THE SECRETARY OF TRANSPORTATION
WASHINGTON, D.C. 20590

March 25, 2003

The Honorable J. Dennis Hastert
Speaker
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Speaker:

Enclosed for the consideration of Congress and referral to the appropriate committees is a bill --

To amend title 49, United States Code, to authorize appropriations for the Federal Aviation Administration for fiscal years 2004, 2005, 2006 and 2007 and for other purposes.

The enclosed bill sets the course for continuing investment for the next four fiscal years in safety, air traffic control modernization and operations, airport capacity improvements, and environmental stewardship. The main themes of the authorization proposal are--

- Increase safety and improve capacity at airports and in the National Airspace System (NAS) through continued infrastructure funding.
- Build on the President's executive order on environmental streamlining by proposing several new environmental initiatives.
- Contribute to restoring viability to a system and an industry that has been severely disrupted by economic recession and the terrorist threat.

Through new advanced technologies, greater efficiencies, and sensible regulatory schemes, our ultimate objective is to create an even safer and stronger aviation system than we now enjoy and which is already a model for the rest of the world.

In addition to the provisions of the enclosed bill, the Administration believes it is important to sustain and improve the vitality of airline competition and access to air transportation to benefit air travelers and shippers. We look forward to further discussions with Congress on these topics.

Investing in the Aviation System

Consistent with our desire to restore the viability of the air transportation system, the U.S. Department of Transportation (DOT) does not propose to increase user fees or excise taxes on airlines, travelers, or shippers beyond the levels already established in the Taxpayer Relief Act of 1997. Nor do we think that passenger facility charges should be increased beyond the Wendell H. Ford Aviation Investment and Reform Act for the 21st Century (AIR-21) maximum levels. Under AIR-21, the annual authorized levels for the Airport Improvement Program (AIP) increased substantially from $1.9 billion to $3.4 billion and Facilities and Equipment funding increased from $2 billion to $2.7 billion.

The Department proposes to maintain this significant level of AIP investment of $3.4 billion over the entire term of the reauthorization. This funding level will support the major airport capacity projects that provide the greatest benefits to the NAS as well as assistance to medium and small airports. DOT also proposes funding for Facilities and Equipment at the level of $2.916 billion in FY 2004, to continue to update the NAS infrastructure, expand air traffic control automation and communication tools, and implement needed operational capability and risk-mitigating precision landing navigation.

With regard to the Federal Aviation Administration's (FAA) Operations Account, our proposed $7.591 billion in FY 2004 represents a seven percent increase over the FY 2003 budget request. It will support implementation of the FAA's Operational Evolution Plan and efforts to accelerate airspace redesign, sector reconfiguration, and chokepoint solutions. These efforts will improve aviation system efficiency and reduce flight delays. This funding increase also will enable the FAA to address future staffing requirements for the air traffic controller and safety inspector work forces. Additional controller staffing will be required to meet increased capacity demands and to replace retiring controllers, a significant percentage of which will be eligible for retirement during the reauthorization period. Because the FAA requires three years to hire and train a controller to the journeyman level, the Administration will require significant numbers of new staff each year to meet future needs.

The proposed level for Research, Engineering and Development, at $100 million in FY 2004, represents a decrease from current levels as a result of the transfer of security technology activities to the Transportation Security Administration. It also reflects our intention to increase the emphasis on safety in the FAA's research program.

One of the fundamental principles of the Administration's aviation reauthorization proposal is a commitment to ensure all Airport and Airway Trust Fund income is spent on improving our Nation's aviation system. The Administration's FY 2004 aviation budget and reauthorization proposals are built on this principle.

In Section 106 of the Wendell H. Ford Aviation Investment and Reform Act for the 21st Century (AIR-21), Congress imposed floor procedures in both the House of

Representatives and the Senate to enforce total Airport and Airway Trust Fund spending levels, as well as levels authorized for aviation capital programs.

