



Federal Aviation
Administration

FY 2009 PERFORMANCE AND ACCOUNTABILITY REPORT

Preparing for tomorrow, today



The aviation sector will be an important factor in the Nation's economic recovery. According to the FAA's calculations using the U.S. International Trade Commission's reported trade data statistics, at \$61 billion, aerospace products and parts contributed more to the positive balance of trade than any other sector—\$32 billion more than the next highest contributor.

Credit: FAA Image Gallery

On the cover—Recently installed runway status lights at Los Angeles International Airport (LAX) are connected to the ground radar system. The lights turn red if the ground radar detects a potential conflict between two aircraft or an aircraft and a vehicle. The lights—the latest safety enhancement at LAX—are available on eight taxiways and one runway. The FAA also installed the most technologically advanced ground radar system, known as Airport Surface Detection Equipment-X, or ASDE-X, in the air traffic control tower at LAX. ASDE-X collects data from more sources than the previous ground radar system, and provides air traffic controllers with color map displays showing the location of all aircraft and vehicles on the runways and taxiways.

Credit: FAA Image Gallery



FEDERAL AVIATION ADMINISTRATION FY 2009 PERFORMANCE AND ACCOUNTABILITY REPORT

Mission

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

Vision

To improve the safety and efficiency of flight.
We are responsive to our customers and accountable to the flying public.

Values

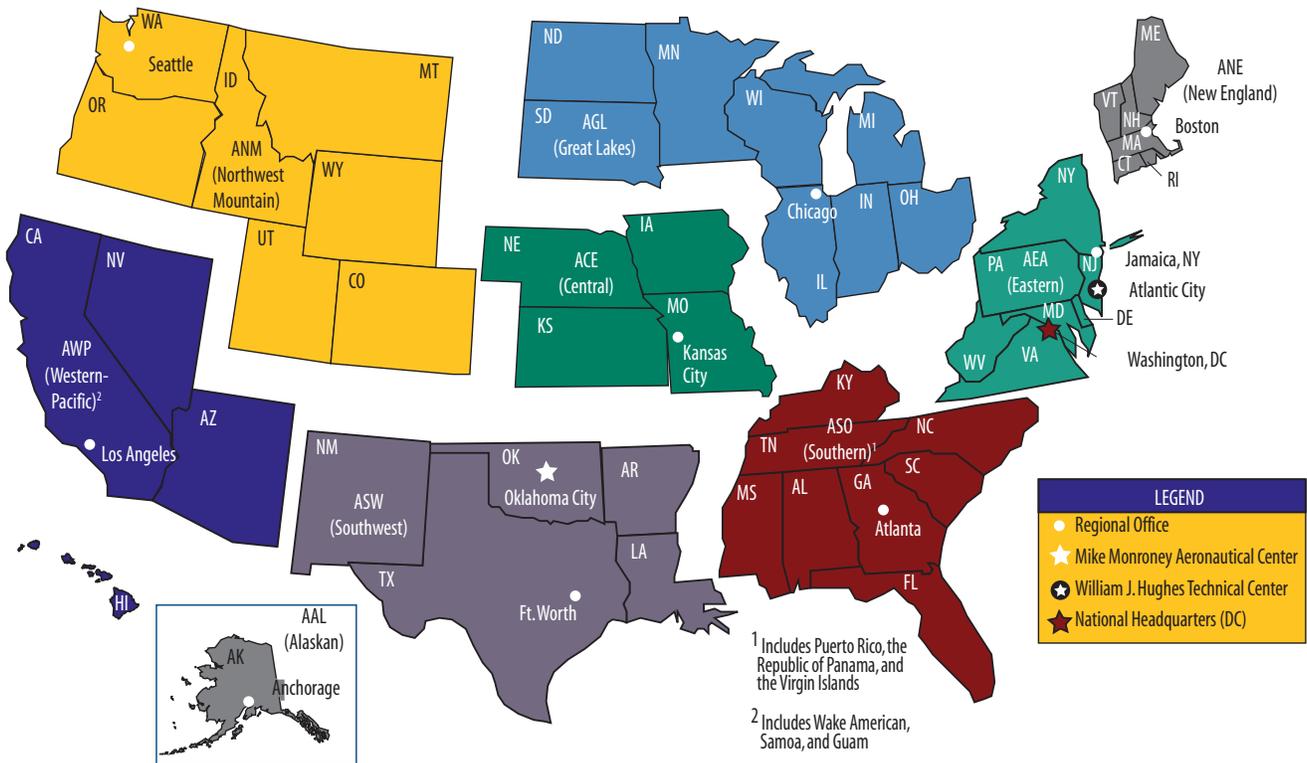
Safety is our passion. We are world leaders in aerospace safety.

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

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

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

Regional map





FAA AT A GLANCE

Established	1958
Headquarters	800 Independence Avenue, SW Washington, DC 20591 http://www.faa.gov
FY 2009 Budget (enacted)	\$16.770 billion
Total Employees	48,156
Headquarters	5,351 employees
Regional and Field Offices	37,925 employees
Technical Center Atlantic City, NJ	1,145 employees
Aeronautical Center Oklahoma City, OK	3,735 employees
FY 2009 Passengers on U.S. Carriers	700.6 million (<i>estimate</i>)
FY 2009 Tower Operations	52.5 million arrivals and departures (<i>estimate</i>)

FOREWORD

The Federal Aviation Administration (FAA) is part of the U.S. Department of Transportation (DOT). By directives, the Office of Management and Budget (OMB), which implements the Chief Financial Officers Act of 1990 (CFO Act), requires us to prepare financial statements separate from those of the DOT. Key FAA data and information are provided to the DOT and consolidated into the required DOT Performance and Accountability Report (PAR). Although we are not required to prepare a separate PAR, we recognize that to demonstrate accountability we should present performance, management, and financial information using the same statutory and guidance framework. To demonstrate that accountability, since fiscal year (FY) 2002 we have elected to produce our own PAR. In some cases, however, we may depart from the format required of CFO Act agencies.

Last year, we were proud to receive our fifth Association of Government Accountants' prestigious Certificate of Excellence in Accountability Reporting award. This award is indicative of the progress we have made in reporting financial and program performance and in candidly assessing our results.

We will continue our efforts to become a more results-oriented organization, focus on performance and financial accountability, and do our part to help the DOT and Federal Government excel in providing high-quality services and products to the taxpayers we serve.



TABLE OF CONTENTS

MISSION, VISION, AND VALUES STATEMENTS i

FAA REGIONAL MAP i

FAA AT A GLANCE ii

FOREWORD ii

A MESSAGE FROM THE ADMINISTRATOR..... 1

MANAGEMENT’S DISCUSSION AND ANALYSIS..... 7

 FAA Organization..... 7

 A Year in Highlights..... 7

 NextGen Accomplishments..... 9

 Other Major Accomplishments..... 10

 Improving Financial Management 11

 Implementing Expense Controls..... 13

 Performance Highlights..... 14

 DOT Strategic Initiatives 18

 FY 2009 FAA Accomplishments 19

 Management Integrity: Controls, Compliance, and Challenges 23

 Management Assurances 24

 Grant Management Policies and Practices 25

 Financial Highlights..... 25

PERFORMANCE RESULTS 33

 Safety..... 33

 Capacity 40

 International Leadership 47

 Organizational Excellence..... 51

 Verification and Validation of Performance Information..... 60

 Completeness and Reliability of Performance Data..... 60

 Assessing Programs 60

 FY 2009 Inspector General’s Summary of Challenges and FAA Actions 63

FINANCIAL STATEMENTS 77

 A Message from the Chief Financial Officer..... 77

 Office of the Inspector General (OIG) Quality Control Review 79

 Independent Auditors’ Report 83

 Financial Statements 96

 Notes to the Financial Statements 101

 Required Supplementary Stewardship Information..... 128

 Required Supplementary Information..... 131

 Administrative Services Franchise Fund 134

OTHER ACCOMPANYING INFORMATION..... 139

 Inspector General’s Top Management Challenges for FY 2010 139

 Management Response..... 139

 Summary of Audit Results and Management Assurances 142

 Financial Statement Audit Summary..... 142

 Management Assurances Summary 143

 Improper Payments Information Act of 2002 143

Glossary of Acronyms 145

We Welcome Your Comments..... Inside Back Cover

This report and reports from prior years are available on the FAA Web site at
http://www.faa.gov/about/plans_reports/#performance.



Safety continues to be the FAA's top priority, with approximately 70 percent of the agency's FY 2009 budget supporting our mission to safely operate and maintain the air traffic control system, inspect aircraft, certify new equipment, ensure the safety of flight procedures, and oversee the safety of commercial space transportation.

Credit: FAA Image Gallery



A MESSAGE FROM THE ADMINISTRATOR

The FAA is making good on its promise to deliver a return on the taxpayer's investment in aviation.

The American Recovery and Reinvestment Act (ARRA) helped us put those plans in high gear. As a result, 2009 has been a building year—literally and figuratively. This fiscal year, the ARRA allocated \$1.3 billion to the FAA. We have invested that money at hundreds of airports and air traffic facilities throughout the United States to build a variety of capacity-building and safety-enhancing projects.



J. Randolph Babbitt
Administrator

The investments did not begin or end there. The FAA's plan to overhaul the air traffic control system continues to move forward. The goal of the Next Generation Air Transportation System (NextGen) is to transform the entire national air transportation system. We are putting new technology and procedures in place that are both safer and more efficient—and green from top to bottom.

The immediate dividend of a system that takes safety to a new level is an increase in public trust.

The agency is pushing industry to raise its standards as well. In a “Call to Action” made shortly after I was sworn into office in June, we announced an aggressive timeframe for developing recommendations on a new flight time and rest rule to reduce pilot fatigue, as well as other initiatives to strengthen regional and major airline safety.

I met personally with airline executives and their chief pilots. My message focused on the need for greater professionalism and accountability—throughout government and industry.

We made similar advances in financial management for fielding new air traffic technology. This resulted in the U.S. Government Accountability Office (GAO) dropping the FAA's air traffic control modernization program from its High-Risk List for the first time since 1995.

We faced many challenges during the past year, but continued to work tirelessly to achieve our established goals on time and on budget. Following are our major accomplishments from the past year.

FY 2009 HIGHLIGHTS

- Safety.** Safety remains our top priority. We implemented several key initiatives to raise the bar. Close calls on runways in 2007 at some of the busiest U.S. airports prompted us to take immediate action to reduce the risk of runway incursions and wrong runway departures. To address the issue, we met with aviation leaders to encourage them to take action in areas that would result in safety improvements. As a result, we accelerated the installation of new technology at airports, completed the installation of proper signage and markings at airports, and re-trained pilots. Our efforts have paid off. This year, the number of serious runway incursions dropped 50 percent compared to last year. To reduce emerging aviation risks using national safety data, we launched a new Accident Prevention Office. The new organization will consolidate resources so we can better understand current and emerging risks across the aviation community through the use of data from accident and incident investigations, historical accidents and incidents, and voluntarily submitted information from industry programs. We started the rulemaking process requiring aviation operators and businesses to implement a Safety Management System (SMS), which will detect and correct problems before they cause an accident. We strengthened and improved



pilot hiring, training, and testing practices for commercial operators. We expanded the runway status lights (RWSL) program to 22 major U.S. airports (See related story on page 5). We also are evaluating bird-detecting radar systems.

- **Capacity.** Our most complex challenge today and in the future is meeting capacity needs. NextGen technologies and procedures will enable us to meet the long-term need to reduce congestion, improve efficiency, and meet projected demand in an environmentally sound manner. In the shorter term, concrete remains one of the most effective methods of increasing arrival and departure rates. On November 20, 2008, we dedicated three new runways (See related story on page 18). The new runways at Dulles and O'Hare International Airports have the potential to accommodate more than 150,000 additional operations per year. At Seattle-Tacoma International Airport, the new runway is expected to significantly reduce weather-related delays that have plagued the airport.
- **International Leadership.** The FAA provides assistance to more than 100 countries to help improve aviation systems and ensure that the flying public is able to travel as safely and efficiently abroad as at home. As part of this effort, in FY 2009 we signed a data exchange agreement with Panama and completed all the groundwork for opening a new FAA office there in November 2009. In April, we held the U.S.-China Aviation Symposium, which highlighted U.S. aviation security, safety, and environmental technologies. In June, the Asia Pacific Economic Cooperation held a workshop in Bangkok, Thailand, which focused on the transition to NextGen concepts. We continue our support of the International Civil Aviation Organization (ICAO) Global Safety Roadmap Program, as well as other efforts to strengthen aviation safety oversight. In FY 2009, the FAA also led U.S. delegations in the ICAO effort to develop a global approach to address international aviation greenhouse gas emissions. The results of this effort, largely reflecting U.S. views, will inform the global climate negotiations in Copenhagen in December 2009.
- **Organizational Excellence.** We exceeded our staffing goal for air traffic controllers by 1.2 percent and maintained our aviation safety workforce at a level slightly above our target of 7,184 employees. We filled 81 percent of our job announcements within 45 days, exceeding our FY 2008 results. The FAA and the National Air Traffic Controllers Association (NATCA) signed a 3-year contract on September 25, 2009. The agreement covers compensation, leave, and work conditions for air traffic controllers, traffic management, and Notice to Airmen Specialist bargaining units. It took effect October 1, 2009, and provides covered employees with greater flexibility in their work schedules, childcare support, and a new grievance review process, among other provisions. The agreement also revises the pay standard for new hires and veterans nearing retirement. Notwithstanding, we still have work to do to improve employee morale. As the new Administrator for the FAA, I am committed to creating a better workplace environment for FAA employees and improving morale by listening to what employees want and need to change their negative attitudes toward our organization into a "can do" spirit.
- **NextGen.** At the request of both Congress and industry, the FAA is moving aggressively to field early components of NextGen and maximize immediate benefits for air traffic controllers, pilots, aircraft operators and, most importantly, the flying public. We are rapidly transitioning from ground-based navigation to an operation that makes greater use of satellites. One such effort, Automatic Dependent Surveillance-Broadcast (ADS-B), has been deployed in southern Florida. ADS-B is being deployed in the Gulf of Mexico as well, where there is no radar coverage. The System Wide Information Management (SWIM) program, Data Communications, and National Airspace System (NAS) Voice Switch achieved major acquisition milestones, and NextGen Network Enabled Weather (NNEW) demonstrated the integration of weather data into automated decision support tools. This is a necessary step in realizing improved management of weather in the NAS. We entered into an agreement to transfer control of 55 acres adjacent to the William J. Hughes Technical Center near Atlantic City, NJ, to the South Jersey Economic Development District. At no cost to the FAA, the District will build an aviation research and technology park; groundbreaking was in October 2009. NextGen Research Park will perform research, development, testing, integration, and verification of the technologies, concepts, and procedures required by NextGen and will enable us to work more closely with industry and academic partners to advance all facets of NextGen.



FUTURE CHALLENGES

- **Improve Safety Record.** Recent commercial fatal accidents are tragic reminders that we must be more vigilant to reinforce the fundamentals that will take the FAA to the next level of safety. Systems like the SMS will help us get there. In addition, we continue to strengthen mutually beneficial international partnerships.
- **NextGen Workforce Capabilities.** We must develop the competencies in our human capital to implement the complex technology and new processes that are inherent in NextGen. We must streamline our internal processes to be able to deliver NextGen's near-term capabilities that rely on cross-departmental cooperation.
- **Embracing NextGen.** NextGen spurs contribution to the U.S. economy from the aviation sector. Keeping the NAS vibrant and viable is important to our national economic strength. But, it remains clear that we cannot deliver NextGen without the investment of airline operators. To bolster industry buy in across the board, the FAA asked an advisory group, the Radio Technical Commission for Aeronautics (RTCA), to pull stakeholders together for an assessment of NextGen. The result is a list of clear, concise, and actionable recommendations, giving an unequivocal message to the FAA about what NextGen needs to accomplish and how to do it. Setting priorities is an important step toward taking NextGen from the drawing board and putting it in the cockpit.
- **FAA Reauthorization.** The Vision 100—Century of Aviation Reauthorization Act expired at the close of FY 2007. Subsequently, the FAA has been operating under a series of short-term extensions. Current aviation taxes and expenditure authority were authorized through December 31, 2009. The FY 2010 budget assumes some basic elements of a reauthorization proposal. The current financing system is based largely on aviation excise taxes that depend on the price of a passenger's airline ticket rather than the actual cost of controlling flights through our Nation's aviation system. The Administration believes the FAA should move toward an approach where funds required for operating and modernizing the FAA's air traffic control system are more related to its costs, the financing burden is distributed more equitably among users, and funding of services and improvements are more targeted to users' needs. The Administration recognizes that there are several alternative ways to achieve these objectives, and is committed to working with Congress and stakeholders to enact legislation that moves toward a more sustainable system.

Our FY 2009 PAR provides a detailed accounting of our performance and financial management to both the flying public and the aviation industry. Our strategic plan—the *Flight Plan*—focuses our performance on the top 31 agency targets that position us to meet the future successfully. We achieved 28 out of the 31 goals listed in the *Flight Plan*.

We are proud to have received an unqualified opinion with no material weaknesses from our auditors on our FY 2009 financial statements. Internally, we assess the vulnerability of our programs and systems through the Federal Managers' Financial Integrity Act (FMFIA) of 1982. I am pleased to report that, taken as a whole, the management controls and financial management systems in effect from October 1, 2008, through September 30, 2009, provide reasonable assurance that the objectives of both sections 2 and 4 of FMFIA are being met. Effective management controls are in place and our financial systems conform to Government-wide standards. We issued an unqualified statement of assurance and can state that the financial and performance data are reliable and complete.

The FAA is on the precipice of one of the largest transformations and most expensive periods in its history. This is not something we take lightly. We recognize that to be good stewards of the money entrusted to us by Congress, we must be efficient and provide an exceptional return on investment for the American taxpayer. As this report provides in great detail, we are meeting that expectation.

J. Randolph Babbitt

Administrator

November 12, 2009



THE FAA AND THE AMERICAN RECOVERY AND REINVESTMENT ACT

The ARRA was signed into law in February 2009. The purpose of this legislation is to do the following:

- Preserve and create jobs
- Promote economic recovery
- Invest in transportation, environmental protection, and other infrastructure that will provide long-term economic benefits
- Stabilize State and local government budgets to minimize and avoid reductions in essential services
- Ensure that recovery spending is transparent and accountable

The FAA was provided \$1.1 billion to Grants-in-Aid to Airports—with the following expectations:

- 50 percent of funds to be awarded within 120 days; the remaining 50 percent within 1 year
- Priority given to projects that can be completed within 2 years of enactment

The FAA was provided \$200 million to Facilities and Equipment (F&E)—with the following rules:

- \$50 million to upgrade power systems; \$50 million to modernize en route air traffic control centers; \$80 million to replace air traffic control towers; \$20 million to install airport lighting, navigation, and landing equipment
- Priority given to projects that can be completed within 2 years of enactment

Grants-in-Aid to Airports

Under the ARRA, \$1.1 billion was provided to the FAA to be distributed for “shovel-ready” projects. These projects address airport safety and security, infrastructure, runway safety, increased capacity, and mitigation of environmental impacts.

The FAA has provided funding for more than 300 airport projects covering all 50 states, Puerto Rico, Guam, and American Samoa.

The FAA was required to obligate \$550 million of the \$1.1 billion within 120 days from the day the ARRA became law, or by June 17, 2009. Obligation of funds is the final step in the award of a grant to an airport. By close of business June 17, 2009, the FAA had obligated \$725 million or 66 percent, exceeding the statutory requirement.

F&E

In FY 2009, the FAA allocated \$200 million for F&E projects across the four program areas cited in the ARRA.



Fifty million dollars each will go to upgrading air traffic control centers and power systems. Projects involving navigation/landing facilities will receive \$20 million. The tower and Terminal Radar Approach Control (TRACON) program will receive \$80 million for the replacement of three tower facilities and the modernization of three others.



The projects were identified based on operational priorities. The FAA's Air Traffic Organization (ATO) is coordinating with FAA regions and service centers to execute contracts and deliver the anticipated economic stimulus funding as quickly as possible. More than 300 sites in 42 states will benefit from the FAA's F&E stimulus injection. For instance, Oklahoma City will have a new power service center constructed, while Atlanta will get a new engine generator and critical power distribution systems. Other projects will include lightning protection, battery replacement, and uninterruptible power supplies.

Navigation projects include 4 runway lighting systems, 3 instrument landing systems, 10 replacement lamp monitoring systems, and the replacement of heating, ventilating and air conditioning (HVAC) systems at approximately 128 project locations.

The air route traffic control centers, which were built 40 or more years ago, will be renovated at 18 project locations. Fifteen centers will have their exterior walls replaced and 12 centers will get new elevators.



RUNWAY STATUS LIGHTS SYSTEM GETS GREEN LIGHT TO EXPAND

Beginning June 2009, Los Angeles International Airport became the third U.S. airport to operate a runway status lights (RWSL) system, expanding the technology that alerts pilots to potential runway safety hazards. Earlier tests at Dallas/Fort Worth and San Diego International airports proved that the lights are effective in helping prevent potential runway conflicts. The lights also alert vehicle drivers when it is unsafe to enter a runway.

RWSLs are rows of red lights placed along runways and taxiways in a way that is noticeable to pilots without being confused with other types of runway lights. Operating much like traffic signals, red means danger —stop!—another plane is using the runway. When the red lights are not lit, pilots still require clearance from air traffic control to move onto a runway.

The FAA is installing the lights at the same airports where a ground-based radar system known as the Airport Surface Detection Equipment Model X (ASDE-X) is being installed. The RWSL system will use the ASDE-X surveillance data to operate. The lights turn red if the ASDE-X detects a potential conflict between two aircraft on a runway.

The FAA also plans to deploy RWSLs at Atlanta, Baltimore Washington International, Boston, Charlotte, Chicago O’Hare, Denver, Detroit, Washington Dulles, Fort Lauderdale, Houston Intercontinental, New York John F. Kennedy and La Guardia, Las Vegas, Minneapolis, Newark, Orlando, Philadelphia, Phoenix, and Seattle. These systems are scheduled to be deployed by 2012.



The red runway lights seen in this picture could go a long way to enhancing runway safety.



RWSL systems are fully automatic and designed to reduce the number and severity of runway incursions.



RWSLs are used to hold takeoffs, as well as to signal when aircraft may or may not enter a runway.

Adapted from an article in Focus FAA, the FAA’s employee news service.



Capacity and efficiency problems such as delays, excess fuel burn and emissions, and increased travel distances develop when demand for the use of runways and airspace outstrips available resources. NextGen technology and procedures will improve operations by enabling aircraft to get into and out of the airport faster, and by increasing the overall efficiency of the system, making better use of available airspace.

Credit: FAA Image Gallery



MANAGEMENT'S DISCUSSION AND ANALYSIS

FAA ORGANIZATION

The mission of the FAA, an agency of the U.S. DOT, is to provide the safest, most efficient aerospace system in the world. The 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 more than 50 years.

We operate 24 hours a day, 7 days a week, 365 days a year. We have a system composed of more than 63,000 facilities and pieces of equipment with FAA-operated or contract towers at 501 airports, and we are responsible for inspecting and certifying about 227,900 aircraft and 748,000 pilots. With almost 6,045 takeoffs and landings per hour, and more than 701 million passengers and 30 billion cargo revenue ton miles of freight a year, we safely guide approximately 38,000 flights through the world's preeminent NAS every day.

We fulfill our mission through the following four lines of business (LOBs) that work together to create, operate, and maintain the NAS:

- **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. The ATO is aligned around the services delivered to these customers. Approximately 35,000 ATO employees provide these services—the controllers, technicians, engineers, researchers, and support and management personnel whose daily efforts keep aircraft moving.
- **Aviation Safety (AVS):** Approximately 7,200 AVS employees oversee the safety of aircraft and the credentials and competency of pilots and mechanics, develop mandatory safety rules, and set 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; 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, the 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 environment. With aviation and related industries supporting 12 million jobs and contributing \$1.3 trillion to our total annual economy, our success is critical.

A YEAR IN HIGHLIGHTS

Our workforce of more than 48,000 professionals operates and maintains the most complex air traffic control system in the world with an annual budget of approximately \$16.8 billion. More than half of the world's air traffic is managed by more than 15,700 controllers, who ensure ever-increasing levels of safety. We conduct research to improve aviation safety and efficiency and provide grants to improve 3,339 eligible public-use airports in the United States. We also regulate commercial space launch activities to ensure public safety.



GATEWAY TO SPACE

Touchdown on the runway. Look out the window.

All of the basic elements are in place: hangar, terminal, lounge, a long stretch of tarmac. Except, your flight is not a red-eye from Los Angeles; you have just returned from space.

With the groundbreaking of Spaceport America near Las Cruces, NM, in July 2009, we are within just a couple of years of this scenario becoming reality for members of the public who want to experience space flight.

However, before the countdown begins, the site must be approved for an FAA license by the Office of Commercial Space Transportation. Today there are seven licensed spaceports in the United States, including Spaceport America, with as many as four more expected in the next couple of years.



Spaceport America design concept. The groundbreaking for the New Mexico facility, which will be the base for Virgin Galactic's space tourism effort, took place in July 2009.

Image courtesy of Spaceport America

When a spaceport license application is considered, the FAA assesses the risk to nearby people and the environment. Launch sites for more conventional vehicles carrying satellites or science experiments usually exist only on the coastline for safety and logistical reasons. Traditional designs that require expendable parts to be jettisoned after launch require a vacant disposal area—the ocean.

But, now that private companies are making spacefaring ships that have largely reusable parts, dry land is often more convenient, available, and easier to recover equipment. For entrepreneurs focused on space tourism, the location of the launch site is less important than support through financial incentives by State and local governments.

Although commercial space flight is still in its infancy compared to the more than 70-year-old commercial aviation industry, regulatory lessons learned from airports have proven to be valuable. Compared with the very early days of airports, when there were no paved runways and no regulatory regime to ensure the public's safety, the evolution of spaceports has gone much more smoothly.



While the Office of Commercial Space Transportation has had the benefit of history's lessons, it still must balance safety regulation with flexibility. Part of the challenge is to allow companies the freedom to grow and experiment within a set of safety parameters.

The benefits of a local spaceport would likely include new jobs with good pay, educational opportunities, and a chance to join a new transportation network. Space travel is not yet recognized as a mode of transportation, but government and industry leaders expect it to be when spacecraft begin to land at spaceports other than the one from which they launched. Business travelers—think New York to Sydney in 45 minutes.

Adapted from an article in Focus FAA, the FAA's employee news service.



NEXTGEN ACCOMPLISHMENTS

NextGen is a wide-ranging transformation of the entire national air transportation system. It is the FAA's plan to meet future demand and support the economic viability of the system while reducing congestion, noise, and emissions; expanding capacity; and improving the passenger experience. With Congress pushing for a faster transformation of the NAS, we continue to accelerate initiatives that yield the greatest and most immediate benefits to our stakeholders.

In November 2008, in southern Florida, we deployed ADS-B, the system that forms the cornerstone of NextGen by allowing aircraft to be tracked by satellite rather than radar. Pilots use ADS-B cockpit displays to view the same live traffic seen by controllers. Pilots also receive real-time weather updates from the National Weather Service, as well as critical flight information such as temporary flight restrictions and special-use airspace. These services reduce the risk of midair collisions and weather-related accidents, provide more efficient routes in adverse weather, and improve situational awareness for pilots.

We published the latest version of the NextGen Implementation Plan in January 2009. This edition focuses on answering five fundamental questions: What does NextGen look like in 2018? What aircraft avionics are needed to support operations in 2018? What benefits will be delivered by 2018? What is the FAA specifically committed to deploy in the near term that makes the most of existing resources? What activities are underway to support future capabilities?

The Implementation Plan, coupled with the NAS Enterprise Architecture (EA), provides a picture of NextGen's near term (2009–2013) deliverables, which are targeted across three broad areas: airfield development, air traffic operations, and aircraft capabilities. Our approach maximizes the use of untapped capabilities in today's aircraft and ground infrastructure, while working aggressively to develop and deploy new systems and procedures that will form a foundation for the capabilities necessary for midterm transformation. We believe this approach allows both government and industry to extract the greatest value from existing investments, while positioning the industry to gain exponential benefits in the midterm and beyond.

For example:

- New runways provide significant capacity and operational improvements. In the next 5 years, the FAA has additional runway and taxiway improvement projects planned at a number of airports including Charlotte, Dulles, Houston, Denver, Philadelphia, and Chicago.
- In November 2008, we published a national order that allows us to safely reduce separation between aircraft approaching parallel runways at Boston, Cleveland, Philadelphia, St. Louis, and Seattle. We are already seeing positive results in Seattle and Boston. In the future, this could lead to more design flexibility so that runways could be built closer together, increasing their capacity within their existing boundaries, and providing better service to their communities without requiring additional land.
- Advances in performance-based navigation procedures and routes, such as Required Area Navigation (RNAV) and Required Navigation Procedures (RNP), allow equipped aircraft to fly more direct and precise paths and reduce flight time and fuel use. During this fiscal year, we continued work with RNAV procedures in the New York area by relocating and expanding airways, reconfiguring airspace, and creating optimal descent procedures. In Chicago, we added departure routes and changed procedures to allow for triple arrivals. In southern Nevada, we optimized existing airports and airspace. Overall, we published more than 429 performance-based navigation procedures and routes, compared to our goal of 100.

In February 2009, we established the NextGen Implementation Task Force, a government-industry task force, which serves as the catalyst for the collaboration essential to transforming the promise of NextGen into reality. Specifically, the FAA requested that this group forge a community-wide consensus on the recommended NextGen operational improvements between now and 2018, and recommend ways to ensure that the necessary actions are taken to guarantee delivery of intended benefits in a timeframe that results in a positive business case to support the requisite and timely equipage. The Task Force delivered its recommendations to the FAA in August 2009.



We moved forward on a research consortium called Continuous Low Emissions, Energy, and Noise (CLEEN), which will allow us to work with industry to accelerate the maturation of technology that will lower energy, emissions, and noise. CLEEN also seeks to advance renewable alternative fuels for aviation. These fuels not only improve air quality and reduce life cycle greenhouse emissions, but also enhance energy security and supplies. A crucial step for aviation alternative fuel approval and deployment was achieved in August 2009 with the approval by the standard-setting organization, ASTM International, of a new fuel specification for a synthetic jet fuel blend.

OTHER MAJOR ACCOMPLISHMENTS

Pushing Safety Initiatives Ahead

Following the Colgan Air Flight 3407 crash, senior officials from U.S. airlines, pilot unions, and the FAA agreed on several major actions to improve safety programs and pilot training at the Nation's airlines. Initiatives include the following:

- FAA inspectors will review airline procedures for identifying and tracking pilots who fail evaluations or repeatedly need additional training.
- Inspectors will validate that an airline's training and qualification programs meet regulatory standards.
- U.S. airlines and unions should commit to an increased level of safety by insisting on all pilot records during the hiring process.

In late FY 2009, an aviation rulemaking committee, composed of FAA, labor, and industry representatives, presented recommendations for an FAA "flight time and rest" rule to address concerns about pilot fatigue. The proposed rules incorporate recent scientific research about the factors that lead to fatigue.

The forced landing of US Airways Flight 1549 into the Hudson River last January focused the Nation's attention on the risks wildlife poses to aircraft. The number of strikes has increased consistently since 1990, largely due to increased reporting, air traffic, and wildlife populations. The FAA has a robust wildlife mitigation research program that develops new techniques to make airports unattractive to wildlife. We are conducting assessments of low-cost portable radars for detecting and

tracking birds on or near airports. A radar assessment is underway at Seattle-Tacoma International Airport and additional radars will be installed for assessment this summer at John F. Kennedy and Chicago O'Hare. Although we have learned that these radars can detect and track birds, it is still not clear if they are practical for use as a real-time bird alerting system at commercial airports. In the short term, we believe the radars will be used by the airport operators to determine daily and seasonal bird transit routes and behaviors. This information will help them implement mitigation measures both on and off the airport.

Air Traffic Controller and Safety Inspector Hiring and Training

Thanks to the expertise of air traffic controllers and the support of technology, tens of thousands of aircraft are guided safely and expeditiously every day through the NAS to their destinations. With more than 60 percent of the controller workforce eligible to retire during the next 10 years, the FAA is recruiting aggressively, and our efforts are working. During the past 3 years, we have hired more than 5,500 new air traffic controllers. We plan to hire 3,442 controllers in the next 2 years against expected losses of 3,133. By capitalizing on innovations in pre-employment processing, an increase in training capacity at the Air Traffic Controller Academy in Oklahoma City, OK, and new simulation equipment at the academy and at some of the busiest air traffic facilities, bringing a controller on board and getting that recruit through the training process is now more efficient than ever. In fact, these key improvements to training methods and technologies lowered the time it takes to become a certified controller from an average of 3 to 5 years to an average of 2 to 3 years. Yet, the rigorous standards required to become a Certified Professional Controller remained unchanged. Most importantly, our controller workforce strategy allows us to put the right number of trained controllers in the right place at the right time.

Key to the AVS organization's success in maintaining the safety of an aviation system that is experiencing the safest period in its history—is its workforce. With more than 24 percent of AVS inspectors eligible to retire and separations occurring at approximately 6 percent annually, the agency is continually soliciting and hiring new inspectors. During the past 3 years, the AVS has



hired more than 1,175 inspectors. We plan to hire 551 inspectors in the next 2 years against expected losses of 482. The AVS is prepared to staff appropriately based on expected changes in the aviation industry and attrition within our workforce.

In FY 2008, we increased our aviation safety staffing by 264 positions, to a total of 7,002, which enabled us to increase safety oversight and surveillance of 116 air carriers, increase production certification services for applicants, and expand our safety oversight of the ATO. This year, we increased staffing to 7,195, enhancing activities such as safety attribute inspections and manufacturer inspections. One of the primary challenges we face is hiring, training, and retaining a highly qualified workforce with the skills necessary to implement the SMS needed to keep the U.S. aviation system the safest in the world. To guide this effort, in May we published an updated Workforce Plan that lays out the strategies that will allow us to successfully meet these challenges. The new plan contains updated aviation industry forecasts as well as revised workforce losses and hiring targets. As we move to a system safety approach for oversight and surveillance, staffing levels will not increase at the same rate as industry traffic. We will therefore focus resources on the areas of highest risk, expand the use of designees, and increase our use of data to drive decisionmaking.

The Gateway for Commercial Human Space Flight

The New Mexico Spaceport Authority broke ground for Spaceport America in July 2009. While the FAA has licensed seven other spaceports, this is the first to be built from scratch rather than converted from a former airport. Spaceport America, the home for Virgin Galactic, is expected to be operational in 2 years, and test flights for taking private citizens into space are expected to begin in 2 to 3 years. The FAA is responsible for governing, licensing, regulating, and promoting these flights (See related story on page 8).

Prepared for Pandemics

The DOT and the FAA, together with several other Government agencies, have worked hard to ensure that our aviation system is prepared to handle the kinds of concerns raised by the 2009 H1N1 flu outbreak. The DOT has been participating in an interagency working group led by the Homeland Security Council since

2006. We prepared and exercised a DOT-wide pandemic influenza plan. Our operating administrations also prepared and exercised their own plans. Consequently, when the 2009 H1N1 outbreak occurred, a response scheme was already in place, and we were ready to take immediate action. The planning components and exercises previously conducted ensured that DOT staff could rapidly and appropriately respond as the situation warranted. During the weeks following the initial outbreak, as more information about the virus became available, we scaled up and then down the measures taken and the communications initiated.

Financial Management

We continue our efforts to better execute and manage the budget resources that Congress provides. Our transformation over the past 6 years has been steady and sure. By implementing improved management tools, including better cost accounting systems, and by instituting a pay-for-performance program, we have made 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.

IMPROVING FINANCIAL MANAGEMENT

Cost-Effectiveness and Efficiency

The FAA's Flight Plan includes a strategic objective to improve financial management while delivering quality customer service. Since FY 2005, the FAA has included a cost-control target among the Flight Plan goals we track each month. As a result of this emphasis, we have been able to achieve \$192 million in recurring savings from efforts put in place from FY 2005 to FY 2008, as well as \$84 million from efforts initiated during FY 2009. Our efforts in this area are described in this section.

Workers' Compensation Consolidation. We centralized responsibility for management of workers' compensation claims and achieved estimated cost avoidance of \$22.6 million in FY 2009 and total savings of \$63 million since FY 2003.

Information Technology. As in most businesses, information technology (IT) investments can be expensive and quickly become obsolete. To address this, we are becoming more proactive about IT decisions by



AS TECHNOLOGY IMPROVES, FEWER PEOPLE DEAL WITH NOISE

Substantially fewer people across the country are dealing with the noise impact from roaring jet engines.

In the late 1970s, significant noise from aircrafts affected about 7 million people. That number has dropped to fewer than 500,000, according to the FAA's Office of Environment, Noise Division. The number has decreased, despite the fact that enplanements have risen considerably during that time.

The assessment is based on computing the areas surrounding U.S. airports that on average receive a 24-hour noise exposure level of 65 decibels or more. This noise exposure is called DNL, or day-night sound level, which takes into account the number of aircraft noise events, the noise level of each event, and whether the event occurred in the daytime or at night.

Since the late 1960s and the advent of jet engines, aircraft noise levels have dropped 20 decibels. That translates to airplanes being four times quieter than 50 years ago.



In FY 2009, the FAA moved forward on a research consortium called CLEEN, which will allow the agency to work with industry to encourage technology to lower energy, emissions, and noise.

which allow pilots to glide the plane to landing, will eliminate the throttle noise produced during stepdowns while near the airport. RNP will allow planes not only to fly the CDAs, but also pilots to maneuver around sensitive areas on the ground, again reducing noise impact.

In the coming months and years, more studies will be done. The FAA is currently reexamining the level of "comfort" at which people experience noise. There will be greater opportunities for the public to voice concerns and ask questions. All facets of noise impact—including its impact on children's learning—will be considered.

Adapted from an article in Focus FAA, the FAA's employee news service.

While the impact of noise has been greatly reduced, it remains an issue. While a vast number of people are now spared the noise levels of the past, the FAA predicts the number will start to rise again from its lowest point and continue climbing as air traffic recovers and resumes growth. More traffic means more noise.

The FAA continues to investigate ways to prevent that number from bouncing back up.

The CLEEN initiative provides funding that shares the cost with manufacturers to develop technology that will lower decibel levels from airplanes.

NextGen technologies may contribute further to noise reduction, and help counter the predicted rise in the number of people affected by noise. New Continuous Descent Approaches (CDAs),



implementing agency-wide IT initiatives to consolidate resources and improve efficiency. This endeavor has yielded IT savings of \$105 million since inception of the Cost Control Program (FY 2005–FY 2008).

Competitive Sourcing. The single largest effort by the FAA, and the largest nonmilitary outsourcing initiative in the Federal Government, involved the A-76 sourcing of 58 flight service stations to Lockheed Martin in 2005. This initiative is expected to result in a cost savings and cost avoidance of more than \$2.1 billion from 2003 through 2015. As a result of this transaction, the FAA saved approximately \$35.8 million in FY 2008. We expect an additional savings of approximately \$55.2 million in FY 2009.

SAVES Program. The Strategic Sourcing for the Acquisition of Various Equipment and Supplies (SAVES) initiative is an ambitious effort begun in FY 2006 to implement private sector best practices in the procurement of administrative supplies, equipment, IT hardware, commercial off-the-shelf (COTS) software, and courier services.

Eight national contracts in five different categories are managed through the SAVES program. Since the initiation of these contracts, we have exceeded our expected compliance rate. We now purchase 90 percent of our office supplies through our contracts, well above our target of 70 percent.

The SAVES Program has enabled the FAA to have better financial oversight in addition to significant cost savings. Through the SAVES contracts, the FAA achieved more than \$22 million in cost savings for FY 2008 and a total savings of more than \$46 million since implementation. Overall we continue to save approximately the following:

- 22 percent for office supplies
- 26 percent for office equipment
- 33 percent for IT hardware
- 12 percent for COTS software
- 10 percent for courier/overnight services
- 16 percent for financial systems support

Dell Blanket Purchase Agreement. The Office of Information Technology at the Mike Monroney Aeronautical Center manages a Blanket Purchase Agreement (BPA) with Dell Corporation for IT

equipment including desktops, laptops, servers, printers, and monitors. We have realized cost savings of \$36.4 million since inception of the BPA.

In addition to cost control, each FAA organization develops, tracks, and reports quarterly on a comprehensive measure of its operating efficiency or financial performance. Our efforts in this area are described below.

Cost Per Controlled Flight. This cost-based metric provides a broader historic picture of overall cost efficiency at the facility level, service level, and ATO level. Cost per controlled flight is reviewed as part of periodic benchmarking initiatives within the global air navigation service community.

Air Traffic Overhead Rate. To provide insight into cost-effectiveness of General and Administration (G&A) and Mission Support resources needed to support the Air Traffic mission, we capture overhead rates. We regularly review current and historic performance and selected benchmarking with other air navigation service providers. The performance indicator informs management decisions on the mix, level, and allocation of G&A and Mission Support resources.

IMPLEMENTING EXPENSE CONTROLS

The FAA has improved its oversight of the acquisition process to ensure that the agency is a responsible steward of the taxpayer's money. The FAA has established requirements to better manage the agency's resources and to ensure that we make sound business decisions.

Procurements. In 2005, the Administrator directed the CFO to exercise greater oversight and fiscal control over all agency procurements costing \$10 million or more. Since that time, the CFO has evaluated more than 199 proposed acquisitions with an estimated contract value of \$18 billion. With this process in place, we have established proper controls to effectively monitor contractor performance, enhanced our ability to accurately estimate and substantiate cost estimates, and improved our ability to articulate and define program requirements.

The FAA Chief Acquisition Officer established an Acquisition Executive Board during 2009 to oversee procurement policy. The board is working to streamline



the acquisition process and standardize the processes by which acquisitions are approved and managed. As part of this effort, a Support Contract Review Board is being established to review and approve any proposed support contract that has a value of \$10 million or more. This board is made up of executives from the CFO’s office, the Office of Contract and Acquisition Policy, and the Office of the Chief Counsel, and will make recommendations to the CFO regarding his approval of the acquisition.

IT. To better coordinate IT efforts, any IT-related spending in excess of \$250,000 must be approved by the Chief Information Officer (CIO). This requirement ensures that our IT investments are coordinated and fit into the agency-wide IT strategy.

Alignment of FAA Costs and Goals

The alignment of the FAA’s costs with its four strategic goal areas is captured in the Cost Accounting System (CAS)¹. Projects entered into CAS by every organization are linked to one or more goals, and the percentage of funds that support each goal is identified. At the end of each fiscal year, the total net costs for the FAA’s four LOBs and for its combined staff offices and other programs are allocated among each of the agency’s goals: Increased Safety, Greater Capacity, International Leadership, and Organizational Excellence.

More than \$11.3 billion, or about 70 percent of the FAA’s total net cost of nearly \$16.4 billion for FY 2009, was devoted to our primary goal, ensuring the safety of the NAS. The ATO spent more than \$7.9 billion, largely to maintain the safe separation of aircraft in the air and on the ground. The ARP directed more than \$2.1 billion to establishing safe airport infrastructure. The AVS used nearly \$1.2 billion on its programs to regulate and certify aircraft, pilots, and airlines, directly supporting the safety of commercial and general aviation. The FAA staff offices and other programs spent the remaining total—just more than \$109 million—to further support the agency’s safety mission.

Approximately \$4.7 billion, or 29 percent of total net costs, was assigned to support the FAA’s goal of expanding the capacity of the NAS, particularly through its pursuit of programs contributing to the NextGen

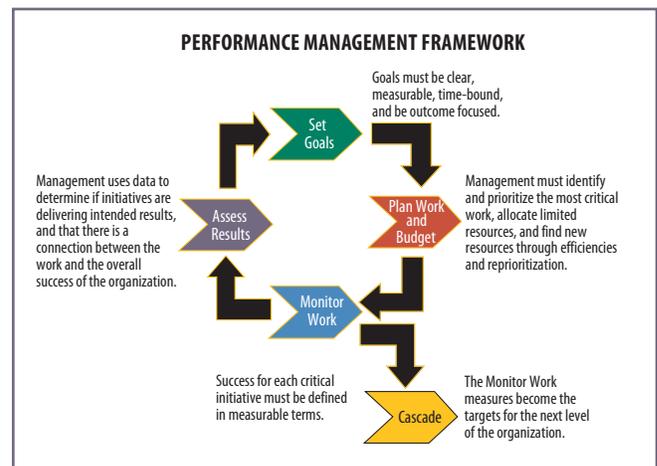
initiative. The ATO spent about \$2.8 billion, largely to finance its facilities and equipment projects. The ARP spent more than \$1.9 billion to enhance the capacity of the country’s airports through runway projects and other efforts. The AST directed more than \$3.0 million on its efforts to expand capacity and the AVS contributed approximately \$1.0 million. The bulk of the FAA’s remaining net costs, approximately \$275 million, supported its Organizational Excellence goal, to which nearly all the LOBs and staff offices contributed. The FAA committed the remainder, approximately \$43.5 million, to promoting its International Leadership goal.

PERFORMANCE HIGHLIGHTS

The 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 PAR 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.

Managing Performance

The FAA manages performance by using a four-step framework based on best practices from a number of private and public sector organizations (See chart below).



As we use this framework and instill management discipline into the processes, we anticipate a multiyear journey of learning and change.

¹ For the source of the totals referred to in this section, see Note 11 to the FAA’s Financial Statements, titled Net Cost by Program and Other Statement of Net Cost Disclosures on page 117.



YEAR-TO-YEAR PERFORMANCE GOALS ACHIEVED							
	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Performance Targets Met (Number)	9 of 12	24 of 30	28 of 31	27 of 30	24 of 30	26 of 29	28 of 31
Performance Targets Met (Percentage)	75%	80%	90%	90%	80%	90%	90%

The first step in the process, Set Goals, includes consulting with management, stakeholders, and customers to identify areas for improvement.

The second step, Plan Work and Budget, focuses on the critical work and resources required to achieve the goals. Following the framework, the FAA created a performance-based budget that links resource requirements to the *Flight Plan* and the DOT Strategic Plan. Our FY 2009 Budget in Brief is available at <http://www.faa.gov/about/budget> and our *Flight Plan* is available at http://www.faa.gov/about/plans_reports.

The third step, Monitor Work, develops measurement of the work required to achieve our goals. The FAA has developed organizational business plans for each LOB and staff office. These plans outline the initiatives, activities, and performance targets that link our work directly to the *Flight Plan*. FY 2009 Business Plans for all organizations are available at http://www.faa.gov/about/plans_reports.

The *Flight Plan*, the FAA’s strategic plan, consists of 31 strategic performance measures in FY 2009. It is carefully designed to make sure that we focus on what is important, and that taxpayer resources are used with the strictest care. The *Flight Plan* measures are categorized into four strategic goal areas—Increased Safety, Greater Capacity, International Leadership, and Organizational Excellence. When setting the goals, the agency strives to increase the challenge each year.

Assess Results is the last and most important step in the performance management process. This year, we continued our practice of reviewing and discussing annual performance goals every month. In addition, we continued to focus more on discussing performance results, root causes of performance issues, and reallocation of resources to correct underperformance.

Our performance measures and targets support the FAA’s mission to provide citizens with a safe, secure,

and efficient global aviation system. The chart above provides a summary of our year-to-year performance goal achievement trend.

As indicated in the chart above, the FAA has expanded its strategic focus since 2002. As we continue to mature in our strategic management processes and our focus becomes sharper, the number and mix of performance targets shift. On a yearly basis, we review the plan to ensure that we are on track to meet future challenges and to ensure that aviation remains an engine of economic growth.

When we first started preparing our annual PAR in FY 2002, the FAA had 10 performance goals in the strategic areas of Safety, System Efficiency, and Organizational Excellence. In 2003, the FAA refined its strategic plan and launched the first *Flight Plan* (FY 2004–2008). The *Flight Plan* provides the framework to match resources with initiatives for long-term change. The new *Flight Plan* was designed around our current four strategic goals. These goals detail how we will move forward into the future.

In FY 2004, to reflect the increasing emphasis on accountability within the FAA organizations, we added 18 new performance targets. Six of the new performance targets were associated with International Leadership and placed greater emphasis on our role as a leader in the global civil aviation system. In the Safety strategic goal area, we introduced Commercial Space Launch Accidents, marking a new era in space travel, with FAA licensing of the first private manned space vehicle—SpaceShipOne.

In FY 2009—the sixth year of the *Flight Plan*’s implementation—the FAA has 31 performance measures and targets that focus our efforts to achieve enhanced aviation safety, increase system capacity, provide international leadership, and ensure organizational success. We met 28—a 90 percent success rate.



Safety. Safety is not only a top priority, but also an economic necessity. People will fly only if they feel safe. They must trust the system and that trust must be earned. In FY 2009, we introduced a new fatal accident rate for general aviation. This new measure, which replaces an unadjusted accident count, reflects fleet activity levels and their relationship to the number of accidents. Flight hour information is derived from the FAA’s annual General Aviation and Part 135 Activity Survey. This highly accurate survey has a standard error of less than 1 percent, thanks to superior data collection methodologies developed in cooperation with the general aviation community. We achieved five of eight safety goals, missing our targets for General Aviation Fatal Accident Rate, Alaska Accidents, and Operational Errors. For a more complete discussion of all of our safety measures, performance, and steps we plan to take in FY 2010, see page 33.

