STATEMENT OF RAMESH K. PUNWANI, CHIEF FINANCIAL OFFICER, FEDERAL AVIATION ADMINISTRATION, BEFORE THE COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE, SUBCOMMITTEE ON AVIATION ON THE FAA'S FY 2009 BUDGET, FEBRUARY 7, 2008.

Good morning, Chairman Costello, Congressman Petri and Members of the Subcommittee.

As this is my first appearance before the Subcommittee, I would like to take this opportunity to introduce myself. After working in the private sector in the aviation and travel fields for several decades, I joined the Federal Aviation Administration (FAA) four years ago as the agency's Chief Financial Officer (CFO). My job is to manage the agency's budget, accounting, cost control and reduction efforts, as well as our financial programs and policies. On behalf of our Acting Administrator, Bobby Sturgell, and the other members of our senior management team, I would like to emphasize our commitment to you, and ultimately to the American public, to deliver a safe, efficient, and accessible aviation system. We have pushed hard to manage more effectively, rein in costs, and better respond to our customers. The FY 2009 budget request moves FAA further along that road, toward a more streamlined and efficient organization that the taxpayers deserve.

With me today is my colleague, Gene Juba, Senior Vice President for Finance, from our Air Traffic Organization (ATO). Gene is also from the aviation industry and is here to assist me in addressing some of your programmatic questions.

Today I would like to first briefly address a pressing budget issue for the current fiscal year and then provide an overview of our FY 2009 budget request and how it meets FAA's strategic goals.

FY 2008 Agency Funding

As you are aware, the recently enacted Continuing Appropriations Act extended the authority to make expenditures from the Airport and Airway Trust Fund (AATF) only

until February 29, 2008. Of the $14.9 billion appropriated for FAA this fiscal year, approximately $12.6 billion (or 84%) of our FY 2008 budget is funded from the AATF, while the remaining $2.3 billion (or 16%) is supported from the General Fund. All of FAA's Airport Improvement Program (AIP), Facilities and Equipment (F&E), and Research, Engineering and Development (R,E&D) accounts are funded by law solely from the Trust Fund. Without an extension of the Trust Fund expenditure authorities, FAA will be unable to obligate funds after February 29th from the Trust Fund, including the uncommitted balance. This will have immediate consequences. Most notably, our airports, facilities and equipment and research personnel (approximately 4,000 employees) will be sent home because they can only be paid from the Trust Fund. FAA will not be able to provide funding on our major contracts, including ADS-B, STARS, ERAM and WAAS*, which are the foundational programs for both our existing air traffic control system and the Next Generation Air Transportation System (NextGen).

Essential functions will be maintained as long as possible but certain safety and capacity enhancing projects and programs will be deferred and our remaining personnel, who are funded by the General Fund portion of the Operations account, would also be sent home after funding provided by the General Fund has been fully obligated—most likely in early June.

Secondly, the Consolidated Appropriations Act only provided a temporary extension until February 29th of the authority to collect of most of the aviation related excise taxes that provide approximately 95% of the Trust Fund's revenue. The uncommitted balance in the Trust Fund (approximately $1.5 billion, as of the end of FY 2007), which could only be tapped if Trust Fund expenditure authority is extended, is insufficient to sustain FAA operations beyond a few months and a lapse in the collection of excise taxes could very quickly begin to impact FAA's operations, forcing a shut down of our remaining 43,000 employees funded through the Operations appropriations account.

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* Automatic Dependent Surveillance Broadcast, Standard Terminal Automation Replacement System, En Route Automation Modernization, and Wide Area Augmentation System

Third, as you know, contract authority for AIP expired on September 30, 2007, however Congress, in a series of continuing resolutions, provided temporary and limited AIP contract authority through December 31, 2007. Without contract authority, we are not able to make any new AIP grants. We do have authority to honor payment requests for existing grants provided in prior years, and we will continue to pay those to the extent possible. However, as a result of the lack of new contract authority, we cannot distribute funds to 62 airport sponsors that have requested approximately $265 million in FY 2008 to upgrade their runway safety areas, or make almost $250 million in discretionary letter of intent (LOI) payments. Based on a quick survey, we have learned that eleven airports with pending LOIs are facing immediate impacts, some as soon as February and March, with several taking out short-term loans to bridge financial requirements, and others at risk for incurring heavy financial penalties on financing. Unfortunately, with the gap in AIP contract authority for FY 2008, we are near the point of losing a portion of this construction season and airport sponsors will have to defer critical safety and capacity projects.

