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AVIATION SECURITY AND IMPACTS ASSOCIATED WITH THE REGULATORY AND STATUTORY REQUIREMENTS OF THE AVIATION AND TRANSPORTATION SECURITY ACT (ATSA)

HEARING

BEFORE THE

SUBCOMMITTEE ON AVIATION

OF THE

COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION UNITED STATES SENATE

ONE HUNDRED EIGHTH CONGRESS

FIRST SESSION

FEBRUARY 5, 2003

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AVIATION SECURITY AND IMPACTS ASSOCIATED WITH THE REGULATORY AND STATUTORY REQUIREMENTS OF THE AVIATION AND TRANSPORTATION SECURITY ACT (ATSA)

WEDNESDAY, FEBRUARY 5, 2003

U.S. SENATE,
SUBCOMMITTEE ON AVIATION,
COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION,
Washington, DC.

The Subcommittee met, pursuant to notice, at 2:35 p.m. in room SR–253, Russell Senate Office Building, Hon. Trent Lott, Chairman of the Subcommittee, presiding.

OPENING STATEMENT OF HON. TRENT LOTT, U.S. SENATOR FROM MISSISSIPPI

Senator LOTT. The Subcommittee will come to order.

We are still having a vote in the full Senate now, a resolution with regard to the Columbia disaster and in memory of the astronauts that were lost. So we will—I expect that we will have some other Senators that will join us momentarily. But since we do need to go ahead and get started, I thought we could start with the opening statements and then go to the second panel and then have comments from other Senators as they come in, and questions.

And, of course, this is the first Aviation Subcommittee hearing of the year. It is on aviation security and the impacts associated with the regulatory and statutory requirements of the Aviation and Transportation Security Act. This is legislation that was passed relatively quickly after the events of 9/11. It was one of those occasions when the Congress moved quickly and, I think, made some good decisions in this area. And they're being carried out and, I think, are being implemented quite well. But it's important we take a look at how it's going and make sure we understand if the law is what it needs to be and how it's being financed.

So we will have two panels of witnesses today, Admiral James Loy, Under Secretary of Transportation Security, Transportation Security Administration, and Ken Mead, Inspector General of the Department of Transportation. The second panel is Jim May, president and CEO of the Air Transport Association, Chip Barclay, president, American Association of Airport Executives, and Ed Bolen, president of the General Aviation Manufacturers Association.

I would like to dispense with an opening statement on my own part so that we can get right into the testimony and then get to the very important part, which is the questions.

But I'm pleased that the Chairman is here. He has already had one hearing this year in the aviation area, looking at, I believe, the Federal Aviation Administration legislation.

Senator McCain, do you have a statement that you'd like to make before we get started?

STATEMENT OF HON. JOHN MCCAIN,
U.S. SENATOR FROM ARIZONA

Senator MCCAIN. No, Mr. Chairman. I want to thank you for holding these hearings. And this one, I just want to say, Mr. Chairman, is a very important hearing. It's our first chance to look at what the TSA has done.

I'd like to publicly say that Admiral Loy, I think, has done a fine job. Ken Mead has always given this Committee the unvarnished truth, whether we happen to like it or not. And I think that they will give us a great deal of information.

I would just like to add, Mr. Chairman, something you know, and the reason why we're going to have more hearings. The first hearing we had was the state of the aviation industry, and it's in bad shape. There's no doubt that there are major airlines that are in serious difficulties. And as we look at the security measures that have been taken, I think we need to look at also its impact on the aviation industry, as well. I hope Admiral Loy will illuminate us a little bit about that, as well as the next panel.

But I just want to—Mr. Chairman, you and I were just told when we came in that there's now legislation dropped that every airliner in America would have a surface-to-air missile prevention capability. And I think all of us want to do whatever is necessary to preserve the security of every airliner in America, but I think we need to rely on the expertise of Admiral Loy and others to tell us cost-risk ratios on all these issues of security.

And, finally, Mr. Chairman, and I know we want to get started with the hearing, but you and I go through airports just about every weekend, and sometimes more often. It is still a very difficult process. Now I have to stand in line in one—to get to one counter to get my boarding pass, and then I have to stand in line again to get through security, and it—Americans are not finding it, in any way, a pleasant experience.

They're being remarkably patient, I think. I never see any American who voices frustration or anger, at least I've never seen it. But I also would urge Admiral Loy to tell us about how we develop technology to make this process easier and more efficient.

And I want to finally say there's a great deal of controversy about the privatization or making federal employees out of TSA employees. It's been my experience, Mr. Chairman, that they are doing an outstanding job. From everything I can see, the morale is high, they are very disciplined and very efficient and professional.

I thank you, Mr. Chairman, for allowing me to say a few words, because I know you had intended to pass on opening statements. I thank you, Mr. Chairman.

Senator LOTT. Senator Wyden and Senator Smith are here. I had hoped to dispense with opening statements and go right to the witnesses, but if you would like to be recognized briefly, since we've both been recognized briefly already, I'd be glad to call on you, Senator Wyden.

STATEMENT OF HON. RON WYDEN,
U.S. SENATOR FROM OREGON

Senator WYDEN. Well, Chairman Lott, thank you, and I will be very brief.

Just two points. One, I'm particularly interested in hearing from Admiral Loy about how threat information is shared. It seems to me that one of the major lessons of 9/11 is the importance of sharing this information. Small bits of information can be like pieces to a puzzle, and if different agencies don't share and communicate, then you can't put the pieces together to see the whole picture. The fact of the matter is, that has happened again and again in the past, and I'm anxious to hear Admiral Loy explain to us how TSA can stay plugged into security information gathered and held by other agencies.

The other point that I want to make deals with transition questions as the TSA moves from the Department of Transportation to the new Department of Homeland Security. I'm concerned that there may be an interruption in oversight in a key area, specifically that the transition may cut short the very valuable investigative work of Mr. Mead, who is with us here today, before the Department of Homeland Security has anyone with the expertise and resources to step into his big shoes. We cannot have a vacuum of oversight. I may offer an amendment before long to ensure that that oversight presence is in place.

Certainly Chairman McCain has seen over the years, as we've looked at aviation issues, the value of Ken Mead's work. I want to make sure it is not lost in the transition.

And I thank you for letting me make that statement, Chairman Lott.

Senator LOTT. Senator Smith?

STATEMENT OF HON. GORDON SMITH,
U.S. SENATOR FROM OREGON

Senator SMITH. Thank you, Mr. Chairman. I will be brief, as well.

I appreciate the chance to be here. Like many of us, we're supposed to be in several different hearings right now, and—but this is a very important hearing.

And, Admiral Loy, I want to tell you that when we in the Senate voted to make public the TSA and the screeners, some of us had some concern as to whether or not that would turn out well. I rarely go through an airport now but that I don't seek out some of the employees of the Federal Government who do this job now to thank them for what I think is a real step up in quality and service and security, and I want to state that publicly for the record.

Also, I'm here to ask a couple of questions I hope in the course of this hearing you can answer. Specifically, I am hearing, from rural airports in Oregon, they are concerned about what effort is

going to be made to foster continued involvement and input from them. Some of them are feeling like they're being left out of the equation. And, additionally, what public or private initiatives or partnerships have been formed to promote security in the advent of a war on terrorism within our Nation's borders. Those are concerns specific to Oregon, but I think not unique to Oregon, that I hope we'll be able to answer.

Thank you, Mr. Chairman.

Senator LOTT. Senator Hollings has joined us, and he's agreed we can go ahead with the testimony. And then—but if Senators need additional time to make statements or ask questions after their testimony, we would certainly be very lenient with that.

Admiral Loy?

STATEMENT OF ADMIRAL JAMES M. LOY, UNDER SECRETARY OF TRANSPORTATION FOR SECURITY, TRANSPORTATION SECURITY ADMINISTRATION

Admiral LOY. Thank you, Mr. Chairman. Good afternoon, Members of the Subcommittee. I'm pleased to testify concerning TSA's accomplishments this past year, and then, with a look forward, provide a very special look at the financing end of what we're up to.

This has been probably the most challenging 8 months, leadership-wise or management-wise, of my life, and I thought I might never say that after 42 years in uniform. There's simply not enough time to share the roller coaster ride that we've all been on: long days, long nights, high highs, and very challenging lows, deadlines to meet deemed impossible by a constant stream of skeptics, all met on time by an amazingly committed team.

A hundred FSDs are now in place around the country representing all of our airports. 1.6 million applicants were processed for screener positions and 360,000 of those 1.6 million were actually assessed from bottom to top in many different dimensions to make sure we were picking the right people. The term "zero-to-sixty" will never mean the same thing to me, because we went from zero to 60,000 employees in a brand new federal agency within this year. We went from 33 to thousands of Federal Air Marshals now with tens of thousands of flights on a monthly basis, adding another security dimension to what we're doing. Almost a million background checks of airport and airline employees have gone through the wringer to make sure that there are good folks with proper clearances working at our airports. And then, of course, there were two very specific deadlines that we were charged by the Congress to meet, and both were met. November 19, 2002, when we federalized the work force in place at over 429 airports and December 31, 2002, when a 100 percent of the bags were being checked by congressionally-approved methods.

More importantly, sir, I believe this is about a return of public confidence to flying, for business or for pleasure. We continue to watch emplanements go back toward where they were prior to 9/11. It's been a thoughtful game plan that was put together long before I got here.

By the way, Mr. Chairman, I would offer that the first 6 months were actually taken to think very carefully through what we were going to do, and then we went to the execution mode. I think some

of the skepticism was associated with, "Why aren't they doing something?" And the "something" was all about planning so that when we did something, it would be done well.

So, from perimeter fences to airport bomb incident prevention plans to robust checkpoints to screened bags to air marshals to hardened cockpit doors to random secondary screening, cameras at checkpoints, and, finally, to the federalized screening force, there are enormous numbers of layers in our system. No one of those keys could ever do the whole job, and so we designed the idea that the sum of them is the quantum security jump that we needed at our airports.

A final exam, sir, was the holidays for 2002, from Thanksgiving through the Christmas and New Year's holidays. If you were waiting in line at an airport, it was at the rest room or a Starbucks kiosk; it was not in front of the TSA checkpoint.

We've had a visionary President and a Transportation Secretary who never wavered from the vision and the drive to do the job as had been outlined for them by the Congress in ATSA, to provide world class security balanced with world class customer service. Congress was intent on providing resources when necessary, and there was a stakeholder outreach to airports, airlines, pilots, and all concerned segments of the industry.

I would hope the panel that follows will tell you that I've been bugging them ever since I took this job; I've spent more time in Chip Barclay's office than I have in my own. I have met, probably in 30 or 40 airports around the country, to gain a sense for what the real issues were, with both airline station managers and airport directors to discuss resource contributions from a beleaguered industry, ideas from all directions, and solid rebuilding steps to restore the financial viability of the aviation industry. All of these are our partners, Mr. Chairman, without whose help we would never have gotten off first base over the course of this past year.

Team members were, literally, Deputy Secretary Jackson and the IG, Ken Mead, and his shop, and many other members of the Office of the Secretary of Transportation's staff who represented for us a source of constructive criticism, good ideas, challenges when we might have been going in the wrong direction, and opportunities to change our ways and get into the line of productivity.

We were helped by loaned executives from the private sector. We realized early on that there were skill sets and competencies that could be brought to bear on this issue. If we wanted to find out for example, how you make people feel good standing in lines, maybe Disney knew something about that, so we brought Disney executives in to help us figure things like that out.

Contractors. Again, without them we certainly would not have gotten the job done. Key contractors were Lockheed Martin, NCS Pearson, Boeing, and VF Solutions, the providers of our uniforms.

The TSA team was assembled across the course of the year. There was nobody there to begin with, but now a very strong, committed workforce is in place.

Congress approved direction and deadlines and resources. A sum of $738 million was appropriated for the physical modification and installation of checked-baggage explosives-detection systems.

I have a chart, Mr. Chairman, just to illustrate this. Because there have been some—I'll call them rumors, for lack of a better phrase—afoot recently as to whether or not the $738 million went to the purpose intended on the part of the Congress. In fact, they have. From Fiscal Year 2002 to the carryover that represented into 2003, the total obligation of $738 million. We obligated $184 million in FY02, another $200 million to date in FY03, with $354 million more to go to deal with the rest of the installation challenge that we still have at a small number of very large and challenging airports.

These charts show the obligations to date. And this latest popular rumor circulating in airport circles, that a portion of these dollars was somehow siphoned off as a Boeing profit, is simply unfounded. Boeing's costs are in a separate line item in the budget, and I'll be glad to provide any additional documentation, sir, that you might want or need about that. All $738 million will end up as enhanced security at airports, albeit many of those dollars actually were passing through Boeing as the facilitator, the contractor to make that work.

The available balance for FY03 will enable us to complete the EDS–ETD installation work at the small number of airports still using alternative methods to reach 100 percent bag checks. Other FY03 work will be required to provided added coverage as seasonal peaks arrive in late spring and on into the summer, and any equipment moves or additions as we optimize the flow among airports. We are learning with every day that goes by. All those congressional mandates will be met.

This work caused us to crisscross America twice, once for checkpoints by 11–19, and again for explosive detection by 12–31. We pushed very, very hard, Mr. Chairman, as you know, to meet those deadlines.

We did leave a wake behind us at many airports. Airports' aesthetics suffered. There is much work yet to be done at those impacted airports. We are just now finishing the data call necessary to see the total bill associated with the work that needs to be done.

Looking ahead, an important item on our agenda is building the model workplace I've promised to our work force. We will engage supervisors and screeners in its design, and TSA will be recognized as the preferred work environment when we're done. We have hired the most diverse work force in government. We are following the President's management agenda and using, constructively, every authority offered us by the Congress in ATSA.

Another addition that is enormously important for us to get at is the management infrastructure necessary to be a good steward of the dollars that Congress entrusts to us to get the job done. Contracting out traditional functions like management services and H.R. are just a couple of examples of following the President's management agenda. You get to do that when you start with a blank sheet of paper and you can build the organization you want.

This hearing is about aviation security costs. I will offer a few thoughts. America has an absolute jewel in its economic foundation known as the aviation industry. We must do all we can to support its solvency. America also has a fundamental obligation to provide

security to its transportation system. The challenge is always about who pays.

In Fiscal Year 2002–2003, the Federal Government will have paid in excess of tens of billions of dollars to provide aviation security. The Government, Congress and Administration together, provides war-risk insurance when no competition was evident in the marketplace, billions of dollars in value. The Government provided $5 billion to help the industry recover immediately in the days after 9/11. The Government is buying equipment, hiring, training, and paying for a replacement work force, and contemplating other important investments, such as the Federal Flight-deck Officer Program, "guns in the cockpit." The airlines have been asked to harden cockpit doors, to train flight crews in self defense, and provide secure catering services.

There are two fees that we have found to offset the mandates that were created in ATSA. This second chart, sir, offers some insights to those two fees and how we are doing in terms of their collection.

The 9/11 passenger fee, as you recall, at $2.50 a leg, has produced an annual yield of about $1.7 billion. That's what we expect to gain in 2003, and that's, again, what is presumed in the President's budget for 2004.

The aviation security infrastructure fee was designed to seek airline reimbursement to TSA at a rate previously paid in 2000. Based on information in ATA public statements and correspondence, that annual expense was between $750 million and $1 billion. The Administration has requested that Congress set the fee at $750 million. Annualized collections have been about $300 million. These are all crucial elements of the financial realities in aviation today, and they are happening now in an even more difficult revenue environment.

Looking forward, I see several dimensions of aviation and numerous areas of other transportation modes that deserve our attention—cargo, charters, general aviation—all areas this Committee has already identified for study. I concur and look forward to working with you on all three.

And though this Committee's emphasis is aviation, I would be remiss if I didn't acknowledge our efforts in other modes. As the National Transportation System security manager, TSA will be the key agency in the new department to determine transportation system needs. We are already working with other DHS agencies and DOT operating administrations to develop security standards, to incorporate industry best practices, to find new technologies and innovations, and to create a more uniform level of security across all modes.

As TSA moves to DHS, my responsibility is to represent transportation interests and vulnerabilities across all dimensions of the National Transportation System in the discussions and the decisions that DHS will make. I offer that I will be aggressive in that work, Mr. Chairman, and look forward to working with the Committee on these issues, as well.

Mr. Chairman, security is a filter; it is not a guarantee. Our challenge is to get it right at 429 airports every day, 361 ports every day, and on our highway systems, our pipeline protection

systems, our transit systems, and our rail systems. The terrorist only has to succeed once. Complacency is no longer an option. Every day at TSA begins with a sobering intelligence brief. Our task together is an enormous one, and I look forward to working on these issues with you.

Thank you for your attention, and I look forward to your questions.

[The prepared statement of Admiral Loy follows:]

PREPARED STATEMENT OF ADMIRAL JAMES M. LOY, UNDER SECRETARY OF TRANSPORTATION FOR SECURITY, TRANSPORTATION SECURITY ADMINISTRATION

Good afternoon, Mr. Chairman, Senator Rockefeller, and Members of the Subcommittee. I am pleased to testify before the Subcommittee today on behalf of the Transportation Security Administration (TSA), the Nation's transportation security manager, concerning our progress in meeting the ambitious goals Congress set out for us only 14 months ago.

I can report to you that TSA has met all deadlines established by the Aviation and Transportation Security Act (ATSA). On February 17, 2002, TSA assumed responsibility for civil aviation security and by summer had stationed Federal Security Directors in major airports across the country. We deployed federal passenger screeners at all 429 commercial airports by November 19, 2002. By December 31, 2002, TSA screened 100 percent of checked baggage for explosives through the use of Congressionally approved methods. We dramatically expanded the Federal Air Marshal program so that many more flights are covered each day than ever before. With the help of state and local agencies, law enforcement officers were positioned at all screening checkpoints. The initial phase of reinforcing commercial aircraft cockpit doors was completed through the Federal Aviation Administration (FAA). Background checks were ordered for an estimated 750,000 airport and air carrier employees who could enter secured areas of airports.

The uniformed TSA screeners are becoming a comforting presence to the traveling public as we establish world-class security and world-class customer service.

Air carriers and airports are major partners in the effort to improve security, and they worked shoulder-to-shoulder with TSA to reach these goals. We appreciate the significant resources they have contributed, as well as the flexibility and cooperation they have shown. The dramatic improvement in security that we have achieved is an essential building block in improving the financial viability of the aviation industry. A sound, strong aviation security system is fundamental to ensuring the confidence of the public in the safety of air travel. You have my assurance that TSA will work closely and cooperatively with all our transportation partners in our quest for continuous progress in the months ahead.

In just four weeks, TSA will become part of the Department of Homeland Security, and this may be the last time I appear before this Subcommittee while TSA is part of the Department of Transportation. I would like to personally thank Secretary Norman Y. Mineta and Deputy Secretary Michael Jackson for their unwavering support for our mission and their tireless efforts to make sure TSA had the support it needed to meet its deadlines. I would also like to acknowledge Inspector General Ken Mead, my co-panelist today. He has helped us focus on our weaknesses so that they become our strengths.

TSA would never have met its goals without the extraordinary efforts of its contractors. For example, Lockheed Martin helped TSA in its unprecedented challenge of training the federal security screeners needed to staff passenger checkpoints across the nation, as well as to assess and modernize the layout and equipment at all security checkpoints. Boeing Service Corporation along with Siemens installed thousands of explosives detection systems (EDS) and explosives trace detection (ETD) systems in the nations airports. InVision Technologies and L3 Communications worked extremely hard to make sure TSA had the screening equipment needed to meet its deadline. NCS Pearson was hired to recruit and assess applicants for over 50,000 screener jobs. The company reviewed almost 2 million initial applications to find candidates able to meet the rigorous requirements of these important positions. Virtually overnight, VF Solutions developed and supplied over 50,000 uniforms for passenger and baggage screeners, deploying field teams to measure and outfit new recruits as they came on board. These, and other subcontractor companies were an extension of TSA, its arms and legs laboring to get the job done, airport-by-airport.

Though the deadlines of ATSA have been met, TSA is far from the finish line. In fact, for TSA, there will be no finish line. Our security mission demands boldness, constant reassessment, and continual change to meet new challenges. The security measures we have put in place are only a filter; they are by no means a guarantee. Our enemies are alert and resourceful, perpetually looking for any weakness. To confront this challenge, we are putting in place a "system of systems," a multi-layered security strategy stretching from curb to cockpit. What TSA has achieved in the course of the last 14 months is only the springboard for the next phase of our work. We have to "get it right" every day, at every airport.

We are working closely with airports to complete the installation of explosives detection systems in a small number of airports. Congress supplemented DOT's original request of $507 million in funding, appropriating $738 million to TSA for the physical modification of commercial airports for installation of checked baggage explosives detection systems, including explosives trace detection systems. This funding has been used to meet the ATSA requirement for electronic screening of checked baggage for explosives. Specifically, the funding covered site assessments, detailed site surveys, development of architectural and engineering plans, electrical work, reinforcement of existing structures, temporary structures, and new conveyor belts. These funds were not used for the purchase of explosives detection equipment. As a result of the hard work of the entire TSA team and extended family we are now screening all checked baggage for explosives at all airports, using electronic screening and Congressionally approved alternatives. However, we are continuing at several airports to install electronic screening systems.

In our steady push to meet the deadlines established by ATSA, TSA swept rapidly across airports throughout the country, first to deploy federal passenger security screeners, and again to ensure that all checked baggage was screened. Having crossed the country twice, I must acknowledge that our efforts have left a wake that should be addressed. We worked quickly, and in some cases airport aesthetics have suffered for it. Indeed, we do have more work to do, even with the equipment now in place. There are opportunities to improve the efficiency of the screening systems.

We must also recognize the human dimension to our work. We have a family of over 50,000 security screeners in every state in the nation, Puerto Rico, and other U.S. territories and possessions that work incredibly hard, under great pressure, and in difficult circumstances. Many have worked long hours of overtime in order to serve their country. Although I exercised my statutory authority to prohibit mandatory collective bargaining, I am absolutely committed to establishing a Model Workplace environment. I have just appointed a director for this project. She has my full support in making this a top priority for TSA, engaging management and our labor force to make our working environment one that we can all be even more proud of.

There is no debate that addressing our human resource issues and the installation and maintenance of our equipment is an effort of great magnitude and importance. It is also resource intensive. Talking with airport directors on a regular basis, we know the airports are concerned about the costs and the impact on their airports. Airport tenants are concerned as well. Meeting the statutory deadlines we faced was only part one of our work together. We hope our partners will stay with us as we press on.

TSA has assumed responsibility for substantial security costs once borne by the air carriers, including the costs of the screener workforce, screening equipment, and property claims. However, air carriers are still responsible for security costs in several areas, including flight deck modifications and catering security. Congress gave FAA $100 million to distribute to air carriers for security modifications to their aircraft. Of this amount, $73 million has been disbursed to carriers and we expect remaining funding to be disbursed before the end of this fiscal year, including $3 million for ten air carriers participating in a pilot program for video surveillance.

The ATSA required TSA to "establish procedures to ensure the safety and integrity of catering and passenger amenities, placed aboard such aircraft . . . and all persons providing such supplies." TSA has established guidelines and believes security for catering services and other amenities that are not property items transported for hire, but rather are part of the service voluntarily provided by the air carriers, should properly be paid for by carriers, rather than TSA. Air carriers have sought federal reimbursement for catering security.

ATSA authorized TSA to implement two distinct fees to assist the agency in recovering some of its costs from civil aviation passengers and carriers. The September 11th Fee is charged to airline passengers and is capped by ATSA at $2.50 per enplanement or $5 per one-way trip. TSA has issued a regulation and has been collecting this fee on tickets sold since February 1, 2002. TSA believes that there has been a high level of air carrier compliance with collecting and remitting this

fee from passengers. TSA has collected $977 million in FY 2002 from passengers through this fee.

Under ATSA, Congress also authorized the Aviation Security Infrastructure Fee. This fee was established to reimburse TSA for the passenger and baggage screening costs that were previously incurred by the airlines themselves prior to the establishment of TSA. Air carriers no longer incur the cost of screening passengers and property. Instead, each air carrier annually remits the Aviation Security Infrastructure Fee to TSA equal to its calendar year 2000 costs for security screening.

To assist TSA in determining fee levels, each air carrier was required by regulation to submit security screening cost information for the calendar year 2000. The air carriers are paying a monthly fee based on that cost information. Based on industry information and testimony to Congress in 2001, TSA had projected collections of approximately $750 million annually for the Aviation Security Infrastructure Fee, with approximately $400 million prorated for the period of FY 2002 during which the fee was in effect. Carriers are now certifying that their screening costs in 2000 were only about $300 million, about $450 million less than previously estimated by the industry and TSA. Airlines paid $160.7 million for the prorated portion of FY 2002, about $240 million less than projected.

