

STATEMENT OF MARION C. BLAKEY, ADMINISTRATOR, FEDERAL AVIATION ADMINISTRATION BEFORE THE COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE, SUBCOMMITTEE ON AVIATION ON THE FAA'S FY 2008 BUDGET, FEBRUARY 14, 2007.

Good afternoon, Chairman Costello, Congressman Petri and members of the subcommittee. As this is my first appearance before the 110th Congress, I would like to take this opportunity to acknowledge the new Chairman and Ranking Member of the subcommittee and say that I look forward to working with you on what I'm sure will be a broad range of issues. It is a pleasure to appear before you on behalf of the 44,000 men and women of the Federal Aviation Administration (FAA) to discuss our FY 2008 budget request. But before discussing next year's budget, I would like to touch briefly on the Administration's reauthorization proposal. I cannot overstate how important enacting the reauthorization proposal is to FAA's ability to meet the safety and capacity needs of our Nation's aviation system -- both in the short and long term.

Reauthorization Proposal

As most everyone knows, we have been working on this reauthorization proposal for over two years. FAA's aviation taxes and programmatic authorization under Vision 100 both expire on September 30th of this year. Given where we are as an agency and taking into account the significant challenges before us, we consider this a rare opportunity to make the critical programmatic and financing changes needed for FAA - and the aviation community as a whole - to move forward and meet those challenges while maintaining the safest, and most efficient aviation system in the world

FAA did not develop this proposal in a vacuum. We conducted extensive outreach to our stakeholders, and analyzed best practices from industry, other government agencies, and other countries.

Our legacy aviation system has served the country well, but it is in dire need of a major transformation. There is no way that the current system can handle future traffic increases without major delays. The Federal Government's commitment to being ready for the future is embodied in the Next Generation Air Transportation System (NextGen) initiative. This is a multi-agency, multi-year endeavor that is of the highest importance. A successful transformation to NextGen will require bold action and central planning over the next 20 years.

Unfortunately, the current financing mechanisms are not well suited to support the transformation to the Next Generation Air Transportation System (NextGen). This transformation is essential. As we look out into the future, we see a system that will need to grow to accommodate the demands of our stakeholders and the flying public. The current financing mechanisms – both in terms of taxes and spending – are not tied to FAA's cost to deliver services, and therefore are not scalable to meet these growing demands. To deliver the benefits of NextGen efficiently and on schedule, the financing system should be reformed so that both our income and our outgo are better tied to the services we provide.

I know you plan to have a series of hearings on reauthorization and I look forward to participating in what I know will be a robust discussion of the best way to proceed. Let me just emphasize how important I believe it is to move toward a stable, cost-based funding structure to ensure that FAA's costs and revenues are better aligned and that our stakeholders are treated equitably and reap the benefits of their investments in the system. That is what our proposal provides. It is a simple, transparent, and repeatable methodology to divide FAA's costs among users and services. It also contains other needed programmatic reforms that provide airports with greater financing flexibilities, address environmental and congestion challenges. All in all, I expect it will be a very interesting, and hopefully productive year.

FY 2008 Budget

I will now turn to the issue at hand. The FY 2008 budget requests a total of \$14.1 billion to improve safety, reduce congestion, and improve global connectivity. The request supports our financing and programmatic reforms and focuses on accountability and performance. For several years, we have pushed to manage more effectively, rein in costs, and better respond to our customers' needs.

As always, safety is FAA's primary concern. Our collaboration with industry speaks for itself: efforts to improve operations have contributed to the safest period in aviation history. At the same time, the demand for FAA services has never been greater. We oversee about 50,000 flights per day. In 1995, the system supported about 545 million passengers. In 2005, it was 739 million. Forecasts estimate one billion passengers annually by 2015.

Given the anticipated growth—both in terms of passengers, and, critically, in the number of aircraft operations—we know that our services must adapt to meet the demand. We also know that the complexity of the future operating environment—with evolving fleet mixes, new aircraft, technology, and environmental constraints—must be approached in partnership with our customers. This budget demonstrates a long-term commitment to NextGen, not as a pie-in-the-sky vision, but as embodied by tangible systems, processes, and capital projects that will lead us to the future.