Mr. Chairman, it is in the best interest of aviation safety and efficiency that these current year fiscal concerns be addressed and we are hopeful that Congress will resolve this before the end of the month. We remain ready to work with you and other Members to enact a full-fledged reauthorization proposal that is consistent with the goals of the Administration.

FY 2009 Budget

Turning now to the next fiscal year, our FY 2009 Budget request of $14.643 billion provides funding to support all critical priorities of the FAA. As always, safety is FAA's primary concern and our budget request, sixty-seven percent of which is dedicated to our safety mission, reflects that commitment. (*See* attached chart showing our budget request in terms of agency goals). This request includes $688 million for key research and technologies to enable the transition to NextGen, as well as funding to meet our hiring goals for our air traffic controller and safety inspection workforces--areas we know that this Committee is most interested in. I want to point out to the Committee that over the

past five years, we have improved our financial management performance in ways that enable us to better use the funding Congress provides for execution of our vital safety and infrastructure programs. Financial management accomplishments include improving the discipline with which programs and contracts are first approved, improving the tracking and monitoring of approved programs, and reducing our overhead costs so that more of the taxpayer dollars are spent on a safe, efficient and accessible aviation system.

The 2009 budget request assumes congressional passage of the President's reauthorization proposal for FAA programs and revenue streams starting in 2010. We firmly believe that comprehensive reform is necessary. The FY 2009 budget once again provides the framework for the Administration's *Next Generation Air Transportation System Financing Reform Act* (H.R. 1356), a proposal that will make flying more convenient for millions of travelers. As air traffic is expected to nearly triple by 2025, our aviation system requires a more reliable and dynamic source of revenue to fund the modern technology required to manage this expanded capacity. Our proposal replaces the decades-old system of collecting ticket taxes with a stable, cost-based funding program. Based on a combination of user-fees, taxes and general funds, it creates a stronger correlation between what users pay to what it costs the FAA to provide them with air traffic control and other services. The incentives our plan puts in place will make the system more efficient and more responsive to the needs of the aviation community. FAA will continue to work with this Committee and others in Congress as well as our aviation stakeholders toward a successful reauthorization that is consistent with our key principles for a comprehensive cost-based funding structure that ensures that costs and revenues are better aligned, that all stakeholders are treated fairly and that our aviation system is ready for the congestion and environmental challenges of the future. We continue to believe that these principles will provide us with the clearest path toward implementation of NextGen and with it, the avoidance of mounting congestion delays.

For FY 2009, we have proposed a new account structure that aligns FAA's budget accounts with its lines of business. We believe an account structure based upon agency functions makes sense both in terms of how we operate now as well as under our

proposed new financing reforms. For ease of understanding this approach, we have attached a "crosswalk" chart showing a comparison of our request with the current account structure.

Safety and Operations

The FY 2009 request is $2.052 billion for Safety and Operations, including $1.2 billion for Aviation Safety, $14 million for Commercial Space Transportation, and $851 million for Staff Offices. Most of the funds requested support the agency's activities to maintain and increase aviation safety and efficiency. Our Aviation Safety (AVS) organization accounts for $1.187 billion of the request, to meet its mission of promoting aviation safety in the interest of the American public by regulating and overseeing the civil aviation industry. AVS consists of eight distinct organizational elements employing approximately 7,000 personnel. These employees are responsible for the oversight of the ATO, certification, production approval and continued airworthiness of aircraft, as well as certification of pilots, mechanics and other safety related positions. The agency recognizes that this Subcommittee is particularly interested in our efforts regarding aviation safety inspector staffing. Funding for AVS in FY 2009 maintains recent staffing gains to our aviation safety workforce, providing for 4,110 safety inspectors and requests an additional 30 safety staff positions for Air Traffic oversight. In anticipation of future staff retirements, FAA is aggressively hiring and training safety personnel to enhance oversight, surveillance and certification activities.