TSA still believes that the costs reported by the carriers are not complete as is evidenced by the air carriers' own external auditors being unable to certify the costs that the carriers have provided to TSA. To avoid a lengthy and resource intensive effort to determine actual airline calendar year 2000 screening costs, TSA has asked Congress to set the annual fee at $750 million and requested legislative changes to allow these fees to be assessed and collected in a more equitable fashion amongst the carriers. TSA is sensitive to the economic challenges facing the aviation industry, and we will continue to seek ways to provide appropriate support and assistance for air carriers. TSA is also aware of the concerns of airlines that stronger security measures might create delays in flights and increase frustration for passengers. To reduce the "hassle factor" for passengers, we have eliminated unnecessary questions at the check-in counter, dropped unnecessary rules, and put in place measures to substantially improve our system of gate screening. Today over 90 percent of passengers pass through security screening in 10 minutes or less.

TSA is moving forward on implementation of the Arming Pilots Against Terrorism Act (APATA). Immediately after enactment of APATA in November of last year, as part of the landmark Homeland Security Act of 2002, I chartered a cross-organization task force of experts in law enforcement, security training, aviation, and other disciplines to design the Federal Flight Deck Officer (FFDO) program. The task force is looking at all viable options for the program, such as the best firearms and ammunition to use and the safest methods of transport and storage. The input of a wide range of stakeholders, including pilots, flight attendants, air carriers, and law enforcement agencies, has been invaluable to us in developing the program. The APATA authorizes TSA to fund the necessary training, supervision, and equipment for the FFDO program. I have recently announced the creation of a pilot program that will allow us to quickly screen, train, and deputize approximately 50 pilots. Concurrent with our efforts to stand up the program on a larger scale, the President has requested $25 million in the 2004 budget.

There will only be minimal costs to air carriers for the arming pilot program, but there could be substantial costs for training flight crews on security and self-defense. The APATA requires airlines to provide training by November 24, 2004. TSA has begun the groundwork for a rulemaking with opportunity for public comment on the training requirement. There are erroneous reports that TSA has decided on a regimen of flight crew training that would be burdensome to the carriers and contrary to the intent expressed by Congress in the final enacted legislation. Similarly, there are erroneous reports that TSA is ignoring a clear mandate in the Act that allows a flight crew member to opt out of hands-on-training if the individual believes that such training would have an adverse impact on his or her health or safety. I want to state clearly that I have not made any such decisions, nor has our staff made any recommendations to me on this score. We are only at the initial stages of this process.

TSA is now confronting the next major dimensions in aviation security. With the critical deadlines for passenger security behind us, TSA will turn more of its energy to addressing cargo security. In accordance with ATSA, TSA began securing the nation's airports through passenger and baggage screening. TSA recognized the threat of air cargo and expanded baggage screening to include cargo placed on a passenger plane. There are an estimated 12.5 million tons of air cargo transported per year, 2.8 million tons on passenger planes. The remaining 9.7 million tons of freight is being shipped in cargo planes. This air freight remains a unique threat to the homeland.

The recently released GAO report on the status of aviation cargo highlights many of the concerns and challenges that face both the industry and the TSA. GAO recommended that TSA create a strategic plan that identifies priority actions on the basis of risk, costs, and performance targets, and establishes deadlines for completing those actions. We have begun this process through the establishment of a working group to look at requirements of a mandatory cargo security program—using a threat-based and riskmanaged approach. An important part of this effort is our outreach to the cargo industry. To the extent possible, we will build on many of the security measures they have already been adopted. We intend to move forward as expeditiously as possible in the development and implementation of a comprehensive security program.

In light of this threat, the President is requesting a total of $30 million for an air cargo security pilot program in FY 2004. Of this, $20 million is requested for the design and development of a random, risk-weighted freight screening process and the development of a pre-screened "known" shipper program. An additional $10 million is requested for further research and development to explore new air cargo technologies.

TSA will employ technology and information management solutions to further strengthen cargo security. Our challenge is to find a "workable" nexus between technology and information management that provides a higher degree of security while protecting the economic viability of the air cargo industry.

TSA is working with stakeholders to address the issue of carrying certain classes of currently prohibited mail, an issue we know has economic consequences on passenger air carriers. TSA has implemented a canine detection pilot program at four major airport hubs to test this type of screening as a possible alternative to prohibiting the transport of certain weight mail on passenger carriers.

We are also focusing our efforts on the security of charter aircraft. Aircraft operators are required to ensure that passengers and their accessible baggage are screened prior to passenger boarding. Aircraft operators using schedule and charter, passenger and cargo operations in aircraft with a maximum certificated takeoff weight of 12,500 pounds or more, are required to implement security measures including criminal history record checks on all flight crew members and restricted access to the flight deck. TSA also requires training for ground security coordinators and contingency plan measures for threats against aircraft and ground facilities. TSA's security requirements vary with the size and intended use of aircraft. Larger aircraft chartered for public use, such as those used by tour operators, are generally subject to the same security requirements in sterile areas that we enforce for commercial aircraft.

Security improvements in General Aviation are another high priority for TSA. General Aviation accounts for more than 75 percent of all flights in the U.S. and it encompasses more than 200,000 aircraft, 650,000 pilots, and over 19,000 public and private airports and landing strips. All of the GA associations have taken a proactive approach to educating their members.

On December 2, 2002, TSA implemented a centralized system for General Aviation pilots to report information about suspicious activities. The National Response Center collects information from the General Aviation community through use of a toll-free number, 1–866-GASECURE, and provides notifications to appropriate state and federal agencies. TSA met with major General Aviation associations, such as the General Aviation Manufacturers Association, the Aircraft Owners and Pilots Association (AOPA), and the National Business Aviation Association (NBAA) to formulate an aggressive, integrated program to market the centralized reporting system to all segments of the General Aviation community.

The AOPA has established an Airport Watch program extending the Neighborhood Watch concept to airports. TSA is working with the Civil Air Patrol, the U.S. Air Force, and the AOPA to develop and implement a pilot project that will complement AOPA's Airport Watch Program.

Our overall general aviation strategy for 2003 focuses on three areas—communication and relationship building, activities related to the National Capital Region, and partnership projects that will lead to national policies. Our goal is a framework of appropriate federal security standards for general aviation consistent with the threat. General Aviation is a very diverse community, and "one-size" security certainly does not fit all. We are trying to leverage the resources and knowledge of general aviation stakeholder organizations to develop procedures that are tailored to each segment of general aviation. As you are aware, Reagan National Airport remains closed to General Aviation. I have previously provided the full Committee with a closed briefing on this situation. I will of course keep the Committee informed of any changes to this policy.

In all these areas, TSA is taking interim measures to immediately boost security. Our future steps in these areas will be based on assessments of threat and risk. We will be constantly reviewing and reevaluating our strategies to eliminate potential vulnerabilities and keep pace with changes in technology, transportation, and security threats.

Though your Subcommittee's principal focus is aviation, I know that you are concerned about security in all aspects of our transportation system. As the security manager for the National Transportation System, TSA looks at the range of transportation needs beyond aviation. The Department of Homeland Security will be assessing vulnerabilities across all sectors, and TSA is working with other DHS agencies and Department of Transportation operating administrations to develop security standards that incorporate industry best practices, new technologies, and innovations to create a more uniform level of security across modes, while ensuring minimal disruption to our transportation system. As TSA prepares to leave our home in the Department of Transportation, we remain committed to working closely with DOT and its Operating Administrations on all matters that affect transportation security.

Thank you for the opportunity to appear before your Subcommittee. I will be pleased to answer any questions that you may have.

Senator LOTT. Mr. Mead?

STATEMENT OF HON. KENNETH M. MEAD, INSPECTOR GENERAL, DEPARTMENT OF TRANSPORTATION

Mr. MEAD. Thank you, Mr. Chairman. I'd like to express my appreciation to the panel for their kind words.

I'd like to begin my testimony in a strange way for an inspector general. I'd like to turn to my colleagues here and I'd like to salute them—TSA, the Department, Secretary Mineta, Deputy Secretary Jackson, and Admiral Loy (now Under Secretary Loy)—for the achievements of this past year. I think they have been significant, particularly if you look back to the situation before 9/11.

What I'd like to speak about today, though, sir, are the costs associated with meeting these requirements, what we see ahead, and controlling those costs.

I think it's very important to recognize that what's happened this past year has occurred in an environment where there was virtually no preexisting or established infrastructure for overseeing costs, administration of contracts, or managing human resources. So everything I say should be understood in that context.

We testified in early 2002 that the cost of good security was going to be a lot more than most people, including this body, thought. Before 9/11, there were about 28,000 screeners. They worked for private screening companies who were hired by the airlines. And the cost that the airlines estimated in August of 2001, a month before 9/11, was about a billion dollars annually.

Of course, the security then, and I think we know, was woefully inadequate. The 28,000 number didn't even count screeners that would be needed for the explosive detection machines—in other words, to screen all checked luggage. And today, as Admiral Loy pointed out, TSA is employing about 62,000 screeners at the Nation's airports, and the annual operating capital budget is in the neighborhood of $5.8 billion.

Offsetting revenue, as the Admiral's chart explained, is about $1.7 billion plus $300 million—that's $2 billion. By my math, that means you're about $3 billion or so short. That money is going to have to be made up from the General Fund. Those requirements also don't take into account at all the hundreds of millions of dol-

lars that air carriers and airports will pay for aviation security. I'm not going to dwell on that, because I'm certain that my colleagues from ATA and the airports will give you a further exposition on that. But those costs are hitting at the very time the industry is in extreme financial distress.

I believe, Mr. Chairman, that it's in this context that the overriding goal of TSA must be to provide tight security in a way that avoids waste and ensures cost-effective use of taxpayer dollars. There are two areas I want to speak to here: getting much stronger control over the contracting, and capitalizing on the economies of scale as TSA moves to the Department of Homeland Security.

Because TSA literally had to build from the ground this past year, they relied very heavily on contractors. To give you a perspective on that, TSA contracts have a total value of about $8.5 billion. And we have an agency here that's just given birth—we have $8.5 billion of contracts and a limited infrastructure in place for overseeing them.

When the lack of infrastructure contributed to gaps in contract oversight, that, in turn, led to tremendous growth in some contract costs. For example, one contract with an initial cost estimate of $104 million has grown to about $700 million. We've also identified some weaknesses in controls over contracts of screener companies.

Now, to its credit and as we recommended, this past summer TSA hired the Defense Contract Audit Agency to audit those contracts. So far, DCAA has questioned $124 million, or 20 percent, of the $620 million in costs that it audited.

Let me move to capitalizing on the economies of scale. With the transition to DHS of TSA, Customs, and INS, I think there are some special opportunities here to get some economies of scale that will save money.

First, centralizing administration. The key question is whether TSA is going to have its own separate staff for the lawyers, the budget people, contracting, human resources, and internal affairs, or whether the creation of DHS is going to offer centralized services and control costs in those area. I see that as a fairly early decision point for the new department.

Second, utilizing airport space. At airports, we think TSA ought to consolidate its airport space requirements for things like office space, break rooms, training facilities, and holding cells, with Customs and INS. Customs and INS already have space at many international airports, and we think some opportunities are there.

Third area, TSA ought to avoid mission creep. We've testified on this before, and I think TSA has done a good job of keeping that under control. But recently we heard that they're considering extending the Federal Air Marshals' duties to conducting surveillance and patrolling on the ground at airports. Air marshals were set up to guard airplane flights. And before extending their mission, I hope TSA carefully considers the budgetary and staffing implications of this and discusses them with the FBI and local and State police as well as the airport authority.

We're not at an end state with aviation security. Even though the law had these deadlines of November 19th and December 31st, the heavy lifting and costs lie ahead. Thus far, nearly all of the explosive-detection system equipment has been lobby-installed. But,

at your larger airports, you can't keep them in the lobbies. Over the next two years, you're going to have to install them in the baggage system. And that's going to require facility modifications. The price tag is estimated in the neighborhood of $3 billion. Some people will put it even higher. I've seen estimates go as high as $5 billion. And it has not been settled who's going to pay for that yet.

Another area that needs attention is cargo. The law requires screening of cargo, but doesn't specify a date by which that should be done. And I noticed in Admiral Loy's statement, that's an area that TSA plans to pay attention and emphasize, and that's good.

And let me come to the final area, which is who will pay and how. TSA expenses can't be covered by the current security fees and ticket taxes. So you have to decide how to bridge that gap.

I would urge the Committee to exercise great caution before adding additional fees or taxes for air travel, by whatever name. Consumers already pay a significant amount in aviation taxes and fees. I'm sure you've seen the charts. An example that I have here in my testimony is that a $100 nonstop roundtrip ticket includes approximately $26 in taxes and fees. That means the airline gets $74, and somebody—the Government or the airport—gets the remainder.

With regard to the Airport Improvement Grant Program that has provided some funding in the past for aviation security, we would urge caution before tapping that to any great degree, as well. As a frame of reference here, in 2002, the airports used $561 million of AIP funds for security-related projects. The year before, $56 million.

Now, I testified before this Committee, I can't remember how many times, in the aftermath of the summer of 2000, and I don't think any of us want to relive the summer of 2000 and the delays, the cancellations, the near gridlock in our Nation's aviation system. We need to make sure the capacity issues in our system are addressed now while there's still time to avoid a repeat of the summer of 2000.

I don't see much of a dispute, Mr. Chairman, that aviation security is a matter of national security. You all will have to make the policy decisions of who pays and how much, and I recognize that, but I just wanted to leave you with that word. I would also like to say that whatever we lay down here today with respect to who pays for aviation security, you will face the same questions next year or perhaps the year after, regarding other modes of transportation, like transit, trucking, and maritime.

Thank you, sir.

[The prepared statement of Mr. Mead follows:]

PREPARED STATEMENT OF HON. KENNETH M. MEAD, INSPECTOR GENERAL, DEPARTMENT OF TRANSPORTATION

Mr. Chairman and Members of the Subcommittee:

I appreciate the opportunity to testify on the Transportation Security Administration's (TSA) efforts to meet the legislative deadlines set forth in the Aviation and Transportation Security Act (Act), the costs associated with meeting those requirements, and controlling TSA costs, especially of contracts. Most of TSA's expenditures to date are attributed to securing the Nation's aviation system, and this will be the focus of our testimony today.

Deadlines in the Act—for federalizing the screener workforce and the screening of all checked baggage—were the key cost drivers over the past year, and will be

for some time to come. Over the past 14 months, TSA and the Department of Transportation (DOT) moved forward in standing-up an entirely new organization. Most noteworthy, TSA met the challenge to hire and train a federalized workforce to screen all passengers and their carry-on baggage by November 19, 2002; and, for the most part, to deploy the necessary equipment and federalized workforce to meet the December 31, 2002 deadline to screen all checked baggage. At the same time, TSA significantly expanded the Federal Air Marshals program with more flights being guarded now than any time in history. It is important to note that these accomplishments were occurring in an environment where there was no preexisting infrastructure for overseeing contracts or managing human resources.

Security Costs Are Much Greater Than Anticipated

We testified in April 2002 that the cost of good security would be substantially greater than most had anticipated. Before September 11, 2001, there were approximately 28,000 screeners at the Nation's airports, and the Air Transport Association estimated in August 2001 that the annual security cost for the airline industry totaled about $1 billion. These costs covered activities such as screening, training, and acquisition of security equipment. Today, TSA employs nearly 62,000 screeners at the Nation's airports, (of whom 28,000 are "temporary"), and capital and operating costs for Fiscal Year (FY) 2002 alone exceeded $5.8 billion.

TSA requested $5.3 billion for FY 2003, and the Department of Homeland Security (DHS) requested $4.8 billion just for aviation security in FY 2004. This is projected against FYs 2003 and 2004 revenues from the passenger security fee [1] of about $1.7 billion annually, along with yearly contributions of $300 million from the airlines. Resolving the gap of about $3 billion each year will require a large infusion of cash from the General Fund. This comes at a time when the General Fund is already strained to pay for vastly increased fiscal needs throughout the Federal Government. Also, these requirements do not account for the additional hundreds of millions of dollars that air carriers and airports will pay for aviation security, such as securing cockpit doors, ensuring the security of catering operations, conducting employee background investigations and criminal history checks, and strengthening access controls to secure areas of the airport. These costs are hitting at the very time much of the industry is in extreme financial distress.

Cost Controls Must Be a Priority for TSA

We all recognize that the mission of ensuring that our transportation systems are secure is a tremendous task. Nevertheless, the overriding goal for TSA must be to provide tight and effective security in a manner that avoids waste and ensures cost-effective use of taxpayer dollars. A key cost control issue for TSA is effective contract oversight and managing human resources, and in our work we have highlighted this as a high priority item for TSA as it transitions to DHS.

Because the agency was built from the ground this past year, there was little existing infrastructure in place and TSA had to rely extensively on contractors to support its mission. This lack of infrastructure resulted in a lack of management oversight contributing to tremendous growth in contract costs. For example, one contract with initial cost estimates of $104 million grew to an estimated $700 million. TSA must have the infrastructure to monitor and control its operating costs, especially given the large number and dollar volume of contracts it is managing, about $8.5 billion at the end of calendar year 2002 and continuing to grow.

As we tracked TSA's progress in meeting the deadlines for the deployment of screeners and explosives detection equipment, we identified weaknesses in the controls over the interim contracts with screener companies, the contract for hiring the screener workforce, and the contract for deployment of explosives detection equipment. As we recommended, TSA hired the Defense Contract Audit Agency (DCAA) to audit its major contracts. The DCAA audited costs on the screener contracts and questioned over $124 million of almost $620 million audited. A TSA review of an NCS Pearson subcontractor with $18 million in expenses, determined that between $6 million and $9 million of these expenses appear to be attributed to wasteful and abusive spending practices. We know there are questions regarding the funding of the Boeing contract. We have been asked to look into this, and the use of $500 million from the supplemental appropriation, and we are currently working to answer these questions.

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[1] The passenger security fee is calculated by multiplying the number of enplanements on a ticket by $2.50. A passenger would pay $5.00 on a non-stop roundtrip ticket and $10.00 if there was a connection on the outbound and return trips.

TSA Needs to Capitalize on Economies of Scale

TSA, Customs Service (Customs) and Immigration and Naturalization Service (INS) will be together in one DHS Directorate providing a unique opportunity to capitalize on economies of scale. There are at least three different levels where savings can be realized through economies of scale: (1) centralized administrative services, (2) use of airport space, and (3) use of law enforcement personnel.

- A key cost savings is whether TSA will have its own separate staff and bureaucracy for general counsel, contracting, budgeting, human resources, and internal affairs or whether the creation of DHS will offer centralized services and control costs in these areas. We feel an early decision by DHS as to what central services will be provided to TSA could reduce staff requirements and establish effective cost controls for TSA.
- At individual airports, TSA should explore ways to consolidate its airport space requirements for functions like office space, break rooms, training facilities, and holding cells with other organizations that are merging into DHS. Some of these organizations, such as Customs and INS, already have space at airports, and consolidating these facilities will save resources.
- With the tremendous tasks facing TSA, it is important that the agency avoid extending itself beyond the basic tenets of the Act's requirements. For example, we previously testified that TSA needed to avoid mission creep. While the law is only explicit about a federal law enforcement presence at checkpoints, TSA was considering expanding its law enforcement presence at the airports. TSA later abandoned these plans. However, TSA is now considering extending Federal Air Marshals' duties to conducting surveillance and patrolling at airports. The Federal Air Marshals were set up to guard flights. Before extending their mission, we hope TSA carefully considers the budgetary and staffing implications, and thoroughly vets this issue with airport authorities and federal and local law enforcement agencies.

Aviation Security Is by No Means at an End-State—Most Heavy Lifting and Costs Lie Ahead

TSA made significant progress in meeting the Act's deadlines, but TSA's work is not done and it is far from an "end state" for securing the Nation's aviation system. The requirement that all checked bags undergo explosives detection equipment screening by December 31, 2002, carried a large price tag, estimated at $1.6 billion to date. However, the heavy lifting and costs still lie ahead. This year, TSA will need to complete its "interim solution" for deploying explosives detection equipment to the remaining airports where alternate screening methods are being employed today.

At the same time, TSA needs to move forward with integrating explosives detection systems (EDS) into baggage handling systems at the largest airports. Some estimates put the cost of integrating the equipment upwards of $3 billion. For example, we have seen comprehensive plans for Boston Logan and Dallas/Fort Worth International Airports with estimates for integrating EDS into their baggage handling systems at $146 million and $193 million, respectively. How much it will ultimately cost depends on the type of structural changes required in the baggage make-up area, and the efficiency and reliability of the equipment. At this point, it is unclear how long this integration will take, how much this will cost, and who will have to pay for it.

What is clear is that integrating EDS into the baggage systems at the largest airports will not be the end state. The need to deploy better, more effective equipment to meet current and future threats will be an ongoing need for years to come. We must continue to invest in research and development for cheaper, faster, and more effective equipment for screening passengers, their carry-on and checked baggage, and air cargo. However, we must be responsible in how we spend our research and development funds.

Congress should look for synergy in the new DHS research and development programs. A shotgun approach for funding deployment of a technology before its time will not be efficient. The pressures from vendors to purchase and deploy their products will be significant, and TSA will require the support of Congress to make prudent spending decisions on new and proposed security technologies. Efforts should be focused on the development of technology that can improve security in multiple areas of homeland security, such as technology to screen containers at ports or borders and air cargo.

Decisions Need to Be Made on How to Pay For Security

A major issue on the horizon is funding the next phase of EDS integration. Thus far, nearly all EDS equipment has been lobby-installed. TSA's planned next step (integrating the EDS equipment into airport baggage systems) is by far the most costly aspect of full implementation. The task will not be to simply move the machines from lobbies to baggage handling facilities but will require major facility modifications.

A key question is who will pay for those costs and how. The difference between TSA expenses and current aviation security revenues from taxes and airline fees cannot be covered by cost savings alone. The means for bridging this gap needs to be decided—to what extent it will be accomplished through the General Fund of the Treasury or aviation system users, which ultimately means passengers, airlines, and airports.

We urge great caution before adding additional fees or taxes for air travel. Consumers already pay a significant amount in aviation taxes and fees. For example, a $100 non-stop round trip ticket includes approximately $26 (26 percent) in taxes and fees. Put differently, the airlines receive approximately $74 and the government[2] gets $26. A $200 single-connection round trip ticket includes approximately $51 (26 percent) in taxes and fees. Here the airline gets approximately $149 and the government gets $51. The current financial state of the airline industry will make it difficult for air carriers or their passengers to pay the billions of dollars required each year to cover TSA's expenses.

While the current Airport Improvement Program (AIP) has provided some funding in the past for aviation security, we urge caution in tapping this program until we have a firm handle on airport safety and capacity requirements. In FY 2002, airports used over $561 million of AIP funds for security-related projects. In contrast only about $56 million in AIP funds were used for security in FY 2001. Continuing to use a significant portion of AIP funds on security projects will have an impact on airports' abilities to fund capacity projects.

We also need to remember the conditions of the summer of 2000—with its delays, cancellations, and near system gridlock. We need to make sure capacity issues are addressed now, while there is still time to avoid a repeat of the summer of 2000.

The most likely options for meeting TSA's financial requirements over and above the existing revenues are for the General Fund to continue to pay a large portion of security costs, along with strong contract oversight and cost controls. While we do not see much of a dispute that aviation security is a matter of national security, Congress will ultimately have to make a decision about how these costs will be paid for and the proper mix between airlines, airports, passengers, and the General Fund. I should also underscore, Mr. Chairman, that while the debate today is on aviation security, you will also face these same questions regarding other modes of transportation—rail, transit, trucking, pipelines, and maritime.

Capital Costs: TSA Needs to Build Efficiencies Into Existing Deployment Efforts and Improve Performance of Existing and Future Technologies

Everyone recognizes that the challenge TSA faced in meeting the statutory December 31st deadline to screen 100 percent of checked baggage was both unprecedented and monumental. An effort of this magnitude—an estimated 1,100 explosives detection systems (EDS) and 5,000 explosives trace detection (trace) machines deployed—was one that had never been undertaken on a scale of this magnitude, with very little experience to draw on, and even less time to make judgments on what might be more cost-effective.

TSA now faces significant challenges in controlling its capital costs, particularly in terms of moving from the system that now exists to screen all checked baggage toward a solution that moves the screening operations from airport lobbies into the baggage handling systems at the Nation's largest airports. TSA needs to ensure that equipment is properly integrated into airport baggage systems, and that it can be relied on to perform as expected. At the same time, TSA needs to begin fulfilling its additional equipment needs, completing the integration of EDS into airport baggage handling systems, upgrading equipment at passenger screening checkpoints, prototyping new systems for screening checked baggage, and developing its future equipment needs for screening cargo and mail.

Moving Toward an In-Line Solution: Checked Baggage Screening. Although TSA made every effort to meet the December 31st deadline to screen all checked baggage using explosives detection equipment, deployment of the equipment was not completed at all the Nation's commercial airports. At airports where deployment was

[2] In this case, government includes both the Federal Government and airport authorities.

not completed, TSA exercises its authority to implement alternate screening methods. These alternate methods are short-term, temporary solutions for screening checked baggage as TSA continues with its deployment efforts.

To meet the deadline, TSA executed a two-phase deployment approach. In the initial phase for screening all checked baggage, some airports use EDS, with trace machines used only for resolving alarms; others use trace machines exclusively; and some use a mix of EDS and trace machines.

