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SMALL AND RURAL COMMUNITY AIR SERVICE

HEARING

BEFORE THE

SUBCOMMITTEE ON AVIATION

OF THE

COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION UNITED STATES SENATE

ONE HUNDRED EIGHTH CONGRESS

FIRST SESSION

MARCH 11, 2003

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ONE HUNDRED EIGHTH CONGRESS

FIRST SESSION

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SMALL AND RURAL COMMUNITY AIR SERVICE

TUESDAY, MARCH 11, 2003

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

The Committee met, pursuant to notice, at 9:30 a.m. in room SR–253, Russell Senate Office Building, Hon. Trent Lott, Chairman of the Subcommittee, presiding.

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

Senator LOTT. The Committee will come to order, and I want to thank our panel for being here this morning. We will dispense with opening statements from us so that we can go ahead and hear the witnesses testify. Then we will give senators extra time to make statements when they have their question-and-answer period. And we are glad to see Senator Burns here this morning.

Obviously, this is a very important hearing for those of us from States with a lot of rural and small community services being needed—Senator Burns, obviously, in Montana, Senator Rockefeller, from West Virginia, Senator Stevens, from Alaska, as well as my own State of Mississippi. This is a very important hearing on small and rural community air service. It is a part of our process to hear from all interested segments of the aviation industry as we move toward developing the Federal aviation reauthorization bill this year.

With that said, we would like to go to our panel of witnesses. First, we have Read Van de Water, assistant secretary of Aviation and International Affairs at U.S. DOT, JayEtta Z. Hecker, director of Physical Infrastructure Issues of GAO, and Bryan Elliott, former co-chair, Airline Service and Competition Committee of the American Association of Airport Executives.

We will begin with Read Van de Water.

STATEMENT OF READ VAN DE WATER, ASSISTANT SECRETARY FOR AVIATION AND INTERNATIONAL AFFAIRS, DEPARTMENT OF TRANSPORTATION

Ms. VAN DE WATER. Thank you, Mr. Chairman.

Thank you for inviting me to this hearing. I appreciate the opportunity to discuss with your service to small communities in general and the Essential Air Service Program, and the Small Community Air Service Development Pilot Program, specifically.

I would just like to point our for the record that I am not Mr. Van de Water.

[Laughter.]

Ms. VAN DE WATER. I can assure you that the Department is committed to serving the needs of small communities. What has become abundantly clear over the years, however, is that the way that we help these communities has not kept pace with the changes in the airline industry and the way that air service is provided in this country. As a result, in many cases the service under the EAS program is generally not responsive to the communities' needs, is a disappointment to the community, which I hear time and time again, is often not used or supported locally, and it is not the most effective or efficient use of taxpayer dollars.

At the direction of Secretary Mineta, who has spent quite a few years looking at this program, we have spent considerable time reviewing our own experiences in dealing with the communities and the carriers involved, as well as recommendations from the participant groups and studies by the GAO and other groups that were geared towards finding what the right answer is for successful service in small communities.

While there is no magic solution, two themes are consistently repeated. First, we need greater participation by the communities in addressing their air-service issues and the desire for greater flexibility in doing so to give the communities a chance to say what might work with them rather than Washington saying what might work for them.

It is with these considerations in mind that we have reexamined the EAS program and proposed fundamental changes. I am confident that the program changes proposed by the Department will better serve the small communities by giving them better choices and more effectively direct very limited Federal funds.

The Administration has proposed major revisions to EAS for FY04 that will, for the first time since the program was established in 1978, require communities to be stakeholders in the air service they will receive and, thus, have a vested interest. And the degree of their stakeholder will depend on their location.

Under the Administration's proposal, eligible communities will have an array of transportation options available to them for access to the national air transportation systems. In addition to the traditional scheduled EAS service now in existence, we want to offer communities the alternative of charter flights, air taxis, ground transportation links, or even regionalized air service where several communities could be served through one airport, but with larger aircraft or better frequency of flights.

The amount of required community participation would be determined by their degree of isolation. The most remote communities, those greater than 210 miles from the nearest hub airport, will be required to provide a 10 percent match; and the rest, a 25 percent match.

Our primary standard for establishing isolation would be the driving distance to a nearest medium- or large-hub airport, but we also take into consideration the distance to a small-hub airport. We recognize, however, that there is great variance in service levels at small hubs, and, therefore, we would consider each community's

situation individually before making distance determinations. We believe that this approach will allow the Department to provide the most isolated communities with air service that is tailored to their individual needs. And importantly, it provides communities in the program greater participation, control, and flexibility over how to meet their air-service needs.

Our experience with the Small Community Pilot Program to date lends further support to our conclusions that reforms to the service are needed. In FY02, Congress appropriated 20 million to the pilot program for the first time, a new experimental grant and aid program authorized under AIR–21. Under the statute, the Department can provide financial assistance to up to 40 communities, which we have done at this point.

The program differs from the existing EAS program in a number of respects. First, the funds go to the communities rather than to the airline. Second, the financial assistance is not limited to carrier subsidy, but can be used for a number of other efforts to enhance the community service, including advertising, promotional activities, studies, and ground-service initiatives. And third, and in my opinion certainly the most important, communities design their own solutions to their air-service needs and their air-fare problems, and then they seek financial assistance to help with those solutions.

The Department received 180 applications from almost every State for grants under this program. But as I said, we were only limited to 40. The total sum requested was 143 million. We had 20.

These communities provided extensive information regarding services to their communities, and nearly all were to contribute financially—some, a great deal of financial participation; some, at over a hundred percent.

The Department made the maximum number of grants permitted. We made awards to communities throughout the country, and it authorized as many different types of projects as we could in order to address as many solutions as possible and to test the communities' proposals.

Some of the projects included a new business model to provide ground handling for carriers at an airport to reduce station costs, seed money for a new airline to provide regional service, expansion of low-fare service, a ground-service transportation alternative, aggressive marketing and promotional campaigns to increase ridership, and revenue guarantees.

Many of the grant recipients are contributing significantly to the projects. Some contributions locally are over a million dollars. Several have already benefitted from the grant awards. We have seen some early success from Fort Smith, Arkansas; Daytona Beach, Florida; Augusta, Georgia; Haley, Idaho; Rapid City, South Dakota; Meridian, Mississippi and Charleston, West Virginia. We are monitoring the progress of all these communities. The funds just went out in the fall, so we have not gotten a tremendous amount of reporting back yet, but we have key progress reports due early summer.

In addition to addressing the needs in the individual communities, a goal of the pilot program was to find solutions to air-service and air-fare problems that could serve as models for other com-

munities. Our experience in the pilot program demonstrates both the benefit and the willingness of small communities to participate, including financially, in addressing their air-service issues, particularly when they have a voice in how they are addressed.

In closing, Mr. Chairman, let me reaffirm the Administration's and the Secretary's commitment to small community air service. With this proposal, we build on a record of sustaining and improving the access of small communities to the national air transportation system. We look forward to working with you and other Members of the Subcommittee as we continue to work towards these objectives.

Thank you, again, and I would be happy to answer any questions you might have.

[The statement of Ms. Van de Water follows:]

PREPARED STATEMENT OF READ VAN DE WATER, ASSISTANT SECRETARY FOR AVIATION AND INTERNATIONAL AFFAIRS, DEPARTMENT OF TRANSPORTATION

Mr. Chairman, thank you for inviting me to this hearing. I appreciate the opportunity to discuss with you service to small communities in general and the Essential Air Service (EAS) program and the Small Community Air Service Development Pilot Program specifically. I can assure you that the Department is committed to serving the needs of small communities. What has become abundantly clear over the years, however, is that the way we help these communities has not kept pace with the changes in the airline industry and the way that air service is provided in this country. As a result, in many cases, the service under the EAS program is generally not responsive to the community's needs, is often not used or supported, and taxpayer dollars are often not directed in either the most effective or efficient manner. We have spent considerable time reviewing our own experiences in dealing with the communities and the carriers involved, as well as recommendations from both of these participant groups and studies by the General Accounting Office that were geared toward finding "the answer" to successful service at small communities. While there is no magic solution, two major themes are consistently repeated—the need for greater participation by the communities in addressing their air service issues, and the desire for greater flexibility in doing so. It is with these considerations in mind that we have reexamined the EAS program and proposed fundamental changes. I am confident, the program changes proposed by the Department will better serve small communities and more effectively direct Federal funds to where they are most needed.

The administration proposes major revisions to the Essential Air Service Program for fiscal year 2004 that will, for the first time since the program was established in 1978, require communities to be stakeholders in the air service they will receive and thus have a vested interest in its success. With our proposed reforms, the Department will also ensure that the most needy small communities will be able to maintain access to the national air transportation system.

In the past, communities' eligibility for inclusion in the EAS program has been based only on whether they were listed on a carrier's certificate on the date the program was enacted. Once subsidized service had been established, there was virtually no incentive for active community involvement to help ensure that the service being subsidized would ultimately be successful.

Under the administration's proposal, currently eligible communities would remain eligible, and would now have an array of transportation options available to them for access to the national air transportation system. In addition to the traditional, scheduled EAS air service now in existence, the communities would have the alternatives of charter flights or air taxi service, ground transportation links, or even regionalized air service, where several communities could be served through one airport, but with larger aircraft or more frequent flights.

The amount of required community participation would be determined by the degree of isolation. The most remote communities (those greater than 210 miles from the nearest hub airport) would be required to provide 10 percent of the EAS subsidy, and the remaining would have to supply 25 percent of the subsidy. Our primary standard for establishing isolation would be the driving distance to the nearest medium or large hub airport, but we would also take into consideration the distance of the community to a small hub airport. We recognize, however, that there

is a great variance in service levels at small hubs. Therefore, we would consider each community's situation individually before making distance determinations.

We believe that this approach would allow the Department to provide the most isolated communities with air service that is tailored to their individual needs. Importantly, it provides communities in the program greater participation, control, and flexibility over how to meet their air service needs.

Our experience to date with the Small Community Air Service Development Pilot Program (Pilot Program) lends further support to our conclusions that reforms to small community air service are needed. In fiscal year 2002, Congress appropriated $20 million to the Pilot Program, a new, experimental grant-in-aid program, authorized under AIR–21, to assist small communities in addressing problems related to their air service and air fares. Under the statute, the Department can provide financial assistance to up to 40 communities, with no more than four grant awards to any one state. This program differs from the existing EAS program in a number of respects. First, the funds go to the communities rather than directly to the airline serving the community. Second, the financial assistance is not limited to 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 air fare problems and seek financial assistance under the program to help them implement their plans.

The Department received 180 applications for grants under this program in fiscal year 2002, seeking $143 million. These communities provided extensive information regarding service to their communities and nearly all were to contribute financially to their proposed projects. The Department has made grant awards to the maximum number of communities permitted under the statute, using the full $20 million available. We made awards to communities throughout the country and authorized as many different types of projects as possible in order to address as many problems as we could and to test the communities' proposed solutions. 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 the airport, and revenue guarantees to reduce the risk to airlines for initiating or expanding service at the community.

Many of the grant recipients are contributing significantly to the authorized projects, with some contributions well over $1 million. Several have already benefited from the grant awards with new services inaugurated at Fort Smith, Arkansas; Daytona Beach, Florida; Augusta, Georgia; Hailey, Idaho; Lake Charles, Louisiana; Meridian, Mississippi; Rapid City, South Dakota; Charleston, West Virginia; and Rhinelander, Wisconsin. We are monitoring the progress of all of the communities as they proceed with the implementation of their projects. In addition to addressing the needs of individual communities, an overarching goal of the Pilot Program is to find solutions to air service and air-fare problems that could serve as models for other small communities. Our experience in the Pilot Program process demonstrates both the benefit and the willingness of small communities to participate, including financially, in addressing their air service issues.

In closing, Mr. Chairman, let me reaffirm the Administration's commitment to small community air service. With this proposal, we build on a record of sustaining and improving the access of small communities to the national air transportation system. 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 statement. I will be happy to answer any of your questions.

Senator LOTT. With your permission, Ms. Van de Water, we will go ahead with the other two witnesses——

Ms. VAN DE WATER. Of course.

Senator LOTT.—and ask questions——

Ms. VAN DE WATER. Thank you.

Senator LOTT.—of the panel as a group.

And Ms. Hecker?

STATEMENT OF JAYETTA Z. HECKER, DIRECTOR, PHYSICAL INFRASTRUCTURE ISSUES, U.S. GENERAL ACCOUNTING OFFICE

Ms. HECKER. Good morning, Mr. Chairman and Members of the Committee.

We are very pleased to be here today to focus on this critical issue. The topics I will cover today, which is built on a large body of work, include a survey of the major efforts of communities all across the country to try to improve their service, a review of the two key Federal programs that Ms. Van de Water has already discussed, and then our distillation of some of the key issues and challenges the Congress faces in reauthorization and looking at the future of these programs.

A quick background point, though, is, What is a small community? That is often very relative. A relatively large city can actually think of themselves as small relative to a really large hub. But basically, the definition that DOT uses includes 469 airports which is made up of "small hubs and non-hubs." There are 69 small buds and those basically average about 700 or so enplanements a day, or about 8 percent of total annual passengers. Non-hubs are really the very small communities. There are 400 of them. On average, they have less than five flights a day, and they make up less than 3 percent of the total passengers. So whether you are talking here about the small hubs or the non-hubs, we are looking at about 10 percent of total passenger enplanements.

The points I want to cover, then, turn to the initiatives communities have undertaken. Basically, we surveyed nationwide. We looked at State efforts, local efforts, cross-community efforts, and we identified over 300. Then we concentrated and focused on about a hundred that were the most active, those that really had undertaken some serious initiatives. And then, in fact, beyond that, we did about 12 in-depth case studies of those initiatives.

Of all the initiatives we uncovered, we found there are three basic things that communities do. They do studies, basically looking at the potential demand. They do marketing, either to the passengers or to carriers to try to improve service. And then, most significantly, they provide different types of financial incentives. It could be reduced airport fees, a subsidy directly to a carrier, revenue guarantees, or these travel banks.

The analysis we did of all these initiatives shows that really only one thing mattered. Not surprisingly, it was money. It was the financial incentives that had the most potential to have some real effect. Obviously, a study does not lead to new service. Marketing has some potential, but the one that really matters is money.

But the other concern we found is that often the money matters or makes a difference only as long as it lasts, that many of these initiatives do not build sustained service or a viable network, for basically two reasons. First there is a small demand, and there is a tremendous amount of passenger leakage at these airports, so the size of the communities is such that they cannot build a sustainable service. Second, the costs of the service are just higher than that kind of demand can support.

So that is the first point. The communities have done a lot. But at the end, the money is really the thing that matters. That is kind

of a backdrop for our review based on a couple of comprehensive reports of both the EAS program and the pilot program.

The EAS program has been very troubled in recent years. The costs have tripled since 1995. The average cost per community has doubled. But at the same time, passenger loads are down. The average load factor of an EAS flight is about 15 percent, and there is an average about three passengers per flight. That is on a 19-seat carrier.

