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Moving America Into the 21st Century

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STATEMENT BY
DEPUTY SECRETARY OF TRANSPORTATION ELAINE L. CHAO
AT PUBLIC HEARINGS
NOTICES OF PROPOSED RULEMAKING --
PHASE OUT OF STAGE 2 AIRPLANES
AND REVIEW/APPROVAL OF STAGE 2 RESTRICTIONS
MARCH 5, 1991

I am pleased to be here today to open public hearings on the Department of Transportation's newly issued Notices of Proposed Rulemaking (or NPRMs as we call them) designed to implement the Airport Noise and Capacity Act of 1990. We recognize that the issues raised by the Act and these rulemakings are controversial. Reasonable people can and will differ. Personal quality of life as well as enormous economic issues are at stake. The subject is complicated further by the limits of technology.

Today represents the first in a series of hearings to be held in Washington, Chicago and Seattle to more fully understand the impact of our proposed rulemakings and seek your comments. We look forward to hearing your views as we move toward developing and adopting the final rules to implement the National Aviation Noise Policy.

The Airport Noise and Capacity Act effectively tackles the noise issue with a number of innovative provisions. These provisions and the regulations we have proposed are the culmination of a long history of active Federal leadership and intense public dialogue on this issue in recent years. The United States is not alone in addressing this issue. The international community is also taking steps very similar to those outlined in the Act to keep pace with the rising demand for capacity while reducing the noise effects on the environment.

U.S. Department of

Let me outline the Act's major provisions and its impacts.

(SLIDE 1)

- As you can see from the first slide, the legislation provides the fundamental structure to obtain increased noise and capacity relief. The Act took immediate steps to limit the amount of noise at U.S. airports by setting an explicit cap on the number of Stage 2 airplanes allowed to operate in the 48 contiguous states. Further, the Act requires the phaseout of all Stage 2 airplane operations in the 48 contiguous states by December 31, 1999, which is at least 10 years sooner than would occur by natural attrition. The importation ban and phaseout will bring significant noise relief, removing 2 million people from noise impact areas.

- With the exception of written voluntary agreements among airports and aircraft operators, the Act establishes a program for airports desiring to implement new noise and access restrictions on operations of Stage 2 and Stage 3 aircraft. Under the Act additional restrictions must not unreasonably threaten the ability of that system to respond to present and future demands. The Act ensures that future local restrictions on Stage 2 aircraft are adopted only after a careful, public weighing of the costs and benefits. It also requires federal approval of all proposed Stage 3 restrictions.

The final rules and recommendations must be in effect by July 1, 1991.

Let's examine the benefits the Act provide as illustrated by the next slide.

(SLIDE 2)

- In the mid-1970's, 7 million people resided in areas significantly affected by aircraft noise. As you can see, to date we've reduced that by over half to approximately 2.7 million. The new legislation will reduce the current nationwide number by over 75 percent by the year 2000 to about 400,000 people. If the Act had not passed, assuming normal attrition of Stage 2 airplanes and following the dotted line on the slide, we project over 1.3 million persons would still be affected in the year 2000. Thus, the Act provides relief to almost 1 million people by the year 2000.

- The dramatic noise reductions from 1975 to present resulted primarily from the introduction of quieter aircraft as mandated by the FAA. This required the phaseout of most of the noisiest Stage 1 aircraft by 1985 and, starting in 1977, the requirement that all new airplane designs meet the Stage 3 noise standards. The progress in quieter technology has been considerable. The new Stage 3 aircraft are only one-fourth as loud as the Stage 1 707's and DC-8's, which comprised 75 percent of the fleet in 1975. Today, the national fleet composition is nearing 45 percent Stage 3.

(SLIDE 3)

- The next slide shows the current and projected sound levels at a large-size, middle-range airport. You can see the contour will shrink dramatically during the phaseout from a current total area of 28 square miles within the DNL 65 contour to only 4.2 square miles. A reduction of 85 percent. With all Stage 3 airplanes, the contour in this example will almost be within the confines of the airport. As you will note, the number of people within the contour is projected to drop dramatically -- from 60,000 to 1,000.

- Let's bring it even closer to home. What it will mean for Washington is illustrated by our projections for the local airports. In 1990, at National Airport, we estimate a total of 24,000 people lived in the DNL 65 contour. By the year 2000, the Stage 2 phaseout is projected to reduce the contour so only 2,000 residents will be affected. Our projections for Baltimore-Washington International Airport reflects similar benefits. The 14,000 residents within the DNL 65 contour in 1990 should be reduced to only 2,000 by the year 2000.

None of the Act's benefits will be free. The legislation carries a stiff price tag to the aviation industry -- up to $4.4 billion to fully convert to a Stage 3 fleet by the year 2000. This must be viewed as a cost to the national economy, since it will largely be reflected in higher ticket and shipping costs. Despite this huge cost, the air transport industry has supported the passage of the Act because it creates a strong and sensible national noise policy that balances both the public's demand for air-transportation -- planned growth of capacity -- and concern for environmental and quality of life issues.

