

Annual Performance Report

Year One .. Taking Flight

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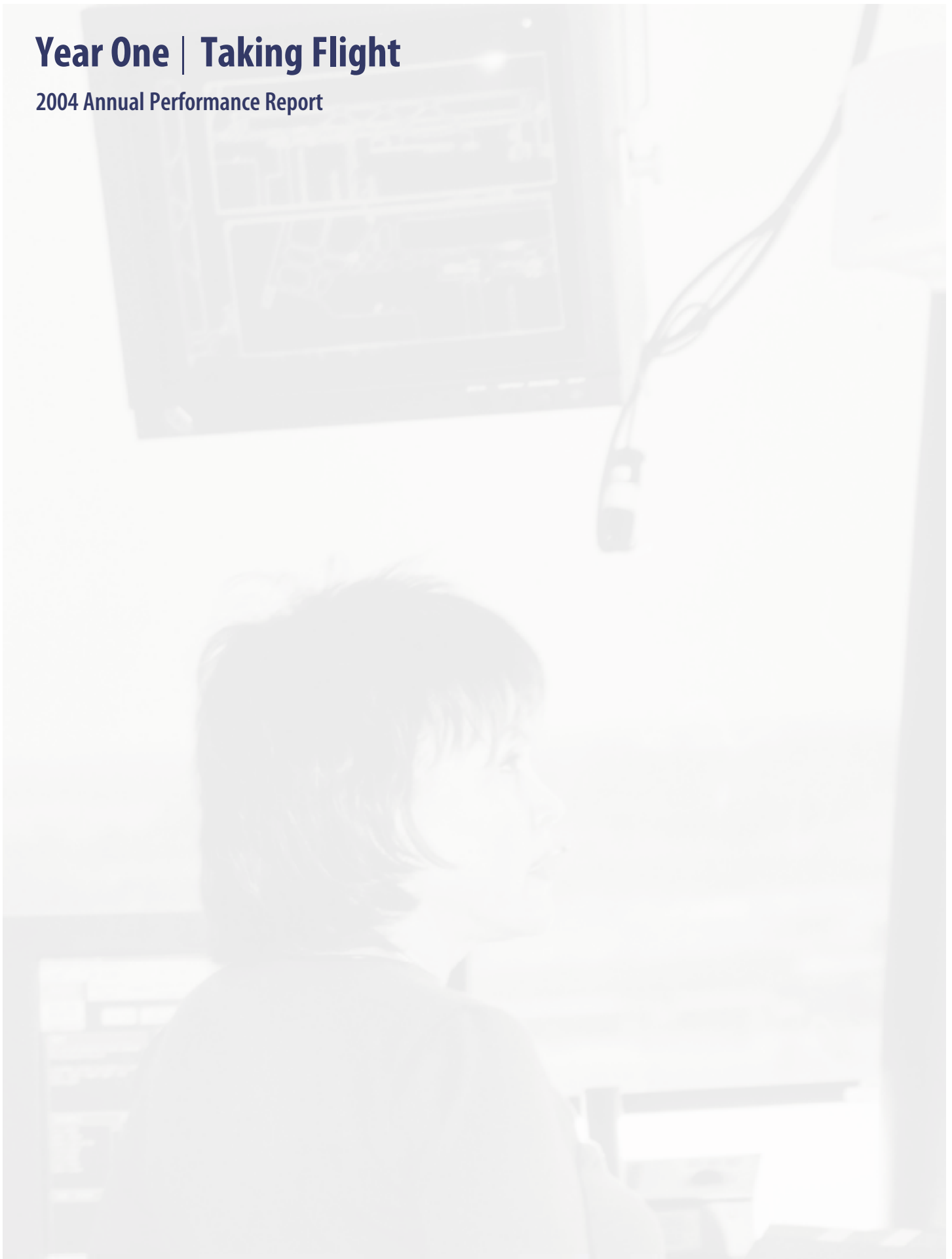


Federal Aviation
Administration


Air Traffic Organization

Year One | Taking Flight

2004 Annual Performance Report



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“The Air Traffic Organization (ATO), led by Russ Chew, its COO, today is well on its way to operating like a business, enhancing our focus on customer service. Our programs at the Federal Aviation Administration are guided by a strategic plan, and they are oriented toward measurable performance goals. President Bush insists on results, and we are delivering.”

—Norman Y. Mineta, November 2004

March 2005

To the Congress of the United States of America:

I am proud to present the first Annual Performance Report from the Federal Aviation Administration's Air Traffic Organization (ATO). The report describes our activities and achievements since the launch of the ATO in 2004. It complements the FAA Flight Plan, which outlines our performance expectations for the coming fiscal year and beyond. Together, they map the path of change we began to follow a year ago and intend to continue through 2009.

Reorganizing the 36,000-member ATO workforce into a customer-focused, cost-driven organization demonstrates our commitment to change. In our first year, we laid the foundation to make the Air Traffic Organization more efficient and better aligned to serve our customers' needs. This report describes how we developed a set of performance metrics, giving us the ability to assess progress against hard data. The report also shows the progress made in financial management, cost accounting, business planning, and management training, as well as the ATO's contribution to achieving our corporate 2004 Flight Plan goals.

Yes, challenges lie ahead. As the report shows, while the ATO's primary focus is on safety, it also must increase capacity and minimize delays. This requires the development and integration of new technology and equipment into the system. Nevertheless, our new budgetary procedures are enabling the ATO to create a stronger link between the agency's operating budget and capital expenses. The result for the taxpayer will be a service that is both safe and affordable.

We want to assure Congress that the FAA is embracing data-driven decision-making and that we recognize and reward performance. I think you will see evidence in this report that we are moving in the right direction.



Marion C. Blakey

A handwritten signature in cursive script that reads "Marion C. Blakey".

Marion C. Blakey
Administrator



Foreword by the Chief Operating Officer



Russell G. Chew

In August 2003, when I was hired by Secretary Norman Mineta and Administrator Marion Blakey to lead the Air Traffic Organization, I understood the challenges that lay ahead. I had managed American Airlines' daily operations, so I knew that industry faced flight delays and cancellations, congested airspace and capacity near its peak. The air traffic control system affected the health and growth of the industry. I saw that the nation and the aviation community needed a modern air traffic control service that would be more efficient and responsive. We needed investments in people, infrastructure, and systems in order to maintain and enhance safety. So, I signed on to lead aviation services into the future.

We operate and maintain the world's most complex and extensive air traffic control system, managing the movement of half the world's air traffic – as many as 7,000 flights at any given moment. My vision is that we remain a world leader.

The first year has been about building a foundation to deliver value to our customers through more efficient operations. Working with our stakeholders – employees, customers, and members of Congress – we restructured and consolidated FAA's air traffic services into a leaner, more efficient, performance-based organization. Our goal was to create a solid base for delivery of the services required to ensure the safety of the nation's airspace and serve the needs of the aviation industry. This first annual performance report describes how far we have come in implementing that change and delivering measurable results.

In February 2004, we began by removing burdensome layers of management. We reorganized headquarters management, creating support and operations functions that let us align service costs with budget planning, moving everyone closer to the customer.

As the year continued, we completed an activity value analysis. We began establishing system-wide performance goals, along with financial baselines and reports for individual system components using cost accounting and labor distribution reporting. We began a five-year strategic business planning process that incorporates both operational and financial commitments. We initiated training for our managers that supports these changes, and we improved communication with our employees and our customers by soliciting and receiving suggestions on how we can improve cost management and productivity. For the first time in years our unit cost is down and productivity is up.

The financial management tools and techniques we've introduced are profoundly changing our understanding of our costs, our productivity, and where and how we deliver the most value. That effort is already producing results. In 2004, our costs per flight fell an estimated \$17. We used the competitive sourcing opportunity outlined in the President's Management Agenda and held the largest public/private competition in government for

the delivery of services provided by our Automated Flight Service Stations. The result is expected to be more than \$1 billion in net savings over the next ten years. Finally, we began laying the groundwork for budget planning and reporting down to the lowest organizational level, giving managers the information and ownership they need to succeed.

Despite the turbulence, the people of the ATO have never lost sight of what is most important: achieving the goals we've set for safety, operational capacity, and organizational excellence. We had no commercial aviation fatal accidents during the last fiscal year. General aviation accidents declined, and we also saw reductions in serious runway incursions. We reduced delays and congestion through agreements reached at our first "Growth Without Gridlock" conference with industry leaders.

As we continue our transformation, many significant challenges remain. We need to complete the organizational restructuring, align function and responsibility with customer needs in the field, expand our training, and most importantly, continue to build a culture based on performance. We need to extend our baseline performance goals and establish individual financial baselines and reporting throughout the ATO. We also need to address the impact of increased traffic and reduced revenues.

We can't do the job on our own. We will rely on Congress for help in determining the best methods for financing air traffic services. We need the cooperation of our employees and their union leaders in implementing effective and equitable staffing and productivity initiatives. And we will continue to engage our customers in the aviation industry in our efforts to meet the challenges of today and tomorrow. As we progress in our transformation, we intend to retain our global leadership in delivering safe, efficient air traffic services, while providing the greatest value to our customers, owners, and employees.



