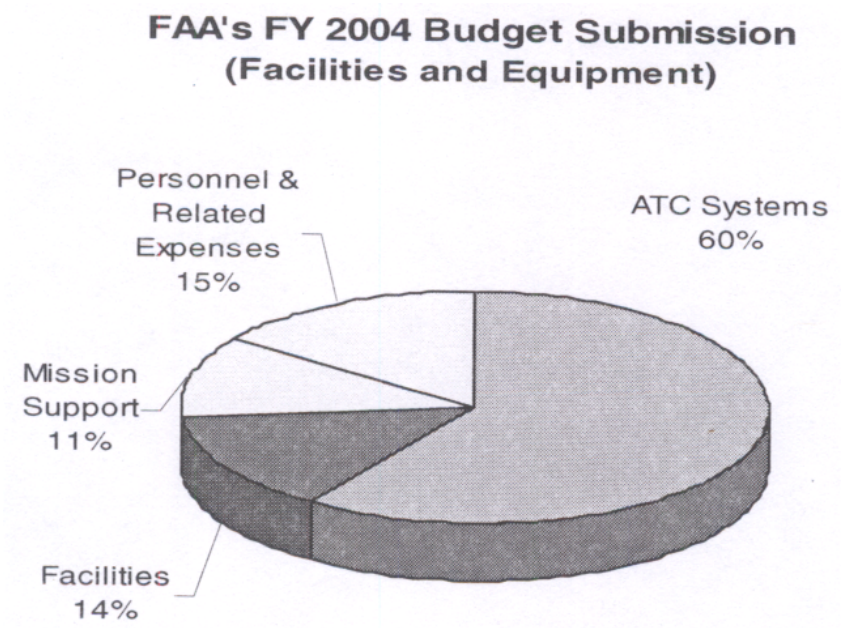
These five acquisitions have experienced cost growth of over $3 billion and schedule slips of 3 to 5 years. Problems with cost growth, schedule slips, and performance shortfalls have serious consequences—they result in costly interim systems, a reduction in units procured, postponed benefits (in terms of safety and efficiency), or "crowding out" other projects.

For example, STARS, which commenced operations at Philadelphia this past year, has cost FAA more than $1 billion since 1996. Most of these funds were spent on developing STARS, not delivering systems. When the STARS development schedule began slipping, FAA procured an interim system, the Common Automated Radar Terminal System (Common ARTS) for about $200 million. FAA is now operating Common ARTS (software and processors) at approximately 140 locations.

Moreover, in fiscal year 2002 alone, FAA reprogrammed over $40 million from other modernization efforts (data link communications, oceanic modernization, and instrument landing systems) to pay for cost increases with STARS. As a result of these cost and schedule problems, in March 2002, FAA officials proposed scaling back the program from 182 systems for $1.69 billion to a revised estimate of 73 sys-

tems for $1.33 billion. No final decision has been made, and FAA is currently re-evaluating how many STARS systems it can afford.

Cost growth of this magnitude must be avoided because only 60 percent of FAA's fiscal year 2004 request for Facilities and Equipment is expected to be spent on new air traffic control systems, whereas the remaining funds are requested for FAA facilities, mission support (i.e., support contracts), and personnel expenses.



There are large-scale acquisitions—both old and new—whose cost or schedule baselines need to be revised because the programs have changed considerably or benefits have shifted. For example, the Integrated Terminal Weather System (ITWS) provides air traffic managers with enhanced weather information. FAA planned to complete deployment of the new weather system in 2004 at a cost of $286 million. However, unit production costs have skyrocketed from $360,000 to over $1 million; FAA cannot execute the program as scheduled and may extend the deployment by 4 years.

In addition, FAA intended to have the Local Area Augmentation System (Category I)—a new precision approach and landing system—in operation in 2004. It is now clear that this milestone cannot be met because of additional development work, evolving requirements, and unresolved issues regarding how the system will be certified as safe for pilots to use. Moreover, the more demanding Category II/III services (planned for 2005) are now a research and development effort with an uncertain end state. This means that benefits associated with the new precision approach and landing system will be postponed.

Our work has also found that FAA has not followed sound business practices for administering contracts. We have consistently found a lack of basic contract administration at every stage of contract management from contract award to contract closeout.

For example, we found that Government cost estimates were:

—prepared by FAA engineers, then ignored;

—prepared using unreliable resource and cost data;

—prepared by the contractor (a direct conflict of interest); or

—not prepared at all.

FAA has stated that it will take actions to address these concerns—the key now is follow through.

In addition to strengthening contract oversight, FAA needs to develop metrics to assess progress with major acquisitions, make greater use of Defense Contract Audit Agency audits, and institute cost control mechanisms for software-intensive contracts. FAA needs to obtain these audits from the Defense Contract Audit Agency

for contract costs billed by private companies for research and development, production, and all costs related to system development. FAA should get these audits to ensure that the amounts billed are reasonable and that the government's interest is properly protected. By ensuring that only acceptable costs are paid to contractors, FAA will be able to stretch its procurement dollars further.

With schedule slips and cost overruns in major acquisitions, it should be noted that FAA is not getting as much for its $3 billion annual investment as it originally expected.

Tracking Costs.—An effective cost accounting system is fundamental to measuring the cost of FAA activities and provides the basis for setting benchmarks and measuring performance. Without a reliable cost accounting system, FAA cannot credibly claim to be, nor function as, a performance-based organization. It represents the underpinning for FAA's operation as a performance-based organization through the development of good cost information for effective decision-making. At the direction of Congress, FAA began developing its cost accounting system in 1996, which was estimated at that time to cost about $12 million and be completed in October 1998. Now, after nearly 7 years of development and spending over $38 million, FAA still does not have an adequate cost accounting system, and expects to spend at least another $7 million to deploy the cost accounting system throughout FAA.

Although FAA's cost accounting system is producing cost data for two of its lines of business, it still does not report costs for each facility location. For example, for the Terminal Service in fiscal year 2001, about $1.3 billion of $2.4 billion was reported in lump-sum totals and not by individual facility locations.

FAA also needs an accurate labor distribution system to track the costs and productivity of its workforces. Cru-X is the labor distribution system FAA chose to track hours worked by air traffic employees. As designed, Cru-X could have provided credible workforce data for addressing controller concerns about staffing shortages, related overtime expenditures, and to help determine how many controllers are needed and where. That information in turn is especially important given projections of pending controller retirements. Unfortunately, Cru-X as designed has not been implemented. We hope it will be in the coming year.

BUILDING AVIATION SYSTEM CAPACITY AND MORE EFFICIENT USE OF AIRSPACE TO PREVENT A REPEAT OF THE SUMMER OF 2000

FAA needs to be strategically positioned for when demand returns through a combination of new runways, better air traffic management technology, airspace redesign, and greater use of non-hub airports. It would be shortsighted to do otherwise. FAA estimates that domestic passenger numbers are expected to return to 2000 levels by 2005, although the recovery in passenger traffic will lag by a year for major carriers. FAA also reports large increases in the use of regional jets (from 496 in 2000 to over 900 in 2002)—this bears careful watching because of their impact on FAA operations and modernization efforts.

FAA's OEP is the general blueprint for increasing capacity. As currently structured, the plan includes over 100 different initiatives (including airspace redesign initiatives, new procedures, and new technology) and is expected to cost in the $11.5 to $13 billion range, excluding the costs to build new runways, but the true cost of implementing the plan is unknown. FAA estimates the plan will provide a 30 percent increase in capacity over the next 10 years assuming all systems are delivered on time, planned new runways are completed, and airspace users equip with a wide range of new technologies.

While airspace changes and new automated controller tools will enhance the flow of air traffic, it is generally accepted that building new runways provides the largest increases in capacity. The OEP now tracks 12 runways scheduled for completion in the next 10 years. Four of the runway projects are expected to be completed in 2003 at Denver, Houston, Miami, and Orlando airports. However, construction on several other airports has been delayed from 3 months to 2 years. There are other new runway projects not in the plan but important for increasing capacity, such as Chicago O'Hare. These runway projects are not in the plan because airport sponsors have not finalized plans or developed firm completion dates. FAA needs to continue to closely monitor all new runway projects.

Progress has been made with OEP initiatives, but much uncertainty exists about how to move forward with systems that require airlines to make investment in new technologies. FAA and the Mitre Corporation estimate the OEP would cost airspace users $11 billion to equip with new technologies. For example, FAA and Mitre estimate the cost to equip a single aircraft with Automatic Dependent Surveillance-Broadcast ranges from $165,000 to almost $500,000, and the cost for Controller-Pilot

Data Link Communications ranges from $30,000 to $100,000 excluding the cost to take the aircraft out of revenue service.

FAA is working to retool the OEP. With the slow down in the demand for air travel, FAA has an opportunity to synchronize the OEP with FAA's budget and set priorities, and address uncertainties with respect to how quickly airspace users will equip with new technologies in the plan. Senior FAA officials noted that hard decisions will need to be made. Further, some large-scale, billion-dollar acquisitions are not in the Plan but critical for its success. For example, the Enroute Automation Replacement Modernization project (new software and hardware for facilities that manage high altitude traffic with an estimate cost of $1.9 billion) is not an OEP initiative but needs to be fully integrated with the Plan and considered when setting priorities.

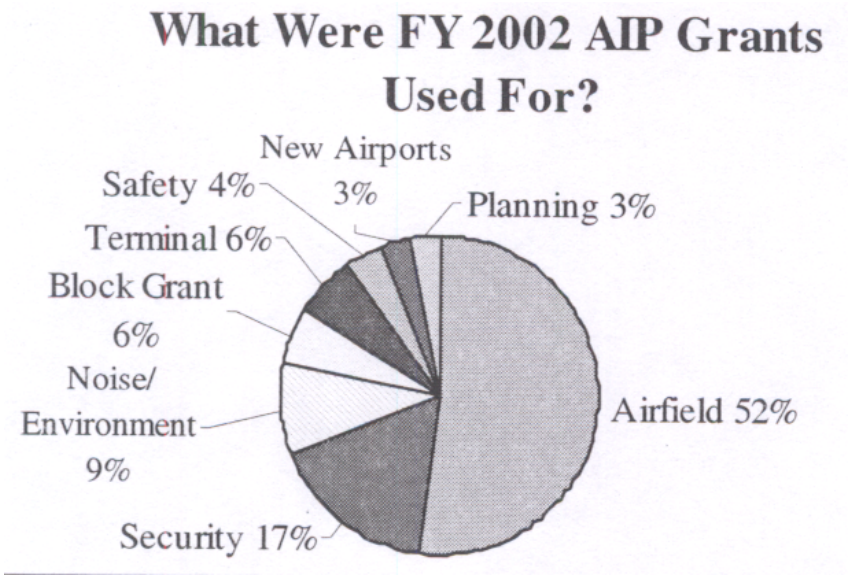
It is a good time to rethink what reasonably can be accomplished over the next 3 to 5 years, and what will be needed by FAA and industry given the decline in Trust Fund revenue and the financial condition of the airlines. According to the Associate Administrator for Research and Acquisition, it is likely that the OEP will shift from a plan that relied heavily on airspace users to equip their aircraft to one that places greater emphasis on airspace changes and procedural changes that take advantage of equipment already onboard aircraft.

STRIKING A BALANCE BETWEEN HOW AIRPORT FUNDS WILL PAY FOR CAPACITY AND SECURITY INITIATIVES

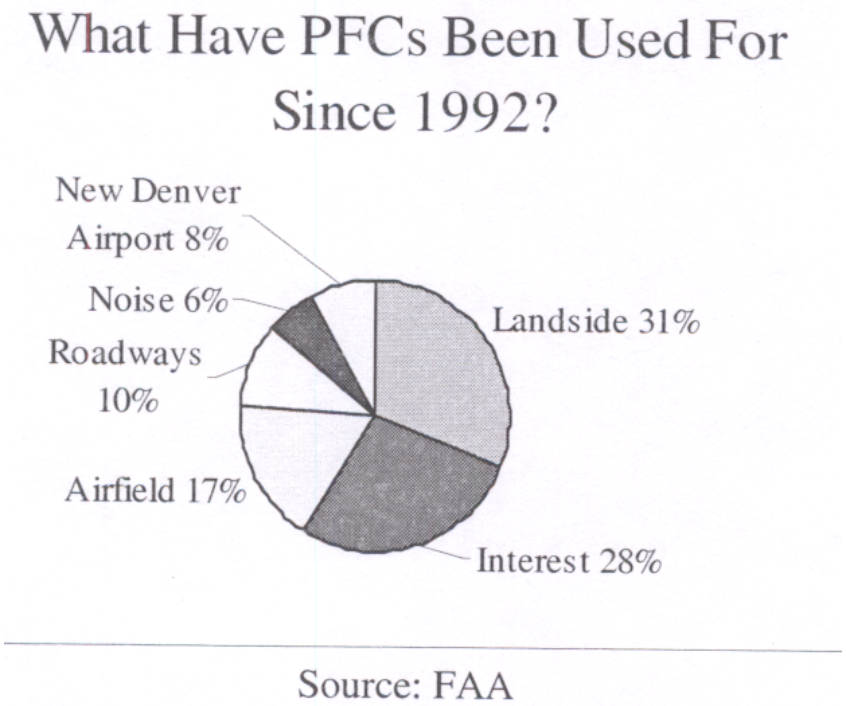
A major issue for airports is funding the next phase of EDS integration. Thus far, nearly all EDS equipment has been lobby-installed. TSA's planned next step (integrating the EDS equipment into airport baggage systems) is by far the most costly aspect of full implementation. The task will not be to simply move the machines from lobbies to baggage handling facilities but will require major facility modifications. We have seen estimates that put the costs of those efforts at over $5 billion, and this is an almost immediate issue facing the airports.

A key question is who will pay for those costs and how. While the current Airport Improvement Plan (AIP) has provided some funding in the past for aviation security, we urge caution in tapping this program until we have a firm handle on airport safety and capacity requirements.

In fiscal year 2002, airports used over $561 million of AIP funds for security-related projects. In contrast, only about $56 million in AIP funds were used for security in fiscal year 2001. Continuing to use a significant portion of AIP funds on security projects will have an impact on airports' abilities to fund capacity projects. The following chart shows how AIP funds were used and for what type of project in fiscal year 2002.



AIP funds as well as passenger facility charges (PFCs) are eligible sources for funding this work. However, according to FAA, PFCs are generally committed for many outlying years and it would be difficult, requiring considerable coordination among stakeholders (i.e. airports and airlines), to make adjustments for security modifications at this point. The following chart shows how PFC funds have been used since 1992.



There have also been proposals to raise the cap on PFCs; however, we urge caution before adding additional fees or taxes for air travel. Consumers already pay a significant amount in aviation taxes and fees. For example, a non-stop round-trip ticket costing $200 may consist of nearly $33 in taxes and fees, or 16 percent of the fare. On a connecting flight, the taxes on this ticket could be up to $51, or nearly 26 percent of the fare. Any further increases are likely to reduce airline revenues, given the weak demand environment and will further threaten the financial health of the industry.

AVIATION SAFETY

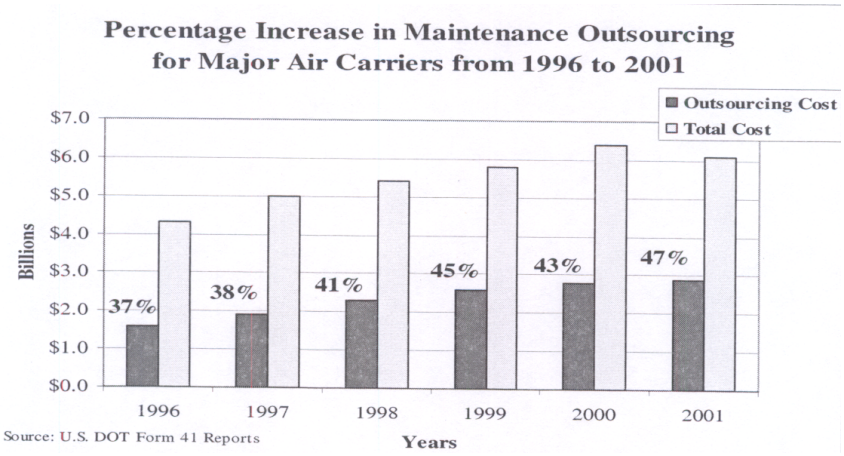
The U.S. air transport system is the safest in the world and safety remains the number one priority for FAA. Until the recent Air Midwest crash in Charlotte, there had not been a fatal commercial aviation accident in the United States in 14 months.

Progress has been made this past year in reducing the risk of aviation accidents due to operational errors and runway incursions. Operational errors (when planes come too close together in the air) and runway incursions (potential collisions on the ground) decreased by 11 percent and 17 percent, respectively, in fiscal year 2002. Notwithstanding these improvements, operational errors and runway incursions should remain an area of emphasis for FAA because at least three serious operational errors and one serious runway incursion (in which collisions were narrowly averted) occur, on average, every 10 days.

In the current financially-strapped aviation environment, FAA must remain vigilant in its oversight to sustain a high level of aviation safety. FAA has recognized this need and has taken steps to heighten surveillance during times when airlines are in financial distress. For example, FAA has increased the number of inspections

planned for distressed air carriers' internal aircraft maintenance operations. We are beginning an audit of this issue in the next several weeks.