While the President's FY 2004 budget and aviation reauthorization proposals would be fully compliant with these House and Senate floor procedures, the Administration does not typically comment or take a position on rules that apply to such Congressional points of order. Therefore, the Administration's proposal is silent on the reauthorization of Section 106 of AIR-21. However, I want to reiterate strong support of the fundamental principle of ensuring all Airport and Airway Trust Fund income is spent on investments in our Nation's aviation system in a manner consistent with the President's FY 2004 budget submission.

Restructuring the Airport Improvement Program

This legislation proposes a restructuring of AIP formulas and set-asides to allow more funds to be targeted to those airports with greatest need and dependence on Federal assistance. The proposed restructuring would transfer more than $87 million in FY 2004 funds from large to small airports, raising small airports' share from approximately 63 percent to over 66 percent of total AIP grants. This proposal also increases the amount of discretionary funding from 34 percent to 46 percent of the AIP program, allowing FAA to target those projects that serve national objectives and achieve the greatest system benefits, regardless of airport size. In addition, this bill simplifies the grant formulas and eliminates unnecessary or outdated set-asides, while continuing the set-aside for noise-related projects.

We propose to improve the Passenger Facility Charge (PFC) process by eliminating the requirement that airports publish a Federal Register notice requesting public comment as part of all PFC applications. A review of the current process reveals that comments obtained from the public notices repeat information available from prior consultation with airlines; hence, no new issues are disclosed while airport projects are unnecessarily delayed. Finally, we propose that a pilot program be instituted that reduces Federal involvement in PFC applications for non-hub airports.

In order to continue to assist smaller airports with certain airport security costs, our bill reinstates non-hub airports' ability to use their passenger or cargo AIP apportionments on security-related operations that are required by law or regulation (capital requirements are already eligible). Congress had authorized such assistance for all airports as a temporary, one-year eligibility after September 11, 2001, but given its benefits to small airports this provision should be extended.

The bill also continues the FAA's successful innovative financing program. Because most of the pilot projects have involved flexible non-Federal matching requirements, the bill would make such flexibility a standard feature of AIP. With regard to the current airport privatization pilot program, the bill would modify the program to make participation in the program more attractive to local governments without undermining the protections afforded to airport stakeholders on the use of airport revenue and reasonable airport charges.

War Risk Insurance Program

Current authority for provision of aviation insurance by the Department of Transportation expires at the end of 2003. The bill would repeal the periodic renewal requirement in part, thereby providing continuing authority for provision of aviation insurance necessary for the implementation of foreign policy of the United States, in support of United States agencies such as the Department of Defense. This sustains the initial purposes of the chapter 443 insurance program. A new termination date would be established for the domestic portion of the program.

Improving Environmental Stewardship

The continuing ability of the NAS to meet the Nation's air transportation demand is directly related to success in mitigating the adverse environmental effects of aviation and in streamlining environmental reviews. We propose noise and air quality initiatives to reduce the most significant aviation impacts while ensuring that the system has sufficient capacity to meet future demands. For example, we propose to make more flexible use of the AIP noise set-aside to accelerate research designed to reduce aircraft noise and emissions. We would also fund noise mitigation efforts to lessen the impacts of airport expansion and fund grants to State and local governments to make land uses adjacent to large- and medium-sized airports more compatible with airport operations. In addition, we propose to strengthen State and local noise disclosure efforts by requiring Federal lenders to inform prospective homebuyers of properties within airport noise contours.

The bill would establish voluntary programs to reduce airport emissions by converting airport infrastructure, airport vehicles, and airport-owned ground-support equipment to new low-emission technologies. The AIP noise set-aside would be broadened to fund airport infrastructure and vehicles, and PFCs could be used to fund low-emission technology for ground support equipment not owned by the airport. We propose a pilot program to determine whether retrofitting airport ground-support equipment for cleaner conventional fuels (gasoline or diesel) would produce net benefits comparable to alternative fuels. AIP and PFC funding would become contingent on the provision of emission credits to airports, consistent with national guidelines established in consultation with the Environmental Protection Agency. Credits could be used to offset emissions of future airport expansion.