I should also note that the $14 million Commercial Space Transportation request includes $270 thousand for 4 additional safety personnel needed to assess the human space flight aspects of the safety evaluations of commercial space license and permit applications. In addition, $851 million is requested for FAA staff offices, including the CFO and finance, human resources, information systems, international policy, civil rights, and legal offices.

Air Traffic Organization

The FY 2009 Budget Request for the FAA's Air Traffic Organization (ATO) is $9.670 billion, of which approximately $7 billion is for ATO operating expenses. We recognize

that this Subcommittee is also very interested in our efforts regarding controller staffing. As with the safety inspector workforce, the FAA is aggressively hiring and training controllers to ensure the right number of controllers are in place at the right time to address the now well-documented retirement "bubble". As you know, the FAA began anticipating today's air traffic controller retirement wave several years ago, issuing a comprehensive plan that we update annually.

In anticipation that more than 60 percent of the controller workforce will become eligible to retire over the next 10 years, the FAA plans to hire more than 16,000 controllers over that period. In fiscal year 2007, the FAA hired 1,815 controllers and ended the year with 14,874 controllers on board – 67 more controllers than our workforce plan target of 14,807. This year, we have robust hiring goals with a year-end target of more than 15,000 controllers on board. Our FY 2009 budget includes funding to hire a net increase of 306 new controllers, a level consistent with the targets being developed for our updated staffing plan to be published next month. The agency is also offering a variety of incentives to recruit and retain controllers, including recruitment and relocation bonuses and repayment of student loans.

The ATO continues to see cost savings from Flight Service Station (FSS) contract, which was initiated two years ago. We anticipate savings of over $1.7 billion over the ten years of the contract. Our network of automated flight service stations, which provide weather guidance and other assistance to the pilots of small airplanes, was reduced from 58 to 18 in the fourth quarter of FY 2007. The current set of flight service stations comprises 15 previously existing facilities and 3 new ones built by Lockheed Martin. The contract not only saves money, it also commits the vendor to modernize and improve the flight services we provide to general aviation pilots. These savings result directly in a reduction of the budget request.

NextGen and Capital Needs

Our FY 2009 budget request will provide $688 million--a nearly $500 million increase from 2008--in support for the comprehensive transformation of our air traffic control

system known as NextGen that is already underway. This Committee has held numerous hearings on our transformation and modernization efforts and is well acquainted with the ongoing management efforts to coordinate this tremendous undertaking. As you know, in the past year, key NextGen defining documents have matured. Last summer, the Joint Planning and Development Office (JPDO) released public versions of the Enterprise Architecture and Concept of Operations. In July, the initial baseline of the NextGen Integrated Work Plan was completed. The work plan lays out the progression from the present to the future, with activities and responsible agencies identified. As envisioned, the work plan would guide the formulation of future budgets within partner agencies.

The FY 2009 NextGen budget represents strong collaboration between JPDO and the new OEP—formerly the Operational Evolution Plan, and now the Operational Evolution Partnership-- to define and estimate the budgetary requirements for FY 2009. That collaboration will provide oversight and track progress to ensure that NextGen objectives are achieved. This NextGen investment portfolio includes programs and activities deemed "transformational," i.e., those that will truly move toward the next generation system. The FY 2009 portfolio consists of $631 million in ATO Capital Programs, $57 million in Research, Engineering & Development, and $704 thousand in Safety & Operations, for a total of $688 million. This funding level includes $19.5 million to directly support the JPDO: $5 million from ATO Capital and $14.5 million from R,E&D. This represents a significant investment in NextGen programs and reflects the Administration's commitment to comprehensively address capacity constraints in the aviation system.