FAA also needs to pay close attention to the level of oversight it provides for repair stations. In the past 5 years, there has been a significant increase in air carriers' use of these facilities. In 1996, major air carriers spent $1.6 billion for outsourced maintenance (37 percent of total maintenance costs), whereas in 2001, the major air carriers outsourced $2.9 billion (47 percent of total maintenance costs).



Even as air carriers currently outsource close to half of their maintenance work, FAA has continued to focus its surveillance on air carriers' in-house maintenance operations with no comparable shift toward increased oversight of repair stations. For example, FAA assigns a team of as many as 27 inspectors to continuously monitor air carriers' internal maintenance operations, while typically, only one to two inspectors that have other collateral duties are assigned to monitor work performed at aircraft repair stations. Because use of repair stations represents a less costly way of getting maintenance work completed, the trend in outsourcing maintenance is likely to continue. FAA needs to consider this shift in maintenance practices when planning its safety surveillance work.

Another significant issue is the pending wave of controller retirements. In May 2001, FAA estimated a total of 7,195 controllers could leave the agency by the end of fiscal year 2010. In general, the training process to become a certified professional controller can take up to 5 years. Given that time lag, FAA needs to take actions now to address when and where new controllers will be needed. The pending retirements underscore the need for an accurate labor distribution system. We will be starting an audit of controller training in the next several weeks.

That concludes my statement, Mr. Chairman. I would be pleased to address any questions you or other members of the Subcommittee might have.

Senator SHELBY. Secretary Shane, welcome to the committee.

OFFICE OF THE SECRETARY

STATEMENT OF JEFFREY N. SHANE, UNDER SECRETARY FOR POLICY

Mr. SHANE. Thank you, Mr. Chairman, and ranking member Murray, Senators Bennett and Dorgan. It is always a pleasure to appear before you, and it is today. We appreciate very much your holding this hearing.

I believe I can summarize my prepared remarks referred to by Senator Murray earlier, and do them fairly briefly. I will skip the part where I talk about how closely the Administration is monitoring industry developments. And I think Ken Mead has also covered a little bit of the ground, so I can be quick.

Almost 3 months ago, in testimony before another Senate committee, I outlined the challenges facing the industry and pointed at

the record losses that had occurred during calendar year 2001 and that were continuing into 2002.

Wall Street analysts, even before the war in Iraq, were predicting about $6.5 billion dollars in additional industry losses for 2003. We now know that these losses could be even higher if the conflict results in an extended period of reduced demand for air travel.

The airline industry has proven over the years to be remarkably resilient, however, and it is important to note that the news even now is not all bad. Despite heavy losses for the industry overall, for example a number of low fare airlines have remained profitable, and have been expanding their operations despite the downturn in demand.

At the same time, our largest network airlines are making progress in controlling their costs. USAirways, as we all read the other day, emerged from bankruptcy 2 days ago. And American, despite a lot of concern in the market, has been able to avoid bankruptcy. That is because both carriers have found ways to reduce their cost structures dramatically and to retool their business plans. Other airlines are making similar progress.

I have appended to my prepared statement some charts that illustrate the current state of the industry and the challenges that it is facing, particularly since the start of the war in Iraq. What I would like to do is summarize those charts very, very quickly.

I apologize, I did not bring blow ups of the charts. I believe that we have made sufficient copies available so that everybody has copies. If that is not the case, please let us know and we will supply them right now.

Chart 1 really covers ground that Inspector General Mead covered. It really just demonstrates how, in fact, the long period of record profits during the 1990s was transformed into a period that we now know to be record losses beginning in late 2000 and early 2001.

Chart 2 shows system operating profits or losses over the last 3 calendar years. But it is important because the airlines are divided, in that chart, into three different groups. The first group includes our largest network carriers. And the third group are low fare carriers.

I apologize for the airline codes that we used to identify the airlines. We actually have a legend. They are not all self-evident. So we can supply you that to make clear who the airlines are that we are talking about.

The important message from this chart is that while the industry as a whole has sustained operating losses approaching $10 billion for each of the past 2 years, the low fare carriers, as I indicated earlier, have indeed continued to earn profits.

Chart 3 shows system-wide operating margins. Note the contrast between the double-digit negative operating margins for the large network airlines and the low fare carriers' positive operating margins during this time.

Our review of recent information suggests that the financial trends observed in the quarterly data throughout 2002 are continuing into 2003.

Chart 4 compares weekly traffic levels, beginning in mid-December 2002, for those Air Transport Association member carriers that have international routes with traffic levels from a year earlier. It shows that from mid-December of last year to the end of January, traffic was up slightly over a year before. A pronounced downward trend begins in February, however, and accelerates after the start of the conflict in Iraq, especially for trans-Atlantic traffic.

Finally, chart 5 compares daily traffic for the same carriers beginning March 12th of this year with traffic a year earlier. Initially the trend is up slightly but then declines sharply at the start of the hostilities. By March 26th, traffic was down about 20 to 25 percent for each of the regions shown on the chart.

So where does this leave us? Many airlines have suffered large losses for more than 2 years, are heavily leveraged, and are now dealing with steep declines in demand. Does this mean that the airline industry is doomed to fail? Certainly not. But there will be change. Airlines are working hard to do what they must do to survive and to eventually return as viable competitors.

We are going to get through this. My personal conviction is when we do, the industry will look a lot like the industry we have today except that it will be more cost-effective, more competitive, and more robust.

Let me just say one thing particularly in response to Ranking Member Murray's comments about Secretary Mineta's statement for the press last night. Secretary Mineta, I hope everybody knows, has been a consistent champion of some limited temporary assistance to the airline industry. There has never been any question about that. My testimony was prepared at a time that productive negotiations were already underway between the Administration and Congressional leadership. Those negotiations, I hope, are continuing.

There is, as the secretary said, a considerable gulf between where the Administration believes we should come out and where the House and the Senate votes yesterday set the numbers.

We should continue to negotiate. I think the biggest difference, if I can just comment on this briefly, and I know we will have a colloquy about it afterwards, is that it is important to recognize that USAirways came out of bankruptcy on Monday. It is important to recognize that through heroic efforts American Airlines has been able to reduce its cost structure such that it did not have to go into bankruptcy. Other airlines are doing exactly the same thing.

The question for the Congress and for the Administration must be what measure of assistance is appropriate given the absolute duress the industry is in without compromising or interfering with a process that this industry has to go through. Otherwise, if it does not go through this process now, if it does not retool itself, if it does not fix itself for the future, we will face this issue every time there is another crisis and it will be a perennial albatross for every administration and for every Congress that succeeds us.

PREPARED STATEMENT

That is really the discussion that we should be having. We believe that some assistance is appropriate. The level of that assist-

ance is the only thing that separates the Administration and Congress right now.

Let me stop right there and I do look forward to any questions you may have. Thank you.

[The statement follows:]

PREPARED STATEMENT OF JEFFREY N. SHANE

Chairman Shelby, Ranking Member Murray, and Members of the Subcommittee, I appreciate the opportunity to appear here today to discuss the state of the airline industry.

As you are well aware, these are extraordinary times for the airline industry. Significant challenges are occurring virtually every day. The Administration is working hard to keep up with these developments and to assess their near-term and longer-term implications.

Almost three months ago, on January 9, in testimony before the Senate Committee on Commerce, Science, and Transportation about the future of the airline industry, I pointed to record losses during calendar year 2001, continuing heavy losses during 2002, and into 2003.

We now know that the predictions for large losses during 2002 were correct, and Wall Street analysts, even before the war in Iraq, had changed their loss predictions for 2003 from the range of $2.5 to $3.0 billion to about $6.5 billion. The large network airlines that today account for a major part of our domestic passenger air transportation system account for most of these losses. The war in Iraq may both reduce their revenue and increase their losses in 2003.

In my testimony three months ago I also pointed to the fact that the airline industry has proven to be remarkably resilient over the years, and that not all news was bad. Despite the overall heavy losses for the industry, and in stark contrast to the experience of the large network airlines, a cadre of low-fare airlines had remained profitable and was rapidly expanding. This trend has continued as well.

In addition, we now see individual large network airlines making progress in getting their costs under control. For example, USAirways has emerged from bankruptcy, and American has thus far avoided it, in part because they have been successful in reducing their costs by restructuring labor costs and overhauling their business plans. Other large network carriers have also progressed with their cost control efforts.

Many issues are now at play—structural issues that emerged before September 11, the aftermath of the September 11 terrorist attacks, the sluggishness of the return of air travel demand, and the war in Iraq. How all of this is resolved will have major consequences for the airline industry and related industries, and, indeed, our economy for many years to come.

To provide context, before getting into more specific details about what is driving the financial plight of much of the industry, an important deregulation development must be briefly discussed. Specifically, two very different types of carriers have evolved—large network carriers and low-cost carriers. Generally speaking the former are pre-deregulation carriers and the latter are new airlines that evolved after deregulation. To a certain extent these two types of airlines serve different types of markets, have different business strategies, and focus on different customers, even when they operate in the same geographic regions.

A basic reason for the emergence of the low-fare airlines is that this was the only effective response to the powerful networks that were quickly built by the pre-deregulation airlines. Low costs allowed the new carriers to charge such low fares that they could profitably serve a demand sector that was mostly unserved by the large network airlines. While these airlines, other than Southwest, struggled for years to establish a competitive toehold, several have now done so. Almost ironically, while the low-cost strategy was initially pursued as a vehicle for coexisting with the larger, dominant network airlines, the success of this strategy now poses a challenge to the continuing viability of the larger airlines unless they too are successful in their own efforts to control costs.

But both types of operation are vital components of our Nation's air transportation system. Low-cost airlines are an increasingly important element of our commercial air travel system. Their substantially lower costs enable them to provide capacity for price sensitive passengers, and to price compete for time sensitive passengers who are otherwise faced with substantially higher prices. But the traditional "major" airlines, through their feeder systems, serve an unmatched variety of markets—including a great many smaller communities that would not be on the aviation map without them. Over the course of many decades our largest airlines

have established critical international franchises as well—links to foreign markets that are essential to trade and economic growth.

The simple truth is that the markets for air travel are best served by airlines pursuing diverse strategies, and just one category or the other is unlikely to adequately and efficiently serve demand. That is why we cannot be cavalier about any part of the industry, and why the Administration is watching developments so closely.

With this background I will now briefly address the various changes and events that have contributed to the situation facing our major airlines today by directing your attention to a series of charts. Chart 1 shows why a long period of record profits for the airline industry abruptly came to an end well before the September 11 terrorist attacks. This chart shows trends both in unit revenues, or operating revenues per available seat mile, known as RASM, and in unit costs, or operating expenses per available seat mile, known CASM. Note that for several years CASM increased very slightly, compared with much larger increases in RASM. These trends portray a period of solid revenue growth and cost control underpinning continual profitable operations, indeed several years of record profits. But the combination of increasing costs beginning in 1999, and declining demand starting in early 2001, turned record profits into losses. Indeed, the decline in industry profitability for the year ended June 30, 2001, compared with a year earlier, was the largest year-over-year decline ever, before September 11. The losses for the year ended June 30, 2001, were not record losses, but that too changed abruptly with the terrorist attacks.

Chart 2 shows system operating profits or losses by quarter for the last 3 calendar years for the large network carriers, and a number of other airlines including a group of low-cost carriers. These carriers account for over 90 percent of the passenger industry. Note first, that these carriers collectively have sustained operating losses approaching $10 billion for each of the past 2 years.[1] Observe, however, that the group of low-fare carriers has continued to earn profits during this same time, and that this is not just attributable to Southwest. Five of the six low-fare carriers earned profits in 2001, and half of them earned profits in 2002, while two of the other three were close to break even. Note next, that the last profitable quarter for the large network carriers was the third quarter of 2000, and also, these carriers continued to suffer sizeable losses throughout 2002. It is especially important to note that these carriers' losses have accelerated since the second quarter, including the third quarter, which is normally their best quarter of the year. Despite the disastrous losses during the last two quarters of 2001, total losses for calendar 2002 approach the same levels. Indeed, in reality 2002 losses were even greater given that these six large network carriers' operations were considerably smaller.

Chart 3 shows systemwide operating margins (operating profit or loss divided by total revenues), and, as just indicated, the negative operating margins of the large network carriers were even greater in 2002 than a year earlier. Note also that this varies greatly from carrier to carrier. During 2001, for every $5 collected by American and United in revenues, they had $6 of costs. You can also see that during the first three quarters in 2002 for which we have final results these tendencies do not change much for either carrier. Finally on this chart, note that in contrast to the double-digit negative operating margins for the large network airlines, the low fare carriers earned very respectable positive operating margins. Indeed, the margins for these carriers in 2001 exceeded those for the network carriers for 2000.

In addition to the financial information the airlines file with the Department every quarter, they also file preliminary data on a monthly basis. While this information is subject to change, we believe it can be relied upon to reveal general tendencies. Our review of this information suggests that the financial trends you have just observed in the quarterly data throughout 2002 are continuing into 2003. Indeed, the results for the large network carriers in January 2003, or 16 months after the September 11 terrorist attacks, are no better than a year earlier, despite the fact that travel demand was still severely depressed.

With this context, please look at Chart 4. This compares weekly traffic, in terms of revenue passenger miles, for Air Transport Association member carriers that provide international service, beginning for the week ended December 15, 2002 with traffic a year earlier. This shows that from mid December 2002, to the end of January 2003, traffic was up slightly over a year earlier. Then note the rather marked downward trends beginning with early February. Next, note the increased rate of decline at the time of the first strikes in the war. This information is broken down into four major traffic categories, and, as would be expected, transatlantic traffic has suffered the greatest decline.

Chart 5 compares daily traffic for the same carriers beginning March 12, 2003 with traffic a year earlier. Initially the trend is up slightly until the Azores Summit.

[1] Fourth quarter 2002 data are preliminary and subject to change.

Traffic then plummets after the 48-hour ultimatum, and again as the war starts. Note that by March 26, traffic is down from about 20 to 25 percent for each category. Subsequently, the year-over-year declines eased up for several days before worsening again for all but the domestic category.

So where does this leave us? Many airlines, including the large network airlines that now provide the bulk of airline service in the United States, have consistently suffered large losses for more than 2 years, they are heavily leveraged, and now, once again, they see airline demand in steep decline for some unknown period. Does this mean that the airline industry as we know it today is doomed to fail? No, but there will be change. Airlines that are in trouble are all working hard at what they must do to survive and eventually return as viable competitors. How quickly and to what extent they recover will depend largely on three factors: how much they are able to reduce their costs, the recovery of travel demand, and the extent to which carriers reduce capacity in light of the now-diminished level of demand.

While my focus here today is the financial state of the airline industry, this painful process affects everyone in the aviation industry: aircraft lessors and investors, aviation vendors, airports and their concessionaries, and—more than anyone else—airline employees. Since September 11, more than 100,000 airline employees have lost their jobs. Just in the past 2 weeks airlines have announced an additional 10,000 layoffs. The aircraft industry has also been hard hit. Of the 7,525 jet aircraft available for service today, 971 are either stored or temporarily inactive.

We are going to get through this. My personal conviction is that when we do, the industry will look a lot like the industry we have today, except that it will be more cost-effective, more competitive, and more robust.

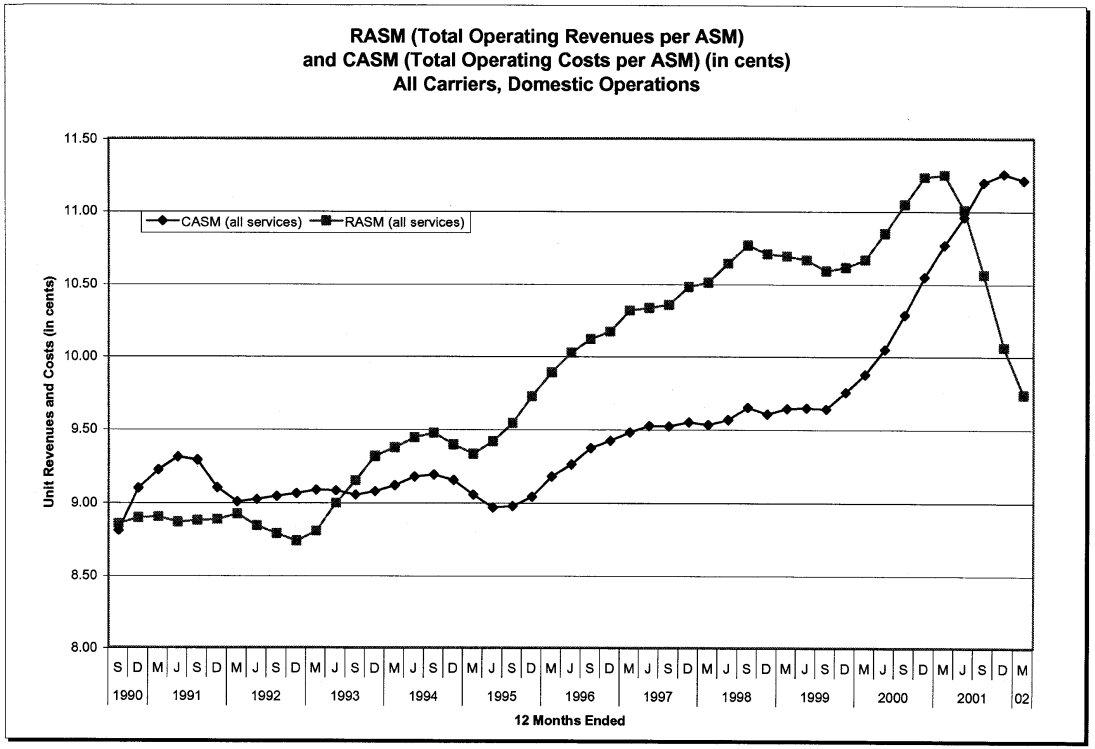
As many of you know, the Administration has recently unveiled its proposal, Centennial of Flight Aviation Authorization Act as a successor of AIR–21, which expires at the end of this fiscal year. A lot of people at FAA and in the Office of the Secretary have spent a lot of time over the past several months developing those proposals, and we are proud of them. They would promote the industry's growth and vitality while retaining safety as our top priority. We plan to reinforce our commitment to safety by making substantial investments in National Airspace System infrastructure and ensuring that our highly trained controller workforce is fully capable of sustaining its high levels of performance over the course of the next reauthorization period and beyond.

