U.S. House of Representatives
Committee on Transportation and Infrastructure
Washington, DC 20515

James L. Oberstar
Chairman

David Heymsfeld, Chief of Staff
Ward W. McCarragher, Chief Counsel

John L. Mica
Ranking Republican Member

James W. Coon II, Republican Chief of Staff

February 9, 2007

SUMMARY OF SUBJECT MATTER

TO: Members, Subcommittee on Aviation

FROM: Staff, Subcommittee on Aviation

RE: The President's FY08 Federal Aviation Administration's Budget

PURPOSE OF HEARING

At 2:00 p.m., on Wednesday, February 14, 2007, in Room 2167 Rayburn House Office Building, the Subcommittee on Aviation will hold a hearing to consider the Administration's FY 2008 budget request for the Federal Aviation Administration.

FY 2008 Federal Aviation Administration (FAA) Budget Request

Background

The Administration's request for the FAA provides approximately $14.077 billion in FY 2008, approximately $413 million less than the estimated FY 2007 funding level provided by H.J. Res. 20 (the House-passed continuing resolution). Under current law, the FAA's budget is broken down into four programs: Operations; Facilities & Equipment (F&E); the Airport Improvement Program (AIP); and Research, Engineering & Development (RE&D) (The Science Committee has jurisdiction over the RE&D program). The authorizations for these programs will expire on October 1, 2007 and must be reauthorized.

For FY 2008, the Administration proposes a new account structure that eliminates the Operations and F&E programs and creates the "Air Traffic Organization" account and "Safety and Operations" account. The FAA believes that its new structure will better align funding with function. More specifically, the FAA asserts that the new account structure is aligned with the FAA's lines of business and the pending FAA reauthorization proposal wherein the FAA's financing system is transformed into a hybrid user-fee financing system starting in 2009. This memo analyzes the FY 2008 request under the existing law, as authorized by this Committee, to provide a basis of comparison to prior years. The chart below compares the Administration's FY 2008 request for FAA with the FY 2007 authorized funding levels and the funding levels provided in H.J. Res. 20, the House-passed continuing resolution.

(in $ millions)

PROGRAM	FY 2007[1]	FY 2007 AUTHORIZED	FY 2008 PRESIDENT'S BUDGET	DIF. OF FY2008 PRES. BUDGET AND FY 2007
Operations	8,330.8	8,064.0	8,726.0	395.2 (4.7%)
Facilities& Equipment	2,514.6	3,110.0	2,461.0	(53.6) (-2.1%)
Airport Improvement Program	3,514.5	3,700.0	2,750.0	(764.5) (-21.7%)
Research, Engineering& Development	130.0	356.3	140.0	10 (7.7%)
Total	$14,489.9	$15,230.3	$14,077.0	(412.9) (-2.8%)

Aviation Trust Fund and General Fund

Most of the FAA's funding is derived from the Airport and Airway Trust Fund (commonly known as the "Aviation Trust Fund"). The Aviation Trust Fund holds the revenues from the various aviation excise taxes that are paid by aviation system users. The Aviation Trust Fund receipts totaled $10.6 billion ($11.1 billion including interest) in FY 2006, with approximately $5.5 billion of this total derived from the 7.5 percent passenger ticket tax. The FAA estimates that, under the current tax structure, FY 2008 receipts would equal approximately $12.1 billion.

The Administration's FY 2008 budget request proposes to transform the FAA's current excise tax financing system to a hybrid cost-based user fee system that would take effect in 2009. Under the proposal, which will be detailed in the FAA's upcoming reauthorization proposal, the FAA's financing sources shift from a mix of fuel taxes, other excise taxes, and a general fund contribution to user fees, fuel taxes and a general fund contribution. The FAA estimates that, under its user fee proposal, FY 2008 receipts would hypothetically equal approximately $11.5 billion.

[1] Throughout this memo, FY 2007 funding levels reflect funding levels provided by H. J. Res. 20 (the full-year CR), as passed by the House (not including an upward adjustment in Section 111 pending OMB guidance to FAA on final enacted legislation).

The Administration's hybrid cost-based user fee proposal will be given in-depth consideration during March 2007 Aviation Subcommittee hearings on FAA reauthorization.