Grants in Aid for Airports (AIP)

The FAA's reforms for the AIP program contained in our reauthorization proposal are designed to strategically target federal dollars to the airports where they will have the most impact. While large and medium hub airports have a greater ability to finance their own capital requirements with revenue from passenger facility charges and their own rates and charges, small primary and general aviation airports rely more heavily on AIP funding to help meet their capital needs and complete critical projects. We have

proposed changes to the Federal funding program which will stabilize and enhance these funding sources for airports. With our proposed programmatic changes, including the increase in the passenger facility charges, the $2.75 billion proposed in our budget will be sufficient to finance airports' capital needs and meet national system safety and capacity objectives. Our request also includes $15 million for the Airport Cooperative Research program and $19 million for airport technology research.

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

The FY 2009 request for R,E&D is $171 million. The request includes $91 million for continued research on aviation safety issues. The remaining research funding is to address congestion and environmental issues, including $42 million for new NextGen Projects such as Self Separation, Weather in the Cockpit, Air-Ground Integration, and the Continuous Low Energy, Emissions, and Noise (CLEEN) Technologies program. $14.5 million is provided for the Joint Planning and Development Office to continue defining and facilitating the transition to NextGen. An additional $5 million in support for JPDO is contained in the ATO capital request, related specifically to the work on demonstration projects.

Increased Safety

Due to the combined efforts of government and the aviation community, we are fortunate to be living in the safest period in aviation history and the FAA is committed to making it safer still. In the past 10 years, the commercial fatal accident rate has dropped 57%, to a rolling three-year average of 0.022 fatal accidents per 100,000 departures as of the end of FY 2007. In the past three years, the United States averaged approximately two fatal accidents per year and 28 deaths per year; while any loss of life is tragic, this statistic is remarkable, given that there are roughly 12 million commercial aircraft flights per year. General aviation accidents are down. Air traffic control errors are occurring at a rate lower than in the previous two years.

Approximately 67% of our budget request, or $9.855 billion, supports the FAA's safety mission. Our safety goals for FY 2009 are to reduce U.S. commercial airline fatalities

per 100 million people (including crew) on board to fewer than 8.31 (an improvement of over 6% from our FY 2008 goal) and to reduce the rate of general aviation fatal accidents. To achieve these goals, FAA's FY 2009 budget request includes $9.9 billion to operate and maintain the air traffic control system, inspect aircraft, certify new equipment, ensure the safety of flight procedures, oversee the safety of commercial space transportation, and develop a replacement air traffic data and telecommunications system.

The request includes an increase of $11.3 million to hire and train sufficient air traffic controllers to achieve our hiring targets noted earlier in my statement. It also includes $800,000 for 30 new positions to support continued development of the Air Traffic Oversight office, which was formed in FY 2004 to improve the delivery of air traffic services, and maintains the staffing gains to our aviation safety workforce during FY 2007-2008. Total aviation safety staffing will reach 7,069 by the end of FY 2009.

The FAA will continue working to reduce the precursors of aircraft accidents, runway incursions and operational errors. This Subcommittee will be examining our efforts in this latter area at a hearing scheduled for next week so we will be brief here. Suffice it to say that the FAA will continue to concentrate on outreach, awareness, technology, and improved procedures and infrastructure.

International Leadership

Our FY 2009 request includes $63.1 million to expand the FAA's international leadership role and to help improve safety. FAA will expand training and technical assistance programs that help civil aviation authorities meet international standards, as well as promoting seamless global operations. The FAA will continue to promote increased external funding for training and technical assistance programs that help civil aviation authorities around the world meet international safety standards. FAA will also continue to work with its international partners and the International Civil Aviation Authority (ICAO) to harmonize global technological standards, and to expand the use of global satellite navigation systems.