Our proposal will also ensure that we are prepared for the demand levels predicted in the FAA's recent industry forecast by continuing to fund airport capacity enhancements at record levels and restructuring Airport Improvement Program formulas and set-asides.

CONCLUSION

Mr. Chairman and members of the Subcommittee, thank you for the opportunity to testify here today. I look forward to responding to any questions you may have.

CHART 1


RASM (Total Operating Revenues per ASM)
and CASM (Total Operating Costs per ASM) (in cents)
All Carriers, Domestic Operations
CASM (all services)
RASM (all services)
Unit Revenues and Costs (in cents)
11.50
11.00
10.50
10.00
9.50
9.00
8.50
8.00
S D M J S D M J S D M J S D M J S D M J S D M J S D M J S D M J S D M J S D M J S D M J S D M J S D M
1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 02
12 Months Ended

TOTAL OPERATING PROFIT OR LOSS ($millions)
SYSTEM OPERATIONS

		YEAR QUARTER														
		2000				2000	2001				2001	2002				2002
group	CAR2	1	2	3	4	Total	1	2	3	4	Total	1	2	3	4	Total
1	AA/TW	82	485	505	-62	1,010	-121	-694	-1,252	-1,136	-3,202	-732	-702	-1,252		
	CO	32	241	219	95	587	86	102	-200	-329	-342	-230	-147	-13		
	DL	273	577	476	132	1,459	-127	24	-311	-558	-972	-410	-156	-225		
	NW	17	276	365	6	664	-231	-20	-150	-397	-797	-191	-46	12		
	UA	287	652	-30	-168	741	-428	-355	-2,061	-900	-3,743	-706	-535	-699		
	US	-135	161	11	-81	-44	-194	31	-152	-866	-1,181	-369	-176	-182		
1 Total		**556**	**2,392**	**1,547**	**-78**	**4,416**	**-1,016**	**-911**	**-4,124**	**-4,186**	**-10,237**	**-2,638**	**-1,762**	**-2,359**	**-2,967**	**-9,726**
2	AS	-15	9	34	-40	-12	-32	11	16	-61	-65	-42	-3	17		
	HP	12	49	-1	-73	-13	-25	-56	-101	-138	-320	-122	-1	-42		
2 Total		**-3**	**58**	**33**	**-113**	**-25**	**-57**	**-44**	**-84**	**-199**	**-385**	**-163**	**-4**	**-25**	**-92**	**-284**
3	B6	-8	-7	-1	0	-16	9	11	11	5	35	23	28	23		
	F9	10	25	31	15	81	10	11	2	-3	20	6	-4	-5		
	FL	12	32	17	21	81	18	41	2	-5	55	-3	12	8		
	NK	-19	5	-2	1	-15	7	8	2	-6	10	4	0	-6		
	TZ	4	23	19	-27	19	-1	18	9	-111	-85	8	-57	-48		
	WN	155	315	300	250	1,021	210	291	93	37	631	50	189	91		
3 Total		**155**	**393**	**363**	**260**	**1,171**	**252**	**380**	**119**	**-84**	**667**	**88**	**168**	**63**	**80**	**399**
Grand Total		**708**	**2,843**	**1,942**	**69**	**5,563**	**-820**	**-576**	**-4,090**	**-4,469**	**-9,955**	**-2,714**	**-1,598**	**-2,321**	**-2,978**	**-9,611**

Note: Fourth quarter data for some carriers is preliminary and subject ot change. Data for Spirit Airlines has been updated as of late Mar.28.

OPERATING PROFIT MARGINS (OPERATING PROFIT OR LOSS / TOTAL OPERATING REVENUES)
SYSTEM OPERATIONS

		YEAR QUARTER														
		2000				2000	2001				2001	2002				2002
group	CAR2	1	2	3	4	Total	1	2	3	4	Total	1	2	3	4	Total
1	AA/TW	1.6%	8.7%	8.7%	-1.2%	4.7%	-2.3%	-13.5%	-28.1%	-32.4%	-17.5%	-19.2%	-17.1%	-30.3%		
	CO	1.5%	10.1%	9.1%	4.2%	6.4%	3.8%	4.5%	-10.3%	-21.8%	-4.3%	-13.3%	-7.6%	-0.7%		
	DL	7.6%	14.5%	11.8%	3.6%	9.5%	-3.6%	0.6%	-9.5%	-20.9%	-7.4%	-14.0%	-4.8%	-7.1%		
	NW	0.7%	9.8%	11.9%	0.2%	6.1%	-9.2%	-0.7%	-5.9%	-20.6%	-8.3%	-9.2%	-2.0%	0.5%		
	UA	6.3%	12.8%	-0.6%	-3.5%	3.8%	-9.7%	-7.6%	-50.3%	-30.8%	-23.3%	-22.1%	-14.4%	-19.2%		
	US	-6.6%	6.7%	0.4%	-3.4%	-0.5%	-8.7%	1.3%	-7.7%	-55.7%	-14.3%	-21.8%	-9.3%	-10.5%		
1 Total		**2.8%**	**10.8%**	**6.8%**	**-0.4%**	**5.2%**	**-5.0%**	**-4.4%**	**-22.6%**	**-29.7%**	**-13.9%**	**-17.1%**	**-10.3%**	**-13.8%**	**-18.7%**	**-14.8%**
2	AS	-3.8%	1.9%	6.9%	-9.2%	-0.7%	-7.5%	2.4%	3.4%	-15.9%	-3.7%	-10.1%	-0.7%	3.4%		
	HP	2.2%	8.1%	-0.2%	-12.9%	-0.6%	-4.4%	-9.7%	-20.9%	-35.0%	-15.7%	-26.6%	-0.2%	-8.2%		
2 Total		**-0.3%**	**5.5%**	**3.1%**	**-11.3%**	**-0.6%**	**-5.7%**	**-4.2%**	**-8.7%**	**-25.6%**	**-10.1%**	**-18.8%**	**-0.4%**	**-2.4%**	**-9.7%**	**-7.4%**
3	B6	-128.1%	-41.2%	-3.9%	0.7%	-15.2%	13.5%	14.1%	13.7%	4.7%	11.1%	17.5%	18.6%	13.7%		
	F9	11.3%	22.5%	23.3%	12.8%	18.0%	8.8%	9.2%	1.7%	-3.6%	4.5%	5.7%	-3.4%	-3.9%		
	FL	8.9%	19.7%	10.6%	12.1%	13.0%	10.3%	19.7%	1.3%	-3.8%	8.3%	-1.8%	6.4%	4.2%		
	NK	-23.7%	6.8%	-3.1%	1.1%	-4.7%	6.7%	7.5%	1.7%	-8.2%	2.6%	3.9%	-0.2%	-6.1%		
	TZ	1.5%	7.5%	5.7%	-10.1%	1.6%	-0.2%	5.6%	3.1%	-49.7%	-7.3%	2.6%	-19.6%	-16.6%		
	WN	12.5%	21.5%	20.3%	17.1%	18.1%	14.7%	18.7%	7.0%	3.0%	11.4%	3.9%	12.8%	6.6%		
3 Total		**8.4%**	**18.4%**	**16.5%**	**12.1%**	**14.1%**	**11.5%**	**15.9%**	**5.7%**	**-4.5%**	**7.8%**	**4.3%**	**7.3%**	**2.8%**	**3.5%**	**4.5%**
Grand Total		**3.1%**	**11.2%**	**7.5%**	**0.3%**	**5.7%**	**-3.5%**	**-2.4%**	**-19.2%**	**-26.7%**	**-11.6%**	**-14.8%**	**-7.8%**	**-11.4%**	**-15.6%**	**-12.3%**

Note: Fourth quarter data for some carriers is preliminary and subject to change. Data for Spirit Airlines has been updatyed as of late Mar. 28.

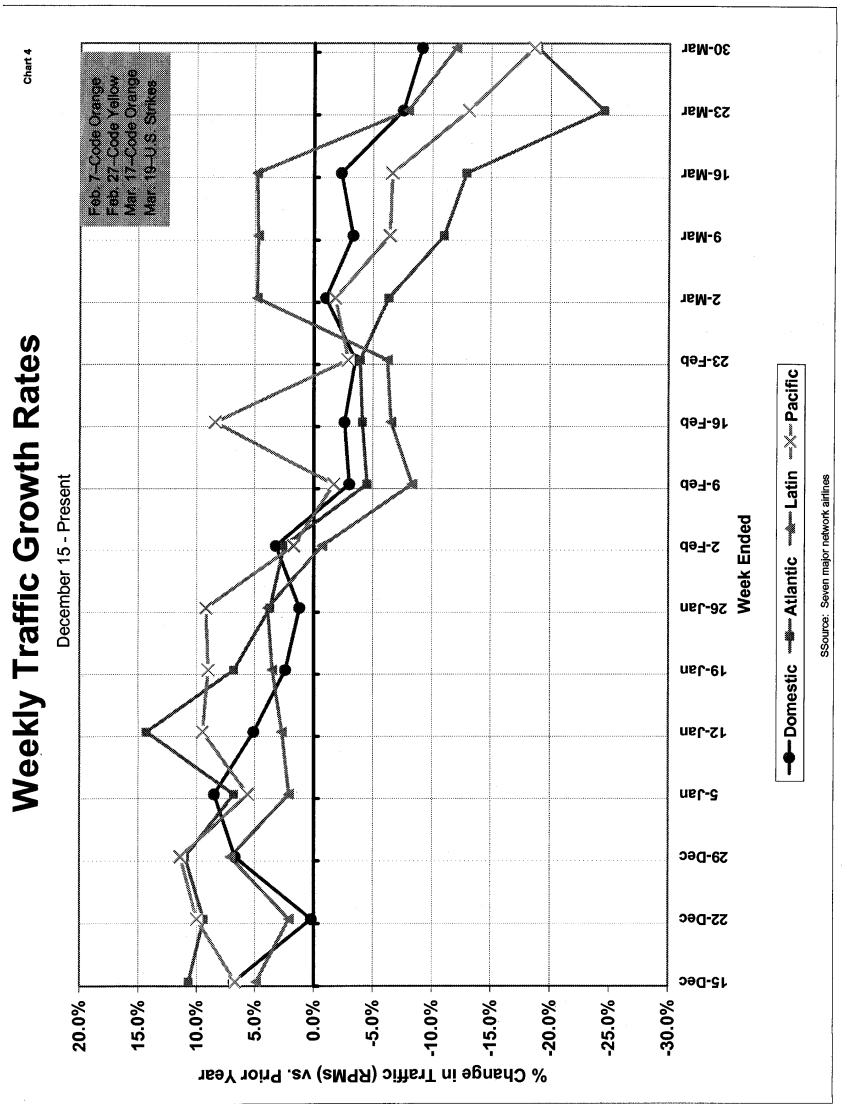
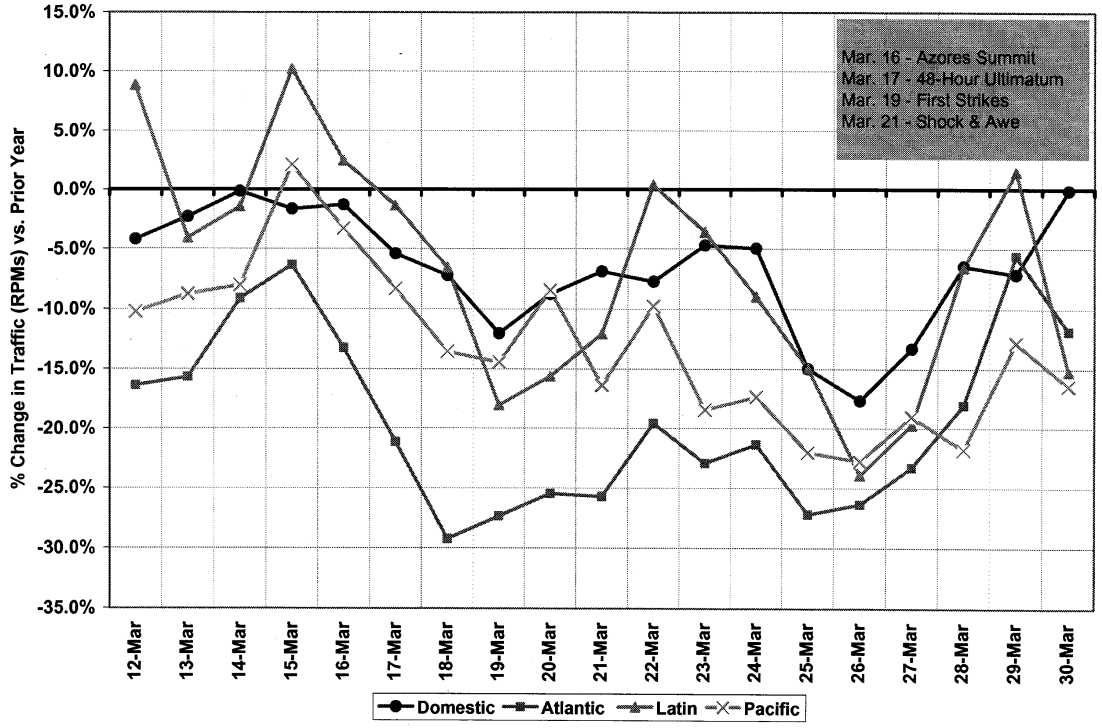


Chart 4
Weekly Traffic Growth Rates
December 15 - Present
Feb. 7–Code Orange
Feb. 27–Code Yellow
Mar. 17–Code Orange
Mar. 19–U.S. Strikes
% Change in Traffic (RPMs) vs. Prior Year
20.0%
15.0%
10.0%
5.0%
0.0%
-5.0%
-10.0%
-15.0%
-20.0%
-25.0%
-30.0%
15-Dec
22-Dec
29-Dec
5-Jan
12-Jan
19-Jan
26-Jan
2-Feb
9-Feb
16-Feb
23-Feb
2-Mar
9-Mar
16-Mar
23-Mar
30-Mar
Week Ended
Domestic
Atlantic
Latin
Pacific
SSource: Seven major network airlines

Chart 5

Daily Traffic Growth Rates

March 12 - Present



Source: Seven major network airlines

RELIEF TO THE AIRLINE INDUSTRY

Senator SHELBY. Secretary Shane, as you know, the committee reported a Supplemental Appropriations Act yesterday that included provisions to provide some relief and assistance to the aviation industry for relief to the airlines. Do you believe it is better to lower carrier costs in the form of a temporary suspension of security fees prospectively for a period of time or to reimburse carriers for security fees that they have already paid to the government?

Mr. SHANE. Well, either formulation will deliver relief to the industry and I am not sure the industry itself is of a view about which is preferable. I would evaluate those two scenarios essentially in terms of ease of administration.

The most important lesson we took from the compensation program that Congress enacted immediately after 9/11 was that the process of evaluating claims, if you are creating a system in which airlines are required to document costs, document claims in a complicated way, and then the Department of Transportation necessarily has to validate all of those claims, the amount of time that we simply have to expend in order to validate the claims is such that it is inconsistent with what we are trying to do with the program, which is deliver the relief in real-time.

The reason we have to do it is that my friend, Ken Mead, right here will have something to say about it if we are not vigilant in the way we evaluate those claims.

Senator SHELBY. He should have something to say about it.

Mr. SHANE. That is right. That is why I think if we are looking at various forms of assistance to the industry right now, the Department of Transportation would strongly favor a system in which we simply either reimburse or forgive fees that the industry incurs. It does not require subjective evaluation of whether these are really the amounts that we should be paying. We know what those amounts are. They are written down someplace. We just write checks.

REIMBURSEMENT TO THE CARRIERS

Senator SHELBY. Let me follow up on that.

One of my concerns with the reimbursement to the carriers is that the payment would include the fees that are paid by the passengers. I do not know why we would levy a fee first on the flying public and then pass that directly to the airlines.

Mr. SHANE. The airlines, in this environment, maintain that they are not able to pass that fee along to the carriers, in fact, that there is no market power whatsoever in this market, and that, in fact, they are absorbing that fee. It is supposed to be passed along and in a normal environment you would expect it to be passed along and tacked onto the ticket.