For FY 2008, FAA has prepared the budget in a new account structure that aligns with the financing reform proposal and the services that we provide. While the Grants-in-Aid for Airports (AIP); and Research, Engineering, and Development (R,E,&D) accounts remain, the Operations and Facilities and Equipment accounts have been replaced with two new accounts. There is a Safety and Operations account and an Air Traffic Organization (ATO) account that more closely align the accounts with our lines of business. Under our reauthorization proposal, beginning in FY 2009 these accounts would be funded by a combination of fees, taxes and general fund contribution. We

consider this structure to be more consistent with and supportive of our business-like approach by expanding our comprehensive pay-for-performance programs, consolidating operations, improving internal financial management, and delivering benefits to our customers.

Safety and Operations

The FY 2008 budget provides \$2 billion for Safety and Operations. Most of the funds requested for Safety and Operations in FY 2008 support maintaining and increasing aviation safety and efficiency, reflecting the President's commitment in this area. Other significant amounts support reducing congestion and enhancing safety. Of this request, \$1.1 billion is for the agency's Aviation Safety (AVS) office. This level supports increasing the AVS safety workforce by 177 inspectors and 173 other safety staff.

The FY 2008 budget requests \$12.8 million for Commercial Space Transportation to continue its commitment to timely and responsive licensing and regulatory processes designed to enable a safe, secure, efficient, and internationally competitive U.S. space transportation industry. Commercial space transportation is an exciting area, and we are committed to supporting its continued growth. \$758 million is requested for Staff Offices to fund administrative and managerial costs for FAA's regulatory, international, medical, engineering and development programs, as well as policy oversight and management functions.

Air Traffic Organization

As a Performance Based Organization (PBO), the Air Traffic Organization (ATO) continues to provide safe, secure, and cost effective air traffic services. The budget provides \$7 billion for ATO operating expenses. In FY 2008, this will fund 1,420 new air traffic controllers to address the projected 1,276 controller retirements next year, resulting in a net increase of 144 controllers. In October 2005, ATO completed the largest non-military A-76 competition in history. That action will save the agency \$51.7

million in FY 2008, with a 10 year projected savings and cost avoidance totaling almost \$2.2 billion. The contract not only saves money, it also commits the vendor to modernize and improve the flight services we provide to general aviation pilots. In addition, the employees who left Federal service as a result of this transition were given offers to work for Lockheed Martin, the successful bidder of the contract.

In FY 2006, ATO consolidated its administrative and staff support functions from nine service areas to three. This will allow us to provide better service to customers while saving an estimated \$360 to \$460 million over the next ten years. In FY 2008, we anticipate savings of \$29 million from Service Area Consolidation.

NextGen and Capital Needs

The ATO FY 2008 capital program budget requests \$2.3 billion to support the ultimate NextGen vision – with \$174 million requested for key NextGen activities detailed below – and continues to support the investments needed to keep the current National Airspace System (NAS) functioning. We know that it will take not only funding, but new management approaches, to transform today’s aviation system to meet tomorrow’s needs. We have done much in recent years to break down stovepipes and plan in a more integrated manner, but NextGen requires us to go further. The new OEP—formerly the Operational Evolution Plan, and now the Operational Evolution Partnership—is a big step in the right direction. OEP has gone from a 10 year rolling plan to a more comprehensive roadmap for how we get to NextGen. The emphasis is on “partnership”—within and between major FAA organizations, with the JPDO and its other partner agencies, the private sector, and, of course Congress.

One of our greatest challenges is our ability to define what the future system will look like. What technologies will it be comprised of? In the coming months, the JPDO will publish the first official NextGen Enterprise Architecture and Concept of Operations. The significance of these foundational documents should not be understated. They are essential to understanding the transformed operational environment, will allow us to

more precisely develop a plan for achieving it, and will provide the basis for architecture-based, quantitative resource planning. Our reauthorization proposal is designed to strengthen the key linkages needed to implement NextGen, and to deliver those resources when they are needed.