Russell G. Chew
Chief Operating Officer
Air Traffic Organization

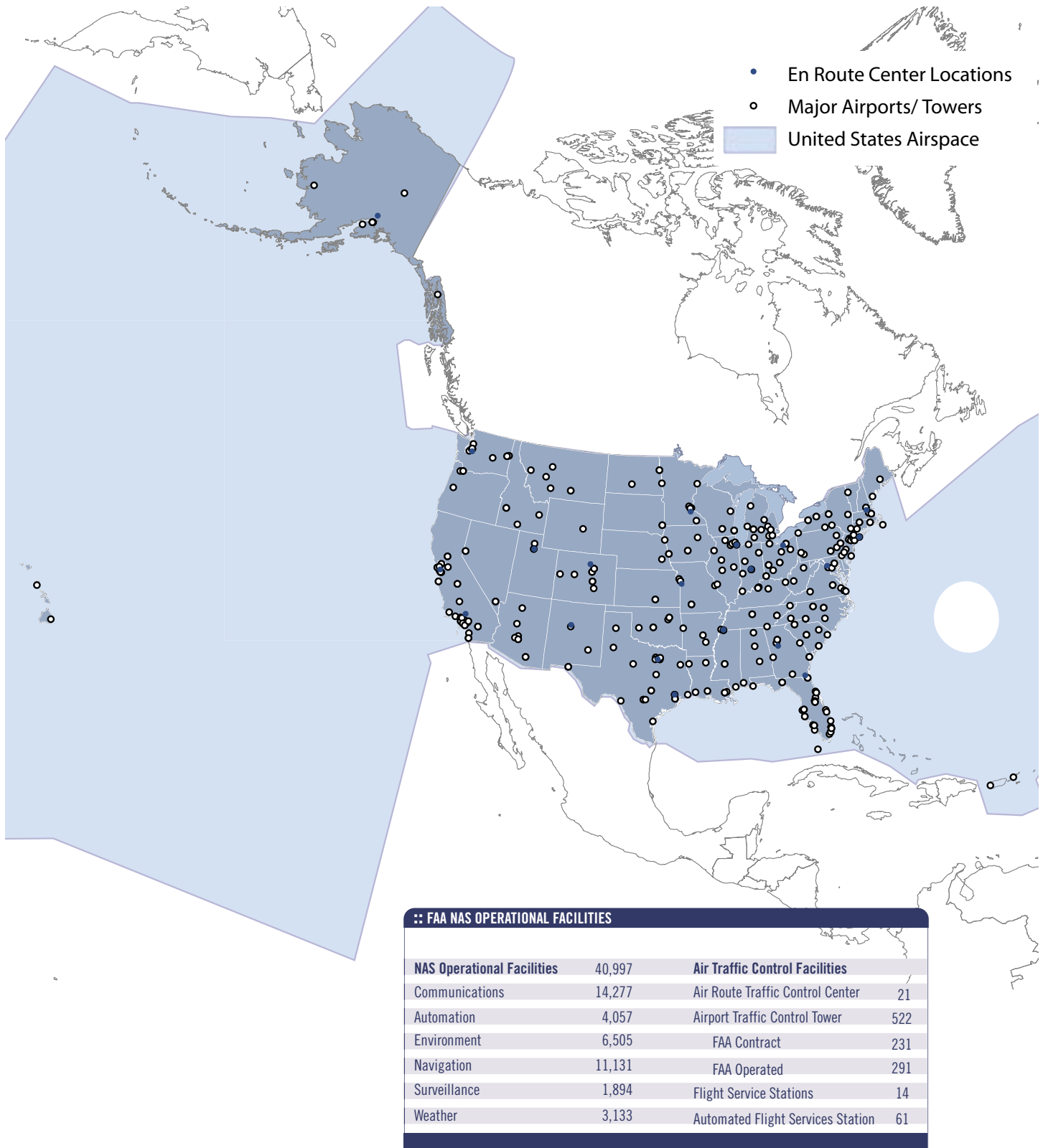


Figure 1: FAA Airspace and Facilities

At the dawn of aviation a century ago, there was no need for air traffic control because there were only a few airplanes.

Today, as many as 7,000 civilian and military aircraft of all types and sizes may be aloft over the United States at any one time, some flying at nearly supersonic speed. Keeping them safely separated and on efficient flight paths are the more than 36,000 men and women of the FAA's Air Traffic Organization. With vigilant eyes and a vast array of radars, satellites and other systems, they monitor and guide air traffic around the clock.

The ATO provides navigation services to aircraft in U.S. domestic airspace and in international oceanic airspace delegated to the United States by the International Civil Aviation Organization. These services are delivered by ATO employees in hundreds of facilities across the country, using equipment positioned at thousands of locations.

While many of the 628 million passengers who fly through America's skies on commercial airlines each year may be aware that air traffic controllers in airport towers guide pilots on departure and arrival, relatively few understand that teams of controllers all along the way watch over each airliner's progress and direct every phase of the flight. They provide the same services to cargo aircraft as to those carrying passengers. In a meticulously choreographed collaborative process, controllers trained in various specialties monitor each commercial flight on the ground and in the air and provide guidance to the pilot by radio. It all begins long before departure, when the pilot files a flight plan, and continues until the aircraft arrives safely at its destination gate.

The approximately 15,000 air traffic controllers in airport towers, terminal radar control facilities, and air route traffic control centers clearly deliver essential services, but employees at many other facilities provide services that are no less vital. For example, ATO specialists manage the flow of air traffic throughout the United States from the Air Traffic Control System Command Center at Herndon, Va. To facilitate collaborative decision-making, they hold frequent teleconferences with operations managers of the airlines and ATO controllers.

To serve the aviation community, the ATO fields, repairs, and maintains a huge network of complex equipment for communication, navigation and surveillance, including radars, instrument landing systems, radio beacons, lighting, and computer systems. ATO's technical operations specialists are responsible for keeping that equipment operating properly. Employees at the 61 Automated Flight Service Stations across the country provide important weather briefings, inflight radio communications, flight planning and search-and-rescue support, primarily to private and non-airline commercial pilots.

At FAA Headquarters in Washington, D.C., in area offices, technical and education centers, and around the world, ATO employees handle a wide range of other critical functions, such as operations planning, training, research, acquisition, weather reporting and analysis, safety, test and evaluation, administration, communications, and finance.

. : The ATO moves almost 2,000,000 passengers safely each day through the nation's air space.

. : Air traffic controllers handle 56,000,000 air operations annually.



The Air Traffic Organization

The FAA's Air Traffic Organization oversees the largest, busiest and most complex aviation system in the world. As part of its mission, the ATO operates and maintains our nation's air traffic system, orchestrating the take-off, landing and routing of about 50,000 aircraft a day across U.S.-controlled airspace.

Our core business is managing, operating and developing air navigation systems and services safely, efficiently and cost-effectively.

The ATO, an operational arm of the FAA, serves commercial, general and military aviation. As a government organization, the ATO is directly accountable to the American people and their elected representatives in Congress.

More than 36,000 employees support the operations that help move aircraft through the national airspace system. The employees of the ATO are service providers.

Air traffic controllers keep airplanes moving safely and efficiently while technicians, engineers and support specialists maintain and repair critical equipment and facilities. Leaders at every level work to ensure high value services are delivered cost-effectively by prudently managing resources. In 2004, air traffic controllers gave guidance to nearly 18 million flights.

ATO and ATO-related expenses totaled \$7.9 billion, including depreciation and other agency-related expenses, for fiscal year 2004, which paid for the maintenance of a nationwide infrastructure of more than 631 staffed air traffic control facilities and nearly 41,000 systems such as radars and antennae.

ATO provides essential services to the nation's aviation industry, which accounts for 11 million jobs, \$1 trillion in annual economic activity and 9 percent of the Gross Domestic Product, according to the "Vision 100-Century of Aviation Reauthorization Act" of 2003.

The ATO's Chief Operating Officer (COO) reports to the FAA Administrator. An Air Traffic Services Committee, accountable to Congress, has four independent members from the nation's leading non-aerospace industries. Chaired by the FAA Administrator, it provides general management oversight and advises on ATO strategic plans for the air traffic control system.

The ATO is directly linked with the Joint Planning and Development Office, which also was created by the Vision 100 law. Working in close collaboration with the Departments of Transportation, Commerce, Defense,

. : The ATO handles more than six times the operational traffic than the next largest air traffic control organization in the world

∴ Corporate Governance – The Air Traffic Services Committee

Created in 2003 by the “Vision 100—Century of Aviation Reauthorization Act,” the Air Traffic Services Committee meets quarterly to assess and advise the ATO. The panel members, who serve three-year terms, are appointed by the President with the advice and consent of the Senate. They are chosen, without regard to political affiliation, based on their professional experience and expertise in management, customer services, procurement, technology, and labor relations. The Administrator chairs the committee.

∴ The new structure of the organization is based on phases of flight, terminal control and en route control, which have different costs and service characteristics. Terminal control involves air traffic taking off and landing at airports. En route control handles the high altitude traffic between airports.

and Homeland Security, NASA, the Office of Science and Technology Policy and experts from the public and private sectors, the JPDO is developing a national plan for the next generation air transportation system. The JPDO will ensure that planning and execution of the plan are coordinated across government and industry.

As a consequence of the 2004 restructuring, the ATO now includes five operational service units and five support service units, each lead by a vice president. Each unit is accountable for achieving specified, measurable results.

The transformation has reduced the layers of management in ATO from 11 to six. In the field, three service areas with state-based boundaries replaced nine full-service regional offices. The executive ranks are now 20 percent leaner.

In our first year, the ATO has undergone one of the largest reorganizations in government history. As a result, the foundation is now in place for addressing both customer service issues and financial challenges.

In February 2004, the FAA launched the ATO as a performance-based organization. Under the leadership of FAA Administrator Marion Blakey and Chief Operating Officer Russell Chew, the new ATO brought together the procurement unit, called Research and Acquisition, with the various operations units of air traffic control. Air traffic control is the operational system by which airplanes are routed into and out of airports. Bringing together procurement and operations enables ATO to improve overall program management, including areas such as on-time delivery of modernization programs and management of program costs.

The organizational changes provided for a chief operating officer, who is responsible for day-to-day operations, and an external body to help oversee management of the air traffic control system. The consolidated air traffic organization is intended to make air traffic services more efficient, improve performance, address issues such as flight delays, cancellations, congestion and capacity, but it must also reduce costs, despite a fast-growing volume of air traffic.

In its first year, the ATO restructured its leadership team, introduced business practices, including unit cost accounting and value-based budgeting, and developed our first five-year strategic business outlook. This report describes the initial ATO results and the challenges ahead.

The Rationale for Change Remains Strong

After a decade of debate and deliberation in the aviation community, Congress passed legislation that underscored the need to improve air traffic services. Congestion in the nation's airspace threatened gridlock at our airports and the health of the nation's economy, which depends on a transportation system that moves people and goods efficiently.

Today, the impetus for change is as strong as ever, in light of shifts in the commercial aviation industry, the resurgence of air traffic, increasing delays, and the need to stabilize funding while modernizing the air traffic control system.

The Business Environment Requires a New Management Approach

The current business environment drives the need for a performance-based Air Traffic Organization. In 2004, we saw:

Massive restructuring in the U. S. aviation industry, resulting in shrinking mainline carriers, stronger low-cost airlines, and larger regional airlines. The regional and low-cost airlines have continued to expand, while mainline airlines have shrunk in many U. S. markets. Mainline carriers have turned to regional affiliates to provide presence in markets where mainline jets can no longer operate profitably. The industry is experiencing lower passenger ticket prices, unfavorable yields and lower unit revenue per flight.