When it was created in 1970, the Aviation Trust Fund was viewed as a fund to pay for improvements to the aviation infrastructure. For many years, this Committee and the aviation community have sought to ensure that the funds paid into the Aviation Trust Fund would actually be used for aviation infrastructure improvements. The Wendell H. Ford Aviation Investment and Reform Act for the 21st Century (Public Law 106-181, commonly known as "AIR 21"), enacted in April 2000, included procedural points of order designed to guarantee that every dollar aviation users pay into the Aviation Trust Fund is actually spent on aviation programs, with aviation capital programs having first claim on these dollars. Under these points of order, aviation capital programs must be fully funded at the authorized levels before the remaining Aviation Trust Fund revenues are used to support FAA's operating costs. Vision 100 - Century of Aviation Reauthorization Act (Public Law 108-176, commonly called "Vision 100") retained this provision.

Specifically, AIR 21 requires that the total amount available for spending from the Aviation Trust Fund each year is equal to the Aviation Trust Fund receipts plus interest as estimated by the Administration's budget for that year. Additionally, under existing law, AIP, F&E and RE&D are funded 100 percent from the Aviation Trust Fund. The Aviation Trust Fund share of FAA Operations account varies from year to year depending on Aviation Trust Fund forecasted receipts and the amount spent on AIP, F&E, and RE&D (the law requires that the Aviation Trust Fund's share of operations is calculated by subtracting total Aviation Trust Fund forecasted receipts and interest minus the amount spent on AIP, F&E, and RE&D).

Although most of the FAA's budget is derived from the Aviation Trust Fund, it also receives funding from the General Fund. The size of the General Fund contribution has varied significantly over time. During the past 20 years (1987-2006), the General Fund contribution has averaged 27 percent of FAA's total budget. During the past 10 years (1997-2006), it has averaged 20 percent. Based on the current formula and the assumptions in the Administration's budget, the General Fund would contribute approximately $1.5 billion, or 10.7 percent of the FAA's budget for FY 2008.

The Administration's FY 2008 proposed new account structure divides Aviation Trust Fund and General Fund expenditures differently:

PROGRAMS	AVIATION TRUST FUND	GENERAL FUND
Air Traffic Organization	85 %	15 %
Safety & Operations	36 %	64 %
Research, Engineering & Development	88 %	12 %
Airport Improvement Program	100 %	

According to the FAA, this new breakdown is linked to a cost allocation study that will be released with the FAA's reauthorization proposal. Under the Administration's proposal, the General Fund would contribute approximately $2.6 billion, or 18.6 percent of the FAA's budget for FY 2008.

Airport Improvement Program

Programs providing federal aid to airports began in 1946 and have been modified several times. The current AIP program began in 1982 and provides federal grants to airports for airport development and planning. AIP funding is usually limited to construction or improvements related to aircraft operations, typically projects such as runways, taxiways, aprons, noise abatement, land purchase, and safety, emergency or snow removal equipment.

There are approximately 19,847 airports in the U.S. Of those, 14,586 are private use, and 5,261 are public use. Approximately 3,431 of the public use airports are included in the National Plan of Integrated Airport Systems (NPIAS) 2007-2011. Listing in the NPIAS makes airports eligible for AIP grants.

Unlike some of the Committee's other programs, AIP reauthorization legislation has not included special earmarks. Instead, AIP money is divided into two broad categories: entitlement funds (also called apportionment funds), distributed by formulas that are set forth in the law; and discretionary funds.

Passenger and cargo entitlement funds are distributed to primary commercial service airports (airports that board at least 10,000 passengers per year) and cargo service airports in accordance with a formula that takes into account the number of passengers and amount of cargo that go through each airport. AIR 21 ensured that beginning in FY 2001, primary, commercial service airports must receive at least $650,000 ($1 million if AIP is at least $3.2 billion) per year. Larger airports can receive a passenger entitlement as high as $22 million per year ($26 million if AIP is at least $3.2 billion). There are 382 primary airports and 114 cargo airports that qualify for these entitlements.