Given demand growth, we know it is important to improve operations well in advance of 2025. To do so, we are requesting funding to stage demonstrations and develop critical infrastructure that will better define how we can move to trajectory based operations and identify implementation opportunities. Ultimately, trajectory-based operations will allow pilots to select the most cost-effective, fuel-efficient routes, achieving substantial cost and time savings for our customers, while maintaining the highest levels of safety. Our capital request funds a growing list of NextGen transformational technologies. Most significantly, these include Automatic Dependent Surveillance-Broadcast, the next generation surveillance technology; System-Wide Information Management, which will provide a broad range of real-time information to users of the National Airspace System; and NextGen Network Enabled Weather, which will improve forecasting and information sharing and enhance safety. NextGen Demonstration and Infrastructure Development projects will be used to identify early implementation opportunities, refine longer-term objectives, and if results dictate, eliminate certain concepts from further consideration.

We are also requesting research funds to continue supporting the JPDO. As the unit that spearheads NextGen for the federal government, JPDO will continue defining the future operating environment, identifying demonstration opportunities, and working with the relevant agencies to implement them. We are also requesting funds to support wake turbulence research, the results of which will help us increase capacity while maintaining safety. In addition, research funds would be directed to environmental research, especially noise and emission control, critical to the design of the future system. And finally, we would fund further research on unmanned aircraft systems, a likely addition to the future fleet mix.

Grants in Aid for Airports(AIP)

The FAA is committed to a healthy national air transportation system. Airports are a key part of the system, and that includes small and medium-sized airports that rely on AIP funding to help meet their capital needs.

We have proposed changes to the Federal funding programs which will stabilize and enhance these funding sources for airports. With our proposed programmatic changes, the \$2.75 billion proposed in our budget will be more than enough to finance airports' capital needs and meet national system safety and capacity objectives.

Research, Engineering, and Development (R,E,&D)

The FY 2008 request for RE&D is \$140 million. The request includes \$91.3 million for continued research on aviation safety issues. The remaining research funding is for reduced congestion and environmental issues, including \$14.3 million for the Joint Planning and Development Office to continue defining and facilitating the transition to NextGen. An additional \$3.5 million in support for JPDO is contained in the ATO capital request, related specifically to the work on the demonstration projects.

Flight Plan 2007 - 2011

The Flight Plan is FAA's rolling five-year strategic plan that we first undertook in 2004. As scheduled, we updated it last fall, with input from our internal and external stakeholders. The Flight Plan is organized around the agency's primary goals: increased safety; greater capacity; international leadership, and organizational excellence. The Flight Plan is our blueprint for managing the agency. It has made the FAA more business-like, performance-based, and customer-focused.

As part of our Flight Plan, each FAA organization now has its own individual business plan. Each of these plans is linked to the Flight Plan, budgeted and tied to what the customers need. The agency's business plan goals have been built into a performance-

based tracking system that is posted to the FAA website each quarter. It lists each of the agency's goals, performance targets, who is responsible, and the status of each. Using this data, the senior management team conducts a monthly review of our performance. When used with other cost and performance data, the Flight Plan information clearly and precisely identifies the effectiveness of a program across the entire agency. With this perspective, the agency is able to capitalize on successful strategies. Let me address our performance and requests under each of our goals.

Increased Safety

At FAA, safety is our top priority, and approximately 66 percent of our budget request, \$9.4 billion, supports this goal. Over the last three years, the accident trends in both commercial and general aviation have been at all-time lows. Commercial space transportation continues its remarkable safety record, without a fatality, injury, or any significant property damage to the public. The Flight Plan continues our commitment to reduce commercial and general aviation fatal accidents. We continue to strive toward a three-year rolling average for our commercial airline fatal accident rate of 0.010 fatal accidents per 100,000 departures or below.