The fact is the prices in the market right now are what the market sets and there is no incremental amount that you could say is, in fact, passing on a fee to the passengers.

OPERATIONAL EVOLUTION PLAN

Senator SHELBY. The FAA has a plan for enhancing capacity called the Operational Evolution Plan or the OEP. Since the OEP was first published, the aviation industry has been hard-hit by the economic downturn of 9/11, increased security costs, and rising fuel prices. I want to address this question to you, Madame Administrator.

With the industry in such upheaval, what changes are being made to the OEP to adjust to the new realities in airline operations and the market environment?

Ms. BLAKEY. It is a good question because certainly there is a dynamic there that I think we have to respond to in real-time. For an organization like the FAA that depends tremendously on consultation with the industry and the research community to construct a solid plan, this is certainly calling us to really step up real-time on this.

We just issued a new version of OEP, 5.0, which does stay the course for a 10-year period to get 31 percent additional capacity at the end of 10 years. It is a good plan. It is one that there is a remarkable degree of consensus in the industry and in the affected communities that it makes sense.

That said, what I have asked that we do is develop a very intensive approach. We call it the skunk works, to look at the OEP and say okay, what could we put on the fast-track here that number one, will not burden the industry; number two, is develop technology; and number three, could be implemented in the next 1, 3, 5 years at the outside. Not the 10-year horizon. Let us see what we can do in terms of really fast-tracking some of this.

So far the staff has come up with some very interesting, and I think productive, avenues. We are going to vet them in the next month or 2 with the industry and with others before taking this out. But I think this is going to yield some more immediate results, if you will, from that standpoint.

Senator SHELBY. Mr. Shane, the Aerospace Commission recommended making the transformation of the U.S. Air Traffic Management System a national priority. What confidence do you have that the FAA and the OST are making the necessary changes to the OEP, as warranted by the call to action by the Aerospace Commission?

Mr. SHANE. Thank you, Mr. Chairman.

I have great confidence in that. The reason I have such confidence is that Administrator Blakey and I have talked about that issue dating back to before the Aerospace Commission actually issued that report. The Administrator is absolutely committed to giving life to some of the vision in the report. We have spoken to Secretary Mineta about it and the Deputy Secretary, Michael Jackson, as well.

I think in the not-too-distant future we will probably have a more concrete announcement for you. But at this point, there is not any question that we are on a path to realizing that.

RISING OPERATING COSTS

Senator SHELBY. A major cost driver of FAA's rising operating costs has been salary increases from collective bargaining agreements negotiated under FAA's personnel reform authority. Mr. Mead's prepared statement indicates that controller salaries have increased by 47 percent—47 percent since 1998.

Can you compare the increase in salary for air traffic controllers from 1998 through 2003 to other work forces inside FAA, as well as other Federal Agencies?

Also, what can you tell us about overtime costs and other cost drivers that are due to memorandums and MOUs related to controller contracts?

Ms. BLAKEY. The Inspector General has focused on this issue. And in fact, is undertaking an audit on just that issue right now. This goes to the issue of a contract that was negotiated in 1998 which did substantially increase the compensation for controllers.

As time has gone on there have also been a number of additional, if you will, side agreements, these memoranda of understanding which, in some cases, do add on costs in terms of the way the system is running. There are about 1,500 of these, many of which are perfectly fine and address operational work rules et cetera.

But there are some that without doubt add to the cost of this contract substantially, as well as ones that really do infringe on the rights of management to deal flexibly with the demands in traffic and in the kind of management that the system needs from an efficiency standpoint.

We are very committed to working with NATCA to address those issues. This is something that we have already notified the union that we do have a number of those that have been pointed out by the Inspector General that fall under the category I just discussed, that we need to sit down at the table and review and come to a more efficient way of operating from the standpoint of the taxpayer's money.

Senator SHELBY. Mr. Mead, do you want to comment on that?

Mr. MEAD. I appreciate Administrator Blakey's movement to get their hands around this.

One thing that was pretty alarming to us was that nobody knew how many of these deals or memoranda understanding existed. There was no inventory. In fact, as part of our audit effort we probably started developing the inventory. And they have very large financial impacts.

As Administrator Blakey says, a lot of them are legitimate and are needed, but we really ought to know what the cost impact of them is.

RELIEF PACKAGE FOR AVIATION INDUSTRY

Senator SHELBY. Senator Murray.

Senator MURRAY. Thank you, very much, Mr. Chairman. Mr. Shane, thank you for your testimony.

I just want to go back to this again because we are trying to work through this. The Senate had a $3.5 billion aviation package. The House has $3.2 billion. And again, as we noted, Secretary Mineta said there is a huge gulf here.

I just wanted to see if you would help us pin this down a little better and tell us precisely what the structure of a relief package the Administration will support and what amount? If you could tell us, we would really appreciate it.

Mr. SHANE. I really have not been involved personally in the negotiations that have been taking place. I am aware of them. And I would simply ask that I be excused from trying to give you an amount, because I really did not come authorized to talk amount, and it would be interfering with, I think, a conversation that is going on that I am not privy to.

The structural issue is, as I said in response to the Chairman's questions, that we would emphasize the importance of ease of administration. Let us find a set of security fees that we can quantify easily and that we can either forgive or reimburse on day one, simply because those numbers are readily available. If we go beyond that and get into a variety of imponderables and airlines then begin putting claim documents together—first we have to figure out a form. They will have to fill out the form, and then we have to evaluate the form. Weeks and months can go by before they will see any money from a process like that. And that is inconsistent with what they need right now in our judgment.

So we would urge whatever the amount, which is going to be the product of a negotiation, I expect, whatever the amount, it should be an amount that is delivered in a very transparent and easily administered form.

Senator MURRAY. So you have not heard any specific number mentioned by the Administration whatsoever?

Mr. SHANE. I am not—well, I have heard a lot of numbers but I really do not know precisely, because honestly it is taking place way above my pay grade, where the Administration is at the moment.

Senator MURRAY. Specifically let me ask you, as part of the amendment we passed yesterday, we put in funding for expanding unemployment insurance for laid-off workers. Do you find that to be a reasonable part of the package?

Mr. SHANE. Well, I am an undersecretary of transportation, not an undersecretary of labor and Department of Labor really would be the proper agency to comment on that.

I would just say generally that typically we extend unemployment insurance benefits in times when unemployment across the country is 10 percent or more. There have been two extensions, as I understand it, of unemployment benefits thus far in an environment in which the unemployment rate was in the neighborhood of 5 to 6 percent.

So my guess is the Administration will say it is inappropriate to extend those unemployment benefits yet again. It would be an extraordinary thing to do.

Senator MURRAY. This is for aviation workers and I understand they have had the triple whammy. They had September 11th, they have had the downturn in the economy. And now, with the Iraq war, we have had 10,000 lay-offs from aviation and related industries just since the war started. This is not something somebody did to make this happen. These are country-wide, nationwide,

worldwide issues that have impacted these employees. Certainly the Administration would have sympathy for that.

Mr. SHANE. I think the Administration has enormous sympathy and there is no question that the workers have taken it on the chin in a way that we have not seen before. There are a whole variety of programs that are available to the workers including national emergency grants and training programs and reemployment programs.

Again, I am way out of my depth in talking about the Labor Department's programs and I really do not want to get much further into it. But I have no reason to think that the Administration is going to be supportive of yet another extension, even for a particular sector.

There is a fairness element. Industries across the board are suffering as a result of the environment that we are living in today. A lot of it can be attributed to the same causes that the airline industry's problems are attributable to. It is just difficult to explain to people in another sector why it is that you have chosen this sector to provide special benefits to.

POST-9/11 IMPACT ON AVIATION INDUSTRY

Senator MURRAY. They have had a huge impact over the past 2½ years, or 1½ since September 11th.

What about the airlines? We put incredible pressure on them in terms of safety and security since September 11th, and certainly our airports as well. Massive requirements that we have put on top of them. Do you not think that has some kind of impact on their ability to avoid bankruptcy?

Mr. SHANE. There is no question that the Government has picked up a tremendous amount of the cost of the security that we have laid on. We have taken over all of the airport security. Those are all Federal workers now. They used to be airline employees.

There is a tremendous amount that has been done. There has been the $15 billion from 9/11. The question now is whether or not we are going to start finding ways of gifting the industry with so much more assistance that we take them off the track that they are on, leading to a perpetuation rather than a solution of the problem. And that is a genuine concern.

Senator MURRAY. But would you not agree that we have required a lot of our airports and our airlines in terms of security that has added a burden at a time when they are still struggling because of the economy?

Mr. SHANE. Yes, and we are also requiring a lot of every other sector of the transportation industry and I am not aware that we have picked up any portion of the costs that other transportation sectors are being required to bear or will be required to bear.

Senator MURRAY. I would just argue that the aviation industry has, in fact, really been hit because obviously September 11th had an impact on people's willingness to travel by air. And certainly that has not eased in the last months and certainly not since the war in Iraq started, would you not agree?

Mr. SHANE. It eased and then it went down again. Yes, the war in Iraq has been obviously a repeat in terms of the actual adverse impact on demand.

But again, without trying to suggest that we are out of the woods in any way, or to suggest that it is inappropriate to think about some additional assistance. That is not the position of the Administration. What we are saying is that it is important that we calibrate that additional assistance in a way that does not compromise what the industry must do now if we are to have a viable air transportation system going forward.

SUPPLEMENTAL APPROPRIATIONS ACT

Senator MURRAY. Let me just ask you, do you foresee a scenario where the President would veto the supplemental if we do add $3 plus billion for aviation?

Mr. SHANE. I have not had that conversation with anybody in the White House. I have no answer for that.

Senator MURRAY. I know you are not going to let me pin you down, but there is a rumor swirling that the Administration has drawn a line in the sand at $900 million. That is about a quarter of the size that the House and Senate versions both have in them. Have you heard that figure and do you think that figure includes any help for workers?

Mr. SHANE. Somebody reported to me that that figure was in the press, but I had not heard it anywhere else. So I have no way of knowing whether that has any validity whatsoever as a negotiation position or an Administration position.

Senator MURRAY. So you have heard nothing about what is in any kind of formal talks from the Administration, whether it includes work for employees, whether it includes airports, what kind of structure for the airlines? You have heard nothing?

Mr. SHANE. I have heard that we have circled around the idea of a very limited, targeted form of assistance, along the lines that I was suggesting which is related specifically to the security fees that are paid by passengers now and paid by the industry.

That is as much as I have heard. I do not know more than that. I do not know what would be acceptable at the end of the day to the Administration. I do know that it would be substantially less than the amount voted in either house of Congress yesterday.

Senator MURRAY. I am sorry, it will be substantially less than?

Mr. SHANE. An amount acceptable to the Administration would have to be substantially less than was voted in either house of Congress yesterday. That was what Secretary Mineta was saying last night.

Senator MURRAY. Would it include anything for airports?

Mr. SHANE. No, I do not believe that we had anything in mind for airports. Again, I do not mean to be cute here. I am just getting a little bit beyond my depth because this negotiation has been taking place, I believe, between White House staff members and members of Congress. And I have not been privy to those personally. In recent days I am not even sure any of us at the Department have been privy to them.

Senator MURRAY. I will hold on my other questions and let other members of the committee respond and then come back to Ms. Blakey. Senator Bennett?

STATEMENT OF SENATOR ROBERT F. BENNETT

Senator BENNETT. Thank you. This is an interesting picture that you have painted for us here this morning. And as I go through it, I ask myself how much can the Government do about it. Because many of the things that I see that ought to be done are things that probably ought to be done by the airlines themselves.

First, let me just make a few comments and then I will engage in a dialogue here. You referred to Southwest and Jet Blue as the low-cost carriers. You are aware that Jet Blue's fares are higher than their competitions? Were you aware of that?

To fly from New York City to Fort Lauderdale on Jet Blue is $36 more than to fly on their competitor. And the reason is that experience on Jet Blue is $36 better than the experience on their competitors. People who fly Jet Blue become tremendously loyal, almost fierce defenders of the Jet Blue experience and say we want to fly Jet Blue wherever you go.

I think there is a lesson there that I do not know what Government can do about. But when I was in business I focused tremendously on consumer satisfaction.

We now have a circumstance where consumers are almost driven away from air travel by the experience. Jet Blue goes out of their way to do everything they can to create a worthwhile experience and they can charge higher fares, thus saying to us that air travel is not a commodity. There are alternatives. We think of commodities, we think of competition and commodity, it is solely on the basis of price. There is competition on the basis of consumer satisfaction.

Again, if you could think of something the Government could do to get airlines to try to make the experience more satisfactory, and thereby people would be willing to pay a little more to have the experience, instead of going there only when they have no other alternative.

One thing we could do which probably does not fall in your department is to reduce the hassle factor around security. I am as concerned as anybody about security but if I were running the airline industry as a whole as a business, I would certainly do something about the experience you get with TSA.

Now TSA, to its credit, is a better experience than it used to be following September 11th in that period when it was still contracted out to others. The TSA people are substantially more professional and handle that experience with a better sense of consumer satisfaction than you used to get.

I remember when I was in the Department of Transportation when hijackings began, we talked about—forbidden word—profiling as a way to deal with hijacking. Now it is not politically correct to even use the word unless you are using it in speech to denounce it.

But airlines know their customers. Do a background check on a frequent-flier and discover that that frequent-flier is not, nor has ever been, nor ever will be connected with a terrorist organization. Cannot that frequent-flier, thus checked out, and not picked on the basis of so many miles, but checked out with an actual profile, be given a pass?

We senators come into the Capitol without having to go through a security check because the Capitol Police knows who we are. I am not suggesting that we get to the point where everybody has to be carefully identified, but would it not help the business flier to want to get back on the airplane if he or she knew, properly profiled and in an identity bank and even with biometrics—you put your hand on a screen, so as you go through they know that is who you are you get to go by without having to strip all the way down to taking off all your shoes and the kinds of things we go through now?

BUSINESS TRAVELERS

We have got to get the business traveler back on the airplane. If you are making a business decision and you are going to go downtown from Washington to New York City, you say well I have got to be at Reagan at least 1 hour before they takeoff. And it is going to take me 20 minutes to get from my office to Reagan. So this is 1 hour, then a little extra, 1½ hours before I get on the airplane. And then it takes me 1 hour to fly to LaGuardia, so that is 2½ hours. And then, depending on the time of day, it is going to take me a half hour in good times and 1 hour in bad times to get from LaGuardia to downtown New York. Very, very strong incentive to be on the Metroliner.

I happen to think that is a good idea. I would like to see more people on the Metroliner. But that same phenomenon is what is driving people in other markets to the highways. That is the competition for the airline, not the train. It is the highway. Testimony shows the highway is less safe, more congested. We have to appropriate money for highways to deal with the increased traffic there.

How do we get people back on the airplane? We make it a better experience and, aside from dealing with that TSA thing, I do not know quite what Government can do in this area.

I just want you to think about that and see if you can come up with any.

Now, moving quickly, and I apologize to my colleagues for taking so much time. But in this morning's Wall Street Journal, a new airline policy, kill United. Did any of you read that? If not, read it and I would be interested in your response.

Again, when I was at the Department of Transportation, we had to deal with serious problems in the railroad industry, and that is referred to in this piece, where we dealt with the Penn Central bankruptcy. I remember all of the ins and outs about the Penn Central bankruptcy. It was an important part of my tenure there.

Now we are going through bankruptcy in the airline industry and this is a suggestion based on a railroad experience. When Conrail was broken up and Conrail's routes were given to the two competitors, and they are saying United should be broken up and their facilities given to competitors to reduce capacity in a way that is rational.

With that rant on those two areas, do you have any comments or suggestion as to what we can do, looking at it not from the standpoint of legislation or budget, but from the standpoint of overall approach to this tremendous problem that you have presented to us here this morning?

Mr. SHANE. First, Senator, let me just say I remember fondly your days as an Assistant Secretary of Transportation. You probably do not remember, but we were colleagues back then.

Senator BENNETT. You stayed in the industry.

Mr. SHANE. I have been in and out more times than I care to remind myself of but I am in at the moment.

TSA

Let me just say, in response to the hassle factor, the most important thing you said is that it is much reduced. That TSA, which is as you noted no longer part of the Department of Transportation but now part of the Department of Homeland Security, has performed heroically in the course of the last year.

There is no question that there were enormous growing pains and that the hassle factor became a buzz in the business community. Nobody would fly because of all the reasons that you cited.

I do not see that today. I am speaking anecdotally, I know, but the fact is that my impression is average waits are about what they were prior to 9/11. TSA and its very professional cadre of screeners have done an enormous job of bringing that wait time down, so that you really do not have to plan very differently now for an airplane ride than you did prior to 9/11. And enormous credit goes to the folks at TSA who have made that happen.

There is a profiling system that TSA is working on. It is called CAPPS–2. You have undoubtedly read about it and it does embrace much of the vision that you have for making the process easier to create greater confidence in our knowledge of who, in fact, is boarding an airplane. I have no doubt that, as time passes, we will have a much improved system for looking at passengers and not having to put everybody through the wringer on a random basis.