Capacity. Capacity is the backbone of air travel. Aviation can grow only if capacity grows. We aim to achieve increases in capacity in an environmentally sound manner. In FY 2009, we achieved seven out of seven capacity goals and, for the sixth year, exceeded our

target for aviation noise exposure. For a more complete discussion of all of our capacity measures, performance, and steps we plan to take in FY 2010, see page 40.

International Leadership. The FAA’s goal is to make the international aviation system as safe and efficient as the one enjoyed in the United States. In FY 2009, we achieved all four international leadership goals. For a complete discussion of all of our International Leadership measures, performance, and steps we plan to take in FY 2010, see page 47.

Organizational Excellence. FAA employees are our most valuable resource. Together, we operate the largest and safest aerospace system in the world. To do this efficiently, we must continually provide stronger leadership, a better-trained and safer workforce, enhanced cost-control measures, and improved decisionmaking. In FY 2009, we achieved all 11 of our Organizational Excellence goals. We added a new Continuity of Operations goal, designed to measure our ability to respond to crises rapidly and effectively. For a more detailed discussion of all of our organizational measures, performance, and steps we plan to take in FY 2010, see page 51.

FY 2009 PERFORMANCE AT A GLANCE

Performance Measure	FY 2009 Target	FY 2009 Results	FY 2009 Status	FY 2010 Target ¹
SAFETY				
Commercial Air Carrier Fatality Rate	8.4	6.8 ²	●	8.1
General Aviation Fatal Accident Rate	1.11	1.17 ²	▲	1.10
Alaska Accidents	99	104 ²	▲	1.86 ³
Runway Incursions (Category A and B—rate)	0.472	0.228 ⁴	●	0.450
Total Runway Incursions (Percentage Reduction)	-1%	-5.75% ⁴	●	-2%
Commercial Space Launch Accidents	0	0	●	0
Operational Errors (Category A and B—rate)	2.10	2.43 ⁴	▲	2.05
Safety Management System	9 SMS Activities Completed	9 SMS Activities Completed	●	SMS Implemented in 3 LOBs
CAPACITY				
Average Daily Airport Capacity (35 Operational Evolution Partnership [OEP] airports)	100,707 ⁵	101,691 ⁴	●	102,648
Average Daily Airport Capacity (7 metropolitan areas)	39,484	42,925 ²	●	39,484
Annual Service Volume	1.00% (5 runway/taxiway projects) ⁵	1.02% (6 runway/taxiway projects)	●	1.00% (2 runway/taxiway projects)


FY 2009 PERFORMANCE AT A GLANCE

Performance Measure	FY 2009 Target	FY 2009 Results	FY 2009 Status	FY 2010 Target ¹
Adjusted Operational Availability (35 OEP airports)	99.70%	99.78% ⁴	●	99.70%
NAS On-Time Arrivals	88.00% ⁵	88.98% ⁴	●	88.00%
Noise Exposure	-16.00%	-48.00% ⁶	●	-20.00%
Aviation Fuel Efficiency	-7.00%	-10.17%	●	-8.00%
INTERNATIONAL LEADERSHIP				
Commercial Aviation Safety Team (CAST) Safety Enhancements ⁶ (SEs)	5 CAST SEs	5 CAST SEs	●	4 CAST SEs
International Aviation Development Projects	7 projects	8 projects	●	7 projects
Aviation Leaders	2 countries/ regional orgs.	7 countries/ regional orgs.	●	3 countries/ regional orgs.
NextGen Technologies	1 country	1 country	●	1 country
ORGANIZATIONAL EXCELLENCE				
Office of Personnel Management (OPM) Hiring Standard	65.00% ⁵	80.88%	●	80.00%
Reduce Workplace Injuries	2.60 per 100	1.77 per 100 ⁸	●	2.52 per 100
Grievance Processing Time	-25.00% ⁵	-73.97%	●	-30.00% ⁵
Air Traffic Controller Workforce Plan	0% to 2% over Plan	1.19% over plan	●	0% to 2% over Plan
Aviation Safety Critical Positions Workforce Plan	+/- 1% of annual target	0.15% over annual target ⁹	●	+/-1% of annual target
Cost Control	1 activity per approved org & achievement of 90% of targeted savings ⁵	1 activity per approved org & achievement of 123.38% of targeted savings	●	1 activity per approved org & achievement of 90% of targeted savings
Unqualified Audit (with no material weaknesses [NMW])	Unqualified Audit w/NMW	Unqualified Audit w/NMW	●	Unqualified Audit w/NMW
Critical Acquisitions on Schedule	90.00%	93.75%	●	90.00%
Critical Acquisitions on Budget	90.00%	97.06%	●	90.00%
Customer Satisfaction (ACSI)	61	69.32	●	Government average for regulatory organizations
Information Security	0	0	●	0
Continuity of Operations	5% ahead of FEMA requirements	8.33% ahead of FEMA requirements	●	5% ahead of FEMA requirements

- Green: Goal Achieved
▲ Red: Goal Not Achieved

Notes:

For a detailed description of each performance measure, see performance goal tables in the Performance Results section.

For information on data sources and estimating and finalization of results, see Completeness and Reliability of Performance Data.

TBD: To be determined

¹ FY 2010 targets are from the FY 2009–2013 *Flight Plan*.

² Preliminary data. Final data will be available in March 2011.

³ In FY 2010, the Alaska Accidents measure will be converted to a rate.

⁴ Preliminary data. Final data will be available in January 2010.

⁵ Target revised in FY 2009–2013 *Flight Plan*.

⁶ Projection from trends. Final data will be available in May 2010.

⁷ Name changed for FY 2009—formerly known as Aviation Safety Leadership.

⁸ Projection from trends. Final data will be available in November 2009.

⁹ Preliminary data. Final data will be available in December 2009.



PAVING OUR WAY TO THE FUTURE

In an historic event on November 20, 2008, the FAA dedicated three new runways at airports across the country in one day—Washington Dulles, Chicago O’Hare, and Seattle-Tacoma International Airports.

Spanning a total of more than 25,000 feet, the new runways at Dulles and O’Hare have the potential to accommodate more than 150,000 additional operations in the NAS. Meantime, the Seattle-Tacoma runway is expected to significantly reduce weather-related delays that have plagued the airport.



American Airlines Flight 149 becomes the first aircraft to take off from the new Dulles runway.

The runways represent a nearly \$2 billion investment in America’s aviation system, of which more than a third — \$644 million—was provided by the FAA’s AIP.

The real gains, of course, will be measured by fewer and shorter delays, and the number of additional flights the airports can handle. The average delay per operation at Dulles is expected to drop by 2.5 minutes, while the average number of annual delays at Chicago O’Hare is expected to fall.

The biggest impact on delays could come at Seattle-Tacoma. Because of low clouds, which occur about 44 percent of the time, the airport is often confined to using one arrival stream instead of two. The introduction of a third runway will allow them to handle two simultaneous staggered arrival streams in poor weather. As many as eight additional on-time arrivals per hour could be handled.

The opening of the Dulles runway has the potential to add 100,000 annual operations to that airport, and could serve as many as 3 million more passengers per year. In Chicago, the new runway could accommodate more than 52,000 annual operations. This is the first time that O’Hare will have three parallel east-west runways.

Adapted from an article appearing in Focus FAA, the FAA’s employee news service.

The DOT also independently verifies some of our performance data. In addition, several performance measures, such as the Commercial Air Carrier Fatality Rate and General Aviation Fatal Accident Rate, require independent verification by the National Transportation Safety Board (NTSB) and the Bureau of Transportation Statistics. Data for this measure are not considered final until NTSB gives its approval (See http://www.faa.gov/about/plans_reports to review our FY 2009 Portfolio of Goals).

A critical component of managing our performance is the periodic independent evaluation of FAA programs. While performance measures can show if intended outcomes are being achieved and can reveal trends, program evaluations use analytic techniques to assess the extent to which programs contribute to the desired outcomes and trends. Program evaluations can be completed by DOT staff, contractors, academic institutions, the DOT Office of Inspector General (OIG), or the GAO.

Reviews such as the OIG’s summary of management challenges (beginning on page 63) provide focus and opportunities for improvement, and help us maintain the public’s trust. In response to these reviews, we work with each FAA organization to address concerns and improve the way we conduct business.

DOT STRATEGIC INITIATIVES

DOT Strategic Initiatives are a set of tools for improving the management and performance of the Federal Government. The objective is a Federal Government that is citizen-centered, not bureaucracy-centered; results-oriented, not output-oriented; and market-based, actively promoting innovation through competition.

This tool set contains five Government-wide and two agency-specific goals to improve Federal management and deliver results that matter to the American people. Together, these goals are referred to as the DOT Strategic Initiatives. The five Government-wide initiatives are Strategic Management of Human Capital, Commercial Services Management, Improved Financial Performance, Expanded Electronic Government, and Performance Improvement. In addition to these five initiatives, the FAA as an agency within the DOT, participates in two additional agency-specific initiatives: Eliminating Improper Payments and Federal Real Property Asset Management.



FY 2009 FAA ACCOMPLISHMENTS

Strategic Management of Human Capital

Strategic Management of Human Capital involves an ambitious range of initiatives to ensure that planning and management of agency human capital is strategic, supports organizational performance, and ensures mission accomplishment. For the fifth consecutive year, DOT/FAA human capital accomplishments have met the Government-wide requirements for strategic management of human capital and advanced innovative workforce solutions.

Workforce Planning. Recruiting a highly qualified, high-performing workforce in today's competitive environment remains an important FAA human capital challenge. We are implementing comprehensive recruitment, marketing, and outreach strategies to broaden agency applicant pools and meet the hiring needs of our air traffic controller, safety critical, and other essential workforces. The increased outreach is reflected in FAA manager feedback with 66 percent agreeing that the hiring process is effectively attracting the right applicants.

Several joint initiatives with the Department of Veterans Affairs are expanding job opportunities for veterans. The FAA is able to offer veterans with disabilities access to on-the-job training to become air traffic controllers or airway transportation system specialists thanks to a new FAA Veteran's Training Program helping them transition into the civilian workforce. The agency also can offer eligible developmental controllers Montgomery GI Bill education benefits. These new veterans' training initiatives help to contribute toward meeting future agency hiring goals for controllers and airway transportation system specialists.

As our controllers and other employees become eligible to retire during the coming decade, the FAA is building our next generation workforce. Agency workforce planning helps us prepare for and manage our shifting workforce demographics and ensure our future workforce viability. The annual updates of the FAA Air Traffic Controller Workforce Plan and Aviation Safety Workforce Plan present current staffing levels and forecast attrition and hiring of controllers and aviation safety personnel. To ensure strategic alignment between people, goals, and

mission accomplishment, we concurrently updated FAA-wide workforce and business plans.

The FAA continually assesses mission-critical workforces, prioritizes, and invests in closing skill gaps necessary to improve organizational performance and effectiveness. In 2009, the FAA participated in Government-wide competency assessments for leaders and continued its efforts to close skill gaps for key mission-critical occupations including human resource specialists, leaders, information technologists, and acquisition specialists.

Leadership and Succession Management. The FAA *Flight Plan*, Executive Leadership Succession Plan, and Managerial Leadership Succession Plan set forth specific expectations for ensuring the continuity of agency leadership through succession planning and development. In FY 2009, the FAA piloted new processes to expand leadership succession planning to all levels of management, implemented formal programs to develop future executives and prospective managers, and continued to modernize managerial and executive training at our Center for Management and Executive Leadership (CMEL).

The Senior Leadership Development Program will continue into 2010. This program provides opportunities during a 1 to 2 year period for assessment, coaching, training, and developmental assignments focused on the FAA Executive Success Profile. Participants were selected in September 2009. The 28 participants selected in 2007 completed the capstone Leadership Dynamics course at the Federal Executive Institute and other developmental activities prior to graduation. The FAA also launched a new Program for Emerging Leaders (PEL) to address continuing turnover in managerial ranks. Targeted to nonsupervisory employees who aspire to management, PEL provides opportunities during an 18-month period for assessment, mentoring, training, and developmental assignments. Seventy-two participants from across the agency were selected in March for the initial cohort. A second cohort of 64 was selected in August. The program will continue in FY 2010.

Commercial Services Management

In FY 2009, the ATO, Technical Operations Services, Aviation System Standards Program Office, began implementing its High Performing Organization (HPO)



plan. Within the first three quarters of the first year of implementation, the HPO has realized a benefit of 3.9 percent savings. More than \$1.5 million of this savings is the result of business process reengineering and streamlining of the printing operation. This includes the reduction of staffing and the elimination of costly film and processing supplies through the implementation of new computer-to-plate automated technologies.

In FY 2009, the program implemented a new pricing model and pricing strategy for maximizing the recovery of cost through public and government sales of navigational products. A new Chart Agent Business Model also was implemented that will result in a projected annual savings beginning in FY 2010 of more than \$1 million.

The complete HPO organizational realignment was implemented in October 2009, and will foster further business process reengineering, and new investments in geographic information systems for chart production. These initiatives will eliminate duplicate and inefficient processes and improve the quality of products and services. Additionally, these initiatives will allow for resources to be shifted toward the development of new digital navigation products and to support the FAA's NextGen initiative. In summary, Aviation System Standards is well on its way to realizing the benefits outlined in the HPO plan.

Improved Financial Performance

During FY 2009, we continued to closely monitor the effectiveness of capitalization improvement efforts and the timely processing of construction in progress transactions. We also implemented organizational changes and added resources at the managerial and staff levels.

The FAA designed and tested an improved accounting process for reimbursable agreements. The redesign, which was implemented in FY 2009, simplifies the accounting transaction flow and the monthly reconciliation process.

Expanded Electronic Government

The FAA's participation in the DOT E-Government initiative last year led to several important accomplishments this year including Capital Planning, IT Security, EA, and Government-wide initiatives.

Capital Planning. In January 2009, the GAO removed the FAA Air Traffic Control Modernization Program from its High-Risk List. This accomplishment is attributed to the FAA's progress in addressing most of the main causes of its past project cost overruns, schedule delays, and performance shortfalls. The FAA is committed to sustaining this progress by having the Information Technology Executive Board (ITEB) as an investment decision authority, and by instituting Earned Value Management (EVM) best practices.

The FAA ITEB investment portfolio currently consists of more than 50 IT investments, with an FY 2009 value exceeding \$250 million. The ITEB, a senior-level investment decisionmaking board is chaired by the CIO, and makes decisions on the investments within their portfolio. Prior to 2009, the ITEB was only a recommendation board, without decision authority. As part of the agency-wide effort to demonstrate oversight of our IT investments, the ITEB adopted management processes based on the GAO's IT Investment Management Framework. As the portfolio management capabilities mature, the FAA expects to improve investments performance by completing projects in less time, receiving a return/cost savings percentage of the total portfolio budget, and managing the FAA more like a business.

The FAA also continued to establish EVM practices. Some of the FAA's activities in FY 2009 included sharing the FAA's standard set of EVM templates with other Government agencies; establishing an EVM methodology for "service-for-fee" programs; training new program staff and managers in EVM; and increasing its internal EVM oversight, including data validation and analysis. FAA EVM oversight includes surveillance and certification of EVM systems, supporting the *Flight Plan* goal of having more of our systems delivered on time and within budget. The FAA also certified a contractor's EVM system, as the FAA became just one of two civilian agencies to do such certifications, reducing both Federal and contractor costs. The FAA's leadership in EVM was another factor that contributed to the agency's Air Traffic Control Modernization Program progress.

IT Security. The FAA must incorporate information security into its management culture to protect against, detect, and respond to information security threats affecting critical DOT and FAA IT assets. During



FY 2009, the FAA initiated a number of activities to ensure this cultural transformation.

The Cyber Security Management Center (CSMC) offers tracking and early warning services along with viable responses to modern cyber concerns that threaten Federal agencies. To that end, the CSMC has expanded its vision (100 percent increase), impact, and cyber information gathering and sharing on behalf of the FAA. As well as performing network security scans, forensics, and a range of protection and response measures, it currently handles and reacts to more than 7.8 million cyber alerts per day. As a result of these activities, the FAA's CSMC has become the cyber security focal point and agent for the DOT, and a recognized leader in the cyber security industry—offering its cyber security services to Federal agencies throughout the Government.

Personally Identifiable Information (PII) continues to be a vulnerable target for cyber attacks. While the FAA has risen to the challenge of safeguarding PII, it has learned hard lessons in the process. In February 2009, a serious breach resulted in the loss of two files containing PII of approximately 45,000 FAA employees. For the FAA, this was a call to action.

In response to the breach and the ever-increasing threat, the FAA ramped up its program. New tools and procedures are being developed to protect data, and new privacy specialists will be hired to oversee and coordinate implementation that has full and broad management support. Automated tools will be procured to scan FAA networks to locate and protect unencrypted PII.

EA. The FAA continues to improve the EA. In FY 2009, the FAA updated the EA, expanding the scope of information to better support investment decisionmaking. The architecture and technology boards are fully institutionalized and hold regular meetings to share information and make decisions on architecture and technology issues. The scope of the FAA EA roadmap was increased to add non-NAS regulatory support and administrative roadmaps, and a non-NAS IT configuration management board was chartered. This increased scope will help the FAA improve planning, investing, and managing the agency's IT assets that support Administrative systems. In December 2008 for its internal EA methodologies, the FAA formally adopted a slightly modified version of the Federal Segment

Architecture Methodology. This updated methodology promotes increased use of segment architecture. It gives the FAA the ability to manage IT investments, information system development, and share resources across organizations within the FAA. The FAA LOBs increased emphasis on completion and use of the EA, hiring more staff as the EA program continues to gain momentum. Also, the FAA deployed a new EA tool. To ensure up-to-date EA information, a plan to update the tool on a regular schedule is being developed. This creates a single authoritative source for information and the systems related to it, increasing consistency and accuracy across the agency.

Government-Wide Initiatives. The FAA continues to participate in Government-wide initiatives such as the Federal EA, and E-Government, specifically e-grants. The FAA also is participating in data.gov, IT Scorecard, and e-records management development with the National Archives and Records Administration. The FAA also has positioned itself for full participation in the OMB's segment architecture initiative.

Performance Improvement

The Performance Improvement initiative encourages agencies to develop efficiencies in executing programs, implementing activities, and achieving results while avoiding wasted resources, effort, time, and money. To achieve this objective, we continue to ensure transparency about performance and the steps we are taking to correct deficiencies. We regularly and systematically measure program performance against predetermined targets to track program viability. We continue to integrate performance information into budgetary decisionmaking to ensure that resources are properly aligned with the FAA's mission and goal activities, and the results of those activities are linked back to the annual budget planning process.

FAA Flight Plan. In years past, the FAA's Management Board conducted an annual update to the *Flight Plan*, our 5-year strategic plan. The *Flight Plan* establishes strategic goals, corporate initiatives, and performance targets in the FAA's four strategic goal areas—Safety, Capacity, International Leadership, and Organizational Excellence. This plan is directly linked to performance results. The FAA Administrator holds regular *Flight Plan* meetings on the status of our performance goals and



NEW SIMULATOR LAB TO HELP THE FAA FLY INTO NEXTGEN

The new Airbus 330/340 full-flight simulator installed at the Mike Monroney Aeronautical Center in Oklahoma City, in December 2008, takes the FAA's research and analysis capabilities a quantum leap into a safer, more efficient future.

The new simulator, which the FAA had modified to support NextGen research initiatives, can simulate either the A330 (two-engine) or the A340 (four-engine) aircraft. Combined with the Boeing 737-800 simulator, which the FAA acquired in 2006, the new simulator—along with two air traffic control monitors—provides the agency with a platinum research platform to support NextGen.



The FAA's Airbus 330/340 simulator equipped with NextGen technology allows new safety and efficiency concepts to be researched and tested.

NextGen modifications include: head-up display for low-visibility operations, an enhanced flight vision system to turn night into day and enhance pilot situational awareness, electronic flight bags to display own-ship position to improve runway safety, and initial ADS-B infrastructure to advance ADS-B implementation.

By linking both simulators with air traffic control monitors, this virtual terminal allows the FAA to study a host of new concepts including evaluating closely-spaced operations with pilots, controllers, and aircraft. The biggest benefit of the new lab is to provide the tools the FAA needs to get maximum performance out of the NAS.

Adapted from an article appearing in Focus FAA, the FAA's employee news service.

the results are posted on the FAA's homepage. This year the update process has been delayed due to a change in administration.

Pay for Performance. Accountability for results is widespread throughout our organization, with 84 percent of our staff and executives under the pay-for-performance system. Agency achievement of *Flight Plan* performance targets are considered when annual pay raises are calculated. In addition, executives and managers have discretion in rewarding high-performing employees with incentives for quality work and innovation. Executives also are eligible for short-term incentive bonuses when specific performance thresholds are met or exceeded.

Eliminating Improper Payments

In FY 2009, the FAA continued its compliance with the Improper Payments Information Act of 2002 (IPIA), which requires that agencies: (1) review programs and identify those susceptible to significant improper payments, (2) report to Congress on the amount and causes of improper payments, and (3) develop approaches for reducing such payments. The FAA's compliance efforts involved developing and executing a sampling plan for the AIP, designed to satisfy the foregoing requirements. The FAA review covered the 15-month period March 1, 2008–May 31, 2009.

The FAA found improper payments totaling \$2,152,202 in the sample of 431 tested items. These are known improper payments. The projection of known improper payments to the population of program payments for the 15-month period results is an improper payment estimate of \$37.8 million, and an estimated improper payment rate of less than 1 percent.

This percentage does not meet the OMB's definition of significant improper payments (\$10 million and 2.5 percent of total program payments).

Notwithstanding the definition of significance, the FAA believes a corrective action plan is essential to the prevention, detection, and reduction of improper payments in the AIP program and to improved program management.



Federal Real Property Asset Management

The FAA, on behalf of the DOT, continues to provide inventory information and OMB data element updates (e.g., mission criticality, facility condition index, utilization rate, operating cost) to the Federal Real Property Council. The data includes metrics for the approximately 67,300 DOT real property assets and reported performance information on the following elements for each real property asset:

- Mission criticality
- Facility condition index
- Utilization rate
- Annual operating costs

Since the establishment of this initiative, DOT activities have resulted in disposals of more than \$250 million worth of real property assets. Savings resulting from the disposition of property have been applied to future disposition efforts, as well as updates, upgrades, repairs, and renovations of current assets.

The data and performance measures are maintained in the DOT Real Estate Management System application that serves as the single-point inventory database for DOT real property assets. During FY 2009, the FAA conducted a physical inventory of approximately 22,000 real property assets. The data associated with these assets were then transmitted to the Federal Real Property Profile for inclusion in the General Services Administration Federal Real Property Inventory Database, which includes data from all Federal agencies.

In accordance with the Asset Management Plan and the Three-Year Timeline for Real Property, the FAA participated in periodic reviews of the real property asset data and disposed of more than 2,405 unneeded assets with a value of approximately \$75 million in FY 2009. The FAA team will continue to represent the DOT in the Federal Real Property Council workgroups for disposals, lease management, and repair needs to set the real property priorities for the next 4 years.

MANAGEMENT INTEGRITY: CONTROLS, COMPLIANCE, AND CHALLENGES

In an October 13, 2009, memorandum, the Administrator reported to the Secretary an unqualified statement of assurance under the FMFIA. Every year, FAA program managers in the LOBs and staff offices assess the vulnerability of their program and activity management controls. On the basis of these assessments, reviews are conducted to determine their compliance with sections 2 and 4 of the FMFIA. The head of the LOB or staff office then identifies in writing to the Administrator any potential material internal control weakness or system nonconformance. Those deemed material are consolidated in a memorandum with a Statement of Assurance signed by the Administrator and sent to the Secretary of the DOT. Our response becomes a part of the DOT Statement of Assurance sent to the President.

In addition to the FMFIA, the FAA reports its compliance with the Federal Financial Management Improvement Act (FFMIA). The FFMIA requires an assessment of adherence to financial management system requirements, accounting standards, and U.S. Standard General Ledger (USSGL) transaction-level reporting. For FY 2009, we are reporting overall substantial compliance.



MANAGEMENT ASSURANCES

Federal Managers' Financial Integrity Act Assurance Statement— Fiscal Year 2009

The FAA is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the FMFIA; OMB Circular A-123, Management's Responsibility for Internal Control; and the 2009 ARRA. These objectives are to ensure the following:

- Effective and efficient operations
- Compliance with applicable laws and regulations
- Reliable financial reporting

Internally, we assess the vulnerability of our programs and systems through FMFIA of 1982. We are pleased to report that, taken as a whole, the management controls and financial management systems in effect from October 1, 2008, through September 30, 2009, provide reasonable assurance that the objectives of both sections 2 and 4 of the FMFIA are being met. Management controls are in place and our financial systems conform to Government-wide standards.

In addition, the FAA conducted its assessment of the effectiveness of internal control over financial reporting, which includes internal control related to the preparation of its annual financial statements as well as safeguarding of assets and compliance with applicable laws and regulations governing the use of budgetary authority and other laws and regulations that could have a direct and material effect on the financial statements, in accordance with the requirements of Appendix A of OMB Circular A-123. The results of this evaluation provide reasonable assurance that the FAA's internal control over financial reporting was operating effectively as of September 30, 2009. Due to unlimited scope of processes tested this year and no material weaknesses reported on our financial statements, the FAA is issuing an unqualified statement of assurance.

J. Randolph Babbitt
Administrator
November 12, 2009



GRANTS MANAGEMENT POLICIES AND PRACTICES

Decisions on distributing AIP funds are centralized at the FAA headquarters, with significant input from regional offices. While most of the day-to-day decisions for AIP project formulation are delegated to regional offices, the FAA headquarters develops the policy to ensure that grants are implemented appropriately and that grantees are treated consistently. Policies for administering the program are included in an AIP handbook that is regularly updated through policy guidance letters issued to regional offices and available to grant recipients. The FAA also ensures the consistent implementation of AIP by participating in airport industry trade conferences and training, posting statutory and policy changes on our public Web site, and requiring employees to attend annual training that focuses on improving business processes and updating personnel on policy changes.

We meet regularly with eligible airport sponsors to identify planning and development needs. Through this process, we develop the Airport Capital Improvement Plan, a 3 to 5-year plan that identifies the planning and development needs for airports nationwide, and prioritize eligible projects. Only projects identified in this plan are awarded grants. After a project has been identified, the airport sponsor can apply to the FAA regional or district office for a grant. We continue to support the development of an electronic grant application process. Typically, large grants are coordinated with other Federal, State, and local government agencies, such as the Environmental Protection Agency, the Department of Defense (DoD), and State aviation agencies.

AIP administration, including the requirements for sponsor and project eligibility, is based on multiyear authorizing legislation. The current authority expired under its own term on September 30, 2007. However, Congress has passed a series of short-term extensions until such time as they consider a longer, multiyear program.

FINANCIAL HIGHLIGHTS

Discussion and Analysis of the Financial Statements

The FAA prepares annual financial statements in conformity with accounting principles generally accepted in the United States. The financial statements are subject to an independent audit to ensure that they are free from material misstatement and that they can be used to assess FAA performance.

FY 2009 Financial Statement Audit

The CFO Act of 1990 (Public Law 101-576), as amended by the Government Management Reform Act of 1994, requires that financial statements be prepared by certain agencies and commercial-like activities of the Federal Government, and that the statements be audited in accordance with Government auditing standards. The FAA is required to prepare its own financial statements under OMB Bulletin No. 07-04, Audit Requirements for Federal Financial Statements. DOT's OIG is statutorily responsible for the manner in which the audit of the FAA's financial statements is conducted. The OIG selected Clifton Gunderson, LLP, an independent certified public accounting firm, to audit the FAA's FY 2009 financial statements.

In 2002, DOT's OIG and CFO, along with the FAA's CFO, established an Audit Coordination Committee to promote and encourage open communication among the OIG, FAA management, and the independent auditors to resolve issues that arise during the audit and to monitor the implementation of audit recommendations. The committee is chaired by the Director of the Office of Financial Management and includes representatives from the OIG, DOT's Office of Financial Management, FAA's Assistant Administrator for Regions and Center Operations, and ATO's Chief Operating Officer. In 2006, committee participation was expanded to include representatives from the Chief Counsel's Office, the Assistant Administrator for Human Resources Management, Information Services, and Airports.

Clifton Gunderson, LLP, has rendered an unqualified opinion on the FAA's FY 2009 financial statements.



Understanding the Financial Statements

The FAA's Consolidated Balance Sheets, Statements of Net Cost, Changes in Net Position, and Combined Statements of Budgetary Resources (beginning on page 96), have been prepared to report the financial position and results of operations of the FAA, pursuant to the requirements of the CFO Act of 1990 and the Government Management Reform Act of 1994. The following section provides a brief description of: (a) the nature of each financial statement and its relevance to the FAA; (b) significant fluctuations from FY 2008 to FY 2009; and (c) certain significant balances, where necessary, to help clarify their link to FAA operations.

Balance Sheet

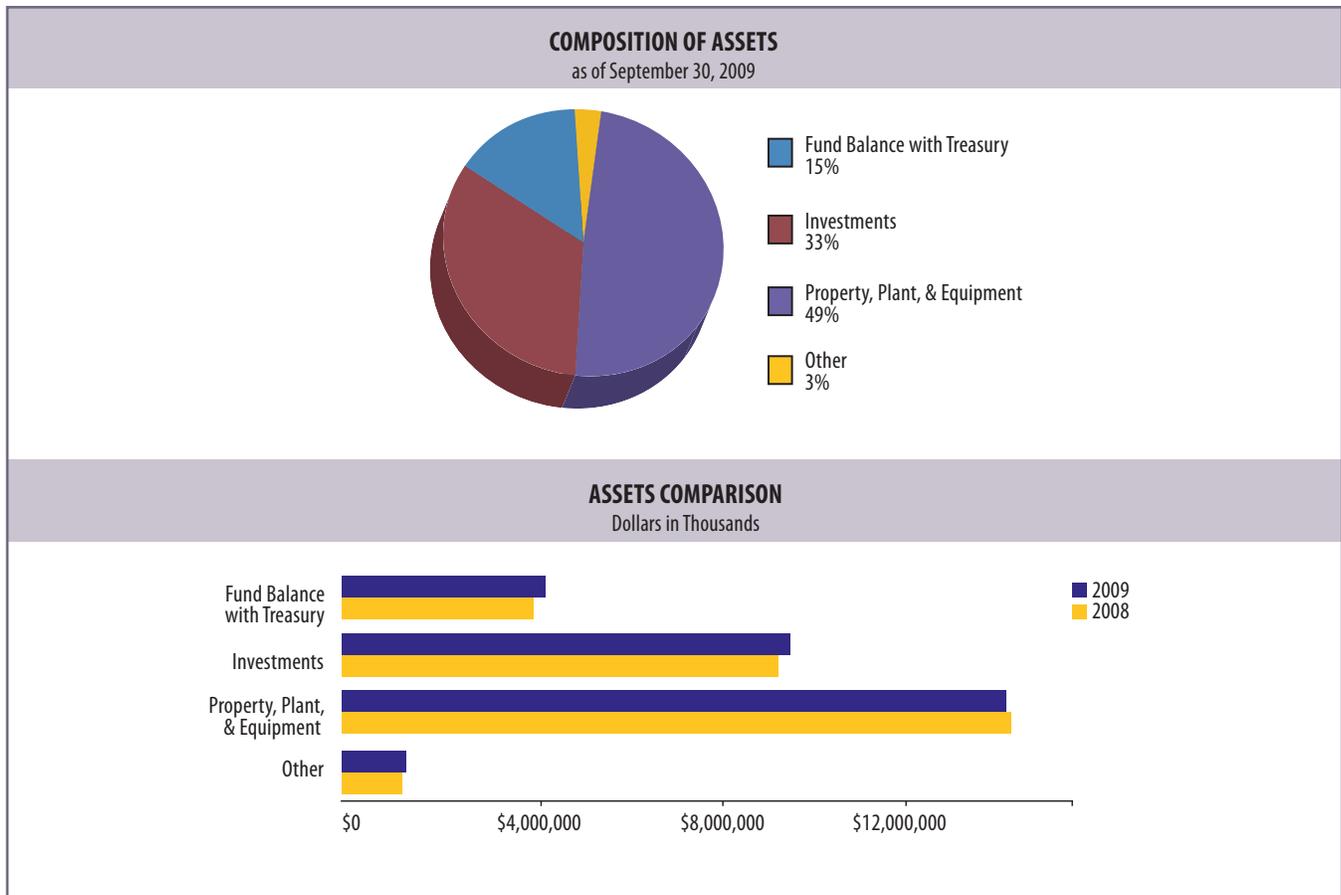
The balance sheet presents the amounts available for use by the FAA (assets) against the amounts owed (liabilities) and amounts that comprise the difference (net position).

Assets

Total assets were \$27.9 billion as of September 30, 2009. The 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 presents comparisons of major asset balances as of September 30, 2008 and 2009.

Fund Balance with Treasury represents 15 percent of the FAA's current period assets and consists of funding available through Department of Treasury accounts from which the 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. Fund Balance with Treasury increased slightly from \$3.9 billion to \$4.1 billion.

At \$9.2 billion, Investments represent 33 percent of the 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 the FAA's operations to the extent authorized by Congress. Investments increased by \$323.8 million.

At \$13.8 billion, General Property, Plant, & Equipment represents 49 percent of the FAA's assets as of September 30, 2009, and primarily comprises construction-in-progress related to the development of NAS assets, and capitalized real and personal property. There was a slight decrease of \$24.9 million in the total composition of Property, Plant, & Equipment as purchases of equipment and additions to construction-in-progress through the normal course of business were offset by retirements and depreciation.

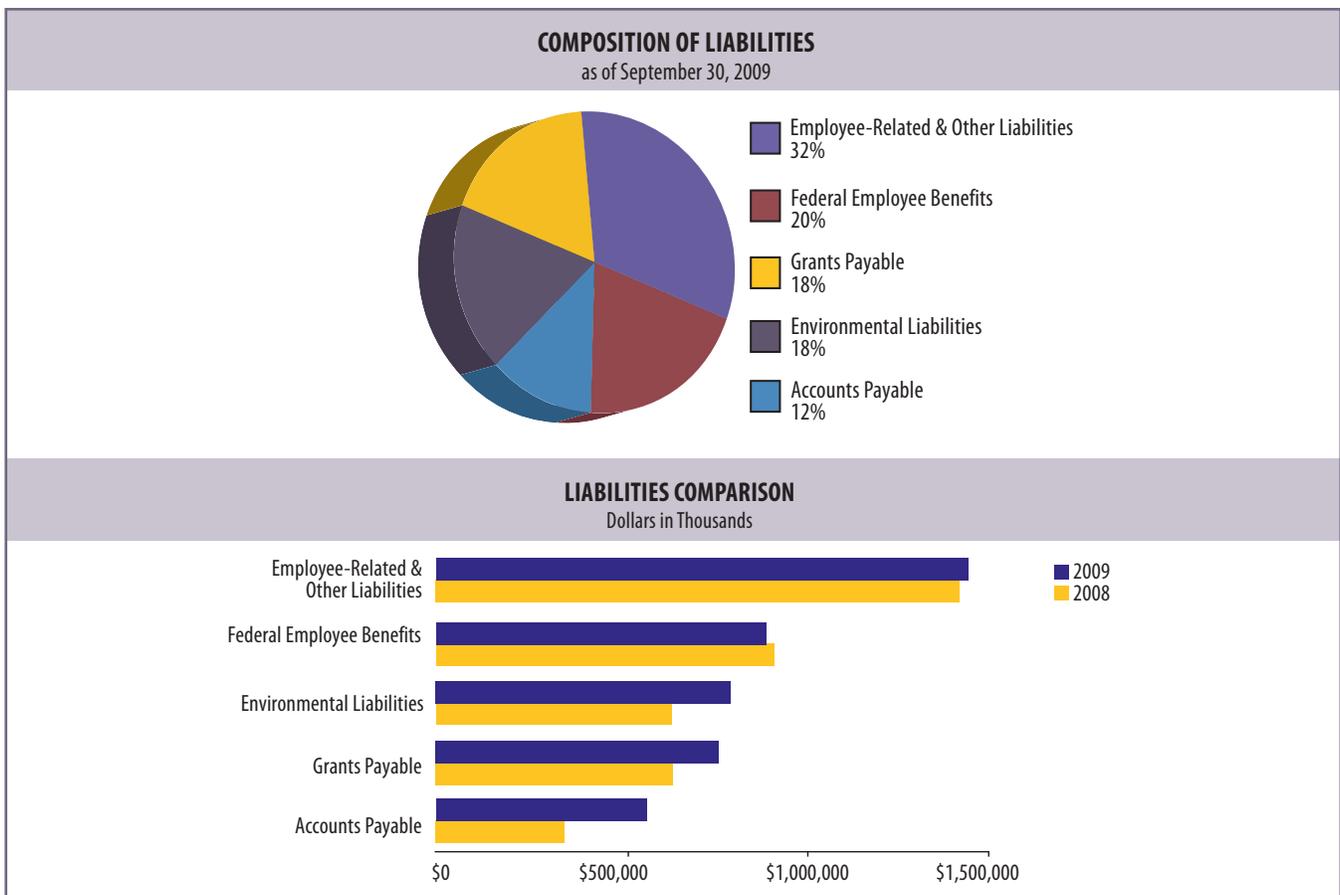
Liabilities

As of September 30, 2009, the FAA reported liabilities of \$4.4 billion. Liabilities are probable and measurable future outflows of resources arising from past transactions or events. The Composition of Liabilities chart depicts the FAA's major categories of liabilities as a percentage of total liabilities.

The Liabilities Comparison chart presents comparisons of major liability balances between September 30, 2008, and September 30, 2009. Below is a discussion of the major categories.

At \$1.4 billion, Employee-Related & Other Liabilities represents 32 percent of the FAA's total liabilities. These liabilities increased slightly by \$14.1 million as of September 30, 2009, and are composed mainly of \$135.7 million in advances received, \$211.0 million in Federal employees' compensation act payable, \$337.2 million in accrued payroll and benefits, \$481.5 million in accrued leave and benefits, \$41.0 million in legal claims liability, and \$115.8 million in capital lease liability.

At \$901.3 million, Federal Employee Benefits represents 20 percent of the FAA's current year liabilities, and consists of the 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 calculates the liability for the DOT, and the DOT attributes a





proportionate amount to the FAA based upon actual workers' compensation payments to FAA employees during the preceding 4 years. This liability is updated an on annual basis at year end.

Environmental Liabilities represents 18 percent of the FAA's total liabilities, \$810.8 million as of September 30, 2009, compared with \$637.8 million a year earlier. Environmental liabilities includes a component for remediation of known contaminated sites and the estimated environmental cost to decommission assets currently in service. The increase of \$173.0 million is due primarily to an increase in the number of assets labeled "Areas of Concern," extending the time for onsite and program management by approximately 10 years.

The FAA's Grants Payable are estimated amounts incurred but not yet claimed by AIP grant recipients and represent 18 percent of liabilities. Grants payable increased \$133.7 million primarily due to an accrual of \$109.7 million for new grants awarded through the FY 2009 ARRA. Accounts Payable increased \$173.9 million and are amounts the FAA owes to other entities for unpaid goods and services.

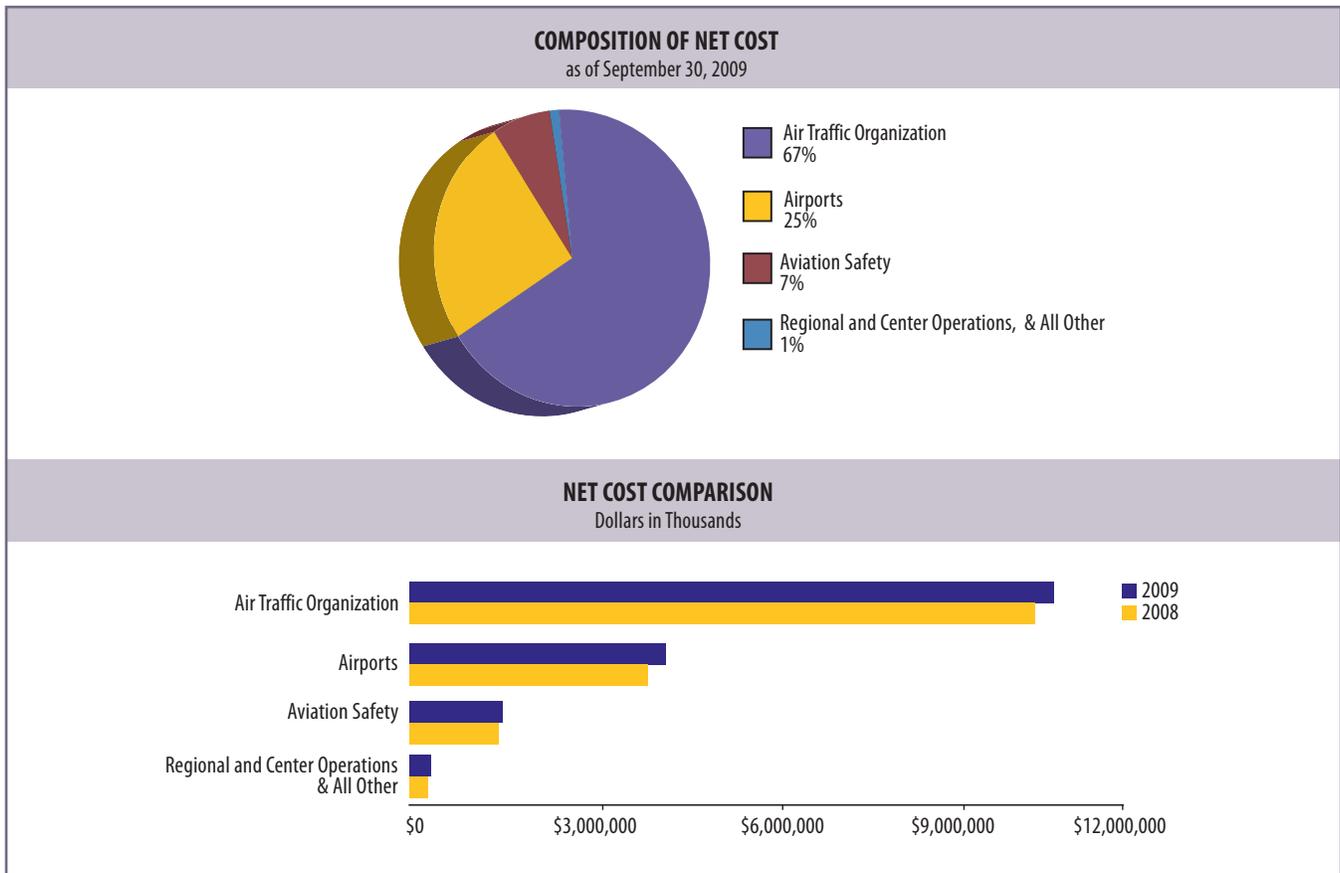
Statement of Net Cost

The Statement of Net Cost presents the cost of operating FAA programs. The gross expense less any earned revenue for each FAA program represents the net cost of specific program operations. The FAA has used its cost accounting system to prepare the annual Statement of Net Cost since FY 1999.

As of September 30, 2009, and September 30, 2008, the FAA's net costs were \$16.4 billion and \$15.5 billion, respectively. The Composition of Net Cost chart illustrates the distribution of costs among the FAA's LOBs.

The Net Cost Comparison chart compares September 30, 2008, and September 30, 2009, net costs.

With a net cost of \$10.9 billion, the ATO is the FAA's largest LOB, composing 67 percent of total net costs. The ATO's net costs increased by \$474.9 million, on a comparative basis, primarily from increases in labor costs of \$190.0 million, and environmental cleanup and remediation of \$173.0 million, which was partially offset





by an increase in reimbursable revenue from work in the NAS Defense Program of \$62.0 million.

Airports is the FAA’s second largest LOB with a net cost of \$4.0 billion as of September 30, 2009, which is 25 percent of the FAA’s total net costs. Net costs increased \$280.9 million from the prior year and are composed mostly of Aviation Insurance Program grant disbursements.

The net cost of Aviation Safety represents 7 percent of the FAA’s total net costs, while Regional and Center Operations and All Other compose 1 percent of total net costs.

Statement of Changes in Net Position

The Statement of Changes in Net Position presents those accounting items that caused the net position section of the balance sheet to change from the beginning to the end of the reporting period. Various financing sources increase net position. These financing sources include appropriations received and nonexchange revenue, such as excise taxes and imputed financing from costs absorbed on the 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.

The FAA’s cumulative results of operations for the period ending September 30, 2009, decreased \$1.2 billion, on a comparative basis, due primarily to a combination of increases in net cost of \$858.6 million and by decreases in beginning balances of \$299.0 million and financing sources of \$47.9 million. Unexpended appropriations increased \$1.2 billion primarily as a result of an increase in appropriations received of \$2.8 billion offset by an increase in appropriations used of \$1.3 billion.

Statement of Budgetary Resources

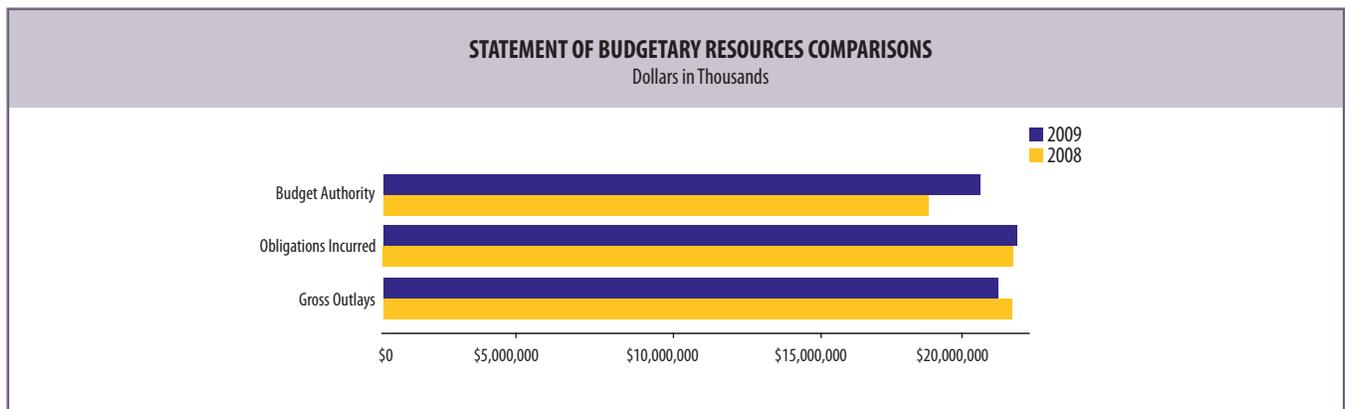
This statement provides information on the budgetary resources available to the FAA as of September 30, 2009, and September 30, 2008, and the status of those budgetary resources.

Budget Authority is the authority provided to the FAA by law to enter into obligations that will result in outlays of Federal funds. Obligations Incurred results from an order placed, contract awarded, service received, or similar transaction, which will require payments during the same or a future period. Gross Outlays reflects the actual cash disbursed by Treasury for FAA obligations. The FAA reported total budget authority of \$20.7 billion on September 30, 2009, compared to \$19.5 billion on September 30, 2008. Obligations Incurred increased \$391.5 million to \$22.7 billion. Gross Outlays decreased \$402.7 million from \$22.0 billion to \$21.6 billion.

Stewardship Investments

Stewardship investments are substantial investments made by the FAA for the benefit of the Nation, but do not result in physical ownership of assets by the FAA. When incurred, these amounts are treated as expenses in the Consolidated Statements of Net Cost. Our Required Supplementary Stewardship Information includes disclosure of stewardship investments during the last 5 years. These are disclosures of AIP grants by State/Territory, and research and development investments.

The distribution of total grants expense by State/Territory has been relatively stable during the past 4 years. However, expenses began to increase in FY 2005 largely as a result of a significant increase in grant





funding levels in FY 2001. Because these AIP projects are typically long-term, and the FAA recognizes the grants expense as the recipient accomplishes the improvement work, the substantial expansion of this program in FY 2001 is resulting in increased expenses in more recent years.

The FAA’s research and development expenses increased in FY 2009 by \$9.4 million primarily in the category of applied research. Some areas of focus this year included the Commercial Aviation Alternative Fuel Initiative, developing enhanced weather forecasting models for quickly identifying hazardous ceiling and visibility conditions that impact air traffic capacity and the evaluation of replacing incandescent lamps for airfield lighting with light-emitting diodes to save on energy and maintenance costs.

Limitations of the Financial Statements

The FAA has prepared its financial statements to report its financial position and results of operations, pursuant to the requirements of the CFO Act of 1990 and the Government Management Reform Act of 1994.

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

These statements should be read with the understanding that they are for a component of the U.S. Government, a sovereign entity. Liabilities not covered by budgetary resources cannot be liquidated without the enactment of an appropriation by Congress, and payment of all liabilities, other than for contracts, can be abrogated by the Federal Government.

