S. HRG. 110–1160

# IMPROVING AIR SERVICES TO SMALL AND RURAL COMMUNITIES

## HEARING

BEFORE THE

SUBCOMMITTEE ON AVIATION OPERATIONS, SAFETY, AND SECURITY

OF THE

COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION
UNITED STATES SENATE

ONE HUNDRED TENTH CONGRESS

FIRST SESSION

JULY 17, 2007

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# IMPROVING AIR SERVICES TO SMALL AND RURAL COMMUNITIES

**TUESDAY, JULY 17, 2007**

U.S. Senate,
Subcommittee on Aviation Operations, Safety, and Security,
Committee on Commerce, Science, and Transportation,
*Washington, DC.*

The Subcommittee met, pursuant to notice, at 10:04 a.m., in room SR–253, Senate Russell Office Building, Hon. Ted Stevens, Vice Chairman of the full Committee, presiding.

## OPENING STATEMENT OF HON. TED STEVENS, U.S. SENATOR FROM ALASKA

Senator Stevens. Other Senators are caught in traffic and there was sort of a traffic jam coming in here. I don't know if you know if there is something going on in the street out there. I had to come around, come up Pennsylvania Avenue instead of the regular way.

But I do thank you all for coming and at Senator Rockefeller's request, the Chairman's request, I'm going to start this hearing. I do thank them both for holding this hearing at my request and I extend a special welcome to my great friend, John Torgerson, who is here from Alaska. He is the Deputy Commissioner of Aviation for our state and we appreciate him coming to testify and his interest in this subject.

Rural air services are a vital component of our transportation system in Alaska. We depend upon aviation more than any other state. Seventy percent of our cities can be reached only by air year-round. Sometimes they can get summer travel on rivers but to have transportation on a steady basis, year-round, you have to use air to 70 percent of our cities and many of the villages can be only reached by air, period. Some of them are not on rivers. Instead of cars and buses, we have airplanes.

Maintaining air service to these small and rural communities through Essential Air Service is a key product of deregulation of the old CAB. This Committee created Essential Air Service. In Alaska, we now have 41 communities that are served by Essential Air Service. They rely on Essential Air Service for access to hospitals, mail service, food, basic supplies and to transport teams back and forth to play basketball.

So rural air service funding and reform is an annual challenge for the Congress. In addition to finding a solution for this funding for the Next Generation Air Traffic Control System, the Committee is also looking at innovative reforms to the overall Rural Air Service Program. New innovation in the marketplace may hold great promise for rural air service and there is great interest in the emergence of very light jets. These new aircraft may prove to be a unique opportunity for small communities of Alaska to maintain and improve access.

I do thank you all for coming. It is my hope that you will help us remain vigilant in funding the Essential Air Service Program. It's literally our lifeline and a healthy Essential Air Service Program nationally will obviously support a good system for our cities.

Now, we have a series of witnesses today. The first is Andrew Steinberg, the Assistant Secretary for Aviation and International Affairs at the Department of Transportation and let me call on you first, sir.

**STATEMENT OF HON. ANDREW B. STEINBERG, ASSISTANT SECRETARY FOR AVIATION AND INTERNATIONAL AFFAIRS, U.S. DEPARTMENT OF TRANSPORTATION**

Mr. STEINBERG. Thank you, Mr. Co-Chairman. I appreciate being invited to the hearing. I'd like to ask that my written statement be made part of the record.

Senator STEVENS. Well, thank you for reminding me. All your statements will appear in the record as so read and we're not limiting your testimony but we hope you'll make it short but I'm sure the other Senators will be along and we'll be happy to have your statement. But all of your statements will be printed in full in the record.

Mr. STEINBERG. Thank you, Senator. In light of that, I'd like to just focus on three key points, if I could, over the next 5 minutes. First, why smaller communities in the U.S. have difficulty attracting and retaining commercial airline service; second, whether our existing programs, specifically the Essential Air Service Program and Small Community Air Service Development Program, SCASDP, offer the right approach; and third, going to the point you just made, Senator Stevens, how can we improve the situation per new, creative solutions?

So first, the nature of the problem, I think, is actually relatively clear. Scheduled air transportation depends on predictable demand that produces enough traffic to achieve break-even passenger loads on each flight and because point-to-point service typically does best on a scheduled basis only in very large markets, scheduled airlines can serve smaller communities economically, usually only as part of an overall network, such as a hub-and-spoke system.

These systems work because what they do is aggregate demand from many spoke cities, if you will and connect passengers at a hub to various destinations. What this means is that the most profitable hub is the one that can—the most profitable spoke city, excuse me, is the one that contributes the most to the overall network. In general, cities with fewer passengers are the least profitable spokes and importantly I think they are, the first to be eliminated when network carriers downsize their hubs.

Cost trends right now for service to smaller airports are not favorable. With the shift of regional airlines to larger aircraft, the increase in fuel costs and equipage requirements created by the FAA's Commuter Safety Rule, service to smaller communities has only gotten more expensive. So as legacy carriers, particularly in the lower 48, lost some $35 billion from 2001 to 2007. They eliminated spokes that contributed the least to their networks, many in smaller communities. And as you know, as a result of all that, the EAS Program, particularly in the lower 48, grew significantly.

So my first point is really an observation, which is that we won't ever have the kind of comprehensive scheduled service we'd like to smaller communities unless we have healthy network airlines that are growing their systems to go to new places rather than shrinking their domestic capacity.

Second, as to our existing programs, EAS and SCASDP—let me say at the outset, whatever should happen with reauthorization, we will always administer these programs as effectively as possible, recognizing that we're dealing with important transportation needs of real people. In fact, the vast majority of my staff that works on domestic aviation is already devoted to administering these two programs.

Despite this commitment, I think it's hard to argue that certainly outside of places like Alaska, which has special circumstances that these programs have been effective in addressing the needs of small communities. As you probably know, the EAS Program has not changed in a fundamental way for three decades, even as the industry, of course, has changed quite significantly. So what we have today is an EAS Program that really is more of a safety net, if you will, for smaller communities and what history tells us is that once a community receives a subsidy for air service, it's relatively unusual for an air carrier to come in and provide service on an unsubsidized basis.

As to SCASDP, I think it's probably too early to pass a final judgment. As you know, we're waiting on a report from our Inspector General about its effectiveness. I would note that the GAO has found that improvements from SCASDP grants have not—have been self-sustaining less than half of the time, which is not encouraging.

The third point I wanted to cover is the issue of whether there are solutions that can help improve the level and quality of service, and I think any solution has to deal with the fundamental problem that I mentioned at the outset and that is insufficient demand to support scheduled service purely on market terms. As you mentioned, Senator, recent technological advances with very light jets represent a breakthrough. They are important because they represent a radial reduction in aircraft operating economics over the long term.

Equally important is information technology that allows carriers to aggregate demand on a non-scheduled basis over the Internet and if you combine the two, you can have, potentially a very powerful, on-demand air taxi service developing in some of these smaller communities. It's already beginning to happen, not with very light jets because those have yet to be delivered. But there is a company I'd point out called SATS Air, which is based in Greenville, South Carolina and is already making air taxi services available across much of the southeast U.S. with comfortable, safe turboprop aircraft and rates that are quite competitive, certainly with coach, full coach fares.

So let me wrap up there and just say that we are absolutely committed to working with this Committee and your staff on ways to improve small community service. Thank you.

[The prepared statement of Mr. Steinberg follows:]

PREPARED STATEMENT OF HON. ANDREW B. STEINBERG, ASSISTANT SECRETARY FOR AVIATION AND INTERNATIONAL AFFAIRS, U.S. DEPARTMENT OF TRANSPORTATION

Mr. Chairman, thank you for inviting me to this hearing. I appreciate the opportunity to discuss with you and the Subcommittee two programs administered by the Department of Transportation that affect air service to small communities, namely the Essential Air Service (EAS) program and the Small Community Air Service Development Program. I can assure you that the Department is committed to implementing its small community air service programs in the best and most efficient manner and thereby help smaller communities meet the challenges that they face in obtaining and retaining air service.

It is clear that air service in this country has changed dramatically over the past several years. Many of these changes have been very positive. The growth of low-fare carriers, for example, has made affordable air transportation available to millions of people across the country. The number of air travelers has expanded dramatically, as hundreds of passengers have taken advantage of the low fares that have become more widely available. While this is a good development overall for consumers, we recognize that it can create new challenges for some small communities. With a greater number of service choices available, particularly those involving lower fares, many consumers are willing to drive to places with a broader array of air service options, making it more difficult for some individual airports to sustain their own traffic levels. There are, for example, some communities receiving EAS assistance within ready driving distance of two or three major airports. This can result in a struggling community airport, but not necessarily consumers who lack access to the national air transportation system. Let me give you an example, just a few years ago Utica, New York generated about 24,000 passengers a year and was served profitably without EAS subsidy. Then Southwest began flying to Albany and JetBlue started service to Syracuse—both of which are near to Utica. The number of passengers using Utica airport fell to 3,500, and the Federal Government was paying over $1 million in EAS subsidy in attempt to compete with low-fare, jet service in nearby cities. The subsidy per passenger finally exceeded the $200 statutorily-determined ceiling thus ending the community's eligibility for EAS.

Another challenge is the change in aircraft used by carriers that serve small communities. Many commuter carriers have been replacing their 19-seat aircraft with 30-seat aircraft, due to the increased costs of operating the smaller planes and larger carriers' reluctance to offer code sharing on 19-seaters. This trend began at least 10 years ago and has continued. There are now fewer and fewer 19-seat aircraft in operation as many carriers have upgauged to 30-seat aircraft, and, in some cases, even regional jets. As a result, many small communities that cannot support this larger size of aircraft are being left without air service. Additionally, the rise in the cost of aviation fuel has made all carriers more cost-conscious and more selective in initiating new service and maintaining service where yields and traffic are low. Also, some changes have occurred in response to the terrorist attacks of September 11, 2001. Many consumers, leisure and business, have changed their travel patterns and carriers have altered the structure of their airline services in both large and small markets.

The recent financial difficulties of the network carriers have contributed to the dearth of air service to small communities. As network-airlines have worked hard to cut costs and become more efficient in order to weather very difficult economic conditions, they have resorted to canceling service on their thinnest routes—many of which are small communities. Thus in the long-term, an important factor for comprehensive air transportation in the United States is the sound financial health of network airlines.

The challenge that we face is one of adjusting the programs, to the extent we are able, to account for these changes in an efficient and effective manner, giving appropriate and balanced recognition to the reasonable needs of the communities, the carriers, the consumers, and the taxpaying public at large. Mr. Chairman, I do not use the word "challenge" lightly. All of us—the Federal Government that manages programs affecting service at small communities, as well as the states and the communities themselves—need to reexamine the way we approach small community air service.

We at the Department of Transportation have recognized for a while now that the way the Federal Government helps small communities has not kept pace with the changes in the industry and the way service is now provided in this country. For that reason, we have initiated some important reevaluations of the programs that we manage. I want to share with you today what we have done and are doing to address this issue.

As you know, the Department administers two programs dealing with air service at small communities. The EAS program provides subsidies to air carriers to provide air service at certain statutorily-mandated communities. The Small Community Air Service Development Program, which was established by Congress in 2000 under the AIR–21 legislation, provides Federal grants-in-aid to help small communities address their air service and airfare issues. While initially established as a pilot program, it was reauthorized through FY 2008 in Vision 100.

**Essential Air Service Program**

Let me first address the EAS program. The laws governing our administration of the EAS program have not changed significantly since its inception 28 years ago, notwithstanding the dramatic changes that have taken place in the airline industry. As currently structured, the EAS program acts only as a safety net for small communities receiving subsidized air service by providing threshold levels of air service. While ensuring some service, this approach does little to help communities attract self-sustaining unsubsidized air service, as evidenced by the fact that once a community receives subsidized air service it is rare for an air carrier to come in offering to provide unsubsidized air service.

The goal of our proposed changes to the EAS program is to focus the program's resources on the most isolated communities, *i.e.,* those with the fewest driving alternatives. Our current proposal to accomplish this is quite different from those made in past years. The first change we propose is to cap EAS communities at those that currently receive subsidized air service. Second, we would rank all the subsidized communities by isolation, *i.e.,* by driving miles to the nearest large or medium hub airport, with the most isolated getting service first. Last, we are proposing a maximum $50 million funding level.

Congress has also recognized the need for reform and created a few pilot programs in Vision 100. One program is the Community Flexibility Pilot Program. It allows up to ten communities to receive a grant equal to 2 years' worth of subsidy in exchange for their forgoing their EAS for 10 years. The funds would have to be used for a project on the airport property or to improve the facilities for general aviation, but no communities have volunteered for that program. Another program is the Alternate Essential Air Service Program. The thrust of this program is that, instead of paying an air carrier to serve a community as we typically do under EAS, communities could apply to receive the funds directly—provided that they have a plan as to exactly how they would use the funds to the benefit of the communities' access to air service. The law gives great flexibility in that regard. For example, funds could be used for smaller aircraft but more frequent service, for on-demand air taxi service, for on-demand surface transportation, for regionalized service, or to purchase an aircraft to be used to serve the community. The Department issued an order establishing that program in the summer of 2004, but to date no communities have applied. I cannot tell you for sure why, but my guess is that part of it is that it is just human nature to resist both risk and change.

With regard to the EAS program, it is important to note the continued growth of the program's size and cost to taxpayers over time. As a point of reference, before the terrorist attacks of September 11, the Department was paying subsidy for 107 communities (including 32 in Alaska). We are now subsidizing service at 145 communities (including 41 in Alaska). Further, EAS is often viewed as an absolute entitlement whether the communities invest any time and effort in supporting the service or not. We have proposed reforms to EAS to better focus its resources on the most isolated communities.

**Small Community Air Service Development Program**

The Department is now in its sixth year of administering the Small Community Air Service Development Program (Small Community Program). Under the law, the Department can make a maximum of 40 grants in each fiscal year to address air service and airfare issues, although no more than four grants each year can be in any one state. Until 2006, Congress had provided $20 million in each year for this program. In 2006, the funding for the program was $10 million, and the Revised Continuing Appropriations Resolution, 2007 (Pub. L. 110–5), provides the Department with $10 million in Fiscal Year 2007 to administer the Small Community Program. On February 26, the Department issued a Request for Proposals for 2007 applications and proposals are due April 27.

Given the many and varying priorities facing the Department, this program was not accommodated within the President's 2008 budget. Nonetheless, it is important to note the extensive support that the Department provides for small airports in terms of supporting the infrastructure that make any service possible. In the last 2 years (FY 2005 and FY 2006), the FAA has provided over $4 billion in grants for small airports, or nearly ⅔ of the Airport Improvement Program (AIP). Furthermore, the Department's reauthorization proposal would continue to direct AIP to small airports. The reauthorization proposal would also add new AIP eligibility for ADS–B ground stations and expanded eligibility for revenue producing projects at small airports that will help their financial stability.

With respect to the Small Community Program, the Department has made many awards to communities throughout the country and authorized a wide variety of projects, seeking to address the diverse types of problems presented and test different ideas about how to solve them. Some of these projects include a new business model to provide ground handling for carriers at the airport to reduce station costs, seed money for a new airline to provide regional service, expansion of low-fare services, a ground service transportation alternative for access to the Nation's air transportation system, aggressive marketing and promotional campaigns to increase ridership at airports, and revenue guarantees, subsidies, and other financial incentives to reduce the risk to airlines of initiating or expanding service at a community. For the most part, these projects extend over a period of two to 4 years.

This program differs from the traditional EAS program in a number of respects. First, the funds go to the communities rather than directly to an airline serving the community. Second, the financial assistance is not limited to air carrier subsidy, but can be used for a number of other efforts to enhance a community's service, including advertising and promotional activities, studies, and ground service initiatives. Third, communities design their own solutions to their air service and airfare problems and seek financial assistance under the program to help them implement their plans.

Over the past 5 years, the Department has made more than 180 grant awards. Overall, more than 90 percent of the grant recipients have implemented their authorized projects.

For example, new services have been inaugurated at many communities; others have received increased frequencies or service with larger aircraft. Several communities have begun targeted and comprehensive marketing campaigns to increase use of the service at the local airport and to attract additional air carrier service. We have been monitoring the progress of all of the communities as they proceed with the implementation of their projects. However, because the majority of the projects involve activities over a two-to-four-year period, and many communities have sought and received extensions for their grants, only now are some of them at the point of completion.