We have achieved the highest safety standards in the history of aviation. Even so, our goal is—as always—to continue to improve safety. We address our operational vulnerabilities to reduce risk. We work to improve airport infrastructure, safety management systems awareness, runway safety training, and new procedures. One major key to our successful safety efforts is cooperation among our stakeholders. We constantly work with our stakeholder groups to meet our safety goal. Each group helps us with technology, communications, and its own unique expertise. In our responsibility for safety oversight, we work with them to establish their own safety management systems that meet the highest standards of quality.

To help reduce runway incursions, we deployed the Airport Surface Detection Equipment-Model X (ASDE-X) warning system at five major airports in FY 2006. We

also strengthened the airfield paint markings standard for taxiway centerlines at 72 large airports to alert pilots when they are approaching hold short lines so they won't inadvertently enter a runway without a clearance. Our efforts also are helping controllers do their jobs more safely, especially when it comes to tracking and eliminating operational errors. In response to a long-standing recommendation by the Department of Transportation Inspector General and the National Transportation Safety Board to improve reports of operational errors, we've added a new initiative to automate data collection. The Traffic Analysis and Review Program—known as "TARP"—is a state-of-the-art traffic analysis and playback system that will improve operational error identification and quality assurance. We're putting the software in place for use next year, with all installations complete by 2011. The high-fidelity, near-real time playback feature of TARP will also support more effective and efficient air traffic controller training.

At airports, over 48 percent of our AIP grants go to safety-related projects, such as upgrades to runway safety areas, runway safety action team recommendations, purchase of airport rescue and fire fighting vehicles, and airfield signing, marking and lighting. AIP also supports projects that reduce runway incursions. For example, end-around perimeter taxiways at Atlanta and Dallas-Fort Worth will not only increase capacity, but will also reduce the risk of runway incursions by substantially reducing the number of runway crossings.

Three operating capabilities are key to handling the traffic demand forecast for 2025 and beyond: Navigation, Communications, and Surveillance. We have already developed design criteria as well as aircraft and operator requirements for Required Navigation Performance (RNP) approaches – a key element of NextGen's near term operational environment. We published 6 special RNP approaches in 2005, 28 in 2006, and set a goal of 25 each for FY 2007 and FY 2008. We will continue to develop and implement RNP procedures to reduce our already low airline fatal accident rate. In addition to its safety benefits, we expect RNP to help keep airports open in challenging environments and that could mean fewer canceled or diverted flights, thereby saving time and money.

The work of the Commercial Aviation Safety Team (CAST), which includes representatives from government, industry, and employee groups, has been instrumental in using data to drive decisions. The team's disciplined and focused approach to analyzing accidents and incidents, identifying precursors, and developing targeted implementation strategies helped to reduce the airline fatal accident rate over 60 percent in the last 10 years. We are also working with this team to develop new targets to more effectively measure performance in commercial aviation safety.

Finally, we continue our work to expand the growing field of commercial space transportation. In 2006, there were seven commercial launches. We are issuing experimental permits and are now ready to grant safety approvals of commercial space launch and reentry vehicles, safety systems, processes, services and personnel. We met our commercial space launch target and continued improvement of internal processes and partnerships with the Air Force, other government agencies, and the commercial space transportation industry.

Increasing Capacity

While safety is always our primary concern, our mission includes expanding capacity throughout the aviation system – both in the air and on the ground. The FY 2008 budget requests \$3.6 billion to support expansion of capacity on the ground, in the form of new runways, and the continued deployment of new technologies that allow more efficient use of the system.

Given the anticipated growth— both in terms of passengers, and, critically, in the number of aircraft operations —we know that our services must adapt to meet the demand. We also know that the complexity of the future operating environment—with evolving fleet mixes, new aircraft, technology, and environmental constraints—must be approached in partnership with our customers.

The FAA Flight Plan identifies over 50 percent of AIP funding being used to increase capacity and decrease delays at the most congested airports in the country. These projects include new runways and runway extensions, new airports, and perimeter taxiways which not only improve capacity, but eliminate runway crossings which improves airfield safety.