States are entitled to 20 percent of AIP funds (if AIP is at least $3.2 billion) for their general aviation airports and commercial service non-primary airports. The formula for the distribution of this money is based on the area and population of the state. In most states, the FAA, working with the state aviation authority, decides which general aviation airports receive AIP funding. Eight states (out of a total of 10 authorized slots) have authority to allocate the money themselves through the Block Grant program. Alaskan airports receive their own separate entitlement, in addition to the amount apportioned to Alaska as a state.

Beginning in FY 2001, general aviation airports, commercial service airports that boarded between 2,500 and 10,000 passengers annually, non-primary airports, and reliever airports received entitlements (if AIP is at least $3.2 billion) based on one-fifth of their expected infrastructure requirements as published in the NPIAS, capped at $150,000 annually. In FY 2006, there were approximately 2,600 non-primary airports that qualified for this entitlement.

The FAA has discretion over the allocation of any AIP money remaining after all entitlements have been funded. However, provisions requiring that a certain percentage go to designated set-asides limit this discretion. The law requires that 35 percent be allocated to noise abatement projects and 4 percent to current or former military airports designated by the FAA. An additional set-aside for reliever airports equal to 0.66 percent of the discretionary fund is distributed when AIP is at least $3.2 billion.

The FY 2008 budget request provides $2.75 billion for the Airport Improvement Program (AIP) - $950 million less than the level authorized by VISION 100 for FY 2007 and $765 million less than the House-passed FY 2007 continuing resolution, H.J.Res. 20.

(in $ millions)

AIP FUNDING CATEGORY	FY 2007 Authorized	FY 2007	FY 2008 Request
APPORTIONMENTS			
Primary Airports	857.7	857.7	496.0
Cargo Airports	125.6	119.1	92.4
Alaska Supplemental	21.3	21.3	10.7
Non-primary (General Aviation) Airports	409.0	409.0	0
State Apportionment	308.4	271.3	488.5
SMALL AIRPORT FUND			
Small Hubs	61.3	66.7	30.6
Non-Hub Commercial Service	245.0	266.8	122.5
Non-primary	122.5	133.4	61.3
DISCRETIONARY FUND			
Capacity/Safety/Security/Noise	399.9	365.9	407.6
Pure Discretionary	133.3	121.9	135.8
SET ASIDES			
Noise	309.3	283.0	311.8
Military Airport Program	35.3	32.3	35.6
Reliever	5.8	5.3	0

Because the Administration's FY 2008 AIP request falls below $3.2 billion, several significant changes in the AIP entitlement formula funding would be triggered under the current statutory formula:

- Primary airports would receive 50 percent of their normal apportionment, and the minimum primary airport entitlement would be reduced from $1 million to $650,000.
- The state apportionment would be calculated at 18.5 percent of AIP, rather than 20 percent.
- The entitlements for approximately 2,600 general aviation airports – which are as much as $150,000 per airport – would be eliminated.
- The Alaska Supplemental would be cut by one-half.

It is worth noting that AIP meets only a portion of airport infrastructure needs. To provide additional resources for airport improvements, the Omnibus Budget Reconciliation Act of 1990 (P.L. 101-508) permitted an airport to assess a fee on passengers. This airport fee is known as the Passenger Facility Charge (PFC). PFC funds can be used for a broader range of projects than AIP grants and are more likely to be used for "ground side" projects such as passenger terminal and ground access improvements. The PFC is added to the ticket price, collected by the airlines, then turned over to the airport imposing the fee. PFC funds are not deposited in the U.S. Treasury and are not part of the Federal budget.

AIR 21 increased the cap on the PFC from $3 to $4.50 per passenger per flight segment. The FAA must approve the implementation of PFCs by airports. The FAA has approved PFC collections at 328 locations, including 94 of the busiest 100 airports. Furthermore, 265 airports are approved to collect a $4.50 PFC, including 48 large and medium hub airports.

If a medium or large hub airport charges a PFC of $3 or less, it must forego up to one-half of its AIP entitlement. If one of these airports charges a fee greater than $3, it must forego 75 percent of its AIP entitlement. The foregone entitlements are turned back into the AIP program and divided between discretionary AIP (12.5 percent) and the Small Airport Fund (87.5 percent) that is distributed primarily to non-hub and general aviation airports. For FY 2007, the FAA estimates approximately $2.7 billion in PFC collections.