As you know, the Government Accountability Office (GAO) concluded a review of the Small Community Program in 2005. GAO too recognized that it is difficult to draw any firm conclusions as to the effectiveness of the Small Community Program in helping communities address their service issues because many grant projects are still in process. Of the grant projects that had been completed, the GAO concluded that the results were mixed because not all of the grants resulted in improvements that were achieved and sustained after the grant funding was exhausted.

In this regard, since the end of March 2007, the Department's Inspector General (IG) has been reviewing the outcomes of the limited number of projects that have been completed to date. Evaluation of the program will consist of two phases including a quantitative and qualitative analysis of a selected sample of all completed projects.

The Federal Government, however, is only one piece of the equation. States and communities will also need to review their air service in the context of the changed industry structure and service patterns to seek fresh, new solutions to maximize their air service potential, including regional and intermodal approaches and expansion of public-private partnerships to meet these challenges.

The fundamental problem with air service to many small communities is insufficient demand to justify scheduled service purely on market terms. However, recent technological advances may offer a new market solution to the problems of small community air service. The most dramatic innovation is the Very Light Jet (or VLJ) which represents a breakthrough in jet aircraft operating economics. Another very important innovation is information technology that allows demand for air service to be aggregated over the Internet. The combination of VLJ with Internet-enabled information technology could potentially facilitate the provision of on-demand, jet air taxi service at these small communities. Companies such as DayJet have already begun operations employing these technologies.

In that regard, our office looks forward to continuing discussions with your staff on finding ways to better enable the marketplace to supply air service to small communities. We have discussed a range of ideas that carriers could consider, including new per-seat, on-demand service business models using the new generation of very light jets (VLJ) as well as alternative ways to create market-based incentives for airlines to add and sustain service to small communities.

In closing, Mr. Chairman, let me reaffirm the Department's commitment to implementing the DOT's small community air service programs in the best and most efficient manner. We look forward to working with you and the members of this subcommittee and the full Committee as we continue to work toward these objectives. Thank you again. This concludes my prepared statement. I will be happy to answer any of your questions.

Senator STEVENS. We'll get back and do some questions before we conclude. Mr. Torgerson, if I may have your statement, please?

**STATEMENT OF JOHN TORGERSON, DEPUTY COMMISSIONER OF AVIATION, ALASKA DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES**

Mr. TORGERSON. Thank you, Senator Stevens. It's always great to see again. You have requested testimony on the U.S. Department of Transportation Essential Air Service and its effects on Alaska.

My name is John Torgerson, Deputy Commissioner of Aviation for the state. I'd like to first place the size of Alaska in perspective. If you were to fly from Washington, D.C. to San Diego, California and then from Minneapolis, Minnesota to Houston, Texas, that distance crisscrossing America is actually less than if you flew in Alaska east to west and north to south. Our capital City of Juneau is the only capital city in the United States accessible only by plane or boat.

Twenty-five percent of all Alaskans and 46 percent of all Alaskan Natives live in communities of less than 1,000 people. To cover this area, we only have 4,732 miles of paved road.

The State of Alaska owns and operates 258 airports, ranging in class from the large international to the small rural community class. Of the airports, 47 are paved, 173 are gravel of which 72 are less than 3,000 feet. Thirty-seven are seaplane facilities and one a heliport.

I'd like to direct the balance of my testimony to the last GAO report on Essential Air Service. The GAO acknowledged that the need to make difficult decisions to sustain the Essential Air Service Program at the current funding levels. The report outlined four recommendations and I'd like to address each of those separately.

Alaskan communities receiving Essential Air Service are the most remote in the Nation. Alaska has 40 communities receiving EAS. Of those 40, only 6 are connected to a road system. Of that 6 on the road system, all are more than 100 miles from a hub airport. These 100 miles to the nearest hub airport are not on an interstate highway or even a paved two-lane highway but mainly narrow gravel roads.

Thirty-four of the communities receiving the Essential Air Service subsidies in Alaska do not even have a gravel road. They are completely isolated from the road system and rely on air travel as the primary means of transportation and access to basic services.

In many of our rural communities, air transportation is the only viable method of connecting to the outside world. Alaska meets and exceeds the remoteness recommendations of the GAO report.

The concept of matching aircraft capacity with community use is exemplified in the type of aircraft utilized in Alaska. A seven-passenger Grumman Goose, an aircraft last manufactured in 1947, provides residents of Akutan in the eastern Aleutian Islands with regular Essential Air Service. Other communities rely on smaller aircraft, such as the Cessna 185s and the Cessna 206s, capable of carrying just three to five passengers.

Only 6 of the 40 Alaska communities qualifying for EAS are served by jets. In these cases, jet service is justified by population, freight needs and the distance from medium-sized hubs. For example, the island community of Adak has jet service to Anchorage, 1,300 miles away. Not one of the six airports receiving jet service is connected to the road system. As already stated, the remaining communities are served by the smallest aircraft in commercial service. Alaska is already conforming to this recommendation of matching aircraft capacity to communities.

In Alaska, the idea of consolidating at regional airports and using the spoke and hub system is already in place. One half of the EAS communities in Alaska are small, remote communities with populations of less than 100 residents. Alaska's Essential Air Service subsidy already utilizes small carrier flying light transport—I lost a page. Pardon me. I thought I lost it completely.

In Alaska, the idea of consolidating these into regional spoke and hub methods is already in place. Alaska's Essential Air Service subsidy already utilizes small aircraft to transport passengers from small, rural communities to regional hub airports where passengers can access basic services and links to the national transportation system.

The fourth recommendation is to change carrier subsidies through local grants. Of the 40 Alaskan communities currently receiving the Essential Air Service, only 11 have formed a municipal government. The majority of our communities receiving this service have not formed an entity that could apply for, administer or provide a local match, making this recommendation difficult.

Alaskans believe the program is working well and request no changes of the current funding method. We believe the current program is well administered by USDOT and works effectively in Alaska.

Mr. Chairman, the Essential Air Service Program has been very successful in our state. Over the last 3 years, the funds allocated under this program to air carriers has increased less than the general rate of inflation, despite higher fuel costs, insurance rates and personnel costs.

During this same period of time, the total number of passengers usually in the EAS in Alaska has increased. I believe this is because the Alaska Program already utilizes the cost saving measures recommended in the 2002 GAO report. The Essential Air Service Program provides a vital link to many Alaskan communities that would otherwise not receive air service.

Thank you, Mr. Chairman, for the opportunity to testify and I look forward to any questions you might have.

[The prepared statement of Mr. Torgerson follows:]

PREPARED STATEMENT OF JOHN TORGERSON, DEPUTY COMMISSIONER OF AVIATION, ALASKA DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES

Good morning, Mr. Chairman and Committee members.

You have requested testimony on the U.S. Department of Transportation's Essential Air Service program and its effects on Alaska.

My name is John Torgerson, Deputy Commissioner of Aviation for the Alaska Department of Transportation. I have resided in Alaska since 1950 as a homesteader, rural resident, businessman, State Senator and now as the Deputy Commissioner of Aviation.

The size of Alaska is better understood if you were to fly from Washington, D.C., to San Diego, California, and then from Minneapolis, Minnesota, to Houston, Texas.

That distance crisscrossing America is actually less than if you flew across Alaska from east to west and north to south.

- Our capital Juneau is the only capital city in the United States accessible only by plane or boat.
- Twenty-five percent of all Alaskans and 46 percent of Alaskan Natives live in communities of less than 1,000 people.
- One-quarter of all Alaskans live in communities accessible only by boat or aircraft.
- There are only 4,732 miles of paved road in Alaska.

The State of Alaska owns and operates 258 airports ranging in class from the large international to the small rural community class. Of the airports, 47 are paved, 173 are gravel (or which 72 runways are less than 3,000 feet), 37 are seaplane facilities and 1 is a heliport. The airports operated by the state are truly essential because air travel is the primary means of transportation to these communities. Air travel is not a luxury in Alaska or a convenience; it is a critical transportation mode that provides basic day-to-day necessities.

*GAO Findings*

I would like to direct the balance of my testimony to the last GAO report on the Essential Air Service program. The GAO acknowledged the need to make "difficult decisions" to sustain the Essential Air Service program at current funding levels. The report outlined four specific recommendations, and I will address each of these recommendations separately.

*1. Targeting More Remote Communities*

Alaskan communities receiving Essential Air Service are the most remote in the Nation. Alaska has 40 communities receiving EAS. Of those 40, only six are connected to a road system. Of the six that are on the road system, all are more than 100 miles from a hub airport. Those 100 miles to the nearest hub airport are not on an interstate highway or even a paved two-lane highway, but mainly narrow gravel roads.

Thirty-four of the communities receiving Essential Air Service subsidies in Alaska do not even have a gravel road. They are completely isolated from the road system, and rely on air travel as their primary means of transportation and access to basic services. In many of our rural communities, air transportation is the only viable method of connecting to the outside world. Alaska meets and exceeds the remoteness recommendations of the GAO report.

*2. Match Capacity (Aircraft Size) With Community Use*

The concept of matching aircraft capacity with community use is exemplified in the type of aircraft utilized in Alaska. A 7-passenger Grumman Goose, an aircraft last manufactured in 1947, provides residents of Akutan in the eastern Aleutian Islands with regular Essential Air Service. Other communities rely on smaller aircraft such as Cessna 185s and Cessna 206s, capable of carrying just three to five passengers.

Only six of the 40 Alaskan communities qualifying for EAS are served by jet aircraft. In these cases, jet service is justified by population, freight needs and the distance from medium-size hubs. For example, the island community of Adak has jet service to Anchorage 1,300 miles away. Not one of the six airports receiving jet service is connected to a road system. As already stated, the remaining communities are served by some of the smallest aircraft in commercial service. Alaska is already conforming to this recommendation of matching aircraft capacity to community use.

*3. Consolidate Multiple Communities Into Regional Airports*

In Alaska, the idea of consolidating at regional airports or using the spoke-and-hub system is already in place. One-half of the EAS communities in Alaska are small, remote communities, with populations of less than 100 residents. Alaska's Essential Air Service subsidy already utilizes small carriers flying light aircraft to transport passengers from these small rural communities to regional hub airports, where passengers can access basic services and links to the national transportation system.

*4. Change to Local Grant Program*

The fourth recommendation is to change carrier subsidies to local grants. Of the 40 Alaskan communities currently receiving Essential Air Service funding, only 11 have formed a municipal government. The majority of our communities receiving this service are not incorporated as a municipal entity that could apply for, administer or provide a local match, making this recommendation difficult to implement. Alaskans believe the program is working well and request no change to the current funding method. We believe the current program is well administered by the United States Department of Transportation and works efficiently in Alaska.

**Conclusion**

Mr. Chairman, the Essential Air Service program has been very successful in Alaska. Over the past 3 years the funds allocated under this program to Alaska air carriers has increased less that the general rate of inflation—despite much higher fuel costs, insurance rates and personnel costs. During this same period of time, the total number of passengers utilizing EAS in Alaska has increased. I believe this is because the Alaska program already utilizes the cost-saving measures recommended in the 2002 GAO report.

The Essential Air Service program provides a vital link to many Alaskan communities that would otherwise not receive air service.

Thank you for allowing me to testify, and I would be happy to answer any questions that the Committee might have.

Senator STEVENS. Thank you—next witness is Karen Miller, the Boone County Commissioner of Aviation, representing the National Association of Counties from Columbia, Missouri, please.

## STATEMENT OF HON. KAREN MILLER, COMMISSIONER, BOONE COUNTY, MISSOURI; ON BEHALF OF THE NATIONAL ASSOCIATION OF COUNTIES

Ms. MILLER. Good morning, Senator Stevens. My name is Karen Miller and I am a County Commissioner in Boone County, Missouri. I am here representing the National Association of Counties known as NACo. I want to thank you for the invitation to testify on improving air service to small and rural communities.

Essential Air Service is extremely important to NACo members in small and rural communities, to Boone County, Missouri and to the approximately 143 other rural communities served by EAS in 36 states.

Columbia Regional Airport, located in Boone County, Missouri began receiving Essential Air Service in October 2006 when Trans States Airlines pulled out of the market. Senator Stevens, please note that this occurred not because of a decrease in enplanements but because Trans States decided to change from turboprop planes to regional, making Columbia not economically viable to serve. We have a strong business community that is always looking for more employers. Believe when I say, one of the first questions we get from businesses looking to relocate in our area is, "how far are you from a commercial airport?" It dramatically improves our competitiveness to say 10 miles versus 115 miles to St. Louis or 135 miles to Kansas City.

While having EAS service has been important to our region, the result of the change from non-subsidized to subsidized service has not been without challenges and we have seen a reduction in enplanements—from almost 20,000 in 2005 to 13,673 in 2006 to a projected level of less than 10,000 in 2007. Until July 7, 2007, Columbia received four EAS flights per day during the week and two flights per day on the weekends, all provided by Air Midwest. The flights were evenly split between Kansas City and St. Louis.

Due to the unreliability of the flights and the schedule, we agreed to a change in service. Effective July 8th, all these flights now go to Kansas City where Air Midwest has its own gate and maintenance operation. We are hopeful that moving all flights to Kansas City will improve reliability, making our service more attractive and increase enplanements.

NACo has a number of suggestions for improving the Essential Air Service Program. The goal of a number of these recommendations is to build up the enplanements in a community so that carriers can offer service without an EAS subsidy. There needs to be more funding. We applaud the Commerce Committee for increasing EAS funding to $133 million.

Like any other product or service, EAS has to be attractive to the customer. Hopefully with more funds, the issues often raised by EAS communities concerning frequency, convenience and type of aircraft can be addressed.

We also ask this Subcommittee to help identify an additional dedicated or guaranteed source of revenue for the EAS program. While the international over flight fee generates $50 million annually for EAS, the remainder currently has to come from the General Fund and this creates an uncertainty for the communities and the air carriers. An additional dependable source, such as the Airport and Airway Trust Fund would assures communities and air carriers that the program will be fully funded, making EAS a stronger program.

Another option would be to require the Trust Fund to help fund EAS to the extent that the over flight fee and General Fund contributions failed to reach the fully authorized level.

We believe the Local Participation Program, currently in law but never implemented, which requires a 10 percent match requirement in ten communities should be repealed. Many of the small and rural communities that would be required to provide a local match are not able to find the tens of thousands of dollars the match would require.

Additionally, the $200 subsidy cap should be increased and indexed. It has been in place since 1989 and while we are not opposed to the concept of a cap, one that hasn't been changed in 18 years needs adjustment.

We believe that there needs to be either an incentive for improved service or a penalty for those air carriers who provide unreliable service. Section 405 of Senate bill 1300 moves in the right direction but we would recommend requiring the Secretary of Transportation to provide incentives for carriers to improve air service, as opposed to this being discretionary, and include penalties for poor service.

There needs to be more marketing of EAS service to the community. NACo supports the provision now included in Senate bill 1300 requiring airlines who are bidding on EAS service to include a funded marketing plan in their proposal.

One final suggestion to improve EAS service is that we need to study approaches to encouraging more airlines to bid on providing EAS service. More competition may result in better service.

As I conclude, let me also indicate NACo's support for the Small Community Air Service Development Program. This program needs to be funded at a level that comes close to meeting the demand and the $35 million annual authorized level in Senate bill 1300 is a positive step.

This concludes my testimony and I would be happy to answer any questions you may have.

[The prepared statement of Ms. Miller follows:]

PREPARED STATEMENT OF HON. KAREN MILLER, COMMISSIONER, BOONE COUNTY, MISSOURI; ON BEHALF OF THE NATIONAL ASSOCIATION OF COUNTIES

Good morning, Chairman Rockefeller, Senator Lott and members of the Subcommittee on Aviation. My name is Karen Miller and I am a County Commissioner in Boone County, Missouri. I am here representing the National Association of Counties (NACo). I want to thank you for the invitation to testify on improving air service to small and rural communities.

Essential Air Service (EAS) is extremely important to NACo members in small and rural communities, to Boone County, Missouri and to approximately 143 other rural communities served by EAS in 36 states. The other EAS communities in Missouri include Fort Leonard Wood, Joplin, Kirksville and Cape Girardeau.