In phase two, at a future date that is not yet firm, TSA will move the EDS machines into baggage systems at the largest airports. It is unclear how much this will cost and who will have to pay for it. While integrating EDS machines into airport baggage handling systems takes substantially more up-front capital, future cost savings could be realized with a reduction in annual labor costs. Lobby-installed EDS machines and trace detection machines require twice the number of screeners compared to integrated EDS machines.

The ultimate funding needs of TSA will be most affected by who assumes the costs of integrating the equipment—airports or TSA—and how it will be paid for. Some estimates put the costs of integrating the equipment upwards of $3 billion, depending on whose estimates are the most reliable with respect to the nature and type of structural changes required to install EDS machines. Most estimates we have seen are based on a "rough order of magnitude" and are more than likely subject to change. However, we have seen comprehensive plans for both Boston Logan and Dallas/Fort Worth International Airports with estimates for integrating EDS into their baggage handling systems at $146 million and $193 million, respectively.

In an effort to provide some relief to the airport community for costs associated with EDS and trace machine installations, Congress, in TSA's FY 2002 supplemental appropriation, provided a $738 million set-aside for "physical modification of commercial service airports for the purpose of installing EDS and trace machines." There now appears to be some question as to whether the set-aside was spent for its intended purpose. In a joint letter to Secretary Mineta, dated January 30, 2003, the American Association of Airport Executives and the Airports Council International reported they had learned that $500 million of the $738 million was shifted to fund the Boeing contract.

Boeing was tasked to (1) complete airport site assessments at over 400 airports; (2) submit to TSA a proposal on the right mix of equipment for each airport and where the equipment will be installed; (3) modify facilities to accommodate the equipment; (4) install and make the equipment operational; (5) maintain the equipment; and (6) train a screening workforce. Boeing's contract does not include the purchase of explosives detection equipment, which will be funded separately by TSA.

TSA agrees that $500 million of the $738 million was used to fund the Boeing contract and views using the $500 million toward Boeing's efforts as appropriate. We have been requested to look into this, and the use of $500 million from the supplemental appropriation, and we are currently working to answer these questions.

Fulfilling Near-Term and Future Equipment Needs. Over the next 2 to 5 years, TSA can be expected to purchase additional equipment for completing the integration of EDS into airport baggage handling systems, upgraded equipment needs at passenger screening checkpoints, and prototyping new systems for screening checked baggage. Over this period, TSA has opportunities to refine its deployment and procurement strategies in order to better identify its equipment needs.

The requirement that all checked bags undergo explosives detection equipment screening by December 31, 2002, carried a large price tag, estimated at a cost of $1.6 billion. This does not include the cost of additional EDS machines needed for integrated systems to replace explosives trace detection devices currently used for screening checked baggage. Also, some models of EDS currently deployed are not suited for in-line systems as their capacity rates make them better suited as lobby-installed or stand-alone machines. Modeling of airline passenger and baggage flows also needs to be as precise as possible—factoring in future capacity demands—so that machines purchased best meet capacity demands.

Although equipment used in screening passengers and their carry-on bags has been in place at airports for over 2 decades, little has changed in the technology used. Existing x-ray machines for screening carry-on baggage do not automatically detect for explosives. Congress provided TSA with $23 million for the deployment of enhanced walk-through metal detectors. TSA has spent about $12.6 million to purchase and install approximately 1,345 detectors.

TSA also has an ongoing pilot program to field test explosives trace detection portals for screening passengers. In the immediate future (less than 1 year), this technology could prove to be the best technology available for screening passengers for

both concealed metallic threat objects and bombs. We should know in less than a year whether this technology is best suited for screening passengers.

An area that has received little attention, to date, is the actual screening of cargo using EDS. This will be an area that TSA needs to move forward on now that the Aviation and Transportation Security Act requires the screening of all cargo. This requirement was not tied to any specific deadline, unlike the requirement to screen all checked baggage using explosives detection systems by December 31, 2002.

The capital costs to deploy a certified machine to screen cargo, if one becomes available, could far exceed the costs for deploying EDS to screen checked baggage. Machines that are available for screening cargo, albeit not certified by TSA, cost as much as $10 million, compared to less than $1 million for an EDS. Machines for screening cargo are also bulky and costly to install. For the time being, there are not many attractive emerging technology options available for screening cargo. Almost any credible scenario involves breaking palletized or other bulk shipped cargo into its smaller component parts for screening.

Research and Development Efforts. Over the years, the Government has provided funding for developing prototypes; establishing pilot programs; furthering research, engineering, and development; and purchasing and deploying new aviation security technologies. As we move to improve homeland security, including aviation security, it is critical that security equipment also continue to be improved to face new and evolving threats.

To the greatest extent practicable, TSA should test and evaluate promising products operationally, using pilot programs at a variety of different size airports in several geographic and demographic areas, before committing large sums of money to full-rate-of-production contracts. This is important because pilot programs offer an opportunity to demonstrate clearly how the product will perform in its intended environment when used by typical operators.

As TSA moves to the Department of Homeland Security, it should also look at technology being developed for other homeland security areas as a potential area for new transportation security technology. Technology is another area where economies of scale could be realized, and Congress should look for synergy in the new Department's research and development programs. For example, technology developed to screen cargo containers on the border or shipping containers may one day be refined to a level where it could be used to screen air cargo.

Operating Costs: Tightening the Reins on TSA Recurring Costs

While deadlines were without a doubt driving factors behind TSA's efforts thus far, TSA must now devote significant efforts towards building an effective infrastructure for controlling costs. The overriding goal for TSA must be to provide tight and effective security that ensures cost-effective use of taxpayer dollars. TSA faces significant challenges in controlling its operating costs, particularly in terms of overseeing contracts and controlling workforce costs.

Contract Oversight. TSA initially (and understandably) focused its resources on hiring and training a screening workforce and deploying sufficient explosives detection equipment. This was an enormous undertaking requiring billions of dollars by an organization building from the ground up while facing tight statutory deadlines and the need to move out expeditiously. However, the lack of pre-existing infrastructure for controlling costs resulted in a lack of management oversight contributing to tremendous growth in contract costs.

For example, one contract with initial cost estimates of $104 million grew to an estimated $700 million. TSA must build the infrastructure needed to monitor and control its operating costs, especially given the large number and dollar volume of contracts it is managing (about $8.5 billion at the end of calendar year 2002 and continuing to grow).

As we noted in the DOT Top Management Challenges report issued on January 21, 2003, TSA faces significant challenges in providing effective security in a way that avoids waste of taxpayer dollars. During the early months of TSA's formation, the agency relied on the expertise of other DOT contracting offices until it hired staff. As we tracked TSA's progress in meeting the deadlines for the deployment of screeners and explosives detection equipment, we identified weakness in the controls over the interim contracts with screener companies, the contract for hiring the screener workforce, and the contract for deployment of explosives detection equipment. Because of the lack of infrastructure, we recommended TSA hire DCAA to audit costs on the screener contracts. TSA adopted our recommendations, and DCAA has so far questioned over $124 million of almost $620 million in costs audited.

- *Interim Contracts With Screener Companies*. As required by the Act, TSA assumed responsibility for passenger screening at all U.S. commercial airports on February 17, 2002. TSA contracted with 74 incumbent screener companies to

continue the day-to-day operations until a federal screener workforce was hired, trained, and deployed. TSA obligated over $1 billion for the interim screener contracts.

We audited TSA's oversight of the screener contracts and found that TSA still had not negotiated final rates for 61 of 74 contractors, including the 13 contractors that accounted for 93 percent of the $1 billion obligated for the contracts. We also found that six contractors charged TSA substantially higher hourly billing rates than they charged air carriers for similar services. While we recognize some cost increases were reasonable given the need to keep sufficient staff to run the checkpoints, many costs appeared excessive. Comparing hourly rates charged air carriers to the rates charged TSA, and using the same work hours through November 19, 2002, we estimate that the six contractors would charge TSA about $305 million more than they would have charged air carriers.

TSA identified several factors that contributed to the problems experienced, including the number of agreements, the screening companies' lack of familiarity with federal contracts, and lack of operational staff at the airports. In August, TSA reached agreements with the Defense Contract Management Agency (DCMA) to administer, and DCAA to audit, the 74 screener contracts.

Much has been done by TSA, through the assistance of DCMA and DCAA, to obtain pricing and audit costs, to definitize the letter contracts, and to ensure that final payments to the contractors represented actual costs incurred. To date, cost and pricing data have been obtained from 9 of the 13 larger contractors and proposal audits have been completed for 8 of the 9. For the eight completed proposal audits, the proposals totaled $340 million, and DCAA questioned nearly $80 million of that amount. Voucher audits have been completed for two of the other four large contractors, and DCAA questioned more than $6 million of $127 million audited. This leaves three of the larger contractors where the audits were not completed, and DCAA has thus far questioned another $38 million.

TSA has detailed the corrective action it has taken, including directing DCMA to withhold contractor payments until the DCAA audits are completed and the final hourly billing rates have been negotiated. TSA indicated that it is currently holding over $90 million in invoice payments to the largest contractors. TSA expects all outstanding issues regarding the screening company contracts to be closed by late April 2003.

- *Contract for Hiring the Screener Workforce*. On February 27, 2002, TSA contracted for NCS Pearson to recruit, assess, and hire the nationwide screener workforce, and to provide human resources support for all TSA employees. The contract was a labor and materials cost contract that obligated TSA to reimburse NCS Pearson for the actual costs of services provided with no contractual requirements or incentives to control and contain expenses. During the period of the contract, from February to December 2002, the overall cost of the contract grew from $104 million to an estimated cost of $700 million.

  During the contract period, TSA personnel focused on the hiring and deployment of screeners, but provided limited oversight for the management of the contract expenses. Although obligations are normally made prior to expenses being incurred, NCS Pearson incurred over $135 million of expenses during July and August 2002, but TSA did not obligate funds to cover these expenses until September. In addition, it was not until November 4, 2002, that TSA obligated sufficient funds to cover all the costs incurred in September and October, which exceeded $160 million in each of those 2 months.

  By September 2002, TSA was concerned by the rising cost of the contract, and in October 2002, it initiated a preliminary review of NCS Pearson's financial management of subcontractor expenses. TSA reviewed one subcontractor with $18 million of expenses charged to the contract. TSA determined that between $6 million and $9 million of the expenses appeared to be attributed to wasteful and abusive spending practices. TSA attributes this problem to "the complete breakdown of management controls at NCS [Pearson]" and failure of the subcontractor to exercise reasonable care in expenditures for equipment and warranty, and for employee travel. To its credit, TSA hired DCAA to audit expenses claimed under the NCS Pearson contract.

  TSA has contracted with two different companies, one for hiring and one for human resources support, to provide these services beginning in January 2003. Some personnel files from NCS Pearson did not comply with Office of Personnel Management requirements. Therefore, TSA directed the two new contractors to review all personnel files and data records provided by NCS Pearson and to sep-

arately track costs for correcting any identified errors or deficiencies in the files. TSA intends to charge NCS Pearson back for the costs needed to correct the identified deficiencies. However, TSA also needs to capitalize on the lessons learned from the NCS Pearson contract and closely monitor the new contractors' performance and costs.

- *Contract for Deploying, Improving and Maintaining Explosives Detection Equipment.* On June 7, 2002, TSA entered into a $508 million cost plus award fee type contract with Boeing Service Company to deploy EDS and ETD machines to the Nation's airports and to train the checked baggage screener workforce needed to operate the equipment. The period of performance for this contract was to expire on December 31, 2002. However, upon realizing that not all airports would be completed by the deadline, TSA issued a contract modification on December 23, 2002, to extend the period of performance to December 31, 2003.

  To date, TSA has funded $542 million on the contract exclusive of change orders. This amount is likely to increase substantially as Boeing submits change orders to TSA for negotiation. Multiple change orders for an individual airport can be submitted and may be substantial. For example, TSA has approved seven of the eight change orders submitted by Boeing for Portland International Airport. These seven change orders total approximately $402,000. To date, systemwide change orders totaling $13.1 million have been submitted to TSA.

  TSA must provide continuous oversight and tight controls over the Boeing contract and closely monitor individual change orders and their cumulative effect on total contract costs. The agency has proposed engaging DCAA to audit the Boeing contract, but has yet to act on this. By doing so, this will serve as a means of ensuring that Boeing's cost and pricing data are accurate and allowable under the terms of the contract.

  Another area of concern is that of continuous improvement for the EDS machines. Both EDS manufacturers are contractually obligated to continue developing a product improvement program that decreases the false alarm rates experienced by their already deployed machines. At the same time, Boeing is also contractually obligated to work with TSA and the EDS manufacturers to develop a solution to improve the false alarm rates. It is unclear to us how Boeing's work regarding continuous improvement differs from that of the EDS manufacturers. In our opinion, there is a great potential for duplication of effort. To date, Boeing has been paid $7.6 million for continuous improvement efforts.

  TSA needs to bring clarity to the scope of this contract. Originally, the EDS manufacturers were responsible for performing maintenance on the equipment during the warranty period; however, maintenance responsibility was also included in the Boeing contract. Although TSA has recently exercised its option for Boeing to provide maintenance service, the EDS manufacturers and Boeing have yet to resolve the scope of the services to be provided. This becomes extremely important as the warranty period for the equipment expires.

Controlling Workforce Costs and Capitalizing on Economies of Scale. In previous testimonies, we have reported areas where TSA can improve its cost controls. For example, in June 2002, we expressed concerns regarding the number of positions being created with salaries in excess of $100,000. While we have seen improvements in this area, there are other opportunities that need to be further addressed by TSA such as better utilizing part-time positions and capitalizing on economies of scale in the organization of the Department of Homeland Security.

- *Controlling Workforce Costs.* As part of TSA's FY 2002 supplemental appropriation, Congress capped TSA's hiring at 45,000 full-time permanent positions. However, as of December 31, 2002, TSA had a total workforce of about 66,000 employees. Of these 66,000 employees, approximately 28,000 were hired under temporary appointments and, according to TSA, are not subject to the congressionally mandated staffing cap.

  We have previously testified on the need for TSA to control its workforce costs by making full use of part-time positions to better match screener staffing to passenger flows at many airports. In June 2002, TSA announced that 20 percent of its total screener workforce would be part-time and seasonal positions. However, as of December 31, 2002, only 1,225 (approximately 2 percent) of TSA's total screener workforce were part-time employees.

- *Capitalizing on Economies of Scale.* The new Department of Homeland Security has significant implications for TSA in terms of activities TSA anticipated per-

forming and staffing up for. These include intelligence gathering and analysis, criminal investigations, administrative support, and space requirements at airports. The new Department offers economies of scale in many areas including general counsel, budget, contracting, internal affairs, and human resources.

We previously testified on the need for TSA to capitalize on the economics of scale. Specifically, in April 2002, we testified on TSA's plans to assume numerous law enforcement responsibilities that seemed to us to be beyond the basic tenets of the Act. Although TSA subsequently abandoned that plan, we have been advised by TSA that duties of Federal Air Marshals may be extended to include surveillance and patrolling at airports. With the tremendous tasks facing TSA, it is important that the agency avoid extending itself beyond the basic tenets of the Act's requirements.

There are also opportunities for economies of scale in terms of airport space. The deployment of 62,000 screeners, reconfiguration of screening checkpoints, and installation of explosives detection equipment, require considerable use of the limited space available at airports. Now that this workforce is in place, additional needs for administrative and support space are being identified. For example, the Federal Security Directors must ensure an adequate sized training room is established at each airport to support continuing, computer-based training for screeners.

TSA should explore the consolidation of its administrative, training, and support space with the administrative space now used by other agencies that will be part of DHS, such as the Customs and the INS, at the major international airports. The impending reorganization of these agencies under the same Directorate within DHS provides a unique opportunity for the consolidation of administrative space and possible administrative support activities.

- *Leasing Vehicles.* The Federal Air Marshals program, as with any law enforcement function, has a need to lease government owned vehicles (GOV). However, the decision on how many and what type of vehicles to lease was not well thought out. The decision that each field office would get 12 GOVs and the majority of the GOVs would be Sport Utility Vehicles and Passenger Vans was costly. Annual leasing rates for the current FAM fleet are about $1 million. TSA could save about $200,000 a year if the FAM program leased all midsized sedans instead of a mix of Sport Utility Vehicles and Passenger Vans.

  This savings does not include the cost for the mileage rate charged per vehicle. Mileage rates for SUVs are 39 percent higher than the mileage rates charged for midsized sedans. If an SUV is driven 12,000 miles per year compared to the same mileage for a midsized sedan, the annual mileage expense for the SUV would be about $1,000 higher than the mileage expense for a midsized sedan. Additional annual cost savings could be realized if TSA reduced the number of vehicles leased by determining the actual need for GOVs by field office location.

Funding: Decisions Need to be Made Over Who Will Pay for What and in What Amounts.

It is now very clear that the cost of good security is significant. In November 2001, when the Aviation and Transportation Security Act passed, the only financial data available were "best guesses"—that security costs for airlines were somewhere around $1 billion annually, and that there were between 28,000 and 30,000 screeners. Today, TSA employs nearly 62,000 screeners (of whom 28,000 are "temporary") and capital and operating costs for FY 2002 alone exceeded $5.8 billion.

It is also now very clear that the revenues established by the Act will pay for only a fraction of TSA's costs. The means for bridging this gap need to be defined—whether it is accomplished through revenue from fees, airline contributions, airport funds, and/or direct appropriations from the General Fund. Clearly, there are difficult decisions to be made over who will pay for what, in what amount, and from what funding source.

Revenues Created by the Aviation and Transportation Security Act Cover Only a Fraction of TSA's Costs. Although the Act created several new revenue sources to pay for the costs of additional security, it is now evident that the passenger security fee will pay for only a fraction of TSA's costs. For example, current estimates are that the passenger security fee will generate only about $1.66 billion in FY 2003 and $1.74 billion in FY 2004. To meet TSA's FY 2003 budget of $5.3 billion using only proceeds from the security fee, we estimate the fee would have to be raised from the current $2.50 per flight segment to almost $8 per flight segment. This means that, on a round trip flight with one connection each way, a passenger would pay over $32 in security fees alone.

Consumers already pay a significant amount in aviation taxes and fees. For example, according to the Air Transport Association, a $100 non-stop round trip ticket includes approximately $26 (26 percent) in taxes and fees. A $200 single-connection round trip ticket includes approximately $51 (26 percent) in taxes and fees.

The Act also allowed TSA to impose an aviation security fee on air carriers based on the amount each air carrier paid for screening passengers and property in calendar year (CY) 2000. In August 2001, prior to the passage of the Act, the Air Transport Association estimated that the annual security requirements for the airline industry totaled about $1 billion for activities such as screening, training, and acquisition of security equipment. Based on further industry data on security costs, TSA projected collections of about $750 million annually from air carriers. However, based on the certified submissions by air carriers for CY 2000, TSA now expects to only collect about $300 million annually for this fee. This leaves a difference of $450 million annually that will not be paid by air carriers and will have a significant impact on TSA's funding requirements.

TSA had proposed that Congress legislatively establish the fee at a flat rate of $750 million per year, which TSA proposed apportioning among air carriers based on their share of market or other appropriate means. However, the 107th Congress did not act on that proposal, and this remains an open issue.

A Key Question Is the Amount of Airport Funds That Should Be Used for Security. In FY 2002, airports used an unprecedented amount of AIP funds for security-related projects. In the past 10 years, only about 1.5 percent of AIP funds were used for security, while 17 percent of AIP funds (or over $561 million) were spent on security-related projects in FY 2002. Despite this increase, FAA was able to fund safety, security, and capacity-related projects in FY 2002 largely because of a record carryover in AIP funds from previous years. However, it is evident that if the level of AIP funds committed to security continues, there will be trade-offs in other airport programs.

A major issue on the horizon for airports is funding the next phase of EDS integration. Thus far, nearly all EDS equipment has been lobby-installed or stand-alone. TSA's planned next step (integrating the EDS equipment into airport baggage systems) is by far the most costly aspect of full implementation. The task will not be to simply move the machines from lobbies to baggage handling facilities but will require major facility modifications. For example, modifications needed to place EDS equipment in-line at Boston's Logan International Airport are estimated at $146 million. Dallas/Fort Worth International estimates that placing EDS in-line will cost nearly $193 million.

A key question is who will pay for those costs. AIP funds as well as passenger facility charges are eligible sources for funding this work. However, using those funds for security could have implications on long-term capacity projects (such as building new runways). While the current AIP has provided some funding in the past for aviation security, we urge caution in tapping this program until we have a firm handle on airport safety and capacity requirements.

We will also remember the conditions of the summer of 2000—with its delays, cancellations, and near system gridlock. We need to make sure capacity issues are addressed now, while there is still time to avoid a repeat of the summer of 2000.

The most likely option for meeting TSA's financial requirements over and above the existing revenues are for the General Fund to continue to pay a large portion of security costs, along with strong contract oversight and cost controls. While we do not see much of a dispute that aviation security is a matter of national security, Congress will ultimately have to make a decision about how these costs will be paid for and the proper mix between airlines, airports, passengers, and the General Fund. I should also underscore, Mr. Chairman, that while the debate today is on aviation security, you will also face these same questions regarding other modes of transportation—rail, transit, trucking, pipelines, and maritime.

That concludes my statement Mr. Chairman. I would be pleased to address any questions you or other Members of the Subcommittee might have.

Senator LOTT. Well, thank you, Mr. Mead. That was a very interesting presentation, and you touched on a number of subjects that we wanted to have addressed here.

But let me go back to Admiral Loy and join in the expressions of appreciation and commendation for the job that you have done that we have heard from Mr. Mead and Senator McCain and Wyden. I think you really have been—you've undertaken a major task, and I think you've done a great job with it.

Admiral LOY. Thank you, sir.

Senator LOTT. But there is, obviously, a lot more to do. We—you did have to do it with a specified amount of money in a specified period of time, and you did have to start from zero and go to sixty, and when you have to do that sort of thing, you know, maybe you do make some mistakes normally or you overbuild in certain respects and you don't quite do enough in others, and we know we've got other issues we have to address. And so we need to get your input about how to handle that.

I, personally, feel that TSA has been doing a good job. The workers, you're right, the diversity is very impressive. I think that they—the esprit de corps, their attitude seems to be good, and I hope we can maintain that and not lose it, you know, a couple of years from now. You do—it does seem like there are a lot of them in some of these airports. Maybe that's critical. But they're very visible, and maybe that's a part of why I do also feel that we are safer as a result of what has been done—being done by TSA.

But there are a number of questions that we need to address, and let me try to wrap the cost questions, sort of—maybe three parts, into one question. For instance, the point was made, I believe by Mr. Mead, that AIP funds have been used for security costs. I don't—we can't allow that to continue, because, while security is important, if we don't address the improvement needs which gets to safety and capacity and everything else, we're going to have a problem of a different kind. I guess maybe some of these costs were one-time costs, and, therefore, it won't be necessary to have that continue.

But, you know, I'd like for you to speak to the AIP problem. We're going to have the costs—we're going to have to design the system of having armed pilots. We're going to have to assess the cost of that. Their cockpit doors, as I understand it from talking to the airlines and to you and to others, basically we authorized 500 million for reimbursement for these cockpit kits that were installed on the doors, and the costs, probably somewhere between two- and three-hundred million, I guess. And we have provided a hundred million, I think is what we expect to get, I guess, in the Omnibus bill, is that correct? Or have we provided that——

Admiral LOY. No, sir. The FAA is in the process of——

Senator LOTT. They've got a hundred——

Admiral LOY.—of providing up to a hundred million over the course of the last two fiscal years.

Senator LOTT. Well, there's a specific area where I think we ordered this, and we indicated we were authorizing payment if we were going to pay for it, and we haven't done it. So—and then there's also the problem with, you know, what the airports operators have had to deal with.

So just deal, if you will, on that combination of cost questions. What is it going to be in the future? And who should be bearing these costs? Because I think the airlines and airports have been having to bear costs that really the Government should be paying for.

Admiral LOY. Yes, sir. Let me just, if I may, run down your list as I jotted it down. The "lots of them" comment is a—I think, a valid comment, sir. If we were going to err, I consciously wanted

to err on the side of surging capability there to meet the congressionally mandated deadline. And if you look at the intended slope of where we want to go across the next two fiscal years, we will go from about 60,000 at the moment, a combination, by the way, of full-time, permanent, and part-time employees, down to 51,000 by the end of fiscal 2003, and on down to about 48,000 screeners by the end of fiscal 2004.

Now, there's a variety of things that enable us to be doing that, sir, as you know. One of them is just efficiencies. And, as you described, I want that mix at the other end of the fiscal year to be a mix of full-time, permanent, and part-timers, where we have learned the lessons of peak and valley management across the days and the weeks at any given airport, and allowing FSDs—I'd love nothing more, sir, than by the time the FY05 cycle rolls around, that if I'm an FSD at a major airport, I get a budget that I have to live within; and it's not a matter of dictating how many screeners or how much of this or how much of that, but within the framework of a good management game plan, the FSD is empowered and delegated and entrusted to do the very best security job he can at that airport within a given budget.