The legislation addresses all of these tough issues head-on with provisions that will achieve a much quieter, all-Stage-3 fleet, as quickly as is economically feasible, and it sets the national standards upon which the carriers can base their future planning.

The Act recognizes that additional work is needed to complement the important steps it initiates. Actions must be taken both to implement the Act and to fulfill the Act's goals for an effective national aviation noise policy. As you know, the Act directed the Secretary to establish (1) a schedule for ultimately achieving the phaseout of Stage 2 airplanes by the year 2000, and (2) procedures to be used by airports considering the imposition of noise and access restrictions. Our work on these two matters is reflected in the two NPRM's that are the subject of these hearings.

In one NPRM, we propose a phaseout schedule under which each operator will reduce its current Stage 2 fleet by 25 percent in 1994, 50 percent in 1996, and 75 percent in 1998. This schedule would accelerate noise reduction, at a cost of up to $1.2 billion. This is in addition to the $4.4 billion required to meet the final year 2000 phaseout date. We developed this national phaseout schedule to ensure that local communities receive steady noise relief at manageable cost. We believe this will virtually eliminate the need for each airport to develop alternative plans at potentially much higher cost and with very disruptive national consequences.

In this proposed phaseout rule, we specifically highlight many issues on which we seek comments. For example, we have asked for comments on concepts and methods to transfer operating rights among operators to achieve the quickest

- more -

feasible phaseout at the least possible cost to the economy. Another area involves the manner by which we define an air carrier's affected fleet and the appropriate interim phaseout dates.

In our second NPRM, we define both the procedures that would be used in developing Stage 2 or Stage 3 restrictions and criteria by which Stage 3 restrictions would be evaluated. These procedures are geared toward improving the public process and encouraging cooperative agreements between airports and aircraft operators. They were proposed only after careful evaluation of the type of information that should be available and studied by cognizant officials in making and supporting a reasonable decision. In developing the proposed rule, the FAA was sensitive to three general considerations. First, the proposal seeks to provide for equitable treatment of airport proprietors, the communities they serve, and aircraft operators. Second, the proposal should contain reasonable analysis and evidence requirements that meet statutory direction while keeping the cost of compliance as low as possible. Last, the process is designed to provide for expedited notice and timely federal decisions. Specific features of the proposed rule reflect these concerns.

Complementing these steps to implement that Act are continuing federal efforts to:

- Encourage compatible land uses around airports through the Federal Aviation Regulations Part 150 process and other appropriate mechanisms;

- Conduct research and development projects to create quieter aircraft for the future;

- Plan air traffic routes around and away from populated areas where possible; and

- Ensure that noise measurement methods are accurate and effective in identifying significant impact areas.

Now that I've talked about the major provisions of the Act and the benefits that will flow from it, I would like to touch on why this issue is so critical to our nation's economy and our National Airspace System. Eighty-seven percent of fare-paying travelers are not aviation passengers, and virtually all overnight interstate shipments move by air. Aviation now constitutes 5.6 percent of our nation's GNP,and 1 out of every 14 civilian jobs in the United States relies completely, or in part, on the aviation industry. In addition, the aviation system is an international system that supports and assists U.S. businesses in effectively competing in the global economy.

In Washington, for example billions of dollars in economic activity is derived from the presence of National and Dulles Airports. Additional regional economic benefits are derived from the millions of visitors arriving by plane and the jobs and revenue they generate. This spending leads to millions of dollars in additional state and local tax revenues from passengers and freight activities at the two airports. These factors illustrate the significance of aviation's economic impact on the area.

Our forecasts indicate that this economic impact will grow. Demand for U.S. domestic air travel is projected to increase by at least 60 percent by the year 2000, and domestic and international air cargo shipments combined together are expected to increase 340 percent during the same period. Clearly, we need to preserve existing airport capacity and prepare for additional growth if we expect to achieve the orderly movement of people and goods in the year 2000 and beyond.

Airports and carriers continue to stretch capacity to accommodate this increasing demand. Airport noise restrictions are inextricably inhibiting airport capacity -- 97 large airports have some noise restrictions in place and many major airport capacity projects have been delayed or stopped due to noise concerns. Ironically, the number of these noise-based restrictions has grown even though, as I noted earlier, the number of persons subject to high levels of aviation noise continues to decrease.

In summary, I again point out that dealing responsibly with aviation noise is a complex matter that involves many parties and many different approaches. But it is a vitally important issue that will have a significant impact on the U.S. economy and our way of life. We all need to work together and acknowledge the various interests that must be incorporated in this process.

Thank you for your attention. We are here to listen to your concerns. I'm sorry that I cannot stay for the comment session, but the panel members will carefully listen to your statements on this very important subject. We will consider all comments in formulating our final rule.

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REMARKS PREPARED FOR DELIVERY BY
ELAINE L. CHAO
DEPUTY SECRETARY OF TRANSPORTATION
LOS ANGELES COUNTY COMMISSION FOR WOMEN
SIXTH ANNUAL AWARDS LUNCHEON
LOS ANGELES, CALIFORNIA
MARCH 11, 1991

Good afternoon, and thank you, Anita, for that generous introduction. I am pleased to see so many familiar faces in the audience. It is just great to be back home in California.

