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AIR SERVICE TO SMALL AND RURAL COMMUNITIES

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HEARING

BEFORE THE

SUBCOMMITTEE ON
AVIATION

OF THE

COMMITTEE ON
TRANSPORTATION AND
INFRASTRUCTURE
HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRTEENTH CONGRESS

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Committee on Transportation and Infrastructure
U.S. House of Representatives

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Washington, DC 20515

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James H. Zoia, Democrat Staff Director

April 25, 2014

SUMMARY OF SUBJECT MATTER

TO:	Members, Subcommittee on Aviation
FROM:	Staff, Subcommittee on Aviation
RE:	Subcommittee Hearing on "Air Service to Small and Rural Communities"

PURPOSE

The Subcommittee on Aviation will meet on Wednesday, April 30, 2014, at 10:00 a.m. in 2167 Rayburn House Office Building to consider issues related to air service to small and rural communities. The Subcommittee will receive testimony from the United States Department of Transportation (DOT), Government Accountability Office (GAO), and industry stakeholders on the state of air service to small and rural communities and explore ways to provide continued and improved air service to these areas of the country.

BACKGROUND

Role of Airports

The United States has roughly 19,700 airports that provide critical services to the aviation system and local communities across the country. Commercial aviation transports roughly 650 million passengers annually and moves billions in revenue ton-miles of freight safely and securely across the country.[1] Airports and air carriers connect large and small communities, create jobs and contribute significant benefits to the local and national economy. In fiscal year 2010, commercial airports supported over ten million jobs and generated $1.2 trillion. That same year, airport construction projects employed over 72,000 workers.[2] Airports are not only

[1] U.S. Department of Transportation, Bureau of Transportation Statistics. "August 2013 U.S. Airline Systemwide Passengers Down 0.1 Percent from August 2012." November 21, 2013. http://www.rita.dot.gov/bts/press_releases/bts051_13

[2] ACI-NA. "The Economic Impact of Commercial Airports in 2010" January 2012. Web. http://www.aci-na.org/sites/default/files/airport_economic_impact_report_2012.pdf

gateways to the aviation system for millions of passengers who fly commercially, they are important staging points for emergency services, law enforcement, and disaster relief also transporting cargo, and providing reliever runways if necessary. In small and rural communities, airports are life lines that connect their residents to the national and international aviation systems.

Issues Facing Air Service to Small and Rural Communities

In the past decade, the aviation sector has experienced a decrease in service due to higher costs (e.g., fuel), industry consolidation, and a severe economic recession. Air service has been impacted as a whole since the economic down turn, resulting in roughly 1.4 million yearly scheduled domestic flights being cut from 2007 to 2012. Since 2008, smaller airports have been greatly impacted by reductions in service.[3] From 2007 to 2012, small-, medium-, and non-hub airports have lost 21.3 percent of scheduled domestic flights. In that same time frame however, the twenty nine largest airports have lost only 8.8 percent of their scheduled domestic flights.[4] Given the important role that airports play in many small and rural communities, the loss of air service is concerning.

There are several factors that have been identified by stakeholders as potentially contributing to the loss of air service to small and rural communities. One factor which could impact air service to small and rural communities is federal funding for programs created to assist these communities. Given overall funding challenges across the federal government, there is concern regarding level federal funding for small community air service programs in coming years. These programs include Essential Air Service (EAS), Small Community Air Service Development Program (SCASDP), as well as the Airport Improvement Program (AIP).

Moreover, many small communities have lost population over the last 30 years. GAO has previously reported that population movement has decreased demand for air service to small communities.[5] For small communities located close to larger cities and larger airports, a declining local population base and lack of demand can be exacerbated by passengers choosing to drive to airports in larger cities to access better service or lower fares.[6] These demographic shifts could potentially continue to present challenges for small community air service.

There is also increasing concern within the regional airline industry of a looming shortage of qualified airline pilots. A potential pilot shortage would likely have the greatest detrimental effects on regional airlines, and therefore have a greater effect on air service to small and rural communities. However, a GAO report titled "Current and Future Availability of Airline Pilots" released on February 28, 2014, provided mixed conclusions on the likelihood of an

[3] Wittman, Michael D. and Swelbar, William S. "Trends and Market Forces Shaping Small Community Air Service in the United States." MIT ICAT. Report No. ICAT-2013-02. May 2013. Pg. 5.
[4] Wittman, Michael D. and Swelbar, William S. "Trends and Market Forces Shaping Small Community Air Service in the United States." MIT ICAT. Report No. ICAT-2013-02. May 2013. Pg. 3.
[5] U.S. Government Accountability Office report, "National Transportation System: Options and Analytical Tools to Strengthen DOT's Approach to Supporting Communities' Access to the System", July 2009, pg. 20.
[6] Ibid. Pg. 21.

upcoming pilot shortage.[7] Some regional airlines have also reported that they have not been able to hit even half of their hiring targets to keep upcoming pilots in the pipeline,[8] and have had to cancel flights as a result of not having enough qualified pilots.[9]

In considering the issue of pilot shortages, the GAO looked at the impact of FAA's new flight and duty time rules and training requirements. These requirements could mean that airlines will need more pilots to keep their current schedules, and require a longer time to train a new pilot than in prior years.[10] The pay for a pilot of a regional airline is also a factor when considering the cost of training. GAO noted that there are plenty of pilots with an Airline Transport Rating (ATP), but many choose instead to pursue other career paths.[11] As the marketplace adjusts to the new rules, one potential response may be higher compensation for pilots. This, in turn, could adversely affect the level and amount of air service offered, particularly air service to the smaller communities whose routes are generally less profitable.

Small Community Air Service Programs

In 1978, Congress passed the Airline Deregulation Act (ADA) in an effort to improve air service and lower fares for the flying public. While the number of commercial air travelers has increased significantly since passage of the ADA, many small- and medium-sized communities have faced a number of challenges in attracting and maintaining commercial passenger air service. There are a number federal programs created to assist small and rural communities and their airports: the Essential Air Service Program (EAS), the Small Community Air Service Development Program (SCASDP).[12] These airports can also benefit from the Airport Improvement Program infrastructure grants and "self-help" efforts through the FAA's Air Carrier Incentive Program.

Essential Air Service

In 1978, EAS was established in order to provide a certain level of scheduled air service for small and rural communities, and retain a vital link to the national air transportation system following deregulation. Under the EAS, air carriers that want to serve eligible EAS communities, and meet programmatic criteria, receive a subsidy from the Department of Transportation (DOT) to provide such air service.

Funding for the EAS program is derived through annual transfers of overflight fees paid to the FAA by foreign aircraft that fly through United States airspace but do not land in the country, and is also supplemented by annual appropriations of varying size. The program has received

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[7] U.S. Government Accountability Office report, "Current and Future Availability of Airline Pilots", February 28, 2014. Pg. 11.
[8] Staff briefing on the supply and demand of aviation professionals and pilots conducted by the Government Accountability Office, December 12, 2013
[9] Ibid. Pg. 37.
[10] Ibid.
[11] Ibid. Pg. 20.
[12] "Public Funding of Airport Incentives: The Efficacy of the Small Community Air Service Development Grant Program" Massachusetts Institute of Technology. Wittman, Michael D. Report No. ICAT-2014-01, January 2014. Pages 1-5

funding levels of $68.9 million in 1978 to $249 million fiscal year 2014. The fiscal year 2014 level includes $149 million in appropriations and approximately $100 million in over-flight fees. Currently, the DOT subsidizes air carriers serving 160 rural communities across the country that otherwise would not have received any scheduled air service.[13]

Congressional Reforms to the Essential Air Service Program

There have been numerous Congressional reforms to the EAS program since its inception. For the first twelve years, the sole criteria for eligibility was that a community had to have received scheduled air service when the ADA was signed into law. The fiscal year 2000 Department of Transportation Appropriations Act (Public Law No. 106-69) prohibited EAS subsidies to communities in the contiguous forty-eight states that are less than seventy highway miles from the nearest large or medium hub airport, or that require a per passenger subsidy in excess of $200 unless such point is greater than 210 miles from the nearest large or medium hub airport. Most recently, in 2011 and 2012, Congress enacted several reforms to the EAS program. In 2011, Congress passed, and the President signed into law, the "Airport and Airway Extension Act, Part IV" (Public Law No: 112-27),which prohibits the DOT from providing EAS subsidies for air service to communities whose annual passenger subsidy is greater than $1,000 per passenger.

In 2012, the "FAA Modernization and Reform Act of 2012" (Public Law No. 112-95) included the following reforms:

1. Capped the communities in the 48 states plus Puerto Rico that are eligible to participate in the program (excluded Alaska or Hawaii.) The law states that only those communities that were receiving subsidized EAS at any time between September 30, 2010, and September 30, 2011, or that received a 90-day notice from their incumbent carrier and the Department held that carrier in, would remain eligible for the program.
2. Required, beginning in fiscal year 2013, subsidized communities to maintain an average of ten passenger enplanements per service day; and exempted from this requirement airports that are more than 175 driving miles from the nearest large or medium hub airport.

Communities participating in the EAS program who cannot meet the enplanement and distance criteria will lose eligibility.

Small Community Air Service Development Program (SCASDP Grants)

Established by the Wendell H. Ford Aviation Investment and Reform Act (Public Law 106-181) on April 5, 2000, SCASDP was initially authorized on a pilot basis for fiscal years 2001-2003. Since that time, the program has been funded by Congress to help small communities address air service and airfare issues. Unlike the EAS program, SCASDP provides grant money directly to a community or group of communities to address their air service deficiencies.

[13] U.S. Department of Transportation, Office of Aviation Analysis, Web. http://www.dot.gov/policy/aviation-policy/small-community-rural-air-service/essential-air-service

SCASDP's eligibility criteria are broad and provide a grant applicant the opportunity to self-identify its air service deficiencies and propose an appropriate solution to DOT. For example, these funds can be used to cover the costs of any new advertising or promotional activities that can be tied to improving air service to the community. Funds may also be used for new studies designed to measure air service insufficiencies, or to measure traffic loss or diversions to other communities.[14] Finally, grant funds may also be used for financial incentives, such as revenue guarantees to air carriers to provide service (for a maximum of three years), or to ground handling providers.

In 2002, SCASDP was initially funded at $20 million and the DOT received 179 application requests totaling more than $142.5 million from airports in forty-seven states. The 2012 FAA Reauthorization bill reauthorized the SCASDP at $6 million per year through fiscal year 2015. However, the fiscal year 2014 Consolidated Appropriations Act decreased the program to $5 million. In 2013, the DOT received applications from sixty communities and twenty five were selected.[15]

Airport Improvement Program (AIP)

The Airport Improvement Program (AIP) has been providing federal grants for airport development and planning since the passage of the Airport and Airway Improvement Act of 1982 (P.L. 97-248). AIP funds are drawn from the Airport and Airway Trust Fund, which is supported by a variety of user fees and fuel taxes. These funds are spent on projects that support aircraft operations such as runways, taxiways, aprons, noise abatement, land purchases, and safety or emergency equipment. AIP plays a significant role in sustaining the viability of small and rural communities' air service by providing upgrades, renovations, and improvements to small airports, which also boost local economies and create jobs. These grants are provided to public agencies, private owners, and entities, for the planning and development of public-use airports that are included in the National Plan of Integrated Airport Systems (NPIAS).

The NPIAS identifies nearly 3,400 existing and proposed airports that are significant to national air transportation and therefore eligible to receive federal grants under the AIP. AIP was funded at $3.35 billion through the fiscal year 2014 Consolidated Appropriations Act. This is consistent with the authorization level of the FAA Modernization and Reform Act of 2012.[16]

The Air Carrier Incentive Program

The FAA offers guidance for interested airports to incentivize air carriers through the Air Carrier Incentive Program. "The Air Carrier Incentive Program Guidebook: A Reference for Airport Sponsors" provides detailed information from the FAA to airport sponsors interested in offering promotional incentives to attract air carrier service at federally obligated facilities. For

[14] U.S. Department of Transportation, Office of Aviation Analysis, Web. http://www.dot.gov/policy/aviation-policy/small-community-rural-air-service/essential-air-service
[15] Email from DOT to House Aviation Subcommittee on April 25, 2014.
[16] U.S. Department of Transportation, Office of Aviation Analysis, Web. http://www.dot.gov/policy/aviation-policy/small-community-rural-air-service/essential-air-service

example, airports may pursue offering air carriers incentives such as waiving or reducing landing fees and re-fueling fees, or engaging in promotional advertising and public relations campaigns. In the Guidebook, the FAA details the four necessary steps (below) to create an Air Carrier Incentive Program, and offers suggestions on how sponsors can work with the their local FAA Airports District Office to reach their goals.

- Review and understand Airport Sponsor Assurances and applicable laws and policies.
- Identify the goals of the program and the types of service that may be covered under incentive programs.
- Define incentive program timelines.
- Design a properly structured incentive program.[17]

Conclusion

Ultimately, the state of the aviation industry as a whole and how air carriers respond to various economic factors including high fuel prices, reduced passenger traffic, increased global competition, and a recessionary economy, have had an impact on air service to small and rural communities. Airlines have responded to these factors by restructuring, consolidating, reducing capacity and terminating services on unprofitable routes. The subsequent effects on airports, particularly airports in smaller and more rural communities have been very challenging. Airports in these communities have responded in many ways, including leveraging existing federal programs and other more creative approaches.

WITNESSES

PANEL I

The Honorable Susan Kurland
Assistant Secretary for Aviation and International Affairs
U.S. Department of Transportation

Dr. Gerald L. Dillingham
Director of Civil Aviation Issues
U.S. Government Accountability Office

Captain Lee Moak
President
Air Line Pilots Association

Mr. Bryan K. Bedford
President & CEO
Republic Airways Holdings

[17] FAA. "Airport Compliance." Web. http://www.faa.gov/airports/airport_compliance/media/air_carrier_incentive_2010.pdf

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Mr. Dan E. Mann
Executive Director
Columbia Metropolitan Airport

Mr. Brian L. Sprenger
Airport Director
Bozeman Yellowstone International Airport

AIR SERVICE TO SMALL AND RURAL COMMUNITIES

WEDNESDAY, APRIL 30, 2014

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON AVIATION,
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:02 a.m. in Room 2167, Rayburn House Office Building, Hon. Frank A. LoBiondo (Chairman of the subcommittee) presiding.

Mr. LOBIONDO. Good morning. The subcommittee will come to order.

Before we get started, Mr. Larsen and I would like to recognize the Colgan Air families for being here. We want to thank you for your advocacy, we want to thank you for being involved and making a difference. And we are very pleased that you are here today.

I ask unanimous consent that Members not on the subcommittee be permitted to sit with the subcommittee at today's hearing to offer testimony and to ask questions.

[No response.]

Mr. LOBIONDO. Without objection, so ordered.

Today we look forward to hearing from the Department of Transportation, the Government Accountability Office, and industry stakeholders on an important topic to our country: air service to small and rural communities. Airports are vital elements of our Nation's infrastructure. They enable millions of passengers to travel through the United States and to the rest of the world. Airports are economic drivers for many communities across the United States, contributing millions of jobs to our economy, and generating trillions of dollars in economic input. They serve as staging points for lifesaving emergency services, as well as a lifeline to many rural or remote communities. The impact of airports is felt way beyond the tarmac and the terminal.

In recent years, smaller airports in the U.S. have, for a variety of reasons, experienced a decrease in air service. The subcommittee is interested in hearing from the witnesses about the Federal programs that exist to assist in delivering air service to small and rural communities, and how they are being utilized. We are also very interested in hearing about innovative approaches that industry stakeholders from airports to air carriers to local communities have taken to retain or to be able to increase that service.

I am well aware of how important airports are to local communities. In my own district we have seen an increase in routes, bringing new air service to Atlantic City International Airport.

And, starting on April 1st, United began two new direct routes to Houston and Chicago from Atlantic City. We believe this level of service is the type of increase that will help local businesses and the economy.

As we hear more about the types of successes later, I can tell you that it is not something that just happens overnight. It takes a lot of hard work, a lot of coordination on the local level, a true community effort. And the end result is what makes all that hard work worth it.

I look forward to hearing from our witnesses, and thank them for joining us today.

Before I recognize my colleague, Mr. Larsen, for his comments, I would like to ask unanimous consent that all Members have 5 legislative days to revise and extend their remarks, and include extraneous material for the record of this hearing.

[No response.]

Mr. LOBIONDO. Without objection, so ordered. And now I would like to yield to Mr. Larsen.

Mr. LARSEN. Thank you, Mr. Chairman. I too want to recognize the Colgan Air families, and thank you for your continued advocacy to help improve air safety here in the United States.

Mr. Chairman, residents of remote, small communities across the country connect to national and international aviation systems through our smaller airports and the regional carriers that serve them. Air service not only connects these communities to the economy, but serves as a lifeline for emergency services, disaster relief, and delivery of time-sensitive cargo. And as we begin to consider the next FAA reauthorization, today's hearing helps us assess some of these issues and challenges facing small community air service.

In 1978, Congress enacted the Airline Deregulation Act, which phased out the Federal Government's control over domestic air fares and routes. Since the deregulation, airlines have largely been free to decide where to fly. And, as a consequence, small communities have struggled to attract and retain air service. And almost four decades later, air service in the U.S. is, not surprisingly, highly concentrated at the largest airports, where routes are more profitable. Eighty-eight percent of passengers board at sixty-two large or medium-hub airports.

Further, in recent years we have seen a significant airline industry restructuring, in part as a response to recessions and increasing fuel prices. Since 2005, there have been three mergers involving six major U.S. legacy carriers, and greater capacity discipline throughout the industry. There is no doubt that these recent developments have had a major effect on small community service.

From 2007 to 2012, roughly 1.4 million yearly scheduled domestic flights have been cut. And during that same time period, the 29 largest airports lost 8.8 percent of the scheduled domestic flights, while the impact is disproportionate as small-, medium-, and non-hub airports have lost 21.3 percent of the scheduled domestic flights.

So, today this committee will hear from two airport directors about proactive and innovative steps they have taken in their small communities to attract and retain air service. But despite these examples of strong local leadership, maintaining a truly national air

transportation system does require a sustained Federal commitment.

When Congress deregulated the airlines in 1978, it also recognized that the market alone could not reliably maintain air service to small communities. Therefore, Congress created the Essential Air Service program, the EAS program, which guaranteed that communities served by carriers before deregulation would continue to receive air service.

So we can't have it both ways. We can't support small community air service, while advocating for the elimination of the EAS program. A House-passed authorization bill in 2011 would have eliminated the EAS program everywhere except Alaska and Hawaii. And earlier this month, the House-passed budget doubled down on that policy by ending service to small communities by proposing to phase out the EAS program.

Now, Mr. Chairman, you and I have both stated several times in the past few months that we have every intention to craft a bipartisan FAA reauthorization bill. So I hope, in the next reauthorization, efforts to dismantle EAS are a nonstarter from the get-go. And I look forward to working with my colleagues on both sides of the aisle to preserve and strengthen this important program that guarantees service to more than 160 small communities across the country.

And finally, Mr. Chairman, in 2010 Congress mandated new pilot training, qualification, and work-hour rules that have only recently come into effect. Some regional carriers that serve small communities claim they are having difficulty hiring pilots because of these new safety regulations. Just last month, the GAO examined this issue and reported that, in fact, a large pool of qualified pilots exists, relative to projected demand. But whether such pilots are willing or available to work at the wage that is being offered is unknown.

According to GAO, the average base entry-level salary at regional airlines—at the airlines examined equates approximately $21,600 a year. And, according to the Wall Street Journal, Great Lakes Airlines, the carrier with the largest presence in the EAS program, offers entry-level starting salaries of $16,500 a year. And, not surprisingly, Great Lakes claims it is having a hard time hiring new pilots, and has cut service to a handful of EAS communities. And, to date, the Department of Transportation has been successful in finding replacements for most of these communities.

But we ought to be clear, Mr. Chairman, that Congress enacted the 2010 safety law to improve safety. However, the investigations in the 2009 Colgan Air flight 3407 tragedy revealed a two-tiered airline industry labor structure, that was broken. And, for over a decade, industry consolidation and cost cutting at regional airlines led to lower and lower airline pilot pay, and a race to the bottom that is destroying the American airline pilot profession. That situation is not sustainable.

Moreover, I also believe the Department must examine its relationship to EAS carriers that are paying pilots minimum and poverty-level wages. The race to the bottom should not be driven by carriers whose broken business models are sustained largely by Federal contracts.

Moreover, it is not realistic for the Department to assume that these carriers can provide reliable service when they cannot attract new pilots by offering a livable wage.

So, these are very tough issues we are facing, Mr. Chairman, but I look forward to exploring them with you, and thank you, and look forward to hearing from our witnesses.

Mr. LOBIONDO. Thank you, Mr. Larsen. And before we go to our panel, I would like to recognize Chairman Shuster. Before I do that, though, I would like to thank Mr. Shuster and Mr. Rahall for the particular attention they are paying to aviation industry issues, to the stakeholder problems, to participating in what we are doing on an aviation standpoint, and recognizing the critical importance from a safety standpoint and an economic standpoint.

And, Mr. Chairman, thank you, and you are recognized.

Mr. SHUSTER. Thank you, Mr. Chairman. First I want to thank the chairman for those kind words. And I appreciate that he and Mr. Larsen are working so hard and diligent on the issues that face aviation in America, which I think are serious. And we really need to pay attention to it. And, as I have said in a number of statements and speeches, we really need to look at how we operate, whether it is in manufacturing, and the pressure they are under from foreign competition, or our airlines, the competition that they are facing out there, to the burdens we put on both segments or all segments of the aviation industry from the Government. So, again, we have started a discussion, and I appreciate Mr. Larsen and Mr. LoBiondo's participation.

I too want to thank the Colgan Air families for their efforts. Thanks for being here today, and we look forward to continuing to work with you.

In my home State of Pennsylvania, aviation plays a critical role in our economy, supporting over 300,000 jobs. With continued investment in our national aviation system, small and rural communities will be able to stay connected to our Nation's larger cities and markets. Airports in my district—we have got Altoona-Blair County Airport and the neighboring district, the Johnstown Airport—act as economic engines in attracting and supporting businesses. The airport provides a critical link to the rest of the country that is necessary for local businesses to thrive and reach markets that otherwise may not be possible.

Sheetz Corporation, for those of you that have ever traveled to Pennsylvania or outside Washington, a very successful convenience store operator in my district, headquartered in my district. It relies on the transportation network around the Altoona-Blair County Airport to remain successful. Without that vital link the airport provides in connecting to the rest of the country, many businesses like Sheetz would be forced to operate elsewhere.

But in small and rural areas across the country, like the district that I represent, we have seen a reduction in overall air service, market consolidation, Government mandates on pilot training, and other economic factors all play a significant role in the trends that we have seen. I am committed to finding solutions that will help retain and protect critical air services to keep small and rural airports up and running, protect jobs, and provide the critical assets to those local economies.

I look forward to hearing from our panel today, thank all of our panel members for being here and taking the time, especially the two airport directors, the steps they have taken to keep their airports central to the local economy. You are the guys on the ground who are always looking for ways to improve the airports and generate local business, and we appreciate that.

And, with that, Mr. Chairman, I yield back.

Mr. LOBIONDO. Thank you, Mr. Shuster. And now we are going to turn to our panel. Our witnesses today are the Honorable Susan Kurland, Assistant Secretary for Aviation and International Affairs at the Department of Transportation. A frequent guest, Dr. Dillingham—we are happy you are back. Dr. Dillingham is Director of Physical Infrastructure Issues for the U.S. Government Accountability Office. Captain Lee Moak, also another frequent guest. Captain, thank you for being here. He is the president of the Air Line Pilots Association. Mr. Bryan Bedford, chairman, president and CEO of Republic Airways. Mr. Dan Mann, executive director of the Columbia Metropolitan Airport, and Mr. Brian Sprenger, airport director of Bozeman Yellowstone International Airport.

Secretary Kurland, you are recognized for your statement.

TESTIMONY OF HON. SUSAN L. KURLAND, ASSISTANT SECRETARY FOR AVIATION AND INTERNATIONAL AFFAIRS, U.S. DEPARTMENT OF TRANSPORTATION; GERALD L. DILLINGHAM, PH.D., DIRECTOR, PHYSICAL INFRASTRUCTURE ISSUES, U.S. GOVERNMENT ACCOUNTABILITY OFFICE; CAPTAIN LEE MOAK, PRESIDENT, AIR LINE PILOTS ASSOCIATION, INTERNATIONAL; BRYAN K. BEDFORD, CHAIRMAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER, REPUBLIC AIRWAYS; DAN E. MANN, AAE, EXECUTIVE DIRECTOR, COLUMBIA METROPOLITAN AIRPORT; AND BRIAN L. SPRENGER, AIRPORT DIRECTOR, BOZEMAN YELLOWSTONE INTERNATIONAL AIRPORT

Ms. KURLAND. Chairman LoBiondo, Chairman Shuster, Ranking Member Larsen, and members of the subcommittee, I appreciate the opportunity to appear before you to discuss the state of air service at small and rural communities. Like Congress, the Department understands how vitally important air service links are to these communities. I will concentrate my remarks on two congressionally mandated programs that the Department administers, which provide communities with resources to address their air service needs: the Essential Air Service program, EAS; and the Small Community Air Service Development Program, SCASDP.

The EAS program currently subsidizes service to 160 communities nationwide, including 43 in Alaska. The program connects rural America with the rest of our country and, indeed, with the entire world. The financial investment in achieving that connectivity has, in a number of cases, led communities to being able to substantially reduce or even eliminate their need for Federal subsidy.

For instance, between 2011 and 2013, with the right carrier, equipment, and frequency levels, Joplin, Missouri, saw its annual subsidy need drop from $2.8 million to $340,000. Further, examples of communities that have been able to eliminate Federal subsidies

include Rock Springs in Riverton, Wyoming; Dickinson, North Dakota; and Manhattan, Kansas.

Unfortunately, the program's ability to match the right carrier, equipment, and frequency level is becoming increasingly more challenging. Several airlines that had traditionally served EAS communities have shut down or withdrawn from the program, leaving it with fewer carriers and higher costs. In addition, residents of many EAS communities are choosing to drive to cities where low-fare service options are offered, thereby reducing enplanement levels on EAS services.

Right-sizing equipment has also become much more difficult, because the number of regional airlines that have the appropriately sized equipment for the program has continued to decline. For the last 20 years or more, the backbone of the EAS program has been the 19- to 34-seat aircraft. However, those aircraft are aging and being retired with no replacement aircraft of comparable size.

And, finally, a number of recent developments in the industry have resulted in a current shortage of pilots, which has caused a strain in carriers' abilities to serve small communities. As Congress debates reauthorization of aviation programs, I think there will be an opportunity for a comprehensive discussion of these issues and how best to address them. And I want to commend the subcommittee for getting an early start on that process.

The Department also administers SCASDP. Small communities apply for these grants, which the Department awards annually, based on a comparative analysis of proposals. Over the last few fiscal years, the annual SCASDP budget has been $10 million or less, and the Department has awarded an average of about 25 grants a year.

The program has clearly experienced some notable success stories. For example, after the Department awarded a grant to the Akron-Canton Airport in Ohio to support new nonstop flights to LaGuardia, traffic increased by 100 percent. And this service is still in place today. Among other communities that have experienced similar success are Provo, Utah, and Harrisburg, Pennsylvania.

Some independent reviews have concluded that the program has had a limited success rate. However, it is important that the criteria for measuring a successful outcome reflect Congress' goals for the program. In a program designed to foster innovative approaches among communities that have had the most difficulty in attracting and sustaining air service on their own, there will inevitably be some grants that do not completely fulfill sponsors' objectives.

The Department views SCASDP as a laboratory for communities to explore creative ideas to develop their air service. Our transparent process in administering the program allows communities to learn what works and what does not, and to use its collective experience in their own air service development plans.

Mr. Chairman, this concludes my testimony. I would be happy to answer any questions that you or your colleagues may have. Thank you.

Mr. LOBIONDO. Thank you, Madam Secretary.

Dr. Dillingham, you are recognized.

Dr. DILLINGHAM. Thank you, Mr. Chairman. Chairman Shuster, Ranking Member Larsen, members of the subcommittee, it is always a pleasure, always an honor to be invited before the subcommittee.

Since 2001, the Nation's airline industry has experienced considerable turmoil, including two economic downturns, the events of 9/11, and rising fuel cost, as well as several airline bankruptcies and restructuring. Over the last 4 years, however, the airline industry has rebounded, becoming more profitable, in part due to the better management of available capacity. In fact, our research shows that the number of flights since 2007 has declined for all sizes of airports, with the notable exception of EAS airports.

The situation for small communities is exacerbated by a range of factors, including the decline of population in small communities, and what we sometimes refer to as leakage of potential small airport customers to nearby airports with more frequent and lower priced service. Other factors on the horizon include the phasing out of the perimeter rule, the lack of qualified pilots, and FAA's recent tentative order that EAS communities must have an average of 10 enplanements per day to participate in the EAS program.

My statement this morning focuses on three issues: how the EAS and the Small Community Air Service Development Programs have affected service to small communities, and suggestions to enhance the connectivity of those communities to the national transportation network.

Regarding the EAS program, overall, the size and cost of the program has increased. Specifically, between 2002 and 2012, the number of communities participating in the program has grown from 94 to 160. The total annual subsidy for the program has increased steadily, from $89.6 million in 2002 to as much as $225 million in 2012. The per community subsidy has also increased during that same time period, almost doubling from $1 million to just under $2 million. EAS airports, as a whole, have also experienced an increase in service since 2007. However, as of 2013, planes serving airports that provide EAS service were 49 percent full, while planes serving all airports were nearly 83 percent full.

Regarding the Small Community Air Service Development Program, overall, the size and cost of the Small Community Air Service Development Program has decreased. Between 2002 and 2013, an average of about 30 grants were awarded. The total grant amount for the program has declined steadily from $20 million in 2002 to $6 million in 2013. Multiple studies consistently suggest overall mixed results regarding the success of this program. Although the grants that could be deemed successful were in the minority, those grants did generally result in improved services, in terms of adding flights, airlines, and destination, and curbing customer leakage. Those grants deemed not successful generally did not achieve the objectives proposed in their grant application, and often did not sustain service or other benefits after the grant was completed or funding ceased.