As to AIP funds, I think, in the—in the aftermath of the tragedy, there simply were no mechanisms around to be used artfully in the process of grappling with the costs that we were facing. AIP, as Ken mentioned, offered a mechanism in place that, through the FAA and through its process of providing AIP grants, could actually get dollars to the airports quickly when they needed them. And so the $561 million level was where we were in 2002. I would like to think that there may be one last bite at the apple, in terms of a high-priority security set of programs in FY03. But I acknowledge, sir, absolutely, that the intention of operating expenses and capacity improvements, in terms of what AIP is originally designed for, is where we should be ending up in that regard.

As far as the—a flight deck—I'm sorry, the Federal Flight Deck Officer program is concerned, arming pilots against terrorism, regardless of what my personal feelings might have been, was an enormously popular thing here—87 to 6 in the Senate, a three-to-one vote in the House—and we are designing exactly to the date that was required—that is, by February the 25th, just a couple of weeks from now—a program that will be paid for largely by—not by the airlines; it'll be paid for by the Federal Government. That's what the law intends.

We have, within our enormously foreshortened budget in the CR and which we've been laboring under for months now, set aside enough money to do a prototype of the FFDO program wherein we can learn the lessons we need to learn to go to a more enhanced program if and when the Congress so funds that in the FY03 Omnibus bill for 2003, and the President has asked for $25 million in the 2004 budget to continue the program on into that. But that's, that, in my mind, should be, as you say, sir, a Government-funded program. We'll buy the equipment, we'll do the training, we'll do whatever is the various dimensions of the program.

One of the—one of the elements of that, as you and I discussed in your office, sir, is the training capabilities and whether we use the federal facilities that FLTC offers. I believe that's the right

place, especially to do the prototype. Because at the other end of the day, I'm the guy that's going to have to deputize these guys to put a gun in their hands and do the right thing in the middle of an airplane at 30,000 feet. So I am very concerned that we do that right.

And is there an opportunity down the road for a private-sector training opportunity? Absolutely. We've gotten in touch with Mr. Shaw. We have—we're making arrangements to hear him out, in terms of his particular opportunity that he would offer. But, across the board, there very well may be a private-sector opportunity to do that right.

Cockpit doors? What was authorized and what was appropriated and what turned into $100 million going to the airlines to do the job is exactly as you have described it, sir. On the other hand, the certification process that FAA was responsible for to get the cockpit door packages available to the airlines is going very well. We're at about 92 percent of the 6,000 airplanes right now that have certified packages available to them to do the job. Another 7 percent is forthcoming, so we're just about there by the April 9, 2003, deadline for that program.

In terms of installation, we're at about 40 percent as I last checked with the FAA administrator, so the program is marching along the path it's designed to march along.

In terms of who pays? As Ken says, the bottom line is always "who pays." We have provided—not we—the FAA, who is responsible for the program, has provided that $100 million on the way to what appears to be about a $300 million bill.

Last, the general notion of airport operators and the—you know, the challenge they have as part of this. One of the things that I would like to point out is the—is the deep reach that I tried, personally, to engage, with Chip at AAAE, with his counterpart, Mr. Plavin, at ACINA, and with hosts of airport directors, who—to whom I gave my personal number to make sure that in the engagement process, we heard from them and listened very carefully as—to allow them to be part of what was going on at the table.

Senator LOTT. We've got senators that push the hardest for this legislation all here this afternoon. And certainly one of those that led the way in creating TSA and getting this legislation through is Senator Hollings, from South Carolina.

So, Senator Hollings, since you didn't get to make an opening statement and since you're one of the fathers of this——

STATEMENT OF HON. ERNEST F. HOLLINGS,
U.S. SENATOR FROM SOUTH CAROLINA

Senator HOLLINGS. I've got to yield to my chairman.

Senator MCCAIN. No, no. Please.

Senator HOLLINGS. OK. Let me ask consent to place in the record a statement by Senator Boxer in which she calls for counter measures to be placed on commercial aircraft to defend against shoulder-fired missiles.

Senator LOTT. Without objection.

Senator HOLLINGS. I appreciate it very much.*

*The information referred to is in the Appendix.

And, right to the point, you've brought order out of chaos, Admiral Loy. And it was discombobulated. They were more worried about furniture, office furniture and all that nonsense, really bureaucratic, and you've cleaned it up, and you've got our gratitude, I can tell you that. We feel a lot better about the entire program.

When you talk about the training—I'm getting to the hardening of the doors now, and I'm getting to that pistol and so forth—let's continue to study. You're not training anybody to commit suicide. The challenge is, five fellows that are ready to commit suicide. So how do you defend against that? You secure the cockpit door. You can send all these people down to FLETC all they want, and how they're going to shoot accurate and all of that—bah, humbug. You're not going to do it. So let's live in the real world and get on with the hardening of the doors, and then come back to the Israeli approach of—if there's any disturbance, go down to the ground, and law enforcement meets you. And they've never had a hijacking.

How about the hardening of the doors? You say 300 million? They are only 40 percent installed. That's what I want to know about.

Admiral LOY. They're about 40 percent installed, sir. All of the packages have now been certified, so that the processes of getting on with the installation is available through the FAA to the airlines. But, at this particular point, as of—January 24th, I think was the last data I saw—they're at about 40 percent in the installed fleet. So of the 6,000 airframes that we're talking about, somewhere in the—in the 2500 ball game have actually got the doors aboard.

Senator HOLLINGS. And is there money there to do it?

Admiral LOY. The money is the question, sir. And the FAA is——

Senator HOLLINGS. Well, what's the answer, then? How much money do we need? And is it in the budget?

Admiral LOY. Oh, I think it's a—it's a pretty—well, I don't know what's in the budget, sir, you know, given we don't have a budget yet for 2003. But it's about a $300 million program to which the FAA is already processing about $100 million.

Senator HOLLINGS. But, I mean, in 2004—we just had a hearing this morning with the director of the budget on the 2004 budget, and that's what we're trying to determine, that you get enough money. That's really one of the big interests we have here at the committee level.

Admiral LOY. Yes, sir. Well, the deadline for this program is April 9th this year, 2003——

Senator HOLLINGS. Right.

Admiral LOY.—a couple of months from now.

Senator HOLLINGS. Right.

Admiral LOY. So I would like to think that we would be done with this program and have the need for no money as it relates to hardened doors, other than new manufacturers, which will make a—that'll be the easy part to do it then.

Senator HOLLINGS. How about the—not just the hardening of the doors, but the EDS systems and everything else? Do you have enough money—what money—I'm back to what we had early this money and what we had before this Committee.

Mr. Chairman, we're part of that disaster down there at—the Columbia disaster. There's no question in my mind. You see, we sit up here, as politicians, and we follow the needs of the country. I'm for defense, I'm for homeland security, I'm for the airports, I'm for the healthcare, I'm for this, I'm for that, and then we get around to the needs of the campaign, I'm for tax cuts.

And so what happens for 15 years around here—you could see it, and I told Sean O'Keefe, when he first came onboard, I said, "You can't afford both that there space station"—started off at 8 billion, went up to 100 billion—"and you can't afford them to keep that going and keep your shuttle program going." And I favor the shuttle program. I told him that. I said, "We've been neglecting that." That vehicle was supposed to last, at best, 10 years. They're talking about safety upgrades now of 500 million or 600 million. They're not safety upgrades. You need a new-designed vehicle, because those particular tiles, they flew off the very first flight, Mr. Chairman, and they continue to fly off. And so what you need is a new research and design and a new shuttle and those kind of things, and we're not giving them the money.

And I know we struggle with seaport security, and we haven't given you the money for that. We know we're shortchanged on Amtrak.

And the question is, before Admiral Loy, what about this particular program. How much are you shortchanged? What money do you need in the 2003 budget and the 2004? That's all I want to know.

Admiral LOY. Yes, sir. In the 2003 budget, the earlier chart that I had up, sir, perhaps before you came in, reflected that we have about $354 million as carryover from the total of 738 that was appropriated by the Congress to do the EDS and ETD installation at the airports across the country.

So what we're going to be able to do with those dollars, sir, by the time this calendar year rolls out, I—we will have met the 100-percent electronic-screening requirement that the Congress mandated us to meet, with those dollars that have already been appropriated.

Senator HOLLINGS. Good.

Admiral LOY. Now, it will also allow us to deal with seasonal adjustments as they come at us in the spring and summer, and it will also enable us to deal with the moves and adds and subtracts from airport to airport as we learn the peaks and valleys of the system over time.

What it won't enable us to do is get on with the total cleanup process and the total installation of a "final end game," if you will, with inline installations that so many of the airports across the country want.

As I mentioned before, sir, in my opening statement, we've left a bit of a wake across the country as we went from airport to airport. That cleanup process, as the IG testified, is probably estimated at somewhere between two- and I've heard as high as five-billion dollars in terms of the total bill forthcoming from airport directors who would like to have, you know, the cat's-meow installation at all the airports across the country.

Senator HOLLINGS. But what's being done now about Mr. Mead talking about the staff and the proper space and you have the cost of relocating the EDS to the baggage area and all? Have you coordinated with him and given that amount of money, or do you have it where you're still in the same space?

Admiral LOY. As far as the two points that I thought that Ken made, sir, on the space piece, he's absolutely right, and we are already talking with our Customs counterparts, INS counterparts, to see whether or not there is an opportunity for consolidation of space requirements at the airports, those airports that have the international tone to them that have Customs and INS there. Dulles is a great example. Our federal security director there, Scott McHugh, has presented to us a game plan to approach how to optimize—I'll say minimize the federal footprint at an airport by working well with our—with the rest of our federal colleagues.

The other notion that Ken offered is going on as we speak. And that is as we go to the new department, there is an opportunity for consolidation of administrative things. Whether it's the counsel's office, the H.R. office, the IG's office, and everybody else's office, the notion of centralized provision of those services to the agencies is very much under consideration in DHS.

I would offer, your Committee gave this organization, TSA, very good authorities to do it ever better, and that is to contract it into the private sector. So we have a management-services contract that will have very few federal employees associated with it, because we're going to just be overseeing what the private sector is doing for us. Our H.R. contract is into the private sector. We're not going to build a federal bureaucracy of H.R. experts in the TSA shop.

Senator HOLLINGS. Very good. Thank you, Mr. Chairman.

Senator LOTT. We'll do a second round if we need to.

Senator McCain?

Senator MCCAIN. I thank you, Mr. Chairman, and thank the witnesses.

I'll stop praising you, Admiral Loy, until you do something else good.

[Laughter.]

Admiral LOY. I've been in that camp a long time, sir, the "What have we done for you lately?"

[Laughter.]

Senator MCCAIN. I do want to point out a couple of things in Mr. Mead's statement to you. One is this issue of cost controls. Whenever there's a new program like this, it inevitably leads to some cost overruns. We are breaking new ground in an entirely new area of security in this war on terrorism. But it is disturbing to read Mr. Mead's statement. Initial cost estimates of $104 million grew to $700 million; the NCS Pearson contract, $18 million in expenses; the DOT IG determining that six to nine million of these expenses appear to be of wasteful and abusive spending practices; and then again there are questions about the Boeing contract. Mr. Mead, I'd be interested in hearing immediately the results of your look at the Boeing contract, as well.

Nothing hurts you more, Admiral Loy, than waste and abusive practices. And I fully understand how difficult it is when you are going from zero to $5.8 billion. But please take into account—seri-

ously, cost controls must be a priority for TSA under Mr. Mead's contract.

But the other thing I wanted to talk to you about, and I think it's a very serious issue, and it may not be your responsibility; it may be ours. But from reading Mr. Mead's statement, we're going to have—at current estimates, passenger security fee will generate about $1.66 billion in 2003 and $1.74 billion in 2004. Expenses will be $5.3 billion, roughly—$5.3- to $5.8 billion. This gives us a $3.5-billion shortfall, which can only be made up by three ways, as I see it—AIP, increased fee to the passengers, or slash airlines, whatever—whoever is going to pay it, or out of the general funds. I'm not sure how you justify another increase when passengers are already paying 26 percent in taxes and fees on a ticket. And we can't take it out of AIP funds if we expect to modernize our airports in America.

So I would think, Mr. Chairman and Mr. Chairman, we're going to have to make this decision here in this Committee—again, I'm sorry I flattered you so much—we're either going to have to make this decision here or it's going to be made in the Appropriations Committee. I hope that we would take on our responsibilities and decide where that funding is to come from. And I think it's serious. $3.5 billion, roughly, is a very large amount of money. And I'd be interested in both yours and Mr. Mead's recommendations as to how we make up a multibillion dollar shortfall that will probably be around for a number of years.

You first, Admiral.

Admiral LOY. Yes, sir. A couple of thoughts. First of all, I stand up for those management controls, as well, sir. I pledge to you that I will make it a high priority for myself. We were—we were very pleased to end up in our first year of operation with a clean audit as part of the process that is an enormously rigorous challenge that our IG provides to us in the Department every year. But there is absolutely no doubt that an organization is known for its fiscal management skill set. And I was enormously proud of what we got accomplished at Coast Guard, and we will be equally proud of what we're doing here.

One of the things that we did when we recognized that we were exposed in that regard, Mr. Chairman, was to reach out to DCMA and DCAA and ask them to come into the game——″

Senator MCCAIN. I understand that.

Admiral LOY.—and help us learn the game. We have, in fact, learned the game, and, in fact, have also asked them to be part of our auditing procedures for the NCS Pearson contract, as well.

On the NCS Pearson contract, it is important for me, I think, to just leave on the table the amazing requirements growth that were part of an early read as what we were going to need from them and what we turned out to need from them, 1.6 million applications, 360,000 assessments. When you stack up the dollar value to bring a TSA employee on, including that assessment process and the training, et cetera, it comes out around 10,000 a copy. It costs us about 13,000 for a new coastie, marine, airman, navy petty officer. It costs us about 15,000 for a Peace Corps volunteer. So we're not far away from the ballpark as it relates to what was brought aboard in terms of that work force.

On the ideas as to how to deal with funding the organization——

Senator MCCAIN. Let me just respond very quickly. According to Mr. Mead, six- to nine-million dollars appear to be wasteful and abusive spending practices. But go ahead. I accept——

Admiral LOY. We're going back and——

Senator MCCAIN.—your explanation. Go ahead.

Admiral LOY. We're going back and getting that, sir.

Senator MCCAIN. Yeah, go ahead.

Admiral LOY. As it relates to how—where do we go from here, you itemized—in the AIP piece, there's a notion as to how the FAA does that over multiple years. And I have had a lot of conversations with Jeff Fagan, in Dallas, with Bruce Baumgartner, in Denver—these are airport directors who are—and Chip Barclay, who you will have an opportunity to hear from shortly. Notionalize the idea of a—an LOI kind of process and security-enhancement projects in a TSA budget akin to what the FAA does with respect to AIP. If this is a means of getting us over this first year or two to get to a normal baseline, that's the only, quote, "novel idea," Mr. Chairman, that's I've heard, and it, I think, deserves at least some attention and discussion. And I'd be happy to talk about that.

Senator MCCAIN. Basically, an earmarked appropriation, a line-item appropriation, for airport security.

Admiral LOY. Just for airport security project enhancements, and with a feeder directly to the airports by way of an LOI, a letter of intent, that lets them go to the bond market with a promissory note that, sort of, says over the next three, four, 5 years, they can anticipate some reimbursement from the Federal Government.

Senator MCCAIN. Thank you.

Mr. Mead?

Mr. MEAD. Yes, I would do something a little different, I think. As Admiral Loy was saying, you know, these facility modifications at airports could go up in the neighborhood of $5 billion. I think, if I was the Congress, I would consider establishing a capital revolving fund that would have private-sector and public-sector representatives on the governing board. It would probably only exist for three, four, or five years. I would take a small percentage of the AIP and send it to this revolving fund, and that percentage would be calculated according to what the historical spending patterns have been out of the AIP for security. And I would take a certain percent of the passenger security fee that's already law, and I would drive that money into a capital fund. Because you are going to need lots of capital money when you go into these large airport terminals and start taking apart the baggage systems. And I think you need a stable funding source, for everybody's sake.

TSA, you know, they'll be up here in front of the Congress answering questions about why wasn't this or that done, and the real answer might be, well, we didn't have a stable money stream. And, on the other hand, the airports will be upset. They're wondering, who's going to pay for all this? You're talking about coming to my property and taking apart the baggage system. Who's going to pay for this? And right now we don't, in truth, know the answer to that.

So I think you're right to explore, in a very hearty way, how to deal with that issue.

Senator MCCAIN. Thank you.

Mr. MEAD. Thank you, Mr. Chairman.

Senator LOTT. Senator Wyden?

Senator WYDEN. Thank you, Mr. Chairman.

Question for you, Admiral Loy, with respect to airline contributions to TSA. Now, it's my understanding that the airlines originally said that they were paying about $1 billion annually to do passenger security screening. But now that the law requires them to contribute the same amount to the agency, they say their annual costs were only about $300 million. Now, my understanding is, they've had some back and forth with Mr. Mead on this particular question. And what I'd like to have you tell us is, how do you intend to settle the matter? And, in particular, would you be supportive of Mr. Mead's suggestion that independent audits be done? Because it seems to me that that would be one way to really get on top of this question. And, frankly, as you could tell from my opening statement, I don't want to see the airlines duck this issue and, in effect, just wait until TSA moves to the Department of Homeland Security and Mr. Mead isn't the cop on the beat anymore.

I'd like to see us get this resolved now. And tell me how you would go about dealing with the issue, and, particularly, should we have these independent audits to resolve it.

Admiral LOY. Yes, sir. We have—we have already been in the process of seeking independent audits of—what we want independently audited is the 2000 books, if you will, because it's the 2000 baseline that is really where we can find the answer to what the normal contribution had been toward aviation security by the airlines when they were responsible for it. So the auditing process for the 2000 books, if you will, both as it relates to the passenger fee and as it relates to the ASIF, if you will, the aircraft security fee.

We have—we have asked for those audits. We are in the process of reviewing them. And I'll just say that it has been a very difficult process to make sense out of the data that we have been provided.

So that's, sort of, where we are at the moment. There's a great frustration, I would offer, Senator Wyden, in the Department in that regard, to the point that they did go back to public statements and public correspondence of the period and simply ask the Congress to set the $750 million, you know, legislated fee as the—as the contribution level.

That's my, sort of, history on it, sir. Mr. Mead may very well be able to provide more.

Senator WYDEN. Well, I think you've made my point. That's one of the reasons that I feel so strongly about these independent audits.

Admiral LOY. Sure.

Senator WYDEN. I think that this math is fuzzy. I think, to get to the bottom of it, we've got to have them. I want to work with you and the department on nailing that down, because it's a big gap between what the airlines say they're contributing now, and what they said they were contributing before. We've got to get to the bottom of it, because it goes right to the heart of what those passengers are going to pay.

Admiral LOY. Yes, sir. The other thing that I would—just as a point of reference—the projections with respect to the passenger fee are almost on-point to the money. In fact, there's a little more being actually collected than was projected to be the yield from the passenger fee so that we have actually suggested that there's no reason to do—to do any more audits, because we know for the airlines that's an expensive proposition in and of itself. So given the sensitivity of the financial circumstances we see them in, we don't believe there's any continuing reason to audit the passenger fee.

Senator WYDEN. Another question for you, Admiral. I think you've heard me say that I think Mr. Mead does very good work, certainly in the case of this report. He was blowing the whistle on weaknesses, for example, in controls over these contracts——

Admiral LOY. Uh-huh.

Senator WYDEN.—with the screener companies. And, on March 1st, Mr. Mead's office is no longer going to have, you know, jurisdiction over these kinds of issues. And I'm concerned that, for some period of time, we won't have tough oversight to deal with these questions.

I've got a bill ready to—in effect, drafted—to ensure that Mr. Mead keeps these powers until the transition is fully in place. And I would like to have your thoughts as to whether something like that is needed, and, in effect, how you intend to deal with these questions in the handoff period.

Admiral LOY. Sir, there is—well, first of all, on the "blowing the whistle" comment, I never consider him blowing the whistle on me. I call him and ask him to get engaged in our business because I always find the constructive criticism there that enables us to be better at the other end of the day. But—and I do endorse your notion, as well, sir, that Ken does a great job in his IG role.

I can also say that my early conversations with Secretary Ridge and Secretary England and Under Secretary Hutchinson, there will be a pent-up demand there for them to be recognized as good at what they do early in their term.

I do not know the new IG. I look forward to meeting him and working through issues with him, as well. But the oversight lapse is something we cannot abide. I tend to agree with you in that regard, sir. And I look forward to whatever might be an ongoing means of keeping our feet to the fire.

Senator WYDEN. Well, I'm going to send you a copy of this draft bill that I have. I'm open, for example, as to how this gets done. But I just think, with all of the cost problems we're having right now, we've got to keep vigorous oversight in place. I appreciate your answer.

The last point I wanted to touch on deals with this question of sharing threat information.

Admiral LOY. Sure.

Senator WYDEN. And you heard me talk about it in my opening statement. And suffice it to say that the real question is, what's going to happen. And maybe you could walk me through, for example, how new threat information is going to be dealt with today. You know, how is it going to get to the airport security guards? How is it going to get to the screeners at checkpoints? Make it

clear to us how this new information is going to be used from this point on.

Admiral LOY. Yes, sir. Let me—let me say, sort of, two areas of comment. The first is with respect to DHS.

The cornerstone of the new department, as far as I can tell, that's different about departments past is the directorate known as Information Analysis and Critical Infrastructure Protection. The purpose of that shop is to be the synthesis point for incoming information to be shared, to be analyzed there, and to be disseminated in a fashion that it actually meets the requirements of the agencies that are a part of the new department.

We have been—we have been enormously challenging as agencies on the way into the Department, that that is an absolute must. If that cornerstone of the Department's being is not—is not realized, we will have done not much good, frankly, over the—over the course of time.

But on the other—I feel very much that it will happen. The beauty there is the potential to have those agencies that need the information define their requirements better for the intelligence community.

To take a parallel, sir, back in the days when I was really into the drug business——

[Laughter.]

Admiral LOY.—well, now—maybe I didn't phrase that quite well——

[Laughter.]

Admiral LOY. Back when I was "after those guys," Barry McCaffrey came into the drug czar's job and helped us understand that it was not fair for us to point at the intel community and say, "You're not giving us what we need to do the job." We had to define the requirement set for the intel community to meet, and we had to help them help us. And that has been very clearly recognized in the new department.

So I think the first order of business is going to be a synthesis of requirements that will be generated to enable the intel shops to serve the agencies well. But I—as I said at the beginning, sir, it's the key in the lock. If we do that well, we will succeed.

Senator WYDEN. Mr. Chairman, my time is up. I think that is the only answer I've heard the Admiral give today leaves me a little unsettled, because I still don't know specifically how you all intend to share this information. I hear about it constantly from airports and the people running these screening companies and the screeners and the like. I think we've got to get clear information out to them.

Admiral LOY. I could suggest, sir—I could come and, offline, perhaps spend a little time with you.

Senator WYDEN. Good, we'll look forward to it.

Thank you, Mr. Chairman.

Senator LOTT. Senator Hutchison?

STATEMENT OF HON. KAY BAILEY HUTCHISON, U.S. SENATOR FROM TEXAS

Senator HUTCHISON. Thank you, Mr. Chairman.

Everyone has said it, but I haven't, and I want to add that I think you have done a remarkable job that many thought was impossible. And I even saw a little piece in the newspaper, a column called "Miss Manners," that complimented the behavior of your employees. And I think every one of us who has traveled has really seen such a difference in——

Admiral LOY. Thank you.

Senator HUTCHISON.—the professionalism and the courtesy and the caring of these employees, but when you make Miss Manners, as an inspector, you have hit it really high.

But let me turn to what I think is the last hole in the system that many of us are trying to work to fix. As you know, the Senate passed a bill last year——

Admiral LOY. Yes, ma'am.

Senator HUTCHISON.—to address air cargo. Twenty-two percent of all air cargo goes on passenger flights. So I do think we need to address the issue, and I would just ask you, if you were asking us to pass good legislation in this area, what would be the key points that you would want us to address?

Admiral LOY. Yes, ma'am. Thank you very much for the comments, Senator. I'll pass those to those young people that are out there working so hard for us each and every day.

There were what I'd call impulsive but correct instincts taken right after 9/11, where FAA and then TSA strengthened the requirements of the known-shipper program as, sort of, the first step toward taking on the cargo challenge in TSA.

I think there's a number of—first of all, there's one of two roads we can go down. We can go down the road of putting all our eggs in the basket of screening cargo, not unlike we screen passengers and check baggage as it gets to the airport before it goes on the airplane. We simply do not have the technology available to us right now to do that, or if it's even remotely available, it's at the ten-million-a-copy kind of price tag that makes that very difficult and very unfeasible.

What is available is the other path. While we continue to R&D the notion of how you get screening technology that's as effective in huge pieces of cargo or, frankly, even smaller pieces of cargo, like mail, so as to return that revenue source to the airlines. And it's an enormously important piece.