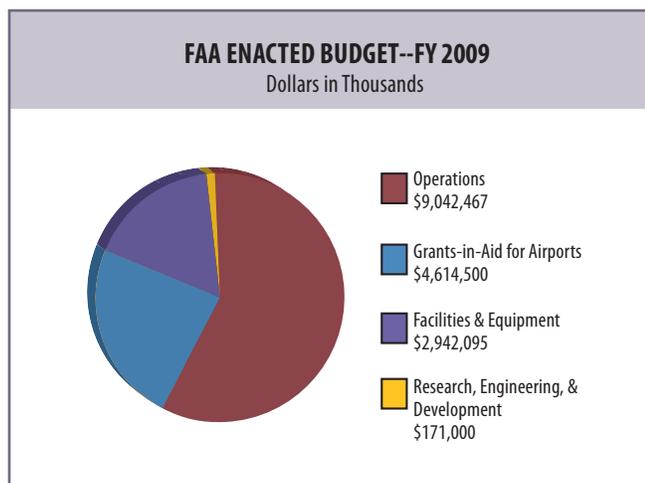
Budgetary Integrity: FAA Resources and How They Are Used

In FY 2009, the AATF provided approximately 69.6 percent of the FAA’s enacted budget. Created by the Airport and Airway Revenue Act of 1970, the AATF derives its funding from excise taxes and earned interest. It provides a 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 in Government securities. Interest earned is deposited into the fund. Funding is withdrawn as needed and transferred into each FAA appropriation to cover obligations.

The FAA is funded through annual and multiyear appropriations authorized by Congress. The FY 2009 enacted budget of \$16.77 billion was 12.4 percent higher than the FY 2008 enacted level. This includes \$11.7 billion from the AATF and \$5.1 billion from the General Fund. The Combined Statement of Budgetary Resources reflects \$15.5 billion enacted by the Omnibus Appropriations Act of 2009 (PL 111-8) and \$1.3 billion enacted from the ARRA (PL 111-5).

The FAA has four appropriations. The largest, Operations, is funded by both the Treasury’s General Fund and the AATF. In FY 2009, the AATF provided 58 percent of the revenue for Operations. The AATF is the primary revenue source for the FAA’s following three capital investment appropriations:

- Grants-in-Aid for Airports (AIP)
- F&E
- 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 the FAA's safety inspection and regulatory responsibilities. 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 2009 Operations appropriation was \$9.042 billion, approximately 3.5 percent more than in FY 2008, an increase 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. Total FY 2009 funding was slightly more than \$4.6 billion. Of this amount, just more than \$3.5 billion was from the AATF—the same as the FY 2008 level. An additional \$1.1 billion of General Fund supplemental funding was provided by the ARRA. FY 2009 funding for the Small Community Air Service Development program was \$8.0 million, 20 percent less than the FY 2008 level of \$10 million.

F&E. The programs funded by the F&E appropriation are the FAA's principal means of modernizing and improving air traffic control and airway facilities, particularly through programs supporting NextGen. The account also finances other major capital improvements in air navigation and experimental facilities required by other programs. F&E was funded at \$2.9 billion in FY 2009. Of this amount, \$2.7 billion was from the AATF, approximately 9.1 percent more than FY 2008. Major systems contributing to the NextGen effort included ADS-B, SWIM, En Route Automation Modernization, Airport Surface Detection Equipment—Model X (ASDE-X), NNEW, the NextGen Very High Frequency (VHF) Air/Ground Communications System,

and NAS Voice Switch. An additional \$200 million of General Fund supplemental funding was provided by the ARRA to make improvements to power systems, air route traffic control centers (ARTCCs), air traffic control towers, terminal radar approach control facilities, and navigation and landing equipment.

R,E,&D. The FY 2009 appropriation for R,E,&D was nearly \$171 million—16.5 percent more than in FY 2008. R,E,&D funds were applied to research programs to improve the safety and effectiveness of the air traffic control system. In FY 2009, programs focused on the environment and energy, weather initiatives, Joint Planning and Development Office (JPDO) activities, human factors, and aircraft safety. The increase over FY 2008 was largely due to new research initiatives in support of NextGen, as well as expansion of existing programs in Advanced Materials/Structural Safety, Aviation Safety Risk Analysis/System Safety Management, and Wake Turbulence.



In October 2009, the FAA published new regulations for manufacturers of aircraft and aviation products that update, standardize, and better align FAA requirements with the current global manufacturing environment. The new regulations continue to promote aviation safety by ensuring that aircraft—and products and articles designed specifically for use in aircraft, wherever manufactured—meet appropriate minimum standards for design and construction.

Credit: FAA Image Gallery



PERFORMANCE RESULTS

SAFETY

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

America continues to set the world standard for aviation, and safety is the hallmark of the FAA. As the stewards of aviation safety in the United States, the agency and its industry partners have built a system that has reduced the risks of flying to alltime lows. In FY 2009, the FAA continued to focus its resources—financial, human, and physical—primarily on safety.

The FAA oversees the world’s largest, most complex aviation system, and serves millions of people who travel on commercial airlines, hundreds of thousands who make aviation their livelihood, and thousands more who fly for recreation. The level of public confidence in the safety of air travel has a huge impact on the U.S. economy.

In 2006, Public Law 109-115 was enacted, which requires all commercial service airports to improve runway safety areas to the extent practicable by December 31, 2015. To meet this goal, the FAA identified 26 airport safety areas to be improved in FY 2009. The FAA exceeded this goal by completing 28 safety area projects, using more than \$226 million in AIP funds.

FY 2009 SAFETY PERFORMANCE MEASURES AND RESULTS				
Performance Measure	FY 2009 Target	FY 2009 Results	FY 2009 Status	FY 2010 Target ¹
Commercial Air Carrier Fatality Rate Cut the rate of fatalities per 100 million persons on board in half by 2025.	8.4	6.8 ²	●	8.1
General Aviation Fatal Accident Rate Reduce the fatal accident rate per 100,000 flight hours by 10% over a 10-year period (2009–2018).	1.11	1.17 ²	▲	1.10
Alaska Accidents By the end of FY 2009, reduce accidents in Alaska for general aviation and all Part 135 operations from the 2000–2002 average of 130 accidents per year to no more than 99 accidents per year. This measure will be converted from a number to a rate at the beginning of FY 2010.	99	104 ²	▲	1.86 ³
Runway Incursions (A and B) By 2010, reduce Category A and B (most serious) runway incursions to a rate of no more than 0.45 per million operations, and maintain or improve through FY 2013.	0.472	0.228 ⁴	●	.450
Total Runway Incursions By the end of FY 2013, reduce total runway incursions by 10% from the FY 2008 baseline.	-1.00% (999)	-5.75% (951) ⁴	●	-2%
Commercial Space Launch Accidents No fatalities, serious injuries, or significant property damage to the uninvolved public during licensed or permitted space launch and reentry activities.	0	0	●	0
Operational Errors Limit Category A and B (most serious) operational errors to a rate of no more than 1.95 per million activities by FY 2012 and maintain through FY 2013.	2.10	2.43 ⁴	▲	2.05
Safety Management System In FY 2010, implement the SMS in the ATO, AVS, and Office of Airports. In FY 2012, implement SMS policy in all appropriate FAA organizations.	9	9	●	3

¹ FY 2010 targets are from the FY 2009–2013 *Flight Plan*.

² Preliminary data until March 2011.

³ In FY 2010, the Alaska Accidents measure will be converted to a rate.

⁴ Preliminary data until January 2010.

For information on data sources and estimating and finalization of results, see Completeness and Reliability of Performance Data.

● Goal Achieved

▲ Goal Not Achieved



Since 2001, there have been more than 92.9 million successful flights on U.S. commercial aircraft. This represents more than 6.5 billion passengers who have flown safely. As the stewards of aviation safety in the United States, the FAA and its industry partners have built a system that operates some 34,000 scheduled commercial flights daily and has reduced the risks of flying to alltime lows. By 2025, there will be added demands on the capacity of the system and the FAA must steadily progress its plans and activities to be ready for the additional safety challenges.

COMMERCIAL AIR CARRIER FATALITY RATE

COMMERCIAL AIR CARRIER FATALITY RATE	
TARGET	In FY 2009, the commercial air carrier fatality rate will not exceed 8.4 fatalities per 100 million people on board.
RESULT	 <p>6.8 (preliminary data) We met our target with a result of 6.8 fatalities per 100 million people on board. <i>Note: This measure was new in FY 2008—no trend data are available.</i></p>
PUBLIC BENEFIT	As fatal air carrier accidents have declined in terms of average fatalities per accident, this measure will sharpen the FAA's focus on helping air travel to become even safer.

In FY 2009, there were two commercial fatal accidents with 52 fatalities. However, the FAA was still successful in maintaining the commercial air carrier rate below 8.4 fatalities per 100 million people on board. During this time, the FAA implemented many safety critical initiatives that helped to keep this rate below our target.

These initiatives helped to augment established initiatives, focus on recently identified risks, and maintain a higher level of safety throughout the NAS. Achievements in these areas include the following:

- Implemented a roadmap for Performance-Based Navigation (PBN) through the continued development and implementation of PBN approach procedures. The goal of this initiative is to achieve improved minima and precision-like capability.
- Continued implementation of Commercial Aviation Safety Team (CAST). These initiatives provided best practices, policies, procedures, and training used to mitigate human error.

- Maintained ISO:9001 registration to certify that FAA's Aviation Safety Organization meets the same standards expected of those we regulate.
- Developed guidance for third-party sources to develop public RNP Special Aircraft and Aircrew Authorization Required (SAAAR) approach procedures.
- Applied FAA standards and criteria in the helicopter RNP/RNAV procedure development process.
- Collected safety data at a national level and consolidated this data under the Aviation Safety Information Analysis and Sharing (ASIAS) program.
- Developed and implemented a strategic plan to address IG recommendations.

While these achievements have brought aviation to an unprecedented level of safety, identified sources of risk within aviation provide the basis for moving forward to the next level of safety. One major key to the FAA's successful safety efforts is its work with stakeholders to stimulate cooperation for the open reporting of safety concerns. Each member of the aviation community contributes to a safer airspace system through technology, communications, and its own unique expertise.

Our safety record indicates that we have addressed predicted risk factors that have caused accidents or incidents. Our challenge now is to identify any remaining risks and eliminate, minimize, or manage them. In its safety oversight capacity, the FAA is establishing its own SMS while working with stakeholders to establish their own SMS to identify potential risk areas. With these systems in place, the FAA and the aviation industry will work together to address these risks.

GENERAL AVIATION FATAL ACCIDENTS

GENERAL AVIATION FATAL ACCIDENT RATE	
TARGET	Limit the general aviation fatal accident rate to no more than 1.11 fatal accidents per 100,000 flight hours.
RESULT	 <p>1.17 (preliminary data) The FAA did not meet this target. <i>Note: This measure was new in FY 2009—no trend data are available.</i></p>
PUBLIC BENEFIT	By tracking the rate of fatal accidents per flight hours, the FAA can more accurately pinpoint safety concerns or trends indicating potential safety concerns.



More people perish from general aviation accidents each year than those who perish in U.S. commercial air carriers. Therefore, reducing the rate of fatal general aviation accidents is a top priority for the FAA.

The FAA did not meet the target this year for reducing the general aviation fatal accident rate per 100,000 flight hours. We ended the year with a rate of 1.17.

The primary reasons for the FY 2009 shortfall are in the area of amateur-built aircraft and human-factors influence. Amateur-built aircraft accounted for approximately 27 percent of general aviation fatal accidents in FY 2009 while only contributing 3.5 percent of general aviation hours. In addition, approximately 80 percent of general aviation fatal accidents are directly related to some form or combination of human factors.

The FAA continues to investigate, develop, and implement new strategic initiatives to address the challenges of creating a safe environment for on-demand and general aviation flights. The FAA has several initiatives underway to address both the human-factors influence and to mitigate the risks associated with amateur-built aircraft.

The agency continues to identify human factors that may contribute to accidents. This information will be used to develop and implement strategies, methods, and technologies that reduce safety risks. The FAA's General Aviation Joint Steering Committee and its subteams produce numerous products and aids to help improve pilot performance and decisionmaking. The FAA also is developing a new amateur-built aircraft subteam under the General Aviation Joint Steering Committee. This subteam will focus on the development of additional measures to help reduce fatal accidents in amateur-built aircraft.

The FAA works with various members of the general aviation community, including aeromedical evacuation, charter services, and other members of the community to promote education and training on night landings, weather, and other areas of concern.

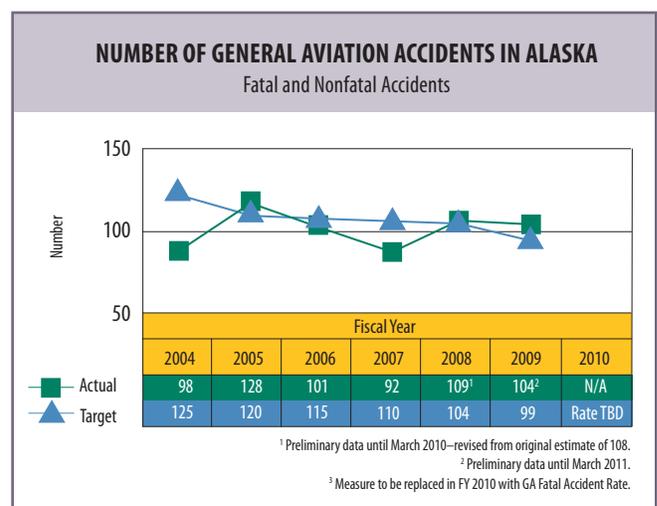
ALASKA ACCIDENTS

ALASKA ACCIDENTS	
TARGET	Reduce accidents in Alaska for general aviation and all Part 135 operations to no more than 99 in FY 2009.
RESULT	<div style="display: flex; align-items: center;"> <div style="margin-right: 10px;">▲</div> <div> <p>104 (preliminary data)</p> <p>We did not meet our target this year, resulting in 5 accidents above our target of 99 in FY 2009.</p> </div> </div>
PUBLIC BENEFIT	Aviation is the primary source of transportation for the majority of the residents in Alaska. However, the State's topography and weather present unique safety challenges. This measure allows the FAA to follow trends and focus risk mitigation efforts in Alaska. Therefore, the FAA is improving safety for a great number of the residents in this State.

In FY 2009, we did not meet our performance target of 99 Alaska accidents. This year there were 104 accidents, 5 above the target. Of these, 5 were fatal accidents (none were Part 135). At least 79 of the accidents were attributed to takeoff (26) or landing (53). In addition, Public Use Aircraft (State or local government-owned aircraft) accidents, which represent 8 percent of all Alaska accidents, are the largest contributing factor to the number of Alaska accidents. Because the FAA has no regulatory authority to provide safety oversight on Public Use Aircraft, it is difficult for the FAA to positively impact accidents involving these aircraft. However, during FY 2009, the FAA continued its safety efforts and added new emphasis to several key initiatives.

The Medallion (Aviation Safety Action Program)

In FY 2009, the FAA continued to work jointly with the Alaska aviation community through a number of





organizations and safety programs such as the Medallion Foundation, Circle of Safety, FAA Safety Team, Alaska Air Carriers Association, Alaska Aviation Safety Foundation, and Alaska Airman’s Association. This joint industry-FAA cooperative effort supports the *Flight Plan* strategy for sharing safety information.

The Medallion Foundation seeks to improve Alaskan aviation safety by developing and implementing voluntary aviation safety standards that exceed regulatory requirements and are based on accepted system safety concepts. This year, in conjunction with the FAA, the foundation produced television and radio ads emphasizing the need to practice short-field landings before embarking on a hunting trip. They encouraged pilots to work with a Certified Flight Instructor (CFI) in the Medallion PA-18 Basic Airplane Training Device.

The Circle of Safety program educates passengers, contractors of aviation services, and commercial air operators in their shared responsibility for flight safety. In FY 2009, the FAA Safety Team collaborated with external Circle of Safety stakeholders, including certificate management teams, commercial operators, and passenger groups to revise and implement program materials relating to flight safety in Alaska.

Other groups including the Alaska Airmen’s Association, Alaska Aviation Safety Foundation, and industry groups worked to publicize safety issues through television shows, newsletters, and a landing clinic at Palmer Airport.

Other Initiatives

This year, the FAA has placed increased emphasis on implementing an improved statewide public RNP/RNAV Wide-Area Augmentation System (WAAS) enabled route structure.

The RNP/RNAV initiative has been in the FAA *Flight Plan* since 2004 in support of the congressionally mandated Alaskan Capstone program. The NTSB published a safety study in November 1995 that identified deficiencies in the current Instrument Flight Rules (IFR) system such as inadequate low-altitude navigation infrastructure and instrument approaches. In conjunction with the Capstone program, the FAA’s ATO enabled the operational use of Global Positioning System (GPS) and WAAS for navigation and access to

uncontrolled airports by developing GPS airways and instrument approach/departure procedures. The RNP/RNAV initiative provides an avenue for the ATO and FAA’s AVS organizations to work closely to manage an integrated schedule to operationally enable a GPS/RNAV WAAS Route structure in Alaska. Implementation is in process at this time. This will improve operator efficiency, increased access across Alaska, and safety improvements such as increased situational awareness, while incrementally reducing dependency on ground-based navigation facilities.

In FY 2010, the FAA will change the Alaska Accidents Performance Measure methodology, to measure the number of fatal and serious injury accidents per 100,000 flight hours. The new methodology provides clarity and focus by using a rate and measuring only the fatal and serious injury accidents. This change will increase the FAA’s ability to mitigate risks to the Alaskan flying public in the areas of most concern.

RUNWAY INCURSIONS (A AND B)

RUNWAY INCURSIONS (A AND B)	
TARGET	Limit Category A and B (most serious) runway incursions to a rate of no more than 0.472 per million operations.
RESULT	<div style="display: flex; align-items: center;"> <div> <p>0.228 (preliminary data)</p> <p>We exceeded our goal, limiting category A and B runway incursions to less than the 0.472 runway incursions per million operations.</p> </div> </div>
PUBLIC BENEFIT	The public will benefit by having a decreased probability that they will be injured or killed in an accident resulting from a serious runway incursion.

Runway incursions create dangerous situations that can lead to serious accidents. A runway incursion is any occurrence at an airfield involving the incorrect presence of an aircraft, vehicle, or person on the protected area of a surface designated for the landing and takeoff of aircraft. They are grouped into three general categories: operational errors, pilot deviations, and vehicle/pedestrian deviations. Reducing the number of runway incursions reduces the risk of accidents that potentially involve fatalities, injuries, and significant property damage.

This measure tracks the following two categories of runway incursions—A and B—which are the most serious categories tracked:



- Category A: Separation decreases to the point that participants take extreme action to narrowly avoid a collision.
- Category B: Separation decreases where there is a significant potential for a collision.

In August 2007, the FAA Administrator initiated a Call to Action for the FAA and industry to improve runway safety. Since that time, the FAA has implemented numerous initiatives resulting in reduced risk of a serious runway incursion. The success of these initiatives can be observed in FY 2009 by the fact that there were no category A and B runway incursions during the first 3 months of FY 2009. The year-to-date serious (A and B) incursion rate is well below the FY 2009 target and a significant reduction from previous years. These initiatives include the following:

- Enhanced airport surface markings
- A review of pilot taxi procedures and distractions
- Additional pilot and driver training
- Revised FAA air traffic control procedures
- Formation of the Runway Safety Council
- Increased emphasis on education and awareness

The Call to Action also identified several midterm and long-term initiatives including the following:

- Additional Air Traffic Control procedural changes

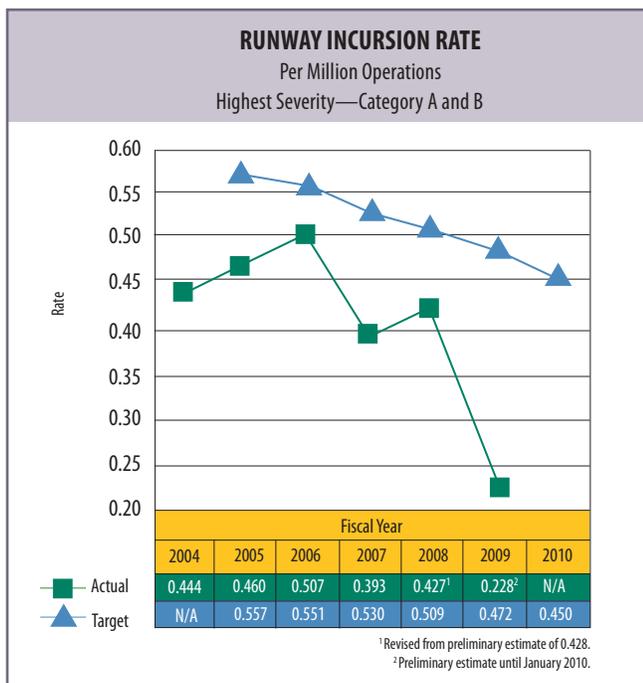
- Deployment of RWSL
- Development of Low-Cost Ground Surveillance (LCGS)
- Enhanced cockpit systems to improve pilot situational awareness

These initiatives, as well as the Runway Safety Council’s effort to identify and mitigate the root causes of runway incursions, are expected to continue to reduce the rate of serious runway incursions.

Since the FAA Administrator’s Call to Action, the FAA and the industry have worked together to implement improvements; raise awareness; and educate pilots, drivers, and controllers on the risks of runway incursions. These efforts are having a positive impact, resulting in a reduced risk to the flying public.

TOTAL RUNWAY INCURSIONS

TOTAL RUNWAY INCURSIONS	
TARGET	1% reduction (999) in total number of runway incursions from the FY 2008 baseline of 1,009 runway incursions.
RESULT	<div style="display: flex; align-items: center;"> <div style="margin-right: 10px;">●</div> <div> <p>-5.75% (preliminary data) We met our goal, limiting total runway incursions to 951 (-5.75%) in FY 2009. <i>Note: This measure was new in FY 2009—no trend data are available.</i></p> </div> </div>
PUBLIC BENEFIT	The public will benefit by having a decreased probability that they will be injured or killed in an accident resulting from a serious runway incursion.



In August 2007, the FAA Administrator initiated a Call to Action for the FAA and industry to improve runway safety. During the last 2 years, numerous initiatives have been implemented resulting in the reduced risk of a runway incursion. These initiatives have included enhanced airport surface markings, additional pilot and driver training, revised FAA air traffic control procedures, formation of the Runway Safety Council, and increased emphasis on education and awareness.

The FY 2009 year-to-date rate of incursions is well under the proposed target. We were successful in halting an annual increasing trend of approximately 13 percent and have reduced the total incursion level from last year by 1 percent. The FAA and industry have worked together to implement improvements. These efforts are now having a positive impact, resulting in a reduced risk to the flying public of a runway incursion.



Additionally, the FAA adopted the ICAO’s definition of a runway incursion. This new definition is the unauthorized entry onto the runway of any aircraft, regardless of the level of risk it generates, or regardless of whether or not another aircraft is present. With this new definition, the FAA captures a broader spectrum of events.

The following four categories are included in this measure:

- Category A: Separation decreases to the point that participants take extreme action to narrowly avoid a collision.
- Category B: Separation decreases, and there is a significant potential for collision.
- Category C: Separation decreases, but there is ample time and distance to avoid a collision.
- Category D: There is little or no chance of collision, but the definition of a runway incursion is met.

The Call to Action initiative also identified several midterm and long-term initiatives to reduce the risk of runway incursions, including additional Air Traffic Control procedural changes, deployment of RWSL, development of LCGS, and enhanced cockpit systems to improve pilot situational awareness. We also have initiated a pilot special emphasis program (Summer Initiative) that targets general aviation within the Great Lakes and Northwest Mountain Regional boundaries. These initiatives, as well as the Runway Safety Council’s effort to identify and mitigate the root causes of runway incursions, are expected to continue to reduce the rate and number of total runway incursions.

COMMERCIAL SPACE LAUNCH ACCIDENTS

COMMERCIAL SPACE LAUNCH ACCIDENTS	
TARGET	No fatalities, serious injuries, or significant property damage to the uninvolved public during licensed or permitted space launch and reentry activities.
RESULT	 No fatalities, serious injuries, or significant property damage to the uninvolved public during licensed or permitted space launch and reentry activities. <i>Note: This measure has resulted in the same outcome each year—no trend chart necessary.</i>
PUBLIC BENEFIT	FAA oversight of the commercial space launch activities resulted in no loss of life or significant property damage to the uninvolved public.

Commercial space transportation is the means by which payloads such as satellites and remote sensing devices are carried to orbit. These payloads have tremendous benefit to our society. However, commercial space launch or reentry accidents potentially have major catastrophic consequences, involving large losses of life and property. Protecting the uninvolved public during commercial launch operations is an FAA safety mission objective.

In FY 2009, the FAA met its target of zero fatalities, serious injuries, or significant property damage. This target was maintained with four licensed launches, and five permitted launches. Permitted launches are test launch permits primarily in the area of research and development. This year, the launch industry saw a decrease in the number of planned payload missions. Therefore, fewer licenses were approved and launch flight activity decreased from 11 in FY 2008. The agency currently has 18 active licenses.

Since 1989, the U.S. commercial space launch industry has conducted 218 launches. During the past 25 years there have been no fatalities, serious injuries, or significant property damage. These achievements demonstrate a robust commitment to safety by the U.S. space launch industry and FAA. However, the emerging space tourism market, advances in technologies, and inaccurate licensee applications have increased the necessity for the FAA to explore new ways to enhance current safety practices.

Increased safety inspections, improved qualification and training methods of FAA personnel, and enforcement of common safety requirements are just a few of the ways that the FAA is working to ensure the global viability and safety of commercial space transportation. Further, we partner with other Government agencies such as NASA and the Departments of State and Defense to ensure that licensed operations perform in accordance with U.S. national security and foreign policy interests.



OPERATIONAL ERRORS

OPERATIONAL ERRORS	
TARGET	Limit Category A and B (most serious) operational errors to a rate of no more than 2.10 per million activities.
RESULT	<div style="display: flex; align-items: center;"> <div style="background-color: #e0f2f1; padding: 5px; margin-right: 10px;"> </div> <div> <p>2.43 (preliminary data) We did not meet this target, reaching an operational errors rate of 2.43 per million. Note: This measure was redefined in FY 2008—no trend data are available.</p> </div> </div>
PUBLIC BENEFIT	Reduced probability that the public will be injured or killed as a result of fewer operational errors.

One of the fundamental principles of aviation safety is separation—the need to maintain 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 occurs when controllers fail to apply or follow the procedures that enforce separation and allow aircraft to end up too close to each other or to an obstruction. As air traffic continues to increase, reducing the risk of operational errors remains one of the FAA’s top priorities.

Through the fourth quarter of FY 2009, the rate of Category A and B operational errors is 2.43 per million activities. This rate is over the performance target of 2.10 per million activities for FY 2009. This rate should be considered as the preliminary result for FY 2009 because a number of operational errors remain to be finally categorized as A or B, or reclassified as nonoccurrences, and because traffic activity counts for September have not yet been finalized. Both FAA’s En Route and Terminal Facilities service units are reviewing all incidents to identify causal factors necessary to develop appropriate mitigations to positively impact FY 2010 performance.

The FAA’s ATO continues to concentrate its efforts on improving the safety reporting culture throughout its workforce and increasing its ability to passively detect safety events such as A and B operational errors. As a result of these efforts, the ATO has been able to identify more A and B operational errors than the number previously forecasted when these goals were initially set. This preliminary FY rate is based on 329 reported

Category A and B errors, which is approximately 46 more than the 283 error limit required to meet the FY 2009 target; or fewer than 4 additional errors per month. This improved reporting and detection accounts for some of the numbers over the FY 2009 target rate.

In FY 2009, to further eliminate risks associated with losses of separation such as operational errors, the FAA developed an updated metric. The FAA intends to introduce this new metric, Loss of Separation Standards (LoSS), in FY 2010. The metric will expand our safety measure to include all losses of standard separation. Through the use of this new metric, the FAA will improve understanding of the precursors of all losses of separation, including those reported today as operational errors by increasing the amount of data collected and analyzed, and also will better align the FAA’s approach to safety with our international partners.

The FAA also seeks to reduce Vehicle/Pedestrian Deviations (VPDs). This year the FAA set a target of not to exceed 194 with no more than two A or B incursions. The FY 2009 number of VPDs dropped by 3.5 percent to 185 deviations with no A or B deviations.

The FAA also is developing an SMS-based approach to separation loss mitigation. This system is intended to replace the current management action plan approach to A and B operational errors. This will improve analysis and increase our ability to mitigate risks associated with operational errors.

Additionally, the FAA is coordinating efforts between the ATO Safety Services and the operational service units to clearly identify respective quality assurance and quality control roles and responsibilities to better focus corrective activities on the causal factors of separation loss such as those that contribute to A and B operational errors.

All three of these actions will give the FAA a better understanding of the events involved in the occurrence of operational errors. Thereby, improving our ability to prevent such occurrences.



SAFETY MANAGEMENT SYSTEM

SAFETY MANAGEMENT SYSTEM	
TARGET	Complete 9 key activities in preparation for full implementation of the SMS in all appropriate FAA organizations in FY 2010.
RESULT	 <p>9 We succeeded in completing 9 key activities in FY 2009. <i>Note: This measure was redefined in FY 2009—no trend data are available.</i></p>
PUBLIC BENEFIT	Implementation of the SMS will assure increased levels of safety for the flying public.

The FAA SMS is a formal, top-down, business-like approach to managing safety risk. The SMS relies on developing standardized language, processes, and tools to manage safety risk across the aviation industry. Successful implementation of the SMS is critical to meeting the challenges of a rapidly changing and expanding aviation system. The traditional methods of analyzing the causes of an accident or incident, after the fact, are not enough. To achieve the next level of safety, a more forward thinking approach is required to analyze trends, data, and systems to manage issues before they become incidents or accidents.

The SMS process ensures that safety-related changes are documented; risk is assessed, analyzed, and mitigated; hazards are identified and tracked to resolution; and the performance of any change is monitored throughout its life cycle. Applying the SMS prior to implementing changes to the NAS ensures that unacceptable risk is not introduced into the system. It also improves the

documentation of the processes used to ensure the safety of the NAS.

To fully implement the SMS at the FAA in FY 2010, key preparatory activities were required to be completed in FY 2009. These activities represent the continuous effort in implementing the SMS as stipulated in the approved FAA ATO’s Implementation Plan. They are key to achieving full implementation.

In FY 2009, we completed the following nine key activities as planned:

- Established the SMS Committee
- Designed and implemented the SMS for airport regulation and certification
- Analyzed safety culture surveys
- Developed SMS training materials
- Provided training to personnel involved with implementing changes to the NAS
- Monitored the integration of processes into new system acquisitions
- Developed audit process and conducted audits on the operational service units
- Issued an Advance Notice of Proposed Rulemaking
- Provided safety surveillance and oversight and conducted system audits

During the next few years, the FAA plans to continue to work on full FAA SMS integration activities. These activities will support and augment the goal of full implementation.

CAPACITY

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

Our biggest challenge today and in the future is meeting capacity needs. While the long-term solution to increasing capacity and reducing delays depends largely on expanding capacity through the NextGen system, it is not targeted until the 2025 timeframe. In the meantime, several near-term initiatives—airfield construction, redesigning airspace, and revising air traffic control procedures—have potential for meeting short-term capacity needs.



In early FY 2009, the agency opened an unprecedented three new runways simultaneously at three of the country’s busiest airports—Washington Dulles, Seattle-Tacoma, and Chicago O’Hare—accommodating approximately 327,300 more aircraft operations annually, decreasing delay per operation by an average of 2.5 minutes, and accommodating additional on-time arrivals, even in poor weather. In addition, projects funded by the ARRA are protecting and promoting jobs through new construction projects including runways, taxiways, and aprons, which increase capacity and improve safety.

The FAA is committed to further improve safety, increase capacity, and reduce congestion and aviation’s environmental impact in order to better accommodate traffic growth and to support the economic viability of those who use the system, now and in the future. The FAA’s goal is to work with local governments and airspace users to provide increased capacity and better operational performance in the U.S. airspace system that reduce congestion and meet projected demand in an environmentally sound manner.

FY 2009 CAPACITY PERFORMANCE MEASURES AND RESULTS				
Performance Measure	FY 2009 Target	FY 2009 Results	FY 2009 Status	FY 2010 Target ¹
Average Daily Airport Capacity (35 OEP Airports) Achieve an average daily airport capacity for the 35 OEP airports of 103,068 arrivals and departures per day by FY 2011 and maintain through FY 2013.	100,707	101,691 ²	●	102,648
Average Daily Airport Capacity (7 Metro Areas) Achieve an average daily airport capacity for the 7 major metropolitan areas of 39,484 arrivals and departures per day by FY 2009, and maintain through FY 2013.	39,484	42,925 ²	●	39,484
Annual Service Volume Commission 9 runway/taxiway projects, increasing the annual service volume of the 35 OEP airports by at least 1% annually, measured as a 5-year moving average, through FY 2013.	1.00% (5 runway/ taxiway projects)	1.02% (6 runway/ taxiway projects)	●	1.00% (2 runway/ taxiway projects)
Adjusted Operational Availability Sustain adjusted operational availability at 99.70 percent for the reportable facilities that support the 35 OEP airports through FY 2013.	99.70%	99.78% ²	●	99.70%
NAS On-Time Arrivals Achieve a NAS on-time arrival rate of 88.00% at the 35 OEP airports and maintain through FY 2013.	88.00%	88.98% ²	●	88.00%
Noise Exposure Reduce the number of people exposed to significant noise by 4% per year through FY 2013, as measured by a 3-year moving average, from the 3-year average for calendar years 2000–2002.	-16.00%	-48.00% ³	●	-20.00%
Aviation Fuel Efficiency Improve aviation fuel efficiency by another 1% over the FY 2008 level (for a total of 7%) through FY 2009, and 1% each subsequent year through FY 2013 to 11%, as measured by a 3-year moving average of the fuel burned per revenue mile flown, from the 3-year average for calendar years 2000–2002.	-7.00%	-10.17%	●	-8.00%

¹ FY 2010 targets are from the FY 2009–2013 *Flight Plan*.

² Preliminary data until January 2010.

³ -48.00% preliminary result will be finalized in May 2010.

For information on data sources and estimating and finalization of results, see Completeness and Reliability of Performance Data.

● Goal Achieved

▲ Goal Not Achieved

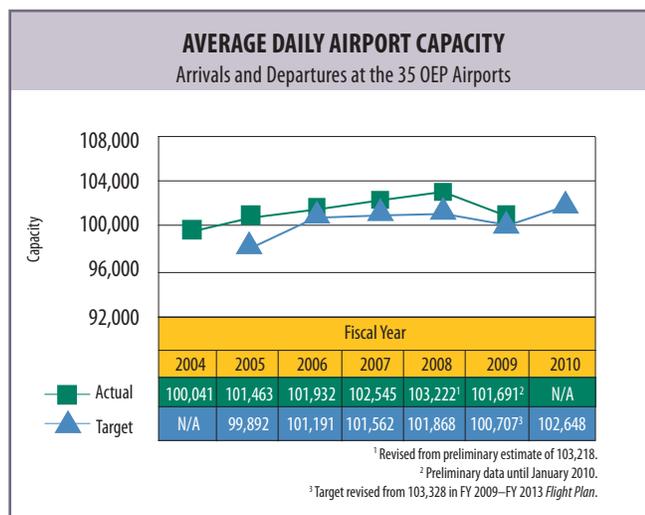


AVERAGE DAILY AIRPORT CAPACITY (35 OEP AIRPORTS)

AVERAGE DAILY AIRPORT CAPACITY (35 OEP)	
TARGET	Achieve an average daily airport capacity for the 35 OEP airports of 100,707 arrivals and departures per day.
RESULT	 101,691 (preliminary data) We achieved an average daily airport capacity of 101,691 for the 35 OEP airports.
PUBLIC BENEFIT	The public benefits from increased capacity by experiencing a decrease in delays and improved on-time performance.

Growth in air travel has generally been accomplished by increasing the number of flights. Measuring the growth of available airport capacity indicates the limit at which airports can accommodate increased service without increased delays. Annual targets are set using historical trend data for the previous 3 years, information on upcoming construction impacts, and input from individual Air Traffic Control facilities.

Called rates at airports, which are adjusted in real time throughout the day, are primarily impacted by weather, construction/maintenance issues, procedural changes, and equipment outages. The year-end result for FY 2009 is well above the goal, even though the number is lower than the previous 2 years. This is primarily because the construction-related impacts on facility departure and arrival rates were not as significant as expected. For example, Las Vegas rates remained higher than the facility originally estimated during the major runway construction project in the first two quarters of the year.



The FAA expects the capacity target to increase next year based on the opening of a new runway at Charlotte and completion of runway construction/refurbishment at Washington Dulles, Portland, and Detroit. New York JFK also is undergoing numerous construction projects which will enhance operations at that constrained airport. The FAA also expects that the continued deployment of the Traffic Management Advisor (TMA) decision support tool will optimize the flow of aircraft into capacity-constrained airports.

AVERAGE DAILY AIRPORT CAPACITY (7 METROPOLITAN AREAS)

AVERAGE DAILY AIRPORT CAPACITY (7 METRO)	
TARGET	Achieve an average daily airport capacity for the 7 major metropolitan areas of 39,484 arrivals and departures per day.
RESULT	 42,925 (preliminary data) We achieved an average daily airport capacity well above the stated target. <i>Note: This measure was redefined in FY 2008—no trend data are available.</i>
PUBLIC BENEFIT	The public benefits from increased capacity by experiencing a decrease in delays and improved on-time performance which saves time and money.

This measure is similar to the (35 OEP) measure. However, it focuses more specifically on the seven metropolitan areas that contain both the most congested airspace and the greatest constraints on airport expansion. These seven metropolitan areas are New York, Philadelphia, Charlotte, Chicago, Las Vegas, the Los Angeles Basin, and the San Francisco Bay area. Improvement at these airports is likely to contribute the most to reducing the causes of system delay.

Measuring the growth of airport capacity at these airports indicates the limit at which we can accommodate increased service without increasing delays in the seven metropolitan areas. Each airport facility within the seven metropolitan areas in this measure determines the number of arrivals and departures it can handle for each hour of each day, depending on conditions, including weather. These numbers are the called arrival and departure rates of the airport for that hour. Called rates at airports, which are adjusted in real time throughout the day, are primarily impacted by weather, construction/maintenance issues, procedural changes, and equipment outages.



The year-end result for FY 2009 is well above the goal. The average daily airport capacity at the seven most capacity-restrained airports exceeded last year's average by more than 7,000. Success in FY 2009 is due in part to facilities continuing to improve the accuracy of their rate-calling as they gain more experience in that area.

The FAA expects the capacity goal to increase next year, based on the opening of a new runway at Charlotte. New York JFK also is undergoing numerous construction projects that will enhance operations at that constrained airport. The FAA also expects that the continued deployment of the TMA decision-support tool will optimize the flow of aircraft into capacity-constrained airports.

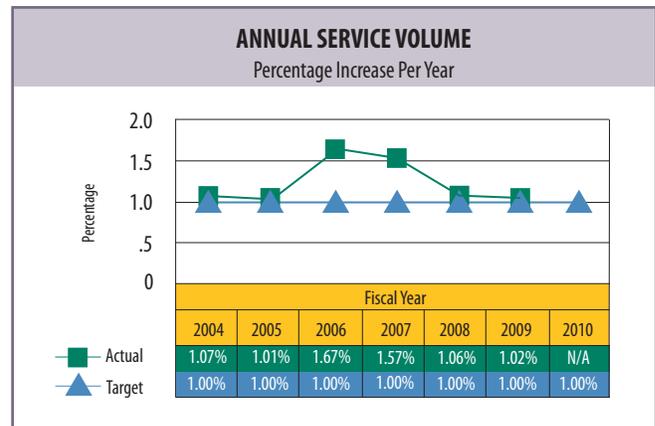
ANNUAL SERVICE VOLUME

ANNUAL SERVICE VOLUME	
TARGET	Increase the Annual Service Volume (ASV) of the 35 OEP airports by at least 1% and commission 5 runway/taxiway projects.
RESULT	<div style="display: flex; align-items: center;"> <div style="margin-right: 10px;"> ● </div> <div> <p>6 projects and 1.02% increase</p> <p>We met our FY 2009 target, completing six airfield projects with a 1.02% increase in ASV.</p> </div> </div>
PUBLIC BENEFIT	Increasing the capacity and/or reducing delays at the busiest airports provides significant benefits to the local community and the NAS. This measure estimates the benefit, in terms of additional aircraft operations, from runway construction projects.

The ASV measure is intended to estimate and track the increase in airport capacity provided by new runways and runway extensions. This measure is calculated as a 5-year moving average. It is calculated in this way to smooth out peaks and valleys associated with yearly variability in runway openings.

This target was achieved by maintaining a clear schedule for each project and identifying milestones and the organization responsible for each milestone. The schedule was reviewed monthly at the local level and reported regularly to senior management. Six airfield projects were commissioned during FY 2009. Three new runways, one runway extension, an end-around taxiway, and a midfield taxiway were opened providing these airports with the ability to accommodate an additional 328,000 annual operations. They include the following:

- Seattle—New Runway—November 20, 2008



- Washington Dulles—New Runway—November 20, 2008
- Chicago O'Hare—New Runway—November 20, 2008
- Dallas Ft. Worth—End-Around Taxiway—December 4, 2008
- Philadelphia—Runway Extension—February 12, 2009
- Boston—Midfield Taxiway—July 30, 2009 (opened 4 months early)

In FY 2010, the FAA will continue to look for meaningful projects. Following are just a few planned:

- New taxiway—Boston scheduled to open in November 2009, opened July 30, 2009
- Two runways—Charlotte in FY 2010; Chicago in FY 2012
- Three Runway Extensions—Portland in FY 2011; Ft. Lauderdale and Atlanta (schedule TBD)

We will continue to work with airport sponsors and local communities to develop airfield infrastructure at airports.

ADJUSTED OPERATIONAL AVAILABILITY

ADJUSTED OPERATIONAL AVAILABILITY	
TARGET	Sustain adjusted operational availability at 99.70% for the reportable facilities that support the 35 OEP airports.
RESULT	<div style="display: flex; align-items: center;"> <div style="margin-right: 10px;"> ● </div> <div> <p>99.78% (preliminary data)</p> <p>We are currently exceeding our FY 2009 goal for sustaining adjusted operational availability at 99.78%.</p> </div> </div>
PUBLIC BENEFIT	The safety of air travelers and the ability to get them to their destination on time is dependent on the availability of navigational and communications equipment, and redundant backup systems.

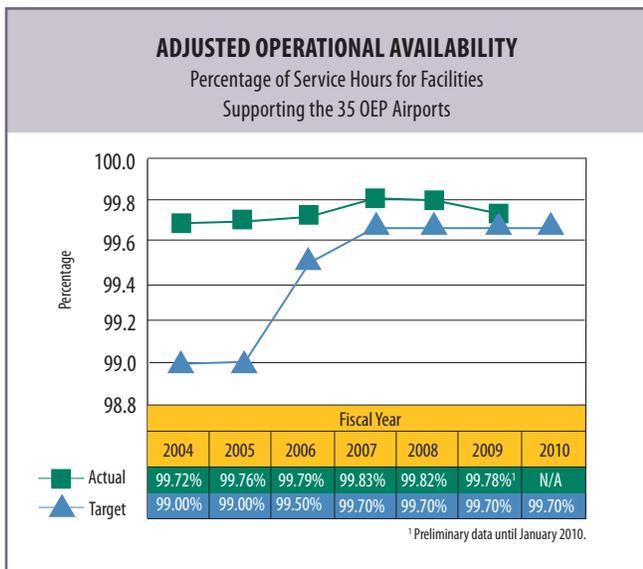


The availability of the equipment necessary to provide service directly affects the performance of the NAS. Loss of radar or communications equipment will affect the speed and number of aircraft that can be handled. The ability of the NAS to continually provide guidance is crucial, and affects both safety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

Several external factors may affect adjusted operational availability. Funding levels may limit availability of maintenance personnel. Higher incidences of equipment failure, usually due to weather or natural disaster, may negatively affect the year-end average.

The target performance level is being met due to adherence to FAA maintenance policies and procedures for NAS monitoring, control, maintenance, and restoration. This strict adherence optimizes service availability for the FAA 35 OEP airports. Most of the unscheduled downtime for the fiscal year was due to equipment and power outages.

The goal for adjusted operational availability is expected to remain at 99.70 percent. The FAA's ATO analyzes various performance data to increase or maintain targeted level of performance and determine metric goal to provide appropriate Safety and Capacity outcomes for the flying public.



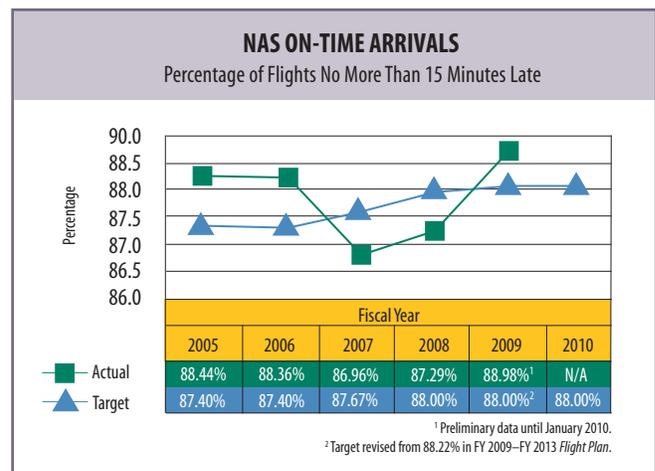
NAS ON-TIME ARRIVALS

NAS ON-TIME ARRIVALS	
TARGET	Achieve a NAS on-time arrival rate of 88.00% at the 35 OEP airports.
RESULT	88.98% (preliminary data) We met this goal, achieving a NAS on-time arrival rate of 88.98 percent.
PUBLIC BENEFIT	This goal helps the flying public reach their intended destinations on time.

This metric measures on-time performance against the carriers' filed flight plan, rather than what may be a dated published schedule. This metric allows the FAA to measure delivery of service while taking into account causation of flight delay. This information is tracked as part of the overall comparison.

The FAA has met this goal for the first time in 3 years. In addition, the NAS on-time performance level is the highest it has been since the inception of this metric in 2005. Improved on-time performance this fiscal year is most likely due to the drop in scheduled and unscheduled operations in many major markets. This has led to less congestion in the NAS, less pressure on the Air Traffic Control system, and improved on-time performance. In addition, new technologies, such as the TMA decision-support tool, have contributed to more efficient arrival and departure performance at several large airports. These include Atlanta, Charlotte, and Newark.

The FAA anticipates on-time performance to continue improving, based on lower traffic levels and the movement toward new NextGen technologies including time-based metering, En Route Automation





Modernization, and ADS-B. Through deployment of early NextGen capabilities, the FAA is addressing anticipated growth in demand by increasing NAS capacity and efficiency while simultaneously improving safety, reducing environmental impacts, and increasing user access to the NAS.

It is anticipated that the downturn in the aviation economy will rebound and demand will return. The FAA expects early NextGen capability deployment now through 2012. This will produce measurable steps toward reducing congestion and enhancing on-time performance.

NOISE EXPOSURE

NOISE EXPOSURE	
TARGET	Reduce the number of people exposed to significant noise, as measured by a 3-year moving average, to 16% below the 3-year average for calendar years 2000–2002.
RESULT	<div style="display: flex; align-items: center;"> <div style="margin-right: 10px;">●</div> <div> <p>-48.00%</p> <p>We exceeded our FY 2009 performance by achieving a 48.00% reduction. (Results are preliminary and will not be finalized until May 2010.)</p> </div> </div>
PUBLIC BENEFIT	Reduced exposure to unwanted aircraft noise is a direct public benefit. In addition, aggressive programs to reduce community noise exposure mitigate public resistance to airport capacity expansion and airspace redesign projects.

Mitigating noise directly impacts our ability to increase capacity. Although building new runways is the best way to increase capacity, communities and local government are reluctant to build them if they impose increased aircraft noise exposure. By mitigating and reducing exposure to excessive noise, the FAA can help communities accept more runways in their areas.

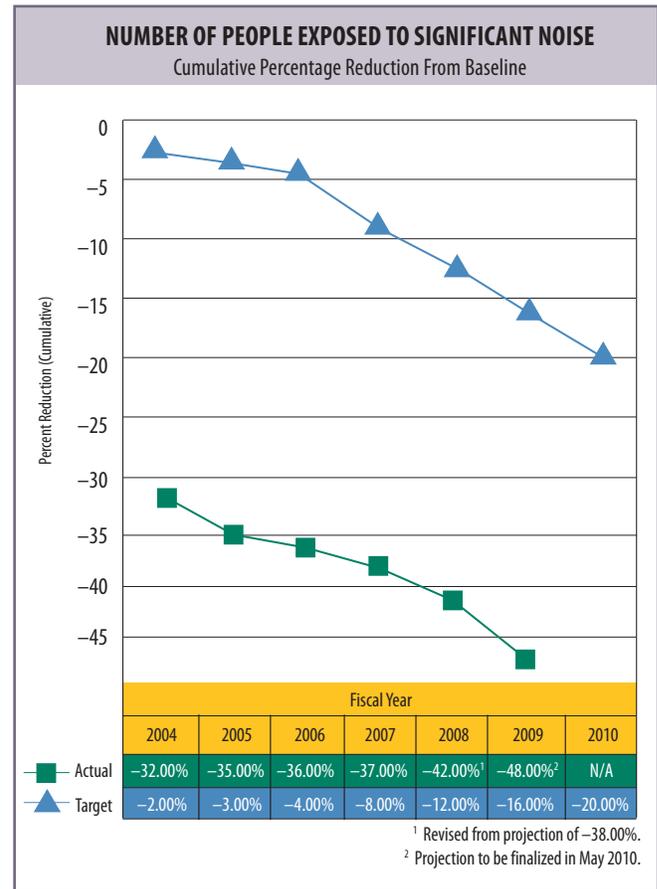
We exceeded our FY 2009 performance target to reduce the number of people exposed to significant noise by 16 percent as measured by a 3-year moving average from the base year average of 2000–2002, achieving a 48 percent reduction.