In addition to AIP and PFCs, airports issue airport bonds to finance capital projects. The American Association of Airport Executives (AAAE) estimates that during the last five years airports have issued an average of $5.2 billion per year in new airport bonds.

At the same time, the FAA estimates that during the next five years, there will be $41.2 billion of AIP-eligible infrastructure development (an annual average of $8.2 billion). The Airports Council International / North America (ACI-NA) Capital Needs Survey, which includes both AIP-eligible and ineligible projects, produced a more comprehensive estimate of $71.5 billion for 2005-2009 (an annual average of $14.3 billion). In addition, projections developed by the Department of Transportation (DOT), FAA, and the MITRE Corporation indicate that as early as 2013, 15 airports and 7 metropolitan areas will need additional capacity to meet expected demand.

Airport groups contend that when annual AIP grants, PFC collections, and airport bonds are added together, there is a significant gap between airport capital needs (as measured by the ACI-NA Capital Needs Survey) and available funding. AAAE estimates that in 2007 this gap will be approximately $3 billion. Additionally, airport groups argue that small airports might be disproportionately affected by reduced AIP funding because AIP grants are a larger source of funding for smaller airports.

The FAA has indicated that its reauthorization proposal will include changes to the AIP formula and the PFC program, including a possible increase in the PFC cap that would potentially free up additional AIP funds for small and medium airports. As a result, the FAA maintains that an AIP funding level of $2.75 billion will provide enough funds to allow the agency to meet high priority airport capacity, environmental, safety and security needs, as well as meet other important commitments such as phased and scheduled projects.

Facilities & Equipment

The FAA's F&E program[2] includes development, installation, and transitional maintenance of navigational and communication equipment to aid aircraft travel. This program supplies equipment for more than 3,500 facilities, including air traffic control (ATC) towers, flight service stations in Alaska, and radar facilities. The F&E program is funded completely by the Aviation Trust Fund. Unlike AIP, there are no F&E grants. Rather, the FAA uses the money in this program to purchase and install radars, computers, navigation aids, and other equipment.

The F&E program is also the FAA's primary vehicle for modernizing the National Airspace System (NAS). Broadly defined, the term "NAS modernization" refers to the FAA's ongoing effort to obtain new surveillance, automation, and communications systems. Since NAS modernization began in the early 1980s, several programs have been fraught with significant cost overruns and delays. However, most of this cost growth occurred before the FAA's Air Traffic Organization (ATO) began operations in 2004, which has been widely credited with making progress in controlling the costs of FAA's capital programs. In fact, the ATO has met its acquisition performance goal for the third consecutive year - that is, 80 percent of its system acquisitions are on schedule and within 10 percent of budget.

While the FAA has developed some new technological capabilities over the last 25 years, the U.S. air traffic management system is still fundamentally based on radar tracking, analog radios, and ground-based infrastructure. At the same time, the proliferation of regional jets, the emergence of low cost and new entrant carriers, more point-to-point service, and the anticipated influx of Very Light Jets (VLJs), not to mention other new users like unmanned aerial systems and commercial space vehicles, are placing new and different types of stresses on the system. The FAA forecasts that airlines are expected to carry more than 1 billion passengers by 2015, increasing from approximately 740 million in 2005. The DOT predicts up to a tripling of passengers, operations, and cargo by 2025.

Pursuant to Vision 100, the Joint Planning and Development Office (JPDO) was created within FAA to leverage the expertise and resources of the Departments of Transportation, Defense, Commerce, and Homeland Security, as well as National Aeronautics and Space Administration (NASA) and the White House Office of Science and Technology Policy, for the purpose of completely transforming the NAS by the year 2025 and developing a Next Generation Air Transportation System (NGATS).

