REMARKS FOR FAA ADMINISTRATOR DAVID HINSON
FAA ANNUAL FORECAST CONFERENCE
Washington, D.C.
March 5, 1996

• INTRODUCTION

The FAA's annual forecast conference is an opportunity to take the long view of the industry, to step back from the rush of daily events and consider the future. The forecasts place the aviation sector in the broad contexts of the national and global economies ... reminding us that each supports the other. Aviation thrives in a robust economic environment and reinforces the momentum of expansion.

The commercial aviation industry has now seen two consecutive year of strong growth. Last year, the major carriers reported their biggest profits in half a decade. This morning, I would like to review the reasons why we expect aviation to continue to be a growth industry in the years ahead ... and alert you to what we believe must be done, in the months ahead, to make sure that this opportunity is not lost.

First, I will highlight some of the reasons that underlie our predictions of continued growth in air transport over the next dozen years.

Then I will point out that these forecasts assume our readiness and capacity to build the infrastructure necessary for that growth to occur.

I will conclude with a discussion of the steps that must be taken very soon if our optimism about the future is to be realized.

Before I begin, let me speak to the accuracy of our forecasts. The two key FAA forecasts are domestic revenue passenger miles, and aircraft handled at FAA en route centers, the former used to predict the latter.

The 1995 forecast for domestic RPMs was 0.2 percent higher than final fiscal year traffic -- off by less than one billion RPMs.

However, our long term forecasts have also been very accurate. The average absolute error for our 10-year out forecasts for domestic RPMs is only 4.4 percent.

The 1995 forecast for IFR aircraft handled was only 1.0 below the actual value -- 39.8 million versus 40.2 million actual.

• **FAA'S FORECASTS REFLECT AN OPTIMISTIC VIEW OF ECONOMIC GROWTH.**

Air travel statistics are often leading indicators of more general economic trends. More frequent business travel is typically an early sign of increased business activity. And economic slowdowns are frequently foreshadowed by a decline in travel. The positive growth expectations found in this year's aviation forecast reflects, in part, an optimistic view of global economic growth.

For the next two decades, wealth will grow faster than population.

I would like you to compare two graphs.

[Graph 1: World Population Growth]

The first one shows the projected growth in world population over the next quarter century. We see a steady increase, reaching an estimated eight billion people by the year 2012, more than two billion more than are living today. Compare the relatively steep climb shown in this graph with the one I am going to show you now -- which is even steeper.

[Graph 2: Worldwide Income]

This next chart plots the growth in aggregate world income, starting in 1980 and projected out to the year 2016. You can see that beginning about now, the rate of growth is expected to accelerate, with total income doubling over the next twenty years. The implication is extremely important: wealth will be growing faster than population for the next two decades.

Air travel will more than double over the next twenty years..

Rising incomes and growing markets translate into increased air travel and a rising demand for new aircraft. All the long term indicators point up.

[Graph 3: World Passenger Traffic: Billions of Revenue Passenger Kilometers, 1993-2016]

Worldwide air travel is expected to more than double over the next 20 years, with an average annual growth rate of 5.7 percent. By the end of the period for which we are forecasting, airlines around the world will be carrying two and a half billion passengers each year. Air cargo will also grow, averaging 6.6 percent a year over the next two decades.

Asia will be the major growth site.

[Graph 4. Population and Airline Traffic, United States and China, 1995

Much of the growth will occur in Asia, where new centers of economic power are already emerging. Figures compiled by Airports Council International show that among the ten airports reporting the largest increases in passenger traffic last year, five were in Asia.[1]

In China and India today, the average number of annual air trips per person is about one percent of the corresponding number in the United States. But that gap will quickly begin to narrow. Air travel in China will grow at an average annual rate of more than 10 percent -- twice the rate worldwide.[2]

U.S. carriers will show solid gains, both in domestic and international markets.

U.S. domestic air travel will also continue to grow. Over the next dozen years, the FAA is forecasting an average annual growth rate of near four percent for travel inside the country and a 5.3 annual rise for international enplanements on U.S. carriers.[3]

[Graph 5: Open Skies Agreements, U.S. and Europe

International travel will grow partly because of stronger competition. Last week Germany became the 12th European nation to reach an "open skies" agreement with the United States, and others are being negotiated.

Passengers clearly benefit from these agreements because, eventually, they result in lower air fares. And we know from our experience with domestic competition that, as ticket prices decline, new demand is created. By relaxing arbitrary restraints on air commerce, market forces are released and growth is stimulated.

Growth in air travel will support an expanding aircraft market.

[Graph 6: Jet Aircraft Deliveries]

To handle the expected volume of passengers and cargo, airlines will have to double the size of the existing fleet, buying 15 to 17 thousand new planes by the end of 2016. As many as 10 thousand of these new planes will be needed just to meet future growth.

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[1] "Top 30 ACI airports by passenger traffic/cargo volume/aircraft movements," Aviation Daily, February 20, 1996.

[2] "Carriers to spend $1,000 billion on aircraft in next 20 years," The Financial Times, March 22, 1995.

[3] Aviation activity forecasts: major carriers + regionals/commuters.

Here we see that aircraft deliveries are expected to double by the year 2002 or 2003, then double again within 20 years. In dollar terms, the cumulative value of these aircraft deliveries will far exceed a trillion dollars.

The aircraft manufacturers are at the threshold of a long, sustained period of increasing sales. Even the long dormant general aviation sector is showing signs of growth. Deliveries last year topped the 1,000 mark ... the highest since 1990.

There is wide agreement that the General Aviation Revitalization Act which the President signed in 1994 is having its intended effect. One industry forecast for general aviation predicts a 5.5 percent annual increase in sales for the coming decade.

Aviation contributes 6% to GDP -- equivalent to the 11th largest economy.

The importance of aviation to our nation cannot be overestimated. The industry and its infrastructure are a vital resource that must be managed with great care and foresight. It is an irreplaceable asset.

Today, aviation -- and its value added components -- contribute about six percent to our nation's gross domestic product.[4] If the entire U.S. aviation sector was a separate, self-contained economy, it would rank eleventh in the world -- slightly smaller than Brazil's GDP, and a little larger than India's.[5]

Aviation could add another $100 billion to GDP by 2007.

Aviation is one of the principal generators of wealth for our nation, and -- as our forecast predicts -- it will continue to play this role in the coming decade. Under current economic assumptions, by the year 2007 -- aviation, and aviation-related industries, could add more than 100 billion dollars' worth of new economic activity. That's roughly equivalent to adding an economy the size of Norway's.[6]

With such evidence of gathering momentum, it may be difficult to imagine what could put this growth scenario in jeopardy. There are solid grounds for our optimism, to be sure. But there is also a solid basis for concern.

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[4] "The Economic Impact of Civil Aviation on the U.S. Economy," Wilbur Smith Associates, April 1993.

[5] Ranking by GDP from The World Bank World Tables (Johns Hopkins University Press, 1995): U.S. ($5,694 trillion), Japan ($3,140 trillion, Germany ($1,495 trillion), France ($1,099 trillion), Italy ($1,090 trillion), U.K. ($923 billion), Canada ($542 billion), Spain ($487 billion), China ($452 billion), Brazil ($358 billion), U.S. aviation ($347 billion, assuming 6% of GDP), India ($328 billion).

[6] Based on 6% of $1,842 trillion (the projected increase in U.S. GDP between 1997 and 2007). Norway's GDP is $98 billion.

All forecasts are based on assumptions. They are not self-fulfilling prophecies.

This is my second point: Our forecast assumes that both industry and government will have the resources to prepare for the expected growth.

- **THE FORECAST ASSUMPTIONS**

We are assuming, for example, that the airlines will continue to lower their operating costs and to finance new plane purchases.

We are assuming that aircraft manufacturers will be able to sell their products at profitable prices.

We are assuming that airports can add capacity fast enough to keep pace with demand. And we further assume that the FAA will be able to find the money to upgrade its air traffic control technology and continue to provide all of its essential services.

If we fail to fulfill any one of these assumptions, we may well forfeit the gains that are forecast.

Government policies will be a factor in realizing each of the assumptions.

Government's prime responsibility is safety.

But the principle role of government and its primary responsibility is, of course, to maintain the highest standards of aviation safety. For as we all know, aviation safety is the one essential precondition for industry vitality.

Last month the FAA released the second Aviation Safety Plan, worked out in close collaboration with the industry. It builds on the very substantial progress we have made in putting into practice the 173 initiatives of the first Plan ... developed at the Aviation Safety Summit in early 1995.

Safety initiatives require a new approach, a new structure.

During the next few months, I expect to see further success in reaching our goal of zero accidents. This goal is an ambitious one. It requires not only a new approach, but an entirely new structure -- a structure where safety issues are addressed and solutions sought by all who have a stake in ensuring the safety of our skies.

Modernization of the FAA also requires a new approach, a new structure.

But the FAA has another major responsibility, second only in importance to safety. This is the obligation to provide efficient, reliable management of the airspace. We must be able to invest in technology and deploy resources which will enable us to handle a growing volume of traffic without congestion and costly delay.

This too is an ambitious goal, and again it requires a new approach and new structure if we are to succeed.

Aviation can grow only if the infrastructure is in place to accommodate that growth. And, historically, much of the expansion of capacity has been publicly funded. We now face the almost certain prospect that public funding will fall short of what we need. The results could significantly constrain the future growth of the industry ... and eventually have a depressing effect on the entire economy.

No one who has looked seriously at our situation believes that the present way we finance the acquisition of new technology is adequate. It does not work well now, and it is going to become even more of a handicap in the years immediately ahead.

Aviation's economic importance rules out a "business as usual" attitude.

Aviation is not just another business, and we cannot afford to take a "business as usual attitude" in protecting and promoting it. Especially not now.

- **THE NEXT ESSENTIAL STEP: A STABLE REVENUE STREAM**

My third and final point is this: We must prepare to meet the demands of a growing industry in a time of decreasing budgets and declining financial resources.

Leadership from the top promotes FAA reform.

The President faced up to the difficulty and initiated a broad examination of our options -- starting with the Airline Commission and continuing with proposed legislation for reforming the FAA.

Congress has also taken up the issue, and last year acted to give the FAA greater flexibility in personnel and acquisition policies. This is an opportunity for constructive change, and we intend to take full advantage of it.

FAA's new procurement process is a first step.

Two weeks ago, the FAA published a draft version of a new, streamlined procurement process. We have tried to design a system which will cut in half the time in now takes to field new equipment, maintain better communications with our suppliers, allow greater flexibility in the choice of contracting vehicles, and encourage the purchase of off-the-shelf technology.

The aim is to save money for everyone involved and -- by making the process simpler and more transparent -- to reduce the number of protests filed by unsuccessful bidders.

Work has proceeded on a parallel effort within the agency to prepare our new personnel policy

We will implement the new procedures on April 1st.

Both of these reforms will permit the FAA to conduct its business *more* like a business and *less* like a procedures-bound bureaucracy.

But acquisition and personnel reforms are only a partial solution. Their benefits will not be fully achieved without a stable flow of revenue which increases predictably as the aviation industry prospers and the FAA's workload grows heavier. The financing issue, which is the most critical , remains thus far unresolved. A clear consensus within the industry itself has yet to emerge.

What is clear is that the structure of the FAA and its financing mechanisms are inadequate to the task of raising capital for long-term projects ... especially in a time when the federal budget is under severe pressure.

The global capital shortage.

The United States is not alone is confronting the lack of adequate funding sources for its vital infrastructure projects. Mounting public debt is a burden to almost every economy.

The difficulty is compounded by what may soon be a global shortage of capital. The Organization for Economic Cooperation and Development (OECD) warns that the worldwide demand for funds will exceed the supply by 50 percent in the year 2010 and by about 90 percent in 2020. Beyond that date, the financial situation could deteriorate even further.[7]

Governments everywhere will face a funding famine. The OECD argues that we must act now to improve our financial infrastructures if we are to be able to continue to invest in public infrastructure in the lean years ahead.

- **CONCLUSION: THE PROMISE OF PENDING LEGISLATION**

I believe that the principles embodied in the legislation now before the Congress -- the McCain-Ford-Hollings bill -- offer a constructive, far-sighted solution.