The significant reduction in noise exposure since the base year average of 2000–2002 has been driven by air carrier fleet and operational changes. Carriers continue to retire older, less fuel-efficient aircraft that tend to produce more noise. In addition, passenger demand fell due to a deepening recession and growing unemployment that contributed to a decrease in air traffic. Consequently, the

actual number of residents exposed to significant noise remains well below the current target.

In FY 2009, the FAA partnered with NASA to develop the CLEEN program. The goal of this 5-year program is to introduce CLEEN technologies into production aircraft in the 2015–2017 timeframe.

Developing NextGen technologies and having a broad array of noise mitigation approaches available allows the FAA to continue making significant improvements in aviation noise exposure. The FAA continues to pursue a program of aircraft noise control, in cooperation with the aviation community and local governments, through aircraft source noise reduction, soundproofing, and buyouts of homes and other noise-sensitive buildings near airports, operational flight control measures, and land use planning strategies. While the FAA is authorized to provide funds for airport noise compatibility projects, each project must be locally sponsored and approved by the FAA.





The FAA sets the noise exposure target by analyzing the historical rate of change of noise exposure and taking into account recent events and long-term projections of air traffic demand. As air traffic grows over time, noise exposure is likely to move upward. The target will continue to be reassessed as we take a more integrated approach to environmental regulation by assessing the relative costs and benefits of noise, local air quality, and greenhouse gas emissions, and the tradeoffs in achieving reductions in each.

AVIATION FUEL EFFICIENCY

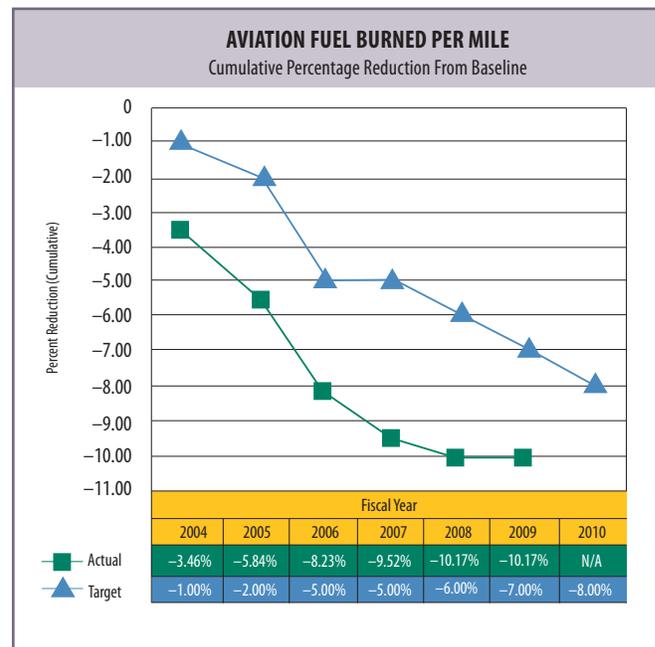
AVIATION FUEL EFFICIENCY	
TARGET	Improve aviation fuel efficiency per revenue plane-mile by 7%, as measured by a 3-year moving average, from the 3-year average for calendar years 2000–2002.
RESULT	<div style="display: flex; align-items: center;"> <div style="margin-right: 10px;"> ● </div> <div> <p style="color: red; margin: 0;">-10.17%</p> <p>We exceeded our FY 2009 performance target by achieving a 10.17% reduction.</p> </div> </div>
PUBLIC BENEFIT	This measure supports the development of activities to reduce aviation’s impact on the environment and thereby improve public health and welfare. In addition, more fuel-efficient aircraft should contribute to improving the financial well-being of commercial airlines and a growing economy.

Measuring and tracking fuel efficiency from aircraft operations allows the FAA to monitor improvements in aircraft/engine technology, operational procedures, and the airspace transportation system. By monitoring these improvements, the FAA can assess the degree of impact each factor has on aviation emissions.

FY 2009 performance was calculated to be -10.17 percent. A combination of factors is responsible for this result including aircraft fleet performance, air traffic growth, and air traffic management (ATM) of the airspace system. This result demonstrates continued progress in maintaining efficiency of commercial aircraft operations within the airspace system, thereby minimizing environmental impact.

The FAA works with a number of partners to find new ways to improve fuel efficiency. NASA and the FAA conduct research and development to identify engine and airframe technologies. These new technologies offer the potential for reducing fuel burn and emissions. The Aerospace Industries Association works with the FAA and NASA to commercialize technologies from the research phase and develop operational procedures to address environmental impacts. The Air Transport Association and the FAA partner to identify fleet and air traffic procedural changes that improve fuel efficiency.

Looking forward to FY 2010, we do not expect increases in fuel burn and/or decreases in distance traveled to prevent us from meeting our target of -8.00 percent. However, the current metric for measuring and tracking fuel efficiency may not adequately capture performance to the degree that would allow for future decisions on technological and operational considerations. Thus, we are continuing to review the impact of improvements in ATM procedures and changes in operational trends to assess if a revised performance metric would be in order.





INTERNATIONAL LEADERSHIP

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

International leadership is the way the FAA advances safety and efficiency around the world, to wherever Americans might travel. The FAA is uniquely positioned for this undertaking in the global aviation community through expanded technical assistance to other civil aviation authorities and continued emphasis on bilateral agreements to help harmonize aviation safety and environmental quality around the world. Today, the agency has operational responsibility for about half of the world’s air traffic, certified more than two-thirds of the world’s large jet aircraft, and provided assistance to more than 130 countries to improve their aviation systems.

While safety is the FAA’s top priority domestically and internationally, one 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, free 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.

FY 2009 INTERNATIONAL LEADERSHIP PERFORMANCE MEASURES AND RESULTS

Performance Measure	FY 2009 Target	FY 2009 Results	FY 2009 Status	FY 2010 Target ¹
Commercial Aviation Safety Team (CAST) Safety Enhancements (SEs) Work with the Chinese aviation authorities and industry to adopt 27 proven CAST SEs by FY 2011. This supports China’s efforts to reduce commercial fatal accidents to a rate of 0.030 fatal accidents per 100,000 departures by FY 2012.	5	5	●	4
International Aviation Development Projects By 2013, arrange commitment for external funding for at least 35 aviation development projects (7 per year).	7	8	●	7
Aviation Leaders By 2013, work with at least 18 countries or regional organizations to develop aviation leaders to strengthen the global aviation infrastructure.	2	7	●	3
NextGen Technologies By FY 2013, expand the use of NextGen performance-based systems and concepts to 5 priority countries.	1	1	●	1

¹FY 2010 targets are from the FY 2009–2013 *Flight Plan*.

For information on data sources and estimating and finalization of results, see Completeness and Reliability of Performance Data.

● Goal Achieved

▲ Goal Not Achieved



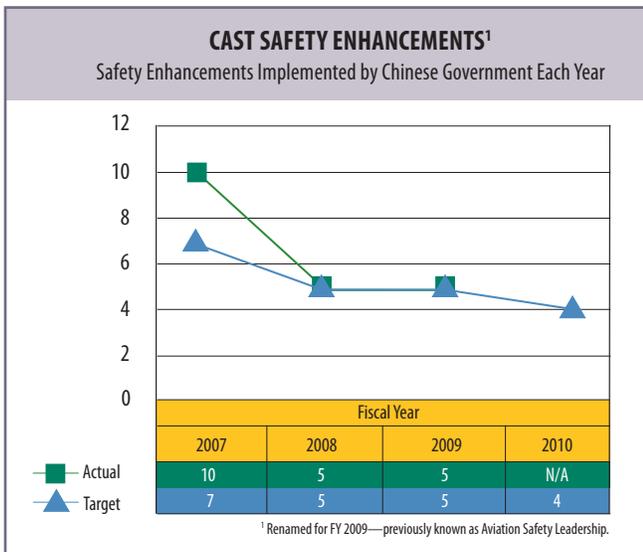
CAST SAFETY ENHANCEMENTS

CAST SAFETY ENHANCEMENTS	
TARGET	Assist China with the adoption of a least 5 of the mutually agreed upon CAST SEs to maintain China's safety performance during rapid growth of the aviation system.
RESULT	<div style="display: flex; align-items: center;"> <div style="margin-right: 10px;">●</div> <div> <p>5 CAST SEs</p> <p>The FAA met its target to implement 5 CAST SEs.</p> </div> </div>
PUBLIC BENEFIT	The flying public benefits from the worldwide implementation of CAST SEs, which are proven to eliminate the precursors of accidents.

CAST was formed in 1997 as a joint Government and industry organization dedicated to reducing the commercial air carrier fatal accident rate in the United States. It focused on the causes of major accidents and developed a series of SEs that eliminated their precursors. These SEs have contributed significantly to the improvement of the U.S. commercial aviation system and have had the same results when implemented around the world.

The FAA works with Chinese aviation authorities, as well as industry, to adopt these SEs. As the fastest-growing commercial fleet in the world, China has maintained an impressive accident rate. For FY 2009, the FAA and China agreed on a target of implementing at least five CAST SEs. The Chinese government implemented five.

The FAA's 5-year target was to work with Chinese aviation authorities to adopt 27 proven CAST SEs. In the last 2 years, China has moved well beyond the 27



initial CAST SEs, and continues to implement. CAST has completed new analysis/reports that have resulted in more SEs. Additionally, China is continuing to accept these additional SEs based on their safety priorities.

INTERNATIONAL AVIATION DEVELOPMENT PROJECTS

INTERNATIONAL AVIATION DEVELOPMENT PROJECTS	
TARGET	Arrange external funding commitments for at least 7 international aviation development projects.
RESULT	<div style="display: flex; align-items: center;"> <div style="margin-right: 10px;">●</div> <div> <p>8</p> <p>We were successful in arranging 8 external funding commitments in FY 2009.</p> <p><i>Note: This measure was new in FY 2009—no trend data are available.</i></p> </div> </div>
PUBLIC BENEFIT	U.S. citizens gain increased aviation safety whenever they travel abroad. This safety goal is attained by spreading FAA safety and efficiency practices in developing countries, leveraging FAA expertise and resources, and avoiding duplication of international aviation donations.

In FY 2009, the FAA continued to promote improved safety and regulatory oversight in cooperation with bilateral regional and multilateral aviation partners with a redefined initiative. The target shifted to focus on worthwhile projects rather than dollar amounts. This redefined initiative allowed the FAA to continue to work with major international partners such as China, India, Indonesia, and Brazil. The FAA committed to the arrangement of funding for seven international aviation development projects. This shift in focus gave the FAA more flexibility and the opportunity to arrange financing for projects in smaller countries like Azerbaijan and Uganda and with a Caribbean regional aviation safety organization. In addition, we were able to provide financing for a conference focusing on aviation in Africa.

Projects included infrastructure and capacity-building projects relating to aviation safety, ATM, and airports. They are funded by sources external to the FAA.

Following are three categories of sources:

- U.S. Government departments and agencies that provide foreign economic assistance
- Multilateral development banks that provide loans to developing countries
- Economic assistance agencies of foreign governments



Projects are considered successful once funds are committed to the project with an agreement by all parties involved.

This year, the FAA International Team established a robust outreach program with U.S. Government organizations that provide development financing. This team also trained managers, desk officers, and senior representatives in-country on how to identify viable projects. Throughout FY 2009, the FAA conducted information sessions with a number of international industry stakeholders such as the U.S. Trade and Development Agency (USTDA) and the Millennium Challenge Corporation (MCC). Both organizations were created to advance economic development in impoverished, developing countries.

We successfully arranged eight external funding commitments for the following:

- Africa Aviation Safety and Security Conference
- Azerbaijan Aviation Safety Technical Assistance
- China Aviation Symposium
- India Aviation Cooperation Program (ACP)
- Indonesia Technical Assistance
- Uganda Expansion of Meteorological Services
- China Executive Management Development Training (EMDT)
- Caribbean Aviation Safety and Security Oversight System Definitional Mission

The FAA has a strategic vision of helping foreign countries to independently meet international aviation standards. One way to meet this vision is to work with countries or regional organizations to develop aviation leaders that will strengthen global aviation infrastructure.

This measure showcases opportunities for the FAA to arrange for foreign civil aviation leaders to strengthen their aviation leadership skills through participation in specific programs. For example, the U.S. Department of State’s International Visitor Leadership Program, FAA’s Executive Management Development Training, and management courses at the FAA academy are all venues providing developmental opportunities for potential and current civil aviation leaders. Working with foreign aviation professionals to develop solid leadership skills is an integral component of developing civil aviation administrations worldwide.

In FY 2009, the FAA exceeded its target by working with seven countries—China, the United Kingdom, Thailand, Indonesia, India, Japan and the Cayman Islands:

- The U.S.-China ACP sponsored Phase III of the EMDT program for Chinese midlevel aviation professionals within the government, airport authorities, and airlines. This phase focused on general management principles. The 32 students completed coursework in effective leadership and program management as well as on-the-job training in new air traffic technologies and at the FAA’s CMEL.
- In March, an International Visitor Leadership Program was developed and conducted for an aviation leader from the United Kingdom. This program focused primarily on environmental best practices.
- Through the International Visitor Leadership Program funded by the Department of State, five Thai civil aviation officials visited in August. This program focused primarily on international aviation safety policies.
- FAA Senior Representative for Southeast Asia secured approval for the visit by 10 Indonesian Aviation officials through the International Visitor Leadership Program. The objective of the program

AVIATION LEADERS

AVIATION LEADERS	
TARGET	Work with at least 2 countries in FY 2009.
RESULT	<div style="display: flex; align-items: center;"> <div style="margin-right: 10px;"> </div> <div> <p>7 FAA exceeded its target to work with at least 7 countries. <i>Note: This measure was new in FY 2009—no trend data are available.</i></p> </div> </div>
PUBLIC BENEFIT	As foreign aviation leaders are exposed to FAA best practices, they are better able to effect improvements within their civil aviation authorities. Therefore, U.S. citizens are provided the benefit of an improved experience when flying abroad.



was to bring together U.S. and Indonesian aviation officials involved in addressing aviation safety standards, accident prevention, and investigation to encourage a comprehensive and systematic exchange of ideas and information. The program, conducted April 19–28, 2009, involved visits to regulators, planners, airports, and manufacturers in Seattle and Washington, DC.

- The Senior Representative in Delhi secured approval under the International Visitor Leadership Program for the Indian Director General of Civil Aviation to participate in an aviation safety oversight visit to the FAA September 1–19, 2009. The program focused on discussions and visits to Flight Standards District Offices in Texas and Georgia, and intense briefings and discussions at the FAA headquarters with the Flight Standards Service and the Aircraft Certification Service.
- The FAA hosted a member of the Japan Ministry of Land, Infrastructure, and Transport January 12–20, 2009. The program focused on gaining a strong basis on the U.S. aviation sector and included meetings with the various FAA LOBs, as well as visits to FAA facilities and the Transportation Security Administration.
- The FAA developed a specialized on-the-job training program for a senior official from the Civil Aviation Authority of the Cayman Islands on security and hazardous materials. For 3 weeks in May–June 2009, the Caymanian official observed FAA hazardous materials agents during air operator inspections, incident response, outreach, and other activities, including briefings on the hazardous materials enforcement/investigative process.

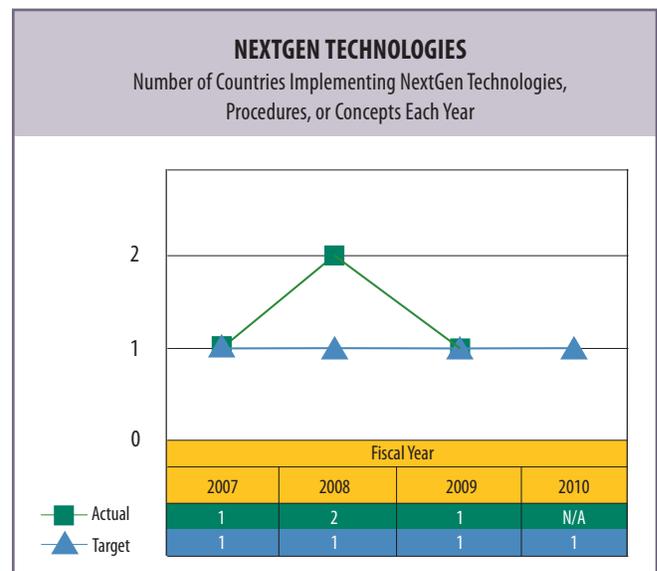
FY 2009 was the first year for this target. However, the FAA does have historical data that shows a positive success rate for this kind of program. The FAA training is a much sought-after commodity in the international arena. This measure is expected to be a long-term measure through at least FY 2013. Future improvements to the program will be in the areas of increased foreign participation and expansion of the training programs.

NEXTGEN TECHNOLOGIES

NEXTGEN TECHNOLOGIES	
TARGET	1 priority country
RESULT	<div style="display: flex; align-items: center;"> <div style="background-color: #008000; border-radius: 50%; width: 20px; height: 20px; margin-right: 10px;"></div> <div> <p>1</p> <p>The FAA expanded the use of NextGen performance-based systems to India.</p> </div> </div>
PUBLIC BENEFIT	By meeting this target, the FAA influences the development of global air traffic flow management requirements and operational procedures to be standardized with those currently in use in the NAS. The result will be a safer, more efficient, and environmentally friendly operating environment around the world for U.S. citizens traveling abroad.

By working with international civil aviation authorities, organizations, and States, the FAA enhances its international leadership role and facilitates standardization of U.S. NextGen technologies, procedures, and concepts with global ATM modernization efforts. The FAA provides a wide array of technical assistance and support to the international civil aviation community to promote NextGen and influence countries to take significant steps toward implementation.

There are a few external factors that impact this target. First, funding is provided by specific FAA program offices, international civil aviation authorities, or air navigation service providers. These funds are provided via the execution of reimbursable bilateral technical assistance agreements. Secondly, political will, cultures, foreign policy, and other government budgets can be significant





factors in the success of this target. Therefore, each year the FAA assesses potential priority countries based on the ability to secure a firm commitment from them.

In FY 2009, the FAA continued to support outreach of NextGen solutions through assistance to foreign governments in the Asia Pacific, Americas, and European regions. After an analysis of ongoing assistance projects, it was clear that the strongest commitment to move toward U.S. NextGen solutions was from the Airports Authority of India (AAI). India had previously stated that air traffic flow management is one of its top priorities to handle the expected large increase in the number of commercial air traffic operations in India. India recognizes U.S. leadership in this area and requested technical assistance with planning for and implementing a requirements roadmap for India. A cooperative reimbursable project establishing all requirements to develop and construct an Indian Central

Flow Control Center and air traffic flow management capability was proposed. This proposal included all associated equipment, communications, and necessary facilities interfaces. On July 23, 2009, the AAI formally accepted the proposal via a letter to the FAA, and subsequently signed the technical assistance agreement on September 25, 2009. This significant project with India will meet the NextGen technologies performance target for FY 2009.

While this measure has been an important and useful tool, the FAA is currently investigating and formulating improvements to this measure and associated target. Specifically, the FAA would like to shift away from a “one country” target that is subjective and relies on many external factors, to a target that is a percentage of successfully completed strategic-level activities in support of NextGen proliferation that are generated from the annual ATO International Strategy document.

ORGANIZATIONAL EXCELLENCE

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

Organizational excellence is an ongoing challenge. As the aviation community continues to face a tough economic environment, the FAA faces many difficult management challenges as well. The FAA’s central management strategy for achieving organizational excellence is to deliver the results described in the *Flight Plan* and to refine our focus on the DOT’s strategic initiatives. Our efforts this year focused on air traffic controller recruitment and placement, as well as maintaining the aviation safety workforce to levels commensurate with the Aviation Safety Workforce Plan.

The FAA also remained vigilant in managing the modernization of the NAS to a satellite-based NextGen system to avoid significant cost overruns, scheduled delays, or performance shortfalls. The GAO removed the FAA from its 2009 High-Risk List because of our progress in addressing some of the root causes of past problems and our commitment to sustaining progress. In FY 2009, we achieved our cost and schedule goals, tracking a total of 64 milestones against 40 different programs. Of the 64 milestones, 60 (93.8 percent) are on or ahead of their scheduled dates. All of our major system investments are within 10 percent variance of current baseline total budget estimate at completion. The FAA continues to deploy new systems across the country and incur fewer cost overruns.



FY 2009 ORGANIZATIONAL EXCELLENCE PERFORMANCE MEASURES AND RESULTS

Performance Measure	FY 2009 Target	FY 2009 Results	FY 2009 Status	FY 2010 Target ¹
STRATEGIC MANAGEMENT OF HUMAN CAPITAL				
Office of Personnel Management (OPM) Hiring Standard By FY 2010, 80 percent of FAA external hires will be filled within OPM's 45-day standard for Government-wide hiring.	65.00%	80.88%	●	80.00%
Reduce Workplace Injuries Reduce the total workplace injury and illness case rate to no more than 2.44 per 100 employees by the end of FY 2011, and maintain through FY 2013.	2.60 per 100	1.77 per 100 ²	●	2.52 per 100
Grievance Processing Time Reduce grievance processing time by 30% (to an average of 102 days) by FY 2010 over the FY 2006 baseline of 146 days, and maintain the reduction through FY 2013.	-25.00%	-73.97%	●	-30%
Air Traffic Controller Workforce Plan Maintain the air traffic controller workforce at, or up to 2% above, the projected annual totals in the Air Traffic Controller Workforce Plan.	0% to 2% over plan	1.19% over plan	●	0% to 2% over plan
Aviation Safety Critical Positions Workforce Plan Maintain the aviation safety workforce within 1% of the projected annual totals in the Aviation Safety Workforce Plan.	+/- 1% of annual target	0.15% over annual target ³	●	+/- 1% of annual target
IMPROVED FINANCIAL PERFORMANCE				
Cost Control Organizations throughout the agency will continue to implement cost-efficiency initiatives such as 10–15% savings for strategic sourcing for selected products and services; by the end of FY 2009, reduce leased space for Automated Flight Service Stations from approximately 510,000 square feet; annual reduction of \$15 million in IT operating costs; by FY 2010, reduce overhead costs 5–10% through automation of invoice processing.	90.00%	1 activity and 123.38% of targeted savings	●	90.00%
Unqualified Audit Obtain an unqualified opinion on the agency's financial statements (with no material weaknesses) each fiscal year.	Unqualified Audit w/NMW	Unqualified Audit w/NMW	●	Unqualified Audit w/NMW
ACQUISITION MANAGEMENT				
Critical Acquisitions on Schedule In FY 2009, 90% of Major System Investments selected annual milestones are achieved.	90.00%	93.75%	●	90.00%
Critical Acquisitions on Budget By FY 2009, 90% of Major System Investments are within 10% variance of current baseline total budget estimate at completion.	90.00%	97.06%	●	90.00%
CUSTOMER SATISFACTION AND OPERATIONAL CAPABILITY				
Customer Satisfaction Maintain the annual average of FAA surveys on the ACSI at or above the average Federal Regulatory Agency score.	61	69.32	●	TBD
Information Security Achieve zero cyber-security events that disable or significantly degrade FAA services.	0	0	●	0
Continuity of Operations Exceed Federal Emergency Management Agency (FEMA) continuity readiness levels by 5%.	5% ahead of FEMA requirements	8.33%	●	5% ahead of FEMA requirements

TBD: To be determined

¹ FY 2010 targets are from the FY 2009–2013 *Flight Plan*.

² Projection from trends. Final data available in November 2009.

For information on data sources and estimating and finalization of results, see Completeness and Reliability of Performance Data.

● Goal Achieved

▲ Goal Not Achieved



STRATEGIC MANAGEMENT OF HUMAN CAPITAL

OPM Hiring Standard

OPM HIRING STANDARD	
TARGET	In FY 2009, 65% of FAA external hires will be filled within OPM's 45-day standard for Government-wide hiring.
RESULT	<p>80.88%</p> <p>At the end of the fourth quarter of FY 2009, 80.88% of external selections through the FAA's online application system, AVIATOR, are within the 45-day hiring standard.</p> <p><i>Note: This measure was new in FY 2008—no trend data are available.</i></p>
PUBLIC BENEFIT	It is critical that the FAA's hiring process is efficient and effective to ensure that the best-qualified candidates are hired in a timely manner to achieve mission results. By using this standard, the lengthy hiring process is decreased and mission-critical positions are filled with quality candidates who may otherwise be selected by private industry.

Throughout government and industry, there is fierce competition to attract a skilled workforce. The FAA must hire capable staff with the requisite competencies in a timely manner. Using the OPM 45-day hiring standard as an organizational excellence performance target, we achieved greater efficiencies in hiring applicants who are new to the Federal Government. In anticipation of the forthcoming retirement bubble, it is in the agency's best interest to ensure that the hiring process nets qualified individuals needed to achieve mission results in a timely manner. Measuring hiring time is a critical step in improving this process.

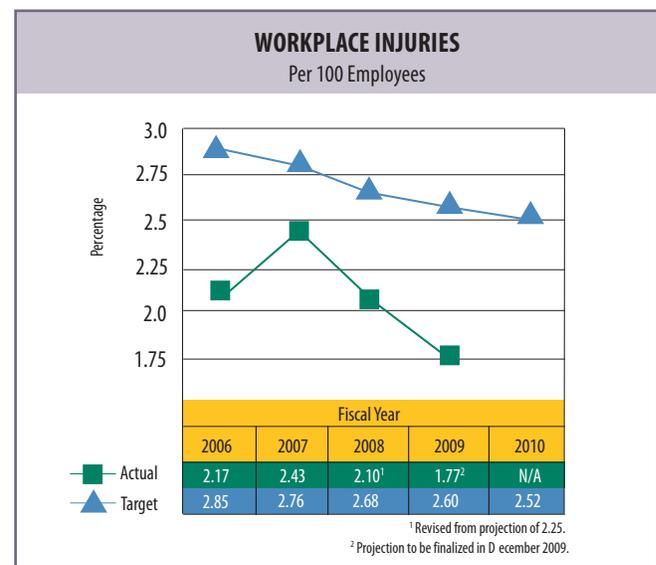
The OPM 45-day hiring standard measure was developed by the OPM as a Government-wide performance standard and is defined as beginning 1 day after a vacancy announcement closes and ending the day a tentative or firm job offer is made to an applicant. This measure applies to all occupational series serviced through an automated online application system, AVIATOR. Air Traffic Controller (2152), Aviation Safety Inspectors ([1825] open continuous announcements), and Executive positions are not included in this measure. The AVIATOR system tracks the number of business days from the closing date of the announcement to the date a tentative or firm offer is made.

Recognizing that communication among all stakeholders is vital, we monitor the hiring process and work with selecting officials. The FAA holds selecting officials accountable for using documented FAA merit hiring principles during the selection process. Audits are used to ensure that selections have been made in good faith and in accordance with these principles. Process efficiency efforts include an internal review and emphasis on data integrity, resulting in a more standardized and documented data collection process. These procedures, along with continuing assessment and correction of process barriers, contributed to our success in achieving the FY 2009 target for this performance goal.

Reduce Workplace Injuries

REDUCE WORKPLACE INJURIES	
TARGET	Reduce the total workplace injury and illness case rate to no more than 2.60 per 100 employees.
RESULT	<p>1.77 (projection from trends)</p> <p>We met our goal, reducing the workplace injury and illness case rate to 1.77.</p>
PUBLIC BENEFIT	Reductions in employee injuries lead to improved productivity and quality of life for the FAA workforce and lower costs for the FAA. The public benefits because FAA employees are not diverted by injuries from their ongoing aviation safety efforts.

The FAA continued to emphasize worker safety through training, inspections, hazard abatement, and program evaluations. These actions were targeted to the most prevalent causes of mishaps, based on analysis of the data and research of effective preventive measures.





As part of the data analysis, we continue to systematically apply Occupational Safety and Health Administration (OSHA) recordkeeping criteria, which helps identify injury causes quickly and allows us to target solutions. This helps to mitigate the risk of injury recurrence.

We met our goal by reducing the workplace injury and illness case rate to 1.77, down from last year's rate of 2.10 per 100 employees. One factor impacting performance was the emphasis on Automated External Defibrillators (AED). AEDs are portable electronic devices that automatically diagnose certain cardiac arrhythmias (abnormal electrical activity in the heart). An AED treats patients by checking the heart rhythm, recognizing a rhythm that requires a shock and treating it with defibrillation (the application of electrical therapy which stops the arrhythmia, allowing the heart to reestablish an effective rhythm). The FAA has tracked the incidence of at-the-FAA-workplace cardiac events for 10 years (October 1998 through September 2008). During this period, we have identified 10 workplace events—about one per year among more than 46,000 FAA employees. Additionally, this life-saving tool added to the confidence of the workforce in the agency employee safety program.

We expect to see continuing improvements in performance as employee safety is incorporated into the overall safety culture of the FAA. Specific workforce safety commitments are in our annual business plans. These commitments emphasize employee awareness and participation, leadership support for employee safety, risk identification and mitigation, training, and employee safety program evaluation with top management accountability.

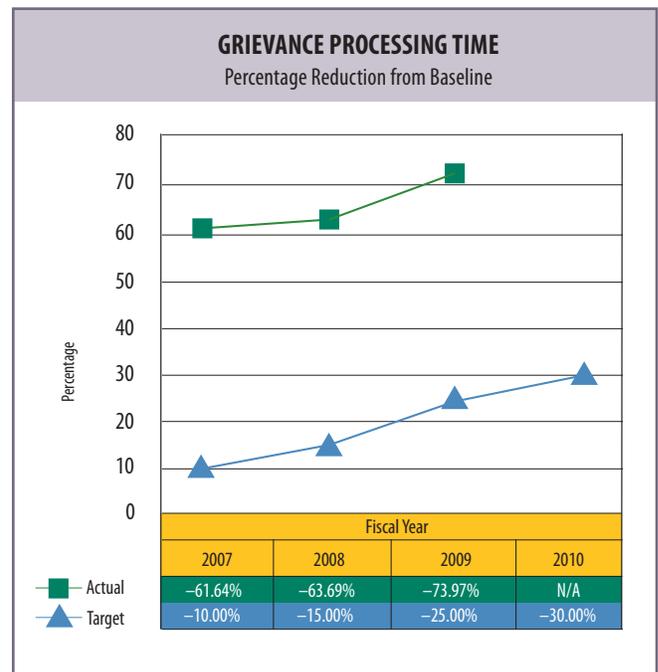
Grievance Processing Time

GRIEVANCE PROCESSING TIME	
TARGET	Reduce average grievance processing time (GPT) by 25% to 110 days from the 2006 baseline of 146 days.
RESULT	<div style="display: flex; align-items: center;"> <div style="margin-right: 10px;"> ● </div> <div> <p style="color: red; margin: 0;">-73.97%</p> <p>We met our goal, achieving a 38-day average GPT for a 73.97% reduction.</p> </div> </div>
PUBLIC BENEFIT	Reducing GPT supports better labor-management relations and enables faster correction of noncompliance with the FAA's collective bargaining agreements, thus ensuring that employees are not distracted from the FAA mission.

To ensure a consistent labor management program, the FAA focuses on providing effective and efficient processes to train managers and supervisors to handle grievances, negotiations, and contract administrations. The agency demonstrates a good-faith effort to deal promptly with employee complaints, which benefits the public as employees' attention to their duties is not distracted by workplace issues.

In FY 2009, we aggressively tracked and processed 1,902 grievances, averaging 38 days in processing time for a 73.97 percent reduction, exceeding the 25 percent target. Our continued efforts to reduce processing time for grievances supports our objective to resolve employee and union complaints at the lowest level possible, with the least amount of time, resources, and disruptions to the work environment and mission.

As the GPT continues to approach the ideal, the year-to-year improvements may be less striking than they have been to date. However, the FAA will continue efforts to maximize the effectiveness of the grievance process.





Air Traffic Controller Workforce Plan

AIR TRAFFIC CONTROLLER WORKFORCE PLAN	
TARGET	Maintain air traffic controller workforce at or up to 2% above the projected annual totals in the Air Traffic Controller Workforce Plan.
RESULT	<div style="display: flex; align-items: center;"> <div style="margin-right: 10px;"> ● </div> <div> <p>1.19% We met our target, achieving 1.29% over the plan.</p> </div> </div>
PUBLIC BENEFIT	This measure is used as a tool to help manage the dynamic staffing needs of the NAS. This gives the FAA the ability to effectively handle system-wide air traffic demand and provide seamless service to the flying public.

This measure is one of the tools used to effectively manage the long-predicted wave of expected controller retirements. These retirements are a result of the mass hiring after the controller strike of 1981. Maintaining this target will mitigate the risk of another major spike in retirement eligibility.

In FY 2009, the FAA achieved its target with an end-of-year workforce level at between 0 to 2 percent more than the plan. The FAA began the process of adding six additional tower cab simulators and upgrading four existing tower cab simulators at the Academy to increase simulation time in initial courses. This initiative is part of ongoing efforts to continually modernize technical training, transform its training infrastructure, increase its capability for Web-based training and access to simulations at all air traffic control facilities. Maturation of the National Training Database brought the expansion of the enterprise learning management system to support both technical and nontechnical training. Controller

training support also has expanded substantially to meet the growing demands in the field as higher numbers of trainees have arrived onsite.

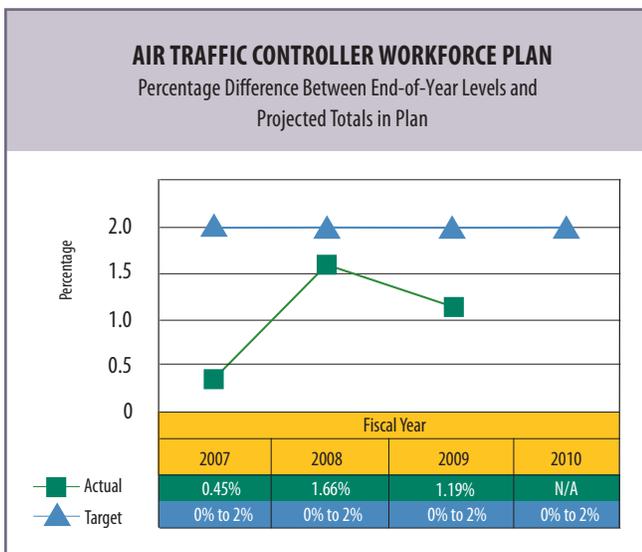
Training modernization will continue to expand access to training resources such as Web-based training and additional simulation. The new contract for air traffic controllers includes incentives to retain retirement-eligible controllers, which will improve the trainee-to-controller ratios.

The updated Controller Workforce Plan will be published March 2010 with revised hiring targets (See the current plan at: http://www.faa.gov/air_traffic/publications/controller_staffing/media/CWP_2009.pdf). The new plan will incorporate additional information such as facility-by-facility controller numbers and a new benchmark for trainee-to-controller ratios as directed by Congress. The FAA will expand Collegiate Training Initiative (CTI) school participation, and increase the number of air traffic-experienced candidates. We expect steady State hiring for the next 5–10 years.

Aviation Safety Critical Positions Workforce Plan

AVIATION SAFETY CRITICAL POSITIONS WORKFORCE PLAN	
TARGET	Maintain the aviation safety workforce within 1.00% of the projected annual totals contained in the Aviation Safety Workforce Plan. FY 2009 target: 7,184 full-time, permanent employees.
RESULT	<div style="display: flex; align-items: center;"> <div style="margin-right: 10px;"> ● </div> <div> <p>0.15% over annual target At the end of FY 2009, the AVS staffing level was 7,195 or .0015% above the targeted staffing level of 7,184 employees. <i>Note: This measure was new in FY 2009—no trend data are available.</i></p> </div> </div>
PUBLIC BENEFIT	To keep the U.S. aviation system the safest in the world, the FAA must maintain a highly skilled professional and technical safety workforce.

Key to the FAA's success in maintaining the safety of an aviation system that is experiencing the safest period in its history—is its workforce. The primary future workforce challenge will be to hire, train, and retain a highly qualified, high-performing aviation safety workforce with the skills necessary to implement and maintain the SMS.





As of September 30, 2009, AVS had 7,195 full-time, permanent positions on board versus the September 30, 2009, target level of 7,184. The FY 2009 staffing target represented a growth of 193 positions above the FY 2008 end-of-year full-time, permanent staffing level of 7,002.

To achieve this performance target, the FAA's AVS routinely surveys its workforce attitudes and agency workforce planning practices to assess progress in meeting its hiring goals. The organization monitors the attrition of its leadership cadre and safety critical workforce to sustain talent in the face of increasing competition and a decreasing technical labor supply. In addition, the AVS analyzes trends in safety critical occupations to adjust the recruitment and retention strategy to current and future needs.

IMPROVED FINANCIAL PERFORMANCE

Cost Control

COST CONTROL	
TARGET	One activity per approved organization and achievement of 90% of targeted savings.
RESULT	 One activity per approved organization and achievement of 123.38% of targeted savings. The FAA met its goal for the fifth consecutive year. <i>Note: This measure was redefined in FY 2009—no trend data are available.</i>
PUBLIC BENEFIT	Funds received by the FAA are being used in a more efficient and cost-effective manner. The FAA is taking aggressive steps to stem the growth of operating costs. This measure is a tool by which increased focus is placed on efficiency and cost reduction.

In FY 2009, the FAA's Cost Control Program met and exceeded the end-of-year goal by reaching 123.38 percent of cost savings and avoidance. Organizations throughout the FAA implemented at least one cost savings or avoidance activity. In some cases, organizations offered more than one activity in support of this very important program. These combined activities accomplished and exceeded the 90 percent goal of targeted savings set at the beginning of the year. The primary source of these savings were from strategic sourcing of selected products and services, effective management of the Workers' Compensation

Program, and reductions in IT help desk operating costs. Additionally, unexpected new cost control submissions during the year contributed to this significantly enhanced result.

The FAA's ability to exceed this target after increasing it from FY 2008 can be attributed to the year-long effort to solicit new activities. The new savings totals augmented the end-of-year estimates and effectively pushed the actual higher than expected.

The Cost Control Program is a vibrant and mature program that continues to challenge the FAA to be more cost-efficient. This program will continue to aggressively search for opportunities to curb operating costs. In FY 2010, the target will again be updated to provide a greater challenge to the agency.

Unqualified Audit

UNQUALIFIED AUDIT	
TARGET	Obtain an unqualified opinion on the agency's financial statements (with no material weakness [NMW]).
RESULT	 Unqualified audit with no material weaknesses. FAA met this target in FY 2009.
PUBLIC BENEFIT	The public benefit is the assurance by independent auditors that the agency is being operated in a transparent and fiscally responsible manner.

This measure is an indicator of the quality of the FAA's financial accountability. An unqualified audit opinion tells the public and Congress that we are transparent and accountable in how we are using scarce taxpayer resources.

All FAA organizations have the responsibility for following accounting policy properly by entering accurate source data into the accounting system. This is essential to achieving an unqualified audit with NMW.

A strong emphasis on the audit is a priority from the highest levels of the organization. The FAA allocates ample resources to resolve audit issues, ensure integrity of data and business system operations, and to monitor ongoing performance.



ACQUISITION MANAGEMENT

Critical Acquisitions on Schedule/ Critical Acquisitions on Budget

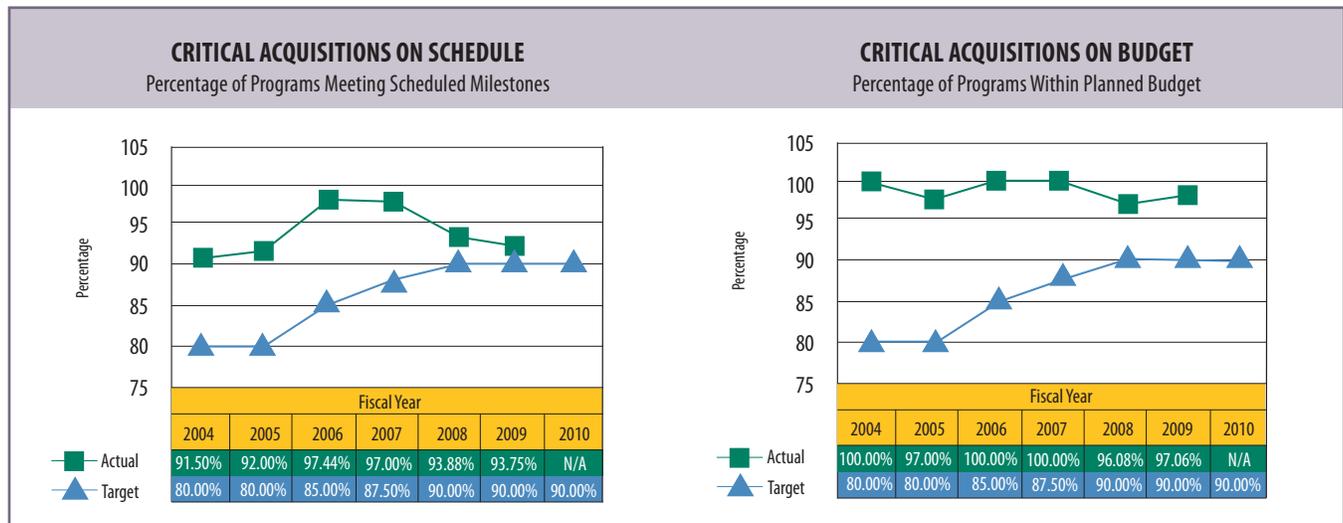
CRITICAL ACQUISITIONS ON SCHEDULE AND BUDGET	
TARGET	Ensure that 90% of critical acquisition programs are on schedule and 90% of critical acquisition programs are within 10% of budget as reflected in the Capital Investment Plan.
RESULT	 93.75% on schedule and 97.06% on budget <i>Note: This measure was redefined in FY 2008—no trend data are available.</i>
PUBLIC BENEFIT	The FAA's ability to keep acquisitions within budget and schedule will allow for a timely transition of NextGen programs. The transition to NextGen involves acquiring numerous systems to support improved safety, increased capacity, and reduced delay for the flying public.

The critical acquisitions on schedule and budget targets represent progressive measures for each fiscal year of the performance of critical FAA acquisition programs. These performance measures began in FY 2003 and will continue each fiscal year through the acquisition of the selected programs. Both performance targets increased each year until it reached 90 percent in FY 2008. This progressive increase from 80 percent in FY 2003 to 90 percent in FY 2008 ensures that the FAA's acquisition performance is consistent with targets set in The DOT Strategic Plan 2006–2011.

In FY 2009, a total of 93.8 percent of the Major System Investments remained within their established schedule goals. Sixty of a total of 64 milestones were completed as scheduled. Three of the four milestones not completed on their scheduled dates were completed within the fiscal year and had no impact on overall program performance. One milestone is projected to be completed in the second quarter of FY 2010. The FAA's internal management process and alignment with strategic goals continue to result in a higher percentage of milestones meeting their schedules. In the GAO's January 2009 report titled High-Risk Series and Update, the GAO determined that the FAA's improved management capabilities on major projects warranted removal from the GAO High-Risk List.

Also, a total of 97.06 percent of the Major System Investments remained within their established cost goals. The increase in funding for one program was authorized to continue with sustainment of the system. All of the major programs completed their performance goals within the established baselines.

Schedule and Budget success can be attributed to quarterly reviews implemented within the FAA's ATO with the Senior Vice President for Finance and the ATO Service Unit Vice Presidents responsible for management of the capital programs within their domains. Financial status, acquisition baseline milestones, annual milestones, EVM performance data, and technical requirements stability are covered in the reviews.





Additionally, large or complex capital programs are now segmented into manageable phases to improve executive oversight and control. Segmenting large capital programs into phases such as development, demonstration, and production, allows FAA management to review incremental progress against cost and schedule baselines and approve subsequent program phases based upon program performance achieved to date.

For future years, the FAA is addressing the potential of combining the separate Acquisition Budget Goal and Acquisition Schedule goal into one Acquisition Budget and Schedule goal based on a programs total cost and schedule baseline performance. GAO report GAO-08-42 Air Traffic Control FAA Reports Progress in System Acquisitions, but Changes in Performance Measurement Could Improve Usefulness of Information states: "Because ATO's acquisition performance measures lack objectivity, reliability, coverage of core activities, and clarity, and focus only on the preceding year, they may not provide a valid assessment of performance over time."

Combining this measure to represent total program performance would alleviate confusion, provide better clarity and consistency with congressional reporting, which is based on total program cost and schedule performance. The FAA also will look at increasing the measurement threshold from 90 to 95 percent.

CUSTOMER SATISFACTION AND OPERATIONAL CAPABILITY

Customer Satisfaction

CUSTOMER SATISFACTION	
TARGET	61 average Federal Regulatory Agency score
RESULT	<p>69.32</p> <p>We met our target for customer satisfaction, achieving an American Customer Satisfaction Index (ACSI) score of 69.32.</p> <p><i>Note: This measure was redefined in FY 2008—no trend data are available.</i></p>
PUBLIC BENEFIT	This measure tracks trends in public benefit and perceptions regarding the services provided by the FAA. Information garnered from these surveys helps the FAA identify and rectify public issues.

The ACSI is a uniform and independent measure of household consumption experience. The ACSI tracks trends in customer satisfaction and provides benchmarking insights of the consumer economy for companies, industry trade associations, and government agencies. This measure provides a recognized, independent source of customer satisfaction information that can be used to benchmark against other ACSI scores for regulatory and Federal Government satisfaction indices. The FAA's survey includes nine customer bases: commercial pilots, general aviation pilots, mechanics, repair stations, air carriers, and customers of the ATO's services, manufacturers, airports, and Web users.

All surveys are baselined and validated, and weighted within the approved schedule. The annual target is to meet or exceed the Federal Regulatory Agency average for the prior fiscal year, which is reported by ACSI. This target has been a challenging one for the FAA. It will take a few more years to accurately baseline this measure.

Public perception is often based on news stories, specific incidents, or personal experience, rather than data or facts. This has led to inaccurate survey outcomes. For example, severely decreased scores on the Commercial Pilots Survey in FY 2008 were a reflection of general dissatisfaction in the general aviation arena rather than specific issues with the FAA. Therefore, the FAA is working to ensure that survey questions are appropriate and solicit valuable fact-based data.

Two surveys are annual: Air Traffic Services and the FAA Web site. All other surveys are biennial: Commercial Pilots, General Aviation Pilots, Maintenance Technicians, Repair Stations, Air Carriers, Airports, and Manufacturers. After each survey, an action plan is created to correct specific issues identified. This year, the ATO survey result was 68 and weighted at 67 percent of the total. The AOC survey was 72 and weighted at 33 percent of the total. These two surveys combined for a final score of 69.32, exceeding our target of 61.



Information Security

INFORMATION SECURITY	
TARGET	0 cyber-security events that significantly disable or degrade FAA services.
RESULT	<div style="display: flex; align-items: center;"> <div style="background-color: #2e8b57; width: 20px; height: 20px; border-radius: 50%; margin-right: 10px;"></div> <div> <p>0</p> <p>The FAA met its goal of 0 cyber security events for the fifth consecutive year.</p> <p><i>Note: This measure has resulted in the same outcome each year—no trend chart necessary.</i></p> </div> </div>
PUBLIC BENEFIT	The benefit to the public is a safe and secure NAS with no disruption of service due to a cyber event.

Hackers seek to disrupt or exploit critical infrastructure across the United States. One critical infrastructure, as identified by the President in the Homeland Security Presidential Directive (HSPD)-7, is our transportation system, including aviation. Accordingly, the FAA, whose mission is to provide a safe, efficient, and responsive air transportation system that serves the Nation and supports the global aviation community, must be protected against the threat of cyber attacks. The Office of Information Services (AIO) is the agency lead for ensuring that these attacks do not significantly disable or degrade FAA services.

This year there were no cyber events that disabled or seriously degraded FAA services. While the number of events detected has increased dramatically during the past year, none affected the services offered to the public by the FAA. This was due to advances made in the infusion of technology into the CSMC as well as the quality of the analysts looking at the alerts. Additionally, Information System Security Managers within each LOB have been able to react quickly to changing events.

The future outlook appears promising. The CSMC continues to invest in new technologies that will enhance our ability to protect the FAA. Additionally, the CSMC continues to partner with world class organizations, both on the Federal side and commercial side, in an effort to improve our security posture.

Continuity of Operations

CONTINUITY OF OPERATIONS	
TARGET	Exceed FEMA continuity readiness levels by 5%.
RESULT	<div style="display: flex; align-items: center;"> <div style="background-color: #2e8b57; width: 20px; height: 20px; border-radius: 50%; margin-right: 10px;"></div> <div> <p>8.33%</p> <p>We surpassed our target by exceeding the FEMA readiness level by 8.33%.</p> <p><i>Note: This measure was new in FY 2009—no trend data are available.</i></p> </div> </div>
PUBLIC BENEFIT	The ability of the FAA to achieve continuity of operations quickly in response to a variety of incidents and/or disasters ensures that the national airspace remains operational.

Achieving readiness levels earlier than FEMA requires enhancing our ability to respond to crises, rapidly and effectively, including security-related threats and natural disasters. In addition, by achieving this measure, we demonstrate to other Federal agencies and the public that the FAA stands ready to respond in a timely fashion to any issue or event. Readiness levels are established and designed to place departments and agencies in a readiness posture that will ensure minimal disruptions, if any, in functions that are essential to its mission.