AIRLINE INDUSTRY

As to how you get people back on the airplane, I think the Congress should be very proud of what it did in 1978 when it deregulated the industry. We have been to hell and back in this industry any number of times since that time but Congress has always stayed the course.

I am old enough to remember in the early 1980s when the industry was here, in Congress, talking about worst ever losses in the industry since the beginning of time. The same claims were made in the beginning of the 1990s. And we had meetings with the industry about what form of assistance might be appropriate. Serious consideration was given to that. There never was any assistance back then.

I do not pretend that any of that was anything like what we have going on today. This is a world apart from even those long dark nights of the soul that the industry went through.

But we have never veered from the conviction that we have as a country that the best solution for this industry is to allow the market to work. When we are prepared to go forward and provide some assistance in the current environment—and I am repeating myself here, I realize—we have to be mindful of the importance of letting the industry make the changes it has to make if, in fact, it is going to be viable in the long-term.

When you referred to an article in the Wall Street Journal about a putative policy of killing United and breaking it up, that to me is mindless. The first thing that would happen if you actually tried to kill United is that you would vitiate all the good work that is happening now. By taking that additional capacity out, you take the pressure off everybody else to continue to reduce costs the way they are doing right now.

That is not a good position. United going away is not a good solution for this industry. And it would be a horrible solution, of course, for the thousands and thousands of people who work for United and who are served by United. So that has no place. I know you did not suggest that it would have any place, but it has no place in Government policy, as we sit here today.

Senator BENNETT. It gave you the opportunity to give you the speech you have just given.

Mr. SHANE. Those are some random comments that I would have on your remarks.

Mr. MEAD. I have two quick comments.

On what you were referring to about doing a background check on people like the U.S. Senators, you can come in here and you do not have to go through a big hassle. And you said that was because they know who you are and know about you.

TSA, which is now at Department of Homeland Security, is working on what they call a smart card that, I think, is probably about a year away. And one of the key questions is going to be how much information do we want to know about you before you get a smart card? Do we want to know about your income taxes? Do we want to know about your travel? Do we want to know who your friends are? And that is very controversial.

As Jeff said, also, the profiling, I forget what they call it, but Lockheed Martin has a contract right now. It was issued just before TSA went over to DHS. So I expect there will be movement on that front.

On the price issue. I would like to come back to that. Probably in late 2000, early 2001, the bottom was falling out of the business market on the airlines. And that was because the airlines had taken things too far in what they were charging the business traveler. And one of the reasons they had taken things too far was because people could afford it. Dotcoms out on the West Coast, I think if you spoke to UAL, they would tell you that dotcom travelers provided a lot of their business travel. But dotcoms, the bottom fell out of that market.

So I think what is happening now in the industry is they are trying to reattract business travelers, but they are also trying to do so at a substantially lower fare. And I suspect, sir, in time that is going to work.

CAPACITY BUILDING

Ms. BLAKEY. I would like to add one other point, too, because as Ken is referring to 2000 and what happened there. You asked what the Government can do. And I think very importantly we have to remember that part of the phenomena of 2000 were incredible delays. The summer of 2000 was a horrific time as a business trav-

eler or as a traveler period. And I think it did put a damper on things.

What we can do is increase the capacity in the system. And as I say, staying the course on that right now, in terms of our investment in this, I think is critically important because it really is an appropriate role for Government.

Senator BENNETT. Thank you very much. Senator Dorgan?

Senator DORGAN. Thank you very much.

Let me make a couple of observations and then ask a couple of questions. First of all, Mr. Shane, you indicated that we should let the market work. Let me say I am not someone who looks at the airlines and thinks they have done nothing wrong. I am not a big fan of the pricing schemes. You can pay twice as much to go half as far if you want to go to North Dakota versus Los Angeles from D.C. So I have plenty of irritation about a number of things.

But I must say that it is not a market system that works when an entire industry is shut down from a terrorist attack. Shut down, every asset ordered to be grounded immediately. And the airplanes themselves were used as the missiles, loaded with fuel, for the attack itself. And the picture is shown on television and all of those potential fliers are watching these hijacked airplanes being used to destroy the passengers, and being used to topple the skyscrapers.

There is no market system with respect to how people and potential passengers react to that.

In addition, as we went into that September 11th terrorist attack, we had a recession prior to it and a sputtering economy and the economy still sputters. There is really nothing market oriented about fuel prices and the airline industry has a heavy burden with fuel prices and fuel prices have spiked up because of the uncertainty of war over months and months and months and months. There is certainly nothing market oriented about war and what it does to people's interest in flying and concern about flying.

There is a whole series of things that have converged at the same intersection at the same time. And we can simply say let us ignore this and let the market system work and behave in that manner. But the fact is our economy will pay a heavy, heavy price if those who counsel that while the tent collapses we should just be interested in watching and observe how interesting it is prevail. If they win, if that is the mindset, in my judgment this economy will pay a heavy price.

Mr. Mead, you mentioned rural areas. We are pretty familiar with the price that is paid for dislocation and for discontinuance of service. We are pretty familiar with people that talk about the market system from their enclaves in big cities. But I must say, this is an industry that is essential to this country's economy. It is in bigger trouble than most anybody knows. We may see all of the major players being in bankruptcy, some of them never coming out. The question is do we do something or do we do nothing but observe and talk about how interesting it is?

ADMINISTRATION'S REPRESENTATIVE

Mr. Shane, I voted for you and I said in the Commerce Committee when you appeared before us, I think you have great cre-

dentials. I am impressed with your background and was pleased to vote for your nomination.

But frankly, I do not know why they sent you to this particular hearing which, I was told, was a hearing to talk about the financial challenges facing the aviation industry. My colleague, Senator Murray and certainly I, having been in the discussion yesterday in the Appropriations Committee about the issue of what we should do, what kind of financial package we might want to construct.

And you say well, I am not involved in all of that. And I really cannot respond to it. I do not understand, maybe you were not the one to come to testify on behalf of the Administration, but somebody should be here to tell us what the Administration thinks. What are they prepared to accept? What are they prepared to reject? What do they think we ought to do?

So with that as a prelude, let me just ask the question, Mr. Shane. And I do not mean this in a personal way to you. But you were responding repeatedly to Senator Murray, "Look, I am not involved. I do not know."

Frankly, this hearing, it seems to me, needs to be represented by someone in the Administration that says here is what we think we ought to do at this point. And we might disagree with that and we can have a discussion about it, but we need somebody to say what the Administration's plan is and what they will accept? Can you respond to that?

Mr. SHANE. I think you do need somebody who can respond to those questions. Whether a hearing of this sort is the appropriate forum for having that discussion, or whether there is some more effective forum where you can have that discussion is an open question in my mind.

I was invited to come here and testify and I showed up and the original billing was that we were going to be talking about the FAA budget.

Senator DORGAN. Then we have a different understanding because my heading on this says it was to be a hearing on aviation safety and security and financial challenges facing the industry.

Mr. SHANE. That is correct, and we did learn that well in advance of the hearing. I am not faulting the committee for not telling us what the hearing was going to be about, far be it from me. But we did not know, when we began planning for the hearing, that there would be votes in both houses yesterday. We could not respond that quickly for purposes of this hearing with that sort of information.

GOVERNMENT INTERVENTION

If I could only add one more point, Senator, what you said about the market not working when there was a terrorist attack on the United States, I do not disagree with anything you said. Of course, the market was not working then and we had a compensation program put in place and we created an Air Transportation Stabilization Board because of that. And we had a whole program of assistance to the airline industry at that time. And I agree with you that a war obviously compromises the effectiveness of market forces.

No question about that. We are not arguing about whether there should or should not be assistance. We are just arguing about how

much is consistent with the ideal of a restructuring of this industry for the future. That is the only issue.

Senator DORGAN. But you know, what I observe is folks in the Administration just watching all of this. I do not see that the Administration has developed an aggressive, robust plan.

And frankly, while Senator Murray is trying to apply a patch to this—and I support that, and I think she did a remarkable job yesterday in the Appropriations Committee—I frankly think it is not enough. I know what she is doing. She is trying to do the best she can to get something put in this supplemental bill, and she did that yesterday to add to what was in the bill.

But frankly, I think if we do not think in a bit longer term here with respect to this industry about the consequences of having a substantial portion of it just completely collapse, I think we do this country a great disservice.

And the question is, is that sort of thing going on in the Administration? If so, where? Who is involved? And who can we call up here to talk to about it?

Mr. SHANE. Yes, it is going on in the Administration. If you are talking about the in extremis situation where we are looking at what you might even consider to be a disorderly liquidation of a number of airlines, yes, we are considering the ramifications of that and attempting to plan for it.

Senator DORGAN. What is the worst case that you see? You talk about the disorderly dissolution.

Mr. SHANE. Well, a worst case scenario is probably something we should not discuss in an open hearing, to be quite honest with you. We are talking about a variety of scenarios that I think none of us wants to think about out loud. And I would be happy to come and visit you in your office and talk about that at greater length.

But to suggest that the Administration is not focused on those issues as a major priority would be a complete injustice. We do not go into all of that in great detail in public fora like this, but plenty is going on.

The main point, however, is that there is a process happening within the industry that does appear to be producing some success. And the USAirways success story is a prime example. And the Congress can take credit for that. You set up the Air Transportation Stabilization Board (ATSB). They qualified for a $900 million loan guarantee but only if they made certain cost savings in the structure of their company, which they then did.

So the ATSB created the incentive, and the Congress also created the incentive for USAirways to do what it did. And USAirways now has probably a very long lease on life. We can all be proud of that.

Those are the kinds of things that we support. There was never any argument about whether we should do the ATSB program.

Senator DORGAN. Let me just say, in response to my colleague Senator Bennett, who I have great regard for, I think there are some examples of successes. In fact, there are a couple of carriers that are, at the moment, profitable. But in most cases, those successes are point-to-point carriers that have picked certain explicit markets and said those are the markets that we are going to serve, and only those markets because those are the markets in which we think we can make some profit.

Carriers that have a broader reach and serve some smaller areas react kind of viscerally to this question of the market system. I think the market system is really, really wonderful, I mean really terrific. The market system, however, needs a referee from time to time.

And so, with respect to aviation and commercial airline service specifically, I am very concerned that we maintain a network of providers and that we not sit back and say let us allow dissolution to occur, despite the fact that we have had an intersection of the most unusual events perhaps in a century, the convergence of severe economic stress, a war, fuel prices ratcheting way up, and a terrorist attack using airplanes. We have not seen that since we began flying with a network of air carriers.

That is what I think Senator Murray was talking about yesterday and it is my great concern. I do not think this industry is going to come out of this whole or in any way in a manner that serves all of our country, unless we develop a strategy. Some call it industrial policy. Well, maybe it is. But nonetheless, a strategy of some sort that says this is a very serious, unique problem and we need to address it.

That is why I believe Senator Murray's amendment, and Senator Stevens' as well, is a start. But I think it is short of perhaps what we are going to need to do in a very aggressive way in the future.

Let me just conclude by saying I had intended to ask questions of Administrator Blakey, and thanks for your service down there, and I will send some questions in writing, if you do not mind.

Ms. BLAKEY. I would be delighted.

Senator DORGAN. Mr. Mead, thanks for your continued work. You have appeared before not only this committee, but the Commerce Committee, and I think your work has been extraordinarily helpful to us.

Mr. Shane, again, I did not mean it in a pejorative way. Thanks for coming down. But I really think we need to know a lot about what is being done and what is being considered in the Administration because there has to be a partnership in terms of how we address these issues.

Mr. SHANE. Senator, thank you for your vote.

Senator DORGAN. For confirmation?

Mr. SHANE. Yes.

Senator DORGAN. I would still vote that way.

ADMINISTRATION'S POSITION ON AIRLINE AID

Senator MURRAY. Mr. Chairman, can I just follow up on Senator Dorgan, just to ask Mr. Shane, and it is frustrating because we hear Secretary Mineta in the papers say that we are far apart. But unless you talk to us and tell us what your plan is and what you think is reasonable, it is hard for us to know where to go.

My question, just following up on Senator Dorgan, is you had talked about the Administration negotiating. I just want to know who they are negotiating with. The Senate Democrats added $700 million yesterday. No one is talking to us. Are they talking to someone representing the unemployed workers? Are they talking to the airports? Are they just talking to the airlines? Or are they just talking to themselves?

Mr. SHANE. I thought they were talking to congressional leadership and I cannot be more specific than that. I thought it was being done in White House Legislative Affairs and in the normal way in which——

Senator MURRAY. So you know, if you could pass it back to them, we are not hearing from anybody. And I do think they need to talk to the airports and to the unemployed workers, as well.

Mr. SHANE. Thank you.

Senator SHELBY. Some of these questions I am getting to may have been asked. I had to go to a press conference, and I apologize.

I hope we will never pursue "an industrial policy" but I understand how important the airlines are to our travel, to our way of life, and to our commerce. We all do. It is a question of how we make it work for all of us.

Industrial policy troubles a lot of people, including this senator.

Madame Administrator, if you could focus——

Senator DORGAN. Mr. Chairman, let me amend that. I did say industrial policy. Let me just say cogent policy.

Senator SHELBY. A well thought out policy.

Senator DORGAN. Yes, well thought out policy.

Senator SHELBY. I am sure we will work on that.

MOST IMPORTANT AIR TRAFFIC CONTROL PROJECTS

Madame Administrator, if you could focus on only three air traffic control modernization projects, which three projects in your judgment are the most important to the future of the aviation system and why?

Ms. BLAKEY. That is a good question. I think the first thing I would call your attention to, in terms—and we are talking technology here, rather than procedures; is that correct?

In terms of technology, I would have to tell you that the most urgent thing is modernizing the Host computer system, if we will, that really is the heart and brains of the air traffic control system. This is the En Route System and there is a new procurement, a research and acquisition program on, called En Route Automation Modernization (ERAM), which we are at the beginning of. It is a very expensive one. I certainly would let the committee know that we understand that we are talking about something that is a major taxpayer's investment.

Senator SHELBY. Huge.

Ms. BLAKEY. Yes, huge. The word huge is quite right.

But what we have to realize is we have a 30-year-old system now—30 years. The language that that system is written in, the software for it, is called Jovial. Now how many among us know anyone who even knows what Jovial is, much less can write it? I am told there are six people in the country at the moment.

So it is not hackable. That is the good news. But it is on life support. It is still safe, but we are at the very end of the life of this system. And we can, if we stay on track with this new research and procurement program. That is number one.

The STARS program. I know again, this committee and others have had to sweat bullets over STARS because again it is a very expensive program. It had a lot of inflation in its cost, and was rebaselined.

I had the best meeting I have had since I got to the FAA just the other day on STARS, because I will tell you what we are finding out. We have deployed the system in Philadelphia and not only is it working, it is working very well for air traffic controllers, the airlines, and our maintenance workforce. It is going beautifully.

And we believe that what we are seeing is that rather than the heavy costs that we had expected, in terms of deploying system after system, a lot of those costs, I think, were absorbed in the early stages of development. As we roll it out it will not require as much customization. It will not require as many development dollars, if you will.

Senator SHELBY. Are you telling us it is going to be under budget?

Ms. BLAKEY. No, I am not.

Senator SHELBY. As appropriators, we have been waiting to hear some very good news.

Ms. BLAKEY. Well, listen, I will tell you, I am looking for some really good news in the area you are focusing on. Needless to say, it is one of the areas that keeps me awake at night. But the fact of the matter is, I think we are going to have, and I would be delighted to get together with the committee on this, some good news on that ongoing rollout on STARS as we go forward. So those two I would call your attention to.

I would also call your attention to the fixed-price contract that we have for the Oceanic Aerospace. Again, that contract is going forward and it is staying within the fixed cost that we have anticipated. And that is something that is supported.

And may I finally give you one other piece, because we all like good news. Our WAAS, this is the Wide Area Augmentation System, is providing a lot of support in terms of guidance for smaller airports in particular. It is important to our general aviation community for vertical guidance.

That is going to come in early. We are going to turn it on this summer. And we are discovering again, we got some efficiencies through computer modeling. Rather than having to fly every approach for 530-some-odd airports we are going to roll it out for, we are able to do that on a sampling basis and model the rest of them and save some real money and get it online quicker. So that is going well. It costs a lot initially, but I think you are going to see that it is going to be a great asset in the system.

AIP AND SECURITY RELATED FUNDING

Senator SHELBY. Thank you. More than $560 million in AIP funding was used for security related expenses in 2002, which was up from only $57 million the previous year. Recently TSA Undersecretary James Loy testified that TSA would like to have "one more bite at the apple" this year to use AIP for high priority security purposes.

Is the FAA contemplating spending fiscal year 2003 AIP funds for installation of explosive detection equipment at airports? And if so, how much does the Administration propose using?

Ms. BLAKEY. There are massive costs for a lot of our airports involved with installing these van-sized pieces of equipment.

Senator SHELBY. They are not cheap, are they?

Ms. BLAKEY. They are not cheap at all, I will tell you. In fact, for some of our airports it is over $200 million. So the short answer is yes, because I think we have to. What I would caution the committee about is this, we have said that certainly we can sustain another bite at the apple of about the same size bite as last year.

Senator SHELBY. Not the whole apple, though.

Ms. BLAKEY. Not the whole apple, and over the long run we will eat it to the core in terms of maintenance, safety, enhancing capacity. So for out years, I think you have to pay attention to that.