Of course, it is a pleasure to join you in saluting these women achievers. Each in her own way has made a significant contribution to the social, economic, political and cultural development of Los Angeles and our nation. You all exemplify what the President refers to as a thousand points of light making America a better place. And I'm delighted to add my congratulations to the many words honoring you today.

As my plane from Washington approached LAX today, I looked out the window at the third busiest airport in the nation. I had a few moments to reflect on how much transportation means to the economy of California.

The Los Angeles metropolitan area is the sixth largest economy on earth, measured in terms of gross national product. This is due in no small measure to transportation. The port complex of Long Beach and

Los Angeles is the largest containerport in the United States. A unique $500-million rail/highway corridor soon will link the two ports with downtown Los Angeles and increase land side access in a way that will no doubt serve as a model for the nation. A growing number of significant mass transit projects are already under way and more are on the boards. A vast web of railroads and highways crisscross our state's beautiful landscape, weaving a tapestry of human progress.

So, when it comes to transportation, California doesn't have a little of anything. It has a lot of everything.

This fact sets our state's destiny. California is certain to consolidate and enhance its role as a major center for the development of the world economy. Proximity to the Pacific Rim is an asset.

Asia's emergence as a center of global economic growth has made the entire Pacific Rim a hotbed of new and expanding challenges. Europe is uniting in a formidable economic block. And, having thrown off the yoke of communism, Eastern European markets offer opportunities of which we are only beginning to catch a glimpse.

The potential is great, and we can expect competition to be fierce.

Most Californians are already well-attuned to the fact that the productivity and competitiveness of this state and the nation depend on good transportation infrastructure. Most Californians are open to new ideas and new ways of doing business such as those contained in the Administration's plan to rebuild our surface transportation infrastructure.

Most Californians understand that our nation is at the end of the "Eisenhower era" of Interstates. The Interstate Highway System linked our nation and gave us the strongest economy on the face of this earth. But it is nearing completion and we must move on to build a new legacy for future generations. We must do what Californians are best at doing. We must accept and adapt to a new way of doing business, one that emphasizes the priorities of the day: One, unleashing the energy of the private sector; two, intermodal connections, and three, flexibility to create tailor made solutions to local transportation needs.the Administration sent to Congress a package calling for $105.4 billion to be spent over the next five years in highways, mass transit and highway safety programs.

Highway programs would increase 39 percent from this year to 1996; transit capital investment goes up 25 percent during the life of the bill, and funding for highway safety activities rises by 34 percent by the same comparison.

For California, in dollars and cents alone, the Administration's proposal means a five year federal investment of seven billion dollars in highway programs. More than any other state in the union. In the Los Angeles Metropolitan Area funding for mass transit will be at least $575 million over the five-year life of the bill and additional federal commitment for Metrorail construction -- Wilshire Corridor -- could push the contribution to mass transit over a billion dollars.

Of course, the real strength of the investment rests in long-term gains in productivity and competitiveness. The important issue is not the dollar value but how the money is spent.

The Administration's proposal embraces the private sector as a broker, as a full partner of the public sector and as a "for profit" player.

Our proposal is based on the fundamental belief that America's transportation system needs the competitive energies of the private sector, and that our ability to compete in world markets requires a longer-term strategic approach.

California has pioneered many aspects of "the new way" and we hope other urban areas will follow our example. Last fall, for example, four private toll road projects costing a total of about $2.5 billion were approved by the State of California. This sets the stage for the first major test of infrastructure privatization in the United States.

In Orange County, the Perot Group Consortium, won approval for a $700 million, 11.2 mile extension of the Orange Freeway (Route 57). The new toll road runs along the Santa Ana River channel.

In San Diego County, California Transportation Ventures, another consortium, will build a new $400 million, 10 mile highway (Route 125) in Southeast San Diego County.

A trendsetter in Orange County is the $88.3 million extension of the high occupancy vehicle (HOV) lanes in the median of the Riverside Freeway (Route 91).

And a $1.2 billion, 85-mile highway from the south end of San Francisco Bay north to Interstate 80 near Vacaville, also won approval from the state.

The creativity and innovation seen in these projects leverages existing assets and stretches them further. For example, in some cases the value of air rights factored in and considered in the financing package, providing more leverage. Creativity is something state and local officials and the private sector do much better than the federal government.

Let me comment on just a few more of the policy initiatives we are advancing that promote the dual goals of competition and competitiveness.

What are we doing, for example, about congestion? I don't have to tell Californians the sacrifices that a congested transport system imposes on its people and economy. Drivers statewide wasted more than 400,000 hours a day because the average urban highway speed has fallen to 20 miles per hour during commuter hours.

However, it may interest you to know that Los Angeles does not have the most congested highways in the country. That honor goes to New York City. But no one would disagree that our highways are congested enough.

Mounting congestion underscores the vital link between the health of the nation's transportation system, and America's competitiveness and economic standing in the world. We are paying the price for congestion in billions of dollars in lost economic productivity and threatened international competitiveness. What we do now to change this will determine America's place in the world economy.