Under the leadership of President Clinton and Vice-President Gore, and with the strong support of Secretary Peña, we at the FAA have the opportunity to remake ourselves into a model Federal agency.

Our new acquisition and personnel reforms have given us a strong incentive. The McCain-Ford-Hollings bill promises to break new ground in the way government finances infrastructure renewal

We all have a stake in the outcome. A struggling FAA will fail to meet the expectations of its own forecasts. A strong FAA can help those forecasts come true. Thank you very much.

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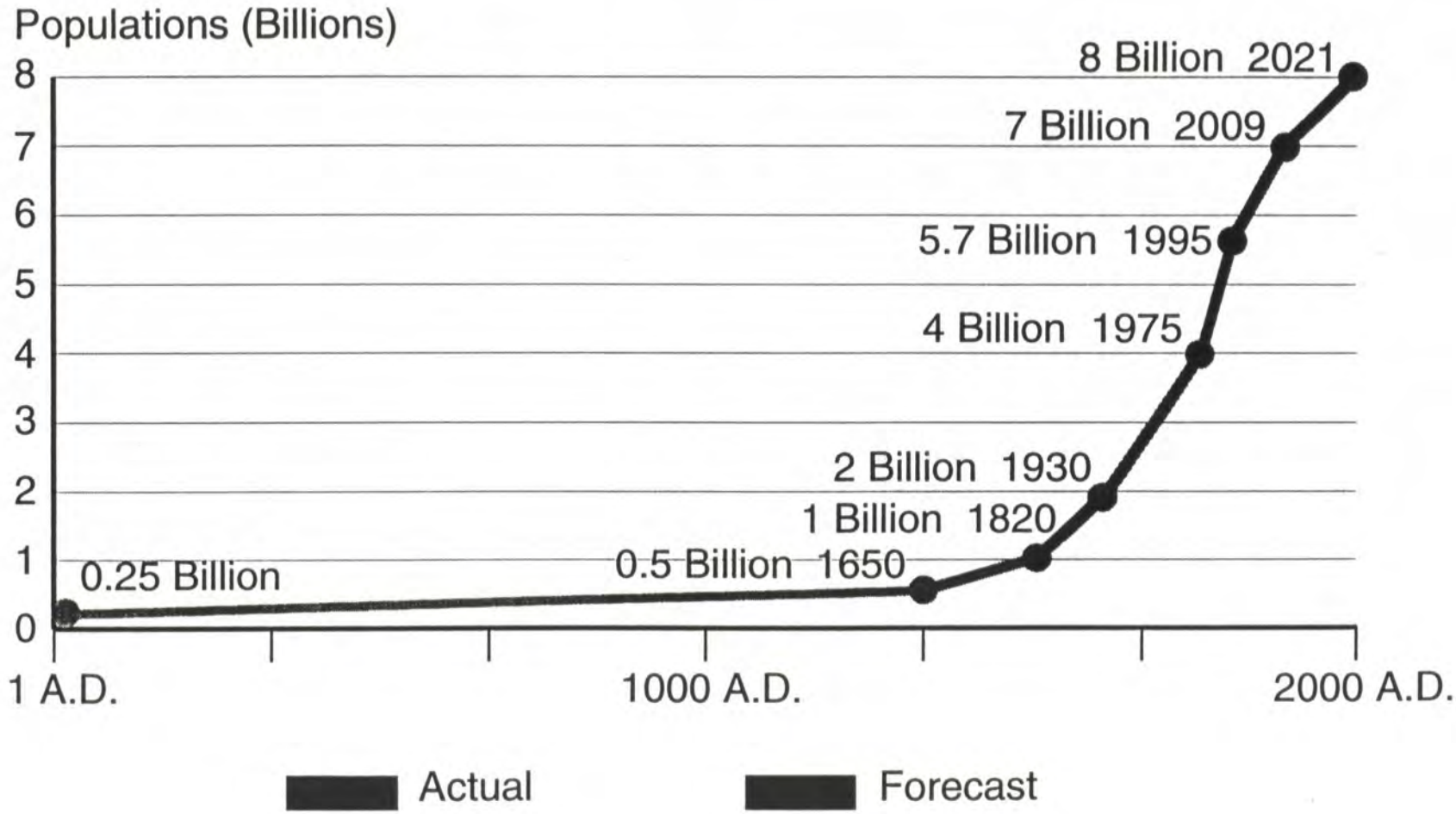
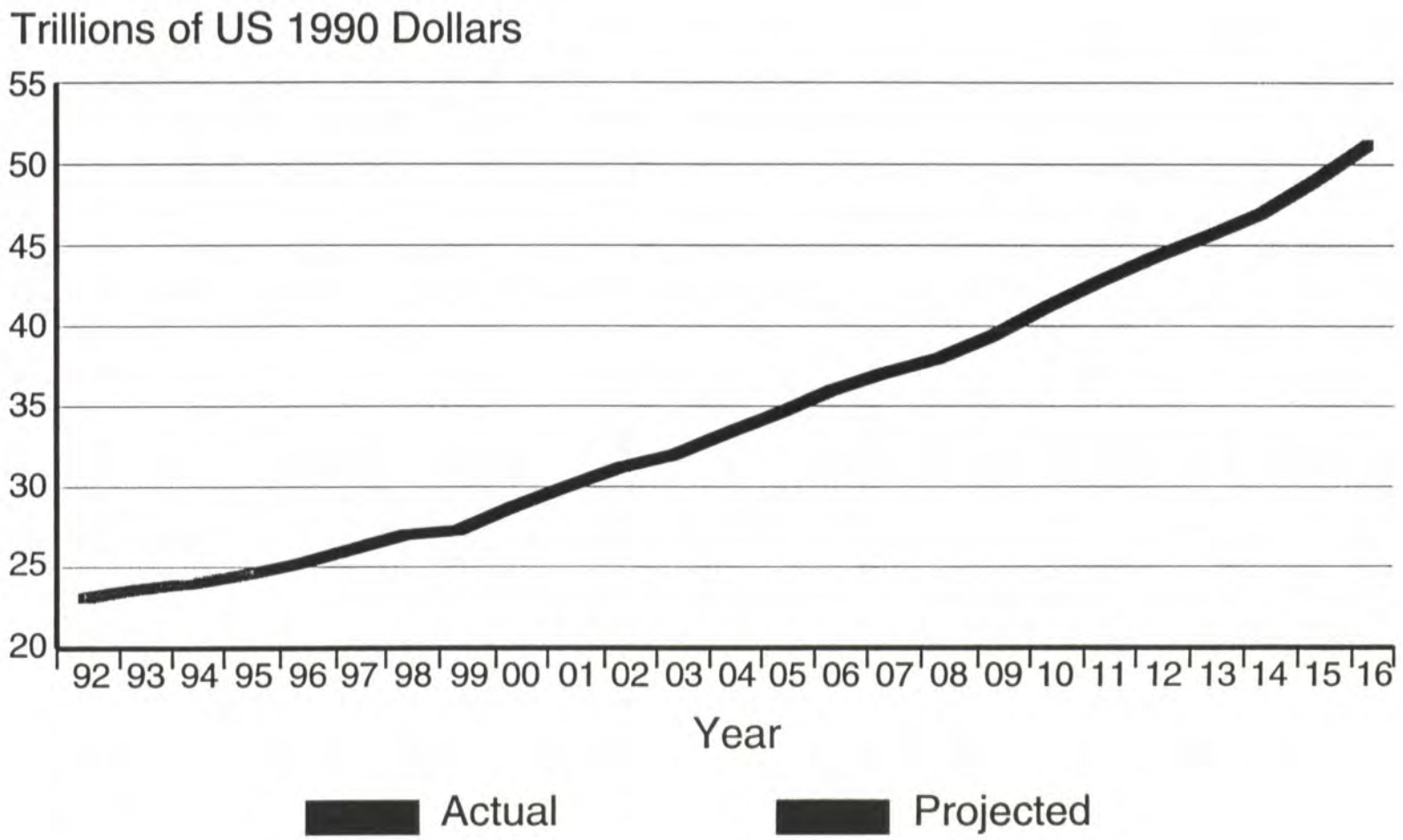
[7] "Future Global Capital Shortages: Some Key Issues and Policy Recommendations" (summary of 1995 Paris conference) by Wolfgang Michalski, Riel Miller, and Barrie Stevens. Organization for Economic Cooperation and Development, Paris 1995.