Senator SHELBY. What effect would the use of AIP at 2002 levels, or even higher levels, have on other important safety, service improvement, or noise related projects in 2003?

Ms. BLAKEY. AIP is a critical program in terms of both the kinds of issues you just highlighted and certainly in terms of noise. I am happy to say that the way the AIP funds work right now, we are able to substantially mitigate the effect on our citizens, 14,000 of them every year through AIP on the noise front.

We are also going to use some of those funds for emissions, issues of air quality. I have to tell you, I am very pleased that the reauthorization that we are putting before you all is very aggressive on the environmental front, both in terms of using those funds well and wisely for that, and also in terms of streamlining so we do not drag these projects out the way we have.

In terms of capacity, I mentioned earlier some of the airports we are bringing online. One thing I would tell you is this, while these great big runway projects, Chicago, Denver, pick one of them, but we are talking, in some cases, over a billion dollars for these runways, are supported significantly through passenger facility charges.

For the smaller airports AIP money makes all the difference. And so we would like to see a greater percentage of AIP money going to smaller airports because they really cannot raise the money in other ways the way the big airports can.

So I would say on the capacity and safety front, that is important and I would urge your attention on that.

Senator SHELBY. Mr. Shane, what would be the long-term impact on using AIP funding at these levels for security purposes.

Mr. SHANE. As the Administrator hinted, I think we really begin to take a great big bite out of our ability to grow capacity. And we have to grow capacity, even in this environment. If we stop growing capacity, as the Administrator said in her earlier remarks, we will be losing an enormous opportunity. We will have the summer of 2000 again. We will have it in the summer of 2004 or 2005. And we will not have a very good excuse for it. It is just terribly important to maintain AIP for capacity growth purposes.

CONTROLLER-IN-CHARGE PROGRAM AND OPERATIONAL ERRORS

Senator SHELBY. Mr. Mead, has expanded controller-in-charge programs had any impact on operational errors?

Mr. MEAD. We cannot say for sure that it has. We can say that there is a statistical correlation. What you need to watch in this controller-in-charge program is in order to move out some supervisors, FAA would designate the elite controllers, the best performing ones as in charge.

What has evolved at some facilities, in some large facilities, is the FAA has designated about 100 percent of the controllers as in charge, controllers-in-charge. I do not think they need that many supervisors.

In some of these facilities we have seen a statistical correlation between the program and operational errors but I would stop short of saying it was cause and effect relationship.

AIP SPENDING

May I respond to your question on the AIP? I would put the brakes on spending AIP money until you had a firm idea of how much the Administration thought it needed to overhaul, to install these SUV-sized machines and where. And that you get from FAA a list with some granularity of what your near-term, big safety capacity projects are.

Senator SHELBY. Senator Murray.

Senator MURRAY. Thank you, Mr. Chairman.

STARS AND OTHER PROGRAMS' COST GROWTH

Mr. Mead, you heard Ms. Blakey a few minutes ago talk about the STARS program, a fairly rosy scenario, which was interesting. I have heard you be very critical in the past. And I wondered if you could let us know are you feeling better about where it is moving, or do you still have concerns?

Mr. MEAD. I am certainly feeling better about Philadelphia. Actually before Administrator Blakey and I have talked at length about STARS. I think every one of our concerns, about how it was going to work, the technical problems and so forth, Administrator Blakey set forth to address them. And they were addressed in Philadelphia. And Philadelphia went online.

That being said, I am very concerned about the cost of this program. It has gone from $800 million to $900 million. Now we are telling people it is about $1.6 billion. I would be surprised if you can deliver the bacon on that.

I am concerned about when you take the four or five big acquisitions at FAA, which include the WAAS and STARS, when you add up all that cost growth, I can hand you the equivalent of one full year's appropriation. That has a cascading effect on other meritorious projects that you cannot undertake. It is going to affect our ability to achieve the vision that both Administrator Blakey and Jeff Shane were speaking about.

Ms. BLAKEY. Let me also just mention one thing, if I might, on the cost growth issue. I think one of the things we have to do, and I am addressing this at the FAA largely, but I think the industry and everyone has to accept this approach. And that is that we cannot keep adding to the requirements. We cannot keep shifting what these systems are intended to do without accepting the fact that it then costs a lot more money.

One of the things we are trying to do is develop real discipline, as well as bring them to the forefront more quickly, so that this issue of accretion of new and different changing requirements does not just completely knock a hole in the budget.

REPAIR STATIONS

Senator MURRAY. Thank you. I know the chairman wants to conclude here and I have a question I wanted to come back to because I heard Mr. Mead talking about repair stations and oversight of repair stations and that air carriers are outsourcing as much as, I think it is 47 percent of their total maintenance costs.

Ms. Blakey, if you could just tell us whether you think your safety personnel are providing the same level of scrutiny to contract repair stations as they are providing to air carrier's in-house maintenance facilities?

Ms. BLAKEY. We are very aware of this phenomena of the increase in contractor repair stations both here and abroad. It is certainly a subject for our focus. We have a very rigorous regime of inspections, as well as requirements for the air carriers themselves to maintain a very diligent oversight. And when it is abroad, for our corresponding civil aviation authorities to do the same thing.

Senator MURRAY. I think I heard Mr. Mead say that the foreign repair stations, some of them are not inspected at all; is that correct?

Mr. MEAD. Yes, that is correct. It is delegated to the foreign equivalent of the FAA, in some cases.

Senator MURRAY. Especially when we are in an era of worrying about terrorist attacks and those kinds of things, are you going to be increasing the number of inspections for our foreign repair stations? Or how are you going to deal with that?

Ms. BLAKEY. We have a strong regime right now of inspections on foreign, and they are required also to have a renewal of their certificate every 12 months to 24 months.

Senator MURRAY. Does that require an on-site inspection for foreign stations?

Ms. BLAKEY. Yes, from the FAA standpoint, we do require that.

Senator MURRAY. So every 12 months, you are inspecting foreign stations?

Ms. BLAKEY. Every 12 to 24 months. It is in that range. It depends on the level of service and what the specifics are with that repair station.

Let me assure you of this, though. I realize this is an area of great concern. This is something again, there is a phenomena of increasing usage of this. And this is certainly something that at the FAA we are going to pay increased attention to in a number of ways. So I would be very pleased also to get back with you on some specifics.

Senator MURRAY. I would really like you to do this, especially in this era. I think we really need to pay attention to that. And if we are contracting more out, I think we need to really be watching. I would like to hear more from you.

[The information follows:]

FAA'S OVERSIGHT OF FOREIGN REPAIR STATIONS

FAA assigns a principal maintenance inspector and, depending on the size of the facility, additional staff to provide regular oversight and inspection of repair stations located in the United States or abroad. The standards that repair stations have to meet remain the same regardless of whether the repair station is a domestic facility located within the United States or a foreign repair station located outside the United States.

The National Flight Standards Work Program requires a facility inspection at least once a year on all repair stations. Additional inspections may be required for various reasons, including changes in the internal workforce composition, NTSB recommendations, or aircraft accidents.

In addition, if a repair station performs maintenance for an airline it must follow the airline's approved maintenance program. An FAA principal maintenance inspector assigned to the airline inspects the repair station to determine that the proper maintenance procedures are followed.

When an applicant applies for FAA certification as a foreign repair station, the FAA must first determine if a U.S. repair station certificate is necessary to maintain or alter U.S.-registered/operated aircraft and/or aeronautical products at the applicant's proposed location. If the certificate is found to be necessary, and is granted, the foreign repair station is required to apply for certificate renewal every 12–24 months, as appropriate. If a foreign repair station no longer maintains U.S. aircraft or components, the certificate may not be renewed or the FAA limits the repair station's capabilities to only those articles used on U.S. aircraft. FAA is not obligated to renew a foreign repair station certificate.

The regulations do not require FAA to justify or provide cause for not renewing foreign certificates. Foreign repair stations are well aware of this, which is reflected in their certificate revocation rates. There were 11 violations filed against foreign repair stations in 2002 and no violations so far this year. For the last 8 years, the average number of violations for foreign repair stations (out of the total of enforcement filed for all repair stations) came out to be just 4.7 percent.

Finally, the airline is responsible to conduct audits of any repair stations it uses. FAA inspectors review the results of the airline's audits to evaluate the performance of the repair station.

For repair stations located in France, Germany and Ireland, the FAA has negotiated bilateral agreements that allow the civil aviation authorities in those countries to provide oversight of 173 foreign repair stations on our behalf. FAA provides similar oversight to 1,159 of the 4,571 domestic repair stations located in the United States that have been approved by the Joint Airworthiness Authorities of Europe.

Mr. MEAD. One of the interesting dimensions of this is that when an air carrier does most of its maintenance in-house, FAA has a team that is essentially dedicated to that airline. They know that airline's maintenance system and so forth. Once the maintenance is done out-house, though, the jurisdiction, the responsibility for the oversight is of a different unit.

In other words, the people that are dedicated to United Airlines inspections by FAA, would not necessarily be the people that check on how good the maintenance is at the repair station where UAL planes are being maintained.

So I think FAA needs to develop a greater connectivity between the two.

ADDITIONAL SUBCOMMITTEE QUESTIONS

Senator MURRAY. I appreciate that.

Mr. Chairman, I do have some other questions I will submit for the record, since we are out of time.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED TO MARION C. BLAKEY

QUESTIONS SUBMITTED BY SENATOR RICHARD C. SHELBY

ENVIRONMENTAL REVIEW PROCESS FOR CAPACITY PROJECTS

Question. The FAA has made a concerted effort in recent years to streamline the review and approval process for key capacity-related projects. What is the status of those efforts? How have they affected the time it takes to review key projects? Do you anticipate further administrative improvements in this area? Do you support efforts in Congress to make further improvements to the process?

Answer. FAA issued a Report to Congress in May 2001 reporting on Federal environmental requirements related to the planning and approval of airport improvement projects together with recommendations for streamlining the environmental review process associated with those types of projects. Six initiatives for streamlining were identified and implemented, as outlined below.

—FAA established Environmental Impact Statement (EIS) Teams for preparing EISs for major runway projects at large hub primary airports. Since the Report to Congress in 2001, FAA Teams have been working on the EISs for nine major runway projects (Atlanta, Boston, Chicago-O'Hare, Chicago South Suburban Airport (SSA), Cincinnati, Greensboro, Los Angeles, Philadelphia, and San Francisco). EISs have been completed for five of the projects (Atlanta, Boston, Greensboro, SSA-Tier I, and Cincinnati) with the other four in various stages of EIS preparation.

—FAA has reallocated staff to provide for five more environmental specialist positions in the Office of Airports. With the passage of the fiscal year 2003 Department of Transportation and Related Agencies Appropriations Act, funding has been provided for hiring 18 more airports environmental specialists and 13 environmental attorneys. These additional personnel will specifically conduct and expedite the environmental analysis and review of airport and aviation development, so as to maximize the capacity benefits to the National Aviation System. FAA is implementing plans to hire qualified personnel to fill these positions at various locations around the country.

—FAA continues to maximize the use of consultant resources to perform more EIS tasks that can be outsourced by the FAA.

—FAA is working with the Council on Environmental Quality (CEQ) to expand the FAA list of categorical exclusions that will be published in revisions to FAA environmental orders. Initiatives are being explored to provide for shortened and streamlined EISs, as well as environmental assessments, that will also involve CEQ and the Environmental Protection Agency (EPA).

—FAA continues to engage other Federal agencies at the beginning and during preparation of EISs, about their environmental reviews and permit requirements in order to avoid unnecessary delays. Also, the FAA, and the National Association of State Aviation Officials, has undertaken a joint review of Federal and State environmental processes and coordination. As a result of this partnership, opportunities have been identified for improving ways in which Federal and individual State requirements can be more effectively and efficiently combined and coordinated.

—FAA has developed, published (on FAA's web site) and updates (at least twice a year) a compendium of best practices for EIS preparation and management. The compendium of best practices addresses practices that are the responsibility of the airport proprietor, the EIS consultant, as well as those of the FAA.

The 2001 Report to Congress noted that the average time for completion of an EIS (from start of the EIS until EIS approval) was 3 years. The average time to issue an agency Record of Decision (ROD) was 3 months. Looking at data available for four of the five runway EISs completed since issuance of the 2001 Report to Congress, and implementation of FAA streamlining initiatives, the Atlanta EIS took 7 months less than the 3-year average; the SSA EIS, 12 months less than the average; and the Cincinnati EIS, just 2 months more than the average. RODs for Atlanta, SSA, and Cincinnati were prepared and issued in 1½, 2, and 3 months respectively. The Boston project was unique and controversial and, therefore, the EIS process was lengthy (almost 7 years). Adding to the process was an 18-month delay between 1996 and 1998 because of a change in Massport leadership and priorities, and extraordinary steps taken to engage community groups and the public in the process. The Boston EIS was not a typical new runway EIS project. In the ongoing EIS projects, FAA streamlining initiatives are being utilized to ensure that environmental process times are minimized to the maximum extent possible, and hiring more environmental staff will greatly aid the effort.

FAA hopes that further agency, as well as congressional actions, will lead to administrative improvements in streamlining the environmental process for major runway projects around the country.

Further action taken by the FAA includes our implementation of the environmental streamlining provisions of Presidential Executive Order (E.O.) 13274, Environmental Stewardship and Transportation Infrastructure Project Review. Two airport EIS projects (Philadelphia and Los Angeles) have recently been designated as priority projects for oversight under the E.O.

The Administration's Flight-100 bill proposes a number of streamlining provisions including:

—Designating aviation congestion projects and aviation safety projects for high priority coordinated, concurrent reviews;
—Concurrent reviews will be through newly-established Interagency Environmental Impact Statement (EIS) teams;
—Interagency EIS teams are directed to establish milestones, and responsible Federal agencies are directed to give these projects the highest priority within their own agencies;
—Interagency EIS teams will defer to the Secretary on project purpose and need, and on determining reasonable alternatives, aviation factors, and aviation noise and emission analyses;
—Noise mitigation for capacity enhancement airport expansion may be funded from the noise set-aside without an additional Part 150 process requirement, and FAA may commit in the EIS Record of Decision to changes in flight procedures to minimize noise impacts due to the capacity enhancement project;
—Airport sponsors are permitted to fund additional FAA staff to facilitate timely processing of the environmental actions for the airport's capacity enhancement project.

OCEANIC AIR TRAFFIC

Question. The FAA has a long history of problems in attempting to provide new air traffic control equipment to manage oceanic air traffic. Since 1995, FAA has spent more than $290 million but has yet to deliver a new oceanic system.

Answer. Since 1995, the FAA has delivered incremental oceanic air traffic improvements and capabilities, required to keep pace with international standards:
—Two way controller/high frequency radio operator "email" automatically updating the controllers' flight data processor, followed by high frequency radio operator voice relay to pilot via conventional radio transmission, 1995.
—Two way controller/pilot direct "email" via satellite data link operational prototype, 1995.
—Interim Situation Display which automatically updates and displays tracking aircraft positions, 1997.
—Reduced Vertical Separation Minima allowing more planes to fly preferred routes with increased numbers of flights, 1997.
—Conflict probe which provides an automatic or controller initiated conflict prediction tool, 1997.
—Automated "email" transfer of flight data between international flight information regions, 1997.
—Two way controller/pilot direct "email" via satellite data link in all Oceanic sectors, 1999.
—Host & Oceanic Computer System Replacement, replaced aging hardware with Year 2000 compliant computers supporting Oceanic air traffic control communications, 1999.
—MicroEARTS, as the platform for the Capstone program, provides surveillance data directly to airlines, allowing them to track aircraft in flight, 2002.

FAA led the way in implementing reduced vertical separation standards in the Pacific and followed suit with our partners in the Atlantic. Further separation reductions require a fully integrated, modernized system and its accompanying procedures.

In March 2000 the FAA initiated the Advanced Technologies and Oceanic Procedures (ATOP) program to take advantage of technology developed for the international marketplace. After conducting a robust, global competition, the FAA awarded the ATOP contract to Lockheed Martin in June 2001. Program costs are within the Acquisition Program Baseline budget, approved in May 2001 by FAA's Joint Resources Council.

Question. The schedule of the current effort, the Advanced Technologies and Oceanic Procedures (ATOP) is significantly behind schedule.

Answer. The FAA's Acquisition Program Baseline schedule for the ATOP program calls for initial operational capability at Oakland in June 2004. The program is operating within its baseline schedule.

Question. What problems are the FAA experiencing with this acquisition program and what corrective measures are you taking?

Answer. Lockheed Martin Air Traffic Management (ATM) underestimated the amount of source lines of code and the amount of modification needed to its existing commercial system. In March 2003, an independent assessment team concluded that the job is larger than expected, and will take longer to complete. The fixed price contract ensures that the cost of developmental delay is borne by the vendor.

Installation of ATOP hardware is on schedule at the New York, Oakland and Anchorage centers. The FAA continues to prepare for system test, operational training, and site acceptance test activities.

Question. When can we expect a new system for oceanic air traffic?

Answer. Initial operational capability at Oakland Air Route Traffic Control Center (ARTCC) is expected by June 2004.