Environmental Stewardship

Our FY 2009 budget request includes $276.8 million, of which $227 million is requested from the AIP program, to ensure that the number of people in the United States who are exposed to significant aircraft noise levels—a Day/Night Average Sound Level of 65 decibels or more—continues to decline. FAA will continue to address the environmental impacts of airport projects, primarily aircraft noise. FAA will also provide expertise and funding to assist in abating the impacts of aircraft noise in neighborhoods surrounding airports by purchasing land, relocating persons and businesses, soundproofing residential homes or buildings used for educational and medical purposes, purchasing noise barriers and monitors, and researching new noise prediction and abatement models and new technologies. We estimate that 20,000 people will see a reduction in aircraft noise from these efforts. The FY 2009 request includes $10 million in new RE&D funding for the Continuous Low Emissions, Energy and Noise Technologies program to accelerate the introduction of quieter and cleaner technology in commercial fleets, and to initiate a NextGen Environmental Management System.

Security

As you know, responsibility for the security of the aviation system now rests with the Department of Homeland Security. Therefore most of the $218.6 million requested in our budget for next year focuses on enhancing the security of the FAA's own personnel, facilities, and communications. FAA ensures the operability of the national airspace through the facilities, equipment and personnel of the air traffic control system, which is essential to the rapid recovery of transportation services in the event of a national crisis. Additionally, the budget request includes funding to continue upgrading and accrediting facilities, procure and implement additional security systems, and upgrade our command and control communications equipment.

Performance and Accountability

Finally, as Chief Financial Officer of the FAA, I would like to highlight some of the ways we are better executing and managing the budget resources that Congress provides. At

FAA, "acting more like a business" isn't just a slogan. We are actively engaging in a comprehensive pay-for-performance program, consolidating operations, improving internal financial management, and increasing benefits to our customers. Our beacon will always be our mission – to provide the safest, most efficient aerospace system in the world. Our bottom line is results for our stakeholders, including the taxpayer and traveling public.

As I noted at the outset of my testimony, the transformation over the past five years has been steady and sure, as we have embraced the vision of the President's Management Agenda (PMA) and its aggressive strategy to improve management throughout the federal government. The evolution of the PMA complements the strategic vision of our *Flight Plan*. It contains a number of management performance measures, including a cost control performance measure requiring each organization to contribute cost efficiencies that save money or avoid costs for the agency. Through the *Flight Plan* and PMA, we have made dramatic gains in human capital, competitive sourcing and consolidations, financial performance, and, ultimately, accountability to the bottom line of our customers.

We are continuing to make every effort to control our operating costs. Personnel reform for the agency, granted in 1998, is starting to bear fruit, with conversion from the traditional GS-Schedule pay system to pay for performance. Accountability for results is systemic throughout our organization, with 90 percent of our employees on the pay-for-performance system, including our executives. *Flight Plan* performance targets must be achieved before annual pay raises are calculated. Executives and managers have a good deal of discretion in rewarding high-performing employees, and incentives are present to ensure quality work and innovation are rewarded. Executives are also eligible for short-term incentive increases when specific performance thresholds are met or exceeded. This conversion is allowing the agency to flatten pay bands and tie performance incentives to pay increases.

We know that labor costs drive a significant share of our budget, and we have been working to slow the rate of growth in labor costs, as evidenced by the FAA's recent contract with our controller workforce, and such steps as back-filling positions with new employees at lower pay grades when possible. We are also increasing workforce productivity through cutting multiple levels of management and better management and oversight of our worker's compensation caseload.

I have already mentioned our ATO's success with competitively sourcing its flight service station function. They have also successfully consolidated administrative and staff support functions from nine service areas to three, allowing for better service while saving an estimated $360 to $460 million over the next 10 years. FAA has also taken steps to consolidate and improve our real property management and information technology (IT) investments.

In a concerted effort to control costs and make smarter capital investment choices, several years ago the FAA created a capital investment team to review financial and performance data. The team provides an early warning for potential problems as well as help to develop corrective actions. So far, these business case reviews have identified $460 million in lifecycle savings by restructuring/terminating 10 programs, 6 of them major. To date, over 165 projects were reviewed in various stages of acquisition, capital formulation, and business case development.

Finally, the Strategic Sourcing for the Acquisition of Various Equipment and Supplies (SAVES) initiative is an ambitious effort begun in FY 2006 to implement best practices from the private sector in the procurement of administrative supplies, equipment, and IT hardware. It is expected to achieve $9 million in savings annually.