The Administration's bill would allow urban areas to experiment with congestion pricing the way you are doing here in California. For example, Warner Center in the San Fernando Valley a while back increased its ridesharing participation rate after parking fees were imposed. And the Bay Area Economic Forum has called for use of congestion pricing as a major tool in achieving San Francisco's air quality and congestion management objectives.

The Administration also recognizes that technological advances within the transportation field will be vital to ensure that the nation's transportation needs are met in the 21st century.

Surface transportation, for instance, can be made safer and congestion eased by intelligent vehicles and highways. The evolving array of advanced communications technology could some day give drivers immediate traffic information over special navigation units in their cars. The smart corridor project under way on the Santa Monica Freeway right here in Los Angeles is an early pioneer of IVHS concept and will help us learn how to tap this existing resource. Often urban freeways have major streets that are good and have significant unused capacity. Smart cars and smart highways will be able to signal the driver to take one of the alternatives in case of congestion.

Something as seemingly unexotic as synchronizing traffic signals can also improve capacity of major roads, as can coordination of peak hour parking restrictions among various municipalities.

High speed trains, monorail, and magnetically levitated railways are also promising technologies we are only now beginning to explore.

Clearly there is no shortage of innovative ideas that can be applied, but we need to use our imagination and work together to make them happen. The enormous investment required to solve the problem is too great for any one sector. It requires a partnership of federal, state and local governments and the private sector.

Working together, as partners, we can make sure our nation's transportation system enhances our ability to compete worldwide. And when that happens, all of us will reap the benefits.

President Bush, in his address to Congress last week, challenged the nation to turn its sights toward a domestic agenda that includes transportation. The President believes the fighting spirit, pride, creativity and feeling of teamwork that made our victory in the Gulf possible can work as well on our domestic agenda.

The last seven months have been historic for our country. After careful deliberation, our President took the right road rather than take the easy road. The men and women of our armed services fought with honor and valor to defeat the forces of aggression. Our nation has defeated the "Vietnam Syndrome!" Kuwait is free and our freedom fighters are coming home -- heroes each and every one of them. And for those who fell in combat our thoughts and prayers continue to go out to their families and loved ones.

We at the Department of Transportation are proud to have contributed to the war effort in the Middle East. The United States Coast Guard, a part of the Department, was directly involved in enforcing the sanctions in the Persian Gulf. Our civilian aviation, rail and maritime sectors have also worked closely with the United States Transportation Command, assisting in the huge task of transporting our armed forces and materiel overseas.

Indispensable to Transcom's mission was the ocean-going Ready Reserve Force and the Civil Reserve Air

Fleet, both of which are administered by the Department of Transportation. Operation Desert Shield/Storm marked the first time ever that these important components of our national defense were called into active duty. And our mission will not be completed until our troops are transported safely home.

As I am speaking before this group today and as we are in National Women's History Month, I think it is especially appropriate and relevant to mention that in Operation Desert Shield/Desert Storm, women have contributed in ways never before seen in our nation's history. Women made up about six percent of U.S. forces participating in Desert Storm. They are America's new breed of soldiers, preparing jet fighters for bombing runs, hauling ammunition to the front, and guarding gates to military installations and port facilities.

Overall, women account for about 230,000 of the more than two million Americans in the nation's active-duty armed forces, which is, in fact, a higher percentage than in any other industrialized nation in the world.

In our own Coast Guard units in the Gulf, 78 women participated in Operation Desert Storm. Women like Sandra Mitten, a 49-year-old grandmother from Berlin, Wisconsin, who made a name for herself as one of the best gunners in her unit. She was one of about 300 port security members who were deployed to Saudi Arabia as part of Desert Storm. Standing aboard a Coast Guard patrol boat, she became a modern-day Annie Oakley, peppering targets 100 yards away with a .50 caliber mounted machine gun.

But all this should come as no surprise to you in this audience. We know that women have long been fighting for their place in business, in government, in politics and in society. You will be pleased to know that President Bush has appointed more women and minorities to senior posts in the federal government than any other President in history, based on competence. Women and minorities represent over one-quarter of the 684 full-time presidential appointments requiring Senate confirmation.

This trend that you see at the federal level mirrors what is happening in the nation's political life and workforce.

Now, women have always been active in organizations important to the fabric of community life -- churches, the YWCA, the PTA charities, the American Red Cross, and hospital, library, and school boards. Indeed, it is in these activities where many women learn valuable skills of leadership -- consensus building, mediating, moderating, and a commitment to good government.

But today, in Congress, 5 percent of members are female, but the numbers increase at local levels, where women comprise 11 percent of our mayors and approximately 15 percent of our state legislators. Indeed, the number of women in elected offices has tripled since 1975. And last November, three women were elected governors of their states, six, lieutenant governor, four, attorney general, ten were elected secretaries of state, 11 state treasurers, and one, state comptroller.

