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Aviation Security Costs, Transportation Security Administration

Statement of
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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

[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.

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.

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.

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

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 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 separately 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 performing 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.