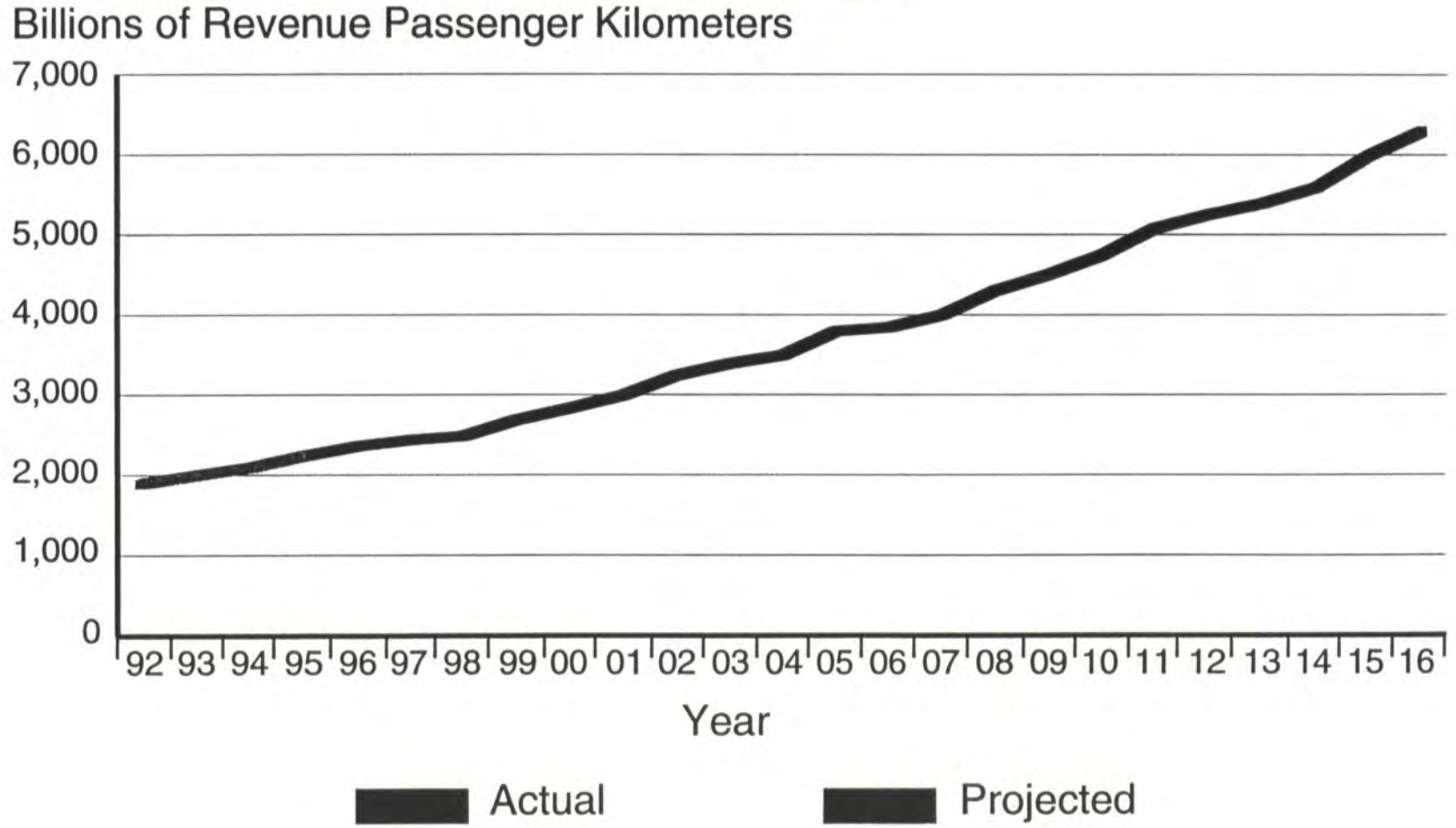
WORLD POPULATION GROWTH



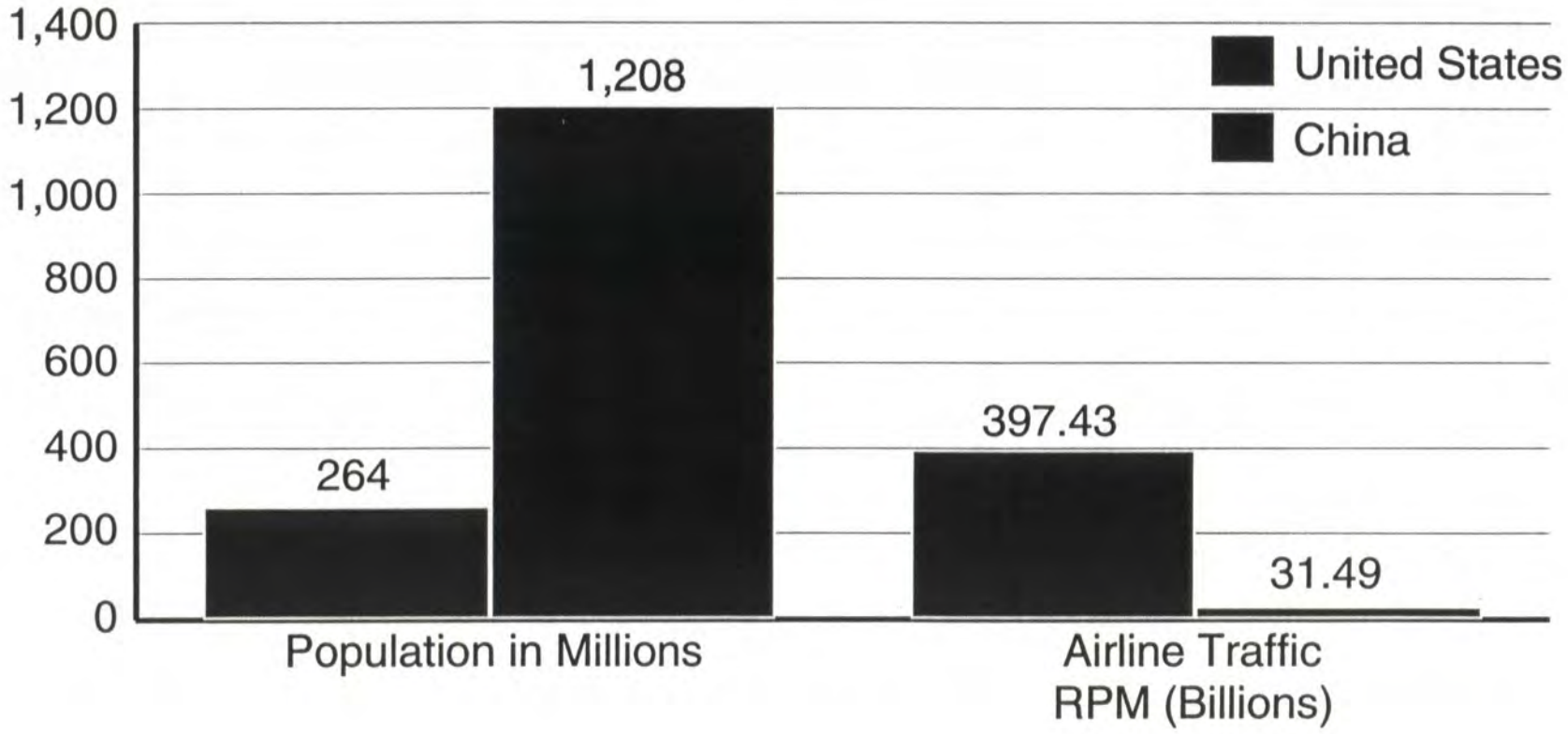
WORLDWIDE INCOME



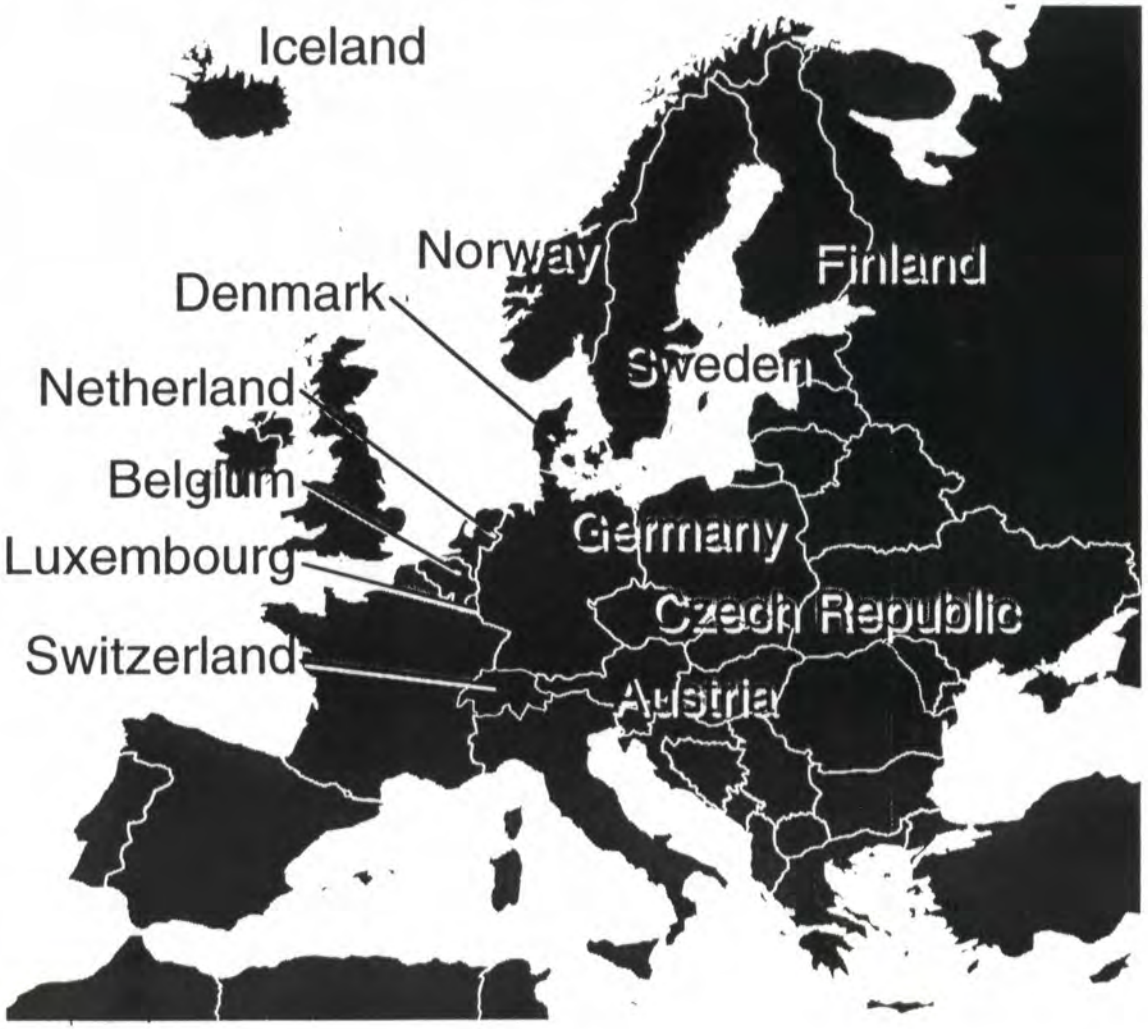
WORLD AIRLINE PASSENGER TRAFFIC



POPULATION AND AIRLINE TRAFFIC: UNITED STATES AND CHINA 1995

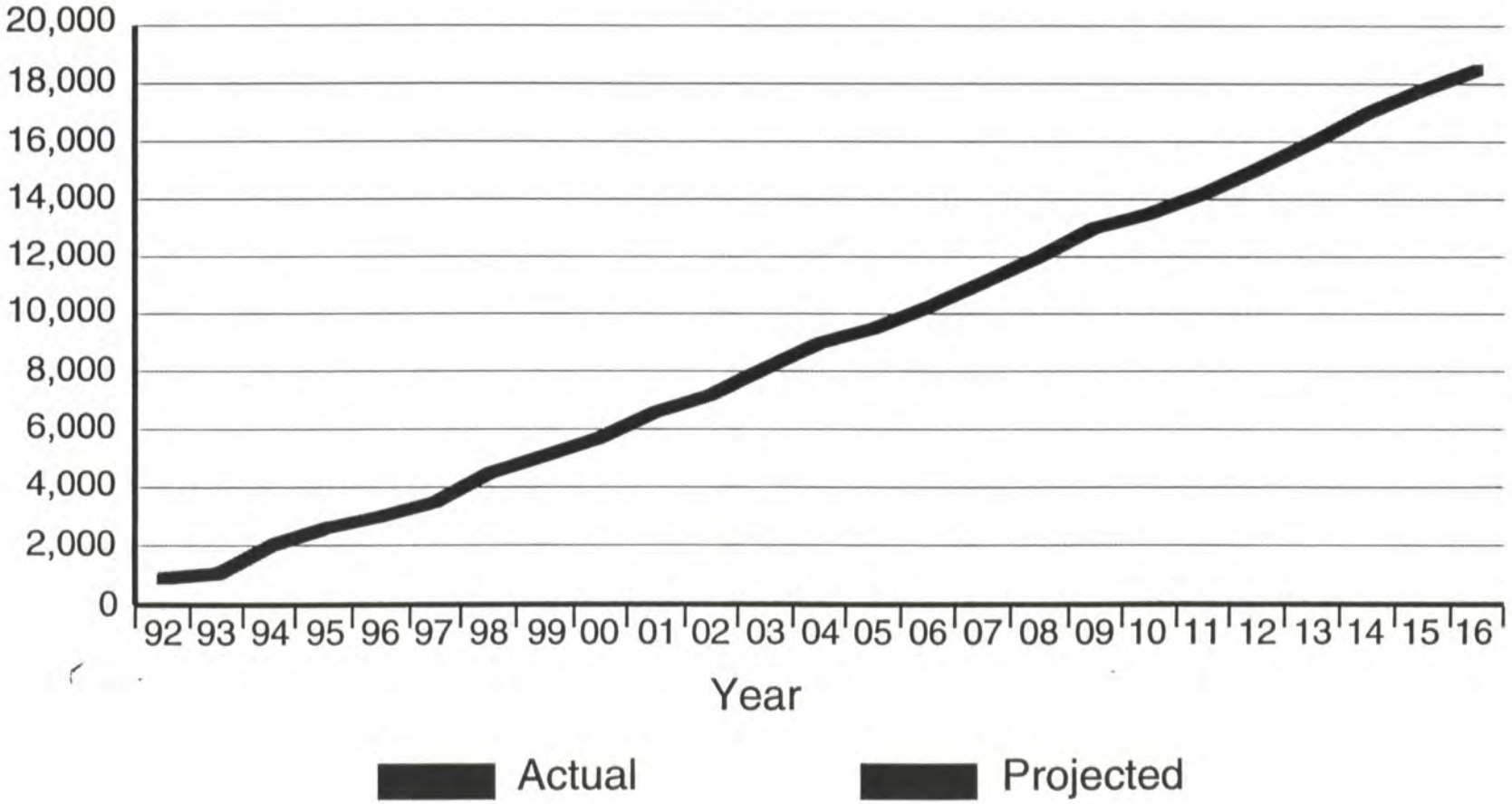


OPEN SKIES IN EUROPE



- Countries with Open Skies Aviation Agreements with U.S.
- Other Countries

TOTAL JET AIRCRAFT DELIVERIES WORLDWIDE (CUMULATIVE)



Financing the Future of U.S. Aviation

The Search for New Possibilities

Keynote Address by
David Hinson, Administrator, Federal Aviation Agency
ACI-NA / AAAE Washington Conference, March 18, 1996

I. INTRODUCTION

- Thank *Jim DeLong,* ACI-NA Chairman (or *Jack Armour,* AAAE Chairman)[1] for introduction

- ... Delighted to address Washington gathering of owners and managers of America's premier airports

II. FINANCING THE FAA AND AMERICA'S AIRPORTS

- Invitation letter from *Jim DeLong*[2] and *Charles Barclay*[3] requested my views on four issues --

1). FAA budget and funding needs
2). FAA personnel, procurement and funding reform
3). Reauthorization of Airport Improvement Program (AIP)
4). Future of federal grant funding for airport and aviation programs

- All four topics deal with the same subject:

"How are we going to finance the FAA and America's Airports in an era of shrinking government?