The conclusion we have—and we have visited a number of these communities, we are familiar with them—is that the program is broken. It is not providing a viable transportation service to most of the travelers in these communities. Some of the studies show that up to 90 percent of the travelers in these communities are either choosing to drive to their destination or are driving to a larger airport—maybe a non-hub, maybe a small hub, maybe a medium hub—to get better service and lower fares. They have more choices. These carriers, these airports, usually offer only two to five flights a day, and it goes maybe one or two places, and the fares are high. So the use of these airports is extremely low. Not only are the numbers low, in absolute terms, but so is the relative use of EAS by the traveling public in those communities.

The pilot program, I have the same data in terms of DOT having received seven times the request for funds that was made available, the $20 million.

Now, what we have done is, we reviewed these 180 applications. A lot of those were from communities in our survey of all these communities. And unfortunately, we found that while the program's objective was to foster innovation, there were not that many innovative ideas being proposed. Many communities were just looking for a subsidy.

Now, it is true, DOT received proposals to fund marketing studies, and a marketing study can be important, and a study of potential service can be important. But at the end of the day, air service again, we fear, will last only as long as the financial subsidy program works. So it raises an issue of what the objectives of this program are and what the effects will be. Obviously, most of these grants were just given a few months ago. But the fact that we have analyzed many of these programs leads to questions about their effectiveness and also about what budgetary impact would be if, in fact, the pilot program was made more broadly available.

Closing points about the implications for future Federal efforts: EAS, while it is being administered in accordance with the statutory directive of providing the service guaranteed, is not providing an effective transportation solution, as evidenced by the use of it. Travelers are using alternatives. What is more, the option of trying to sustain it as it exists today is going to cost more. The $113 million appropriated this year will not be sufficient. All the evidence is that more communities are becoming eligible, the costs are increasing, and, again, the use is stable or going down.

We propose some options. A number of them are reflected in the Administration's proposal, but that does not necessarily represent an endorsement of that proposal. Those were options.

With the pilot program, as I said, the question is whether we are creating another subsidy program, what the congressional objective

really is, and how it should be focused to obtain the maximum transportation benefit to those living in these relatively isolated communities.

That concludes my statement. I would be happy to provide answers to any questions you may have.

[The statement of Ms. Hecker follows:]

PREPARED STATEMENT OF JAYETTA Z. HECKER, DIRECTOR, PHYSICAL INFRASTRUCTURE ISSUES, U.S. GENERAL ACCOUNTING OFFICE″

Mr. Chairman and Members of the Subcommittee:

Thank you for inviting us to testify today on the issue of air service at small communities. These communities have long faced challenges in obtaining or retaining the commercial air service they desire. These challenges are increasing as many U.S. airlines try to stem unprecedented financial losses through numerous cost-cutting measures including reducing or eliminating service in some markets. Small communities feel such losses disproportionately because they may have service from only one or two airlines. For them, reductions can mean no air service at all.

Over the past several years, we have issued a number of products examining air service provided to small communities. These reports have examined the use of regional jets, changes in the amount and type of service that small communities receive, options to enhance the long-term viability of the federal Essential Air Service (EAS) program, and efforts to improve air service at small communities.[1] In light of continuing concerns about small community air service and upcoming opportunities for the Congress to reauthorize federal assistance programs for small communities, we would like to summarize some key elements of our recent work. Today, my testimony addresses three topics: (1) the kinds of efforts that states and local communities have taken to enhance air service at small communities; (2) federal programs for enhancing air service to small communities; and (3) issues regarding the type and extent of federal assistance to enhance air service to small communities.

In summary:

- In recent years, states and local communities have undertaken a variety of efforts to enhance their air service. Our analysis of these efforts at nearly 100 small communities found that they comprise three main types: studies to evaluate potential markets, marketing efforts to increase consumer demand, and financial incentives to encourage airlines to either start or enhance air service. Financial incentives tended to offer the most promise for attracting new or additional air service. However, once the incentives ended, the additional service often ended as well. Longer-term sustainability of these air service improvements appears to depend on the community's size and its ability to demonstrate a commitment to that air service, either by providing a profitable passenger base or through direct financial assistance.
- The two key federal programs for helping small communities with air service face increasing budgetary pressures and questions about their effectiveness.
- The EAS program, authorized under the Airline Deregulation Act of 1978, guarantees that small communities served before deregulation continue to receive a certain level of scheduled air service. Its costs have more than tripled since fiscal year 1995, and indications are that without changes to the program, the demand for EAS subsidies may soon exceed its $113 million appropriation. At the same time, aggregate passenger levels at EASsubsidized airports continue to fall. Often less than 10 percent of a community's potential passengers use the subsidized local service; the rest choose to drive to their destination or drive to a larger airport that offers lower fares and more frequent service to more destinations. In 2000, the median number of passengers on each EAS-subsidized flight was just three.
- The Small Community Air Service Development Pilot Program ("Pilot Program"), authorized as part of the Wendell H. Ford Aviation Investment and Reform Act for the 21st Century (AIR–21), Pub.L. 106–181, provides grants to communities to enhance local air service. In fiscal year 2002, 180 communities (or consortia of communities) requested over $142.5 million in air service development grants—more than seven times the $20 million appropriated. The program funded some innovative approaches, but the majority of the grants funded

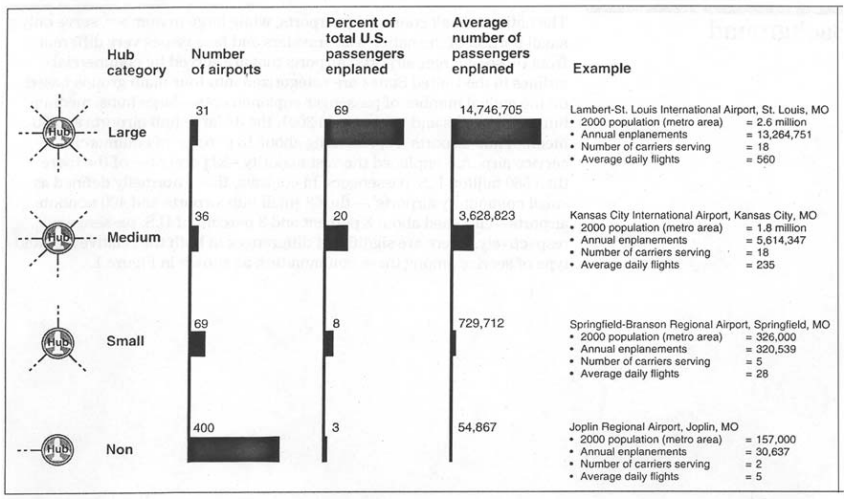
[1] See list of related GAO products attached to this statement.

the same types of projects noted earlier—studies, marketing activities, and financial incentives. If these communities experience the same results as the other state and local efforts we identified, their efforts are unlikely to attract new or enhanced service, or if they do, the service will last only as long as these funds are available. However, it is too early to evaluate the long-term effectiveness of these efforts.

- Questions about the efficacy of the two federal programs highlight issues regarding the type and extent of federal assistance for small community air service. The EAS program appears to be meeting its statutory objectives of ensuring air service to eligible communities, yet the program has not provided an effective transportation solution to most travelers to or from those communities. The Pilot Program also appears to have met its statutory objective of assisting communities in developing projects to enhance their access to the national air transportation system. Yet whether any of the projects funded will prove to be effective at developing sustainable air service is uncertain. Reauthorization provides an opportunity for the Congress to clarify the federal strategy for assisting small communities with commercial air service.

The nation's small community airports, while large in number, serve only a small portion of the nation's air travelers and face issues very different from those of larger airports. Airports that are served by commercial airlines in the United States are categorized into four main groups based on the annual number of passenger enplanements—large hubs, medium hubs, small hubs and nonhubs. In 2001, the 31 large hub airports and 36 medium hub airports (representing about 13 percent of commercial service airports) enplaned the vast majority -89 percent—of the more than 660 million U.S. passengers. In contrast, those normally defined as small community airports[2]—the 69 small hub airports and 400 nonhub airports—enplaned about 8 percent and 3 percent of U.S. passengers, respectively. There are significant differences in both the relative size and type of service among these communities, as shown in Figure 1.

Figure 1: Differences Among Categories of Commercial Service Airports in 2001



Source: GAO (analysis), FAA (data), Sabre (data), and U.S. Census Bureau (data).

Officials from small communities served by small hub and nonhub airports reported that limited air service is a long-standing problem. This problem has been exacerbated by the economic downturn and events of September 11. Fundamental economic principles help explain the situation small communities face. Essentially, these communities have a smaller population base from which to draw passengers, which in turn means they have limited potential to generate a profit for the airlines.

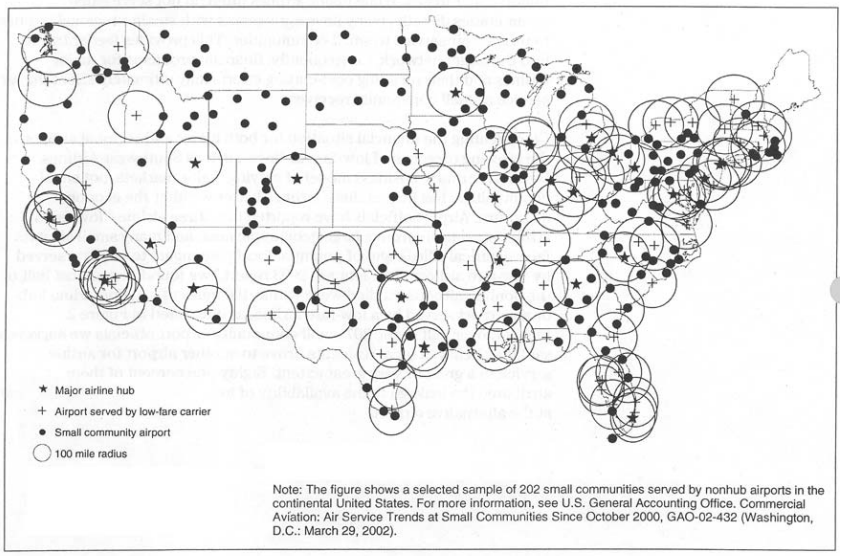
[2] The Wendell H. Ford Aviation Investment and Reform Act for the 21st Century (AIR–21), Pub.L. 106–181, defines small communities as including both nonhub and small hub community airports.

Relatively limited passenger demand, coupled with the fact that air service is an inherently expensive service to provide, make it difficult for many such communities to attract and keep air service.

The recent economic downturn and events of September 11 dealt a severe financial blow to many major airlines, and the results of these losses can be felt in even the smallest communities. United Airlines and US Airways are in bankruptcy proceedings, and one Wall Street analyst is projecting industry losses of $6.5 billion for 2003, the third straight year of multi-billion dollar losses. While major airlines often do not serve small communities directly, many have agreements with smaller regional airlines to provide air service to small communities. This provides feeder traffic into the larger network. Consequently, financial problems for major airlines and their resulting cost-cutting efforts may ultimately affect the air service a small community receives.

Complicating the financial situation for both major and regional airlines is the growing presence of low-fare airlines, such as Southwest Airlines. Low-fare airlines' business model of serving major markets, not small communities, has helped these airlines better weather the economic downturn. Airport officials have reported that these airlines' low fares attract passengers from a large geographic area, and many small airports face significant "leakage" of potential local passengers to airports served by low-fare airlines. In a January 2003 report,[3] we found that almost half of the nonhub airports studied were within 100 miles of a major airline hub or an airport served by a low-fare airline, as illustrated in Figure 2. Further, over half of the 207 small community airport officials we surveyed said they believed local residents drove to another airport for airline service to a great or very great extent. Eighty-one percent of them attributed the leakage to the availability of lower fares from a major airline at the alternative airport.

Figure 2: Proximity of Small Community Airports to Other Airports Either Served by a Low-fare Airline or Serving as a Major Airline's Hub



Note: The figure shows a selected sample of 202 small communities served by nonhub airports in the continental United States. For more information, see U.S. General Accounting Office. Commercial Aviation: Air Service Trends at Small Communities Since October 2000, GAO-02-432 (Washington, D.C.: March 29, 2002).

Source: GAO.

Local, state, and federal governmental units all play roles in developing and maintaining air service for small communities. Air service is a local issue because commercial airports in the United States are publicly-owned facilities, serving both local and regional economies. Many state and local governments provide funding and other assistance to help communities develop or maintain local air service. The Federal Government has assisted in developing air service both through the EAS program, which subsidizes air service to eligible communities and the Pilot Program,

[3] U.S. General Accounting Office, *Commercial Aviation: Factors Affecting Efforts to Improve Air Service at Small Community Airports,* GAO–03–330 (Washington, DC: January 17, 2003).

which provided grants to foster effective approaches to improving air service to small communities.[4] The assumption underlying these efforts is that connecting small communities to the national air transportation system is both fundamental for local economic vitality and is in the national interest.

The Administration's budget proposal for fiscal year 2004 substantially reduces funding for small community air service. The budget would reduce EAS funding from $113 million in 2003 to $50 million in 2004 and changes the program's structure by altering eligibility criteria and requiring nonfederal matching funds. The 2004 budget proposal does not include funds for the Pilot Program.

Local and State Air Service Improvement Efforts Fall Into Three Main Categories, but Financial Assistance Has Proven Most Effective

Our recent review of nearly 100 small community air service improvement efforts undertaken by states and local governments or airports[5] showed that communities attempted three main categories of efforts (see Table 1):

- studies, like those used by communities in Texas and New Mexico, to determine the potential demand for new or enhanced air service;
- marketing, like Paducah, Kentucky's "Buy Local, Fly Local" advertising campaign, used to educate the public about the air service available or Olympia, Washington's, presentations to airlines to inform them about the potential for new or expanded service opportunities; and
- financial incentives, such as the "travel bank" program implemented by Eugene, Oregon, in which local businesses pledged future travel funds to encourage an airline to provide new or additional service.

Table 1: Types of Air Service Development Efforts Undertaken by 98 Communities with Small Hub or Nonhub Airports

Type of effort	Nonhub airports (81 airports)		Small hub airports (17 airports)		Combined total (98 airports)	
	Number	Percent of total	Number	Percent of total	Number	Percent of total
Studies	60	74%	15	88%	75	77%
Marketing	60	74%	16	94%	76	78%
Financial incentives	33	41%	11	65%	44	45%
Other	15	19%	0	0%	15	15%

Source: GAO analysis.
Notes: Columns will not add to total number of airports shown because some airports undertook multiple efforts.

Studies by themselves have no direct effect on the demand for or supply of air service, but they can help communities determine if there is adequate potential passenger demand to support new or improved air service. Marketing can have a more direct effect on demand for air service if it convinces passengers to use the local air service rather than driving or flying from another airport. While the specific effect is difficult to ascertain, an airport official from Shenandoah Valley, Virginia, pointed out that his airport's annual enplanements more than doubled—from 8,000 to 20,000—after a marketing and public relations campaign. Marketing the airport to airlines may also have a direct effect on the supply of air service if the efforts succeed in attracting new airlines or more service from existing airlines.