In a nutshell, EAS keeps all these communities connected to the rest of America. It provides a link for citizens to travel to the larger communities plus a link to the Nation and world through the hub airports to which EAS connects. EAS plays a key role in local communities by attracting and retaining businesses that depend on commercial air service and in healthcare by enabling our citizens to more easily access sophisticated healthcare that is often absent in rural communities. NACo hopes that the final aviation reauthorization legislation will extend EAS and provide an authorized level of funding and dedicated source of funding that is adequate for meeting the demands and costs of the program and make a number of reforms to the program.

Columbia Regional Airport, located in Boone County, Missouri began receiving EAS service in October 2006 when Trans States Airlines pulled out of the market. Mr. Chairman, please note that this occurred not because of a decrease in enplanements but because Trans States decided to change from turbo prop planes to regional jets and that made Columbia uneconomic to serve. Columbia Regional Airport serves an area of about 428,000 people and includes the University of Missouri and the state capital in Jefferson City. We also have a strong business community that is always looking for more employers. Believe when I say one of the first questions we get from businesses looking to relocate to our area is, "How far are you from a commercial airport." It dramatically improves our competitiveness to say 10 miles rather than 115 miles to St. Louis or 135 miles to Kansas City.

While having EAS has been important to our region, the result of the change from non-subsidized to subsidized service has not been without challenges and we have seen a reduction in enplanements—from almost 20,000 in 2005 to 13,673 in 2006 to a projected level of less than 10,000 in 2007. Until July 7, 2007, Columbia received four EAS flights per day during the week and two flight per day on the weekend, all provided by Air Midwest. The flights were split evenly between Kansas City and St. Louis. Due to the unreliability of the flights and the schedule, we agreed to a change in service. Many of Air Midwest's flights were leaving 1–3 hours late and this lack of reliability was driving away passengers. Furthermore, the ability of business travelers to complete a one-day return trip was not very practical. The first flights out of Columbia to St. Louis left too late for the first round of connecting flights from St. Louis and the last flight back to Colombia from St. Louis left too early for the connecting returning flights, and the last flight from Kansas City created a long wait for returning travelers. Effective July 8, all these flights will go to Kansas City where Air Midwest has its own gate and maintenance operation. We hope moving all flights to Kansas City will improve reliability, make our service more attractive and increase enplanements.

NACo has a number of suggestions for improving the Essential Air Service Program. The goal of a number of these recommendations is to build up the enplanements in a community so that air carriers can offer service without an EAS subsidy. There needs to be more funding. It is certainly fair to say that the cost of fuel, equipment and operations of air service has increased. We applaud the Commerce Committee for increasing EAS funding to $133 million. Certainly, the Administration's proposal to reduce the program to $50 million and limit EAS to 78 communities makes little sense as does proposing limiting eligibility for EAS to those communities currently in the program. We also need more funds so we can subsidize better service. Like any other product or service, EAS has to be attractive to the customer. Hopefully with more funds, the issues often raised by EAS communities concerning frequency, convenience, and type of aircraft can be better addressed. In the last Congress, both the House and Senate recognized the increasing needs and funded EAS at $117 million only to have the final funding reduced to $109 million, the same figure as FY 2006.

We also ask this subcommittee to help identify an additional dedicated or guaranteed source of revenue for the EAS program. The Airport Improvement Program has it, the highway program and transit program both have it. While the international over flight fee generates $50 million annually for EAS, the remainder currently has to come from the General Fund and this creates an uncertainty for the communities and the air carriers. An additional dependable source, such as the Airport and Airway Trust Fund, which assures communities and air carriers that the program will be fully funded, would make EAS a stronger program. Another option would be to require the Trust Fund to help fund EAS to the extent that the over flight fee and General Fund contribution failed to reach the fully authorized level.

We believe the Local Participation Program, currently in law but never implemented, which requires a 10 percent match requirement in ten communities should be repealed. Many of the small and rural communities that would be required to provide a local match are not able to find the tens of thousands of dollars the match would require.

The $200 subsidy cap should be increased and indexed. It has been in place since 1989 and while we are not opposed to the concept of a cap, one that hasn't been changed in 18 years needs adjustment.

We believe that there needs to be either an incentive for improved service or a penalty for those air carriers who provide unreliable service. Carriers get paid for completed service, whether on time or 3 hours late. Section 405 of S. 1300 moves in the right direction but we would recommend requiring the Secretary of Transportation to provide incentives for carriers to improve air service, as opposed to this being discretionary, and include penalties for poor service.

There needs to be more marketing of EAS service to the community. Marketing funding should be provided directly through the EAS program. NACo supports the provision now included in S. 1300 requiring airlines who are bidding on EAS service to include a funded marketing plan in their proposal.

One final suggestion to improve EAS service is that we need to study approaches to encouraging more airlines to bid on providing EAS service. More competition may result in better service.

As I conclude, let me also indicate NACo's support for the Small Community Air Service Development Program. This program needs to be funded at a level that comes close to meeting the demand and the $35 million annual authorized level in S. 1300 is a positive step. Every year grant applications exceed the available funding by a substantial margin and the $10 million appropriated for FY 2007 is inadequate. In particular, small communities need marketing dollars to help them get the word out to their residents that airline service is available. We also believe the match requirement for this program needs to be modified, perhaps to reflect community size.

This concludes my testimony and I would be happy to answer any questions subcommittee members may have.

Senator STEVENS. Thank you very much, Ms. Miller. Our next witness is Mark F. Courtney, the Airport Director of Lynchburg's Regional Airport in Lynchburg, Virginia. Mr. Courtney?

**STATEMENT OF MARK F. COURTNEY, A.A.E., AIRPORT DIRECTOR, LYNCHBURG REGIONAL AIRPORT**

Mr. COURTNEY. Thank you, Senator Stevens. On behalf of the City of Lynchburg and the Lynchburg Regional Airport Commission, I would like to thank you for this invitation to appear before your Subcommittee to speak on the topic of the Small Community Air Service Development Program.

Now, Lynchburg Regional Airport is classified as a non-hub airport and is the primary commercial service airport serving a four-county area in central Virginia surrounding Lynchburg, Virginia.

Prior to September 11, Lynchburg enjoyed daily airline service by affiliates of three airlines: Delta, United and US Airways, with a total of 19 daily departures to four different major hub airports. Following the events of September 11th, however, Lynchburg, as did many similar sized airports, suffered a disproportionate reduction in airline service and seat capacity as airlines reduced flight schedules.

Then, in the Fall of 2001, our United Express affiliate announced that it would be withdrawing all service from Lynchburg and close its station. Suddenly, Lynchburg was left with just 12 scheduled airline departures while suffering a 38 percent loss of daily seat capacity compared to September 2000. The number of local air travelers driving to other airports for their air travel needs reached nearly 60 percent. By the end of calendar year 2001, Lynchburg's total passenger traffic had dropped 42 percent from the prior year.

In 2002, Lynchburg was fortunate to receive its first grant under the Small Community Air Service Development Program in the amount of $500,000 that, when combined with $100,000 in local funds, made possible a revenue guarantee form of incentive for the purpose of upgrading our existing turboprop service to regional jets. Delta Airlines subsequently accepted our proposal and new service began May 4, 2003 for a 1-year period.

With the introduction of the new jet service and Delta's agreement to offer a new, more competitive pricing structure, Delta's passenger load factors at Lynchburg jumped from 49 percent in August of 2003 to nearly 64 percent by October. Even more encouraging, Delta's passenger revenues actually went up under the new lower pricing structure, despite this decrease in airfares.

By the Winter of 2004, it was evident that the new service was a complete success and it was exceeding expectations. By April, Delta officials confirmed that they would continue the service after the 1-year revenue guarantee period ended.

Of course, a lot has happened in the airline industry since that time. With multiple legacy airline bankruptcies over the past few years, further reductions in both domestic flights and seat capacity have become the norm. But as our new service continued to perform well and grow, the response wasn't to increase service, but to increase fares. In fact, from an average roundtrip leisure fare of $270 in January 2005, Lynchburg's average published fares to our most popular destinations have increased an alarming 58 percent. And, despite passenger traffic levels that remain amazingly stable, fares have continued to escalate, while service has diminished.

Over the last couple of years, it seems that every time that we have seen our load factors improve, the airlines have responded not by increasing service to meet the increased demand, but by increasing fares. Compared to the same month last year, our current leisure fares are up 30 percent and just last week Delta Connection announced that it was eliminating one of its three daily RJ flights in September. When combined with an earlier flight reduction by US Airways, by September, Lynchburg will have lost over 19 percent of our daily seat capacity just since the beginning of the year.

In fact, our September seat count will represent the lowest number of airline seats offered at this airport in decades. And yet, through all this, our passenger enplanements year-to-date are actually off just 4.3 percent compared to last year.

With the past success of our 2002 grant, Lynchburg was once again successful in being awarded a similar but smaller DOT grant in 2006 to be used to help attract a third carrier back to the airport, as well as the return of a northern connecting city, particularly a hub city. With nearly a year behind us under the new grant, we continue to struggle to gain an airline commitment. With regional airline fleets continuing to face pressure, high fuel prices and hub and air traffic capacity issues placing limitations on flights, our current $405,000 total incentive package has failed to get much attention from an airline. While we are hopeful that we will eventually be successful, current airline economics and fleet trends seem to be conspiring against small non-hub airports like Lynchburg.

Now, without a doubt, the current airline operating environment has made service to smaller communities even more problematic, with the airlines showing very little interest in our pleas for better air service and more competitive airfares. The airlines' revolving door of raising fares every time our load factors improve has created a Catch-22 that keeps us from performing to our potential and provides an ongoing excuse to reduce service levels further.

The Small Community Air Service Development Program is clearly needed and represents one source that smaller airports have to provide airline incentives that would otherwise not be possible. But to me, it also seems apparent that higher individual grant amounts have become necessary in order to gain the attention of an airline. In our case, cash incentives that can be offered to offset a new airline's startup costs during the first 6 months or so seem to be the most effective but it also seems obvious that's only if the incentive is high enough. This becomes even more compelling when you consider that the mainline carriers are controlling more and more of the regional fleet seat capacity directly. The days of independent, code-sharing regional partners who make the service and scheduling decisions themselves appear to be gone.

When looked at in the context of 5 years ago, it is clear that for Lynchburg Regional Airport, our Fiscal Year 2002 grant was a complete success. More recently, however, it has also been clear that ongoing challenges in the domestic airline industry have created even greater challenges for small communities like Lynchburg.

It just seems that for smaller, non-hub airports like Lynchburg Regional Airport that have viable, self-sustaining air travel markets, airline deregulation hasn't worked in a long time and I fear it's just getting worse.

I encourage Congress and this Committee to continue programs such as this that have a proven record and to focus on more attractive financial incentives for those non-hub airports that have the greatest monetary need and the greatest chance of success. Thank you.

[The prepared statement of Mr. Courtney follows:]

PREPARED STATEMENT OF MARK F. COURTNEY, A.A.E., AIRPORT DIRECTOR, LYNCHBURG REGIONAL AIRPORT

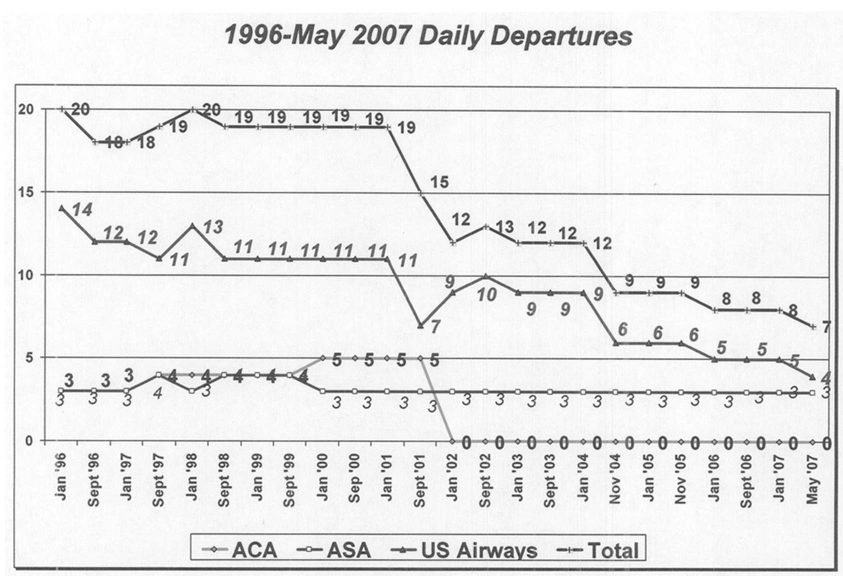
Chairman Rockefeller, Ranking Member Lott and members of the Senate Commerce Committee's Aviation Subcommittee, on behalf of the City of Lynchburg and the Lynchburg Regional Airport Commission, I would like to thank you for your invitation to appear before your subcommittee to speak on the topic of the Small Community Air Service Development Program. Lynchburg Regional Airport (LYH) has had the opportunity to participate in this program through two separate grants, and today I would like to focus on our experiences with this program.

**Background**

Lynchburg Regional Airport (LYH) is classified as a non-hub airport and is the primary commercial service airport serving a four-county area in central Virginia surrounding Lynchburg, Virginia. With a service area population of 221,000, LYH is currently served by the regional affiliates of two airlines, Delta and US Airways, and today offers a total of seven daily departures to airline hubs in Atlanta and Charlotte.

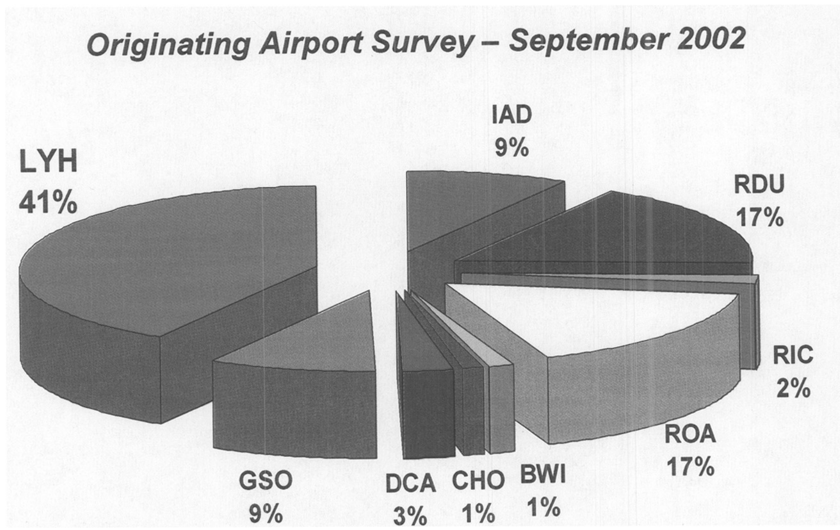
Lynchburg Regional Airport, like many similar-sized airports, was particularly hard hit by the events of September 11, 2001. Prior to September 11, LYH enjoyed daily scheduled airline service by three airlines (Delta, United and US Airways) with a total of 19 daily departures to four different major hub airports. Lynchburg's total passenger traffic during a ten-year period preceding September 11 averaged approximately 180,000 passengers annually, with the local market easily supporting daily airline seat capacity in the 500-seat range.

In the immediate days following September 11, LYH, like most airports throughout the country, experienced a dramatic decline in passenger demand. Then, in the Fall of 2001, United Express carrier Atlantic Coast Airlines, one of our three airlines, announced that it would be withdrawing all service from LYH and close its station. But, unlike many larger airports, LYH suffered a disproportionate reduction in airline service and seat capacity as flight schedules were reduced.



**Air Travelers Turn to Other Airports**

Suddenly, LYH was left with just 12 scheduled airline departures daily, down from 19, while suffering a 38 percent loss of daily seat capacity compared to September 2000. The result was an increase in the number of local air travelers who opted to drive to other near-by airports to accommodate their travel needs, reaching a point that the number of local air travelers driving to other airports reached nearly 60 percent. As a result, by the end of CY 2001, Lynchburg's total passenger traffic had dropped 42 percent from the prior year.




