

FY 2007 PERFORMANCE AND ACCOUNTABILITY HIGHLIGHTS

THE NEXT GENERATION OF FLIGHT



**Federal Aviation
Administration**

MISSION

To provide the safest, most efficient aerospace system in the world.

VISION

To improve continuously the safety and efficiency of aviation, while being responsive to our customers and accountable to the public.

VALUES

Safety is our passion. We are world leaders in aerospace safety.

Quality is our trademark. We serve our country, our customers, and each other.

Integrity is our character. We do the right thing, even if no one is looking.

People are our strength. We treat each other as we want to be treated.

FAA AT A GLANCE

Established	1958
Headquarters	800 Independence Avenue, SW Washington, DC 20591
	www.faa.gov
FY 2007 Budget (enacted)	\$14.537 billion
Total Employees	45,416
Headquarters	5,465 employees
Regional and Field Offices	35,416 employees
Technical Center <i>Atlantic City, NJ</i>	1,089 employees
Aeronautical Center <i>Oklahoma City, OK</i>	3,446 employees
FY 2007 Passengers on U.S. Carriers	763.5 million (estimate)
FY 2007 Tower Operations	61 million arrivals and departures (estimate)

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State-of-the-art air traffic control towers, like this one at Hartsfield-Jackson Atlanta International Airport, are helping air traffic controllers better guide current air traffic as well as accommodate future growth, making the safest aviation system even safer.
Credit: Greg Haire, Airway Transportation System Specialist, Technical Operations, Hartsfield-Jackson Atlanta International Airport

A MESSAGE FROM THE ADMINISTRATOR



Robert A. Sturgell
Acting Administrator

Aviation has never been busier. Without a doubt, this is the most exciting, dynamic, and challenging period in Federal Aviation Administration (FAA) history. Passenger traffic exceeds pre-9/11 levels at most of the nation's top airports. Passenger totals are headed up: They're expected to more than double in the next decade. Commercial aviation will be flying more than a billion passengers by 2015.

The planes that dot our skies are changing as well. Smaller business jets fly in record numbers. Commercial industries are looking to unmanned aircraft as a part of daily business.

But there's a catch to all of this. Air travel can grow only if aviation capacity grows with it. FAA is ahead of this curve, with the launch of the next generation air transportation system (NextGen) well under way. NextGen is designed to handle up to three times the traffic load of what we see today, and it will handle it efficiently. In a nutshell, NextGen transitions us from the 1960's era ground-based system of radar into satellite-based air traffic management.

As you will read in this report, we are determined to meet the increased demands on our airspace and ensure travelers get to their destinations with minimal delays without compromising safety. To do this, we are transforming our airspace through the most radical technological changes FAA has ever experienced. It is not an easy task, but it is one to which all 45,416 men and women of the FAA are fully committed.

FY 2007 Accomplishments

- **NextGen.** The opening stages of transformation to NextGen lay the groundwork for developing a system that will be safer, able to meet growing demand, and responsive to evolving business models. The new system will integrate satellite-based navigation, surveillance, and networking. This year, the FAA's Joint Planning and Development Office (JPDO) completed NextGen's three planning documents that will guide us through the next 15 years and beyond. We also created a partnership of FAA executives and a new executive-level position to guide the implementation of the NextGen plan.
- **Flight Plan Goals.** We made significant progress in achieving the four goals detailed in our strategic plan—the *FAA Flight Plan*: ensuring safety, increasing capacity, demonstrating international leadership, and achieving organizational excellence. All of these achievements play an integral role in our efforts to implement NextGen.

- **Safety.** Over the past 5 years, we have achieved the highest safety standards in the history of aviation. Even so, our goal is—as always—to continue to improve safety. The number of general aviation fatal accidents is below our not-to-exceed ceiling again this year, ending at 314 fatal accidents. While aviation accidents in Alaska decreased 9% from the past fiscal year, we had 10 fatal accidents: 4 in Part 135 (commuter and on-demand operations) and 6 in general aviation.
- **Capacity.** FY 2007 saw a 6% increase in National Airspace System (NAS)-related flight delays over last year, an indicator that the system is rapidly reaching critical mass. Capital projects, including the opening of two runways and an innovative new type of taxiway, have expanded capacity at three of the nation’s busiest airports.
- **International Leadership.** Collaboration with aviation authorities throughout the world is essential to shaping a seamless global aerospace system. We gained approval to open an office in Brazil, our first office in Latin America in 10 years. We also hired new senior representatives to lead offices in Abu Dhabi, Moscow, and Dakar. We signed cooperative agreements with several key nations across the world, which will allow us to spur acceptance of NextGen technologies.
- **Organizational Excellence.** We continue to transform business practices to improve efficiency throughout the agency. New initiatives this year resulted in \$82 million in cost efficiencies. Consolidation of our financial accounting and workers’ compensation functions resulted in over \$20 million in cost efficiencies.

Our workplace and our workforce are changing, and we must be robust and flexible enough to compete for and retain qualified, high quality employees. We had success recruiting diverse applicants for Air Traffic Controller and Aviation Safety Inspector positions by posting classified ads on MySpace.com, Monster.com, CareerBuilder.com, and Craigslist.com; advertising in newspapers and on the radio; and reaching out to students at more than 800 colleges and universities.

Our *Performance and Accountability Highlights* received a fourth consecutive award from the League of American Communications Professionals. The award recognizes our FY 2006 publication as one of the top annual reports in North America.

Future Challenges

The accomplishments of this year have created a waterline, a benchmark for performance that must be exceeded. We will use this philosophy as a driving force as we move forward to conquer the many challenges we face in FY 2008 and beyond.

- **Safety.** Safety is our first priority. With the push for greater capacity, we must continue our efforts to meet and surpass our safety goals and urge the aviation industry not to lose sight of their safety improvement efforts.
- **NextGen.** We must ensure our NextGen system is harmonized, interoperable, and compatible with countries and regions throughout the world; continue to prepare

FAA employees for the radical changes NextGen will bring to their jobs; and keep our eye on the final goal to meet capacity demands without sacrificing safety. With long lead times for NextGen initiatives, complex and costly systems, and interdependent elements, it is imperative that we stay on our planned course.

- **Financing of NextGen.** We need adequate funding to pay for NextGen's long-term capital investments. To ensure this, we must create a stable, cost-based, and equitable revenue stream based on actual services provided, rather than rely on an unpredictable and unstable system funded through a tax on airline ticket prices.
- **Environment.** We must push to work together with other countries as an international team to address aviation's role in reducing greenhouse gas emissions.
- **Controller Retirement.** To address the expected swell of controller retirements over the next decade, we must continue our efforts to recruit, hire, and retain qualified staff for these positions.

Our *FY 2007 Performance and Accountability Highlights* provides an accounting of our service to both the flying public and the aviation industry. We achieved 24 out of 30 goals listed in the *Flight Plan*.

In FY 2006, we received a qualified opinion on our financial statements related to the accuracy of our Construction in Progress (CIP) balance. We also received a related material weakness in FY 2006 for lack of supporting documentation and a need to strengthen policies and procedures in the capitalization process. After an intensive, year-long effort to review and document the CIP balance, improve policies and procedures, and restate our FY 2006 financial statements, I am pleased to report that the auditors have issued a revised opinion—now unqualified—on our restated FY 2006 financial statements.

In addition, we received an unqualified opinion on our FY 2007 financial statements. However, we incurred a material weakness related to the timely processing of transactions and accounting of Property, Plant, and Equipment, including the CIP account. To address this weakness, we have restructured roles and responsibilities and reallocated resources to make additional improvements to our capitalization processes. The new organizational change will enable more accountability and transparency in the capitalization process and enable us to keep our CIP balance current and accurate.

As this report makes clear, our goal is to provide a safe, secure, and efficient global aerospace system. We maintain a steadfast commitment to efficiency and integrity. We will ensure that FAA is prepared to handle the challenges of the next generation of flight and to continue to deliver an exceptional return on investment for the American taxpayer.



Robert A. Sturgell
Acting Administrator
November 5, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS



Every day, FAA safely guides approximately 60,000 flights through the world's preeminent National Airspace System (NAS).

Credit: Jon Ross, FAA Image Library

FAA ORGANIZATION

The mission of the Federal Aviation Administration (FAA), an agency of the U.S. Department of Transportation (DOT), is to provide the safest, most efficient aerospace system in the world. FAA provides air traffic control services, establishes and enforces regulations, and oversees inspections that maintain the integrity and reliability of that system, which has fueled our economy and helped ensure our nation's prosperity for 50 years.

We operate 24 hours a day, 7 days a week, 365 days a year. We have a system composed of more than 67,000 facilities and pieces of equipment with FAA-operated or contract towers at almost 500 airports, and we are responsible for inspecting and certifying about 240,000 aircraft and 585,000 pilots. With almost 7,000 takeoffs and landings per hour, and more than 760 million passengers and 40 billion cargo revenue ton miles of freight a year, we safely guide approximately 60,000 flights through the world's preeminent National Air Space (NAS) every day.

We fulfill our mission through four lines of business that work together to create, operate, and maintain the NAS. These lines of business are

- ***Air Traffic Organization (ATO):*** Responsible for moving air traffic safely and efficiently. The customers of this performance-based organization are commercial, private, and military aviation. ATO is aligned around the services delivered to these customers. Approximately 34,000 ATO employees provide these services—the controllers, technicians, engineers, researchers, and support and management personnel whose daily efforts keep aircraft moving.

- ***Aviation Safety (AVS):*** Oversees the safety of aircraft and the credentials and competency of pilots and mechanics, develops mandatory safety rules, and sets the standards that have helped make air travel one of the safest modes of transportation in history.
- ***Airports (ARP):*** Provides leadership in planning and developing a safe, secure, and efficient airport system; manages the Airport Improvement Program (AIP), which provides grants to state and local governments; enhances environmental quality related to airport development; develops standards for the design and construction of airport facilities; and establishes regulations for the safe operation of commercial service airports and inspects airports for compliance.
- ***Commercial Space Transportation (AST):*** Oversees the safety of commercial space launches; regulates the U.S. commercial space industry, including human space flight; and encourages, facilitates, and promotes U.S. commercial space transportation.

From 1926, when President Calvin Coolidge initiated Federal oversight of air safety in the United States by signing the Air Commerce Act, to the creation of the Federal Aviation Agency in 1958, to our modern-day incarnation, FAA and the aviation community have grown and worked together. We have shaped an industry that—like shipping and rail before it—conquered distance in a new way, lowered transportation costs, and created new opportunities that transformed the commercial landscape.

Today's FAA faces the challenge of expanding the capacity of our aviation system to meet future demand without compromising safety or harming our

A YEAR IN HIGHLIGHTS

Our workforce of 45,416 professionals operates and maintains the most complex air traffic control system in the world with an annual budget of approximately \$14.5 billion. More than half of the world's air traffic is managed by 14,874 controllers, who ensure ever-increasing levels of safety. We conduct research to improve aviation safety and efficiency and provide grants to improve 3,364 eligible public-use airports in the United States. FAA also regulates commercial space launch activities to ensure public safety.

FAA achieved a number of significant accomplishments in FY 2007.

NextGen Accomplishments

Planning and implementation of NextGen is critical to the transformation of the NAS. The Joint Planning and Development Office (JPDO), a multi-agency taskforce charged with developing the NextGen vision, completed three vital NextGen documents—the Concept of Operations (ConOps), the Enterprise Architecture, and the Integrated Workplan. These documents explain and guide future research and the capital investments needed to transform our air transportation system. The ConOps is a technical document that describes how NextGen will work from an operational standpoint and what it will look like in the year 2025; the Enterprise Architecture is a blueprint for NextGen that describes how its systems will work together in 2025; and the Integrated Workplan is the plan and

environment. With aviation and related industries supporting 11 million jobs and contributing \$640 million to our annual economy, our success is critical.

timeline for the completion of work, by all agencies, to implement NextGen.

Each member agency of the JPDO—FAA, Department of Transportation, Department of Defense, Department of Commerce, Department of Homeland Security, National Aeronautics and Space Administration (NASA), and the White House Office of Science and Technology Policy—has responsibility for sections of the overall Integrated Workplan. To ensure implementation of FAA's commitments and that all employees understand and are committed to NextGen, we created the Operational Evolution Partnership (OEP) and a new senior executive position to lead it. All lines of business have a representative on the OEP who commits his/her organization to fulfilling its role in NextGen implementation and to ensuring cross-agency coordination. The OEP plan aligns to the long-term view of the NextGen ConOps and focuses on core commitments, prototypes, pilot projects and activities awaiting policy decisions, as well as research and development activities. Currently, the plan focuses on solutions for the mid-term years of 2012–2018 in three key transformational areas:

- ***Airport Development*** focuses on tracking new airport surface infrastructure that provides significant capacity increases such as new runways, runway extensions, and taxiways at high traffic airports. It also includes projects in planning and environmental assessment phases.

- **Air Traffic Operations** focuses on new operational capabilities, presenting a big picture view of the interdependencies of key enabling programs and technologies.
- **Aircraft and Operator Requirements** will help aircraft operators make informed equipage decisions by developing a common view of avionics requirements and timelines to provide the operational capabilities demanded by NextGen. The avionics requirements will include communications, navigation and surveillance capabilities, and refined weather equipment and displays.

The OEP is also a conduit for sharing information and ideas with oversight organizations and, in particular, with the aviation community. Airlines, cargo carriers, airports, manufacturers, business and general aviation pilots, and industry must understand what is coming, and when, to prepare themselves to participate in NextGen.

In FY 2007, we furthered the implementation of two critical NextGen technologies: Automatic Dependent Surveillance–Broadcast (ADS-B) and System Wide Information Management (SWIM).

- In August 2007, FAA approved a contract with ITT Corporation to provide ADS-B services. Under the contract, ITT will install, own, and maintain the ground infrastructure, while FAA pays for the surveillance and broadcast services. We issued a Notice of Proposed Rulemaking (NPRM) in October 2007 to mandate ADS-B avionics in the cockpit for controlled airspace and busy airports. (Learn more about ADS-B on page 10).

- We fully funded the development of SWIM, a networking-based initiative that is an essential part of NextGen’s initial Network-Enabled Operations (NEO) capability and a high priority for the JPDO and the NextGen partner agencies. In an Internet-like fashion SWIM links information, such as aircraft position, weather, and restricted airspace notices, to all relevant users in the system. It moves information within FAA to other Government agencies faster, better, and more economically and provides better data to more decision-makers—whether it be the controller, the pilot, or the other agencies dealing with security or national defense. Much like the World Wide Web revolutionized American commerce, SWIM lays the aviation information superhighway that will lead to dramatic improvements in air transportation safety, security, and capacity.

Capacity-building capital projects are necessary to meet today’s growing passenger demand. In November 2006, a new runway at Boston Logan Airport was commissioned, providing delay reduction benefits. In April 2007, an innovative type of taxiway, known as an end-around taxiway, opened at Atlanta’s Hartsfield-Jackson International Airport, eliminating about 600 runway crossings per day and thereby increasing the safety and efficiency of the busiest airport in the United States. In FY 2008, the southside reconfiguration of Los Angeles International Airport will be completed. This reconfiguration includes relocation of a runway, which was completed in April 2007, and construction of a new centerfield taxiway to improve the airport’s safety and efficiency.

ADS-B—THE BACKBONE OF THE NEXT GENERATION AIR TRANSPORTATION SYSTEM (NEXTGEN)

After years of research and development, FAA is ready to make Automatic Dependent Surveillance–Broadcast (ADS-B), one of the most crucial components of NextGen, operational throughout the National Airspace System (NAS). General aviation pilots have been using ADS-B in Alaska and the Ohio River Valley since 2000.



Pilots can use cockpit ADS-B displays to view their real-time position relative to other aircraft, bad weather, and terrain.