Financial incentives most directly affected the level of air service provided in the communities we studied. Financial incentives mitigate some of the airline's financial risk by providing some assurance about the financial viability of the service. The incentives take a number of different forms, as shown in Table 2. Some programs provided subsidies to airlines willing to supply service. Some provided revenue guarantees, under which the community and airline established revenue targets and the airline received payments only if actual revenues did not meet targets.

[4] Beyond these programs, the Federal Government has also played a key role in providing funding critical to building and improving airport infrastructure through its Airport Improvement Program. In fiscal year 2002 alone, this program provided $3.2 billion to airports, over $1 billion of which went to small hub and nonhub airports.

[5] To identify these airports, we reviewed all 180 applications for the Pilot Program, which included information on previous efforts to improve air service. We also spoke with airline industry officials and transportation officials each of the 50 states and reviewed other available data. We then interviewed airport or community officials from 98 small communities that had undertaken some air service development efforts. For more information, see GAO–03–330.

Table 2: Major Types of Financial Incentive Programs

Type of financial incentive	Description	Prevalence among nonhub airports studied (total=81)		Prevalence among small hub airports studied (total=17)	
		Number	Percent of total	Number	Percent of total
Subsidies	Financial assistance to a carrier assists with start-up, operating or other costs. Carrier may receive a set amount per period or reimbursement for expenses incurred sometimes up to a cap.	10	12%	1	6%
Revenue guarantees	Community and carrier officials set revenue targets and communities pay carriers only if revenue from operations does not meet agreed-upon target. Payments are often capped.	9	11%	3	18%
Travel bank	Businesses or individuals pledge future travel funds to a carrier providing new or expanded air service. Travel funds are deposited in an account, administered by a business entity (such as the Chamber of Commerce) and pledging businesses draw against these funds (often using credit card supplied for this purpose) to purchase tickets.	4	5%	3	18%
Other		6	7%	3	18%

Source: GAO analysis.

Financial incentives can attract new or enhanced air service to a community, but incentives do not guarantee that the service will be sustained when the incentives end. We studied the efforts of 12 communities in detail, all but one of which used a financial incentive program. Of these, five had completed their program but only Eugene, Oregon, was able to sustain the new service after the incentive program ended. At the other four—all nonhub airports smaller than Eugene—the airline ceased service when the incentives ended.

However, while a community's size is important, it is largely beyond a community's control. We identified two other factors, more directly within a community's control, that were also important for success. The first, the presence of a catalyst for change, was particularly important in getting the program started. The catalyst was normally state, community, or airport officials who recognized the air service deficiencies and began a program for change. More important to the long-term sustainability, however, was a community consensus that air service is a priority. This second factor involves recognizing that enhanced air service is likely to come at a price and developing a way in which the community agrees to participate. At many of the communities we studied, there was not a clear demonstration of community commitment to air service.

The two major federal efforts to help small communities attract or retain air service are the EAS program and the Pilot Program. The Congress established EAS as part of the Airline Deregulation Act of 1978, due to concern that air service to some small communities would suffer in a deregulated environment. The act guaranteed that communities served by airlines before deregulation would continue to receive a certain level of scheduled air service. If an airline cannot provide service to an eligible community without incurring a loss, then the Department of Transportation (DOT) can use EAS funds to award that airline, or another airline willing to provide service, a subsidy. Funding for EAS was $113 million for fiscal years 2002 and 2003. The other major program, the Pilot Program, was authorized as part of the Wendell H. Ford Aviation Investment and Reform Act for the 21st Century (AIR–21). The Pilot Program's mission is to assist communities in developing projects to enhance their access to the national air transportation system. The Pilot Program differs from EAS because communities, not airlines, receive the funds and the communities develop the program that they believe will best address their air service needs. The Congress appropriated $20 million in both fiscal years 2002 and 2003 for this effort.

The EAS program costs have increased dramatically since 1995, but the actual number of passengers using EAS-subsidized air service has dropped. Total program funding increased from $37 million in 1995 to $113 million in 2002 (2002 constant dollars). Further, during this period of time, the subsidy per community nearly doubled, from almost $424,000 to over $828,000. However, the total passenger

enplanements at EAS-subsidized communities decreased about 20 percent (between 1995 and 2000) falling from 592,000 to 477,000. As a result, the per passenger subsidy (for continental U.S. communities) increased from $79 to an estimated $229 in 2002, a nearly 200-percent increase. Table 3 provides more information.

Table 3: EAS Service Changes as of July 1, 2002 (Continental United States)

Service elements	1995	1999	2002 (est.)	Percent change
Number of subsidized communities	75	68	79	5.3%
Median daily passengers enplaned per community	11	8	10	-9.1%
Average subsidy per community	$423,803	$668,448	$828,474	95.5%
Average subsidy per passenger	$79	$133	$229	189.9%

Source: GAO analysis of DOT and FAA data.
Note: Passenger estimates for 2002 are based on passenger enplanements for 2000.
Note: Subsidy figures are in 2002 constant dollars.

Two key factors will likely continue to increase EAS program costs in the future. First, more communities may require subsidized service.[6] As of February 2003, the EAS program served 125 communities, up from the 114 served only 7 months earlier. Of these, 88 are in the continental United States and 37 are in Alaska, Hawaii, and Puerto Rico. According to DOT officials, more small communities will likely lose unsubsidized commercial service in the future—especially those served by one airline. Some of these communities could be eligible to receive an EAS subsidy. In October 2001, there were 98 small communities being served by one carrier. Of the 98, 25 have smaller populations and lower levels of employment than the typical EAS-subsidized community, 21 have lower levels of income per capita, and 35 have lower levels of manufacturing earnings. Second, EAS-subsidized communities tend to generate limited passenger revenue because surrounding populations are small and the few travelers generated in each community tend to drive to their destinations or fly from other, larger airports for lower airfares and improved service options.[7] EAS community airports may serve less than 10 percent of the local passenger traffic; over half of the subsidized communities in the continental U.S. are within 125 miles of a larger airport. This low demand and "passenger leakage" to other airports depress the revenue carriers can make from EAS routes, making the program less attractive to airlines and increasing subsidy costs.

There are clear questions about the EAS program's effectiveness. In a recent report on the EAS program, we outlined a number of options that the Congress could consider to enhance the long-term viability of the program.[8] For example, one option was to target subsidized service to more remote communities with fewer other transportation options. Another option was to restructure or replace subsidies to airlines with local grants. This could enable communities to better match their transportation needs with locally available options. Some of the options discussed in our report were incorporated in the Administration's fiscal year 2004 budget proposal.

In its first year of operation, small communities demonstrated an extraordinary demand for air service development funds. DOT received 180 applications requesting over $142.5 million—more than 7 times the funds available—from communities in 47 states. By December 2002, DOT had awarded nearly $20 million in grants to 40 small communities (or consortia of communities). The grants ranged in amount from $44,000 to over $1.5 million. Some of the grants are being used for such innovative ideas as the following:

[6] Increases in program costs may be restrained as some communities lose their eligibility. They may lose their eligibility because the combination of decreased passenger traffic and increased subsidy levels means that some may exceed the statutory maximum of $200 per passenger for communities within 210 miles of a medium or large hub airport. However, DOT has not always dropped communities from the program because they no longer meet eligibility requirements. We reported in 2000 that DOT considers extenuating circumstances that may have caused a temporary decline in passenger traffic.

[7] It is important to note that EAS-subsidized airlines typically do not set the airfares charged for the major markets for EAS travelers. Instead, fares are set by the major network airlines with which EAS airlines usually have contractual agreements. Depending upon the exact agreement, the EAS airline usually sets fares for travel only in "local" markets (i.e., between the EAS community and the connecting hub), while the major airline sets the fares for travel between the EAS community and the key destinations beyond the connecting hub.

[8] U.S. General Accounting Office, *Options to Enhance the Long-term Viability of the Essential Air Service Program,* GAO–02–997R (Washington, DC: August 30, 2002).

- Mobile, Alabama, a small hub, received a grant of $457,137 to continue providing ground handling service for one of its airlines. While this is a common practice in Europe, a Mobile official told us that he is only aware of one other airport in the United States that provides these services for an airline.
- Baker City, Oregon, received a grant of $300,000 to invest in an air taxi franchise. Baker City has a small population and is in a fairly remote part of Oregon that does not have scheduled airline service. The community decided to pursue an alternative to scheduled service and purchased an air taxi franchise from SkyTaxi, a company that provides on-demand air service.
- Casper, Wyoming, received a grant of $500,000 to purchase and lease back an aircraft to an airline to ensure that the airline serves the community. It is fairly unusual for a community to approach air service development by purchasing an aircraft to help defray some of the airline's costs and mitigate some of the airline's risk in providing the service.

However, the majority of these grants funded the same types of projects discussed earlier—studies of a community's potential market, marketing activities to stimulate demand for service or to lure an airline, and financial incentives such as subsidies to airlines for providing service. If these communities experience the same results as the other state and local efforts we identified, their efforts are unlikely to attract new or enhanced service for the small communities using them, or if they do, the service will only last as long as these funds are available.

Since final grant agreements were signed in December 2002, it is too early to determine how effective the various types of initiatives might prove to be. Additionally, some of the funded projects contain multiple components and some are scheduled to be implemented over several years. Therefore, it might be some time before DOT is able to evaluate the initial group of projects to determine which have been effective in initiating or enhancing small community air service over the long-term.

As air service to small communities becomes increasingly limited and as the national economy continues to struggle, questions about the efficacy of those programs highlight issues regarding the type and extent of federal assistance for small community air service.

The EAS program appears to be meeting its statutory objectives of ensuring air service to eligible communities, yet the program clearly has not provided an effective transportation solution to most travelers to or from those communities. Subsidies paid directly to carriers support limited air service, but not the quality of service that passengers desire, and not at fares that attract local passenger traffic. As a result, relatively few people who travel to or from some of these communities use the federally-subsidized air service. Many travelers' decisions to use alternatives—whether another larger airport or simply the highway system—are economically and financially rational.

Several factors—including increasing carrier costs, limited passenger revenue, and increasing number of eligible communities requiring subsidized service—are likely to affect future demands on the EAS program. The number of communities that are eligible for EAS-subsidized service is likely to increase in the near term, creating a subsidy burden that could exceed current appropriations. Should the EAS program be fully funded so that no eligible community loses its direct connection to the national air transportation network? Should the EAS program be fundamentally changed in an attempt to create a more effective transportation option for travelers? In August 2002, we identified various options to revise the program to enhance its long-term viability, along with some of the associated potential effect.

The Pilot Program also appears to have met its statutory objective of extending federal assistance to 40 nonhub and small hub communities to assist communities in developing projects to enhance their access to the national air transportation system. Yet whether any of the projects funded will prove to be effective at developing sustainable air service is uncertain. Relatively few communities offered innovative approaches to developing or enhancing air service. Most of the initiatives that received federal grants resembled other state or local efforts that we had already identified. Evidence from those efforts indicated that some communities could develop sustainable air service—but likely only small hub communities that have a relatively large population and economic base. Among smaller, nonhub communities, direct financial assistance to carriers was most effective at attracting air service, but only as long as the financing existed. If the Pilot Program is extended, will it essentially become another subsidy program?

Reauthorization provides an opportunity for the Congress to clarify the federal strategy for assisting small communities with commercial air service. We believe that there may be a number of questions that need to be addressed including the following. What amount of assistance would be needed to maintain the current fed-

eral commitment to both small and nonhub airports? Would federal assistance be better targeted at nonhub or small hub communities, but not both? Rather than providing subsidies directly to carriers, should federal assistance be directed to states or local communities to allow them to determine the most effective local strategy? What role should state and local governments play in helping small communities secure air service?

Mr. Chairman and Members of the Subcommittee, this concludes my statement. I would be pleased to answer any questions you or other Members of the Subcommittee might have.

Related GAO Products

Commercial Aviation: Factors Affecting Efforts to Improve Air Service at Small Community Airports. GAO–03–330. Washington, DC: January 17, 2003.

Commercial Aviation: Financial Condition and Industry Responses Affect Competition. GAO–03–171T. Washington, DC: October 2, 2002.

Options to Enhance the Long-term Viability of the Essential Air Service Program. GAO–02–997R. Washington, DC: August 30, 2002.

Commercial Aviation: Air Service Trends at Small Communities Since October 2000. GAO–02–432. Washington, DC: March 29, 2002.

"State of the U.S. Commercial Airlines Industry and Possible Issues for Congressional Consideration", Speech by Comptroller General of the United States David Walker. The International Aviation Club of Washington: November 28, 2001.

Financial Management: Assessment of the Airline Industry's Estimated Losses Arising From the Events of September 11. GAO–02–133R. Washington, DC: October 5, 2001.

Commercial Aviation: A Framework for Considering Federal Financial Assistance. GAO–01–1163T. Washington, DC: September 20, 2001.

Aviation Competition: Restricting Airline Ticketing Rules Unlikely to Help Consumers. GAO–01–832. Washington, DC: July 31, 2001.

Aviation Competition: Challenges in Enhancing Competition in Dominated Markets. GAO–01–518T. Washington, DC: March 13, 2001.

Aviation Competition: Regional Jet Service Yet to Reach Many Small Communities. GAO–01–344. Washington, DC: February 14, 2001.

Airline Competition: Issues Raised by Consolidation Proposals. GAO–01–402T. Washington, DC: February 7, 2001.

Aviation Competition: Issues Related to the Proposed United Airlines-US Airways Merger. GAO–01–212. Washington, DC: December 15, 2000.

Essential Air Service: Changes in Subsidy Levels, Air Carrier Costs, and Passenger Traffic. RCED–00–34. Washington, DC: April 14, 2000.

Aviation Competition: Effects on Consumers From Domestic Airline Alliances Vary. RCED–99–37. Washington, DC: January 15, 1999.

Airline Deregulation: Changes in Airfares, Service Quality, and Barriers to Entry. RCED–99–92. Washington, DC: March 4, 1999.

Senator LOTT. We will have questions in a moment, but let us go ahead and hear from Mr. Elliott now and then we will go to questions.

STATEMENT OF BRYAN O. ELLIOTT, FORMER CO–CHAIRMAN, AIRLINE SERVICE AND COMPETITION COMMITTEE, AMERICAN ASSOCIATION OF AIRPORT EXECUTIVES

Mr. ELLIOTT. Good morning, Mr. Chairman and Members of the Subcommittee. It is, indeed, a pleasure and an honor to be before you today to present my views on the status of air service to our small communities and to outline the need for continued Federal assistance on several fronts.

The Charlottesville-Albemarle Airport is a non-hub airport located in the Piedmont region of Virginia. The Charlottesville area is home to the University of Virginia, one of the most prestigious universities in the United States, as well as a diverse base of tourism, manufacturing, and financial service entities. Our regional

economy requires dependable scheduled air service that links our region to the world.

