

## "THE MISSING LEG OF FAA REFORM"

*Why FAA Finance Reform is Important*

THE HONORABLE LINDA HALL DASCHLE, DEPUTY ADMINISTRATOR  
FEDERAL AVIATION ADMINISTRATION  
ELECTRONIC INDUSTRIES ATC COMMITTEE LUNCHEON  
EIA HEADQUARTERS, ARLINGTON, VA MAY 9, 1996

### INTRODUCTION

Thanks, Jim.

I appreciate the opportunity to address this group. I know how supportive you've been of FAA acquisitions reform and how constructive your participation has been.

I would especially like to acknowledge Susan Tonner of AT&T and David Zebra from Loral who participated in some of the Government and Industry sessions. Thanks also to Steve Gepford of Loral who was a member of the Acquisition Reform Steering Committee.

We all have a stake in improving and reducing the costs of FAA's acquisition process, and -- though much hard work remains -- we've made a great start. Thanks again for your support.

I know you recently had Dennis DeGaetano speak to your group so I won't go on today about acquisitions reform details.

Instead, I want to focus on the financial challenges facing the agency in this fiscal year and the years to come. These challenges, I believe, will have a dramatic impact on the way FAA conducts its business in the future.

If we do not address these challenges, our progress on acquisitions reforms will be impacted as well as our ability to meet the safety and efficiency demands of the American public and the aviation industry.

If you've been following the battle royal surrounding FAA financing, you've probably learned very little about the actual funding needs of the agency. Instead, you've been treated to press discussions of inedible chocolate pudding being exchanged between Bob Crandall and Herb Kelleher.

While entertaining, in the long run, these disputes hide the real issues on FAA's financing.

You all know the larger context that the debate over FAA financing is taking place. For the past 15 months, Washington has been focused (some might even say obsessed) with reducing the size of the federal budget deficit.

President Clinton focused much of his State-of-the-Union address this year on the budget. When he said that "the era of big government is over," both political parties joined ranks to give him a standing ovation.

To some extent, the "bloated government" story is really "old news."

The Clinton administration began downsizing government the moment it took office.

Over the past three years, we've trimmed the federal payroll by 200,000 positions. Today's federal workforce is the smallest it's been in 30 years.

At the FAA, we're doing our part to support a smaller and leaner government:

- We've cut our annual budget by \$600 million
- We've reduced our workforce by more than 5,000 -- almost entirely from management ranks
- And we've cut our Washington headquarters staff by over 50 percent

### **AVIATION INDUSTRY IS "ON A ROLL"**

On balance, this administration has been good for U.S. aviation:

When David Hinson and I joined President Clinton's team in late 1993, U.S. aviation was in an economic black hole:

- Eastern and Pan Am were out of business
- Three of the major remaining airlines were bankrupt
- And the costs of liability insurance had just about shut down general aviation manufacturing

From Day One, Bill Clinton's response was to make U.S. aviation a national priority:

Within 60 days of taking office, the President had paid a visit to the Boeing plant in Everett, Washington, to demonstrate his concern about jobs in aviation.

Within 6 months, he had appointed the National Airline Commission.

And, within one year, he had signed the General Aviation Revitalization Act.

- As a direct result of that act, Cessna has a brand-new manufacturing plant under construction in Independence, Kansas
- Directly and indirectly, this plant will add some 7 thousand new jobs to the aviation economy

Our entire industry could be entering a golden era of prosperity.

Interest rates are down, inflation is down, and -- during the third quarter of last year -- the major airlines made over \$2 billion dollars.

That's the best they've ever done.

In 1995, the industry's operating profit was \$5.3 billion - more than double the 1994 level.

Within 20 years, world airline passenger traffic is projected to double ... or perhaps even *triple*.

That would bring us up to a total of *two and one-half billion* air travelers each year -- more than the entire population of the planet in 1903, when the Wright Brothers lifted off at Kitty Hawk. <sup>1</sup>

When you think about jobs and income, these trends are wonderful. But for the FAA, this good news about growth casts a troubling shadow:

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<sup>1</sup> Asimov, Isaac, The March of the Millennia, Walker Publishing Co., 1991, p. 154

The projected growth in demand for FAA services is on a direct collision course with shrinking FAA resources to meet these demands:

- The number of people wanting to use America's airports will grow by 35 percent
- The number of planes needed to transport these passengers will grow by 18 percent.
- General aviation activity in the IFR environment will grow by 7 percent.

The white line on the top of this chart projects our estimated budget requirements over the next few years. The red line on the bottom tracks the spending assumptions agreed to by Congress last year, as part of their balanced budget blueprint.

As you can see for yourself, the gap between these two projections amounts to nearly \$12 billion dollars.

Despite our efforts to do more with less, the question becomes "how much more can we do with how much less?"

## FAA REFORM

Handling this projected growth will require a total transformation of the FAA in three critical and fundamental ways:

- How we employ people
- How we purchase goods
- And how we finance the agency

This is exactly what we are attempting to do.

Late last year, the Congress finally agreed to the Administration's request to exempt the FAA from many of the government rules that regulate our personnel and procurement systems.

On March 28, Vice President Gore, Transportation Secretary Peña, Administrator Hinson and I announced the FAA's reform initiatives in two areas: personnel reform and acquisition reform.

While Dennis filled you in on acquisitions reform, I'd

like to take a moment to talk about the progress we've made in the "people" end of our business.