Tax revenue in decline. The Airport and Airway Trust Fund received less in excise tax funds as a consequence of lower ticket prices and other industry shifts. This creates significant financial management challenges for the air traffic system because the system is handling more passenger and cargo traffic with less revenue. Currently, financing of air traffic services is not based on cost or use. The trust fund's revenue comes from the excise tax on passenger tickets and from a fuel tax. The transportation trust funds, as they stand today, were a result of the Transportation Equity Act for the 21st Century, the Aviation Investment and Reform Act for the 21st Century, and Vision 100 – Century of Aviation Reauthorization Act. The Air Traffic Organization must understand the cost of our services, in order to balance supply and demand in the short run and to know what steps are needed to meet customer demand in the long run.

Returning demand: Demand for ATO services increased and changed, with geographical variations and increasing use of smaller aircraft.

Growing delays: As the aviation industry rebounds, we have seen operations increase and delays return at major hub airports.

Increasing complexity: With greater use of small jets and more point-to-point flights, ATO will serve more aircraft in the high-altitude jet routes and at the reliever airports that serve the major metropolitan areas.

Aging infrastructure: Many of our facilities are near or past the end of their intended service lives. Improved capital and operating funding for the air traffic control system is necessary for ATO to increase system capacity and avoid gridlock.

- Unless there are further improvements in the aviation system's capacity and efficiency, the system could slip back to the unacceptable levels of delays experienced in 2000.
- The nation's \$30 billion inventory of air traffic control facilities and equipment is aging and deteriorating. The average condition of the FAA's en route centers is poor and is getting worse each year. Currently, the maintenance and repair backlog needed now for these 21 facilities alone is about \$118 million.

The current environment creates an urgent need for ATO to reduce unit costs, increase productivity, address aging facilities and infrastructure, and permanently change to a performance-based culture.

We're Using Financial Management to Drive Culture Change

We have made significant progress in developing and implementing new financial and management systems, which will help managers control costs. The changes create a model and processes that will spread financial responsibility throughout the organization, establish financial baselines and reports for all ATO components, and put our cost accounting and labor distribution reporting systems to use.

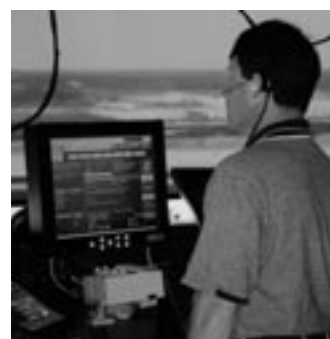
The model will offer our stakeholders a transparent view of the ATO balance sheet and its cash flow. Available online, these financial reports will be the surest gauge by which ATO leaders and their stakeholders can measure progress.

We're Building the Foundation for Results

Despite the business environment challenges, the ATO has begun its transition toward becoming a more business-like manager of the nation's air traffic services. Significant results include:

- Realignment of the organization around operating output to create accountability for performance.
- A headquarters-based "activity value analysis" that baselined the full range of overhead activities that ATO professionals engage in, determined the value customers place on those activities, and identified activities that can be improved.

- Establishment of new performance metrics in safety, capacity, unit cost, and productivity.
- Development and implementation of new budgeting and financial data collection processes.
- Implementation of a public-private competition to provide services delivered by Automated Flight Service Stations. Savings are expected to exceed \$1 billion over ten years.
- Development of a five-year strategic business plan that integrates financial and operational planning. The plan aligns ATO strategies with the goals of the five-year FAA Flight Plan and a strategic management plan. We use an organization-wide strategy map that's linked to a balanced scorecard approach to align our initiatives with our mission.
- Successful implementation of a new rule on Domestic Reduced Vertical Separation Minima (DRVSM), which essentially doubled capacity in our high-altitude airspace and is expected to save airlines \$400 million in fuel costs during the first year.
- Better management of key infrastructure programs. Nine of the ten major FAA acquisition programs are within their current cost baselines and seven of the ten programs are on schedule. We have turned a corner but still have more work to do in this area.



To Succeed, We Need Stakeholder Support

For the Air Traffic Organization, the first year has been one of assessment, organization, and communication. Creation of a performance-based organization requires baseline study, development of management systems and tools, identification of appropriate indicators and targets, and creation of a consensus among stakeholders that the direction will, in fact, lead to success. The ATO has gone a long way toward meeting expectations. We still have much to do.

The success of the ATO depends on instituting organizational reforms for a workforce that has long been recognized as the best at what it does. Adopting a more businesslike approach is imperative. This change will require trade-offs and compromises with employees and labor, the aviation community and Congress. The progress described in this report builds a foundation for that collaboration.

I. From Consensus to Change: The Rationale for a Performance-Based Organization





“To move forward to solve the problems in our aviation system, there will have to be a unity of perspective and purpose. Without a working consensus, there will not be enough timely progress in making the significant changes that are needed...”

—Norman Y. Mineta, in the transmittal letter for the 1997 report of the National Civil Aviation Review Commission, *A Consensus For Change*.

This Annual Performance Report describes the 2004 results of the development, implementation and operation of the ATO. The ATO launch was announced by Secretary of Transportation Norman Y. Mineta and FAA Administrator Marion C. Blakey in November 2003. This section of the report describes the organization and summarizes the process of data-gathering and decision-making – a decade of deliberation and the work of industry advisors, Presidential commissions, and Congress – that led to the November 2003 announcement.

The Mineta Commission Report: Stating the Need for Change

In 1997, the President’s National Civil Aviation Review Commission, chaired by Secretary Mineta, recommended management reform to improve the FAA’s performance.

The Mineta Commission’s report, “A Consensus For Change,” painted a dire picture. “The aviation system of the United States is at a critical crossroads,” the Commissioners wrote. “Unless the FAA and various aviation stakeholders — the Congress, the Executive Branch, and the aviation community — change the status quo, internal and external to the FAA, our nation’s aviation system will succumb to gridlock. Delays will skyrocket while we reminisce about the ‘reliable’ flight schedules of the past. This current course will impair our domestic economy, reduce our standing in the global marketplace, and result in a long-term deterioration of aviation safety.”

The solution the Commission called for was to implement “broad and sweeping changes in the ways the FAA is managed, sets its priorities, assesses and achieves performance outcomes, and is financed.” Specifically, the Commission recommended that the air traffic system should be placed in a performance-based organization, managed by a chief operating officer.

. : Since 1978 when airline deregulation ended the federal government’s role in setting price capacity, daily departures have doubled. The number of passengers has gone up and US airlines transported 694 million passengers on 13 million flights.

— Dec. 7, 2000
White House Report

. : Performance Based Organizations encourage a group of Government executives in an organization to bear responsibility for its level of performance by setting forth clear measures of performance, holding the head of the organization clearly accountable for achieving results, and granting the head of the organization authority to deviate from Government wide rules if this is needed to achieve agreed-upon results.

— From the Office of
Personnel Management

I. From Consensus to Change: The Rationale for a Performance-Based Organization



Congressional Support: Preparing for Take-off

The Mineta Commission's sweeping recommendations would bear fruit three years later, when the Congress would pass HR 1000, the "Wendell H. Ford Aviation Investment and Reform Act for the 21st Century" and authorize the management reforms described in Title IX of the bill.

The mandate called for reforms to improve management, speed up the delivery of new technologies, and focus on accountability and tracking costs related to service goals, while maintaining FAA's high standard of safety. In 2000, the FAA was directed to create the ATO to manage operation of air traffic with incentives and tools to operate more flexibly. It is located within the FAA and overseen by the FAA Administrator but separate from the FAA's safety and security branch, as well as the regulatory and enforcement arms.

Congress ensured progress was being made by monitoring developments and offering advice and counsel through committee hearings and staff meetings.

Administrator Marion Blakey: Drafting the Blueprint

In September 2002, Administrator Blakey led the effort to revive and launch the ATO. A year later — when Chief Operating Officer Russell G. Chew was brought onboard — Blakey's new team delivered a blueprint for the ATO as a performance-based organization. The new ATO would be aligned around customer service delivery. Its governance would be similar in structure to that of a wholly owned subsidiary of a large corporation.

Through her plans to create the new ATO, Administrator Blakey took a huge step toward reaching President Bush's goals of improving federal management and delivering results that matter to the American people.

In February 2004, the transformation began.





II. 2004 Business Environment Challenges



Planes, many of them fully packed, are set to carry more than 600 million passengers this year, masking the fact that the big airlines are in a financial free fall, having lost \$30 billion since 2000, with expectations of losing another \$5 billion this year and next.

— The New York Times, October 30, 2004

Since September 2001, the commercial aviation industry has accelerated its transition and restructuring. The air transport industry is facing heavy competition, lower ticket fares and higher fuel prices. Not only has this left several legacy airlines in bankruptcy, but it has also increased operational demands on the ATO, as well as costs. Meanwhile, excise tax dollars from airline tickets, fuel, and air freight – the revenue stream that funds the Airport and Airway Trust Fund, an account that finances approximately 85 percent of all FAA appropriations – are declining on a “per flight” basis.

The FAA is intrinsically linked to the aviation industry, and as the industry struggles, the ATO also experiences turbulence. Aviation is a trillion-dollar business world-wide, representing more than nine percent of America’s gross domestic product, according to the Vision 100 Act. This makes the job that much harder, as the FAA must restructure itself without disrupting the industry or the economy.

Business Environment Trends					
		FY2003	FY2004	Variance	Percent Change
Revenue per IFR Flight	Trust fund revenue (net receipts)	\$9,360,469,000	\$9,674,509,000	\$314,040,000	3.95%
	IFR flights (Flight count)	17,041,146	17,975,226	934,080	5.5%
	Trust fund revenue/IFR flight	\$549	\$538	\$ (11)	-2%
Cost per IFR Flight	ATO total expense (cost)	7,787,812,462	\$7,868,507,203	\$80,694,741	1.04%
	IFR flights (Flight count)	17,041,146	17,975,226	934,080	5.48%
	ATO cost/IFR flights	\$457	\$440	\$ (17)	-3.62%

Source: FAA Performance and Accountability Report 2004

Note: Other FAA programs, such as Safety Regulation and Certification as well as the Airport Improvement Program are also funded through the Airport and Airway Trust Fund. These programs are outside the ATO.