As you are aware, GAO has recently confirmed that air service to small communities has declined by over 20 percent since September 11, 2001, and this is much greater than in larger metropolitan areas. In contrast, our airport recorded a record year last year, in 2002. Over 342,000 passengers used our airport during this 12-month period. Charlottesville's three regional carriers offered those passengers access to the national aviation system via 54 daily arrivals and departures at our airport.

Mr. Chairman, Charlottesville's needs and the needs of all small communities is rather simple. We need efficient, reliable, and economical scheduled air-service access to our national aviation system.

Now, allow me just to take a few moments to share with you several areas that will help protect small communities from being cut off from commerce, economic development, and the opportunity for further prosperity in their region.

First of all, the Small Community Air Service Development Program. Through the pilot program in AIR–21, Congress did seek to help small communities by encouraging creative marketing and financial assistance projects to attract and retain new air service. Although $27-and-a-half million in annual appropriations was authorized for this program, Congress has only appropriated $20 million in each of the past two fiscal years.

Small community air service interests in this program has been overwhelming, as you have already heard. In the first year, 179 communities submitted applications totalling $142 million, and while we have seen some evidence of some early successes in places like Augusta, Georgia, locations like Charleston, West Virginia, and Daytona Beach, it is really too early to tell whether these programs will be lasting. And while Charlottesville did not participate in this program in FY02, we are seriously considering applying in FY03 to incentivize our carriers to upgrade turboprop equipment for regional jet aircraft. And while we did not participate in the program last year, we did work cooperatively with Delta Airlines to bring new regional jet service in our market through a $100,000 incentive program for promotion and advertising. And I might say that that service has been quite successful in the past year that it has been in our market.

Nonetheless, given the program's immediate apparent successes, it is very disappointing that the Administration is not including funding for this in FY04 given the apparent demand for the dollars that are out there.

In terms of the Essential Air Service Program, this program has helped many rural communities retain their connection to the national aviation system. Although Charlottesville is not a participant, I am, once again, disappointed that the Administration has recommended that funding for this program be reduced from $113 million to $50 million in FY04 and is seeking to require local communities to generate a matching share in order to continue to receive funding.

Mr. Chairman, I have two recommendations. I believe that it is important for DOT to work with small communities and States to

come up with very creative plans that are flexible and responsive to the needs of the individual communities as there is not one single silver bullet that will solve this program en masse.

What is occurring today, in many instances, is that this EAS service becomes sometimes unreliable. And as a result, people that rely on it for business connections opt to drive to other airports. Hence, the service is underutilized and becomes unprofitable, even with the subsidy. Perhaps it is time to bring in some performance-based systems to this program that would incentivize carriers to perform and provide reliable service, versus just have a financial incentive to do so.

However, until this program is restructured, it is also important at this time to continue the level of funding where it is today and not require local communities to come up with a matching share, particularly as the amount of red ink in local and State governments continues to grow by the day.

My third point relates to access to high-density airports. Small communities also need help from the Federal Government that is not financial in nature. Neither Congress, nor the executive branch, should allow congested airports in major metropolitan areas to charge above-cost pricing in landing fees to allow access to those airports. Selling off landing rights at airports like LaGuardia to the highest airline bidders, as proposed by DOT and FAA, would disproportionately eliminate service to small communities such as Charlottesville with our smaller aircraft and lower volume of passengers. Unless small communities would be exempted from this program, allowing congestion pricing would lock small communities into permanent second-tier status.

Fourth, full funding for the AIP program. Finally, Mr. Chairman, small communities can also be helped through the reauthorization of AIP at least at a level of $4.0 billion in FY04, with growth of an additional $100 million per year in subsequent years. Moreover, it is vital that you maintain AIP's focus on funding aviation capacity, preservation, and safety projects, rather than draining the fund for installation of security-related equipment. Last year, $500 million in AIP funds were used to fund TSA-mandated capital-security requirements at our airports, a tenfold increase from the prior year. As much as we recognize that TSA must undertake billions of dollars of security improvements to fulfill its statutory obligations, these needs must be funded from appropriations to TSA rather than draining the FAA's AIP program to fulfill this obligation.

Thank you for the opportunity to present my views this morning, Mr. Chairman. I would be pleased to attempt to answer any of your questions related to small community air service either at Charlottesville or nationwide.

[The statement of Mr. Elliott follows:]

PREPARED STATEMENT OF BRIAN O. ELLIOT, FORMER CO-CHAIRMAN, AIRLINE SERVICE AND COMPETITION COMMITTEE, AMERICAN ASSOCIATION OF AIRPORT EXECUTIVES

Good morning, Mr. Chairman and Members of the Subcommittee.

I am Bryan Elliott, Executive Director of the Charlottesville-Albemarle Airport Authority, which owns and operates the Charlottesville-Albemarle Airport (CHO). It is a pleasure and an honor for me to be before you today to present my views on

the status of air service to our small communities and to outline the need for continued Federal assistance on several fronts.

The Charlottesville-Albemarle Airport is a non-hub commercial service facility located in the Piedmont region of Virginia. The Charlottesville area is home to the University of Virginia as well as a diverse base of tourism, manufacturing, and financial service entities. Our regional economy requires dependable scheduled air service that links our region to the world.

As you are aware, the General Accounting Office (GAO) has recently confirmed that air service to small communities has declined 20% since September 11, 2001, more than in larger metropolitan areas. In contrast, the Charlottesville-Albemarle Airport has recently experienced passenger growth. 2002 represented a record year for us, with approximately 342,000 passengers using our airport. Charlottesville's three regional carriers offered those passengers access to the national aviation system via 54 daily nonstop flights to seven airline hubs.

Mr. Chairman, Charlottesville's need, and that of other small communities, is for *efficient, reliable, and economical scheduled air service access to our national aviation system.* Allow me to take just a few moments to discuss how the Federal government can help protect small communities from being cut off from commerce, economic development, and the potential for prosperity by helping to foster basic levels of air service.

1. Small Community Air Service Development Pilot Program

Through this pilot program in AIR–21, Congress sought to help small communities by encouraging creative marketing and financial assistance projects to attract and retain new airline service. Although $27.5 million in annual appropriations was authorized for this program, Congress has only appropriated $20 million in each of two fiscal years.

Small communities' interest in this pilot program has been overwhelming. In the first year, 179 communities submitted applications totaling $142 million. It's too early to determine how successful the 40 selected communities will be in obtaining and retaining new air service in light of the serious and continuing economic plight of the carriers. However, communities such as Charleston (WV), Daytona Beach (FL) and Augusta (GA) have attained new service through this program. Charlottesville, while it did not apply in FY02, is seriously considering applying for FY03 funding to "incentivize" incumbent or new carriers to provide more regional jet departures in our market.

Given this program's immediate success, it is very disappointing that the Administration is not proposing to extend it, as reflected in the fact that the Administration's FY04 budget requests no money for this purpose. Because the U.S. needs better air service to small communities, I urge the Committee to reauthorize and expand this program in your AIR–21 extension legislation.

2. Essential Air Service Program (EAS)

The EAS program has helped many rural communities retain their connection to the national aviation system. With this said, I am disappointed, again, that the Administration has recommended that funding for this program be reduced from $113 million in FY03 to $50 million in FY04, and is seeking to require local communities to generate a matching share in order to continue to receive funding.

Mr. Chairman, I have two recommendations. First, I think it's time for Congress to require DOT, in conjunction with affected local communities and their state governments, to consider some radical changes be made to this program to ensure that it will be as effective in 2005 as it was at its beginning in 1978. Currently, DOT's proposals—developed without state/local participation—are all aimed at financial savings rather than at improved air service. As a result, in some instances subsidized carriers don't provide dependable service. Passengers then bypass the unreliable local service and drive to distant alternative airports. As a result, the EAS service is under-utilized. Perhaps it is time to focus on the issue of improved service through establishment of some form of "performance-based standards" for carriers to meet in order to receive payments.

Until this program-restructuring project is completed, it is important for Congress to fund the EAS program at existing levels without instituting program changes requiring localities to match federal funding. With state and local governments already facing red ink from economic downturn, this is not the year in which to institute a financial matching requirement.

3. Access to High-Density Airports

Small communities also need help from the Federal Government that isn't financial in nature. Neither Congress nor the Executive Branch should allow congested airports in major metropolitan areas to charge above-cost landing fees or "congestion

prices." Selling off access rights to LaGuardia Airport to the highest airline bidders, as proposed by DOT/FAA, would disproportionately eliminate service to small communities such as Charlottesville, with our smaller aircraft and lower volume of passengers. Unless small communities were to be exempted, allowing congestion pricing would lock small communities into permanent second-tier status.

The New York metropolitan area represents the top origin and destination (O&D) market for the Charlottesville region. Chicago is Charlottesville's second largest O&D destination and, like New York, is served primarily through a congested airport. We and other small airports oppose "congestion pricing" because our communities would be disproportionately harmed—and because our financially strapped carriers would be pressed even harder by such fee increases.

4. Full Funding for the AIP Program

Finally, Mr. Chairman, small communities can also be helped through the reauthorization of the Airport Improvement Program (AIP) at a level of at least $4.0 billion in FY04, with growth of an additional $100 million per year in subsequent years. Moreover, it is vital that you maintain AIP's focus on funding aviation capacity, preservation, and safety programs rather than draining the fund for installation of security-related equipment. Last year, $500 million in AIP funds were used to fund Transportation Security Administration (TSA)-mandated capital security expenditures at our airports, a tenfold increase from the prior year. As much as we recognize that TSA must undertake billions of dollars of security improvements to fulfill its statutory obligations, these needs must be funded from appropriations to TSA rather than by straining the FAA's AIP program to fill this new funding requirement.

Thank you for the opportunity to present my views. I would be pleased to attempt to answer your questions about small community air service issues, at Charlottesville and nationwide.

Senator LOTT. Thank you very much, panel. That is very interesting testimony.

Senator Burns has agreed to allow Senator Stevens to ask the first question since he does have another Committee meeting.

Senator Stevens?

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

Senator STEVENS. Well, I am grateful to my friend from Montana and to you, Mr. Chairman.

I believe that Senator Inouye and I are the only ones who were here when we deregulated the airlines and did away with the Civil Aeronautics Board. At that time, this concept came into being of Essential Air Service for Alaska. It was based on a concept of assistance to those areas which had no roads, no access other than by air.

And I listened to you, Ms. Hecker, but I did not hear you give any relevance to the fact that some of these essential air-service airports are serving places that have no other means of access, because we do not build public highways to these areas, we have no train service, we have been blocked off. As a matter of fact, all land access in those areas is permanently now blocked.

I do not quite understand, Ms. Van de Water, the Administration's position that these areas that have no other assistance, have no subsidies from roads, no subsidies from airlines, should now start contributing to the system that was created to assure that they would get air service, which they used to get under the Civil Aeronautics Board. Why did you not take into account the availability of other means of transportation?

Ms. VAN DE WATER. Senator, we intend to take into account the availability of other means of transportation. Alaska, and certainly

Hawaii, as well, offer very unique challenges to the Department and the EAS. There are——

Senator STEVENS. Why should my——

Ms. VAN DE WATER.—about 30——

Senator STEVENS.—why should these communities contribute to this Essential Air Service fund, which originally was about $5 million? Last year, we put up $113 million. And they are——

Ms. VAN DE WATER. Yes, sir.

Senator STEVENS.—they are essentially serving what were general aviation airports that were turned into commuter fields for convenience. Those people mostly have train service, bus service, and automobile capability to go by road.

Ms. VAN DE WATER. Well, we have proposed——

Senator STEVENS. Why should our cities that have no other assistance from the Federal Government contribute to this fund which was established for them?

Ms. VAN DE WATER. I think, Senator, what we have tried to do is have buy-in from the communities and the State. We recognize Alaska is in a very unique situation; Hawaii, somewhat in a unique situation, as well. You have 33 different communities and 7 million of the EAS dollars go to your State. We are asking a 10 percent match for the Alaskan communities, recognizing that there is no highway connection for most of them.

Senator STEVENS. Well, why do you want any kind of contribution at all? Would you like to build the roads out there? They cost about $2 million a mile.

Ms. VAN DE WATER. No, Senator, we would not want to do the roads, but we do have a very tough financial situation where our funds are limited and communities very frequently come into the EAS program over which we have no control. We have had about 25 additional communities come into the program in the past year, and there are about 85 out there with single-carrier service that could file today, and my office would be responsible for paying the carrier for staying in, and we do not have the funds to do it.

Senator STEVENS. But why do you put the areas that were intended to be served last rather than first? Why should those communities contribute at all?

Ms. VAN DE WATER. Well, they are contributing less under our proposal than the communities that are closer, but we have also advocated moving some of the communities who are very close to jet service into a different pattern of service.

Senator STEVENS. I understand that, and I have read your proposition. Thirty-two of the thirty-three essential air-service airports in Alaska have no other means of access. Have you ever been up there?

Ms. VAN DE WATER. Yes, sir.

Senator STEVENS. Did you visit those areas?

Ms. VAN DE WATER. I visited Kodiak.

Senator STEVENS. Well, that has no road access. That is true. It is an island.

[Laughter.]

Ms. VAN DE WATER. I did fly there.

Senator STEVENS. That is the only way you can get there unless you want to go on that Dramamine Express that goes over twice a week.

[Laughter.]

Ms. VAN DE WATER. No, thank you, Senator.

[Laughter.]

Senator STEVENS. There is a ferry that goes over twice a week.

But again, I am trying to make my point. The program was started in Alaska for the areas that had no subsidies, no roads, no railroads, no means of access, but were served under the old Civil Aeronautics Board. It has been expanded now all over the country into areas that have other means of access, and I absolutely oppose trying to put costs on these small native villages. They have no tax base. Most of them are located within large national withdrawals—national parks, national wildlife refuges, wild and scenic rivers, national forests. They used to have service under the Civil Aeronautics Board. Now, why should you want to charge them now?

Ms. VAN DE WATER. Senator, again, we are just trying to provide as much service as we can under the fiscal constraints that we have.

Senator STEVENS. Well, I have got to tell you, you have got a real opponent in what you are trying to do, in my opinion. I think the fees ought to be compared to the access that is available to the people that are using the service under other means of transportation. If you can get on a railroad and come in to Washington, why should you subsidize a general aviation field to bring a commuter in?

Ms. VAN DE WATER. Senator, I have no authority to cut back that EAS service unless the Congress gives it to us.

Senator STEVENS. We are going to give you some, if I have my way.

Ms. VAN DE WATER. Thank you.

Senator STEVENS. Thank you very much, Mr. Chairman.

Senator LOTT. Senator Burns?

STATEMENT OF HON. CONRAD BURNS, U.S. SENATOR FROM MONTANA

Senator BURNS. And I like this idea of no statements and we just go straight to the witnesses.

I think Senator Stevens brings up a very good point. It is hard to write any kind of a law as "one size fits all," because most of the areas of this country has to be considered on a case-by-case basis. Take, for instance, in my State of Montana, yeah, we have got roads. In fact, a couple of ours in three, I guess, of our airports that are under Essential Air Service are also on Amtrak, but it only goes east and west, and then we doubt what is on the other end of the line both ways.