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[1] "Introducer" not selected as of March 14, 1996
[2] DeLong is Aviation Director of Denver International Airport and Chairman ACI-NA
[3] Barclay is President, American Association of Airport Executives (AAAE)

Issue #1: FAA Budget and Funding Needs

- Between now and the year 2002, annual enplanements in the U.S. expected to jump from 550 million to some 740 million passengers

- This assumes FAA and airports can manage this growth; but aviation can only grow if infrastructure is in place to accommodate that growth

- Aviation industry faces almost certain prospect that public funding will fall short of what we need; shortfall could significantly constrain future growth of industry

- FAA already coping with $600 million budget cut and 5000 fewer employees

- Even worse: failure of Congress to send President a workable budget led to expiration of aviation excise taxes

- As a result, Aviation Trust Fund balance is falling by half a billion dollars per month because taxes not being collected

- All unobligated funds will be exhausted by September or October

- "What is clear is that the structure of the FAA and its financing mechanisms are inadequate to the task of raising capital for long-term projects"

Solution:

- Bipartisan bill (S.1239) proposed by Senators McCain, Ford, Hollings; recently approved by Senate Commerce, Science and Transportation Committee

(NOTE: Hollings scheduled to deliver luncheon speech)

- Bill would provide assured financing by asking "more users to pay a fair share for services they receive"

- Revenue would grow with increasing workload; user fees would provide predicable source of revenue

Fairness Issue:

- Corporate jets presently pay only 11 percent of ATC costs

- FAA employees spent 100 thousand hours certifying Boeing 777 at no charge to manufacturer

- Foreign airlines use US ATC services for free, even though same courtesy not always extended to US carriers overseas

What about Duncan-Lightfoot Bill?

- Duncan-Lightfoot bill, which passed by voice vote in House on Wednesday, is unacceptable; "fails to address fundamental financial issues facing FAA"

Issue #2 FAA Personnel Reform

- FAA has restructured into six key lines of business:

  -- Air Traffic Services
  -- Research and Acquisitions
  -- Regulations and Certification
  -- Airports
  -- Civil Aviation Security
  -- Administration
  -- Seventh line (Commercial Space Transportation) added

- Now able to act more like a business

- Personnel reform allowed by last year's Reauthorization about to be fully implemented

- Will allow greater flexibility and effectiveness in using our people to do what they do best

- Scheduled to take effect April 1st

Issue #3: Procurement Reform

- FAA published draft version of new, streamlined procurement process in mid-February; system designed to --
- Cut time it takes to field new equipment *in half*
- Provide for better communications with suppliers
- Allow greater flexibility in choice of contracting vehicles
- Encourage purchase of "off-the-shelf" technology
- Restructuring of Advanced Automation System is also on track; will save taxpayers "something like $1.6 billion"

Issue #4: Reauthorization of AIP

- 1997 AIP Re Authorization legislation submitted last week
  - -- Secretary Peña forwarded proposal to extend AIP grant program to the Congress last Tuesday, March 12
  - -- Current AIP authority expires at end of FY 1996
- Legislation proposes short-term improvements, but acknowledges need for alternative financing
  - -- Administration requesting **$1.35 billion** for AIP in FY 1997
  - -- Proposal extends AIP grant authority for one year only
- Bill would establish program to authorize and evaluate innovative financing of airport development (more about that in a moment)

Comment-- **ACI-NA/AAAE CONCERNS**[4]:

ACI-NA / AAAE requests that 1997 AIP budget request be *increased*, rather than reduced. AIP has taken biggest hit in FAA budget cuts -- $450 out of $600 million. Group fears that administration may reduce 1997 Airport Improvement Program (AIP) program to "only $1.25 billion." Group asserts that additional cut of $200 million, without a compensatory offset increase in Passenger Facility Charge Cap will "make clear Administration's low priority for airport infrastructure." Group blames FAA for loss of Congressionally-supported $150 million funding increase in AIP program last year; (funds Congress previously targeted for AIP were shifted at FAA request to air traffic controller bonus pay)

[4]Plavin / Barclay letter to Sec. Peña, February 14, 1996

Issue # 5: Future of Federal Grant Funding for AIP/Aviation Programs

- Reason for one year extension is to allow time for DOT Secretary to appoint Select Panel on Airport Financing

- Panel is to report recommendations to Congress within 120 days

- Everything is open to review

SIDEBAR

- Clinton Administration proud of AIP achievements

  – Since January 1993, FAA has issued over 3,300 grants to 1,370 different airport grantees

  – Total grants over period have totaled over $4.3 billion

  – Grants have led to construction of over 115 new runways and 150 runway extensions and improvements

  – New Denver Airport is "most efficient airport in the world"

  – Military Airport Program (MAP) has significantly increased civil airport capacity at little additional cost

III. CONCLUSION

- In order to change AIP program and come up with innovative airport financing, we need new consensus
- That consensus will have to include airports, airlines, general aviation, the financial community, and Federal, state and local governments
- In other words, we are going to have to work together
- This conference, with this agenda, is a great place to begin...

STATEMENT OF THE HONORABLE DAVID R. HINSON, FEDERAL AVIATION ADMINISTRATOR, BEFORE THE HOUSE COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE, SUBCOMMITTEE ON AVIATION, CONCERNING REAUTHORIZATION OF THE AIRPORT IMPROVEMENT PROGRAM.
MARCH 20, 1996.

Mr. Chairman and Members of the Subcommittee:

I welcome the opportunity to appear before the Subcommittee today to discuss the reauthorization of the FAA's Airport Improvement Program authority. With me today are James Washington, FAA's Acting Associate Administrator for Airports, and Ellis Ohnstad, Manager of the Program Guidance Branch in the Airports Financial Assistance Division.

In my remarks today, I would like to focus primarily on the airport grants program and our proposal to establish a Select Panel that will examine the full range of options for meeting airport needs. I will also briefly touch on some of the other key elements of our reauthorization proposal, including special budget flexibility to transfer money among accounts, authorizing criminal background checks for additional categories of airline and airport employees, and protecting voluntarily submitted industry data.

At the outset, Mr. Chairman, I would like to express my appreciation for the Subcommittee's long-standing interest in the airport grant program, and for the detailed examination of the program you have conducted in a series of hearings this year. There is little question that AIP and its predecessor airport grant programs have been a vitally important element in helping to achieve the outstanding air transportation system we have

but, in any event, would be called upon to complete its report and recommendations within 120 days.

We believe that virtually everything associated with AIP and airport financing should be laid on the table by the Panel--passenger facility charge levels, AIP formula distributions, airport capital requirements, the extent to which the availability of private capital could or should replace or supplement Federal funding, to name but a few. Today, there is no consensus in the aviation community about the best ways to address future airport development requirements, even though the failure to meet these requirements will, over time, affect virtually every segment of that community. The necessary give and take of a Panel representing different points of view, and assisted by financial experts, can serve as a particularly constructive way in which these important public policy issues can be debated and fleshed out. We are hopeful that a balanced, focused review of this complicated issue will provide a more informed basis for developing a proposal to meet the longer-term needs of our air transportation system in the most reasonable and cost-effective way.

In the interim, we propose that the current program, with some changes that will be helpful in the short-term, be continued through the end of FY 1997. Among the changes we have recommended for the AIP statute are new authority to issue land use compatibility planning and implementation grants to non-airport sponsors, greater intermodal participation in airport planning and development activities, a modest

expansion of the State block grant program, and an expansion of PFC eligibility to address Federal mandates in the same way that AIP already does. The bill includes an innovative finance provision designed to give the FAA the authority to test and evaluate, on a pilot basis, a wide range of innovative financing techniques suggested by airport sponsors, including concepts that seek to accelerate airport development work. This approach has been used quite successfully for surface transportation programs, and we expect similar results in the aviation arena.

We have also requested 3-year authorizations of appropriations for the FAA's Operations, Facilities and Equipment (F&E), and Research, Engineering, and Development (R,E&D) accounts. The first year authorization levels we seek for these programs correspond to the FY 1997 levels contained in the President's budget.

In recognition of the pressing need for financial reform for the FAA, we are seeking special budget flexibility to permit the FAA Administrator to transfer money among the Operations, F&E and R,E&D accounts. Use of this authority could not increase the agency's aggregate outlays in the fiscal year in which the transfer is made, nor could it decrease an individual account's budget authority by more than 5% or increase an account's budget authority by more than 10%. In an era of limited budgets, this authority would provide the FAA added flexibility to respond, in a deficit neutral way, with additional resources to unanticipated problems that may arise during the course of a fiscal year--as we have seen in the past in the security area and, more recently, with outages.

In closing, Mr. Chairman, let me express our appreciation to you and the Members of this Subcommittee for your continued support of the FAA and its critical safety programs. We look forward to working with you and Subcommittee staff to shape a reauthorization bill that meets the needs of the air transportation system and provides the FAA with additional tools to help us meet our vital responsibilities. We believe our proposal provides that foundation.

That completes my prepared statement, Mr. Chairman. We would be pleased to respond to any questions you may have at this time.

REVISED TUESDAY, MARCH 19, 1996

A BREATH OF FRESH AIR

Honoring Pathfinders in the Search for Clean Air

THE HONORABLE DAVID HINSON, ADMINISTRATOR
FEDERAL AVIATION ADMINISTRATION
COALITION FOR CLEAN AIR ANNUAL LUNCHEON
LOS ANGELES, CA, MARCH21, 1996

INTRODUCTION

... Thank you, Linda.

On my flight from Washington this morning, we passed just north of Texas. As I looked out the window at the Texas Panhandle, I thanked my lucky 'Lone Stars' that I wasn't being introduced by former Treasury Secretary Lloyd Bentsen at today's event.

Not that I have any problem with Lloyd Bentsen.

But if he were next to this lectern right now, he would undoubtedly be standing ramrod straight ... just like he did during the Vice Presidential TV debates a few years ago, when he debated Dan Quayle. Senator Bentsen would look me straight in the eye ... and, then, with his soft, plain-spoken, down-home Texas voice, he would say:

"... I know Secretary Peña. ... And, believe me, you're no Fredrico Peña."

It's true. I confess. I'm not Secretary Peña. But I do bring his greetings -- and -- I believe, the heart of the message he would have shared with you today.

As he would put it, "...the best transportation projects are environmental projects as well."[1]

ACKNOWLEDGE CLEAN AIR COALITION

We're here this afternoon to honor some pretty terrific people and some pretty terrific organizations, ... folks who have done more than "talk-the-talk" about cleaner air.

They have also "walked-the-walk."

But as far as I'm concerned, the biggest winner of all today is the sponsor of this event, *The Coalition for Clean Air.*

This is truly a super organization. And it's led by the very special folks Cliff Gladstein just introduced to you.

For 25 years, the *Coalition for Clean Air* has led the fight for clean, healthy air in Southern California.

They've tried just about everything:

[1] Garvey, Jane F., National Governor's Association Conference, speech, 11/2/93, p.2

- they've cooperated
- they've educated
- they've "dialoged"
- ... and, in some cases, they've even gone to court

The Coalition for Clean Air has spearheaded programs like the bi-annual *Smog-Check* of automobile tailpipe emissions

They've been a major sponsor of ride-sharing programs.

And they've created an unprecedented "conversation for action" among the key players in the air pollution struggle.

The bottom-line is that --

... as a result of the work of Coalition for Clean Air and like-minded organizations

... the air over Southern California is *twice as clean* as it was a quarter-of-a-century ago.

***

... Unfortunately, "twice as clean" is nowhere near clean enough.