Today, more than 53 million women age 16 and over comprise 45 percent of the total labor force. By the year 2000, more than 65 million women will comprise 47 percent of the workforce. The economic effects of women entering the workforce during the past few decades have been historic in scale, and positive in nature. However, none of this would have been possible had we not created over 20 million new jobs -- almost two-thirds of which have been filled by women -- all since 1982 and all under President Reagan and Bush's leadership. These jobs have benefited all Americans, not just women and minorities. Of the over 17 million new jobs created during this economic expansion, 80 percent were higher skilled jobs.

Now, some has sought to invoke in the name of opportunity for women and minority groups what is called "gender balance" or "racial balance." It may seem like a new idea but it's the same old tired advocacy of quotas.

America has at its root a faith in people, not as members of groups, but as proud and free and deserving to be judged on their own abilities, their own character, and their own achievements.

We should never insult anyone by putting them in a job because they were a member of this or that group. We should want the best people we can get, no matter what group they belong to.

We must never forget how special and unique this heritage of looking at the person and not at the group he or she belongs to. Because of immigration and births, proportions -- however they are defined -- are bound to change. And yet if we can find any lesson from the world's experience, it's that once established, quotas won't change with the population -- at least not easily. Whatever group loses will become embittered towards other groups and the system. Even the winners are bound to feel short-changed.

No one can help but conclude that sooner or later quotas are sure to become what they once were for Jewish-Americans in the 1930s -- not a boost to progress but a barrier.

Quotas are demeaning. They are an enduring insult to the people they supposedly benefit.

Well, times are changing. Women are faced with more opportunities then ever before. The challenge for us today is to utilize these opportunities wisely.

To that end, let me offer some personal thoughts. It's important to keep a long term perspective. But, don't think so long term that you don't take risks. Be flexible in your plans. Be ready to jump at opportunities as they come along.

Let me also say that our whole struggle as women has been about opportunities, making choices, and combining alternatives. And, if some of us make the choice of staying home with the family, that is fine as well.

But whatever choices we make, we should keep in mind that there are no shortcuts to the executive suite or the power suite. To solidify our gains and win the respect of those around us, we women must pay our dues. We must not be discouraged by the normal rough and tumble of life. We should learn from our mistakes and not pin personal shortcomings on discrimination form the system.

Of course, women should not tolerate discrimination. What I am saying is that women -- like men -- need to learn and understand the system and how the game is played. We should have realistic expectations of the chances for upward mobility based on the measurements as set forth by the organizations for which we work. Along the way, we should lend a helping hand to other women in need.

Let me close by mentioning a story my good friend, former Secretary of Labor Elizabeth Dole often tell about one of her predecessors, Frances Perkins, who, as Franklin Roosevelt's Secretary of Labor, was the first woman to serve in a President's cabinet. Secretary Perkins was once asked whether being a woman was a disadvantage in public life. "Only," she answered, "when I am climbing trees."

Well, for far too long, the progress of women in society was a bit like climbing trees -- with many of the branches placed just out of reach. But the last few years have been especially good ones for women. More and more we're gaining the confidence to reach out, grab the branches -- and pull ourselves up.

Increasingly,women are seeking and attaining positions of power in our society. They are beginning to make their voices heard in the legislatures and in the state houses, in corporate boardrooms and in courts of law, in the halls of academia and in the military.

Women understand that power is a positive force if it is used for positive purposes. They've come to realize that they cannot have an impact on the issues they care about, unless they obtain a place at the policy table.

We have in our midst today the kind of women I'm talking about: District award winners, Marcella A. Whitmore, Bobbye R. Crowe, Olivia Campos-Bergeron, Shirley Pfeil, and Ann Martin and Sybil Brand are outstanding women achievers in county government, and in community at large winners Cristina Fuentes, Libbe S. Halvey, Miya Iwataka, Gloria A. Nabrit and Estelle Van Meter. They are making a difference in the lives of Los Angeles citizens.

I am sure that those of us gathered here today share the same tenacity and impulse to succeed that these awardees process. To go as far and rise as high as our skills and talents will take us. And, more important, we also share an understanding that at the end of our days, our success will be judged not by the achievement of power for power's sake. Rather, we will be judged by how we used that power, what we stood for, and the difference -- the positive difference -- we made in the lives of others.

Thank you.

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OPENING STATEMENT OF THE HONORABLE ELAINE CHAO
DEPUTY SECRETARY OF TRANSPORTATION
BEFORE THE SENATE APPROPRIATIONS SUBCOMMITTEE ON TRANSPORTATION

Washington, D.C.
March 13, 1991

Mr. Chairman and members of the Committee, it is an honor to appear before the Committee to address the FY 1992 budget request for the Office of the Secretary. We appreciate the Committee's interest in the range of OST activities and look forward to your continuing support as we proceed through the appropriations process.

I would like to highlight the factors that are reflected in our budget request. First, as a follow-on to the National Transportation Policy, the Department, is reviewing internal organization issues to ensure that the Department operates in the most effective and efficient way. For OST, we identified additional training requirements, automation needs and other management initiatives necessary to ensure an effective organization.

Second, the dynamic transportation environment has stimulated the creation of two new offices, the Office of Drug Enforcement and Program Compliance to oversee the Department's implementation of the drug abuse rules for our regulated industries, and the Office of Intelligence and Security, which this Committee supported in FY 1991. Through this Office, the safety and security of the travelling public receives the high priority within the Department.