II. 2004 Business Environment Challenges

The Airport and Airway Trust Fund

The ATO, as part of the FAA, is funded through annual appropriations by Congress, which relies on two revenue sources. The first source is tax receipts accruing in the Airport and Airway Trust Fund, which are derived in part from aviation excise taxes applied to each passenger ticket on a commercial flight. This trust fund generally finances the majority of the total FAA appropriations. The second source, which accounts for the remaining portion of the FAA's appropriations, is the general fund (*i.e.*, general revenues to the government, particularly income taxes paid by individuals and businesses).

∴ The NAS Strategy Simulator (NSS) is a platform to capture and project emerging trends in aviation. This helps the FAA forecast the impact of industry changes. In 2004, the NSS was used to better understand the impact on FAA trust fund revenues and FAA workload if aircraft size continues to decline over the next ten years. Additionally the model has been used to understand the range of impacts if ticket prices continue to fall at the rates we have seen over the last three years. The NSS helps the FAA better prioritize how we plan for future investments and service delivery.

The NSS is a result of a collaborative effort among the ATO, National Center of Excellence for Aviation Operations Research Universities, and the Ventana Corporation.

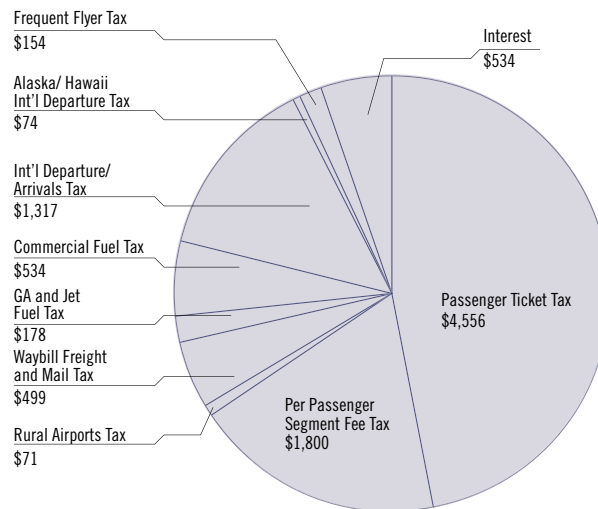


Figure 2: Funding Overview :: FY2004 Airport and Airway Trust Fund Markup - \$ in millions

The FAA's capital improvement programs, facilities and equipment, research and development activities, and airport improvement program are financed entirely from the Airport and Airway Trust Fund. The Airport and Airway Trust Fund also pays a significant portion of the costs of operating the air traffic control system. The general fund contribution recognizes the relative value of public benefit (as opposed to aviation community-specific benefit) derived from FAA services. Over the years, the general fund contribution to FAA operating costs has varied between 0 and 100 percent, depending on whether the Congress views the Airport and Airway Trust Fund as a user-pay or capital funding-only mechanism.

Demand has returned since 9/11, but increased competition has driven ticket prices down. In order to better match passenger demands regarding price and schedule, carriers are adding more midsize jets to their fleets, increasing FAA workload by putting larger numbers of aircraft into the skies but at the same time carrying fewer passengers per aircraft (who are paying

lower fares). General aviation supports the FAA's revenues with a federal fuel tax, but according to the Aircraft Owners and Pilots Association, the total tax collected on the type of fuel burned by most general aviation pilot is only \$60 million a year. The result: less money per flight for the Airport and Airway Trust Fund.

In the past year, the trust fund had net receipts of \$9.7 billion, including interest on the trust fund balance. Revenue per flight is trending downward in unprecedented ways. Without decisive actions to change "business-as-usual" operating practices, the combination of lower trust fund unit revenues and general fund stress will lead to a multi-billion dollar gap between funding revenue and the operating and capital costs.

Because by law capital improvement is funded by the Airport and Airway Trust Fund, as the trust fund declines and with competing demands from operational costs and capital improvements, the FAA must prioritize. As it stands today, the replacement cost of the ATO's assets rests at more than \$30 billion. If we assume an average of 15 years to replace these assets, it will cost more than \$1.5 billion per year.

The Industry

Although the profile of the commercial aviation industry is changing dramatically, growth and expansion remain constants. By the end of 2005, commercial aviation flights will have returned to peak levels experienced prior to the terrorist attacks on September 11, 2001. By 2009, the number of flights is likely to increase by at least 9 percent from levels during 2000. The demand for ATO services already exceeds peak levels experienced prior to September 2001 at 14 key airports, accounting for 23 percent of the total operational workload.

Capacity, both on the ground and in the air, must grow to accommodate the increasing number of flights. Runway capacity constraints were already a major issue in 2004, especially at hub airports. Forecasts show increases in business jets and regional jets, which bring greater complexity to air traffic control and airspace capacity due to different climbing/descent rates and

∴ Capacity is most affected by the number of runways at the busiest airports and the availability of new technologies that allow the FAA to maximize use of the airspace.

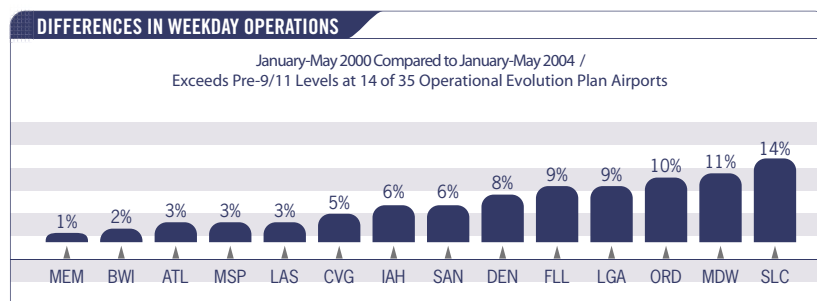


Figure 3: Busiest Airport Graph



II. 2004 Business Environment Challenges



cruising speeds. Capacity is most affected by the number of runways at the busiest airports and the availability of new technologies that allow the FAA to maximize use of the airspace.

Price-sensitive passengers with internet-driven price comparisons and other factors have contributed to lower fares. Carriers face competitive pressures as well as a rise in systems capacity. Carriers are aiming to grab their share of the recovering air travel market and improve aircraft occupancy rates. Besides the inability to raise fares, the airline margins are being squeezed by increases in fuel prices and labor contracts. This competitive environment is likely to persist, keeping the margin yields weak as low-fare competitors continue to expand their route networks.

From 2001 to 2003, the nation's airline industry lost \$21.2 billion. It is projected to lose an additional \$4.7 billion in 2004. Many of the airlines face serious financial difficulty; three are under the protection of bankruptcy proceedings.

The state of the industry calls for the need for change. As the low-cost carriers' market share grows, average airfares drop. This results in reduced tax revenue inflows to the Airport and Airway Trust Fund. Ticket tax revenues per aircraft decreased 33 percent in real terms from 2000 to 2003. Continued decline in unit revenues creates a strain on the overall FAA and ATO budgets.

The Safety Challenge

Despite the best safety record in the world, the ATO is challenged to sustain safety results while at the same time building an air traffic control system capable of efficiently meeting future demand and modernizing the organization. The challenges are numerous and complex. The ATO is developing technologies that will lower the number of accidents, improving risk management practices to prevent accidents before they occur, and partnering with industry to reduce the commercial accident rate and improve runway safety.

The Security Challenge

The ATO is working diligently with the Department of Homeland Security, the Transportation Security Administration, the Federal Bureau of Investigation, and the Secret Service to protect the nation's airspace from the threat of terrorism. The FAA's air traffic controllers maintain the Air Defense Identification Zone around Washington, D.C., and enforce Temporary Flight Restrictions around the country. The FAA has trained controllers to recognize possible terrorist threats in the sky and given them the tools they need should a plane be threatened.





III. 2004 Performance: The Financial Picture



“Managing our costs enables us to manage our future.”

—COO Russell Chew

The need for a focus on cost management and economic efficiency has been underscored by the financial challenges posed by the current business environment. Controlling costs in the near term and making sound capital decisions focused on reducing long-term operational costs is essential, especially when resources are scarce.

Not surprisingly, the finances of the ATO have been affected by the ongoing events in the aviation industry. Continued pressure on trust fund revenues and strain on the overall federal budget will translate into significant fiscal constraints for the FAA and ATO.

Working with our employees and industry partners, we assessed the value of our core functions and activities in 2004 and will use that assessment to guide our investments in programs and services. By implementing the new FAA financial management system (DELPHI), a cost accounting system, and a labor distribution reporting system, we have established the basis for an ATO cost-control program that identifies where costs can be managed and reinvested to meet the strategic initiatives described in our 2005 business plan. This new approach to financial management will help us develop analytic tools to make management decisions based on sound business principles. The five-year business outlook, integrating operational and budget planning, is an important first step.

ATO Cost of Services	FY 03 (in \$ millions)	FY 04 (in \$ millions)
En Route + Oceanic	\$ 3,396	\$ 3,376
Flight Service	\$ 558	\$ 542
Terminal	\$ 3,834	\$ 3,951
Total	\$ 7,788	\$ 7,918

* Source Data: FY03 and FY04 CAS COS Report. The total FY04 cost of \$7,918 includes a past closing adjustment to labor and benefits of \$49 million.

Figure 4: ATO Cost of Services

The Financial Objective

By integrating our financial and operational perspectives, we can make strategic decisions about budgets and staffing. Our financial management objective is to operate in a business-like manner. In fiscal year 2005, the ATO began development of a bottom-up budgeting process which drives financial accountability down to the service delivery point. Using the enhanced capabilities of DELPHI, cost accounting data and labor distribution reporting, the ATO will be able to drive cost and performance data to the



III. 2004 Performance: The Financial Picture

. : The ATO fiscal year 2004 budget was \$9.1 billion which paid for a nationwide infrastructure of over 600 staffed air traffic control facilities and nearly 41,000 systems.

lowest levels of the organization. Managers will be held accountable for meeting cost and performance metrics.

Challenges

Paying for fiscal year 2004 operating costs posed significant challenges for the ATO. Though operations funding grew from \$5.87 billion in fiscal year 2003 to \$6.21 billion in fiscal year 2004, costs also grew. There was also significant growth in non-pay operating costs due to the implementation of a number of critical capital projects.

Increased payroll costs were managed by continued staffing reductions throughout the ATO. In the last two years, total employment has declined by over 2,400 or over 7% of total staffing. In fiscal year 2004, the ATO hired only 13 air traffic controllers despite losing almost 700 controllers due to retirements and other losses. While the ATO has so far managed the impact of staffing reductions in administrative and overhead positions, the lack of hiring in operational positions is a concern. As a result, in 2004, the ATO developed a controller workforce plan designed to address a looming retirement bulge and staffing shortfalls for the long-term.