**LYH and the 2002 SCASD Pilot Program**

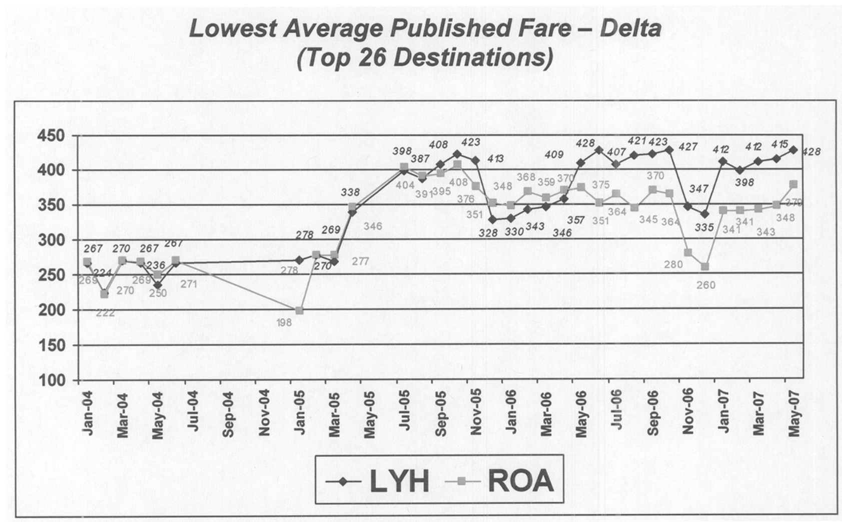
In 2002 LYH received its first grant under the Small Community Air Service Development Program (SCASDP) in the amount of $500,000 that, when combined with $100,000 in local funds, made possible a revenue guarantee to utilize as an airline incentive to upgrade our existing turboprop aircraft to regional jets. Delta Airlines subsequently accepted our proposal and new service began May 4, 2003 for a one-year period under a revenue guarantee arrangement.

With the introduction of the new jet service and Delta's agreement to offer a new, more competitive pricing structure, Delta's passenger load factors at LYH jumped from 49 percent in August 2003 to nearly 64 percent by October. Even more encouraging, Delta's passenger revenues actually went up under the new pricing structure, despite the slight decrease in airfares. Overall, Delta's passenger traffic went from 2,111 total passengers in April 2002, the month before the new CRJ service started, to 4,735 by October 2003.

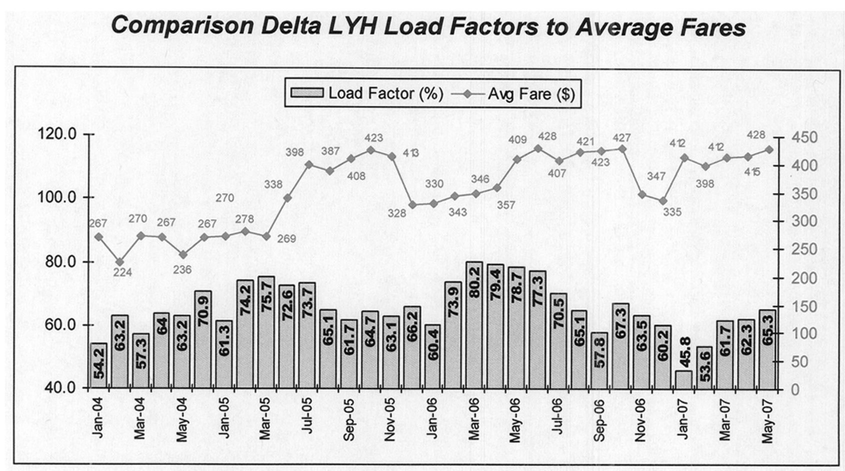
By the Winter of 2004, it was evident that the new service was a complete success, and that it was exceeding expectations. In fact, under the formula for the revenue guarantee, in February 2004 total revenues actually exceeded the target under the agreement for the first time. By April, we exceeded the revenue target by approximately $20,000 and received confirmation from Delta officials that they deemed the program a success and would be continuing the service after it expired in May 2004.

*Then and Now*

Of course, a lot has happened since then and much has changed in the airline operating environment. With multiple legacy airline bankruptcies in the intervening years, further reductions in both flights and seat capacity have become the norm. But as our new service continued to perform well, the response wasn't to increase service, but to increase fares. In fact, from an average roundtrip leisure fare of $270 in January 2005, LYH's average published fares to our most popular destinations have increased an alarming 58 percent.




And, despite passenger traffic levels that remain amazingly stable, fares have continued to escalate, while service has diminished. In our case, over the last couple of years, it seems that every time that we have seen our load factors improve, the airlines have responded not by increasing service, but by increasing fares. Compared to the same month last year, our lowest leisure fares are up 30 percent, and just last week Delta Connection announced that it was eliminating one of its three daily RJ flights in September. When combined with an earlier flight reduction by US Airways, by September LYH will have lost over 19 percent of our daily seat capacity just since the beginning of this year. In fact, our September seat count will represent the lowest number of airline seats offered at this airport in decades. And yet, through all this, our passenger enplanements year-to-date are off just 4.3 percent compared to the same period last year.




**Lynchburg's 2006 SCASD Program Grant**

With the past success of our 2002 grant, LYH was once again successful in being awarded a similar, but smaller, grant in 2006 to be used to help attract a third carrier back to the airport, as well as the return of a northern connecting hub city. With nearly a year behind us under the new grant, we continue to struggle to gain an airline commitment. With regional airline fleets continuing to face pressure, high fuel prices and hub and air traffic capacity issues placing limitations on flights, our current $405,000 incentive package has failed to get much attention from an airline. While we are hopeful that we will eventually be successful, current airline economics and fleet trends seem to be conspiring against small non-hub airports like LYH.

**Conclusion**

Without a doubt, the current airline operating environment has made service to smaller communities even more problematic, with the airlines showing little interest in our pleas for better air service and more competitive airfares. The airlines' revolving door of raising fares every time our load factors improve has created a "Catch 22" that keeps us from performing to our potential, and provides an ongoing excuse to reduce service levels further.

The Small Community Air Service Development Program is clearly needed and represents one source smaller airports have to provide airline incentives that would otherwise not be possible. But it also seems apparent that higher grant amounts have become necessary in order to gain the attention of an airline. In our case, cash incentives that can be offered to offset a new airline's start-up costs during the *first 6 months or so* seem to be the most effective, if the incentive is high enough. This becomes even more compelling when you consider that the mainline carriers are controlling more and more of the regional fleet seat capacity directly. The days of independent, code-sharing regional partners who make the service and scheduling decisions themselves appear to be all but gone.

When looked at in the context of 5 years ago, it is clear that for LYH our FY 2002 grant was a complete success. The program was instituted at a very opportune time for our airport, and the timing for execution of our proposal was perfect. At the time of the grant offer, the airport was significantly underserved, which was compounded by inordinately high airfares.

The implementation of a revenue guarantee program was exactly the best way to address our particular program at the time in that it provided compensation to the airline during the critical market development phase of new service introduction. The result was a steady decrease in revenue guarantee payments to the airline, culminating at the end of the program in revenues that exceeded goals.

More recently, however, it has become clear that recent changes in the domestic airline industry have created even greater challenges for small communities like Lynchburg. For smaller non-hub airports that have viable, self-sustaining air travel markets, it seems that airline deregulation hasn't worked in a long time, and I fear that it is just getting worse. I would encourage Congress to continue programs such as this that have a proven record, and to focus on more attractive financial incentives for those non-hub airports that have the greatest monetary need and the greatest chance of success.

Senator STEVENS. Thank you, Mr. Courtney. Senator Dorgan, do you have an opening statement you want to make at this time?

Senator DORGAN. Mr. Chairman, I'll wait until your witnesses have completed their statements.

Senator STEVENS. Senator, do you feel the same way?

Senator VITTER. Yes, I have questions for the witnesses.

Senator STEVENS. Ms. Malarkey, you are—Faye Malarkey is Vice President of Legislative Affairs for the Regional Airline Association stationed here in Washington. Ms. Malarkey?

## STATEMENT OF FAYE MALARKEY, VICE PRESIDENT, LEGISLATIVE AFFAIRS, REGIONAL AIRLINE ASSOCIATION

Ms. MALARKEY. Thank you, Senator Stevens. Thank you for the opportunity to testify today and for holding this important hearing. RAA represents 41 regional airlines that link together 600 communities in the United States. At more than 70 percent of these communities, regional airlines are, as you know, providing the only source of scheduled airline service. Nowhere is the importance of regional airline service more apparent than at the over 140 communities across the country that receive air service through EAS.

As this Committee knows, continuing financial challenges in the aviation industry have made air service to smaller communities significantly more expensive. In the past 5 years alone, 40 communities have been forced onto the EAS roles and 17 communities have been dropped from the program. The smallest airports have seen a 21 percent decline in daily departures. Airports with between 3 and 6 daily flights have experienced a 33 percent decline in departures. Many communities have lost air service all together.

A promise was made to small communities back in 1978 that deregulation would not leave them behind. The vehicle for this promise has been EAS. We applaud this Committee for upholding that promise, for resisting proposals that would dismantle the program and for choosing instead to increase funding for the EAS Program as part of its reauthorization package.

One of the greatest factors contributing to small community air service reductions is the recent and staggering increases in fuel costs. To put this into perspective, EAS contracts currently have a 2-year lifespan. A carrier that negotiated a competitive contract a year ago would have based cost projections on then-current fuel rates of $1.80 a gallon. That same carrier would be providing the service today with fuel costs of nearly $3.00 a gallon. In other words, climbing fuel costs can quickly turn once profitable routes into losses.

Unfortunately, EAS carriers lack a mechanism to renegotiate rates and must instead file 90-day service termination notices in order to adjust. Even after filing such notices, as you know, carriers are held in at loss rates for 180 days. This Committee included a rate index mechanism provision in Vision 100 that would allow the DOT to make real-time rate adjustments in cases of such increased costs. Unfortunately, DOT has been unwilling to implement the program.

RAA therefore respectfully asks this Committee to include language in its present FAA bill to require implementation. Recently, DOT has stated that the EAS Program is not facing any crisis in funding. RAA holds our colleagues at the DOT in the highest esteem but we do not agree with this assessment. The demonstrability of funding needs and expenditures related to the program is closely tied to its management.

When DOT cuts service levels or eliminates points in order to lower program expenditures without reinvesting in the program, it generates cash in the EAS coffers. The results of this practice are balance sheets that suggest the program is over-funded. In order to fully explore this issue, RAA requests that Congress require an audit on unspent, obligated funds currently retained on the EAS balance sheets.

As I've mentioned previously, DOT contracts have a 2-year life span. Unfortunately, airlines' ability to commit aircraft in a diminishing market has grown more difficult. In fact, one reason there are so few new-entrant EAS carriers may be attributed to the lack of financing for aircraft with short-term commitment levels.

We are therefore pleased that this Committee has expressed interest in upgrading EAS contract terms beyond their current 2-year lengths. By upgrading the EAS contract terms to four or 5 year service commitments, existing carriers would be better able to renew current contracts, a significant barrier to market entry would be removed and all carriers would be better able to finance aircraft.

RAA believes the FAA's own reauthorization proposal discriminates against passengers from smaller communities. Regional airlines provide 14,000 flights daily. To dismiss regional airline flights and our passengers as a mere blip on a radar screen is to ignore the crucial service we provide in smaller communities.

We share an important goal with this Committee. That goal is advancing an FAA reauthorization bill that makes modernization of the ATC system a priority. We applaud this Committee for its work on the shared objective. As you know, we do have concerns about policy impacts stemming from the proposed user fee element. We are therefore truly appreciative of this Committee's invitation to work with us further to address those concerns. We pledge to work hard to find common ground. We're willing to pay our fair share for the extremely important objective of modernizing our ATC system. We simply seek a modest adjustment to the user fee language to ensure it treats passengers equally regardless of the point at which they access the system.

We are confident that together with this Committee, we can address these specific concerns while moving forward with an FAA reauthorization this year.

Mr. Chairman, thank you for your attention to this important issue and for the opportunity to testify today. I look forward to responding to your questions at the conclusion of the panel.

[The prepared statement of Ms. Malarkey follows:]

PREPARED STATEMENT OF FAYE MALARKEY, VICE PRESIDENT, LEGISLATIVE AFFAIRS, REGIONAL AIRLINE ASSOCIATION

Chairman Rockefeller, Senator Lott, and Members of the Subcommittee, thank you for the opportunity to testify before you today. I am pleased to testify on behalf of the Regional Airline Association. We thank you for holding this important hearing.

RAA represents 41 U.S. regional airlines transporting 97 percent of regional airline passengers. Our member airlines operate 9 to 68-seat turboprop aircraft and 30 to 108-seat regional jets and link together more than 600 communities in the United States.

At more than 70 percent of these communities, regional airlines provide the only source of scheduled airline service. Nowhere is the importance of regional airline service more apparent than at the more than 140 rural communities across the country that receive scheduled air service through the Department of Transportation's Essential Air Service Program (EAS).

*Background*

Because of continuing financial pressures in the post-9/11 aviation industry, at least 40 additional communities have been forced onto the EAS roles and 17 EAS communities have been dropped from the program altogether in the past 5 years. The smallest airports—those with between one and three daily departures—have seen a 21 percent decline in daily departures between September 2001 and September 2006. Thirteen of these airports have lost service altogether. Airports with between three and six daily flights in September 2001 have experienced a 33 percent decline in departures since then, with eight such airports losing service altogether.

As Members of this Subcommittee know, EAS was initially created as part of the Airline Deregulation Act of 1978. The program has been in effect each year since under various funding proposals. Many members of this Subcommittee will remember that, in 1999, DOT issued several service termination orders, triggering broad opposition from communities and air carriers. This highlighted the need for a sufficient and stable funding stream for EAS.

Thanks in large part to the strong leadership of this Committee, EAS has received funding increases which have helped it keep pace with changing market realities.

*Department of Transportation and Federal Aviation Administration Proposals*

Unfortunately, the proposal contained in the FAA's own reauthorization bill this year would severely cut and potentially dismantle the EAS program as funding would fall by $59 million from current enacted levels, effectively forcing out a third or more of the communities that now use the program. The proposal further caps EAS subsidies at current levels and prohibits the addition of new EAS points for communities that lose air service in the future, telling residents of these communities that convenient, reliable air service is a luxury, and one they can't have. For the others, DOT would set up a tiered system to grant reduced subsidies to communities in descending order of distance from nearby hub airports, starting in Alaska and continuing until the funding runs out, which is sure to happen long before DOT's obligation to EAS communities has been met.

If enacted, this proposal would jeopardize rural air service in an unprecedented way because it fails to reflect the fact that, of 140 current EAS communities, 85—36 in Alaska alone—are further than 210 miles away from a medium or large hub airport. Dozens more are further than 150 miles away from the nearest medium or large hub airport. Yet, under the DOT's proposal, even many remote communities would lose air service as the funding level proposed by DOT is simply too low to continue the program in any meaningful way.

Congress promised small communities, back in 1978, that deregulation would not leave them behind; rather, communities receiving scheduled air service before deregulation would continue to receive scheduled air service after deregulation. The vehicle for this promise has been EAS, and while we recognize the usefulness of reform, we urge Congress to reject proposals that significantly cut, eliminate, or undermine this important program.

Rather than accept proposals to cut the program in half, this Committee has elected instead to increase funding by $6 million per year in its FAA proposal, bringing authorized appropriations to $133 million next year. We are deeply grateful for your leadership.

*Carrier Costs and Real-Time Rate Indexing*

One of the greatest factors contributing to diminishing small community air service is the continuous and staggering effect of fuel cost increases. Turboprop aircraft are among the most fuel efficient aircraft for short-haul routes and, like our major airline counterparts, regional airlines have sought to minimize fuel burn by tankering fuel, lowering cruise speeds, safely altering approach procedures, and reducing onboard weight. We are making every effort to manage escalating fuel costs with an eye toward conservation. Nonetheless, fuel is now the highest cost for many regional airlines.

As part of the competitive EAS application process, carriers negotiate in good faith with DOT on subsidy rates that remain in effect for 2 years. In doing so, EAS carriers must project revenues and costs over this same two-year time-frame—no easy task in today's volatile cost environment. In cases of unexpected cost increases, EAS carriers lack a mechanism to renegotiate rates and must instead enter into the unpalatable process of filing 90 day service termination notices in order to begin the convoluted process of seeking rates that cover increased costs. This inevitably causes ill-will between the airline and community and fosters a sense of unreliability that undermines community trust in and use of the air service.