The bill proposes changes to reduce undue delays in the environmental review of aviation safety and congestion projects while continuing to exercise environmental stewardship. These proposals are consistent with and build on the President's Executive Order on Environmental Stewardship and Transportation Infrastructure Project Reviews, the Department's May 2001 Report to Congress on the Environmental Review of Airport Improvement Projects, and congressional and aviation industry streamlining proposals.

The bill would allow the FAA to designate aviation safety projects for priority environmental review and would direct other Federal agencies to give substantial deference to the Secretary's definition of the purpose and need for an aviation safety or aviation congestion project. The bill would also establish a coordinated agency review process for projects designated by the Secretary, including provisions for an interagency environmental impact statement team and substantial deference to the Administrator's aviation expertise regarding reasonable project alternatives, relevant aviation factors such as airport congestion, and methods for calculating aviation noise and emissions.

In addition, to reduce duplication, the proposal would eliminate the Governor's air and water quality certification, which is duplicative of protections in the Clean Air Act and Clean Water Act. Finally, the bill would clarify Air Tour Management Act language to ensure that it addresses only commercial air tours over national parks.

Reforming the Essential Air Service Program

The Department's FY 2004 budget proposes major revisions to the Essential Air Service (EAS) Program in order to administer the program more efficiently and add flexibility to better tailor the service to the needs of specific communities. With the proposed reforms, the Department would be able to ensure that the small communities that need it the most maintain access to the national air transportation system. This bill proposes to make the changes in title 49 as of October 1, 2004.

Communities' eligibility for inclusion in the EAS program has never been based on individual needs, but rather on whether the community was receiving scheduled air service on October 24, 1978. The Department's proposal provides for appropriate air or ground service to access the national air transportation system for the most isolated communities. In order to encourage community participation and support of its subsidized service, the proposal requires communities to contribute either 10 or 25 percent of the total subsidy required depending on their degree of isolation.

Under this proposal, for the first time communities would be stakeholders in their air service and have a vested interest in its success. The modest contribution requirement will energize civic officials and business leaders at the local and state levels to work with both the carrier and the community, and communities will now have the flexibility and incentive to secure service that is more tailored to their needs. For example, communities would have the option of funding ground transportation links, charter flights and air taxis instead of scheduled airline service, or regionalized service where several communities could be served through one airport but with larger aircraft or more frequent flights.

Strengthening Federal Aviation Administration Management

The FAA has developed a blueprint and has begun transforming its air traffic control organization into a performance-based Air Traffic Organization. This is considered vital for accommodating future growth in air traffic control. In order to support that effort, we propose a number of reforms to the FAA's structure and governance. This bill would:

- Modify the structure and membership of the Air Traffic Services subcommittee of the Management Advisory Council by creating a stand-alone Air Traffic Organization Board separate from the Council, and add the FAA Administrator as member and Chairperson of the Air Traffic Organization Board to provide leadership;

- Modify the authority of the Air Traffic Organization Board by revising its approval authority and involvement in the Air Traffic Organization's budget without usurping Executive Branch authority;

- Enable the Secretary of Transportation to nominate members of the Management Advisory Council by eliminating the requirement that the Council positions be filled by Presidential nomination; and

- Clarify the authority of the Chief Operating Officer to align it with the typical responsibilities of a Chief Operating Officer, rather than a Chief Executive Officer, to help resolve recruiting issues.

Finally, we propose that the Deputy Administrator of the FAA be appointed by the Secretary with the approval of the President, thus removing the requirement for Senate confirmation. The FAA Deputy Administrator is currently the only deputy of a DOT operating administration who must be confirmed by the Senate. This change would provide uniformity among modal deputies within the Department.

The Office of Management and Budget advises that enactment of the proposed legislation would be consistent with the President's program.

Sincerely yours,

Norman Y. Mineta

Enclosures