Regarding our suggestions to enhance connectivity, some small communities in danger of losing airline service or hoping to attract new service have opted to provide a range of incentives. These incentives include revenue guarantees like those mentioned by the

chairman that were proposed at Atlantic City International, and nonfinancial, in-kind contributions like advertising their air service.

Additionally, we have recommended that DOT consider pursuing the goal of connectivity through a multimodal approach. This approach would explore other services, such as air taxis or ground transportation to larger airports might supplement the EAS program, and better serve some communities at a lower cost. DOT has taken steps towards including multimodal possibilities in both the EAS and Small Community Air Service Development Program. We are hopeful that these developments will help the Congress and DOT identify opportunities to make the EAS program more cost effective and strengthen the Small Community Air Service Development Program, thus helping to ensure connectivity for small communities.

Thank you, Mr. Chairman.

Mr. LOBIONDO. Thank you, Dr. Dillingham.

Captain Moak?

Mr. MOAK. Chairman LoBiondo, Ranking Member Larsen, and members of the subcommittee, I am Captain Lee Moak, president of the Air Line Pilots Association. And thank you for allowing me to be here to represent ALPA's more than 51,000 members who fly for 32 airlines in the United States and Canada. Small community air service is an important component of our Nation's air transportation.

While today's hearing is focused on this subject, the most serious challenge faced by this sector is one that threatens the entire U.S. airline industry: foreign airlines that are State-owned or supported, and foreign airlines that are attempting to use business models that conflict directly with U.S. Government policy.

The economic threat to U.S. airlines is very real. If the United States fails to take action to counter it, U.S. airlines will struggle to compete internationally. And for that reason, I thank you, Chairman LoBiondo and Representative Larsen, for your vigilant oversight of our Open Skies Agreements. I may be biased, but I believe U.S. airlines and their workers are the best in the world. We just need to have sound Government policies that give them a fair opportunity to compete.

I also thank both of you for your understanding of the threat posed by the Norwegian Air International's flag of convenience business model. You represent regions with once-vibrant shipping industries, and know the threat that these schemes pose to U.S. industry and jobs. We urge this committee to stay engaged.

Likewise, we respect that this committee understands that many State-owned and State-sponsored airlines are competing with different rules, whether it is no corporate taxes or favorable regulatory policies. The U.S. Government must level the playing field for U.S. airlines.

Now, I recognize that I was invited here primarily to talk about an alleged pilot shortage, so I want to be clear right now. There is no current shortage of qualified pilots in this country. There is, however, a shortage of pay and benefits for qualified pilots. The average beginning pay at a regional airline is about $24,000. From ALPA's award-winning involvement on aviation university cam-

puses, we know that many new pilots will spend $200,000 or more on their education and flight training. Unfortunately, some new pilots are turning to other careers, because they cannot earn a living wage at a regional airline.

The lack of a career path for new pilots is also a major concern, and some airlines—one, in particular, Jet Blue—are working to establish clear career progression to attract new graduates. In addition, thousands of experienced U.S. airline pilots fly for foreign airlines because of the pay and benefits they offer, when compared with U.S. airlines. Now, I know these pilots, if given the ability, would choose to live and work in the United States, where—if they were offered competitive pay and working conditions.

ALPA strongly supports the Essential Air Service program. However, a number of EAS airlines have been vocal about an alleged pilot shortage. And last year some of these carriers took tens of millions of Federal EAS dollars, while paying their first officers near poverty-level wages.

More troubling, certain U.S. airlines are attempting to use this contrived pilot shortage as an excuse to roll back the safety gains realized with the new pilot fatigue rule and first officer qualification requirements that were legislated by this subcommittee. These new safety requirements were developed with input from industry, labor, and Government. That is where we do our best work, when working together. The Regional Airline Association was cochair of the First Officer Qualifications Aviation Rulemaking Committee, and the airlines have had years to prepare for their implementation.

While no shortage exists now, avoiding one in the future depends on whether U.S. airlines offer pilots competitive wages and benefits, and a solid career: a market-based solution. To achieve this, Congress should examine with DOT the Government's relationship with regional airlines that accept millions of dollars under EAS program, while offering wages and benefits at levels so low they cannot fill their pilot seats. And the U.S. Government must ensure our industry does business on a level playing field that allows U.S. airlines to compete and prevail internationally by, among other actions, limiting regulatory bureaucracy and reducing airline taxes.

In conclusion, stronger U.S. airlines mean better profits, more flights to small communities, and improve wages and benefits to attract and retain qualified airline pilots. Thank you.

Mr. LOBIONDO. Thank you, Captain Moak.

Mr. Bedford, you are recognized.

Mr. BEDFORD. Good morning, Chairman LoBiondo, Chairman Shuster, who is no longer with us, but Ranking Member Larsen, and the members of the subcommittee. Thank you for inviting me to testify this morning. My name is Bryan Bedford. I am here representing Republic Airways.

Republic Airways is a large regional airline operating in the United States. We employ over 6,300 people, many of them in your districts. We have over 600 employees in Pittsburgh, Pennsylvania. Aside from being a large regional airline, Republic Airways is also a very old regional airline. We operated our first flight in August of 1974 from Jamestown, New York, to Pittsburgh, Pennsylvania. Republic Airways is proud of its safety tradition. In our 40 years

of business we have maintained an unblemished passenger safety record, and it is our intention to continue that tradition.

When I joined the company in 1999, our company operated a fleet of 28 turbo prop aircraft. We had fewer than 600 employees. Today we operate over 1,300 flights a day, all across the country. Last year alone we safely flew over 21.5 million passengers to their destinations. During my tenure through the past 15 years we faced extraordinary challenges in our industry. Obviously, the challenge of 9/11 was significant for us. The challenge of SARS, Asian currency crisis, escalating fuel prices, every one of our major airline partners going through restructuring, some twice, some not surviving. It has been an extraordinary time in our industry.

And yet, the most—I think the most urgent crisis we face in my over-25 years in the industry is the issue of a pilot shortage. And while I appreciate the opportunity to speak today to the panel, or to the members of the subcommittee on EAS, I think that is a secondary issue to actually making sure we have competent and qualified pilots able to fly the mission.

So, with that, rather than use my time to restate the testimony that I provided in written format, what I would like to talk about is some of the comments we have already heard from the panel today.

First and foremost, we have all referenced a pilot shortage report from the GAO. To be factually correct, the GAO referenced the fact that there is a mixed indication of whether a shortage exists or not. But I think the analysis itself falls flat on one important point, and that is the data of looking at pilot wages. It cited a study period from 2000 to 2012, where pilot wages were decreasing, and in a constrained labor environment we would expect rising wages. What the report fails to discuss is the context of the decreasing wages, which is 9/11, the rampant restructuring of the airline industry. If the study period had been from 2008 to 2012, we would have seen a significant increase in wages and benefits, mainly due to the constructive engagement of Captain Moak and his leadership at ALPA.

And while I am not, you know, personally friends with Captain Moak, I certainly respect his leadership and his engagement, especially for people that I do know and respect at Delta Airlines, who have been, you know, very, very complimentary of Captain Moak's leadership there during Delta's dark years. And I welcome Captain Moak's leadership and that of ALPA as we talk about a very important issue.

I also don't disagree with Captain Moak's market-based solutions approach. First officer pay does need to increase. And I can't spend my limited time discussing the challenges with that, but I do hope the members of the subcommittee will ask me followup questions on compensation.

Finally, let me give you some Republic Airways experience. Last year we intended to hire 500 new crewmembers. We found over 2,400 qualified applicants, based on the current statute. We were only able to find 450 pilots that met our hiring standards—450 out of 2,400 "qualified applicants." Rather than hiring 50 pilots that didn't meet our standards, we decided to take the unprecedented step of parking aircraft, grounding 27 of our small regional jets,

and leading to the disconnection of service to numerous small towns, and even medium-sized communities in our countries.

Republic Airways is not going to sacrifice its standards and its safety culture to hire marginal pilots. There are, however, plenty of qualified applicants that do not meet the current legislative requirements.

So, what do I think we need to do? First, we need the committee to urge the FAA to use the full flexibility provided under the statute. What do I mean by that? Well, the—which Captain Moak referenced, which the RAA did participate on, did make recommendations. They simply weren't accepted by FAA. We need the recommendations to be the accepted standard for hiring new pilots in our profession.

Secondarily, the FAA took a very rigid view, a very narrow view, of the word "academic," in terms of providing experiential training credit. And sitting here today, I believe we have fewer than 25 universities that have been accepted under the FAA's criteria for academic training. We need that expanded to be inclusive of all structured academy-type training.

And then, finally, we do urge the committee to consider the viability of the profession, in terms of assistance in vocational training for new—the next generation of pilots entering the workforce.

This is a serious issue. I do sincerely appreciate the opportunity to participate in the panel today so that we can have a serious debate about it. But, at the end of the day, if we work constructively together, I am confident we can find a solution that will allow us not only to maintain the safest aviation system in the world—and also provide a significant service to small and medium-sized communities. Thank you.

Mr. LOBIONDO. We thank you, Mr. Bedford.

Mr. Mann, you are recognized for your statement.

Mr. MANN. Mr. Chairman, members of the subcommittee, thank you for inviting me to participate in the hearing today. It is an honor for me to be here. My name is Dan Mann, I am the executive director of the Columbia Metropolitan Airport. And this is my third airport where I have been the director.

Each airport and community had the same concerns and goals. They all wanted better service to improve economic development efforts. The message is the same: better fares, more direct flights, and reliable service. To meet those goals, what I found to be consistent and effective is to first get the airport financial house in order, and, second, make sure the community has realistic expectations. Only after you have a solid airport business plan and community support can you be effective offering creative incentives to airlines for improved service.

In Columbia, the challenges were especially great. Compared to 20 similar-sized airports, our costs were over $12 per passenger, our debt was excessive, and we had the highest number of employees of the 20 benchmark airports. That, in addition to the challenge of being a 1½-hour drive from Charlotte, the sixth largest airport in the country. We had to do some significant changes to our business plan. We had to do community outreach to have any hope at all of keeping the air service we had and growing.

After a significant reorganization, we reduced debt by $20 million. We reduced staff from 120 to 65. And we were able to get our costs to below $9 per passenger.

Fortunately for Columbia, we had a good economy, a growing population, and, after our financial position improved, we were able to make a business case to Delta Airlines for more capacity and competitive air fares. After 6 years of declining enplanements in Columbia, we saw growth in 2012 and 2013. And pending good weather, we think 2014 is also going to be a good year for us.

While incentives were not required in Columbia, I have used a SCASDP grant on two occasions at two other airports. Again, only after we had our airport finances in place, and community support, were we able to have a good plan for the community outreach grant.

In Casper, Wyoming, we actually bought an aircraft. It was kind of a crazy scheme, but we bought an aircraft. We had an airline that was willing to lease it beforehand. We applied for the grant and was awarded that. We bought the airplane, leased it to the airline, and generated enough passengers to have follow-on service with Northwest Airlines to Minneapolis, Saint Paul. That service stayed in place for several years, and up until the merger of Delta Airlines. The good news about that is it was an asset that we were able to sell at a later date, and we reimbursed the SCASDP grant nearly the entire amount of the grant monies.

At each airport their service challenges were great. And I believe the solutions must come from airports on a local level. And the best assistance we can get from the regulatory bodies is bringing more flexibility and control with airport-generated revenue. I think airports that have a good, solid financial plan and local support can come up with their own solutions, and that is probably the best alternative.

The best chance of success—even with some business plan and community support, not all communities will be able to sustain commercial service. That is just the fact of the business run today. But the best chance we have is engaging community, local control of airport revenue, and having the folks—free market enterprise support us.

Thank you for the time, and I will be happy to answer any questions you may have.

Mr. LOBIONDO. Thank you, Mr. Mann.

Mr. Sprenger?

Mr. SPRENGER. Chairman LoBiondo, Ranking Member Larsen, members of the subcommittee, thank you for inviting me to participate in this hearing on air service to small and rural communities. My name is Brian Sprenger, I am the airport director at Bozeman Yellowstone International Airport, a small-hub airport located in southwest Montana.

First of all, I want to thank the members of this subcommittee for your continued commitment to our aviation transportation system. Aviation provides remote States such as Montana access to the world, and a strong aviation system is imperative for our continued growth.

Mr. Chairman, our airport has been fortunate to see a strong, consistent pattern of growth over the past 40 years. Even through

the challenging last 15 years, we have seen growth rates averaging 5 percent per year. In 1999, our airport handled 436,000 passengers, and this year we expect to handle nearly 1 million. Certainly, we have the advantage of the real estate adage, "Location, location, location." That being said, we have a philosophy at our airport that focuses everything we do on making our airport attractive and competitive. Simply put, we believe the airlines are the golden goose for smaller airports, so don't kill it.

The airport industry has become quite competitive. We are competing for the same seats because the airplane servicing the Bozeman market could just as easily be servicing the Atlanta market. And we are now seeing a rationalization of airports, and the reality is not all airports will be able to retain or maintain the same level of service they now have.

Consequently, we operate our airport more like a business than a Government agency, and we think of our airlines more like anchor tenants in a mall. We have to be competitive. We strive to have one of the lowest costs per enplanement for our airline partners. We provide ease of entry and exit to our market, and favorable gate access for all airline models. We have strong partnerships with our community. We also believe airports and communities must have skin in the game to succeed in air service development. And, finally, we have invested nearly $5 million in services normally provided by the Federal Government, such as air traffic control, because Federal agencies are slow to adapt in the changes in air service dynamics.

Airlines can move assets quickly, and it is not uncommon for smaller airports to see drastic changes in air service. But we need level playing fields, so that comparable airports have comparable Federal services. We need our Federal agencies to be able to adapt quickly and have mechanisms in place to provide services commensurate with the activity level of an airport on a fair and equitable basis. We also need policies that support and encourage airports in developing nonaeronautical revenue, so that airports can minimize reliance on revenue from the airlines.

Mr. Chairman, the Bozeman Airport has benefitted from the Federal Contract Tower program and the Small Community Air Service Development grants because of its significant airport and local community investments. We have not shied away from doing our part to make those programs and others succeed at our airport, and believe that airports and communities must have a vested interest for success. We encourage Congress to continue to modestly invest in programs that help small airports and communities attract and invest in viable commercial air service, as well as operate safely.

In conclusion, Mr. Chairman, Ranking Member Larsen, and members of the subcommittee, thank you again for inviting me to participate in this hearing on air service at small and rural communities. I would be pleased to respond to any questions or comments you may have.

Mr. LOBIONDO. Thank you, Mr. Sprenger. I am curious about one thing in your statement. You said your airport spent $5 million to supplement air traffic control. Did I hear that right?

Mr. SPRENGER. That is true.

Mr. LOBIONDO. How did that work?

Mr. SPRENGER. Well, it is a combination of things. We spent $1.5 million to build our first air traffic control tower about 15 years ago. We spent another $1.5 million to put in a radar in our valley. We spent another $500,000 to put a radar display inside the tower. We also spent about—almost $1 million in—augmenting our air traffic control by adding an hour at the beginning of the day and an hour at the end of the day, just to have coverage when our airlines were operating in and out of the airport, because the contract tower program would not provide that within their own funding.

Mr. LOBIONDO. So you had to do all this through the FAA, obviously?

Mr. SPRENGER. Correct.

Mr. LOBIONDO. So you all had an idea that would enhance your ability with safety, and to run the airport, and then you proposed that idea to the FAA, they signed off on it, and you spent your money?

Mr. SPRENGER. We spent our money and—some of those projects took a decade to achieve.

Mr. LOBIONDO. OK. For Mr. Mann and Mr. Sprenger, I am curious about your cost per enplanement. You talk about that a little bit. How are you keeping it down, or how does this impact your business decisions? Talk to me a little bit about that number?

Mr. MANN. Our costs in Columbia were—in 2010, when I arrived there, were well over $12. And we have been having declining service. I met with all the airlines, and every one of them said, "Dan, you are just not competitive, and it is a mobile asset, we are going to move it." We had to get our costs under $10. That was the airline's goal for us.

And again, we had to do that by paying down debt and eliminating employees. We had 120 employees. It was the most of any of the benchmarked airports, and we had to completely reorganize. So we got down to 65, saved about $2 million a year. The debt reduction saved about $3 million a year. And we were able to get it to $9. We are doing that just by running it like a business. I mean it really comes down to are we going to be effective at $12, and the answer was no. And so we had to get the costs down. And again, we focus on customer service and safety, and everything else was a luxury item.

And so, once we got those costs down, we went primarily to Delta Airlines, and they responded with more capacity. And it was really just—if we wanted to be competitive, we had to take control of our own business model.

Mr. SPRENGER. I would echo what Mr. Mann has said. Our cost is actually exceedingly low. Our cost per enplanement is right now, in the coming year, about $2.74 per passenger.

Mr. LOBIONDO. $2.74?

Mr. SPRENGER. Yes.

Mr. LOBIONDO. OK.

Mr. SPRENGER. We focus—go ahead.

Mr. LOBIONDO. No——

Mr. SPRENGER. OK.

Mr. LOBIONDO. It is a great number.

Mr. SPRENGER. We focus on two things. Obviously, the first thing is expenses. Like Mr. Mann said, you know, we try to maintain our expenses as low as we possibly can, yet providing a world-class airport. But we also look at the revenue side, where we basically work on generating revenue from all of the nonaeronautical portions of our airport: the rental cars, the parking lot, the concessions inside the terminal, land rent. Anything that we can do to generate revenue elsewhere helps us lessen the burden on our airline partners.

Mr. LOBIONDO. Mr. Bedford, how does Republic Airways interact with the airports on this number, the enplanement number?

Mr. BEDFORD. Well, it depends, sir. When we are offering services essentially on a pro-rate basis, then yes, we are directly involved with meeting with the airport officials and trying to come up with a win-win construct for new service. As Assistant Secretary Kurland said, we were actually one of the services that opened from Provo, Utah to Denver using jet aircraft. And that was a collaborative effort, to actually build the airport and then work with the SCAD grant and establish service, which actually was successful until our business model changed.

When we are operating with our major airline partners' brands—Delta, United, US Airways, American—they are actually the primary interface with the airport community. They are deciding where the aircraft will operate, when they will fly. They are setting the prices and managing that relationship with the ground personnel.

Mr. LOBIONDO. Dr. Dillingham, in your statement you indicated that there are many factors that contribute to the decrease in demand for air service for small and rural communities. What would you say are the most important among those factors, and why do you think they are the most important?

Dr. DILLINGHAM. Thank you, Mr. Chairman. I think the two most important factors would be, first of all, population decline. We have seen a significant decline in population in rural and small communities over the last 10 to 15 years. So that affects demand. And the other factor, I think, is something that was mentioned by several people on the panel. That is leakage. When you are able to or you choose to drive to a larger airport with more service, and sometimes cheaper prices for the Southwest or Jet Blue, you take that option. So those are the two factors that I think contribute to that lessening of demand, which, in turn, the airlines, you know, with their adjustment of capacity, will lessen their service to those small communities.

Mr. LOBIONDO. Captain Moak, did you want to add something?

Mr. MOAK. I just wanted to add one thing. Everybody is kind of talking around the issue that is driving a lot of this, and that is the economics of the industry.

Mr. LOBIONDO. Could you pull your mic a little closer?

Mr. MOAK. Absolutely. The economics of the industry are what is driving a lot of this. If you just go back to 2009, to the current—to 2014, oil has doubled. It has to be spread over a number of seats. We have had a couple of inappropriate taxes and regulations that have come into place. One would be the $100 TSA fee that goes to debt reduction, for example. Tickets are market-based. This has driven ticket prices up, and it has had an effect at small commu-

nities that is starting the regionalization of the airline industry, where people are having to make a decision if they are going to drive or not to an airport like the doctor has pointed out.

You can't emphasize enough how the economics are playing into what is going on here and the changing business model. That is what is driving it.

Mr. LOBIONDO. Thank you. Mr. Larsen?

Mr. LARSEN. Thank you, Mr. Chairman. Mr. Bedford, could you elaborate a little bit on your recommendation, or your comment about a recommendation that Congress should direct the FAA to use its authority to be more flexible on the pilot safety training rules.

Mr. BEDFORD. Yes, sir. When the statute was first enacted, it required an aviation rulemaking committee to work with FAA and all the various stakeholders, including the Regional Airline Association and ALPA, among others. In that process, they came up with a series of recommendations for the implementation of the statute. They were not implemented according to the ARC recommendation. And, instead, what we have is the current implementation of the statute, which does provide limited relief for academic training credit, but not enough relief.

And so, essentially, what we are now asking the next generation of pilots to do is to graduate with, you know, high levels of proficiency and skill-based training, and then we are asking them to now spend the next 12 to 18 months essentially flying circles in the sky in single-engine piston aircraft and fair weather conditions which, frankly, does nothing to improve the overall safety proficiency of the pilot.

In fact, you know, our experience is it leads to the creation of bad habits which, frankly, we have a hard time training out of potential airmen, which is why I think we are seeing such a high rejection rate of "qualified candidates" that do not meet our standards.

Mr. LARSEN. All right, thanks. Captain, do you care to respond to that?

Mr. MOAK. So what I think we should focus on—and on this issue in particular—is the good work of this subcommittee, of DOT, and of FAA, by setting up that process.

And then, out of that process, we were actually able to come up with a restricted ATP, answering the community by being smart and engaged. The restricted ATP, you come out of the military with that training, you get that at 750 hours. Dependant on the university program that you are—have completed, you can get one at 1,000, and then there is one perhaps out of Embry-Riddle, 1,000, and then a different one at 1,250, ultimately with 1,500. So, I believe that we addressed those then, OK, and it was a smart way to address it.

But I do kind of want to focus back on your question quickly here. You know, we are—some carriers, perhaps, are having trouble recruiting some FOs, and I have tried to point that this is a market-based problem, based on the pay that we are paying them. And if this was a conversation that we were having about hospitals and hospitals having trouble getting doctors, we wouldn't be focused on the certification or the education reducing that, so that we could get doctors in to fulfill seats. We wouldn't be doing that.

So, what we need to be doing here today is focused on the economics that are driving the problem. And, like Mr. Bedford said, the major airlines, the brands, are not in the room today. And they are the ones that are making decisions, what small communities you fly to, what frequency at hub airports, they are making those decisions. And they are the ones that are pulling service down, based on the economics of the routes. The economics are driving it.

Mr. LARSEN. Dr. Dillingham, in your report you report the data indicate that "a large pool of qualified pilots does exist, relative to projected demand. But whether such pilots are willing or available to work at wages being offered is unknown." Does an adequate pool of qualified pilots exist to meet projected demand by the airlines? Can you answer that in a yes or a no? Is that possible?

Dr. DILLINGHAM. [No response.]

Mr. LARSEN. All right.

Dr. DILLINGHAM. OK.

[Laughter.]

Mr. LARSEN. I asked the question——

Dr. DILLINGHAM. Yes.

Mr. LARSEN. You answer it the way you want to.

Dr. DILLINGHAM. OK. So the short answer is yes. But I want to go back to something that has been said on the panel by Mr. Bedford and others to sort of clarify what the GAO report actually reported.

Mr. LARSEN. Sure.

Dr. DILLINGHAM. It was one of those reports, Mr. Larsen, where everybody found something in it that they liked, and they used it to their best interest. We, in fact, said, by the numbers, the BLS numbers, the labor statistic numbers that we used, that two out of three indicators indicated that there was not a pilot shortage.

Secondly, we also said that the regional airlines were, indeed, indicating that they were having a difficult time finding qualified first officers. We also said in that report that the major carriers said they were not having a difficult time finding qualified pilots.

And directly to your question, what we also said in the report is that there is a projected need of about 10,000 pilots over the next few years, and we found information that indicated that there were some 70,000 qualified pilots—qualified meaning that they had the ATP, they had the first-class medical—and they were working in various other occupations, some nonairline, some airline, some in foreign countries.

So, you know, the direct answer is, you know, those pilots are out there. Why the regionals are having a difficult time is something that the regionals can speak to better than I. Thank you.

Mr. LARSEN. Thank you. Mr. Chairman, that is fine for now. I may have a second round. Lot of Members here, so I will yield back.

Mr. LOBIONDO. OK. We are now going to turn to Mr. Hanna.

Mr. HANNA. Thank you, Chairman. Mr. Bedford, Mr. Moak, it is fascinating to me that we are talking about something that is kind of—we are both talking about market-based solutions, right, and yet we have pilots who—clearly, $24,000 a year is underpaid. And yet you had 2,500 applications, you were able to find 470-something that fit your requirements.

So, that is almost contradictory in its nature, that we have somebody who—both people believe in the market. Your pilots are underpaid. You can't find enough pilots. I feel like I am missing something in this conversation, here. We are talking about training people to be prepared. We have requirements to train them, but they don't meet what you want.

I guess I would love to hear the two of you talk about that together, because it sounds like you are really arguing from the same position, but—and for the same people. So, Mr. Bedford, why am I getting a headache over this?

Mr. BEDFORD. Well, trust me, Congressman, I share your headache. I think the—you know, we are splitting hairs on what is the definition of qualified. There is a statutory definition that has now been codified in the form of the FAA's rulemaking process, which Mr. Moak spoke to, that discussed qualified as being someone with 1,500 hours and an ATP. I can assure you that having 1,500 hours and an ATP does not make you qualified to fly as a commercial airline pilot.

So, yes, there may be 70,000 registered ATP holders. I don't know how old they are. I am probably in that database somewhere. I am not qualified to fly any more, OK? But that doesn't mean we don't have a shortage of qualified pilots. You know, Mr.—or, I am sorry, Captain Moak; I don't mean to disrespect you.

Mr. MOAK. No problem.

Mr. BEDFORD. Captain Moak talked about, you know, equating this to hospital training. Well, you know, we don't take, you know, people who are newly emerged from medical school, and then send them off to be, you know, library technicians or something, you know, letting their skills atrophy. And what we find is young men and women coming out of qualified training programs, when we hire them, as long as they don't have bad habits, we invest another $30,000 in training them to our requirements.

As far as entry-level pay and market-based solutions, I absolutely agree with Captain Moak on this. FO wages are too low.

Mr. HANNA. There must be something attractive about being a pilot, Mr. Moak. I am a pilot. I am the most dangerous one in the sky; I am a private pilot. But when people will actually take $24,000 a year, there must be some expectation that they will do better later, because that is starvation wages. So part of that must be the market that they are anticipating, or the shortage that must exist, although you would suggest—one would suggest that with that kind of pay, people are willing to do it, supply and demand might suggest a whole number of things. But go ahead.

Mr. MOAK. So, Congressman Hanna, first, being a seaplane pilot, certificated like yourself, you are probably one of the safest pilots, because I see you sitting here today, and I know how difficult that flying is, to be able to reuse the——

Mr. HANNA. So far so good, you know?

[Laughter.]

Mr. MOAK. There you go, there you go. But look, the issue here is the market has changed. There was a glut during what was considered the deregulation bankruptcy period. When this Congress deregulated the airline industry, it did it for scheduled service product. It didn't deregulate with the idea that we would compete

on safety, security, or labor. That wasn't the idea. It had the vision and the foresight to protect small communities with EAS programs and others. Great.

So now, many years later, we are at this point. And at this particular point, the market rates for entry-level FOs who are going to college, who are getting their certificates, are much higher than the union contracts. People are competing for our best and our brightest coming out of college. They are competing for it. They are going overseas. Some are going directly to mainline.

So, what we have going on here is the right regulations, the right oversight, the right certification that this group, again, had the vision to put in place with FAR 117 that now guaranteed that a pilot would not be fatigued during his rotation, that he would—imagine this—he would get 8 hours behind the door at a hotel so he could be rested. Those things are all good, they are positive. But what is going on is merely a economics and market problem for some carriers. The solution is to compete and pay more. That is the solution. That is what we need to focus on.

Mr. BEDFORD. If I may just add a quick commentary, first of all, there are—flying is one of the best jobs in the world. You have been up there, I have been up there. Until you do it, I mean, it is hard to really put into terms just the beauty and the fulfillment that you get. And it is a serious business, though, and it doesn't work for everybody. So you can go out and you can get time and you can get ratings. That doesn't, again, qualify you as a pilot.

What is unfortunate, I think, is a regulation that limits the ability of truly qualified pilots to actually practice their craft, and forces them into a time consuming, laborious, unproductive, unstructured, and unhelpful, and financially draining process of accumulating time, simply to check a box. Either our training programs are safe and proficient or they are not, and the FAA should de-certify any airline that cannot operate to a single level of safety equivalent to any major international carrier. That ought to be the focus. Either pilots are proficient and safe, or they have no business being in a cockpit.

And I would challenge the fact that the arbitrary nature of how the ultimate regulation was imposed, was codified, is not fulfilling the desires of the families of Colgan Air flight 3407. It is not building safety into the cockpit. In fact, I fear it is pushing us in the other direction. We may have less qualified guys, although qualified per statute, potentially coming into these cockpits. And I think we do that at great risk.

Now, as far as the economics are concerned, Republic Airways is a highly unionized company. Over 75 percent of our employees participate in labor unions, predominantly the International Brotherhood of Teamsters. Our flight attendants, our pilots, our dispatchers all participate in labor organizations. We respect the process.

But on numerous occasions over the past 3 years, without any hooks into Section 6 bargaining, we have attempted to dramatically increase first officer pay, which, by the way, in the first year of employment at Republic Airways, first officers compensation is in excess of $30,000, on top of additional $6,000 in health care and 401(k) contributions that come to the pilot, on top of the $30,000

of investment we make in training them to our specifications. So there is an extraordinary amount of investment. And that is career investment that they will carry with them throughout the entirety of their career.

Why do people work for $30,000 a year? The goal is to get to mainline carriers, where they are going to enjoy $150,000 to $250,000 in compensation. Should we regulate—should we tell Apple Computer—should we tell Apple that you can only hire employees that have 10 years of experience?