Senator HUTCHISON. If I could, I was going to ask you what you thought we could do in regard to mail being carried by airlines again. Because whatever we do in cargo, we're going to have to do with mail. But I am very hopeful that you will approve something quickly that will allow them to——

Admiral LOY. We have prototype efforts going on in 12 airports, Senator Hutchison, as we speak. The volume of flow—the Postal Service is concerned that there's not an adequate volume of flow through the 12 airports we've selected, so we may want to shift gears a little bit—we have a meeting, actually, on that at the end of this week—to satisfy the Postal Service's interest, because they're a key player in this efforts. But we know that's a $400 million revenue loss to the airlines, and we want very much to get mail back on the aircraft.

We have found, after an awful lot of testing through the course of this year, that canine team searching, it seems to be the key to success here, and that's what we are prototyping and testing at the 12 airports at the moment. So I would like to think in the very near future, we will be able to make some good inroads there.

To go back to your original question, we continue to prohibit all cargo from unknown shippers aboard passenger air carriers, and it's a matter of gaining greater confidence in this thought process of a known-shipper program IACs and making that system easier to use for all the players involved.

So two data bases we've been working very hard on creating, such that if you are about to take a parcel and offer it to an airline, or if you are the airline, to be put in your—in the belly of your passenger aircraft, we want to make sure that it's instantly available, to figure out whether the guy that's handing it to you is a legitimate shipper in the known-shipper program.

To go back up that supply chain is rife with potential mischief, as we all know. And so gaining confidence in the handover points between the IAC and whoever delivers it to the airline for actually including it onboard the aircraft is critical.

So we're going to automate a data base for IACs, and we are going to automate a data base for known shippers so that that's much easier to deal with as we—as we press on.

We mentioned this—the mail screening. The GAO report has examined vulnerabilities in air cargo for us and has pointed out a number of things, not the least of which is to develop, if you will, a comprehensive plan. That comprehensive plan is what we want your bill to be. And, frankly, most of the aspects of that comprehensive plan are already there.

Senator HUTCHISON. In my bill, you mean?

Admiral LOY. Yes, ma'am. So we look forward to working with you for the final tweaking that might be necessary on that bill.

Senator HUTCHISON. OK. Well, I certainly have consulted with you in your office——

Admiral LOY. Yes, ma'am.

Senator HUTCHISON.—to try to make sure that we meet two criteria. One is that we have a way to track a package from the point at which it is taken, all the way through the system, until it's put on an aircraft; and, second, to make sure we have a level playing field between airlines and just air cargo carriers.

Admiral LOY. Yes, ma'am.

Senator HUTCHISON. So we want to work with you, but we do want to pass a bill this year. Well, we passed one last year, but the House didn't. But I hope we can come up with the right thing. Because I don't think we should wait on this. We've done too good a job in the other areas, and I want to finish the job with——

Admiral LOY. Yes, ma'am.

Senator HUTCHISON.—cargo.

Admiral LOY. And while we do as much as we can down this, sort of, supply chain path, which is really the notions in the bill, we must R&D our way toward the silver bullet that might actually be there as, sort of, a next-generation screening technology capability that will——

Senator HUTCHISON. Absolutely.

Admiral LOY.—make all the rest of it unnecessary.

Senator HUTCHISON. Absolutely. That is the end game.

A second question. There has been, of course, a requirement to station law-enforcement personnel at every checkpoint in an airport.

Admiral LOY. Yes, ma'am.

Senator HUTCHISON. And the airports have suggested that Congress should provide more flexibility for those personnel to be able to leave that checkpoint and go check on something else——

Admiral LOY. Uh-huh.

Senator HUTCHISON.—as long as you are available to come back quickly and——

Admiral LOY. Respond.

Senator HUTCHISON.—deal with any issue. How would you respond to legislation that would allow that flexibility?

Admiral LOY. I have two comments. First, as you recall, we sent up, from the Administration, a technical amendment to get the "Federal" out of the law. I think that's a good thing. We have—we have come to count on the state and local services that have been provided around the country at all of our commercial airports, and they've done a magnificent job for us.

I think if we take the Federal out of there, know that we're going to be dealing with the state and locals well into the future, we can negotiate good contracts there, we can do the right thing.

As it relates to the roving notion of that, I, frankly, support it. I think there is a—an unfortunate opportunity for fatigue and complacency to set in if you're standing by—you know, if you're the statue at the checkpoint. So I think our challenge would be to allow the Federal Security Director, given the unique physical layout of his particular airport, impose a response-time kind of criteria, that it would enable the roving law-enforcement presence to return to the checkpoint when and if it would be required.

Senator HUTCHISON. And a better use of your personnel.

Admiral LOY. I think so, yes, ma'am.

Senator HUTCHISON. I'd like to just—could I ask one more question?

Senator LOTT. You may.

Senator HUTCHISON. I had talked earlier to, actually, your predecessor about a timetable, if you foresee one, in which our non-traveling public would be able to go into an airport to take someone to the plane or pick someone up and use the restaurant facilities——

Admiral LOY. Uh-huh.

Senator HUTCHISON.—and as long as they are screened just like everyone else. Do you think we are close to having that capability again to make traveling a little more family friendly?

Admiral LOY. Senator Hutchison, I think, as you know, we certainly encourage that already for parents and small children and folks who——

Senator HUTCHISON. Special cases——

Admiral LOY.—who are traveling——

Senator HUTCHISON.—I know you do.

Admiral LOY.—with special needs and such as that. We have—we have developed the protocols necessary to deal with those folks.

I mean, as I sit here today, I think school is still out a little bit on enough data flow, because the challenge here is about world-class security and world-class customer service, and we need to get a sense for the volume that would be increased and hoping that we don't drive wait lines to a point that they are no longer keeping that world-class security and customer-service thing in balance. But it—certainly in the long run, we would like very much to go there and allow, you know, the public to return to using the airports in the fashion that was comfortable to all of us before 9/11.

But the first order of business, ma'am, I think continues to be keeping a read on the balance. And when we have the data, we should make a good decision, not an impulsive one up front.

Senator HUTCHISON. Do you have any pilot programs anywhere on doing this?

Admiral LOY. We don't at the moment, no, ma'am.

Senator HUTCHISON. All right, thank you.

Now, I'm not going to submit this for the record, but I do have the Miss Manners column, which I think you should put out through your system so that your employees know what a great job they're doing.

Admiral LOY. Thank you, ma'am. I'll do that.

Senator LOTT. Thank you, Senator Hutchison.

And we do have another panel, but let me just take a moment more. I haven't asked you specifically about the sky marshal program and how it's working and is morale good there or not and who should be—you know, the airlines maintain that there's a cost factor that they're having to absorb because of the sky marshals, too.

One thing Mr. Mead said, well, we don't want sky marshals maybe—we don't want the mission creep or having to get more sky marshals by using them in additional roles—I think that's what you were saying—at the airport. Well, I'm wondering if maybe, you know, if they had time between flights or if they're in the airport, maybe there is something more they can do without us having to add more people.

I just—I'm concerned about the sky marshal program, and I do think that there is some cost that the airlines are having to absorb that we maybe ought to be having to pay for there. So just in that area generally, would you like to add anything?

Admiral LOY. Yes, sir, I'd be happy to. I'm—I'd rather not, in the public sector, sir, give you some numbers that can go back to the classified number that we have, but I would be delighted to come and chat——

Senator LOTT. All right.

Admiral LOY.—with you, sir, at your pleasure, about some numbers.

But I think it's very—it's very important for us to recognize that even if we had X number of FAMs on X number of flights for—with an average dollar value of a first-class/business-class seat, that is not anywhere close to the translation of lost revenue for the airlines there. The assumption that would have to be behind that would be that every first-class seat was sold and reserved as a first-class seat, and we know that's not even remotely the case.

So we don't believe, at this point at least, that fare-paying customers are either being bumped to the coach section or off the airplane, because that would be the circumstance when—you know, when the full-fare notion, if you tried to add up those things, would be the really—really the lost revenue.

We should be working with ATA, the folks that represent the airlines, for at least exploring the potential of taking the curtains away between first class and coach and see if there is a—because I think we could—we could be of the mind to go toward, you know, front rows of the coach section, if that was appropriate.

But, again, what the—what the Federal Air Marshals are on board for is enormously important, and the bottom line, when all is said and done, is to protect the cockpit. You know, the notion of why we have all of this investment in baggage checking is to keep the bomb off, so it is both the total aircraft cabin as well as cockpit that is involved with that program.

And as Senator Hollings says and has told me several times, the Israeli version is a cocoon, if you will, literally, that the door never opens once in—once in flight. I would offer that a hardened cockpit door is not quite a cocoon, as the Israeli jetliners are configured for.

So I think our job, one, with the FAM, continues to be to control access to the cockpit and allow the crew inside to do their job, which is safely fly the plane to the ground.

The morale piece that you mentioned, sir, I'm enormously proud of—every one of these guys that I encounter, either on an airplane or in their respective office spaces, are committed to the task. This is a matter of how they are finding a way to contribute to the post–9/11 security environment that we all live in, and they're enormously proud of what they're doing.

We have had, as you know, a bit of an exchange with the USA Today and other papers in terms of citations from one source or another. But the bottom line is, we inherited 33 FAMs who used to go, on occasion, on international flights, and today we've got thousands of them doing tens of thousands of flights and making a absolutely significant contribution to be one of the layers in the multilayered system that is our new aviation security paradigm.

Senator LOTT. Mr. Mead, would you like to respond?

Mr. MEAD. Yes, I'd like to comment on that, the FAMs. Generally, Mr. Chairman, I have quite bit of sympathy for the plight the airlines find themselves in, you know, this confluence of these additional security requirements and, at the same time, that they're in financial distress.

On this particular one, though, I think the airlines ought to ask themselves, How many people are riding on that plane that would not be there but for the fact that there is a larger number of air marshals up there? I think that's a question the airlines ought to ask themselves.

And as for what the FAMs do in their spare time, I'm more worried about it becoming more of a routine, that we take full-time equivalent Federal Air Marshals, who are paid a fairly good sum of money, and then turn them into foot patrols or surveillance officers at the airport, and then, before you know it you have a large number of staff requirements. And that's what I'm counseling against.

Admiral LOY. If I may, sir, just one last comment on that, because I forgot to mention it when you asked me.

On the law-enforcement potential at the airport, you know, this notion of a series of rings associated with the security we're building, which sort of goes from intelligence and threat assessments way on the outside, comes in to airport perimeters, and goes to law-enforcement presence, and then baggage screening and passenger screening, and finally to what's actually up on the aircraft itself, that sort of sequence of events is all part of that layered system.

There's two reasons that I would consider employing Federal Air Marshals in the airports. One of them is, if we are, as we are, sir, sort of, flying them into the ground 10 to 12 hours a day on aircraft day after day after day after day, there is a—there is a—an edge that we want them to hold onto, and we need to be careful about that.

So we're watching, simply from a ergonomic approach, if you will, to—you know, to watch the productivity and the edge that we want them to hold to. And if that gets to the point where we feel too much flying is the reason, we need to find a way to employ them in some other fashion. The skill set they bring to the table is not an unnatural law-enforcement, sort of, counter-surveillance activity approach that fits into one of those rings of security in our system.

So what we don't need is an—there was an offer on the table for awhile about maybe we needed to generate within TSA another law-enforcement officer category, and we don't need to do that, because, as someone already pointed out, the local/state folks that are already there are doing a great job for us.

But if it's an employability piece to hold attrition to the right levels for FAMs, to hold them in place, to give them something a bit else to do rather than fly all the time, we have to take stock of that, and we'll do that.

Senator LOTT. Well, thank you very much. We appreciate your time. I look forward to talking to both of you further——

Admiral LOY. Right, sir.

Senator LOTT.—as we go toward developing legislation in this area.

Now let me call on the second panel, Mr. Bolen, Mr. May, and Mr. Barclay.

Well, thank you very much, gentlemen. As you can see, we've been going here for about an hour and a half, and we've had some senators come and go. And I hope we'll have some others come in.

But, regardless of that, we're looking forward to having your testimony. It will be made a part of this record that all the senators will consider as we take a look at what's happening in aviation and what is happening with security and security cost and what we can do to be helpful.

And let's see here. I don't know what order we should go in, but since, Mr. Bolen, you were listed, maybe we'll just start on the left side, and then Mr. May—I mean, Mr. Bolen, Mr. May, and Mr. Barclay.

Go ahead, Mr. Bolen.

STATEMENT OF EDWARD M. BOLEN, PRESIDENT, GENERAL AVIATION MANUFACTURERS ASSOCIATION

Mr. BOLEN. Thank you, Mr. Chairman.

The 9/11 attacks on America had a profound impact, I believe, on all Americans, and I think it's cost us all to look at everything through the prism of security. In response to the attacks, the general aviation industry hired security experts to do a vulnerability assessment of our industry and help us find ways to enhance security. We did so because we are extraordinarily serious about security. We recognize that the future of our industry is directly related to the security of our industry.

What we learned from the experts was that we have many inherent security features in general aviation which terrorists would find discouraging. For example, according to the experts, terrorists like secrecy and anonymity, two things that are not readily found in general aviation because we are a relatively small, closely knit, and heavily regulated industry. Let me give some examples.

All pilots are registered, names and addresses, with the Federal Government. They undergo periodic check rides and periodic medical examinations, so they're forced to interact with the community, with society, and with the Federal Government. And they operate out of general aviation airports and general aviation terminals, which operate very much like small communities. There's an aviation jargon spoken around these places. There's a camaraderie. People are airplane enthusiasts, so they look at the airplanes that are being flown, they talk to the pilots about what they're doing, they recognize unique parts of modified airplanes. According to the experts, this is not the ideal environment from which terrorists like to operate.

When we asked the experts what we could do to enhance the security of general aviation, they said, "Why don't you try to build on some of those inherent safety and security features that you have? For example, since it's a strength that the pilots are all registered with the Federal Government, try to make sure that the person proclaiming to be a pilot really is that person." The old pilots license do not have a photo. They said, "Try to get a photo to be part of the Federal Aviation License." They said, "You've got a registry where names and addresses are kept. Make sure it's kept up to date." They said, "People are very suspicious around general aviation communities. Make sure that there's a place where they can report suspicious behavior if they're taking note of what's going on around them."

We took that advice that we were given by the security experts and we put them into 12 recommendations which we submitted to the Transportation Security Administration.

So what's changed in general aviation since 9/11? Let me give you a couple of examples. Today, all foreign registered aircraft must be approved by the TSA and submit a complete passenger manifest before they will be allowed to enter the United States. As a result of the Patriot Act, companies that finance the sale and purchase of general-aviation aircraft follow guidelines that GAMA developed with the Treasury Department for identifying and reporting suspicious financial transactions. The Federal Government is now regularly combing the airman registry looking for persons

they deem to be a security threat. New security procedures, including passenger screening, have been crafted for charter flights on aircraft weighing 12,500 pounds or more and will go operational soon. Persons are not allowed to fly over major sporting events at low altitudes unless they receive permission from the TSA. Pilots are now required to cover a, carry a government-issued ID in addition to their pilot's license whenever they fly. And, as a result of efforts by the Aircraft Owners and Pilots Association, Neighborhood Watch-type programs have been established at general aviation airports, complete with an 800-number to call and report suspicious behavior.

So, as you can see, Mr. Chairman, the general-aviation world has changed significantly since 9/11, and the general-aviation industry itself is pushing for more changes. For example, GAMA supports improving the aircraft and the airman registry so it will be more up to date and have more descriptions. We support the concept of giving general-aviation companies that charter or rent aircraft access to the computer-assisted passenger-screening system. And we support the concept of allowing Part 91 operators who voluntary participate in a federally certified security program the same access to air space as commercial operators, a program that is being refined by the National Business Aviation Association.

Now, Mr. Chairman, when I was going through the list of examples of how general aviation has changed since 9/11, you may have noted that I did not mention that aliens seeking flight training in the United States must undergo a Department of Justice background check. The reason I did not mention that program, which was specifically mandated in the Aviation and Transportation Security Act, is because it has not gone operational yet. Despite the fact that it has been nearly 16 months since that act was passed, the Department of Justice still does not have a process for conducting these checks.

You may recall, Mr. Chairman, when that act was under consideration, GAMA did not oppose the background checks, but we were specifically concerned that there was no time limit on how long it could take the Department of Justice to conduct these background checks. We were pleased that this Committee and Congress heard our concerns and instituted a 45-day limit on the length of the background check.

What the Department of Justice did, however, was say, "Well, that 45-day clock will only begin when we develop a process." And today, 16 months later, they still have not developed a process.

We urge you to look into this matter so that we can begin training aliens seeking flight training in the United States under a full background check conducted by the Department of Justice.

Mr. Chairman, the general-aviation industry is extraordinarily committed to security. We want to work with you and the TSA to continue to enhance our proven record of developing commonsense and effective solutions.

Thank you.

[The prepared statement of Mr. Bolen follows:]

PREPARED STATEMENT OF EDWARD M. BOLEN, PRESIDENT, GENERAL AVIATION MANUFACTURERS ASSOCIATION

Mr. Chairman, Senator Rockefeller, and Members of the Subcommittee, my name is Edward M. Bolen and I am President of the General Aviation Manufacturers Association (GAMA). GAMA represents approximately 50 of the world's leading manufacturers of general aviation airplanes, engines, avionics and component parts.

General Aviation

As everyone on this Subcommittee well knows, general aviation is technically defined as all aviation other than commercial airlines and military aviation. Our airplanes range in size from small, single-engine planes to mid-size turboprops to large turbofans capable of flying non-stop from New York to Tokyo.

General aviation is the foundation of our air transportation infrastructure and the primary training ground for the commercial airline industry. We also help drive the economy and contribute positively to our nation's balance of trade. A recent DRI–WEFA study shows the industry's impact on the U.S. economy exceeds $40 billion annually.

General Aviation's Security Focus

Mr. Chairman, the attacks that took place on September 11 had a profound impact on all Americans. Among other things, they caused us all to look at every aspect of life through the prism of security. The general aviation industry is extraordinarily serious about security. We recognize that the future viability and credibility of the industry is directly tied to security.

In response to the terrorist attacks on America, the general aviation industry hired security experts to assess the vulnerability of the general aviation industry and to help find ways to enhance general aviation security. We did so because we are extraordinarily serious about security. We recognize that the future of our industry is directly tied to security.

We learned from the experts who studied our industry that general aviation has many inherent security features that terrorists would find discouraging.

For example, according to the experts, terrorists like secrecy and anonymity. They don't want people to know who they are, where they live or what they are up to. Instead, they want to get lost in a big crowd, they want to blend in with a mass of people, they want to go unnoticed.

General aviation is not an industry that lends itself to secrecy or anonymity because it is a relatively small, closely-knit, and heavily regulated industry.

All general aviation pilots are registered—names and addresses—with the Federal Government. They are subject to periodic check rides and medical examinations so they are forced to interact with government and society. They operate out of general aviation terminals or airports that tend to be like small communities.

If you have ever been to a general aviation terminal at a commercial airport or to a general aviation airport, you know that there is a strong sense of community. There is camaraderie between the pilots and airport personnel and an aviation jargon that lends itself to familiarization. There is also a strong interest in airplanes that translates into people closely watching what types of aircraft are being flown and by whom.

According to the experts, this is not the ideal environment for terrorist operations.

The experts noted other aspects of general aviation that they found positive. Among those is the fact that general aviation pilots and passengers know one another. And, as general aviation airplanes become larger they operate out of larger airports and, because of their cost, they are well cared for and secured.

When we asked the experts how we could enhance security, they suggested we try to build on some of the industry's inherent security strengths. For example, since it is a strength that all pilots must be registered with the Federal Government, the experts suggested we make sure the Airman Registry is kept current. Since it is a strength that pilots have to carry an ID card known as a pilot's license, they suggested that a photo be added to the license to improve identification. Since it is a strength that general aviation airports are small communities, they suggested we establish neighborhood watch-type programs where pilots would be told what kind of things to look for and where to report suspicious behavior.

Based on this input, the general aviation community put together a list of 12 security recommendations and sent them to the Department of Transportation and the Federal Aviation Administration in December of 2001. A copy of those recommendations is attached.

Since September 11

So what has actually changed in the area of general aviation security since the September 11th attacks? Here are just a few examples:

Today, all foreign-registered general aviation aircraft must be approved by the Transportation Security Administration (TSA) and submit a complete passenger manifest before they will be allowed to enter the United States.

As a result of the Patriot Act, companies that finance the sale or purchase of general aviation aircraft follow guidelines GAMA developed with the Treasury Department for identifying and reporting suspicious financial transactions.

The Federal Government is now regularly combing the Airman Registry looking for persons deemed to be a security threat.

New security procedures, including passenger screening, have been crafted for charter flights on aircraft weighing 12,500 pounds or more.

Aircraft are not allowed to fly over major sporting events at low altitudes unless they receive permission from the TSA.

Pilots are now required to carry a government issued photo ID in addition to their pilot's license whenever they fly.

And, as a result of efforts by the Aircraft Owners and Pilots Association, neighborhood watch-type programs have been established at general aviation airports complete with a toll-free number for reporting suspicious behavior (1–866–GA-SECURE).

As you can see Mr. Chairman, the general aviation world has changed significantly since 9/11, and the general aviation industry itself is continuing to push for more changes.

For example, GAMA supports improving the Airman and Aircraft Registries to better reflect all relevant pilot and aircraft information. We support the concept of giving general aviation companies that charter or rent aircraft weighing more than 12,500 pounds access to the Computer Assisted Passenger Screening (CAPS) system used by commercial airlines. We support the concept of allowing Part 91 operators who voluntarily participate in a federally certified security program the same access to airspace as commercial operators—a concept that is being refined and tested through a demonstration program involving Teterboro Airport and the National Business Aviation Association.

However, Mr. Chairman, another security measure required by the Aviation and Transportation Security Act (ATSA) that all aliens seeking flight training in aircraft weighing 12,500 pounds or more are now required to undergo a Department of Justice background check has yet to be implemented.

The reason I omitted the DOJ background checks earlier is because the Department of Justice has ignored Congress by disregarding the clear intent of the Aviation and Transportation Security Act (ATSA).

Members of this Committee will recall that early drafts of ATSA did not include a time limit in the provision requiring all aliens seeking flight training in aircraft weighing 12,500 pounds or more to undergo a Department of Justice background check. GAMA did not oppose the provision but expressed concern about the fact that there was no time limit on how long the DOJ could take to conduct its background check. We cautioned that without some statutory time limit, the DOJ might never get around to conducting the required background checks.

We are grateful that Congress took our concerns to heart and inserted a 45-day limit to the final version of the bill which became law on November 19, 2001.

Unfortunately, the Department of Justice has ignored the clear intent of the statutory time limit and refused to conduct the Congressionally mandated background checks. The way DOJ has avoided the 45-day clock is by claiming that the clock did not start with bill's enactment. Instead, the DOJ claims the 45-day clock will start only if and when it gets around to putting a process in place for conducting the required background checks.

It has now been nearly 15 months since ATSA became law and the DOJ has still not implemented such a procedure for aliens seeking flight training in aircraft weighing 12,500 pounds or more. This is an outrage. As a result of the DOJ's inaction, flight schools have lost students, flight instructors have lost their jobs, and domestic manufacturers have lost sales to foreign competitors. Perhaps most importantly, the safety of airline passengers around the world has been compromised.

Mr. Chairman, there is a reason more pilots are trained in the U.S. than anywhere else in the world. The U.S. has the highest safety standards, best instructors and the most advanced flight training simulators in the world. We do not want foreign airlines that carry U.S. passengers or foreign corporations that carry U.S. business people to train elsewhere.

Since passage of ATSA, the Department of Transportation has given life to the entire 70,000 person Transportation Security Administration (TSA). That agency,

which was nothing more than a name on a piece of paper 15 months ago, has been able to conduct criminal and financial background checks, fingerprinting and drug testing on 44,000 baggage screeners, and has ordered over 150,000 background checks on pilots and airport personnel. Over that same period of time, the DOJ has not able to conduct a single background check on an alien seeking initial flight training on an aircraft weighing 12,500 pounds or more. That is inexcusable.

We understand the rule that establishes the background check process is ready for publication. All the other federal agencies have signed off on it, and the rule has cleared the OMB.

DOJ itself claims to be just about ready to publish the rule. They say they are just working out a few kinks in their software and should be ready to go in another week or two. Of course they told us that last February, and last March, and last October.

DOJ's failure has financially damaged U.S. flight schools, cost hundreds of flight instructors their jobs, and cost U.S. manufacturers aircraft sales.

Mr. Chairman, this is not what Congress intended when it passed ATSA. It is not what GAMA intended when we worked with you on the legislation. As a result, we are urging you to take steps to correct this action immediately. We can't keep waiting for DOJ to start the clock. It is possible they never will.

CONCLUSION

In closing, I want to once again state clearly and unequivocally that the general aviation community takes its security seriously. The industry has come together on this issue and been very proactive promoting security enhancements.

We look forward to working with Congress, the Department of Homeland Security, the Department of Transportation, and others as we continue to develop reasonable and effective security tools.