The size and cost of ownership of the National Airspace System (NAS) infrastructure continued to grow in fiscal year 2004: major new systems which transitioned into the NAS included the Wide Area Augmentation System (WAAS) and Free Flight – Phase I.

The continued growth in cost of the air traffic control system at the same time that trust fund revenues are flattening and record high deficits are expected will put continued financial pressure on the ATO. All of the ATO's efforts to improve financial management, cost awareness, and management accountability will allow us to aggressively manage costs. However, even with an aggressive cost management program in place, we expect significant future gaps between FAA's annual costs and annual trust fund revenue.

Capital Programs

The ATO capital budget is made up of two appropriations: facilities and equipment; and research, engineering, and development. In fiscal year 2004, the combined total of these appropriations was \$2.98 billion.

Historically, capital projects were geared to introduce newer technology and more reliable services to customers. We did not invest systematically in internal productivity improvements and cost-savings initiatives. Up to now, the FAA has developed capital and operating budgets separately, with success defined as completing the capital programs. The result was often higher operating costs regardless of the benefits realized. We are now changing our priorities to also emphasize operating cost efficiencies.



We launched a process to align the 2006 fiscal year budget with ATO objectives, using the new strategic management process and cost benefit information to set funding priorities for 136 programs. Our finance office has compiled information concerning the cost benefit analyses. That data will support our capital investment team's efforts to prioritize funding allocations and will strengthen the quality and content of those business cases.

The cost accounting system implemented in 2004 will let managers trace total production cost to outputs, target areas that need attention, encourage the consideration of alternative strategies, and highlight operational and safety best practices.

Future Financial Model

The financial data for current years is only the beginning. A new bottom-up planning and budgeting process has been instituted for 2006. The process rests upon the idea that planning, budgeting, and reporting at the lowest organizational level, rather than just at a high level (the current practice) will provide management greater visibility and ownership of ATO's costs. It provides for greater accountability in managing costs, and for greater participation of all levels of management.

This structured bottom-up process supports ATO operational planning and FAA strategic goals and objectives. This process will evolve and mature over the next five years with fiscal year 2005 being a transition year. We will continue to increase visibility and awareness of costs while improving data.

Financial Success

These preliminary figures from the fiscal year 2004 audit highlight the ATO's progress to date. While improving the safety record, reducing runway incursions and operational error rate, and increasing airspace capacity, the ATO has not only held costs stable, but also has managed to reduce unit costs in the first year of operation.

These facts become even more impressive as the numbers are broken down further. While holding costs stable, the ATO kept pace with increasing demand through strategic initiatives to improve capacity, such as the General Aviation Airports Arrival Program (GAAP) and the implementation of Standard Offset Instrument Approach (SOIA) procedures. In order to be able to spend more on capacity, the ATO had to become more efficient and business-minded in its approach.

Fiscal year 2005 marks the first year that FAA managers will begin learning how to develop and manage an operating budget. The transition to expense-based accounting from obligation-based accounting means we are focused on costs incurred within a fiscal year, not the obligations made during that year. This will allow us to refine the process as a whole, improving





III. 2004 Performance: The Financial Picture

FAA Air Traffic Organization Cost of Services Report Fiscal Years 2003 and 2004

	2003	2004
Air Traffic Control Costs:		
Labor and Benefits	\$ 3,156,857,539	\$ 3,235,874,065
Support Services	129,969,988	173,318,307
Contract Towers	73,310,076	82,242,834
Systems Command Center	58,920,960	46,664,828
Overhead (Regional and Headquarters)	229,234,775	200,597,149
Total Air Traffic Control Costs:	3,648,293,339	3,738,697,183
Technical Operations and Maintenance Costs		
Labor and Benefits	647,661,254	698,999,010
Facility Support Services	145,950,289	149,527,790
Telecommunications	218,811,928	262,279,434
Flight Inspection Services	161,477,602	175,080,448
Operations and Network Control Centers	56,296,324	54,542,944
Utilities	66,569,854	67,854,779
Contract Maintenance	104,395,016	140,381,033
Materials and Logistics Support	106,591,217	86,248,373
Overhead (Regional and Headquarters)	326,647,371	432,116,894
Total Technical Operations and Maintenance Costs	1,834,400,857	2,067,030,704
Capital Program Costs		
Acquisition and Installation	694,373,253	533,095,343
Depreciation	868,079,104	848,019,528
Total Capital Program Costs:	1,562,452,357	1,381,114,871
Research and Development Costs	36,814,978	27,033,586
Agency and Other Costs:	705,850,932	654,630,858
¹Total Cost of ATO Services	\$ 7,787,812,462	\$ 7,917,507,203

* Agency and Other Costs includes: ATO's share of agency-wide costs (including accounting, budget, legal, human resources etc), workers compensation costs, gain or loss on the disposition of assets, and expense for unfunded liabilities (including environmental, retirement leave and health plans).

¹ The total FY04 cost of \$7,918 includes a past closing adjustment to labor and benefits of \$49,000,000. Without this adjustment the total FY04 cost of ATO services would be \$7,868,507,203.



Property, Plant and Equipment, Net
Property, plant and equipment balances at September 30, 2004 and 2003 were:

2004 Class of fixed asset	Acquisition Value	Accumulated depreciation	Net book value
Real property, including land	\$ 4,086,616	\$ (1,966,495)	\$ 2,120,121
Personal and other property	14,040,087	(6,702,063)	7,338,024
Construction in progress	5,011,586	--	5,011,586
Total property, plant and equipment	\$ 23,138,289	\$ (8,668,558)	\$ 14,469,731

2003 Class of fixed asset	Acquisition Value	Accumulated depreciation	Net book value
Real property, including land	\$ 3,874,055	\$ (1,828,212)	\$ 2,045,843
Personal and other property	12,787,261	(5,948,993)	6,838,268
Construction in progress	4,513,496	--	4,513,496
Total property, plant and equipment	\$ 21,174,812	\$ (7,777,205)	\$ 13,397,607

While not all of the assets above are attributable to the ATO, we estimate that over 95 percent belong to the ATO.

Our construction in progress primarily relates to ATO assets, which are derived from centrally funded national systems development contracts, site preparation and testing, raw materials, and internal FAA labor charges.

our cost data, and providing managers the ability to better understand, manage, and track costs.

Conclusion

Future financial data will continue to improve in detail and clarity as the ATO accounting system moves from its transition phase to fully operational reporting. As the ATO models its own financial planning after successful corporations, Congress and industry will be able to assess its standalone assets, expenses and cash flow. We will present our costs annually in this report, so that our stakeholders will have insight into our budgets and services.

Although the ATO is still transitioning, and financial management will be the focus in the year two of the ATO, financial progress is already visible in the preliminary 2004 audit.



IV. 2004 Performance: Foundation for Results



“We can’t become more accountable, cost-efficient, and customer service-oriented unless we continue to change our way of doing business.”

—FAA Administrator Marion Blakey, March 2004

On February 8, 2004, the ATO initiated organizational reforms necessary for it to function more like a business. In each case, the initiatives directly support the FAA’s Flight Plan goal of organizational excellence and the President’s Management Agenda, which calls for a more “citizen-centered, results-oriented, and market-based agency.”

The 2004 initiatives, which were focused on building a sustainable foundation for performance, included:

- Realignment of the organization to improve and measure performance and to hold itself accountable for success.
- Implementation of an activity value analysis focused on headquarters that determined the full range of activity that ATO professionals are engaged in, the value customers place on those activities, and which activities could be done more effectively and efficiently.
- Establishment of baseline performance metrics in four areas of focus – safety, service, cost and productivity – and annual targets for each.
- Implementation of a strategic management process, including development of an organization-wide strategy map to link objectives with a cause and effect. ATO’s strategy map has four strategic pathways: achieve operational excellence, strengthen financial disciplines, increase capacity, and ensure a viable future. The process includes a “Balanced Scorecard” concept – managing performance around four perspectives: owner, customer, internal business process, and employee.
- Development and implementation of management training appropriate to a performance-based organization, particularly in cost accounting and budgeting.
- Creation of a five-year strategic business plan that integrated financial and operational planning, aligning ATO strategies with the challenges of the current business environment within the goals and objectives of the five-year FAA Flight Plan.



IV. 2004 Performance: Foundation for Results

Organizational Realignment



Organizing management around the services they provide was the first step. The objective was to move executives and managers closer to customers, removing the layers between headquarters and the point of service delivery. This was accomplished by creating an Executive Council, made up of COO Chew and 10 Service Unit Vice Presidents. Five Vice Presidents are responsible for Staff Support Service units, and five for Operating Service units. Vice Presidents were asked to develop a global view of the ATO and to put their first responsibility to the organization as a whole and, second, to their respective service units. Such an approach is designed to begin breaking down the prevailing stovepipe culture with its focus on parochial concerns.



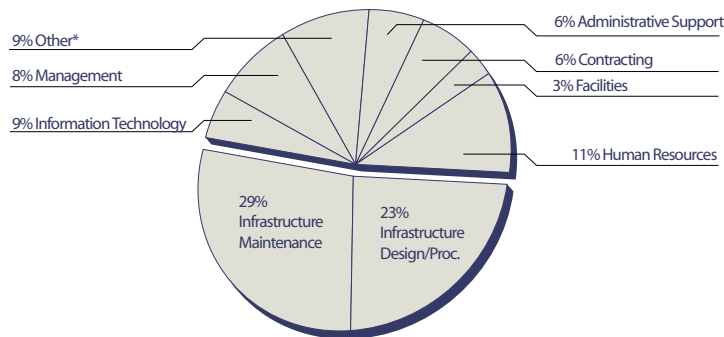
The realignment of the headquarters service organization creates two clusters: the five operating domains, where the ATO provides the greatest amount of service to the customer, and the five service domains, which provide planning, organizational support, analysis and reporting. The organizing principle was to move functions to where costs of service could be aggregated for reporting and budget planning. As part of the realignment, the position of vice president for safety was created and given responsibility for conducting risk-targeted, data-informed audits that will provide trend analysis and review systemic issues.

Activity Value Analysis

Following the realignment, the COO and the executive council formed a team of FAA subject-matter experts and Booz Allen Hamilton consultants to lead an activity value analysis of ATO headquarters products and services. The six-month effort was completed in July 2004 and gave ATO leadership a better understanding of who does what by function, how much it costs, how customers value each activity, and whether – and how – those activities could be done more effectively. Recommendations were made on what activities the ATO should keep doing, do better, start doing, and stop doing.