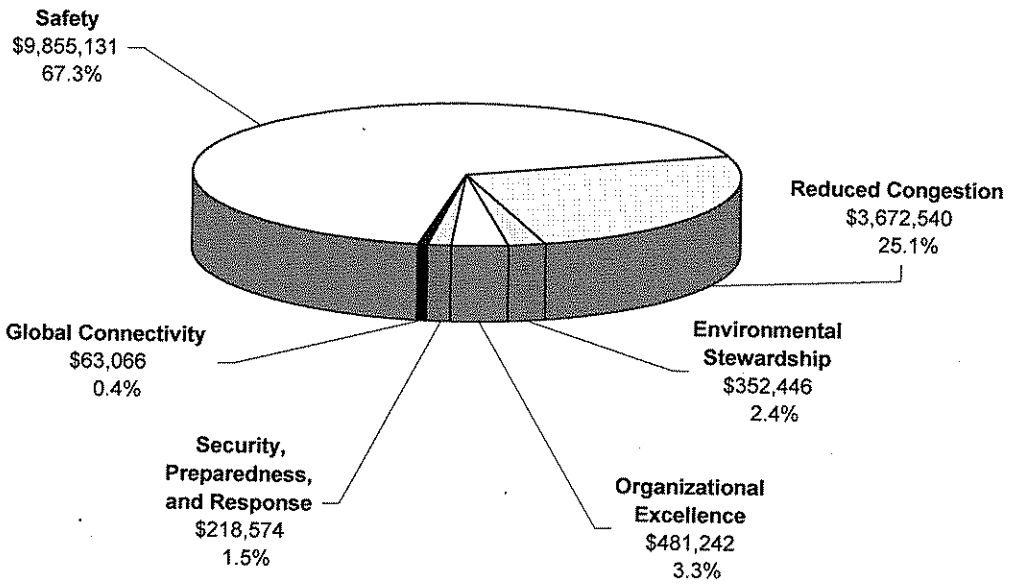
Conclusion

Mr. Chairman, with Congress' help we can avoid disruptions to our programs this fiscal year with an extension beyond March 1st of critical authorities and taxes that support our programs. Time is of the essence. We also stand ready to work with this Committee and

others in Congress to enact an aviation authorization bill this year that will provide the necessary cost-based financing and programmatic reforms that will enable us to move to the NextGen transportation system. Our FY 2009 request provides strong support for our staff hiring goals, safety and capital programs and NextGen activities. Given the vital role aviation plays in the Nation's economy and the need to prepare for the future, our funding request for FY 2009 is designed to support America's growing demand for aviation-related services.

That concludes my testimony. My colleague and I would be happy to answer any questions you and Members of the Subcommittee may have.

FY 2009 Budget Request by Goal
($000)



Comparison of Budgets - FYs 2007-2009 - Old Versus New Accounts
($ in millions)

Accounts	FY 2007 Enacted	FY 2008 Enacted	FY 2009 Request	2008-2009 Change
Operations	8,374	8,740	8,998	3.0%
Facilities and Equipment	2,518	2,514	2,724	8.4%
Research, Engineering & Development	130	147	171	16.3%
Airport Improvement Program (Ob Lim)	3,515	3,515	2,750	-21.8%
FAA Total	**14,537**	**14,915**	**14,643**	**-1.8%**

Accounts	FY 2007 Enacted	FY 2008 Enacted	FY 2009 Request	2008-2009 Change
Safety & Operations	1,769	1,893	2,052	8.4%
[Salaries & Expenses]	1,634	1,774	1,920	8.2%
[Capital Programs]	135	119	132	10.9%
ATO	9,123	9,361	9,670	3.3%
[Salaries & Expenses]	6,740	6,966	7,079	1.6%
[Capital Programs]	2,383	2,395	2,591	8.2%
Research, Engineering & Development	130	147	171	16.3%
Airport Improvement Program (Ob Lim)	3,515	3,515	2,750	-21.8%
FAA Total	**14,537**	**14,915**	**14,643**	**-1.8%**