One of the fundamental tenets of the EAS program held that no carrier should be expected to serve any market at a loss. Yet, in cases of unexpected cost increases, carriers are unable to provoke rate changes without filing such service termination notices, after which each carrier must continue to provide the service, at a loss, for 180 days while DOT undertakes the competitive bidding process.

In recent months, crude oil has risen dramatically. For example, one EAS carrier, Great Lakes Aviation, has experienced annualized, system-wide fuel cost increases of over $4 million. To put these numbers into perspective, please consider this: EAS contracts currently have a two-year lifetime. A winning carrier who negotiated a competitive contract 1 year ago would have based cost projections on then-current fuel rates of $1.80 per gallon. That same carrier would now be providing the service with fuel costs at nearly $3 per gallon. Because EAS carriers are strictly limited to 5 percent profit margins, climbing fuel costs can quickly turn once-profitable routes into losses.

Congress has already addressed this issue. In Section 402 of Vision 100, this Committee worked to include a rate-indexing mechanism where DOT could make real-time rate adjustments during periods of significantly increased carrier costs. In order to prevent deliberate cost underestimation, Congress required carriers to demonstrate "significant increases," and defined these as 10 percent increases in unit costs persisting for two or more consecutive months.

DOT has been unwilling to implement the program to date, citing a lack of funds. RAA therefore respectfully asks this Committee to include language in its FAA bill to *require* DOT to make these real-time rate adjustments.

*Program Management*

Recently, DOT has stated that the Essential Air Service program is not facing any crisis in funding. RAA respectfully disagrees. The demonstrability of funding needs and expenditures related to the EAS program is closely tied to management of the program. When DOT cuts service levels or eliminates points in order to lower programmatic expenditures without reinvesting in the program, it generates excess cash in the EAS coffers. This practice produces balance sheets that suggest the program is over-funded. In order to fully explore these issues, RAA requests that Congress require an audit on unspent, obligated EAS funds currently retained on the EAS balance sheets. Further, RAA requests that leftover funds be reinvested in the EAS program to raise service levels at more viable routes, thereby allowing passengers to best utilize service that has been granted.

As Congress considers potential eligibility criteria changes, we also ask that the same standard is applied. Reforms to the program should be aimed at enhancing the program and protecting rural air service; not gutting the program.

*Date Certain for Market Exit*

Part of the nature of the Essential Air Service program, as you know, is that carriers compete rigorously for contracts. Even in cases where an incumbent carrier desires to continue serving a given market, DOT has the right to select another carrier. In cases where DOT awards service to a new carrier, RAA believes DOT should be required to give the incumbent carrier a date certain when it may exit the market, without exception.

The current practice, where DOT holds the carrier in markets in 30 day increments, is untenable. This practice means a carrier cannot sell tickets in the EAS market beyond 30 days, nor can it make plans to utilize its aircraft elsewhere. We urge Congress to end this unfair situation by mandating that DOT adopt a date certain component for incumbent carrier market exits when it selects an alternate carrier to serve the market.

*DOT Term Length Upgrade*

As you know, DOT contracts have a two-year lifespan. Post 9/11, carriers possessed excess aircraft inventory sufficient to facilitate competitive bidding on new EAS routes. With more and more turboprop aircraft being sold overseas, there are fewer aircraft available in the United States for this type of service.

Unfortunately, airlines' ability to commit aircraft in a diminishing market has likewise grown more difficult. Aircraft financing models are ill-suited to short, 2 year-year commitments. In fact, one reason there are so few new-entrant EAS carriers, may be attributed to the lack of financing for aircraft with short-term commitment levels.

We are pleased that this Committee has expressed interest in upgrading EAS contract terms beyond the current, two-year program. By upgrading the EAS contract terms to four or five-year service commitments, existing carriers would be better able to renew current contracts, a significant barrier to market-entry would be removed, and all carriers would better able to finance aircraft for longer-term obligations.

*Smaller Aircraft and Very Light Jets*

There has been some recent discussion about the use of Very Light Jets as rising operating costs of current EAS carriers have translated to higher program costs. Ironically, the rising costs in question have occurred as a result of compliance with single-level-of safety standards imposed on the industry in 1997. While RAA does not advocate a return to separate regulatory standards for 19 seat operators, the government should not forget that the bulk of increased operating costs on these aircraft have resulted from this regulatory change.

Further, the business models of those smaller aircraft remain unproven. The VLJ business models that do exist promise direct, non-stop service to destinations that would bypass the hub-and-spoke system. They would therefore fail to connect passengers to the existing air transportation system in favor of limited service. The fares for VLJs are another great unknown, with most advocates acknowledging that they are fairly expensive.

We strongly caution the Congress against advancing this unproven technology as a solution to EAS shortfalls. The Congressional commitment to rural communities during deregulation was a continuation of scheduled air service. It is inappropriate to place the burden on passengers and communities to secure air service through expensive, untested, and potentially unreliable sources.

*FAA Reauthorization and User Fee Proposals*

The FAA proposal, which treats commercial airline passengers differently based on size or type of aircraft, discriminates against passengers from smaller communities. Further, the proposal undermines the notion of a national system of commercial aviation. Regional airlines provide 14,000 flights daily. To ignore the crucial service regional airlines provide in smaller communities by dismissing regional airline flights and passengers as a mere "blip" on a radar screen represents more than an oversimplification. With respect to commercial air service, one blip can contain 250 cost bearing sources while another contains only 19.

Looking beyond EAS, we share an important goal with this Committee. That goal is advancing an FAA Reauthorization bill that makes modernization of the ATC system a priority. We applaud this Committee for its work on this shared objective.

As you know, we do have concerns about policy impacts stemming from the proposed user fee element, which we believe will prove harmful to small and medium-sized communities if not adjusted.

We are therefore truly appreciative of this Committee's invitation to work with us further on those issues and we pledge to work hard to find common ground. We are willing to pay our fair share for the extremely important objective of modernizing our ATC system. We simply seek an adjustment to the user fee language to ensure it treats passengers equally, regardless of the point at which they access the system. We are confident that, together with this Committee, we can address these specific concerns while moving forward with FAA reauthorization this year.

**Conclusion**

Mr. Chairman, thank you for the opportunity to testify on this important issue today. I look forward to responding to your questions at the conclusion of the panel.

Senator STEVENS. Well, thank you very much, Ms. Malarkey. You said you wanted to talk about requiring a limitation on whom? On the Department of the Treasury or what limitation did you mention?

Ms. MALARKEY. I'm sorry, I'm not sure that I understand—the limitation that I—I mentioned that we would like to have an audit on the unspent funds in the EAS coffers.

Senator STEVENS. Yes, I heard that but you also said something about requiring a limitation on the funds? Look over your statement and I'll come back to you, OK?

Ms. MALARKEY. OK.

Senator STEVENS. Mr. Secretary, we're delighted to have you here. Have you been to Alaska?

Mr. STEINBERG. Yes, I was there about 2 years ago and I got a chance to see——

Senator STEVENS. Did you go see some of the places that are served by Essential Air Service?

Mr. STEINBERG. I did not see places served by Essential Air Service specifically but did have a chance to understand personally some of the remote cities and what they have to do.

Senator STEVENS. Well, let me extend to you an invitation to come up in August. We might find a little extracurricular activity for you in one of the rivers at the same time.

Mr. STEINBERG. That sounds good.

Senator STEVENS. But there is a necessity to understand what this is all about. I'm the only surviving Senator now that was around when we made, at least on this Committee, created this Essential Air Service Program. It was created by Senator Cannon of

Nevada and me because of the problem in Alaska primarily and in a few places in Nevada where they were going to lose air service that had been mandated by CAB, at a great loss to the industry.

But we devised a system whereby the community had a right to a subsidy sufficient to give them at least the service that had been in place before deregulation. In some of our cities and villages, that was about three times a week. Now, in other places, I'm sure it was daily. But it has, as its genesis, the idea of letting the community decide who should continue to service it in terms of air transportation.

One thing that was missing from your statement was relevance to cargo. Essential Air Service covers cargo, too, where you have seat passengers and cargo and I would hope that you would come take a look at that.

Let me ask the other witnesses—does your Essential Air Service in Missouri and in Virginia and generally, Ms. Malarkey, do you include cargo service in your what we call Con-P planes? Passenger and cargo?

Mr. TORGERSON. Lynchburg is not an EAS point but we do combine, of course, freight in our passenger planes because we don't have any dedicated cargo except for one carrier.

Senator STEVENS. You're not getting any Essential Air Service assistance now at all?

Mr. TORGERSON. No assistance, no. No.

Senator STEVENS. Ms. Miller?

Ms. MILLER. Senator, I can't tell you that. I don't believe that we have cargo included in the EAS service that we receive now.

Senator STEVENS. I don't—Ms. Malarkey?

Ms. MALARKEY. We do not have all cargo EAS carriers. We have EAS carriers, obviously, that do some carriage of mail and will do some carriage of cargo but we do not have all cargo EAS.

Senator STEVENS. We don't have all cargo service covered by EAS either but the Con-P planes are covered and I think it's an essential difference between Alaska and what we call the South 48 in terms of Essential Air Service Program.

Mr. Steinberg, you mentioned the problem of the new system and the way it's growing, particularly now with what I call the mosquito jets, the very light jets. They probably won't be Con-P capable, as I understand it. They're going to be 9 to 11 seats, the ones that I've looked at. Have you got any plans at all to deal with the areas where they still must have cargo? I mean, we don't have roads so as a consequence, not having any road money coming to these areas, we provide it through—this was Senator Cannon's idea and mine, that we would provide assistance through the Essential Air Service for combined service of passenger and freight. Now, how is that going to be sustained after the mosquito fleet arrives?

Mr. STEINBERG. Well, after very light jets are introduced into the system, I think you'll see a couple different things happen. There is the potential for more service for passengers but as you point out, these planes are pretty small. Actually, the ones that are coming on line now, I think, are more like six passengers. However, there is another use, of course, for these aircraft and that's to carry cargo by itself and in fact, one of the things that is encouraging about very light jets is the ability to provide, say medical equipment and other things that are needed on a real-time basis.

So ultimately, Senator, it's all a matter of aircraft economics and if cargo can be carried profitably by very light jets, I'm sure it will be.

Senator STEVENS. Well, I hope you'll come up and take a look. I'm an old C7 (1947) and (1946) pilot. They would carry everything, right? These new little jets are not going to carry everything. You won't be able to get a washing machine in them. You won't be able to get any kind of a—even a large boat motor and there is no other way to deliver them now. There's no other way to get up there at all today. In days gone by, when the freight went up the river once a year, they didn't have those motors.

Mr. STEINBERG. Well, I think clearly Alaska is a special situation because you don't have the road infrastructure that you need to deliver cargo by truck and that distinguishes it from most other parts of the U.S. so the Essential Air Service Program will, I think, continue to be very important to your state.

Senator STEVENS. Well, John Torgerson, I hope, Mr. Commissioner, you'll join me in inviting our Secretary to come up because the transition of this bill—this is going to be a transition bill for Essential Air Services, no question about it. Other states need to redefine it and we need to redefine it so that we're not left out by these very light jets that will be primarily supported by Essential Air Services as I see it in the future.

Ms. Malarkey, you said you would like to sit down with the staff and talk about changes in this bill?

Ms. MALARKEY. Yes. Yes, we would, very much. In fact, we make ourselves available at any time in the coming weeks to sit down and discuss. Again, we seek a small, minor adjustment to the user fee language to ensure——

Senator STEVENS. Well, would you mind writing us a little letter so the members of the Committee will know what you want to talk to the staff about? I think that would be a good idea that you talk to them but we'd like to see what amendments you have in mind.

Ms. MALARKEY. Yes. It would be our pleasure.

Senator STEVENS. Did anyone else have amendments in mind to this bill that we should discuss this morning?

[No response.]

Senator STEVENS. John, do you have any amendments to the bill?

Mr. TORGERSON. No sir, I do not.

Senator STEVENS. Ms. Miller?

Ms. MILLER. Senator, I would like to also recommend that the NACo staff work with your staff on any amendments that may be forthcoming, as they've reviewed Senator bill 1300. I personally have not had that opportunity so I can't tell you exactly all the pieces that we would like to work with the staff to fine tune. But I want to make them available and I feel like Bob Fogel will be of big help to your staff in understanding our issues.

Senator STEVENS. Mr. Courtney, I think you sort of suggested re-regulation, a new CAB. Is that what you're suggesting?

Mr. COURTNEY. I didn't mean to really suggest re-regulation as much as the fact that deregulation does not work for smaller communities. We are in a unique situation. We're not an Essential Air

Service point. We're larger than that but we're smaller than many of the smaller airports that have the kind of financial wherewithal and they have the kind of community support to be able to provide the kind of incentives necessary to attract airlines in today's environment. You have to remember, we are self-sufficient. We are profitable for the airlines. Our problem is not profitability. Our problem is competition, high fares and a lack of choices out there among the legacy carriers. We cannot attract a low fare carrier because of the economics of it and we need something like the Small Community Air Service Development Program, even in an enhanced form, to be able to give us a tool that we need to be able to attract and get the attention of an airline.

The airline planning staffs today, the mainline carriers are calling the shots, at least when it comes to most smaller communities like ours that provide service—line service to the hub airports. And we need them very, very much and we just can't survive without that kind of connection and the planning staffs, we just can't get through to them because we're too small of a revenue airport or size for the majors who are facing all these daunting challenges, fighting back the low fare carriers and the majors at other larger airports. So even though we're profitable, our frustration remains in not being able to attract good quality service and keep it.

Senator STEVENS. It may interest you to know when we deregulated the airlines and did away with the CAB, Congress, at my request, gave the State of Alaska the right to create its own CAB in trial, in Alaska. But we have never utilized that authority for the one reason that we prefer to have some competition and we depend so much on airline transportation to get out of Alaska that we could not regulate. It would not be feasible to end up by regulating just in Alaska and not have the interstate commerce regulated.

I do think that we ought to help you find a way to induce a little bit more competition into your area and it may be that Essential Air Service grants of small amounts would enable an airport like yours to offer a little bit of an incentive to smaller airlines that are growing to come and grow with your traffic. That's what's happened in Alaska to a great extent and I'm sure that Commissioner Torgerson will tell you, we have sort of vibrant competition now, even in the smaller areas, to get the Essential Air Service contribution. So it is something that works and I'd like to work with you along that line.

Mr. COURTNEY. And Senator Stevens, I might just add that, as it was alluded to earlier, that is one of the challenges we're facing right now. We're in an industry that for scheduled airline service, the domestic route systems of the airlines are contracting. They are reducing capacity. It's much more difficult, obviously, to compete for added service or even to keep what you have when the airlines are continuing to reduce service. That's the reason we just lost—or we will be losing one of our regional jets to Atlanta.

Senator STEVENS. But—and I'm going to quit here—up our way, as that happens, they take under their wing a small commuter that becomes a portion of the major airline and deals effectively with our local commuter transportation and particularly, that's where the population base is a little higher than some of the villages. But I do think it would be wise to have you all come and take a look and see how it works in Alaska because it does work in Alaska and that's what John is here for. He's asking for a continuation of the program.

Senator I've got to go to another meeting. If you would, I'd be honored to have to take——

**STATEMENT OF HON. BYRON L. DORGAN, U.S. SENATOR FROM NORTH DAKOTA**

Senator DORGAN {presiding]. Mr. Chairman, because I didn't give an opening statement, let me make a couple of comments.

First of all, I think airline deregulation has imposed an unbelievable penalty on rural America. I know regulation is a four-letter word in this town but if we could all walk out to National Airport this morning and book two flights, one to North Dakota and one to Los Angeles, you'll find that it will cost twice as much to go half as far. That's an unbelievable penalty for people who live in smaller states, smaller population states.

So airline deregulation, in my judgment, has worked wonderfully for some. If you are from Chicago or Los Angeles or New York, you have multiple choices at competitive prices and good for you, you get a heck of a bargain on the airlines. If you're from other parts of the country, you're going to be facing airline fares that are unbelievably high if, in fact, you get the service. And these days, you're going to be faced with less service because they're going to reduce frequencies on you in most cases and bring in smaller aircraft.

Let me make a couple of comments about these issues. Mr. Steinberg, I've had generally a positive experience working with you and Mr. Devaney and others in the Department. I've appreciated working with you on EAS issues. I think the Essential Air Service Program is very important for many small communities.

