

STATEMENT BY SECRETARY FEDERICO PEÑA
REFORM OF THE FEDERAL AVIATION ADMINISTRATION
SUBCOMMITTEE ON AVIATION
COMMITTEE ON COMMERCE, SCIENCE AND TRANSPORTATION
UNITED STATES SENATE
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Good afternoon, Mr. Chairman. I appreciate the opportunity to be here today. With me to respond to the Subcommittee's questions are: FAA Administrator David Hinson; the Associate Administrator for Air Traffic Services, Monte Belger; and the Associate Administrator for Research and Acquisitions, Dr. George Donohue.

Mr. Chairman, the subject of FAA reform is not only very important, but also very timely, as well. Two years ago, the Administration, through the National Performance Review, began to actively seek reforms to fix the FAA's problems and position it for the 21st century. As evidenced by this hearing, this call for reform has now been taken up by the Congress and the aviation industry.

We are at a critical juncture in deciding what our national aviation system will look like as we head into the 21st century. This has ramifications far beyond the confines of aviation itself. This industry is a major driver of our economy. One and a half million Americans are employed in aviation, and billions of dollars are pumped into the economy each year by this industry.

Through safety regulation, research and development, and the operation of the air traffic control system, the FAA plays a major role in the direction that this industry takes. The ATC system is the only 24-hour-a-day, 365-days-a-year government operation that is actively and directly involved in the minute-by-minute activities of an entire industry. Therefore, the government's inefficiencies quickly become the industry's problems. As operated by the government today, the FAA will be unable to keep pace with the industry that it literally controls.

Between 1995 and 2002, we project that commercial aircraft operations will grow by approximately 18%, which translates directly into increased demand for ATC services. General aviation activities will grow by 7%. In that same period, we project that the resources available to the FAA under the congressional budget resolution could shrink by 19% from today's level. The challenge that we all share is to ensure that the projected growth in aviation can be handled safely and efficiently.

Mr. Chairman, it is clear that long-term budget pressures will make it impossible for the FAA to obtain the money necessary to modernize and operate the air traffic control system. Already over the last two years, FAA's budget has been cut by \$600 million, and 5,000 non-safety positions have been eliminated. Just last week, the House passed an FY96 appropriations bill that cuts FAA's operations request by over \$100 million, and cuts the R&D budget in half. This Administration is committed to cutting spending and tightening our belts. But, there comes a point where a tightened belt becomes a tourniquet.

Impacts of potential budget cuts

Earlier this year, and in conjunction with the entire aviation industry, we adopted a goal of zero accidents. We are absolutely committed to this. But, the budget cuts implicit in the Concurrent Budget Resolution place that goal in jeopardy. Here are some examples of the actions that these cuts could force within the next two years:

- the closure of flight service stations and Level I and II towers, eliminating air traffic services to approximately 300 small communities in all 50 states;
- major cuts in the airport improvement grant program, which would jeopardize safety and capacity enhancement efforts and eliminate thousands of construction jobs;
- major delays and cancellations in key parts of the ATC modernization program;
- significant delays in pilot and aircraft safety certifications;
- and massive layoffs in the safety workforce, including, for the first time, controllers.

And, Mr. Chairman, the FAA projects that system-caused delays would triple, costing airlines and passengers \$3.7 billion a year by 2002.

Need for reform

In considering our, and any other, proposal, I think that it is most constructive to focus first on this question: what is it that's broken and that we're trying to fix?

For the past two years, we focused on fixing three major problems. First, a cumbersome procurement process that makes it virtually impossible for the FAA to acquire and install technology before it becomes obsolete. Second, an inflexible personnel system that, for an operation like ATC, makes it far too difficult to place and retain people where they're most needed. Third, a budget process that doesn't allow us to match spending with needs. If we're serious about fixing problems, any reform package must clearly, effectively, and quickly address all three of these areas.

The Administration proposal does this. We started by recognizing that the operation of the air traffic control system is a unique function. There are no other cases where a government agency is actively engaged in the minute-by-minute activities of an entire industry. Commercial aircraft literally cannot move without the government acting. The government tells private corporations when they can move, where they can move, how fast they can go, and, ultimately, how efficient they can be.

Government traditionally regulates entities that provide services; it doesn't provide the services itself. That is where FAA is caught in a bind. It is asked to provide services like the private sector, but must do so under government rules.

The FAA does not have the flexibility in its personnel, procurement, or budget systems to keep

pace with the industry it controls. The result is that state-of-the-art aircraft, such as the Boeing 777, and the efficiency of an entire industry are controlled by technology that is 20, 30, or even 40 years old. At a time when a new generation of microchip technology comes along every year or so, the FAA continues to spend millions of dollars every year buying obsolete vacuum tubes. Technicians are sometimes forced to make parts for equipment, because the manufacturer doesn't exist anymore.

Many of you come out of the private sector, and you understand the efficiencies that come with a businesslike approach. To get a sense of how unbusinesslike the air traffic control operation is, you need only to look at how we fund it. The system that the FAA runs has a \$5 billion a year revenue stream. Yet, they can't leverage one dime of that. How many successful enterprises do you know of that have to spend billions of dollars each year for services and capital improvements, but are forced to pay for everything up-front and in cash? What billion-dollar enterprise has to plan for demand in the next decade without even knowing what its budget will look like the next year?

Administration proposal

Those are the problems that we address. We need a system that is flexible, adaptable, and able to support itself. To achieve this, we would take the operation of the ATC system out of the governmental constraints, and place it in a federally-owned corporation. This corporation would be governed by a board of directors representing users and the public interest, would operate outside of the federal budget, personnel, and procurement systems, and would be subject to the regulatory authority of the FAA. We would give it the ability to acquire new technology much more quickly and at less cost. It would be able to place people where they are needed most, reward employees who show initiative and deal with those who don't perform up to par.