We are, remote, a State, from the rest of the country. My airports are anywhere from 200 to 300 miles away from a small hub, and they are smaller communities. Three of them serve Indian reservations, and they have their own needs even though the boardings may not be that high.

I was interested in the statement of Mr. Elliott, what—you say you are small; you do not even know what small is. And I am like

Mr. Stevens. I say, you know, those communities who are remote, who have a limited amount of access, was why the program was put in place, and I do not know of any kind of a formula one could dream up, but I think it has to be dealt with on a case-by-case basis. I do not think there is a formula that we could write that would be fair. And I would say, to the 10 percent investment from the local community, you know, a lot of these communities, they have a hard time just maintaining the facilities of the airport, let alone trying to participate in 10 percent of whatever the cost is in service to that area.

So those are the—I look forward to working with you, Madam Secretary, and working on this. I know it is too expensive. I said on the Budget Committee we are trying to find ways to get this budget down to where it serves the people with the most needs, and I know there are great challenges ahead of us. But I think the "one size fits all," you know, or trying to devise some formula, I do not know how you can do it fairly.

I know that Senator Inouye's needs in Hawaii are different than the ones in Montana. And Senator Inouye also understands our Essential Air Service when I said we serve three Indian reservations that would have no air transportation at all other than through general aviation, and that gets pretty expensive.

So I just want to make the point. I look forward to working with you on this, and if you need some changes up here, I think it is time we sat down and really talked about it and to work out some way that gives maybe your department a little more latitude to make some judgement calls.

I am telling you what, I do not mind—we are paying for Essential Air Service to airports from to Baltimore, and I do not think that—I do not mind driving to Baltimore if I can get a cheaper rate. And we are going to talk about rates one of these days, too. Geez, we have got to do something about them.

But the point I am trying to make, though, I think there is no formula that is going to be fair, and we have got to give somebody the authority, or somewhere, to look at these case-by-case basis, because there are unique situations in all of our communities that need to be considered.

And I thank you for coming today.

Ms. VAN DE WATER. Thank you, Senator. If I may respond to that for a moment?

Senator LOTT. Could I get a clarification, too? I thought that the DOT proposal for the local community contribution was 25 percent——

Ms. VAN DE WATER. If you are——

Senator LOTT.—not 10 percent.

Ms. VAN DE WATER. It is 10 percent if you are farther than 210 miles or not accessible by highway. That would cover all the communities——

Senator LOTT. 25 percent——

Ms. VAN DE WATER.—in Montana, Alaska, and there would be special circumstances for Hawaii.

Senator LOTT. And then 25 percent——

Ms. VAN DE WATER. If you were closer than 210 miles.

Senator LOTT. Thank you.

Senator BURNS. Well, if you——

Ms. VAN DE WATER. Senator, if I could——

Senator BURNS.—want to respond——

Ms. VAN DE WATER.—respond to your point about "one size fits all," I agree with that, and we have tried to build some discretion into the program. The problem is, every time that the Department has discretion, we are asked to use the discretion to give service.

Let me give you an example of one community that is 68 miles, right now, from one of the largest east-coast hubs that there is. The carrier that served that community filed for EAS subsidy shortly after September 11th. We have denied it because it is within 68 miles of a large hub, which is within our statutory prohibition, again 70 miles. And we are now being sued by that community. We are in Federal court right now. It is taking up a tremendous amount of Department resources and staff time. It has come to the attention of the Secretary, as well. And that is a community that is 68 miles from one of the largest hubs on the East Coast. So it is a very difficult process to go through.

Senator BURNS. It is, and I recognize that. But nonetheless, there should be some sort of latitude and some way to isolate you away from those kind of lawsuits where basically, if you look at it, they are completely unreasonable and make work, probably, for some very aggressive young attorney.

So thank you, Mr. Chairman, for this hearing, because it is very, very important to our communities in a State like Montana, though.

Thank you very much.

Senator LOTT. Thank you, Senator Burns.

Senator Dorgan?

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

Senator DORGAN. First, Ms. Van de Water, let me say that I like the job you have done. I think you have done good work——

Ms. VAN DE WATER. Thank you, Senator.

Senator DORGAN.—in administering this program. And I know it is not easy. And I am plenty critical of those whose jobs I think have not been done well, but I think your stewardship there has been quite good and I appreciate that.

Ms. VAN DE WATER. Thank you, Senator.

Senator DORGAN. But having said that, I, of course, have great problems with the budget submitted by the Office of Management and Budget and the President. Let me ask you a couple of questions about them.

The Essential Air Service Program is cut in half, anticipating that cities and other entities will pick up part of the cost. It is the case, as you know and the Administration knows, that many of these cities are struggling financially. I mean, the fact is, you say, and you are quite correct, "We do not have money," or, you know, "We are in debt at this point, annual budget deficits, so we have got to cut back." But for exactly the same reason, because of a struggling economy, those cities that you want to assume more of the cost at this point would have great difficulty in doing that. Would you not concede that?

Ms. VAN DE WATER. I think that they would, Senator. However, through the Small Community Air Service Development Pilot Program, in particular, we have seen some expressions of interest in your State. In Bismarck, with their regional air service proposal, which was linking Billings and Sioux Falls and Rapid City, they were offering a very substantial match. And in fact, when we did the Devil's Lake renewal of EAS, I had a letter from the manager of the Jamestown Airport saying, and I quote from his letter, "I would enthusiastically welcome a discussion on a participatory venture concerning guaranteed ticket purchases coinciding with service from a larger aircraft."

So we have seen some expressions of interest from the community. If they have a greater say-so in what their service is and can tailor it to their needs, they are more willing to financially support it, and then there is a vested interest in supporting it.

Senator DORGAN. Well, now, going to the pilot program itself, the Administration recommends no additional funding at this point for the pilot——

Ms. VAN DE WATER. That is correct.

Senator DORGAN.—program. Tell me the purpose of that recommendation.

Ms. VAN DE WATER. The pilot program is an experimental pilot program that has allowed 40 communities to participate in this program. We fully funded, with $20 million in FY02, 40 communities. There is one community that did a one-year project. The other 39 did a two- or three-year project, including the ones in your State. And we do not have any discretion to continue the funding at a future time.

We are maxed at 40 communities. It was not 40 communities per year. Our counsel reads it as 40 communities total. Now, that was not our original understanding of the program, and we have asked Committee staff for clarification on that point, and that could perhaps be addressed in future legislation. But right now we are limited to 40 communities, and we have spent the $20 million to fund those 40——

Senator DORGAN. It seems to me——

Ms. VAN DE WATER.—proposals.

Senator DORGAN.—it seems to me the excitement and the energy by local governments and local communities about this program is exactly what the Administration would want. That is, some of these cities are taking a look at new, innovative, creative ways to stimulate and to support commercial air service that does not now exist. That is exactly what we would want to have happen, and I would hope that we would see additional funding for that in the future.

Ms. VAN DE WATER. Well, we are very hopeful to get very good feedback from this program. Again, the money has only been out there for about six months, so we do not have a lot of feedback yet. But we are hoping that it will create standards by which other small communities can use these ideas.

Senator DORGAN. Let me go back to the Essential Air Service Program, because people tend to focus on that part of the program that does not work or the edges where you can make a case that perhaps this is marginal. Tell me your impression, generally, of

EAS. Has it been—I assume that you believe it has been helpful to a good number of small communities who use it effectively for which the service is very important to their community.

Ms. VAN DE WATER. It is very important to many communities. Some communities do use it effectively. I have found the vast majority of communities whose renewals have come up during my time at the Department are not happy with their service. They either do not like the size of the aircraft, they do not like the frequencies, they do not like the hub that it goes to, and they do not like the fares.

I will say, of all the aviation issues that have come up, and I have been in office now since September of 2001, I have spent more time on EAS than any one issue out there. So communities are really not always happy with their service, and that is why we would like to give them a chance to change it and do something different—if it suits their needs; not because I am telling them they need to, but because they have the option to do so.

Senator DORGAN. Mr. Elliott, with the amount of money for the AIP program for airport improvements essentially stable in the Administration's request, with no growth, and with the need for some of it to have been spent for security purposes in the last year or two, is the AIP funding recommendation going to be sufficient, in your judgement?

Mr. ELLIOTT. Again, Senator, we are recommending $4 billion in the AIP for reauthorization and then an increase of $100 million. There is no doubt that the funding of TSA-required security-related equipment has had an impact on capacity and preservation projects. In Charlottesville alone, we are earmarking a portion of our funds to do some security-related equipment that otherwise had been dedicated to an airport capacity and safety-related project.

Senator DORGAN. And in your testimony, you expressed concern about the recommended funding level for EAS. You heard Ms. Van de Water's representation. I mean, Ms. Van de Water is here representing the Administration's budget, and she would not be in her job very long if she came to the Commerce Committee and criticized the budget recommendation that was sent to us, so I understood what her answers would be before I asked her the question. But tell me your assessment of the recommendation, some $50 million plus the local contributions.

Mr. ELLIOTT. Well, again, in terms of the local contribution, and I can only speak for our region, which, again, is not an EAS participant—but Charlottesville area is one of the most affluent areas in the United States, and yet its local budget is only going to be able to glean 1 million additional dollars in revenue this year, and the majority of that $1 million is going to State-funded mandates. So if a community that is as affluent as our region has difficulty raising revenue in this tough economic time and most of that revenue must go to State mandates, there seems to me to be very little revenue left out there that they could scrape together to match those EAS requirements.

Now, in terms of the additional money or keeping the $113 million appropriation, you have to look at the cost of flying one segment mile of an aircraft. Labor costs have certainly increased. Fuel

costs are at an unprecedented level than they have ever been, as high as they have been. Those things combined, they just create the additional cost.

Senator DORGAN. Ms. Van de Water, just two additional questions. I was the author of the legislation that connected funding from overflights by foreign carriers to help provide some stable funding for EAS some years ago. As you know, we used to fight in the Appropriations Committee every year about that funding. It was somewhere around the $25–27 million level. I was able to get it authorized at double that and connect its funding to overflights. And then, since that time, we have done even better. So I have, you know, some real concern about EAS and affection for EAS, for good reason. And so I want the Administration to really strongly support it.

As I indicated when I started, I like your stewardship of the program, personally, but it needs to be funded. And in your recommendations, you not only propose cuts, but you propose local contributions, and then you talk about ground transportation as a substitute. Can you describe what you mean by that?

Ms. VAN DE WATER. Absolutely. Let me give you the example of Prescott, Arizona, which is about 78 miles from Phoenix, which, of course, is a large hub, and hub to America West and has a lot of Southwest——

Senator DORGAN. How many miles——

Ms. VAN DE WATER.—service.

Senator DORGAN.—is it?

Ms. VAN DE WATER. It is about 98 miles, I believe. We have two roundtrips a day on a subsidized EAS carrier, morning and evening, that carry an average of 25 passengers a day.

Senator DORGAN. What equipment?

Ms. VAN DE WATER. Nineteen-seat aircraft, I believe. And the Federal subsidy each way is $70, and then there is an additional $70, basically, that the airline charges, so it is $140 each way. There is a shuttle service that we found online called "ShuttleU," and "ShuttleU" carries an average of 106 passengers a day from Prescott to Phoenix. They charge $26 each way. They leave 12 different times throughout the day. To me, that shows that some communities—and, again, this would be community choice—may be better served with a subsidy of $26 where you are taken from your local town to the airport, the hub airport, in perhaps about the same amount of time, with times throughout the day which is more convenient for your connection. There is clearly a market there. Many times, more people go that way than they do on the EAS carrier. So, again, that is something we would put back to the communities and let Prescott make that kind of choice.

Senator DORGAN. You would not impose that on them.

Ms. VAN DE WATER. No, sir, we are not imposing——

Senator DORGAN. All right.

Ms. VAN DE WATER.—that on Prescott.

Senator DORGAN. Thank you for your responses. Mr. Elliott, thank you; and Ms. Hecker, thank you.

Senator LOTT. I think that is the kind of innovative thing we need to try to do more of.

Senator Rockefeller?

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

Senator ROCKEFELLER. Thank you.

This is just some reflections. One of the things that we somehow do not talk about when we are talking about Essential Air Service and the airport AIDP program is the fact that the world has changed in the last two years and that—I was just telling the Chairman of the Subcommittee that in West Virginia, there are 14 communities that have over 10,000 people, period. Now, most of them have an airport. And in fact, the largest of them is around 47,000 people. That does not make an enormous tax base.

Now, one of the things that we never talk about is that since 9/11 and since the calling up of the National Guard and the emergency-service people, you are finding huge shortages in these communities for what you would call other totally essential services, like police, fire people, professional volunteers, those kinds of folks, so that when a—I was visiting with the city of Clarksburg yesterday, and they were describing how they had lost four police people and they had decided, in a remarkable decision, I think, to keep them on salary while they were in service overseas, which I think is a remarkable decision for a very small community, and a very humane decision, so their families do not starve.

Now, in the meantime, if they go and hire somebody, in that the people going overseas are signed up for a year, obviously they have to then pay those people when the person comes back, because of Civil Service rules and other things, they cannot get rid of the person they hired to take that person's place. And so they cannot afford to do it, so they do not. So that in fire service and police service and other basic forms of protection, which is not the subject of aviation, but which is the subject of people's lives in the most strenuous sense, these communities are being deprived, for this period of time and I think for quite a long period in the foreseeable future, of revenues to be able to match. To be able to match. And I think that needs to be—to match air service fees of whatever sorts.

That also does not take into account what is going to happen when, as I think will happen, there will be attacks on this country, what will happen to the airline industry. I am about to go to Finance Committee. The Pension and Benefit Guaranty Corporation, about 40 percent of all of their losses are attributed, so far, to airlines. And that figures to go way up if we have more of this, so that airlines then start—they are already losing $7 to $10 billion, and to some analysts that goes to $15–20 billion. What are we going to do about that? Less service. And who is at the end of the food chain? The communities in Charleston, West Virginia, and West Virginia and Alaska and every place that you see, person that you see, here before you sitting around in this Committee table.

So I want to make that point. AIDP was an extraordinary program. You mentioned, Mr. Elliott, Charleston, West Virginia. Charleston, West Virginia, in fact, was probably one of the leaders in the country because of that program in terms of what it did to turn itself around. All of its—15 percent of its passengers have been driving to Cincinnati to catch Southwest because they had lower fares. That is the question that the senator from Montana

pointed out. Well, you just cannot say, "Do not do it." You will have to pay driving and gas and overnight and all the rest of it. You have to advertise. You have to market. You talked about that. Shenandoah has been another airport in your area which has done that and done quite well in increasing their passenger load, but there are enormous requirements to make this work.