In the absence of a real-world event, the FAA routinely participates in a continuity of operations (COOP) exercise. During this exercise, the FAA is required by FEMA to accomplish specified tasks within 12 hours. The FAA achieved and exceeded its internal target to exceed this level by 5 percent and accomplished all required tasks in 11 hours or 8.3 percent less than the FEMA requirement. These annual COOP exercises take place on a varied schedule and are part of a larger-scale training and exercise program.

In FY 2009, we continued to build and improve emergency plans and preparedness tools to sustain essential services and provide for employee well-being during crisis events. For example, Web-based training was made available for all FAA employees to encourage enhanced preparedness to work and continue essential functions during pandemic influenza.



In addition, implementations of security measures at FAA facilities were validated and facilities were accredited in a timely manner. These implementations will help to maintain a secure environment for our workforce and ensure a stable national airspace for the public. We also developed Web-based emergency operation information-sharing tools that create a common operational picture and support effective decisionmaking. An annual emergency operations conference and two regional emergency exercises were successfully completed to ensure that FAA's workforce is trained and responsive to emergencies, and to ensure the continuing operation of the national airspace.

VERIFICATION AND VALIDATION OF PERFORMANCE INFORMATION

We employ strong management controls to ensure that data used to assess performance are accurate, timely, and complete. By exercising rigorous internal and external reviews, our verification and validation process promotes the confidence of FAA managers and the Administrator in our performance results. We use several internal review processes to ensure accurate data.

DOT also independently verifies performance data for critical Safety, Capacity, International, and Organizational Excellence measures. In addition, several performance measures, such as the Commercial Air Carrier Fatality Rate and General Aviation Fatal Accident Rate, require independent verification by the NTSB and the Bureau of Transportation Statistics. Data for this measure are not considered final until the NTSB gives its approval.

COMPLETENESS AND RELIABILITY OF PERFORMANCE DATA

Annually, we review and update the FAA Portfolio of Goals to ensure that each performance target has accurate and detailed documentation. Each metric in the FAA's Portfolio of Goals has a methodology statement. The methodology statements communicate why the measure was chosen and detail how the measure is calculated, the source of the data, and the completeness and reliability of the measure. Where the criteria for targets have changed, we note and explain the changes.

(See http://www.faa.gov/about/plans_reports to review our FY 2009 Portfolio of Goals.)

ASSESSING PROGRAMS

Program Evaluation. A critical component of managing our performance is the periodic evaluation of FAA programs. Performance measures show if intended outcomes are occurring, and assess any trends. Program evaluations use analytic techniques to assess the extent to which our programs are contributing to those outcomes and trends. Information on the two program evaluations completed in FY 2009—the Operational Error Program and the Acquisition Management System—follows.

Operational Error Program

An operational error occurs when a controller fails to maintain separation between two aircraft. Such an occurrence can be an extremely serious incident that can lead to a catastrophic accident. Ensuring that all events involving a loss of separation are accurately reported, investigated, and addressed is critical to the safe operation of the NAS and supports the FAA's safety goal.

A program evaluation was conducted by the DOT's OIG between November 2007 and December 2008 in compliance with generally accepted Government auditing standards. The purpose of this evaluation was to determine if the FAA had adequate policies and procedures in place to ensure the accuracy and consistency of operational error reporting, and to review the roles and responsibilities of the ATO and FAA's aviation safety LOBs in reporting and investigating operational errors.

The OIG statistically reviewed 166 pilot deviations with a loss of separation that occurred during FY 2007 at 13 air traffic facilities and interviewed FAA representatives. Additionally, they reviewed the following:

- Radar and voice data
- Preliminary and final pilot deviation reports and related documentation
- Quality Assurance Review reports and related documentation
- Operational Error Detection Program alert logs and related documentation



- Operational error documentation if the pilot deviation was also an operational error
- FAA guidance

Findings. This audit found that problems identified at the Dallas Fort Worth TRACON facility were not systemic. However, the audit found that significant weaknesses exist in FAA's processes for reporting and investigating incidents involving a loss of separation.

Recommendations. Recommendations included establishing: (1) a followup mechanism to ensure flight standards inspectors comply with new guidance for investigating pilot deviations, (2) a process to rate the severity of pilot deviations and a corresponding goal to reduce the most severe incidents, (3) milestones for fully implementing the Traffic Analysis and Review Program, and (4) an internal audit of the planned changes to the ATO's safety oversight.

Planned Actions. Office of Safety personnel now conduct an independent review of all reported pilot deviations involving a loss of separation to ensure that any operational errors associated with the event are also properly reported. The Office of Safety provides a weekly report on the results of these reviews.

The Office of Safety works in coordination with the Office of Flight Standards to modify current pilot deviation reporting so that all preliminary loss reports are coordinated through the ATO's new Quality Assurance Service Area groups, to be established in FY 2010.

In FY 2010, the Office of Safety will conduct risk analysis of all losses in which less than 66 percent separation was maintained, including both types of separation loss which are currently reported as operational errors and pilot deviations.

Acquisition Management System

The FAA's Acquisition Management System (AMS), defines life cycle management policy, activities, and roles to plan, select, implement, and manage the FAA's equipment, systems, facilities, and services.

Established in 2004, the FAA's ATO significantly altered organizational roles and created several challenges to the people, processes, and governance structure within the AMS. Also, during the past several years, the FAA revised

AMS processes to respond to GAO and DOT IG reviews of the FAA's acquisition programs.

The purpose of an independent assessment of the AMS was to do the following:

- Collect and analyze data pertaining to the efficiency and effectiveness of AMS policy and guidance.
- Understand the current state of AMS life cycle phases, with emphasis on investment analysis and procurement processes.
- Quantitatively and qualitatively compare the AMS against other acquisition systems, industry leading practices, and trends.
- Understand to what extent the AMS addresses past GAO and IG concerns and recommendations.
- Develop findings and recommendations for future improvements to the AMS.

The scope of the evaluation examined the AMS in terms of the following:

- Process—documentation and implementing AMS policies and procedures across each AMS life cycle phase.
- Governance—decisionmaking authority throughout the AMS life cycle.
- People—who execute AMS policies and procedures.
- Systems—automated tools and systems used to facilitate the AMS life cycle.
- Performance Metrics—quantitative measures evaluating the performance of the AMS.

Findings. The findings from the assessment indicate that although the AMS is conceptually sound, the FAA often does not take full advantage of the opportunities provided by the AMS framework. Given the level, frequency, and scope of change at FAA during the past several years, AMS governance, processes, systems, roles, responsibilities, and performance metrics must continue to adapt. Selected findings with the greatest impact on implementation of the AMS included the following:

- The AMS was designed to manage the life cycle of large, complex major systems acquisitions and may not appropriately accommodate other investments.



- The established FAA governance structure is appropriate, but there appears to be an inadequate use of subordinate investment review boards.
- Investment analysis involves many reviewing organizations whose roles and responsibilities are not clearly defined, with insufficient collaboration among them.
- The AMS policy does not accurately reflect subordinate policies.
- Service organizations may not have the requisite skills or resources needed to perform investment analysis responsibilities within the AMS.
- Contracting process time is perceived as being too long and not proportionate to the size of the procurement.

Recommendations. Recommendations from the assessment were grouped into the following five major themes:

- Restructure governance process.
- Adopt a portfolio management view to oversee investments.
- Streamline investment selection process based on type of investment.
- Implement improvements to support full range of purchasing activities.
- Enable a high-performing acquisition organization.

Within the above major themes were the following three recommendations with a potential for high impact that should be singled out for further analysis and recommendations:

- Institute acquisition categories defining a specific path and review authorities based on specific program criteria.
- Assess the investment selection review process and identify an approach to streamline it.
- Establish processes to support development of the AMS process schedules for capital investments.

Planned Actions. In late 2009, the FAA began implementing one high-impact recommendation to establish acquisition categories. This recommendation will streamline decisionmaking and documentation required for the FAA's investment selection.

Also in 2009, the FAA began work to implement another high-impact recommendation to streamline the investment selection process. Streamlined investment analysis processes and reviews are expected to improve the time and effort to transition proposed investments from concept and requirements definition to detailed business case analysis.

FAA Center for Advanced Aviation System Development

Prior to extending a contract and agreement with a Federally Funded Research and Development Center (FFRDC), the FAA conducts a comprehensive review of the use and need for the FFRDC. The FAA FFRDC is MITRE Center for Advanced Aviation System Development (CAASD). This review contributed to the overall comprehensive review of the FAA's FFRDC prior to entering into the next 10-year agreement and contract. The next FFRDC agreement and contract will augment the FAA workforce with additional expertise, skills, and information necessary for the implementation of the NextGen Air Traffic System.

Findings. CAASD has been efficient and effective in meeting the FAA's needs during the past 9 years of the current sponsoring agreement. The vast majority of products were delivered as specified in the Outcome and Output statements, and most were delivered on or ahead of schedule. In addition, FAA customer feedback indicated nearly universal satisfaction with CAASD's performance with respect to meeting the customer's needs, maintaining objectivity, maintaining independence, and maintaining expertise over the years, as well as currently.

CAASD management ensured a cost-effective operation during the 9 years of the sponsoring agreement, as demonstrated by CAASD's consistently high-level satisfactory audit results. CAASD demonstrated a willingness to improve when weaknesses were identified.

Recommendations. No recommendations were made as part of this subject review report. The findings and conclusions will serve as supporting documentation during the proposed sponsoring agreement Executive Decision Team review. Recommendations may be addressed at the comprehensive review level (AJP-9).



FY 2009 INSPECTOR GENERAL'S SUMMARY OF CHALLENGES AND FAA ACTIONS

THE DOT OIG APPROACH

Each fiscal year, the OIG issues its annual report on DOT's top management challenges to provide a forward-looking assessment for DOT agencies during the coming fiscal year. The report helps DOT agencies in focusing attention on and mapping work strategies for the most serious management and performance issues facing the DOT.

In selecting the challenges for each year's list, the OIG continually focuses on the DOT's key strategic goals to improve transportation safety, capacity, and efficiency.

The OIG's oversight of DOT programs, draws from several dynamic factors to identify key challenges. These include new departmental initiatives, cooperative goals with other Federal departments, recent changes in the Nation's transportation environment and industry, and global issues that could have implications for the U.S. traveling public.

For FY 2009, the OIG identified the following four Management Challenges and associated issues for the FAA, which are summarized below. (The full report can be found at http://www.oig.dot.gov/StreamFile?file=/data/pdfdocs/FINAL_for_508.pdf.) For a summary of the draft OIG Management Challenges for FY 2010, see page 139.

FY 2009 MANAGEMENT CHALLENGE	ISSUE
Enhancing Aviation Safety and Maintaining Confidence in FAA's Ability To Provide Effective Oversight of a Rapidly Changing Industry	Maintaining Confidence in FAA's Oversight of Air Carriers and Certification and Production of New Segments of the Aircraft Industry <ul style="list-style-type: none"> • Enhancing Oversight of Air Carrier Operations • Improving Certification and Production Oversight of New Segments of the Aircraft Industry
	Following Through on Longstanding Commitments To Improve Oversight of External Repair Facilities
	Improving Runway Safety by Implementing New Technologies, Making Airport-Specific Changes, and Reinvigorating FAA Initiatives
Enhancing Mobility and Reducing Congestion in America's Transportation System	Reducing Delays and Improving Customer Service as the Airlines Struggle with Higher Fuel Costs
	Keeping Airport Infrastructure and Airspace Projects on Track
Operating the NAS While Developing and Transitioning to the NextGen Air Transportation System	Hiring and Training 17,000 New Controllers Through 2018
	Keeping Existing Projects on Track and Reducing Risks with NextGen
	Sustaining FAA's Extensive Network of Aging Facilities
Protecting Against Increasing Cyber Security Risks and Enhancing the Protection of PII	Enhancing Security Protection of the Air Traffic Control System as a Critical National Infrastructure



Management Challenges are not issues that are easily solved. In many cases they require investments or upgrades to technology or substantial changes in long-standing procedures or program activities. To completely address a Management Challenge may take more than 1 fiscal year.

The following section provides information on steps the FAA took during FY 2009 to remediate the Management Challenges identified by the OIG. To provide perspective on the FAA's progress in resolving a particular challenge, the DOT has provided an assessment of the FAA's progress in resolving the challenge as currently defined. We have displayed the DOT's assessment in a progress meter for each challenge.

CHALLENGE: Enhancing Aviation Safety and Maintaining Confidence in FAA's Ability To Provide Effective Oversight of a Rapidly Changing Industry

Airline consolidation and downsizing, as well as the introduction of new aircraft and technologies continue to dramatically change the aerospace industry. In addition, the FAA must continually adapt its oversight to further enhance safety. Key challenges involve maintaining confidence in the FAA's oversight of air carriers.

The FAA has regulatory and statutory authority to provide oversight on air carriers' safety standards. The goal of the FAA's oversight responsibility is to reflect "one level of safety," requiring all air carriers to operate under the same rules and at the same level of safety.



Enhancing Oversight of Air Carrier Operations.

The FAA has actively pursued safety program enhancements to ensure that relationships with airlines are appropriate and professional and that noncompliant airlines are fully addressing the underlying safety problems. Specifically, the FAA has committed to enhancing the current Air Carrier Evaluation Program (ACEP) to perform periodic reviews to evaluate air carrier regulatory compliance, perform comparative analysis of ACEP data to review the effectiveness of Air Transportation Oversight System (ATOS) design and performance, and to periodically review field office compliance with ATOS policy and procedures.

In December 2008, the FAA issued Notice N 1100.322, which established the Audit and Evaluation Office under the Office of the Chief Counsel. This office provides a consolidated venue for FAA employees and the aviation industry to report safety-related issues. The agency also is closely monitoring ATOS inspections that exceed frequencies for inspection and providing semiannual reports to Congress. In FY 2009, the FAA also focused attention on the development of Flight Standard Evaluation Program processes and checklists to periodically assess field office compliance with ATOS policy and procedures.

The FAA also developed a risk-based process to target ACEP teams to perform periodic reviews of air carrier compliance. In support of this effort, the agency developed and validated a risk-based scheduling process that includes a scoring system and thresholds for mandating evaluations.

The FAA also created Flight Standard Evaluation Program job aids to assess the relationship between the certificate-holding district office and the operator to ensure field office compliance with agency policy. The agency developed and beta tested a desk audit process for determining the culture of the Certificate Management Teams (CMTs) and the Certificate Management Office/ Flight Service District Office. During the beta testing of the newly developed audit process, the FAA discovered some questions that could not be answered or gave anomalous results. As a result of the beta test, the agency is revising and strengthening the desk audit process.



Improving Certification and Production Oversight of New Segments of the Aircraft Industry.

Introduction of Very Light Jets (VLJ) into the NAS is a key change occurring in the industry and has inherent risks. These aircraft use advanced avionics and turbine engine technology typical of large transport aircraft and are combined with the light weight of smaller, private aircraft. Therefore, they do not easily fit into the FAA's existing certification framework and make the current general aviation certification requirements inadequate to address the advanced concepts introduced on the aircraft.

In FY 2009, the FAA published a Notice of Proposed Rulemaking (NPRM) that addresses updated certification regulations for part 23 turbojets. The FAA also published a revision to an Advisory Circular that addresses the emergence of turbine engine-powered part 23 airplanes. Additionally, we established a rulemaking schedule to address function and reliability testing for part 23 turbojets that weigh less than 6,000 pounds. We will continue to use special conditions to establish the appropriate certification standards until new regulations are finalized.

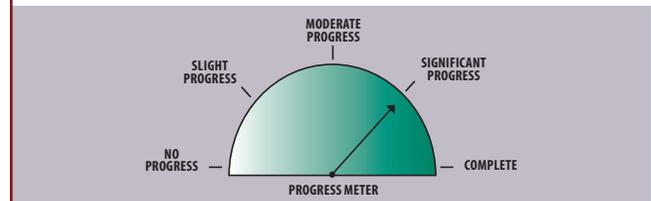
In 2009, the issuance of a new Advisory Circular and coordination process provided greater standardization and improved communications between the Aircraft Certification Service and Flight Standards Service.

The Flight Standard Evaluation Program processes and procedures will be completed in early FY 2010 and ready for implementation shortly thereafter. Additionally, in early FY 2010, a proposal that includes the risk-based scheduling process and recommendations for personnel and resource requirements will be presented for Flight Standards Service approval. By November 15, 2009, the FAA will make necessary adjustments to the process and begin validation of the process in January 2010. The FAA will begin using this process once validation is completed.

In 2010, the FAA will complete the internal coordination process for the part 23 turbojet certification regulations NPRM and associated policy. In 2011, the FAA expects completion of these regulations and implementation of the remaining policy will further this standardization and communication.

Although the FAA has made progress during the past several years in increasing the system's safety and efficiency, our goal is to proactively identify and work to implement further safety improvements and to increase accountability for the efficient use of resources to meet oversight requirements.

Following Through on Longstanding Commitments To Improve Oversight of External Repair Facilities



The FAA provides safety oversight to both the air carriers and repair stations to ensure that they comply with their regulatory responsibilities. During the last few years, air carriers have been contracting a larger percentage of their maintenance work to repair stations rather than maintaining their own facilities. In addition, U.S.-certificated repair stations are frequently contracting with other vendors, both foreign and domestic, to perform maintenance functions. These factors add layers of complexity and risk to the air carriers' responsibility to oversee all maintenance done on their aircraft, by any maintenance provider. The air carrier must ensure that the repair station performs the work in accordance with the air carriers' manuals. Further, any U.S.-certificated repair station, in the United States or outside, has to meet the same safety standards. If a certificated repair station contracts with another vendor to perform a function, then the repair station must make sure that the work has been satisfactorily performed.

The FAA has strengthened air carrier maintenance policy and procedures to provide more enhanced oversight. The FAA has bolstered its programs to reflect dynamic changes in the aviation industry in three specific areas of identified risk: (1) air carriers' increased use of maintenance providers or certificated repair stations, (2) need to refine and narrow the definition of "substantial" or "critical" maintenance, and (3) focus on the air carrier's Continuing Analysis and Surveillance System (CASS).



In FY 2009, the FAA began work on a major policy change that uses the term “air carrier maintenance provider” to mean anyone used by an air carrier for work on its aircraft or components. This change clarifies the difference between maintenance that an air carrier’s own maintenance department and employees may perform versus work that an air carrier contracts with another maintenance provider to perform. Thus, there can be no difference between the maintenance performed by an air carrier at its own facility, using its own employees, and work performed at a repair station by other people. This change provides consistency in the FAA’s safety oversight of air carriers and repair stations.

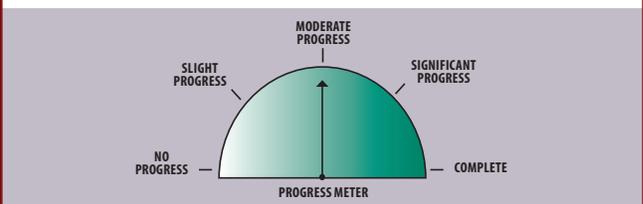
Another improvement that the FAA began in FY 2009 is a new single definition of “essential maintenance” to replace terms used in the past, such as substantial maintenance, critical maintenance, and critical parts. The FAA has defined essential maintenance and listed those particular maintenance functions in a notice due for publication in the first quarter of FY 2010. Air carriers will be required to list their essential maintenance providers on their operations specifications. Operations specifications are a contract that an air carrier and the FAA agree upon to show how the air carrier will comply with regulations that pertain to its business. The new operations specification and related policy, guidance, and surveillance requirements are currently going through an internal agency review process.

To improve the FAA’s safety oversight of certificated repair stations and/or maintenance providers, the agency instituted a risk-based oversight system. The system provides FAA safety inspectors with the tools to ensure air carrier maintenance providers are following proper procedures. The FAA verifies this through periodic surveillance inspections. New guidance to safety inspectors will include a requirement to conduct an initial audit within a predetermined timeframe and followup onsite inspections of air carriers’ essential maintenance providers at intervals not to exceed 3 calendar years. These inspections will assess if, and to what extent, the maintenance providers comply with the air carriers’ specified procedures, and if the maintenance providers are using the appropriate equipment, tools, facilities, and personnel to accomplish the work. The air carrier will be responsible for correcting any identified deficiencies.

The agency also is revising a training course for FAA safety inspectors on CASS and its requirements. The revised course material emphasizes the primary responsibility of an air carrier for the performance of any maintenance on its aircraft and includes detailed information on the concepts and methodology of risk assessment and risk management. The FAA expects to deliver the revised course to the safety inspector workforce during FY 2010. In addition, the FAA will continue internal analysis, reviewing carrier input, and new industry and technology trends, and will strengthen air carrier maintenance policy and guidance as needs emerge.

The FAA published changes to the repair station regulations, strengthening the requirements for repair stations to possess and maintain a quality control system when contracting maintenance. The improved regulatory requirements, along with our enhanced repair station oversight process, provide increased visibility of surveillance data to ensure repair station outsource maintenance activities are properly controlled by the repair stations with effective FAA oversight.

Improving Runway Safety by Implementing New Technologies, Making Airport-Specific Changes, and Reinvigorating FAA Initiatives.



Although runway incursions are down 53 percent since FY 2001, the runway environment remains one of the highest-risk areas in the NAS. Runway incidents continue to be a substantial threat to safety, and reducing the risk of potential runway incursions is one of the FAA’s top safety priorities. Implementing new technology holds the promise of reducing total runway incursions well below current levels.

The FAA’s Call to Action, established in FY 2007 to mitigate the continuing risk of runway incursions, has made significant progress by focusing on outreach and awareness, and improving technology and infrastructure.



The FAA has completed almost all of the identified short-term initiatives and exceeded the FY 2009 goal of reducing total incursions by 1 percent. Much of the progress is attributed to all levels of the aviation industry taking a proactive role in mitigating runway incursions.

The majority of runway incursions (approximately 65 percent) occur when a pilot violates a regulation or fails to adhere to air traffic controller's instructions. With nearly 64 million takeoffs and landings every year, the FAA has focused attention on preventing mistakes and quickly reacting to errors. The FAA has enhanced its training and education by publishing a collection of runway safety videos and other promotional products to increase situational awareness. The runway safety videos explore risk and prevention strategies while operating in the terminal airspace and on the surface of airports.

The FAA continues to deploy new technologies to enhance runway safety by initiating acquisition activities to facilitate NAS transition and implementation. The ASDE-X is a surface surveillance detection system that integrates data from a variety of sources. It provides controllers with a more reliable view of airport operations that improves situational awareness resulting in a reduction of surface deviations, the number of runway incursions, and the number of incidents or accidents.

Capstone 3, launched in 2008, is a program that subsidizes air carriers for the installation of Surface Moving Map (SMM) displays on electronic flight bags in the cockpit. With SMM displays and Own-Ship Position, pilots will see exactly where their aircrafts are on the airfield, thus reducing the chances of losing situational awareness and being in the wrong place. In FY 2009, the FAA reached agreements with seven U.S. airlines to fund in-cockpit runway safety systems in exchange for critical operational data. The data will help the FAA evaluate the safety impact of the technology and is expected to accelerate key safety capabilities necessary for the transition to NextGen.

LCGS is a low-cost, commercially available radar surveillance system that would reduce the risk of runway incursions, especially during periods of low visibility, at certain small- and medium-sized airports. The FAA will install these systems at airports that do not have either

ASDE-X or ASDE-3. In FY 2009, the FAA completed the pilot program at Spokane International Airport and the results show that the system is suitable and cost-effective. Contracts have been awarded to install LCGS at Manchester Boston Regional, San Jose International, Reno/Tahoe International, and Long Beach International.

An RWSL system is a series of runway lights that illuminate red, alerting pilots when it is unsafe to enter, cross, or begin takeoff on a runway. RWSL assess any possible conflicts with surface traffic and reduce the likelihood of runway incursions. In 2009, RWSL systems are currently installed at San Diego, Dallas/Ft. Worth, and Los Angeles. In April 2008, the FAA entered a preliminary agreement to install an additional RWSL system for evaluation at Boston Logan Airport, and engineering studies began in FY 2009.

Installation of RWSL/Runway Intersection Lights test bed at Boston Logan Airport is scheduled for completion in March 2010. RWSL/Runway Intersection Lights shadow operation at Boston Logan Airport is scheduled for completion in May 2010. In September 2010, the FAA will conduct a Field Operational Evaluation of the RWSL/Runway Intersection Lights function at Boston Logan Airport. The FAA will establish new test beds at Los Angeles and Boston Logan Airports during the FY 2009–2010 timeframe.

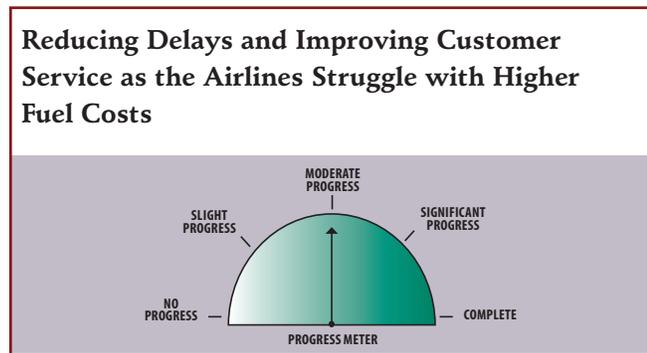
Final Approach Runway Occupancy Signal (FAROS) is an automated safety system designed to notify pilots on approach to land that the runway is occupied or otherwise unsafe for landing. This pilot notification system addresses the high-priority safety hazards of runway incursions and is undergoing long-term testing at Long Beach. An enhanced version of FAROS (eFAROS) was installed at Dallas/Ft. Worth and the short-term operational evaluation indicates the system is effective. Final results are expected to be available in late 2009. In May 2010, the FAA will procure and install an LCGS system at one airport with two more installations scheduled for October 2010.

Based on the continued emphasis on runway safety, FY 2009 is expected to eclipse FY 2008 as the safest year on record regarding serious runway incursions. Further, total numbers of runway incursions that have been increasing annually, and in the last 2 fiscal years by



13 to 14 percent, will be reduced below a baseline established in FY 2008. As the advanced technology systems are implemented, their expected cumulative effect is to further diminish the number of incursions and their severity.

CHALLENGE: Enhancing Mobility and Reducing Congestion in America's Transportation System



Aviation system delays occur when the demand for air transport services exceeds the capacity of the system. Congestion and delays cost the traveling public and aviation industry billions of dollars each year in added expense and lost productivity. One of the largest expenses for the aviation industry is the cost of jet fuel. When airlines incur taxi delays or airborne delays, they use even more fuel, thereby increasing their costs. While fuel costs are currently around \$2 per gallon, most analysts believe the cost of jet fuel will increase again after the economy recovers.

While the implementation of NextGen is the long-term solution to reducing congestion and increasing capacity of the NAS, the FAA continues to work aggressively on reducing delays and meeting the anticipated demand for air travel. To temporarily ease congestion and reduce delays, the FAA and DOT have implemented the following short-term initiatives to improve the accountability, enforcement, and protection afforded air travelers.

Congestion Management at LaGuardia, JFK, and Newark Airports. The FAA issued final congestion management rules in October 2008 to address continued delay problems at New York's LaGuardia, JFK, and Newark airports. However, in late FY 2009, the FAA rescinded the New York rules as a result of the impact of the Omnibus Appropriations Act on the rules, and the

state of the economy in general. Despite the decision to rescind the rules, the FAA believes some form of congestion management is necessary at these airports on a long-term basis. In ongoing efforts to reduce delays, the FAA continues to keep the limits on scheduled operations at LaGuardia, JFK, and Newark while the Administration considers next steps for a long-term congestion management solution for the New York area airports. In 2010, the FAA will reevaluate policy alternatives and initiate new congestion management rulemaking for LaGuardia, JFK, and Newark airports.

New York Area Operational Improvements.

The FAA is working to implement several operational initiatives that will increase efficiency and reduce delays at the Port Authority of New York- and New Jersey-run airports. In addition, the Port Authority is making improvements and conducting maintenance on the airfield at JFK airport. These include widening of runways, strengthening of taxiways, new high-speed turnoffs, and runway rehabilitation.

Other initiatives to explore operational improvements include New York, New Jersey, and Philadelphia Airspace Redesign and continued work on the New York Aviation Committee's list of 77 recommended fixes for reducing delays. The agency also continues communications with DoD to open up airspace over the east coast during holidays to civilian operations.

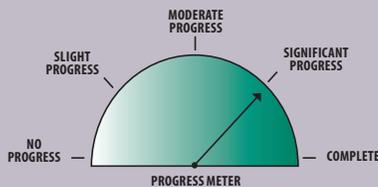
O'Hare International Airport. The FAA requires U.S. and foreign air carriers to report their proposed scheduled operations at O'Hare in advance. The agency then uses the information to anticipate and take action to prevent excessive scheduling and delays.

The Chicago Airspace Project (CAP) is two-thirds complete. Design for the final components is currently ongoing, and will continue into FY 2010. Implementation of the remaining components will begin in late 2012 and is expected to be complete, along with the O'Hare Modernization Project (OMP), in late 2014. Benefits from the OMP include reduced delay and increased capacity.



The FAA expects to continue bringing operational improvements online that will provide for increased efficiencies and reduce delays in the New York metro area and nationwide, this year and in the future. Other objectives of the congestion management initiatives are to ensure efficient utilization of scarce resources, as well as to foster increased competition.

Keeping Airport Infrastructure and Airspace Projects on Track



The long-term solution to increasing capacity and reducing delays depends largely on expanding capacity through NextGen. However, until the full benefits of NextGen are realized, several near-term initiatives—building new runways and redesigning airspace—have potential for relieving congestion.

In FY 2009, the FAA's ongoing effort to meet the needs of today's air traveling public by reducing congestion and subsequent delays, culminated with the unprecedented opening of three new runways at three of the Nation's busiest airports—on the same day.

At Washington Dulles, the new runway significantly enhanced capacity by accommodating an additional 100,000 aircraft operations annually while decreasing the delay per operation by an average of 2.5 minutes. Additionally, this new runway allowed the airport to perform much-needed reconstruction on its center runway during the summer of 2009 without experiencing associated delays.

Seattle-Tacoma Airport's new runway was critical to capacity, given that the two existing runways were closely spaced, impeding efficiency during periods of low clouds that occur 44 percent of the time. With this new runway, Seattle-Tacoma is accommodating as many as eight additional on-time arrivals per hour, even in poor weather.

The new Chicago O'Hare runway represented a major and necessary milestone in the airport's modernization program, offering new final approach fixes and taxiway systems. This runway will enable the airport to accommodate more than 52,000 annual operations while reducing average annual delays.

The FAA's ongoing campaign to increase efficiencies had several additional notable successes in FY 2009. On December 4, 2008, Dallas/Ft. Worth opened a new southeast "end-around taxiway." End-around taxiways increase operational capacity and runway safety by allowing aircraft to taxi around the end of the runway. Also, in August 2009, a new taxiway opened ahead of schedule at Boston Logan Airport, and will reduce ground delays by as much as 22 percent.

In February 2009, Philadelphia International Airport opened a 1,040-foot extension to runway 17-35. This was accomplished a month ahead of schedule. This runway extension alone is projected to save airlines \$20 million a year in aircraft direct operating costs and generate a net savings in passenger time, valued at \$29 million annually.

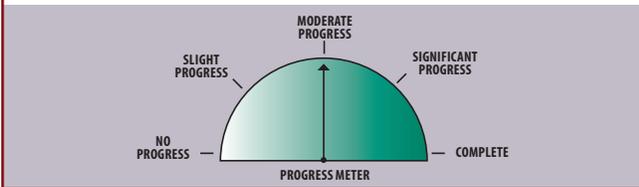
Collectively, the FY 2009 runway and taxiway projects at some of our Nation's busiest major hub airports yielded dramatic efficiencies resulting in 327,000 more annual operations.

These achievements represent the successful culmination of FAA efforts to cultivate partnerships and work in tandem with local governments and communities to achieve lasting benefits. Delays are reduced for millions of passengers annually, while saving hundreds of millions of dollars per year for travelers and for the airline industry.



CHALLENGE: Operating the NAS While Developing and Transitioning to the NextGen Air Transportation System

Hiring and Training 17,000 New Controllers Through 2018



The FAA’s highly trained air traffic controllers play a critical role in achieving the outstanding level of aviation safety we enjoy in the United States. During the next decade, the FAA plans to hire and train nearly 17,000 controllers to replace those who were hired after the 1981 strike and are now retiring. Deploying a well-trained air traffic controller workforce plays an essential role in ensuring that every day tens of thousands of aircraft are moved safely and expeditiously through the NAS to their destinations. Because the FAA “staffs to traffic,” this provides the flexibility to match the number of air traffic controllers at its facilities with traffic volume and workload. The FAA expects to continue to adjust staffing to meet the expected changes in air traffic activity.

To augment the centralized hiring activities, the FAA expanded the Pre-Employment Processing Centers (PEPCs) where FAA hiring teams conduct interviews for qualified candidates and perform required medical and security screenings. This process allows the FAA to hire and train applicants at a faster pace. Seven PEPCs were held during FY 2009 in locations around the country.

Partnerships between the FAA and the colleges and universities in the Air Traffic Collegiate Training Initiative (AT-CTI) program continue to contribute to the success of meeting air traffic controller hiring goals. In the past 5 years, AT-CTI schools across 21 States and Puerto Rico graduated more than 4,000 students from their aviation programs, 3,000 of whom were hired by the FAA. In 2009, the FAA selected five new colleges and universities to be part of the AT-CTI program, increasing the total number of schools to 36. By FY 2010, the FAA anticipates maintaining 36 to 40 AT-CTI schools in the program graduating 1,000 to 1,500 students per year.

As the agency brings thousands of new air traffic controllers on board, the training of these new employees continues to be closely monitored at all facilities. The FAA’s goal is to limit the trainee ratio to less than 35 percent of the total controller workforce, ensuring that there are adequate numbers of fully trained controllers in all facilities.

The FAA convened a workgroup to identify a percentage range or percentage target for developmental controllers. This workgroup concluded that there is no single factor that should be used to determine what a facility can realistically accommodate while accomplishing facility training and daily operations.

The workgroup, however, agreed that there are several items that should form the starting point for discussions around this topic, for example: (1) Controller Workforce Plan Staffing Range, (2) Actual Trainee Percentage, and (3) Facility Trainee Distribution. Since the current average trainee percentage of 28 percent is still well below the historical 35 percent guideline discussed above, the FAA decided to keep the historical guideline at 35 percent. One way that the FAA maintains this trainee percentage is to transfer veteran controllers to busier, higher-level facilities effectively reducing trainee-to-controller ratios.

Since training affects and is affected by so many other factors, the FAA considers trainee percentages and ranges along with other facility events and indicators over time. The FAA will continue to closely monitor facilities to make sure that trainees are progressing through each stage of training, while also ensuring the safe and efficient operation of the NAS. In the 2009 Controller Workforce Plan, the FAA included an appendix showing by facility, the number of controllers in training who were exceeding their respective training time benchmarks. The FAA believes that meeting the training time benchmarks is a more meaningful goal to track. Depending on the complexity of the facility, controllers are now being trained in 2 to 3 years.

During this past year, the FAA continued to increase the terminal simulation capacity at the training academy by installing four new high-fidelity tower cab simulators, providing a realistic tower environment in which to teach trainees; two more are planned for FY 2011.



The FAA is evaluating the use of state-of-the-art en route training labs that simulate the air traffic control technology currently in use in en route facilities. The FAA also installed another seven tower cab simulators in field facilities including key locations such as Philadelphia, New York, Boston, and Denver. By improving training techniques and using high-fidelity simulators, the FAA has reduced the training period from an average of 3 to 5 years down to 2 to 3 years. Thirteen simulators from the FY 2008 Tower Simulation System acquisition effort were successfully installed in field facilities.

Technical Training conducted quality management reviews at more than 60 terminal and en route facilities in FY 2009. The evaluations addressed classroom and lab instructors, curriculum, and remote pilots (RPOs). The audits have been used to identify local and system issues and to recommend corrective actions. Evaluations will continue in FY 2010, with additional facilities reviewed. In addition, regular surveys of stakeholders, customers, and students will commence in FY 2010 to measure their perceptions and ideas for improvements of the national training program.

Increased use of technology has also enabled the FAA to better use existing resources. For example, many facilities have four scopes for training. Yet because of the resource requirements for RPOs, only one trainee at a time can be trained. With the adaption of remote PCs for the RPOs, four trainees can work on the scopes simultaneously. During FY 2010, the FAA is moving to bring this improvement to all TRACONS.

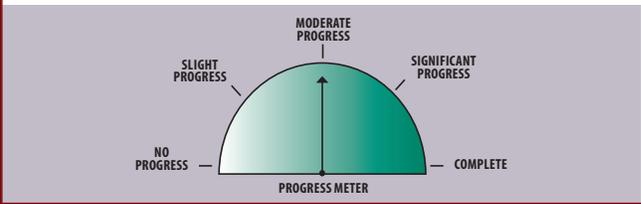
The FAA continues to closely monitor facilities to make sure that trainees are progressing through each stage of prescribed training, while ensuring the safe and efficient operation of the NAS. As veteran controllers retire or resign, controllers hired since 2005 are completing training and replacing the veteran retirees as Certified Professional Controllers. In addition, the FAA is bringing in retired FAA air traffic controllers as contract instructors to train the new workforce. By harnessing their valuable air traffic expertise, these experts can focus solely on training the next generation of controllers, rather than moving back and forth between working traffic and on-the-job training. Similarly, controllers hired in the 1990s may move from midlevel facilities into the higher-paying, higher-workload facilities. The transition

through the ranks continues to provide increased career growth opportunities for the workforce. Phasing in new hires as needed levels out the significant training spikes and troughs experienced during the last 40 years.

In FY 2010, the FAA will continue to be proactive in its hiring and training programs to bring the controller workforce to 15,692. The agency will take action at the facility level if adjustments become necessary due to changes in traffic volume, unanticipated retirements, or other attrition. The Air Traffic Control Workforce Plan, a 10-year strategy, will be updated to continually revise hiring targets for the fiscal year. In conjunction with hiring and staffing, the FAA plans to modify four old simulators at the Academy and four old simulators in the field to match the configuration of the new simulators in FY 2010. Additionally in FY 2010, the Air Traffic Control Optimum Training Solution will provide training support for all 315 FAA facilities where appropriate for cost and efficiency.

The FAA's goal is to ensure that the agency has the flexibility to match the number of controllers at each facility with traffic volume and workload. The current hiring plan has been designed to phase-in new hires as needed. This will avoid another major spike in retirement eligibility like the current one experienced as a result of the 1981 controller strike. The FAA is dedicated to maintaining and improving the levels of safety achieved thus far while continuing to improve.

Keeping Existing Projects on Track and Reducing Risks with NextGen



The FAA faces a number of challenges associated with the implementation of NextGen—an enormously complicated undertaking due to the technological complexities, numerous stakeholders, and broad scope of the effort. As FAA moves forward with NextGen, it must continue to establish a framework for improving system management capabilities, address weaknesses on selected air traffic control systems, implement a cost accounting



system, establish a cost estimating methodology, and make progress in establishing an organizational culture that supports sound acquisitions.

The FAA leveraged the NAS EA to identify critical decision points and strategically align our investment strategy for NextGen in concert with ongoing investments. These decision points guide key NextGen preimplementation activities in the context of other ongoing FAA activities and programs. A key effort in this alignment was an internal gap analysis that includes requirements for addressing identified shortfalls between the current NAS and the midterm NAS EA.

In January 2009, the FAA released an update to its NextGen Implementation Plan (NGIP). The NGIP identifies a series of operational changes that will improve the performance of the NAS immediately while building the foundation for future capabilities. It also includes a core set of avionics targets for mid-term operations, around 2018, which require both government and industry investment. To foster deeper engagement, the FAA requested the aviation community, through the Radio Technical Commission for Aeronautics (RTCA), which functions as a Federal advisory committee, to recommend strategies that focus on maximizing NextGen mid-term operations benefits and address business investment issues. The January 2010 NGIP update will include the FAA's response to the RTCA recommendations. Measuring the progress of NextGen commitments and key activities is critically important to the successful implementation, which is considered complete when all relevant training, policies, and procedures are in place.

Also in 2009, the GAO determined that FAA's air traffic control modernization warranted removal from the High-Risk List. GAO found that FAA executives, managers, and staff demonstrated a strong commitment to—and a capacity for—resolving risks. Agency executives worked with the OMB to refine corrective action plans to address weaknesses, instituted programs to monitor and evaluate the effectiveness of corrective measures, and demonstrated progress in implementing these corrective measures. Specifically, the FAA did the following:

- Improved management capabilities on major projects and is working to extend these improvements to new projects.
- Continued to develop an EA—a blueprint of the agency's current and target operations and infrastructure—and is refining it as the FAA's NextGen system becomes better defined.
- Implemented a cost estimating methodology and a cost accounting system.
- Implemented a comprehensive investment management process.
- Assessed its human capital challenges and is now identifying plans to address critical staff shortages in areas such as program and financial management, systems engineering, contracting, and aviation research.

The FAA has successfully put multiple new systems into operation throughout the country, including new air traffic displays, runway safety systems, and weather processing systems. In addition, while the FAA has reduced the scope of several key programs, its acquisitions have experienced fewer cost overruns and schedule delays. The FAA also developed an updated corrective action plan for 2009 to sustain its improvement efforts and enhance its ability to address risks.

NextGen's success depends on the participation of a highly trained workforce. The FAA contracted with the National Academy of Public Administration (NAPA) to identify the skill sets required to integrate and implement the NextGen initiative. The FAA is now working across organizational lines to address the NAPA recommendations, including continual evaluation of staffing needs versus NextGen demands, streamlining its hiring processes, and aggressively pursuing enhanced training and retention programs.

Notwithstanding the FAA's progress, NextGen is still technically complex and costly, and FAA continues to place a high priority on efficient and effective management. The FAA faces challenges in undertaking needed research and development to better define new technologies, transitioning legacy systems to next-generation technologies, addressing aging facilities, and



obtaining a highly trained workforce with the knowledge and skills to manage the program.

Further, NextGen will be built on key elements from existing programs and technology, and on new systems under development now. The plan is to make the most of modern aircraft capabilities and apply these to elements of the system that can take advantage of them. Then, during the next decade, the FAA will continue a series of coordinated upgrades to the current ground infrastructure and aircraft systems.

With NextGen, we also will have the potential to establish seamless operations beyond our borders. To do so, the FAA will work with international partners to harmonize standards, procedures, and air and space transportation policies worldwide.

NextGen will introduce superior technology and new procedures to enhance operational capabilities and provide numerous efficiencies to the system. The resulting system will be scalable, networked, and fully digital.

With NextGen, the FAA will continue to advance our already exemplary safety record by introducing new analytic tools that more proactively detect adverse trends and identify precursors. These tools will allow us to act on potential problems before they take shape.

In addition, airports will benefit from increased safety, better use of existing capacity, greater design flexibility, and reduced environmental impacts. NextGen will also foster operational improvements, advances in technology, and the development of sustainable alternative fuels that will allow us to reduce aviation’s environmental footprint even as our transportation system grows.

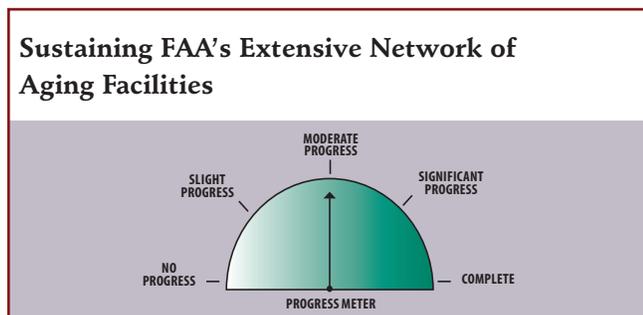
The FAA has the responsibility for more than 500 air traffic control facilities around the country and in U.S. territorial possessions. Many of these have exceeded the average useful life of 30 years and are in need of repair or modernization. Because 59 percent of FAA facilities are more than 30 years old, key decisions regarding facility consolidations and infrastructure needs, especially in light of transitioning to NextGen, are currently under consideration.

The FAA is replacing outdated automation equipment at air traffic control towers and at terminal facilities with more current systems. Automation systems process data and display the information for air traffic controllers. The older equipment is limited in its capacity and is not immediately compatible with essential parts that will be put in place when the agency transitions to NextGen.

In FY 2009, the FAA’s ATO tracked sustainment needs submitted via the Needs Assessment Program tool and managed execution of the requirements via a Corporate Work Plan tool set. Major accomplishments included more than 150 Unstaffed Infrastructure Sustainment projects, which involved 30 shelter replacements, 30 steel tower inspections, 30 HVAC replacements, 30 roof repairs, and 30 access road repairs. In addition, the FAA completed 140 power system sustainment projects to include replacement of 70 engine generators, 5 uninterruptible power systems, and 65 battery systems.

Also, the ATO’s Technical Operations Unit developed a Service Life Replacement Model to assist in tracking facilities replacement funding needs for NextGen. This analysis details facility requirements and operational concepts.

The FAA continues to review future needs of legacy systems in an effort to consolidate remaining legacy equipment and dispose of excess property. The FAA completed the Concept of Use and Preliminary Facility requirements planning document in September 2009. This inventory of legacy air traffic controller equipment and commensurate sustainment requirements allows for the decrease in equipment need as it is overtaken by the NextGen system.





In FY 2009, the FAA received \$200 million in F&E funding from the ARRA. These funds will be used in FY 2010 to upgrade en route air traffic control centers, power systems, air traffic control tower and terminal radar approach facilities, and navigation and landing equipment.

The en route traffic control center program consists of 25 construction projects that will contribute to refurbishing 18 centers that are more than 40 years of age. The construction projects include exterior wall replacements, elevator replacements, roof replacements, parking lot expansion, and refurbishment of mechanical systems.

The power systems program will implement replacement and upgrade construction projects at more than 90 locations nationwide. The projects will include the installation of uninterruptible power supplies, power cable and breaker replacements, installation and upgrades for lightening protection, grounding and bonding, battery replacements, fuel storage tank replacement for engine generators, and installation and upgrade of engine generators.

The air traffic control tower and terminal radar approach control facility program will construct three new tower facilities and modernize three tower facilities.

The navigation and landing program will construct and install 4 airport lighting systems and 3 airport instrument landing systems, and will install replacement lamp monitoring systems at 10 runway sites. In addition, 574 HVAC system replacements in unmanned navigation and landing facilities will be implemented at 128 airport locations nationwide.

In FY 2010, the FAA plans major construction and renovation projects at key locations such as Boston, Los Angeles, Atlanta, Chicago, Minneapolis, and Seattle. Other mission-critical and minor projects also are anticipated at 21 ARTCCs, as well as Center Radar Approach Control facilities in the near future. In addition, during multiple fiscal years, the FAA will further implement more Unstaffed Infrastructure Sustainment projects including shelter replacements, steel tower inspections and major repair work, HVAC replacements, major roof repairs, and access road repairs.

The Facility industry metric used to assess backlog and relative state-of-building infrastructure is the Condition Index. Since 2004, the FAA's Condition Index has improved by an average of 0.6 percent per year due to targeted backlog reduction efforts. Efforts this year resulted in a decrease in maintenance backlog with replacement projects at Wilkes-Barre, Palm Springs, and Oakland towers. An additional decrease in backlog also is realized due to three modernization projects at Bakersfield, New York, and Lincoln for a total reduction of backlog maintenance of roughly \$2.94 million.

CHALLENGE: Protecting Against Increasing Cyber Security Risks and Enhancing the Protection of PII



Commercial aviation plays an important role in fostering and sustaining the national economy and ensuring citizens' safety and mobility. In light of this, the HSPD-7 designated air traffic control systems as part of the Nation's critical infrastructure.

In FY 2009, the FAA completed numerous milestones that support new standards in safeguarding and preserving our critical national infrastructure. In April 2009, the ISS completed its ambitious Audit and Compliance Program Plan. Compliance audits include operational computer systems and prototypes connected with the FAA in operational, mission support, and administrative environments. Regular audits ensure full compliance with multitiered security controls, and with security policies and procedures issued by the DOT, OIG, GAO, and ISS.

"Logical access" is a term collectively referring to policies, procedures, and controls that safeguard access to computers and networks. During FY 2009, the ISS



ongoing regimen of NAS logical access studies were performed and successfully completed during site visits to the following installations: Oakland ARTCC, Southern California Terminal Radar Approach Control, New York ARTCC, and Chicago O'Hare International Airport. The results of these reviews are used to determine the effectiveness of system security controls that are implemented throughout the ATO. Audit findings of noncompliance, when found, are documented to ensure that corrective action is taken.

In addition, the ISS completed the report on logical access at NAS Operational Facilities and the System Configuration Baseline Compliance Audit Test Plan and Test Results Report, and developed the ISS Incident Mitigation Compliance Audit Test Plan and Test Results Report.

The ATO has completed two-thirds of Certification and Accreditation packages compliant with NIST 800-53 Rev. 2 requirements that define successful risk management.

The FAA has developed a Business Continuity Plan (BCP) to ensure consistent and constant operations. Numerous logistical, fiscal, and technical hurdles have been resolved to prepare a recovery site capable of assuming the responsibilities of an inoperable ARTCC. The FAA's William J. Hughes Technical Center is our designated recovery site. It has successfully used live Memphis data to demonstrate that operations could be shifted to an alternate location. The BCP is activation-ready, but would not be considered "Operational" until it is actually used to control air traffic in the event an ARTCC is lost for an extended period of time.