Mr. LOBIONDO. Mr. Bedford, I am sorry to interrupt you.

Mr. BEDFORD. Sorry.

Mr. LOBIONDO. We are trying to be flexible here——

Mr. BEDFORD. Thank you.

Mr. LOBIONDO [continuing]. But we are trying to be respectful of the other Members' time, as well. And if we need to, we will come back in a round two if you want to continue.

Mr. BEDFORD. Thank you.

Mr. LOBIONDO. Mr. Nolan, you are recognized.

Mr. NOLAN. Thank you, Mr. Chairman. I want to thank the panel for their candor and their testimony here. It has been very interesting and enlightening.

Mr. Chairman, first I would like to ask unanimous consent that a statement by Bob Anderson, the mayor of International Falls, Minnesota, the coldest spot in the Nation, be included in the record.

Mr. LOBIONDO. Without objection, so ordered.

[The information follows:]

CITY OF INTERNATIONAL FALLS
600 FOURTH STREET
INTERNATIONAL FALLS, MN 56649

Telephone 218/283-9484
Cell 218/240-4233
FAX 218/283-3590

OFFICE OF MAYOR
Robert (Bob) W. Anderson

April 30, 2014

Honorable Frank A. LoBiondo, Chair
House of Representatives Subcommittee on Aviation
2157 Rayburn House Office Building
Washington D.C. 20515

Dear Chairman LoBiondo:

Re; Air Service to Small and Rural Communities

Falls International Airport is located in the City of International Falls and County of Koochiching in northern Minnesota. The airport is owned and operated by the city and county under a joint powers agreement with the governing body being a joint airport commission.

Our airport has enjoyed scheduled air service since 1953 when Wisconsin Central began serving the community. Our airport and city are located 252 air miles from the Minneapolis-St. Paul airport and a distance of 298 highway miles. The city and county lost rail service in the late 1960's and lost bus service in the 1980's.

I testified at the Civil Aeronautics Board (CAB) hearing on deregulation in 1978 in Minneapolis and have testified before the U.S. House of Representatives and the U.S. Senate Transportation Committees on Essential Air Service (EAS).

Our airport had unsubsidized commercial air service for over three decades following deregulation and implementation of the EAS program. It was then that the most recent recession took its toll and we experienced losses in passenger enplanements because of the economy. Our airport commission always viewed the EAS program as a safety net and hoped through keeping our costs down and enplanements up that we would never have to make use of the program. We thank the Congress of the United States and the President's for maintaining such a program for rural America.

Please know our goal is to return to being free of any need for a subsidy or certainly a reduced amount as Assistant Secretary for Aviation and International Affairs Susan Kurland shared examples with your committee in testifying on this date.

Page 2, April 30, 2014 INL Airport

Our local economy is based on the manufacture of forest products with a large paper mill that produces copy paper for your home printer and office copier. The paper mill was sold in 2013 to a new company and the CEO Mark Kwolzan of Packaging Corporation of America stated to community leaders that one of the reasons for his company's interest in owning the paper mill was that the community had an airport and commercial air service. This airport and air service allows their company sales and technical service representatives to be able to serve their customers and have access to the air transportation system of the world.

We cannot all live in the metropolitan centers of our country. If the forest products are important to the citizens and the economy of our country then some of us must live in the forests. This is equally true of those in the mining and farming communities of America. Therefore, the need for air service to rural America so that our communities can access the latest in equipment and technology.

The economy of International Falls, MN and Koochiching County continues to face the challenges of today's marketplace and likely lags the large population cities. Our passenger enplanements are increasing again as citizens and corporations have the dollars to spend for airline tickets.

To summarize this letter would be to say that our airport and air service are critical to our economic survival as a community and we again thank you in the Congress and our President for your continuing programs such as the EAS program.

Sincerely,

Robert (Bob) W. Anderson
Mayor

cc: Representative Rick Nolan, MN 8th District
Representative Rick Larsen, Ranking Member

Mr. NOLAN. And then, secondly, I would like to ask unanimous consent that a statement by our former chairman and our colleague, Jim Oberstar, also be inserted into the record.

Mr. LOBIONDO. Without objection, so ordered.

[The information follows:]

April 28, 2014

The Honorable Anthony Foxx
Secretary
U.S. Department of Transportation
1200 New Jersey Avenue, S.E.
Washington, DC 20590

Dear Mr. Secretary:

I have watched with great interest the public debate over the application of Norwegian Air International (NAI) for a foreign air operator's certificate from the U.S. Department of Transportation (DOT). As a former chairman of the House Transportation and Infrastructure Committee, it is my strongly held view that the approval of NAI's application would run contrary to the U.S.-EU Air Transport Agreement and the labor article embodied in the agreement, and contrary to the best interests of U. S. commercial aviation. I respectfully urge you to reject NAI's application.

During my 36 years of service in the U.S. House of Representatives on the committee of jurisdiction over international aviation trade issues, I witnessed dramatic changes in the U.S. and global airline industries. Beginning with deregulation in 1978 and continuing through the modern era of mergers, code sharing, anti-trust-immunized alliances, and expansive Open Skies agreements, much of the airline industry today is globally interconnected; U.S. airlines and their employees are directly impacted by the actions of foreign competitors more than ever before. During my tenure of watchfulness over the U.S. aviation industry, I sought to ensure that liberalization was pursued in bi-lateral agreements which assured a balance of benefits with our international trade partners, protecting the integrity, safety, and competitiveness of the U.S. aviation system.

In the early 1990s, the U.S. government began negotiating bilateral Air Transport, or Open Skies agreements that were intended to open aviation markets, promote competition and tourism, create jobs and increase consumer choice for international travel. These Open Skies agreements are qualitatively different from other trade agreements which deal with services in that they are almost exclusively bilateral. As such, they reflect a balance of benefits for the U.S. and our trade partner, often with in-country and beyond operating rights, and they are overseen by the Departments of State, Transportation, and Justice, rather than the United States Trade Representative. Given the complexity and size of the U.S. aviation market – which accounts for over half of the world's aviation marketplace – retention of this model is necessary to ensure that

the exchange in air traffic rights is done in a way that promotes strong safety, labor and working condition standards, while also ensuring an equitable competitive environment for U.S. airlines. Critical to achieving this goal has long been the continued enforcement of U.S. foreign ownership and control and cabotage laws, along with strong US DOT and DOJ regulatory oversight.

The negotiation of the U.S.-EU Open Skies agreement, which began in the middle of the last decade, presented many unique challenges. While the European Union is an economic and political union of 28 member states, each of these states has retained its respective governmental aviation regulatory authority. Therefore, rather than dealing with a single aviation regulatory body and one set of labor and social laws as we had with previous agreements, we were dealing with multiple aviation regulatory authorities and sets of labor and social laws. While there are base standards for safety and labor laws, the individual nation-state laws still differ widely.

Given the unique nature of negotiating with the EU, many of my colleagues and I were concerned about proposed changes in regulatory structure that would allow any EU airline to operate from any point in the EU to any point in the U.S. and to establish subsidiaries in other EU states. Despite this "European status" for operating and corporate rights, there was no EU-wide law that governed key labor-management relations aspects of these airlines. Instead, these aspects – such as selection of bargaining representatives and contract negotiations – were, and continue to be, subject to the national labor laws of the respective European countries.

During the negotiations, EU representatives expressed concern that such an arrangement could lead to "forum shopping" where European airlines would seek to operate out of countries with less robust labor and social laws. This could allow airlines to seek the lowest common denominator in terms of labor and regulatory standards thereby lowering their own operating costs but driving down standards throughout the EU. In other words, the EU was concerned that new airlines could be launched using a NAI-like business model.

This concern led negotiators to include in the agreement Article 17 *bis* ("Social Dimension"), which states that "the opportunities created by the Agreement are not intended to undermine labour standards or the labour-related rights and principles contained in the Parties' respective laws." It further states that "the principles in paragraph 1 shall guide the Parties as they implement the Agreement." The fact that there was no equivalent to Article 17 *bis* in any of the previous Open Skies agreements with EU member states is a direct acknowledgement of the challenges posed by the regulatory and legal arrangement within the EU.

Article 17 *bis* was a critical factor in the "Agreement". I applauded its inclusion as an important and necessary step in protecting against the use of market-opening aviation trade agreements to lower labor standards throughout the transatlantic aviation market: the largest aviation trade market in the world.

Today, in light of NAI's application for a foreign air operator's certificate, as well as the plethora of public comments that the DOT has received on this application, I believe that the inclusion of Article 17 *bis* and the concerns that led to its inclusion were particularly prescient.

Mr. Secretary, you and the DOT International policy staff are familiar with the details of NAI's application and business model, but key facts are worth repeating: NAI is a subsidiary of Norwegian Air Shuttle (NAS), a low-cost European carrier based out of Norway. When Norway became a signatory of the U.S.-EU Open Skies Agreement in 2011, NAS was afforded the same access to air traffic rights under that agreement as other EU carriers. Rather than expand its operations with its existing corporate structure, its workforce and collective bargaining agreements, NAS created NAI and proceeded to register its long-haul aircraft in Ireland and obtain an Irish Air Operator's Certificate – effectively becoming an Irish airline despite the fact that it has no announced plans to operate in Ireland.

This move allowed NAS to expand its long-haul operations through NAI, but also to escape Norway's social laws and to evade existing collective bargaining agreements with its Norwegian pilots and flight attendants. For example, NAI's pilots are based in Thailand and employed under individual employment contracts that are covered by the laws of Singapore. These pilots are then contracted to NAI. The individual employment contracts prevent collective bargaining, and allow NAI to drastically reduce labor costs and gain an unfair competitive advantage over U.S. and European carriers who currently operate in the transatlantic market. The workforce arrangement for flight attendants is still evolving, but what I have learned is that NAI is hiring and basing its cabin crewmembers outside of its home country in what is clearly a plan to secure substandard wages and working conditions and to blatantly evade its collective bargaining obligations in Norway. NAI is pursuing, quite simply, what in maritime law is called a "Flag of Convenience" strategy.

NAI has not denied that it registered in Ireland to avoid the application of Norwegian labor laws to its crews. Other economic justifications presented for selecting Ireland over other possible places to incorporate, the validity of which also have been effectively rebutted by several opponents, appear to be intended to distract from this central and undisputed motivation. The company is thus taking advantage of the opportunities provided by the U.S.-EU Open Skies Agreement in order to lower its own labor costs and undercut the competition, the very scenario that EU negotiators feared when Article 17 *bis* was included in the U.S.-EU agreement.

I believe that the evidence and arguments submitted in the public docket provide the Department with ample justification to deny the application.

During my years of service on the House Committee on Transportation and Infrastructure, conducting vigorous oversight of international aviation trade, I learned that liberalization and market expansion could provide numerous benefits to consumers, open business opportunities for U.S. carriers and create jobs. But I also observed that effective market expansion required

the thoughtful and careful approach of balancing reduced trade barriers with the assurance of fair competition and the public interest. We understand the strategic and economic significance of the U.S. airline industry to our nation's well-being, and further understand the unique challenges inherent in implementing the expansive and complicated U.S.-EU Open Skies Agreement in a productive and responsible manner.

With this background, I believe that this is an important inflection point for how we as a nation project and secure America's role in the global aviation marketplace. The negotiators for both sides in the the U.S.-EU Open Skies Agreement negotiations understood the risks and adverse consequences that irresponsible liberalization could pose to the airline industries and workforces on both sides of the Atlantic. They resisted deliberate efforts to dismantle the U.S. ownership and control and cabotage laws, and they included, for the first time ever, a **labor article** in the final agreement. In doing so, they made an unmistakable statement that the terms of competition must not be set by those who would seek to gain an unfair advantage at the expense of quality jobs and high labor standards.

The Department should implement the Agreement in the spirit of Article 17 *bis* and concern for both fair competition and balanced trade benefits. Were NAI to be allowed to operate as proposed, the dynamic of transatlantic aviation competition will be changed for the worse, creating a situation where Flags of Convenience become the norm, not the exception.

I urge you to reject the NAI application, and thereby uphold the spirit and intent of the U.S.-EU Open Skies Agreement and Article 17 *bis*. Thank you for your consideration of my views on this vital international aviation policy issue.

Sincerely,

Jim Oberstar, M.C.
(1975 - 2011)

Mr. NOLAN. Thank you, Mr. Chairman. I will yield the rest of my time, and if my questions don't get answered I will pursue them at the end of the hearing. Thank you.

Mr. LOBIONDO. Mr. Nolan, we thank you. Mr. Daines, you are recognized.

Mr. DAINES. Thank you, Mr. Chairman. I have some questions for Mr. Sprenger. Mr. Sprenger, thank you for coming to Washington to testify. You truly have set a great example as leading a successful airport management model. I thought the metrics you shared were very impressive. And I guess I am a little bit biased, given that is my home airport, Bozeman, Montana. My mom and dad moved to Bozeman in 1964. I went to kindergarten through college there, and I have really watched the transformation of what has happened there, at that airport.

And I also want to compliment you on the tremendous service provided to our community and the economic driver. As was mentioned earlier, we were able to build a company there in Bozeman that virtually started from nothing to 1,100 employees with 17 offices around the world, a product with 33 languages. I managed Asia Pacific with offices in Tokyo and Sydney, headquartered and living in Bozeman, Montana, because I had an airport I could get in and out of every week. That business capitalized at $1.8 billion. So we built a large business. Had it not been for Montana State University there supplying graduates, as well as universities across Montana, and a great airport, we could not have done it. It is as simple as that. So thank you.

Mr. SPRENGER. Thank you.

Mr. DAINES. I was struck by the metric you shared on the cost per enplanement, that CPE number of sub-$3. And when I looked at your testimony, the average profit per passenger, the airlines, is about $4.13, as I saw from the 2013 numbers. Obviously, that is a pretty—$4.13 is a pretty small number. And keeping your numbers sub-$3 on the CPE, very, very impressive. How did you do that, and what recommendation would you give to other small airports?

And, by the way, for those who have not been to Bozeman Airport, when you see these low-cost numbers, I can tell you that Bozeman Airport is one of the nicest airports in the world, and I have been to most of them. It is an amazing airport, in terms of the quality of service, the ambience. And that is why a lot of folks come in and out of there.

But explain to us how you achieved these incredibly efficient numbers.

Mr. SPRENGER. Well, one of the first parts on the cost side is maintaining our personnel costs. Personnel costs are one of the biggest costs that we have at the airport. And our full-time equivalent employees is about 31. We think sometimes one of the benefits of being a growing airport is that we started small, and we have tried to remain small, especially on the staff side. So, being able to maintain those costs has been an important part.

But, like I mentioned earlier, as equally important is generating the revenue from other sources, and relying on that revenue, and not just increasing your costs—because you can also increase the cost to the airlines; that is a conundrum that I think many airports

get into. And we don't do that. We very much focus on continually lowering our airline cost per enplanement, quite honestly, because we are competing against every other airport in the country for seats. And you know, one of the only things that we can do to compete is to have our costs low.

Mr. DAINES. Yes. And you would think—I guess Bozeman is a smaller airport, but you are the busiest now in Montana. And, congratulations, it looks like you are going to hit a million passengers in 2014. Impressive growth.

Mr. SPRENGER. Thank you.

Mr. DAINES. And a lot of those passengers come in July and August, I know, when there is a certain thing called a trout that seems to be running around the streams of Montana. I was fly-fishing in Montana before Brad Pitt ruined it for the rest of us, I have said.

But let me ask you this. In your testimony you discuss the role of—a contract tower plays at the Bozeman Airport. Could you elaborate further on this point?

Mr. SPRENGER. Well, we are a contract tower program airport. And it has worked extremely well for us, from the standpoint it got us a tower when we would not have been able to justify a tower 15 years ago. The challenge now is that we have grown to become a small-hub airport, and the contract tower program is really designed for the smaller airports around the country, and there is really no mechanism for the FAA to really allow airports to grow into either a Federal tower, or shrink from a Federal tower to a contract tower.

And that means that, for us, there are airports of comparable size that have substantially more services than what we do. And we have a staffing level of only five controllers and one manager to really accommodate 18 hours a day. It creates challenges when we have periods of time during the day where we may have 80 landings or take-offs in an hour.

Mr. DAINES. Mr. Sprenger, I am running out of time. I am going to ask you. If you were to give us one recommendation—one or two—for the FAA and for this committee that would help make your life easier—trying to do here—of running one of the most efficient airports in America, in terms of CPE, what would that be?

Mr. SPRENGER. Have services commensurate with the size of the airport so that, as you grow, you get more services. As you shrink, you accordingly have services that are appropriate for your size.

Mr. DAINES. OK. Thank you. I am out of time, Mr. Chairman. Thank you.

Mr. LOBIONDO. OK. Thank you, Mr. Daines. Now we go to Mr. Bucshon.

Dr. BUCSHON. Thank you, Mr. Chairman. I will use a few health care analogies. I was a heart surgeon before I came to Congress. And I think—I am very interested in the pilot pay issue, because I had a young man from my district that came in who was a pilot for a regional airline, and we discussed this issue.

And, you know, I do kind of see it in the context of medical training, also. I mean, you know, you don't come right out of medical school and do open heart surgery. You don't probably come right out of college and, you know, immediately fly a 747, you know,

across an ocean. And so, I do agree with the free market approach to that. And it appears to me, as long as young people are willing to take a job for, whatever, $24,000 a year, as long as that supply-demand balance is there, people will continue to—you know, the pay will be an issue.

But it is like residency training programs. You know, when you get out of medical school, your pay is not consistent with a practicing physician. And I do see it as a—you know, a stepping stone to advance to a higher level.

I mean—and then that—the other issue is the—I was really curious about what—the difference between the captain and Mr. Bedford said about training, and talking to Mr. Hanna about this issue, you know. In medicine, if you do multiple, multiple hernia surgeries, it doesn't qualify you eventually to be a heart surgeon. You actually have to do things that—you know, you have to advance and do more advanced training that gets you there. That seems like a similar analogy.

That is why I am wondering, Captain, why is there a little disagreement, you know, under the—kind of an undercurrent of disagreement about the training qualifications between Mr. Bedford, maybe the airlines, and what the pilots see?

Mr. MOAK. Just real quick, I have two slides I would like to show that answers this, if I could bring them up, if available. And one of them is actually a compliment to Mr. Bedford's company. And if we could pull them out quickly, I think it would help illustrate it.

The first one is just to show you the economic part really quickly. And this gives you an idea—if you could, hold up the fuel one.

[Slide]

Mr. MOAK. This gives you an idea of what has happened over the last few years on a barrel of fuel. It completely—it has gone up so much that it covers the entire cost of a pilot. Now, companies can't control this variable, OK? They can control pilots costs. Economics are the biggest problem for small communities.

[Slide]

Mr. MOAK. The second slide, the second one, is simply a proactive action by Republic Airways. And this is an ATP ad where, for approximately $70,000, after you have gotten some certificates, Republic Airways will give you an interview. They actually show up and they do the right thing, they are out there recruiting pilots, and trying to get their qualifications in this program. That type of proactive action is—we need more of that.

So, I think the difference we—I will speak for me. A difference that we are seeing here is I believe we are kind of beating around that this is an economic issue that the market has changed, that if we don't adapt we are going to fail. And we got to focus on the primary driver. Now, near-term, some properties may be having this problem. But I can't force pilots to work for reduced wages, nor would anybody want that.

And, back to your original question on heart surgeons, we have people in the room today and people that I believe, when a customer buys a ticket—when they buy a ticket, they expect the same quality operation from start to finish. And if you are getting your

heart or brain—and I guess, in my case, brain surgery—done, you want to make sure that you have the person that has been——

Dr. BUCSHON. Yes. Let me just say I am in full agreement that pilots are—these pilots are underpaid, because they have the trust of the flying public, and the—you know, and when you do step on an airplane, you don't really think that one pilot is going to not be quite as good as another pilot. I mean it—for every level of flight, the pilot has to be really good, because people's lives are on the line, you know, if you mess up.

But I am also not one that believes that we can fix prices for whatever employment there is. You know, you can't—so it has to be some sort of a—to get the pilot pay, it has to be some sort of supply and demand issue to get the pilot pay up, and that may mean, if there is a—you know, if there is a developing shortage of pilots—and I think there probably is, because there is—health care providers are in shorter supply, too—that eventually those wages will have to go up because of sheer competitive forces. And I think it is a very difficult situation. All of us also may be—some of the school teachers that are teaching our kids we feel, I feel, are underpaid for what they do. But that is just the market.

So, what do we do about it? Mr. Bedford, do you have any comments?

Mr. BEDFORD. Yes, Congressman, I do. Part of the challenge we have—and I would appreciate Captain Moak's feedback on this—is, you know, we are in an organized labor situation. On multiple occasions we have actually tried to increase first officer pay by over 25 percent. And it has been—essentially, our union won't allow us to do it. And it is hard to square the circle when your union says, "Our employees, you know, need more money," and yet they won't let us pay them more money. So I would very much be interested in Captain Moak's, you know, just expertise as to why, you know, labor unions actually reject pay increases when——

Dr. BUCSHON. Thank you. My time has expired, so I think we can finish this later on. Thank you, Mr. Chairman.

Mr. LOBIONDO. OK. Mr. Graves, you are recognized.

Mr. GRAVES. Thank you, Mr. Chairman. My question is for Mr. Bedford. The pilot shortage has been something I have been looking at for a long time, and qualifications. And I would like for you to expand a little bit, too, on—you know, Mr. Dillingham talks about the number of pilots that are out there. And I am a recent ATP and I have got 3,500 hours, so I fall into that category.

Mr. BEDFORD. Are you available?

[Laughter.]

Mr. GRAVES. But I am not qualified to do that. And you just held up that—reminded me, that slide that was held up, you know, advertisements for the ATP school. Nothing against the ATP school, but you can go on a one-day course, pay your $295, pass your ATP test the next morning for part 121, and you know, and we have got guys out there that are, you know, young, just building time, that is all they are doing, building time to 1,500 hours to take that, you know, one-day ATP course. And then, hopefully, jump in the right seat. But you and I both know that they are not qualified.

And I would like you to expand on that a little bit, because I know pilots out there—in fact, we got combat pilots that are 22

years old, going into combat at 300 hours. And it is about the decisionmaking qualities that they have. It is all about the decisionmaking mentality that they have. You know, I know pilots that are not ATPs, they are commercial, they are crop dusters, and I would much rather step into an airplane with them than I would—there is guys out there that have 20,000 hours that I wouldn't fly, if my life depended on it. And it does. That is the bottom line.

We both know what it is about. It is about cockpit resource management, it is about how you handle yourself in the airplane, it is about how you make that decision. Would you expand on that just a little bit, on what you consider qualified pilots? Because I am so damn frustrated about this arbitrary figure that we put in out there, when it comes to just as long as you got 1,500 hours you are going to be good enough to fly. And that is just simply not the case. And now we have a pilot shortage, because we don't have the folks that you are talking about that really have what it takes to, you know, to fly passengers for hire. I would be very interested in you expanding on that, Mr. Bedford.

Mr. BEDFORD. Thank you, sir. Yes. Well, I agree with you completely, you know. Arbitrary rules are very generally unproductive. And, to clarify, Republic Airways is not in support of any repeal of FAR 117. So——

Mr. GRAVES. I am.

Mr. BEDFORD. Well, look, I believe crewmembers do need adequate rest, and we should all play by the same rules. Having said that, again, training is—the quality of training takes precedent over the quantity of flight time.

And I think, to answer your question in terms of military time, we don't see—I certainly understand why military pilots receive the best training in the world, and they perform at a high and proficient level, even with limited flight time. Those pilots aren't coming, though, into the industry. We talk about potential military pilots coming in. And, potentially, a guy who is landing a fighter on a carrier coming out with 300 hours is still considered unqualified to fly under the current statute. It is crazy. We are going to ask that guy to now go get another 500 hours of flight time, flying in a single-engine airplane in a fair weather environment, before we can consider him a candidate.

There are only 24 universities that have been approved, as far as I know. Maybe there have been a few more added since then. None of them are 2-year aviation programs. So the reduction to 1,250 hours is a farce. It doesn't even exist. There is no way to take advantage of that.

So, again, you know, we had a rulemaking process. The industry, including ALPA—we are on the same page on this—were simply ignored by the FAA. I would urge this subcommittee to strongly ask the FAA to reconsider how it implemented the rule. And I am only talking about the experience requirements, and not the flight and duty time limitations.

So, again, I think we should be focused on quality and capability and proficiency. And, again, if there is an airline out there that is putting nonqualified—although they may be statutory qualified, but they are not proficient, not professional, not safe, and I think

that is what we had at Colgan Air—those airlines have no business being in the industry.

Mr. GRAVES. Mr. Moak, real quick.

Mr. MOAK. Congressman Graves, you are an accomplished pilot. I flew off aircraft carriers, flew fighters off aircraft carriers. We have the best training, some of the best training in the world, where they are coming out with 250 hours and are flying our young men and women into combat overseas. So what you focused on is a very good point: training, and oversight after training.

I believe what the committee had done and what the process led to was a proxy for—with hours as a substitute for some training. As you know, before, there were people that were coming in with very reduced hours, getting an ATP, and going right into the right seat of these airlines, some at very reduced wages. That is what was trying to be corrected here.

But your focus on training is spot on. I am with you on training. And we need to stay vigilant on training. You could have 2,000 hours or 20,000, like you said, without proper oversight, without proper training. It is not a safe operation.

Mr. GRAVES. Thank you, Mr. Chairman.

Mr. LOBIONDO. Mr. Davis?

Mr. DAVIS. Thank you, Mr. Chairman, and thanks to each of you for being here today. I would like to first start with Mr. Moak. Thanks again. Good to see you again.

You proposed restored loan guarantees for college students undergoing flight training programs. This is a concept that really interests me. I have Parkland Community College in my district. And under the leadership of their president, Tom Ramage, a good friend of mine, they are going to assume control of the aviation program that was once at the University of Illinois. We want to continue to explore ways and policies that will help future pilots succeed.

What other innovative means do you think could be employed to recruit students interested in becoming pilots?

Mr. MOAK. You know, we have—Congressman, we have the same challenges that is confronting, you know, STEM in the United States. We need to stay focused on getting young men—and I want to emphasize women—into our profession. And the Air Line Pilots Association, we are partnering with universities and pushing this hard, but we are being very mindful of the cost of education today.

The future is going to be on these young people going through, graduating, and then progressing to a job and a career. And so, anything that we can do in that respect, anything this committee can do, or the Congress can do, we are all for.

Mr. DAVIS. Well, thank you very much. Mr. Bedford, you mentioned, just in your last response, about our military members, our servicemembers can fly hours upon hours, mission upon mission, land multimillion-dollar aircraft on aircraft carriers, and have to come back and get 500 more hours of certification, did you say?

Mr. BEDFORD. It depends on how many hours, Congressman, they actually leave the military with. But, yes, it is possible for a highly proficient military pilot to leave the service with less than 750 hours, and he would be required under statute to make up the difference before he would be eligible for a restricted ATP.

Mr. DAVIS. On average, how often does that happen?

Mr. BEDFORD. I think today we are seeing very few military pilots actually coming in to the commercial airline business.

So, one of the challenges we have is the—you know, commercial airline business is a seniority-based opportunity. And as a previous congressman had mentioned, you know, people come into the profession, looking at it as a career investment. And that career starts with building experience at regional carriers, and then they generally matriculate to mainline. And that is the same path that most military pilots would take, as well.

Mr. DAVIS. OK. Well, I am interested. Now, you brought up a very interesting point that I didn't expect and wasn't on my prepared list of questions. I would be happy to work with you and the others on the panel to try to address that issue, so that our heroes can come back and fill this airline pilot shortage.

Mr. Sprenger, while I have some time left, you did start to talk a little bit about the contract tower program. I have numerous contract towers in my district in central Illinois. And you know, you got into it a little bit, but can you tell me how the contract tower program helps you retain your air service? And also how it promotes safety?

Mr. SPRENGER. Sure, Congressman. Without the contract tower program, we would not have a tower. And if we didn't have a tower, our airlines would struggle to operate at our airport with the frequency that they currently have. We would not have grown to the point where we are without the contract tower program.

When we look at—the struggles that we are at now is that the contract tower program isn't built for scale. And so, as an airport grows larger, we are still at the scale of a much smaller airport.

Mr. DAVIS. One more question for you, Mr. Sprenger. And I know you have experience with the Small Community Air Service Development Program, and coming up with your local contributions. From your testimony, I gather that the local buy-in is a key component to your success. And what, if any, changes would you recommend to make that program more effective for airports like you to use?

Mr. SPRENGER. The key, I think, is exactly what you said, Congressman. It has to have local contribution and buy-in. If the community isn't behind it and supportive of it, it is going to be a difficult struggle, all together. When the community does have the buy-in and is participating financially, they have a vested interest in its success.

Mr. DAVIS. Well, thank you. And one last question. Mr. Mann, according to an MIT report released last year, domestic departures declined by more than 21 percent at small airports between 2007 and 2012, but less than 9 percent at our large-hub airports during the same period. What do you think—why do you think there is such a large discrepancy between the large and the small airports? Is it just price, or what other ideas?

Mr. MANN. It is primarily a price and the nonstop destinations, and the fact that it is so easy for people in our community to drive to the larger airports. Charlotte is, like I said, the sixth largest airport in the country. It is just over an hour drive away. And they are just a tough competitor.

I think our—what we need to do in the local community, though, is to get our costs in line and make a business case to the airlines to serve our market. And I can tell you our example is when we got more service, and got our costs in line, the airlines did bring capacity back, and we started seeing the customers come back to our airports. So, again, I think it is—for us it comes back to local control and having a willing airline that is willing to take a risk with us.

Mr. DAVIS. Well, thank you. If I had more time, Mr. Chairman, I would yield back.

Mr. LOBIONDO. Mr. Meadows?

Mr. MEADOWS. Thank you, Mr. Chairman. Thank each of you. Some of you, welcome back, it is good to see you again.