Third, our operational responsibilities in the areas of Commercial Space and Essential Air Service face growing workloads and mandatory statutory requirements.

I would like to mention our significant accomplishments.

- Worked with Congress to enact key legislation: the Aviation Safety and Capacity Expansion Act of 1990, the Aviation Security Act and the Oil Pollution Act.

- Coordinated the multi-modal development of the Surface Transportation Assistance Act consistent with the themes of the NTP.

- Established the Office of Intelligence and Security along with other major efforts to implement the recommendations of the President's Commission on Aviation Security.

- Developed an appropriate Federal response regarding the economic state of the airline industry.

We are requesting appropriations and obligation limitations totaling $198.1 million for all OST accounts and $165.6 million in obligation authority for the Working Capital Fund. This request is slightly below the FY 1991 enacted level and supports a total employment level of 1,125 FTE.

SALARIES AND EXPENSES

The Salaries and Expenses appropriation of $81.5 million will support systems development, training programs and office automation, and fully funding personnel costs, including the Drug Office and additional staff to meet our increased workload requirements.

The request of $11.7 million for systems development will complete the departmental accounting system and begin the development of payroll and procurement systems. We are also requesting $4 million to support automation, training and program integrity requirements identified by our NTP 2 process.

OFFICE OF COMMERCIAL SPACE TRANSPORTATION

For the Office of Commercial Space Transportation, we request $4.8 million to strengthen regulatory licensing and safety research activity in response to the continued growth in commercial space transportation and launch site activity. Twelve successful launches have occurred since 1989 when licensed U.S. commercial launches began. We now expect 30 launches over the next few years. The budget also assumes that $300 thousand in user fee collections will support the licensing program. The Notice of Proposed Rulemaking on our user fee proposal was published in February.

The FY 1991 DOT Appropriations Act reduced funding for OCST by 20 percent below the FY 1990 enacted level. As a result, it has been extremely difficult for OCST to carry out its growing workload and new responsibilities. The President has approved a new commercial space policy that further emphasizes commercial activities.

We appreciated the Committee's efforts to increase funding in FY 1991 and seek your continued support for FY 1992.

PAYMENTS TO AIR CARRIERS

For Payments to Air Carriers, an obligation limitation of $38.6 million is requested. Roughly $12 million is included for upgrading the quality of air service (e.g., larger, pressurized aircraft) at selected communities, in line with the statute. Our request -- equal to the contract authority authorized for FY 1992 -- is critical. Authority to implement Passenger Facility Charges (PFCs) hinges on obligating $38.6 million for Payments to Air Carriers. In our view, this commitment is a small investment to achieve the much needed infusion of revenue for airport capacity which PFCs can generate.

TRANSPORTATION PLANNING, RESEARCH AND DEVELOPMENT

Our request of $4.2 million for TPR&D finances intermodal studies in support of policy development and represents the only source of funds at the Secretary's immediate disposal to undertake analysis of issues as they arise. Nearly one third of our proposal would fund studies and analyses to understand the economic implications of transportation policy issues.

HEADQUARTERS FACILITIES

A new account, Headquarters Facilities, includes $69 million to cover certain costs associated with construction of a new DOT headquarters building such as communications, that are not covered by the basic GSA construction standard. The President's Budget includes $473 million in the GSA budget for the building.

WORKING CAPITAL FUND

We are requesting obligation authority of $165.6 million for the Working Capital Fund to fund common administrative services in the interest of economy and efficiency. Increases in the WCF ceiling are needed to finance automation improvements and to enable the Transportation Computer Center to accommodate increased workload.

CLOSING REMARKS

As we look ahead to FY 1992, there are a number of challenges facing OST -- commercial space development, the state of the airlines, and the capabilities of our workforce. Enactment of our surface transportation proposals and ratification of the Montreal Protocols are particularly key. We seek your support for the resources necessary to carry out our responsibilities and to meet these challenges.

This concludes my prepared remarks. I would be pleased to answer the Committee's questions.

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REMARKS PREPARED FOR DELIVERY BY
ELAINE L. CHAO
DEPUTY SECRETARY OF TRANSPORTATION
FINANCIAL MANAGEMENT CONFERENCE
MARCH 18, 1991
WASHINGTON, D.C.

Good afternoon, and thank you for that kind introduction.

I am delighted to join you today to share some of my thoughts on government financial management. As my concentration at Harvard Business School was in finance and general management, I have the utmost respect for the work of financial managers. Finance is at the heart of all good management. There can be no good decision making and no good policy development -- public or private -- without adequate and timely financial implementation and accountability.

Unfortunately for those of us in the public sector, we have not always been viewed as properly handling the financial resources committed to our trust. The HUD scandals provide a classic example. The federal government has over 200 financial systems. And many of these are antiquated, incompatible, redundant, and do not stack up to today's accepted accounting standards.

That's the bad news. The good news is that the bad news is old news. That's because we've made remarkable progress in recent years.