Thank you for the opportunity to testify today. I am happy to answer any questions you might have.

Senator LOTT. Thank you, Mr. Bolen.

Mr. May, president and CEO, Air Transport Association of America. I've enjoyed working with you for many years in this city. I know you're in a new role, but I have no doubt you will do a great job in this area, as you have in the other one, and we look forward to hearing from you and working with you in the future.

STATEMENT OF JAMES C. MAY, PRESIDENT AND CEO, AIR TRANSPORT ASSOCIATION OF AMERICA, INC.

Mr. MAY. Thank you, Mr. Chairman. I deeply appreciate it. I especially appreciate the 48 hours that you gave me since starting this job to get ready to——

Senator LOTT. I figured that's——

Mr. MAY.—come up and testify today.

Senator LOTT.—all it would take for you to get fully familiar with all you need to know about this industry. So, good luck.

[Laughter.]

Mr. MAY. Well, it's been a great learning curve, and I've enjoyed it. Thank you for allowing us to come up today.

The 9/11 attack on the United States—in the 9/11 attack on the United States, airlines were both an economic target and an instrument of terrorism, and I think they've suffered mightily since then as a consequence.

In the United States, the role of aviation is without parallel. It links communities together, delivers our critical goods, drives essential industries, and employs or produces employment for more than 11-million Americans.

Unfortunately, our airlines are in grave economic condition. Fully half the jobs lost in the economy since 9/11 have been lost in the aviation and travel sectors. Two major airlines representing more

than 20 percent of the industry are in bankruptcy. Passenger carriers have reported in excess of $10 billion in 2002 net losses.

Now, the reasons for the imperiled condition of the industry, I think, are clear. We've always struggled with costs, high fuel, insurance, labor costs—have combined with a particular vengeance in an underperforming economy exacerbated by the aftermath of 9/11.

In response, the airline CEOs have imposed very tough, disciplined self-help regimens. Last year, we cut more than $10 billion in operating and capital expenses, and more is on the way. Yet despite these tough measures, analysts are projecting a $5- to $6 billion net loss for 2003. And despite all of our efforts, we really are being overwhelmed by new government-imposed security costs being passed through to the airlines essentially as unfunded mandates.

Let me share some examples, some of which we've talked about today. In excess of 300 million in costs for hardened cockpit doors, 100 million appropriated; hundreds of millions for ramped security, aircraft inspections, passenger document verification, extensive employee background-check expenses, and other new security requirements; tens of millions for screening of catering materials and supplies, as well as charter passengers; hundreds of millions in postal and freight restrictions that are lost opportunity.

And the problems may well continue to grow. Last week, I was advised that the TSA staff, at least, are calling for cabin and cockpit crew defense training that could well cost hundreds of millions of dollars to our airlines.

Just as alarmingly, and I suspect something that Chip will talk about, the addition of national security costs at airports is adding billions in expenses. And if those expenses are not covered by the Federal Government, they are ultimately likely to be absorbed by tenants, including airlines.

Now, further, the economics of the airline competition in pricing, I think, have effectively precluded this industry from passing government security fees on to their customers. It may be on the ticket, but it's not necessarily being passed on.

Mr. Chairman, I want to be clear that in presenting this picture, it's not intended as a criticism of TSA, the Administration, Congress, or—nor is it an attempt by our airlines to shirk our responsibilities. I think everyone's acting in good faith and trying to do what's best for the public interest.

Admiral Loy, for example, has, in fact, been terrific. Even though I've only been on the job a couple of days, he and I have met a couple of times already, and we work closely together with him.

But, you know, time is running out, and I would suggest three steps need to be taken immediately. First, I think Congress needs to affirm and enforce the unalterable policy that aviation security is, in fact, the responsibility of the Federal Government. Second, I think we need to work together, all of us—Admiral Loy, the Congress, this Committee, the aviation industry, airlines—to understand and assess the specific financial impact of unfunded security mandates, and we're happy to participate in that process. And, finally, I think we have to come up with a game plan. Congress, the agencies, and the industry must work in concert to identify very specific changes or actions that can take place that will minimize

the cost of security requirements without compromising essential security goals.

Now, our reasoning will not come as any surprise to you. I think it's clear the attacks on the United States which took place on 9/11 were just that, attacks on our country. And defending against foreign aggression and providing for our common defense are, without question, the responsibilities of the U.S. Government and not private industry.

So in enacting the Aviation Transportation Security Act, Congress agreed with that fundamental reasoning and mandated the Federal Government assume responsibility for aviation security, something that this Committee participated in. The legislation made clear that, with the exception of specified airline responsibilities in only three limited areas, TSA was to take over all screening of passengers and property. Today, I ask that this Committee see that that mandate is met.

Finally, Mr. Chairman, let me close by noting something that I think is critically important. Our message is made all the more urgent by the imminent prospect of war. Based on the industry's experience during Desert Storm, the prospect of increased losses of up to $4 billion a quarter from a combination of war-depressed travel and increased fuel costs is very real.

In 1999, during Desert Storm, this industry had cash reserves and borrowing power. Today we have neither. The urgency of the case for fast action by Congress cannot be overstated.

And I thank you for allowing me to appear today.

[The prepared statement of Mr. May follows:]

PREPARED STATEMENT OF JAMES C. MAY, PRESIDENT AND CEO, AIR TRANSPORT ASSOCIATION OF AMERICA, INC.

On behalf of the Air Transport Association member airlines, thank you for the opportunity to appear before you this afternoon.

Airline security is a policy matter of vital national interest. And, the financial impact of decisions made by the Congress and the Administration will have consequences for the very future of the airline industry. We applaud this Committee for moving promptly to address these issues and welcome the opportunity to work with you in finding solutions.

Clearly, with just over forty-eight hours in my new position, I do not appear here as an authority on aviation security. What I can do, however, is provide you with candor and perspective. I offer you the same commitment I have given to the airline CEOs—the straight facts, to the best of my ability and that of the ATA, along with our best judgment with regard to solutions that will work in the national interest.

As President Bush emphasized in his State of the Union address, reinvigorating our nation's economy is essential to our future. The 9/11 attack on the United States unquestionably was intended to cause harm in every conceivable way, including undermining our national economic vitality—and its impact continues. While we have felt the pain, we have not, and will not, let that attack succeed.

Among the key economic targets, was our airline industry. In a country the size of the United States, the role aviation plays in our success is without parallel—it links our communities together, it delivers our critical goods, it drives essential industries, and it employs or produces employment for more than 11 million people. I need not go through the litany of numbers with this Committee. You know them well. I would note, however, that fully half of the jobs lost in this country since 9/11, have been lost in the aviation and travel sectors. The fact is that our way of life depends, in a very fundamental way, on the airline industry and if we are to jumpstart our national economy, the airline industry issues being considered today must be resolved.

The airlines, unfortunately, are in grave condition. Two major airlines, representing more than twenty percent of the industry, are in bankruptcy. Passenger carriers have reported over $10 billion in 2002 net losses. Industry debt now exceeds

$100 billion, while the industry's $15 billion total market capitalization continues to decline. Our ability to borrow is evaporating. The few airlines that have been able to achieve a profit, are doing so under tremendous adversity—and with the prospect of war on the horizon, the picture is not bright.

The reasons for the imperiled condition of the industry are clear. The industry has always struggled with high costs. Stubbornly high fuel prices, escalating insurance costs and spiraling labor expenses, among other things, have combined with a particular vengeance in an underperforming economy exacerbated by the aftermath of 9/11.

The airline CEOs recognize completely that "self-help" is imperative—and they are making the tough calls. For the top six network airlines in 2002, operating expenses have already been cut by $4.5 billion, with more to come. Capital spending has been slashed by almost 50 percent—some $5.6 billion from 2000 levels. Regrettably, to reduce operating expenses, staffing has been cut by over 90,000 positions across the industry. It is well known that wage reductions and/or productivity increases are the order of the day.

Despite these measures, many analysts are looking to an industry loss of between $5 and $6 billion in 2003—meaning, the airline industry will have incurred losses totaling nearly $25 billion over a three-year period—and it could well get worse.

The picture is obviously bleak. The question is, beyond what airline managements and labor can do, what can be done to restore the industry and, with it, a huge portion of the national economy? That is where today's hearing and the role of this Committee becomes critical.

Beyond the unprecedented push for internal cost reductions and improved productivity, our second major problem arises from the impact of government decisions. As a consequence, in addition to what the airlines can do, the government has a major role to play in restoring balance to the aviation sector. Let me be clear. The industry's self-help measures are being counterbalanced by increased costs arising from the new national security requirements, which are being passed through to the airlines as unfunded mandates.

Given the state of the economy and the public mood, capacity in the airline industry continues to substantially exceed demand. Consequently, any ability to pass these national security costs on to the consumer is non-existent. As the airlines struggle to climb out of the financial hole the industry is in, it keeps getting deeper and deeper as a result of new security costs. If the airline industry is going to succeed, the government must reverse this situation.

Let me provide you with just a few examples of the kind of expenses I am referring to:

- Hardened cockpit doors are estimated to cost in excess of $300 million. To date, less than $100 million has been appropriated and obligated. While, with the help of this Committee, more support is hoped for soon, major funding gaps remain.
- Ramp security, aircraft inspections, passenger document verification and extensive employee background-check expenses, among the multitude of new security requirements, continue to add hundreds of millions in new, post–9/11 costs.
- The screening of catering materials and supplies, and the pre-flight screening of charter passengers by the airlines—both responsibilities which, we believe, were appropriately vested in the TSA—continue to be performed by the airlines, adding yet more major new costs.
- The booking of Federal Air Marshals into first class seats (often displacing passengers at the last minute), particularly at a time when every additional revenue dollar is so important to the industry, is producing opportunity costs running again over $100 million annually by some estimates.
- Postal and freight restrictions resulting in hundreds of millions in lost revenue.
- Finally, in a period when the only effective way to encourage people to get back in the air is through discounted prices—as is reflected by the fact that 2003 airfares are virtually identical to the fares charged in *1988* in actual, not inflation-adjusted, dollars—the airlines have no ability to pass on additional costs to consumers. Consequently, both the Passenger Security Tax and the Air Carrier Security Fee come right off the airlines' bottom line—with additional billions lost.
- And the problems continue to grow. Just last week, I was informed that, at least at the staff level, TSA is calling for cabin and cockpit crew defense training that will cost hundreds of millions if these plans proceed without change.
- The multitude of issues surrounding the use of guns in aircraft cockpits threaten still further costs. As one example, I just learned that at least some in the

pilot community are viewing the TSA-mandated procedures as a basis for adding more time to their schedules.

- As Mr. Barclay notes in his testimony, the addition of national security costs at airports is just as alarming. Construction and reconfiguration of space for TSA processing, offices and other facilities occupied by TSA, and the additional demands for security personnel and procedures, are again adding billions in new costs. While we are in complete agreement with the airports in calling upon the government to assume these expenses, it does bear noting that no matter what is ultimately decided in this area, the airports, in the end, do not absorb these expenses. Either the government will assume these costs or they will be borne by the airport tenants. Yes, again exposing airlines to billions in new costs.

Mr. Chairman, I want to be clear that in presenting this picture to you, it is not intended as a criticism of TSA, the Administration or the Congress. Every party is acting in extraordinary good faith in trying to do what is best for the public interest within the limit of resources available. What is difficult for all of us, however, is bringing perspective to these issues—and that is where this Committee can be so helpful.

In the brief time I have had to discuss and analyze the problems we are discussing today, it appears that there are three essential steps that should be taken immediately.

- First, Congress must establish and enforce an unalterable policy that aviation security is the responsibility of the Federal Government;
- Second, we must work together to jointly understand and assess the financial impact of the unfunded security mandates. While some estimates identify an annual cost to the industry in the area of $4 billion, more work must be done to validate these figures; and
- Third, once the unalterable policy is clear, Congress, the agencies and the industry must work in concert to identify changes to procedures that will minimize the cost of security requirements without compromising essential security goals.

Our reasoning is clear. The attacks on the United States, which took place on 9/11, were just that—attacks on our country and all that it stands for around the world. Although the instruments of the attacks were highjacked aircraft, the effect was no different than an attack on our nation by hostile foreign forces. Defending against such attacks—defending against foreign aggression and providing for our common defense—are, without question, responsibilities of the United States government and not private industry.

In enacting the Aviation and Transportation Security Act, Congress responded to the attack by mandating that the Federal Government assume responsibility for aviation security. That legislation made clear that, with the exception of specified airline responsibilities, TSA was to take over all screening of passengers and property.

What the airlines are asking is that the Committee take action to see that this mandate is met and that the unfunded security mandates now being imposed upon the industry are eliminated. TSA must establish its security priorities and meet those priorities within its budget.

If we are to begin to restore the health of the airline industry, we must adhere to the principle that protection against terrorism is a national defense function. As such, expenses associated with anti-terrorism and airline security must be assumed as general taxpayer expenses. Doing so is not "bailing out" the airlines. Rather, it is recognizing that the extraordinary costs associated with national security cannot be supported by the private sector alone. The evidence is clear that the failure to do so is having a devastating impact on the fragile economic condition of the airline industry—with a growing threat to the broader economy.

This message is made all the more urgent by the imminent prospect of war. Based on the industry's experience during the first Gulf War, and the current state of demand, the prospect of increased losses of $4 billion per quarter from a combination of war-depressed travel and increased fuel costs, is very real. Given the depletion of the industry's borrowing power, however, should that occur the very functioning of this critical component of our economy would be in doubt. The urgency of the case for action by this Committee, the agencies involved and the Appropriations Committees cannot be overstated.

In conclusion, let me thank you for all that you are doing to work with us in these exceptionally difficult times, and for all you have done in response to the 9/11 at-

tack. Please be assured that the Air Transport Association will do everything possible to support your work on behalf of the public interest.

Thank you.

Senator LOTT. Thank you, Mr. May, and I will come back with some questions for both of you.

And now, Mr. Barclay, as I recognize you, I've told several of the people in the aviation industry recently, you know, one of the things that's dangerous about this area of legislation. And it's one of the few areas where all Members of Congress, House and Senate, actually have to endure the indignities of our constituents; we all use your facilities and we all fly a lot of airplanes, general aviation and commercial, and it makes us painfully aware of what's going on. And, therefore, sometimes we get right in your hair.

I must say, with regard to the airports, you know, I've been in a few airports recently, including one in Lexington, Kentucky, where I was very impressed with the TSA officials and that we—you know, one of them was a part-time woman with a Ph.D., a professor at the University of Kentucky, pretty interesting for a TSA employee there at that Lexington Airport.

I also have found that now, in this new position, that I guess I'm going to get to meet every one of your members as I fly to the airports, because the airport manager came down, pulled me out of the line, and said, "You have 30 minutes before you have to board. Let me show you what we're doing." "Oh, good, thank you very much." So I guess I'll get to see the underbelly under every airport that I go into now.

But your people, I think, are doing a great job, from where I've seen it, and we look forward to working with you and we're glad to hear your testimony now.

STATEMENT OF CHARLES BARCLAY, PRESIDENT, AMERICAN ASSOCIATION OF AIRPORT EXECUTIVES

Mr. BARCLAY. Thank you, Mr. Chairman. We are into show-and-tell when we get one of you into an airport.

I'd like to emphasize just three points out of my written statement, and that is partnership, paying bills, and passenger accommodation.

But, first, I'd like to start off by thanking and commending Secretary Mineta, Secretary Jackson, Deputy Secretary Jackson, Under Secretary and soon-to-be Administrator Loy, and the talented team he's put together. My candid recommendations for changes going forward are delivered side by side with my respect and admiration for their very good work and leadership to date.

On partnership, while a great deal of good work has been done since 9/11 by Congress and TSA, we believe that a fundamental concept has been largely overlooked, and that is that throughout the history of our country, federal and local law-enforcement agencies have acted as partners, not regulator and regulated party. The—whether it's been partners on special task forces or in day-to-day operations, the model for law enforcement is agreeing on a division of responsibilities and then spending all our energies looking out for the bad guys, not spending our law-enforcement energies looking at each other as a regulator and a regulated party.

TSA needs to put airport law enforcement in a different category from the private parties in the aviation industry, and then treat them differently. We are TSA's partners with law-enforcement powers and identical incentives to keep our citizens safe. TSA has made some efforts in this direction, but, too often—and perhaps it's due to the difficult deadlines in the first year—fallen back into regulating their wishes upon airports, sharing too little information, and generally grouping airports with the private companies TSA appropriately regulates. The results are costs that are too high for TSA and airports pressured to have too many TSA employees, conflicts and inconsistencies that could be avoided.

My testimony offers some specific examples, and some upcoming decisions on perimeter security will put this matter front and center. Legislative changes to codify the partnership model would be welcomed by our members.

Paying the bills. When you order something, you need to pay for it. It's true for us all, and it's true for TSA. To the extent TSA believes it must use federal mandate to accomplish its mission, the Federal Government needs to pay the bills when they come due. Today's answer is too often, "We hope to pay for that, if we're given room in our budget, but do it anyway."

The authority to order something be done without the concomitant responsibility to pay the cost is a power that should be used sparingly. Airports have delayed over $7 billion in safety and capacity projects in an effort to reprogram expenses for security costs and to reduce charges to airlines, a delay which will damage the system's future if it's continued indefinitely. We've spent ten times as much of our AIP money for security in 2002 as in 2001, and, as Inspector Mead pointed out, we remain un-reimbursed in areas detailed in our testimony, and we face $16 billion in annual construction requirements to meet the future system, safety, and capacity needs.

Further, the Administration's budget request includes nothing we can see to accommodate the permanent buildout of EDS systems, something our members estimate as somewhere north of $4 billion. Financial demands on airports are nothing short of staggering.

TSA and DHS need to decide what they need to operate, what they need to regulate, and what they want to delegate. They need to pay for the costs for the first two. We stand ready to help provide security and to control costs through the partnership model, as discussed above, with the third option.

Accommodating passengers. The Federal Government cannot just not ignore the system's long-term safety and capacity needs, as has already been pointed out by several members, while focusing on the immediate security challenges. By definition, if we were to remedy the security concerns enough to return passengers to pre–9/11 levels, we would be back in our previous capacity crisis. We need to continue to invest in our system's long-term capacity through AIP, PFC's bonding in rates and charges, or we'll simply trade passenger inconvenience from security procedures today for passenger inconvenience from capacity shortages tomorrow. The Administration's budget proposal to draw down the Aviation Trust Fund bal-

ance to alarmingly low levels would seem unwise to us in this regard.

Technology certainly has great potential to improve both security and convenience, and we applaud the efforts of the Committee and TSA to support research and implementation of improved technology.

Finally, Mr. Chairman, I just want to say that, in my experience meeting airline CEOs, I always thought they were a smart bunch of folks, but when they hired Jim May, I was sure of it, and we welcome him to the industry.

[The prepared statement of Mr. Barclay follows:]

PREPARED STATEMENT OF CHARLES BARCLAY, PRESIDENT, AMERICAN ASSOCIATION OF AIRPORT EXECUTIVES

On behalf of the men and women who operate and manage America's airports, I appreciate the opportunity to reflect on our recent efforts to enhance aviation security and to outline a few of the challenges that lie ahead. While much remains to be done, it is clear that a great deal of progress has been made in recent months and that our nation's aviation system is more secure than it has ever been.

Before moving into some of the specific challenges that loom on the horizon, I want to first thank Chairman Lott and the Subcommittee for delving further into aviation security. With several high-profile deadlines behind us and with the Transportation Security Administration finally ramped up and fully operational, this is absolutely the right time to address fundamental questions about aviation security and how we can make further improvements in a reasonable and cost effective way.

Challenge: Recognition of Airports as Public in Nature With Similar Mission to TSA

For airport operators, the questions contemplated today must go beyond the basic matter of who should pay for what. Clearly, cost implications are a key concern and one that we believe the Federal Government should take into account as it considers security requirements and procedures. Equally important, however, is the fundamental question of how the Federal Government will choose to view airport operators—as a partner or as an impediment—as we move forward to address security challenges.

While the situation has improved dramatically under the leadership of Admiral Loy, TSA, at best, still views airports with suspicion. The effort to install explosive detection equipment in airports over this past year to screen checked baggage offers a perfect example. Rather than drawing upon the local knowledge and expertise of airport officials, who repeatedly offered their assistance, the TSA chose to keep airports at arms length as extensive plans for baggage screening configurations were drafted and re-drafted by government contractors at great expense and often without airport input. This decision to ignore airport operators cost the TSA critical time and many millions of dollars. It likewise cost a number of airports additional resources as many were forced to undertake design and engineering work at their own expense because the TSA's work and final planning was either dramatically delayed or unfeasible.

As we move forward, it is clear that the TSA can and should do even more to turn to airports as a partner in the quest to develop and implement cost-effective solutions to security issues. Airports are at their very core public institutions and therefore much different from the rest of the aviation industry, which is to a large extent driven by the need to show profits. The primary mission of an airport is not to make money, but rather to serve the community and the national aviation system by encouraging competitive air service and ensuring a safe and secure environment for the public. As local governments, airports have always been responsible for the safety and security of their facilities and the people who use them. This will continue to be so, regardless of the roles assumed by the TSA. Since we share the same mission as the TSA with regard to security, it is only appropriate that we develop a cooperative and coordinated approach to solving problems.

The use of local law enforcement resources at airports is but one area where airports and local governments can and should work with the TSA. For more than 30 years, airports and local governments have provided a law enforcement presence at airports throughout airport terminals and around airport perimeters. Without question, local governments have performed these law enforcement duties with great

success. Yet, there are those within TSA who would like the Agency to get more involved in these areas, a prospect that ignores past success and, if implemented, would impose further costs on the system.

Parking is another area that continues to cause problems despite the reported elimination of the irrelevant 300-foot-rule that prohibited parking close to terminal buildings. There remain a number of hoops for airports to jump through for approvals of parking plans, and serious questions remain at some bigger airports as to how the new system, which is based on Homeland Security threat levels, will operate and be funded. Again, these types of problems could be eliminated if only the Federal Government would recognize the public nature of airports and allow them to develop plans that best serve local circumstances. The Federal Government does not dictate to local governments how to protect shopping malls, office buildings, museums, or sports stadiums. What public purpose is served by treating airports differently?

Mr. Chairman, the TSA has a daunting mission with responsibilities not only for aviation security but also for our nation's entire transportation system. It is in the Agency's interest and the public interest to reach out to airports and work collaboratively when possible to solve problems. Building a cooperative relationship based on mutual trust will both enhance security and ensure that limited resources are wisely spent.

Challenge: Federal Funding to Meet Federal Mandates

While working more closely with airports would represent a good start, it will obviously take more to comprehensively address airport security, comprehensively, into the future. Funding challenges, as you are well aware, remain a serious problem that we believe should be addressed with both a renewed effort to keep the TSA in-check and focused on its core mission and as well with new federal resources.

On the former, there seems to be a pervasive urge on the part of the Agency to expand its reach as the law enforcement and parking examples previously mentioned illustrate. To address this situation, Congress may want to consider requiring either regulatory burden or cost-benefit tests for the TSA to ensure that the Agency avoids continued "mission creep."

In terms of federal funding, it is clear that new federal resources must accompany federal requirements. Airport operators can no longer absorb additional security costs without serious consequences to capital improvement programs and other airport operations. Airports are already stretched thin trying to deal with a number of unfunded mandates imposed on them by the Federal Government. In addition, the Airport Improvement Program, which many in the Administration seem to look at as a magic funding pot, has already been tapped heavily for security-related items, with more than $560 million in FY 2002 devoted for security, up from $57 million the previous year. Without incremental federal assistance, airports would have no choice but to lay off part of the burden on our partners in the airline industry, which is for assistance also is not a viable option given their dire financial situation.

The case for federal support is evident. The attacks of September 11 were more than an attack on the aviation system; they were an attack on our nation. The threats that exist today are a matter of national security, and the Federal Government must take an active role in meeting airport security requirements.

For airports, the situation was worsening before 9/11 and has grown much worse in the aftermath. Many of the mandates issued by the FAA and TSA to provide additional law enforcement personnel, enhance airport surveillance and revalidate all airport-issued identification, for example, remain unfunded. In Fiscal Year 2002, Congress appropriated $175 million to reimburse airports for a portion of these costs. As part of the process of applying for those funds, airports collectively submitted requests for $444 million in expenses that the FAA deemed acceptable, leaving a roughly $270 million gap that airports have been forced to absorb. An additional $150 million was provided for reimbursement as part of the FY 2002 supplemental spending bill, but those funds evaporated when the President rejected the "contingent emergency" portions of the bill.

At the Jackson International Airport in Jackson, Mississippi, for example, new mandates have led to a nearly 70 percent increase in law enforcement expenses, among others. The roughly $45,000 a month that the airport has been forced to shoulder may seem insignificant, but for smaller facilities those costs are extremely difficult to deal with. In the case of Jackson, the airport has reluctantly increased landing fees for carriers, a result that could adversely affect air service for the community. There are numerous other examples from airports throughout the country.