The JPDO is developing an Enterprise Architecture (EA) for NGATS, which will serve as a high-level blueprint for NGATS. The EA is expected to be issued by mid-March 2007. While details about the specific NGATS technologies and capabilities will be forthcoming in the EA, it is expected that the NGATS will likely include: satellite-based surveillance and procedures; enhanced

---

[2] Under the new account structure proposed in the Administration's FY 2008 request, the $2.46 billion F&E program would be divided between the new "Safety and Operations" account - $118 million, and new "Air Traffic Organization" account - $2.34 billion.

automation capabilities; digital datalink communications; networked communications, and an integrated weather system.

Yet, while the Administration plans to embark on a major new modernization program, in recent years it has requested F&E funding well below congressionally authorized levels for the program. In 2003, the FAA requested and received from Congress an authorization of approximately $3 billion per year for its F&E program. For the past three years, the Administration has requested and received roughly $2.5 billion per year for F&E. As a result, the FAA cancelled or deferred three major modernization programs: the Next Generation Communication (NEXCOM), designed to transition analog air-to-ground transmissions to digital; Controller Pilot Datalink Communications (CPDLC), which would allow digital email-type capability between controllers and pilots (some form of the CPDLC/datalink program will likely need to be revived as part of the NGATS effort); and Local Area Augmentation System (LAAS), a satellite-based precision-landing system. The ATO has also broken down its STARS acquisition phases and has deferred its decision whether to fully deploy the system.

In its FY 2008 budget, the Administration identifies $173 million of its $2.46 billion request (approximately 7 percent) as part of the NGATS effort. For example, the Administration's FY 2008 request provides $80 million for the Automatic Dependant Surveillance – Broadcast (ADS-B) program, which is FAA's flagship program to transition to satellite-based surveillance. Nevertheless, the Department of Transportation Inspector General (DOT IG) has stated that FAA cannot achieve its goal of technologically transforming the system with a $2.5 billion (or less) F&E budget, since a $2.5 billion funding level goes primarily toward sustaining the existing system, not new initiatives. Moreover, the Administration's FY 2008 F&E request appears to be at odds with its own preliminary NGATS F&E cost estimates. Both the Government Accountability Office (GAO) and the DOT IG reported that last year FAA's ATO developed preliminary F&E cost estimates for the NGATS. According to DOT IG, these estimates suggest that the NGATS initiatives would cost, over the next six years, a total of $4.4 billion above the investment levels in the FAA's last capital plan. These preliminary F&E cost estimates for the next five years, including the NGATS, are as follows:

F&E Preliminary Cost Estimates (Including NGATS)

Fiscal Year 2008	$3.120 billion
Fiscal Year 2009	$3.246 billion
Fiscal Year 2010	$3.259 billion
Fiscal Year 2011	$3.301 billion
Fiscal Year 2012	$3.411 billion

Operations

The FAA's ATC system operates 24 hours a day, 365 days a year, providing aircraft separation and guidance services to commercial, military, and general aviation users. The U.S. operates the largest and one of the safest ATC systems in the world, handling almost one-half the

world's air traffic. The Operations account[3] funds the FAA's daily activities and programs. Operations represents about 60 percent of the FAA's annual budget, and mostly funds personnel costs. In FY 2006, the Operations account funded approximately 40,748 full-time employees.

The ATO and the Office of Aviation Safety (AVS) are the two major activities funded by the Operations account, representing over 90 percent of the Operations budget.

(in $ millions)

	FY 2007	FY 2008
ATO	6,704.2	6,964.8
AVS	997.7	1,056.1
Commercial Space (AST)	11.6	12.8
Staff Offices	617.2	692.0

The ATO accounts for about 80 percent of the Operations budget. The ATO's budget supports: air traffic controller training, compensation, and operating expenses of ATC facilities; air traffic management and routing; the provision of aeronautical and weather information to pilots and controllers; and safety planning and runway incursion reduction programs.

AVS accounts for more than 10 percent of the Operations budget. The AVS budget supports: safety regulation enforcement; the development of standards to ensure aircraft are safe and in compliance with noise and environmental regulations; the investigation of accidents to identify unsafe conditions and practices; safety oversight of air traffic operations; and the certification of new aircraft to ensure that they are safe and airworthy.

The Administration attributes approximately 67 percent of its FY 2008 request to safety. Yet, while commercial aviation safety trends have been positive over the last several years, the GAO notes that recent safety trends may warrant attention.