Credit: FAA Image Library

ADS-B's implementation will turn the NextGen vision into reality by enabling the aviation industry to move to a new surveillance system that uses Global Positioning System (GPS) satellites. The new satellite-based system updates information every second. The current system, which uses 1950's radar technology, only updates every 3 to 12 seconds. Some companies already using ADS-B in their operations, such as UPS, are realizing savings in jet fuel and faster delivery schedules.

With ADS-B, both pilots and controllers will see the same radar-like displays with highly accurate traffic data from satellites. These displays update in real time and do not degrade with distance or terrain. The system will also give pilots access to weather services, terrain maps, and flight information services. With the improved situational awareness it provides, pilots will be able to fly at safe distances from one another with less assistance from air traffic controllers.

The gains in safety, capacity, and efficiency resulting from the move to a satellite-based system will enable FAA to meet the tremendous growth in air traffic predicted for coming decades while reducing the cost of the infrastructure needed to operate the NAS. Specifically, ADS-B will provide surveillance for remote or inhospitable areas that do not currently have coverage by radar; allow for reduced separation and greater predictability in departure and arrival times; and support common separation standards, both horizontal and vertical, for all classes of airspace. It also will improve the ability of airlines to manage traffic and aircraft fleets and to plan arrivals and departures far in advance. Because ADS-B is a flexible and expandable platform, it will change and grow with the evolving aviation system.

Aviation is a global industry. NextGen technologies and concepts must be harmonized, interoperable, and compatible with other international systems. We are working with aviation officials from countries throughout the world to ensure this happens. We signed a formal agreement establishing a trilateral, cooperative NextGen strategy group with Canada and Mexico. This group will share information regarding strategic roadmaps, technologies, and environmental metrics, as well as coordinate North America's International Civil Aviation Organization (ICAO) harmonization efforts. We also created a new international program aimed at further reducing aviation's environmental impact. The Atlantic Interoperability Initiative to Reduce Emissions (AIRE), a scientific and research venture between FAA, the European Commission, and industry partners, will focus on upgrading air traffic control standards and procedures for trans-Atlantic flights.

The expiration of the taxes that fuel the Airport and Airway Trust Fund (AATF) on September 30, 2007, presented us with an historic opportunity to transform the future of FAA and aviation. We spent 2 years developing a new financing proposal that would be in the long-term best interest of the traveling public, the aviation industry, FAA, and taxpayers. This new system would enable us to implement vital NextGen technologies in an expeditious manner over the next two decades while still operating and managing traffic growth within the current system. We are conducting broad outreach to the aviation community to explore funding options and will use that input to develop a system based on a stable, cost-based, and equitable revenue stream rather than on unpredictable ticket taxes. We presented reauthorization legislation to Congress in February stressing

the vital link between its passage, the success of NextGen, and the well-being of our nation's economy. We continue to work with Congress to ensure passage of legislation to reauthorize FAA's programs and revenue sources.

Other Major Accomplishments

With the first private human space flights expected to take place in 2009, we issued regulations for crew and space flight passengers who want to experience this type of travel. The new rules maintain FAA's commitment to protect the safety of the uninjured public and call for measures that enable passengers to make informed decisions about their personal safety.

Over the next decade, approximately 72% of the air traffic controller workforce will become eligible to retire. To meet the challenges of this wave of retirements and the increasing demand for air travel, we updated the *Air Traffic Controller Workforce Plan*, which provides a comprehensive strategy to make sure we have the right number of controllers in the right place at the right time. The plan calls for hiring and training more than 15,000 new air traffic controllers over the next 10 years.

We also are implementing creative strategies to recruit Air Traffic Controllers and Aviation Safety Specialists. We marketed employment opportunities at universities, military transition centers, state and local employment services, and Government recruitment centers. We've also used technology to expand our reach and have promoted the agency on MySpace, FaceBook, and CraigsList, as well as through newspaper and radio ads.

FAA achieved certification this year in managing the intergenerational workforce. In May, managers participated in a new

leadership training program offered by the Office of Human Resources called "When Generations Collide." For the first time in American history, four generations—Traditionalists, Baby Boomers, GenXers, and Millennials—are all in the workplace together. This mixing of generations adds valuable diversity to the workforce, but it also can lead to conflicts and complications. By understanding their differences and recognizing generational clash points, FAA managers and supervisors will be able to leverage their strengths and weaknesses to lead more effectively, encourage collaboration, and improve employee satisfaction. Ultimately, this new understanding will allow the agency to recruit and retain a talented, diversified workforce.

Based on the results of public and employee surveys, we enhanced external and internal communications. We redesigned FAA's public and employee websites to make them more user friendly and to improve navigability. We introduced a daily employee online news update, which replaces a bi-weekly online newsletter. We also introduced HR Radio, a weekly 10-minute Intranet broadcast that details information about benefits and services. All have been positively received.

FAA's efforts over the past 4 years to operate more like a business have paid real dividends, not just to the flying public but to the taxpayer as well. By implementing improved management tools, including better cost accounting systems, and by instituting a pay-for-performance program, we have made more efficient use of our resources. We continue to improve business practices to help control costs and increase efficiency, as described in the section that follows.

INTEGRATING PERFORMANCE AND FINANCIAL INFORMATION

Efficiency and Cost-Effectiveness

Over the past several years, we have made significant progress in making cost control a priority throughout FAA. Since FY 2005, FAA has included a cost control target among the 30 major *Flight Plan* goals we track each month. As a result of this emphasis, part of the broader effort to operate more like a business, we have been able to achieve \$150 million in recurring savings from efforts put in place in FY 2005 and 2006, as well as \$82 million from efforts initiated during FY 2007. A detailed discussion of our continuing efforts to ensure efficiency and cost effectiveness appears in our *FY 2007 Performance and Accountability Report*.

Our areas of focus include consolidation of staffing and facilities, labor cost management, strategic sourcing and demand management, improving the reliability of the Cost Accounting System, and our overall operating efficiency and financial performance.

Consolidation of Services and Facilities

- ***Workers' Compensation Consolidation.*** We completed the centralization of all staff responsible for workers' compensation-related efforts. As a result of the consolidation completed in December 2006, all claims are now handled through headquarters for an FY 2007 cost avoidance of approximately \$20 million.
- ***Information Technology (IT) Consolidation.*** FAA is consolidating computer servers as well as the physical facilities that support them. The approach includes identifying, targeting, and shutting down unnecessary servers, data centers, and applications. FAA also is reducing the cost of helpdesk and call centers by moving to a single provider able to meet the demands of the agency. When complete, we anticipate reductions in the number of staff needed for helpdesk support, a greater reliance on automated tools to reduce costs by providing helpdesk support remotely, and more standardization of helpdesk and desktop support.
- ***Air Traffic Organization (ATO) Service Area Consolidation.*** In 2004, in an effort to maximize efficient use of our resources, FAA began to restructure the ATO service area offices and centralize the managerial, administrative, and business support functions. In FY 2006, ATO started consolidating the administrative and staff support functions from 27 units in 9 regional offices to 3 units in 3 regional offices. The net result is a decrease of 266 full time support positions, which will save more than \$360 million over the next 10 years and allow us to provide better, more consistent service to customers through streamlined processes. Startup costs incurred in FY 2007 offset our initial savings, but in FY 2008, we anticipate savings of \$29 million from service area consolidation.

- **Accounting Consolidation.** The consolidation of the accounting function into the Mike Monroney Aeronautical Center in Oklahoma City resulted in \$4.6 million in savings annually.
- **Real Property Management.** FAA, on behalf of the Department of Transportation (DOT), continued to provide inventory information and performance measures for the approximately 69,500 DOT real property assets in one consolidated database. During FY 2007, DOT established its first-ever full inventory of real property assets and transmitted the data for inclusion in the Federal real property inventory database. In accordance with DOT's Asset Management Plan and the Three-Year Timeline for Real Property, FAA performed periodic reviews of the real property asset data. The senior Real Property Officer identified properties for disposal based on the FAA asset inventory and participated in reviews of both General Services Administration (GSA) and non-GSA leases. We also developed a priority investment list for our asset portfolios.

Labor Cost Management

While labor costs continue to increase, primarily due to the annual Federal pay raise, we have begun to reduce the rate of growth through better management of our payroll costs. We continue to explore and implement new procedures to better manage these costs including increasing the percentage of staff on the pay for performance system and minimizing fraud and abuse of sick leave and workers' compensation.

Strategic Sourcing and Demand Management

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, IT hardware, and courier services. FAA has awarded seven national contracts in five different categories and achieved over \$6 million in cost savings for FY 2007, with expected annualized cost savings of \$7 million each year thereafter.

In the area of expense controls, FAA implemented three critical measures to strengthen acquisition oversight—the Chief Financial Officer must review all procurements of \$10 million or more to ensure the investment is appropriate and has adequate financial controls; the Deputy Administrator must approve all support service contracts of \$1 million or more with fewer than three bids; and the Chief Information Officer must review any acquisition for information technology resources expected to exceed \$250,000 in value. Together, these three requirements represent a major effort to better manage the agency's resources and ensure that we make sound business decisions.

The single largest effort by FAA, and the largest nonmilitary outsourcing initiative in the Federal Government, involved the A-76 sourcing of 58 flight service stations to Lockheed Martin. This initiative is expected to result in a cost savings of over \$2.2 billion from 2003 through 2015. FAA saved approximately \$66 million in FY 2007.

Cost Accounting System (CAS)

FAA made significant progress in improving the reliability of its cost data and in allocating those costs to National Airspace System (NAS) users. In FY 2007, FAA exceeded a corporate compliance rate of 92.5% of labor hours to be charged to valid projects and activities. FAA introduced a new requirement that each line of business must report back to the CFO on how they are using cost accounting data to manage costs. FAA also made a concerted effort to improve the accuracy and timeliness of capitalization costs. This directly impacts the reliability and timely recording of operating cost data because all agency expenditures are classified either as operating or as capital. FAA conducted an intensive review of its Construction in Progress (CIP) balance and introduced policy/procedural changes, along with training, to ensure the agency keeps capitalization efforts current.

Operating Efficiency and Financial Performance

The Performance Improvement initiative of the President's Management Agenda

(formerly known as Budget and Performance Integration) encourages agencies to develop efficiency in executing programs and achieving results. The initiative uses performance measures to track program viability. In support of this initiative, FAA integrates performance information into budgetary decision-making. Budget submissions are prepared to show how the activities across DOT's six goal areas work together and to provide detailed information on how increases or decreases in funding will affect those activities and drive performance.

Over the past 5 years, FAA has instituted financial and operating measures to assess operations and determine trends in our financial performance. In FY 2007, we reviewed progress made and refined the means by which the agency can measure and increase efficiency. As a component of the *FY 2007–2011 Flight Plan*, we expanded the program to require each FAA organization to develop, track, and report quarterly a comprehensive measure of its operating efficiency or financial performance.

ALIGNMENT OF FAA COSTS AND GOALS

The alignment of FAA's costs with its four strategic goal areas is captured in the CAS. Projects entered into the CAS by every organization are linked to one or more goals, and the percentage of funds that support each goal is identified.

Just under \$10.2 billion, or 69% of the \$14.8 billion in total net cost for FY 2007, was devoted to our primary goal of ensuring a safe NAS. ATO spent \$7.1 billion, largely to support keeping aircraft safely separated

in the air and on the ground. ARP directed over \$2 billion to establish safe airport infrastructure. AVS spent slightly more than \$990 million on its programs to regulate and certify aircraft, pilots, and airlines, directly supporting the safety of commercial and general aviation.

Nearly \$4.4 billion, about 30% of total net costs, was assigned to support FAA's goal of improving the capacity of the NAS. ATO spent \$2.5 billion, largely to support its

facilities and equipment projects. ARP spent about \$1.9 billion to enhance the capacity of the country's airports through runway projects and other efforts.

The bulk of FAA's remaining net costs, just over \$200 million, supported its organizational excellence goal. Nearly all the lines of business and staff offices contributed to this goal. FAA spent the remainder, about \$43.7 million, to promote its international leadership goal.



RISKS AND TRENDS

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

- Air traffic has surpassed pre-September 11, 2001, levels. Currently, the system handles 740 million enplanements on U.S. carriers each year, and the number of passengers is expected to climb to 1 billion by 2015. Dealing with these increases will demand even more from already strained FAA resources.
- Capacity must be expanded to meet increased demand. We will meet these needs by developing new technologies to support the Integrated Work Plan for NextGen. The Integrated Work Plan is an evolutionary plan that will leverage available funding and allow us to provide a national aviation system that can handle the safety, capacity, and security needs into our future.
- The financial difficulties facing the airlines and aviation manufacturers affect their ability and willingness to equip aircraft with new technologies to further enhance safety and capacity.
- FAA needs a stable, cost-based revenue stream that ensures funding for long-term capital needs and is related to the cost of operating the system. Stakeholder involvement can help us ensure that we are concentrating on services that the customer wants and is willing to pay for. FAA sent legislation to Congress that accomplishes these goals and fully funds NextGen.
- The ability to improve safety or expand capacity in the United States and in the international arena depends in part on the willingness of authorities at the state, local, and international levels to cooperate and collaborate in areas such as building new airports, expanding runways, and implementing new technologies.
- Concern over aviation's contribution to local air quality issues and potential impact on global climate change continues to grow. Measuring and tracking fuel efficiency from aircraft operations allows FAA to monitor improvements in aircraft/engine technology and operational procedures and enhancements in the airspace transportation system.

PERFORMANCE HIGHLIGHTS

FAA is charged with promoting the safety and efficiency of the nation's aviation system. With broad authority to enforce safety regulations and conduct oversight of the civil aviation industry, we maintain the system's integrity and reliability. A strategic plan, annual business plans, human capital plans, and the annual *Performance and Accountability Report* create a recurring cycle of planning, program execution, measurement, verification, and reporting. This strong link between resources and performance shows our accomplishments

and reinforces accountability for the way we spend taxpayer money.

This year, FAA had 30 performance measures and targets in its *Flight Plan* that focused our efforts to achieve enhanced aviation safety, increase system capacity, provide international leadership, and ensure organizational success. Our goal was to meet at least 90% or 27 out of 30. We achieved 24 (80%).

The Performance at a Glance chart provides a snapshot of our results.