So I just want to put on notice that we cannot just take this program, AIDP or EAS, in the pretension that the world is the same as it was when we created it or where we were four or five years ago. It is all different, and small communities have much less money. In fact, they are all in debt. Many of them are in debt. In fact, the States are all in debt, the Federal Government is in debt. The Federal Government is in deficit. You know, it is just one thing after another, but you cannot cut off air service. You cannot do that. I mean, that is like cutting off blood supply to hospitals. It is not something that we can contemplate having happen.

And therefore—and I understand the constraints of testimony in OMB and the particular nature of the director of OMB and how he likes to make life tough for you; but, in the meantime, he is killing us and it is killing our futures. So it is like the terrorists are getting their way by doing nothing, just by being either a presence that might do something or a presence which when it does do something will make everything much worse.

Now, that was not Shakespeare, and I admit that. But my point is that we have to have this, and I, if nobody else, am going to introduce legislation. We need this AIDP to up to $100 million over a period of three years. There was $140 million worth of requests made, or maybe more. Maybe it was 180, 140, I think it was.

Ms. VAN DE WATER. $143 million——

Senator ROCKEFELLER. Yeah.

Ms. VAN DE WATER.—was requested for the small community pilot program.

Senator ROCKEFELLER. Yeah. And it is limited to 20. It should be—or 40——

Ms. VAN DE WATER. 20 million for 40 projects.

Senator ROCKEFELLER.—for 40 projects, okay. And so it needs to go up, because the hardship is going to increase tremendously.

So I would just make a full-blooded statement that OMB, to the contrary, that this country depends upon a number of things in particularly unique ways, and air service is one of them, because otherwise things just close down, people get shut off, and we all become like Senator Inouye's Hawaii. In fact, we become islands of isolation, and particularly when you are in the mountains of Appalachia that is likely to happen.

So I will never yield or give up on this program and will introduce legislation, I hope with the support of my colleagues, to fight for these small airports which are doing everything in the world they can to improve themselves. And West Virginia has been a huge—all the airports have made huge improvements in the last year and a half, primarily because of AIDP.

Thank you, Mr. Chairman.

Senator LOTT. Thank you, Senator Rockefeller.

Senator Lautenberg?

STATEMENT OF HON. FRANK LAUTENBERG, U.S. SENATOR FROM NEW JERSEY

Senator LAUTENBERG. Thank you, Mr. Chairman.

And first, I ask unanimous consent that my full statement be included in the record——

Senator LOTT. Without objection, so ordered.

Senator LAUTENBERG.—as if read.

[The statement of Senator Lautenberg follows:]

PREPARED STATEMENT OF HON. FRANK LAUTENBERG, U.S. SENATOR FROM NEW JERSEY

Mr. Chairman, I feel air service to small and rural communities is an important component in our nation's transportation system. Since deregulation of the aviation industry, programs like Essential Air Service have helped to prevent air carriers from dropping service to many small communities altogether and leaving many citizens with very few effective transportation options.

I would like to point out that airports in the State of New Jersey are not direct beneficiaries of these federal programs providing air service to smaller markets. New Jerseyans have convenient access to large hub airports; we and others in the Northeast can even take Amtrak to and from Newark International Airport on an rail-air connection. New Jersey's transportation system, like that of many states, has problems, including congestion, capacity, and pollution concerns. Fortunately, lack of air service to rural areas is not a major one for our State.

I support essential air service. Not because New Jersey needs it, but because our national transportation system needs it. People in remote communities throughout the country need it. And I am hopeful that my colleagues recognize that we must act in the best interests of all of our citizens when we consider possible changes to our nation's transportation system.

As a former businessman, I can appreciate the fact that the economics don't always justify offering a good or service in a particular market and where the private market fails to offer sufficient inducements, the Federal Government needs to step in and provide a public good—in this case, air service to some small towns. The same principle applies to the public good of intercity rail service.

We need to hold carriers to promises made during the deregulation era and maintain a truly national public transportation system. We must not allow programs like EAS to "wither on the vine."

I look forward to hearing from our witnesses here today.

Senator LAUTENBERG. The essence of my statement is to say that we support Essential Air Service. I know that it is a vital connection for so many communities. And it is particularly noteworthy that several of those communities were represented by senators who are sitting at the table today.

The fact is that I consider that this is a national need, Essential Air Service, that the remoteness of a community should not determine whether or not it has contact with the rest of the infrastructure in our country. And it is really odd, because when I listen to our friend, Senator Stevens, and hear about the remote places that you cannot get to from here, I think of the places that are so heavily occupied that you cannot get there from here either, and that brings in to a discussion another phase, and that is that we need to make sure that we have highspeed intercity rail.

And the senator from West Virginia reminded us that, 9/11, everything changed in our world, and they are not going back. That is the tragedy. And when you think about it, and you think that the whole aviation system could be shut down by a single incident, it was something that even the most ambitious fiction writer could never have dreamed up and sold off a bookstand.

And so we are here. And in this Committee, I have heard discussions about highspeed rail, Amtrak, and what a cash guzzler it is without discussing the service that it renders. The service that it renders is essential because you cannot—in a country our size and that dynamic, you cannot allow a single important mode of transportation not to be reviewed and included if it can make a contribution to the ease of movement. In the New York Harbor area where we lost almost 3,000 people in one day, we pressed into service ferries that were nonexistent just 15 years ago. I happen to know the company very well who provided that service and realized how important it was.

Amtrak. We had a congressional delegation come up, Mr. Chairman, and they had to come up by Amtrak. There was no choice. We did not have air service. It was shut down.

And so when we look at the value compared to the cost, and I think that is where Senator Rockefeller was going, you look at the essentiality of the service. It is critical. Essential Air Service—I have been to Alaska, I have been to Hawaii, and I would be interested in going on a review trip very soon.

[Laughter.]

Senator LAUTENBERG. But the fact is that these remote places have to be there whether we choose to live there or not. That is part of the balance in our society.

And so when look at the costs, and I think it is essential that we try to program things in a way—and, Mr. Elliott, the people in Charlotteville may not like the fact that you announced their high per-capita income, but the fact of the matter is that maybe there ought to be some kind of a means test for an area, and that will help you determine what the cost for a subsidy ought to be.

When New Jersey sends down its contribution to the Federal Government, be it gas taxes or other things, and we have a prosperous State, and our prosperity costs us a lot of money, I often get abused because we do not get the share of the gas-tax dollar back that we would like to see or other taxes. New Jersey is 49th in return on the Federal dollar in terms of taxes sent here and returns sent back there.

And I would love to go, as the Chairman of this Committee, distinguished Chairman, has suggested many times, give us a hundred cents on the dollar. Boy, New Jersey, they would have me as the local hero for ten minutes, I know they would, if we could get a hundred cents on the dollar. And I am hoping that as we consider this—and I support Essential Air Service. I make no bones about it.

And Ms. Van de Water, I think that your comments and your expression indicates that you, too, would like to see it—and you represent the Department—also would like to see us furnish that kind of grant and opportunity for communities.

Ms. VAN DE WATER. I think Secretary Mineta has made it very clear, Senator, he is a very strong supporter of the EAS program, and that is why he has directed us to find a way to make EAS continue to work, living under the budget constraints that we live under. It has not been substantially reformed since 1978.

Senator LAUTENBERG. Well, I hope that we can come up with a way of financing the program so that it provides the basic service

that is required. I hope that as we consider transportation needs, that we look at all modes and ask ourselves what is fair.

When you look at aviation and the condition of the airlines, the financial conditions, it has one scratching one's head because the revenue was robust, salaries at the top were pretty darn good, and suddenly now there is a $15 billion-or-so request for subsidy to save them from going under. The service they supply is an essential service, but we have to look at it. What is there about the industry that says, "Buy whatever equipment you can and, uh-oh, we have got too much. Now went want the taxpayers to bail us out"?

And so, Mr. Chairman, I am sorry to take up that much time, but when I see that 66 million people, 27 percent of the United States population, is serviced by the Northeast Corridor, serviced from Virginia up into Maine, Senator, all the way to Maine, and that we have a real stake in what takes place here. And as we look at Essential Air Service, we must look at surface transportation, including the railroads, to see what we can do with all modes of transportation.

Thank you very much, Mr. Chairman.

Senator LOTT. Senator Snowe?

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

Senator SNOWE. Thank you, Mr. Chairman.

I think it is unquestionable that there has been a diminution of service to small communities since the deregulation of the airline industry in 1978. When I think back to the kind of air service that existed in the State of Maine prior to the deregulatory period, we had, unquestionably, superb service, even within the State, let alone connections to other parts of the country.

Essential Air Service, and the name of that program is virtually that, it is essential, and I am very concerned about the direction that this proposal is moving in, because undoubtedly it is going to wreak havoc on those communities that depend upon it.

You may say that there are choices. And every time choices are raised, I sometimes think it is a euphemism for "cuts" and actually very little in terms of services. When you are talking about the fact that communities will then be able to make choices under these innovative proposals, yes, but not exactly.

In Presque Isle, Maine, for example, the mileage to the nearest hub airport in Maine is 276 miles. That would be great even in the summertime, in terms of traveling. Talk about winter, 276 miles. So the choice is going to be, okay, if you want air service, then Presque Isle, Maine, is going to have to provide a local match of $246,752. I do not know what choice that is.

Ms. VAN DE WATER. Senator——

Senator SNOWE. Essential Air Service, you know, actually moved in in the year 2000 and provided service to Presque Isle, Maine, because the last carrier moved out.

Ms. VAN DE WATER. Right. Right.

Senator SNOWE. I mean, what we are doing by the direction and the nature of the Administration's proposal is to further isolate communities that depend on Essential Air Service for economic de-

velopment. It is a lifeline for economic development. I hear that time and again from my small communities.

We do not have options like trains, other than Amtrak, which has come to Portland recently for the first time. Bus service? I mean, we are talking about arduous travel, let alone in the wintertime—276 miles to Portland, Maine, from Presque Isle?

Ms. VAN DE WATER. No one is trying to take air service from——

Senator SNOWE. But you——

Ms. VAN DE WATER.—Presque Isle, Senator.

Senator SNOWE.—but the point is, they are going to be required to pay $246,000. Am I clear in that understanding here?

Ms. VAN DE WATER. Yes, they would be provided——

Senator SNOWE. It is a local——

Ms. VAN DE WATER.—they would be asked to pay, I believe 10 percent——

Senator SNOWE. Well——

Ms. VAN DE WATER.—of their service.

Senator SNOWE. That is right. And so it is not a choice, because that is going to wreak hardship on the communities. I do not understand, for a proposal that was $113 million, being reduced by 50 percent that has served many areas of the country well. 300 communities—300 communities, the EAS communities—have been lost since deregulation, since 1978. We are moving it in totally opposite direction. We should be doing all that we can to help build air service to these communities wherever and whenever it is possible. And we are talking about a very limited, small program to help those communities that are in the greatest need and that perhaps are in the greatest isolation. I do not see it as an option to take a bus.

Ms. VAN DE WATER. That is not the kind of option we meant.

Senator SNOWE. I mean, you can. I am not saying you cannot. But we are dealing in a time where transportation has become everything. And when you talk about the cost of the EAS program, I say look at the costs overall in the airline industry. No question, they are going up all across the Nation. But you know, the costs go up in these communities because there are no choices and there is no competition. They would love to have competition. Even our best airport in Portland faces competition, and that is the biggest airport, let alone talking about airports in Augusta, Bar Harbor, Presque Isle, or Rockland, Maine.

So, I know that you are representing the Administration's proposal on this, but I will tell you that you will face fierce opposition from me, because I think it is wrong to heap this kind of mandate on communities at this point in time. It was bad enough before 2001, September 11th. You can only imagine, in the aftermath, these communities desperately need this kind of service.

Now, I also understand, and I would like to have you speak to this point about—I hear that the Administration may be proposing peak pricing suggestions for congested time periods at major airports. Again, that will clearly work against small States and small communities, because there is no way they are going to compete when it comes to having the more favored landing or departure at major airports with larger aircraft and with the larger airlines.

And so I hope that you do not move in that direction, because that is highly discriminatory.

I know this proposal was raised a number of years ago, and many of us in the small communities opposed it because it would work adversely against smaller communities in small States. There is no way you can compete for access to the bigger airports if you move in that direction. So I hope that you will not be inclined to make such a proposal, because that would add to the further devastation of the quality air service that these small communities certainly deserve.

Ms. VAN DE WATER. If I may speak to both your points——

Senator SNOWE. Yes.

Ms. VAN DE WATER.—Senator? As far as Presque Isle goes, we are not suggesting that Presque Isle folks hop on the bus and ride to Portland. That is obviously a very long journey. However, Presque Isle did apply and received a Small Community Pilot Program grant for which they provided $100,000 local match because they wanted to experiment with service to Portland, which EAS does not offer. That is the kind of program we think is innovative and that the community is in the best position to determine. And again, they matched it with, I believe, a 20 percent match, $100,000. So now Presque Isle will have service to Boston, which is their designated EAS hub and to Portland. I know they have gotten off to a slow start, because they, I believe, have had a change recently in their——

Senator SNOWE. Uh-huh.

Ms. VAN DE WATER.—airport manager, but we are looking forward to hearing the success of that program. But they pitched it very aggressively, offered a very substantial local buy-in and said that they would do a very aggressive marketing campaign to try to increase ridership on this service to make it successful. And that is something the EAS program cannot offer them.

Senator SNOWE. Yeah, but in—but they may not be able to offer them, but that is in addition to the EAS.

Ms. VAN DE WATER. It is in addition——

Senator SNOWE. Okay, so——

Ms. VAN DE WATER.—to the EAS.

Senator SNOWE. But under the EAS program, as you are proposing, you would be now requiring a local match, depending on how close you are to——

Ms. VAN DE WATER. Yes, they would be——

Senator SNOWE.—a large or medium hub.

Ms. VAN DE WATER.—in the 10 percent, I believe.

Senator SNOWE. That is right. So that is $246,000.

Ms. VAN DE WATER. That is.

Senator SNOWE. So that, I think, obviates the ability of these communities to have that as an option, potentially. I mean, you——

Ms. VAN DE WATER. But, Senator——

Senator SNOWE.—could say, well, if they need it, they will provide it. But you have to understand. We are talking about a region that has already been devastated. They had a major military installation that was closed ten years ago. We lost 10,000 people in that county alone—10,000. That is larger than most communities

in Maine. And now we just saw the closing of a major paper industry, more than 1130 jobs, that is just adjacent to this town.

So I guess all I am suggesting is that you may be saying you are providing choices, but it is not exactly, because you are requiring a local match, and that local match is going to be hard to come by——

Ms. VAN DE WATER. I understand that, Senator. We are hoping——

Senator SNOWE.—especially in these difficult economic times.

Ms. VAN DE WATER.—we are hoping States will——

Senator SNOWE. And I just want——

Ms. VAN DE WATER.—look at their air service as a whole. You also have communities in Maine that are only about 55 miles from Portland but also received subsidized EAS service. So we are hoping that the State DOTs or their equivalent in the State government, will take a look at the communities as a whole and decide how to best allocate their resources.

Senator SNOWE. Thank you. And I ask unanimous consent to include my statement in the record.