Explosive Detection System Installation

Unfortunately, there are even bigger cost concerns on the horizon. Chief among them is the multi-billion dollar cost of permanently installing explosive detection equipment in 429 commercial service airports across the country. As anyone who recently has traveled through airports knows, a majority of these machines currently sit in already crowded terminal areas, where they were dumped in order to meet the 12/31/02 deadline for screening all checked baggage. The longer the existing "temporary" arrangement persists, the bigger the security threat to waiting passengers and the more inconvenienced they are as they attempt to check baggage and board flights.

The estimated costs of moving the equipment "in-line" with baggage systems out of the way of check-in areas are staggering. Estimates vary from $3 billion to $5 billion and up to complete the extensive work required to make space available and to create new space in airports for the truck-sized EDS machines, to create and expand baggage make-up facilities, to integrate the various systems, to reinforce existing floors, as necessary, and the like. While it might be easier from a funding perspective to simply ignore these costs and try to "get by," with leaving the machinery where it now sits, doing so would have serious ramifications on security and passenger flows and processing. The passenger's difficulties in dealing with today's security mazes, the latter of which remains extremely important given the current state of the aviation industry and the need to eliminate the passenger "hassle factor."

While the depth of the problem varies, virtually all airports face serious challenges in moving to in-line systems. Below are some estimates our members have provided to us or that have been reported in the press over the past several months for long-term EDS integration. These figures could, of course, change depending on final TSA planning:

Seattle	$400 million
San Jose	$241 million
Newark	$200 million
Las Vegas	$200 million
Dallas/Fort Worth	$193 million
Boston	$146 million
LAX	$135 million
National/Dulles	$125 million
LaGuardia	$100 million
San Diego	$90 million
Denver	$85 million
Kansas City	$66 million
San Francisco	$65 million
Phoenix	$60 million
Minneapolis/St. Paul	$40–$50 million
Salt Lake	$30 million
Nashville	$30 million
Jacksonville	$20 million
Miami	$20 million
John Wayne	$20 million
Richmond	$20 million
Oakland	$16 million
Memphis	$10 million
Boise	$7–8 million
Sarasota	$5–6 million
Gunnison-Crested Butte	$5 million
Lexington	$3.5 million
Tallahassee	$3–4 million
Louisville	$3.25 million
Tucson	$2.35 million
Kalispell, Montana	$1.5 million

To its credit, the Congress has been willing to step forward and begin providing resources to install EDS equipment. As part of the 2002 supplemental spending bill (Pub.L. 107–206), $738 million was appropriated specifically for that purpose. While that theoretically provided a good down payment, we have recently learned that the TSA has shifted most—if not all—of those funds to help pay Boeing for the TSA's design, engineering, and construction work, conducted to deploy baggage screening equipment, including design work. It is unclear what portion has gone to make terminal modifications.

Since the supplemental appropriations bill was signed into law this past summer, AAAE and ACI–NA have repeatedly asked TSA officials about the distribution of the $738 million in an effort to provide guidance to airports interested in moving forward with terminal modifications needed to accommodate EDS equipment. Repeatedly, we have been led to believe that the funds would be released to airports for TSA-related terminal modifications through a formulaic approach, only to find out in recent days that would not be the case.

We are struggling to understand how paying for a significant portion of the Boeing contract with these funds met the requirement established in the law, since airport costs to accommodate baggage screening continue to be ignored. Airports, in some cases, provided their own money to pay for design work that was ultimately used because of the delay in getting the government work completed and because of problems with implementation of the government plans. In Jackson, again, the airport used $50,000 of its own resources to develop the plan that was ultimately implemented. It is our hope that Congress will act quickly to ensure that the funds in question are in fact used for airport terminal modifications as intended.

As we move forward, airports recognize the difficulty we face in gaining the billions in funding necessary for terminal modifications in one year. Therefore, we have joined the TSA in advocating for the creation of a new program within the TSA's budget—perhaps modeled after the current FAA Letter of Intent process, FTAs Full Funding Grant Agreements, or something similar—that would allow airports to leverage their own resources to pay for the construction necessary to accommodate EDS equipment.

The notion would be to have interested airports provide immediate funding for key projects with a promise that the Federal Government would reimburse the airport for those expenses over several years. This approach would maximize the use of limited federal resources and ensure that key construction projects get underway as soon as possible. We hope that Congress will act quickly on this proposal given the urgency of the problem.

Before moving on to other funding issues for the airport community, I again want to emphasize to the Subcommittee our concerns about the possibility of using Airport Improvement Program funds for EDS installation and other pressing security needs. As I mentioned earlier, more than $560 million in AIP for FY 2002 has been used for security. That is $560 million that was not used for other important safety, capacity, renewal, and noise-mitigation projects at airports.

TSA officials have publicly announced their intention to rely on AIP in the current fiscal year once again to meet security requirements. Already, airport operators across the country have reported hearing from FAA officials "encouraging" them to devote their AIP dollars to security projects.

This is a very dangerous precedent, Mr. Chairman, and one that I don't think we can take lightly. While using some AIP funds has been helpful to some airports in the short-term, it would be incredibly short-sighted to rely on AIP funding for future security requirements. The events of September 11 have taken some focus away from the issue of airport capacity, but it is clear that serious needs remain. Many airports were feeling the strain of congestion before the current downturn and FAA projects passenger traffic is expected to grow significantly, from its current level of 680 million to one billion, annually, within the next decade. Cargo and general aviation operations will likely continue to skyrocket. Airports' capital investment needs for renewal, modernization, and security-related improvements continue to grow, unabated.

Other Funding Requirements

Beyond EDS installation, airports continue to struggle with a number of other new requirements, including necessary parking changes, as well as access control and perimeter security upgrades. ACI-NA projects that on-going and future capital needs are expected to exceed an average of $16 billion per year for the next five years.

The use of space by the TSA in airports is also a big concern. The TSA has requested significant amounts of space at airports, not only for screening passengers, but also for employee training, office space, break rooms, and other purposes. For decades, the FAA has paid airports for the Agency's use of space at airports, and we believe the policy should be the same for the TSA. Congress should permanently extend a requirement that has been included in recent funding bills requiring the TSA to pay for all the space it uses in airports outside of screening checkpoints. Without this change, airports will be forced to build additional facilities, without compensation, and thereby shoulder an even greater economic burden.

The issue of permanent positioning of law enforcement personnel at security screening checkpoints has also caused a great deal of concern. Prior to the passage

of the Aviation and Transportation Security Act last November, airport and local law enforcement were responsible for law enforcement activities at airports and were required to respond to incidents at screening checkpoints within a time certain. With the passage of ATSA, a law enforcement presence was required at all security screening checkpoints. While the National Guard initially fulfilled this requirement, state and local law enforcement officials have done so since the Guard was removed from airports last May. They have done so with the understanding that they would be reimbursed by the Federal Government for meeting this new federal requirement. We need to ensure that funding is available to meet these costs.

As was mentioned previously, airports and local governments, traditionally, have performed law enforcement duties throughout airports. It is an effective and efficient model and it only stands to reason that this arrangement should be allowed to continue, with the local forces meeting what is now essentially a federal as well as local requirement. Ideally, checkpoint law enforcement officers would be given the flexibility to move beyond their fixed stations in order to both make better use of personnel resources and to ensure a broader, more comprehensive, and more effective approach to security, provided, of course, that they can respond to a checkpoint incident in a time certain as necessary. These changes require a modification to existing law. Both TSA and the airport community are in agreement that those changes should be made.

Another area of concern that I would like to touch on is general aviation security, a topic that will likely begin to receive more attention this year. To address security concerns at GA airports, AAAE created a task force to make recommendations on the future of GA airport security. Task force members included officials from numerous GA airports, as well as representatives from the National Association of State Aviation Officials (NASAO).

In its final report, the task force emphasized that the ability of the large majority of GA airports, many of which are not self-sustaining, to implement enhanced security measures will be contingent upon the provision of extensive financial assistance from the Federal Government. Any new regulations should not be promulgated without an appropriate new funding source from the Federal Government to finance new security requirements at GA airports. Simply diverting funds from AIP or other existing federal programs would only serve to reduce funding for necessary airport safety and capacity projects.

Challenge: Increase Customer Service, Utilize New Technology

Before closing on our list of specific concerns, I want to note a couple of broader areas that need additional attention from TSA and from the Congress. The first is customer service, which has largely been put on the back burner since the events of September 11. While security is obviously an a primary imperative, maintaining the efficient, effective functioning of the aviation system is also important. We cannot realistically expect the traveling public forever to wait patiently on a system that they view as unnecessarily intrusive and inefficient. The more hassle involved, the less inclined people will be to board aircraft, especially as time passes. We have already seen convincing evidence that passengers who have an option have already forsaken air travel: short distance trips have seen the greatest decline in patronage. Those truths have had and will continue to have a profound affect on the airline industry and its financial well-being.

We are pleased that Secretary Mineta and others have made efficiency and customer service a key goal of the TSA. Given the importance of this issue, it is our hope that DOT will collect and publish performance data on the wait times at security processing points at every airport. We believe that having this information available to the public can provide much needed accountability in this area.

Finally, I want to encourage the Subcommittee to give greater attention to the promise of new technology. To this point, much of the debate in Congress on aviation security has largely focused on those responsible for screening passengers and their carry-on baggage, cockpit security and Federal Air Marshals. While appropriate and necessary, we must also look to new technology to ensure that the hijackings and terrorist attacks that occurred on September 11 will not happen ever again.

Just a few days after the terrorist attacks, Secretary Mineta formed two teams to examine ways to improve airport and aircraft security. I served on the Rapid Response Team on Airport Security, which issued its report last year. We concluded that new technologies must be deployed more widely to augment aviation security. I remain convinced that there is an urgent need at minimum to establish centralized databases for both trusted travelers and industry workers that will provide for the continuous vetting of the hundreds of thousands of individuals who frequently travel or who work within the aviation system. I believe there are a number of addi-

tional applications for new technology to enhance perimeter security and access control, improve baggage and passenger screening, and numerous others.

In closing, Mr. Chairman, I again want to thank you for the opportunity to outline a number of concerns for airports across the country. Security remains a pressing issue that requires our continued attention. Airports stand ready to work with the TSA with the hope that we can continue to find reasonable and cost-efficient solutions to ongoing problems.

Senator LOTT. Thank you, Mr. Barclay.

It sounds to me like the relationship between the airports and airport executives and local law enforcement with TSA has not been good. Isn't that what you were saying?

Mr. BARCLAY. No, I think that would go—I'm here focusing on the problems that we need to fix and not all the things that have gone right. And I think Administrator—Admiral Loy went over several of them where they have worked with us. There's just a—such a great range of things you've got to get done quickly at airports.

Senator LOTT. And that was going to be my next question. I was going to back away from the first question and say, look, they had a lot to do in a short period of time. They did it. And sometimes I'm sure they did pretty aggressively or even heavy-handedly in order to get it accomplished at the airports. But, you know, are those—I mean, I assume you're working with TSA to make sure that the concerns of the airports executives and the local law enforcement are being considered now.

Mr. BARCLAY. Well, we are. And some of it is in Congress' jurisdiction. And the law that was written gave things, like perimeter security, and it said "Federal" on some of those.

Senator LOTT. Uh-huh.

Mr. BARCLAY. As the Admiral said, they said a Federal Officer at the checkpoint. And that really doesn't make sense.

Senator LOTT. You know, I would hope somebody, as we go forward, will begin to apply some common sense to some of these things. You know, we—typically for Americans, we moved in aggressively and with—you know, a total sledgehammer. And we looked at these outer perimeters, and then we kind of worked inward when maybe we should have been going the other way all along. And I hope that you'll be aggressive in making that point.

One of the things you said, and I've wondered about many times, where the TSA came in and said, you know, "Do this," and you said, "Well, we can't, because who will pay for it," and they said, "Well, we don't know, but do it anyway." What happens if you said, "No, we're not going to do that"——

Mr. BARCLAY. Well——

Senator LOTT.—"We can't afford it, and just because you told us to, unless you provide a way for it to be paid, we don't have to do that." Is the only thing that forces you to go ahead and do it is fear that something will go wrong and then you'll get the blame? Are they going to—are they going to take you to court? What are they going to do with you?

Mr. BARCLAY. Well, we're public agencies, as well, and sensitive to what can happen in the press if we're labeled as non-cooperative or not caring about aviation security.

The —we've tried to work out those issues, and so has TSA. You're going to see a number, the $738 million example that's being talked about now. Nobody that I know is trying to say TSA

didn't follow the letter of the law there, but that was a—that was a pot of money we lobbied for and got put in the bill. The Administration lobbied against us. Now, we're not exactly seeing where it's all going. And that's a function of there's too little money. We both—neither TSA nor airports have enough money—we're both going after some of the same pots in some places. And I think we're going to have to compartmentalize some of our arguments over money and our cooperation as partners in law enforcement. I mean, there's going to be places where we agree and places where it's going to be hard——

Senator LOTT. Obviously I'm concerned about that, and that's why we're having this hearing. I do feel like there have been, again, unfunded mandates we've dumped off on the airlines and the airports and, you know, the—aviation, in general, and we're going to have to take another look at that and assume some of the responsibilities.

However, I also think that the airports are going to make sure that the—you know, I mean, this is not the AIP program. The security—improving the airport or changing the airport in the name of security if it's not always security is not good either.

And I have to say, right now I don't think Congress is real interested in aesthetics. When Mr. Mead was talking about up to $5 billion to, what, redo the airports, I'm not sure you're ever going to get that kind of help from the Congress. Security is one thing. I do think, you know, aprons and runways and all that's very important, but I just—I don't know that—I have reservations about how much responsibility the Federal Government has in, you know, reconstruction or, you know, overhaul of the main airport building, for instance. Do you want to respond to any of that?

Mr. BARCLAY. I would like to, Senator. If you take a look at some terminals today, they look like—from an above shot, they look like maze down there for laboratory animals and you're queuing up two and three times. All the airports want to do is build in baggage screening into the baggage systems themselves behind the scenes so you're not queuing several times, and we think that's key to the whole economic foundation of the industry to get passengers back on airplanes.

So that's where all that money is. It's in the buildout of buildings that weren't designed for inline baggage screening systems, and we've got to put them back there unless we want to leave our terminals looking like they do today.

Senator LOTT. Well, you know, maybe it was just the size of the airport. I guess this would be a mid-size regional airport, Lexington, Kentucky. But I was very impressed. I didn't see mazes. And they've had these new conveyor belts behind the ticket counter, modern equipment was being used. And the airport director actually said that they were going to be saving money with this new equipment, almost enough to, as I recall he said, within 2 years, to pay for the additional costs of what they had to put in.

What about that?

Mr. BARCLAY. Well, it varies enormously. The smaller airports have less of a problem where they have buildings with sufficient place—or space to put these things in behind the counters. Many of your major airports—if you picture Dallas/Fort Worth with those

very narrow terminals—they have no choice but to do a very expensive buildout behind the scenes——

Senator LOTT. Yeah.

Mr. BARCLAY.—and that's where all the money is at the relatively few larger airports. Boston, alone, has done it already and spent over $140 million. Seattle has an estimate of $400 million. I mean, there's great variation from airport to airport in what the costs are.

But it's not for aesthetics; it's for passenger convenience to get passengers in and out without queuing them up several times.

Senator LOTT. Congress authorized $1.5 billion for FY 2003—2002 and 2003 for reimbursement of airport operators for additional security costs imposed by ATSA. How much money have you received under that provision?

Mr. BARCLAY. 175 million. Another 150 million was provided in the emergency supplement that the President did not allow to go forward and get spent. So we thought we were going to get another chunk of 150, but—and that was for the actual operating costs that airports immediately ramped up after 9/11, just on the request, and we were told we'd be reimbursed. And the total amount of reimbursement so far—we've calculated airports have spent something north of a billion dollars, operating and capital, since 9/11 directly on the security costs, and we've gotten 150 million.

Senator LOTT. Ten percent. Not quite what it should be.

Let's see. Mr. May, talking about the security fee and the—you know, that we've put on the tickets—what was it, $2.50 each leg? And I'm being told by the airlines that basically the fact is they had to eat that, that the market has sort of set the price and they couldn't add that on top of the tickets. Is that, you know, the understanding that you have? And are there any innovative ways that we could deal with that fee that would help solve that problem?

Mr. MAY. Mr. Chairman, that is, in fact, my understanding, and I think, that of all of the economists that I've talked to that understand the competitive nature of the business and the pricing strategies in this business, that even though you see some fees that are printed on the ticket—and one might expect, at the outset, that they're being passed through to the ultimate consumer—the bottom line is that a lot of that money is coming off of the bottom line of the industry and not being passed on because competition will not permit that.

I think that as we go forward, we have to take a look at, as I indicated in my testimony, all of the security expenses and reassess what is happening to this industry, try to quantify, as much as possible, the exact dollar impact, and then come up with a plan to address it, whether it's finding a way to get full reimbursement for cockpit doors—by the way, there is $150 million in the 2003 conference, in the House version, not in the Senate version, and so the conference is going to have to go to work to come up with some additional moneys.

Senator LOTT. I know that Senator Stevens understands that. I don't know whether he can get it done. That's a very difficult conference that he's working on.

Mr. MAY. And I think the Congress is going to have to—you know, this may seem heresy, but I think we need to consider whether or not we want to continue that $2.50 segment fee or go to the general treasury.

Senator LOTT. Well, let me—let me—I was afraid you might say that. I remember what some in your industry said when we did it, but I do think the passengers should pay for some of the cost of their security. I think they should pay, not the airline.

Mr. MAY. I understand.

Senator LOTT. Although the airline has certain areas that they're just going to have to pay, too. But I think our intent was for the passengers to pay part of the cost of the extra security they were going to have. But——

Mr. MAY. And it is——

Senator LOTT.—that's not what—I mean, they paid, but the airline actually absorbed the cost and—maybe there's—isn't there some way we could deal with that?

I mean, we were talking about it the other day. Is there some way that fee could be paid separately? Now, that would add to the lines of people. I don't know the answer, but I don't think the airlines ought to have to pay for that. I think the passengers ought to have to pay for it. Now, is there a way to get that done?

Mr. MAY. That's the 64-dollar question, and I don't have the answer for you today, sir.

Senator LOTT. Well, I hope you'll work on that, because we're going to be looking for some innovative ideas as we try to help you deal with, you know, this extra security cost that we've dumped on the industry and then have not lived up to our obligations, although there's a limit of what we're going to be able to do. Sooner or later, this Committee can deal with the authorization, but we've got to get the money out of the appropriators, and that's a real challenge for us, obviously.

Mr. Bolen, just one question on you. This alien, sort of, occasion for flight training that the Justice Department has not developed the system that's going to be done, I can understand how they were pretty wise, "OK, we only have 45 days, so we won't let the 45 days start running until we've devised the system." But, I mean, how difficult should this be? It looks to me like, you know, 16 months is more than enough. But there's got to be some relatively simple answer. They just haven't gotten around to it, or they don't want to do it?

Mr. BOLEN. We don't know what the real answer is. A year ago at this time, we were told they were working on a computer program, that it was a couple of days away; we could expect, by February 1st of last year, to have it done. On February 1st, we were told that the computer program would be ready in April. And in April, we were told it would be a couple more months. And so we've been kicking the can down the road for quite a long time here.

In the time that we have been waiting on the Department of Justice to figure out how to screen the aliens, I might point out that the department, or the Transportation Security Administration has gone from a name on a piece of paper to a fully staffed 70,000-person agency that has conducted background checks on thousands—40,000 baggage screeners. Pilots have been screened throughout

the United States. Airport personnel has been screened throughout the United States. But the Department of Justice hasn't figured out a way to do this. And I think that that really is inexcusable.

Senator LOTT. Well, maybe we can make an inquiry——

Mr. BOLEN. I'd appreciate that, thank you.

Senator LOTT.—as to what's happened there that would be helpful.

Mr. May, you know, this area is going to need a lot of attention this year. We've got the FAA reauthorization, and, obviously, Senator McCain and Senator Hutchison and Rockefeller and Hollings are, all of us are interested in this area, and we're going to try to move forward on it. We also have the cargo security legislation that has been introduced by Senator Hutchison. We want to make sure we have thought that through and that if we need to do it, we do it in the right way. We also are going to need some vehicle to deal with these security costs that the industry has had to deal with that we haven't done our part on. And, of course, there is the labor reform legislation that Senator McCain and others have introduced, and we would want to take a serious look at that, too.

Now, I don't know whether we can get one of those done or two of those or wrap them all in one, but it's an area that we intend to take action in—or areas we intend to take action in this year, and we'll be looking forward to working with you and hearing from your—all of the people in your industry as to the best way to get—deal with those very important issue.

Mr. MAY. Mr. Chairman, we look forward to working with both you and your staff and the other Members of the Committee.

Senator LOTT. Thank you very much for your time.

The hearing is adjourned.

[Whereupon, at 4:40 p.m., the hearing was adjourned.]

A P P E N D I X

PREPARED STATEMENT OF HON. BARBARA BOXER,
U.S. SENATOR FROM CALIFORNIA

Good afternoon. The terrorist attacks were almost 17 months ago. Soon after the attacks, we passed the Aviation and Transportation Security Act. And, the Homeland Security bill had additional aviation security measures.

Mr. Chairman, I can say that air travel today is more secure than it was last year. But, air travel is not as secure as it could be. Our job is not done.

Last November, two shoulder-fired SA–7 missiles were launched at an Israeli airliner taking off from a Kenyan airport.

This is not the first time that shoulder-fired missiles were used by terrorists. In 1998, 40 people were killed when a Congolese 727 was shot down with a shoulder-fired missile. In addition, Al Qaeda is also suspected of targeting U.S. military aircraft in Saudi Arabia last May with an SA–7 missile. Saudi authorities found an empty launch tube near an airbase used by U.S. aircraft.

The threat is in the United States. Last May, the FBI warned airlines that terrorists may have smuggled surface-to-air missiles into the United States. The threat warned, "given al Qaeda's demonstrated objective to target the U.S. airline industry, its access to U.S. and Russian-made MANPAD systems, and recent apparent targeting of U.S.-led military forces in Saudi Arabia, law enforcement agencies in the United States should remain alert to potential use of MANPADs against U.S. aircraft."

We cannot wait to act until a plane in the United States or traveling to the United States is shot down by a terrorist. We must act now, which is why, today, I introduced legislation, the "Commercial Airline Missile Defense Act." This would require that countermeasures be placed on all U.S. commercial turbojet aircraft.

We also must continue to ensure that the legislation that Congress passed is implemented. First, the air marshal program is extremely important. Last summer, I was extremely concerned about news reports about problems in the air marshal program. Six months later the problems persist. Less than two weeks ago, an MSNBC report stated "the program is suffering." The report continued that the air marshal program's recruitment and retention are in trouble; TSA cannot reach the target recruitment numbers; and there continues to be inadequate training. I urge TSA to "get-to-the-bottom" of any reported problems in the program.

Another issue that we passed in the last Congress is armed pilots. This program—the federal flight deck officers program provides a final, last resort for the crew and passengers on a hijacked plane before the plane is shot down by our own military. As one of the primary cosponsors of this legislation, I will closely follow, the implementation of this program.

In the last Congress, the Senate passed key aviation security legislation, which the House did not. This legislation included a provision based on my legislation on ID verification technology. A year ago, I was troubled by a CBS news investigation that showed people getting through security with fake IDs. Therefore, I introduced legislation to provide for training of airline personnel in the detection of fake IDs and to provide for the deployment of technology at airport security checkpoints, which would determine if a passenger had a fake ID or not. I intend to reintroduce my legislation again this year.

Also in the bill that passed the Senate last year was a provision to study the use of hardened baggage containers. This technology was shown as part of the technology demonstration in the Commerce Committee hearing that I held in Los Angeles last August. These containers—many using Kevlar—can contain a bomb blast from bringing down the plane. We need to examine the best way to use these containers and get them aboard our planes.

We cannot stop fighting terrorism. Now is not the time to slow down or delay our efforts to increase and improve aviation security. The job is not done and it must be done.

I know that we have a lot to accomplish. We owe this to the American people to ensure their security when they fly.

Thank you, Mr. Chairman.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. JOHN MCCAIN TO JAMES M. LOY

Question 1. At most airports, TSA met the requirement to screen 100 percent of checked baggage by using explosives detection equipment or EDS installed in airport lobbies. These methods of screening are less efficient and require more screening staff than integrated EDS machines. What plans does TSA have for integrating EDS into baggage systems at the largest airport[s]?

Answer. TSA is developing an EDS in-line integration plan. In the interim, TSA has installed in-line systems at seven U.S. airports. TSA will continue to work directly with airport operators on plans for integrating EDS at additional locations. At the present time, TSA is focusing on those locations that have not yet achieved 100 percent electronic baggage screening.

Question 2. Admiral Loy, in his testimony, Mr. Barclay says that relations with TSA are strained. Do you share that view? To what do you attribute these poor relations? What can be done to change this?

Answer. My direct conversations with Mr. Barclay do not indicate a strained relationship between AAAE and TSA. While individual airports across the country have experienced some challenges working with TSA, all indications from AAAE are that relations are working quite well at the headquarters level. TSA has worked closely with AAAE on meeting the 2002 congressionally mandated deadlines and continues almost daily contact with AAAE.