This region still has, by far, the worst air quality in the nation:

- In this country we rank *Ozone pollution* in terms of six levels of severity; the least severe is "marginally polluted;" the most severe is "extremely polluted"

- The Los Angeles-South Coast Air Basin is the only region in the country to rate the rank "extreme"

- In terms of *Carbon Monoxide* pollution, this is the only region in the country whose air is judged to be "seriously polluted"

- The South Coast Air Basin is also one of the few areas in the country judged to have a "serious" *Particulate* problem.

ACKNOWLEDGE AWARD WINNERS

Air pollution in this area is so severe, that virtually every possible source of pollutant, however small or seemingly insignificant, must be addressed. This is where today's award winners come in:

- The *Los Angeles Department of Airports* at LAX is looking at everything from employee trip reduction and ridesharing, to alternative fuel vehicles for airfield service

- *CALSTART* is not only looking at alternative fuel vehicles, it's helping to create the industry that will make them

- And council members
  Ruth Galanter *[Gaul-Ann-Tur]*
  and Marvin Braude *[Brow-Dee]*
  ... have been the most environmentally conscious members of the Los Angeles City Council for many years

WHAT THE FAA BRINGS TO THE PARTY

The reason Secretary Peña wanted to be with you today, is that mobile sources of pollution contribute at least 70 of the air pollution to this region. Another word for "mobile" is *transportation* in all of its varied forms: cars, trucks, buses, trains, boats -- and planes.

If he were here, I am sure he would be focusing his remarks on the *Alameda Corridor Project.*

When completed, this project will link the ports of Los Angeles and Long Beach with downtown Los Angeles and the three railroads which connect this region with the rest of the country.

The project will also sharply reduce rail, truck and auto emissions, traffic delays, noise, vibrations, and accidents. This is going to be a big deal.

I know that some of you considered all of those modes of transportation during this morning's seminar on "The Road to Clean Air." I wouldn't pretend to be an expert on any of the advanced technologies the group discussed

But as head of the FAA, I can at least talk about reducing the level of emissions from aircraft and airport operations.

I'll just mention three topics: flow control, improved planning and free flight.

First, *flow control.* Keeping planes at the gate and improving taxi procedures, not only reduces engine idle time, it cuts both arrival and departure delays.

This year's award to LAX includes progress in both areas:

- By retrofitting aircraft gates with ground power and fixed air systems, LAX is cutting emissions by more than 20 tons per year

- Last year's extension of runways B and C have also already led to measurable reductions in both aircraft taxi and idle time

A second area is *improved planning.* As required by the National Environmental Policy Act, the FAA now considers the environmental impact of virtually everything we do ourselves, or authorize others to do.

Tomorrow's dedication of the new airport traffic control tower at LAX is an eloquent testimonial to this new kind of planning --

Whatever you might think of the architecture, I can assure you that the tower's state-of-the-art environmental equipment will sharply reduce air conditioning and heating requirements.

The third area is *free flight.*

As a pilot myself, this is one of my favorite projects.

Last Friday I announced a 10-year plan which will gradually allow pilots to choose their own routes and file the most efficient and economical flight plans they can dream up.

This approach could payoff big-time, both financially and environmentally.

Secretary Peña estimates that free flight will save domestic airlines as much as $5 billion a year by 2010. That $5 billion savings, ladies and gentlemen, consists almost entirely of unexpended fuel.

Free flight could also reduce the duration of some flights by as much as 20 percent.

Everybody wins. Passengers get to their destinations faster. Airlines save money on fuel. And even those who don't fly -- and don't ever plan to -- get the benefit of reduced air pollution.

CONCLUSION

These brief illustrations only scratch the surface of what is being done by the FAA and other agencies on behalf of cleaner air. The key to success, in all three examples, is the emergence of a public-private partnership among government agencies, businesses and the environmental community.

In his State of the Union message, President Clinton called this an "Age of Possibility." If the possibility we seek is restoring fresh, clean, invigorating air to the Los Angeles basin, we are going to have to work together.

The Clean Air Coalition has proved that such a partnership is possible. Here we are together, in the same room -- government agencies, environmental groups and private sector businesses.

We're here to celebrate a common victory. Those whom we honor today richly deserve our praise. But even those, like me, who receive no award today, can consider themselves richly rewarded.

We can taste that reward every time we draw a breath of fresh, clean air.

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[1271 words/117 wpm. 10-11 minutes]

REMARKS FOR DAVID HINSON
LOS ANGELES INTERNATIONAL AIRPORT TOWER DEDICATION
Los Angeles, California
March 22, 1996

It's an honor to represent the FAA at the dedication of what has already become a California landmark. Airports and their towers are replacing skyscrapers as symbols of a city's dynamism. Los Angeles, as usual, is leading the trend.

This imposing new tower, rising 22 stories above us, was designed to provide an unobstructed view of the entire airport complex.

It also gives us a clear view of the future of aviation in Los Angeles.

LAX is already one of the great airports in the global aviation system. It is the only airport in the world that ranks in the top five for passengers and cargo volume as well as the number of operations.[1]

LAX is very large now, and it will grow even larger over the next 15 years.

The FAA forecasts that by the year 2010, LAX will handle about 26 hundred operations a day. Last year, the airport handled 19 hundred. We predict a 30 percent increase over the decade and a half ahead.[2]

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[1] Data compiled by Airport Council International. Aviation Daily, 2/20/96. LAX ranks #4 in passengers, #4 in cargo, and #5 in movements.

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To put that figure in perspective, it's roughly the equivalent of LAX taking on all the traffic of an airport the size of Syracuse or Buffalo. It's more traffic than is handled each day by the airports at Sacramento or Little Rock, San Juan or Knoxville.[3]

The FAA forecasts have been projecting significant increases all along. But we are raising our expectations. Our forecast for the year 2010 is about eight percent higher than the previous estimates of growth.[4]

We have begun to prepare for this growth by consolidating the terminal radar services for all the airports in Southern California into a single TRACON facility in San Diego.

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[3] Increase in LAX operations, 1995 to 2010=216,707. Estimated 1995 operations (from Terminal Area Forecasts): Syracuse (222,000), Buffalo (199,000). Sacramento (187,000), Little Rock (189,000), San Juan (206,000) Knoxville (174,000).

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One of the core technologies in the FAA's multi-billion dollar modernization program is digital data link.

Now in use here at LAX -- digital communication replaces voice messages between tower and cockpit. Predeparture clearances, for example, are transmitted only to the aircraft receiving the instruction. The clutter and confusion that have always been the bane of voice transmissions are totally eliminated.

Very soon controllers will also be able to digitally transmit up-to-the-minute airport weather conditions to the flight crews and the messages will be translated into synthesized speech by automatic voice generators.

From that one location we are able to track air traffic activity for the entire region, managing the flow more efficiently and with greater safety.

A more crowded airspace can also mean more congestion and delay on the ground.

The FAA gives a high priority to managing traffic in the terminal areas as well as in the sky -- for delays are costly and congestion can be a hazard to safety.

The controllers in the tower here at LAX have at their command some of our most advanced technology to constantly monitor airport conditions and instantly communicate with flight crews aboard the planes.

The tower incorporates the latest in automated systems. FAA personnel can control the lighting for runways and taxiways by simply touching the screen of a computer monitor. Connecting the computer to the airfield installations is a network of fiber optic cables which can be easily expanded to meet the future needs of the airport.

We have come a long way from the days when a flagman stood by the runway to guide the pilots in because airplanes were not yet equipped with radios.

It seems like another world. This airport has seen a lot of aviation history. Here is one of the sites where aviation came of age.

Compared to the 50 foot fire watchtower that was moved here from a forest preserve right after the war, this 289 foot tower looks as if it belongs to another century.

And, of course, it does.

This is a 21st century structure filled with 21st century technology.

But though it is all state-of-the-art, it is a state that is never static. The rate at which technology evolves guarantees that we will have to start upgrading even this facility within just a few years.

Investing in new technology is absolutely essential in our business.

It is also very costly. And in these days of shrinking federal budgets, we can no longer rely solely on Congressional appropriations to provide the necessary funding.

If we are to continue to build new infrastructure on the scale of this tower, we must create a more viable means of financing the never ending process of modernization.

Next week, the FAA will inaugurate a package of reforms that streamlines our procedures for buying new technology. The reform legislation, which President Clinton signed into law in November, also gives us the flexibility to recruit, retrain, and reassign our professional workforce to make the most productive use of our valuable human resources.

This is important legislation, and we intend to make the most of it. But it is only a beginning.

The next step is prompt passage of legislation embodying the principles of the McCain-Ford-Hollings bill that is now before the Congress. This legislation would authorize the FAA to borrow in the capital markets.

The FAA must have a solid base upon which to build for the future. In this respect, the tower here at LAX is an important symbol.

As many of you know, the ground beneath us is soft clay. To support its weight, the tower was erected on a platform of 55 concrete piles, each two feet across. It is a base secure enough to keep the tower from sinking and strong enough to withstand almost any stress.

That is an image I would like you all to remember. For it sums up why it is important to give the FAA a sound financial footing.

It is time to lay a new foundation -- one strong and stable enough to support all the growth that our forecasts are promising.

Thank you.

REMARKS FOR FAA ADMINISTRATOR DAVID HINSON
THE AERO CLUB
Los Angeles, California
March 22, 1996

- **INTRODUCTION**

I'm very pleased to join the Aero Club in celebrating the completion of the new tower facility at Los Angeles International. All of us at the FAA share your pride in this monumental achievement.

Los Angeles is already one of the great gateway cities of the world. And the tower we dedicated today will help to widen that gate for all the growth in traffic that we expect in the years ahead.

At its peak periods, it is hard for any of us to imagine how LAX could be any busier. Yet we predict that over the next decade and a half, traffic here will increase by 30 percent. Think of that as transferring to LA all the business of another airport the size of Syracuse or Buffalo, New York.

Building the new tower is just one of the many steps we must take now to prepare for this growth. Not only here in Los Angeles, but throughout the country.

Earlier this month, the FAA released the latest update of our annual aviation forecast. This year's forecast reflects the fact that every sector of American aviation has rebounded with such strength that the momentum will carry us into the next century.

The evidence is clear that we are entering a period of sustained growth But even with the most optimistic outlook, expansion cannot be taken for granted.

Today's Message

This afternoon, I would like to review the reasons why we expect aviation to continue to be a growth industry in the years ahead ... and alert you to what we believe must be done, in the months ahead, to make sure that this opportunity is not lost.

First, I will highlight some of the reasons that underlie our predictions of continued growth in air transport over the next dozen years.

Then I will point out that these forecasts assume our readiness and capacity to build the infrastructure necessary for that growth to occur.

I will conclude with a discussion of the steps that must be taken very soon if our optimism about the future is to be realized.

- **FAA'S FORECASTS REFLECT AN OPTIMISTIC VIEW OF ECONOMIC GROWTH.**

The positive growth expectations found in this year's aviation forecast reflects, in part, an optimistic view of global economic growth.

For the next two decades, wealth will grow faster than population.

Over the next two decades, demographers expect world population to reach an estimated eight billion people -- two billion more than are living today. That's a steady increase, but throughout this same period, aggregate world income will increase at an even faster rate. Think of us at the starting point of a sharply accelerating curve, with total income doubling over the next twenty years.

The implication is extremely important: wealth will be growing faster than population for the next two decades.

Air travel will more than double over the next twenty years..

Rising incomes and growing markets translate into increased air travel and a rising demand for new aircraft.

All the long term indicators point up.

Worldwide air travel is expected to more than double over the next 20 years, with an average annual growth rate of 5.7 percent. By the end of the period for which we are forecasting, airlines around the world will be carrying two and a half billion passengers each year. Air cargo will also grow, averaging 6.6 percent a year over the next two decades.

Asia will be the major growth site.

Much of the growth will occur in Asia. where new centers of economic power are already emerging. Figures compiled by Airports Council International show that among the ten airports reporting the largest increases in passenger traffic last year, five were in Asia. LAX, with its strategic position on the Pacific Rim, will directly benefit from this expansion.

U.S. carriers will show solid gains, both in domestic and international markets.

U.S. domestic air travel will also continue to grow. Over the next dozen years, the FAA is forecasting an average annual growth rate of near four percent for travel inside the country and a 5.3 annual rise for international enplanements on U.S. carriers.