The Reagan Administration got the ball rolling with its Reform '88 initiative. It's a little hard to believe that before this initiative there was not a standard general ledger of accounts, or that each agency was not required to have a single integrated accounting system. Perhaps our success to date can be summed up with one statistic: Over the last eight years, the number of federal financial systems has been reduced by about 50 percent.

The spirit of Reform '88 is still with us. The Bush Administration continues to focus on the improvement of the quality, relevance, and timeliness of federal financial data, and the introduction of modern financial systems. Our approach can be summed up in two words -- accuracy and usefulness. Quite simply, if our systems churn out inaccurate and useless data -- as we have so often done in the past -- then we will have made no progress. But I think those days are gone -- and gone for good.

My optimism is based in part on the passage of last year's Chief Financial Officers Act. I am very pleased with this legislation, and consider it one of the principal government management initiatives of the past 20 years. I believe it could spell the beginning of the end for government financial mismanagement. Let me give you a few reasons why I feel this way.

First, it is modeled very much after the pattern of CFO responsibilities in the private sector.

Second, it puts in place a powerful organizational structure for financial management. Twenty-three CFOs reporting directly to the heads of their agencies will make a difference. Add to this, a Deputy Director for Management at OMB and a Controller who will head the new Office of Federal Financial Management. All this adds up to the kind of organizational structure -- and positions with sufficient authority -- to deliver on accountability, and ensure that we produce accurate and useful information.

As President Bush said when he signed the CFO bill, "The establishment of a Deputy Director for Management in OMB will strengthen and institutionalize the 'M' in OMB."

Third, not only does the CFO legislation provide the means of accountability, it requires it. And it requires it of both the agencies and OMB. Agencies must now develop financial management plans, and they must produce annual progress reports. As for OMB, after its initial submission in February 1992, it must then produce by January 31 every year thereafter a government-wide financial management status report and a 5-year plan.

Fourth, the CFO Act provides a strategy for producing audited financial statements, because good financial statements require good financial systems to produce them.

Finally, each agency's CFO will be responsible for developing training programs and continuing professional education requirements to ensure a high quality work force. The Joint Financial Management Improvement Program has produced a valuable guide on CPE requirements for government accountants.

As promising as the CFO legislation is, we know that, by itself, it won't do the job. We need to implement it. We need to put its principles into practice. That is why, in conjunction with the Administration's CFO proposal, OMB established its Five Point Program for implementation.

You heard Deputy Secretary of Defense Donald Atwood this morning explain some of the ways the Defense Department is incorporating the principles set forth in the CFO legislation and the Five Point Program. I thought it might be helpful to share with you some of the things we're doing on the civilian side at the Department of Transportation.

The financial systems program at DOT is actually quite comprehensive. It addresses the establishment of new financial management systems and an effective training program to support future development initiatives. And we're already seeing impressive results.

We implemented a new primary accounting system for 90 percent of the Department's accounting transactions. We eliminated five seriously deficient systems and reduced accounting system operating costs by 25 percent, saving more than $63 million.

The Department of Transportation has consolidated 16 accounting offices and established a state-of-the-art finance center for the United States Coast Guard. Over the next two years, we expect to complete the implementation of the primary accounting system, consolidate three additional accounting offices, and eliminate five more deficient systems.

We have implemented one of the few transaction driven, standard general ledger capabilities in the federal government. Other recent improvements are an automated accounts payable process and better interfaces with Treasury Department payment processes.

Underlying these initiatives has been a strategic vision encompassing more than 50 subsidiary financial systems, including procurement, payroll, and personnel. So far, we've been successful in defining and building the next generation of financial applications in a coordinated, collegial manner. In fact, our financial management plans have been incorporated into the implementation phase of our National Transportation Policy.

The Department's efforts in this area have been underway for several years. Early in 1984, an interagency group was formed at the direction of OMB under the leadership of the Department of Transportation. The group was given the task of developing a standard general ledger chart of accounts for government-wide use. Today, all government agencies must use the Standard General Ledger that the group completed in 1986.

We are now seeing the Standard General Ledger facilitating the reconciliation and consolidation of trial balances prior to the preparation of agency and central agency reports. The single government-wide structure that is now taking shape will enhance the ability of central agencies to consolidate accounting data that comes from the records and reports of individual agencies.

As I previously outlined, at the Department of Transportation, we are continuing to make successful strides forward in implementing our primary financial system. We call it the Departmental Accounting and

Financial Information System, or DAFIS. It will serve as the foundation for the production of audited financial statements, and record all budget and accounting transactions against the Standard General Ledger.

In fiscal 1990, we implemented the system at the U.S. Coast Guard Finance Center in Chesapeake, Virginia. It will allow the consolidation of 12 of the Coast Guard's district accounting offices. Closer to home, the system was put in place last month in the Office of the Secretary and the Research and Special Programs Administration. One more DOT administration will be incorporated into the system this fiscal year, and three in FY 1992.

Today, approximately 13 million transactions per year are processed through DAFIS. When fully implemented in September 1992, the system will process in excess of 16 million transactions per year and account for the Department's $30 billion budget.