In accordance with the established plan, the ATO is on track to achieve 100 percent organizational compliance with security policies, procedures, and multitiered security controls by September 30, 2010.

It is crucial that NAS systems protection remains an increasing, shared, and visible priority. The FAA seeks not only to protect systems that protect travelers, but also to instill a full and justified confidence in customers and airlines, and to pave the way for a secure and successful implementation of NextGen. The ISS program is a growing and dynamic program, and measures its viability and lasting effectiveness by its continued success and by the continued measure of compliance it demonstrates.



The FAA is making pilot fatigue a high priority and is working rapidly to develop and implement a new flight time and rest rule based on fatigue science and a review of international approaches to the issue.

Credit: FAA Image Gallery



A MESSAGE FROM THE CHIEF FINANCIAL OFFICER

In the next two decades, NextGen will transform the way we currently use our national airspace. It is an expensive undertaking, but one we need to meet future flying demands, provide safety enhancements, create additional capacity, improve environmental performance, and support the economic viability of aviation. Currently the FAA's total price tag for NextGen is expected to exceed \$15 billion. We recognize that this investment is substantial, and as we plan for NextGen and begin to implement it, we are constantly mindful of how we spend the taxpayers' dollars.



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

We continue to find ways to better execute and manage the budget resources that Congress provides for NextGen, as well as for the FAA's other critical budget needs. Our hard work to transform our financial management during the past 6 years is paying off.

We have successfully integrated best practices from the corporate world and aggressive strategies to improve performance and operate more like a business. We continue to implement strategies to address the need for cost reduction and improved financial management, including a centrally managed cost-control program, better financial and procurement oversight, and improvements in the tools and training necessary for financial management. To date, our SAVES initiative has achieved more than \$47 million in cost savings. Since the 2005 implementation of a contract-review process for all contracts with a value of \$10 million or more, we have evaluated and made improvements to 211 proposed acquisitions with an estimated contract value of more than \$26 billion. The FAA also is implementing DOT's Federal real property management initiatives. Since they were established, the DOT's efforts have resulted in removal of more than \$250 million in real property assets from the FAA portfolio. Savings

resulting from the disposition of property have been applied toward future disposition efforts, as well as updates, upgrades, repairs, and renovations of current assets.

For the first time since 1995, the GAO removed the FAA's air traffic control modernization program from its High-Risk List because of the progress made in keeping programs within budget and on schedule, and for meeting performance measures and program commitments. We have improved management capabilities on major projects, developed and refined an EA, implemented improved cost-estimating methodologies and a cost-accounting system, implemented a comprehensive investment management process, and assessed our human capital challenges.

In FY 2009:

- We achieved an unqualified opinion on our FY 2009 financial statements with no material weaknesses.
- For the fifth time in 6 years, the Association of Government Accountants awarded us top honors for our FY 2008 PAR. This is considered the highest form of recognition in Federal Government management reporting.
- We received our seventh consecutive award from the League of American Communication Professionals for the FY 2008 Citizens' Report, recognizing it as a top-quality annual report.
- 84 percent of our employees are now on the pay-for-performance system, including our executives. This means that performance targets must be achieved before annual pay raises are granted. As part of this system, we provide incentives to ensure quality work and reward innovation.
- More than 90 percent of our project management initiatives are on time and on budget.



FEDERAL AVIATION ADMINISTRATION

We are proud of our efforts to put exceptional financial management into place and, as a result, the significant gains we have made in terms of accountability to Congress, the taxpayers, and our customers. However, we must continue to earn this trust. We will continue these successful programs as well as pilot new initiatives to ensure that our financial practices remain effective and efficient. We know that every dollar we save can be used to preserve and provide the safest, most efficient aerospace system in the world.

A handwritten signature in black ink, reading "Ramesh K. Punwani".

Ramesh K. Punwani

Assistant Administrator for Financial Services/Chief Financial Officer

November 12, 2009



OIG QUALITY CONTROL REVIEW MEMO

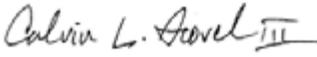


U.S. Department of
Transportation
Office of the Secretary
of Transportation
Office of Inspector General

Memorandum

Subject: ACTION: Quality Control Review of Audited Financial Statements for fiscal years 2009 and 2008, Federal Aviation Administration
Report Number: QC-2010-010

Date: November 13, 2009

From: Calvin L. Scovel III 
Inspector General

Reply to
Attn. of: JA-20

To: The Secretary
Federal Aviation Administrator

I respectfully submit the Office of Inspector General's (OIG) Quality Control Review report on the Federal Aviation Administration's (FAA) audited Financial Statements for Fiscal Years (FY) 2009 and 2008.

The audit of FAA's Financial Statements as of and for the year ended September 30, 2009, was completed by Clifton Gunderson LLP (Clifton Gunderson), of Calverton, Maryland (see Attachment), under contract to OIG. We performed a quality control review of the audit work to ensure that it complied with applicable standards. These standards include the Chief Financial Officers Act, as amended; Generally Accepted Government Auditing Standards; and Office of Management and Budget Bulletin 07-04, "Audit Requirements for Federal Financial Statements," as amended.

Clifton Gunderson concluded that the financial statements present fairly, in all material respects, the financial position of FAA as of September 30, 2009, and its net costs, changes in net position, and budgetary resources, for the year then ended, in conformity with accounting principles generally accepted in the United States. Under contract to OIG, KPMG LLP, of Washington, DC, audited last year's FAA financial statements and also expressed an unqualified opinion on those statements.¹

¹ Quality Control Review of Audited Financial Statements for Fiscal Years 2008 and 2007, Federal Aviation Administration, Report Number QC-2009-008, November 13, 2008. OIG reports and testimony can be found on our Web site at : www.oig.dot.gov.



We congratulate FAA for obtaining clean audit opinions with no material weaknesses for 2 consecutive years. FAA should be commended for making significant progress in correcting control deficiencies in its financial management systems, which is no longer considered a significant deficiency this year. FAA also made good progress in addressing deficiencies pertaining to its Property, Plant, and Equipment (PP&E) accounting and reporting. However, due to the magnitude and complexity of FAA's PP&E, continued management attention is required.

Clifton Gunderson FY 2009 Audit Report

Clifton Gunderson reported one internal control significant deficiency and no instances of reportable noncompliance with laws and regulations.

Significant Deficiency

1. Property, Plant, and Equipment Accounting and Reporting

Clifton Gunderson made 14 recommendations to FAA to strengthen asset management and accounting controls for PP&E; we agree with all the recommendations and therefore, are making no additional recommendations. FAA officials concurred with the significant deficiency and the recommendations and committed to implement corrective actions by June 30, 2010. In accordance with DOT Order 8000.1C, the corrective actions taken in response to the recommendations are subject to follow up.

Our review disclosed no instances where Clifton Gunderson did not comply, in all material respects, with applicable auditing standards.

Other Matters

While not formally addressed in Clifton Gunderson's report, continued management attention and oversight of payments to grantees is needed to help sustain good financial management practices, especially for administering the \$1.3 billion funded under the American Recovery and Reinvestment Act. In FY 2009, acting on our advice, FAA conducted a much more comprehensive test of payments made to Airport Improvement Program grantees. Based on the testing results, FAA projected that about \$38 million in improper payments were made to grantees, mostly due to insufficient supporting documents provided by grantees. Testing for improper payments and requiring grantees to provide adequate support for use of Federal funds is essential to ensure accountability and provide for transparency. We encourage FAA to continue enhancing this testing.



3

We appreciate the cooperation and assistance of representatives of FAA, Office of Financial Management, and Clifton Gunderson. If we can answer any questions, please call me at (202) 366-1959; Ann Calvaresi-Barr, Principal Assistant Inspector General for Auditing and Evaluation, at (202) 366-1427; or Rebecca Leng, Assistant Inspector General for Financial and Information Technology Audits, at (202) 366-1407.

Attachment

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INDEPENDENT AUDITORS' REPORT



INDEPENDENT AUDITOR'S REPORT

Inspector General, U.S. Department of Transportation
Administrator, Federal Aviation Administration

In our audit of the U.S. Department of Transportation (DOT), Federal Aviation Administration (FAA) for fiscal year (FY) 2009 we found:

- The consolidated balance sheet of FAA as of September 30, 2009, and the related consolidated statements of net cost and changes in net position, and the combined statement of budgetary resources for the year then ended (hereinafter referred to as "consolidated financial statements") are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America;
- No material weaknesses in internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations, although internal control could be improved;
- Progress has been made in FY 2009 on the two control deficiency conditions noted in the FY 2008 auditor's report; however, certain matters relating to one of those conditions continue to exist and are reported herein as a significant deficiency.
- No reportable noncompliance with laws and regulations we tested, including the Federal Financial Management Improvement Act of 1996.

The following sections discuss in more detail: (1) these conclusions, (2) our conclusions on Management's Discussion and Analysis (MD&A) and other supplementary information, (3) our audit objectives, scope and methodology, and (4) agency comments and our evaluation.

OPINION ON FINANCIAL STATEMENTS

In our opinion, the accompanying consolidated financial statements including the accompanying notes present fairly, in all material respects, in conformity with accounting principles generally accepted in the United States, FAA's assets, liabilities, and net position as of September 30, 2009, and net costs; changes in net position; and budgetary resources for the year then ended. FAA's financial statements as of and for the year ended September 30, 2008, were audited by other auditors, whose report dated November 4, 2008 expressed an unqualified opinion on those financial statements.

As discussed in Note 1E, *Summary of Significant Accounting Policies*, and Note 12, Earmarked Funds, the accompanying financial statements reflect actual excise tax revenues collected through June 30, 2009 and excise tax revenues estimated by the Department of Treasury's Office of Tax Analysis for the quarter ended September 30, 2009.

Offices in 17 states and Washington, DC





CONSIDERATION OF INTERNAL CONTROL

In planning and performing our audit, we considered FAA's internal control over financial reporting as a basis for designing our auditing procedures and to comply with the Office of Management and Budget (OMB) audit guidance for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting and compliance or on management's assertion on internal control included in MD&A. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over financial reporting or on management's assertion on internal control included in the MD&A.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in **Exhibit I** to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency described in **Exhibit I** is a material weakness.

We also noted certain other nonreportable matters involving internal control and its operation that we communicated in a separate letter to FAA management.

SYSTEMS' COMPLIANCE WITH FFMIA REQUIREMENTS

Under the Federal Financial Management Improvement Act of 1996 (FFMIA), we are required to report whether the financial management systems used by FAA substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the United States Standard General Ledger (SGL) at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements.



The objective of our audit was not to provide an opinion on compliance with FFMIA. Accordingly, we do not express such an opinion. However, our work disclosed no instances in which FAA's financial management systems did not substantially comply with Federal financial management systems requirements, Federal accounting standards or the SGL at the transaction level.

COMPLIANCE WITH LAWS AND REGULATIONS

Our tests of FAA's compliance with selected provisions of laws and regulations for FY 2009 disclosed no instances of noncompliance that would be reportable under United States generally accepted government auditing standards or OMB audit guidance. However, the object of our audit was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

STATUS OF PRIOR YEAR'S CONTROL DEFICIENCIES

As required by United States generally accepted government auditing standards and OMB Bulletin No. 07-04, as amended, we have reviewed the status of FAA's corrective actions with respect to the findings and recommendations included in the prior year's Independent Auditor's Report dated November 4, 2008. Exhibit II provides a discussion on the status of prior year findings and recommendations.

The prior year audit report noted two control deficiencies: 1) *Timely Processing of Transactions and Accounting for Property, Plant & Equipment, including the Construction in Progress Account* and 2) *Information Technology Controls over FAA and Third-party Systems and Applications*. Even though FAA made improvements in its Property, Plant and Equipment accounting policies and procedures in FY 2009, continued improvements are needed. Accordingly, this matter is again included in this report (**Exhibit I**) as a Significant Deficiency. However, FAA management has implemented substantial changes to its Information Technology (IT) policies and procedures and, accordingly, the prior year finding is not considered a Significant Deficiency for purposes of this report. **Exhibit II** provides a discussion on the status of the prior year IT findings and recommendations.

CONSISTENCY OF OTHER INFORMATION

FAA Management's Discussion and Analysis (MD&A) and other required supplementary information (including stewardship information) contains a wide range of information, some of which is not directly related to the financial statements. We compared this information for consistency with the financial statements and discussed the methods of measurement and presentation with FAA officials. Based on this limited work, we found no material inconsistencies with the financial statements; accounting principles generally accepted in the United States, or OMB guidance. However, we do not express an opinion on this information.

The introductory information, performance information and appendixes listed in the table of contents of the MD&A are presented for additional analysis and are not a required part of the



financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

OBJECTIVES, SCOPE AND METHODOLOGY

FAA management is responsible for (1) preparing the financial statements in conformity with accounting principles generally accepted in the United States, (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of the Federal Managers' Financial Integrity Act (FMFIA), are met, (3) ensuring that FAA's financial management systems substantially comply with FFMIA requirements, and (4) complying with other applicable laws and regulations.

We are responsible for obtaining reasonable assurance about whether the financial statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States. We are also responsible for: (1) obtaining a sufficient understanding of internal control over financial reporting and compliance to plan the audit, (2) testing whether FAA's financial management systems substantially comply with the three FFMIA requirements, (3) testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements and laws for which OMB audit guidance requires testing, and (4) performing limited procedures with respect to certain other information appearing in the Performance and Accountability Report.

In order to fulfill these responsibilities, we (1) examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements, (2) assessed the accounting principles used and significant estimates made by management, (3) evaluated the overall presentation of the financial statements, (4) obtained an understanding of FAA and its operations, including its internal control related to financial reporting (including safeguarding of assets), and compliance with laws and regulations (including execution of transactions in accordance with budget authority), (5) tested relevant internal controls over financial reporting, and compliance, and evaluated the design and operating effectiveness of internal control, (6) considered the design of the process for evaluating and reporting on internal control and financial management systems under FMFIA, (7) tested whether FAA's financial management systems substantially complied with the three FFMIA requirements, and (8) tested compliance with selected provisions of certain laws and regulations.

We did not evaluate all internal controls relevant to operating objectives as broadly defined by the FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to controls over financial reporting and compliance. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our evaluation to future periods is subject to risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate. In addition, we caution that our internal control testing may not be sufficient for other purposes.



We did not test compliance with all laws and regulations applicable to FAA. We limited our tests of compliance to selected provisions of laws and regulations that have a direct and material effect on the financial statements and those required by OMB audit guidance that we deemed applicable to FAA's financial statements for the fiscal year ended September 30, 2009. We caution that noncompliance with laws and regulations may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

We performed our audit in accordance with auditing standards generally accepted in the United States; the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB guidance.

AGENCY COMMENTS AND OUR EVALUATION

FAA's response to the findings identified in our audit is described in the accompanying Exhibit III. We did not audit FAA's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of DOT and FAA's management, DOT's Office of Inspector General, OMB, the Government Accountability Office, and the U.S. Congress, and is not intended to be, and should not be, used by anyone other than these specified parties.

Clifton Gundersen LLP

Calverton, Maryland
November 12, 2009



EXHIBIT I

DEPARTMENT OF TRANSPORTATION
FEDERAL AVIATION ADMINISTRATION
CONSIDERATION OF INTERNAL CONTROL
SIGNIFICANT DEFICIENCY
September 30, 2009

Property Plant & Equipment (PP&E) Accounting and Reporting

Background and Control Deficiency Assessment Criteria:

The FAA constructs, operates and maintains a wide variety of capital assets, such as radar, navigational communications, and other technology equipment, used to operate the United States National Airspace System, and other property. The net book value (NBV) of FAA's Property, Plant and Equipment (PP&E) at September 30, 2009 is approximately \$13.7 billion. The three largest accounts of PP&E are as follows: Personal Property\Equipment of approximately \$8.5 billion, Construction in Progress (CIP) of approximately \$2.8 billion, and Real Property of approximately \$2.4 billion.

In prior years, FAA had difficulty in ascertaining the accuracy and existence of property and CIP inventories and, in fiscal year (FY) 2006, the prior auditors reported a material weakness in internal control and qualified their opinion on FAA's FY 2006 financial statements due to uncertainties over the reasonableness of property balances reported. In FY 2007, FAA embarked on a multi-year corrective action plan to improve its internal controls over the accounting and reporting of property transactions. This program began to strengthen FAA's policies and procedures for the proper and timely recording of property transactions; corrected balances; and established periodic asset existence verifications and weekly meetings by top management officials to monitor progress of the improvement program.

Even though FAA made substantial progress since FY 2006 in correcting the weaknesses previously reported, and an unqualified opinion was rendered on FAA's financial statements in FY 2008, property related internal control weaknesses were still noted as a Significant Deficiency in the FY 2008 audit report.

During our FY 2009 audit, we noted that three of the eight weakness conditions detailed in the FY 2008 auditor's report continue to exist. These remaining conditions, and additional matters identified during this year's audit, have resulted in a continuation of this matter as a Significant Deficiency.

Based on criteria set forth in the following literature, we hereby detail the conditions in the following section of this Exhibit:

- Statement of Federal Financial Accounting Standards (SFFAS) No. 6 *Accounting for PP&E*
- OMB Circular A-136, *Financial Reporting Requirements*
- OMB Circular No. A-123, *Management's Responsibility for Internal Control*
- GAO's *Standards for Internal Control in the Federal Government*
- FAA's Financial Manual, Volume 5, Chapter 3



Conditions: During our FY 2009 audit we identified assets with an acquisition cost of as much as \$554 million and NBV of as much as \$251 million that may not have been described or accounted for properly during the year. Sufficient corrections of known errors to FAA's accounting records were made by September 30, 2009. The following conditions describe the circumstances surrounding these errors:

Repeat Conditions:

1. Untimely Removal of Retired Personal Property Assets from the Accounting System

- a) As a result of a statistical sampling of a group of personal property assets with no match to maintenance records (with acquisition cost of \$8.8 billion and NBV of \$5.2 billion), we found instances where assets were reflected in the accounting records but did not exist or were classified improperly. The following is a summary of the results of our tests in this area.
 - Through inspection of documentation and physical observation of 83 personal property assets (acquisition cost of \$313 million, and NBV of \$181 million), we noted the following:
 - 4 instances where an asset no longer existed but had not been removed from the fixed asset subsidiary ledger. These 4 assets, which were actually disposed between 2003 and 2008, had an acquisition cost of \$4.1 million and NBV of \$2.4 million.
 - 1 instance where an asset was noted as being "in use" that had been taken out of service in January 2008, and was still being depreciated in the Delphi accounting system through September 30, 2009.

These errors, extrapolated to the population sampled, resulted in an estimated range of overstatement error in acquisition cost of \$78 million to \$178 million and NBV overstatement error of \$48 million to \$110 million NBV overstatement of personal property. These errors also resulted in an estimated range of understatement of expense of \$35million to \$92 million.
- b) During the FY 2008 audit, it was noted that 14 assets, not examined in our statistical sample referred to in 1a above, did not exist. However, FAA did not remove these assets from the Delphi property asset module until after June 30, 2009. Such assets had an acquisition cost of \$54 million and NBV of \$19 million. Accordingly, PP&E at June 30, 2009 was overstated.
- c) In FY 2001, FAA recorded a reduction in acquisition cost of \$93 million in its accounting records representing the extrapolated error for property incorrectly reported in the property subsidiary record, including among other things property that did not exist at that time. This compensating macro adjustment was carried into the Delphi Property module at that time, and continues to be included therein. As of September 30, 2009, the NBV of this macro adjustment was zero; however, the gross acquisition costs and related accumulated depreciation are still reflected in the PP&E note to FAA's financial statements. In FY 2008, FAA began a full inventory to verify existence of all capital assets reported in its financial reports. This inventory has not yet been completed and, accordingly, the macro adjustment still remains in the Delphi Property module.



2. **Weaknesses in Controls Over the CIP Additions**

- a) In testing FAA’s FY 2009 CIP additions through June 30, 2009, we noted 5 addition transactions (\$12.6 million) out of 49 examined (\$119.6 million) that were not recorded in the period for which the goods or services were received. These errors represented an approximate 10% error rate, and resulted in Accounts Payable and CIP being understated at various points during the year.

Further statistically based tests indicated that that CIP additions and accounts payable at March 31, 2009 were estimated to be understated by \$90.6 million.

Even though these timing errors were corrected by June 30, 2009, the errors indicate that the FAA’s process for recording CIP liabilities in the proper period needs to be improved.

- 3. **Weaknesses In Controls Over FAA’s Quarterly PP&E Accrual** – FAA has a policy goal to capitalize assets within 65 days of either the date the asset is placed in service or the occupancy date, as stated in the annual business plans. This goal was reduced from the 75 day goal in place in FY 2008. Due to these processing time frames at each quarter end, FAA accrues property additions not yet reflected in the accounting records. We noted that for through March 31, 2009, FAA reached its 65 day policy goal 84% of the time. However, FAA’s June 30, 2009 additions accrual of \$42 million was understated by approximately \$32 million, a 43 % error.

New Conditions:

- 4. **Incomplete Analysis of Assets Not In Use** - The acquisition cost and NBV of all property assets categorized as “assets not in use” at September 30, 2009 were \$176 million and \$26 million, respectively. FAA’s current policy is to stop depreciation on the asset when it is taken out of service, and the asset value in the accounting records is adjusted when the asset is disposed. Assets “not in use” transferred or sold in FY 2009 and FY 2008 had an acquisition cost of \$21.8 million (NBV of 811 thousand) and acquisition cost of \$5.8 million (NBV of \$2.3 million), respectively. Statement of Federal Financial Accounting Standards (SFFAS) 6, *Accounting for PP&E*, states that “assets not in use” should be recorded at net realizable value.

FAA has not adequately evaluated its “assets not in use” for the possibility of such assets not being transferred to another federal entity or otherwise sold (i.e. determining its net realizable value in anticipation of a sale to a non-federal entity, or no transfer/sales opportunities at all).

- 5. **Property Asset Descriptions are at Times Incomplete** - During our testing, we noted that asset descriptions in the Delphi fixed asset module records were not always clear, definite, or distinct. In our limited non-statistical testing throughout the year we noted 57 items, with an acquisition cost of \$ 172 million and NBV of \$ 101 million, which had “N/A” or a location as its asset description. Without adequate asset description, assets could more easily be lost or misevaluated as to asset value and usefulness.



Recommendations:

We commend FAA management for the efforts and improvements they have made in its internal controls, application of accounting principles, and monitoring processes since FY 2006. However, as evidenced by the conditions noted above, continued diligence in this area is needed to finish the improvement program begun in FY 2007. In addition, the importance of maintaining procedures in the future to ensure reliance on the accuracy of PP&E data must be stressed to all parties involved or affected. Accordingly, we make the following recommendations:

1. Property Existence

- a) Continue performing existence testing of property to ensure continued accuracy of the property accounting records at any point in time.
- b) Improve communication between the Air Traffic Organization, Office of Regions and Center Operations and Financial Services to report the disposal (excessed, damage, lost or stolen) of assets to ensure that “Retirements” to PP&E are recorded timely, accurately, and completely. Assets identified by program offices as disposed should be removed from the Delphi fixed asset module within one month of identification as disposed to ensure records are updated in a timely manner.
- c) The Air Traffic Organization, in conjunction with Financial Services and the Office of Regions and Center Operations, should continue with their plan to conduct a full rolling inventory of personal and real property owned by the FAA. Such inventory results should be input into Delphi records (the core financial accounting system) to ensure that the PP&E balance reported in the financial statements is complete and accurate. Once the inventory process has covered all assets, FAA should also adjust the Delphi accounting system records for the audit adjustment amount recorded in September 2001 related to estimated disposed assets, considering whether the assets currently being removed were included in the FY 2001 adjustment amount. FAA should evaluate the need for the FY 2001 adjustment in the accounting records until the property record clean up project is complete.
- d) The Air Traffic Organization, in conjunction with Financial Services, should develop a process to perform reconciliations between the Automated Inventory Tracking System (AITS) system, FAA’s personal property management system and Delphi, the core financial accounting system. In addition, develop a process to perform reconciliations between the facility service and equipment profile (FSEP) maintenance log and Delphi.
- e) Review existing processes and automation to develop and implement recommendations that will improve the accuracy of data recorded in Delphi and AITS and support the existence of assets.
- f) Perform a review of all asset depreciation flags in the Delphi fixed asset module and update those records as needed.
- g) Consider adding assets tag codes or barcodes to personal property assets and record this information in the Delphi property accounting system.



2. Timely Capitalization of CIP Additions

- a) Design, implement, and document an accrual process for CIP to ensure that CIP is recorded in the proper accounting period. This process should include a review of the accrual details by management to ensure it is complete and reasonable.
- b) Require use of the accrual process to capture the information required to record CIP accruals for inclusion in the financial statements.
- c) Ensure that the liability amounts relating to CIP are recorded accurately and in a timely manner.

3. Property Accounting Accruals

- a) Continue efforts to review and update accounting records when new assets will be placed into service to ensure timely recording of these transaction in the accounting records.
- b) Strengthen communication and reporting between Financial Services, Air Traffic Organization and the Office of Regions and Center Operations to ensure that all assets that are deployed and placed in service but not capitalized from CIP to “In-Use” are properly accounted for in the quarterly accruals.

4. Other Matters

- a) Establish policies for periodically evaluating the value of assets “not in use”, and write down such assets to net realizable value when the asset has become permanently impaired.
- b) Perform a review of all the asset descriptions within the Delphi fixed asset module and update incomplete records for more accurate and useful descriptions.

In summary, the procedural reasons for the need for the corrections noted above need further investigation by management as they continue to improve their internal controls processes over property plant and equipment transactions.



EXHIBIT II

**DEPARTMENT OF TRANSPORTATION
FEDERAL AVIATION ADMINISTRATION
INDEPENDENT AUDITOR’S REPORT
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
September 30, 2009**

Prior Year Condition	Status As Reported at September 30, 2008	Status as of September 30, 2009
Control Deficiencies		
<p>A. Property, Plant and Equipment, including the Construction in Progress Account</p>	<p><u>Significant Deficiency:</u> While FAA was successful in implementing new policies and procedures in FY 2008 to address the prior year issues, eight conditions were reported relating to the timely and accurate recording of PP&E including CIP transactions. Weaknesses were noted in controls over 1) additions, adjustments, 2) CIP additions, 3) quarterly accrual, 4) timely removal of fixed assets from records, 5) improper expensing of projects, 6) improper up- front coding, 7) improper classification of CIP projects, and 8) incorrect asset useful life, date placed in service, or asset cost.</p>	<p><u>Significant Deficiency:</u> During our FY 2009 audit, we noted that three (#2, 3 & 4) of the eight weakness conditions detailed in the FY 2008 auditor’s report continue to exist. These remaining conditions are reflected in the Significant Deficiency detailed in Exhibit I of this report.</p>
<p>B. Information Technology Controls over FAA and Third- party System and Applications</p>	<p><u>Significant Deficiency:</u> Certain general control weaknesses continue to exist related to FAA’s primary financial applications. Weaknesses were noted in controls over access, application software development and change, segregation of duties, and system software.</p>	<p>This matter is closed except for the condition relating to access controls over the Consolidated Automated System for Time and Labor (CASTLE). However, compensating controls in place minimize this weakness, and the matter will be downgraded to “Management Letter” item.</p>



EXHIBIT III

**DEPARTMENT OF TRANSPORTATION
FEDERAL AVIATION ADMINISTRATION
MANAGEMENT'S RESPONSE TO FY 2009
INDEPENDENT AUDITOR'S REPORT
November 12, 2009**



U.S. Department
of Transportation
**Federal Aviation
Administration**

Assistant Administrator for Financial Services and
Chief Financial Officer

800 Independence Avenue, SW.
Washington, DC 20591

NOV 12 2009

Mr. Sal P. Ercolano, Jr., Partner
Clifton Gunderson, LLP
11710 Beltsville Drive, Suite 300
Calverton, Maryland 20705

Dear Mr. Ercolano:

We have received the Independent Auditor's Report related to your audit of the Federal Aviation Administration's fiscal year 2009 consolidated financial statements, and offer the following response.

The Office of Financial Services, together with the Air Traffic Organization and Office of Regions and Center Operations, will continue to address the *Property, Plant & Equipment Accounting and Reporting* significant deficiency as identified in the audit report. All corrective actions will be substantially completed by March 31, 2010 with the exception of certain portions of the validation and existence testing of personal property assets. By March 31, 2010, we will have completed a review and existence validation of at least 70 percent of Delphi personal property records greater than or equal to \$100,000 net book value (NBV) by using corresponding maintenance records and other asset supporting systems, and will have corrected the Delphi records accordingly. By June 30, 2010, we will have completed a statistically-based validation of the physical existence of all personal property assets, regardless of NBV, and we will have posted an adjustment to correct the effects of any statistically relevant error projection. Thereafter, we will conduct ongoing rolling inventories to confirm the physical existence of personal property assets and correct the associated asset records as necessary. Thus, by June 30, 2010, 100 percent of the NBV of all personal property assets will have been individually tested, validated, and corrected, or included in a statistically based error projection.

FAA is committed to continuously improving financial management over agency programs, and to providing excellent service to our stakeholders and taxpayers. We will continue to work in partnership with the audit team in support of an efficient and effective audit.

Sincerely,

Ramesh K. Punwani



FINANCIAL STATEMENTS

U.S. Department of Transportation
 FEDERAL AVIATION ADMINISTRATION
 CONSOLIDATED BALANCE SHEETS
 As of September 30
 (Dollars in Thousands)

Assets	2009	2008
Intragovernmental		
Fund balance with Treasury (Note 2)	\$ 4,064,759	\$ 3,926,742
Investments, net (Note 3)	9,170,185	8,846,350
Accounts receivable, prepayments, and other (Note 4)	286,896	195,119
Total intragovernmental	13,521,840	12,968,211
Accounts receivable, prepayments, and other, net (Note 4)	98,433	134,695
Inventory, operating materials, and supplies, net (Note 5)	551,127	538,837
Property, plant, and equipment, net (Notes 6 and 9)	13,740,336	13,765,187
Total assets	\$ 27,911,736	\$ 27,406,930
Liabilities		
Intragovernmental liabilities		
Accounts payable	\$ 25,160	\$ 11,521
Employee-related and other (Note 8)	376,121	379,002
Total intragovernmental liabilities	401,281	390,523
Accounts payable	496,211	335,937
Grants payable	775,734	642,041
Environmental (Note 7, 15 & 16)	810,814	637,825
Employee-related and other (Notes 8, 9 & 16)	1,054,851	1,037,837
Federal employee benefits (Note 10)	901,282	915,242
Total liabilities	4,440,173	3,959,405
Commitments and contingencies (Notes 9 & 16)		
Net position		
Unexpended appropriations—earmarked funds (Note 12)	1,142,193	920,894
Unexpended appropriations—other funds	1,008,244	-
Subtotal unexpended appropriations	2,150,437	920,894
Cumulative results of operations—earmarked funds (Note 12)	11,236,393	11,182,229
Cumulative results of operations—other funds	10,084,733	11,344,402
Subtotal cumulative results of operations	21,321,126	22,526,631
Total net position	23,471,563	23,447,525
Total liabilities and net position	\$ 27,911,736	\$ 27,406,930

The accompanying notes are an integral part of these financial statements.



U.S. Department of Transportation
 FEDERAL AVIATION ADMINISTRATION
 CONSOLIDATED STATEMENTS OF NET COST
 For the Years Ended September 30
 (Dollars in Thousands)

Line of business programs (Note 11)	2009	2008
Air Traffic Organization		
Expenses	\$ 11,171,855	\$ 10,596,417
Less earned revenues	(271,754)	(171,211)
Net costs	10,900,101	10,425,206
Aviation Safety		
Expenses	1,187,156	1,161,014
Less earned revenues	(10,245)	(6,142)
Net costs	1,176,911	1,154,872
Airports		
Expenses	4,034,970	3,753,840
Less earned revenues	(369)	(165)
Net costs	4,034,601	3,753,675
Commercial Space Transportation		
Expenses	15,308	11,257
Net costs	15,308	11,257
Non line of business programs		
Regional and center operations and other programs		
Expenses	598,681	557,994
Less earned revenues	(334,870)	(370,883)
Net costs	263,811	187,111
Net cost of operations		
Total expenses	17,007,970	16,080,522
Less earned revenues	(617,238)	(548,401)
Total net cost	\$ 16,390,732	\$ 15,532,121

The accompanying notes are an integral part of these financial statements.



U. S. Department of Transportation
 FEDERAL AVIATION ADMINISTRATION
 CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION
 UNEXPENDED APPROPRIATIONS
 For the Years Ended September 30
 (Dollars in Thousands)

	2009 <u>Earmarked</u> <u>Unexpended</u> <u>appropriations</u>	2009 <u>Other funds</u> <u>Unexpended</u> <u>appropriations</u>	2009 <u>Totals</u> <u>Unexpended</u> <u>appropriations</u>	2008 <u>Earmarked</u> <u>Unexpended</u> <u>appropriations</u>	2008 <u>Other funds</u> <u>Unexpended</u> <u>appropriations</u>	2008 <u>Totals</u> <u>Unexpended</u> <u>appropriations</u>
Beginning balances	\$ 920,894	\$ -	\$ 920,894	\$ 1,097,089	\$ 2,877	\$ 1,099,916
Budgetary financing sources						
Appropriations received (Note 14)	3,804,462	1,300,000	5,104,462	2,342,989	-	2,342,989
Appropriations transferred—in/out	3,700	-	3,700	-	-	-
Rescissions, cancellations and other	(104,787)	-	(104,787)	(20,393)	-	(20,393)
Appropriations used	<u>(3,482,076)</u>	<u>(291,756)</u>	<u>(3,773,832)</u>	<u>(2,498,691)</u>	<u>(2,877)</u>	<u>(2,501,568)</u>
Total budgetary financing sources	<u>221,299</u>	<u>1,008,244</u>	<u>1,229,543</u>	<u>(176,145)</u>	<u>(2,877)</u>	<u>(179,022)</u>
Ending balances	<u>\$ 1,142,193</u>	<u>\$ 1,008,244</u>	<u>\$ 2,150,437</u>	<u>\$ 920,894</u>	<u>\$ -</u>	<u>\$ 920,894</u>

The accompanying notes are an integral part of these financial statements.



U. S. Department of Transportation
 FEDERAL AVIATION ADMINISTRATION
 CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION
 CUMULATIVE RESULTS OF OPERATIONS
 For the Years Ended September 30
 (Dollars in Thousands)

	2009 <u>Earmarked</u>	2009 <u>Other funds</u>	2009 <u>Totals</u>	2008 <u>Earmarked</u>	2008 <u>Other funds</u>	2008 <u>Totals</u>
	Cumulative results of operations					
Beginning balances	\$ 11,182,229	\$ 11,844,402	\$ 22,526,631	\$ 11,647,347	\$ 11,178,310	\$ 22,825,657
Budgetary financing sources						
Appropriations used	3,482,076	291,756	3,773,832	2,498,691	2,877	2,501,568
Nonexchange revenue—excise taxes and other (Note 12)	10,884,331	1,441	10,885,772	12,283,879	(5,119)	12,278,760
Transfers—in/out without reimbursement	(135,549)	-	(135,549)	(111,563)	-	(111,563)
Other financing sources						
Transfers—in/out without reimbursement	(529,750)	528,645	(1,105)	(1,898,366)	1,898,366	-
Imputed financing from costs absorbed by others (Note 13)	610,150	52,127	662,277	514,478	49,852	564,330
Total financing sources	<u>14,311,258</u>	<u>873,969</u>	<u>15,185,227</u>	<u>13,287,119</u>	<u>1,945,976</u>	<u>15,233,095</u>
Net cost of operations	<u>14,257,094</u>	<u>2,133,638</u>	<u>16,390,732</u>	<u>13,752,237</u>	<u>1,779,884</u>	<u>15,532,121</u>
Net change	<u>54,164</u>	<u>(1,259,669)</u>	<u>(1,205,505)</u>	<u>(465,118)</u>	<u>166,092</u>	<u>(299,026)</u>
Ending balances	<u>\$ 11,236,393</u>	<u>\$ 10,084,733</u>	<u>\$ 21,321,126</u>	<u>\$ 11,182,229</u>	<u>\$ 11,344,402</u>	<u>\$ 22,526,631</u>

The accompanying notes are an integral part of these financial statements.



FEDERAL AVIATION ADMINISTRATION
 COMBINED STATEMENTS OF BUDGETARY RESOURCES
 For the Years Ended September 30
 (Dollars in Thousands)

	2009	2008
Budgetary resources (Note 14)		
Unobligated balance brought forward, transfers and other	\$ 2,822,280	\$ 2,753,668
Recoveries of prior year obligations	385,377	471,076
Budget authority	20,730,694	19,485,521
Spending authority from offsetting collections	6,164,596	7,174,115
Nonexpenditure transfers, net	(46,300)	(41,566)
Permanently not available	(3,744,234)	(4,697,732)
Total budgetary resources	\$ 26,312,413	\$ 25,145,082
Status of budgetary resources		
Obligations incurred	\$ 22,714,270	\$ 22,322,802
Unobligated balance available	1,707,455	1,395,626
Unobligated balance not available	1,890,688	1,426,654
Total status of budgetary resources	\$ 26,312,413	\$ 25,145,082
Change in obligated balance		
Obligated balance, net, beginning of period	\$ 8,471,544	\$ 8,513,195
Obligations incurred	22,714,270	22,322,802
Gross outlays	(21,553,160)	(21,955,876)
Recoveries of prior years unpaid obligations, actual	(385,377)	(471,076)
Change in uncollected customer payments from Federal sources	(30,291)	62,499
Obligated balance, net, end of period	\$ 9,216,986	\$ 8,471,544
Unpaid obligations	\$ 9,680,165	\$ 8,904,432
Uncollected customer payments from Federal sources	(463,179)	(432,888)
Obligated balance, net, end of period	\$ 9,216,986	\$ 8,471,544
Outlays		
Gross outlays	\$ 21,553,160	\$ 21,955,876
Collections, net of offsetting receipts	(6,134,305)	(7,237,024)
Distributed offsetting receipts	(49,703)	(1,970)
Net outlays	\$ 15,369,152	\$ 14,716,882

The accompanying notes are an integral part of these financial statements.



NOTES TO THE FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The financial statements have been prepared to report the financial position, net cost of operations, changes in net position, and status and availability of budgetary resources of the FAA. The statements are a requirement of the CFO Act of 1990, and the Government Management Reform Act of 1994. They have been prepared from, and are fully supported by, the books and records of the FAA in accordance with: (1) the hierarchy of accounting principles generally accepted in the United States of America and standards approved by the principals of the Federal Accounting Standards Advisory Board; (2) OMB Circular Number A-136, Financial Reporting Requirements; and (3) DOT and FAA accounting policies, which are summarized in this note. These statements, with the exception of the Statement of Budgetary Resources, are different from financial management reports, which also are prepared pursuant to OMB directives that are used to monitor and control the FAA's use of budgetary resources. The statements are subjected to audit, as required by OMB Bulletin Number 07-04, Audit Requirements for Federal Financial Statements.

Notes 4 and 8 include the necessary information to present "other assets" and "other liabilities" as defined by OMB Circular Number A-136. This presentation is used to support the preparation of the consolidated financial statements of the U.S. Government.

Unless specified otherwise, all dollar amounts are presented in thousands.

B. Reporting Entity

The FAA, which was created in 1958, is a component of the DOT, a cabinet-level agency of the Executive Branch of the U.S. Government. The FAA's mission is to provide a safe, secure, and efficient global aerospace system that contributes to national security and the promotion of U.S. aerospace safety. As the leading authority in the international aerospace community, the FAA is responsive to the dynamic nature of customer needs, economic conditions, and environmental concerns. The FAA reporting entity is composed of the following major funds:

- **AATF.** The AATF is funded by excise taxes that the Internal Revenue Service (IRS) collects from airway system users. These receipts are unavailable until appropriated by the U.S. Congress. Once appropriated for use, the FAA transfers AATF receipts necessary to meet cash disbursement needs to several other funds, from which expenditures are made. The AATF fully finances the following additional FAA funds:
 - Grants-in-Aid to Airports—AATF. As authorized, grants are awarded with Grants-in-Aid to Airports funding and used 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, and are administered through the AIP.
 - F&E—AATF. The F&E funds are the FAA's principal means of modernizing and improving air traffic control and airway facilities. These funds also finance major capital improvements required by other FAA programs, as well as other improvements to enhance the safety and capacity of the NAS.
 - R,E,&D—AATF. R,E,&D funds finance long-term research programs to improve the air traffic control system.
- **Operations General Fund and Operations—AATF.** Operations finances operating costs, maintenance, communications, and logistical support for the air traffic control and air navigation systems. It also finances the salaries and costs associated with carrying out the FAA's safety and inspection and regulatory responsibilities. Operations—AATF is financed through transfers from the AATF. For administrative ease in obligating and expending for operational activities, those funds are then in turn transferred to the Operations General Fund, which is supplemented by appropriations from the U.S. Treasury. Expenditures for operational activities, whether originally funded by the AATF or the General Fund of the U.S. Treasury, are generally made from the Operations General Fund.



- **Aviation Insurance Revolving Fund.** Revolving funds are accounts established by law to finance a continuing cycle of operations with receipts derived from such operations usually available in their entirety for use by the fund without further action by the U.S. Congress. The Aviation Insurance Revolving Fund provides products that address the insurance needs of the U.S. domestic airline industry not adequately met by the commercial insurance market. The FAA is currently providing war-risk hull loss and passenger, crew, and third-party liability insurance as required by the Homeland Security Act of 2002 as amended by the FAA Extension Act of 2009. Current insurance coverage expires on December 31, 2009.
- **Administrative Services Franchise Fund (Franchise Fund).** The Franchise Fund is a revolving fund designed to create competition within the public sector in the performance of a wide variety of support services.
- **Other Funds.** The consolidated financial statements include other funds such as: (a) Aviation Overflight User Fees, which is a special fund in which receipts are earmarked by law for a specific purpose; (b) Facilities, Engineering, and Development General Fund; and (c) General Fund Miscellaneous Receipts accounts established for receipts of nonrecurring activity, such as fines, penalties, fees, and other miscellaneous receipts for services and benefits.
- **ARRA of 2009.** The FAA received supplemental General Fund appropriations in FY 2009 for Grant-in-Aid to Airports and F&E activities. The ARRA of 2009 is discussed in detail in letter X of this note.
- The FAA has rights and ownership of all assets reported in these financial statements. The FAA does not possess any nonentity assets.

C. Budgets and Budgetary Accounting

Congress annually enacts appropriations to permit the FAA to incur obligations for specified purposes. In FY 2009 and 2008, the FAA was accountable for amounts made available in appropriations laws from the AATF, Revolving Funds, a Special Fund, and General Fund appropriations. Additionally, the ARRA provided supplemental General Fund appropriations to the FAA

in FY 2009. The FAA recognizes budgetary resources as assets when cash (funds held by the U.S. Treasury) is made available through Department of the Treasury General Fund warrants and transfers from the AATF.

D. Basis of Accounting

Transactions are recorded on both an accrual accounting basis and a budgetary accounting basis. Under the accrual method, revenues are recognized when earned, and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal requirements on the use of Federal funds. All material intraagency transactions and balances have been eliminated for presentation on a consolidated basis. However, the Statement of Budgetary Resources is presented on a combined basis, in accordance with OMB Circular A-136.

Intragovernmental transactions and balances result from exchange transactions made between the FAA and another Federal Government reporting entity, while those classified as “with the public” result from exchange transactions between the FAA and non-Federal entities. For example, if the FAA purchases goods or services from the public and sells them to another Federal entity, the costs would be classified as “with the public,” but the related revenues would be classified as “intragovernmental.” This could occur, for example, when the FAA provides goods or services to another Federal Government entity on a reimbursable basis. The purpose of this classification is to enable the Federal Government to prepare consolidated financial statements, and not to match public and intragovernmental revenue with costs that are incurred to produce public and intragovernmental revenue.

E. Revenues and Other Financing Sources

Congress enacts annual, multiyear, and no-year appropriations to be used, within statutory limits, for operating, capital, and grant expenditures. Additional amounts are obtained from service fees (e.g., landing, registry, overflight fees), war-risk insurance premiums (see Note 16), and reimbursements for products and services provided to domestic and foreign governmental entities.



The AATF is sustained by excise taxes that the IRS collects from airway system users. Excise taxes collected are initially deposited to the General Fund of the U.S. Treasury. The IRS does not receive sufficient information at the time the excise taxes are collected to determine how they should be distributed to specific earmarked funds. Therefore, the Treasury makes initial semimonthly distributions to earmarked funds based on estimates prepared by its Office of Tax Analysis (OTA). These estimates are based on historical excise tax data applied to current excise tax receipts. The FAA's September 30, 2009, financial statements reflect excise taxes certified (as actual collections) by the IRS through June 30, 2009, and excise taxes estimated by the OTA for the period July 1 through September 30, 2009, as specified by the Statement of Federal Financial Accounting Standards (SFFAS) Number 7, Accounting for Revenue and Other Financing Sources. When actual amounts are available from the IRS, generally 3 to 4 months after each quarter-end, adjustments are made to the estimated amounts and the difference is accrued as an intragovernmental receivable or payable. Accordingly, actual excise tax collections data for the quarter ended September 30 will not be available from the IRS until January of the following year, at which time the difference between the September 30 estimate and the September 30 actual will be recorded in the FAA's accounting system.

The AATF also earns interest from investments in U.S. Government securities. Interest income is recognized as revenue on the accrual basis of such collections for those quarters.

Appropriations are recognized as a financing source when expended. Revenues from services provided by the FAA associated with reimbursable agreements are recognized concurrently with the recognition of accrued expenditures for performing the services. War-risk insurance premiums are recognized as revenue on a straight-line basis during the period of coverage. Aviation overflight user fees are recognized as revenue in the period in which the flights took place.

The FAA recognizes as an imputed financing source the amount of accrued pension and post-retirement benefit expenses for current employees paid on the FAA's behalf

by the OPM, as well as amounts paid from the U.S. Treasury Judgment Fund in settlement of claims or court assessments against the FAA.

F. Taxes

The FAA, as a Federal entity, is not subject to Federal, State, or local income taxes and, accordingly, no provision for income taxes has been recorded in the accompanying financial statements.

G. Fund Balance with the U.S. Treasury

The U.S. Treasury processes cash receipts and disbursements. Funds held at the Treasury are available to pay agency liabilities. The FAA does not maintain cash in commercial bank accounts or foreign currency balances. Foreign currency payments are made either by the Treasury or the Department of State and are reported by the FAA in the U.S. dollar equivalent.

H. Investment in U.S. Government Securities

Unexpended funds in the AATF and Aviation Insurance Revolving Fund (war-risk premiums) are invested in U.S. Government securities at cost. A portion of the AATF investments is liquidated semimonthly in amounts needed to provide cash for FAA appropriation accounts, to the extent authorized. The Aviation Insurance Revolving Fund investments are usually held to maturity. Investments, redemptions, and reinvestments are held and managed under the direction of the FAA by the U.S. Treasury.

I. Accounts Receivable

Accounts receivable consists of amounts owed to the FAA by other Federal agencies and the public. Amounts due from Federal agencies are considered fully collectible. Accounts receivable from the public include, for example, overflight fees, fines and penalties, reimbursements from employees, and services performed for foreign governments. These amounts due from the public are presented net of an allowance for loss on uncollectible accounts based on historical collection experience or an analysis of the individual receivables.

The FAA reports deposits in transit when the U.S. Treasury has not yet recognized the FAA's collections received from the public or other Federal entities.



J. Inventory

Within the FAA's Franchise Fund, inventory is held for sale to FAA field locations and other domestic entities and foreign governments. Inventory consists of materials and supplies used to support the NAS and is predominantly located at the FAA Mike Monroney Aeronautical Center in Oklahoma City. Inventory cost includes material, labor, and applicable manufacturing overhead, and is determined using the weighted moving average cost method.

FAA field locations trade nonoperational, repairable components with the Franchise Fund. These components are classified as "held for repair." An allowance is established for repairable inventory based on the average historical cost of such repairs. The cost of repair is capitalized and these items are reclassified as "held for sale."

Inventory may be classified as excess, obsolete, or unserviceable if, for example, the quantity exceeds projected demand for the foreseeable future, or if the item has been technologically surpassed. An allowance is established for excess, obsolete, and unserviceable inventory based on the condition of various inventory categories as well as the FAA's historical experience with disposing of such inventory.

K. Operating Materials and Supplies

In contrast to inventory, which is held for sale by the Franchise Fund, operating materials and supplies are used in the operations of the agency. Operating materials and supplies primarily consist of unissued materials and supplies that will be used in the repair and maintenance of FAA-owned aircraft. They are valued based on the weighted moving average cost method or on the basis of actual prices paid. Operating materials and supplies are expensed using the consumption method of accounting.

Operating materials and supplies "held for use" are those items that are consumed on a regular and ongoing basis. Operating materials and supplies "held for repair" are awaiting service to restore their condition to "held for use."

Operating materials and supplies may be classified as excess, obsolete, or unserviceable if, for example, the quantity exceeds projected demand for the foreseeable future, or if the item has been technologically surpassed.