International travel will grow partly because of stronger competition. Last month Germany became the 12th European nation to reach an "open skies" agreement with the United States, and others are being negotiated.

Passengers clearly benefit from these agreements because, eventually, they result in lower air fares. Since the signing of an open skies agreement with Canada last year, there has been a 30 percent increase in flights across the border, and advance purchase fares are 25 to 30 percent cheaper.[1]

We know from our experience with domestic competition that, as ticket prices decline, new demand is created. By relaxing arbitrary restraints on air commerce, market forces are released and growth is stimulated.

Growth in air travel will support an expanding aircraft market.

To handle this heavy volume of passengers and cargo, airlines will have to double the size of the existing fleet, buying 15 to 17 thousand new planes by the end of 2016. As many as 10 thousand of these new planes will be needed just to meet future growth.

Aircraft deliveries are expected to double by the year 2002 or 2003, then double again within 20 years. In dollar terms, the cumulative value of these aircraft deliveries will far exceed a trillion dollars.

The aircraft manufacturers are at the threshold of a long, sustained period of increasing sales

Aviation contributes 6% to GDP -- equivalent to the 11th largest economy.

The importance of aviation to our nation cannot be overestimated. The industry and its infrastructure are a vital resource that must be managed with great care and foresight. It is an irreplaceable asset.

Today, aviation -- and its value added components -- contribute about six percent to our nation's gross domestic product. If the entire U.S. aviation sector was a separate, self-contained economy, it would rank eleventh in the world -- slightly smaller than Brazil's GDP, and a little larger than India's.

Aviation could add another $100 billion to GDP by 2007.

Aviation is one of the principal generators of wealth for our nation, and -- as our forecast predicts -- it will continue to play this role in the coming decade. Under current economic assumptions, by the year 2007 -- aviation, and aviation-related industries, could add more

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[1] Canadian Airlines International marketing executive, quoted in Washington Post, March 17, 1996.

than 100 billion dollars' worth of new economic activity. That's roughly equivalent to adding an economy the size of Norway's.

With such evidence of gathering momentum, it may be difficult to imagine what could put this growth scenario in jeopardy. There are solid grounds for our optimism, to be sure. But there is also a solid basis for concern.

All forecasts are based on assumptions. They are not self-fulfilling prophecies.

This is my second point: Our forecast assumes that both industry and government will have the resources to prepare for the expected growth.

- **THE FORECAST ASSUMPTIONS**

We are assuming, for example, that the airlines will continue to lower their operating costs and be able to arrange financing for new plane purchases.

We are assuming that aircraft manufacturers will be able to sell their products at profitable prices.

We are assuming that airports can add capacity fast enough to keep pace with demand. And we further assume that the FAA will be able to find the money to upgrade its air traffic control technology and continue to provide all of its essential services.

If we fail to fulfill any one of these assumptions, we may well forfeit the gains that are forecast.

Government economic and regulatory policies will be a factor in realizing each of the assumptions.

Government's prime responsibility is safety.

But the principle role of government and its primary responsibility is, of course, to maintain the highest standards of aviation safety. For as we all know, aviation safety is the one essential precondition for industry vitality.

Last month the FAA released the second Aviation Safety Plan, worked out in close collaboration with the industry. It builds on the very substantial progress we have made in putting into practice the 173 initiatives of the first Plan ... developed at the Aviation Safety Summit in early 1995.

Safety initiatives require a new approach, a new structure.

During the next few months, I expect to see further success in reaching our goal of zero accidents. This goal is an ambitious one. It requires not only a new approach, but an

entirely new structure -- a structure where safety issues are addressed and solutions sought by all who have a stake in ensuring the safety of our skies.

Modernization of the FAA also requires a new approach, a new structure.

But the FAA has another major responsibility, second only in importance to safety. This is the obligation to provide efficient, reliable management of the airspace. We must be able to invest in technology and deploy resources which will enable us to handle a growing volume of traffic without congestion and costly delay.

Last week, the FAA announced its intention to adopt a radically new concept of air traffic control. We call this concept "free flight" because pilots will be able to pick optimal routes, altitudes and speeds to reach their destinations. Controllers will intervene only if there are conflicts in flight plans.

We believe that "free flight" is an achievable concept because it builds upon existing technologies such as satellite navigation and communication, digital data link, and TCAS.

We believe that "free flight" is a necessary concept if the FAA is to handle the 40 percent increase in flights expected in the next 20 years.

This is an undertaking as ambitious as our commitment to "zero accidents." To make "free flight" a reality, we must first develop methods for anticipating conflicts and predicting congestion in the airspace. The development of these technologies will require a long lead-time and a heavy investment.

And, as with our "zero accident" initiative, "free flight" requires a new approach and new structure if we are to succeed.

Aviation can grow only if the infrastructure is in place to accommodate that growth. And, historically, much of the expansion of capacity has been publicly funded. We now face the almost certain prospect that public funding will fall short of what we need. The results could significantly constrain the future growth of the industry ... and eventually have a depressing effect on the entire economy.

No one who has looked seriously at our situation believes that the present way we finance the acquisition of new technology is adequate. It does not work well now, and it is going to become even more of a handicap in the years immediately ahead.

Aviation's economic importance rules out a "business as usual" attitude.

Aviation is not just another business, and we cannot afford to take a "business as usual attitude" in protecting and promoting it. Especially not now.

- **THE NEXT ESSENTIAL STEP: A STABLE REVENUE STREAM**

My third and final point is this: We must prepare to meet the demands of a growing industry in a time of decreasing budgets and declining financial resources.

Leadership from the top promotes FAA reform.

The President faced up to the difficulty and initiated a broad examination of our options -- starting with the Airline Commission and continuing with proposed legislation for reforming the FAA.

Congress has also taken up the issue, and last year acted to give the FAA greater flexibility in personnel and acquisition policies. This is an opportunity for constructive change, and we intend to take full advantage of it.

FAA's new procurement process is a first step.

Next week, the FAA will inaugurate a new, streamlined procurement process which will save money for both the government and for the businesses with whom we deal. We have tried to design a system that cuts in half the time it now takes to acquire new equipment and encourages the FAA to purchase off-the-shelf-technology whenever possible.

Our aim is to simplify the process, stripping away much of the complexity which causes delays and escalates costs.

Before reform, we had to follow procurement rules so complicated that they took 233 separate documents to describe. Now we are down to about 100, and over the next year, we plan to eliminate another 50. Once you needed an entire bookcase to hold them all. Now they take up the space of a single book..

The regulations are not only fewer in number, they are easier to understand and simpler to follow. Small high tech firms -- which are so important to the California economy -- will find it far less daunting to do business with the new FAA

We also will be announcing a new set of personnel policies next week, as part of our reform measures.

The constant evolution of technology means that the technical skills required within the FAA are also changing constantly. The reform package gives us, for the first time, the flexibility to recruit, retrain and reassign the FAA's professional workforce to make the most productive use of our valuable human resources.

Under the leadership of President Clinton and Vice-President Gore, and with the strong support of Secretary Peña, we at the FAA have the opportunity to remake ourselves into a model Federal agency. Our new acquisition and personnel reforms have given us a strong incentive.

The outcome of these reforms will be a new era of common sense and sound management practice. The FAA will be able to conduct its business *more* like a business and *less* like a procedures-bound bureaucracy.

The promise of pending legislation

But acquisition and personnel reforms are only a partial solution. Their benefits will not be fully achieved without a stable flow of revenue which increases predictably as the aviation industry prospers and the FAA's workload grows heavier.

The financing issue -- which is the most critical -- remains thus far unresolved. A clear consensus within the industry itself has yet to emerge.

What is clear is that the structure of the FAA and its financing mechanisms are inadequate to the task of raising capital for long-term projects ... especially in a time when the federal budget is under severe pressure.

A bill introduced by Senators McCain, Ford and Hollings promises to break new ground in the way the FAA finances infrastructure investment. I believe that the important principles embodied in this legislation offer a constructive, far-sighted solution to the chronic funding problems which confront the FAA.

- **CONCLUSION**

We all have a stake in the outcome. It took 21 million dollars and years of effort to build the first new tower in three decades at Los Angeles International. It's not too early to wonder -- even on this day of its dedication -- what will be the cost of its replacement. And to ask ourselves where we will find the money.

The new tower is a show of confidence in the future of LAX.

A sensible solution to the problem of long-term financing will do even more to reinforce our confidence in the future of American aviation.

Thank you very much.

REMARKS FOR DAVID HINSON
LOS ANGELES INTERNATIONAL AIRPORT TOWER DEDICATION
Los Angeles, California
March 22, 1996

It's an honor to represent the FAA at the dedication of what has already become a California landmark. Airports and their towers are replacing skyscrapers as symbols of a city's dynamism. Los Angeles, as usual, is leading the trend.

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Compared to the 50 foot fire watchtower that was moved here from a forest preserve right after the war, this 277 foot tower looks as if it belongs to another century.

And, of course, it does.

This is a 21st century structure filled with 21st century technology.

But though it is all state-of-the-art, it is a state that is never static. The rate at which technology evolves guarantees that we will have to start upgrading even this facility within just a few years.

Investing in new technology is absolutely essential in our business. It is also very costly. And in these days of shrinking federal budgets, we can no longer rely solely on Congressional appropriations to provide the necessary funding.

If we are to continue to build new infrastructure on the scale of this tower, we must create a more viable means of financing the never ending process of modernization.

Next week, the FAA will inaugurate a package of reforms that streamlines our procedures for buying new technology. The reform legislation, which President Clinton signed into law in November, also gives us the flexibility to recruit, retrain, and reassign our professional workforce to make the most productive use of our valuable human resources. This is important legislation, and we intend to make the most of it. But it is only a beginning.

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It is time to lay a new foundation -- one strong and stable enough to support all the growth that our forecasts are promising.

Thank you.

REMARKS FOR DAVID HINSON
"TOWN HALL MEETING"
March 28, 1996

FAA REFORM

Common Sense Government that Works Better and Costs Less

Vice President Al Gore
National Performance Review

Introduction:

At our first town hall meeting two years ago, I remember telling you that -- at certain times in history -- powerful forces converge to bring about change. For the FAA, this is now one of those times.

On April first, the FAA will inaugurate a new set of acquisition and personnel reforms.

We have a unique opportunity among federal agencies -- an opportunity to develop policies and procedures which make the best sense for us.

Many of our old ways of doing business will change.

But if all this talk of personnel reform makes you nervous, I want you to relax.

Many policies and practices will remain the same.

You can relax because there is to be ***no change*** in your base pay ... ***no change*** in retirement and health care benefits ... ***no change*** in entitlements for annual and sick leave ... ***no change*** in the holiday schedule ... and ***no change*** in your eligibility for workers' compensation.

The reforms we will be discussing today do not affect your basic pay and benefits. They do give us the flexibility to bring common sense and sound business practices into the day-to-day management of the FAA.

And they reaffirm the FAA's commitment to be fundamentally fair.

I will take about 30 minutes to describe these new approaches. Then we will show you a very short video tape to let you see the people -- your colleagues --who have been working for the past 100 days to bring us to this point.

We will take your questions right after the video.

Before we go any further, let me introduce the people on the stage. ***(Deputy Administrator Linda Daschle, Monte Belger, George Donohue, Carl Schellenberg, and Kay Frances Dolan.)***

I have divided the briefing in three parts. First, I want to review, very quickly, why we need the reforms and how they came about. Then I will go over the main points of the new acquisition system. The third and most detailed part of the briefing is about the personnel reforms we are implementing on Monday.

[Next slide: The Challenge]

The Challenge

- **Reduce costs to government and industry**
- **Increase productivity**
- **Improve quality of services**
- **Speed the deployment of new technology**

Points to Make:

Many of our earlier town hall meetings focused on the fact that, to continue managing the dynamic growth in aviation, the FAA needs fundamental change in three critical areas: financing, personnel, and acquisitions.

The FY 1996 Transportation Appropriations bill, which President Clinton signed last November gave the FAA the authority to remake its personnel and acquisition systems. Vice President Gore urged us to "be bold", and we have. We've taken full advantage of this unprecedented opportunity to create a premier government agency that works better and costs less.