- As a result of four fatal commercial air carrier accidents in 2006, FAA did not meet its FY2006 performance target of .018 accidents per 100,000 flights. The DOT reported in its 2006 performance report that it will also miss the 2007 target for commercial air carrier accidents.

- The accident rate for cargo carriers is over six times higher than for commercial passenger aviation.

- The number of general aviation fatal accidents has fluctuated between 340 and 366 annually since 2000.

- From 1998 to 2005, there were 89 air ambulance accidents, resulting in 75 fatalities and 31 serious injuries. The rate of these accidents has been greatly reduced in the last year.

---

[3] Under the new account structure proposed in the Administration's FY 2008 request, the $8.72 billion Operations program would be divided between the new "Safety and Operations" account - $1.76 billion, and the new "Air Traffic Organization" account - $6.96 billion.

- While the number of severe runway incursions generally decreased from 37 in FY 2002 to 29 in FY 2005, they are serious events that create a collision hazard.

The FAA also faces staffing challenges, particularly with its air traffic controller and safety inspector workforce. The FAA employs nearly 15,000 air traffic controllers at approximately 316 federally-operated facilities. The FAA estimates that over the next 10 years 70 percent of its controller workforce will be eligible to retire. The FAA states that more than 11,800 controllers will need to be hired in that timeframe to address expected air traffic controller retirements. The FAA hired 1,116 controllers in FY 2006. Because the total loss of controllers (including retirements) was higher than estimated, the FAA adjusted its hiring in September 2006 to bring in more new hires in that fiscal year. In FY 2007, the FAA plans to hire more than 1,386 controllers, which after estimated losses translates into a net increase of 189 new controllers. The Administration's FY 2008 request follows a new amended staffing plan (to be published in March 2007) and provides for another 1,420 new air traffic controllers, which equals a net increase of new 144 after estimated losses.

Nevertheless, the DOT IG has raised two major concerns with the FAA's controller staffing plan. First, the FAA's plan does not identify how much it will cost. Second, the plan does not address staffing needs by location. The DOT IG notes that without accurate facility-level planning, the FAA runs the risk of placing too many or too few controllers at key locations. The FAA recognizes this need and is in the process of evaluating its facility staffing standards down to the sector and position level for each location.

While replacing retiring controllers is a critical issue for the FAA, it is also important for the FAA to maintain a safety inspector workforce sufficient to achieve its mission of safety oversight. The FAA employs approximately 3,600 inspectors in its Flight Standards Service (AFS) and about 200 inspectors its Aircraft Certification Service (AIR). Attrition and a 2005 hiring freeze have led to concerns that FAA may be understaffed in its safety office.

The DOT IG reports that by 2010, as much as one-half of the current safety inspector workforce will be eligible to retire. If FY 2007 funding levels reflect funding levels provided by H. J. Res. 20, the Administration's FY 2008 request would enable the FAA to hire 177 net safety inspectors between the end of 2006 and the end of 2008. However, the DOT IG states it is unlikely that staffing gains over the next few years will be enough to offset the number of safety inspectors eligible to retire during the same time period. Furthermore, according to the National Research Council, the actual number of safety inspector slots needed is unknown because FAA lacks staffing standards for inspectors.

At the same time, new classes of airspace users, such as commercial space launch vehicles, unmanned aerial vehicles (UAVs), and very light jets (VLJs), may place additional workload demands on the FAA:

- The FAA predicts 400-500 new VLJs per year starting in 2007, reaching 4,950 by 2017.

- The FAA issued 95 operating certificates (Certificate of Authorization) for UAVs in 2006 and expects the number to increase annually to 428 in 2010. Applications for experimental certificates are expected to grow from 9 in 2007 to 59 in 2011.

- The FAA's oversight workload could greatly expand with expected increases in commercial space launches due to the emergence of a space tourism industry and spaceports.

WITNESSES

The Honorable Marion C. Blakey
Administrator
Federal Aviation Administration

Dr. Gerald Dillingham
Director, Civil Aviation Issues
U.S. Government Accountability Office

The Honorable Calvin L. Scovel, III
Inspector General
U.S. Department of Transportation