Unlike the FAA, this corporation would be free to use its resources in a more rational, businesslike manner. User fees would be paid directly to the corporation, and would be tied more directly to the cost of providing services. The corporation could manage its money far more efficiently, leveraging funds to pay for capital acquisitions. And, importantly, we would reduce the \$2 billion general fund subsidy that now supports this system.

The regulation and safety oversight of the ATC system would remain where it belongs, with the government. The FAA would have full regulatory authority over the corporation, just as it has over the airlines and aircraft manufacturers. With the job of operating this system removed, we would see an FAA whose efforts and resources are better focused on its core responsibility, safety regulation.

Safety

We need to remember that this whole discussion is really about safety. The FAA, under the jurisdiction of the Department and the Congress, is the regulator of safety in the aviation system. That's the way it is today, is the way it would be under our proposal, and is how it should be under any reform package. The regulation of safety is clearly a governmental responsibility, and should remain with a fully accountable government agency.

The FAA and the aviation industry are deservedly proud of the safety record that they have achieved. The regulatory model they use recognizes the capabilities of the private sector and the responsibilities of government. We want to build on that model, and give the FAA the same tools that the private sector so successfully employs in advancing safety. Let me explain why this makes sense.

First, entirely private corporations are entrusted with major aviation safety responsibilities every day. When you or your constituents take a trip, you board an airplane that was designed and built by a private corporation, and is maintained and flown by private sector employees. The FAA does not provide these services, it regulates them. That is how our system works. If one argues that the operation of air traffic control must be performed under traditional governmental rules, then it is very difficult to understand why we would entrust the lives of 500 million passengers a year to private sector employees such as pilots, mechanics, and flight attendants.

Second, we don't have to speculate about safety in a corporatized ATC system. A number of other countries, including the UK, which changed its structure over 20 years ago, have corporatized or privatized their systems. Even more on point, we have air traffic control towers in this country that have been contracted out to private contractors, and according to those who use them, they are operating safely and efficiently.

Third, let me point out that while a group of former FAA Administrators has opposed our plan, they have proposed the full privatization of approximately 40% of ATC services now performed by the FAA. That goes beyond what we are proposing.

Consideration of alternatives

There may be other ways of achieving the goals that we have laid out. I am encouraged by the fact that we now have substantial agreement on the need for fundamental reform. That was not the case two years ago. But today, as evidenced by bills that have been introduced, there is a consensus on the need to relieve the FAA of much of the procurement and personnel requirements of the federal government. While we differ on how to achieve it, there is also a growing consensus on the need for funding reform.

As I've discussed with you, Mr. Chairman, and others on the Subcommittee, we are willing to explore alternatives. Our focus is on fixing problems. If we can get the flexibility in personnel,

the freedoms in procurement, and the ability to adequately and rationally fund aviation services in a way that strikes a proper balance between autonomy and control, we will work to get it done.

But, we should not head down a path that not only wouldn't fix the problems, but, in fact, could make them worse. We are greatly concerned that proposals for an independent FAA could do just that.

Problems with independent FAA proposals

The independent FAA proposals that we have seen create new problems while trying to fix existing ones.

The independent FAA proposals would leave the President accountable for the FAA's actions, but would limit the President's ability to oversee and influence those actions. Accountability must be balanced with influence. For example, the Administration's proposal greatly limited Executive Branch oversight. However, in its place, it would have created a Board of Directors comprised of users. The Board would ensure financial discipline and program efficiency since the users pay the bill through user fees.

The independent FAA bills also would greatly increase the influence of special interests on FAA. The current FAA has DOT and the Administration; USATS has a Board representing users as a buffer from these interests; but the independent FAA would have neither. This is particularly troublesome since this influence would extend to safety regulation and oversight.

The FAA carries out vital services in national security, international relations and negotiation, and economic policy. These functions should remain under clear Presidential authority, and be vested only with persons appointed by the President subject to the advice and consent of the Senate.

From a policy perspective, we have very serious reservations about removing the FAA's policy and regulatory functions from the Department. Through enactment of laws such as ISTEA and the 1994 FAA reauthorization, the Congress and the Administration have made it clear that a coordinated, comprehensive transportation policy is essential to our mobility and economy. Removing aviation from this equation would result in a disjointed approach to transportation policy and investment that could weaken our economic standing.

Finally, proposed budget reforms fall short. All FAA spending would continue to be subject to the annual appropriations process, and would still be bound by the Anti-Deficiency Act and other budgetary limitations that undermine FAA's effectiveness. Furthermore, we recognize that for Congressional budget scoring reasons, it is not feasible to authorize the FAA to leverage its revenue stream without first separately enacting a BEA exemption. However, the need for this follow-on legislation should be acknowledged.

Our efforts should focus on developing a solution that clearly addresses the problems we all agree need to be fixed. There is not one right answer and there are potential tradeoffs among these issues. However, we should not create new problems.

Closing

In closing, we believe that any reform proposal must be able to answer "yes" to these three questions: does it adequately fund the services the FAA must provide? Does it adequately reform the personnel system? Does it adequately reform the cumbersome procurement process?

Mr. Chairman, the times demand change. As the President noted in his May 3 letter on this subject to Majority Leader Dole and Speaker Gingrich, "This is an urgent, national problem that we can fix together." I hope that this hearing will provide the basis for doing just that.

Thank you.