Mr. Mann, let me start with you. I had the pleasure of flying into your airport here just a couple of weeks ago. I have a good friend in Asheville who sends his regards—Lou. You—it has been talked about that you created competition, or allowed for some additional competition among carriers. One, is that the case? How did you do that? And how did it benefit, I guess, you know, the airport and the community there?

Mr. MANN. Well, primarily, it was, again, getting our costs in line and then making a business case for the new air service. It really came down to the fact that we were not competitive. And so we had to go out to both airlines, after we got our costs in line.

One of the things that we saw with Delta, and we made the business case when encouraging competition, we made the case to Delta that, if you are going to drive—if our customers—half our market drives to Charlotte. If those guys are going to drive to Charlotte, they are going to get on US Airways and American Airlines. And so, Delta, you are going to lose all those customers.

And so, we were able to quantify what that loss would be. And if they, again, just added a little bit of capacity at a fairly competitive price, that they would pick up that market share and fill the planes up. They agreed to do so. And they are running about an 84-, 85-percent load factor on market. But again, it was making a business case with Delta Airlines primarily that said if you bring the aircraft here you can make money in our market. And they—again, to date they are very happy with what they are doing in our market.

And again, it has not hurt US Airways in Charlotte. I mean those folks were on the road, and now they have an option to fly out of the local community. And, again, that is a win-win for economic development, the folks that don't have to spend that 1½ hours on the road. And, again, the airline can still make money in our market.

So I really think it comes down to making a business case. And, again, Delta had not really thought about the fact that they were going to lose—that they were just losing market share by not adding—we are talking 100 seats a day. Very simple to fill that up, when you have 500,000 people driving up the road.

Mr. MEADOWS. All right. So let me go on in terms of the competitiveness, and let's talk a little bit about unfunded mandates and about compliance costs and what happens, because it seems like there is a plethora of compliance issues that come up, and they ex-

pect both you, Mr. Sprenger, and you, Mr. Mann, to figure out ways to implement those. And that would go at the expense of operational expenditures and capital expenditures to meet those compliance things.

How do we best deal with that, and how do we control that, in terms of those additional unfunded mandates that have been placed on small and rural airports?

Mr. MANN. The most recent challenge we had was the—with the TSA wanting to get out of the exit lane business. That was going to be a significant hit to our bottom line. And we had already put technology in place to handle that. And so it was an issue out there where, if they would have just accepted the technology for that exit lane, it wouldn't have—it was an unfunded mandate, potentially, but we couldn't get TSA to accept the technology.

So I think airports are trying to be creative, we are trying to do smart things out there, and our regulatory bodies are putting up road blocks for us. And my point is we have enough challenges that, when we find solutions, we need partners in the FAA and the TSA to work with us and say, yes, we think that can work. Make it a pilot program, if you need to, but that is really where we need to go.

The other part is the regulations on airport revenue, parking lot revenue. We ought to be—we ought to have the flexibility to use that local revenue to do what we think is in the best interest of our local economy.

Mr. MEADOWS. So the revenue use policy to have greater flexibility there, in terms of how to implement that.

Mr. MANN. That is—that would be key. Also, the land use. But, yes, the revenue use policy really is antiquated. It needs to be modified. And, again, let us in the community do what is best with our airline partners and our community to grow the business.

Mr. MEADOWS. So what you are saying is that you came up with a few options with regards to TSA that would not sacrifice safety, and could have been a more cost-efficient way to implement it, and yet you couldn't get a sign-off from TSA to do that.

Mr. MANN. That is correct.

Mr. MEADOWS. So how often does that occur?

Mr. MANN. Well——

Mr. MEADOWS. Not specifically just with TSA, but with any Federal agency.

Mr. MANN. It happens all the time. I mean with our revenue use policy, I mean, daily. If we wanted to do an airline incentive right now, which we did not need to do in Columbia, but if we wanted to, we could not have used our money to partner with a specific route, a specific airline. There is just complications that are there that, again, prohibit us from being more successful than what we would be.

Mr. MEADOWS. All right. Thank you, Mr. Chairman.

Mr. DAVIS [presiding]. Thank you. I would like to recognize Mr. Larsen for 5 minutes.

Mr. LARSEN. Dr. Dillingham, what would you see as a key contributing factor to the growth in the total—I mean per passenger—EAS subsidies, as a result of your report?

Dr. DILLINGHAM. Mr. Larsen, I think that the fact that they are—the increased number of communities that are a part of EAS, that certainly is a major factor. The other factor is something that the other panel has mentioned, in terms of the price of fuel has quadrupled over the last several years, which also contributes to the subsidy cost, as well. So those two factors are the key factors that contribute to the increase in cost.

Mr. LARSEN. Would the fuel be more of a contributor to the per-passenger than——

Dr. DILLINGHAM. Yes, sir.

Mr. LARSEN [continuing]. The EAS subsidy? Yes, OK. Yes, sure, Secretary Kurland.

Ms. KURLAND. Thank you, Congressman. There are two other factors that I would like to mention. We have seen, in the past few years, a number of EAS carriers have gone out of business. So the pool has become smaller, in terms of the available carriers. We are also seeing a lot of the equipment, the 19- to 34-seat aircraft, which were the right-sized aircraft for these communities, aging and being retired. And so, finding the types of aircraft that are going to work has posed challenges, as well, and additional expense.

Mr. LARSEN. So, on that point, what is the challenge in finding the right-sized aircraft at this point?

Ms. KURLAND. Well, the manufacturers are not making the 19- to 34-seaters. So what we are seeing—and Congress did change some of the requirements to allow nine-seaters—in many of the communities with the shorter haul flights is that the nine-seaters are working well. In other, larger communities, 50-seat RJs are working. But they are more expensive to run, as well. So, we don't necessarily have the sweet spot at this point for the type of aircraft.

Mr. LARSEN. All right. So I have one more question for Secretary Kurland. It is—this issue was brought up earlier, but—and unrelated to rural service, but it has to do with the NAI application. Can you tell the subcommittee where DOT is in the process on the NAI application?

Ms. KURLAND. Congressman, as you know, it is a contested proceeding. And so I am not at liberty to comment on it.

Mr. LARSEN. Thank you. Thank you.

Mr. DAVIS. Thank you, Mr. Larsen. A couple more questions for the panel that I wasn't able to get to during my time period, and I would like to start with Secretary Kurland. I will remind you I do not have any other committee action going on that I am going to ask you about today, like last time.

So I just want to actually get your opinion. I mentioned in the SCASDP program we had a little—somewhat of a discussion earlier during my questioning. I appreciated your responses. But, Secretary Kurland, can you tell me how important is community involvement for this program, and can you give me some ideas of how airports can effectively work with IDOT or work with USDOT even more so to make it easier for you to make a determination?

Ms. KURLAND. Thank you, Congressman, and I appreciate your comments.

Regarding the SCASDP program, both of our airport managers—and I compliment them on the great work they have done at their

airports—have mentioned the importance of community involvement. And we have seen that many of the successful programs have had community involvement. And we view that as a very high priority, where communities are putting skin in the game, because that means that they are going to support the service. If it is a revenue guarantee, they are going to use the service. So that type of support is critical.

One of the other things that we have learned from some of the other reports and—that, you know, the GAO, the IG has done, and that we have taken a look at ourselves—is the importance before, for example, the implementation of a revenue guarantee, that a feasibility study be done so that the airport, as much as possible, sets themselves up for success.

And so, we think that those types of things are important. We have also recently, in our recent RFPs, put in an opportunity for intermodal funding, to the extent that a community was interested in looking at that, as well.

So I would like to commend Congress in the funding of the SCASDP program, in viewing it as a laboratory, in giving these communities these airports an opportunity to try new and different things. But community support is really critical.

Mr. DAVIS. Great, thank you. Dr. Dillingham, do you have anything to add?

Dr. DILLINGHAM. Yes. Just a footnote to that is that DOT is maintaining a database of lessons learned from the Small Community Air Service Development Program which has benefitted communities that are thinking about these innovative approaches, what works, why it works, and what they need to do to be more successful. So we think that is a good thing for improving the effectiveness of the Small Community Air Service Development Program.

Mr. DAVIS. Great. Does anybody else on the panel have any other comments they would like to make on the Small Community Air Service Development Program?

Mr. BEDFORD. Well, just from my own experience, Congressman Davis, committee involvement is essential, and communities should have skin in the game, economic skin in the game, in order to make sure that they are doing everything that they can to support unique air carriers services.

I agree with everything that Secretary Kurland said with the challenges of finding the right aircraft. I think you referred to it as the sweet spot, something that, you know, frankly, passengers want cabin-class service, you know. And, like it or not, there is a certain turbo-prop avoidance factor.

One thing that hasn't been mentioned here today that I think I should at least put on the table is just airport crowding in general. What these services need is connectivity to the Nation's transportation network. There is rarely enough traffic, you know, from small town community to small town community. So being able to make connections in large hubs is essential for the service to be successful, which means small communities need to partner with major airlines.

The pushback you get is a small airplane consumes the same amount of airspace as a wide-body. So, you know, you are com-

peting for scarce resources in places like Atlanta and Chicago and New York and Philadelphia, you know, San Francisco, L.A. And that is a huge problem, I think—well, one of many that face the retention of these vital airlines in smaller communities.

Mr. DAVIS. Right. Well, the hearing is about to end. Does anybody on the panel have any issues you would like to discuss that we might not have gotten to? Now is your time to go ahead and do that.

[No response.]

Mr. BEDFORD. Did I mention a pilot shortage?

[Laughter.]

Mr. DAVIS. Going once, going twice—if there are no further questions, I thank the witnesses for their testimony and the Members for their participation. This subcommittee stands adjourned.

[Whereupon, at 11:41 a.m., the subcommittee was adjourned.]

T&I Aviation Subcommittee Hearing
Air Service to Small and Rural Communities
Congresswoman Elizabeth H. Esty Statement for the Record
April 30, 2014

Thank you, Chairman LoBiondo and Ranking Member Larsen, for holding this important hearing on air service to small and rural communities.

In Connecticut, we have more than a dozen commercial, passenger, and general aviation airports that span the state, from Bradley International Airport in Hartford to Waterbury-Oxford Airport in Waterbury. These airports connect our communities, and connect the state with the rest of the country. I have visited medium-hub airports, non-hub airports, reliever airports, and general aviation airports in my district and throughout Connecticut, and I have heard firsthand the unique issues facing these smaller airports.

Grant programs like the Small Community Air Service Development Program (SCASDP) provide critical funding for airports such as Tweed Airport, right up the street from my district. Tweed Airport received SCASDP funding to make significant facility improvements that they otherwise could not have afforded. Those improvements allow Tweed, and other small- and non-hub airports, to remain competitive with larger airports.

As the Committee works to reauthorize the FAA Modernization and Reform Act, I will continue to support federal programs that promote the aviation industry in small and rural communities.

Elizabeth H. Esty

Elizabeth H. Esty
Member of Congress

STATEMENT OF SUSAN L. KURLAND
ASSISTANT SECRETARY FOR AVIATION & INTERNATIONAL AFFAIRS
U.S. DEPARTMENT OF TRANSPORTATION
before the
COMMITTEE ON TRANSPORTATION & INFRASTRUCTURE
SUBCOMMITTEE ON AVIATION
U.S. HOUSE OF REPRESENTATIVES

April 30, 2014

Chairman LoBiondo, Ranking Member Larsen, and Members of the Subcommittee:

Introduction

I appreciate the opportunity to appear before you to discuss the state of air service at small and rural communities. The Department of Transportation has a broad mandate to ensure that small and rural communities have access to regularly scheduled air service within the National Airspace System (NAS) (see 49 U.S.C. § 40101(a)). Like Congress, the Department understands how vitally important air service links are to communities of all sizes, particularly those communities that are geographically isolated or that have few reliable transportation options.

The Department is the steward of two Congressionally supported programs that provide communities with resources to address air service deficiencies--the Essential Air Service (EAS) program and the Small Community Air Service Development Program (SCASDP). The Department works to make these programs as efficient and successful as possible. I will spend the majority of my testimony explaining how these two programs complement each other and what their impact is on small and rural communities.

This is a challenging time for air service development. In recent years, the U.S. airline industry has undergone tremendous structural change. While the largest airlines have shown a remarkable ability to adapt and earn profits the last four years, the reality is that many small communities are confronting increasing challenges in maintaining their desired level of air service. High fuel prices, changes in business models, lack of availability of small, fuel-efficient aircraft, the consolidation of airline networks, and new legislation and regulation are being cited as being among the many factors that are changing the economics of serving small and rural communities and the baseline qualification standards and duty limits of commercial airline pilots. Some analysts believe these factors will come to a head in a matter of a few short years, creating some difficult choices for airlines as they may have too few pilots, planes, or resources to sustain their existing domestic networks. I commend this subcommittee for looking at these

issues now, as it may take a number of years for new commercial and public policy solutions to become effective.

In this challenging environment, the Department is pursuing a broad strategy to address small and rural community access to the NAS. In addition to administering EAS and SCASDP, one component of the strategy is making substantial airport infrastructure investments to improve the quality of air service to small and rural communities. The Department – through the Federal Aviation Administration (FAA) – provided $5.8 billion in Airport Improvement Program grants for small- and non-hub airport infrastructure between fiscal years 2009 and 2013.

The Department also develops creative solutions when specific air service issues arise. For example, we determined that the Department could play a valuable role in preserving small and rural community air service in connection with the recent merger of American Airlines and US Airways. As the Justice Department was preparing to settle its antitrust lawsuit with the airlines, the Department reached a side agreement to largely preserve service to small and rural communities from Ronald Reagan Washington National Airport (DCA). This agreement – the first of its kind – recognized that American and US Airways would continue to hold a majority of the "commuter slots" at DCA, which are special landing and takeoff rights to operate aircraft of 76 seats or fewer. Because these slots are well suited for use in small and rural communities, the Department sought the airlines' commitment to continue serving small communities. The Department side agreement requires that the airlines continue to schedule at least 75 daily round trips from DCA to small cities, with at least 56 of those round trips earmarked for small- and non-hub airports, for a period of at least five years. While the agreement does not require the airlines to serve any particular community, it does ensure that small and medium-sized cities, as a class, maintain access to the nation's capital during the term of the agreement. The Department's successful efforts to reach agreement with airlines serve as an indication of how important we think access to the NAS is, and of how we work with all industry stakeholders to address air service issues.

The Essential Air Service Program

The EAS program was established by Congress as a safety net for the smaller and more isolated communities across the country that had scheduled air service at the time the Airline Deregulation Act (Act) was passed in 1978. Under the Act, these communities were assured that, for ten years, they would continue to receive scheduled service to a hub airport--by federally subsidized flights if necessary. Congress later extended the program for another ten years, and ultimately made it permanent. The Department administers this program and has worked hard to stretch every available dollar. The EAS program is currently subsidizing service to 160 communities nationwide, ensuring that communities across America can tap into the economic and quality of life benefits that air service offers, including access to health care, education and business opportunities.

It is every EAS community's objective to stimulate enough traffic that airlines will be attracted to provide air service on a competitive, rather than a subsidized, basis. Some communities have successfully reduced their reliance on subsidy in recent years using the EAS program as a platform. We work closely with the community leaders to achieve their goals by soliciting the community's input and we afford substantial weight to the community's views when making a carrier selection.

In Joplin, Missouri, for example, the community's response to American Eagle's service – which began in 2010 – has resulted in a much lower subsidy as the market continues to gradually improve. Joplin required a subsidy of $2,778,756 in 2010, but by 2012, the subsidy amount dropped to $342,560, saving the EAS program and taxpayers more than $2 million per year. The communities of Sioux City and Waterloo, Iowa, as well as Garden City, Kansas, responded in a similar fashion and were able to significantly cut their subsidies. These efforts led to more sustainable air service in their communities and saved more than $2.8 million per year. The communities of Rock Springs and Riverton, Wyoming; Dickinson, North Dakota; and Manhattan, Kansas, all benefitted from favorable traffic and revenue results under the EAS program. They are now served totally without federal subsidy.

The positive developments experienced by some EAS communities must, however, be put in context. In the years since deregulation, low-cost/low-fare carriers have expanded in popularity, reach, and offerings. Based upon 2013 revenue data, low-cost/low-fare carriers represent more than 30% of domestic passenger revenues. This increased LCC presence prompts passengers to drive an extra distance to the airports where they operate. The EAS program now operates in a landscape that is dramatically different than the landscape in 1978. In today's environment, with dramatically higher fuel costs, the EAS program subsidy rates continue to escalate, notwithstanding that Congress capped the program so that no new communities (except those in Alaska and Hawaii) can enter the program. In FY2011, the program obligated $195 million. In FY2012 and FY2013, obligations increased by $29 million and $31 million, respectively. In FY2014, the program funding level is $269.6 million. While the number of subsidized EAS communities has remained about the same, these upward costs are driven primarily by two factors.

First, the number of regional airlines that have the appropriately sized aircraft for the EAS program has continued to decline. For the last 20 years or more, the backbone of the EAS program has been 19- 34-seat aircraft. Aircraft in the 19 to 34-seat segment, such as the Beech 1900, are well suited to serve many EAS communities because they are typically pressurized and offer an appropriate number of seats to match the modest demand. Yet, carriers have been retiring their 19- 34-seat turboprop aircraft because they are becoming extremely expensive to maintain. The result is that regional airlines are relying more heavily on much larger aircraft, such as 50-seat regional jets or 74-seat turboprops, or in some cases, much smaller aircraft, such as 9-seat unpressurized turboprop aircraft suited towards short-haul services. In fact, with only a

handful of exceptions, in the lower 48 states, the only 19-seat service is in subsidized EAS markets. As a practical matter, the 19-seat aircraft is largely obsolete.

Within the last few years, four EAS providers that were serving fully one-third of the EAS communities in the lower 48 states with small turboprops went out of business: Big Sky Airlines, RegionsAir, Air Midwest and Skyway Airlines. On July 15, 2011, Mesaba Airlines and Colgan Air, both owned by Pinnacle, filed 90-day notices of their intent to suspend service at 34 EAS communities. In both cases, the reason given for leaving the markets is that the carriers were retiring their entire fleet of 34-seat turboprop aircraft. This decrease in both right-sized aircraft and carriers that participate in the program has diminished the number of carriers competing for subsidy, thereby driving up subsidy costs. For example, the actual costs to replace these carriers are significantly higher than the subsidy rates that were in effect at the time that Mesaba and Colgan filed to suspend service. At the ten Colgan communities, the aggregate 10-city rate went from $19.2 million to $24.3 million, an increase of $5.1 million. At the 16 communities where Mesaba filed notice and where it was already receiving subsidy, the aggregate rate went from $24.7 million to $36.8 million. Six of those communities had never required subsidy support before. These trends of cost escalation are likely to continue because smaller, right-sized aircraft are not being manufactured and so there will be fewer and fewer airlines willing or able to participate in the program. Given the age of the 19- and 34-seat aircraft, and the fact that no aircraft of that size have been manufactured for years, we are fast approaching the time when EAS will be provided with either 9-seat or 50-seat aircraft, and even the 50-seaters are being retired at a steady rate.

On the plus side, there are a handful of EAS communities that are large enough to support regional jet aircraft at subsidy rates that are comparable to, or even less than, turboprop EAS markets. Whether that will continue in the long run, given the relatively higher cost of operating regional jets compared to turboprops, is an open question.

Second, recent legislative and regulatory action concerning pilot flight and duty time and minimum requirements for new hires have, at least temporarily, affected the supply of pilots, particularly for the smaller regional carriers who are now adjusting their compensation and training programs. The lack of adequate aircraft and airlines positioned to serve small markets is now complicated by at least a short-term pilot shortage, which could be further exacerbated by the number of network airline pilots facing mandatory retirement at age 65 in the coming years. A February 2014 report by the General Accounting Office (GAO) found that regional airlines faced difficulties filling entry-level pilot vacancies. GAO reported that the major regional airlines in the United States have been able to meet about 50% of their hiring targets. According to a April 2014 study by William Swelbar of the Massachusetts Institute of Technology, 14,000 pilots are expected to retire from the largest four airlines between 2015 and 2022. In addition, other pilots will be required for growth at these and other airlines. Since large airlines typically recruit their pilots from the regional airlines, the demand for pilots by the large carriers is likely to surpass the 18,000 pilots flying for regional airlines today. The pilot shortage

may therefore negatively affect the ability of small communities to retain and expand their air service, at least for a few years.

According to some analysts and airline representatives, the recent legislative and regulatory changes, while improving the safety of commercial air travel, result in implementation and compliance costs that have implications for rural air service. The impacts are most acute at the smallest regional carriers. For example, Great Lakes Airlines and Silver Airways, which provide a significant amount of subsidized air service under the EAS program, have seen their pilot pools shrink rapidly. At the current time, it is proving difficult for these carriers to retain pilots as larger carriers are able to offer more attractive compensation packages. In late 2013, Great Lakes Airlines and Silver Airways significantly reduced their planned flight schedule, citing the reduced availability of pilots, and resulting in service reductions for subsidized and non-subsidized communities in their route networks. Within the last 3-4 months, Great Lakes Airlines shut down service at 12 EAS communities, and the Department is in the process of securing replacement service. Silver Airways has just recently filed to suspend service at 10 communities, and the Department is securing replacement service for those communities as well.

To address the escalating costs and structural problems with the EAS program, Congress has, over a period of years, enacted a number of changes to the program's eligibility criteria. For example, Congress imposed a $1,000 subsidy-per-passenger cap for all communities except those in Alaska and Hawaii, regardless of how far they are located from a hub airport. To implement this statute, the Department has terminated eligibility for four communities, saving $6-8 million annually. Congress also included the requirement that eligible communities (outside of Hawaii and Alaska) within 175 miles of a large or medium hub have average enplanements of 10 or more each service day (the 10 enplanement provision), as well as the requirement that EAS subsidies do not exceed $200 per passenger (the $200 per passenger subsidy cap).

For many years, the Department has worked with EAS communities where exogenous events and temporary declines in traffic may have skewed the true nature of the demand for air service. In 2012, Congress provided the Department with specific authority to grant waivers from the 10-enplanement provision and the $200 per passenger subsidy cap. This new authority allows the Department to continue to take into consideration distortions to passenger and subsidy levels that do not reflect a community's true traffic generation potential, while, at the same time, enabling us to develop a more regularized and predictable way of establishing program eligibility.

To ensure consistency and fairness, the Department has decided to take the same measured approach with respect to both the 10-enplanement provision and the $200 per passenger subsidy cap. We are beginning with the 10-enplanement provision. Earlier this month, the Department analyzed the most recent fiscal year data available and tentatively terminated EAS subsidy for 13 communities whose subsidies totaled about $25 million. Affected communities have an opportunity to object to our tentative findings, and, if they are not successful, they may seek a

waiver. Moreover, if a waiver is not granted, they may petition to re-enter the program in the future. I can assure this subcommittee that Department will do everything we can to work with Congress and our EAS stakeholders to mitigate potential impacts to communities affected by these actions and protect the long-term viability of the EAS program. The Department proposed a similar plan regarding the $200 per passenger subsidy cap about a week ago and requested comments from stakeholders.

Small Community Air Service Development Program

In 2000, Congress authorized a new program, the Small Community Air Service Development Program, which it funded beginning in 2002. SCASDP is complementary to the EAS program, and, in our experience, is not well understood. SCASDP is a competitive grant program that encourages small airports to develop innovative approaches to attract or retain air service and to connect communities to the NAS. Communities of varying sizes, up to the size of small hubs, may apply for funds and the Department applies rigorous statutory criteria to select the most meritorious proposals. Communities may apply funds to a wide range of activities, including revenue guarantees to backstop new air service, air service development studies, start-up cost offsets to help attract new airlines, and marketing support to improve usage of the airport. A majority of grantees use the funds for revenue guarantees or other forms of risk abatement for the airlines, while approximately 40 percent use the grants primarily for marketing or other project components. EAS communities may apply for SCASDP grants, but in the years since SCASDP was authorized there has not been significant overlap between the programs. EAS communities have accounted for less than 15% of all SCASDP grants. The small amount of overlap is due in part to the Department's policy of ensuring that SCASDP grants for EAS communities are only used to market the EAS service. This policy ensures that the two programs do not work at cross purposes.

Consistent with Congress' objectives for the program, the Department has viewed SCASDP as a means to explore creative and innovative approaches to air service development. Since 2002, the Department has issued 349 grants totaling $140 million in appropriations. These grants funded a wide range of projects, including various kinds of financial incentives to airlines, intermodal solutions such as shuttle services to the airport, leakage studies, cutting edge marketing techniques, and start-up cost offsets. Each of these approaches has a chance of working for the community that receives the grant; but other communities can also learn from the results of these projects and make adjustments to their own air service development efforts. SCASDP projects are described in detail in a public docket, where applications are posted. Communities can, therefore, learn from the approaches taken by SCASDP grantees, creating a record of "lessons learned." Additionally, the SCASDP grant administrators serve as a neutral resource for communities as they develop and implement their own strategies.

In SCASDP, projects are funded on a reimbursement basis according to a defined cost share, with many communities contributing a substantial amount of the total project cost. Throughout the history of the program, more than half of the grantees, or 52 percent, have contributed greater than 20 percent of the total project cost; 18 percent contributed at least 40 percent of the cost; and 12 percent contributed at least 50 percent of the total project cost. Grants have a duration of one to five years depending upon the circumstances, and any funds not expended at the end of the grant term are typically reallocated to other communities in a future solicitation. SCASDP is funded entirely from annual appropriations, and has received $10 million or less every year since 2006. In this respect, SCASDP is comparatively small in size.

Unlike the EAS program, which has a static list of eligible communities and works on a straight subsidy to air carriers, SCASDP helps communities adapt to the changing dynamics of air service demand by giving them resources and by encouraging them to develop innovative approaches with a range of local partners. In many grants, the funds are used as guarantees to mitigate the risk the airlines take by entering a new market. To the extent that the services are profitable, funds may never be drawn down and they may be potentially recovered and reallocated to other communities for new projects. This ability to provide flexible risk abatement, combined with the fact that the program works on a reimbursement and cost-share basis, makes SCASDP unique and popular with small communities.

Three grant projects serve as useful examples of successful SCASDP grants. In 2002, the Department awarded a grant to Akron-Canton Airport in Ohio to launch new nonstop flights to New York's LaGuardia airport on AirTran Airways, now part of Southwest Airlines. The community successfully leveraged the grant funds to demonstrate the existence of a robust air travel market in the region. After AirTran's entry, traffic at the airport increased by an estimated 100 percent, and fares decreased, as other airlines added new services as well. Based upon the community's success, the airport did not need to draw down all the grant funds. It returned more than $200,000 to the program, and that money was later reallocated to other grantees.

In 2010, the Department awarded a grant to Provo, Utah, to establish new scheduled air service on a low-cost/low-fare carrier. As a result of the grant, Provo secured its first commercial air service since the 1960s, at first attracting Frontier Airlines and then later attracting Allegiant Airlines when Frontier altered its fleet strategy as part of its changing ownership. Like Akron-Canton, Provo experienced significant traffic growth. When Allegiant saw the positive results of its first service at Provo, the airline added additional destinations and flights which, according to the airline, are producing load factors above 90 percent. Allegiant now serves Phoenix, Oakland, and Los Angeles from Provo.

In 2011, the Department awarded a grant to Harrisburg, Pennsylvania, to secure new westbound service. The community reached an agreement with Frontier Airlines to provide new low-fare service three, and then four, times per week to Denver. The community estimates that the Harrisburg-Denver market grew by more than 200 percent and that Harrisburg now has the

region's lowest fares to Denver, which stimulates traffic. The existence of the SCASDP-backed revenue guarantee was critical to mitigate the risk that Frontier Airlines faced in entering a new market. But when the airline did enter, the route performed well and no revenue guarantee funds were ultimately needed. The funds will remain available to reallocate to a future SCASDP grantee. Harrisburg now believes that it has proven itself as a potential base for future low-cost/low-fare operations. In 2012, the community estimated the economic impact of the in-bound traffic to be $2.7 million.

Yet, even with a SCASDP grant, communities still face challenges in realizing their air service development goals. Some grantees are unable to attract new air service, while others find that the air carrier terminates the service soon after the financial support ends or for reasons unrelated to the SCASDP grant. In its 2005 study, the GAO reviewed 23 projects from the initial years of the program and determined that results were mixed. The GAO concluded that about 50 percent of the airports with grants reported air service improvements that were self-sustaining after the grant was over. The GAO stated, however, that it was, at that time, too soon to assess the overall effectiveness of the program.

Subsequently, a group at the Massachusetts Institute of Technology (MIT) reviewed the program and published its results in January 2014. The MIT study reviewed 115 projects funded by grants issued between 2006 and 2011. MIT only evaluated projects in which the community sought to provide airlines with financial incentive packages to secure new service; other projects, such as marketing projects to sustain current service or air service development studies, were not evaluated. MIT determined that communities were successful – that is, they attracted and sustained new air service throughout the grant period, up to 28 months – only 36.5 percent of the time. It must be noted that MIT's data sample includes projects that are still ongoing, and may thus still be successful towards the end of the grant period.

While these studies are useful references, I believe a more balanced and inclusive assessment is possible, particularly if the following three factors are considered.

First, Congress authorized and funds the program with the knowledge that communities would use the grants to experiment with a number of differing approaches to attracting and retaining air service. Such objectives are inherently difficult and risky in a marketplace with rapidly changing dynamics such as fuel price, aircraft availability, and labor costs. All communities participating in the program have, by definition, experienced some degree of failure in attracting airlines in the past. Applicants for SCASDP grants are seeking new air service in markets that are at or beyond the margins of what the major airlines are willing to serve. SCASDP's role is to minimize risk and provide an incentive for airlines to try serving a new market. In addition, some grants are designated for studies or other cooperative efforts that are used as future building blocks to connect residents in the airport's catchment area to the NAS. Communities typically view these grants as extremely successful.

Second, many communities view SCASDP grants as tools for broader economic development, which affects how success or failure is measured. Communities without air service, or without robust air service development efforts, can struggle to retain businesses or attract new jobs. For a single community that gains new service, there is a positive economic impact on regional jobs and economic activity. Moreover, in a program designed to foster innovative approaches, even failures can be a success in that communities can learn collectively through the transparent SCASDP administration process what works and what does not work.