Every day, our capacity accomplishments, such as Domestic Reduced Vertical Separation Minimum (DRVSM), help provide more economical and efficient aircraft operations. DRVSM created an additional six layers of cruise levels at higher altitudes enabling aircraft to operate at more fuel-efficient cruising altitudes while also increasing system capacity. Implemented in FY 2005, DRVSM was estimated to yield over \$5.3 billion in savings from FY 2005 through FY 2016, but with the rise in jet fuel prices, the savings will exceed \$13.4 billion, a 152 percent increase.

Advanced Technologies and Oceanic Procedures (ATOPs) are now available in 24 million square miles of airspace. Using ATOPS, the Atlantic routes will save airlines 6.5 million pounds of fuel and \$8 million per year.

International Leadership

The United States established world leadership in aviation with a consistent commitment to make safety our most important export. Today, FAA has operational responsibility for about half of the world's air traffic, certifies more than two-thirds of the world's large jet aircraft, and provides technical assistance to more than 100 countries to improve their aviation systems. In FY 2006 alone, FAA provided technical guidance and training to 66 countries and 5 international organizations. The FY 2008 budget requests \$78 million for global connectivity so FAA can be even more globally focused, helping to ensure that U.S. citizens can travel as safely and efficiently around the world as they do at home, and strengthen America's aviation leadership role in both safety and air traffic control.

We cooperate with bilateral and multilateral partners in Europe and Asia to negotiate executive agreements and implementation procedures supporting the transfer of aviation products to help lower accident rates in areas that are experiencing substantial growth in operations. We have also developed initiatives to collaborate with key international partners to implement NextGen technologies globally as they become available to improve aviation safety and capacity. Last June, the FAA entered into a cooperative agreement with European aviation organizations to participate in each other's air traffic management modernization programs to harmonize operations. These efforts are essential to seamless operation of aircraft.

We are also leading the world in the development of both private human spaceflight and commercial spaceports.

Environmental Stewardship

The FAA is committed to managing aviation's growth in an environmentally sound manner. Indeed, NextGen recognizes the need to develop and insert technology to reduce levels of aviation noise and emissions, thereby reducing environment as a constraint on capacity. The FY 2008 budget requests \$354 million to support environmental stewardship for noise mitigation, fuel efficiency, and a comprehensive approach to both noise and emissions. We are on track to reduce the impacts of airport noise to more than 100,000 people over the next five years through AIP grants in our FY 2008 budget.

In April 2006, the Office of Airports issued its revised environmental guidance handbook. This handbook is the most recent product in our continuing efforts to meet the streamlining goals of Vision 100 and the President's Executive Order (13274) on environmental stewardship and streamlining of transportation infrastructure projects. Recent environmental review for capacity enhancing projects at O'Hare, Dulles, and Philadelphia Airports demonstrated this integration process produces meaningful results.

We are also working with our Center of Excellence for Aircraft Noise and Aviation Emissions Mitigation to foster breakthrough scientific, operations, and program advances. We call the Center “PARTNER”, and it truly is an excellent partnership of government, academic, and industry participants. – led by MIT. Our work this year includes Continuous Descent Approaches to airports that can reduce noise, emissions, and fuel use; the feasibility of alternative fuels for aircraft; and assessing fuel burn reduction through enroute optimization. In FY 2008, with our reauthorization and budget request, we plan to expand PARTNER’s work to develop and certify lower energy, emissions, and noise engine and airframe technology over the next ten years.

Security

While the U.S. Department of Homeland Security’s TSA now has primary responsibility for transportation security, FAA still retains responsibility for the security of its personnel, facilities, equipment and data. The agency also works closely with TSA and other federal agencies to support aviation security, transportation security, and other national security matters.

FAA ensures the operability of the national airspace, which is essential to the rapid recovery of transportation services in the event of a national crisis. The budget request includes \$246 million to continue upgrading and accrediting facilities, procure and implement additional security systems, enhance IT security, and upgrade Command and Control Communications equipment to meet the increased national security demands that have resulted since the September 11 attacks.