FY 2007 PERFORMANCE AT A GLANCE

Performance Measure	FY 2007 Target	FY 2007 Results	FY 2007 Status	FY 2008 Target ¹
SAFETY				
Commercial Air Carrier Fatal Accident Rate (rate per 100,000 departures)	0.010	0.022 ²	▲	<0.010
General Aviation Fatal Accidents	331	314 ²	●	325
Alaska Accidents (number of fatal and nonfatal accidents)	110	92 ²	●	104
Runway Incursions (rate per million operations)	0.530	0.393 ³	●	0.509
Commercial Space Launch Accidents (number of fatalities, injuries, or damage to the uninvolved public)	0	0	●	0
Operational Errors (rate per million activities)	4.27	4.08 ³	●	4.27
Safety Risk Management (number of significant changes in the NAS)	3	3	●	6
CAPACITY				
Average Daily Airport Capacity (35 OEP airports)	101,562	102,539 ³	●	101,868
Average Daily Airport Capacity (7 metropolitan areas)	63,080	62,351 ³	▲	63,386
Annual Service Volume (ASV) (operations accommodated/number of runway projects)	1.00% 2 projects	1.57% 2 projects	●	1.00% 1 project
Adjusted Operational Availability (service hours for facilities supporting the 35 OEP airports)	99.70%	99.82% ³	●	99.70%
NAS On-Time Arrivals (flights arriving no more than 15 minutes late)	87.67%	86.32% ³	▲	88.00%
Noise Exposure (cumulative reduction in persons exposed to significant noise)	-8.00%	-27.00% ⁴	●	-12.00%
Aviation Fuel Efficiency (cumulative reduction in fuel burned per kilometer flown)	-5.00%	-10.82%	●	-5.00%

FY 2007 PERFORMANCE AT A GLANCE

Performance Measure	FY 2007 Target	FY 2007 Results	FY 2007 Status	FY 2008 Target ¹
INTERNATIONAL LEADERSHIP				
Aviation Safety Leadership (number of safety enhancements implemented by China)	7	10	●	5
Bilateral Safety Agreements (number of new or expanded agreements)	3	3	●	2
External Funding (millions of dollars secured)	\$12.00 M	\$13.36 M	●	\$ 15.00 M
NextGen Technologies (number of countries implementing technologies)	1	1	●	1
ORGANIZATIONAL EXCELLENCE				
STRATEGIC MANAGEMENT OF HUMAN CAPITAL				
Employee Attitude Survey (percentage of positive responses)	38.00%	N/A	▲	TBD
Mission-Critical Positions (reduction in time to fill selected positions)	-1.00%	-30.91%	●	-3.00%
Reduce Workplace Injuries (injury and illness cases per 100 employees)	2.76 per 100	2.56 per 100 ⁵	●	2.68 per 100
Grievance Processing Time (reduction in average days to complete processing)	-10.00%	-61.64%	●	-15.00%
Air Traffic Controller Workforce Plan (variance between plan and actual workforce level)	0% to 2% over plan	0.45% over plan	●	0% to 2% over plan
IMPROVED FINANCIAL PERFORMANCE				
Cost Reimbursable Contracts (percentage of contracts closed out)	85.00%	95.00%	●	85.00%
Cost Control (number of activities per organization)	1	1	●	1
Clean Audit With No Material Weaknesses (NMW)	Clean Audit w/ NMW	Clean Audit with one material weakness	▲	Clean Audit w/ NMW
ACQUISITION MANAGEMENT				
Critical Acquisitions on Budget (percentage within projections)	87.50%	100%	●	90.00%
Critical Acquisitions on Schedule (percentage meeting project milestones)	87.50%	97%	●	90.00%
CUSTOMER SATISFACTION AND OPERATIONAL CAPABILITY				
Customer Satisfaction (score on the American Customer Satisfaction Index for pilots)	66	64	▲	67
Information Security (number of cyber security events)	0	0	●	0

● Green: Goal Achieved

▲ Red: Goal Not Achieved

Note:

TBD: To be determined.

¹ FY 2008 targets are from FY 2007–2011 Flight Plan.² Preliminary estimate. Final data will be available in March 2009.³ Preliminary estimate. Final data will be available in January 2008.⁴ Projection from trends. Final data will be available in May 2008.⁵ Projection from trends. Final data will be available in November 2007.

SAFETY

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

Safety is not only a top priority, it is also an economic necessity. People will only fly if they feel safe. Over the past 5 years, nearly 3 billion airline passengers reached their destination safely. As the stewards of aviation safety in the United States, FAA and its industry partners have built a system that operates nearly 32,000 scheduled commercial flights daily and has reduced the risks of flying to all-time lows.

Commercial Air Carrier Fatal Accident Rate

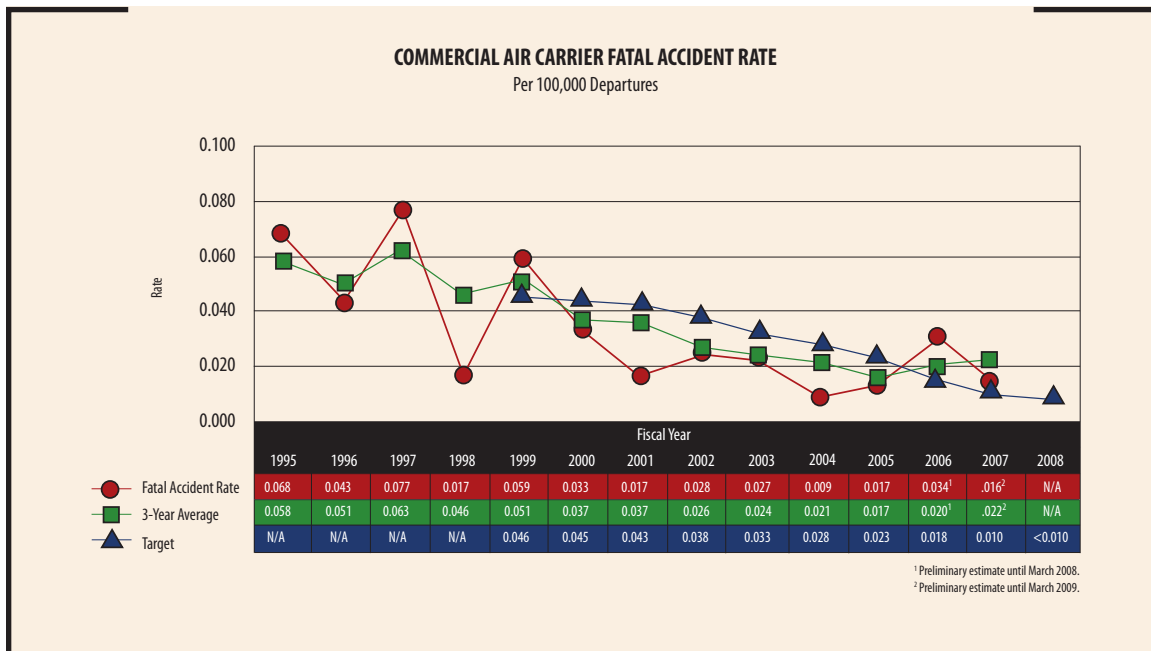
GOAL: Limit the 3-year rolling average fatal accident rate to 0.010 fatal accidents per 100,000 departures.

▲ RESULTS: Not Achieved

We did not meet our FY 2007 Commercial Air Carrier Fatal Accident Rate target of 0.010. By the end of FY 2007, we achieved a rate of 0.022 fatal accidents per 100,000 departures (preliminary).

In 1997, the White House Commission on Aviation Safety and Security issued a challenge to FAA and the aviation industry to reduce the air carrier fatal accident rate by 80% in 10 years. This year marked the end of that 10-year period. Although we did not achieve the target, we did reduce commercial air carrier fatal accidents 57% in 10 years. Through the continuing effort and cooperation of all participants in the aviation industry and FAA, we have achieved the safest period in aviation history. The Commercial Aviation Safety Team (CAST) has focused attention on finding root causes of accidents and solving them. Rules and regulations have also led to safer equipment and procedures.

In addition, the transition of commercial air carriers to the Air Transportation Oversight System has helped focus safety oversight. This new and innovative program began with the nation's 10 largest airlines and will ultimately include all U.S. passenger carriers. FAA inspectors now look at an airline as a whole to determine how the



many elements of its operation interact to meet Federal standards.

General Aviation Fatal Accidents

GOAL: Reduce the number of general aviation and nonscheduled Part 135 fatal accidents to 331.

● **RESULTS: Achieved**

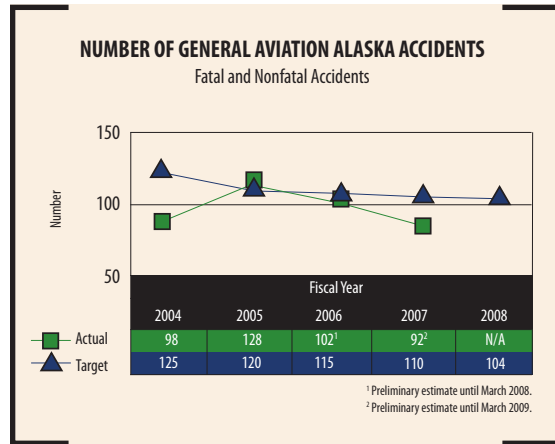
FAA oversees the safety of almost 300,000 general aviation aircraft in the United States. General aviation aircraft include single-seat, home-built airplanes; rotorcraft; balloons; and highly sophisticated extended-range turbojets. General aviation activities include student training, crop dusting, fire fighting, law enforcement, news coverage, sightseeing, industrial work, on-demand air taxi service, corporate transportation, as well as personal use and recreational flying.

In FY 2007, we met our target, ending the year with a total of 314 accidents (preliminary). Rotorcraft, including Emergency Medical Service flights, showed a sharp decline over the previous year. It is also important to note that since the agency began tracking this performance target 6 years ago, the ceiling has been exceeded only once.

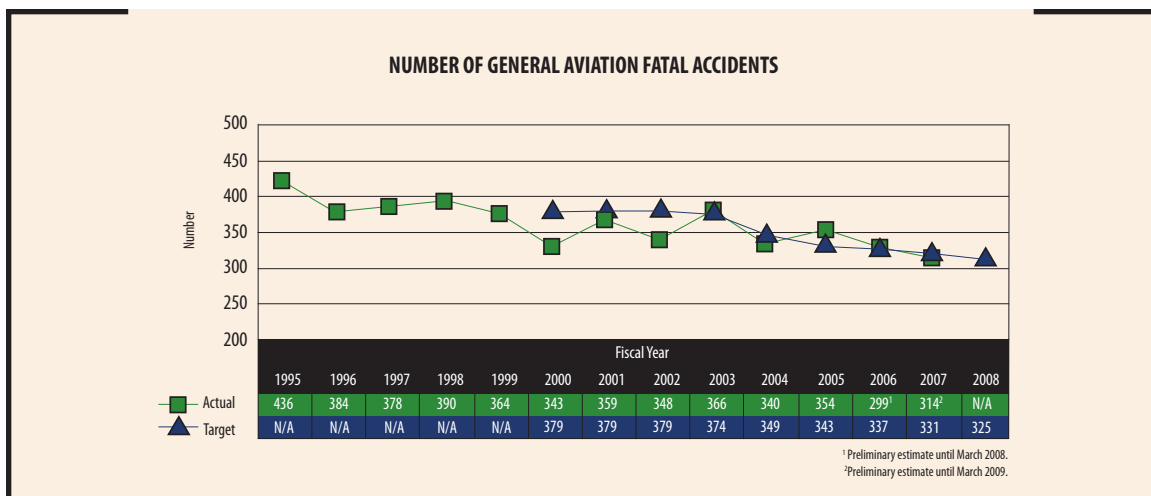
Alaska Accidents

GOAL: Reduce accidents in Alaska for general aviation and all Part 135 operations to no more than 110 per year.

● **RESULTS: Achieved**



Aviation plays a vital role in Alaska, but the state’s topography and weather present unique safety challenges to pilots. There were 92 accidents in Alaska in FY 2007 (preliminary), below the target of 110. Alaska experienced a total of 10 fatal accidents this year, 4 in nonscheduled Part 135 (commuter and on-demand operations) and 6 in general aviation.



There is an urgent need to modernize flight services in Alaska, where general aviation provides the transportation infrastructure essential to everyday life. The Alaska Flight Service Modernization program is currently working to meet Alaska's unique aviation needs with expanded or enhanced flight services on par with those available in the continental United States.

Continued emphasis on training through the Medallion and Circle of Safety programs, as well as the introduction of new technology, has significantly improved the general aviation operating environment. In addition, the Alaska Capstone Program evaluates technologies and procedures designed to enhance general aviation safety that may well be part of aviation's future, such as ADS-B. The primary benefit of ADS-B in Alaska is the delivery of general aviation air traffic control service at lower altitudes in areas where radar is not currently available or would be too costly to deploy. ADS-B provides pilots with a situational awareness tool that displays real time information and can also be used to improve accuracy and timeliness of search and rescue activity.

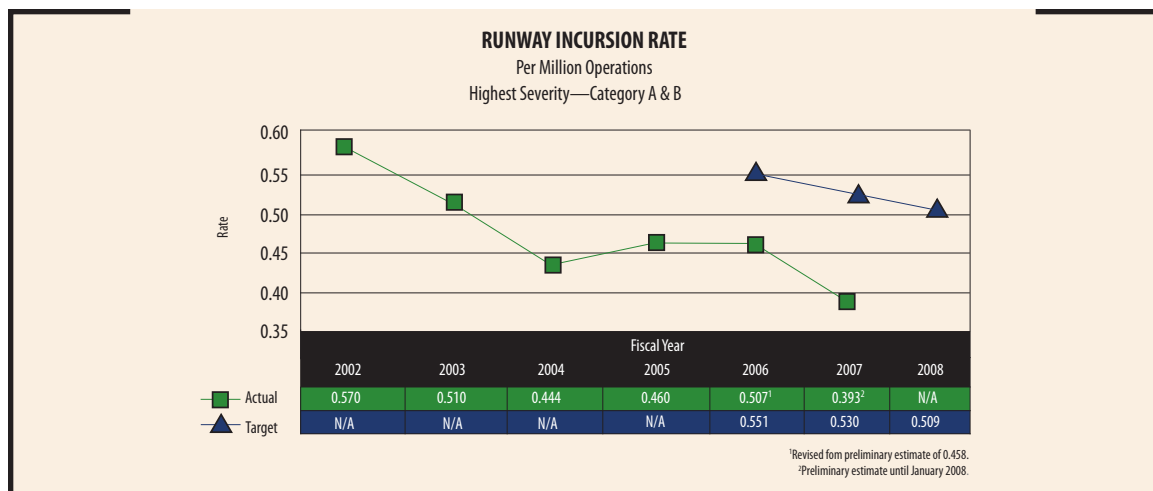
Runway Incursions

GOAL: Reduce Category A and B (most serious) runway incursions to a rate of no more than 0.530 per million operations.

● **RESULTS: Achieved**

The agency has been aggressively addressing this issue and has made progress in reducing the most serious incidents, particularly those involving commercial aircraft. In FY 2007, FAA met the target, ending the fiscal year with a rate of 0.393 (preliminary) per million operations. The number of serious runway incursions has been reduced by more than 50% within the past 6 years.

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



While we are meeting our targets for reducing the most serious runway incursions, some recent incidents are of concern. To address this, we are focusing on improved procedures, increased training for airline personnel, and more rapid deployment of technology that could reduce runway incursions.

Commercial Space Launches

GOAL: No fatalities, serious injuries, or significant property damage to the uninvolved public during licensed or permitted space launch and reentry activities.

● **RESULTS: Achieved**

Protecting the public during launch operations is an FAA safety mission objective. We achieved this goal for the fourth consecutive year. In FY 2007, a total of 14 U.S. launches occurred. Of these, 10 involved experimental test flights of suborbital reusable launch vehicles. None of these launches resulted in a public casualty or injury.