An allowance is established for "held for use" and excess, obsolete, and unserviceable operating materials and supplies based on the condition of various asset categories, as well as the FAA's historical experience with disposing of such assets.

L. Property, Plant, and Equipment (PP&E)

The FAA capitalizes acquisitions of PP&E when the cost equals or exceeds \$100,000 and the useful life equals or exceeds 2 years. The FAA records PP&E at original acquisition cost. However, where applicable, the FAA allocates an average cost of like assets within a program, commonly referred to as unit costing. The FAA purchases some capital assets in large quantities, which are known as "bulk purchases." If the cost per unit is below the capitalization threshold of the FAA, then these items are expensed.

Depreciation expense is calculated using the straight-line method. Depreciation commences the first month after the asset is placed in service. The FAA does not recognize residual value of its PP&E.

Real property assets such as buildings, air traffic control towers, en route air traffic control centers, mobile buildings, roads, sidewalks, parking lots, and other structures are depreciated over a useful life of up to 40 years.

Personal property assets such as aircraft, decision support systems, navigation, surveillance, communications and weather-related equipment, office furniture, internal use software, vehicles, and office equipment are depreciated over a useful life of up to 20 years.

Buildings and equipment acquired under capital leases are amortized over the lease term. If the lease agreement contains a bargain purchase option or otherwise provides for transferring title of the asset to the FAA, the building is depreciated over a 40-year service life.

Construction in Progress (CIP) is valued at actual direct costs plus applied overhead and other indirect costs.

The FAA occupies certain real property that is leased by the DOT from the General Services Administration. Payments made by the FAA are based on the fair market value for similar rental properties.

The FAA conducts a significant amount of research and development into new technologies to support the NAS.



Until such time as the research and development project reaches “technological feasibility” the costs associated with the project are expensed in the year incurred.

M. Prepaid Charges

The FAA generally does not pay for goods and services in advance, except for certain reimbursable agreements, subscriptions, and payments to contractors and employees. Payments made in advance of the receipt of goods and services are recorded as prepaid charges at the time of prepayment and recognized as expenses when the related goods and services are received.

N. Liabilities

Liabilities covered by budgetary or other resources are those liabilities for which Congress has appropriated funds or funding is otherwise available to pay amounts due. Liabilities not covered by budgetary or other resources represent amounts owed in excess of available, congressionally appropriated funds or other amounts. The liquidation of liabilities not covered by budgetary or other resources is dependent on future congressional appropriations or other funding, including the AATF. Intragovernmental liabilities are claims against the FAA by other Federal agencies.

O. Accounts Payable

Accounts payable are amounts the FAA owes to other Federal agencies and the public. Accounts payable to Federal agencies generally consist of amounts due under interagency reimbursable agreements. Accounts payable to the public primarily consist of unpaid goods and services received by the FAA in support of the NAS, and estimated amounts incurred but not yet claimed by AIP grant recipients.

P. Annual, Sick, and Other Leave

Annual leave is accrued as it is earned, and the accrual is reduced as leave is taken. For each biweekly pay period, the balance in the accrued annual leave account is adjusted to reflect the latest pay rates and unused hours of leave. Liabilities associated with other types of vested leave, including compensatory, credit hours, restored leave, and sick leave in certain circumstances, are accrued based on latest pay rates and unused hours of leave. Sick leave is generally nonvested, except for sick leave balances at retirement under the terms of certain

union agreements. Funding will be obtained from future financing sources to the extent that current or prior year appropriations are not available to fund annual and other types of vested leave earned but not taken. Nonvested leave is expensed when used.

Q. Accrued Workers' Compensation

A liability is recorded for actual and estimated future payments to be made for workers' compensation pursuant to the Federal Employees' Compensation Act (FECA). The actual costs incurred are reflected as a liability because the FAA will reimburse the Department of Labor (DOL) 2 years after the actual payment of expenses by the DOL. Future appropriations will be used for the reimbursement to the DOL. The liability consists of: (1) the net present value of estimated future payments calculated by the DOL, and (2) the unreimbursed cost paid by the DOL for compensation to recipients under FECA.

R. Retirement Plan

FAA employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). The employees who participate in CSRS are beneficiaries of the FAA's matching contribution, equal to 7 percent of pay, distributed to their annuity account in the Civil Service Retirement and Disability Fund.

FERS went into effect January 1, 1987. FERS and Social Security automatically cover most employees hired after December 31, 1983. Employees hired prior to January 1, 1984, could elect either to join FERS and Social Security or to remain in CSRS. FERS offers a savings plan to which the FAA automatically contributes 1 percent of pay and matches any employee contribution up to an additional 4 percent of pay. For FERS participants, the FAA also contributes the employer's matching share for Social Security.



The FAA recognizes the imputed cost of pensions and other retirement benefits during an employee's active years of service. The OPM actuaries determine pension cost factors by calculating the value of pension benefits expected to be paid in the future and communicate these factors to the FAA for current period expense reporting. The OPM also provides information regarding the full cost of health and life insurance benefits. The FAA recognizes the offsetting revenue as imputed financing sources to the extent these expenses will be paid by the OPM.

S. Grants

The FAA records an obligation at the time a grant is awarded. As grant recipients conduct eligible activities under the terms of their grant agreements, they request payment by the FAA, typically via an electronic payment process. Expenses are recorded at the time of payment approval during the year. The FAA also recognizes an accrued liability and expense for estimated eligible grant payments not yet requested by grant recipients. Grant expenses, including associated administrative costs, are classified on the Consolidated Statements of Net Cost under the LOB program "Airports."

T. Use of Estimates

Management has made certain estimates and assumptions when reporting assets, liabilities, revenue, and expenses, and in the note disclosures. Actual results could differ from these estimates. Significant estimates underlying the accompanying financial statements include: (a) the allocation of AATF receipts by the OTA; (b) legal, environmental, and contingent liabilities; (c) accruals of accounts and grants payable; (d) accrued workers' compensation; (e) allowance for doubtful accounts receivable; (f) allowances for repairable and obsolete inventory balances; (g) allocations of common costs to CIP; (h) the allocation of an average cost of like assets within a program, commonly referred to as unit costing; (i) allocation of costs to programs on the Statement of Net Cost, and (j) accrued payroll and benefits payable.

There are two new estimates in FY 2009: (a) grants payable funded by the ARRA, and (b) CIP payable. Both of these estimates will use percentage of completion schedules provided by the vendors.

U. Environmental Liabilities

The FAA recognizes two types of environmental liabilities: environmental remediation, and cleanup and decommissioning. The liability for environmental remediation is an estimate of costs necessary to bring a known contaminated site into compliance with applicable environmental standards. The increase or decrease in the annual liability is charged to current year expense.

Environmental cleanup and decommissioning is the estimated cost that will be incurred to remove, contain, and/or dispose of hazardous materials when an asset currently in service is shutdown. The FAA estimates the environmental cleanup and decommissioning costs at the time an FAA-owned asset is placed in service. For assets placed in service through FY 1998, the increase or decrease in the estimated environmental cleanup liability is charged to expense. Assets placed in service in FY 1999 and after do not have associated environmental liabilities.

FAA environmental liabilities are recorded using uninflated estimates. There are no known possible changes to these estimates based on inflation, deflation, technology, or applicable laws and regulations.

V. Contingencies

Liabilities are deemed contingent when the existence or amount of the liability cannot be determined with certainty pending the outcome of future events. The FAA recognizes contingent liabilities, in the accompanying balance sheet and statement of net cost, when they are both probable and can be reasonably estimated. The FAA discloses contingent liabilities in the notes to the financial statements (see Note 16) when the conditions for liability recognition are not met or when a loss from the outcome of future events is more than remote. In some cases, once losses are certain, payments may be made from the Judgment Fund maintained by the U.S. Treasury rather than from the amounts appropriated to the FAA for agency operations. Payments from the Judgment Fund are recorded as an "Other Financing Source" when made.



W. Earmarked Funds Reporting

The FAA adopted SFFAS Number 27, Identifying and Reporting Earmarked Funds. SFFAS Number 27 defines “earmarked funds” as those being financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and financing sources are required by statute to be used for designated activities, benefits or purposes, and must be accounted for separately from the Government’s general revenues. The FAA’s financial statements include the following funds, considered to be earmarked:

- AATF
- Operations—AATF
- Operations General Fund
- Grants-in-Aid for Airports—AATF
- F&E—AATF
- R,E,&D—AATF
- Aviation Insurance Fund
- Aviation User Fees

The AATF is funded by excise taxes that the IRS collects from airway system users. These receipts are unavailable until appropriated by the U.S. Congress. Once appropriated for use, the FAA transfers AATF receipts necessary to meet cash disbursement needs to several other funds, from which expenditures are made. Those funds that receive transfers from the AATF are the Operations Trust Fund; Grants-in-Aid for Airports; F&E; and R,E,&D, all of which are funded exclusively by the AATF. These funds represent the majority of FAA annual expenditures.

In addition, the Operations General Fund is primarily funded through transfers from Operations—AATF, but also is supplemented by funding from the General Fund of the U.S. Treasury through annual appropriations. Because the Operations General Fund is primarily funded from the AATF, and because it is not reasonably possible to differentiate cash balances between those originally flowing from the AATF versus General Fund appropriations, the Operations General Fund is presented as an earmarked fund. The earmarked funds from the F&E fund are used to purchase or construct PP&E. When earmarked funds are used to purchase or construct PP&E, they are no longer available for future expenditure and have been used for their intended purpose, and therefore

are classified as other funds on the balance sheet and the statement of changes in net position. The intended result of this presentation is to differentiate between earmarked funds available for future expenditure and earmarked funds previously expended on PP&E projects and therefore unavailable for future expenditure.

Additional disclosures concerning earmarked funds can be found in Note 12.

X. ARRA of 2009

The ARRA of 2009 was enacted primarily to preserve and create jobs, promote economic recovery, assist those most impacted by the recession, and to invest in transportation, environmental protection, and other infrastructure that will provide long-term economic benefits.

The FAA received supplemental funding from the ARRA of \$1.1 billion for Grant-in-Aid to Airports and \$200 million for F&E activities. This \$1.3 billion of ARRA funding is reflected as appropriations received on the Consolidated Statements of Changes in Net Position, Unexpended Appropriations under the heading, 2009 Other Funds. The F&E funding is to be used for improvements to power systems, ARTCCs, air traffic control towers, terminal radar approach control facilities, and navigation and landing equipment. The ARRA also stipulated that priority be given to F&E activities that will be completed within 2 years of enactment of this act, or by February 17, 2011. As of September 30, 2009, the FAA has obligated \$89.7 million for F&E projects and disbursed \$2.5 million.

The Grant-in-Aid to Airports funding was to be used for discretionary grants and for the procurement, installation, and commissioning of runway incursion prevention devices and systems at airports. The ARRA also stipulated that priority be given to Grant-in-Aid to Airport projects that will be completed within 2 years of enactment of this act, or by February 17, 2011. Of the \$1.1 billion ARRA funding for Grant-in-Aid to Airports, an amount not to exceed \$2.2 million may be used to fund the award and oversight of grants made under this provision. As of September 30, 2009, the FAA has awarded \$1.1 billion in Grant-in-Aid to Airport grants and disbursed \$178.9 million of the grant awards. Oversight costs for ARRA-funded grants as of September 30, 2009, are \$100,000.



Note 2. Fund Balance with Treasury

Following are the fund balance with Treasury account balances as of September 30, 2009 and 2008:

Status of fund balance with Treasury		
	<u>2009</u>	<u>2008</u>
Earmarked and other funds	\$ 3,691,915	\$ 3,602,736
Franchise fund	322,455	255,873
Aviation Insurance Revolving Fund	<u>50,389</u>	<u>68,133</u>
 Total	 <u><u>\$ 4,064,759</u></u>	 <u><u>\$ 3,926,742</u></u>

Status of fund balance with Treasury		
Unobligated balance		
Available	\$ 1,707,455	\$ 1,395,626
Not available	1,890,688	1,426,654
Obligated balance not yet disbursed	<u>466,616</u>	<u>1,104,462</u>
 Total	 <u><u>\$ 4,064,759</u></u>	 <u><u>\$ 3,926,742</u></u>

Unobligated fund balances are either available or not available. Amounts are reported as not available when they are no longer legally available to the FAA for obligation. However, balances that are not available can

change over time, because they can be used for upward adjustments of obligations that were incurred during the period of availability or for paying claims attributable to that time period.



Note 3. Investments

As of September 30, 2009 and 2008, the FAA's investment balances were as follows:

	Cost	2009		Market Value Disclosure
		Amortized (Premium) Discount	Investments (Net)	
Intragovernmental Securities				
Nonmarketable par value	\$ 7,829,468	\$ -	\$ 7,829,468	\$ 7,829,468
Market-based	1,289,850	(6,770)	1,283,080	1,283,080
Subtotal	9,119,318	(6,770)	9,112,548	9,112,548
Accrued Interest	57,637		57,637	
Total Intragovernmental Securities	\$ 9,176,955	\$ (6,770)	\$ 9,170,185	\$ 9,112,548
	Cost	2008		Market Value Disclosure
Intragovernmental Securities		Amortized (Premium) Discount	Investments (Net)	
Nonmarketable par value	\$ 7,673,709	\$ -	\$ 7,673,709	\$ 7,673,709
Market-based	1,087,268	(533)	1,086,735	1,086,735
Subtotal	8,760,977	(533)	8,760,444	8,760,444
Accrued Interest	85,906		85,906	
Total Intragovernmental Securities	\$ 8,846,883	\$ (533)	\$ 8,846,350	\$ 8,760,444

The Secretary of the Treasury invests AATF funds on behalf of the FAA. FAA investments are considered investment authority and available to offset the cost of operations to the extent authorized by Congress. As of September 30, 2009 and 2008, \$7.8 billion and \$7.7 billion were invested respectively in U.S. Treasury Certificates of Indebtedness. Nonmarketable par value Treasury Certificates of Indebtedness are special series debt securities issued by the Bureau of Public Debt to Federal accounts, and are purchased and redeemed at par (face value) exclusively through the Federal Investment Branch of the U.S. Treasury's Bureau of Public Debt. The securities are held to maturity and redeemed at face value on demand; thus, investing entities recover the full amount invested plus interest. Investments as of September 30, 2009, mature on various dates through June 30, 2010, and investments as of September 30, 2008, matured on various dates through June 30, 2009. The

annual rate of return on Certificates of Indebtedness is established in the month of issuance. The average rate of return for certificates issued during FY 2009 and FY 2008 was 3.2 percent and 4.3 percent, respectively.

Nonmarketable, market-based Treasury securities are debt securities that the Treasury issues to Federal entities without statutorily fixed interest rates. Although the securities are not marketable, their terms (prices and interest rates) mirror the terms of marketable Treasury securities. The FAA invests Aviation Insurance Fund collections in nonmarketable, market-based securities and amortizes premiums and discounts over the life of the security using the interest method. As of September 30, 2009, these nonmarketable, market-based securities had maturity dates ranging from October 2009 to November 2013, and have an average rate of return of approximately 3.4 percent.



The U.S. Treasury does not set aside assets to pay the future expenditures of the AATF and the Aviation Insurance Fund. Instead, the cash collected from the public for the AATF and the Aviation Insurance Fund is deposited to the U.S. Treasury, and used for general Government purposes. Treasury securities are issued to the FAA as evidence of the collections by the AATF and Aviation Insurance Fund. Treasury securities are an asset to the FAA and a liability to the U.S. Treasury. Because the FAA and the U.S. Treasury are both parts of the U.S. Government, these assets and liabilities offset each other from the standpoint of the U.S. Government as

a whole. For this reason, they do not represent an asset or a liability in the U.S. Government-wide financial statements.

To the extent authorized by law, the FAA has the ability to redeem its Treasury securities to make expenditures. When the FAA requires redemption of these securities, the U.S. Government finances those expenditures out of accumulated cash balances by raising tax or other receipts, borrowing from the public, repaying less debt, or curtailing other expenditures. This is the same way the U.S. Government finances all other expenditures.

Note 4. Accounts Receivable, Prepayments, and Other Assets

Accounts receivable, prepayments, and other assets as of September 30, 2009 and 2008 were composed of the following:

	<u>2009</u>	<u>2008</u>
Intragovernmental		
Accounts receivable	\$ 154,941	\$ 105,968
Prepayments and other	131,955	89,151
Intragovernmental total	<u>286,896</u>	<u>195,119</u>
With the public		
Accounts receivable, net	60,349	51,589
Prepayments	37,567	28,124
Deposits in transit and other	517	54,982
With the public total	<u>98,433</u>	<u>134,695</u>
Total accounts receivable, prepayments, and other	<u>\$ 385,329</u>	<u>\$ 329,814</u>

Intragovernmental prepayments represent advance payments to other Federal Government entities for agency expenses not yet incurred or for goods or services not yet received.

Accounts receivable from the public are shown net of allowances for uncollectible amounts of \$18.5 million and \$10.9 million, as of September 30, 2009 and 2008.



Note 5. Inventory, Operating Materials, and Supplies

Following are inventory, operating materials, and supplies as of September 30, 2009 and 2008:

	2009		
	Cost	Allowance	Net
Inventory			
Held for sale	\$ 80,406	\$ (84)	\$ 80,322
Held for repair	493,356	(99,909)	393,447
Raw materials, finished goods, and other	23,410	(10,591)	12,819
Excess, obsolete, and unserviceable	4,984	(4,984)	-
Inventory total	<u>602,156</u>	<u>(115,568)</u>	<u>486,588</u>
Operating materials and supplies			
Held for use	45,498	(165)	45,333
Held for repair	38,412	(19,206)	19,206
Excess, obsolete, and unserviceable	411	(411)	-
Operating materials and supplies total	<u>84,321</u>	<u>(19,782)</u>	<u>64,539</u>
Total inventory, operating materials, and supplies	<u>\$ 686,477</u>	<u>\$ (135,350)</u>	<u>\$ 551,127</u>
	2008		
	Cost	Allowance	Net
Inventory			
Held for sale	\$ 66,523	\$ (96)	\$ 66,427
Held for repair	487,116	(96,240)	390,876
Raw materials, finished goods, and other	26,299	(10,591)	15,708
Excess, obsolete, and unserviceable	19,583	(19,583)	-
Inventory total	<u>599,521</u>	<u>(126,510)</u>	<u>473,011</u>
Operating materials and supplies			
Held for use	48,845	-	48,845
Held for repair	34,953	(17,972)	16,981
Excess, obsolete, and unserviceable, net	526	(526)	-
Operating materials and supplies total	<u>84,324</u>	<u>(18,498)</u>	<u>65,826</u>
Total inventory, operating materials, and supplies	<u>\$ 683,845</u>	<u>\$ (145,008)</u>	<u>\$ 538,837</u>

Inventory is considered held for repair based on the condition of the asset or item, and the allowance for repairable inventory is based on the average historical cost of such repairs.

The FAA transfers excess items for disposal into the Government-wide automated disposal system. Disposal proceeds, recognized upon receipt, may go to the U.S. Treasury's General Fund or to an FAA appropriation, depending on the nature of the item and the disposal method.



Note 6. Property, Plant, and Equipment, Net

Following are PP&E balances as of September 30, 2009 and 2008:

Class of fixed asset	2009		
	Acquisition value	Accumulated depreciation	Net book value
Real property, including land	\$ 5,089,354	\$ (2,732,102)	\$ 2,357,252
Personal property	19,558,819	(11,081,159)	8,477,660
Assets under capital lease (Note 9)	204,485	(96,036)	108,449
Construction in progress	2,770,846	-	2,770,846
Property not in use	176,282	(150,153)	26,129
Total property, plant, and equipment	\$ 27,799,786	\$ (14,059,450)	\$ 13,740,336

Class of fixed asset	2008		
	Acquisition value	Accumulated depreciation	Net book value
Real property, including land	\$ 4,928,461	\$ (2,588,037)	\$ 2,340,424
Personal property	19,290,502	(10,266,822)	9,023,680
Assets under capital lease (Note 9)	166,387	(125,137)	41,250
Construction in progress	2,341,968	-	2,341,968
Property not in use	95,013	(77,148)	17,865
Total property, plant, and equipment	\$ 26,822,331	\$ (13,057,144)	\$ 13,765,187

The FAA's CIP relates primarily to NAS assets, which are derived from centrally funded national systems development contracts, site preparation and testing, raw materials, and internal labor charges.

Assets temporarily not in use, including decommissioned assets awaiting disposal, are reflected in FAA financial records as Property Not in Use.



Note 7. Environmental Liabilities

Following are the FAA's environmental liabilities as of September 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Environmental remediation	\$ 555,421	\$ 384,381
Environmental cleanup and decommissioning	255,393	253,444
Total environmental liabilities	<u>\$ 810,814</u>	<u>\$ 637,825</u>

Additional information on contingencies related to environmental projects is disclosed in Note 16.

Note 8. Employee-Related and Other Liabilities

Following are the FAA's employee-related and other liabilities as of September 30, 2009 and 2008:

	<u>2009</u>		
	<u>Non-current liabilities</u>	<u>Current liabilities</u>	<u>Total</u>
Intragovernmental			
Advances received	\$ -	\$ 40,244	\$ 40,244
Accrued payroll & benefits payable to other agencies	-	76,705	76,705
Other liabilities	-	17,988	17,988
Liabilities covered by budgetary or other resources	<u>-</u>	<u>134,937</u>	<u>134,937</u>
Federal Employees' Compensation Act payable	120,066	90,949	211,015
Other	<u>-</u>	<u>30,169</u>	<u>30,169</u>
Liabilities not covered by budgetary or other resources	<u>120,066</u>	<u>121,118</u>	<u>241,184</u>
Intragovernmental total	<u>120,066</u>	<u>256,055</u>	<u>376,121</u>
With the public			
Advances received and other	-	95,499	95,499
Accrued payroll & benefits payable to employees	-	260,448	260,448
Liabilities covered by budgetary or other resources	<u>-</u>	<u>355,947</u>	<u>355,947</u>
Accrued unfunded annual & other leave & assoc. benefits	49,289	351,426	400,715
Sick leave compensation benefits for air traffic controllers	59,764	21,011	80,775
Capital leases (Note 9)	92,548	23,292	115,840
Legal claims	-	41,000	41,000
Other accrued liabilities	<u>60,574</u>	<u>-</u>	<u>60,574</u>
Liabilities not covered by budgetary or other resources	<u>262,175</u>	<u>436,729</u>	<u>698,904</u>
Public total	<u>262,175</u>	<u>792,676</u>	<u>1,054,851</u>
Total employee related and other liabilities	<u>\$ 382,241</u>	<u>\$ 1,048,731</u>	<u>\$ 1,430,972</u>



	2008		
	Noncurrent liabilities	Current liabilities	Total
Intragovernmental			
Advances received	\$ -	\$ 48,017	\$ 48,017
Accrued payroll & benefits payable to other agencies	-	67,523	67,523
Other liabilities	-	13,617	13,617
Liabilities covered by budgetary or other resources	-	129,157	129,157
Federal Employees' Compensation Act payable	118,177	86,994	205,171
Other	-	44,674	44,674
Liabilities not covered by budgetary or other resources	118,177	131,668	249,845
Intragovernmental total	118,177	260,825	379,002
With the public			
Advances received and other	-	66,473	66,473
Accrued payroll & benefits payable to employees	-	227,360	227,360
Liabilities covered by budgetary or other resources	-	293,833	293,833
Accrued unfunded annual & other leave & assoc. benefits	48,386	344,989	393,375
Sick leave compensation benefits for air traffic controllers	63,595	15,930	79,525
Capital leases (Note 9)	49,271	12,400	61,671
Legal claims	-	109,450	109,450
Other accrued liabilities	99,983	-	99,983
Liabilities not covered by budgetary or other resources	261,235	482,769	744,004
Public total	261,235	776,602	1,037,837
Total employee-related and other liabilities	\$ 379,412	\$ 1,037,427	\$ 1,416,839

Accrued payroll and benefits to other agencies consist of FAA contributions payable to other Federal agencies for employee benefits. These include the FAA's contributions payable toward life, health, retirement benefits, Social Security, and matching contributions to the Thrift Savings Plan.

An unfunded liability is recorded for the actual cost of workers' compensation benefits to be reimbursed to the DOL, pursuant to the FECA. Because DOL bills the FAA 2 years after it pays such claims, the FAA's liability accrued as of September 30, 2009, includes workers' compensation benefits paid by the DOL during the periods July 1, 2007–June 30, 2009, and accrued liabilities for the quarter July 1, 2009–September 30, 2009. The FAA's liability accrued as of September 30, 2008, included workers' compensation benefits paid by the DOL during

the period July 1, 2006–June 30, 2008, and accrued liabilities for the quarter July 1, 2008–September 30, 2008.

The estimated liability for accrued unfunded leave and associated benefits includes annual and other types of vested leave, and sick leave under the terms of certain collective bargaining agreements, including the NATCA agreement, Article 25, Section 13. For example, the NATCA agreement gives air traffic controllers, who are covered under FERS, the option to receive a lump sum payment for 40 percent of their accumulated sick leave as of their effective retirement date. Based on sick leave balances, this liability was \$80.8 million and \$79.5 million as of September 30, 2009 and 2008, respectively.



The FAA estimated that 100 percent of its \$41.0 million and \$109.5 million legal claims liabilities as of September 30, 2009 and 2008, respectively, would be paid from the permanent appropriation for judgments, awards, and compromise settlements (Judgment Fund) administered by the Treasury.

Other Accrued Liabilities with the Public is composed primarily of accruals for utilities, leases, and travel obligations. Total liabilities not covered by budgetary resources are presented in Note 15.

Note 9. Leases

Capital Leases

Following is a summary of the FAA's assets under capital lease as of September 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Land, buildings, and machinery	\$ 204,485	\$ 166,387
Accumulated depreciation	(96,036)	(125,137)
Assets under capital lease, net	<u>\$ 108,449</u>	<u>\$ 41,250</u>

Following are the FAA's future payments due on assets under capital lease as of September 30, 2009:

Future Payments Due by Fiscal Year	
(Liabilities not covered by budgetary or other resources)	
Year 1 (FY 2010)	\$ 15,769
Year 2 (FY 2011)	14,765
Year 3 (FY 2012)	11,586
Year 4 (FY 2013)	8,977
Year 5 (FY 2014)	8,698
After 5 Years	96,254
Less: Imputed interest	(40,209)
Total capital lease liability	<u>\$ 115,840</u>

The FAA's capital lease payments are authorized to be funded annually as codified in the U.S. Code, Title 49, Section 40110(c)(1), which addresses general

procurement authority. The remaining principal payments are recorded as unfunded lease liabilities. The imputed interest is funded and expensed annually.



Operating Leases

The FAA has operating leases for real property, aircraft, and telecommunications equipment. Following are future operating lease payments due as of September 30, 2009:

Fiscal Year	
Year 1 (FY 2010)	\$ 165,302
Year 2 (FY 2011)	148,638
Year 3 (FY 2012)	106,162
Year 4 (FY 2013)	58,187
Year 5 (FY 2014)	42,471
After 5 Years	144,081
Total future operating lease payments	<u>\$ 664,841</u>

Operating lease expense incurred during the years ended September 30, 2009 and 2008, was \$214.1 million and \$201.0 million, respectively, including General Services Administration leases that have a short termination privilege, but the FAA intends to remain in the lease. The

operating lease amounts due after 5 years do not include estimated payments for leases with annual renewal options. Estimates of the lease termination dates are subjective, and any projection of future lease payments would be arbitrary.

Note 10. Federal Employee Benefits Payable

As of September 30, 2009 and 2008, FECA actuarial liabilities were \$901.3 million and \$915.2 million, respectively. The DOL calculates the FECA liability for the DOT, and the DOT allocates the liability amount to the FAA based on actual workers' compensation payments to FAA employees during the preceding

4 years. FECA liabilities include the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred but not reported claims. The estimated liability is not covered by budgetary or other resources and thus will require future appropriated funding.



Note 11. Net Cost by Program and Other Statement of Net Cost Disclosures

The FAA’s four LOBs represent the programs reported on the Statement of Net Cost. Cost centers assigned to each LOB permit the direct accumulation of costs. Other costs that are not directly traced to each LOB, such as agency overhead, are allocated.

Following are net costs for the years ended September 30, 2009 and 2008, by strategic goal:

For the Year Ended September 30, 2009

Line of business programs	Strategic Goal Areas				Total
	Safety	Capacity	Organizational Excellence	International Leadership	
Air Traffic Organization	\$ 7,924,375	\$ 2,834,027	\$ 109,001	\$ 32,698	\$ 10,900,101
Aviation Safety	1,158,316	942	8,356	9,297	1,176,911
Airports	2,118,569	1,915,629	403	-	4,034,601
Commercial Space Transportation	12,302	3,006	-	-	15,308
Non-line of business programs Regional and center operations and other	97,029	7,914	157,362	1,506	263,811
Net cost	\$ 11,310,591	\$ 4,761,518	\$ 275,122	\$ 43,501	\$ 16,390,732

For the Year Ended September 30, 2008

Line of business programs	Strategic Goal Areas				Total
	Safety	Capacity	Organizational Excellence	International Leadership	
Air Traffic Organization	\$ 7,678,165	\$ 2,592,749	\$ 105,295	\$ 48,997	\$ 10,425,206
Aviation Safety	1,131,312	1,270	13,050	9,240	1,154,872
Airports	1,970,680	1,782,621	374	-	3,753,675
Commercial Space Transportation	9,160	2,097	-	-	11,257
Non-line of business programs Regional and center operations and other	68,819	5,613	111,611	1,068	187,111
Net cost	\$ 10,858,136	\$ 4,384,350	\$ 230,330	\$ 59,305	\$ 15,532,121



Following is the FAA's distribution of FY 2009 and FY 2008 net costs by intragovernmental-related activity versus with the public:

Line of business programs	For the Year Ended September 30, 2009		
	Intra-governmental	With the Public	Total
Air Traffic Organization			
Expenses	\$ 2,160,316	\$ 9,011,539	\$ 11,171,855
Less earned revenues	(224,191)	(47,563)	(271,754)
Net costs	<u>1,936,125</u>	<u>8,963,976</u>	<u>10,900,101</u>
Aviation Safety			
Expenses	266,429	920,727	1,187,156
Less earned revenues	(2,089)	(8,156)	(10,245)
Net costs	<u>264,340</u>	<u>912,571</u>	<u>1,176,911</u>
Airports			
Expenses	25,276	4,009,694	4,034,970
Less earned revenues	-	(369)	(369)
Net costs	<u>25,276</u>	<u>4,009,325</u>	<u>4,034,601</u>
Commercial Space Transportation			
Expenses	3,611	11,697	15,308
Net costs	<u>3,611</u>	<u>11,697</u>	<u>15,308</u>
Non-line of business programs			
Regional and center operations and other programs			
Expenses	123,542	475,139	598,681
Less earned revenues	(55,304)	(279,566)	(334,870)
Net costs	<u>68,238</u>	<u>195,573</u>	<u>263,811</u>
Net cost of operations			
Total expenses	2,579,174	14,428,796	17,007,970
Less earned revenues	(281,584)	(335,654)	(617,238)
Net costs	<u>\$ 2,297,590</u>	<u>\$ 14,093,142</u>	<u>\$ 16,390,732</u>



Line of business programs	For the Year Ended September 30, 2008		
	Intra- governmental	With the Public	Total
Air Traffic Organization			
Expenses	\$ 2,139,999	\$ 8,456,418	\$ 10,596,417
Less earned revenues	(170,683)	(528)	(171,211)
Net costs	<u>1,969,316</u>	<u>8,455,890</u>	<u>10,425,206</u>
Aviation Safety			
Expenses	174,605	986,409	1,161,014
Less earned revenues	(6,117)	(25)	(6,142)
Net costs	<u>168,488</u>	<u>986,384</u>	<u>1,154,872</u>
Airports			
Expenses	18,138	3,735,702	3,753,840
Less earned revenues	-	(165)	(165)
Net costs	<u>18,138</u>	<u>3,735,537</u>	<u>3,753,675</u>
Commercial Space Transportation			
Expenses	1,693	9,564	11,257
Net costs	<u>1,693</u>	<u>9,564</u>	<u>11,257</u>
Non-line of business programs			
Regional and center operations and other programs			
Expenses	83,917	474,077	557,994
Less earned revenues	(17,718)	(353,165)	(370,883)
Net costs	<u>66,199</u>	<u>120,912</u>	<u>187,111</u>
Net cost of operations			
Total expenses	2,418,352	13,662,170	16,080,522
Less earned revenues	(194,518)	(353,883)	(548,401)
Net costs	<u>\$ 2,223,834</u>	<u>\$ 13,308,287</u>	<u>\$ 15,532,121</u>

Note 12. Earmarked Funds

The FAA's earmarked funds are presented in two classifications: the first classification is composed of the AATF and all related funds that receive funding from the AATF; and includes the Operations Trust Fund; Grants-in-Aid for Airports; F&E; and R,E,&D, all of which are funded exclusively by the AATF. The AATF classification also includes the Operations General Fund, which is primarily funded through transfers from Operations—AATF, but is additionally supplemented by the General Fund of the U.S. Treasury through annual appropriations. Because the Operations General Fund is primarily

funded from the AATF, and because it is not reasonably possible to differentiate cash balances between those originally flowing from the AATF versus general fund appropriations, the Operations General Fund is presented as an earmarked fund. In addition, this note presents only the earmarked funds that retain available financing sources. As such, the balances in the PP&E fund, though funded from the F&E earmarked fund, are reported as other funds and therefore are excluded.



The second classification of earmarked funds includes the Aviation Insurance Revolving Fund and Aviation User Fees.

Airport and Airway Trust Fund

The FAA’s consolidated financial statements include the results of operations and financial position of the AATF. The U.S. Congress created the AATF with the passage of the Airport and Airway Revenue Act of 1970.

The Act provides a dedicated source of funding to the Nation’s aviation system through the collection of several aviation-related excise taxes. The IRS collects these taxes on behalf of the FAA’s AATF. These taxes can be withdrawn only as appropriated by the U.S. Congress.

The Treasury OTA estimates the amount collected monthly and subsequently adjusts the estimates to reflect actual collections quarterly. The total taxes recognized in the FAA’s FY 2009 and FY 2008 financial statements included the OTA’s estimate of \$2.8 billion for the quarter ended September 30, 2009, and \$2.9 billion for the quarter ended September 30, 2008.

As discussed in Note 1 E., FY 2009 excise tax revenue includes amounts certified as actual by the IRS for the first three quarters and amounts estimated by the OTA for the fourth quarter. The following table summarizes the fourth-quarter excise taxes accrued in the FAA’s FY 2008 and 2007 financial statements and the amounts certified as actual by the IRS several months after the issuance of those financial statements:

	<u>FY 2008</u>	<u>FY 2007</u>
Estimates	\$ 2,901,280	\$ 2,818,050
Actuals	2,891,422	3,017,496
Under (Over) Accrual	<u>\$ (9,858)</u>	<u>\$ 199,446</u>

Excise taxes estimated by the OTA in the first, second, and third quarters exceeded amounts subsequently certified as actual by the IRS by \$53.8 million, \$282.5 million, and \$951.4 million, respectively.

The large downward adjustment for the third quarter of FY 2009 was the result of an inflated estimate distribution from the Treasury to the AATF. However, the OTA modified its fourth quarter distribution calculation estimate of excise taxes for this matter. It is expected that this modification will minimize the variance between the fourth quarter FY 2009 estimate and the corresponding subsequent IRS-certified amount, expected to be reported in January 2010.

Other Earmarked Funds

The FAA has authority under the Aviation Insurance Program to insure commercial airlines that may be called upon to perform various services considered necessary to the foreign policy interests of the United States, when insurance is not available commercially or is available only on unreasonable terms and conditions.

The insurance issued, commonly referred to as war-risk insurance, covers losses resulting from war, terrorism, or other hostile acts. The FAA reported premium insurance revenues of \$154.8 million and \$171.3 million for the periods ended September 30, 2009 and 2008, respectively. The Aviation Insurance Program activity is reported below as other earmarked funds. The Aviation Insurance Program is discussed further in Note 1.W. and Note 16.

Aviation User Fees, commonly referred to as overflight fees, are charged to commercial airlines that fly in U.S.-controlled air space, but neither take off nor land in the United States. The FAA reported overflight fees of \$53.2 million and \$58.5 million for the periods ended September 30, 2009 and 2008, respectively. Aviation User Fees activity is reported below as other earmarked funds.

Fiscal data as of, and for the years ended September 30, 2009 and 2008, are summarized in the following charts. Intraagency transactions have not been eliminated in the amounts presented.



Balance Sheet	2009		
	AATF	Other Earmarked Funds	Total Earmarked Funds
Assets			
Fund balance with Treasury	\$ (204,227)	\$ 2,713,909	\$ 2,509,682
Investments, net	7,829,468	1,340,717	9,170,185
Accounts receivable, net	-	3,953,310	3,953,310
Other assets	46,290	3,582,635	3,628,925
Total assets	<u>\$ 7,671,531</u>	<u>\$ 11,590,571</u>	<u>\$ 19,262,102</u>
Liabilities and net position			
AATF amounts due to FAA	\$ 3,772,213	\$ -	\$ 3,772,213
Other liabilities	-	3,111,303	3,111,303
Unexpended appropriations	-	1,142,193	1,142,193
Cumulative results of operations	3,899,318	7,337,075	11,236,393
Total liabilities and net position	<u>\$ 7,671,531</u>	<u>\$ 11,590,571</u>	<u>\$ 19,262,102</u>
Statement of net cost			
Program costs	\$ 11,783,177	\$ 2,946,927	\$ 14,730,104
Less earned revenue:		-	
Aviation insurance premiums	-	(154,794)	(154,794)
Overflight user fees	-	(53,194)	(53,194)
Other revenue	-	(265,022)	(265,022)
Net cost of operations	<u>\$ 11,783,177</u>	<u>\$ 2,473,917</u>	<u>\$ 14,257,094</u>
Statement of changes in net position			
Cumulative results beginning of period	\$ 4,822,612	\$ 6,359,617	\$ 11,182,229
Nonexchange revenue:			
Passenger ticket tax	7,465,647	-	7,465,647
International departure tax	2,187,182	-	2,187,182
Investment income	281,994	-	281,994
Fuel taxes	556,570	-	556,570
Waybill tax	469,881	-	469,881
Tax refunds and credits	(110,034)	-	(110,034)
Other revenue	8,643	24,448	33,091
Budgetary financing sources	-	3,346,527	3,346,527
Other financing sources	-	80,400	80,400
Unexpended appropriations	-	1,142,193	1,142,193
Net cost of operations	(11,783,177)	(2,473,917)	(14,257,094)
Change in net position	(923,294)	2,119,651	1,196,357
Net position end of period	<u>\$ 3,899,318</u>	<u>\$ 8,479,268</u>	<u>\$ 12,378,586</u>



Balance Sheet	2008		
	AATF	Other Earmarked Funds	Total Earmarked Funds
Assets			
Fund balance with Treasury	\$ 848,372	\$ 2,748,123	\$ 3,596,495
Investments, net	7,746,547	1,099,803	8,846,350
Accounts receivable, net	-	3,913,411	3,913,411
Other assets	-	2,569,494	2,569,494
Total assets	<u>\$ 8,594,919</u>	<u>\$ 10,330,831</u>	<u>\$ 18,925,750</u>
Liabilities and net position			
AATF amounts due to FAA	\$ 3,772,307	\$ -	\$ 3,772,307
Other liabilities	-	3,050,320	3,050,320
Unexpended appropriations	-	920,894	920,894
Cumulative results of operations	4,822,612	6,359,617	11,182,229
Total liabilities and net position	<u>\$ 8,594,919</u>	<u>\$ 10,330,831</u>	<u>\$ 18,925,750</u>
Statement of net cost			
Program costs	\$ 13,466,390	\$ 692,130	\$ 14,158,520
Less earned revenue:		-	
Aviation insurance premiums	-	(171,271)	(171,271)
Overflight user fees	-	(58,498)	(58,498)
Other revenue	-	(176,514)	(176,514)
Net cost of operations	<u>\$ 13,466,390</u>	<u>\$ 285,847</u>	<u>\$ 13,752,237</u>
Statement of changes in net position			
Cumulative results beginning of period	\$ 6,046,786	\$ 5,600,561	\$ 11,647,347
Nonexchange revenue:			
Passenger ticket tax	8,260,611	-	8,260,611
International departure tax	2,462,375	-	2,462,375
Investment income	429,572	-	429,572
Fuel taxes	624,493	-	624,493
Waybill tax	521,040	-	521,040
Tax refunds and credits	(55,957)	-	(55,957)
Other revenue	82	41,663	41,745
Budgetary financing sources	-	2,387,128	2,387,128
Other financing sources	-	(1,383,888)	(1,383,888)
Unexpended appropriations	-	920,894	920,894
Net cost of operations	(13,466,390)	(285,847)	(13,752,237)
Change in net position	(1,224,174)	1,679,950	455,776
Net position end of period	<u>\$ 4,822,612</u>	<u>\$ 7,280,511</u>	<u>\$ 12,103,123</u>



Note 13. Imputed Financing Sources

The FAA recognizes as imputed financing the amount of accrued pension and post-retirement benefit expenses for current employees. The assets and liabilities associated with such benefits are the responsibility of the administering agency, the OPM. Amounts paid from the

U.S. Treasury’s Judgment Fund in settlement of claims or court assessments against the FAA also are recognized as imputed financing. For the fiscal years ended September 30, 2009 and 2008, imputed financing was as follows:

	<u>2009</u>	<u>2008</u>
Office of Personnel Management	\$ 580,340	\$ 550,856
Treasury Judgment Fund	81,937	13,474
Total imputed financing sources	<u>\$ 662,277</u>	<u>\$ 564,330</u>

Note 14. Statement of Budgetary Resources Disclosures

The Required Supplementary Information section of this report includes a schedule of budgetary resources by each of the FAA’s major fund types. Budget authority as reported in the Combined Statements of Budgetary Resources includes amounts made available to the FAA

from general, earmarked, and special funds. In contrast, appropriations received as reported in the Consolidated Statements of Changes in Net Position pertain only to amounts made available to the FAA from general funds. The following is a reconciliation of these amounts:

	<u>2009</u>	<u>2008</u>
Combined Statement of Budgetary Resources—budget authority	\$ 20,730,694	\$ 19,485,521
Less amounts made available to FAA from AATF-dedicated collections	(15,526,738)	(17,042,518)
Net transfers of budget authority and other	(46,300)	(41,566)
Less special fund aviation user fees	<u>(53,194)</u>	<u>(58,498)</u>
Consolidated Statement of Changes in Net Position—appropriations received	<u>\$ 5,104,462</u>	<u>\$ 2,342,939</u>

FAA had rescissions of budgetary resources in FY 2009 and FY 2008 to Grant-in-Aid to Airports of \$93.2 million and \$270.5 million, respectively.

As of September 30, 2009 and 2008, the amount of budgetary resources obligated for undelivered orders was \$8.8 billion and \$8.3 billion, respectively.

Budget authority on the FY 2008 Combined Statement of Budgetary Resources includes contract authority of \$4.4 billion and expired funds of \$43 million that are

not presented in the Budget of the U.S. Government. Also, obligations incurred on the FY 2008 Combined Statement of Budgetary Resources includes \$92 million of expired funds and \$676 million of certain reimbursable and revolving fund obligations incurred that are not presented in the Budget of the U.S. Government. As a result, the FAA’s FY 2008 Combined Statement of Budgetary Resources differs from FY 2008 actuals reported in the appendix of the FY 2009 Budget of the U.S. Government (The Budget of the U.S. Government



is available online at <http://www.whitehouse.gov/omb>). As of the date of issuance of the FAA's FY 2009 Combined Statement of Budgetary Resources, the Budget of the U.S. Government for FY 2011, which will

contain actual FY 2009 amounts, was not yet published. The OMB is expected to publish this information early in calendar year 2010.

Statement of Budgetary Resources vs. Budget of the U.S. Government

	Budgetary Authority	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
FAA Combined Statement of Budgetary Resources	\$ 19,485,000	\$ 22,323,000	\$ (1,970)	\$ 14,720,000
Reconciliation to Budget of the U.S. Government:				
Liquidation of contract authorization	(4,399,000)	-	-	-
Expired funds	43,000	(92,000)	-	-
Rescissions	(270,000)	-	-	-
Aviation user fees	(42,000)	-	-	-
Reimbursable funds	-	(676,000)	-	-
Obligations from trust funds	-	(6,397,000)	-	-
Distributed offsetting receipts	-	-	1,970	-
Budget of the U.S. Government	<u>\$ 14,817,000</u>	<u>\$ 15,158,000</u>	<u>\$ -</u>	<u>\$ 14,720,000</u>

OMB Circular A-136 requires the following additional Combined Statement of Budgetary Resources disclosures:

- Congress mandated permanent indefinite appropriations for the F&E; Grants-in-Aid; and R,D,&E to fully fund special projects that were ongoing and spanned several years.
- The FAA does not have obligations classified as “exempt from apportionment.” However, during FY 2009 and FY 2008, direct and reimbursable obligations incurred against amounts apportioned under categories A and B, as defined in OMB Circular No. A-11, Part 4, Instructions on Budget Execution, were as follows:

	2009		2008	
	Direct	Reimbursable	Direct	Reimbursable
Category A	\$ 5,797,847	\$ 477,830	\$ 6,959,806	\$ 416,908
Category B	16,173,757	264,836	14,686,661	259,427
Total	<u>\$ 21,971,604</u>	<u>\$ 742,666</u>	<u>\$ 21,646,467</u>	<u>\$ 676,335</u>

Unobligated balances of budgetary resources for unexpired accounts are available in subsequent years until expiration, upon receipt of an apportionment from the OMB. Unobligated balances of expired accounts are not available. At the end of FY 2008, \$19.3 million of

obligated balances were in appropriations cancelled at year-end pursuant to 31 U.S.C. 1552 and thus have not been brought forward to FY 2009. Additionally, transfers in FY 2009 to the DOT for Essential Air Services also reduced balances available for obligation.



Note 15. Financing Sources Yet To Be Provided

The following table shows the relationship between liabilities not covered by budgetary or other resources as reported on the balance sheets as of September 30, 2009

and 2008, and the change in components of net cost of operations that will require or generate resources in future periods.

	2009	2008	Change
FECA payable (Note 8)	\$ 211,015	\$ 205,171	\$ 5,844
Capital Leases (Notes 8 and 9)	115,840	61,671	54,169
Environmental liabilities (Notes 7 and 16)	810,814	637,825	172,989
Unfunded annual & other leave & associated benefits (Note 8)	400,715	393,375	7,340
Sick leave compensation benefits (Note 8)	80,775	79,525	1,250
Increases—components of net cost of operations requiring or generating resources in future periods (Note 17)			241,592
FECA actuarial (Note 10)	901,282	915,242	(13,960)
Legal claims (Note 8)	41,000	109,450	(68,450)
Other accrued liabilities (Note 8)	90,743	144,657	(53,914)
Decreases—resources that fund expenses recognized in prior periods (Note 17)			(136,324)
Total liabilities not covered by budgetary resources	2,652,184	2,546,916	105,268
Total liabilities covered by budgetary resources	1,787,989	1,412,489	375,500
Total liabilities	\$ 4,440,173	\$ 3,959,405	\$ 480,768

Note 16. Commitments, Contingencies, and Other Disclosures

Reauthorization. Effective October 1, 2009, the FAA is operating under a continuing resolution, Public Law 111-88, for its appropriation and many of its programmatic and financing authorities. The continuing resolution will be in effect through December 18, 2009, and includes a provision that allows the FAA to collect aviation-related excise taxes and continue spending at fiscal 2009 rates. It also provides sufficient contract authority for the AIP.

Without legislative action, many of the FAA's programmatic and financing authorities, including the AIP contract authority and the authority to collect excise taxes into and make expenditures from the AATF, will expire after December 31, 2009. The outcome of future legislative and executive negotiation of these matters is uncertain.

Contract Options. As of September 30, 2009, the FAA had contract options of \$10.2 billion. These contract options give the FAA the unilateral right to purchase additional equipment or services or to extend the contract terms. Exercising this right would require the

obligation of funds in future years.

AIP. The AIP provides grants for the planning and development of public-use airports that are included in the National Plan of Integrated Airport Systems. Eligible projects generally include improvements related to enhancing airport safety, capacity, security, and environmental concerns. The FAA's share of eligible costs for large and medium primary-hub airports is 75 percent with the exception of noise program implementation, which is 80 percent. For remaining airports (small primary, reliever, and general aviation), the FAA's share of eligible costs is 95 percent.

The FAA has authority under 49 U.S.C. 47110(e) to issue letters of intent to enter into AIP grant agreements. The FAA records an obligation when a grant is awarded. Through September 30, 2009, the FAA issued letters of intent beginning in FY 1988 and extending through FY 2020 totaling \$5.9 billion. As of September 30, 2009, the FAA had obligated \$4.9 billion of this total amount, leaving \$1.0 billion unobligated.



Through September 30, 2008, the FAA issued letters of intent beginning FY 1988 and extending through FY 2020 totaling \$5.7 billion. As of September 30, 2008, the FAA had obligated \$4.6 billion of this total amount, leaving \$1.1 billion unobligated.

Aviation Insurance Program. The FAA is authorized to issue hull and liability insurance under the Aviation Insurance Program for air carrier operations for which commercial insurance is not available on reasonable terms and when continuation of U.S. flag commercial air service is necessary in the interest of air commerce, national security, and the foreign policy of the United States. The FAA may issue: (1) nonpremium insurance and (2) premium insurance for which a risk-based premium is charged to the air carrier, to the extent practical.