OPERATIONAL ERRORS AND RUNWAY INCURSIONS

Question. What progress has FAA made in reducing the number of operational errors and runway incursions?

Answer. FAA has achieved an 11 percent reduction in operational errors, following 4 years of steady increases. Operational errors declined from 1,194 in fiscal year 2001 to 1,061 in fiscal year 2002.

FAA continues to address operational errors within the National Airspace System. Several initiatives have been developed and implemented in an effort to increase management focus on operational errors in areas such as communications, position relief briefings and operational focus. The FAA deployed an enhanced terminal radar replay tool, updated quality assurance training provided by the FAA Academy, produced and distributed a training video on communication errors, and conducted more than 30 special evaluations focusing on operational errors. A 3-year operational error reduction plan has been implemented and represents a collaborative approach to the reduction of operational errors.

Runway incursions have declined from 407 in fiscal year 2001 to 338 in fiscal year 2002, due in part to FAA's aggressive actions to reduce these incidents. FAA established a system to categorize runway incursions by severity risk and has reduced the number of close calls (those runway incursions in the two highest categories) from 53 in fiscal year 2001 to 37 in fiscal year 2002 and 18 to date in fiscal year 2003 (through April).

FAA plans to continue its aggressive actions in reducing runway incursions by continued training of pilots in situational awareness while on the airport surface, and the use of existing and new technologies to warn pilots and controllers of potential incidents.

WAKE TURBULENCE RESEARCH

Question. In the last 2 fiscal years, FAA has requested $1 million for the wake turbulence research program. Congress recognized that the wake turbulence standards must be reassessed in a data-driven research program to address important capacity and safety issues, and enacted $4 million in fiscal year 2002 and $8 million in fiscal year 2003, to accelerate this important research. By proposing to zero-fund this program in fiscal year 2004, FAA has ignored the need for this research and has disregarded Congress' obvious intent to have an adequately funded wake research program. Why has FAA failed to provide funding for this important research program? What are the specific plans for the FAA to rectify this problem and accordingly revise its fiscal year 2004 request?

Answer. The FAA will complete the Joint FAA/NASA Wake Turbulence Research Management Plan and the Investment Package for the near and mid-term wake research activities within the next few months. FAA has no plans to revise its fiscal year 2004 request, but will reexamine the program in future years.

COST ACCOUNTING SYSTEM

Question. What is the current status of the cost accounting and labor distribution systems and when can we expect the full implementation of these systems?

Answer. Cost accounting has been implemented in 80 percent of the agency to date. Managers are beginning to use the Cost Accounting System (CAS) data. For example, the Air Traffic Services organization has used CAS data to target and track initiatives to reduce field maintenance by 3.5 percent, reduce overhead costs by 4 percent, and hold costs in Oceanic and Flight Services constant.

Implementation of the cost accounting/labor distribution reporting system will be completed in fiscal year 2004. CAS is now in place in Air Traffic Services, Commercial Space Transportation, Financial Services/CFO, Human Resource Management, Free Flight, and the Academy and Logistics Center at the Mike Monroney Aeronautical Center. In fiscal year 2004, CAS will be implemented in Research and Acquisitions, Airports, and Regulation and Certification.

AEROSPACE COMMISSION

Question. The Commission on the Future of the United States Aerospace Industry issued a report making a number of recommendations to ensure the competitiveness of the American industry. One of the Commission's recommendations called for the Federal Government to establish a national aerospace policy and promote aerospace by creating a government-wide management structure. How is the FAA responding?

Answer. FAA formed a Joint Planning Office (JPO) comprised of Federal Aviation Administration (FAA), Department of Defense, Transportation Security Administration, Department of Commerce and National Aeronautics and Space Administration, to focus on development of the next generation air traffic management system. FAA leads the team. The Agency is also establishing a high-level policy committee to guide this effort. It will be chaired by the Secretary of Transportation, and will be established this summer. The next steps are to establish advisory committees for this activity, to coordinate a framework for the initiative through the five participating agencies and departments, and begin drafting the national plan.

QUESTIONS SUBMITTED BY SENATOR PATTY MURRAY

CHIEF OPERATING OFFICER

Question. Will the FAA ever have a Chief Operating Officer?

Administrator Blakey, at previous FAA hearings in this subcommittee, it has been noted that the FAA has yet to appoint a Chief Operating Officer for the agency. This position, as you well know, was created in AIR–21 and is considered critical to moving air traffic control into a more performance-based operation. The COO position has never been filled. Your reauthorization proposal modifies the responsibilities of the Chief Operating Officer to clarify that the position will focus on the day-to-day operational functions of the air traffic control organization.

Why do you think these changes will improve your chances of recruiting a Chief Operating Officer?

Answer. While the changes proposed are modest, the FAA and the executive search firm believe that clarifying the role of Chief Operating Officer (COO) is key to the successful recruitment for the position.

Question. What can you tell us about your efforts to recruit a COO so far, specifically how many serious candidates have you considered?

Answer. With the help of Korn-Ferry International, there was a search conducted earlier this year. The Administrator and Deputy Administrator have interviewed several of the top candidates. Discussions are ongoing.

CONTROLLER RETIREMENTS

Question. Ms. Blakey, over 50 percent of the controller workforce will be eligible to retire by the year 2010 and the General Accounting Office has estimated that roughly 5,000 controllers plan to leave the FAA by the end of fiscal year 2006. Your budget requests funding for only 302 additional air traffic controllers. Based on this request, I'm concerned that the agency isn't adequately preparing for the surge in controller retirements.

Given that it takes as much as 5 years to train a new employee to become a fully certified controller and assuming that the GAO's estimates are correct, shouldn't we be concerned that safety or the air traffic control system's operational capabilities might be compromised?

Answer. Staffing standards have been revised based on recent traffic forecasts. These standards are an important element, along with projected retirement losses, to predicting future controller requirements and hiring needs.

With the drop in staffing requirements due to reductions in air traffic, the 302 additional positions in the fiscal year 2004 budget, and the FAA's hiring plans for future years, the agency is positioned to meet all of its staffing needs.

The agency is sensitive to the additional hiring needs that are needed to address the surge in retirements. The FAA's annual retirement projections have been very accurate, and the FAA has been meeting its annual hiring goals. Over the last 6 years, the agency has hired more than 3,000 new controllers.

AVIATION TRUST FUND REDUCTIONS

Question. Ms. Blakey, the Inspector General's testimony states that over the next 4 years, Aviation Trust Fund tax revenues are expected to be about $10 billion less than projections made in April, 2001. He also stated that the options for compensating for these declines—whether it is increasing excise taxes, limiting investment

in the aviation system, or relying more heavily on General Funds—are not attractive.

Ms. Blakey, in order of preference, how do you think we should bridge the gap between declining trust fund revenues and the FAA's budgetary needs? Should we raise excise taxes, defer investments in air traffic control modernization or contribute more General Funds?

Answer. Just as a healthy industry is important to FAA's mission, FAA is important to a healthy industry. By virtue of its mission to regulate and promote the U.S. aviation industry, the FAA plays a vital role in sustaining the health of this critical section of the U.S. economy. The recent economic hardships experienced by the industry have caused the FAA to refocus on how its programs affect the industry, and particular, on what actions it might take to help improve the serious conditions facing the industry.

The FAA must continually endeavor to make its own operations more efficient and responsive to the needs of industry and the public, particularly in a time of tighter Federal budgets. Areas where the FAA is investigating possible improvements are procurement activities, staffing requirements, organizational structure, and enhancements to our financial systems—DELPHI, Cost Accounting (CAS), and Labor Distribution Reporting (LDR). Potential benefits include the ability to respond more efficiently, quickly, and cost effectively to the needs of industry and the public.

The Airport and Airway Trust Fund is the principal source of funding for FAA programs, accounting for all capital program funding. In fiscal year 2004 approximately 79 percent of operations funding will be derived from the Trust Fund. FAA remains committed to using the Aviation Trust Fund only to fund the Department's aviation programs, but in a change from AIR–21, the Agency is proposing to increase the use of balances that have built up in the Trust Fund. In fiscal year 2004, FAA would use $12.4 billion of trust fund dollars and $1.6 billion from the General Fund.

CARRIER SAFETY OVERSIGHT

Question. What specific measures has your safety inspection workforce taken to ensure that the air carriers aren't shortchanging critical maintenance needs? For example, how does the frequency and intensity of your on-site inspections of financially-distressed carriers differ from those conducted on financially stable carriers?

Answer. In addition to monitoring an air carrier's regulatory compliance, FAA inspectors are constantly monitoring their carriers' financial and labor relations circumstances so they have a complete picture of the airline's status. When inspectors see indicators of financial trouble, the inspectors increase their interaction with the airline's management and adjust their surveillance plan to increase their focus on areas that might be at risk due to financial cutbacks.

Each carrier's experience is different and requires that the surveillance plan be tailored to the circumstances. As a carrier reduces its schedule, its fleet, and its employee ranks, the impacts of these reductions must be constantly evaluated and surveillance plans amended. Areas of adjusted surveillance would include: training to ensure employees who are reassigned are properly prepared for their assignments; maintenance to ensure that discrepancies reported by pilots are properly addressed; and other areas affected by the carrier's plans.

The carrier's quality assurance and quality control process are monitored to ensure they are being followed and that findings are being addressed. Data and trends—such as dispatch reliability, on time performance, and minimum equipment list deferrals—are monitored and surveillance is retargeted if the data indicates a negative trend.

OVERSIGHT OF FOREIGN AND DOMESTIC REPAIR STATIONS

Question. Please provide us specific detail as to how the FAA intends to increase its oversight of foreign and domestic repair stations in terms of frequency of inspections and safety audit requirements?

Answer. Currently, the FAA is looking at a new model for Certificate Management Oversight of Part 145 repair stations. The model is designed to mirror that of a major air carrier Certificate Management Unit, and has already been put in place to provide oversight for a major repair station in the Seattle area. The FAA has increased the inspectors assigned to oversee this station from 1 to 5.

Under this model, the Certificate Management Unit is able to identify possible deficiencies in the repair station's organizational structure, quality control procedures and repair stations' manual. This enables the repair station to make needed changes to the organization and procedures to mitigate and/or eliminate known risks.

STATUS OF THE ASR–11 RADAR AND STARS

Question. Have all the software problems now been resolved with this radar and has your testing of the radar uncovered any additional performance concerns that would delay its implementation or increase its costs further?

Answer. Yes, all software problems associated with the ASR–11 radar have been resolved. Results of testing have proven the system suitable for operational use, as is the case for the Willow Grove ASR–11, which currently feeds the Philadelphia STARS.

FAA does not foresee any performance issues that would delay implementation of ASR–11, although some sites may present a challenge to obtain optimum performance. In these unique situations, as with any radar, additional measures (e.g. extra adjustments/enhancements) may need to be considered.

ASR–11 is a joint FAA and Department of Defense (DOD) procurement program intended to replace aging Airport Surveillance Radar Models 7 and 8, which are nearing the end of their service life and becoming more difficult to maintain. The ASR–11 system is an integrated system that includes a primary radar system and associated beacon system. The ASR–11 will provide digital radar input to new automation systems such as Standard Terminal Automation Replacement System (STARS).

Question. Since the full deployment of STARS is dependent upon the ASR–11 to provide the digital radar feed, how confident are you that STARS will stay on schedule?

Answer. FAA has developed a deployment plan and budget for STARS which is currently being validated by an independent third party. The waterfall schedule has been coordinated with the ASR–11 team to ensure synchronization as much as possible. FAA will continue to coordinate both program schedules throughout the deployment of both STARS and ASR–11. In the event of a delay to the ASR–11 schedule, several radar digitizers have been purchased which can be used in place of the ASR–11 until the two programs line up.

STARS is a joint FAA and Department of Defense (DOD) procurement program intended to replace the aging Automated Radar Terminal System (ARTS) at FAA TRACONs and DOD terminal facilities. STARS will work in conjunction with digital radar systems to allow air traffic controllers to track aircraft within the terminal area. The new equipment and software will be based on a digital platform and provide higher-resolution screens with color capabilities and higher system reliability. STARS can also be expanded to meet increased traffic demands and accommodate new automation functions.

REVISION OF THE OPERATIONAL EVOLUTION PLAN

Question. Ms. Blakey, the Operational Evolution Plan (OEP) was unveiled just 3 months prior to the tragic events of September 11. The OEP was expected to be the FAA's blueprint for how to increase the capacity and safety of our Nation's air traffic control system by 2010. Your recently released Aviation Forecast predicts an even slower recovery than what was estimated last year. Given the anticipated slower recovery, how has the OEP changed—what specific programs have been modified, deferred or expedited?

Answer. There is no doubt that the timelines for the Operational Evolution Plan have been impacted by the events of September 11 and by the subsequent downturn in the airline industry. Airlines have had to deal with their own financial issues as well as additional costs for security. As a result, they have not been able to maintain the level of investment they had hoped for in OEP improvements.

The most recent update to the OEP (Version 5, published in December 2002), reflected adjustments made over the past 18 months in response to these forces. Runways at Atlanta and Seattle were delayed and Charlotte's runway has been deferred as a result of decisions reached by the local community. We also scaled back activities in Miami with the Controller Pilot Data Link because of the airlines' limitations to voluntarily equip as originally planned. With Version 5, the OEP added a new runway at Cleveland and Boston, four Traffic Management Advisor (TMA) sites were added, along with several other capacity enhancing technologies, to include required navigation performance, collaborative decision-making, and more efficient approaches to airspace management. Further discussions with industry will occur this summer, leading to the next update of the OEP.

AIR TRAFFIC CONTROL AS A COMMERCIAL ACTIVITY

Question. Ms. Blakey, in February, the Department of Transportation published their Federal Activities Inventory Reform or FAIR Act list which changed the status

of air traffic control from a governmental activity to a commercial activity. As you well know, the National Air Traffic Controllers Association has expressed concern that this takes air traffic control one step closer to privatization.

Why was the classification of air traffic control changed?

Answer. On December 18, 2002, the Secretary of Transportation determined that air traffic control is commercial and not inherently governmental. There are two reasons: (1) Functions that are inherently governmental involve a sovereign act on behalf of the Government or bind the Government to a particular course of action. The separation and control of air traffic does not meet this rigorous definition and takes into account the FAA's existing contract tower program. (2) There are 219 contract towers that are safely and efficiently providing air traffic control services by private contractors. However, this was not a step toward privatizing the air traffic control system. This is not under consideration.

Question. Ms. Blakey, in February, the Department of Transportation published their Federal Activities Inventory Reform or FAIR Act list which changed the status of air traffic control from a governmental activity to a commercial activity. As you well know, the National Air Traffic Controllers Association has expressed concern that this takes air traffic control one step closer to privatization.

How can you assure the committee that air traffic control will continue to be a core mission of the FAA and that it will not be subject to privatization?

Answer. On December 18, 2002, the Secretary of Transportation signed a formal determination that functions involved in the separation and control of air traffic are a core capability required for the successful accomplishment of the FAA mission to ensure the safety and security of the National Airspace System. Based on the Secretary's determination, these functions are not subject to competition and will not be contracted out. I fully support the Secretary's position.

ENVIRONMENTAL REVIEW PROCESS FOR AIRPORT PROJECTS

Question. Ms. Blakey, last October, Secretary Mineta announced a list of seven transportation construction projects that were selected to receive accelerated environmental reviews. The Philadelphia International Airport runway construction project was the only airport project that was included on that list. Why was only one airport included in this initial list of projects selected for accelerated environmental review?

Answer. Secretary Mineta chose the initial selection of priority transportation projects in order to get the accelerated environmental review process underway before completion of project nominations in December. The Secretary, therefore, asked for project nominations by the Modal Administrators. He considered several airport projects before making his selection. Because the initial list of selected projects was to be small in number, the competition was keen. As a result only one airport project was selected.

Question. Ms. Blakey, last October, Secretary Mineta announced a list of seven transportation construction projects that were selected to receive accelerated environmental reviews. The Philadelphia International Airport runway construction project was the only airport project that was included on that list. Since that announcement, how many other airport projects have been selected for accelerated environmental review? Which specific airports?

Answer. Since announcing the Philadelphia Airport project, one other airport project was selected for accelerated environmental review under Executive Order 13274. Secretary Mineta announced the selection of the Los Angeles World Airport project on February 27, 2003 with five other transportation construction projects. Five other nominated airport projects remain on the Department's project review register for future consideration.

FAA highest priority projects for expediting or streamlining the environmental review process continue to be those major runway projects at large primary airports. These projects are the types that reduce national congestion the most. FAA will continue to apply and carry out streamlining initiatives for these projects regardless of whether such projects are nominated or selected for review under Executive Order 13274.

AIRPORT IMPROVEMENT PROGRAM

Question. At a time when airports are struggling to pay for the installation of explosive detection systems, what is your rationale for keeping the Airport Improvement Program (AIP) flat while requesting increases for FAA's other major programs?

Answer. AIP was funded at levels up to $1.95 billion prior to the enactment of AIR–21. Post AIR–21, AIP funding increased in fiscal year 2000 to $3.2 billion, a

65 percent increase. In fiscal year 2003, AIP funding rose to $3.4 billion. This represents a dramatic increase in funding that the President's Budget would retain in fiscal year 2004. Although airports face high costs associated with the deployment of explosive detection systems, there is other Federal money available to assist airports, specifically from the Department of Homeland Security (DHS).