I don't believe that we should have to say to—we should have a circumstance where a community that has Essential Air Service and doesn't lift a finger to make it work, I don't believe we should have to be in a situation where we say, you can have that service forever. You don't have to do anything. You can reduce to one or two passengers a day and do nothing to try to promote that service and by the way, we'll just look the other way.

So I think all of us that fund the Essential Air Service Program need to say to communities, this is part of your responsibility as well. This is not a given forever. If you do nothing to enhance that service and you basically ignore the presence of that service, you could end up losing that service.

Having airline service for these small communities is an important part of their future economic development opportunities so I think there needs to be a partnership here between the communities and the Essential Air Service Program.

With respect to the Small Community Air Service Development Program, I want to understand how that's working and whether that's working. We had an experience in North Dakota that had a startup airline. That's now shut down, as I understand it. I've been seeking information about what happened to the money. I'm not suggesting we shouldn't be doing all kinds of experiments to find out what works and how it works but I think it's important for us, because we've committed a lot of money, to find out what has been the result of the committing of that money in this Small Community Air Service Development Program and if we find out what the results have been then we can better tailor our future approaches.

I think there is an inherent conflict going on and it's going to get much worse. The conflict is this: We have the larger legacy carriers that have a hub-and-spoke system. They go out to a spoke—Mr. Courtney, they come to your area as a spoke and carry you into a hub and then move you on in their system in the hub.

Then we've had the growth of point-to-point carriers and the hub-and-spoke legacy companies have wanted to change their business model some and so many of them have gone through bankruptcy to strip assets and they're now coming out of bankruptcy and are shrinking capacity. They are, I think, one of you said that airports with three to six daily flights—that's a town of 50,000, maybe 100,000 people, three to six daily flights, a 33 percent decline in departures. We're experiencing that all across the country with those small communities. This isn't EAS. These are other communities that are larger than EAS.

That's a serious problem. And the hub-and-spoke and the point-to-point are in basic conflict and if the legacy carriers that have created the hub-and-spoke system no longer have a commitment to the spoke and want to dramatically reduce departures, downsize the aircraft and so on, we will continue to see a diminished capability of providing service to smaller cities in this country and the inevitable result will be an exacerbated problem of parts of this country having wonderful air service with great equipment and many different pricing capabilities of lower prices and more alternatives with respect to schedules and then we'll see a whole tier of other communities and I've got them in North Dakota. I mean, Minot and Bismarck and other communities—Grand Forks, Fargo, where you will see, I think, diminished airline service.

I know that the carriers will say, no, that's not where we're headed but look at the facts. I think the airline system in our country is experiencing serious problems in any event. This morning, I saw the report that 30 percent of the departures on airlines in this country were late departures. I believe that was the past month. Mr. Steinberg, do you know when that is for?

But at any rate, 30 percent late. The system is being stretched. Air traffic controllers—we've got lots and lots of problems and I know that this hearing is about one slice of that and that is, the Essential Air Service issue, the Small Community Grant Program and what we do to try to make sure that continues to work. But I think if we do that in isolation without understanding the inherent conflict of what's happening between the hub-and-spoke system created by the legacy carriers and their need now, to compete with the point-to-point carriers and what that's going to mean to communities—we, it seems to me, we're going to end up here with quite a mess on our hands. So I'm not suggesting I know all of the answers but I certainly think we need to confront this basic problem.

Mr. Courtney, what—is it Lynchburg, Virginia?

Mr. COURTNEY. Yes, sir.

Senator DORGAN. And how big is Lynchburg?

Mr. COURTNEY. Our service area, including the four counties surrounding Lynchburg is 220,000.

Senator DORGAN. That market—100,000, 200,000 that market is exactly the market that I think is headed toward trouble. With increased or I should say, substantially decreased service with lesser equipment and fewer frequencies and higher prices.

We've done study and after study about the pricing. The pricing is unbelievable. I've held up charts in this Committee, a chart of Salem Sue, the biggest cow in America. It sits on a big hill over Salem, North Dakota and a picture of Mickey Mouse and said, do you want to go see Mickey Mouse and visit Disney World? Well, here's the cost. Want to go see the biggest cow on a hill in New Salem, North Dakota? Half as far? It will cost you twice as much. I did that just for effect.

But it is a fact that if you're in Lynchburg or you're in Minot or in dozens and dozens and dozens of places in this country, in my judgment, you are being cheated with the fare system in this country with the airlines that's not fair to a substantial number of the American citizens.

So at any rate, I agree with Senator Stevens. The Essential Air Service is very important. It's a very important program and we need to get it right. I was the one that offered the amendment in this Committee many years ago that provided funding outside of the yearly appropriations process by connecting it to over flight fees. So, I mean, I've also paid my dues in terms of trying to support this program and make this program work.

This Committee has a lot to do to try to draw a line and connect the dots between Essential Air Service between those mid-size markets and between the robust, aggressive competition that's going on in the major markets in this country that offer good service at decent prices for people who are fortunate enough to live in those areas. Senator Vitter?

**STATEMENT OF HON. DAVID VITTER, U.S. SENATOR FROM LOUISIANA**

Senator VITTER. Thank you. I want to thank Vice Chairman Stevens also for this hearing and for all of his interest and others on the panel for their interest. It certainly affects Louisiana. We have many small and rural communities. Right now, as we speak, none of those participate in the EAS program but that can change monthly. So it certainly will in the future.

I'm a supporter of that program. I voted for the Vision 100 Reauthorization Act and certainly look forward to continue to work to improve and make that program more robust. I'm also a big supporter of the Small Community Air Service Development Program and certainly, several significant Louisiana airports have participated in that grant program in the past. I think Lake Charles, Shreveport, Lafayette, Alexandria, Monroe. So count me in terms of my interest and my commitment to improving this.

I wanted to ask a very specific question for obvious reasons and I'll start with Mr. Steinberg. One very specific situation and interest—this can impact on occasion, is evacuation during emergencies like hurricanes, like Katrina and Rita. In the last couple years since Katrina, Homeland Security has done a lot of additional planning about all sorts of things, including air evacuation. I think that has been focused on big airports, like New Orleans, big planes. Has there been any interaction with you and this program with regard to using air assets out of smaller facilities?

Mr. STEINBERG. Thank you, Senator. The Department of Transportation, of course, is closely involved with DHS in preparing for this hurricane season, which so far, of course, has mercifully been not too bad yet.

We have an ongoing discussion with them about air evacuation. To my knowledge, we have not discussed smaller airports and smaller aircraft, if that's where you're going toward. During the Katrina evacuation, there was sort of a mix of both large airlines and then sort of on-the-spot smaller aircraft helping out as well.

What I'd like to do is follow up and see what discussions have been had with DHS specifically about smaller airports and get back to you.

Senator VITTER. If you could do that and obviously, it has to start with big airports and big planes. I'm not begrudging that. But I do think there needs to be some discussion and planning with regard to smaller airports as well in terms of local communities depending on where a particular hurricane, for instance, may be going.

For the whole panel, does anyone have any reaction to those sorts of issues with regard to keeping service in smaller communities viable? I just invite anybody's comments.

Ms. MALARKEY. From the air carrier perspective, again, one of the significant impacts on smaller communities receiving air service are the costs and it's not just the sort of the labor costs and the fuel costs but it's also, to some extent, some government imposed costs. So we always ask that the Congress bear in mind that when—anytime there is an increased cost on the carriers that that is something that will drive the fares up that it makes continuing that small community air service ever more expensive and so we ask that cost increases be made with those circumstances in mind.

Senator VITTER. Ms. Malarkey, are you—you may not be aware of it but are you aware of specific discussions and planning sessions with regard to your member airlines regarding evacuation scenarios?

Ms. MALARKEY. No, I'm afraid that's an area I don't know too much about but I will commit to get back to you on that.

Senator VITTER. Right. Thank you very much. Anyone else?

Mr. COURTNEY. Well, I guess for Lynchburg, the ongoing issue for us seems to be a downward spiral in terms of service levels that have been exacerbated by increasingly higher fares. We clearly have a capture—we have a marketplace that has little competition and as a result, with the legacy carriers in particular, with services that are provided by their affiliates that the mainline carriers control all the seats, the schedule, the flights. We end up, as I said before, being such a relatively small revenue piece of the revenue pie for the main airline that we can't get enough attention from them. But this spiral that we've had of increasing fares because we tend to have a high percentage of business travelers but then as we have performed better—I'll give you one example. A while back, we had a $60 overall average fare differential between Lynchburg and Roanoke that was about 50 miles away, about an hour's drive and we went to the airline to try to get them to provide some parity. We also, at the same time, were realizing that our passenger load factors had gone up to 70 percent.

Well, when we went back to the airlines to try to get them to reduce—to add service because of the response of the marketplace and increase in service, despite the higher fares, they just raised their fares even more. We've seen that over and over again.

And also, I realize there's cost from our standpoint in dealing with airline planning departments, costs that are always a factor for the airlines. But when it comes to planning decisions, I've found that they don't use costs at all when it comes to making a decision on whether to provide service to my airport because we already tend to be a very high revenue airport for them.

This Catch-22 that we're facing right now is what is really frustrating. When we were told by Delta Airlines, the Delta Connection that they were going to reduce one of our three daily departures, our three daily RJs to Atlanta, despite the loads we were generating, they said that we're not generating a high enough average of passengers to match what they are doing system-wide. For instance, they're doing system-wide load factors of 80 percent. Ours are in the upper 60s. But of course, we can never attain 80 percent because as soon as we get into the 70s, they raise fares and it brings the load factor right down so we're caught in a Catch-22 here that results in a spiral.

We'll be down to six flights per day. Now granted, after September 11 or before September 11, we had 19 daily departures, a lot of 19-seat aircraft. We have RJ service and we have 37 to 50 seat turboprop aircraft now, so much better quality. But we'll be down to six flights, six daily departures as of September. Our seat capacity will be from just under 500 to 267. We've had such tremendous decrease and I just worry that we're going to get in this downward spiral—we can only lose so much more before we end up having Delta pull out completely and then we'll be stuck with one airline.

Then, because of equipment challenges, whatever—that we may end up going down further. You have to have a basic amount, level of service to be able to provide a critical mass of service and we're at the bottom now and that's one of the reasons I'm here because we need programs like this. We need some extra oomph to be able to get the attention. We've had a lot of frustration with United Airlines in trying to get service to Dulles.

Under our new grant, $405,000 incentive package, an affiliate RA member, Culligan Airways or Culligan Air, has expressed interest in taking advantage of that program and to add service to Dulles but there has not been sufficient parking space at Washington/Dulles Airport.

And without that space and of course, this is for a 33-seat, 30-seat turboprop airplane. When they have constraints on parking, it's not going to go to a 30-seat airplane from Lynchburg. So we seem to come upon one obstacle after another, even though we have a strong, viable, profitable market for our size.

Ms. MILLER. Senator, in Columbia, Boone County, Missouri, our emergency operation plan does not include the airlines as far as evacuation. I also serve on the Senior State and Local Advisory Committee for the Department of Homeland Security and advise the Department from that perspective and I know Herb Kelleher from Southwest Airlines is on the private sector part of that. You might want to touch base with him to see what kind of interactions have been happening with the Department and the airline industry as far as evacuations.

Senator VITTER. Great. Thank you. OK, thank you. That's all I have.

Senator DORGAN. Senator Snowe?

**STATEMENT OF HON. OLYMPIA J. SNOWE, U.S. SENATOR FROM MAINE**

Senator SNOWE. Thank you and I want thank the panel as well. I'm sorry I wasn't able to listen to your testimony here this morning because it is a critical issue that we recognize, those of us who represent small communities in our rural states, that Essential Air Service is absolutely pivotal to rural development and to rural economies and even more so today.

As we see the disparities that exist between urban and rural areas where we're losing thousands and thousands of jobs and that's certainly been true in many manufacturing areas where airports become vital.

We have four Essential Air Service airports in Maine and we represent four of the 145 communities across this country. I think frankly, there has to be adjustments in our Federal policy that's going to make it fairer and reconcile some of the issues that I think that will give impetus to growth, economic growth in areas and bolstering these local airports. At a time in which I think we are seeing a revival in regional jet service and very light jets. I mean, we're seeing a revival in small aircraft that is going to be central, I think, to the economies throughout this country, not just in urban areas. Another thing, we should be enhancing and expanding upon it.

I know this has been a major struggle for a long time that as one who has sat on this Committee since I came to the Senate in 1995 and even before then, serving in the House for 16 years, you know, since deregulation and I certainly lived it and experienced it since 1978, when I came to the Congress in 1979. But Essential Air Service was designed to help the rural communities to make that transition and so, I think we have a responsibility at the Federal level to ensure that we can craft Federal policy that's going to help to elevate the under-served regions of the country.

Then as Senator Vitter indicated here today, talking about those issues that make a difference and how we can enhance that through various initiatives. That's why I'm supporting legislation and I'd like to ask you, Mr. Steinberg, because I think it is important, to get to some of the specifics about these issues that really have handicapped small communities.

The legislation that I have joined with Senator Bingaman, Senator Hagel and Senator Ben Nelson, would provide communities with valuable tools that they need to secure their local airports. We've seen that the Federal Government has imposed passenger caps, subsidy caps through questionable formulas that are constantly changing, imprudent cost sharing requirements, which we fought consistently. Our bill would eliminate the long un-enforced cost sharing requirements and also to inject some reality with the passenger subsidy CAB, indexing it to inflation, which we think is critical. Recognizing that a $200 passenger CAB really does inhibit small communities because it doesn't adjust for, for example, aviation fuel growth.

We've seen a lot of the legacy airlines that are consolidating and merging, losing their profitability because of the soaring costs in aviation fuel. So that certainly is an indication to me of the impact it's having even on smaller aircraft and smaller airports.

Also, to solidify the manner in which we deal with the communities who must deal with the subsidy cap, with having more of a sliding scale other than the fact of you—if you come one under the $10,000 enplanement, you get a $150,000. If you go $10,000 beyond, you get a million dollar subsidy from the Federal Government. It seems to me we should have some type of middle ground.

So, Mr. Steinberg, is the Administration prepared to accept any of these types of changes to modify existing laws, since for example, on the subsidy CAB, there has been no change since 1990?

Mr. STEINBERG. Thank you, Senator. I'd like to answer the question this way. First, let me start with what our proposal was because we, too, have abandoned, if you will, the cost sharing proposal that was put forward in prior reauthorization packages and our proposal this year was to limit the program not by affecting the individual communities through cost sharing but by capping the program in terms of the cities that are currently in it would be grandfathered and we wouldn't add cities. You know, we're 30 years beyond deregulation and so it's hard to argue that a city that might lose service, say tomorrow, lost service as a result of deregulation in 1978. So we think it's appropriate to cap the program.

The other thing that we've proposed is to rank cities in terms of just how isolated they are from large or medium airports and to use whatever funds the Congress chooses to authorize and appropriate to us by working down the list from the most needy, if you will, to the least needy.

In terms of the idea of indexing the subsidy to inflation, I think you make a good point about fuel costs and the legacy carriers. But the fact is that we haven't, as a government, chosen to subsidize legacy carrier fuel costs and the fuel costs going up as much as they did and the inability of the legacy network airlines to pass those costs on to their customers is—was a major factor in several of the bankruptcies. So I think we have to be cautious about subsidizing one part of the airline system versus another. A lot of subsidies can have unintended consequences.

I'd also note that the subsidy used to be $300 and Congress lowered it to $200, I think in 1989 and so, obviously there was some thought at that point that the subsidy did not need to be higher.

Senator SNOWE. But you can understand why it would need to be changed today?

Mr. STEINBERG. Well, you know, it has a—really, all this gets down to basic airline economics. If it's, clearly if the subsidy, the cap is increased, our costs will go up. But it's also important to note that when costs go down, our subsidy payment doesn't go down. That's not the way the program is structured. It's a fixed price program. So if fuel were to drop dramatically tomorrow, we would not be able to go back to the carriers and say, give us some of that subsidy back. So if you were going to do that, I think you'd have to really revamp the program so the government and taxpayers got the benefit of cost reductions as well as having to, if they had to pay for cost increases.

Senator SNOWE. So is the Administration prepared to accept some changes in the program?

Mr. STEINBERG. I think we clearly indicated our willingness to do that by—we tried to put forward a proposal this year and like I said, it did not go down the cost sharing route. We welcome the opportunity to work with the Congress on something that works better. Whatever amount you choose to fund the program, we want to make sure it's as effective as possible and so, yes. Of course and one other point, if I could, Senator.