[Next slide: Guiding Principles]

Guiding Principles

- **Increase accountability and flexibility**
- **Control and reduce costs**
- **Enhance intellectual capital**
- **Create incentives for change**
- **Balance personal and agency needs**
- **Fairness**

Points to make:

This next chart shows the principles that guided us as we developed the reforms. All are in keeping with the goals of Vice President Gore's National Performance Review.

[Next slide: How we did it]

How We Did It

- **Assembled reform teams**
- **Examined the business context**
- **Tapped best practices**
- **Gathered stakeholder values**
- **Conducted challenge sessions**
- **Convened Blue Ribbon Panel**

Points to Make:

Multi-disciplined teams. I would like to take a moment to thank the more than 200 employees who lent their considerable knowledge and experience to this effort. I want to thank the representatives of the unions and employee associations who worked side by side with us throughout the process.

Everyone has contributed important ideas and recommendations. Many of these will become effective on April first. Others will form the basis for future actions, which you will hear about in due course. Eventually, all of your work will have an impact. All of it will be taken into account.

I know this has been an enormous undertaking, consuming countless hours of time usually devoted to your regular work and to your families.

You have proved how much you care about what happens to the FAA. It shows in the solid foundation you have built for the work to come.

I thank you for it.

Broad industry participation. From the start, industry participated with us to make sure that we incorporated the best business practices. The views of trade associations and their members were solicited, as well. Hundreds of additional comments came in by fax,, CC-Mail, and the internet. At last count, our acquisition reform web site on the internet had been accessed over **3,500** times.

Blue Ribbon Committee. Acquisition reform was carried out under the guidance of a blue ribbon committee composed of leading business executives, academics, and government officials.

Outside Experts. The personnel reform teams were guided by input from agencies like the Office of Personnel Management and the Department of Defense. We interviewed private consultants, business executives, and university professors. We sought ideas from the Air Transport Association, the National Academy of Public Administration, and many others. These groups kept us focused -- and honest -- throughout the process.

[Next slide: The Environment]

The Environment

OUT	IN
– Red tape	– Results
– Rigid rules	– Incentives
– Diffused responsibility	– Increased accountability
– Process	– Product

Points to Make:

The act that created the FAA in 1958 also subjected us to the same rules and regulations that apply to every government agency.

Over the past 38 years, air travel in the United States has grown from about 50 million passengers a year to over 500 million. In ten years time, we expect this number to grow to 800 million passengers. Changes in the industry and in technology have been just as dramatic.

But in all this time, the FAA's basic structure remained unchanged.

Acquiring new equipment was a process governed by some 233 rules and regulations , As a result, it has become virtually impossible to field new equipment when it is needed, or take advantage of low retail prices that are available to ordinary customers.

Rigid personnel rules have kept us from hiring people when we need them, or offering incentives to place them where their skills are most required.

The new legislation gives us the freedom to adopt best business practices and to make common sense choices.

With these freedoms comes greater accountable for the money we spend and the results we deliver.

Our goal is to blend dedication to public service with the entrepreneurial energy and practices of the best American businesses.

With this background, let me give you a quick overview of the reforms we will implement on April 1st.

I'll begin with the new acquisition system .

[Next Slide: Acquiring New Technology]

Acquiring New Technology

OUT	IN
– A bookcase of regulations – Prescriptive rules – Lengthy development programs	– A book of guidelines – Best business practices – More off-the-shelf products

Points to make:

Many of the federal government's purchasing regulations originated back in the days when the U.S. Calvary was routinely cheated by horse traders.

The FAA has been given virtually unlimited authority to develop an acquisition system that brings us in sync with changes in technology, and with the growing needs of aviation.

Here are a few of the key changes.

Exempts the FAA from the Competition in Contracting Act. This law required us to solicit all vendors, even when we knew only a few were capable of delivering what we needed. The new procedures allow us to screen the competition to those firms most likely to receive an award.-- a step which saves us several months.

The Brooks Act no longer applies to the FAA. If we needed to buy products that involved computers or software -- and that includes just about every new ATC system -- the Brooks Act required us to go through GSA. Now we can eliminate that step.

The FAA now has direct access to the Small Business community. We can continue to take advantage of this sector's services, without the additional administrative review and oversight of the Small Business Administration.

The agency has also been exempted from some provisions of the procurement protest system. We believe the new system will make protests less likely. But if a formal protest does arise, the FAA has the authority to resolve it.

What the new acquisition system does:

- Makes maximum use of non-developmental and commercial off-the-shelf items.
- Establishes alternative dispute resolution methods for contract protests.
- Establishes gainsharing in selected programs. Gainsharing is a common practice in the private sector. This is what it means. If employees or work groups save the FAA money on a product or service, they get a share of the savings.
- Cuts the current mass of acquisition documents from 7 feet to
- 1 inch. That's about a 99 percent reduction.

This emphasis on flexibility and timeliness aligns the FAA with industry's best acquisition practices.

Now let me describe how the new system works and how we will implement it.

(Next slide: First Three Product Teams)

First Three Product Teams

Team	Primary Customer	Product
– ITWS (weather)	– Airlines, GA	– Improved weather service
– Oceanic	– Airlines	– Improved ATC service and capacity
– OASIS	– General Aviation	– Automated flight plan filing, weather and pilot briefings

Points to Make:

Since our realignment 16 months ago, the acquisition of new systems has been the responsibility of Integrated Product Teams. The IPT's are key components of the acquisition and research line of business headed by George Donohue.

The new acquisition process ...

- Makes integrated product teams responsible for program planning and execution. Integrated product teams bring together subject-matter experts from all organizations. These multi-disciplined teams have life-cycle responsibility for their products, from early research until the system is replaced.

- Makes IPT leaders responsible for most future source selections. Example: $500 million program would once have required decision by the Administrator. Now the IPT leader is responsible.

The FAA presently has about 40 product teams. Each team has to become acquainted with how the new system works: what they can do and what they can't do. And they must have the skills and resources to get the job done. This will require special training and, in some cases, we may need to use our new hiring authority to staff the IPT's with the skills they need.

Three programs will be the first to immediately incorporate all aspects of the new acquisition system.

Operational and Supportability Implementation System (OASIS). Replaces and upgrades equipment and functions of the FAA's Flight Service Automation system, which provides aviation weather and flight planning information. This represents a net present value (NPV) of over $200 million.

Improved Terminal Weather System (ITWS). Integrates weather data from FAA and National Weather Service sources and pilot reports, and presents that information in readily understood graphic and text format for controllers to use to brief pilots. This represents an NPV of over $2 billion.

Oceanic Systems. Installs various new technologies such as GPS and datalink to improve air traffic management and increase airspace capacity for transoceanic flights. This represents an NPV of over $4 billion.

By October, we expect to extend the new acquisition procedures to 15 teams...beginning with those that will have the greatest immediate payoff. All 40 teams will be working with the new system by mid 1997.

[Next Slide: New Acquisition System Benefits]

New Acquisition System Benefits

- **Works better and costs less**
- **Cuts time to field equipment in half**
- **Involves customers**
- **Increases accountability**

Points to Make:

This new system will result in an FAA that works better and costs less.

What the new system will achieve

- Lower the cost for the FAA, its industry partners, and its customers;
- cut the time it takes to acquire new systems and services by one-half;
- ensure continuous dialogue between the FAA and its suppliers throughout the selection process;
- empower "common sense" decision-making and accountability at all levels of management.

The new acquisition system entrusts a great deal of responsibility to managers and teams.

I agree with George Donohue that the success of the acquisition management system depends on motivated, well-trained employees ready to take on significantly expanded responsibilities. This is the reason acquisition reform is closely linked to personnel reform. It is essential that we have the right people with the right skills in the right places.

This brings us to the third part of the briefing: the changes we are making in our personnel system.

[Next slide: Personnel Regulations: Some will not Change]

Personnel Regulations: Some Will Not Change

- **Whistleblower protections**
- **"No strike" protection**
- **Anti-discrimination**
- **Veterans Preference**
- **Hatch Act**
- **Employee Benefits**
- **Labor relations framework (Chapter 71)**

Points to Make:

A new federal aviation service. On April 1st, all FAA employees will be automatically converted from the government-wide civil service to the federal aviation service This transfer exempts us from most, but not all, of the traditional personnel laws of the federal workforce.

Some of you are concerned that, as employees of the federal aviation service, it may be harder for you to transfer to a civil service job in another federal agency.

If you are a career-status employee on April 1, your transfer privileges will not change. For those of you who have not reached this status, we are trying to work out an agreement with the Office of Personnel Management to let you retain those privileges.

By law, we are still be required to:

- Protect "whistleblowers".
- Give preference to veterans
- Prohibit strikes
- Restrict certain political activities,
- Prohibit discrimination, and
- Provide basic benefits, like retirement, health and life insurance, unemployment insurance, workers compensation, and holidays -- just as we do today.
-

As I said, these are the things that will not change. We are required, by law, to do them.

***Chapter* 71.** The FY 1996 Appropriations Act eliminated FAA coverage under Chapter 71. We have been working with the unions to ensure continued coverage. It looks very positive that there will be a legislative remedy to this issue.

- If there is some break in Chapter 71 coverage, we will continue to recognize the unions and honor their rights.

We will, by choice, continue to meet the spirit of federal merit principles, and deal promptly with prohibited personnel practices. The FAA will also continue to move toward work force diversity at every level of employment. I am committed to that objective and I expect the same commitment from all our managers and employees.

Changing some of the rules does not mean that we are changing our values.

This next chart deals with a question I know has been on all your minds: your pay.

[Next slide: Personnel: Compensation]

Personnel: Compensation

- **Basic pay system unchanged**
- **Create corporate-style Compensation Committee**
  - Basic pay structure
  - Premium pay
  - Compensatory time policies
  - Pilot pay programs
  - Incentives for hard-to-staff facilities
  - Gainsharing

Points to make:

- Because the budget is fixed for FY 1996 and 97, base pay rates for each employee will stay at the rate that was in effect on March 31, 1996. **Plus** any periodic step increases, comparability increases or locality pay occurring during that period. Eighteen months is about how long it would take us to put a comprehensive new pay system in place.

- We don't want to go about this haphazardly, and we want to make sure that any new system will be as good, or better, than the one we have now..

- If the FAA were a corporation, it would be the 147th largest company in the country. A little smaller than Union Pacific, but bigger than Colgate-Palmolive, Unisys, or Time Warner.

  The reforms we are putting in place on Monday are all about common sense government and letting the FAA operate like a business. Most major corporations of our size have a compensation committees that handles pay issues.

- As one of our new initiatives, we will establish, on April 1st, a compensation committee, led by the heads of the lines of business. The committee will develop a draft Compensation Revision Plan and submit it to me no later than April 1, 1997. Take a few seconds to look at the chart. These are some of the issues the committee will review.

The new personnel rules will be effective on Monday, April first. We will implement new procedures which will allow us to reduce our operational costs and, at the same time, provide scheduling flexibility for employees.

Exemption from Title V will allow us to stop spending tax dollars in certain situations that just don't make common sense. We will also announce innovative new plans for certain complex air traffic control facilities early next week.

[Next slide: Staffing]

Personnel: Staffing

OUT	IN
– Arbitrary 1-year time in grade restrictions	– Qualification and performance driven promotions
– OPM Hiring System	– FAA Hiring System
– 8 months to fill positions (new hires)	– 6 weeks to fill positions

Points to Make:

- ***Time in Grade Requirements.*** Effective April 1, all arbitrary time in grade requirements for promotion of FAA employees are abolished. From this point forward, the only restrictions will be those related to qualifications and individual performance. ***This change applies only to grade-to-grade promotions. The present waiting periods for within-grade increases will remain as they are for now.***

- ***Hiring Authority.*** As of April 1, the FAA will manage its own hiring programs. This includes initial recruitment and selection, position classification, internal placement, promotions, and separations. We don't have to clear this through any other government agency.

  Today it takes us about 8 months to hire a new employee. With the new authorities we've received, we can get this down to 6 weeks. And, if the situation demands it, we can hire "on-the-spot". We need this flexibility, but I expect this option to be used very judiciously.