Generally, the analysis indicated that more than half of our efforts were spent on infrastructure design and maintenance, and that more accountability and performance metrics were needed. The tools available lacked standardization, and there was confusion about how the tools were to be used. Delivery of products and services from the service units was inconsistent. Finally, it found that processes were often too complex and that consolidated solutions would be required to address these issues.

In our effort to increase efficiency, the ATO will use the activity value analysis methodology to reverse the growth in ATO staff overhead for management and support, which has trended upward over the past few years.



∴ In fiscal year 2004, the ATO reduced its staff by 1314.

Figure 5: Activity Value Analysis Findings

The activity value analysis eventually may be extended to our regional field organizations. Meanwhile, service unit vice presidents and their directors will use the data to help improve their organizations.

Performance Metrics

The success of the ATO will depend on how effectively performance is measured and how well those measurements are used to reinforce individual and organizational accountability and improvement.

Accountability and improvement, in turn, depend on how efficiently a performance management system is implemented and how effectively ATO team members are trained to use that system as a path to more efficient, customer-focused performance.

In 2004, the ATO developed metrics to improve performance and cost at the point of service delivery, while continuing to track progress against the most relevant FAA Flight Plan performance measures.

Many of the following metrics tracked in 2004 gauge safety performance, system and airspace operations, financial management, and planning. These figures show progress toward the ATO's goals of greater accountability and more effective service.

For example, system availability has not dropped below 99.6 percent and has stayed well above the ATO's target goal of 98.6 percent. Not every metric tracked from 2003 to 2004 shows improvement, but by tracking these numbers and creating a baseline, the ATO will be able to set and meet goals better.

Management Training and Development

Phase 1 of the ATO's formal management training is designed to bring managers up to date on the reorganization at headquarters, the activity value analysis, and on their meaning. The changes were presented as a move back to business basics, driven by the need to understand and satisfy the needs of all ATO stakeholders. System design and function must serve the customer.



IV. 2004 Performance: Foundation for Results

Only the customer can determine what services add the most value to the system.

The key lesson in the management training is the importance of the team. Cultural training has included knowledge-sharing about organizational goals versus individual goals, how success will be defined and measured, and the importance of honest, open communication. Internal communication must be improved. Employees are looking to a variety of sources for information during this transformation. If the ATO hopes to succeed, it must consistently provide reliable information to employees.

Integrated Business Planning

In the fall of 2004, the ATO completed its first five-year business outlook. It serves two purposes: to align efforts with the strategic goals of the Administrator, the Secretary of Transportation, and the President, and to provide a blueprint for ATO strategies and initiatives over the next five years, consistent with funding projections.

The five-year outlook describes the objectives and strategies derived from a complex planning process incorporating five interrelated areas of focus. They include managing the operational, technical, and financial features needed for long-term success.

We published *A Plan for the Future: The Federal Aviation Administration's 10-year Strategy for the Air Traffic Control Workforce* [http://www.faa.gov/airports_airtraffic/air_traffic/controller_staffing/] in December 2004 and presented it to Congress. This plan, now being implemented, lays the framework to replace retiring staff by placing personnel where and when they are most needed.

The challenge is sobering. To maintain our current level of services as traffic increases and revenues fall, the ATO must achieve more real cost efficiencies over the next five years: implementing better human resource management practices, reducing overhead, and paring unnecessary non-salary costs to reduce unit costs. For example, lowering the cost of controller training is a necessity as we prepare recruits to replace retiring veteran controllers.

Upcoming Management Challenges

The controller staffing plan details the initiatives and strategies that will be needed to effectively deal with the impending retirement surge. As the 11,000 controllers hired after the strike in 1981 become eligible to retire, it is imperative that the ATO find a way to meet the demand for controllers without straining the hiring or training pipeline. The controller staffing plan lays out cost-saving mechanisms that will allow the ATO to reduce previous



staffing projections by 10 percent over the next five years. It also presents an in-depth analysis of the management challenges and changes needed to keep up with the pace of retirements. Air traffic controllers are a vital part of the system and the ATO will ensure that the right people are in the right place at the right time.

The FAA will enter into negotiations with two bargaining units, the National Air Traffic Controllers Association and the Professional Airways Systems Specialists, in the next year. As budget crises loom, concessions and compromises must be made by all parties in order to reach an equitable agreement that ensures financial solvency and corporate efficiency for the future.

In February 2003, the FAA created the Office of Competitive Sourcing to investigate the incorporation of OMB Circular A-76, which sets forth policies and procedures to manage a competition for services as a way of bringing efficiency and cost effective service to government programs. ATO spending on flight service operations totaled about \$500 million in fiscal year 2003. Of these total operating costs, only \$60 million was offset by federal fuel taxes collected from general aviation. Additionally, many automated flight service stations contain outmoded equipment, are in need of upgraded technology and are housed in deteriorating buildings. After completing a careful review, the FAA formally announced in December 2003 that its flight service stations met the criteria for competitive sourcing. This competitive sourcing initiative will save the FAA, at a minimum, more than \$1 billion over 10 years. The result of this initiative will be reported in the fiscal year 2005 ATO Report to Congress.



Conclusion

These 2004 initiatives – organizational restructuring, activity value analysis, establishing performance metrics, engaging in a strategic planning process to hold people accountable, implementing strategic management – have been at the core of the first phase of our transformation. The initiatives that support improved fiscal responsibility – described in the previous section of the report – complement these initial steps. Together, they constitute the foundation for realizing our vision of becoming a performance-based organization.

∴ Cost per request for service from a flight service station by a pilot averages \$25 a call



V. 2004 Performance: ATO Results



The Year In Review

For aircraft, takeoff is a critical phase of flight. That's also true for the ATO. The first year was about creating a new organization with the sound foundation needed for it to take off and ultimately reach the destination envisioned by Congress in the Wendell H. Ford Aviation Investment and Reform Act for the 21st Century.

We are well on our way. We are focused on improving safety and service, with additional emphasis on financial discipline as measured by per unit cost controls and higher productivity. We're also working to improve the employee climate and employee communications. Through a detailed business plan, we now understand our cost drivers and the need not only to "refresh and sustain" but also replace and modernize the \$30 billion operational facilities that constitute the FAA's infrastructure.

The ATO supports the FAA Flight Plan, the five-year strategic plan setting the course for the FAA through 2009. The FAA's mission is to provide the safest and most efficient air transportation system in the world. To contribute to that mission, ATO focused on four strategic areas:

- Achieve operational excellence
- Enhance financial discipline
- Increase capacity where needed
- Ensure a viable future

We tie pay to performance. The FAA uses a performance-based system for compensating the majority of our employees. All of the performance targets are agency goals and are directly linked to employee bonuses. Traditional government compensation systems do not link pay to performance. For employees covered under the agency's core-compensation plan, pay raises are based on organizational success instead of on the automatic government pay raises mandated by Congress. In fiscal year 2004, FAA met 80 percent of its Flight Plan goals, and its employees received an organizational success increase of 90 percent of the total for which they were eligible.

To further encourage a performance-based culture, the ATO launched a strategic mapping process that ties ATO initiatives to FAA goals throughout the organization.

2004 Performance Targets and Results

In 2004, the ATO increased safety, achieved greater capacity, provided international leadership and laid the groundwork for organization excellence.



Safety

With safety as our first priority, we worked diligently to maintain the confidence of the flying public. Our safety accomplishments in fiscal year 2004 include:

- Achieving the lowest commercial fatal accident rate in aviation history. In fiscal year 2004, there were no fatal commercial passenger aircraft accidents in U.S. airspace. For the last three years, this rate averages .015 per 100,000 departures.
- Reducing general aviation accidents, especially in Alaska.
- Fewer serious runway incursions, due in part to a pilot-controller education program to help them deal with the difficult task of navigating aircraft on the ground in heavily congested airport areas. We reported 28 serious runway incursions last year, more than meeting our FY 2004 goal of no more than 40 serious runway incursions.
- Certifying the first receiver for the wide area augmentation system (WAAS). This satellite-based electronic signal helps private pilots navigate from point-to-point and then land safely.
- Introducing a Safety Management System (SMS) to manage air traffic control and navigation services throughout the U.S.
- While we barely missed our goal of 629 A and B operational errors, we did achieve an 8 percent improvement in error rate over the previous year.

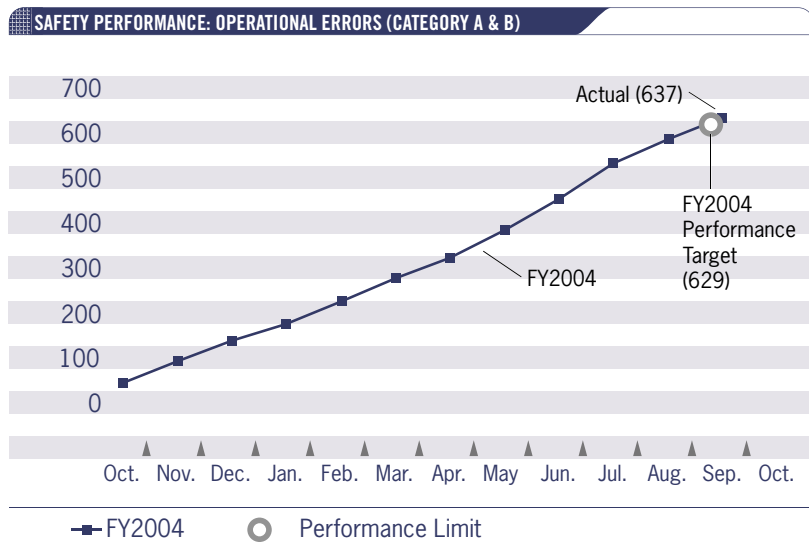


Figure 6: Operational Error Data

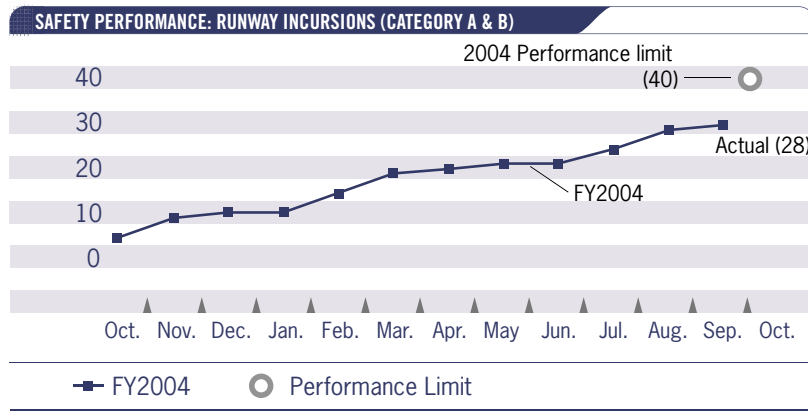


Figure 7: Runway Incursion Data

Capacity

Like safety, increasing capacity is both a priority and a necessity. The ATO took steps to ease congestion and increase flights in and out of our nation's airports during fiscal year 2004. Some of our capacity achievements include:

- “Growth Without Gridlock,” the first conference of its kind, at which the airlines, the military, and private aviation groups agreed to bolster capacity and efficiency, which reduced delays and congestion. Air traffic control moved away from the “first come-first served” model of who gets to take off or land to issuing revised flight plans or rerouting some aircraft away from problem areas.
- Improving fuel efficiency per revenue plane-mile by 4.5 percent, four times our target goal, per year cumulative from fiscal year 2004 through fiscal year 2008, as measured by a three-year moving average.
- Installing new software for controllers at 10 cities (Milwaukee, Cleveland, San Antonio, Boston, Columbus, Seattle, Charlotte, Daytona Beach, Kansas City, and Raleigh-Durham), enabling them to move traffic more efficiently.
- Achieving an increase in capacity at the 35 Operational Evolution Plan (OEP) airports. We exceeded our fiscal year 2004 Flight Plan target of 51,332 arrivals per day by over 250 arrivals per day last year. The capacity at our 35 OEP airports is an important gauge of success. Figure 8 shows that arrival and departure capacity has steadily increased since 2001.
- Installing a new weather prediction system for controllers, pilots and airlines at Miami and St. Louis.
- Implementing domestic reduced vertical separation minima (DRVSM) in this hemisphere, virtually doubling our high-altitude airspace.

• Hurricanes Charley, Frances, Ivan and Jeanne slammed the southern United States in 2004, closing down many of the regional airports. But ATO employees worked around the clock to rebuild the air traffic systems, and even installed a temporary tower at Punta Gorda to help FEMA bring in relief supplies.

• When bad weather strikes, we exercise a process called Collaborative Decision Making. When conditions warrant delays, the FAA engages all major customers in decision-making either by telephone hook-ups from their Operations Centers or by their resident staff members at the Command Center in Herndon. Airlines can also swap arrival slots with others that may not need them. This 2-way flow of information greatly benefits our airline customers.



V. 2004 Performance: ATO Results

. : When weather conditions worsen, the FAA Command Center (ATCSCC) can now collaborate with aviation users to find better routes around the weather by using playbooks or other preferred routes that are found through the use of Flow Constrained Area enhancements. This increases the capacity at many airports that otherwise would have been severely affected by the inclement weather by offering multiple, new routes to and from the airport.

The goal is to prevent a handful of airports' delays from affecting the entire system. When we are able to reduce overall delay times at select, congested airports by getting aircraft off the ground and into the air traffic flow as safely and efficiently as weather permits, these delays never reach large enough levels to have an impact system-wide. Continued Flow Constrained Area enhancements are planned throughout FY 2005-2006.

The consistent use of public/shared Flow Constrained Area information began in November 2004 and supports the "Growth without Gridlock" System Operations Plan initiative. The System Operations Plan incorporates an "all weather" process that represents a philosophical shift from the traditional first-come-first served to a more systemic flow strategy that benefits the entire National Airspace System.

- We achieved 98.95 percent operational availability at the 35 OEP airport facilities, just slightly below our target of 99 percent.
- While we did not meet our On-Time Arrival target of 82.10 percent, over 79 percent of flights at the 35 OEP airports arrived within 15 minutes of schedule. We also did not make our Airport Arrival Efficiency Rate target, which measures how well the 35 OEP airports use their existing capacity. Our target was 95.67 percent; we achieved 95.03 percent. Although close to our target, both goals were not achieved primarily due to a significant increase in adverse weather conditions, which were up 44 percent from the previous year. Congestion delays at Chicago's O'Hare Airport also played a significant role in causing system-wide delays.

AVERAGE DAILY ARRIVAL AND DEPARTURE CAPACITY AT THE 35 OEP AIRPORTS

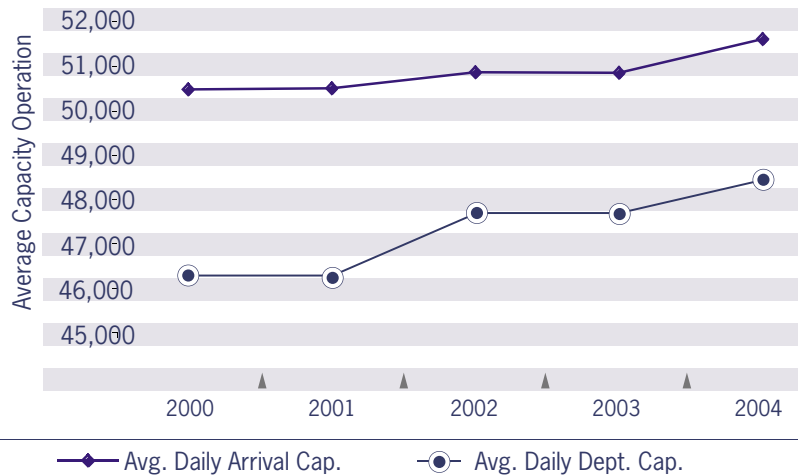


Figure 8: Average Capacity at 35 OEP Airports

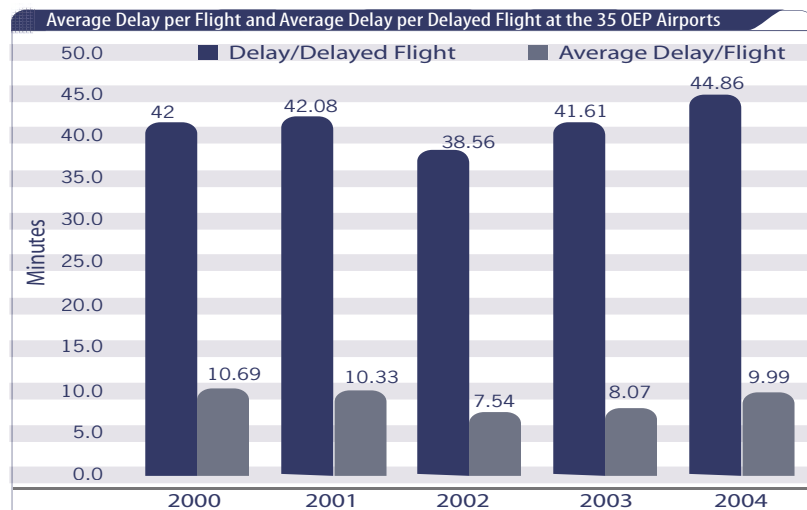


Figure 9: Average Delays at the 35 OEP Airports

International

The FAA continues to be a world leader in aviation, setting the standard for air traffic service, regulation and safety oversight excellence. In fiscal year 2004, the ATO supported the FAA mission to promote safety across the globe. Promoting common safety standards, interoperable air traffic procedures and technologies, and helping to rebuild aviation systems in war-torn regions, the men and women of the ATO work hard to make sure that air travel is as safe and efficient abroad as it is at home. Notable international accomplishments for fiscal year 2004 include:

- Signing international agreements with Canada and Mexico to install Wide Area Augmentation System (WAAS) reference stations in those countries, furthering our goal of an expanded satellite navigation system to promote greater access to navigation that is critical to increased safety.
- Partnering with Canada and Mexico to double the high-altitude airspace over North America with reduced vertical separation minima (RVSM) crucial to increasing access to fuel efficient routes.
- Conducting bilateral discussions with senior officials of the General Administration of Civil Aviation of China (CAAC) to work on increasing terminal airspace capacity in preparation for the 2008 Olympics in Beijing, implementation of reduced vertical separation minimum, and air traffic flow management.
- Promoting implementation of regional satellite navigation augmentation systems within the Asia Pacific region through participation in the Asia Pacific Economic Cooperative (APEC) Global Navigation Satellite System Implementation Team.
- Providing Global Navigation Satellite System (GNSS) expertise to Korea to promote GNSS and its augmentation systems globally.
- Supporting the coalition forces with flight inspections in Iraq, Afghanistan, and Pakistan, as well as restoring air traffic control equipment in the war zone. Dedicated ATO employees moved overseas to Baghdad to support the restoration of this critical airport.
- Hosting an international Pavement Working Group composed of researchers from the United States, France, Canada, Israel, Australia, England, Russia, China, and Japan. The FAA developed new runway design procedures, then promoted and facilitated the use of the design procedures worldwide.



∴ ATO employees helped to restore service at Baghdad International Airport in Iraq.



V. 2004 Performance: ATO Results

. : 91 percent of our major programs were on schedule and within 10 percent of budget.

Organizational Excellence

Finally, none of our achievements can be sustained without a world-class organization backing them up. The men and women of the ATO are working to serve the public with a results-oriented approach and an eye on the bottom line. Top organizational accomplishments include:

- Meeting our annual major acquisitions goal — 91 percent of our major programs were on schedule and within 10 percent of budget.
- Reducing our executive ranks by more than 20 percent.
- Development of an air traffic controller workforce management plan that achieves a 10 percent productivity increase, reducing our operating costs while adequately managing the impending wave of retirements from our air traffic controller workforce.

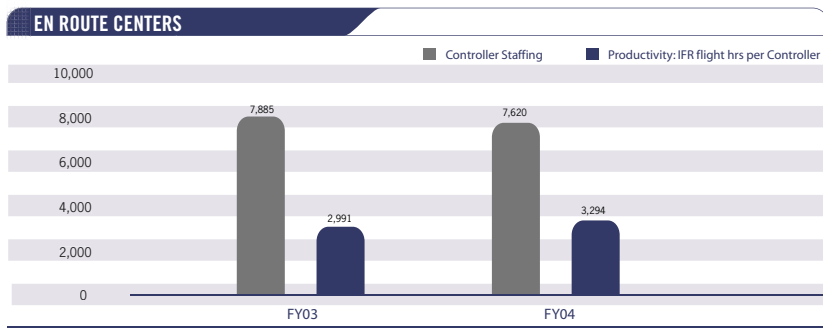


Figure 10: En Route Centers

Overall, ATO en route controllers' productivity increased 10% and ATO large tower controllers' productivity increased by 7%. Even without the benefit of attrition, en route controllers' productivity increased 7% and large towers controllers' productivity increased by 3%.