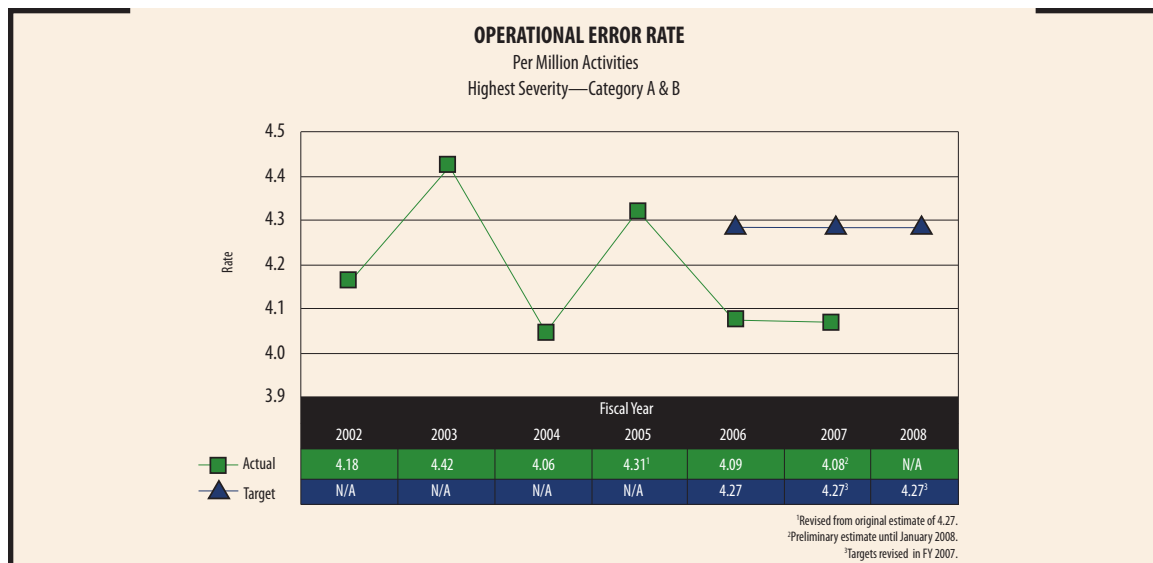
The licensing process is a major reason for FAA's sterling commercial space transportation safety record. FY 2007 was the first year that the FAA issued experimental permits authorizing industry to conduct test flights of suborbital reusable launch vehicles. Safety inspections also contribute significantly to our ability to verify that licensees and permittees remain in regulatory compliance and continue to operate safely. Further, we partner with other Government agencies such as NASA and the Departments of State and Defense to ensure that licensed operations operate in accordance with U.S. national security and foreign policy interests.

Operational Errors

GOAL: Reduce the rate of Category A and B (most serious) operational errors to a rate of no more than 4.27 per million activities.

● **RESULTS: Achieved**

One of the fundamental principles of aviation safety is separation—maintaining a safe distance from other aircraft, terrain, obstructions, and restricted airspace.



Air traffic controllers employ rules and procedures that define separation standards for this environment. An operational error (OE) occurs when controllers fail to follow procedures that enforce separation and allow aircraft to come too close to each other or to an obstruction. The FY 2007 preliminary estimates indicate 4.08 operational errors occurred per million activities.

FAA has historically tried to understand and mitigate the incidence of operational errors, focusing on the critical component of the system—the closest person to the air traffic situation and the last point of prevention—the air traffic controller. We focus attention on identifying causal factors, recreating events, developing metrics to categorize severity, and sponsoring performance enhancement programs.

Safety Risk Management

GOAL: Apply safety risk management to at least three significant changes in the NAS.

● **RESULTS: Achieved**

FAA strives to improve safety and minimize risk. In FY 2007, we met our performance target and applied Safety Risk Management (SRM) to three significant changes in the NAS. We conducted an SRM assessment and prepared documents for “Enhanced Backup Surveillance” in case the primary system fails. We completed a safety risk analysis for the location of a new tower at the Lone Star Executive airport. We also performed a risk analysis and prepared SRM documentation for “Operational Use of ADS-B to Radar Separation Procedures,” which ensures appropriate separation between aircraft.

CAPACITY

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

In FY 2007, the demands on our NAS were never greater and the challenge to increase capacity intensified. The overall growth in numbers of aircraft, the diversity in the performance and type of aircraft operating (e.g., regional jets), and the increasing growth of low-cost carriers further exacerbated an already tenuous NAS. Along with these factors, adverse weather conditions were a major contributing factor to the increase in airport delays this year.

The Federal Government’s commitment to being ready for the future is gathered under one vision—NextGen. The concept of NextGen is a wide ranging transformation of the entire NAS to meet future demands and avoid gridlock in the sky and at our airports. NextGen’s goals focus on significantly increasing the safety, security, and capacity of air transportation operations while reducing environmental impacts, thereby improving the overall economic well-being of the country.

Our objective is simple and direct: get people and goods where they need to go as safely and efficiently as possible. FAA works to reduce delays and eliminate congestion every day, starting literally from the ground up. We are building new runways, installing new technology, and putting new procedures in place to facilitate capacity, efficiency, and environmental enhancements. To combat aviation congestion, our strategy calls for major technology upgrades and capacity improvement projects at major airports, all while managing congestion at key hot spots.

Average Daily Airport Capacity (35 OEP Airports)

GOAL: Achieve an average daily airport capacity for the 35 Operational Evolution Partnership (OEP) airports of 101,562 arrivals and departures per day.

● RESULTS: Achieved

We met our FY 2007 target, achieving an average daily capacity of 102,539 arrivals and departures (preliminary).

Capacity-increasing efforts included redesigning airspace; publishing Area Navigation Routes (RNAV), which permit aircraft to fly optimum routes; providing traffic managers with Integrated Terminal Weather System technology, which makes air traffic flow more efficient in periods of adverse weather; opening new runways; and exploring airport expansion and innovative approaches to reduce congestion including implementation of NextGen technologies.

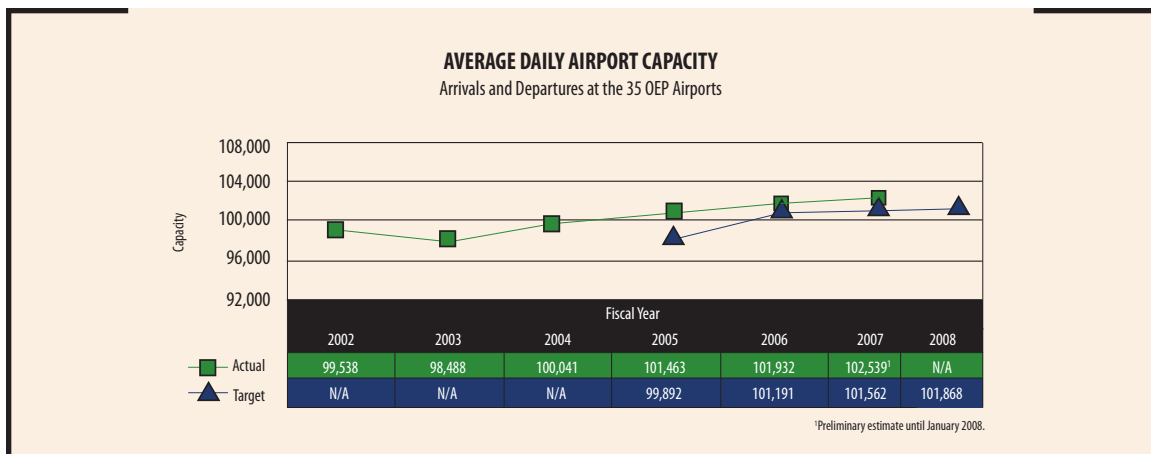
Average Daily Airport Capacity (7 Metropolitan Areas)

GOAL: Achieve an average daily airport capacity for the seven major metropolitan areas of 63,080 arrivals and departures per day.

▲ RESULTS: Not Achieved

Every year after thorough data analysis, FAA identifies the metropolitan areas that will most affect total system aviation delays. In FY 2007, we focused on New York, Philadelphia, South Central Florida, Chicago, Baltimore/Washington, Los Angeles Basin, and San Francisco Bay metropolitan areas.

The average daily airport capacity at the seven major metropolitan areas in FY 2007 was 62,351 arrivals and departures (preliminary). Therefore, we did not meet our FY 2007 target. This was due to two factors: inaccurate baseline setting and inclement weather. The FY 2007 baseline setting effort set the target using historical data that have proven to be somewhat inaccurate compared to the Airport Arrival Rates (AAR) and Airport Departure Rates (ADR) that were used by the facilities and entered into the Aviation System Performance Metrics database during this fiscal year. In response, we implemented

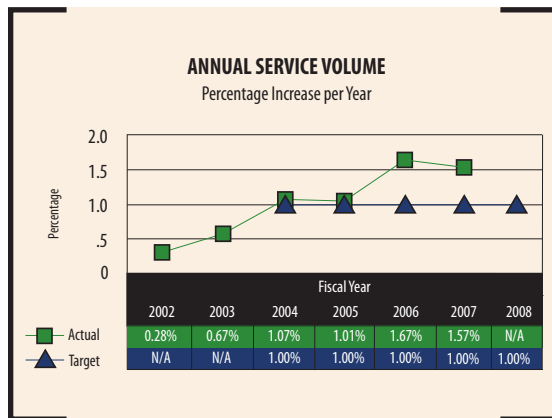


a quality assurance process to ensure the data were more accurate. Inclement weather, such as low ceilings, low visibility, thunderstorms, wind, fog, and rain, also was a factor in not meeting this target.

Annual Service Volume

GOAL: Commission two runways, increasing the Annual Service Volume of the 35 OEP airports by at least 1%.

● **RESULTS: Achieved**



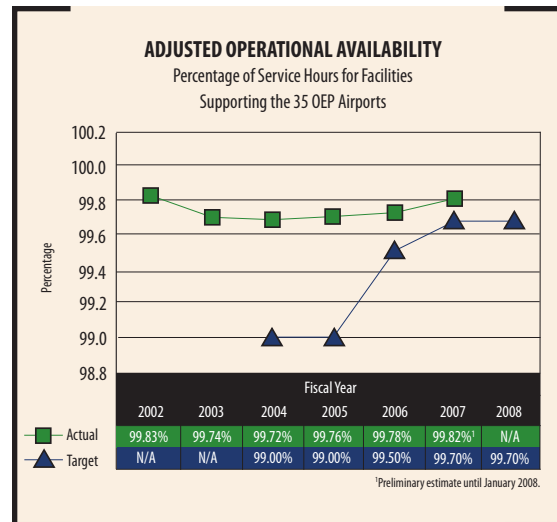
In FY 2007, we opened a runway in Boston and a replacement runway in Los Angeles, increasing Annual Service Volume (ASV) by 1.57%. Additionally, with the opening of an end around taxiway in Atlanta, the airport eliminated about 600 runway crossings per day, significantly improving safety and efficiency.

ASV estimates the benefit, in terms of additional aircraft operations, from runway construction projects. A runway construction project includes new runways, runway extensions, and airfield reconfigurations. Aircraft operations include air carrier, commuter, air taxi, general aviation, and military aircraft. The ASV measure is intended to estimate and track the increase in airport capacity at the 35 OEP airports.

Adjusted Operational Availability

GOAL: Sustain adjusted operational availability at 99.70% for the reportable facilities that support the 35 OEP airports.

● **RESULTS: Achieved**



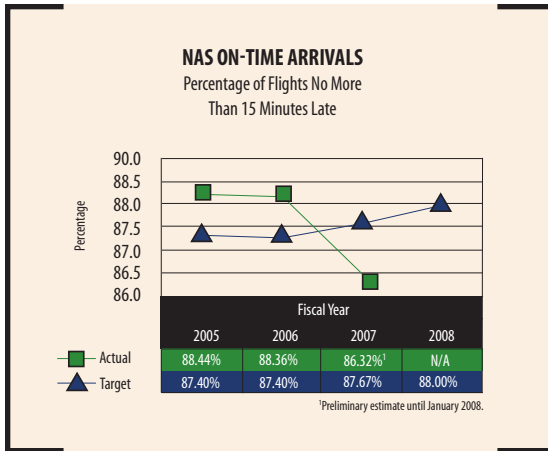
We met our FY 2007 goal by sustaining adjusted operational availability at 99.82% (preliminary). This performance measure shows the percent of time that air traffic control equipment was available versus the amount of time when the equipment was not functional.

The availability of the equipment necessary to provide service directly affects the performance of the NAS. Loss of radar or communications equipment will affect the speed and number of aircraft that can be handled where that loss occurs. The ability of the NAS to provide continuous guidance is crucial and affects both safety and capacity.

NAS On-Time Arrivals

GOAL: Achieve a NAS On-Time Arrival rate of 87.67% at the 35 OEP airports.

▲ RESULTS: Not Achieved



Commercial aviation delays are estimated to cost airlines over \$3 billion per year. Missed flight connections, missed meetings, and loss of personal time directly affect passengers and our national system capacity to meet air demands. Air traffic volume and adverse weather conditions are the major causes of aviation delays.

We did not meet our FY 2007 target, achieving an on-time rate of 86.32% (preliminary). A flight is considered on time if it arrives no later than 15 minutes after its published, scheduled arrival time. Adverse weather conditions played a significant part in airport delays, increasing weather-related delays from 2006 to 2007.

To help achieve this target in the future, FAA continues to evaluate new tools and technologies to improve arrival times such as ground delay programs and airspace flow programs used to combat the impact of thunderstorms on operations. In addition, FAA continues to evaluate separation standards, implementation of improved

weather information tools, and airspace redesign where beneficial. Airspace redesign is one of the key components in optimizing the U.S. airspace and allowing for increased capacity. Efficient airspace operations will require redesigning routes and changing the size and shape of the airspace. This increased flexibility will help address volume, congestion, and weather in en route airspace.

Noise Exposure

GOAL: Reduce the number of people exposed to significant noise, as measured by a 3-year moving average, to 8% below the 3-year average for calendar years 2000–2002.

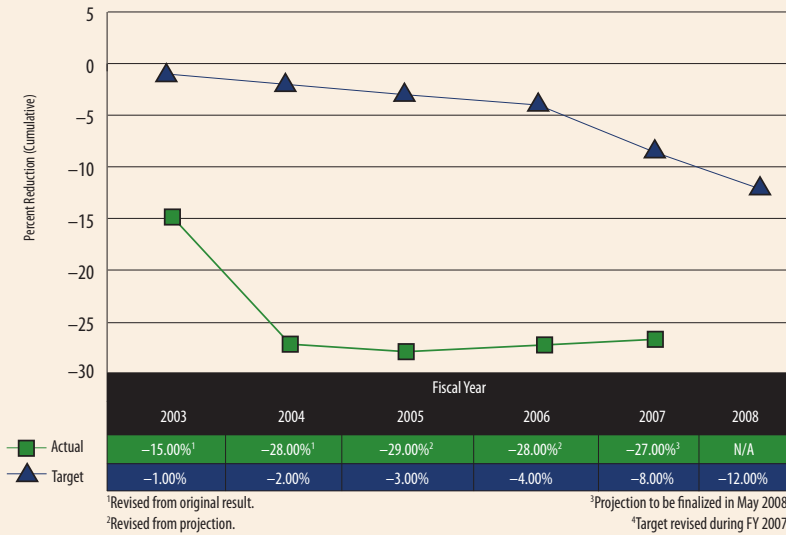
● RESULTS: Achieved

Aircraft noise is an undesired by-product of mobility, and FAA acts to reduce the public's exposure to significant noise levels. Public concern and sensitivity to aircraft noise around airports continues to grow, even as more Americans value and depend on air transportation.

We exceeded our FY 2007 performance target, achieving a 27% reduction (projection). The significant reduction in noise exposure since the base year 2000–2002 average has been driven by air carrier fleet and operational changes that took place in the aftermath of September 11, 2001. It was expected that a return to more typical fleet compositions and a return to air traffic growth would narrow the “positive gap.” However, the return of fleet composition and air traffic to pre-9/11 levels has not occurred at the pace expected. Consequently, the actual number of residents exposed to significant noise remains well below the current target.