To sum up, the upgrades and implementation of DAFIS will result in the uniformity and standardization of policies, procedures, data, and reports. It will eliminate redundant systems. And it will foster consistency and comparability in financial analysis and reporting.

Over the last five years, the Department of Transportation has also made significant strides forward in improving other areas of financial management. We now have a standard payroll system serving more than 60,000 civilian employees and have reduced our payroll processing offices from 20 to two. A number of specific initiatives saved us more than $12 million last year alone. For example, we used a contractor to save $2.1 million in improper unemployment claims.

While we're making considerable progress at the Department of Transportation, like most federal agencies, we're operating financial management and subsidiary systems which are yet not integrated. Our systems have been independently developed without the benefit of an overall system strategy.

Therefore, our longer term vision is to establish a single, fully integrated financial management system for the Department. We call it our Administrative System Improvement Program. The basic objective of ASIP is to build systems according to the corporate information needs of the Department as a whole, rather than its individual components. This means a system that will comply with OMB's Circular A-127.

Our Administrative System Improvement Program follows two tracks. The first track recognizes the need for immediate, interim system improvements. These include full DAFIS implementation to establish the core financial system and our completed Integrated Personnel/Payroll System. The second track is the development of a strategic data plan from which future initiatives to improve our system will evolve.

A strategic vision alone is not enough for sound financial management. Strong oversight is needed to identify, monitor, and correct problems. That's why we've been hard at work complying with the standards set forth in the Federal Managers Financial Integrity Act.

We're establishing procedures to link the Act's management control process with our budget process. We continue to look for additional vulnerabilities and opportunities for improvement as we apply more stringent criteria for identifying and tracking management control weaknesses than that required by OMB. I have been personally engaged in our management integrity efforts.

The Inspector General plays an important role in helping us implement the objectives of the Financial Integrity Act. Her office provides invaluable technical assistance throughout the Department and helps us identify program areas that need improvement. She also assists in resolving audit recommendations to achieve and maintain effective management control systems.

The excellent working relationship between the Inspector General and the Department's financial professionals has helped foster improvements in procedures and in the development of DAFIS. In fact, DOT is one of only a few cabinet agencies to develop a single, consolidated Departmental data base for tracking and reporting audit results in conjunction with the Inspector General.

In 1989, after the major disclosure of fraud and mismanagement in federal government, the Secretary asked the Inspector General to review DOT programs to see if similar problems have existed or could occur at the Department. The IG reported back last year that management actions had saved the Department $41 million for disallowed costs and $132 million for funds put to better use. Also, management has committed to actions on recommendations valued at $335 million.

In-and-of-themselves, however, our steps to improve the internal management of the Department are not enough. In a department with extensive ties to the states, we have had to come up with some innovative approaches to improving the financial management of our state programs.

We have developed better ways to share financial information with the states. For example, our Federal Highway Administration has made a large data base available to the states computer to computer. This makes a wealth of information on the financial status of highway programs and other vital program information available to the states immediately. Information that sometimes took hours, or even days, to get, can now be obtained upon punching in a request on a computer keyboard.

We now have the ability to register direct receipt of financial transactions for state programs. Pilot studies are also being conducted with three states to provide for direct entry of requests for program approvals and program obligations in those states. This will both expedite the approval process and improve productivity.

Recipients of funds from both the Federal Highway Administration and the Urban Mass Transportation Administration are receiving the benefits of electronic payment systems that expedite payments. Preliminary research and planning is also underway to examine the feasibility of using electronic signatures, a practice used widely in the private sector.

Let me give you one example of the value of these new systems. Up until just a few years ago, it took weeks to determine the status of unobligated program balances for our highway program. Now, using our new systems and communications, we literally have this information from some eighty offices around the country up to date *each morning*. This is but one basic example of the value of modern financial systems.

As encouraging as these developments are, I'm reminded of a recent sobering statement by one of the deans of American accounting, and my professor at Harvard Business School. Robert Anthony, who, speaking of government financial statements, said that "very few people have seen them or have expressed an interest in seeing them. I know of no Executive Branch decision or legislation that has been influenced by the information in these financial statements. The financial statements are not used because they are not audited; the real explanation is that agencies don't make an effort to develop these statements, let alone have them audited, because they are not useful. Auditing useless information won't make it useful."

Professor Anthony goes on to say that "that's the challenge before us. We need to move toward financial statements that classify costs by program, provide corresponding measures of program performance, and project future liabilities and returns on investment resulting from the program."

In a nutshell, that's probably a good assessment of the challenges we all face. However we go about addressing those challenges, we realize, of course, that we must do more than just respond to specific requests or provide basic services.

We must recognize that we are, first and foremost, service organizations. Financial management is not an end in itself. Therefore, the relationship between our accounting and program offices should be that of a partnership. They should share a mutual understanding of each other's respective needs and responsibilities. In this way, our accountants and financial managers will be in a position to provide genuine help to the program offices.

If we tackle our challenges in that spirit we will succeed. We are all painfully aware of the fiscal environment of constrained resources that will be with us for the foreseeable future. But we *can* stretch our resources and we *can* make them work more efficiently. And you in the financial management community are key to this endeavor.

Thank you very much.