One of the agency's fundamental goals was to control costs while delivering quality customer service. Perhaps our most impressive achievement in this area was reducing our unit costs by an estimated \$17 per flight, or about 4.21 percent.

Unit Cost*	FY2003	FY2004	Variance	Percent Change
Total Cost per Flight	\$ 457.00	\$ 440.46	\$ 16.54	-3.62%

Source Data: ATO fiscal year 2004 Overview

Figure 11: Unit Cost per Flight



Large Towers**		
Location	FY2004	
	Total Cost/ Operation	Rank
Cincinnati	\$ 25.27	1
Atlanta	\$ 26.52	2
Honolulu	\$ 27.63	3
Phoenix	\$ 28.88	4
Chicago Midway, IL	\$ 30.26	5
Las Vegas	\$ 30.64	6
Miami	\$ 31.03	7
Tampa	\$ 32.06	8
Detroit	\$ 32.14	9
Fort Lauderdale, FL	\$ 32.74	10
Boston	\$ 33.26	11
Chicago O'Hare	\$ 34.30	12
Orlando	\$ 34.65	13
Memphis	\$ 34.66	14
Houston	\$ 35.35	15
Charlotte	\$ 36.10	16
San Diego, CA	\$ 36.63	17
Dallas - Ft. Worth	\$ 36.73	18
Salt Lake City	\$ 36.80	19
Cleveland	\$ 37.58	20
Los Angeles	\$ 39.19	21
Philadelphia	\$ 39.47	22
Pittsburgh	\$ 39.69	23
Portland	\$ 40.38	24
LaGuardia	\$ 41.07	25
Seattle	\$ 42.67	26
Minneapolis	\$ 42.91	27
San Francisco	\$ 47.20	28
Baltimore	\$ 52.02	29
Newark	\$ 53.36	30
Dulles	\$ 55.47	31
St. Louis	\$ 57.14	32
Denver	\$ 68.20	33
John F. Kennedy	\$ 68.42	34
Washington Reagan National	\$ 74.91	35
Total/ Average	\$ 36.65	
Data as of December 2004 ** 35 Operational Evolution Plan Airports		



Figure 12: Large Towers - Source Data: Terminal Services FY 2004 Financial Review



V. 2004 Performance: ATO Results



En Route Centers		
Location	FY2004	
	Total Cost/ Flight Hour	Rank
Jacksonville	\$ 92.48	1
Atlanta	\$ 93.81	2
Washington	\$ 96.20	3
Denver	\$ 96.40	4
Memphis	\$ 101.56	5
Albuquerque	\$ 102.81	6
Salt Lake City	\$ 107.87	7
Kansas City	\$ 113.31	8
Indianapolis	\$ 113.92	9
Los Angeles	\$ 115.01	10
Minneapolis	\$ 115.05	11
Cleveland	\$ 121.02	12
Fort Worth	\$ 126.67	13
Chicago	\$ 127.72	14
New York	\$ 128.98	15
Boston	\$ 129.89	16
Miami	\$ 132.80	17
Houston	\$ 134.00	18
Oakland	\$ 154.19	19
Seattle	\$ 157.92	20
Anchorage	\$ 291.49	21
Total/ Average	\$ 118.31	
Data as of December 2004		
Source Data: CAS and ETMS (21 En Route Centers Fiscal Year 2004 Financial Review)		

Figure 13: En Route Centers

Infrastructure Enhancements

The ATO was also responsible for several critical technology infrastructure enhancements, including:

Wide Area Augmentation System (WAAS) — Since WAAS became operational in July 2003, the FAA has developed 3,000 WAAS approaches, including 700 precision vertical approaches down to 350 feet above the runway. The FAA is adding new WAAS approaches each month, and will

develop 100 new approach procedures down to 250 feet in fiscal year 2005. In September, the first WAAS receiver for precision approach operations was certified. Industry surveys predict that as many as 20,000 certified WAAS receivers will be flying in aircraft by the end of 2005. The proliferation of this technology will expand access, especially at airports without ground-based systems.

Advanced Technologies and Oceanic Procedures (ATOP) — The ATOP Program will replace oceanic air traffic control systems and procedures, and modernize facilities responsible for managing about 80 percent of the world's controlled airspace, approximately 24 million square miles over the Atlantic and Pacific Oceans. ATOP fully integrates flight and radar data processing, detects conflicts between aircraft, provides data link and surveillance capabilities, and automates the manual processes used today. ATOP sets the stage for reducing aircraft separation from 100 nautical miles to 30 nautical miles, meeting capacity commitments to industry and the international community.

FAA Telecommunications Infrastructure (FTI) — The FAA Telecommunications Infrastructure (FTI) program is the primary means by which the FAA will acquire telecommunications services for the next 13 years. As the ATO is experiencing increased demand for both new telecommunications services and additional bandwidth, the FTI network is designed to meet additional future capacity demands for communications services more cost effectively than the legacy system. FTI will greatly enhance the agency's ability to reduce operations cost growth in telecommunications by offering a broad range of telecommunications services that will allow the FAA to match price to performance. This program represents a partnership between the FAA and commercial service providers to obtain telecommunications services that are engineered to meet the FAA's performance and information security requirements.

Terminal Modernization — The terminal environment is one of the most complex and fast-paced in the entire NAS. The terminal modernization programs represent a substantial improvement for terminal controllers. They include better displays, increased information flow between stations, and easier access to new and enhanced information, such as weather and radar data.

Future Performance Targets

The FAA's goal is to continue to decrease the percentage of operational errors and runway incursions per million flights for the next five years. Figures 14 and 15 outline the future safety performance targets.



V. 2004 Performance: ATO Results

Flight Plan Fiscal Year 2005 - 2009 Targets: Category A & B Runway Incursions

Fiscal Year	Estimated Surface Operations (millions)	Category A & B Performance Limit	Category A & B Rate (per Million)
2004	63.1	40	0.634
2005	64.7	36	0.557
2006	65.8	33	0.502
2007	66.9	30	0.448
2008	68.0	27	0.397
2009	69.2	27	0.390

Note: Surface Operations projected for FY 2005 - FY 2009 based on fiscal year 2004 counts as of October 27, 2004.

Figure 14: Category A & B Runway Incursions

Flight Plan Fiscal Year 2005 - 2009 Targets: Category A & B Operations Errors

Fiscal Year	Estimated Activities (millions)	Category A & B Performance Limit	Category A & B Rate (per Million)
2004	158.4	637	4.02
2005	162.7	637	3.92
2006	166.1	618	3.72
2007	169.5	599	3.53
2008	173.0	581	3.36
2009	177.2	563	3.18

Note: Operational Errors projected for fiscal year 2005 fiscal year 2009 based on fiscal year 2004 counts as of October 27, 2004.

Figure 15: Category A & B Operations Errors

Operational excellence targets for fiscal year 2005 include expanded airport capacity, sustained technical operational availability, and increased approval of oceanic en route altitude change requests.

Fiscal year 2005 financial management metrics are to keep 80 percent of critical capital investment projects within 10 percent of their budgets and on time, and to close out 85 percent of cost-reimbursable projects.

In the international area, the ATO planning metric calls for expanding the use of national airspace technologies and procedures to six priority countries.



Strategic Management Process

In each case, these fiscal year 2005 metrics are aligned with those in the FAA Flight Plan, and achievement of both sets of targets will be facilitated by cross-functional teams using our strategic management process. This new process is based upon an organization-wide strategy map and focuses all activities on four pathways: operational excellence, financial discipline, increased capacity and future viability.

We assigned senior managers and Executive Council members to teams focused on operational excellence, financial discipline, increased capacity, and future viability, and identified the performance objectives and measures required to monitor and evaluate progress. The teams are gathering historical performance data for these measures and will set targets in 2005. Their next tasks will be to identify the strategic initiatives required to meet each pathway's performance objectives. The teams will then prioritize the initiatives, taking into account available resources.

The ATO Executive Council and the Office of Performance Management are creating, benchmarking, and implementing other metrics. One will be a cost metric or set of metrics relating to cost per flight. Still in development, this metric category will be tested in fiscal year 2005 and, if judged valid, will be rolled out to all operations centers. By fiscal year 2006, we expect to have both a baseline measure and annual targets. Another metric or set of metrics will track productivity, possibly using a cost-per-fulltime employee measure. A third metric or set will measure organizational excellence in training investments. All new ATO metrics will be identified in fiscal year 2005, and targeted for each ATO service unit by the following year. With these metrics in place, the ATO will push accountability down to the point of service delivery.



VI. Going Forward: Planning for 2005 and Beyond



Initiating transformational change is complex, challenging and iterative. For the Air Traffic Organization, the first year has been one of assessment, reorganization and communication. The foundation of a performance-based organization requires baseline study, development of management systems and tools, identification of appropriate indicators and targets, and creation of a consensus among stakeholders that the direction will, in fact, lead to success. In Year One, the ATO has met those expectations.

This transformation, however, is a journey that will take many years. In the 2005 fiscal year, the ATO will drive its transformation deeper into the organization. ATO's strategic management process will help employees understand priorities and will guide capital investment and other resource allocation decisions. Progress will be measured against the baselines established this year. Services found to be inefficient or ineffective will be improved. Transparency of information will further drive accountability.

Success will also depend upon a number of external factors. Business environment challenges will put even greater pressure on the need to improve productivity, manage costs and cut back on services that provide little value. Near-term funding is threatened by the decreasing balance of the Airport and Airway Trust Fund and trends within the aviation industry strongly suggest diminishing contributions to the Fund in the years ahead. We must address both badly needed modernization and one-for-one replacement of experienced retirees at a time when the workload is growing more complex.

In the year ahead, to fully seize the opportunity this transformation offers, the ATO and its stakeholders will have to collaborate in meaningful, forward-thinking ways, setting aside narrow interests and focusing on a future that best serves all.

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"The ATS Committee helps us operate as a smart, performance-based business."

Marion C. Blakey

FAA Administrator, ATS Committee Chairman

Phil Brady

President of National Automobile Dealers Association

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