NUMBER OF PEOPLE EXPOSED TO SIGNIFICANT NOISE

Cumulative Percentage Reduction From Baseline



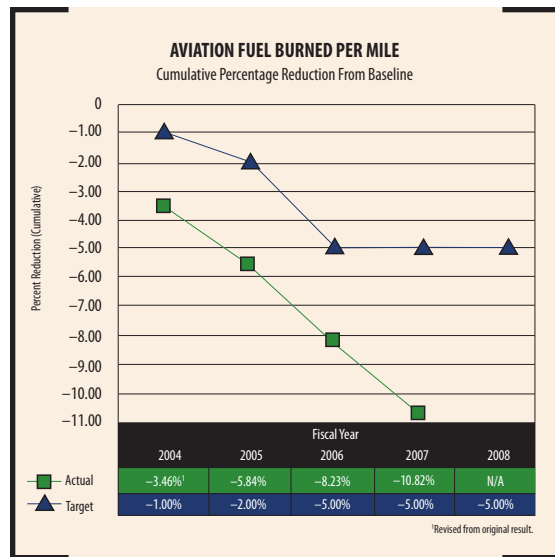
In FY 2007, after reviewing historical noise reductions and taking into account recent trends, we increased the FY 2007 target from a 1% to a 4% annual reduction. The new target also reflects relocation of people away from areas of significant exposure and changes in commercial fleets and operations. FAA continues to pursue aircraft noise control, in cooperation with the aviation community and local governments. While FAA is authorized to provide funds for airport noise compatibility projects, each project must be locally sponsored.

Achieving significant noise reduction in the future will be a challenge. Our ability to develop NextGen technologies and to have the broadest array of noise mitigation approaches at our disposal will determine our success at making continued improvements in aviation noise exposure.

Aviation Fuel Efficiency

GOAL: Improve aviation fuel efficiency per revenue plane-mile by 5%, as measured by a 3-year moving average from the 3-year average for calendar years 2000–2002.

● **RESULTS: Achieved**



Concern over aviation's contribution to local air quality issues and potential impact on global climate change continues to grow. Measuring and tracking fuel efficiency from aircraft operations allows FAA to monitor emissions improvements in aircraft/engine technology and operational procedures and enhancements in the airspace transportation system.

We achieved the FY 2007 target by improving aviation fuel efficiency by 10.82%. Improvements were influenced by a growth in the number of flights over shorter distances. Aircraft flown for these types of flights tend to be more efficient on a fuel burned per distance basis.

INTERNATIONAL LEADERSHIP

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

International leadership is the way FAA advances safety and efficiency around the world, to wherever Americans might travel. We provide technical assistance to other civil aviation authorities and place continued emphasis on bilateral agreements to help harmonize aviation safety and environmental quality around the world. Today, we have operational responsibility for about half of the world's air traffic, have certified more than two-thirds of the world's large jet aircraft, and have provided assistance to more than 130 countries to improve their aviation systems.

While safety is FAA's top priority domestically and internationally, we cannot overlook the potential that global aviation has with respect to trade and commerce. Aviation systems within and among nations are lifelines to the future, freer trade, accelerated economic growth, and greater

cultural exchange. Seamless global aviation is critical to an increasingly global economy that hinges on efficient supply chains and just-in-time manufacturing.

Aviation Safety Leadership

GOAL: Assist China in implementing at least seven of the mutually agreed upon safety enhancements to its aviation system.

● **RESULTS: Achieved**

For FY 2007, FAA and China agreed on a target of implementing at least seven CAST Safety Enhancements (SEs) within China. The Chinese government implemented 10. These SEs included new rules, regulations, training, and equipment to fly in the Chinese airspace system. Some examples include Terrain Awareness and Warning Systems, Airborne Collision Avoidance System, and read-back requirements for air traffic control instructions.

FAA's efforts in China are but one example of how we have a global impact. FAA works with a variety of countries in an advisory capacity to improve safety systems and processes around the world.

Bilateral Safety Agreements

GOAL: Conclude at least three new or expanded bilateral aviation safety agreements (BASAs) that will facilitate an increase in the ability to exchange aviation products and services.

● **RESULTS: Achieved**

In FY 2007, for the fourth consecutive year, FAA achieved its performance target, concluding three new or expanded Bilateral Aviation Safety Agreements (BASAs) with Singapore, Japan, and Mexico.

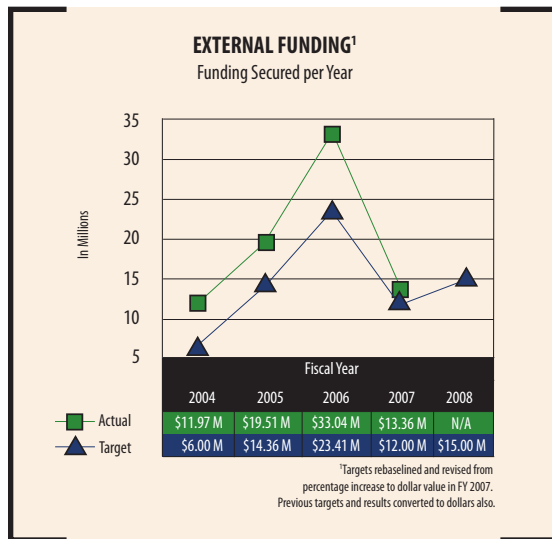
A BASA promotes aviation safety and environmental quality, enhances

cooperation, and increases efficiency in civil aviation matters. The agreements are based on recognized comparability of U.S. and foreign systems for approval and surveillance of the aviation industry. Improved global understanding of U.S. safety regulations, processes, and procedures leads to better international regulatory oversight. These agreements lay the essential groundwork for cooperation between the United States and the respective target country's aviation authorities.

External Funding

GOAL: Secure \$12 million in international aviation development funding to strengthen the global aviation infrastructure.

● RESULTS: Achieved



Often countries that could benefit the most from FAA technical assistance are the least able to afford our help. This external funding initiative seeks to leverage the limited resources we are able to contribute to international safety and capacity efforts with technical and financial assistance from U.S. Government organizations,

multilateral banks, and industry to support global aviation system infrastructure projects.

In FY 2007, we surpassed FAA's \$12 million target by securing \$13.36 million in funds for technical assistance, aviation cooperation programs, and infrastructure development projects. FY 2007 highlights include \$3.2 million from the Department of State for the Safe Skies for Africa program, \$1.8 million from the U.S. Trade and Development Agency for the U.S./China Aviation Cooperation Program, and \$6 million from the World Bank, the Asian Development Bank, and the Swedish International Development Cooperation Agency to revitalize Afghanistan's aviation system.

NextGen Technologies

GOAL: Expand the use of NextGen technologies and procedures to one priority country.

● RESULTS: Achieved

In FY 2007, FAA achieved its performance target of expanding NextGen technology to one priority country by concluding a bilateral agreement with China on the implementation of Reduced Vertical Separation Minima (RVSM). In addition to promoting development of China's airspace infrastructure, RVSM is a key component of the vision and plans for NextGen in the United States. Our partnership allows us to assist China with the safe implementation of RVSM based on U.S. standards and practices and also benefits both U.S. carriers and citizens flying in China. RVSM was the highest priority item for China's Air Traffic Management Bureau because it is critical to managing the expected increase in air traffic volume for the 2008 Beijing Summer Olympic Games. To further China's RVSM

efforts, we participated in several ICAO RVSM Task Force Meetings and other Asia-Pacific regional forums to reinforce our support.

ORGANIZATIONAL EXCELLENCE

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

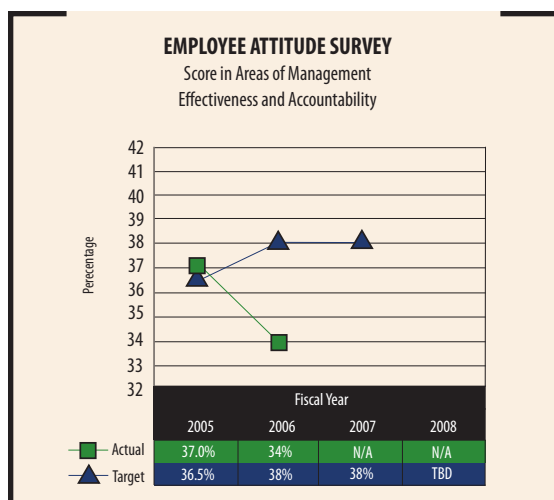
Organizational excellence is an ongoing challenge. Our efforts this year focused on submitting to Congress the NextGen Reform Act of 2007 to provide for transformation of air transportation to the NextGen system and working with users of the system to get new legislation passed before October 1, 2007. We also targeted air traffic controller recruitment and placement and have a full pipeline of new controllers across the country.

Strategic Management of Human Capital

Employee Attitude Survey

GOAL: Increase the score of the Employee Attitude Survey measure for the areas of management effectiveness and accountability to 38% positive.

▲ **RESULTS: Not Achieved**



The employee attitude survey (EAS) is one of 30 FAA *Flight Plan* goals used to assess agency performance as well as a factor in determining the amount of the Organizational Success Increase (OSI). It has been determined that the FY 2007 EAS results were compromised, rendering them invalid. As a result, the EAS results will not be considered in determining the agency's OSI. FAA organizations will, however, continue to implement their EAS Action Plans that are based on the 2006 EAS results. In addition, we are revising our FY 2008 *Flight Plan* performance target for leadership and accountability. These actions ensure that we continue our efforts to foster better employee recognition and greater management effectiveness and accountability.

Mission-Critical Positions

GOAL: Reduce the time it takes to fill mission-critical positions by 1% (to 54 days) from the current FY 2006 baseline of 55 days.

● **RESULTS: Achieved**

One crucial element of ensuring safety and greater efficiency through organizational excellence is an efficient and high-quality hiring process for filling mission-critical positions (MCPs). With more employees becoming retirement-eligible each year, it is in the agency's best interest to ensure that mission-critical hiring is accomplished in a timely manner and nets the qualified individuals needed to achieve mission results.

The agency met its FY 2007 target to reduce the time to fill mission-critical positions by 1% (to 54 days) over the FY 2006 baseline of 55 days. This performance target measures the time-to-fill MCPs (excluding Air Traffic Controllers) from the date an action to

fill a position is received from the hiring organization to the date the job is offered to the individual who fills the job.

Reduce Workplace Injuries

GOAL: Reduce the total workplace injury and illness case rate to no more than 2.76 per 100 employees by the end of FY 2007.

● **RESULTS: Achieved**

In FY 2007, FAA met its target, achieving a workplace injury rate of 2.56 (projection). FAA's efforts to reduce workplace injuries include a comprehensive program consisting of top management leadership, policy, oversight, and program planning. In addition, we increased efforts to train employees on how to work safely and to ensure they have the necessary personal protective equipment to perform their jobs. Facility inspections are conducted regularly to identify and abate hazards. When accidents and incidents occur, they are thoroughly investigated to ensure that appropriate corrective action is taken.

However, prevention is the key to averting workplace injuries. Bearing this in mind, FAA has taken steps to remove hazards from the workplace in order to improve overall safety. Injury reduction is achieved throughout the organization when employee awareness and participation is high, leadership supports occupational safety and health activities, and risks are identified and mitigated.

Grievance Processing Time

GOAL: Reduce average grievance processing time by 10% to 131 days from the FY 2006 baseline of 146 days.

● **RESULTS: Achieved**

In FY 2007, we met our target by reducing the average grievance processing time by 61.64% to 56 days. The goal of any grievance procedure is to resolve employee and union complaints at the lowest level possible, with the least amount of time, resources, and disruption to the work environment and mission. The wide margin by which we exceeded the target is attributed to targeting grievances with processing times that exceeded 100 days and training on the Grievance Electronic Tracking System (GETS), which was deployed in FY 2006.

Air Traffic Controller Workforce Plan

GOAL: Maintain the air traffic control workforce at or up to 2% above the projected annual totals in the *Air Traffic Controller Workforce Plan*.

● **RESULTS: Achieved**

In FY 2007, FAA achieved its target with an end-of-year air traffic controller workforce level at 0.45% over the plan. While the actual number of hires exceeded the hiring target, attrition, due to higher than expected losses to operations and supervisor staff, retirements, and training failures, also exceeded the plan's targets. However, hires outpaced losses, enabling us to surpass our full year staffing target.

This was due in large part to recruiting diverse applicants for Air Traffic Controller positions by recruiting the next generation of workers through the channel they know best—the Internet. Using this recruiting source, we are seeing highly qualified

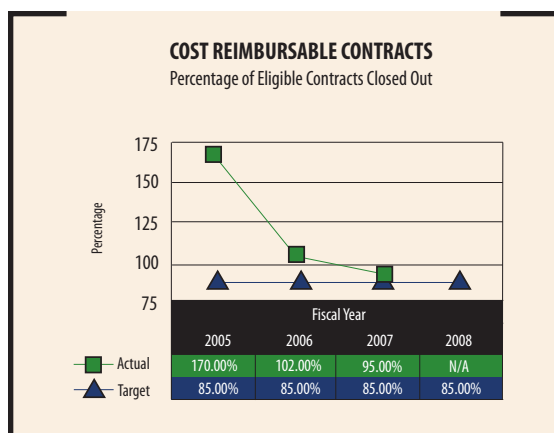
applicants and have experienced a high level of success in recruiting efforts as a result. We also purchased print advertising and conducted outreach to students at more than 800 colleges and universities, and marketed employment opportunities at military transition centers, state and local employment services, and Government recruitment centers.

Improved Financial Performance

Cost Reimbursable Contracts

GOAL: Close out 85% of eligible cost reimbursable contracts.

● **RESULTS: Achieved**



In FY 2007, FAA achieved its target and closed 60 cost-reimbursable contracts, or 95% of the contracts. To achieve this goal, we focused on maintaining appropriately high close-out rates to avoid such issues as the loss of expired funds, loss of file documents, loss of vendor’s corporate knowledge, or changes in the contractor’s business status.

Closing contracts on a timely basis supports organizational excellence by improving financial management of the agency’s contracts. A high number of unclosed

contracts can create potentially large liabilities where final amounts are due to or from the contractor, in addition to losing the use of funds that could otherwise be recouped. By focusing on contracts eligible for closeout, contracts are administered more efficiently and the agency’s liability is reduced.

Cost Control

GOAL: Organizations throughout the agency will continue to implement cost control initiatives by applying at least one cost control activity per organization.

● **RESULTS: Achieved**

In FY 2007, FAA met this target. Organizations throughout the agency implemented at least one cost saving or avoidance activity, accruing total savings and avoidance of \$60 million. These savings resulted from strategic sourcing of selected products and services, consolidations of facilities and services, reduction in helpdesk operating costs, elimination of obsolete technology, and reduction in IT costs.

Clean Audit With No Material Weaknesses

GOAL: Obtain a clean audit (unqualified opinion with no material weaknesses) on the agency’s financial statements each fiscal year.

▲ **RESULTS: Not Achieved**

The unqualified audit opinion target is a critical indicator of an agency’s financial condition, because it independently assesses the fair presentation of FAA’s financial statements and, in connection with that process, considers the internal controls over financial reporting.

After 5 years of unqualified audit opinions, we received a qualified opinion on our

FY 2006 financial statements due to the lack of documentation supporting our Construction in Progress (CIP) balance. We have been transparent in our public disclosure about both the qualified opinion and the immediate remediation initiative we undertook to correct the deficiency. After an intensive, year-long effort to review the balance and restate our FY 2006 financial statements, the auditors issued a revised opinion—now unqualified—on our restated FY 2006 financial statements.

In addition, we received an unqualified opinion on our FY 2007 financial statements. However, we incurred a material weakness related to the timely processing of transactions and accounting of Property, Plant, and Equipment, including the CIP account. To address this weakness, we restructured roles and responsibilities and reallocated resources to make additional improvements to our capitalization processes. The new organizational change will enable more accountability and transparency in the capitalization process and enable us to keep our CIP balance current and accurate.

Acquisition Management

Critical Acquisitions on Budget/on Schedule

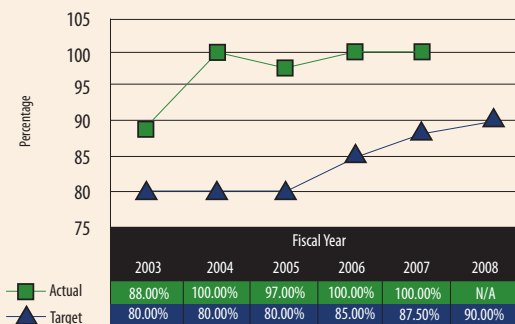
GOAL: Ensure that 87.5% of critical acquisition programs are on schedule and 87.5% of critical acquisition programs are within 10% of budget as reflected in the Capital Investment Plan.