Third, it is helpful to assess results from a larger sample size of communities over a longer period of time. The initial years of the program occurred during a particularly turbulent time in the airline industry, which had to absorb a series of severe demand shocks and restructuring efforts. SCASDP projects take two to five years to implement, because successful projects require careful planning and buy-in from airports, community governments, community businesses, and the airline.

Conclusion

The Department has taken seriously its obligation to administer the EAS and SCASD programs, and I believe these programs have had their successes. However, we must acknowledge this is a particularly challenging time for air service development. The problems faced by small and rural communities are fundamental and structural, and there are no clear or easy answers. But, in light of the importance of air service to residents of rural America, it is essential that we make a concerted effort to respond to these challenges. As Congress debates reauthorization of aviation programs, I commend this subcommittee for taking a close look at air service issues. I look forward to continuing to work with all stakeholders, including the members of this subcommittee, as we move forward to address these challenges.

Chairman LoBiondo, this concludes my testimony. I would be happy to answer any questions you or your colleagues may have.

United States Government Accountability Office

Testimony

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COMMERCIAL AVIATION

Status of Air Service to Small Communities and the Federal Programs Involved

Statement of Gerald L. Dillingham, Ph.D.
Director, Physical Infrastructure Issues

GAO-14-454T

GAO Highlights

Highlights of GAO-14-454T, a testimony before the Subcommittee on Aviation, Committee on Transportation and Infrastructure, House of Representatives

April 30, 2014

COMMERCIAL AVIATION

Status of Air Service to Small Communities and the Federal Programs Involved

Why GAO Did This Study

Establishing and retaining reliable air service to small communities has been a challenge for decades. Communities seek access to air transportation services as a driver for attracting investment and generating employment. To incentivize service, Congress established two programs to help support air service to small communities—EAS and SCASDP. Airports are categorized by DOT's Federal Aviation Administration and described in terms of "hub" size based on the number of passengers served annually. Airports range from large hubs with at least 7.3 million passengers in 2012 to nonprimary airports with fewer than 10,000 passengers. Airports receiving subsidized EAS service are either nonhub or nonprimary, and SCASDP airports are small hub or smaller.

This testimony discusses (1) the airline industry factors affecting air service to small communities, (2) the federal programs and policies that support air service to small communities, and (3) other options for improving access to air service for these communities. The testimony is based on previous GAO reports issued from 2003 through 2014; analysis of industry data for years 2007 through 2013; and selected updates on EAS and SCASDP programs. To conduct these updates, GAO reviewed program documentation and interviewed DOT officials and industry representatives.

View GAO-14-454T. For more information, contact Gerald L. Dillingham, Ph.D., (202) 512-2834, dillinghamg@gao.gov.

What GAO Found

Air service to small communities has declined since 2007 due, in part, to higher fuel costs and declining population, and for some communities, compounded by more attractive service (i.e., larger airports in larger cities) within driving distance. In fact, airports of all sizes have lost capacity in the number of available seats, and largely for flights as well. However, medium-hub and small-hub airports have proportionally lost more service than large-hub or nonhub airports (see figure).

Percentage Change in Number of Flights and Seats, by Airport Category, 2007-2013

Hub type	Percentage of annual passenger boardings	Percentage change for flights and seats	Actual change
Large	1% or more	-9.1% Flights -7.0% Seats	-351,099 -28,476,848
Medium	At least 0.25%, but less than 1%	-23.9% -18.5%	-425,328 -32,707,248
Small	At least 0.05%, but less than 0.25%	-20.1% -15.3%	-240,861 -14,217,664
Nonhub	More than 10,000, but less than 0.05%	-18.1% -11.1%	-149,353 -3,805,764
Commercial Service Nonprimary	At least 2,500 and no more than 10,000	+1.0% -2.9%	+1,467 -53,631
Essential Air Service (EAS)	Not applicable	+19.7% +7.8%	+15,657 +180,854

Flights Seats -25 -20 -15 -10 -5 0 5 10 15 20

Sources: Federal Aviation Administration and GAO analysis of DOT data.

The two primary programs, designed to help small communities retain air service, administered by the Department of Transportation (DOT), face challenges.

- The Essential Air Service (EAS) program, which received about $232 million in 2013, provided subsidies to airlines that served 117 eligible non-Alaskan communities in 2013. For the most part, only airports in eligible communities that received EAS-subsidized service have experienced an increased number of flights since 2007. However, the service may not always be the most cost-effective option for connecting people to the national transportation network, and the total and per-community EAS subsidies have grown since 2008. Legislation to control costs was recently enacted which limited access to EAS, for example by changing eligibility requirements.
- The Small Community Air Service Development Program (SCASDP) is a grant program to help small communities enhance air service at small-hub or smaller airports. DOT can award no more than 40 grants a year, thus SCASDP assists fewer communities than does EAS. Further, unlike EAS, funding for SCASDP—$6 million in 2013—has decreased since the program was created in 2002. Past reviews of SCASDP's effectiveness have found mixed success, with about half or less of the grants achieving their goals.

Multimodal and community-based approaches can be used to help small communities connect to the nation's transportation network. Multimodal solutions, such as bus access to larger airports or air taxi service, could be more cost-effective than current programs. In addition, some communities have had success with attracting air service through methods such as financial incentives and marketing support.

Chairman LoBiondo, Ranking Member Larsen, and Members of the Subcommittee:

I appreciate the opportunity to testify before you today on the status of air service to small communities in the United States and the current issues affecting this service. Communities of all sizes seek access to air transportation services as a driver for attracting investment and generating employment and providing mobility for citizens. However, the economics of the airline industry has traditionally made it difficult to establish or sustain viable air service in smaller communities.

Many small communities have struggled with limited air service since Congress deregulated commercial air service in 1978 to allow a competitive market for passenger air service to develop.[1] Since deregulation, airlines have largely been free to decide where in the United States they want to operate, how often they want to fly there, the type of aircraft, and how much they want to charge. Small and rural communities have found it difficult to retain and enhance their air service. Anticipating this difficulty, Congress created the Essential Air Service (EAS) in 1978 and, later in 2002, the Small Community Air Service Development Program (SCASDP)[2]—both under the U.S. Department of Transportation (DOT)—to help small communities maintain air service.[3] Since 2000, the overall aviation industry has experienced significant turmoil—including the two economic downturns, the terrorist events of September 11, 2001, and rising fuel costs—which has curtailed passenger demand and led to numerous bankruptcies and restructurings. Although airline profitability has rebounded over the last 4 years, fundamental changes in the industry have added to small communities' challenges in retaining or enhancing their air service.

This testimony discusses (1) the airline industry factors affecting air service to small communities, (2) the federal programs and policies that support air service to small communities, and (3) other options for

[1]Airline Deregulation Act of 1978, Pub. L. No. 95-504, 92 Stat. 1705 (1978). Cargo air service was deregulated the year before. Pub. L. No. 95-163, 91 Stat. 1278 (1977).

[2]Pub. L. No. 106-181, § 203, 114 Stat. 61, 92 (2000).

[3]No common definition exists for what constitutes a small community, however, for SCASDP eligibility pursuant to criteria in federal statute, it is an airport serving a community which is not larger than a small-hub airport. 49 U.S.C. § 41743.

improving access to air service for these communities. This statement is drawn from several GAO reports issued since 2003, as well as additional government, industry, and academic reports related to this topic. We have updated the information related to our previous work on the EAS and SCASDP programs through (1) a review of DOT's documents and interviews with appropriate DOT officials within the Office of Secretary of Transportation (OST), (2) analysis of passenger enplanement and DOT's airline activity data for the period 2007 through 2013, and (3) interviews with relevant industry stakeholder groups. Related GAO products are footnoted throughout the statement. The reports and testimonies cited in this statement contain more detailed explanations of the methods used to conduct our work. DOT reviewed a draft of this statement and provided technical comments, which we incorporated where appropriate.

The work upon which this testimony is based was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Air service in the United States is highly concentrated, with 88 percent of all passenger boardings at the 62 large- or medium-hub airports (see fig. 1). Small airports refer to small-hub, nonhub, and commercial-service nonprimary airports, each with less than 0.25 percent of all annual passenger boardings, or less than 1.8 million total boardings in 2012.[4] Many small communities across the United States have access to the

[4]The Bureau of Transportation Statistics also compiles a list of rural airports annually for the Department of the Treasury's Internal Revenue Service. This list is used by airlines to assist in establishing airfares. The rural airports designation originated with The Taxpayer Relief Act of 1997 (Pub. L. No. 105-34, § 1031(c), 111 Stat. 788, 929 (1997)). The Internal Revenue Service defines a Rural Airport as any airport that has fewer than 100,000 commercial passengers departing from the airport by air during the second preceding calendar year and at least one of the following is true: (1)The airport is not located within 75 miles of another airport from which 100,000 or more commercial passengers departed during the second preceding calendar year, or (2) the airport was receiving essential air service subsidies as of August 5, 1997, or (3) the airport is not connected by paved roads to another airport, and (4) had fewer than 100,000 commercial air passengers on flight segments of at least 100 miles during the second preceding calendar year. IRC § 4261(e)(1)(B).

more than 450 small airports with scheduled passenger service, provided mostly by regional airlines that are under contract with mainline network airlines, like Delta Air Lines or United Airlines.[5] The airport categories in figure 1 also determine the allocation of Airport Improvement Program (AIP) grants for airport capital improvements.[6] FAA awarded nearly $3 billion in grants to all airports in fiscal year 2013, for safety, capacity, and environmental capital improvements. The grants offset the fees that airports charge users, so they are critical for small airports hoping to retain or attract airport users. For example, any airport with at least 10,000 passengers is assured at least $1 million in annual grant funding.[7]

Figure 1: Airport Categories Based on 2012 Boardings

Hub type	Percentage of annual passenger boardings	Statistics in 2012			
		Minimum number of boardings	Number of boardings	Percentage of total boardings	Number of airports
Large	1% or more	7,318,005	518,145,004	70.8%	29
Medium	At least 0.25%, but less than 1%	1,829,501	124,445,303	17.0%	33
Small	At least 0.05%, but less than 0.25%	365,900	64,976,324	8.9%	76
Nonhub	More than 10,000, but less than 0.05%	10,000	23,620,648	3.2%	251
Commercial Service Nonprimary	At least 2,500 and no more than 10,000	2,500	613,191	0.1%	125

Source: GAO presentation of FAA data

Note: The term "hub" is defined in federal law to identify commercial service airports as measured by passenger boardings, and the airports are grouped into four categories (49 U.S.C. § 47102). Most of the remaining commercial airports that qualify for federal funding are commercial service nonprimary airports, such as the Mid Delta Regional Airport in Greenville, Mississippi, and Cape Girardeau Regional Airport in Scott City, Missouri.

[5]Regional airlines provide domestic and limited international passenger service, generally using aircraft with fewer than 90 seats, and cargo service to smaller airports.

[6]AIP is a federal grant program funded from the Airport and Airway Trust Fund, which receives revenue from various aviation-related taxes.

[7]49 U.S.C. § 47114(c)(1)(b).

The EAS program has historically provided the most direct support to small community air service. Anticipating that airlines would focus their resources on generally more profitable, high-density routes, Congress established the EAS program as part of the Airline Deregulation Act of 1978. Under the EAS program, if an airline cannot provide air service to eligible communities without incurring a loss, DOT provides an airline a subsidy to serve those communities.[8] The program was initially enacted for 10 years, it was then extended for another 10 years, and in 1996, the 10-year time limit was removed. Congress has, over time, revised eligibility requirements, such as maximum subsidy amounts per passenger, and operating requirements, such as providing service with two-engine, two-pilot planes. The program now provides subsidies to airlines to serve small airports that are (1) at least 70 driving miles from the nearest medium- or large-hub airport, or (2) requires a per-passenger EAS subsidy less than $200 unless such point is greater than 210 miles from the nearest medium- or large-hub airport.[9] The amount of subsidies varies by location. Operating airlines receiving the subsidies must provide direct service to a nearby medium- or large-hub airport so that passengers can connect to the national air transportation network.[10] Our discussion of EAS in this testimony does not include communities in Alaska receiving EAS-subsidized air service since the requirements for communities in Alaska are different and are not representative of the program in the rest of the country.[11]

Congress also established SCASDP as a pilot program in 2000 in the Wendell H. Ford Aviation Investment and Reform Act for the 21st Century (AIR-21),[12] to help small communities enhance their air service. AIR-21

[8]EAS-eligible communities are currently in 35 states and Puerto Rico.

[9]Communities located more than 210 miles from the nearest medium- or large-hub community airport are exempt from this $200-per-passenger subsidy limit.

[10]The governing statutes require DOT to consider five general selection criteria for airlines: (1) service reliability; (2) contractual and marketing arrangements with a larger airline at the hub; (3) interline arrangements with a larger airline at the hub; (4) community views as to which airline and option they prefer; and (5) whether the airline has included a plan in its proposal to market its services to the community. 49 U.S.C. § 41733(c)(1).

[11]For example, under EAS requirements for communities in Alaska, airlines may use smaller aircraft. Also, eligibility requirements differ for such things as amount of subsidy per passenger or distance from nearest large- or medium-hub airport.

[12]Pub. L. No. 106-181, § 203, 114 Stat. 61, 92 (2000).

authorized the program for fiscal years 2002 and 2003, and subsequent legislation reauthorized the program through fiscal year 2008 and eliminated the "pilot" status of the program.[13] Further, the FAA Modernization and Reform Act of 2012 reauthorized funding for SCASDP through fiscal year 2015.[14] The law establishing SCASDP allows DOT considerable flexibility in implementing the program and selecting projects to be funded. Grant funds can be used to cover various projects that can be reasonably related to improving air service to the community, such as any new advertising or promotional activities, or for studies to improve air service and traffic. The law defines basic eligibility criteria and statutory priority factors, but meeting a given number of priority factors does not automatically mean DOT will select a project. SCASDP grants may be made to single communities or a consortium of communities, although no more than 40 grants may be awarded in a given year and no more than four grants each year may be given in the same state.

The Airline Industry Is Adapting to Economic Pressures that Creates Challenges to Maintaining Air Service to Small Communities

Service to Small Communities Has Declined since 2007

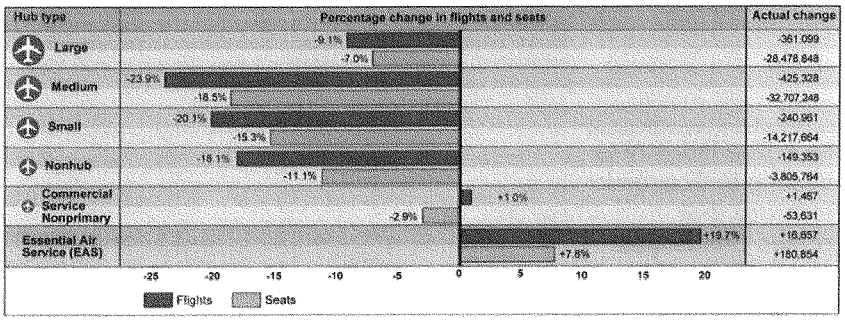
Air service to small airports as measured by the number of flights and seats available has mostly declined since 2007, but so has service to airports of all sizes. Small airports generally serve small communities. As figure 2 shows, medium-hub, small-hub, and nonhub airports saw the largest net declines proportionally in flights and available seats since 2007, and the largest airports experienced the smallest declines. The

[13]Vision 100—Century of Aviation Reauthorization Act, Pub. L. No. 108-176, 117 Stat. 2490 (2003).

[14]Pub. L. No. 112-95, § 429, 126 Stat. 11, 100 (2012).

smallest airports—commercial service nonprimary airports—experienced a slight increase in flights but a decline in available seats. Further, according to a recent Massachusetts Institute of Technology (MIT) study, 23 airports in small communities lost all service between 2007 and 2012.[15] Airports receiving EAS-subsidized air service saw about a 20-percent increase in flights and about an 8-percent increase in available seats since 2007 as some regional airlines serving EAS communities switched to smaller aircraft.[16]

Figure 2: Percentage Change in Number of Flights and Available Seats by Airport Category, from 2007 through 2013



Source: GAO analysis of DOT data

Note: The term "hub" is defined in federal law to identify commercial service airports as measured by passenger boardings and are grouped into four categories (49 U.S.C. § 47102). Most of the remaining airports that qualify for federal funding are commercial service nonprimary airports.

[15]In the study, the term "smaller airports" refer to airports classified as medium-hubs, small-hubs, or nonhubs. See Michael D. Wittman and William S. Swelbar, *Trends and Market Forces Shaping Small Community Air Service in the United States*, MIT International Center for Air Transportation (May 2013).

[16]Air service is not alone in declining levels of transportation access. In addition to losing air service, small communities have also lost access to other transportation modes. According to DOT, an estimated 3.5 million rural residents lost access to intercity transportation (e.g., air, bus, ferry, or rail) between 2005 and 2010. In addition, while the percent of rural residents covered by airline service (72 percent) was unchanged during this period of time, the number of rural residents with air service as their sole mode of transportation more than doubled, increasing from 2.6 million in 2005 to 5.5 million rural residents in 2010.

Economic Factors Have Contributed to the Decline in Service to Small Communities

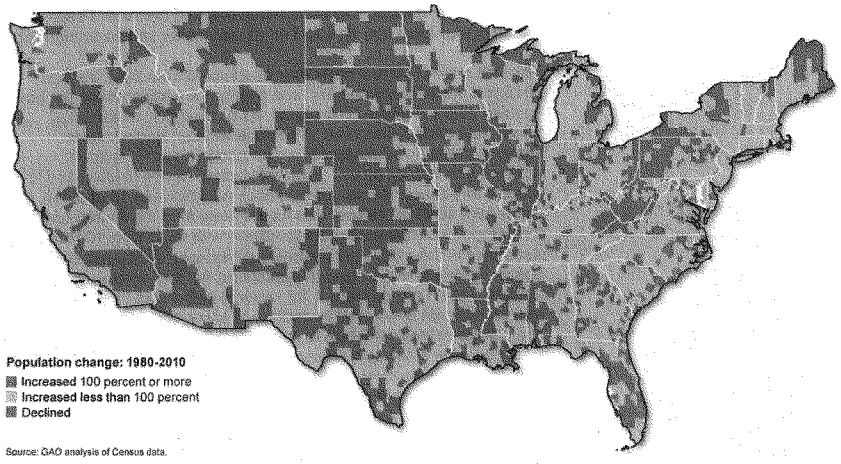
The reduced capacity for airline service in the United States since 2007 is attributable to a combination of factors, including higher costs, industry consolidation, and the last recession, which reduced demand. These and other factors also have had an effect on air service for small communities.

- First, the price of jet fuel more than quadrupled from 2002 through 2012 in nominal terms and endured a temporary spike where the price doubled over the 2007–2008 period. As a result of increased fuel prices, fuel costs have grown to become airlines' single largest expense at nearly 30 percent of airline operating costs in 2012. According to a study by MIT, regional aircraft—those mostly used to provide air service to small communities with between 19 and 100 seats—are 40 to 60 percent less fuel efficient than the aircraft used by their larger, mainline counterparts—those with more than 100 seats.[17] According to the study, fuel efficiency differences can be explained largely by differences in aircraft operations, not technology, as the operating costs per passenger for regional aircraft are higher than mainline aircraft because they operate at lower load factors and are flown fewer miles over which to spread fixed costs.
- Second, many small communities have lost population over the last 30 years. In previous work, we have found that population movement has decreased demand for air service to small communities.[18] Geographic areas, especially in the Midwest and Great Plains states, lost population between 1980 and 2010, as illustrated in figure 3 below. As a result, certain areas of the country are less densely populated than they were 35 years ago when Congress initiated the EAS program. For small communities located close to larger cities and larger airports, a lack of local demand can be exacerbated by passengers choosing to drive to airports in larger cities to access better service and lower fares.

[17]According to this study, regional jets are also 10 to 60 percent less fuel efficient than turboprops. See Raffi Babikian, Stephen P. Lukachko, and Ian A. Waitz, *The Historical Fuel Efficiency Characteristics of Regional Aircraft from Technological, Operational, and Cost Perspectives*, Massachusetts Institute of Technology, Department of Aeronautics and Astronautics.

[18]See GAO, *National Transportation System: Options and Analytical Tools to Strengthen DOT's Approach to Supporting Communities' Access to the System*, GAO-09-753 (Washington, D.C.: July 2009).

Figure 3: Shift in Population Distributions, from 1980 through 2010



Source: GAO analysis of Census data.

The effect of industry consolidation on the level of service to small communities is reflected in "capacity purchase agreements"[19]—agreements between mainline airlines and their regional partners. Under these agreements, a mainline airline pays the regional airline contractually agreed-upon fees for operating certain flight schedules. In recent years, according to a 2013 MIT study, mainline airlines have shifted a larger percentage of their small community service to regional

[19]Under a capacity purchase agreement, mainline airlines contract with regional airlines to provide air service beyond the mainline airline's route network to increase their capacity and revenue. Agreement terms vary, but mainline airlines generally take on all commercial functions, such as brand marketing, flight scheduling, and ticket pricing while the regional airlines are responsible for the aircraft and crews to operate the flights, and provide ground and flight operations.

airlines.[20] However, according to another 2013 MIT study, these mainline airlines have been reducing the total amount of capacity for which they contract by eliminating previous point-to-point service between nearby smaller airports, thus, reducing the level and frequency of service provided.[21]

Federal Programs and Policies Support Service to Small Communities but Face Challenges

Two federal programs continue to support air service to small communities but also face some challenges. EAS provides subsidies to operating airlines that provide air service to eligible communities in order to maintain the service and SCASDP provides competitive grants to small communities to attract and support local air service.

EAS Subsidies Are Increasing and Recent Program Changes Are Intended to Limit Eligibility

Subsidies provided to airlines serving EAS airports continue to increase. In 2009, we found that EAS subsidies had increased over time.[22] Specifically, the average annual subsidy that DOT provided for EAS service per community for U.S. states, excluding Alaska, almost doubled from $1 million in 2002 to $1.9 million in 2013. In addition, the appropriations Congress made available to EAS increased from about $102 million in fiscal year 2003 to about $232 million in fiscal year 2013 (see table 1 below).[23] According to DOT, the appropriation for the EAS program for fiscal year 2014 is $246 million.

[20]See Wittman and Swelbar, *Trends and Market Forces Shaping Small Community Air Service in the United States.*

[21]See Michael D. Wittman and William S. Swelbar, *Modeling Changes in Connectivity at U.S. Airports: A Small Community Perspective,* MIT International Center for Air Transportation (June 2013).

[22]See GAO-09-753.

[23]Funding for EAS has come from a combination of permanent and annual appropriations. The Federal Aviation Reauthorization Act of 1996 permanently appropriated $50 million of such funding for EAS and safety projects at rural airports from the collection of overflight fees. Pub. L. No. 104-264, § 278, 110 Stat. 3213, 3249 (1996). Congress has also appropriated additional funds from the general fund on an annual basis.

Table 1: Summary of EAS Program Appropriations, Communities Served, and Annual Subsidies, Fiscal Years 2002 through 2013

		Includes only non-Alaska		
Fiscal year	Total EAS appropriations (in millions)	Total annual subsidies (in millions)	Number of communtiies served	Average subsidy amount per community (in millions)
2002	$113.0	$89.6	94	$1.0
2003	$101.8	$93.1	103	$0.9
2004	$101.7	$89.1	108	$0.8
2005	$101.6	$93.3	115	$0.8
2006	$109.4	$99.1	116	$0.9
2007	$109.4	$98.1	109	$0.9
2008	$109.4	$97.7	103	$0.9
2009	$138.4	$151.8	107	$1.4
2010	$200.0	$163.0	109	$1.5
2011	$199.7	$176.0	109	$1.6
2012	$215.5	$225.0	120	$1.9
2013	$232.2	$219.9	117	$1.9

Source: DOT

Note: The appropriations data are for the entire EAS program, including Alaska, Hawaii, and Puerto Rico. However, DOT's data, for information about the communities and airlines receiving EAS subsidies and their amounts, exclude EAS operations to communities in Alaska. These data do not represent a continuous picture of service provided under the EAS program within each fiscal year. The appropriations include the annually-appropriated $50 million from overflight fees.

EAS subsidies have supported air service to eligible communities as shown in table 1 above; however, that service may not always be the most cost-effective and practical option for some communities for connecting people to the national transportation network.[24] Under the EAS program, if an airline cannot provide air service to eligible communities without incurring a loss, DOT provides the airline a subsidy

[24]We have previously reported on how EAS service could be more cost effective and better suit community needs. See GAO-09-753 and GAO, *Options to Enhance the Long-term Viability of the Essential Air Service Program*, GAO-02-997R (Washington, D.C.: Aug. 30, 2002).

to serve those communities.[25] However, we have found that aircraft serving airports that provide EAS service were far less full than aircraft serving airports that did not receive such assistance. In 2009, we found that planes serving airports in 2008 with EAS service were only about 37 percent full versus an industry average of about 80 percent.[26] This was due, in part, to EAS subsidized service not having the destinations, frequency, or low fares that passengers prefer. Further, according to DOT officials, the population around some of the very small airports is too low to result in very high passenger loads. Since then, the load factor for these flights—the percentage of available seats filled by paying passengers—increased somewhat and was roughly 49 percent versus the industry average of 83 percent in 2013. This may be due, in part, to more regional airlines serving these EAS airports with smaller aircraft, as a result of changes in the EAS program that we recommended in 2009.[27] The number of EAS communities being served by airlines with aircraft smaller than 15-seats doubled from 2009 through 2013. In 2009, 16 EAS communities were served using 9-seaters, but 32 EAS communities were served with this aircraft in 2013. Great Lakes is one of the few remaining regional airlines that flies 19-seat turboprops, while other small regional airlines such as Cape Air, SeaPort, and Air Choice One—fly smaller 9-seat aircraft not subject to some FAA rules for operating scheduled

[25]Airlines requesting to provide subsidized EAS service must demonstrate to DOT that they cannot profitably serve the community without a subsidy. DOT then reviews information about the aviation industry's pricing structure, the size of aircraft required, the amount of service required, and the number of projected passengers who would use this service. DOT selects an airline based on statutory selection criteria and sets an annual subsidy amount intended to compensate the airline for the amount by which its projected operating costs exceed its expected passenger revenues as well as a profit element of at least 5 percent of total operating expenses, according to statute. 49 U.S.C. § 41734(d)(1).

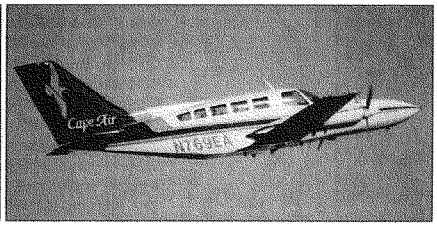
[26]See GAO-09-753.

[27]See GAO-09-753. We recommended that Congress consider revising the EAS program to, among other changes, reexamine the statutory requirement that EAS support aircraft that are at least 15-seat, 2-engine, 2-pilot aircraft given that (1) the industry was not producing such aircraft and (2) a few airlines receiving EAS subsidies were providing quality, reliable service with smaller, usually 9-seat, aircraft. The regional aircraft fleet that has historically served small communities, the 37 to 50-seat jets, has become too costly to operate due to high fuel prices and is being removed from the regional airline fleet. At the same time, another mainstay of the small community airports—19-seat turboprops—is also exiting from service because of rule changes in the 1990s. The Consolidated and Further Continuing Appropriations Act (2012), Pub. L. No. 112-55, adopted our recommendation by waiving the requirement that communities that receive EAS service do so with 15-seat or larger aircraft. Additional legislation extended the elimination of the requirement through September 30, 2014.

service flights.[28] (See fig. 4 for examples of a 19-seat and 9-seat twin-engine turboprop aircraft.)

Figure 4: Examples of a 19-Seat Beechcraft 1900 Series and a 9-Seat Cessna 402 Turboprop Aircraft

Source: Great Lakes Aviation



Source: Cape Air.

As a result of economic and cost trends, in 2009, we suggested program modifications and alternatives that presented the opportunity for more targeted and effective use of government subsidies.[29] DOT fully implemented our recommendation, and several reforms have recently been enacted limiting some access to the EAS program in an effort to control costs.

- Congress, through the enactment of the Federal Aviation Administration Modernization and Reform Act of 2012, changed the

[28]14 C.F.R. Part 121 prescribes rules governing the flight operations to hold an air carrier (airline) certificate. Scheduled-service airlines are generally issued a Part 121 certificate by FAA and operate turbojet-powered aircraft or aircraft with more than nine passenger seats or aircraft having a payload capacity of more than 7,500 pounds.

[29]See GAO-09-753. We recommended that DOT evaluate the reasonableness of providing transportation alternatives, such as unscheduled air service or surface transportation that might better serve communities than current scheduled EAS service. Further, we suggested Congress consider re-examining the EAS program's statutory requirements to determine if program changes could address how changes in aviation industry and population shifts affected the program. Also see GAO, *Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue*, GAO-11-318SP (Washington, D.C. March 2011). We suggested that Congress might wish to consider updating eligibility criteria and targeting service to consolidate subsidized air service. We also suggested that Congress may wish to consider revising the program's requirements to improve efficiency and better match capacity with community use.

eligibility requirements to limit participation in the EAS program by allowing only communities that would be eligible for the program to (1) have received subsidized EAS service at any time between September 30, 2010, and September 30, 2011, or (2) have received a 90-day notice from their operating airline to terminate subsidized EAS service, and DOT required the airline to continue to provide such service to the community.[30] Therefore, no new communities can enter the program should they lose their unsubsidized service.

- The act also requires that in order to remain in the EAS program, beginning with fiscal year 2013, EAS communities must maintain an average of at least 10 passenger boardings per service day.[31] On April 24, 2014, DOT issued a tentative order terminating EAS eligibility at 13 communities because they did not meet the 10-enplanement-per-day requirement established in the act.
- Further, the act prohibits DOT from providing EAS subsidized service to communities whose annual passenger subsidies are greater than $1,000 per passenger regardless of their distance from the nearest hub airport. According to DOT, the $1,000 per passenger limit has resulted in four communities being eliminated from the EAS program.