Senator LOTT. Without objection, so ordered.

[The statement of Senator Snowe follows:]

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

Thank you Mr. Chairman, for holding this hearing on air service to small communities, which is of vital importance—especially to those of us from rural states.

Mr. Chairman, I have always believed that adequate, reliable air service in our nation's rural areas is not simply a luxury or a convenience. It is an imperative. And quite frankly, I have serious concerns about the impact deregulation of the airline industry has had on small and medium size cities in rural areas, like Maine. That fact is, since deregulation, many small and medium-size communities, in Maine and elsewhere, have experienced a decrease in flights and size of aircraft while seeing an increase in fares. More than 300 have lost air service altogether.

Due to my concern about these troubling trends in air service to small communities since deregulation, I asked the General Accounting Office (GAO) to conduct an extensive review of the hurdles to regional jet service in rural communities. In March 2002, GAO's first report showed that small communities had almost 20 percent fewer departures in October 2001, as compared to October 2000. In January 2003, GAO issued the second part of the study, which shows that small communities are facing increasingly difficult challenges not only in attracting new air service, but also in retaining their current service. The results of the GAO's work are sobering, and provide a clear picture of small community air service challenges that we must keep in mind as we work to reauthorize AIR–21.

Given these challenges, I was concerned to learn about the President's Fiscal Year 2004 budget proposal for the Essential Air Service (EAS) program. EAS assures service to 125 small communities throughout the nation, including four airports in Maine—Augusta, Bar Harbor, Rockland, and Presque Isle—that might otherwise not have air service. The President's budget requests $50 million for the program in FY 2004, down from $113 million in the FY 2003 Omnibus Appropriations bill. The budget is also proposing significant changes to EAS to target subsidies only to the most remote communities, and will require local support through matching funds.

GAO's work has shown that the number of communities eligible for the EAS program has increased sharply over the past few years, and may continue to grow in the near term. Why, then, are we talking about cutting the program's budget by 55 percent? Furthermore, I am particularly concerned about the proposed community matching funds, as EAS-eligible communities typically have financial problems of their own and rely on the program for economic development purposes. I fear that if this proposal were enacted, it would mean the end of EAS service in Maine.

GAO's recent work has implications for another federal program designed to promote air service to small communities. During the last FAA reauthorization bill, I was a strong supporter of the establishment of the Small Community Air Service

Development Program. These grants are targeted at helping small communities like Presque Isle, Maine overcome the hurdles they face in attracting reliable, high-quality air service. According to the Department of Transportation, they received grant applications totaling $140 million for the $20 million available for the first round of grants in FY 2002. Given the fact that, currently, demand for these grants so far exceeds available funding, I believe that we should reauthorize the program and settle on a funding figure that reflects small community demand.

Mr. Chairman, that fact is that many air carriers are experiencing an unprecedented financial crisis, and the first routes on the chopping block will be those to small- and medium-sized communities. This will only increase demand for the two federal forms of assistance, EAS and the Small Community Grant Program. Today, we will be considering what steps we can take to help small communities maintain their access to the national transportation system during these difficult times.

In closing, the truth is, everyone benefits when our nation is at its strongest economically. Most importantly in this case, greater prosperity everywhere, including in rural America, will, in the long run, mean more passengers for the airlines. Therefore, it is very much in our national interests to ensure that every region has at least reasonable access to air service. And that's why I strongly believe the Federal Government has an obligation to exercise its critical oversight responsibility with regard to our air carrier system.

Thank you, Mr. Chairman.

Senator LOTT. Senator Inouye, you have been very patient. Thank you for staying, sir.

STATEMENT OF HON. DANIEL K. INOUYE, U.S. SENATOR FROM HAWAII

Senator INOUYE. Thank you very much.

Madam Secretary, before I proceed, I would like to thank you on behalf of the people of Hawaii for your very sensitive way in which you have approached our problem. And what I am about to relay to the Committee here is not for you, because you are well aware of this situation.

In the early 1800s, about 1830, the Health Department of the Kingdom of Hawaii during the time of Kamehameha III noted the presence of leprosy. We call it Hansen's disease today. And they were so horrified because of the biblical implications and such that they wanted to find someplace in Hawaii so isolated, so desolate, that no one could ever escape. And they found a place, called Kalaupapa, surrounded by huge waves and rocks, a cliff on one end. Only a goat could ever traverse up and down. And the original patients were brought near the peninsula, thrown overboard, and, if they could swim, they would swim to shore and live; otherwise, they would die.

Fortunately, a group of Catholic nuns and priests decided to take this as their cause, and today one of the priests will become a saint, Father Damien. I am not speaking of economic development, because there is no economic development there. This is a community made up of patients, doctors, and Federal workers, because it is a national park.

And as you have pointed out, there is no one solution for every case, and I would like to work out something with you. Because in this situation, the county of Kalawao—incidently, that little peninsula is a county, because no other county wanted to touch this—and Kalaupapa belongs to that county. And any matching fund would be just impossible to meet, because there is no income there. And furthermore, in other smaller communities you do have competing services, but here no one wants to touch that because you

will get tainted. And once you provide services for the patients, other people do not want to ride those planes.

And so we have this almost impossible situation, Mr. Chairman. And if, under this proposal, they are required to match, the match would be over $300 per patient there. And with a situation where they have no income of their own, something has to be done.

The other place that I am certain you have heard about is Hana. It is actually 30 miles from Kahului, an airport there. But in order to get from Kahului to Hana, one has to go over 32 single-lane bridges, crossing 32 streams and rivers. It is so treacherous that very few cars ever make it. In fact, daily traffic is about five cars. People do not want to take that and risk that situation. And so it is almost as isolated as Kalaupapa.

And I am hoping that we can work out something to, well, resolve this problem and address the uniqueness of Kalaupapa and Hana.

And I thank you very much.

Ms. VAN DE WATER. Thank you, Senator. We would like to work with you on that.

Senator LOTT. Thank you, Senator Inouye.

Allow me to ask some questions of each one of you. First of all, Ms. Van de Meter—Van de Water—I got the "Ms.," but I messed up the last part.

[Laughter.]

Ms. VAN DE WATER. "Read" is actually a lot easier.

Senator LOTT. All right. Well, thank you. You have done an excellent job here today. And obviously——

Ms. VAN DE WATER. Thank you.

Senator LOTT.—you have worked with a number of these senators. You can tell from their comments and your response. But you did indicate that EAS has not been reformed since 1978, although I understand in the budget there is only one paragraph about this issue. Do you plan to have some reform proposals in the FAA reauthorization that will be coming from the Administration?

Ms. VAN DE WATER. Yes. Yes, Senator, we do hope to. It will embellish somewhat on what we have put in the budget proposal, but not be substantially different.

Senator LOTT. So there is not much——

Ms. VAN DE WATER. Not much.

Senator LOTT.—that you are proposing in reform at this time.

Ms. VAN DE WATER. Well, what we are proposing is the local match, which is actually fairly substantial, particularly from the communities' point of view. But we are, for the first time, which I think is substantial, giving communities an option of encouraging different kinds of services that work best for their communities. There is no option in the EAS program right now, except for Alaska. You basically get two, maybe three, roundtrips on a small turboprop airplane to whichever hub the airline wants to take you to, and that is a contract they enter into with the Department. So there is very little flexibility there.

Senator LOTT. Well, I think there should be more flexibility. And unlike most of the Senators that have made comments or asked questions today, I think that local communities do have some responsibility, especially those that can perhaps afford some match.

Now, that—therein is the difficulty. You begin—if my area in Mississippi has to come up with a 25 percent match, but somebody in Louisiana or Hawaii or Alaska does not, then you, you know, you will be hearing from me probably on that.

But I do think this is a local service. It has economic impact. I was shocked recently to see that aviation industry is 11 percent of the GDP in my State. We only have seven airports that are getting significant air service, but when you factor in the airports and what it does in terms of being able to attract jobs, it has a real impact.

But I do want to ask this question. Do you have an estimate of how many communities would lose service under your new proposal?

Ms. VAN DE WATER. We do not know for sure, Senator, because it depends on how communities respond to the idea of paying for part of their service, which obviously stretches our Federal dollars further.

We also hope that there will be some regionalization of service. For example, there are two communities represented in a State that was here earlier which are only about 50 miles apart from each other, and yet they each get a stop on EAS, that perhaps this State will come together with the communities and say, "It would be less expensive to stop at one of you"——

Senator LOTT. Right.

Ms. VAN DE WATER.—"to have the service," which would save the State and the community money and still provide access to the national air transportation system. The GAO has, what, 19 or 20 different such groups of communities across the country.

Senator LOTT. Okay. Two more questions for you, and then I would like to ask the others a couple of questions.

Let me turn the argument around from what you have already heard here. It is my understanding that the Secretary would distribute the EAS funds beginning with the most isolated community willing to provide the match. Some of the most isolated communities are the ones that are being provided the highest subsidies. So, you know, my question would be, What rationale was used to determine this formula? Would it not make more sense to begin with the most effective airports in the program?

Ms. VAN DE WATER. Well, Senator, unfortunately, some of the ones that are the most isolated are the ones that cost the most to get to. Senator Stevens made an excellent point that that would include all of his EAS communities, as well as the ones in Hawaii, the ones in Montana, Nebraska, and North Dakota. Those are the ones that actually do have the fewest options. It is not easy to jump in a car and drive to an airport from those communities. So that is why we started with the ones that are the most geographically isolated, not the ones that are necessarily the most efficient, because their options are truly limited.

Senator LOTT. Or they having the greatest effect. I have sympathy with the situation in Alaska, for instance. But it sounds to me like you are going to cut the money back, you are going to wind up, you know, getting through to doing those that are the most remote and you are not going to get those that maybe really need it the most, in terms of affecting the community and doing an effi-

cient job, an effective job. I am a little worried about that, especially if we do have a reduction in the amount of funds that is available and if Congress, for instance, does not go along with the match.

Now, the other program, the Small Community Pilot Program, you indicated, I think, that it worked pretty well, seemed to encourage innovative ideas. And I think I understood you to infer, "Well, we are only doing—we are not doing it anymore and did not have any more in the budget because we only had 20 million for 40 of these and we have done that," and you even indicated that you were looking to the Committee for maybe some indication of the legislative history. But I think if it has worked and if it has led to some innovative efforts by these local communities, that might be something we would want to continue.

Ms. VAN DE WATER. Senator, the early indications are that there have been some very innovative ideas. But again, the money has only been out there since September and October for most communities, so we do not know yet whether it works. We certainly hope that it works and it will provide a template for other communities, but, you know, the word is just not in on that yet. We hope to get some very substantial progress reports from the communities in the early summer months, and we will be better able to answer that question then.

Senator LOTT. I have one of my communities that did take advantage of it, and it seems to be working really great.

Ms. VAN DE WATER. And they had a very decent local match, as well, Senator——

Senator LOTT. Right. Right. Very good.

Ms. VAN DE WATER.—which shows that they were interested in chipping in when they could have some say-so in the service.

Senator LOTT. Ms. Hecker, in a previous GAO report, you found that Federal fiscal discipline may require various changes in the EAS program. You talked about changing eligibility criteria, requiring community matches, consolidating service to multiple communities, and changing the subsidy to a grant. Do you want to emphasize or focus on any one of those that you think would be the most important?

Ms. HECKER. Well, basically, we think, as has been discussed here today, that one size does not fit all, that some kinds of flexibility are needed to engender a program that would provide more sustainable service over time. So in that sense, I think we support and endorse the proposal.

I think the open issues that we have heard that are confronting the Congress here are the issues of funding. If you make these changes, what will it cost? What you have been presented is a proposal that the net public cost will be $50 million. One of the issues is what really would it cost with these proposed streamlined eligibility requirements that had some flexibility, and whether $50 million is really the amount.

The other issue that has been discussed here today is the issue of the local match. Our work clearly showed that some kind of local commitment made an absolute difference. But whether it is feasible in all communities or what the match would be—whether the 10 percent is the best figure. We have seen some of these travel

banks, where the local contribution would not be in terms of a financial commitment like up-front cash, but community commitment to use the service.

So there may be some options that represent a local commitment to actually use the service, rather than just this flat 10 percent of the subsidy amount.

Senator LOTT. Mr. Elliott, do you want to add anything? You look like you were wanting to respond to some of these comments or questions.

Mr. ELLIOTT. Well, I think the point about travel banks is certainly a new and creative idea that some communities have utilized in terms of the Small Community Air Service Development Program.

I think another key thing that you will find in those communities that have had early success is a partnership with the airlines, clearly going in with the airline ahead of time as part of the application process and receiving some soft commitment from the airline that if the funding is received, the service will follow. And I think that is what you have seen occur in places like Charleston and Daytona Beach. However, I think, from the community standpoint, there has to be a sense of urgency related to their air service in order to get buy-in on a travel bank.

Senator LOTT. Other than continuing EAS and maybe even funding it at a higher level, can you think of anything else that we can do that would support and promote air service to small and rural communities?

Mr. ELLIOTT. Well, Senator, Mr. Chairman, I am not here today, again, to say that one size fits all. In Charlottesville, we have been fairly successful in boosting our air service since deregulation. In fact, we have been a success story. In deregulation, we only had boardings of maybe 50,000 to 60,000 people a year. Now we are up to 170,000, and we connect to over seven hub airports on the East Coast. We have regional jet service six times a day to two of Delta's hubs, Cincinnati and Atlanta. So we have been very successful.

However, the dark clouds are still not going away. We lie in the shadows of a major international hub at Dulles and a very competing small-hub airport in Richmond, and I wish we only had a diversion factor of 10 to 15 percent. Unfortunately, ours is 35 percent. So there are some lost economies even in our market that people are driving to option air service at other markets.

It has to do with the affordability, as I mentioned earlier, having access, reliable service, and economical service are all important. There is a point at which people will decide to get in their cars and drive. And until we can get into those pricing mechanisms, which a travel bank does, which some forms of subsidy do provide, it is going to be very difficult for small communities to compete with larger airports.

Senator LOTT. It does sound like you have done a really good job. It also sounds like you might be a good case that could afford a match.

Mr. ELLIOTT. Yes, we——

Senator LOTT. You have got a——

Mr. ELLIOTT. In fact——

Senator LOTT. You know, you said it yourself, you have got a highly educated, pretty well-off community, and probably they could work with the airline and do other things and could come up with some sort of match.

Mr. ELLIOTT. Our case with Delta's connection with regional jet service to Atlanta was just that. We were able to take some State funding through the Commonwealth of Virginia and match it with airport funds to come up with promotion and advertising efforts for about three months that involved print, radio, and television to really canvas our community. Those are the kinds of things you are also seeing in the applications for the Small Community Air Service Development Program. And if we decide to apply, would be—in FY03—we would be proposing the same kinds of things with other carriers.

Senator LOTT. Senator Brownback, I am going to turn this meeting over to you, so feel free to ask questions as long as you desire or they would stay and wrap it up when you get through if you would not mind.

Thank you very much, panel, for your testimony.