● RESULTS: Achieved

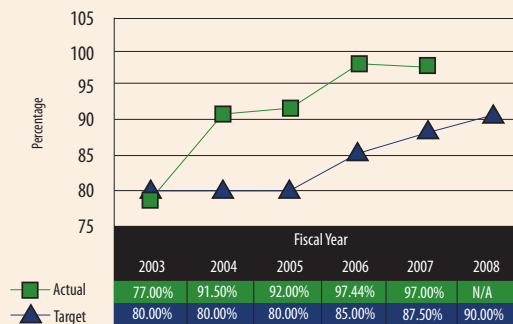
FAA exceeded the FY 2007 performance targets for major acquisitions cost and schedule. We tracked 67 milestones against 37 acquisition programs. We accomplished 65 of the 67 milestones (97%) on schedule. For the cost goal, no program reflected a variance of more than 10% in cost, resulting in a 100% performance rating.

One of the most important steps in controlling costs is ensuring that capital programs are effectively managed. These programs provide navigation, surveillance, computer processing capabilities, tools for air traffic controllers, telecommunications infrastructure, and weather information to make the NAS run smoother. By tracking cost and schedule milestones, FAA ensures that taxpayer dollars spent through its acquisition programs achieve required performance outcomes.

CRITICAL ACQUISITIONS ON BUDGET
Percentage of Programs Within Planned Budget



CRITICAL ACQUISITIONS ON SCHEDULE
Percentage of Programs Meeting Scheduled Milestones



Customer Satisfaction and Operational Capability

Customer Satisfaction

GOAL: Increase agency scores on the American Customer Satisfaction Index to 66.

▲ RESULTS: Not Achieved

FAA did not meet its FY 2007 target, achieving a score of 64. This was only the second time that the score did not increase since 1999. The score dropped in FY 2007 primarily because of lower ratings in the area of Policy, Standards, and Regulations.

The agency uses the American Customer Satisfaction Index (ACSI) to measure customer satisfaction with pilots who hold current commercial licenses and first- or second-class medical certificates. These pilots are asked to rate their satisfaction with air traffic control personnel and services, pilot certification processes, and the clarity of regulations and their contribution to aviation safety.

The survey as presently structured does not provide the reasons pilots responded the way they did. We will refine the survey to better understand issues identified by experienced pilots.

Information Security

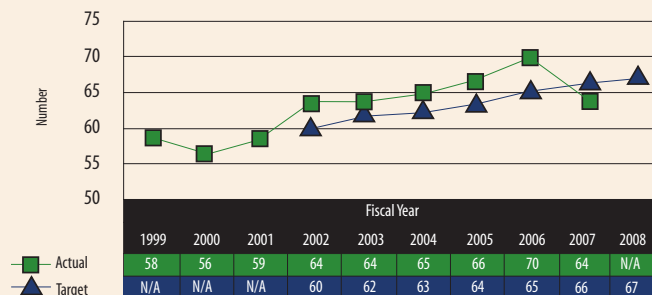
GOAL: Zero cyber security events that significantly disable or degrade FAA services.

● RESULTS: Achieved

During FY 2007, there were approximately 5 million attempts made each month to disrupt service on our network, yet for the third consecutive year, we met our target of no successful cyber events.

FAA has an information security mandate to protect the agency's IT assets in accordance with numerous executive and legal requirements. Accordingly, FAA, whose mission is to ensure the safe and efficient movement of aircraft, must be protected against the threat of cyber attacks. To achieve success and to meet statutory requirements, we completed 100% of the security reviews of our IT systems and ensured that 100% of the IT systems targeted for re-certification and authorization were completed.

CUSTOMER SATISFACTION INDEX SCORE FOR COMMERCIAL PILOTS



PRESIDENT'S MANAGEMENT AGENDA

The President's Management Agenda (PMA) is a set of initiatives designed to make the Federal Government more citizen-centered, results-oriented, and market-based. The organizational excellence targets in the *Flight Plan* support DOT's goal to achieve "green" on the PMA. To do this, DOT asks FAA to set targets and measure performance as a way to hold them accountable for results. While there are 13 agencies within the DOT that contribute to the overall PMA, FAA's contribution is significant and has a major impact on the rating results. For example, for the Federal Real Property Asset Management initiative, FAA has over 99% of the real property within DOT, effectively driving the initiative and its results. Details of FAA's accomplishments toward the PMA can be found in the *FY 2007 Performance and Accountability Report*.

Initiative: Strategic Management of Human Capital

Address workforce gaps, eliminate skill gaps, develop performance-based incentives, ensure citizen-centered organizations, and ensure a robust leadership pipeline.

FAA Accomplishments

The DOT/FAA human capital accomplishments, such as enhancing recruitment efforts and agency workforce planning, helped to earn DOT a "green" status rating on the President's Management Agenda for a fourth consecutive year.

Initiative: Competitive Sourcing

Develop a competitive sourcing plan for activities designated commercial in nature, with the goal of providing higher quality, more cost-effective services to the public.

FAA Accomplishments

FAA strengthened the Federal Activities Inventory Reform Act inventory submission by ensuring the criteria used to determine function and reason codes for both "inherently governmental" and "commercial-exempt" were fully justified. The FY 2007 inventory for FAA totaled 45,195 full-time equivalents. We continue to evaluate our competitive positions in various functions and lines of business for competitive outsourcing opportunities.

Initiative: Improved Financial Performance

Implement financial management systems capable of producing more timely and accurate information for decision-making, and maintain unqualified opinions on financial statements.

FAA Accomplishments

FAA developed an aggressive action plan to correct and restate a qualified opinion on its FY 2006 consolidated financial statements. We also developed long-term policy and procedure changes. In FY 2008, we will adopt efficiency measures in the

capitalization process, increase use of automation, implement organizational changes, and add resources.

We continued our efforts to automate our Budgetary to Proprietary reconciliation tools and further reduced the variances, to the extent that all eight of our internal metrics reached green status.

FAA improved the reliability of cost data and allocation of the costs to NAS users. To ensure cost data are current, we establish new project codes when management needs to track the cost of a project or activity. Customers are routinely consulted to incorporate system change requests into future CAS releases and improve managerial cost reporting.

Initiative: Expanded Electronic Government

Better justify and track IT projects and participate in Government-wide initiatives to automate transactions, reduce redundancies, and increase efficiencies.

FAA Accomplishments

In FY 2005, FAA assessed all major capital investments and submitted a plan to implement full earned value management on all programs that have significant Office of Management and Budget (OMB) Development/Modernization/Enhancement spending by December 2007. FAA is on track to meet this plan. We created our first IT portfolio, which consists of over 60 administrative IT investments exceeding \$250 million. We are also working with the Office of the Secretary of Transportation (OST) and OMB to

have the NAS Modernization Program, a collection of projects worth more than \$2 billion annually, taken off the Government Accounting Office's High Risk List. We are current with certification, authorization, recertification, and self-assessments on all of our IT systems. We continue to participate in DOT's compliance review process and are responsible for keeping the DOT Enterprise Portal up-to-date with respect to FAA IT systems.

FAA continues to participate in eGovernment initiatives that contribute to OST's successful eGovernment scorecard including eGrants Executive Committee, OST's planning team for the migration of the current Docket Management System to the Federal Docket Management System, and surveys to assess Federal needs for geospatial products and service. We also are collaborating with the National Archives and Records Administration to develop processes and best practices for E-records management.

Initiative: Performance Improvement

Improve management through regular, systematic measurement and accountability for program performance compared to predetermined goals.

FAA Accomplishments

FAA works to improve performance and accountability in a variety of ways such as conducting monthly *Flight Plan* meetings on the status of our performance goals; preparing a separate *Performance and Accountability Report*, which provides details

of FAA's performance on all 30 *Flight Plan* performance goals; and linking pay raises and reviews to the agency's achievement of performance targets. In response to OMB's Program Assessment Rating Tool (PART) review of FAA's R,E,&D program, the agency has developed efficiency measures to better manage the program's overhead cost. In FY 2007, OMB conducted a PART assessment of the ATO's terminal programs, which direct air traffic flows and assist with aircraft operations near airports and control towers. The program obtained a moderately effective rating, the second highest category. PART reviews will be conducted of the rest of ATO in the next 2 years.

Initiative: Eliminating Improper Payments

Reduce improper payments through identification of at-risk programs and establishment of a plan for corrective action. Set recovery targets and, where appropriate, work to meet them.

FAA Accomplishments

Our excellent record of keeping improper payments to an insignificant amount caused OMB and DOT to change the focus of our improper payments efforts to grant payments made under our Airport Improvement Program (AIP). In FY 2006, our activities centered on researching payments made by grant sponsors to help develop a statistical sampling and testing methodology that would be used for future reviews. During FY 2007, we applied that knowledge and methodology to a comprehensive effort to test 10 statistically selected airport improvement projects across the nation. The validity and appropriateness of payments relative to the terms of the

grant agreement were reviewed and no improper payments were identified.

Initiative: Federal Real Property Asset Management

Promote efficient and economical use of real property assets; ensure management accountability for real property management through establishment of clear goals and objectives, and improved policies and levels of accountability; develop and implement Asset Management Plans to ensure efficient and effective management; develop common performance measures; and establish a single comprehensive real property inventory database.

FAA Accomplishments

FAA, on behalf of DOT, continued to provide inventory information and performance measures to the Federal Real Property Council including metrics for the approximately 69,500 DOT real property assets and reported performance information for each real property. FAA established DOT's first-ever full inventory of real property assets for inclusion in the full Federal real property inventory database. In accordance with DOT's Asset Management Plan and the Three-Year Timeline for Real Property, FAA participated in periodic reviews of the real property asset data. In addition to disposal activities, FAA developed a priority investment list for its asset portfolio.

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

FY 2007 INSPECTOR GENERAL'S SUMMARY OF CHALLENGES AND FAA ACTIONS

In FY 2006, the DOT Office of Inspector General (OIG) identified five management challenges facing FAA in the coming years. A summary of FAA's actions toward resolving each of the challenges follows. A detailed discussion appears in FAA's *FY 2007 Performance and Accountability Report*.

Challenge: Defining, Developing, and Implementing Strategies To Improve Congested Conditions on the Nation's Highways, Ports, Airways, and Borders

FAA Actions

- FAA submitted to Congress the Next Generation Air Transportation Financing Reform Act of 2007, which contains proposals designed to reduce congestion, accelerate the transition to NextGen, and improve the efficiency and oversight of the system. The proposal includes a new financing system, which ties payments that NAS users make for air traffic control services more closely to actual costs and creates incentives for more efficient use of the air traffic control system, including the use of market-based mechanisms, such as auctions or congestion pricing, at congested airports.
- We created the Operational Evolution Partnership (OEP), FAA's plan for implementing NextGen, to keep capacity-enhancing initiatives on schedule. OEP will focus on producing new operational capabilities, which will transform our current air transportation system from ground-based surveillance

and navigation to new and more dynamic satellite-based systems. The forecasted and actual benefits of the plan's activities are measured annually, and an FAA team ensures each program is implemented on schedule.

- We continue to support the construction of runways, taxiways, and major runway extensions, which are currently the most effective method of increasing throughput. We also continue to foster the development of enhancements to improve capacity, reduce delays, and improve access at airports.

Challenge: FAA Reauthorization—Reaching Consensus on a Financing Mechanism To Fund FAA and Establishing Funding Requirements

FAA Actions

- FAA's reauthorization proposal includes a set of user fees for commercial operators and fuel taxes for general aviation that more accurately reflect their respective use of the aviation system. User fees would, under the proposal, take effect in 2009.
- NextGen requires a highly deliberate and integrated planning process that, in the near term, results in products that inform the design, policy, and investment decision-making required to launch and implement the new system. The Joint Planning and Development Office (JPDO) made progress in developing, advancing, and delivering

critical foundational products with cooperation and collaboration across Government. Documents detailing critical NextGen requirements were released last summer. These documents have enabled the JPDO to begin to understand and project the costs and benefits of NextGen.

- FAA continues its efforts to address the expected surge in Air Traffic Controller attrition. In anticipation, we updated our Controller Workforce Plan to provide staffing ranges for each of FAA's 314 facilities. The plan also includes an estimate for total salary, premium, and benefit costs for all controllers in training.
- We are using our Cost Accounting System to control costs and improve operations. This includes assigning labor hours to projects and establishing new and specific labor codes to track costs, which has enabled us to better allocate costs to NAS users; improving the accuracy and timeliness of capitalization costs; and publishing our cost allocation study of 2005 air traffic costs (available at www.faa.gov/regulations_policies/reauthorization/).

Challenge: Aviation Safety—Performing Oversight That Effectively Uses Inspection Resources and Maintaining Aviation System Safety

FAA Actions

- FAA continues to advance risk-based oversight systems for air carriers and external repair facilities and is on schedule to have all 120 air carriers regulated under 14 CFR Part 121 transitioned to the Air Transportation Oversight System (ATOS) by the end of 2007. ATOS improves the certification and surveillance processes for air carriers and assesses the safety of air carrier operating systems. FAA redesigned ATOS in FY 2007 to provide the flexibility necessary to manage the many tasks required to evaluate air carriers of all sizes in their diverse operating environments.
- In October 2006, FAA issued a bulletin providing guidance to principal inspectors assigned to 45 CFR Parts 121 and 135 air carriers who outsource some or all of their maintenance. These instructions provided additional oversight of each air carrier's outsourced maintenance arrangements. In addition, principal inspectors are now required to evaluate the air carrier's outsourced maintenance programs to ensure work performed by certificated and non-certificated repair facilities is accomplished within the scope of the contract and in compliance with the air carrier's maintenance instruction. The notice also requires evaluation of the air carrier's oversight, authorization, and training procedures for non-certificate repair facilities.
- FAA provided to Congress a 10-year Aviation Safety Workforce Plan to ensure adequate safety staff is maintained and to address inspector attrition and anticipated changes in the aviation industry. FAA closely monitors retirements and is taking steps to hire the next generation of safety inspectors.
- As traffic continues to increase, FAA continues to refine existing and/or implement new technologies, equipment, and procedures to reduce the risk of accidents on the ground and in the air.

Challenge: Improving Acquisition and Contract Management To Reduce Costs and Eliminate Improper Payments

FAA Actions

- FAA established the Contract Oversight function in FY 2007 to provide oversight and evaluation of contract operations within the agency. In February 2007, FAA's Acquisition Executive directed that the National Acquisition Evaluation Program (NAEP) be established in the agency. NAEP's goal is to ensure consistent implementation of Acquisition Management System (AMS) policy and guidance by FAA offices and to identify innovative processes or opportunities for improvements. A NAEP Team developed Standard Operating Procedures (SOP) to be followed by evaluation teams in conducting contract and program evaluations, developed an Evaluation Work Plan that lists proposed contract evaluations over the next 3 years, and developed its first evaluation report on the results of a yearly assessment of the consistency between the hiring of contractor personnel as compared to the labor categories and rates contained in support services contracts.
- FAA is establishing a support services contract vehicle to be used to hire contract support to assist the contract officers and specialists in conducting price analysis. This contract, along with the additional experienced contract officers, will strengthen FAA's capacity to conduct price analysis before contract awards.