GRAPHIC ADVISORIES FOR GENERAL AVIATION PILOTS

Question. Ms. Blakey, the recently-passed 2003 Omnibus Appropriations Bill directed the FAA to publish graphic advisories in addition to the notice-to-airmen advisories and to make these available to flight service stations and the aviation community via the Internet. The increased number of special use airspace and temporary flight restrictions subsequent to September 11, 2001, and the recent elevation of the threat to Code Orange make it even more critical to share this information with pilots. As yet, the FAA has not done as Congress has directed. Why not?

Answer. The FAA web page contains a link to graphic depictions of Temporary Flight Restrictions (TFRs). The site was activated shortly after September 11, 2001. Except for general notices, each TFR contains corresponding graphics.

The flight service stations (FSS) were heavily impacted by the above event, which led to the activation of the Flight Service Operation Support Center (FSOSC) team. The FSOSC creates graphical depictions of TFRs, as well as plain text versions of the TFR Notice to Airmen (NOTAM) using the TFR Operational Display System (TODS) special version software developed by Jeppesen for FSS use. This information is stored on the Jeppesen server and can be accessed via the Internet. At that time, most FSSs did not have the connectivity to access this data. The FAA has since purchased and deployed the hardware and software to support this capability. This information will be available to the FSS, pilots, and others on June 15, 2003.

Question. When precisely can we expect these graphics to be available to general aviation pilots via the Internet?

Answer. Graphical Temporary Flight Restrictions (TFR) information is currently available to pilots through one of the FAA's direct user access terminal system (DUATS) vendors, CSC (formerly Dyncorp, Inc.). The TFR Operational Display System (TODS) products will be made available to the general aviation public on June 15, 2003.

SAN JUAN COUNTY'S AIRSPACE FREQUENCY

Question. What specific steps are you taking to ensure pilots flying in San Juan County, without the assistance of any air traffic control, will be aware of and adhere to the new frequency?

Answer. The FAA process to inform all pilots of new frequency changes is to submit the change to the National Flight Data Center (NFDC) in the FAA Headquarters, Washington, DC. The information is then published in the National Flight Data Digest (NFDD), which comes out daily. This publication is sent to subscribers of NFDD, which includes air traffic facilities, chart producers, airlines, computer database providers, military, etc. General aviation pilots do not normally subscribe to the NFDD. The NFDD is used as the official authority to incorporate the change into airmen's charts and the Airport/Facility Directory (AFD). New charts and the AFD are published every 56 days. Since pilots are required, under 14 Code of Federal Regulations, Part 91.103, Preflight Action, to "become familiar with all available information concerning (their) flight," they are aware of any changes in the National Airspace System, including frequencies, as of the effective date of these publications. Therefore, frequency changes should coincide with charting cycles so pilots are aware of these changes when they discard outdated charts and AFDs, and begin to use new or updated charts and AFDs.

Additionally, many fixed-based operators will post proposed changes to the airport and the surrounding airspace, including Common Traffic Advisory Frequency and Unicom frequency as soon as they become aware a change is planned.

Question. Should we hold off relinquishing the CTAF until we are sure that pilots are educated enough to not create a safety problem?

Answer. In this case, education and notification are interchangeable terms. The FAA recommends that notification occur via the publication of the Airport/Facility Directory (AFD), and that the change to the new frequency coincides with the date the new frequency will be charted. The FAA will provide timely notification to the pilots by ensuring that CTAF changes do not occur until the AFD and new charts are published. Pilots are required to be aware of the AFD chart changes and to use current publications. If the frequency change does not coincide with the charting cycle, the FAA would then be obligated to notify pilots through other means, such

as Letter to Airmen or Notice to Airmen. A common practice is to provide pilot notification of changes through the AFD and charts.

AIR TRAFFIC MODERNIZATION

Question. Administrator Blakey, the Aerospace Commission recommended making the transformation of the U.S. air transportation system a national priority. The Commission's report specifically called for the "rapid deployment of a new, highly automated Air Traffic Management system, beyond the Federal Aviation Administration's Operational Evolution Plan, so robust that it will efficiently, safely, and securely accommodate an evolving variety and growing number of aerospace vehicles and civil and military operations." I am very interested in seeing this recommendation implemented to ensure the economic security of our country.

Can you tell me what your agency is doing to respond to this recommendation?

Answer. Working with other government agencies, the FAA has initiated an informal working group to develop a unified national air transportation plan for 2020 and beyond. The key objectives of the plan are to develop a series of unified strategic goals and actions that will move the industry forward. Critical to this is an emphasis on aligning the activities and resources of the various government departments to support the plan.

FAA will continue to follow the blueprint laid out in the Operational Evolution Plan (OEP) for the capacity goal. To help the Agency in assessing the aviation system of the future, FAA had discussions with industry representatives to explore what they believed will be the changes and challenges to the system. FAA is considering broadening this goal to better reflect the mobility goal of the Department by focusing more directly on the passenger experience. In that way, the OEP will become the jumping off point for the longer-term national plan. The scope of the team's work will include issues related to air traffic management, aviation safety, capacity enhancement, airport improvement, security, and homeland security.

Question. When do you expect to have a design and development plan for a next generation Air Traffic Management (ATM) system in place and when do you envision starting the implementation of such a plan?

Answer. A draft plan is scheduled to be completed by December 2003. The plan, which FAA is developing jointly with DOD, NASA, DHS and DOC, will establish a more formal coordination process for research and implementation activities.

Question. Since this recommendation will require a great deal of interdepartmental coordination to meet both our civil, defense and homeland security needs, what are you doing to ensure the appropriate level of participation from DOD, NASA, and DHS?

Answer. The FAA has a long and successful working relationship with NASA on research and development, an excellent relationship with DOD in coordinating airspace requirements, and a new partnership with DHS/TSA. By continuing to strengthen the relationships the Agency has with these partners we can develop a joint approach—and most importantly a greater alignment of resources—that will enable regular monitoring of the unification of our plans, goals, and objectives.

Question. Administrator Blakey, what is your agency doing to take advantage of the current slow down in the air travel demand to move forward on Air Traffic Management (ATM) system modernization to ensure we don't end up with horrendous delays like we had during the summers of 1999 and 2000 when traffic returns?

Answer. The goal of the Operational Evolution Plan (OEP) is to increase capacity and by doing so, improve the efficiency of the National Airspace System and reduce delays.

It is the FAA's objective, through the initiatives of the OEP and related Air Traffic Modernization projects, to increase the capacity of the National Airspace System by 31 percent during the next 10 years. While the events of September 11, and the subsequent downturn in the industry have impacted various elements of the plan—particularly those requiring collaborative work with the industry—the FAA is continuing to put considerable energy into this initiative.

During the past 2 years the FAA has aggressively pursued its OEP related initiatives. This includes airspace redesigns throughout the National Airspace System, the implementation of Required Navigation Performance (RNP), various capacity enhancing technologies, collaborative decision making, and new runway construction.

The industry has experienced a reduction in the number of flights and passenger loads. The market is not expected to reach pre-September 11 levels until 2005. However, overall capacity of the system, because of the OEP, is continuing to grow by 3 to 5 percent each year. This means, that when the system does recover we will be far less likely to experience the delays we faced in 1999 and 2000.

QUESTIONS SUBMITTED BY SENATOR BARBARA A. MIKULSKI

ACE–IDS

Question. It is my understanding that air traffic controllers are very pleased with the performance of the new ASOS Controller Equipment-Information Display System (ACE–IDS) systems that is currently provided by a small business. I also understand that the older SAIDS4 systems in the field use hard to maintain obsolete software and use computers that have limited extensibility. What is your agency's position on the desirability of the acquisition of ACE–IDS for additional towers and TRACONS to replace the out of date systems?

Answer. Air traffic controllers are pleased with the ASOS Controller Equipment-Information Display System (ACE–IDS). The Information Display System 4 (IDS4) does include aging hardware and software that will eventually need to be replaced. The FAA is developing an acquisition strategy for the next-generation display system. However, the agency will consider ACE–IDS as a potential solution for satisfying requirements that exist prior to the next-generation display system award.

Question. There are many capable small businesses that provide products, services and systems to the FAA, including the current provider of ACE–IDS. To what extent would the ACE–IDS or FAA Data Display System (FAADDS) program lend itself to being set aside for small business? Has the FAA examined that possibility?

Answer. The FAA is currently developing the acquisition strategy for the next generation display system. All available options, to include small business set asides, will be considered in the course of the acquisition.

QUESTIONS SUBMITTED BY SENATOR RICHARD J. DURBIN

WORKING GROUP ON THE AIRLINE INDUSTRY'S FINANCIAL CRISIS

Question. Does the FAA have a working group to address the financial crisis in the airline industry?

Answer. The Office of the Secretary (OST), not the FAA, is responsible for oversight of the financial condition of the airline industry. OST does not have a formal working group on this issue, but has undertaken extensive efforts both to monitor the financial condition of the industry and to evaluate longer-term effects of the industry's ongoing financial plight.

The airline industry is in the midst of the most difficult period of financial distress since it was deregulated almost 25 years ago. This began well before the terrorist attacks of September 11 and reflected a combination of rapidly escalating costs—a trend that started in 1999—and severely decreased demand beginning in early 2001. With these changes, several years of record profits quickly turned to losses.

The terrorist attacks greatly exacerbated losses for the passenger carriers and led to record losses. The industry has suffered operating losses of about $10 billion during each of the past 2 years, and is now expected to lose another $7 to $8 billion this year. A number of smaller carriers have failed, and two major carriers, United and US Airways, filed for bankruptcy, although the latter carrier has now successfully emerged from that process. To compensate for the ongoing losses, airlines have undertaken large-scale capacity cuts, laid off more than 100,000 employees, made operational changes designed to enhance efficiency, and engaged in a wide variety of other efforts to reduce operating costs. These efforts have not yet stopped continuing losses as the industry has been confronted by a continuing series of events that have affected demand, such as the Iraq war and SARS.

It is also important to note that not all news is bad. While the large network airlines in particular have suffered massive losses throughout this period even while significantly reducing capacity, in marked contrast several low-fare airlines have profitably expanded throughout this same period. Now that several low-fare airlines have gained a critical mass and are expanding, cost control by the large network carriers is paramount. The structure of the industry that will evolve from this financial turmoil will depend in large part on how the less stable carriers respond to their cost cutting and restructuring efforts, but also on how soon and to what extent the economic recovery brings relief.

OPERATIONAL EFFICIENCY IN THE NAS

Question. What steps are being taken to improve operational efficiency in the national aviation system? Will they help the airlines operate more efficiently and save money?

Answer. The FAA's work in improving the operational efficiency of the National Airspace System can be considered both on a short-term and long-term basis. Near-term operational improvements include such initiatives as continued deployment of Traffic Management Advisor, enhanced use of collaborative decision making tools to mitigate the impacts of weather on efficiency, and Reduced Vertical Separation Minima. Longer-term initiatives include additional runways as well as the modernization of the en route automation system.

These efforts and systems will provide the airlines and flying public with fuel-efficient routes, predictable schedules, and minimize the disruptions caused by weather.

AIRPORTS WHICH WILL BENEFIT FROM NEW RUNWAYS

Question. Is Chicago O'Hare one of those airports which will benefit from new runways?

In your testimony, you state "We believe that new runways added at the right airports are the single most effective way to increased capacity." Is Chicago O'Hare one of those airports?

Answer. Chicago is one of the 35 airports in the agency's Capacity Benchmark Study/Operational Evolution Plan. Since over 70 percent of all scheduled traffic moves through these 35 airports and 15 of these airports account for 80 percent of the total delays in the entire National Airspace System (NAS), any project which increases capacity or reduces delays at these airports has benefits that ripple through to the entire NAS. O'Hare ranks third in the number of delays over the past 5 years and had the highest ratio of delays to operations of any of the Operational Evolution Plan (OEP) airports in 2002 (57.60 per 1,000). Given that O'Hare also handled more operations than any other airport last year, these delay ratios are indicative of a delay problem at O'Hare.

Delays at O'Hare International Airport will continue to grow as demand increases. Delays at O'Hare are having a ripple effect throughout the country and additional capacity is needed. The FAA is currently evaluating a draft plan proposed by the City of Chicago for the modernization of O'Hare Airport that is expected to significantly increase its capacity. The modernization plan includes the realignment of existing runways as well as the addition of a new runway.

QUESTIONS SUBMITTED TO JEFFREY N. SHANE

QUESTIONS SUBMITTED BY SENATOR RICHARD C. SHELBY

ROLE OF THE OFFICE OF THE SECRETARY IN FAA MATTERS

Question. Secretary Shane, now that the Coast Guard and TSA have moved to the Department of Homeland Security, do you see an increased role for the Office of the Secretary in matters relating to the FAA? Can you give us a few examples?

Answer. There has been no change in the role of the Office of the Secretary (OST) with relation to the Federal Aviation Administration (FAA) since the transfer of the Coast Guard and Transportation Security Administration (TSA) to the Department of Homeland Security. OST coordinates the broad policy goals of the Department and the administration among all the operating administrations. Its role with regard to the FAA is no different than its role with any other modal administration. For example, the aviation reauthorization legislation (Flight-100) that was proposed by the administration was a collaborative effort between the FAA and OST. The same collaborative process was followed with the various operating administrations included in the administration's surface transportation reauthorization proposal (SAFETEA). We expect this coordination role to continue with regard to all operating administrations within the Department.

FAA MANAGEMENT OF PROCUREMENT

Question. When you were at the Department in the early 1990's as the Assistant Secretary for Policy, the FAA and the Department were struggling with the Advanced Automation System procurement (AAS) and now, to read the IG's testimony, we still seem to be struggling with procurement at the FAA: WAAS, STARS, and Oceanic to be specific. And, in fact, I believe that STARS and Oceanic are, in part, follow-on procurements to the AAS procurement that was such a disaster for the FAA.

Do you think that the FAA does a good job in managing procurements?

What should OST do or Congress do to help the FAA improve its ability to deliver desired capability, reduce schedule slippages, and reduce cost overruns?

Answer. The FAA remains committed to delivering National Airspace System (NAS) systems within cost and schedule baselines. FAA has made a number of management changes that strengthen its ability to develop leading-edge technologies. For example, about 2 years ago, the agency instituted a more disciplined process to establish cost, schedule, and performance baselines. This new process acknowledges that a great deal of planning and analysis must be invested in a program before clear cost and schedule parameters can be established in an official acquisition program baseline. The FAA's investment review board also reviews major programs on a regular basis to identify and remove barriers to successful completion. These processes are producing more accurate cost estimates and better performance vis-à-vis program baselines. In fact, over the past 2 years, the FAA has stayed within cost estimates for the vast majority of modernization programs. With respect to the specific programs mentioned:

The Wide Area Augmentation System (WAAS) program has overcome its technical challenges and was commissioned on July 10, 2003. The Oceanic program has been delivering significant, incremental improvements to oceanic controllers since 1995. The Advanced Technologies and Oceanic Procedures program combines those earlier oceanic improvements, adds others, and integrates everything into a single controller workstation. The program is on track to meet the deployment milestones in its official acquisition program baseline.

The Standard Terminal Automation Replacement System (STARS) program is also on track. Except for a 3-day delay in achieving an early display capability in Syracuse in June, 2002, STARS has met every single milestone on or ahead of schedule for the past 3 years. The first full version of the STARS system began operations at an FAA facility on April 30, 2002, in El Paso. It is currently operational at El Paso; Syracuse; Philadelphia; Portland, Oregon; and Miami.

The FAA has also shown that it is willing to make hard decisions when faced with significant cost variances. The agency cancelled the Gulf of Mexico buoy program last year and just recently decided to defer further expansion of the controller-pilot data link communications program.

The Office of the Secretary of Transportation will continue to work closely with the FAA—to establish realistic and accurate cost/schedule baselines, improve program management, execute according to plan, and cancel or defer programs when their costs exceed benefit profiles.

THE FUTURE OF THE U.S. AEROSPACE INDUSTRY

Question. The Commission on the Future of the United States Aerospace Industry issued a report making a number of recommendations to ensure the competitiveness of the American industry. One of the Commission's recommendations called for the Federal Government to establish a national aerospace policy and promote aerospace by creating a government-wide management structure. How is the Department responding?

Answer. The Secretary is establishing a joint planning office (JPO) to address the air transportation portion of the recommendations. The objective of the JPO is to coordinate with the National Aeronautics and Space Administration, the Departments of Commerce, Homeland Security and Defense, and outside stakeholders on a national plan for the transformation of the air transportation system. These joint activities will unify interagency research and development by aligning our vision, goals, policies, and resources out to 2025. A second piece of the management structure will be a policy committee, chaired by the Secretary of Transportation, which will advise and guide these planning efforts with inputs on the overall national policies that will promote economic growth through the transformation of air transportation.

SUBCOMMITTEE RECESS

Senator SHELBY. Thank you.

This concludes today's hearing. The subcommittee is in recess subject to the call of the Chair.

We thank all of you for appearing.

[Whereupon, at 12:18 p.m., Wednesday, April 2, the subcommittee was recessed, to reconvene subject to the call of the Chair.]