I think several of the witnesses today and Senator Dorgan and others on the Committee have talked about the price differential between smaller cities and say, Los Angeles, for example and that's a fact. I mean, there's no doubt about it. But another fact is that as our network airlines have lost so much money over the last several years; they had to reduce service. So the phenomenon that goes on say, at a Lynchburg can't be looked at just in isolation.

When Congress deregulated the airline industry, it told us to do a bunch of things at the same time. One was to lower fares. But another was to ensure comprehensive service to small communities and a third was to ensure that well managed air carriers—and this is a direct quote, "earn adequate profits and attract capitol." Well, those things are all interrelated. When you have well managed air carriers that don't make adequate profits and file for bankruptcy, then of course as they go through that process, they start pulling down the least profitable service, which very frequently is at smaller communities.

So these problems need to be looked at in a comprehensive way. If you just address one part, you're going to inevitably mess up another.

Senator SNOWE. The whole idea of the isolated proposal you were suggesting with the 210 miles, is it? I mean, that would basically eliminate three of our four Essential Air Service airports in Maine. I just think that that is discriminatory, frankly, in the rural areas. It's in the Federal Government's interests to ensure that there is viability of these smaller airports.

Mr. STEINBERG. I certainly agree with that.

Senator SNOWE. It's far different than where we were 30 years ago and 25 years ago, even 10 years ago that we're seeing that this service is absolutely crucial to the survival of rural regions of this country and I think the Federal Government has to make its mind up and is prepared to support it. I mean, we're not giving an abundance of support here.

Mr. STEINBERG. I think it's a question of how the support is provided and going to the point you made earlier, which I thought was very salient. With the smaller aircraft coming online, this is something I said in my opening statement, I think there is some promise, frankly, for better non-subsidized service that meets your needs and the needs of folks that live in rural America.

Senator SNOWE. Well, thank you. Thank you, Mr. Chairman. Thank you.

Senator DORGAN. Thank you. Senator Thune?

## STATEMENT OF HON. JOHN THUNE, U.S. SENATOR FROM SOUTH DAKOTA

Senator THUNE. Thank you, Mr. Chairman and I thank Chairman Rockefeller and Senator Lott for holding this hearing. I happen to agree that safe, reliable and affordable air service is vital for doing business in states all across this country and in rural states like South Dakota. Our state's aviation industry shortens the long distances from point to point and contributes about $52 million annually to our economy and an integral part of aviation in my state of South Dakota is Essential Air Service Program. We have four communities that participate in the EAS Program, Pierre, Huron, Brookings and Watertown and that EAS Program hasn't seen any major change since its inception after airline deregulation and I know that as I said, mine is not the only state that's affected by this or would be impacted by any proposed changes.

I have a couple of questions that I would like to get at that are specific to the situation in my state and then maybe a couple of questions that are more general.

But as you may or may not know, I introduced legislation earlier this year that was included in the FAA Reauthorization that passed out of the Committee. It extends the provision, Section 409 of the 2002 FAA Reauthorization, commonly referred to as Vision 100. What is does, is the provision ensures that certain mileage calculations that determine EAS program eligibility are not simply measured by someone here in Washington, D.C., but in fact, certified by state Governors.

There are, of course, budgetary strains, as we all know on the Essential Air Service Program but I believe we should be focusing on strengthening the program and examining the air service it is supporting to make sure it's truly essential and today's hearing, of course, is part of that effort. But we shouldn't allow people behind a desk in Washington, D.C. to surreptitiously use mileage determinations to cut the costs of the program and reduce air service in the process.

The specific example I'm referring to in my state is Brookings, South Dakota. It's a community that would more than likely have lost its commercial air service if this provision was not in place 5 years ago. So I hope that we can get that provision extended again in this reauthorization process so communities like Brookings don't lose their air service in this manner.

I guess the question I have is if any of the witnesses have any comments on the distances used in the Essential Air Service Program. As you know, an EAS community must be more than 70 miles from a large or medium hub airport and if they are more than 210 miles, then the subsidy can be over $200 per passenger. Do those distances still make sense? Should there be any changes? And again, I would come back, hearken back to the way this was constructed 5 years ago and that is that the Governors would be in a position to certify some of those mileages because if it's left to the FAA here in Washington, they will find, somehow using back roads and trails, a shorter distance from Minneapolis to Brookings to fit under the 210 mile distance.

But that being the case, again, I just pose that question of our witnesses—comments on the distances, do those distances still make sense and could you give us your thoughts on that, I'd appreciate it.

Ms. MALARKEY. Senator, I'd like to address your first comment about the state determined distances versus the FAA determined distances and just thank you for bringing that to our attention. You have our support on that. We believe that is appropriate and we support you in your efforts to continue that provision.

In terms of the mileage, the distances that determine the eligibility, we don't have a position on that, other than to say that we realize that the program has not been re-examined since its inception and at some point, some redrawing of the distance criteria may be appropriate. But in doing so, we want to caution that first off, any point that is eliminated, any revenues that are saved by that, be put back into the program to ensure the revenue neutrality so we don't have politically driven reasons of eliminating routes and then just to cut the funding for the program.

Second, we would like to have some sort of a setup like a BRAC or something like that, that would ensure the fairness of those points.

But again, we would much rather have sort of an informed process that looks at this rather than having DOT cut the points by a crisis of funding.

Senator THUNE. Anybody else? Here, come on up.

Mr. STEINBERG. If I could comment on it. We are, of course, aware of the situation with Brookings and I just want to point out a few things. One is that, of course, the legislation that you referred to covered, in effect, not just Brookings but some other cities as well and those cities are sometimes held up to me as examples of the EAS Program perhaps not being as well focused as it should be.

So for example, Hagerstown, Maryland is covered as a result of that legislation—you know, when my wife and I drive there to the shopping outlet mall, so it's not all that far from—it's a very different situation, if you will, from what you have in your state. So I think our concern about that legislation is frankly, more directed to other places.

Generally speaking, we don't actually do this surreptitiously that the map is simply a calculation of driving distance, shortest driving distance and you can go to Mapquest or Google Maps or whatever and it is what it is. It's very factual. If you go to a system in which you look at the most commonly traveled route, that to me, becomes much more subjective and at the end of the day, I think from a consumer perspective, most people are concerned about their time as opposed to the number of miles that they travel. So as we've added new highways and so on and they may be a bit longer but they may have shorter driving time.

Fundamentally, it's up to Congress to decide ultimately what the right cutoff should be. By definition, all of these cutoffs are arbitrary. So if it's 200 miles, you're going to affect some cities. If it's 210, you're going to affect others. That really is a—it's a decision that needs to be made by the Congress. We've put out a proposal that would stick with the 210 but again, we're not trying to do this in a surreptitious fashion. We've not singled out any specific cities. But whatever changes we make, I think, need to go to the fundamental issue of what—how many cities do we want to cover overall.

Senator THUNE. Anybody else have any comments on that? No? That covers the subject?

Well, I think the concern, of course, that we have is that the Governor in 2002—the Governors were given discretion to determine whether or not—whether these distances fell within the allotted—and I'm not sure how you came up with 210 miles, what the magic is behind that but in the Act that we passed in 2002 and I was a member of the House at the time, the Governors had the authority to make judgments about certifying those distances and I think the concern is that under a scenario where that's not the case that someone here might decide to construct a different route between two communities that would come up with a different mileage. I think that's what the concern obviously is and so, my hope would be that we at least, in terms of who makes that determination, would allow the Governors to continue to be controlling in determining distances and whether or not a particular community is going to fall within or outside of the 210 mile limit.

Let me ask just more generally with regard to the EAS Program. There are a number of communities in that program are now about 150 and I guess—is that number continuing to grow? And as we see more communities coming in to the Essential Air Service Program, are we seeing an increase in the number of air carriers serving EAS communities? Why or why not and what changes could we make to the EAS Program that would increase the attractiveness this program would have toward smaller air carriers? And I guess Mr. Steinberg, Ms. Malarkey, whoever would care to comment on that.

Ms. MALARKEY. I think it's a certainty that in the coming years that additional communities will be added to the EAS roles. Mr. Courtney discussed the situation—at his community—we don't see his community going into the EAS Program in the next few years, not to worry. However, his comments did illuminate the situation and as I said in my opening statement, not just the EAS communities but the smallest communities are losing their air service and any community, really, can become an EAS, as you all know, simply by getting down to one carrier that wants to exit the market. So yes, to answer your first question, that is something that we see.

One of the significant market—the barriers to market entry that I talked about in my statement is the inability to finance the aircraft. We get a lot of questions from Senators and from communities that say, why aren't there any new EAS carriers, new entrant EAS carriers and one of the reasons is, a 2-year contract is a relatively short contract and when the carriers are trying to secure financing for aircraft, that is a significant detriment. So that's why we were pleased with the initial enthusiasm that this Committee has shown. I think there's a statement in the FAA reauthorization that would extend those contracts and we think that's quite important.

Mr. STEINBERG. Can I add to that? Senator, it's a good question and it's something that troubles us a lot, the growth of the program because clearly, the program was intended to be a stopgap or safety net after deregulation. It wasn't intended originally to be a permanent fixture and the hope was that the marketplace would work better than it has worked for smaller communities.

If you exclude Alaska and Hawaii, in the last 10 years or so, the program has grown 50 percent in terms of the number of cities covered, from about 60 to about 100 and the cost of that has quadrupled from about $23 million to about $90 to $100 million.

And why has that happened? Again, I think it's the same phenomenon I spoke of earlier, which is the service to small communities' works when you have large network airlines that can profitably serve those spokes, that ultimately what you want is not a subsidized service. You want good, commercial service at reasonable rates.

As our network carriers have hemorrhaged money, they've—it's not that they don't want to serve smaller communities. They just—they do this on a network basis so they look at which city contributes the most to the network, which contributes the least and the fact is, they can make more money or lose less money serving larger markets.

Probably the single most important thing you could do if you wanted to increase service to smaller communities is to have a healthy network airline industry. Today, we don't have any airline that serves every point in this country, so we don't have comprehensive network airlines. We have six or so smaller network airlines. So that, to me, is the nub of the problem. We'll never get out of this problem that we're in until we address that.

The program has not grown dramatically in the last year. I think it's stabilized and we've had several communities actually come out of EAS, particularly in Hawaii. So right now, it's still about 145 cities. But again, we're now in a situation where the airlines are breaking even. Some of them are making some money. The next downturn, I think you'll see a return to the same situation. That's the problem that needs to be addressed.

In terms of the length of the contract terms, we've actually had carriers tell us that they want the shorter terms so some of this is driven by what the participants want. The downside, if you change the contract terms and say, the Secretary shall have 4 year contract terms, yes, you might get more bidders on the front end but then if service declines or your communities are not happy with the service, it makes it harder for us to get some more competition in there. So there is a tradeoff if you go to longer-term contracts.

Senator THUNE. Thank you.

Ms. MILLER. Senator? I'd like to say, I believe that if there was dedicated funding for this program, guaranteed, it would help the market also. It would give other carriers the confidence that should they bid in this market, the EAS market, that the funding would be there for a long-term program, whether it's this community or another community, if this community is able to succeed without EAS service.

I just want to give you an example. When I was President of the National Association of Counties, I traveled all the time out of Columbia, Boone County. I got home. I was 10 minutes from home and now I'm 2 hours from the St. Louis Airport. But—and it was $60 round trip, connecting to American Airlines. Today, it's $69 one way and they were trying to go to St. Louis and it was a different concourse so you had to re-screen to go back in through to connect to American so consequently, that hurt our enplanements and we have found that we were having an hour to 3-hour delay on flights and we're not a destination airport and they were going to a hub and when you're trying to connect and you're an hour to 3 hours late, you're going to lose people that even try to use the service.

That's why in my testimony, I thought, it's very important that we put some incentives in the program for increasing the service to those communities so that people can be confident when they book in an EAS community like my own right now, that that airline is going to meet the demand, they're going to be there on time, they're going to get them to their connection.

And there should be penalties. They should not be paid when they are 3 hours late and they miss all the other flights and you might even have to spend the night in a lot of places, to catch the next flight because there might be only one more out of that hub.

So I think it's really important that we improve the service but I also think that a dedicated funding source will enhance the opportunity for maybe more airlines to get involved in this.

Senator THUNE. Just one last question, quickly, if I could and this would be, I guess, to Mr. Steinberg. What is the on time, the delay, the cancellation rate for Essential Air Service providers, carriers relative to the industry as a whole?

Mr. STEINBERG. I don't have that at the tip of my tongue. I can tell you, because we did look into this in advance of the hearing that there are relatively more complaints from passengers on EAS carriers than non-EAS carriers, recognizing however, that you're dealing with a very small overall number. So roughly—last year, I think there were roughly 60 complaints about EAS service, about 8,500 on commercial services. If you did the math, it's a much higher ratio of complaints. My guess is that given our experience generally with complaints, most of them have to do with delays and cancellations. But we can—to the extent we have that data, we can get you what we have. Some of the carriers are too small to fall under our reporting requirements but we do have about five carriers or so that are covered. But we can take an IOU and get back to you on that.

Senator THUNE. I'd be interested in knowing. Thank you. Thank you, Mr. Chairman.

**STATEMENT OF HON. MARK PRYOR, U.S. SENATOR FROM ARKANSAS**

Senator PRYOR [presiding]. Thank you. Any other Senators have any questions? Any follow-ups?

We have some Senators who could not attend today because of the busy Senate schedule and other committee meetings and other conflicts, so we'll give Senators 15 days to submit questions in writing. I may submit a few myself. I was late getting here but thank you all. I want to thank the witnesses. Your opening statements will be included as part of the record and I assume if you have any other documentation you want to include, without objection, we'll include that as part of the record as well. But I want to thank you all. Obviously, Essential Air Service is something that is very important to a lot of Senators. It's important in my state and you heard just a little taste of it today. From what we hear from our constituents and from our colleagues about the value of Essential Air Service, so I just want to thank you all for being here and appreciate your patience and your time. Thank you. The meeting is adjourned.

[Whereupon, at 11:34 a.m., the hearing was adjourned]

# A P P E N D I X

PREPARED STATEMENT OF HON. JOHN D. ROCKEFELLER IV, U.S. SENATOR FROM WEST VIRGINIA

As we all know, small and rural communities are the first to bear the brunt of bad economic times in the aviation industry and the last to see the benefits of good times. Unfortunately, we all know, the good times in the commercial airline industry have been infrequent and short.

The Government Accountability Office has confirmed that despite the return to pre-September 11th levels of passenger traffic at medium and large communities small and rural communities have not seen a corresponding increase in air service levels.

The restructuring of the airline industry over the last 5 years has forever changed the way we must think about small community air service.

How to address small community air service needs has been a pressing question since airline deregulation almost thirty years ago. West Virginia, like most of the states represented on this Committee, has far less air service today than it did prior to deregulation.

At present, we rely on two key programs, the Essential Air Service (EAS) program, which provided subsidized air service to communities under certain conditions and the Small Community Air Service Development Program, which I helped create in 2000. This program provides grants to communities to develop innovative strategies to improve their air service.

The EAS program has always been a critical air service link for small communities since its inception, but it has never really met the true needs and expectations of rural air service. Communities that are dependent upon EAS have been plagued by high fares and limited service options, and in Congress it has been threatened by some Members who look at it is a Federal giveaway.

The Small Community Air Service Development Program has been successful in helping communities across the country build and expand their air service options. For example, in my state, Greenbrier Valley Airport and Raleigh County Airport were able to boost their passenger levels by 27 percent after using their Small Community Air Service Development grant to initiate innovative marketing strategies to attract passengers.

In the 2003 FAA Reauthorization and again in S. 1300, the Aviation Investment and Modernization Act of 2007, Senator Lott and I have worked to strengthen our small community air service programs. I am pleased that in S. 1300 we were able to find a way to increase funding levels for these programs and actually guarantee some of the funding increase for the EAS program.

I know that the DOT believes that new models of providing air services such as on-demand or air taxi services may change the way small and rural communities receive air service. I know that some of my own airports believe this as well.

I certainly want to foster as many options as I can for small community air service and hope that they will transform the way my communities access the national aviation system, but we must be realistic.