Challenge: Protecting, Monitoring, and Streamlining Information Technology Resources

FAA Actions

- In FY 2007, FAA met the statutory requirement to recertify its IT systems on their 3-year anniversaries or upon major system change. Specifically, FAA recertified 100% of its 84 IT systems, including the air traffic control systems. FAA's remaining systems will undergo annual self-assessments as prescribed by the National Institute of Standards and Technology (NIST).
- In FY 2007, FAA implemented the Business Continuity Plan (BCP) and established the Business Continuity Program Office to address potential prolonged IT service disruptions at en route centers. Primary infrastructure is in place. En route BCP operational requirements are being validated with field Air Route Traffic Control Centers. FAA will provide all mission-essential services for the affected facility with a goal to reconstitute operations at 80% of previous capacity within a 3-week period.
- FAA had planned to visit a significant number of facilities to audit IT security differences between systems at terminal and tower facilities relative to laboratory conditions. However, after thorough study, FAA concluded that the return on investment would not support the expected cost, which would exceed \$2.5 million. This decision was also supported by results of similar efforts at en route facilities, where there was less than a 10% variance.

FINANCIAL HIGHLIGHTS



With passenger totals expected to more than double in the next decade, FAA is determined to meet the increased demands on our airspace and ensure travelers get to their destination with minimal delays without compromising safety.
Credit: FAA Image Library

A MESSAGE FROM THE CHIEF FINANCIAL OFFICER



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

The U.S. economy depends on a safe, efficient, and reliable national airspace system. NextGen is our roadmap for the future—and it is an extraordinary undertaking. Initial cost estimates to implement the plan through the year 2025 are as much as \$22 billion. We recognize that to support this extraordinary effort, we need to operate more like a business using best practices from the private and public world. I am proud of our many achievements this year, particularly the significant strides we have made to strengthen financial controls and increase operational efficiencies. We know that every dollar saved enables us to commit more to increased safety and capacity. During FY 2007, we

- Achieved an unqualified opinion with one material weakness on our FY 2007 financial statements.
- Received our fourth consecutive award from the League of American Communication Professionals for the *FY 2006 Performance and Accountability Highlights*, recognizing it as one of the top Government annual reports in the country.
- Realized \$150 million in annual recurring cost control savings from efforts initiated in FY 2005 and FY 2006. In addition, we introduced \$82 million in efficiencies. To obtain these savings, we
 - Consolidated services such as human resources, IT, administration, and accounting.
 - Continued the SAVES initiative to improve our procurement program for administrative supplies, equipment, IT hardware, and courier services. We awarded seven contracts in five different categories and expect to achieve over \$6 million in cost savings for FY 2007, with annualized savings of over \$7 million each year thereafter.

- Improved financial controls by strengthening the approval process for major investments and by requiring CFO-approval on all potential contracts over \$10 million.

After 5 years of unqualified audit opinions, we received a qualified opinion on our FY 2006 financial statements related to the accuracy of our Construction in Progress (CIP) balance. We also received a related material weakness in FY 2006 for lack of supporting documentation and a need to strengthen policies and procedures in the capitalization process. We have been transparent in our public disclosure about the qualified opinion, material weakness, and the immediate remediation initiative we undertook to correct the deficiency. After an intensive, year-long effort to review and document the CIP balance, improve policies and procedures, and restate our FY 2006 financial statements, I am pleased to report that the auditors have issued a revised opinion—now unqualified—on our restated FY 2006 financial statements.

In addition, we received an unqualified opinion on our FY 2007 financial statements. However, we incurred a material weakness related to the timely processing of transactions and accounting of Property, Plant, and Equipment, including the CIP account. To address this weakness, we have restructured roles and responsibilities and reallocated resources to make additional improvements to our capitalization processes. The new organizational change will enable more accountability and transparency in the capitalization process and enable us to keep our CIP balance current and accurate.

Consistently achieving financial excellence is an ongoing challenge, but one which we take very seriously. Every day our dedicated staff work to improve the soundness of our policies and the efficiency of our processes to ensure the accuracy of our financial data. That is our commitment to every American taxpayer—and it is what continues to make FAA a world class organization.



Ramesh K. Punwani

Assistant Administrator for Financial Services/Chief Financial Officer

November 5, 2007

FINANCIAL HIGHLIGHTS

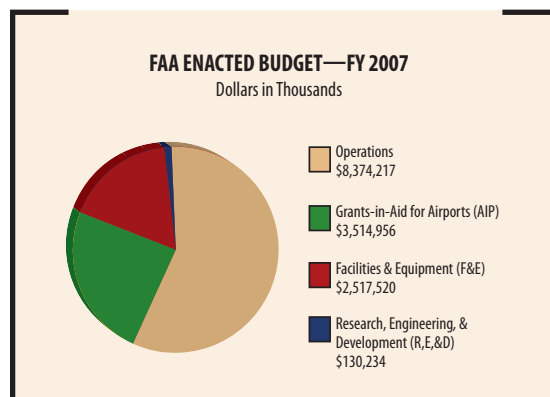
Highlights of our FY 2007 financial performance appear on the pages that follow. For a more detailed discussion of FAA's financial statements and accompanying notes, see our *FY 2007 Performance and Accountability Report*, which is available on the FAA website at www.faa.gov/about/plan_reports/.

The Airport and Airway Trust Fund (AATF) provided approximately 81.3% of FAA's FY 2007 budget. Created by the Airport and Airway Revenue Act of 1970, the AATF derives its monies from excise taxes and earned interest. It provides a stable source of revenue to finance investments in the airport and airway system. To the extent funds are available, the fund also covers the operating costs of the airway system. Aviation excise taxes, which include taxes on domestic passenger tickets, freight waybills, general and commercial aviation fuel, and international departures and arrivals, are deposited into the fund. The Department of the Treasury maintains the fund and invests its monies in Government securities, and interest earned is also deposited into the fund. Monies are withdrawn as needed and transferred into each FAA appropriation to cover obligations.

FAA is financed through annual and multiyear appropriations authorized by Congress. The FY 2007 enacted budget of \$14.537 billion was slightly less than 2% higher than the FY 2006 enacted level. The Combined Statement of Budgetary Resources reflects funding enacted by the FY 2007 Continuing Resolution H.J. Res. 20.

FAA has four appropriations. The largest, Operations, is funded by both the Treasury's General Fund and the AATF. In

FY 2007, the AATF provided nearly 67% of the revenue for Operations. The AATF is the sole revenue source for FAA's three capital investment appropriations: Grants-in-Aid for Airports (AIP), Facilities and Equipment (F&E), and Research, Engineering, and Development (R,E,&D).



Operations. The Operations appropriation finances operating costs, maintenance, communications, and logistical support for the air traffic control and air navigation systems. It funds the salaries and costs associated with carrying out FAA's safety inspection and regulatory responsibilities as well. The account also covers administrative and managerial costs for FAA's international, medical, engineering, and development programs and for policy oversight and overall management functions. The FY 2007 Operations appropriation was \$8.4 billion, approximately 3% over FY 2006, and primarily attributable to payroll and inflation costs.

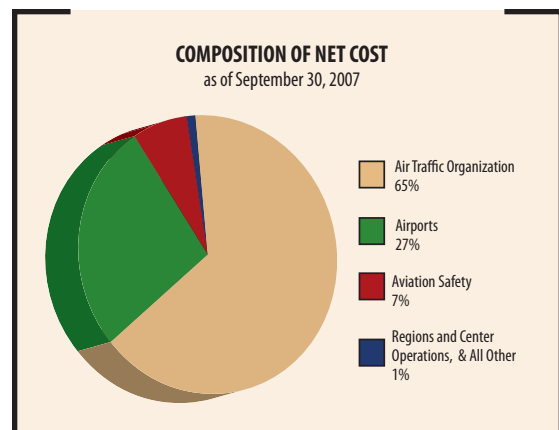
AIP. The Secretary of Transportation is authorized to award grants for planning and development to maintain a safe and efficient nationwide system of public airports. These grants fund approximately one-third of all

capital development at the nation's public airports. Grants are issued to maintain and enhance airport safety, preserve existing infrastructure, and expand capacity and efficiency throughout the system. The program also supports noise compatibility and planning, the military airport program, reliever airports, and airport program administration. FY 2007 funding for AIP was just over \$3.5 billion—the same as the FY 2006 level. Similarly, funding for the Small Community Air Service program has remained near the FY 2006 level of \$10 million.

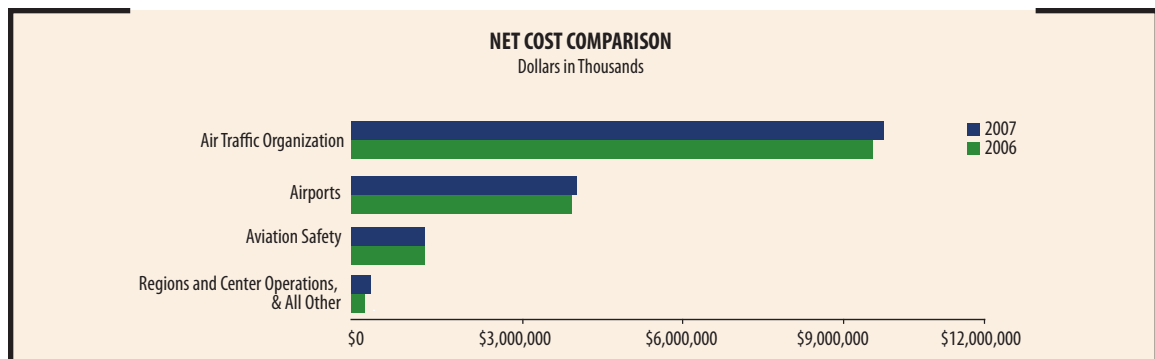
F&E. The programs funded by the F&E appropriation are FAA's principal means of modernizing and improving air traffic control and airway facilities. The account also finances major capital investments required by other agency programs as well as other improvements to enhance the safety and capacity of the national airspace system. F&E was funded at \$2.5 billion in FY 2007, approximately the same level as in FY 2006. Major systems included Automatic Dependent Surveillance–Broadcast, System Wide Information Management, En Route Automation, Terminal Automation, Oceanic Automation, the Wide-Area Augmentation System (WAAS), ASDE-X, Airport Surveillance Radar, the FAA Telecommunications Infrastructure (FTI) project, and Terminal Air Traffic Control Facilities replacement.

R,E,&D. The FY 2007 appropriation for R,E,&D was slightly in excess of \$130 million—almost 5% less than FY 2006. R,E,&D funds were applied to research programs to improve the safety and effectiveness of the air traffic control system. In FY 2007, programs focused on the environment and energy, weather initiatives, JPDO activities, human factors, and aircraft safety.

FAA's summarized net cost of operations is shown on page 50. For the fiscal years ending September 30, 2007 and 2006 as restated, FAA's net costs were \$14.8 billion and \$14.1 billion respectively. Net cost is total program cost less related earned revenue.



The *Composition of Net Cost* chart above illustrates the distribution of costs among FAA's lines of business.



The *Net Cost Comparison* chart on page 44 compares FY 2007 and FY 2006 net costs.

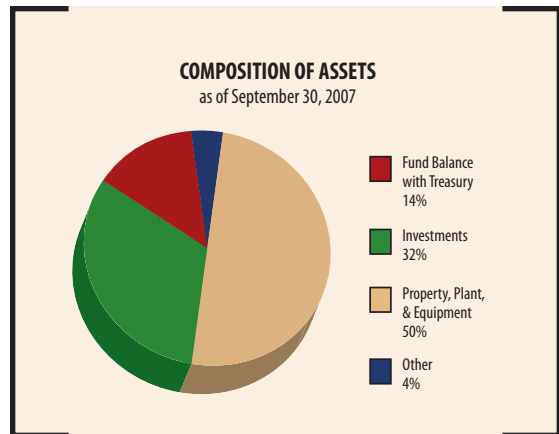
With a net cost of \$9.7 billion, the Air Traffic Organization is FAA's largest line of business, comprising 65% of total net costs. Air Traffic Organization's net costs increased by \$383.0 million in FY 2007 primarily from costs related to FTI, which provides efficient transmission of voice, data, radar, weather, and other information critical to the operations of FAA at a significant cost savings over time.

With a net cost of \$3.9 billion as of September 30, 2007, which is 27% of FAA's total net costs, Airports is FAA's second largest line of business. Net costs increased \$71.7 million from the prior year and are composed mostly of Aviation Insurance Program grant disbursements.

The net cost of Aviation Safety represents 7% of FAA's total net costs, while Region and Center Operations and All Other comprise 1% of total net costs. The net costs of Region and Center Operations were \$159.3 million greater than in FY 2006, as of September 30, 2007. Gross costs remained relatively constant while intragovernmental revenues decreased by \$179.4 million. The net cost of Aviation Safety increased by \$69.5 million.

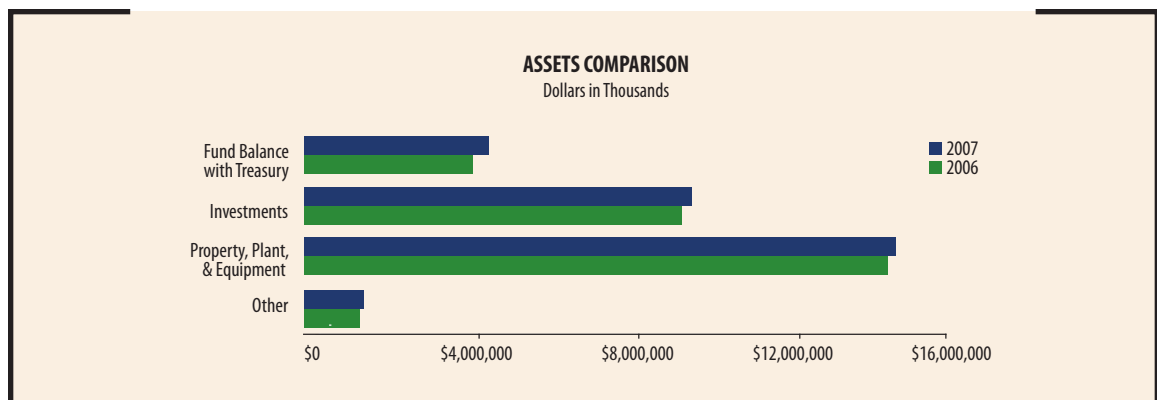
FAA's summarized assets, liabilities, and net position are also shown on page 50.

Total assets were \$27.7 billion as of September 30, 2007. FAA's assets are the resources available to pay liabilities or satisfy future service needs. The *Composition of Assets* chart depicts major categories of assets as a percentage of total assets.



The *Assets Comparison* chart below presents comparisons of major asset balances as of September 30, 2006 and 2007.

Fund balance with Treasury (FBWT) represents 14% of FAA's current period assets and consists of funding available through Department of Treasury accounts from which FAA is authorized to make expenditures to pay liabilities. It also includes passenger ticket and other excise



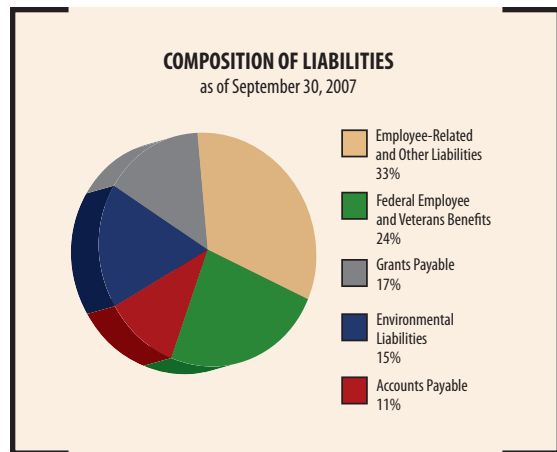
taxes deposited to the Airport and Airway Trust Fund (AATF), but not yet invested. FBWT increased \$400.9 million primarily because of timing differences between investments of excise tax receipts, the timing of redemptions of investments to fund FAA disbursements, and the actual confirmation of disbursements by the Department of Treasury.