Question 3. Admiral Loy, there has been a great deal of complaints from the industry of the lost "opportunity costs" because of air marshals sitting in first class seats. What is your position on this issue?

Answer. As I indicated in my oral testimony, Federal Air Marshals (FAMs) serve an enormously important function, which is to control access to aircraft cockpits and to allow aircraft crew to concentrate on navigating aircraft safely. I am exceptionally proud of their dedication, commitment, and daily contribution in the multilayered system that is now our aviation security paradigm.

Generally, FAMs are seated in particular sections and seats in order to maintain the maximum tactical advantage against would-be hijackers and terrorists. This positioning is fundamental to the FAMs' mission of thwarting another terrorist operation aimed at using a commercial airliner as a weapon of mass destruction.

Under ATSA, air carriers must provide seating for FAMs without regard to availability and at no cost to the U.S. Nevertheless, TSA recognizes that airlines are losing significant sums due to increased costs and decreased revenues. While we are sensitive to concerns about lost "opportunity costs" arising from the deployment of FAMs, we do not believe that airlines are experiencing significant loss of revenues as a direct result of air marshals sitting in first class seats. However, TSA is sympathetic to the financial plight of the airlines and will continue to work with them to address various issues relating to the airlines' underlying profitability, consistent with the post September 11 security paradigm.

Question 4. TSA has hired over 67,000 screeners. Let's just say that in the next 2 years 30 airports go with EDS in-line solutions for screening checked baggage. How many screeners can we expect to be let go because their services are no longer required with a more efficient screening method?

Answer. When airports transition to a 100 percent in-line checked baggage system, staffing needs will be reduced because higher capacity equipment will replace lower capacity equipment currently installed in airport lobbies. In addition, the use of on-screen resolution procedures will reduce the number of bags that must be subjected to a secondary search. With fewer bags requiring a secondary search, TSA will be able to reduce the number of ETD units deployed for this purpose, which will allow for additional reductions in staffing.

Question 5. The DOT/IG has raised concerns about who will bear the ultimate cost of integrating EDS machines into baggage systems at airports. Do you expect TSA to fund the conversion, as it is their responsibility to ensure that the process is being done effectively?

Answer. Integrating baggage systems in-line must be a shared cost with an airport. Where the TSA determines an in-line solution is appropriate, it has established guidelines to determine integration expenses that will be covered. Expenses covered by TSA include:

- the acquisition and transportation of EDS/ETD units,
- direct costs to make the unit operational (i.e. permitting, architectural and engineering fees, rigging, HVAC, electrical requirements, etc),
- a reasonable level of site clearance,
- reasonable amount of in/out conveyor,
- tie-in to the existing baggage handling system, and
- environmental enclosures for equipment if necessary.

Question 6. What is the biggest obstacle facing TSA today?

Answer. TSA achieved enormous success in its first year of existence. It simultaneously focused on meeting a variety of Congressional mandates; hired, trained and deployed an efficient, courteous and professional aviation security screener workforce; began the process of addressing the security needs in other transportation modes; and did all this while building the infrastructure and personnel required of a new organization. In achieving these objectives, TSA also had to be constantly vigilant on the need to maximize efficient use of the resources made available to the agency.

However, short and long-term challenges remain. The establishment of DHS has brought forward a new paradigm for homeland security that all legacy agencies, including TSA, will have to meet. Our challenge will be to ensure that transportation security needs are met in a comprehensive and strategic manner and TSA will work with all DHS organizations to ensure that this is done well. Furthermore, TSA will strive to maintain the progress already made in securing the nation's transportation systems while bearing in mind the constant need to allocate resources and personnel made available to the agency in a prudent fashion.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. JOHN MCCAIN TO HON. KENNETH M. MEAD

Question 1. Mr. Mead, in the Administration's budget, the President has proposed spending down the Airport and Airway Trust Fund balance to ensure a stable general fund component in the FAA operations budget. You have expressed concern about the growing general fund component of the FAA budget. Do you agree with this approach? Do you have an opinion about what would happen to the trust fund if we were to grant the airlines ticket tax relief?

Answer. Given the current budgetary issues facing the Federal Government, we believe that all options should be looked at in order to fund FAA. However, by spending down the Trust Fund to pay for FAA's operations budget, it reduces funds that could be used for modernizing and expanding the National Airspace System, and limits the ability of FAA to pay for unexpected costs. Regardless of where the funds come from FAA's continued growth in cost is unsustainable. FAA must look internally for ways to control its rising costs. This includes implementing cost accounting and labor distribution systems, having better cost controls over contracts, looking to the private sector for "best-business" practices, and by holding managers accountable for meeting the core missions of the agency.

Also, if Congress granted the airlines ticket tax relief, the remaining Trust Fund balance could be liquidated by FY 2004. Due to the decline in air travel along with the events of September 11th the Trust Fund balance has already dropped dramatically. According to FAA's figures, the Trust Fund balance is expected to drop from $7.3 billion at the beginning of FY 2002 to $4.6 billion by the end of FY 2003. If Congress grants the airlines ticket tax relief and no new tax revenues are collected, the remaining $4.6 billion Trust Fund balance would cover only 72 percent of FAA's FY 2004 modernization and capacity budgets. FAA's remaining funding would have to compete with the rest of the Federal Government in a time of decreased resources.

Question 2. Mr. Mead, in your testimony you discuss the lack of cost controls at TSA in its formative months. Have steps been taken to address this issue?

Answer. TSA has taken some steps to strengthen its controls and contract oversight. For example, in August 2002, TSA contracted with Defense Contract Management Agency and Defense Contract Audit Agency (DCAA) for contract administration and contract audit services, respectively, of its security screener contracts. TSA reported contract management of the contract screener program as a material weakness in the Department of Transportation's 2002 Federal Managers Financial Integrity Act (FMFIA) report and has implemented plans to improve its oversight.

These actions represent notable first steps but more remains to be done. We believe that the weakness in contract oversight extends beyond the scope of the security screening contracts, and have recommended that future reporting of FMFIA. material weaknesses be expanded to include TSA's lack of contract oversight for all

major contracts, and a corrective action plan be implemented to improve its oversight practices.

For example, a TSA review of one NCS Pearson subcontractor with $18 million in expenses, determined that between $6 million and $9 million of these expense appear to be attributed to wasteful and abusive spending. As we requested, TSA hired DCAA to audit the over $700 million NCS Pearson contract and is considering hiring DCAA to audit the Boeing Service Company contract as well.

Key issues facing TSA as it moves to the Department of Homeland Security (DHS) will be capitalizing on economies of scale and improving ftiture cost controls. There are at least three different levels where savings can be realized: (1) centralized administrative services, (2) use of airport space, and (3) use of law enforcement personnel.

- A key cost savings is whether TSA will have its own separate staff and bureaucracy for general counsel, budgeting, human resources, and internal affairs or whether the creation of DHS will offer centralized services and control costs in these areas. Centralizing services could improve TSA's contract oversight without significant increases in contract staff.
- At individual airports, TSA should explore ways to consolidate its airport space requirements for functions like office space, break rooms, training facilities, and holding cells with other organizations that are merged into DHS. Some of these organizations, such as Customs and INS, already have space at airports, and consolidating these facilities will save resources.
- With the tremendous tasks facing TSA, it is important that the agency avoid extending itself beyond the basic tenets of the Act's requirements. For example, we previously testified that TSA needed to avoid mission creep. While the law is only explicit about a Federal law enforcement presence at checkpoints, TSA was considering expanding its law enforcement presence at the airports. TSA later abandoned these plans.

Question 3. Most people generally give TSA a good grade, especially in light of the significant pressure and deadlines that Congress placed upon them. What grade would you give TSA?

Answer. I would have to give TSA two grades. TSA deserves a B for accomplishing the unprecedented mandates in the law by the statutory deadlines. By the end of 2002, TSA met the demanding deadlines to have a federalized passenger screener workforce in place by November 19th and, for the most part, to begin screening all checked baggage using explosives detection equipment by December 31st. An effort of this magnitude—hiring and training over 60,000 screeners and deploying an estimated 1,100 EDS and 5,000 explosives trace detection (trace) machines—has never been executed in any single country or group of countries. It also built up the Federal Air Marshal workforce.

However, it met these formable challenges and deadlines without controlling the costs. TSA needs to better control its workforce costs by making full use of part-time positions to better match screener staffing to passenger flows at many airports. In June 2002, TSA announced that 20 percent of its total screener workforce would be part-time and seasonal positions. However, as of December 31, 2002, only 1,225 (approximately 2 percent) of TSA's total screener workforce were part-time employees. TSA also faces the challenge of building the infrastructure to monitor and control costs, especially given the large number and dollar volume of contracts it is managing, about $8.5 billion at the end of calendar year 2002 and continuing to grow. There has also been growth on individual contracts. An example of a significant cost growth is the contract with NCS Pearson for hiring of screeners and human resources support from February to December 2002. The initial contract cost of $104 million grew to an estimated $700 million. On TSA cost controls, our overall assessment is a D.

Question 4. What is going to be the single biggest key to TSA's future success?

Answer. There are several keys to TSA's future success. First, TSA must be able to effectively manage its workforce, the largest civilian workforce of any federal agency outside the Department of Defense. TSA has nearly 70,000 employees in a wide variety of jobs that have different needs with respect to such things as training, career development, and advancement. These jobs are vital to transportation security, and TSA must work to maintain a highly skilled workforce. They must develop performance standards for the screener workiorce and conduct recurrent training to ensure the workforce is prepared to respond to the latest threats.

Second, TSA must get control over its costs of operations, facilities and equipment, and research and development. To do so, TSA must work with DHS to establish an infrastructure to support its daily operations. For example, there have al-

ready been significant cost increases, along with significant questionable costs, in TSA's initial contracts for hiring, training, and deploying a screener workforce. With over $8 billion under existing contracts, TSA will need the necessary infrastructure and expertise to effectively oversee contractor costs, schedules, and performance. With 70,000 employees they must also control payroll costs and work toward providing effective security more efficiently.

Lastly, TSA must continue to build on its efforts to develop effective working relationships with the entities it is now responsible for regulating. The regulated entities include aviation, maritime, pipeline, rail, and trucking companies; and state and local governments that are also responsible for transportation security at airports, transit systems, etc. As was witnessed earlier on in its attempts to meet the December 31st deadline to screen all checked baggage, TSA's working relationship with both the airlines and airport operators got off to a rocky start resulting in differences on how and where best to deploy the equipment needed to screen all checked baggage. As it moves towards integrating EDS into the airports' baggage handling systems, TSA must ensure that both the airlines and airport operators play a critical role in the deployment decision-making process. This will also be true with the other regulated industries and entities when TSA moves forward in its efforts to secure the Nation's transportation system including general aviation airports, oil and natural gas pipelines, ports, transit and rail systems, and bridges. At the same time, TSA must work with those federal agencies where responsibilities overlap, such as in the movement of hazardous materials.

Question 5. Concerns have lingered with regard to EDS and their high false alarm rates, are these false alarm rates contributing to a great deal of congestion or inefficiency? Is the government not getting the most for its money?

Answer. We are not aware of any empirical evidence that supports EDS false alarm rates contributing to checked baggage screening congestion or inefficiency. Despite the machines' higher-than-desired false alarm rates, it should be recognized that these machines are the best technology available for overall effectiveness and efficiency in screening checked baggage for explosives. These machines have successfully completed TSA's certification process for explosives detection, false alarms, and throughput. Although there are other manufacturers of bulk explosives detection machines, that advertise lower false alarm rates and higher throughput, the detection performance of these machines has not met the TSA-certified standards.

Also, since the first U.S. deployment of EDS back in 1996, manufacturers of EDS have improved the machines' false alarm rates without compromising the machines' detection performance. Further improvements can be expected in reducing the machines' false alarm rates now that EDS manufacturers, by contract, are required to develop a continuous improvement program that decreases false alarm rates. If the manufacturers meet the performance requirement, an incentive fee applies. Likewise, if the manufacturers do not meet the performance requirement, the incentive fee no longer applies and a penalty assessment is levied.

However, in today's operational environment, the real problem with inefficiencies lies in the way the machines have been installed. Nearly all EDS in use today are lobby-installed or stand-alone machines and do not offer the efficiencies that are available with an in-line system. Lobby-installed or stand-alone operations are very labor intensive, with passengers' checked baggage being handled multiple times throughout the screening process causing less-than-desirable throughput rates. Compare this to an in-line system where the bag is handled just once before being sent to the EDS machine for screening resulting in significantly higher throughput rates. This type of system also requires fewer screeners which lends itself to less cost for screening all checked baggage.

Nevertheless, the need to deploy better, more effective equipment to meet current and future threats will be an ongoing need for years to come. TSA must continue to invest in research and development for cheaper, faster, and more effective equipment for screening passengers, their carry-on and checked baggage, and air cargo.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. JOHN MCCAIN TO EDWARD M. BOLEN

Question 1. I know that National Airport is still closed to general aviation traffic. What is the likelihood of DCA opening back up to general aviation? If opened, does the GA community have a security plan proposal to ensure the GA aircraft flying in and out of DCA are secure?

Answer. The general aviation community is not optimistic about the reopening of DCA to general aviation. All indications from the Department of Transportation is that it will not reopen to general aviation.

If DCA were to reopen to general aviation, the industry has developed several plans to ensure the aircraft are secure and safe. These plans were discussed with the DOT. They include background checks for pilots and crew, screening of passengers and baggage, discrete codes for detection by air traffic control and the use of "feeder" airports for screening purposes before flying into DCA.

Question 2. You have mentioned several issues that your members face as a result of security burdens. What other negative impacts have the security measures had upon your members?

Answer. The most severe negative impact on the industry has been our gradual restriction to airspace. General aviation is not looking for a federal bailout. Instead, we are asking is that the Federal Government ensure that general aviation has reasonable access to our nation's airspace and airports. If we cannot provide transportation through our nation's airspace and land where people want to go, we cannot remain viable link in the nation's transportation system.

We believe our concerns about losing access are justified. Over the past several weeks and months, a handful of private enterprises and local governments, long opposed to general aviation operations for non-security reasons, have begun using security as a pretext for airspace restrictions. Regrettably, there are instances where the security ruse has worked. Sports leagues, Disney and the City of Chicago are among those who have successfully lobbied for general aviation airspace restrictions—despite the fact that our national security community has not identified any specific or credible risk that would merit such restrictions.

Our national air transportation system is far too important to the United States to allow powerful private enterprises and local communities to use their political clout to create an unjustified, ad hoc patchwork of airspace restrictions. If allowed to spread, such a regulatory patchwork could easily degrade the margin of safety in our air transportation system.

It is time for the Federal Government, Congress and the Administration, to be accountable for developing and implementing a security process that protects the integrity of our national air transportation system, objectively assesses security threats, mitigates risk, minimizes economic impact and maintains the margin of aviation safety. Mr. Chairman, we need your leadership and the leadership of this Subcommittee to put an end to the practice of dispensing airspace restrictions to the highest bidder. The future of our entire air transportation system depends on it.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. JOHN MCCAIN TO JAMES C. MAY

Question 1. The ATA web site has the following quote "If steps are not taken now to address future growth, the system will descend into gridlock. Though the 2001 recession and September 11 tragedy created a brief respite in the capacity crunch, enhancing the performance of the nation's aviation infrastructure is imperative if we are to preserve the sector's contribution to the global economy." I believe that if we grant you tax relief, we will not be able to make substantial progress in enhancing our infrastructure. Is that a consequence you are willing to accept?

Answer. Mr. Chairman, the Aviation Trust Fund has an uncommitted balance in excess of $4.5 billion and a cash balance in excess of $12.3 billion. The cash spendout rate of the committed balance of almost $8 billion is spread over a five-year period. Should the Congress enact the tax suspension we seek for the period of time we recommend, (estimated at less than five calendar quarters) the trust fund will have a sufficient amount of cash to meet obligations at the current rate for the foreseeable future.

Second, we recommend that the trust fund be replenished from the general fund during the time of the tax suspension in as much as a national defense matter occasions the tax suspension, e.g. the hostilities in Iraq.

By keeping the airline industry economically viable through the suspension of the taxes for the limited period of the war and reconstruction, there is a better chance that the industry will grow and flourish than is the case if the taxes are kept in place during the period of hostilities.

Question 2. Airlines continually argue that security costs and taxes are considerably contributing to the difficult financial position of airlines, though Southwest, a low-far carrier, is able to turn a profit. They are subject to the same security costs as larger airlines, aren't these financial difficulties of larger airlines truly the result of failed business decisions?

Answer. Mr. Chairman, your question implies that Southwest's business model is to be preferred and raises profound questions of national policy. Southwest and other low cost carriers such as Jet Blue—both of which are ATA member carriers—

provide important, competitive air transportation for many travelers. However there is no one business model that provides the complete range of service to all travelers. To suggest that all airlines should emulate Southwest's model runs the risk of disenfranchising many potential customers form access to air transportation.

For example, using data from the second quarter of 2002, we find that of the approximately 26,000 city pairs for which customers purchased tickets, Southwest sold tickets in only 6 percent of the markets, and none smaller than city pair # 1582, Spokane WA to Harlingen, TX. Thus, if all airlines emulated southwest, there would be no service available in the following city pairs:

City Pair Number 5,000	Atlanta, GA to Kileen, TX
City Pair Number 10,000	Omaha, NB to Toledo, OH
City Pair Number 15,000	Spokane, WA to LaCrosse, WI
City Pair Number 25,000	Scottsbluff, NB to New York, NY

Furthermore, of the 489 cities or metropolitan areas which received service in that quarter, only 54 cities or markets—11 percent of the total—received service from Southwest and no city smaller than number 104, Corpus Christi, TX received service from Southwest.

I would also note that Southwest's business model does not contemplate service to international destinations, interline baggage handling between itself and other carriers, code sharing with regional airlines serving very small communities, or the carriage of a variety of goods which require special handling. There are customers who require these services, none of which would be available, if all airlines adopted Southwest business model.

Lastly, let me note that Southwest Airlines is a member of ATA and joins with the rest of our member carriers in supporting a reduction in security costs and taxes.

Question 3. Mr. May during deliberations over the Aviation and transportation security Act, the industry communicated to Congress and GAO that the security costs were about $1 billion. Now it is claiming that its costs, the one Congress required that the industry pay, are only $300 million. How do you explain that discrepancy?

Answer. In April 2000 ATA was contacted by the GAO and asked to identify and provide *carrier screening* costs. Because neither ATA nor the carriers' accounting systems tracked these costs, the data was not readily available. Nevertheless, several carriers were able to generate data and estimates for the total cost of implementing federal security requirements, as opposed to carrier screening costs. From the data submitted by the carriers an arithmetic extrapolation was made resulting in an estimate that the cost of *implementing federal security requirements* was $1 billion. This $1 billion figure was for total security program costs including carrier screening costs, foreign security expenses, training, employee salaries and even equipment funded directly by the U.S. government.

Following the events of 9/11/01, this $1 billion figure became a reference point or shorthand description for carrier screening costs, despite the fact that carrier screening costs are but a subset of $1 billion. As the Aviation and Transportation Security Act moved through the Congress the decision was made to levy not just a carrier screening fee but also a $2.50 per flight segment fee—designed to raise some $1.6 billion.

Subsequent to the statute's enactment, TSA commenced a regulatory process to ascertain and collect "carrier screening costs" as described by the statute, (not the $1 billion "cost of implementing federal security requirements" as provided to GAO and the Congress by ATA). This exercise has proven to be particularly vexatious. Certified public accountants working for air carriers as well as the American Institute of Certified Public Accountants have raised serious issues with the TSA regarding the process. Essentially the problem is that TSA is asking for costs that had not been broken out, accounted for, or otherwise tracked when the expenditures were actually incurred. Unfortunately, TSA refused to resolve these fundamental accounting issues and concerns prior to demanding that the forms be completed and the fees be paid.

The resulting screening figure (which is reported to be in the $300–350 million range) has been repeatedly contrasted to the $1 billion total security cost estimate to suggest bad faith despite the lack of any relevant foundation for such a claim. Moreover, OMB appears to have introduced a $750 million figure into the debate—the source of which is unknown—by assuming in the President's budget that a figure in that range reflects the Air Carrier Security Service Fee. We have been unable to ascertain the source of information explaining the derivation of this figure.

The issue remains what, if anything, should the airlines be paying the government for protection against terrorism. At present, they are paying directly the Air Carrier Security Service Fee ($300–350 million) and indirectly (through lower ticket

revenues) the $2.50 per passenger Security Service Fee (estimated in the President's budget to total approximately $1.7 billion) since under current competitive market conditions these fees cannot be passed through to our customers. In addition, and notwithstanding the statute's requirements that all screening of passengers and property, including United States mail, cargo, carry-on and checked baggage, and other articles that will be carried aboard a passenger aircraft "shall take place before boarding and shall be carried out by a Federal government employee", airlines have encountered massive added security costs or lost revenues as a result of these government policy decision. ATA estimates that the total impact on the industry (increased costs/decreased revenues) is in the range of $4 billion.

Protection against terrorist attacks targeting the United States is a responsibility of the Federal Government and the airlines remain convinced that the distortion of normal market forces which has occurred as a result of these burdens being shifted to the private sector is contributing substantially to the economically imperiled condition of the industry.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. JOHN MCCAIN TO CHARLES BARCLAY

Question 1. Without the airlines, some would argue that you don't need airports. Are you willing to give up infrastructure spending in the next few years to ensure a viable airline industry?

Answer. Clearly, the financial condition of our airline partners is a serious concern, and we believe that efforts should be undertaken to address the security costs that have been imposed on the industry recently. In light of the events of September 11, it is abundantly clear that aviation security is now a matter of national security and therefore rightly a responsibility of the Federal Government. Unfortunately, a large portion of the costs associated with improving aviation security have been borne by airports and air carriers to this point. We remain hopeful that Congress will consider authorizing funds from the general treasury to reimburse airports and air carriers for any and all security costs imposed on them by the Federal Government. Doing so will go a long way toward ensuring the continued viability of the airline industry and airports.

With regard to continued spending on infrastructure, we believe it would be both unfortunate and shortsighted to abandon—even temporarily—important safety and capacity-related projects at airports. We vigorously oppose any proposal that would negatively impact airport infrastructure spending or the trust fund that supports such spending.

Despite the events of September 11 and the subsequent reductions in traffic levels, the Federal Aviation Administration expects airline passenger traffic will increase by an average rate of 4 percent a year and reach one billion passengers by 2013, which is just a few years later than the agency predicted prior to September 11. In our view, we should use the temporary downturn that now exists to continue our important efforts to increase aviation capacity and address aviation safety so as to avoid the situation that existed in the summer of 2000 when 163 million passengers were affected by flight delays, cancellations or diversions. Improvements at airports are central to that goal and should be pursued without delay.

Question 2. How involved are the airports in the next step of EDS installation? That is, are your members conferring with TSA to discuss how to integrate the EDSs into the baggage systems? In your view, who is going to pay for that? Who should pay?

Answer. The experiences of different airports in dealing with the TSA and its contractors to develop and implement plans to permanently install explosive detection equipment "in-line" varies greatly. As a general rule, we have found that the greater the cooperation and consultation between the TSA and airport operators, the more likely that planning has proceeded smoothly and smartly. It is our hope that TSA, under Admiral Loy' s capable leadership, will continue to reach out to airports for input in the process, recognizing their unique expertise and their public nature.

The question of who is going to pay for the estimated $5 billion it will take to install EDS equipment inline remains unanswered at the moment. To this point, Congress has appropriated more than $1 billion toward making the necessary terminal modifications at airports. In addition, the fiscal year 2003 omnibus spending bill authorized $500 million a year for five years to fund terminal modifications through a "Letter of Intent" program within the TSA budget. It remains to be seen if the funding will materialize to accompany the authorization and how TSA will actually utilize this program.

Another several hundred million in Fiscal Year 2002 Airport Improvement Program funds have been used for terminal modifications as well. TSA officials have stated publicly that it is their intention to use another $500 million to $600 million in Fiscal Year 2003, a fact that concerns airports and should concern Congress because those funds would otherwise be used for important airport safety and capacity-related projects.

As for who should pay for these modifications, airports believe strongly that the Federal Government should be responsible for these costs. While airports are willing to play a role and have done so to this point using both AIP funding and their own limited resources, the Federal Government clearly has an obligation under the Aviation and Transportation Security Act to address all aspects of passenger and baggage screening.

Unfortunately, it appears as though the TSA is content to have met the technical requirements of the law to have EDS equipment in place to screen all checked baggage by the December 31, 2002 deadline, and is not terribly interested in going much further to complete the job. No funding for EDS installation has been requested in either Fiscal Year 2003 or Fiscal Year 2004 by the Administration, leaving the matter for Congress to address.

Given the importance from a public safety, security, and customer convenience standpoint of moving forward quickly and efficiently to install EDS equipment inline at airports, it is our sincere hope that Congress will continue to appropriate federal dollars for this purpose.