Organizational Excellence

The budget requests \$384 million to support our organizational excellence initiatives. FAA’s progress over the past four years has been steady, as we’ve embraced the vision of the President’s Management Agenda (PMA) and its strategy to improve management throughout the federal government. Through the Flight Plan and PMA, we’ve made

significant gains in human capital, competitive sourcing and consolidations, financial performance -- including controlling costs; and, in terms of accountability to Congress, the taxpayers, and our customers.

Controlling Labor Costs/Pay-for-Performance – Human Capital Reform

We know that labor costs drive a significant share of our budget, and we have been working to slow the rate of growth of these costs, as was evidenced by our efforts in the recent controller negotiations, and our focus on back-filling positions with new employees at lower pay grades when possible. We're also increasing workforce productivity in several ways and we are on track to achieve cost efficiencies of 10 percent by FY 2010 in controller staff costs. We achieved the first five percent of this goal in FYs 2005-2006 by reducing staffing standards where appropriate and imposing greater scrutiny of the use of controllers on duties that take them away from controlling traffic. Our budget request assumes we will achieve controller productivity improvements of two percent in both FYs 2007 and 2008.

Through improved oversight and proactive management of our worker's compensation caseload we've slowed the growth of this program, which has resulted in \$5.5 million in avoided costs in FY 2005 and \$7 million in FY 2006. In FY 2007, this effort is expected to yield an additional \$7 million in avoided costs.

I have mentioned in past the ATO's efforts to streamline its organization. Over the last several years, ATO reduced its overhead expenses by cutting multiple levels of senior management, reducing its executive ranks by 20 percent. In addition to the Service Area Consolidation noted above, ATO has used Activity Value Analysis to help streamline its operations, and eliminate and consolidate administrative staffs and support functions. Since FY 2003, the ATO non-safety workforce was reduced by 16 percent.

Much of the efficiencies I've noted are the result of the personnel reform that was granted to the agency in 1996. It has enabled FAA to transition from the traditional General-

Schedule pay system to pay for performance. Accountability for results is systemic throughout our organization, with 80 percent of our employees on a pay-for-performance system, including our executives. Flight Plan performance targets must be achieved before annual pay raises are calculated. The system provides discretion to reward high-performing employees, and incentives are available to ensure that quality work and innovation are rewarded.

In December 2003, we strengthened the approval process for negotiated agreements by requiring, among other things, an analysis of the budget impact of all proposed agreements.

Smarter Capital Investment Choices and Improved Performance

A capital investment team was created in 2004 to review financial and performance data. The team completes an evaluation of baseline performance and includes associated variances, obligations, schedule milestones and earned value management (EVM) data. EVM will provide an early warning for potential and actual variances as well as help the program manager develop corrective actions. The members of this team apply a business case approach to each project as the program is assessed. Since April 2004, over 100 projects have been reviewed. Seven major projects (a total of \$60 million) have been significantly restructured and segmented. Three projects were terminated. These changes alone resulted in \$460 million in lifecycle savings to FAA. In the fiscal year 2006 Flight Plan, all of our major capital programs were on schedule and we missed only a single program milestone. As we move to the NextGen environment, it will be critical to maintain rigorous oversight of our capital investments.

SAVES

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

It is expected to achieve \$5 million in savings in FY 2007 and annualized savings of \$6 million thereafter.

Improved Financial Management Performance

We're making significant strides in improving our financial management. The Government Accountability Office (GAO) removed us from its high-risk list in 2006, a particular accomplishment since FAA Financial Management had been a high-risk item since 1999. We also received, for the third year in a row, the Association of Government Accountants' prestigious Certificate of Excellence in Accountability Reporting (CEAR) for our 2005 Performance and Accountability Report.

Closing

I'll end where I began. At FAA, our top priority is safety. Because of the growth forecasted in air traffic, however, we must also focus significant energy on training and transitioning to a NextGen air transportation system. Even with new efficiencies, the current system cannot meet future demand. America's ability to launch NextGen depends on the enactment of FAA financing and programmatic reform proposals and our FY 2008 budget request which supports them. I thank you for your time and look forward to discussing both these proposals and our budget request in greater detail today and in the coming weeks.