With some changes to the EAS program having only recently gone into effect, the impact on the program is not yet fully known.

Small Community Grants Have Had Limited Effectiveness in Retaining Air Service

Small-hub and smaller airports are eligible for SCASDP grants provided the airport is not receiving sufficient air service or had unreasonably high airfares.[32] Congress has provided funding for SCASDP since fiscal year 2002—ranging from a high of $20 million for fiscal years 2002 through 2005 to a low of $6 million in fiscal years 2010 through 2013. In fiscal year 2013, DOT awarded 25 grants totaling almost $11.4 million to

[30]The FAA Modernization and Reform Act of 2012 also specified that only locations that have at least 10 boardings per day during the most recent fiscal year beginning after September 30, 2012, except for locations beyond 175 miles of a large- or medium-hub airport, are considered eligible under the EAS program, but the Secretary of Transportation is allowed to restore eligibility if certain conditions are met. Alaska and Hawaii are exempted from this change. Pub. L. No. 112-95 § 421, codified at 49 U.S.C. § 41731(a)(1)(B) and 41731(d).

[31]49 U.S.C. § 41731(a)(1)(B). The law provides exceptions for communities in Alaska and Hawaii, and for those that are more than 175 driving miles from the nearest large or medium hub airport. 49 U.S.C. § 41731(c).

[32]49 U.S.C. § 41743.

airports in 22 states (see table 2). While funding for SCASDP is significantly less than funding for the EAS program, some small community airports depend on SCASDP grant awards as a means to stimulate economic development and attract business to the area surrounding the airport through enhanced air service. According to DOT, the appropriation for SCASDP for fiscal year 2014 is $5 million.

Table 2: Summary of SCASDP Funding from Fiscal Years 2002 through 2013

Fiscal year funding	Total SCASDP appropriations (in millions)	Total annual grant awards (in millions)	Number of grants	Average grant award amount (in millions)
2002	$20.0	$20.0	40	$0.5
2003	$20.0	$19.9	36	$0.6
2004	$20.0	$21.8	46	$0.4
2005	$20.0	$19.0	35	$0.6
2006	$10.0	$9.7	25	$0.4
2007	$10.0	$9.0	26	$0.4
2008	$8.0	$6.5	15	$0.5
2009	$8.0	$6.9	20	$0.3
2010	$6.0	$7.0	19	$0.4
2011	$6.0	$15.0	29	$0.2
2012	$6.0	$13.9	33	$0.2
2013	$6.0	$11.4	25	$0.2

Source: DOT.

Note: For fiscal year 2010, Congress appropriated $6 million for SCASDP, but DOT added additional funds that could be reallocated from prior year recoveries in order to make funding available for additional grant awards, which continued into fiscal year 2013.

We and others who have examined SCASDP have observed that the grant program has had limited effectiveness in helping small communities retain air service. In 2005, we found that initial SCASDP projects achieved mixed results.[33] Specifically, about half of the airports that reported air service improvements were self-sustaining after their grant had been completed. At that time, we recommended that DOT evaluate the program again before the program was reauthorized.

[33]See GAO, *Commercial Aviation: Initial Small Community Air Service Development Projects Have Achieved Mixed Results*, GAO-06-21 (Washington, D.C.: November 2005).

In response to our recommendation, the DOT Assistant Secretary for Aviation and International Affairs requested the DOT Office of Inspector General (OIG) to review the program's effectiveness in improving air service to small communities.[34] The review included 40 grants awarded between 2002 and 2006 (excluding feasibility studies) that had been closed for 12 months or more as of March 31, 2007, and determined whether the projects could sustain themselves without continued federal financial support. The OIG found that 70 percent of the grants in the review failed to fully achieve their objectives; specifically, 50 percent of the grants were unable to achieve any of their articulated grant objectives or were unable to sustain grant benefits beyond the grant completion and 20 percent were either partially able to obtain or achieve all of their grant objectives or were voluntarily terminated. The remaining 30 percent of the grants were successful in achieving their grant objectives and sustaining the resulting benefits for at least 12 months. The OIG made recommendations to improve the grant award process by (1) giving priority to communities with better developed grant applications, (2) requiring communities requesting non-marketing grants to use a part of the funding awarded to them to implement a marketing program, and (3) evaluating the impact of the "same project limitation"[35] on program effectiveness and seek legislative changes, if necessary. According to the OIG's report, DOT concurred with each of the recommendations and took the appropriate actions to implement them. Most recently, an academic study conducted by an MIT researcher evaluated 115 SCASDP grants from 2006 through 2011 and found that less than 40 percent of the grants met their primary objectives.[36]

On the other hand, SCASDP grants have been used to fund some successful projects. We found in 2005 and 2007 that SCASDP grantees pursued a variety of goals and strategies for supporting air service, and some of the grants resulted in successfully meeting their intended

[34]DOT OIG, *Report on the Audit of the Small Community Air Service Development Program*, Office of Aviation Analysis, CR-2008-051 (May 13, 2008).

[35]Communities that have been awarded grants in previous years that want to apply for another grant are precluded from seeking funds for projects with goals for which they have already received a grant award. However, previous grant recipients may submit grant proposals and seek grant funds for new projects.

[36]See Michael D. Wittman, *Public Funding Of Airport Incentives: The Efficacy Of The Small Community Air Service Development Grant (SCASDG) Program*, Massachusetts Institute of Technology, International Center for Air Transportation (January 2014).

purposes.[37] We found these successes include grantees that identified a variety of project goals and strategies to improve air service to their community, including (1) adding flights, airlines, and destinations; (2) lowering fares; (3) upgrading the aircraft serving the community; (4) obtaining better data for planning and marketing air service; (5) increasing enplanements; and (6) curbing the loss of passengers to other airports. For example, our 2005 report found that 19 of the 23 completed grants resulted in some kind of improvement in service, either in terms of an added carrier, destination, flights, or change in the type of aircraft.

In 2007, we also found that a review of 59 grantees' final reports for completed projects indicated that 48 of these increased enplanements as a result of their SCASDP grant. In addition, the 2008 DOT OIG report found that grants targeting the introduction of new service rather than expanding existing service were more successful and noted that grants targeting existing service may be less likely to succeed because mature markets may provide less of a growth opportunity than well-selected new markets or may reflect attempts by communities to resuscitate a failing service. Lastly, the recent MIT study highlighted three communities—Appleton, Wisconsin; Bozeman, Montana; and Manhattan, Kansas—that were able to effectively use the grants to expand service in their communities.

In addition, DOT program officials we interviewed highlighted other benefits that have resulted from SCASDP grants that they said extend beyond the completion dates of the grants. For example, the officials stated that one recipient of a 2011 grant recently reported that simply obtaining the federal grant allowed the community to obtain a line of credit and prove to an airline that the grantee was able to support sustained and profitable service, even though the federal grant funds were not expended. In another example, the officials stated that one recipient of a 2002 grant reported in 2011 that while unable to establish air service prior to receiving its grant, the grant enabled the community's airport to establish and sustain air service to the area and has resulted in substantial economic benefits for the community.

[37]See GAO-06-21 and GAO, *Commercial Aviation: Programs and Options for Providing Air Service to Small Communities*, GAO-07-793T (Washington, D.C.: April 2007).

Legislation, Regulations, and Airport Policies Affect Service to Small Communities

In addition to the federal programs previously discussed, other legislative and regulatory policies could affect the provision of air service to small communities.

- **Perimeter rules.** Airlines operating out of Reagan National, LaGuardia, and Dallas Love Field Airports are restricted in the distance that they can travel.[38] The purposes of these rules vary but are intended, in part, to help encourage air service to smaller communities closer to the airport. However, the restrictions at Dallas Love Field will end later this year, and the number of exemptions to the perimeter rule at Reagan National has increased.[39]

- **Safety regulations.** A new federal law that increased the qualification requirements for pilots to be hired at U.S. airlines has caused some concerns related to a potential future shortage of qualified pilots.[40] In July 2013, FAA, as required by law, issued a new pilot qualification rule that increased the requirements for first officers who can fly for U.S. passenger and cargo airlines and requires that first officers now hold an airline transport pilot certificate, just as captains must hold, requiring, among other things, a minimum of 1,500 hours of total time as a pilot.[41] Regional airlines—most likely to provide air service to small communities—have been disproportionally affected by the new rule because, prior to the new rule, more of their pilots did not meet the new minimum qualifications compared to their larger, mainline

[38]At Reagan National Airport, unless congressionally exempted, no direct service can extend beyond 1,250-miles (49 U.S.C. § 49109), at LaGuardia beyond 1,500 miles, and at Dallas Love Field to Texas and neighboring states. The Port Authority of New York and New Jersey impose the LaGuardia rule, while the Reagan National and Dallas Love rules are imposed by statute. In 2006, the Dallas Love restrictions, called the "Wright Amendment," were repealed as of October 13, 2014. Pub. L. No. 109-352, § 2(b), 120 Stat. 2011.

[39]GAO, *Slot-Controlled Airports: FAA's Rules Could be Improved to Enhance Competition and Use of Available Capacity*, GAO-12-902 (Washington, D.C.: September 2012).

[40]Airline Safety and FAA Extension Act of 2010, Pub. L. No. 111-216, § 217 (c)(1), 124 Stat. 2348, 2368.

[41]The airline transport pilot certificate is the highest level of pilot certification, requires the highest amount of cumulative flight time and is necessary to fly as a captain or first officer for an airline. Previously pilots could work as first officers for regional airlines and build additional flight time necessary to qualify for an airline transport pilot certificate, but under the new pilot qualification rule, they must attain this experience in other ways prior to being eligible to fly for a regional airline. 78 Fed. Reg. 42324 (July 15, 2013).

airline counterparts.[42] Earlier this year, we found that 11 of the 12 regional airlines that were interviewed reported difficulties finding sufficient numbers of qualified pilots over the past year. Furthermore, five of these regional airlines reported to us that they were limiting service to some smaller communities because they did not have pilots available to provide that service. For instance, Great Lakes Airlines recently canceled service to ten small communities reportedly due to a lack of available pilots. Similarly, Silver Airways provided DOT with the required notice of its intent to discontinue scheduled service to five small communities reportedly for the same reason. However, given that the congressional mandate to increase pilot qualifications for airline pilots only recently went into effect, some market adjustments are to be expected, and such adjustments could continue to affect air service in smaller community markets.

Multimodal and Nongovernmental Transportation Options Could Help Small Communities

A Multimodal Approach Could Be Used to Connect Communities

In July 2009, we concluded that a multimodal approach—one that relies on for example, bus service to larger airports or air taxi service to connect communities—is an alternative to providing scheduled air-service connectivity to small communities. For some communities that receive EAS subsidies—for example, those that have limited demand for the service due to proximity to other airports or limited population—other transportation modes might be more cost effective and practical than these subsidies. This approach may be of use to small communities that have not been able to generate sufficient demand to justify the costs for provision of air service, resulting in rising per-passenger subsidies.[43]

[42]GAO, *Aviation Workforce: Current and Future Availability of Airline Pilots*, GAO-14-232 (Washington, D.C.: February 2014).

[43]GAO-09-753.

When potentially cost-effective alternatives, such as bus service to other airports, are not used, the costs of subsidies may be higher than necessary to link these communities to the nation's passenger aviation system.

In 2009, we recommended that DOT assess whether other forms of air service or other modes of transportation might better serve some communities and at less cost. While DOT did not conduct such an assessment, the department took action to implement the options we identified in the report and achieved the intent of our recommendation. Further, the Future of Aviation Advisory Committee—a committee that provides information, advice, and recommendations to the Secretary of Transportation on U.S. aviation industry competitiveness and capability to address evolving transportation needs—recommended in 2011 that a task force be established to examine the EAS program and identify rural multimodal service opportunities for EAS-eligible communities, among other things. Although no provisions have been enacted into law to specifically promote intermodal alternatives to the EAS program, DOT (1) convened a working group in 2011 to study this area and (2) added new language to its SCASDP 2012 Request for Proposals, such language that carried forward in the 2013 request, to clarify that intermodal solutions to air service—for example, cost-effective bus service—are eligible for grants. In 2009, we also suggested that Congress consider re-examining EAS program's objectives and statutory requirements to include the possibility of assessing multimodal solutions for communities. Considering options to the current EAS program, such as multimodal transportation, may help Congress identify opportunities to limit the financial strain on the EAS program.

Local Community Approaches to Attracting Air Service Have Had Some Success

Some local communities and small airports in danger of losing service or hoping to attract new service have opted to provide a range of incentives to airlines. The DOT OIG also found that federal SCASDP grants were more likely to be successful when paired with funding mechanisms based on local community support.[44] The different types of incentives that communities and airports offer to airlines include:

[44]DOT OIG, *Report on the Audit of the Small Community Air Service Development Program.*

- Minimum revenue guarantees—agreements that establish a target amount of revenue that an airline will receive for operating a particular service to a particular destination over a given length of time. According to a 2009 Transportation Research Board (TRB) report, as airlines have been increasingly reducing service at many communities because of financial hardships, airports have increased the amount of revenue guarantees that they have provided.[45] The report found, based on a survey of several airports, that SCASDP funds were often used to support the minimum revenue guarantees, and the amounts of the guarantees ranged from $250,000 to $1.6 million. For example, Rhinelander-Oneida County (Wisconsin) Airport used a SCASDP grant to provide a revenue guarantee of $492,000 to support nonstop service to Minneapolis. Rhinelander convinced Northwest Airlink to convert three of its four daily one-stops (via Eau Claire, Wisconsin) to nonstops. Because the service generated more revenue for the airline than had been expected, the airport was able to return nearly half of the revenue guarantee to DOT.
- Guaranteed ticket purchases (travel banks)—programs that effectively ensure that the target airline will have passenger traffic worth a certain volume of revenue. Businesses or individuals deposit funds in a bank account that can be used only for purchasing tickets on the target airline for travel from a community during a given period of time. In 2005, we found that most airline officials interviewed were unfavorably disposed toward travel banks, citing the difficulty in administering them and their poor track record of success.[46] Additionally, beginning in 2005, DOT announced that it would not support travel banks for SCASDP grants.
- Cost subsidies—financial incentives that generally offset some aspect of an airline's costs of operation. These subsidies can include waivers or discounted fees (e.g., landing fees, terminal rents, gates, jet bridges) or ground station costs during a promotional period. Cash subsidies are generally a fixed amount and are paid without regard to the amount of revenue that an airline may generate during the agreed-upon period. For example, according to the 2009 TRB report, the Charles M. Schulz Sonoma County Airport waived terminal rents and landing fees for Horizon Air for 12 months to incentivize the airline to maintain its service at the airport, and valued that waiver at slightly

[45]TRB, *Passenger Air Service Development Techniques*, Airport Cooperative Research Program Report 18, sponsored by FAA (Washington, D.C.: June 2009).

[46]GAO-06-21.

under $100,000. However, according to DOT, this example would be considered as a type of in-kind contribution, which is discussed below.

- Marketing and advertising services—agreements whereby airports or communities purchase the marketing or advertising on behalf of the airline's new service designed to build awareness for a new service and develop demand so that the service can become self-sustaining. Many small airports are located in multi-airport regions in which passengers will drive long distances to nearby airports to save on price, so such advertising is of increasing importance to attract passengers to fly from their local airport. For example, according to the 2009 TRB report, Huntsville, Alabama, used a SCASDP grant to support its airport's "Huntsville Hot Ticket" program that sent e-mail fare alerts to customers when fare specials were announced, and allowed customers to book tickets directly on the airport's flyhuntsville.com website.
- Non-financial (in-kind) contributions—assistance referring to products, goods, or services that otherwise might have to be paid for, but which third-party providers can donate instead. For example, local advertising firms may provide billboards or local media may provide newspaper or TV coverage.

Each of these incentives has certain advantages and associated risks or disadvantages, but more airports in smaller communities tend to use revenue guarantees, likely because those communities recognize that they need to share in the airlines' financial risk of serving smaller markets. However, few incentives tend to be undertaken as the only type of incentive, that is, for example, revenue guarantees are usually combined with other forms of incentives, such as cost or fee waivers.[47] In addition, given that the service may fail, the use of federal funds to support the minimum revenue guarantees effectively requires the federal government to share this potential risk. In its 2008 review of SCASDP, the DOT OIG reported that airlines operating in small communities typically have limited resources to invest in marketing designed to stimulate demand, and using funds for marketing programs in support of other incentive programs—such as revenue guarantees or cost subsidies—can stimulate demand by increasing awareness of airport services and mitigate "leakage" of passengers to surrounding airports.

[47]TRB, *Passenger Air Service Development Techniques.*

Chairman LoBiondo, Ranking Member Larsen, and Members of the Committee, this completes my prepared statement. I would be pleased to respond to any questions that you may have at this time.

Appendix I: GAO Contact and Staff Acknowledgments

GAO Contact and Staff Acknowledgments

For further information on this testimony, please contact Gerald L. Dillingham, Ph.D., at (202) 512-2834 or dillinghamg@gao.gov. In addition, contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. Individuals making key contributions to this testimony statement include Paul Aussendorf, Assistant Director; Cathy Colwell, Assistant Director; Vashun Cole; Bonnie Pignatiello Leer; Joshua Ormond; and Amy Rosewarne. The following individuals made key contributions to the prior GAO related work include: Amy Abramowitz, Dave Hooper, John Mingus, and Sara Ann Moessbauer.

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STATEMENT OF

CAPTAIN LEE MOAK, PRESIDENT

AIR LINE PILOTS ASSOCIATION, INTERNATIONAL

BEFORE THE

SUBCOMMITTEE ON AVIATION

COMMITTEE ON TRANSPORTATION & INFRASTRUCTURE

U.S. HOUSE OF REPRESENTATIVES

WASHINGTON, DC

APRIL 30, 2014

"AIR SERVICE TO SMALL AND RURAL COMMUNITIES"

Air Line Pilots Association, International
1625 Massachusetts Avenue, NW
Washington, DC 20036
(202) 797-4033

Statement of
Captain Lee Moak, President
Air Line Pilots Association, International
Before the
Subcommittee on Aviation
Transportation & Infrastructure Committee
U.S. House of Representatives
On
"Air Service to Small and Rural Communities"
April 30, 2014

Chairman LoBiondo, Ranking Member Larsen, and members of the Subcommittee, I am Captain Lee Moak, President of the Air Line Pilots Association, International (ALPA). It is a pleasure and an honor for me to be here today to testify on behalf of more than 51,000 pilots who fly for 32 airlines in the U.S. and Canada. ALPA is the largest pilots' union in the world, and we also operate the largest nongovernmental aviation safety and security organization in the world.

Industry Economics and Recent History of Small Community Service

One of the unfortunate effects of airline deregulation in 1978 was the certitude that some smaller cities and towns would lose scheduled air service. To mitigate that outcome, the Essential Air Service (EAS) program was enacted that same year to guarantee that small communities that had been served by certificated air carriers before deregulation would maintain a minimum level of scheduled air service for the next 10 years. Under the program, air carriers were approved to receive a federal subsidy in exchange for guaranteeing a certain level of service on specified routes serving identified small communities.

However, Congress determined that the EAS program should continue past its initial 10-year life, and wrote it into law in 1987 effectively expanding and extending it for an additional 10 years. The program continues today and governing law was amended as recently as 2012 in the FAA Modernization and Reform Act. The Department of Transportation (DOT) reports that there are now about 163 EAS communities, and the total amount of annual subsidies to EAS-participant airlines has grown to $249 million in 2014. EAS airlines typically operate 2-4 roundtrips each day flying 19-seat aircraft between a major hub airport and an EAS community.

ALPA members have a vested interest in the EAS program; they live in all corners of the U.S., including in and around many of the EAS communities and rely on air

transportation to and from those airports. Further, some of our airlines are EAS participants so some of our members operate flights to and from EAS communities. For these reasons, we have a strong connection with smaller cities and towns and an interest in ensuring that they have safe and efficient access to the National Airspace System.

According to a 2013 Massachusetts Institute of Technology (MIT) report,[1] the past several years have been challenging for passengers as the amount of domestic airline service in the U.S. has decreased. Airlines have increasingly used capacity discipline, rather than capacity expansion, as a business model to drive down costs and increase revenues. As a result, the airlines are obtaining higher yields and load factors, but the amount of scheduled service to smaller communities has shrunk. Between 2007-2012, the 29 largest US airports lost 8.8 percent of their domestic flights, but smaller airports lost more than twice as much, with a 21.3 percent decrease in the number of domestic flights.

Smaller communities are less likely to receive service from a "mainline" carrier than in the past, as those airlines have increasingly outsourced small community flying to small, regional carriers that are compensated, as the lowest-bidder, on the basis of a flat fee for capacity provided over a route. The regional airline business model is dependent, therefore, on driving costs down to the lowest possible extent. And given that so many costs are fixed, the labor cost variable is the one on which regional airline operators leverage the greatest amount of downward pressure. This pressure has manifested itself in near poverty-level wages for new first officers at some regional airlines, and typically poor compensation for all frontline employees.

Another noteworthy change in the airline industry that affects service to small communities is airline consolidation. According to DOT, the number of major airlines—both passenger and all-cargo—in the U.S. is now down to 19; but with the completion of the American Airlines merger, there will be just four "legacy" passenger carriers that will compete against each other in most markets across the country. The regional airline industry is also consolidating; mergers, acquisitions and shutdowns have been a significant part of the industry's landscape over the past several years, and it is a trend that we believe will continue into the foreseeable future. Service to small communities is also challenged by the ongoing effects of the recession, historically high fuel prices, and lower demand for airline transportation in lieu of surface transportation over certain distances, among other factors.

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[1] *Trends and Market Forces Shaping Small Community Air Service in the United States* (Report No. ICAT-2013-02), MIT Small Community Air Service White Paper No. 1, May 2013, Wittman and Swelbar

In response to these challenges, the airline fleet composition used to serve small communities is changing; the 50-seat regional jet that became popular in the 1990's has largely fallen out of favor with regional airlines due to the high price of fuel and the fuel inefficiency of those aircraft on a seat-mile basis. Regional airlines are endeavoring to use more fuel efficient and right-sized aircraft on some routes to mitigate the impacts of high fuel costs, their single largest expense.

Small Community Air Service Workforce

Some of the lowest-paid airline workers in the airline industry, including but not limited to pilots, work for airlines that serve EAS communities. According to the Government Accountability Office (GAO)[2], pilot pay has gone down since 2000 even as some airlines have complained of a pilot shortage. Bureau of Labor Statistics (BLS) data from 2000-2012 show that the median weekly earnings in the pilot occupation decreased by 9.5 percent over the period (adjusted for inflation), or by an average of 0.8 percent per year.

We believe that Congress should take a hard look at the federal government's relationship with those regional airlines that accept millions of dollars in government subsidies for providing EAS while offering such poor wages and benefits that they cannot fill their pilot seats. Two airlines publicly complained a few months ago about a "pilot shortage;" one accepted tens of millions of dollars in EAS subsidies last year while paying its new-hire first officers $16,500 per year. The other carrier also accepted tens of millions in EAS funds while only paying its first-year pilots $20,770. These carriers publicized their decisions to abandon certain small communities on the basis of a "pilot shortage," but what is not as well known is that they have returned to serve those communities, or other carriers have entered those markets.

We would propose that Congress work with DOT to examine the EAS rules that are presently in effect to determine whether they are meeting today's needs. In our view, the primary goal of the EAS program should be to provide safe, scheduled air service; all other considerations, including number of seats and frequency of operations, are secondary. Safety of flight begins with professional airline pilots who are compensated with a living wage that permits them to focus on their jobs, not worry about how they will support themselves and their families, or get the rest that they need to be safe in the cockpit while working an extra job or two, etc. The regional airline industry as a whole

[2] *Aviation Workforce: Current and Future Availability of Airline Pilots* (GAO-14-232), Government Accountability Office, February 2014

is failing to provide adequate pay and benefits for its pilots—according to our figures, the average starting salary for a regional first officer is $22,400—and ALPA is working hard to improve them for its members.

However, we believe that the government has an obligation to ensure that government-subsidized airlines are not engaging in race-to-the-bottom pay, benefits, and working conditions for EAS-participant airline pilots, which because of unfair competitive advantages, may ultimately put downward pressure on the wages and benefits at all regional airlines.

Small Community Air Service Safety History

In the early 1990's, ALPA initiated its One Level of Safety (OLS) campaign aimed, in part, at bringing the regional airline industry's safety up to the same standards as those of the majors. A significant accomplishment in this regard was realized when the FAA instituted rulemaking that required scheduled airline operations using aircraft with greater than nine (9) seats to comply with 14 CFR Part 121. The OLS initiative is still a work in progress, however, as the safety record of some regional carriers demonstrates:

1. In May 1997, Great Lakes Aviation suspended all flights following the FAA's expressed concerns about the adequacy of maintenance at the feeder airline. The FAA reported that airline personnel were not being properly trained. At the time, Great Lakes was operating 500 flights per day and carrying nearly a million passengers annually. The carrier suspended its flights voluntarily, but only after the FAA had notified the airline that it planned to suspend its operating authority. Although not related to the shutdown, a Great Lakes turboprop aircraft was involved in a runway collision at Quincy, Illinois, in 1996 that killed 14 people.
2. The Colgan accident at Buffalo, N.Y., on February 12, 2009, killed a total of 50 people; in the ensuing investigation, the National Transportation Safety Board (NTSB) identified a number of systemic failures at the company and within the industry at large. The results of that investigation generated a public outcry for numerous improvements to airline safety; and to its credit, this Subcommittee was responsible for writing legislation that addressed many of those outstanding deficiencies. Since then, the FAA has enacted new first officer qualifications and training requirements that increased the amount of education, training, and flight experience of pilots who are hired by Part 121 airlines, among other significant improvements. ALPA is a strong proponent of these new rules, and other complementary regulations that have been adopted, or proposed by Aviation Rulemaking Committees (ARCs), as an outcome of what was learned following the Colgan accident.

The history of regional airline operations underscores the need to make safety the first and foremost consideration for service to small airline communities.

Unfortunately, there are some within the airline industry who have indicated that they are ready to roll back the safety gains that were realized on August 1, 2013, when the new first officer qualifications requirements went into effect. ALPA is a staunch defender of the new regulations, however, because we know firsthand that they are needed in today's demanding operating environment.

New First Officer Rules and the "Pilot Shortage"

Finally, we would like to address the outrageous claims of some regional airline operators regarding a putative pilot shortage that they say has required them to cancel flights and park airplanes. To put it very simply, there is currently *no shortage* of qualified pilots. There is, however, a shortage of qualified pilots who are willing to fly for substandard wages, working conditions, and benefits.

Although some within the airline industry blame this Subcommittee's legislation and the resultant FAA airline pilot qualifications and training regulations for a pilot shortage, the airline industry actually helped craft those rules and supported their passage. We believe that they did so, just as ALPA did, because of a genuine concern for aviation safety. Several accidents over a number of years, the most recent and arguably the most troubling of which was the aforementioned Colgan Airways accident in Buffalo, N.Y., in 2009 caused a justifiable groundswell of support for the new and safer increase in minimum qualifications for pilots to be hired by the airlines, the scope of which goes well beyond just the number of hours that a first officer must have in order to enter the Part 121 industry.

It should be noted that some in the regional airline industry did not adequately prepare for today's pilot hiring needs, which have been predictably compounded in the near term by pilot age-limited retirements and increased qualification requirements. This Subcommittee introduced legislation on first officer qualifications about five (5) years ago, and the industry was well represented on and agreed to the recommendations made by the FAA aviation rulemaking committee that created the new pilot qualifications and training rules. Further, the future impacts of the age 65 retirements that began in 2012 were well understood more than six (6) years ago. To reduce the potential for impacts on the pilot pool, Congress gave FAA the ability to grant flight-hour credit for specific academic training against the 1,500 hour requirement for the air transport pilot certificate (ATP). FAA did exactly that, to the benefit of the regional

airlines, by establishing the "Restricted ATP" that an individual could qualify for with as few as 750 flight hours.

A few airlines have understood for some time the need to create career pathways that will incentivize individuals to seek employment as airline pilots. More airlines are presently seeing this need and have created, or are in the process of creating, pathways that connect one or more accredited aviation universities or colleges with a regional airline and a legacy airline so that there is a clear and defined progression on which to create a career. As part of these pathways, some legacy airlines have "flow-through" agreements with their regional code-share partners that guarantee regional airline pilots an interview with the mainline carriers upon achieving certain career milestones. ALPA is a strong supporter of these and similar programs that help establish a larger and more qualified pool of pilot candidates to safely operate airline equipment. Thousands of young adults learn to fly each year with the hopes of becoming airline pilots. Their total investment may exceed $150,000 for their college aviation education and flight training, but that outlay is made on the basis of potentially earning several million dollars over the course of a 40-year or longer career. These future aviators need to see evidence that their investment will be rewarded, otherwise—over the long term—we will see a genuine shortage of qualified workers in our aviation industry.

One impact on the availability of qualified pilots also serves as commentary on the present state of the U.S. airline industry. Thousands of experienced airline pilots with U.S. citizenship are opting to fly for foreign airlines instead of U.S. carriers because the stability, pay, and benefits are so much greater than those offered by U.S. carriers. As just one example, at U.S. legacy airlines, a first officer may have a starting salary of $61,000/year plus benefits, while a foreign airline may pay $80,000/year, plus provide housing allowances and other extraordinary benefits, such as personal chauffeured transportation to and from work, and tuition assistance for the pilot's children.