### ***Personnel Reform***

Under the old personnel system, the FAA had some 1,069 pages of personnel statutes and regulations:

- As of April 1st, this has been cut to 41 pages

Under the old system, we had 155,000 numbered position descriptions for 47 thousand employees:

- By 1998, we will have cut those 155,000 numbered descriptions to just 2,000

I know we all have difficult jobs, but do we really each need *three* position descriptions?

Under the old system, it took 7 months to hire from outside the FAA. We've cut that to 6 weeks.

We've eliminated artificial time-in-grade restrictions. If you can do the job, you'll get the pay.

Under the old system, it took 90 days to hire someone from *within the FAA* for another position. We've cut that by two-thirds, to just 30 days.

My intention is that these personnel reforms will make the FAA the best place to work in the federal government.

We will put the right people in the right jobs. We will reward high performers; we will remove poor ones. And we will make a substantial investment in the education and training of our people.

I want to make this message loud and clear. From here on out, we expect more from the women and men of the FAA.

But in return, our people can expect fairer compensation, and an employer willing to invest the time and money to make their careers meaningful and productive.

## ***Finance Reform***

Our success in delivering these new systems is ultimately linked to achieving the goal of our third and final reform initiative -- a new and better way to finance the FAA.

The members of our acquisition and personnel reform teams did their job brilliantly. But without financial reform to back them up, their brilliant recommendations will fall far short of their full potential.

And, unfortunately, last year's legislation stopped short of financial reform.

We are now up before the Congress, making our case that the FAA budget should not be cut. The Congress knows how important your jobs are, so we will probably do okay -- at least for now.

But unlike the old Rolling Stones' song, time is not on our side. Without major financial reform, the demands of a balanced budget will almost surely impact the FAA in a major way.

That's not just my belief, but also the views of the General Accounting Office, the Senate Budget Committee Chairman, the Senate Appropriations Chairman and the Senate Aviation Chairman.

All agree that transportation programs will be dramatically reduced. And they all agree that we must figure out a constructive way to address this situation.

Adding to all this financial uncertainty, the FAA has been losing \$16 million a day in revenue since January 1.

That's the day the budgetary stand-off between the Congress and the White House led to a total suspension of tax collection for the aviation trust fund. As of April 30, the total loss is more than \$2 billion.

I'm hopeful that tax collection for the trust fund will be temporarily extended some time soon. If not, the trust fund surplus will be gone by mid-December.

That will mean no trust fund dollars in the bank to help fund our fiscal 1997 budget.

Fortunately, the Clinton administration, in cooperation with Senators John McCain and Wendall Ford, has developed a bipartisan bill that would greatly reduce our long-term dilemma with respect to financing.

The bill's goals are simple:

- The vast majority of FAA's budget would not be subject to the constraints of a balanced budget
- As the demand for FAA services grows, our budget would also grow
- A new industry management board would give companies and employee unions a greater say in how the FAA spends its dollars
- FAA's budget would be independently audited
- Users, who today don't pay, would

Let me expand on this point: Every year the FAA conducts, free of charge, several thousand airspace studies of proposed new real estate developments around airports.

The McCain/Ford bill would require these developers to pay for the studies.

Today, international airlines operate thousands of flights over the United States using our ATC system. They are charged absolutely nothing to help defray the costs of the system.

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"Fees for services" have an important advantage over taxes: They are outside the budget process.

Every dollar raised is immune from budget committee bypasses, appropriation cutbacks, and an "annual" budget process which -- during its most recent cycle -- has already run more than 19 months.

The only reason to contemplate a new financing system is when it becomes clear that the current system no longer works --

...when funds raised from aviation are not spent for aviation purposes

... but are used, instead, to build up trust fund balances  
... even as rural areas lose Essential Air Service,  
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... and needed safety and capacity equipment programs wither on the vine.

We have reached that point.

## CONCLUSION

We can do better, and the fees for service concept -- regardless of how much is raised -- offers a path out of the tremendous headwinds of budget politics.

As you can tell, I have no reservations about defending the FAA's need for secure funding. It's my job. I believe in this agency, and I believe in what it does for the aviation community. And, if we have adequate resources, I believe in what it will be able to do.

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**DRAFT 1**

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WOMEN'S TRANSPORTATION SEMINAR/INTERNATIONAL AVIATION WOMEN'S ASSOCIATION

LUNCHEON ADDRESS

WASHINGTON, DC MAY 22, 1996

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Now let's turn to the procurement reforms we announced on March 28:

Many of the federal government's purchasing regulations go all the way back to the days when the U.S. Cavalry was routinely cheated by horse traders. Once in place, these regulations seem to take permanent root.

When the FAA was created, back in 1958, the agency was automatically subjected to many of these antiquated regulations:

Say you wanted to acquire a piece of new equipment. You would have to comply with rules contained in an 7-foot high stack of 233 acquisition documents.

- As of April 1st, that stack has been cut back to one-inch -- a 99 percent reduction

Overall, we expect the new acquisition management system to cut the time and cost of acquiring systems and services *in half*:

- We expect to cut the award-time for large contracts *from 12 months, to 6*
- We expect to cut the time between an investment decision to contract production award, from *22 months to 11 months*
- And we expect to reduce the time from production award to field commissioning of equipment by *fifty percent*

As users of these systems, you will directly benefit by getting the latest technology at a faster rate. We are giving you the right tools for the job.

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