  [Next slide: Staffing, Cont'd]

Personnel: Staffing (cont.)

OUT	IN
– Rule-bound internal placement system (90 days to fill a job)	– Flexible system (30 days to fill a job)
– Mandatory return rights	– Return rights, as appropriate

- We are also reforming our old rule-bound internal placement procedures. We should be able to process these actions in two-thirds the time.

- ***Return Rights.*** Effective April 1, the FAA will significantly change its return rights program. Vacancy announcements will include return rights only when: (1) the offer is required by an existing bargaining agreement; (2) the head of the line of business has made a written determination that the offer is necessary to fill hard-to-staff positions; or (3) the offer is related to an international assignment or interchange agreement.

  Offers in place prior to April 1 are not affected by this change. We will honor those contracts.

As you can see, we've shed some rules. Some will make it easier hire people when we need them. Some will help us deliver better service. And some will help us better manage our growing workload and shrinking budget.

Downsizing. I have asked Kay Frances Dolan to prepare a recommendation, by no later than June 30, 1996, of actions that can be used to lessen the adverse effects of any future reductions in force. The recommendations will look at a number of options, including: separation incentives and negotiated job exchanges.

FAA *National Employee's Forum.* The FAA National Employees' Forum will be a new channel for maintaining an open dialogue within the FAA. The forum will consider all issues related to equal employment, affirmative action, and workplace diversity. It will provide the means for all FAA employees to voice their opinions and express their concerns about matters of fairness and equity.

Members will include the special emphasis program managers, national presidents of the employee associations, and the Assistant Administrator for Civil Rights, who will serve as moderator. The FAA Administrator and Deputy Administrator will be ex officio members.

[Next slide: Executive System]

Personnel:
Executive System

OUT	IN
– OPM/DOT -Controlled SES System – Inactive Succession Planning	– FAA-controlled Executive System – Executive Succession System

Points to make:

- Effective April 1st, the FAA members of the Senior Executive Service will be reassigned to an agency-managed executive system.

- The FAA administrator will have sole discretion for filling these positions. No other approvals are necessary.

- This new system provides us greater authority to strengthen the accountability of our executives, to reward those who perform well, and to promptly remove those who perform poorly.

- We will rejuvenate succession planning by establishing an Executive Succession Development System, which draws upon the best corporate practices.

[Next slide: Classification]

Personnel: Classification

OUT	IN
– 155, 000 numbered PDs	– 2,000 PDs
– 5 page PD	– 1-2 page PD
– 7 day classification process	– 1 day process

Points to Make:

When the personnel reform team set out to simplify the classification process, they found some 155 thousand numbered PD's in the system. That's about 3 per employee.

Yet despite this mountain of paperwork, the system didn't work very well. Employees complained, and rightly so, that it took too long to get a position classified, the PD's were too lengthy, hard to use, and often not understandable.

We're getting rid of most of those old PD's . From now on, PD's will be simple to read and use,. Most will fit on one page.

I have one of those old PD's with me. ***[HOLD UP]*** It's still in the system. It was written in 1982. And it's 28 pages long. If you have one like this -- help is on the way.

[Next slide: Performance Management]

Personnel:
Performance Management

OUT	IN
– Mandatory Individual Performance Evaluations	– Individual, Team, or Organization Evaluations in flexible combinations
– Rigid, "rule-based" incentives programs	– Flexible, timely, motivating system
– 8-month appeals process*	– "Guaranteed Fair Treatment" Appeals Process (3 months)

*Nonbargaining units

Points to make:

The new personnel management system has a number of features I believe you will like.

Flexibility. After April 1st, each line of business or major staff organization will have wide latitude to tailor a performance appraisal process that works best for them. This will be a joint effort involving employees at all levels of the organization. Several options are available, including evaluating individual performance, team performance, organizational performance -- or any combination of the three.

Incentives. The old appraisal system was based on meeting a set of arbitrary standards. The new system is based on achieving results, and rewarding individuals and teams when those results are achieved.

Guaranteed Fair Treatment. The new grievance and appeals procedure replaces one that everyone in the FAA knew to be slow and cumbersome.

The objective is to speed up the process, achieving in three months what presently takes eight -- without compromising fair treatment

- The new procedure encourages dispute resolution at the lowest level. As the first stage, employee and supervisor will attempt to work together to resolve the issues. If this initial "problem solving" phase is unsuccessful, the grievance is referred to the second-level supervisor who reviews the complaints and makes a decision within 10 days.

- Employee appeals of disciplinary or performance actions will be considered by a three member panel consisting of one representative each for employees and management, and one person from outside the agency. A majority vote by the panel is final and binding.

- Employees facing performance or conduct actions will continue to be entitled to due process, including advance notice, the right to review documentation, the right to respond, and the right to appeal the decision. Disciplinary action for misconduct will take into account these factors:

  (1) the nature and seriousness of the offense;

  (2) whether the offense was an intentional infraction, or one of an inadvertent or technical nature;

  (3) the employee's past work and disciplinary record; and

  (4) the consistency of the penalty with those imposed on other employees for comparable offenses.

These procedures will apply only to non-bargaining unit employees. Members of bargaining units will continue to follow their negotiated procedures.

The new procedure will be published on April 1st, and go into effect before the end of the year. Grievances filed after April 1 will be handled according to the new procedures.

[Next Slide: Labor Relations]

Personnel: Labor Relations

- **Strategically focused National Labor Management Partnership Council**
- **Collaboratively developed model framework**

Points to Make:

- Here in the FAA, 7 unions represent more than 62 percent of the workforce. While managers in each line of business have established successful partnerships with their union counterparts, until now, no framework has existed for an agency-wide partnership.

- The FAA and its unions will establish a strategically focused National Labor Management Partnership Council. The council will establish a model framework that the FAA and the unions will use to further strengthen our partnership. The council will also assure that adequate resources and training are provided to the partnerships. It will establish policy and guidelines for measuring and evaluating the effectiveness of partnerships, and measure and evaluate responsiveness to the public.

[Next Slide: Travel and PCS]

Personnel: Travel and PCS

OUT	IN
– Mandatory payment of PCS for all advertised vacancies	– Optional PCS
– Costly, restrictive government-wide system	– System tailored to FAA's requirements (based on June 1996 study)

Points to make:

Employees will have the opportunity, in certain situations, to pay their own PCS costs.. Criteria for bargaining unit positions will be developed with the unions.

Ed Verberg, the Assistant Administrator for Administration, is looking at the changes we may need in our PCS and temporary duty travel. Ed will report the results of this study to me by the end of the year.

We will look for changes that are fair, economical, and reduce the time and costs it takes to process claims.

Examples: (1) Predetermined allowance for the en route portion of PCS moving expenses and (2) Incentives for employees who sell their own homes rather than use the relocation service.

[Next Slide: Training]

Personnel: Training

- **Business-driven learning system**
- **Training as a shared responsibility**
- **Continually enhanced intellectual capital**

Points to make:

Three improvements are planned for employee training and development.

(1) **Decisions about training will be made at the point of need.**
--Employees and managers can select from local or central course offerings.
--Training will be geared to meeting business needs.

(2) **Employees will take responsibility for their own development.**
--The FAA will support employees through a more flexible tuition assistance program, assessment and career counseling, cross-functional training, mentoring, and better orientation of new employees.

(3) **Training administration will be decentralized**.
--Current centralized system for course enrollment will be replaced.
--More authority will be granted for local organizations to decide about enrollments.

The FAA will become a learning organization in which everyone is encouraged to develop expertise and share their knowledge.

(Next Slide -- repeat slogan slide)

FAA REFORM

Common Sense Government
that Works Better and Costs Less

Vice President Al Gore
National Performance Review

Points to Make:

The reforms I have just discussed are of historic importance to all of us in the FAA. But we are still waiting for another reform critical to our future.

The financing issues remain unresolved.

The Clinton Administration has endorsed a bi-partisan bill sponsored by Senators McCain, Ford, and Hollings and Congressman Bob Clements. Other bills have been introduced, but the McCain bill comes the closest to giving us a predictable source of revenue that will grow along with our workload. I am hopeful that before the year is out, we will find a fiscally sound solution to the problem of our long-term funding needs: a solution that matches the progress we have made in acquisition and personnel reform.

These reforms give us the flexibility to change as rapidly as the times will change. They ensure that a revitalized FAA will remain a vital center of innovation and professionalism in world aviation. Most important, these are reforms which will enable us to continue to provide the service our customers have come to expect of the FAA.

And they will go a long way to helping us raise our standards of aviation safety, to reach our goal of "zero accidents".

INTRODUCE VIDEO

Now, before we take your questions, I'd like us to watch this short video which credits all the people who have contributed so much to our reform effort. They should all get Oscars for best supporting staff.

(BEGIN QUESTION PERIOD)

CLOSING STATEMENT

This is all the time we have for today's town hall meeting.

I'm certain that we haven't covered all the topics you wanted to hear about. And there will be more questions after you have had a chance to study the reform package more closely.

Soon you will receive this pamphlet **(HOLD UP)** which goes into more detail. You can also get additional information about both the acquisition and personnel reforms by accessing the FAA's home page on the Internet. The address of our web site is http://www.faa.gov. ***(pronounced http colon back-slash back-slash www dot faa dot gov)***

If you still have questions, your supervisor or human resource office will be able to help. And we will keep you informed as we continue working in the weeks ahead.

There is still a lot to do to put these reforms into practice. Many of the details have yet to be worked out, and the system must be fine-tuned as we live with it during the coming months.

We are going to be monitoring our progress and modifying the procedures whenever changes are necessary. We have the authority to do that.

For the first time in the history of the FAA, we can create a work environment to our specifications. And we have the freedom to make and remake that environment until reality matches our ideals.

Now is not the time for passive indifference. It is a time to commit ourselves to the success of this exciting opportunity to make the FAA a model federal workplace. And it is time to take full advantage of this chance to ensure that as the FAA moves into the world of 21st century aviation, no one jumps ahead of us -- that the professionalism of our service, the power of our technology, and the safety of our system remain unchallenged.

Before you leave, please take a moment to look at the names on the screen. These are the people who worked on the reforms. They all deserve all our thanks.

Thank you.

TALKING POINTS
DAVID R. HINSON, ADMINISTRATOR
FAA ACQUISITION AND PERSONNEL KICKOFF RALLY
MARCH 28, 1996

1) Thank you, Linda.

2) We celebrate a new day for the FAA today. But make no mistake whom this celebration really honors: the women and men of the FAA who have given us the tools we need for the 21st century.

3) You were the ones who had the most at stake — and you made it happen.
   - Because you believe in this agency, you put in long hours and hard days.
   - You endured separation from your family and friends.
   - You debated, you concurred — and sometimes you agreed to disagree.

4) But in the end, here's what all your hard work and dedication gave us:
   - You've chopped a stack of acquisition documents 9 feet long down to a binder with about 100 pages (*Hold up new document*). The old procedures were literally too big to fit on the stage.
   - You took 1,069 pages in these personnel statutes and procedures (*Hold up documents*) and boiled them down to 46 pages of common sense policy. (*Hold up Whitlow Papers*)

5) It took not only hard work, but a spirit of partnership:
   - Management and labor worked together toward a common goal. We could not have pulled this off without the active, cooperative participation of our unions.

6) Building on that spirit of cooperation, we are institutionalizing labor's involvement with making a better FAA.
   - National Labor-Management Partnership Council will resolve union and management issues.

7) Also must praise the involvement of our partners in industry:
   - Blue Ribbon Panel challenged us to make the new acquisition system even better with their comments.
   - Major corporations freely shared their best personnel practices. Helps us bring a businesslike policy to FAA personnel policy.

8) Acknowledge Bernard Schwartz, Chairman of Loral and Tom Weidemeyer, President of UPS Airline Operations. Add that there are others present from the aviation community.
   - Reinventing FAA affects not just us or the public, but also is important to our colleagues in industry.

9) This is the beginning, not the end.
   - Our new systems are flexible and fluid. If we find some things don't work as we get more experience, we have the authority to fix them.

10) I promise you that everyone from the Administrator on down will keep working to give America what it demands from its aviation agency — an FAA that works better and costs less.

11) Introduce Secretary Peña.

-end-