GAO's Findings

If there was ever any doubt about the true nature of the shortage that exists, the aforementioned GAO report on the aviation workforce has removed it. That report supports the points that ALPA has made for several years concerning whether there is, or will be, a genuine shortage of airline pilots. Following are a few of the comments contained in the GAO report that buttress ALPA's long-held view that there is no near-term shortage of qualified pilots but simply a shortage of qualified pilots who are willing to be employed by some U.S. airlines in light of their poor wages, working conditions, and benefits:

• Available data indicate that a large pool of qualified pilots exists relative to the projected demand, but whether such pilots are willing or available to work at wages being offered is unknown.
• Data on wage earnings and employment growth are not consistent with the existence of a shortage in the airline pilot occupation.
• Employment for professional pilots has actually decreased by 12 percent from 2000-2012, which is not consistent with a shortage.
• While there were 72,000 airline pilot jobs in 2012, FAA data show that as of January 2014, a total of 137,658 currently active pilots under age 65 hold ATP certificates and a first-class medical certificate. Another 105,000 pilots hold instrument ratings and commercial certificates and are in the pipeline to potentially obtain ATPs.
• GAO estimates that a range of roughly 1,900 to 4,500 new pilots will be needed to be hired annually over the next 10 years. In 2012, the FAA certificated 6,396 new ATPs, and that number is trending upwards. Additionally, about 2,400 pilots separate from the military service branches each year. Note: this total of nearly 9,000 additional pilots becoming available annually, who could potentially fly for the airlines, is approximately double the maximum of what GAO says is needed by the airlines each year.
• Two out of three studies reviewed by GAO on pilot supply trends suggest that a prolonged pilot shortage is unlikely to develop. One study noted that a shortage of entry-level first officers may temporarily emerge, but would likely be addressed within a few years.
• Avoiding a pilot shortage hinges on the ability to incentivize lower-certificated pilots to seek a higher certification, and pilots currently working abroad or elsewhere to seek U.S. airline jobs, should a genuine shortage arise. Analyses reviewed state or imply that airlines may need to provide financial incentives—for example, higher wages, benefits, or bonuses—to bring new pilots into the industry.
• Eleven of the 12 regional airlines interviewed by GAO have been unable to meet hiring targets for training classes formed since early 2013. Regional airlines currently pay on average about $24 per flight hour (approximately $24,000 annually) for new-hire first officers.
• The mainline airlines interviewed by GAO report that they are not experiencing any difficulty in attracting qualified and desirable pilot candidates. These carriers currently pay on average about $48 per flight hour (approximately $48,000 annually) for new-hire first officers.

In support of our contention that there is a quantifiable shortage of pay and benefits for pilots in the regional airline industry, we would compare the average starting salary for

new first officers in the regional airline industry (about $24,000 according to GAO) to the starting salaries of other fields for which university aviation program graduates are qualified to enter. These include test engineer ($52,500), operations manager ($55,000), and second lieutenant in the Air Force, the entry level for most military pilots ($53,616 in salary and allowances). It is worth noting that the average starting salary for elementary school teachers ($35,529)—which is widely viewed as an underpaid profession—is substantially more than that of regional airline first officers.

The recent increases in experience and education required to enter the airline pilot profession, which were crafted with input from industry, labor, and government, were made to ensure that the U.S. airline industry remains the safest in the world. ALPA stands behind them and is unwilling to sacrifice safety to enable any airline to hire a cheap work force.

Recommendations

- Congress should examine with DOT the federal government's relationship with those regional airlines that accept millions of dollars in government subsidies for providing EAS while offering such poor wages and benefits that they cannot fill their pilot seats. EAS rules should focus on safety first, which includes professional pilots whose focus on their job is not distracted or impaired by the pressure of near poverty level wages and benefits.

- It is well known that the U.S. airline industry is besieged with excessive taxation and red tape that the airlines of many other nations do not face. ALPA is a strong proponent for leveling the playing field to reduce this burden on airlines so that they can grow and thrive. One important benefit of such needed changes will be greater levels of service to small communities, as more financially secure airlines will be able to increase capacity to them without the need for a government subsidy. Another benefit, as relates to the GAO report, will be an industry that can offer jobs that are attractive to those who are interested in a career as an airline pilot. Congress can and should play a critical role by removing the current financial and regulatory barriers facing U.S. airlines to make it easier for them to generate sustained levels of profitability and thus be able to pay good wages and benefits and, consequently, for aspiring pilots to more confidently invest in professional pilot education and training.

- Congress can assist by restoring loan guarantees for college and university students that are undergoing flight training as part of their degree curriculum. Congress should work with the airlines to create innovative means for them to

offset pilots' flight training expenses and thereby help create a more reliable pool of new first officer candidates.

Thank you. I would be pleased to address any questions that you may have.

# # #

Testimony of Bryan Bedford
Chairman, President, and Chief Executive Officer of Republic Airways

Before the

House Committee on Transportation and Infrastructure Subcommittee on Aviation

Hearing on Air Service to Small and Rural Communities

April 30, 2014

Good morning, Chairman LoBiondo, ranking member Larsen and members of the Subcommittee. Thank you for inviting me to testify on the topic of Air Service to Small and Rural Communities. I sincerely appreciate the opportunity to address the committee today and to speak to some of the challenges affecting small and rural community air service.

My name is Bryan Bedford, and I am Chairman, President, and Chief Executive Officer of Republic Airways. I am here representing Republic Airways ("Republic") but will also speak from my experience as Chairman of the Regional Airline Association's Pilot Supply Task Force, an industry-working group that is steering our Association through the pilot shortage facing the nation.

Republic Airways is a large regional carrier headquartered in Indianapolis, IN. We operate three airlines – Republic Airlines, Chautauqua Airlines, and Shuttle America. We have approximately 6,300 employees; with 1,600 employees working in Indianapolis, Indiana; 1,000 employees working in Columbus, Ohio; 600 employees working in Pittsburgh, Pennsylvania; 300 employees working in each of Kansas City, Missouri; and Louisville, Kentucky; and the remainder of our almost 2,500 employees spread nationwide. Additionally, our company provides employment for thousands of additional individuals who live in other states who are our primary service suppliers. This includes Rolls Royce's facility in Indianapolis, as well as General Electric and United Technologies facilities located nationwide. Just to name a few.

Aside from being one of the largest regional carriers in the United States, we are also one of the oldest. We operated our first commercial flight from our home in Jamestown, New York to Pittsburgh, Pennsylvania on August 1, 1974. Over those nearly 40 years of service, our number one priority has been the safety of our employees and passengers. My co-workers and I are extremely proud of our safety tradition and believe our unblemished aviation safety record speaks for itself.

I joined the company in July 1999 as our 5th CEO. Over my nearly 15 years with the company, we have undergone extraordinary change. When I joined the company, we operated a fleet of 28 turbo propeller aircraft; with seating capacity to accommodate between 19 and 34 passengers. We had approximately 600 employees. We flew almost 1.0 million passengers in 1999 and our total revenues were about $85 million. Today, our fleet includes more than 250 regional jet and large turbo prop aircraft; we generate almost $1.4 billion in revenue, operate more than 1,300 flights per day to approximately 100 cities in 38 states, Canada, and the Bahamas. In 2013 alone, Republic safely flew 21.5 million passengers to their destinations.

Over my 15 year association with Republic, we have managed through extraordinary challenges: starting with Y2K and the recession of 1999. We survived the unthinkable tragedy of 9/11, even though we ended up permanently grounding our entire fleet of small turbo prop aircraft. Republic has been faced with other

global challenges, including the SARs outbreak that began in 2002, the Asian currency crisis, and the bankruptcy and financial restructuring of all our major airline partners in recent years. We have managed through unprecedented consolidation and finally we have weathered the greatest recession since the great depression. Yet, I cannot think of a single greater challenge to air service to small and rural communities than the very real and significant pilot shortage facing U.S. regional airlines, and ultimately the flying public. While we are working hard to preserve air service to small and even medium-sized communities, the pilot shortage is real, and it is already starting to take a toll on air service to several communities. And I assure you if we don't act now, the social and economic impact will only get worse and threatens to destroy the fabric of small community service throughout the United States.

The good news is that this Committee is willing to hold this hearing today, before it is too late. By fostering this discussion and exchange as this dilemma unfolds, hopefully we will be able to effect meaningful changes that can stave off a growing air service challenge in small-town America. And while we are here today to talk about service to small communities, the crisis extends well beyond simply the smallest communities.

As you know, U.S. commercial aviation contributes over $1 trillion annually to the nation's economy. Our nation's air transportation network provides more than 10.9 million direct U.S. jobs and serves over 750 million passengers annually. Regional airlines, which operate 50 percent of the nation's flights, play an irreplaceable role in driving these results. In other words, it is not just regional airlines and the smallest markets they serve that face a pilot shortage crisis; the pilot shortage is a threat to air carriers large and small and to our nation's economy overall.

Of course, for smaller communities, service by Republic and other regional airlines like us represents a veritable economic lifeline. In fact, most U.S. airports rely heavily on regional airlines for air service; regional airlines provide the exclusive source of scheduled air service at 70 percent of our nation's airports and the majority of air service at 86 percent of our nation's airports. The fact that many small and rural non-hub airports fall into the "mostly-regional" category will not surprise this Committee, but some may be surprised to learn that many larger hubs are also served mostly by regional airlines. For example, 66 percent of Chicago's O'Hare's flights are operated by regional airlines.

Regional airlines are very agile and adaptable, but we are not immune to economic and competitive challenges. In 2009, Republic began flying under the Midwest brand from Milwaukee. Using small regional jets we provided non-stop service from Milwaukee, Wisconsin to 18 different destinations, including Appleton, Wisconsin; Wausau, Wisconsin; Des Moines, Iowa; Green Bay, Wisconsin; Grand Rapids, Michigan; Indianapolis, Indiana; Madison, Wisconsin; Omaha, Nebraska; Pittsburgh, Pennsylvania; Rhinelander, Wisconsin; and Louisville, Kentucky to name a few. However, Midwest was subjected to a competitive assault from Air Tran and

Southwest. Today, Southwest and Air Tran are one company. Midwest is no more and the Milwaukee community no longer enjoys non-stop service to these markets. Milwaukee went from being a community that enjoyed convenient non-stop service to dozens of destinations with some of the lowest airfares in the country, to a community with few non-stop options and some of the highest airfares in the country.

That is just one anecdote demonstrating the competitive dynamics of this industry. But I must say that the pilot shortage will, in my opinion, have a significantly much worse effect on small and medium sized communities across this country. As this Committee knows well, businesses in all communities, but particularly in rural, small and even medium-sized communities, greatly depend on scheduled air service. This air service provides a key economic driver, by providing direct and indirect jobs for Americans as well as ensuring the connectivity that businesses need to remain competitive. Frankly, this connectivity, and those jobs, are at risk.

Fewer Pilots Available as More Are Needed

Over the next eight years, the largest network carriers are expected to retire approximately half their global pilot workforce.[1] An estimated 54,000 pilots will "age out" of the part 121 commercial airline profession over the next decade[2] and the overall demand for commercial airline pilots over the next 20 years is expected to equal 498,000 new pilots.[3] In the meantime, the FAA's new pilot rest rule, which our industry has embraced, has increased pilot staffing needs further by 3,000 – 6,000 pilots in the U.S. alone.[4]

At the same time, our country's mainline carriers, looking to replenish their pilot contingent, will continue to find the most qualified, professional aviators at the regional airlines. In fact, the four largest U.S. airlines *alone* are expected to retire 18,000 pilots in the next eight years; yet, there are fewer than 18,000 pilots in the entire regional airline workforce today.[5]

Unfortunately, compared with the 1990's, the U.S. is producing 60 percent fewer pilots yearly [6] and experts predict that only about half of those pilots intend to fly for a U.S. commercial airline.[7]

This is not hyperbole; these are facts and we ignore them at our own peril.

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[1] Flightpath Economics/Dan Akins & Matt Barton, Feb 26, 2014
[2] UAA, AAB International, *An Investigation of the US Airline Pilot Labor Supply*, 2013
[3] Boeing: Pilot & Technical Outlook 2013
[4] Flightpath Economics/Dan Akins & Matt Barton, Feb 26, 2014
[5] Flightpath Economics/Dan Akins & Matt Barton, Feb 26, 2014
[6] Flightpath Economics/Dan Akins & Matt Barton, Feb 26, 2014
[7] UAA, AAB International, *An Investigation of the US Airline Pilot Labor Supply*, 2013

FAA's 1,500 Hour FOQ Rule has Sparked a Pilot Shortage Without Improving Flight Safety

On every day and on every flight, our highest priority is safety. We share with this Committee the overarching and most important objective in protecting the world's safest commercial airline system. And we know you held that objective in mind when you passed the Airline Safety and FAA Extension Act of 2010.

As you know, part of that law directed the FAA to require all commercial airline pilots to hold an air transport pilot certificate (ATP), which for the first time required first officers to possess at least 1,500 hours of flight experience.

We cautioned lawmakers and regulators, throughout the lawmaking and regulatory process, that including a largely inflexible and arbitrary flight-hour experience requirement as part of the final mandate would not only fail to improve safety, it would hasten the growing pilot shortage and imperil air service at communities across the country.

The aviation industry is constantly learning and evolving, in continuous pursuit of the world's safest aviation system. Like our regulatory and lawmaking partners, our industry trade association studied Flight 3407, the tragic air accident that took place in Clarence, New York, in February 2009, in order to gain insight into critical safety improvements aimed at preventing future accidents.

Through industry introspection, with support and rigor from lawmakers and regulators, and thanks in large part to the tremendous, single-minded dedication and perseverance of family members who lost their loved ones in the accident, aviation stakeholders learned a great deal from that investigation. This has informed dozens of meaningful safety enhancements that will advance commercial aviation ever-closer to our goal of zero accidents.

Even before the NTSB's investigation was complete, airlines moved rapidly and voluntarily to address flight training and professional standards, implementing or further enhancing important safety programs that are now universal across the major regional airline sector. These include Safety Management Systems (SMS), Flight Operations Quality Assurance (FOQA), Advanced Qualification Programs (AQP), and the Aviation Safety Action Program (ASAP). Each is an example of the tremendous progress the industry has made in using tangible risk management strategies to assess the overall effectiveness of air carrier safety programs and to implement risk mitigation techniques to improve overall air safety. These programs are the fundamental reason the United States enjoys the safest air transportation system in the world.

Yet, one thing is clear. There was nothing in the NTSB's investigation of flight 3407 – and indeed there is no evidence anywhere – indicating that flight-hour experience contributes to accidents generally or contributed to that accident, specifically. In fact, both the pilot-in-command and first officer of that flight possessed substantially more than 1,500 hours of flight time. Unfortunately, a requirement for first officers to amass 1,500 flight hours before hiring eligibility would not have prevented the accident that spurred its implementation.

In fact, when questioned about flight time and related impact on accidents during a Senate Commerce Committee hearing on February 25, 2010, NTSB Chair Deborah Hersman rejected any connection, stating:

> *"We've investigated accidents where we've seen very high-time pilots, and we've also investigated accidents where we've seen low-time pilots... We don't have any recommendations about the appropriate number of hours for different categories...we don't have any data supporting the number of hours for a certificate, or its correlation with being involved in an accident."*

You see, while hiring a pilot with 1,500 hours of flight time may *seem* safer than hiring a pilot with only 500 hours of flight time, in fact this merely forces future aviators into a lengthy holding pattern. They are well-trained and ready to fly, but are forced to shelve their skills in favor of accumulating arbitrary flight-hours in environments that offer little professional enrichment. This all happens at great cost to future aviators and disrupts the transition between high-quality training environments and our commercial airlines' advanced training programs.

We believe Congress afforded FAA appropriate flexibility to grant credit-hour equivalencies for high-quality structured training programs, allowing the Agency to retain the safest path for professional aviators without creating a pilot shortage. That flexibility reflected an appropriate emphasis on the *quality*, and not just the *quantity*, of an airman's training.

After all, airline flight safety involves far more than accumulating an arbitrarily mandated number of flight hours. Rather, safety is ensured only when skilled pilots receive the *right training in the right training environments.* This is best achieved through structured training programs that are designed with a careful focus on the risks that airline pilots may encounter in the air and on the knowledge and skills that are required to mitigate those risks.

The FAA clearly voiced its agreement here, as Randy Babbitt, then-FAA Administrator, told this subcommittee on September 23, 2009: "The final rule will be consistent with the philosophy of enhancing the quality and effectiveness of training rather than focusing on traditional quantitative measures such as total flight time."

While Mr. Babbitt's successor, Administrator Michael Huerta, has worked tirelessly to uphold the highest levels of aviation safety, the FAA's final rule ultimately provided far too little credit for the kind of highly-structured training that has been shown to produce excellent pilots, and has been unnecessarily restrictive as to which training programs qualify for higher credit. As a result, the current provision does nothing to increase safety; yet it dramatically accelerates the pilot shortage problem facing our nation.

Because of the new 1,500 hour rule, pilots who are pursuing commercial aviation careers and have graduated from academic and other well-regarded, structured training programs must now spend an additional 12-18 months building extra flight hours in predominantly unstructured environments before airlines are permitted to hire and place them into their own structured training programs. As a result, aspiring pilots face even higher education costs, which discourages potential pilots from pursuing pilot careers altogether, and reduces incentive to pursue structured flight training programs over other paths to build flight hours. Companies like Republic are considering avenues that bridge this gap for inspiring pilots, but these solutions are limited, costly, and do not address the real pilot shortage facing the nation.

I can assure this committee that requiring new graduates to build flight time towing banners or dusting crops does nothing to develop the skills or proficiency to fly in the commercial setting.

Just as the industry was beginning to hire new, much-needed pilots, the FAA placed an additional obstacle between future aviators and their professional airline career. This approach does nothing to further the goal of increased flight safety but it certainly puts small community air service at risk.

The pathway to becoming a professional aviator worked best when it allowed for a seamless transition between top-notch professional aviation programs and the structured advanced training programs offered at regional airlines like Republic. These structured training programs embody the most modern tools and processes learning science has to offer. In many cases, our program exceeds the programs offered by much larger airlines. Formerly, this seamless transition allowed aviators to keep their skills sharp and advancing. Now aspiring pilots are forced to take lengthy, unpaid, hours-building sabbaticals before they encounter our training programs. This extended period increases the risk of loss knowledge, development of non-transferrable flying skills, and in many cases burnout on behalf of new aviators faced with an expensive and lengthy 1,500 hour flight requirement.

To be clear: our high-quality commercial airline training programs can keep pace with demand, but with the new 1,500 hour flight-time requirement in place, there are far too few pilots available to enroll in these programs.

GAO Aviation Workforce Report

On February 28, the U.S. Government Accountability Office released its anticipated "Aviation Workforce" report, focusing on the current and future availability of commercial airline pilots.

This was an important report, and reflects considerable, expert analysis into the pilot supply challenge and successfully articulates many important factors influencing pilot supply, identifying elements influencing the supply and concluding that a continued pilot shortage could mean an additional curtailment of services and industry contraction. The report identifies numerous service curtailments that have already taken place, especially in smaller markets.

Although the GAO report confirmed that regional airlines are experiencing difficulty hiring pilots and airline pilots have experienced a low unemployment rate, both strong indicators of a labor shortage, GAO nonetheless characterized its findings on a pilot shortage as "mixed." In reaching this particular conclusion, GAO relied heavily on two problematic data sets.

First, while GAO reported that airline pilots have experienced a low unemployment rate, and called an unemployment rate "the most direct measure of a labor shortage," GAO also reported that pilot wages have decreased since 2000, which it interpreted as a possible indication that demand for pilots may not outstrip supply. While GAO acknowledged "other factors can account for a decline or lack of growth in earnings during a period of labor shortage," it did not provide any meaningful context for this particular situation.

Most notably, the report does not account for the deep industry shockwaves experienced in the wake of 9/11, which sparked a watershed of airline bankruptcies, liquidations and subsequent mergers, during which significant reductions in pilot compensation and pension benefits were obtained through bankruptcy contract negotiations; all of which occurred during the study period of the GAO analysis.

Although pilot wages have increased sharply from their low point in the mid-decade, they remain below their peak prior to 9/11. The GAO's omission in accounting for 9/11 and its broad impact on airline economics makes this data element a particularly unreliable indicator of pilot supply.

Second, GAO indicated that the number of pilots under age 65 and holding private pilot certificates has decreased 24 percent since 2000, and, significantly, the number of *new pilot certificates issued* was 39 percent lower in 2012 vs. 2000. By contrast, GAO described the number of commercial and ATP certificate pools as "steady." In reality, many if not most of these ATP holders are no longer a part of the available pilot pool.

Unfortunately, some industry stakeholders have been overly optimistic in this regard. For example, my colleagues at the Air Line Pilots Association, International (ALPA) recently claimed "thousands of pilots having U.S. citizenship are opting to fly for foreign airlines because the stability, pay and benefits are so much greater than those offered by U.S. carriers,"[8] implying that these pilots might return for better pay stateside. Although this makes for a great sound bite, in reality, there are fewer than 1,000 U.S. citizen pilots domiciled overseas.[9] Of this small number, fewer still would be willing to forgo the salary and living wage benefits paid by foreign carriers in order to return to the U.S., where they would be relegated to a junior number in a seniority-based pilot union system.

Similarly, ALPA's assertion that "many airline pilots have been furloughed and would like to return to flying" is dubious at best.[10] Many of these formerly furloughed pilots are already flying for other airlines. Others have moved on to other sectors of the economy. In fact, all commercial airlines have publicly stated that they no longer have pilots on any active furlough list and are now seeking new pilots "off the street."

A Word About Pilot Compensation

During any discussion of a pilot shortage, we encounter criticism that, were the regional airline industry to pay its pilots higher salaries, it would have no problem hiring qualified pilots. This is simply not true.

To begin with, the median annual wage for U.S. airline pilots was $114,200 in May 2012, compared to the median income for all U.S. occupations, which is $34,750. (The median wage is the wage at which half the workers in an occupation earned more than that amount and half earned less.) To put this into further perspective, 90 percent of all U.S. commercial airline pilots earned $66,970 or higher, and 10 percent earned more than $187,200.[11]

While salaries at regional airlines are, for a number of necessary reasons, lower than at mainline airlines, these salaries have recently increased and continue to increase. New programs are in place to provide substantial hiring bonuses and other incentives; yet, the pilot supply problem persists. Unfortunately, even if regional airlines were able to raise salaries further without pricing flights to smaller communities out of existence, the grim reality of pilot supply, as detailed above, would remain unchanged. In fact, according to the RAA, almost all of its members, including those with the highest starting wages, have been challenged in filling new pilot positions. There are simply far too few pilots available right now, when we need them, to continue to fly all or even most of our current routes in the near and

[8] ALPA Press Release "GAO Report on Pilot Availability Confirms It's All About the Money," February 28, 2014
[9] Flightpath Economics/Dan Akins & Matt Barton, Feb 26, 2014
[10] "Is the Pilot Shortage Real?" MSN Money / Bruce Kennedy, Nov 12, 2012
[11] U.S. Bureau of Labor Statistics, Occupational Employment Statistics, May 2012

medium-term future.

Nevertheless, immediately following the release of GAO's Aviation Workforce Report, our colleagues at the Air Line Pilots Association, International (ALPA) issued several press releases recasting the pilot shortage as a wages problem, citing low first-year pay at regional airlines. In fact, influences on pilot pay are complex, and include the revenue potential of the aircraft and market, passenger price sensitivity, structured fee-for-departure agreements with major airline partners, and other external constraints.

Additionally, at most U.S. regional airlines, pilot pay is governed by collective bargaining agreements. Unions ratify these agreements on behalf of all their members, including first officers. As noted, while the average salary of a U.S. regional airline captain is more than $70,000, collective bargaining agreements determine how existing salary resources are allocated among senior and entry-level pilots, often favoring higher pay for captains at the expense of lower pay for first officers.

> *"...A fundamental component of [the pilot shortage] is the seniority system, which permeates nearly all aspects of the U.S. airline industry. For instance, the low starting wages for pilots at U.S. airlines are shaped by collective bargaining agreements that trade low pay rates for starting pilots in exchange for high pay granted to senior pilots. This results in massive pay disparities across the pilot profession....this isn't just about pay: junior members of the workforce get the last opportunity to select time off, are required to work the shifts nobody else wants, and are furloughed first when or if the employer needs to downsize. It's important to remember that seniority is not something imposed by management. It's a belief system and structure that labor groups insist upon. The problem is that seniority as it is currently structured isn't optimal for most of the employees. It creates a rigid caste system in which date of hire is more important than merit, initiative, or aptitude. It isn't transferable (usually) from one airline to another. If an airline ceases to operate, the employees in a seniority-based system must start from scratch at another operation -- and many simply elect to leave the profession altogether... In effect, the seniority system is a principle cause of this pilot supply crunch. It isn't a market-based system, which is why the solution to the pilot supply crisis won't be market-based either."* – Matt Barton, Flightpath Economics, March 13, 2014 in an email to *Newsweek*, quoted with permission

In addition to compensation and other benefits, which include medical and vision benefits, 401k benefits, travel benefits, and considerable time off, regional airlines make other significant investments in pilots. Regional airlines provide pilots with safety-based training that combines rigorous classroom study with systems and flight training.

Airlines like Republic apply advanced technical training and evaluation, incorporate adult learning best practices, and employ state-of-the-art flight simulators. This training in commercial airline systems comes at a significant expense, ranging between $25,000 and 35,000 for each new hire pilot, and represents an investment in a pilot's long-term career.

These costs are ongoing as pilots complete recurring training and a significant training investment when they upgrade from first officer to captain. Of important note, is the portability of such training, as it will serve the pilot throughout his or her career in commercial aviation, no matter how long he or she remains with the regional carrier who provided it.

Ultimately, a career as a commercial airline pilot is among the more financially rewarding U.S. careers. Yet, despite these safety programs and investments, the new rule requiring first officers to amass 1,500 hours of flight-time prior to employment is making it significantly harder for aspiring pilots to justify the cost of pursuing an airline career. Although the regional airline industry has redoubled its recruiting efforts, offered substantial signing bonuses, and implemented and strengthened existing pipeline programs with the country's best universities, this fact remains: the number of pilots available for hire has shrunken dramatically, while airline industry demand for pilots continues to rise.

Service Cuts Are the New Reality Under the 1,500-Hour Rule

Regional airlines typically partner with major airlines, and those major airlines determine regional airline routes. To do this, major airlines balance supply and demand. The equation here is simple. With too few pilots available, airlines are forced to cancel or reduce air service. Mainline carriers often base air service reduction and cancelation decisions on profitability as well as the number of displaced passengers. This means flight cancellations fall disproportionately on smaller communities, which offer fewer passengers and marginal profits.

Unfortunately, the pilot shortage has already sparked air service cuts and reductions in communities across the nation. Recently, two regional airlines were forced to cancel service to eleven airports due to a lack of pilots. Additionally, United Airlines was forced to close its Cleveland hub, citing the pilot shortage at its regional partners, and resulting in a 37 percent decrease in departures.

More broadly, analysis of departure data also shows a trend of reductions in airline departures. While this trend is sharply felt at smaller communities, even medium-sized cities are losing a large portion of their departures because of the pilot shortage. Losses at smaller communities like Erie, Pennsylvania; Lawton, Oklahoma; Dickenson, North Dakota; Grand Forks, North Dakota; Columbus, Georgia; Valparaiso, Indiana; Flint, Michigan; Jackson, Mississippi; and Ithaca, New York stand out as being particularly painful, with these airports losing upwards of 15

percent and as high as 28 percent of their departures. We expect this trend of declining departures to continue and worsen as the pilot shortage crisis continues to build.

In addition to declining departures, many cities are losing other important measures of connectivity. Even airports that have retained flights to major hubs, and therefore may not look greatly diminished on paper, have suffered. For example, passengers in Burlington, Vermont formerly enjoyed service to Boston, Massachusetts; White Plains, New York; Binghamton, New York; Poughkeepsie, New York; Plattsburgh, New York; Albany, New York; and Portland, Maine. While Burlington has retained its departures to the big hubs and still enjoys adequate destinations suitable for vacation or leisure travel, those regional destinations, so important for local businesses in ensuring meaningful connectivity, have disappeared over the years due in large part to regulatory changes.

We expect, as the pilot shortage persists, to see a further weakening of intra-regional routes like this, to the detriment of local businesses. While Burlington's crisis is just one example, it is a pattern we can expect to see repeated across the country unless we act now.

Bad News for the American Economy

In addition to the economic consequences at small communities, where air service has already been cut, the pilot shortage facing America's airlines threatens our nation's economic vitality more broadly. Analysts have identified 239 airports considered "at risk" for losing or seeing sharply reduced air service across the country.[12] Collectively, these at-risk airports account for $2.1 billion in domestic airline revenues, and are located in communities comprising over 10 percent of the U.S. population and 7 percent of the U.S. GDP. [13]

When air service is cut or reduced, businesses large and small, which rely on that air service for connectivity, relocate or close. This translates to job losses and reduced tax revenue in state and local communities across the nation. As one example: in 2008, AT&T moved its headquarters to Dallas from San Antonio, citing air service as a factor in its decision.[14] Of course, communities with diminished air service will likewise face difficulty in attracting new businesses, making recovery even more difficult.

Even in my own company the challenges we face finding qualified candidates has left us with the difficult choice to ground aircraft. Republic recently announced our intent to park 27 small jet aircraft due to insufficient pilot candidates. Had we been

[12] Flightpath Economics/Dan Akins & Matt Barton, Feb 26, 2014
[13] Flightpath Economics/Dan Akins & Matt Barton, Feb 26, 2014
[14] Flightpath Economics Dan Akins, citing AT&T Press release dated June 27, 2008 entitled "AT&T Corporate Headquarters to Move to Dallas"

able to keep those aircraft flying, we would need nearly 800 more employees. Those are good jobs at a period in our economic recovery where we need more job creation.

Within the next few years, U.S. airlines are projected to suffer a shortfall of between 4,000 and 10,000 pilots, or 5 to 13 percent of their pilot workforce. This translates to industry-wide annual revenue losses approaching $10 to $26 billion, and eliminates as much as $50 to $130 billion in economic activity. [15]

This is why this hearing today is important not just to the smallest communities that are already feeling this pain, but ultimately, for this country more broadly. We can ignore the facts of a very real and present airline pilot shortage only at our great economic peril.

ESSENTIAL AIR SERVICE

While much of my discussion today centers on the pilot shortage and how it is harming small and medium-sized communities generally, we also wanted to discuss a program that has long been a shared priority for my trade association (RAA) and for this Committee: the Essential Air Service program.