Right now, these services do not exist for small and rural communities. They are not a substitute for scheduled passenger services and will not be for some time to come. We need a strong financial commitment in the immediate future for our current programs.

Finally, we must not forget that without a Next Generation Air Traffic Control System that allows for increased capacity at our Nation's busiest airports, we can never increase access to the Nation's aviation system for small communities.

I have heard unsubstantiated complaints that the $25 fee that was included in the FAA Reauthorization bill could hurt small community air service, but nothing is farther from the truth. Without it, our communities will not have access to the Nation's aviation system. I am committed to working with Senator Lott and our colleagues on the Finance Committee to develop a fair and equitable financing system that will make air travel less expensive for rural consumers.

PREPARED STATEMENT OF REGIONAL AVIATION PARTNERS

**Small Community Air Service in Crisis**

**Air Carriers Opting to Abandon Essential Air Service Markets Due to Unstable and Increasing Jet Fuel Costs and the U.S. Department's Failure to Implement Key Provisions of Vision 100 to Compensate Carriers for Cost Increases**

In 1987, *51* air carriers provided subsidized air service under the Federal Essential Air Service (EAS) program, by 1995 the number of participating carriers had dipped dramatically to *17,* and by 1999 the number had been further reduced to *11.* While the number of carriers serving subsidized markets rose to *16* by 2004, the increase was short lived as participating carriers have steadily been exiting the program since then, leaving the EAS program with only *8* remaining carriers today responsible for serving 102 communities in the continental United States.

The primary reason carriers are choosing to leave the EAS program or significantly reduce their exposure to the program, and moreover, the programs inability to draw in new carriers, is rooted in the inherent risks of serving small markets and the government's failure thus far to adequately mitigate those risks. Specifically, today's risks involve jet fuel costs which have risen exponentially and increased so dramatically that the projected costs used by carriers to bid on EAS communities are commonly exceeded by the time the carrier initiates service or shortly thereafter.

**Section 402 (Adjustments to Account for Significantly Increased Costs) of Vision 100**

In Vision 100,[1] Congress established Section 402 (Adjustments to Account for Significantly Increased Costs) as a means of compensating EAS carriers during the contract period for unforeseen and significant increases in operating costs primarily based on fuel costs alone. However, the DOT has repeatedly stated "*it lacks specific funding and guidance from Congress*" to implement the provision. And for the few carriers who did apply for the relief, the eligibility criteria provided under the provision proved to be illusory, ambiguous and unattainable.

One of Section 402's primary faults lies in the provision's requirement that carriers demonstrate a [10 percent *total* unit cost] increase over a period of at least two consecutive months. This total unit cost increase is measured against those costs included in the carrier's bid proposal. While individual unit costs have increased significantly, jet fuel for example has risen more than 129 percent, from $0.96 per gallon on January 5, 2004 to $2.20 per gallon on July 31, 2007;[2] this increase has not translated into an increase in total unit costs of 10 percent. Thus, while carriers continue to experience significant losses from individual unit cost increases, primarily jet fuel costs, the 10 percent total unit cost trigger is not met based on the DOT model.

*This Situation Is Wholly Unacceptable to Air Service Providers*—the trigger mechanism is virtually unattainable and results in massive paperwork challenges for the carrier which serves to deter anyone from applying. It is clear this was not the intent of Congress in passing the Section 402 language.

As a direct result of the Department's steadfast reluctance to implement Section 402, *8* carriers such as Scenic Airlines have been driven from the program. Scenic states in its 90 day termination notices of May 16, 2006 for Merced and Visalia, CA, and Ely, NV:[3]

> "Scenic's need to terminate service at Merced [Visalia; Ely] stems primarily from fuel cost escalations that have undermined the economic viability of the carrier's EAS operations."

Allowing DOT to continue its "discretionary" authority to implement vital changes in legislation has a "0 percent" success rate and never results in relief for the impacted community or air carrier.

**Ninety-Day Termination Notices as a Means of Seeking Compensation for Increased Costs Are Disruptive to Air Carriers and Small Communities**

Notwithstanding the passing of Section 402 (Adjustments to Account for Significantly Increased Costs) legislation in Vision 100, the DOT has stated publicly they

[1] Vision 100, The Century of Aviation Reauthorization Act (Pub. L. 108–176)

[2] Vision 100 was enacted on December 12, 2003. January 2004 represents the first full month after which Vision 100 became law. January 5, 2004 was the first day in which the U.S. Department of Energy recorded a spot price for U.S. Gulf Coast kerosene type jet fuel in 2004.

[3] DOT Docket numbers: OST–1998–3521, OST–2004–19916, and OST–1995–361.

do not have the funds to implement the provision. Therefore, the only current recourse EAS carriers have in regards to halting losses from significant increases in jet fuel costs during the contract period is to *file a 90-day notice* to terminate air service at an EAS point. This process is disruptive and burdensome for several reasons:

1. The process exposes the incumbent carrier to the potential loss of market(s) as the DOT re-opens the bid process to all carriers. As many EAS carriers depend solely on revenues derived from their EAS markets to stay in business, these carriers are reluctant to file to terminate service even if it means operating at a loss in these markets to the point of insolvency or even bankruptcy.
2. The process is lengthy. Once an air carrier files to terminate service, the DOT initiates a hold in period during which they do not immediately increase the subsidy amount to reflect increased costs.
3. Community support for the air service can be diminished. Residents may see a carrier's 90 day termination filing as a sign of unreliable air service which could lead them to drive to other nearby airports. Furthermore, fewer passengers flying out of the EAS airport leads to higher annual subsidy amounts and higher per passenger subsidy rates, potentially resulting in the termination of air service by the DOT.

**Prior and Current DOT Policies With Regards to Fuel Cost Increases and Adjustments**

During the 1980s and into the early 1990s, the Department implemented a policy which recognized the detrimental effects increased jet fuel cost had on carriers and compensated EAS carriers for these costs. For example, Civil Aeronautics Board (CAB) Order 82–5130, *Selecting Essential Air Service Carriers for Modesto and Stockton,* CA included the following statement regarding fuel cost adjustments:[4]

> "The attached schedule should be submitted by Air Chaparral along with each subsidy billing. The carrier should also submit a schedule indicating total cost and total gallons used in Stockton and Modesto service for the same billing periods so that the actual cost per gallon can be verified. Once the actual cumulative fuel cost exceeds the cumulative fuel cost paid for by the mileage rate, the Board's Air Carrier Subsidy Need Division will arrange reimbursement for 85 percent of the difference. In the event that the actual cost does not exceed that provided for in the rate, an appropriate adjustment reflecting 85 percent of the difference will be made to Air Chaparral's rate in the last payment of the first and/or second year."

Following the tragic events of 9/11, the DOT once again reimbursed EAS carriers for significant cost increases. When expressing their concern regarding increased costs on EAS carriers, the impact on participating EAS carriers, and what would occur should EAS carriers continue to leave the program the Department stated:

> ". . . those carriers that participate in the EAS program do not have the flexibility as non-EAS airlines to adjust their systems to reflect the shifts in costs, revenue, and traffic. Because they remain under contract with the Department to provide a prescribed level of service at EAS communities, they have very little ability to eliminate service on unprofitable routes, reduce frequencies, downsize aircraft, or contract out flight operations in order to reduce loses. . . .
>
> In absence of some immediate reflection of the financial consequences stemming from the events of September 11th into these carrier's contracts, we estimate that some could be forced to cease operations, thereby vitiating the program itself. If this were to occur, scores of small, isolated communities could lose all their air service. Moreover, the loss of service could be permanent for almost all of these communities, as the pool of potential replacement carriers has drastically declined owing to their transition to larger equipment and to service only in large markets."[5]

By the DOT's own admission, they have demonstrated a complete understanding of the problem but are now electing to ignore their own observations, when they

[4] The CAB also included in Order 82–5–130 a schedule to be completed by the EAS carrier providing detailed information on: billed available miles, gallons of fuel used per month, actual cost per gallon, rate cost per gallon, monthly fuel costs, and cumulative fuel costs in order for the carrier to receive compensation for increases in jet fuel prices.

[5] DOT Order 2002–2–13.

have both the legislative and financial tools to address funding fuel cost adjustment provisions in Vision 100.

Lastly, today, on behalf of the United States Postal Service (USPS), the DOT has established a mechanism by which subsidized carriers delivering passengers and mail under the Alaska Mainline and Bush Mail Program receive quarterly fuel cost adjustments. It is no less equitable for carriers who provide vital air transportation to small communities in the lower 48 states to be compensated for adjustments in fuel costs for which they have no control than it is fair, equitable and just for air service providers in Alaska.

**Where Do We Go From Here?**

The future of commercial air service to small, rural communities unfortunately does not look promising, that is *unless Congress acts immediately* to properly address the matter of mitigating risks to air carriers via fuel cost adjustments. Should Congress choose not to act and the status quo be allowed to continue, it is our firm belief that within a short period of time there will be less than a handful of carriers left in the program. Under such a scenario, Congress can certainly expect subsidy rates to increase due to little or no competition for individual markets while communities may become increasingly dissatisfied with the level and quality of air service but will have no recourse as there are no other air carriers to turn to.

The EAS program was established to protect small, rural communities after deregulation. Congress recognized that the benefits of commercial air service must not be limited only to those in large, urban areas of the country. However, the program will be hard pressed to continue without the active participation of financially stable carriers willing to serve small communities.

To avoid what will otherwise prove to be a disastrous situation for small communities, Congress must include language in the Fiscal Year 2008 FAA Reauthorization bill which changes the formula by which carriers can apply for and receive relief under Section 402 to focus on increases in jet fuel costs, not total unit cost increases and Congress must also require the DOT to implement this vital provision of the law.

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RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. JOHN D. ROCKEFELLER IV TO HON. ANDREW B. STEINBERG

*Question 1.* Your testimony appears to be predicated on reducing the Federal Government's financial obligation to small community air service programs. I know that inadequate and unreliable service and the use of small turboprop aircraft are two reasons why a lot of people do not what to fly from EAS communities. Three West Virginia communities (Parkersburg, Clarksburg, and Morgantown) have faced a serious decline in traffic due to terrible service from the EAS carrier. DOT has since rectified that situation, but it will take years for these communities to recover. Has the DOT ever examined the impact of providing substantially more in resources to the program so that air service would be provided on larger aircraft with more frequent service?

Answer. We do not think this would be a wise course of action. As you know, the typical EAS flight is operated with 19-seat aircraft. There have been a few situations where the Department has authorized additional subsidy for communities to receive service with larger aircraft, including at the three communities that you mention. In that case, we authorized a half million dollars more for 30-seat aircraft, which the communities favored instead of the 19-seat option. There are a few communities where larger (30-seat) aircraft could operate successfully.

For the most part, even 19-seaters are probably too big. The average subsidized EAS community generates 6–7 passengers a flight, resulting in the planes being only about 35 percent full, and many communities generate far fewer passengers than that. About 30 communities average fewer than 10 enplanements a day. In those cases, larger aircraft or additional frequencies are clearly not warranted. Indeed, if larger aircraft became the norm, the subsidy per passenger might end up exceeding the $200 statutory cap, as airline operating expenses would go up.

*Question 2.* You state in your testimony that the EAS demonstration programs that Senator Lott and I included in the 2003 FAA bill have been largely unused. You do not have a clear reason why. Could you please explain how the DOT implemented these programs? Did you one issue a *Federal Register* notice? Or did you work with various aviation associations and local government groups to find communities that may have benefited from them?

Answer. One of the pilot programs to which you refer is the Community Flexibility Pilot Program, which allows up to ten communities to receive a grant equal to 2 years' worth of subsidy in exchange for their forgoing their EAS for 10 years. The other is the Alternate Essential Air Service Program under which, instead of paying an air carrier to serve a community as we typically do under EAS, communities could apply to receive the funds directly to implement a plan that they have developed.

In the summer of 2004, the Department issued separate orders establishing both programs, and published them in the *Federal Register* as well. In addition, the programs were covered in the usual trade journals. While we received a few phone calls asking for information, no communities have applied. In the case of the Flexibility pilot program, a community would have to forego 10 years of guaranteed air service for funds that would equal just 2 years of the cost of EAS. Most communities evidently would rather retain scheduled air service for 10 years rather than money to improve their airport's ability to handle general aviation flights. With respect to the Alternate program, we believe that some communities are resistant to risk and change.

*Question 3.* I have heard from my airports and constituents that one of the reasons passengers do not use airports with EAS service is because that service is often very unreliable. As you know, these communities only have three flights a day, and even if one flight is canceled, it causes significant disruptions for passengers. Unreliable service also makes it difficult for communities to develop a passenger loyalty for using a facility. Does the DOT monitor the reliability and on-time performance of air carriers who provide essential air service? Does DOT require a certain level of performance from these carriers? Does DOT sanction carriers who are not providing the level of service as required by the government contract?

Answer. Reliable service is obviously important for any service to be successful. When the EAS program was set up at the Civil Aeronautics Board in 1978, care was taken to put incentives in place to encourage reliable services. Among those that remain in effect today is the "no fly-no pay" policy. That is, carriers must operate the flight in conformance with the contract in order to receive the compensation. (There is a small exception for safety reasons in the case of weather conditions that are marginal and the pilot in command elects to overfly the community even though conditions may be legal.)

We have debated penalizing carriers for late flights, but that is a "double-edged sword." On the one hand, it would seem to create an incentive for carriers to operate their flights on time. On the other hand, if the EAS carrier lost part of its subsidy it might cancel the flight altogether—raising the question as to whether a late flight is better than no flight. In addition, many delays are not the fault of the EAS carriers. (For example, EAS flights are more likely to be ground held at the EAS community if the connecting hub is backed up due to ATC delays because they tend to be short-haul flights, which are the first to be grounded.) In those situations, it would seem unfair to penalize the EAS carrier.

From a broader perspective, we have all too few carriers willing to participate in the EAS program, and further penalties could only exacerbate that situation.

*Question 4.* What effects would result from changes in the EAS per passenger subsidy cap, either increasing or restricting it in some cases? How would these changes affect the EAS program as a whole?

Answer. Increasing the subsidy-per-passenger cap or having it apply to fewer communities would result in having more communities in the program for a longer time and raising the costs of the program, which is why the Department has opposed such proposed changes. Given airfare levels, and just generally, $200 per passenger per one-way flight is still a significant sum for a Federal operating subsidy (the round trip subsidy for a passenger can be nearly $400). Reducing the level of the cap or having it apply to more communities would help keep the costs of the program in check.

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RESPONSE TO WRITTEN QUESTION SUBMITTED BY HON. JOHN D. ROCKEFELLER IV TO HON. KAREN MILLER

*Question.* In testimony at an earlier hearing on this issue, the Government Accountability Office suggested DOT provide Essential Air Service funding directly to communities so that they would have the flexibility to secure the air service options that best fit their needs. What do you think of this idea? Do you believe that most small communities would be able to negotiate with carriers to develop more flexible air service plans?

Answer. I think that could be an option for those EAS communities that believe they have the expertise and legal capacity to negotiate an agreement with an air carrier. One area that communities may be more successful in negotiating is that relating to performance or reliability provisions. Finally, we think it would be important that even if a community opted to negotiate with an air carrier, the community would have the additional option in the case of an impasse of agreeing to let USDOT complete the negotiations.

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RESPONSE TO WRITTEN QUESTION SUBMITTED BY HON. JOHN D. ROCKEFELLER IV TO MARK F. COURTNEY, A.A.E.

*Question.* In testimony at an earlier hearing on this issue, the Government Accountability Office suggested DOT provide Essential Air Service funding directly to communities so that they would have the flexibility to secure the air service options that best fit their needs. What do you think of this idea? Do you believe that most small communities would be able to negotiate with carriers to develop more flexible air service plans?

Answer. As a non-hub airport serving approximately 120,000 passengers per year, Lynchburg Regional Airport does not qualify for DOT funding under the Essential Air Service Program, and as such does not have a position on this specific issue.

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RESPONSE TO WRITTEN QUESTION SUBMITTED BY HON. JOHN D. ROCKEFELLER IV TO FAYE MALARKEY

*Question.* Do you think these technological advances will lower air service costs to the extent that it will actually be economically feasible, if not profitable, for regional airlines to provide service to small communities without EAS subsidies? Do you think that requiring large airlines to code-share on EAS flights would help improve air service to small communities?

Answer. (Witness Failed to Respond).

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