During FY 2009, the FAA provided premium war-risk insurance to 63 airlines. For these airlines, combined hull and liability per occurrence coverage limits range from \$100 million to \$4 billion. The FAA also provided nonpremium, war-risk insurance to 36 carriers with 1,593 aircraft for DoD charter operations for Central Command, and standby nonpremium, war-risk insurance policies for six carriers for State Department charter operations.

As of September 30, 2009, there are no pending aviation insurance claims. There is approximately \$1.3 billion available in the Aviation Insurance Revolving Fund to pay claims to carriers covered by premium insurance. If premium insurance claims should exceed that amount, additional funding could be appropriated from the General Fund. The DoD and State Department have agreed to pay claims to the carriers covered by nonpremium insurance.

Legal Claims. As of September 30, 2009 and 2008, the FAA's contingent liabilities for asserted and pending legal claims reasonably possible of loss were estimated at \$93.0 million and \$80.6 million, respectively. There are other claims that could result in significant payouts; however, it is not possible at this time to determine the probability of an unfavorable outcome, or to determine an estimate of potential loss for these matters, if any.

Environmental Liabilities. As of September 30, 2009, the FAA has estimated contingent liabilities, categorized as reasonably possible of \$202.2 million related to environmental remediation. Contingency costs are defined for environmental liabilities as those costs that may result from incomplete design, unforeseen and unpredictable conditions, or uncertainties within a defined project scope.



Note 17. Reconciliation of Net Cost of Operations to Budget

This note reconciles the resources available to the FAA to finance operations and the net cost of operating FAA programs.

Resources used to finance activities	2009	2008
Budgetary resources obligated		
Obligations incurred	\$ 22,714,270	\$ 22,322,802
Less: Spending authority from offsetting collections and receipts and recoveries of prior year obligations	6,599,676	7,645,191
Obligations, net of offsetting collections	16,114,594	14,677,611
Other resources		
Transfers in/(out) without reimbursement	(1,105)	-
Imputed financing from costs absorbed by others	662,277	564,330
Net other resources used to finance activities	661,172	564,330
Total resources used to finance activities	16,775,766	15,241,941
 Resources used to finance items not part of the net cost of operations		
Change in budgetary resources obligated for goods, services, and benefits ordered but not yet received	558,626	(103,627)
Resources that fund expenses recognized in prior periods (decreases in unfunded liabilities) (Note 15)	136,324	10,440
Resources that finance the acquisition of assets	1,046,529	1,249,137
Other resources or adjustments to net obligated resources that do not affect net cost of operations	53,706	11,367
Total resources used to finance items not part of net cost of operations	1,795,185	1,167,317
Total resources used to finance net cost of operations	14,980,581	14,074,624
 Components of net cost of operations that will not require or generate resources in the current period		
Components requiring or generating resources in future periods		
Increases in annual leave liability and other unfunded liabilities (Note 15)	241,592	280,363
Components not requiring or generating resources in future periods		
Depreciation and amortization	1,120,870	1,130,852
Other	47,689	46,282
Total components of net cost of operations that will not require or generate resources	1,168,559	1,177,134
Total components of net cost of operations that will not require or generate resources in the current period	1,410,151	1,457,497
Net cost of operations	\$ 16,390,732	\$ 15,532,121



REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

U.S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
 Stewardship Investment
 Non-Federal Physical Property
 Airport Improvement Program
 For the Fiscal Years Ended September 30
 Unaudited

State/Territory	2009	2008	2007	2006	2005
Alabama	\$ 88,006	\$ 53,568	\$ 58,006	\$ 75,753	\$ 59,571
Alaska	258,493	228,082	238,486	182,020	210,446
Arizona	81,016	87,839	64,170	100,235	85,226
Arkansas	41,746	40,313	41,002	48,454	42,342
California	257,045	402,378	377,060	330,255	322,128
Colorado	127,959	54,327	95,914	90,421	61,916
Connecticut	36,016	13,388	8,279	9,154	9,991
Delaware	15,112	11,163	12,109	7,127	9,707
District of Columbia	19,052	5,652	47,131	-	5,657
Florida	209,747	157,214	209,219	210,656	181,151
Georgia	112,453	118,644	78,564	70,484	128,053
Hawaii	81,303	41,556	74,179	45,815	33,097
Idaho	26,444	21,905	22,307	30,687	24,855
Illinois	126,249	116,104	197,470	111,302	152,307
Indiana	63,444	66,825	57,649	69,098	45,537
Iowa	30,776	37,843	33,501	32,866	34,064
Kansas	43,475	22,059	32,735	32,497	25,864
Kentucky	47,411	32,981	62,393	70,784	64,216
Louisiana	66,617	58,036	66,659	59,783	79,747
Maine	21,130	26,631	24,413	16,960	26,324
Maryland	26,262	30,575	52,523	54,956	38,864
Massachusetts	77,193	42,092	30,217	70,894	27,907
Michigan	95,534	121,795	99,889	120,606	137,814
Minnesota	62,844	68,027	64,822	88,144	67,267
Mississippi	43,608	69,768	69,488	40,229	41,696
Missouri	79,620	104,980	91,667	92,826	116,612
Montana	44,214	28,997	50,018	45,161	27,877
Nebraska	46,884	17,051	30,227	31,567	28,633
Nevada	62,106	51,045	58,106	95,972	56,148
New Hampshire	21,930	24,337	49,344	17,327	22,245
New Jersey	81,388	111,692	88,620	94,207	53,960
New Mexico	25,966	23,273	27,373	27,799	19,761



U.S. Department of Transportation
 FEDERAL AVIATION ADMINISTRATION
 Stewardship Investment
 Non-Federal Physical Property
 Airport Improvement Program
 For the Fiscal Years Ended September 30
 Unaudited

State/Territory	2009	2008	2007	2006	2005
New York	\$ 111,873	\$ 80,292	\$ 121,806	\$ 124,315	\$ 118,853
North Carolina	105,959	97,242	70,696	79,245	102,669
North Dakota	21,948	19,395	26,433	17,530	23,074
Ohio	106,927	150,547	113,446	126,327	100,776
Oklahoma	49,832	33,975	40,475	43,459	42,941
Oregon	62,678	35,154	34,823	43,946	53,329
Pennsylvania	112,739	119,807	90,909	135,097	126,833
Rhode Island	7,441	13,177	24,985	16,085	11,901
South Carolina	42,403	34,553	24,614	43,391	38,246
South Dakota	32,142	29,557	24,161	18,489	22,065
Tennessee	96,655	76,141	96,290	78,238	45,678
Texas	289,801	299,473	212,737	260,496	235,495
Utah	39,329	56,319	49,935	38,669	41,200
Vermont	8,179	6,234	10,234	7,325	4,333
Virginia	81,283	64,932	104,667	97,613	82,330
Washington	133,508	97,078	111,797	97,519	168,764
West Virginia	28,280	25,256	34,623	35,917	26,991
Wisconsin	61,043	48,781	50,008	55,632	53,074
Wyoming	25,486	19,323	18,687	25,509	38,536
American Samoa	9,273	5,195	9,732	4,792	9,615
Guam	38,245	18,683	29,920	12,428	11,137
Northern Mariana Islands	8,678	12,151	20,024	13,302	10,274
Puerto Rico	20,625	16,578	9,760	26,024	16,209
Virgin Islands	3,698	6,892	4,732	1,114	4,702
Administration	115,903	96,965	74,685	75,640	82,415
Totals	<u>\$ 4,034,970</u>	<u>\$ 3,753,840</u>	<u>\$ 3,923,719</u>	<u>\$ 3,852,141</u>	<u>\$ 3,712,423</u>

The FAA makes project grants for airport planning and development under the AIP to maintain a safe and efficient nationwide system of public-use airports that meets both current and future needs of civil aeronautics.

The FAA works to improve the infrastructure of the Nation's airports, in cooperation with airport authorities, local and State governments, and metropolitan planning authorities.



Department of Transportation
 FEDERAL AVIATION ADMINISTRATION
 Stewardship Investment
 Research and Development
 For the Fiscal Years Ended September 30
 Unaudited

Expenses	FY 2009	FY 2008	FY 2007	FY 2006	FY 2005
Applied Research	\$ 95,764	\$ 88,114	\$ 102,782	\$ 106,390	\$ 103,659
Development	1,102	814	844	587	547
Administration	35,055	33,519	32,050	30,566	29,163
R&D Plant	3,381	3,498	4,217	3,821	5,287
Total	\$ 135,302	\$ 125,945	\$ 139,893	\$ 141,364	\$ 138,656

The FAA conducts research and provides the essential air traffic control infrastructure to meet increasing demands for higher levels of safety, efficiency, and environmental improvement.

Research priorities include aircraft structures and materials; fire and cabin safety; crash injury protection; explosive detection systems; ground deicing operations and decreased in-flight ice buildup; better tools to predict and warn of weather hazards, turbulence, and wake vortices; aviation medicine; and human factors. Human factors refer to research on how people (e.g., air traffic controllers, pilots) perform when interacting with, for example, technology and equipment under various conditions. Optimizing this interaction contributes to higher levels of safe air travel.

Following are some of the FAA's top FY 2009 research and development accomplishments:

- The search for alternatives to conventionally derived aviation fuel has led to the development of a new ASTM standard, D7566, Specification for Aviation Turbine Fuels Containing Synthesized Hydrocarbons. The Commercial Aviation Alternative Fuel Initiative (CAAFI) played a key leadership role in achieving this major milestone which was introduced September 1, 2009. The new specification will allow the use of semisynthetic aviation fuel in commercial airliners. CAAFI stakeholders also took key steps to advance the acceptance and understanding

of alternative aviation fuels by conducting three flight demonstrations on commercial airliners. In December 2008, an Air New Zealand Boeing 747 made a demonstration flight with a bio-jet fuel. This was followed in January 2009 by a Continental Airlines Boeing 737 and a Japan Airlines Boeing 747.

- The Aviation Weather Research Program completed concept development of methods that will enable customized 1–3 hour probabilistic forecasts, targeted initially, for the OEP 35 Airports. This capability will utilize current observations and past history to produce hourly forecasts in 5 minutes. This approach will enable timely forecasts and will be combined with numerical modeling techniques to extend the forecasts to 12 hours. This capability will provide a valuable tool for identifying hazardous ceiling and visibility conditions that impact traffic capacity at the OEP terminals.
- Air traffic in the United States is expected to increase significantly during the next several decades. Some high-end estimates indicate that by 2025 total passenger enplanements may more than double and total aircraft operations may triple in comparison to today's traffic. In the next 10 to 15 years, most U.S. tower facilities will reach the end of their useful life. New tower construction costs are escalating. To address these critical issues, the FAA has developed the NextGen Towers operational concept. The NextGen Towers concept reduces the need for



physical infrastructure associated with air traffic control towers and will provide a means to control airport traffic from the ground.

- The FAA, in conjunction with the airline industry, embarked on a series of tests to determine the optimum procedure for fighting a laptop computer fire on board an aircraft. Halon 1211, the typical fire extinguisher installed in passenger aircraft, was effective in extinguishing the burning electrolyte, but did not prevent adjacent cells from going into thermal runaway and catching on fire. It was determined that water was the most effective agent in cooling the remaining cells and stopping the chain reaction. A training video was developed by the Fire Safety Team, which illustrates effective and practical methods of extinguishing a cabin fire involving lithium batteries in a laptop computer. The video,

“Extinguishing In-Flight Laptop Computer Fires,” is located in the announcements section of the Fire Safety Team Web site: <http://www.fire.tc.faa.gov>.

- For more than 50 years, the standard light source used for airfield lighting was the incandescent lamp. These lamps are not very efficient in producing light as most of the energy is released in the form of heat. With advancements in the LED field, it has become viable to consider their use as a replacement for the incandescent lamp. LEDs have the potential to provide significant energy savings, reduced maintenance, and overall life cycle cost savings while providing a more reliable visual cue. As part of the operational evaluation of LEDs, Runway Entrance Lights of the RWSL system at San Diego International Airport will be converted from incandescent to LED during Fiscal Year 2010. This will be the first use of red LEDs on an airport surface.

REQUIRED SUPPLEMENTARY INFORMATION

U.S. Department of Transportation
 FEDERAL AVIATION ADMINISTRATION
 Supplementary Information
 Deferred Maintenance
 As of September 30, 2009
 Unaudited

Category	Method	Asset Condition*	Costs to Return to Acceptable Condition
Buildings	Condition assessment	4&5	\$ 111,298
Other structures and facilities	Condition assessment	4&5	\$ 147,000

* Condition Rating Scale 4=Poor; 5=Very Poor

Deferred maintenance is maintenance that was not performed when it should have been, or was scheduled to be performed but was delayed until a future period due to a lack of resources or funding. The FAA reports deferred maintenance only on assets with condition ratings of 4 and 5, in compliance with SFFAS Number 6, Accounting for PP&E; SFFAS Number 8, Supplemental Stewardship Reporting; and SFFAS Number 14,

Amendments to Deferred Maintenance Reporting (amends SFFAS 6 and 8).

Deferred maintenance is estimated using condition assessment surveys and includes the following buildings, structures, and facilities: En Route, Terminal, FAA Technical Center, FAA Aeronautical Center, and unstaffed facilities. The FAA recognizes maintenance expense as incurred.



FEDERAL AVIATION ADMINISTRATION

U. S. Department of Transportation
 FEDERAL AVIATION ADMINISTRATION
 Schedule of Budgetary Resources by Major Fund Type
 As of September 30, 2009
 Unaudited

	Trust Fund Grants-in-Aid to Airports	Trust Fund Facilities & Equipment	Trust Fund Research, Eng. & Development	Aviation Insurance Revolving Fund	Franchise Fund	Operations	Other Funds	Combined Total
Budgetary Resources	\$ 102,772	\$ 1,146,277	\$ 38,981	\$ 1,136,744	\$ 192,909	\$ 181,883	\$ 22,714	\$ 2,822,280
Unobligated balance brought forward and transfers	145,691	159,341	4,680	8	19,941	75,716	-	385,377
Recoveries of prior year obligations	7,500,000	2,689,931	171,010	-	-	9,042,467	1,327,286	20,750,694
Budget authority	15	105,540	4,546	180,735	485,747	5,487,549	444	6,164,596
Spending authority from offsetting collections	-	-	-	-	-	3,700	(50,000)	(46,300)
Nonexpenditure transfers, net	(3,693,200)	-	(1,972)	-	-	(49,062)	-	(3,744,234)
Permanently not available	-	-	-	-	-	-	-	-
Total Budgetary Resources	\$ 4,055,278	\$ 4,051,089	\$ 217,245	\$ 1,317,507	\$ 648,597	\$ 14,692,253	\$ 1,300,444	\$ 26,812,413
Status of Budgetary Resources								
Obligations incurred	\$ 3,660,582	\$ 2,748,720	\$ 149,127	\$ 6,643	\$ 474,226	\$ 14,506,401	\$ 1,168,571	\$ 22,714,270
Unobligated balances—available	212	1,212,134	61,600	31,465	174,371	95,800	131,873	1,707,455
Unobligated balances—not available	394,484	120,235	6,518	1,279,399	-	90,052	-	1,890,688
Total Status of Budgetary Resources	\$ 4,055,278	\$ 4,051,089	\$ 217,245	\$ 1,317,507	\$ 648,597	\$ 14,692,253	\$ 1,300,444	\$ 26,812,413
Change in Obligated Balances								
Obligated balance, net, beginning of period	\$ 5,064,438	\$ 1,785,810	\$ 137,523	\$ 5,827	\$ 62,962	\$ 1,414,982	\$ 2	\$ 8,471,544
Obligations incurred	3,660,582	2,748,720	149,127	6,643	474,226	14,506,401	1,168,571	22,714,270
Gross outlays	(3,876,472)	(2,541,066)	(144,063)	(5,642)	(427,694)	(14,376,739)	(181,484)	(21,853,160)
Recoveries of prior year obligations, actual	(145,691)	(159,341)	(4,680)	(8)	(19,941)	(75,716)	-	(385,377)
Change in uncollected customer payments from Federal sources	-	(24,330)	(3,958)	-	58,529	(60,532)	-	(30,291)
Obligated balance, net, end of period	\$ 4,702,857	\$ 1,829,793	\$ 133,949	\$ 6,820	\$ 148,082	\$ 1,408,396	\$ 987,089	\$ 9,216,986
Obligated balance, net, end of period	\$ 4,702,914	\$ 1,944,592	\$ 147,116	\$ 6,820	\$ 166,251	\$ 1,725,383	\$ 987,089	\$ 9,680,165
Unpaid obligations	(57)	(114,799)	(13,167)	-	(18,169)	(316,987)	-	(463,179)
Uncollected customer payments from Federal sources	-	-	-	-	-	-	-	-
Total unpaid obligated balance, net end of period	\$ 4,702,857	\$ 1,829,793	\$ 133,949	\$ 6,820	\$ 148,082	\$ 1,408,396	\$ 987,089	\$ 9,216,986
Net Outlays								
Gross outlays	\$ 3,876,472	\$ 2,541,066	\$ 144,063	\$ 5,642	\$ 427,694	\$ 14,376,739	\$ 181,484	\$ 21,853,160
Offsetting collections	(16)	(81,211)	(687)	(180,735)	(494,276)	(5,377,016)	(444)	(6,134,305)
Distributed offsetting receipts	-	-	-	-	-	-	(49,703)	(49,703)
Net Outlays	\$ 3,876,456	\$ 2,459,855	\$ 143,476	\$ (175,113)	\$ (66,582)	\$ 8,999,723	\$ 131,337	\$ 15,369,152



U. S. Department of Transportation
 FEDERAL AVIATION ADMINISTRATION
 Schedule of Budgetary Resources by Major Fund Type
 As of September 30, 2008
 Unaudited

	Trust Fund Grants-in-Aid to Airports	Trust Fund Facilities & Equipment	Trust Fund Research, Eng., & Development	Aviation Insurance Revolving Fund	Franchise Fund	Operations	Other Funds	Combined Total
Budgetary Resources								
Unobligated balance brought forward and transfers	\$ 208,054	\$ 1,117,706	\$ 31,341	\$ 939,626	\$ 162,685	\$ 288,338	\$ 10,968	\$ 2,753,668
Recoveries of prior year obligations	160,164	168,813	10,523	53	42,546	88,977	-	471,076
Budget authority	8,074,000	2,471,327	146,881	-	-	8,740,000	53,363	19,485,521
Spending authority from offsetting collections	10,973	54,090	6,901	199,545	403,080	6,499,577	(51)	7,174,115
Nonexpenditure transfers, net	(4,669,500)	-	(6,015)	-	-	(22,217)	(41,566)	(4,697,732)
Permanently not available	-	-	-	-	-	-	-	-
Total Budgetary Resources	\$ 3,778,691	\$ 3,811,936	\$ 189,581	\$ 1,139,224	\$ 608,261	\$ 15,594,675	\$ 22,714	\$ 25,145,082
Status of Budgetary Resources								
Obligations incurred	\$ 3,675,919	\$ 2,665,659	\$ 150,600	\$ 2,480	\$ 415,352	\$ 15,412,792	\$ -	\$ 22,322,802
Unobligated balances—available	102,772	1,047,013	32,911	4,668	173,561	34,701	-	1,395,626
Unobligated balances—not available	-	99,264	6,070	1,132,076	19,348	147,182	22,714	1,426,654
Total Status of Budgetary Resources	\$ 3,778,691	\$ 3,811,936	\$ 189,581	\$ 1,139,224	\$ 608,261	\$ 15,594,675	\$ 22,714	\$ 25,145,082
Change in Obligated Balances								
Obligated balance, net, beginning of period	\$ 5,367,986	\$ 1,800,673	\$ 122,913	\$ 8,975	\$ 104,082	\$ 1,108,611	\$ 5	\$ 8,513,195
Obligations incurred	3,675,919	2,665,659	150,600	2,480	415,352	15,412,792	-	22,322,802
Gross outlays	(3,819,303)	(2,559,690)	(119,172)	(5,575)	(379,211)	(15,072,922)	(3)	(21,955,876)
Recoveries of prior year obligations, actual	(160,164)	(168,813)	(10,523)	(53)	(42,546)	(88,977)	-	(471,076)
Change in uncollected customer payments from Federal sources	-	48,068	(6,382)	-	(34,665)	55,478	-	62,499
Obligated balance, net, end of period	\$ 5,064,438	\$ 1,785,897	\$ 137,436	\$ 5,827	\$ 62,962	\$ 1,414,982	\$ 2	\$ 8,471,544
Obligated balance, net, end of period								
Unpaid obligations	\$ 5,064,498	\$ 1,876,366	\$ 146,645	\$ 5,827	\$ 139,659	\$ 1,671,435	\$ 2	\$ 8,904,452
Uncollected customer payments from Federal sources	(60)	(90,469)	(9,209)	-	(76,697)	(256,453)	-	(432,888)
Total unpaid obligated balance, net end of period	\$ 5,064,438	\$ 1,785,897	\$ 137,436	\$ 5,827	\$ 62,962	\$ 1,414,982	\$ 2	\$ 8,471,544
Net Outlays								
Gross outlays	\$ 3,819,303	\$ 2,559,690	\$ 119,172	\$ 5,575	\$ 379,211	\$ 15,072,922	\$ 3	\$ 21,955,876
Offsetting collections	(10,986)	(102,085)	(604)	(199,930)	(668,415)	(6,555,055)	51	(7,237,024)
Disbursed offsetting receipts	-	-	-	-	-	-	(1,970)	(1,970)
Net Outlays	\$ 3,808,317	\$ 2,457,605	\$ 118,568	\$ (194,355)	\$ 10,796	\$ 8,517,867	\$ (1,916)	\$ 14,716,882



ADMINISTRATIVE SERVICES FRANCHISE FUND

Background

Public Law 104-205, Department of Transportation and Related Agencies Appropriation Act, 1997, authorized the FAA to establish an Administrative Services Franchise Fund (Franchise Fund). The Franchise Fund is designed to create competition within the public sector in the performance of a wide variety of support services. It allows for the establishment of an environment to maximize the use of internal resources through the consolidation and joint-use of like functions and the recognition of economies of scale and efficiencies associated with the competitive offering of services to other Government agencies.

The FAA's Franchise Fund is composed of several programs, within which it offers a wide variety of services. These services include accounting, travel, duplicating, multimedia, information technology, logistics and material management, aircraft maintenance, international training, and management training. The Franchise Fund's major customers are FAA LOB programs. Other customers include DOT entities, non-DOT government agencies, and international government entities.

Description of Programs and Services

Several programs within the Franchise Fund are organized around an Enterprise Services Center (ESC) concept, designed to integrate the key components necessary to be a full-service financial management provider. The efficiencies and economies of scale created by this integration offer the opportunity to compete for customers seeking a provider of financial management services. As new customers come on board, this further reduces the cost of providing the services by spreading the fixed cost of operations over a larger customer base. Following are the three components of the ESC, all falling within the single Franchise Fund:

- Enterprise System—configuration and support of application software and databases
- Financial Operations—transaction processing, financial reporting, and analysis services
- Information Technology—hosting, telecommunications, information system security, and end-user support services

During FY 2005, the OMB selected the ESC as a Financial Management Center of Excellence (COE). As a COE, the ESC now has the ability to compete to provide financial management services for other Government agencies. The ESC currently provides financial management services to all DOT agencies, the National Endowment for the Arts, Commodity Futures Trading Commission, Institute of Museum and Library Services, and the U.S. GAO, and also has several proposals out to other agencies.

In addition to being selected as a COE, the ESC was chosen by the FAA Administrator to serve as the consolidated provider of all financial management services for all FAA organizations. The ESC committed to providing an improved level of service, meeting all Joint Financial Management Improvement Program requirements.

The Franchise Fund also includes the following program areas:

The **Aircraft Maintenance and Engineering Group** in the office of Aviation System Standards is located at the Mike Monroney Aeronautical Center (Aeronautical Center) in Oklahoma City. It provides total aircraft support including maintenance, quality assurance, and overall program management. This service includes preventive, as well as repair/overhaul and/or modification requirements, and reliability and maintainability studies. The Aircraft Maintenance and Engineering Group can provide full or partial support depending on customer requirements, from short-term preventive maintenance or one-time engineering tasks to more involved activities such as a full complement of maintenance services with quality assurance and engineering support.

The **CMEL**, located at Palm Coast, FL, provides nontechnical training in support of the FAA mission. The center designs and delivers face-to-face, centralized training both onsite and at field locations. Students also complete more than 5,000 distance learning programs each year. CMEL is fully accredited with commendations by the Commission on Occupational Education, and the American Council on Education has determined that CMEL courses are worthy of upper-division college credit. Federal, professional, and local communities also recognize the CMEL as a premier resource for leadership and team-building training.



The **International Training Division** (ITD) in the FAA Academy at the Aeronautical Center in Oklahoma City delivers technical assistance and training to enhance international aviation safety and security while promoting U.S. aviation system technologies, products, and services overseas. The products and services of the ITD include training program management, instructional services, training design/development/revision, technical training evaluations, and consulting services tailored to meet specifically defined needs of the FAA and its international customers.

The **FAA Logistics Center**, also located at the Aeronautical Center, provides comprehensive logistics support and a highly sophisticated level of maintenance and repair services to ensure the safety of the flying public and to satisfy the critical needs of the NAS and related requirements. Services include material management (e.g., provisioning, cataloging, acquisition, inventory management, inventory supply), reliable and cost-effective depot-level repair of line-replaceable units, life cycle and performance cost analysis, logistics automation, distribution services, disposal of items no longer required, and technical support in the repair and maintenance of NAS and related equipment.

U. S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
FRANCHISE FUND
 Condensed Information
ASSETS, LIABILITIES, and NET POSITION
 (Dollars in Thousands)
 Unaudited

	As of September 30	
	2009	2008
Assets		
Fund balance with Treasury	\$ 322,455	\$ 255,873
Accounts receivable, net	2,522	6,082
Inventory and related property, net	473,770	457,302
General property, plant, and equipment, net	22,258	6,540
Other	556	491
Total assets	\$ 821,561	\$ 726,288
Liabilities		
Accounts payable	\$ 23,293	\$ 15,440
Advances from others	214,919	160,340
Employee-related	18,007	15,169
Other	3,611	4,309
Total liabilities	259,830	195,258
Net position		
Cumulative results of operations	561,731	531,030
Total net position	561,731	531,030
Total liabilities and net position	\$ 821,561	\$ 726,288



U. S. Department of Transportation
 FEDERAL AVIATION ADMINISTRATION
 FRANCHISE FUND
 Condensed Information
 REVENUES AND EXPENSES
 (Dollars in Thousands)
 Unaudited

For the Years Ended
 September 30

		<u>2009</u>	<u>2008</u>
Enterprise Services Center	Revenues	\$ 127,791	\$ 109,592
	Expenses	147,564	127,695
	Profit/(loss)	<u>(19,773)</u>	<u>(18,103)</u>
Aircraft Maintenance and Engineering Group	Revenues	55,999	51,722
	Expenses	56,503	54,521
	Profit/(loss)	<u>(504)</u>	<u>(2,799)</u>
FAA Academy	Revenues	14,982	13,929
	Expenses	15,730	13,475
	Profit/(loss)	<u>(748)</u>	<u>454</u>
FAA Logistics Center	Revenues	282,652	266,208
	Expenses	265,388	228,781
	Profit/(loss)	<u>17,264</u>	<u>37,427</u>
Total Consolidated	Revenues	481,424	441,451
	Expenses	485,185	424,472
	Profit/(loss)	<u>\$ (3,761)</u>	<u>\$ 16,979</u>



U.S. Department of Transportation
 FEDERAL AVIATION ADMINISTRATION
 FRANCHISE FUND
 Condensed Information
 FINANCING SOURCES AND NET POSITION
 (Dollars in Thousands)
 Unaudited

	Cumulative results of operations	
	2009	2008
Beginning balance, net position	\$ 531,030	\$ 480,577
Financing sources		
Transfers-in/out without reimbursement	(17,665)	(16,240)
Imputed financing from costs absorbed by others	52,127	49,714
Total financing sources	34,462	33,474
Profit (loss)	(3,761)	16,979
Ending balance, net position	\$ 561,731	\$ 531,030



Early NextGen capabilities in use at several large airports, including those in Atlanta, Charlotte, and Newark, have contributed to more efficient arrival and departure performance.

Credit: FAA Image Gallery



OTHER ACCOMPANYING INFORMATION

INSPECTOR GENERAL'S TOP MANAGEMENT CHALLENGES FOR FY 2010

Each fiscal year, the DOT OIG identifies and reports the top challenges that management will face in the ensuing year. While prepared for the DOT as a whole, the report includes certain challenges that pertain specifically to the FAA. At the time of publication of the FAA's FY 2009 PAR, the OIG's report had not been finalized. Therefore, we have included excerpts of the draft that pertain to the FAA.

Maximizing the Department's Economic Recovery Investments

- Enhancing oversight of ARRA spending
- Reporting accurate and consistent job creation data

Addressing Human Factors and Strengthening the Regulatory and Oversight Framework for Aviation Safety

- Increasing efforts to address human factors
- Providing an equivalent level of safety for passengers flying on-demand carriers by strengthening regulations and oversight
- Maintaining momentum in joint FAA/industry efforts to improve runway safety

Moving Toward the NextGen System and Improving Performance of the NAS

- Taking actions to deliver NextGen in the near-term and midterm
- Maximizing the benefits of performance-based navigation in the NAS and keeping airspace redesign projects on track
- Improving programs for developing the next generation of air traffic controllers

Improving Contract Management and Oversight

- Strengthening the DOT suspension and debarment program to effectively safeguard against awards to improper parties
- Improving award-fee contracting processes to meet acquisition outcomes

- Maintaining high ethical standards among DOT employees and fund recipients

Enhancing the Ability to Combat Cyber Attacks and Improving the Governance of IT Resources

- Establishing a robust information security program to support the DOT's missions
- Increasing security protection and resilience of the air traffic control system to reduce the risks of cyber attacks
- Strengthening the privacy protection program to secure PII
- Enhancing control of IT investments through oversight and accountability

Strengthening the Department's Acquisition Workforce

- Addressing acquisition workforce retention and recruitment concerns
- Ensuring a sufficient and competent acquisition workforce to meet mission needs

Management Response

We agree that the FAA faces significant challenges in aviation, and we have aligned our resources and performance targets so that we can be successful. The challenges stated above will be met by focusing on improving safety, increasing capacity, and achieving organizational excellence.

The FAA is intrinsically aware of the sensitive nature of our ARRA responsibilities, and we have worked conscientiously to see that the Administration's vision is carried out in the best interests of the taxpayer. We carefully considered the equitable distribution of funding throughout the country, while targeting the highest yields in safety and increased efficiencies for the flying public. A careful balance is in place to adequately apply ARRA resources across the network of acquisition programs to achieve the planned program benefits for all of the objectives in the NAS architecture. The



resource distribution is carefully weighed and considers criticality, complexity, and short- or long-term need of the requirement. Program oversight and project management are accorded the most careful attention to detail. Quarterly ARRA funds recipient reporting is carefully validated for accuracy and completeness in accordance with the Administration's espoused goal of transparency and visibility. The FAA was the first agency to fully obligate \$1 billion, and the first to successfully create viable data validation systems that ensure accurate funding and project tracking. Our continued commitment to success implementing the ARRA has helped earn our place as a recognized leader in the DOT's efforts to bring Americans back to work.

Making a safe aviation system even safer is an ongoing challenge. Our safety record indicates that we have addressed identified risk factors that could cause an accident or incident. Our challenge now is to identify any remaining risks and eliminate, minimize, or manage them. We have already taken steps to address a number of the OIG's recommendations regarding our oversight of the air carriers, as well as the outsourcing of aircraft maintenance. We are enhancing our current ACEP and reviewing field office compliance with policy and procedures of our national program for risk-based oversight, ATOS. We published an NPRM that addresses updated certification requirements for 23 turbojets. We will continue to use special conditions to establish the appropriate certification standards until new regulations are finalized. In general, we believe that introducing additional management controls in programs such as the Voluntary Disclosure Reporting Program and ATOS is beneficial. These are extremely valuable programs in terms of their contributions to the FAA's safety mission.

Last year, the FAA initiated a Call to Action with our stakeholders to identify initiatives to improve oversight processes for aviation safety and pilot training. We identified several issues including pilot training and qualifications, cockpit discipline, flight crew fatigue, and consistency of safety standards and compliance between air transportation operators. We are updating our Advisory Circular on pilot records, setting the expectation that airlines request all records that are available from the FAA and previous employers when they hire a new pilot. We have revised our certification

standards for transport category airplanes to ensure timely activation of the ice protection system. The rule requires that the ice protection system is designed to operate continuously, it is automatically activated, or it must alert the flight crew each time the system needs to be cycled. This new rule enhances safety by not relying on pilot observation alone to determine if an aircraft is accumulating ice. Piloting is a highly mobile profession, which means that pilots are often domiciled in places that are hundreds of miles from the airlines' bases of operations. We are monitoring to determine if this has an impact on pilot fatigue and if it is an appropriate area for regulation.

Reducing the risk of potential runway incursions continues to be one of the FAA's top safety priorities. We are continuing to deploy new technologies such as ASDE-X, RWSL, SMM, LCGS, and FAROS. With SMM Displays and Own-Ship Position, pilots will see exactly where their aircrafts are on the airfield, thus reducing the chances of losing situational awareness and being in the wrong place. We have reached agreements with several airlines to fund in-cockpit runway safety systems in exchange for critical operation data. The data will help the FAA evaluate the safety impact of SMM technology, and is expected to accelerate key safety capabilities necessary for the transition to NextGen. LCGS is a low-cost, commercially available radar surveillance system that we will install at certain small- and medium-sized airports that do not have ASDE (either ASDE-3 or ASDE-X). FAROS is an automated safety system designed to notify pilots on approach to land that the runway is occupied or otherwise unsafe for landing. An enhanced version of FAROS (eFAROS) was installed at one airport and the short-term operational evaluation indicates that the system is effective. We have challenged our industry partners to step up their actions to make runways safe, and they are responding by improving the markings and paint on taxiways at hundreds of airports around the country. As advanced technology systems are implemented, their expected cumulative effect is to further diminish the number of incursions and their severity.

Modernizing the NAS will require adept management of the highly complex, multiyear initiative known as NextGen. NextGen is needed to improve efficiency,



create additional capacity, provide enhancements to safety and environmental performance, and usher aviation into the satellite era. As we lay the groundwork for this dramatic transformation, new technology and procedures are already being implemented to provide immediate benefits to operators. With these advances, we are able to take advantage of initiatives such as RNAV/RNP, ADS-B, Data Communication (DataComm), and En Route Modernization (ERAM). A key challenge is reducing risk with the introduction of these initiatives. We will continue to identify potential opportunities to accelerate the deployment of NextGen capabilities and to deliver additional benefits. This will be done carefully and methodically to ensure a cohesive system, so that we can maximize the benefits of NextGen.

RNAV allows aircraft to fly on any desired flight path with the support of ground- or space-based navigational aids, within the limits of the capability of the systems onboard the aircraft, or a combination of both capabilities. This helps solve operational issues by making aircraft approaches available in areas where we cannot install, operate, or maintain a ground-based navigational aid. RNP enhances a pilot's situational awareness by providing the aircraft's navigation system with the ability to monitor the navigation performance it achieves and informing the crew if the requirement is not met during a flight operation. The benefits of RNAV/RNP begin today. Aircraft capable of more precise navigation can fly paths that reduce noise over communities and environmentally sensitive areas. These procedures should reduce fuel usage significantly, leading to less carbon emissions.

Expansion of surveillance coverage through ADS-B is essential to support air traffic control modernization efforts. ADS-B enhances pilots' situational awareness by allowing them to see radar-like displays of airborne traffic, weather conditions, and flight-restricted areas on their cockpit displays that update in real time and do not degrade with distance or terrain. The improved situational awareness will mean that pilots will be able to fly at safe distances from one another with less assistance from air traffic controllers. Airspace can be better utilized by providing the capability for reduced separation and allowing for greater predictability in departure and arrival times. ADS-B and other complementary improvements have already enhanced safety by reducing the accident rate.

Air traffic management today is dependent on rapid reliable voice communications between air traffic controllers and pilots. This process is labor intensive, time consuming, and is prone to verbal communication errors. DataComm will bridge the gap between current voice-only air traffic control and the data-intensive NextGen. It will provide two-way data transmissions directly to pilots and their flight management systems. DataComm will improve on-time performance; reduce delays, emissions and noise; and enhance safety. This will enable the FAA to meet the growing demand for air travel, all while improving operational and life cycle costs for both airspace managers and users.

ERAM replaces today's En Route Host Computer System by providing capabilities that the current Host cannot because of its technological and structural limitations. New capabilities such as flexible routing around weather, congestion, and traffic restrictions and automated controller-to-controller coordination will reduce controller workload and increase productivity. ERAM development and deployment is being conducted incrementally to reduce risk, provide early benefits, address equipment sustainment issues, and ensure a stable system during the transition from the Host Computer system.

Our people are our most valuable resource. Training the next generation of air traffic controllers is key to our success, and we are aggressively pursuing our training goals. The FAA will continue to closely monitor facilities to make sure that trainees are progressing through each stage of training while also ensuring the safe and efficient operation of the NAS. The 2009 Controller Workforce Plan included an appendix showing by facility the number of controllers in training who were exceeding their respective training time benchmarks. We believe meeting the training time benchmarks is a more meaningful goal to track. The FAA is bringing in retired FAA air traffic controllers as contract instructors to train the new workforce. By harnessing their valuable air traffic expertise, these experts can focus solely on training the next generation of controllers, rather than moving back and forth between working traffic and on-the-job training. The FAA has also concurred with the five recommendations from the June 2009 IG report, Training Failures Among Newly Hired Controllers, and is actively engaged in meeting these recommendations.



These recommendations include developing and implementing procedures for tracking training failures, developing uniform definitions of training failures, enforcing timely facility updates into the national training database, and using the database to identify trends and root causes of training failures.

We continue to focus our efforts toward improving contract management and oversight. We revised our AMS to include objective, measurable, award-fee criteria for evaluating contractor performance. We will manage and close out our contracts on time, capitalize the assets they produce in a timely manner, ensure the information technology used is secure, and keep our facilities that house these assets in good condition. All of this must be managed with the highest of ethical standards. We will continue to provide onsite ethics training for acquisition personnel and offer computer-based ethics training for the remaining acquisition personnel.

We recognize the importance of having a robust information security program that protects against, detects, and responds to increased threats of sophisticated and organized attacks on our networks and computers. Protecting the NAS infrastructure requires vigilance and adherence to the strictest standards outlined in legislation and policy. We have directed our efforts toward mitigating these threats by maintaining appropriate levels of situational awareness and incident response, augmenting these efforts with workshops, posters, and awareness days.

The FAA continues to take actions that are needed to ensure a sufficient and competent acquisition workforce. These include conducting supply and demand analysis, including essential workforce statistics such as retirement and attrition information, accession planning, and identification of long- and short-term needs. Data collected is used to focus recruitment and staffing on critical acquisition disciplines, streamline the hiring process, and leverage human resource flexibilities. The FAA also is expanding on its acquisition training and certification programs and implementing an integrated Acquisition Career Development Program to define career paths and implement a structured career development program. This program highlights not only training and learning opportunities, but also developmental opportunities for advancement, and sets the framework to target recruitment of acquisition professionals in entry-level, midlevel, and senior-level career tracks. NextGen requires multiple contract vehicles to successfully deploy the technology that keeps our aviation system the safest in the world. The development and implementation of this initiative will require the FAA to hire new employees who will have expertise in disciplines such as program and financial management, systems engineering, contracting, and aviation research. We recognize the importance of attracting and retaining the proper skill sets for NextGen.

These challenges are all significant, but we are prepared to measure our performance routinely and hold ourselves accountable to the American taxpayers.

SUMMARY OF AUDIT RESULTS AND MANAGEMENT ASSURANCES

Table 1 is a summary of the results of the independent audit of the FAA's consolidated financial statements by

the FAA's auditors in connection with the FY 2009 audit.

TABLE 1. SUMMARY OF FINANCIAL STATEMENTS AUDIT			
Audit Opinion	FY 2009—unqualified		
	FY 2008—unqualified		
Restatement	No		
Material Weakness	FY 2008—number of material weaknesses	Revised and Reissued	FY 2009—number of material weaknesses
	0	0	0



Table 2 is a summary of management assurances related to the effectiveness of internal control over the FAA’s financial reporting and operations, and its conformance with financial management system requirements under

Sections 2 and 4, respectively, of the FMFIA. The last portion of Table 2 is a summary of the FAA’s compliance with the FFMIA.

TABLE 2. SUMMARY OF MANAGEMENT ASSURANCES						
Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)						
Statement of Assurance	Unqualified statement of assurance					
Material Weakness	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
	0	0	0	0	0	0
Total Material Weaknesses	0	0	0	0	0	0
Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance	Unqualified statement of assurance					
Material Weakness	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
	0	0	0	0	0	0
Total Material Weaknesses	0	0	0	0	0	0
Conformance with Financial Management System Requirements (FMFIA § 4)						
Statement of Assurance	Systems conform to financial management system					
Nonconformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Conformance of FAA’s core financial management system, Delphi, is assessed and reported by the DOT.	0	0	0	0	0	0
Compliance with FFMIA						
	Agency			Auditor		
Overall Substantial Compliance	Yes			Yes		
1. System Requirements	Yes					
2. Accounting Standards	Yes					
3. USSGL at Transaction Level	Yes					

Improper Payments Information Act of 2002

The Improper Payments Information Act of 2002 and OMB Circular A-123 Appendix C guidance require Federal agencies to review all programs and activities annually, identify those that may be susceptible to significant erroneous payments, and determine an annual estimated amount of erroneous payments made in those programs. The FAA reports its progress on reducing

erroneous payments to both the President and Congress. Our FY 2009 review did not identify any programs or activities at risk for “significant erroneous payments” in accordance with the OMB’s criteria (i.e., programs with erroneous payments exceeding both \$10 million and 2.5 percent of program payments).



Today, more than three-quarters of commercial aircraft are equipped for RNAV, and almost half of these are equipped for RNP precision procedures. These technologies collectively result in improved safety, access, capacity, predictability, operational efficiency, and environment.

Credit: FAA Image Gallery



GLOSSARY OF ACRONYMS

ACRONYM	NAME
AAL	Alaskan (Regional Office)
AAI	Airports Authority of India
AATF	Airport and Airway Trust Fund
ACE	Central (Regional Office)
ACEP	Air Carrier Evaluation Program
ACP	Aviation Cooperation Program
ACSI	American Customer Satisfaction Survey
ADS-B	Automatic Dependent Surveillance-Broadcast
AEA	Eastern (Regional Office)
AED	Automated External Defibrillator
AGA	Association of Government Accountants
AGL	Great Lakes (Regional Office)
AIO	Office of Information Services (FAA Staff Office)
AIP	Airport Improvement Program
AITS	Automated Inventory Tracking System
AMS	Acquisition Management System
ANE	New England (Regional Office)
ANM	Northwest Mountain (Regional Office)
AOC	Communications (FAA Staff Office)
ARP	Airports (FAA Line of Business)
ARRA	American Recovery and Reinvestment Act
ARTCC	Air Route Traffic Control Center
ASDE-X	Airport Surface Detection Equipment-Model X
ASIAS	Aviation Safety and Information Analysis and Sharing
ASO	Southern (Regional Office)
AST	Commercial Space Transportation (FAA Line of Business)
ASV	Annual Service Volume
ASW	Southwest (Regional Office)
AT-CTI	Air Traffic Collegiate Training Initiative
ATD	Air Traffic Division
ATM	Air Traffic Management
ATO	Air Traffic Organization (FAA Line of Business)
ATOS	Air Transportation Oversight System
AVS	Aviation Safety (FAA Line of Business)
AWP	Western Pacific (Regional Office)
BCP	Business Continuity Plan
BPA	Blanket Purchase Agreement
CAAFI	Commercial Aviation Alternative Fuel Initiative
CAASD	Center for Advanced Aviation System Development

ACRONYM	NAME
CAP	Chicago Airspace Project
CAS	Cost Accounting System
CASS	Continuing Analysis and Surveillance System
CAST	Commercial Aviation Safety Team
CASTLE	Consolidated Automated System for Time and Labor
CDA	Continuous Descent Approach
CFI	Certified Flight Instructor
CFO	Chief Financial Officer
CIO	Chief Information Officer
CIP	Construction in Progress
CLEEN	Continuous Low Emissions, Energy, and Noise
CMEL	Center for Management and Executive Leadership
CMT	Certificate Management Teams
COE	Center of Excellence
COOP	Continuity of Operations
COTR	Contracting Officer's Technical Representative
COTS	Commercial Off-The-Shelf
CPAF	Cost Plus Award Fee
CSMC	Cyber Security Management Center
CSRS	Civil Service Retirement System
DataComm	Data Communication
DNL	Day-Night Sound Level
DoD	Department of Defense
DOL	Department of Labor
DOT	Department of Transportation
EA	Enterprise Architecture
eFAROS	Enhanced version of FAROS
EMDT	Executive Management Development Training
ERAM	En Route Modernization
ESC	Enterprise Services Center
EVM	Earned Value Management
F&E	Facilities and Equipment
FAA	Federal Aviation Administration
FAROS	Final Approach Runway Occupancy Signal
FASA V	Federal Acquisition Streamlining Act of 1994, Title V
FECA	Federal Employees' Compensation Act
FEMA	Federal Emergency Management Agency
FERS	Federal Employees Retirement System
FFMIA	Federal Financial Management Improvement Act



ACRONYM	NAME
FFRDC	Federally Funded Research and Development Center
FISMA	Federal Information Security Management Act
FMFIA	Federal Managers' Financial Integrity Act
FSEP	Facility Service and Equipment Profile
FY	Fiscal Year
G&A	General and Administration
GA	General Aviation
GAO	Government Accountability Office
GPS	Global Positioning System
GPT	Grievance Processing Time
HPO	High Performing Organization
HSPD	Homeland Security Presidential Directive
HVAC	Heating/Ventilating/Air Conditioning
ICAO	International Civil Aviation Organization
IFR	Instrument Flight Rules
IG	Inspector General
IPIA	Improper Payment Information Act
IRS	Internal Revenue Service
ISS	Information Systems Security
IT	Information Technology
ITD	International Training Division
ITEB	Information Technology Executive Board
JFK	John F. Kennedy
JPDO	Joint Planning and Development Office
LCCS	Low-Cost Ground Surveillance
LED	Light-Emitting Diode
LOB	Lines of Business
LoSS	Loss of Separation Standards
MCC	Millennium Challenge Corporation
MD&A	Management's Discussion and Analysis
NAPA	National Academy of Public Administration
NAS	National Airspace System
NASA	National Aeronautics and Space Administration
NATCA	National Air Traffic Controllers Association
NBV	Net Book Value
NextGen	Next Generation Air Transportation System
NFR	Notification of Findings and Recommendations
NGIP	NextGen Implementation Plan
NIST	National Institute of Standards and Technology
NMW	No Material Weaknesses
NNEW	NextGen Network Enabled Weather

ACRONYM	NAME
NPRM	Notice of Proposed Rulemaking
NTSB	National Transportation Safety Board
OEP	Operational Evolution Partnership
OIG	Office of the Inspector General
OMB	Office of Management and Budget
OMP	O'Hare Modernization Project
OPM	Office of Personnel Management
OSHA	Occupational Safety and Health Administration
OTA	Office of Tax Analysis
PAR	Performance and Accountability Report
PBN	Performance-Based Navigation
PEL	Program for Emerging Leaders
PEPC	Pre-Employment Processing Center
PII	Personally Identifiable Information
PP&E	Property, Plant, and Equipment
R,E,&D	Research, Engineering, and Development
RNAV	Required Area Navigation
RNP	Required Navigation Procedures
RPO	Remote Pilot Operator
RTCA	Radio Technical Commission for Aeronautics
RWSL	Runway Status Lights
SAAAR	Special Aircraft and Aircrew Authorization Required
SAVES	Strategic Sourcing for the Acquisition of Various Equipment and Supplies
SE	Safety Enhancement
SFFAS	Statement of Federal Financial Accounting Standards
SGL	Standard General Ledger
SMM	Surface Moving Map
SMS	Safety Management System
SWIM	System Wide Information Management
TARP	Traffic Analysis and Review Program
TBD	To Be Determined
TMA	Traffic Management Advisor
TRACON	Terminal Radar Approach Control
TSS	Tower Simulation System
USSGL	U.S. Standard General Ledger
USTDA	U.S. Trade and Development Agency
VHF	Very High Frequency
VLJ	Very Light Jets
VPD	Vehicle/Pedestrian Deviation
WAAS	Wide-Area Augmentation System



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New initiatives—including runway safety awareness campaigns, improved runway markings and lighting, and high-quality signage—employed during the past 2 years have resulted in a 50 percent decrease in runway incursions. In FY 2009, there were only 12 serious runway incursions in the United States, setting a new benchmark for airport safety.

Credit: FAA Image Gallery

WE WELCOME YOUR COMMENTS!

Thank you for your interest in the FAA's FY 2009 Performance and Accountability Report. We welcome your comments on how we can make this report more informative for our readers.

Please send your comments to

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This report and reports from prior years are available on the FAA Web site at www.faa.gov/about/plans_reports.
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