STATEMENT OF HON. SAM BROWNBACK, U.S. SENATOR FROM KANSAS

Senator BROWNBACK. Thank you very much. Thank you, Mr. Chairman, Senator Lott, for hosting this. This is an important hearing, and I apologize for being in and out of the hearing for the other hearings that I had going on. Thank the panel for being here and their presentations.

I wanted to make a point about the Essential Air Service for my State. This is a program I have been working with for a period of years, and so I have got some ideas of its strength and some of the difficulties with the program, as well.

I have got a chart here about the seven communities in my State that are supported by Essential Air Service or receive some form of subsidy to these communities. Within Kansas, we do not have, in the State, a major hub airport in the entire State. Wichita has got a small hub facility, but it is one where we do not have as competitive an airline situation as what we would like to have. Consequently, we are left with a number of people in the State commuting substantial distances to be able to get to some sort of airport facility.

We actually have seven Essential Air Service facilities within the State. It is a very important service. Without it, we would have some people driving several hundred miles to try to get to some sort of reasonably competitive airport facility.

I point that out as an area that we have a strong need in. It is a program that has worked to be able to provide competitive airport transportation for individuals that otherwise would not have access to it.

Also I want to point out some of these numbers are not huge numbers to be able to make this competitive. For instance, Manhattan, Kansas, which we refer to as The Little Apple, receives 388,000 in the EAS program, less than half a million dollars. That does not register on some calculators in Washington. In The Little Apple, it makes a huge difference. It makes it competitive for us

to be able to use this service so that people do not have to drive a huge distance to be able to get access to an airport facility.

We have fought with the program over the years in some places to keep it open. It really does make a huge difference in its opportunities and in its possibilities. I am concerned about how some of the restructuring of the program is being considered. As I look at it, a number of my Kansas communities likely may not qualify in a restructured program, as it is being put forward. If that is the case, we are just going to lose. We will lose air service in some of those facilities.

I hope, when looking at restructuring this program, if, indeed, that is what takes place, that you consider the geographic region, the size, and the distance people would have to go to be able to get to some sort of airport. I know that is being considered as a factor. I hope it is a primary factor, because there are a lot of places where you can drive a hundred miles to be able to get to an airport. It is well over 200 miles in many of those areas.

Most of these comments I think were probably covered by panel members at different points during this testimony. I apologize for repeating it. I wanted to make it particular to what my State gets of what I think is a very good program which would provide quality service to people who otherwise would not have access to it.

I do not know if there are any other thoughts or comments that the panelists wanted to make, either about what I said or something that was otherwise covered at the hearing. If you wanted to comment about this, but did not get a chance, please do so at this time?

If not, I thank you all for being here, for making this presentation. The record will remain open the requisite number of days.

And the hearing is adjourned.

[Whereupon, at 11:00 a.m., the hearing was adjourned.]

APPENDIX

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. JOHN MCCAIN TO JAYETTA Z. HECKER

Question 1. Has the GAO done any work on trying to determine the economic benefits to communities that receive EAS?

Answer. Although GAO has done numerous analyses of air service at the nation's nonhub and small hub communities, we have not studied the relationship between air service and economic development among the nation's small communities. We believe that such a relationship is an important one to understand, as it represents some of the fundamental underpinning of not just air service, but all forms of transportation. That being said, we also believe that providing analytically rigorous assessments of the effect that air service exerts on local or regional economies would be a challenging undertaking. In particular, various data limitations (e.g., matching the local area effectively "served" by a small community's airport with the state, county, or municipal boundaries that define economic statistical reporting areas) are likely to constrain the reliability and validity of such studies.

Question 2. To what degree do difficulties for airlines getting access to gates at larger airports contribute to reduced service at small airports?

Answer. We understand that some small regional or "commuter" air carriers have, at times, experienced some difficulty in gaining access to airport facilities on what they consider to be reasonable financial terms. In today's environment of much air traffic having been reduced due to national economic issues, whether some carriers are continuing to experience such difficulties is unknown. Major U.S. carriers have significantly reduced operations at several large airports (e.g., US Airways reducing daily operations at Baltimore and Washington-Dulles).

Question 3. Are there ways of reducing the cost of EAS by changing its rules? In other words, if communities could be served by small planes or by air taxis could costs be reduced while service is continued? What should Congress be concerned about when considering such changes to the program?

Answer. In our August 2002 report on options to enhance the long-term viability of the EAS program, GAO identified a number of ways in which overall program costs could be reduced. Those included using smaller aircraft (which have lower operating costs than larger 19-seat turboprop aircraft), allowing communities to arrange for on-demand charter or "air taxi" operators (as some communities are trying under DOT's Small Community Air Service Development Pilot Program), and regionalizing service. Implementing any of these options would reduce overall EAS program costs at least initially, because air carrier operating costs would be lower, thereby reducing the amount of subsidy required to cover the difference between operating costs and revenues.

However, we remain concerned that even such changes may not convert EAS into a more effective, viable transportation alternative for passengers at many communities. Passengers who prefer larger aircraft than the 19-seat turboprops commonly used in EAS markets are certainly unlikely to embrace still-smaller aircraft. For other passengers, limited flight times and relatively high prices will remain obstacles to usage. In addition, the extent to which major U.S. airlines will continue to code-share with small operations is unknown.

Question 4. In August 2002, GAO suggested that, as a possible option to consider, the form of EAS assistance be changed from a subsidy to the operating carrier to a grant to the local community. How would that improve air service in those communities?

Answer. Local grants could enable communities to match their transportation needs with individually tailored transportation options to connect them to the national air service system. Depending on the option, passenger traffic could grow because, in theory, the community could choose the most appropriate way for people in that community to access the national air service system. DOT has been pilot testing local transportation grants to communities. Through this program, in July 2002, DOT awarded $20 million in grants to 40 small communities, including 5

EAS-subsidized communities, in part to test whether increased flight frequencies, capacity, and/or marketing at those communities could improve service and passenger ridership. We are curious to learn how effective some of these pilot programs have been.

Question 5. The Department of Transportation is proposing that local communities contribute up to a 25 percent match for the EAS program. What will be the effect on the EAS program of such a match requirement?

Answer. We have not looked at this concept in detail, so it would be difficult to speculate on the effect. In general, we agree that any good or service (whether widgets or air service) that is provided at no charge to users will not be used in the most economically effective and efficient manner. We also agree that communities that participate in the provision of their air service (e.g., through travel banks that guarantee a certain amount of passenger traffic) have tended to be more successful at obtaining and maintaining air service. However, in light of current state and local financial strains, many EAS communities may have great difficult in underwriting a portion of EAS costs, given other local spending priorities.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. JOHN MCCAIN TO BRYAN O. ELLIOTT

Question 1. To what degree do difficulties for airlines getting access to gates at larger airports contribute to reduced service at small airports?

Answer. I am not aware of any difficulties small airports encounter related to the inability of airline obtaining access to gates at larger airports. The more overriding long-term issue for smaller airports relates to proposed, "congestion pricing" being proposed by U.S. DOT and larger airports. Moreover, the current regulations pertaining to development of "Competition Plans" for larger hub airports should be eliminated. As a practical matter, very few, if any, cases exist where an airport has turned down an airline for wanting to enter its market.

Question 2. In August 2002, GAO suggested that, as a possible option to consider, the form of EAS assistance be changed from a subsidy to the operating carrier to a grant to the local community. How would that improve air service in those communities?

Answer. There appears to be widespread belief that the EAS Program is broken. This perception is prevalent throughout Congress and many communities currently participating in the EAS Program. Given these perceptions, it would seem prudent for policy-makers, program participants, and all other stakeholders to make a thorough assessment of the existing elements of the program and craft a plan that will once and for all address small community access to the nation's commercial air transportation system. It seems that this process could prove beneficial to understanding what program elements are currently working while at the same time assess the merits of issuing grants to local communities. In the end, EAS will only work if the service provided is reliable, provides meaningful access to the nation's commercial air transportation network, and is cost-effective for the consumer. Until these objectives are met, the program will not be as successful as it can be.

Question 3. As you may know, the Department of Transportation is proposing that local communities contribute up to a 25 percent match for the EAS program. What will be the effect on the EAS program of such a match requirement?

Answer. This proposal certainly warrants consideration, as it requires a local community to make an investment in the potential success of its EAS service; however, this must be weighed against a community's "ability to pay." This proposal does not address the fundamental issue of generating incentives for the carrier to provide reliable, cost effective service. Therefore, while it can be argued that such a requirement meets a need to have a community be a financial stakeholder in the program, there should still be enough flexibility in the "matching requirement" to recognize unique economic conditions of a region and its ability to provide these resources while at the same time placing some mechanisms in place that reward carriers for attaining exceptional on-time performance ratings and pricing structures for its service.

Question 4. Other than continuing the EAS program how do you believe the Federal Government can support and promote air service to small and rural communities?

Answer. Several initiatives currently exist for the Federal Government to undertake to support and promote air service to small and rural communities:

a. Enact legislation establishing the Small Community Air Service Development Pilot Program as a permanent initiative funded at a minimum of $100 million a year.

b. Allow small and non-hub airports flexibility on the use of Passenger Facility Charge (PFC) revenues to allow for their use in airport marketing activities, acquiring ground support equipment, computers, and other required information technology to help support new or improved airline service.

c. Modify its arcane and ineffective airport rates and charges policy that places limitations on the use of airport revenues for airport marketing and air service development initiatives.

d. Become immersed in an effort to truly understand the realities of air service. To this end, I would recommend that Chip Barclay's article entitled: **Aviation's Two Crises; One Controllable—The Other Not**, published in the March/April 2003 edition of "Airport Magazine" be a primer for this effort. Beyond this article, it seems wise to then convene a series of meetings with aviation/airport industry leaders, all located outside of Washington, DC, to chart strategies for addressing the long-term viability of air service to small and rural communities.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. JOHN MCCAIN TO READ VAN DE WATER

Question 1. What is the Department's estimate of how much the EAS program will cost in fiscal year 2004 if Congress **does not** make the programmatic changes you have proposed?

Answer. The Department has found itself in the past caught among conflicting statutes: (1) communities' entitlements to receive at least a minimum level of air service; (2) carriers' rights not to be forced by the government serve communities at a loss; and (3) the Department's being subject to the Anti-deficiency Act.

As you know, the EAS subsidy makes up the gap between expenses and revenues, and the attacks of 9/11 caused expenses to increase and revenues to decrease, thus significantly increasing required subsidy levels. More recently, the Iraq war and SARS have depressed airline revenues even further. Thus, it is still very unclear how many additional non-subsidized EAS communities will require subsidy in FY 2004 as a result of the sole remaining carrier's filing a notice to suspend the last service there. Since 9/11, we have received 50 suspension notices—27 of them triggering new subsidy. At that rate of newly subsidized communities, it appears that $113 million will not be sufficient to maintain status-quo service levels.

Question 2. In August 2002, GAO suggested that, as a possible option to consider, the form of EAS assistance be changed from a subsidy to the operating carrier to a grant to the local community. How would that improve air service in those communities?

Answer. It is important that changes be made to the Essential Air Service program, regardless of the proposed or ultimate funding levels, to ensure that we provide the communities the maximum flexibility possible to address their air service issues. A "one size fits all" approach has not proven to be very successful. However, whether we pay an airline to provide service or grant funds to communities to do the same is less important than having the communities as a partner in the process. Requiring communities to contribute even a modest portion of the overall costs will result in their more direct involvement and increased flexibility in meeting their individual needs, and will better ensure that the Federal assistance available will provide the communities with service that will be used.

In the broader context of your question, we should also emphasize that the funds do not need to come from the community exclusively, or even at all, but can come from a variety of sources, both public and private. In fact, we encourage statewide participation by a variety of state agencies, including, of course, State departments of transportation. Communities could also look to their chambers of commerce for additional support.

Question 3. Your testimony is generally complimentary of the small community pilot program. The Department's budget, however, does not request any funding for fiscal year 2004—why not?

Answer. The Pilot Program was authorized for the three-year period covering fiscal years 2001, 2002, and 2003. This fiscal year is the last year the program has been authorized and the Administration was not, therefore, in a position to seek funding for the program for fiscal year 2004. However, the Administration's proposal in its Reauthorization Bill, Flight-100, includes a provision for small hubs and non-hubs to seek federal assistance to improve service at their communities. It differs

from the current program in that it requires a contribution of 25 percent. It also eliminates the restrictions on the number of communities that can participate and the state limitations. The broad flexibility and the "grant" structure have been retained.

Question 4. Why don't more passengers use EAS-subsidized service?

Answer. As mentioned above, a "one size fits all" approach has not proven to be very successful. Providing communities more direct involvement and increased flexibility in meeting their individual needs will better ensure that the service is more tailored to communities' individual needs and, thus, that the maximum number of passengers will use the service.

Question 5. The Administration's proposed budget for FY 2004 caps EAS spending at *$50* million and modifies the program to include, among other requirements, local matching funds. What is the anticipated impact of these program changes on air service to small communities?

Answer. We are proposing a fundamental change in the way that the government delivers transportation services to rural America. For too long, many communities—there are a few exceptions—have taken Essential Air Service for granted as an entitlement and done little or nothing to help make the service successful. Requiring a modest contribution should energize civic officials and business leaders at the local and state levels to encourage use of the service. Communities will also have many more service options available to them. Rather than the two or three round trips per day to one hub that EAS has traditionally provided, we will work with the communities and State Departments of Transportation to procure an appropriate level of service that is responsive to their needs, whether it is charter service, single-engine/single-pilot service, regionalized service, or ground transportation. As stakeholders in their service, the communities will become key architects in designing their specific transportation package.

Under the administration's FY 2004 budget proposal, for the most isolated communities (those farther than 210 miles from the nearest large or medium hub airport), we will continue to subsidize air service to the extent of 90 percent of the total subsidy required. For the rest of the communities, we will pay 25 percent of the total subsidy. We made certain refinements to the FY 2004 budget proposal in our Flight-100 reauthorization proposal. For the most isolated communities, we will continue to subsidize air service to the extent of 90 percent of the total subsidy required. For the least isolated communities (those within 100 miles of a large or medium hub or 75 miles of a small hub or 50 miles of a non-hub with jet service), we will be willing to pay for one-half of the cost of surface transportation. The remaining communities would have to contribute 25 percent of the total subsidy required.

Question 6. How many communities and passengers are estimated to continue receiving EAS funding under the administration's FY 2004 budget proposal? How many communities and passengers will likely lose subsidized service?

Answer. We expect that approximately 70–80 communities, generating in excess of half a million passengers a year, will retain service, while 50–60 communities, generating 350,000–400,000 passengers a year, may lose air service.

Question 7. How will these changes affect the regional carriers that currently rely on EAS subsidies?

Answer. To the extent that not all currently subsidized EAS communities will participate in the program, some carriers will lose some routes. However, we do not expect that any carriers will be materially hurt. In fact, those communities that remain in the program should be more aggressive in taking a leadership role in ensuring that the air service is successful.

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