At \$8.9 billion, *Investments* represent 32% of FAA's current period assets and are principally derived from passenger ticket and other excise taxes deposited to the AATF. These amounts are used to finance FAA's operations to the extent authorized by Congress. Investments increased by \$229.6 million. The increase was primarily due to the fact that excess tax revenues collected have exceeded the annual funds appropriated from the AATF, leaving more funds available for investments.

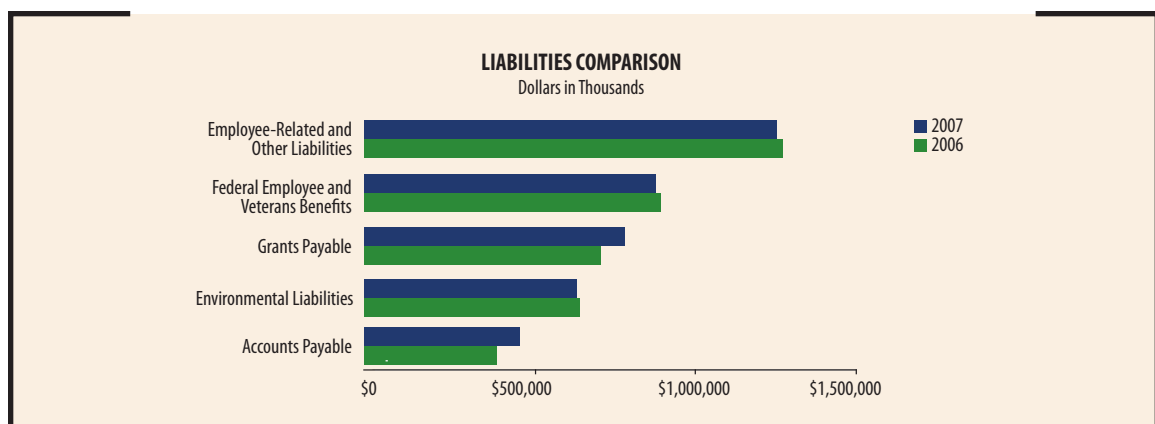
At \$13.9 billion, *Property, plant, and equipment, net (PP&E)* represents 50% of FAA's assets as of September 30, 2007, and is primarily composed of construction-in-progress related to the development of NAS assets, and capitalized real and personal property. There was an increase of \$.2 billion in the total composition of PP&E

as purchases of equipment and additions to CIP through the normal course of business were offset by retirements, depreciation, and CIP corrective actions during FY 2007.

As of September 30, 2007, FAA reported liabilities of \$3.8 billion. *Liabilities* are probable and measurable future outflows of resources arising from past transactions or events. The *Composition of Liabilities* chart depicts FAA's major categories of liabilities as a percentage of total liabilities.



The *Liabilities Comparison* chart below presents comparisons of major liability balances between September 30, 2006, and September 30, 2007. Following is a discussion of the major categories.



At \$1.2 billion, *Employee-Related and Other Liabilities* represent 33% of FAA's total liabilities. These liabilities remained stable and as of September 30, 2007, are comprised mainly of \$148.4 million in Advances Received, \$199.2 million in Federal Employees' Compensation Act payable, \$257.9 million in Accrued Payroll and Benefits, \$456.1 million in Accrued Leave and Benefits, and \$72.1 million in Capital Lease Liability.

At \$884.0 million, *Federal Employee and Veterans Benefits* represent 24% of FAA's current year liabilities and consist of FAA's expected liability for death, disability, and medical costs for approved workers' compensation cases, plus a component for incurred but not reported claims. The Department of Labor (DOL) calculates the liability for DOT, and DOT attributes a proportionate amount to FAA based on actual workers' compensation payments to FAA employees over the preceding 4 years. This liability is updated on an annual basis at year end.

FAA's *grants payable* are estimated amounts incurred but not yet claimed by Airport Improvement Program (AIP) grant recipients and represent 17% of liabilities. Grants payable increased \$104.0 million on a comparative basis.

Environmental Liabilities represent 15% of FAA's total liabilities, and were relatively stable at \$566.9 million as of September 30, 2007, compared with \$573.3 million a year earlier. Environmental liabilities include a component for remediation of known contaminated sites and the estimated environmental cost to decommission assets presently in service.

Accounts payable increased \$134.1 million and are amounts FAA owes to other entities for unpaid goods and services.

FAA's summarized changes in net position are shown on page 50. Net position presents those accounting items that caused the net position of the balance sheet to change from the beginning to the end of a reporting period. Various financing sources increase net position. These financing sources include appropriations received and non-exchange revenue, such as excise taxes and imputed financing from costs absorbed on FAA's behalf by other Federal agencies. The agency's net cost of operations and net transfers to other Federal agencies serve to reduce net position.

FAA's cumulative results of operations for the period ending September 30, 2007, increased \$29.3 million, on a comparative basis, due primarily to a combination of increases in beginning balances of \$379.7 million and financing sources of \$328.6 million offset by an increase in net cost of \$679.0 million. Unexpended appropriations increased \$670.6 million primarily due to the FY 2007 adopted practice of reporting the use of trust fund dollars prior to General Fund dollars.

SUMMARY FINANCIAL INFORMATION

FAA's independent auditor, KPMG, LLP, rendered an unqualified audit opinion on FAA's FY 2007 financial statements with one material weakness. The DOT Office of Inspector General presented KPMG's audit report to the FAA Administrator on November 5, 2007.

The summary financial information in this highlights report was derived from FAA's audited FY 2007 and restated FY 2006 financial statements, which were prepared pursuant to the requirement of the Chief Financial Officer Act of 1990 and the Government Management Reform Act of 1994.

Summarized Net Cost of Operations

presents the annual cost of operating FAA's lines of business.

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

Summarized Changes in Net Position

represents the difference between FAA's financing sources and its net cost of operations.

FY 2006 Restatement

FAA has restated certain balances within PP&E, net cost and net position as of September 30, 2006, to correct an error in accounting for Construction in Progress (CIP). The effects of this correction resulted in a reduction and restatement of CIP, as presented in the balance sheet at September 30, 2006, totaling \$2,593.7 million. This reduction of CIP is composed of a reclassification of \$1,696.3 million from CIP to other PP&E categories for completed projects, together with an increase in accumulated depreciation of \$56.6 million, and \$897.4 million of non-capital transactions charged to expense.

The \$954.0 million combined effect of the \$56.6 million depreciation adjustment and the \$897.4 million non-capital expense is reflected as a \$317.8 million reduction of total net cost as presented on the FY 2006 *Consolidated Statement of Net Cost* and a \$1,271.8 million reduction to the beginning balance of cumulative results of operations on the FY 2006 *Consolidated Statement of Net Position*.

The audited consolidated financial statements are available in FAA's *FY 2007 Performance and Accountability Report*, which is available from FAA's Office of Financial Management (see contact information on the inside back cover of this publication).

FAA's *FY 2007 Performance and Accountability Report* is also available on the FAA website at www.faa.gov/about/plans_reports/.



KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

Administrator, Federal Aviation Administration:

We have audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated financial statements of the U.S. Department of Transportation Federal Aviation Administration (FAA) as of, and for the years ended, September 30, 2007 and 2006 (not presented herein) and have issued our report thereon dated November 5, 2007. That report included emphasis paragraphs related to the following: 1) the FAA changed its method of reporting the reconciliation of budgetary resources obligated to the net cost of operations in fiscal year 2007; 2) the FAA changed its method of accounting for transfers between its trust and operations funds, affecting the presentation of balances on the combined statement of budgetary resources in fiscal year 2007; and 3) the FAA restated certain balances previously reported to correct an error in accounting for its construction in progress (CIP), a component of property, plant and equipment.

In our report dated November 3, 2006, we expressed an opinion on the FAA's fiscal year 2006 consolidated financial statements that was qualified for the effects of such adjustments, if any, as might have been determined to be necessary had management completed its review of the FAA's CIP balance as of September 30, 2006, and related transactions affecting the FAA's net cost and net position that may have occurred during the year, and provided us with sufficient evidence necessary to complete our audit of CIP balances and related transactions. During FY 2007, the FAA has completed its review of CIP balances and related transactions, and as a result restated the fiscal year 2006 consolidated financial statements to correct an error in its accounting for CIP. Accordingly, our opinion on the consolidated financial statements, including the FAA's fiscal year 2006 restated consolidated financial statements (not presented herein), is different from that expressed in our previous report.

The accompanying summary financial information of the FAA as of, and for the years ended, September 30, 2007 and 2006, as explained in the notes thereto, is not a presentation in conformity with U.S. generally accepted accounting principles. In our opinion, the accompanying summary financial information is fairly stated, in all material respects, in relation to the portion of the financial statements from which it has been derived.

KPMG LLP

November 5, 2007

KPMG LLP, a U.S. limited liability partnership, is the U.S. member firm of KPMG International, a Swiss cooperative.

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

	2007	2006 as Restated
Lines of Business		
Air Traffic Organization	\$ 9,680,476	\$ 9,297,439
Airports	3,923,605	3,851,902
Aviation Safety	1,012,749	943,242
Commercial Space Transportation	10,768	15,249
Non Line of Business Programs		
Regions and center operations and other programs	186,856	27,585
Net Cost of Operations	<u>\$ 14,814,454</u>	<u>\$ 14,135,417</u>

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

	2007	2006 as Restated
Assets		
Fund balance with Treasury	\$ 3,895,095	\$ 3,494,227
Investments	8,904,357	8,674,729
Accounts receivable, advances, and other, net	482,556	294,427
Inventory and related property	507,527	628,110
Property, plant, and equipment, net	13,891,770	13,677,986
Total Assets	<u>\$ 27,681,305</u>	<u>\$ 26,769,479</u>
Liabilities		
Accounts payable	\$ 1,061,205	\$ 823,028
Environmental cleanup costs	566,886	573,264
Employee related, legal, and other	\$ 1,243,659	1,259,362
Federal employee and veterans benefits	883,982	888,082
Total Liabilities	<u>3,755,732</u>	<u>3,543,736</u>
Net Position		
Unexpended appropriations	1,099,916	429,351
Cumulative results of operations	22,825,657	22,796,392
Total net position	<u>23,925,573</u>	<u>23,225,743</u>
Total Liabilities and Net Position	<u>\$ 27,681,305</u>	<u>\$ 26,769,479</u>

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

	2007	2006 as Restated
Net Position—Beginning of Year	\$ 23,225,743	\$ 24,957,476
Beginning Balance After Restatement		23,685,633
Financing Sources		
Excise taxes and associated revenue	12,373,567	10,701,709
Appropriations received	2,746,317	2,645,000
Net transfers out	(74,434)	(127,718)
Imputed financing and other	468,834	456,536
Total financing sources	15,514,284	13,675,527
Net Cost of Operations	(14,814,454)	(14,135,417)
Net Position—End of Year	<u>\$ 23,925,573</u>	<u>\$ 23,225,743</u>

NOTES TO THE SUMMARY FINANCIAL INFORMATION

Reporting Entity. FAA, created in 1958, is a component of the DOT, a cabinet-level agency of the Executive Branch of the United States Government. FAA accomplishes its mission through the four lines of business described on page 7.

Basis of Presentation. The summary financial information is intended to provide users an overview of the financial status and activities of FAA and is derived from and should be read in conjunction with the financial statements contained in FAA's *FY 2007 Performance and Accountability Report*. The summary financial information is not a presentation in accordance with accounting principles generally accepted in the United States of America.

Assets. *Fund balance with Treasury* consists of funding available through Department of Treasury accounts from which FAA is authorized to make expenditures to pay liabilities.

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

Liabilities. *Accounts payable* represents amounts owed to vendors for goods and

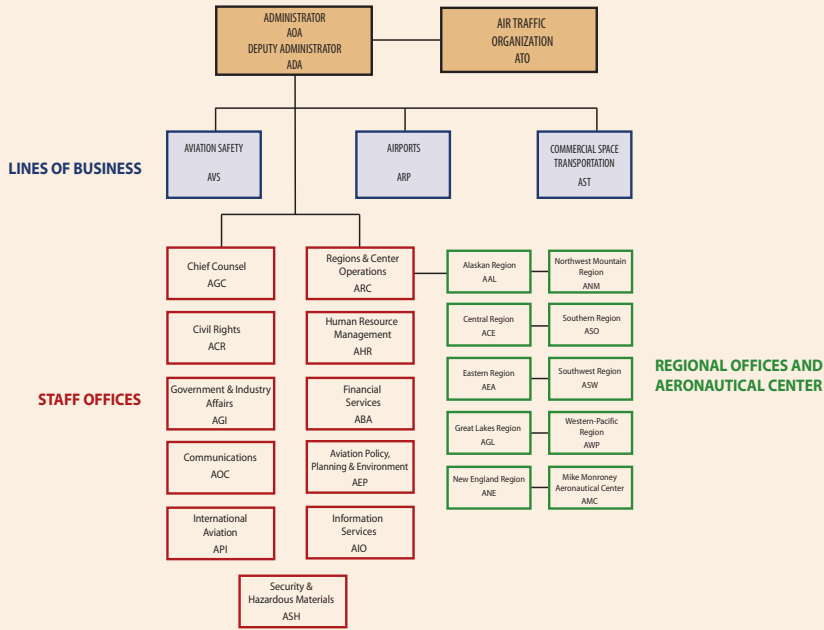
services that FAA has received. *Environmental cleanup costs* represents the accrued costs to correct known environmental hazards and decommission existing assets. *Employee related, legal, and other* consists primarily of accrued personnel compensation and legal liabilities considered probable of loss.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

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

Net Position. Net position consists of unexpended appropriations and cumulative results of operations. As of September 30, 2007 and 2006, *Unexpended appropriations* were \$1,099.9 million and \$429.4 million, and *Cumulative results of operations* were \$22,825.7 million and \$22,796.4 million, respectively. Cumulative results of operations represent certain assets of the FAA, less liabilities that will be funded by future budgetary resources and congressional appropriations.

ORGANIZATION AND LOCATIONS

FEDERAL AVIATION ADMINISTRATION ORGANIZATION



FEDERAL AVIATION ADMINISTRATION REGIONAL MAP



INTERNET LINKS

Federal Aviation Administration:

www.faa.gov/

FAA Offices:

www.faa.gov/about/office_org/

FAA Regional Offices and Centers:

www.faa.gov/about/office_org/headquarters_offices/arc/

FAA Operational Evolution Partnership:

www.faa.gov/about/office_org/headquarters_offices/ato/publications/oep/

FAA *Flight Plan*:

www.faa.gov/about/plans_reports/media/FPP_Flight%20Plan%202008-2012.pdf

National Transportation Library:

<http://ntl.bts.gov/>

U.S. Department of Transportation:

www.dot.gov

ACKNOWLEDGMENTS

FAA's *FY 2007 Performance and Accountability Highlights* is a collaborative endeavor on the part of many FAA employees and contractors. We would like to acknowledge and thank them for their hard work and commitment in successfully preparing this report and supporting the audit of the financial statements.

WE WELCOME YOUR COMMENTS!

Thank you for your interest in FAA's *FY 2007 Performance and Accountability Highlights*. We welcome your comments on how we can make this report more informative for our readers.

Please send your comments to

Mail: Office of Financial Management, AFM-1
Federal Aviation Administration
800 Independence Avenue, SW
Room 612
Washington, DC 20591

Phone: (202) 267-3018

E-mail: Allison.Ritman@faa.gov

Fax: (202) 493-4191

This and prior year *Performance and Accountability Reports* and *Performance and Accountability Highlights* are available on the FAA website at www.faa.gov/about/plans_reports/.

For a printed copy, call (202) 267-3018 or email Allison.Ritman@faa.gov.



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HQ-o8323A