While Republic does not currently provide Essential Air Service, many of my regional airline colleagues do. The RAA has asked me to convey its continuing appreciation of this Committee's support for EAS over the years, and for leading the effort to preserve and strengthen the program in the face of numerous attempts to dismantle it.

More than three decades have passed since the Program's inception, yet, small and rural communities continue to rely on the connectivity ensured by EAS. Eliminating EAS would deal a deathblow to over 100 EAS airports, where air service is not economically viable without support from the program.

We've talked a great deal about the economic necessity of air service today, and it is hard to imagine jobs-providing businesses starting up or relocating to a community where the closest commercial air service is located over two, four, six, or even eight hours away. The loss of commercial air service at these communities would crush existing businesses and could also force a migration of doctors and other skilled professionals – already in short supply in rural communities – to less isolated places.

Eliminating Essential Air Service would take a program that is funded from aviation-specific sources and shift the burden to state and local taxpayers, who would experience the economic fallout of significant, local job losses in the face of lost air

[15] Flightpath Economics/Dan Akins & Matt Barton, Feb 26, 2014

service. These job losses would include the direct displacement of airline and airport employees, as well as the displacement of employees of local businesses that relocate or close due to inadequate air service. For example, RAA estimates that each community associated with the program translates to approximately five pilots. These are jobs that would not be available without the program.

Unfortunately, like all small community air service, Essential Air Service has been greatly challenged by the pilot supply crisis. This pilot shortage may very well jeopardize the reliability of the program – a key element to the program's success – by disrupting air service due to crew shortages. This translates to fewer enplanements, an important measure for airport funding. This same lack of reliability is painful for EAS carriers. Not only does this disruption of reliability undermine the service, it is directly linked to a carrier's bottom line. Essential Air Service carriers are only paid for departures performed; if a flight does not take off due to a crew shortage, the carrier receives no payment.

Over the years, RAA has supported and will continue to embrace meaningful reform of the EAS program, aimed at making common-sense reforms that strengthen and streamline the program. We believe that success of the program and fiscal prudence are not contradictory goals. We nonetheless urge the Committee to continue to reject calls to eliminate or substantially reduce funding for the program. Such reductions do not save Americans money, they simply shift the cost burden to local communities.

Conclusion and Recommendations

Regional airlines have embraced countless voluntary and regulatory safety enhancements and will continue to do so. We share this Committee's goal of protecting and enhancing the safest air transportation system in the world.

Safety is our number one priority. Safety is good business. My company takes enormous pride in our safety culture and our commitment to preserving and continuously improving this nation's excellent aviation safety record.

Unfortunately, an arbitrary flight-hour requirement does nothing constructive to get us closer to an end-goal of zero accidents, yet produces tremendous unintended consequences. Complying with the rule has already forced substantial air service cuts and reductions, and the situation will worsen unless action is quickly taken.

While the pilot shortage has been cast as a regional airline problem, and as such, the harm to small and medium-sized communities is disproportionate and stands to worsen, reducing the volume of air travel from smaller communities will ultimately have negative economic consequences beyond those smallest communities, to the detriment of the entire nation.

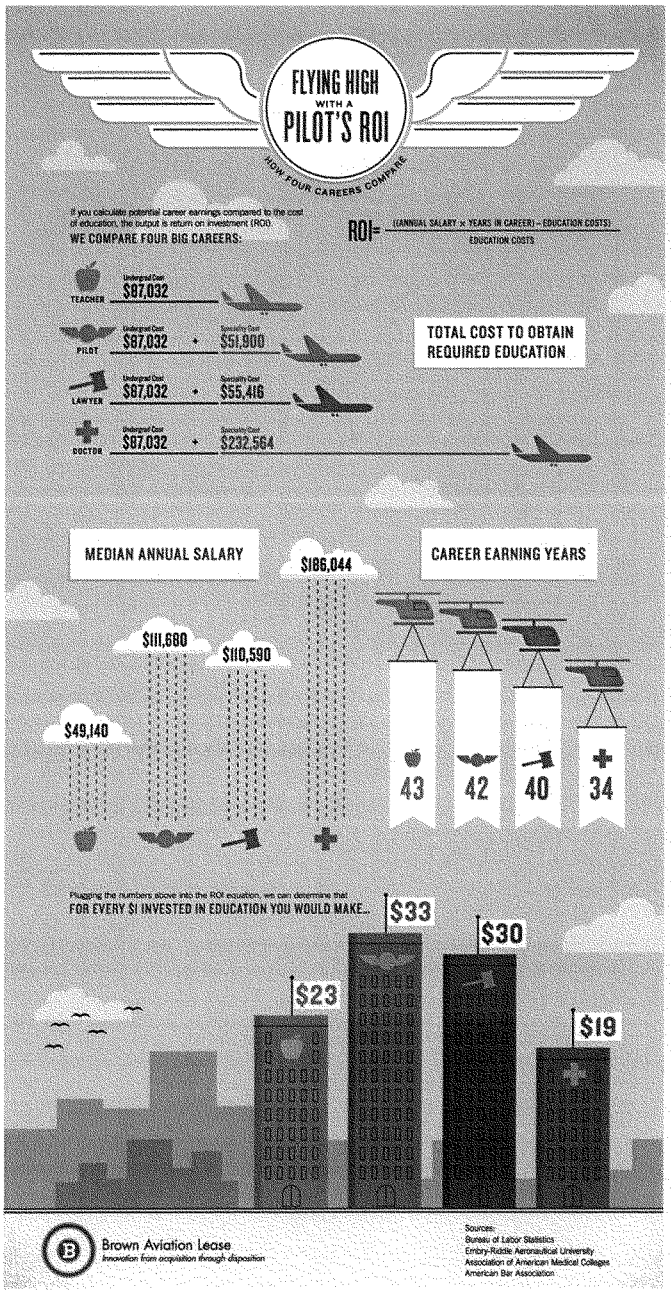
Regional airlines will continue to work hard to attract qualified pilots, and will continue to invest in each member of our pilot workforce. Nonetheless, unless Congress directs the FAA to act quickly, significant air service losses will continue. There will be simply too few regional airline pilots to continue to fly current routes.

While Congress considers alternative approaches, I urge this Committee to direct the FAA to use its flexibility to allow structured training credit for a greater number of the ATP's required 1,500 flight hours, returning the emphasis to quality of training over quantity of hours in flight. Additionally, the FAA should expedite the approval process for institutions seeking to provide credit for structured training, and not just a select few university degree programs, but for all structured training academies. Finally, RAA urges lawmakers to consider statutory improvements and work with the airline industry in attracting new pilots in the near and long-term future while providing critical funding support for the next generation of student aviators.

By emphasizing quality-of-training over an arbitrary flight time experience, instead of the reverse, we can pursue our goal of protecting the world's safest aviation system while preserving access to that system for communities large and small. At the same time, we will stimulate job creation throughout the entire aviation marketplace.

Closing

Thank you for the opportunity to be here and I look forward to answering your questions at the conclusion of the panel.


FLYING HIGH
WITH A
PILOT'S ROI
HOW FOUR CAREERS COMPARE
If you calculate potential career earnings compared to the cost of education, the output is return on investment (ROI).
WE COMPARE FOUR BIG CAREERS:
ROI= ((ANNUAL SALARY x YEARS IN CAREER) – EDUCATION COSTS) / EDUCATION COSTS
TEACHER
Undergrad Cost
$87,032
PILOT
Undergrad Cost
$87,032
+
Specialty Cost
$51,900
LAWYER
Undergrad Cost
$87,032
+
Specialty Cost
$55,416
DOCTOR
Undergrad Cost
$87,032
+
Specialty Cost
$232,564
TOTAL COST TO OBTAIN REQUIRED EDUCATION
MEDIAN ANNUAL SALARY
$49,140
$111,680
$110,590
$186,044
CAREER EARNING YEARS
43
42
40
34
Plugging the numbers above into the ROI equation, we can determine that
FOR EVERY $1 INVESTED IN EDUCATION YOU WOULD MAKE...
$23
$33
$30
$19
Brown Aviation Lease
Innovation from acquisition through disposition
Sources:
Bureau of Labor Statistics
Embry-Riddle Aeronautical University
Association of American Medical Colleges
American Bar Association

Statement of Dan Mann, AAE

Executive Director, Columbia Metropolitan Airport

Before the Committee on Transportation and Infrastructure

Subcommittee on Aviation

U.S. House of Representatives

April 30, 2014

Mr. Chairman and Members of the Subcommittee:

Thank you for inviting me to participate in this hearing on "Air Service to Small and Rural Communities." It is an honor for me to be here.

My name is Dan Mann. I am the Executive Director of the Columbia Metropolitan Airport, a small hub airport located in West Columbia, South Carolina. I am pleased to testify today about the air service challenges facing small and non-hub airports.

Airports today are confronting a wide variety of issues. As airlines continue to consolidate, fuel prices remain high, and the economy adjusts to a new normal, it has become more imperative than ever for airports to make fiscally sound decisions. Those airports that understand the challenges before them and operate efficiently have the best chance of finding success in the marketplace, as long as they are not stifled by excessive Federal Government restrictions. If Federal restrictions on the use of local airport revenues were relaxed, airports could better serve their communities and the travelling public.

This is particularly true for the small and non-hub airports that compose a majority of the nation's primary commercial airports. By the FAA's definition, over 85% of the nation's 389 primary commercial airports are small and non-hub facilities. These airports often serve as a major economic driver for their communities, supporting millions of jobs that create billions in payroll dollars. As an industry, airports produce $1.2 trillion in economic benefit.

Today, I am pleased to share my story with this body and to testify that small and non-hub airports can still be competitive and viable. However, this is only true when decisions are made that are in the best long term interest of the airport and when airports are free from regulatory constraints and empowered to make those decisions.

THE COLUMBIA METROPOLITAN AIRPORT EXAMPLE

Columbia Metropolitan Airport (CAE) sits in South Carolina's Capital City of Columbia. As the state capital, Columbia is home to the University of South Carolina, and multiple military installations including Fort Jackson, which is the largest Army training base in the U.S. In

addition, Columbia boasts a number of major companies including SCANA, Michelin, Amazon, Aflac, Komatsu and Nephron Pharmaceuticals.

Between 2000 and 2010, the city's population increased from 536,691 to 767,598 which correlates to a 43% growth. From an airline perspective, Columbia maintained a stable economy throughout the recession.

Yet despite these strengths, Columbia was impacted by the same challenges as other airports: declines in air service, fewer airlines, fewer non-stop destinations, fewer seats, higher fares, and a decrease in passengers. After a peak of 728,000 enplaned passengers in 2005, airline seat capacity from the Airport was reduced by 34% between 2005 and 2010 and enplanements dropped 32% to 492,000.

I became the Executive Director in February 2010 and was immediately faced with the challenge of addressing the downward trends impacting the Airport. Additionally, only days after my arrival, Southwest announced they would start service to Greenville-Spartanburg Airport and Charleston International Airport. Both airports are within a 1 ½ hour drive of Columbia.

Southwest's decision was influenced by many factors, but two factors were key. The first was Columbia Metropolitan Airport's operating costs; the Airport's cost per enplanement (CPE) exceeded $12.00, well over the national average of $7.95. The second was the community's willingness to drive to competing airports for air service, as was demonstrated by the 50% leakage to Charlotte, North Carolina which sits another 1.5 hours away from CAE. As the 6th largest airport in the country, Charlotte grew 62% between 2000 and 2010. The growth in service options and decreased fares from Charlotte, combined with the competition from Southwest, put additional pressure on the CAE market.

Addressing the Challenges: Clearly, there was no legislative or regulatory solution for excessive airport cost and consumer choices. In an increasingly competitive environment, both regionally and nationally, CAE was not well positioned to take advantage of the limited opportunities available. In fact, we were increasingly vulnerable to airports with lower costs.

In early 2010, I spoke with all of our incumbent airlines, and the message was very clear. CPE needed to be below $10.00 in order to slow the rate of air service reductions or consider capacity increases in select markets. The task of lowering cost per passenger when the number of passengers is decreasing is monumentally difficult.

The first step was to benchmark CAE's cost to 20 similarly sized small hub airports which clearly outlined areas of concern. CAE's debt was $155 per passenger versus the $95 per passenger average. Our Full Time Equivalent (FTE) count was the highest of the 20 airports and 60% higher than average. And, our cost per passenger was second highest of those surveyed.

Over the next two years, I began the process of streamlining the organization and creating a more competitive airport. Between 2010 and 2012, we reduced staff by 46%, saving $1.7 million annually. We reduced debt to $122 per passenger and lowered CPE from $12.02 to $9.17 in 2013.

Although getting our cost in line was of vital importance to the airlines, community engagement was equally important, as any capacity increases would be short-term if we were unable to modify the community's trend of driving to competing airports—primarily Charlotte. Columbia Metropolitan Airport committed resources to a public relations/marketing campaign to engage our business community and inform the public of their role in ensuring that their local airport remained viable and competitive. Our strategy applied the dual approach of utilizing both traditional media avenues and grassroots methods of emphasizing to our community the convenience and ease of air travel that Columbia Metropolitan Airport is able to offer. We recruited community leaders as ambassadors for our advertisements and put a focus on customer service and engagement with our guests.

With improved costs and communication, we were able to make a business case to our incumbent airlines for increased capacity and competitive fares. Delta added capacity to Atlanta and United added service to Newark. 2012 resulted in the first enplanement increase in six years, and 2013 surpassed 2012.

Stabilization: Today, the airport is serviced by the three remaining legacy airline carriers; American, Delta and United. It offers non-stop flights to 10 destinations across the country; Atlanta, Charlotte, Chicago, Dallas, Detroit, Houston, Philadelphia, New York (LGA) and Washington, DC (IAD, DCA).

Reducing airport debt and lowering costs to the airlines has led to a stable demand for air service from CAE that remains consistent from month to month and year to year. However, our ability to respond to future market challenges remains constrained by antiquated FAA Revenue Use Policy.

FEDERAL CONSTRAINTS ON AIR SERVICE INCENTIVES

Having described the Columbia experience, I would like to turn to the issue of federal constraints on airport initiatives for improving air service. The FAA's Revenue Use Policy states that "Direct subsidy of air carrier operations" is prohibited. The Policy further stipulates that "any fee waiver or discount must be offered to all users of the airport, and provided to all users that are willing to provide the same type and level of new services consistent with the promotional offering." Furthermore, the FAA does not allow an airport to use any of its own revenue for the airline revenue guarantees or similar initiatives to develop additional air service for the community it serves.

These restrictions make it difficult for small and non-hub airports to generate competition within their markets. Air service is *the* fundamental purpose of air carrier airports, and the stimulation of competition is key to an airport's growth and success in meeting the needs of business and leisure travelers alike. Under the present regulatory regime, airports are limited in the types of incentives they can provide, and are forced to provide incentives to all carriers or else forgo the use of incentives. If the FAA were to allow airports to offer targeted incentives, including airline relocation costs, to attract only the type of service desired by the airport, small airports would be afforded much better leverage to compete for the service the community wants and needs.

In its Air Service Incentives Guidebook, the FAA has indicated that an outside body, such as a local Chamber of Commerce, can provide an incentive – or even a subsidy – to a single carrier with non-airport revenue. However, this option falls short of meeting airports' need to promote competition. Moreover, it can be unproductive if the airport cannot be involved in the decision to select routes and other provisions of the incentive due to a provision in the Guidebook that states that airports may not be involved in "negotiating, implementing, or monitoring the program in any manner," nor are airports able to keep track of the funds.

In an even more egregious form of government over-reach, the Guidebook states that airports themselves are not even permitted to be a member of a Chamber of Commerce that considers an airline subsidy – even if the airport does not vote on whether to approve the subsidy. This leaves the professional business of air service development to non-professionals who, despite their best intentions, lack the industry knowledge and resources to make sound decisions regarding which airlines and air service opportunities will best suit the community.

Small Community Air Service Development (SCASD) Program: I believe that another benefit of expanding airports' options for utilizing their revenues would be to reduce the need for federal money to go towards programs such as the Small Community Air Service Development (SCASD) Program. In fact, this program was developed because airports were so constrained by the revenue use policy.

The SCASD program is an excellent resource to airports, and it is most effective when used to support sound initiatives with the potential for being self-sustaining. Unfortunately, as a government-issued source of funds, the grant may also lead to riskier, short-term actions from airports, which would otherwise make decisions based on longer term benefits if they were using their own resources. In short, airports need to be given the freedom to put in place sustainable initiatives, instead of having federal funds support efforts that only provide benefits for a short time.

I share this insight based on my own personal experiences with the SCASD program. I have been the recipient of SCASD grants on two occasions: one grant in Casper, Wyoming and one in Cedar Rapids, Iowa.

The first grant in Wyoming was used to purchase an aircraft and lease it to an airline. The program was supported locally and resulted in regional jet service to Minneapolis-Saint Paul International Airport (MSP). The aircraft was sold and the proceeds were returned to the U.S. DOT. However, local support for the MSP service continued and the route remained intact until the merger of Delta and Northwest.

The second grant was used for marketing new non-stop service from Eastern Iowa Airport (CID) to LaGuardia International Airport (LGA). Unfortunately, local demand was insufficient to sustain the service, and the grant funds were exhausted. I submit that, had local revenue been used in this case, the community would have had a greater sense of ownership over the success of the service -- and taken effective steps to promote and sustain it -- or the service would have

never launched in the first place. The risk would have been solely on the local community, but due to FAA regulations the only option for providing this incentive was the SCASD grant.

In both cases, success and/or failure was defined by demand, as should be the case. While the SCASD grant provided much needed funding for both initiatives, it provided only short-term, one-time cash, whereas local control of airport revenue would provide more prudent decision-making that is likely to lead to more sustainable service.

CONCLUSION

Mr. Chairman, the challenges currently facing small airports are great and regulatory constraints magnify those challenges. The solutions must come from airports on a local level, and the regulatory bodies can assist by granting flexibility and more local control.

This is particularly true for small airports, as they are being most affected by changes in the industry. Consider the fact that, between 2007 and 2012, the country's 29 largest airports lost 8.8% of their flights, while smaller airports lost an average of 21.3%. Mergers, bankruptcies and consolidations have left only four remaining primary airlines—American, Delta, United and Southwest. Spirit, Frontier, Alaska and Jet Blue have much smaller route systems and are not likely to serve small communities. Allegiant is willing to serve small markets; however, it does not meet the needs of the business traveler, who is key in driving economic development in the communities in which they live and work.

As the airline industry continues to contract, small airports and their communities must recognize that what we're facing is the new reality of the industry. Sound business decisions will have to be made on the part of the airports in order for us to effectively navigate these realities and compete in a new environment. Regulatory bodies can help those airports making strides to be competitive by giving them flexibility to improve air service to their community through greater airport control of their own revenues.

Once those airports that are working to operate efficiently, generate customer demand and support willing airline partners are empowered with the means to self-fund incentives and mitigate risks, I firmly believe the industry will see the growth and expansion required to keep small airports viable in their communities.

Statement of

Brian Sprenger, Airport Director,

Bozeman Yellowstone International Airport

Before the

House Transportation and Infrastructure

Subcommittee on Aviation

April 30, 2014

"Air Service to Small and Rural Communities"

Chairman LoBiondo, Ranking Member Larsen, members of the subcommittee, thank you for inviting me to participate in this hearing on "Air Service to Small and Rural Communities."

My name is Brian Sprenger. I am the Airport Director at Bozeman Yellowstone International Airport, a small hub airport located in southwest Montana.

First of all I want to thank the members of this subcommittee for your continued commitment to our nation's aviation-transportation system, and the on-going efforts to strengthen the economy of the United States through air commerce. Aviation provides remote states such as Montana access to the world, and a strong aviation system is imperative for our continued growth.

Background on Bozeman Yellowstone International Airport

Mr. Chairman, our airport has been fortunate to see a strong consistent pattern of growth over the past forty years. Even in the tumultuous last fifteen years, we have seen growth rates averaging five percent per year. In 1999, our airport handled 436,000 passengers on three airline brands to three non-stop destinations outside the state of Montana. In 2014, we expect our airport to handle nearly 1,000,000 passengers on five airline brands to fourteen non-stop destinations, coast to coast. We are now the 7th largest airport in the Northwest Mountain Region in terms of total airline revenue.

Our growth is based on a combination of factors; a growing dynamic economy, research activity at Montana State University and proximity to Big Sky Ski Resort. Additionally we serve as the only year-round airport for Yellowstone National Park, the nation's oldest national park. The mix of business and leisure traffic has created a dynamic whereby each supports the other while the distance to major metropolitan areas limits leakage of passengers to other airports.

Certainly, we have the advantage of the real estate adage: location, location, location. That being said, we have a philosophy at our airport that focuses everything we do on making our airport attractive and competitive.

Airport Philosophy

Simply put, we believe the airlines are the "Golden Goose," for smaller airports, so don't kill it! The airport industry has become quite competitive. We are all competing for the same seats because the airplane servicing the Bozeman market could just as easily be servicing the Atlanta market. Consequently we operate our airport more like a business than a government agency and think of our airlines more like anchor tenants in a mall. *We have to be competitive.*

Deregulation of the airline industry thirty-five years ago forced airlines to become competitive and those that did not have gone out of business. Now, we are seeing a rationalization of airports. The reality is not all airports will be able to retain or maintain the same level of air service they currently have. We must realize that economies of scale will likely mean larger airports will become larger and smaller airports will become smaller within their relative geography. Market forces will determine much of this destiny, but airports do have aspects they control that can make a difference. In our case, we are focused on the "Airline Golden Goose" and work on every aspect of our business that can make us more competitive in attracting air service.

Suffice it to say, we look at every factor we control that could impact the reasons an airline might or might not serve our market. We are willing to put "skin in the game" and think outside the box. However, with the changing dynamics of the airline industry, airports need to anticipate the challenges and be able to adapt quickly and efficiently. We also need federal agencies to anticipate these challenges so that they also can adapt quickly and efficiently.

Airport Factors that Contribute to Air Service Development

Control costs, diversify revenue and ensure low Cost per Enplanement (CPE) for our airline partners: On a systemwide basis, the International Air Transport Association reported the average airline profit per passenger in 2013 was $4.13 illustrating how just a few dollars per passenger can be the difference between a losing market and a successful market. The Cost per Enplanement (CPE) is the cost for an airline to operate at an airport on an individual passenger basis. Ultimately, airlines pay a portion of an airport's operating costs, so it is important for the airport to control its costs. However, it must also focus on diversifying its income streams so less of its costs will be passed on to its airline partners. There can be no doubt if all other things are equal and an airline has a choice to place an aircraft at an airport with a CPE of $10.00 or an airport with a CPE of $3.00, it will most likely choose the latter. Because our airline partners are responsible for less than 35% of our operating cost and contribute just 20% of our operating revenue, we have a CPE of less than $3.00 per passenger.

We believe a low cost per enplanement has contributed to air service development at our airport.

Provide ease of entry/exit to the market by airlines: Some airport leases require long-term commitments, restrict gate access and have rate structures that challenge airlines when they consider entering or expanding in a market. Our lease allows airlines to leave the market with notice of only 60 days and our fees are based on volume, which encourages growth but is directly tied to their level of success. In addition, we do not exclusively lease gates. Airlines may use additional gates as needed throughout the day without having to financially commit to a gate 24 hours every day year round. This allows an airline use of multiple gates as needed, if it is to their advantage, while not being financially restricted to an exclusive gate(s). This has resulted in additional destinations because the airlines are able to manage aircraft assets with less regard to airport gate constraints. If an airline finds a new destination or even the Bozeman market is not successful for them, then there is no harm no foul. We are just thankful they gave us the opportunity. More commonly, however, we have seen airlines enter or expand in our market because the long term risk was minimized.

We believe ease of access and exit as well as favorable gate access has contributed to air service development at our airport.

Create community support and partnerships for air service development: Small community airports cannot achieve success without community support and successful partnerships. We have forged partnerships with the cites of Bozeman and Belgrade, Gallatin County, the State of Montana, Montana State University, the Chambers of Commerce in Bozeman, Belgrade, Big Sky and West Yellowstone, Big Sky Resort, the Yellowstone Club, Montana Public Broadcasting Service, the Museum of the Rockies, Yellowstone Country, the Yellowstone Park Foundation, the Yellowstone Association and many other entities throughout southwest Montana. Our staff is actively involved in our community. We are part of the community and the community is part of us. Because of these partnerships, our partners have committed financially to air service development through minimum revenue guarantees, marketing support and guaranteed ticket purchases.

Our partnerships also resulted in the award of a Small Community Air Service Development (SCASD) Grant from the U.S. Department of Transportation that helped secure the first non-stop service between New York City and Montana. The SCASD grant would not have been possible without the unprecedented local match, and the combination of the two permitted us to pursue and inaugurate once weekly non-stop service to New York/Newark via United Airlines the summer of 2012. The initial success of the service resulted in United nearly tripling the service in 2014. Our community took a calculated risk and the service has become financially successful. Additionally, its success also contributed to Delta Air Lines adding New York LaGuardia service from Bozeman this summer. 2014 will be the last year grant dollars are available and we expect to return over half of our SCASD grant dollars to the federal government because the route was successful. Having significant local participation to help leverage grant dollars is a large reason for the success because we all spend more wisely when some of the dollars are ours.

However, air service development programs are, by their nature, designed mostly to attract new service. We are very conscious of the fact that new service may negatively impact existing service so we best support our communities' efforts in air service development by maintaining a low cost per enplanement for every flight, every airline, every day while providing a world class facility.

We believe to succeed in air service development, airports must partner with their community and that communities must have "skin in the game."

Investment in Air Traffic Control (ATC) assets and services normally provided by the federal government: A cost that is often overlooked and can impact air service development is the efficiency of the air space around an airport. As late as 1999, we did not have a control tower. Because the FAA did not have a funding mechanism for ATC improvements, we used our own financial resources to construct an Air Traffic Control Tower. We also funded additional hours for our Contract Tower to provide increased air traffic control services, added the first locally funded Air Traffic Control Beacon Interrogator (ATCBI-6) Radar in the nation, and installed the first locally funded radar display inside our control tower. While these additions were critical in improving safety and efficiency at our airport, we still needed new departure procedures, missed approach procedures and terminal radar approach control to fully leverage our airport's investment. With nearly $5 million invested in ATC by our airport, the Federal Aviation Administration (FAA) was able to justify the final required elements. We are not aware of any other airport our size that has invested so much to improve Air Traffic Control services.

We believe investing in ATC services the FAA is unable to provide contributes to air service development by reducing aircraft operating costs into our airport.

Impediments to Continued Success

Develop mechanisms for Federal agencies to adapt as some airports grow and others shrink: We have had to invest in services normally provided by the federal government because federal agencies are slow to adapt to changes in air service dynamics. Airlines can move assets quickly and it is not uncommon for smaller airports to see drastic changes in air service. Federal agencies need to be able to adapt quickly to significant changes so that the flying public is not negatively impacted. Even successful programs like the Contract Tower Program have limitations that do not address the evolving aviation world. Without the Contract Tower Program, we would not have been able to begin the process of significantly improving Air Traffic Control at Bozeman, and we thank Congress for their continued support of the program. However, the program does not address successful airports that have grown into small hub airports. Growing airports like Bozeman see their tower struggle to operate 18 hours per day, 7 days per week with only five controllers and a manager. There are over 100 non-hub airports with Federal Towers that have significantly less commercial activity than small hubs like Bozeman and Phoenix-Mesa Gateway but operate with three times the staffing level. In addition, small hubs with contract towers such

as Bozeman and Phoenix-Mesa Gateway pay for the capital cost and the cost of operating and maintaining our towers while over 100 non-hub airports with Federal Towers do not. The inequity impacts continued success in developing air service.

Another example that can impact air service is weather radar coverage. Airlines are required to base operational decisions predicated on weather data from the National Weather Service and we are the only small hub airport in the nation without Doppler radar coverage. Lack of weather radar impacts the ability of the National Weather Service to provide current and timely weather forecasts which can cause delays and diversions in a mountain valley like Bozeman is in. Unfortunately, the National Weather Service does not have funding to provide Doppler radar and is unable to accept privately funded weather radar feed, which our airport and our partners are willing to contribute to. Again, the inequity could impact our continued success in developing air service.

We need mechanisms in place for federal agencies to provide services commensurate with the activity level of an airport on a fair and equitable basis.

FAA funding and revenue restrictions: We understand the need to ensure that airports utilize their funding and resources for aviation purposes. However, there is also a need for airports to operate as self-sufficiently as possible. Sometimes these two principles conflict and when that happens, we often see the FAA hamstrung by policies that do not foresee or adapt to innovative solutions. While local FAA offices are often sympathetic, the difficulty they have in getting approval may delay or jeopardize projects resulting in additional airport costs. For example, we are working with the FAA on a road project that serves the airport and will potentially generate non aeronautical revenue for the airport by developing airport land. While there are many moving parts in this discussion, the FAA is struggling just to determine whether the traffic to the developed airport land can be counted as airport traffic when determining the ratios of airport/local funding. We believe it is quite evident that traffic to airport land that generates non aeronautical revenue for the airport should be considered airport traffic and considered in the funding ratios. That may be the eventual answer but we don't think it should have been a question. For small and rural airports, the need to generate additional non aeronautical revenue and rely less on aeronautical revenue will become paramount to ensuring these airports can maintain air service much less develop additional air service.

We need policies that support developing non aeronautical revenue at airports so that airports can attract and maintain that air service.

Other Recommendations

Support Programs That Help Small Airports: Mr. Chairman, the Bozeman airport has benefited from the Federal Contract Tower and Small Community Air Service Development Programs because of significant local airport and community investments. We have not shied away from doing our part to make those programs and others succeed at our airport and believe that

community "skin in the game" is necessary for success. We encourage Congress to continue to modestly invest in programs that help small airports and communities attract and invest in ***viable*** commercial air service and operate safely. With that in mind, I urge you and your colleagues to continue to support the Contract Tower and Small Community Air Service Development Programs when you consider the next FAA reauthorization bill.

Conclusion

In conclusion, Mr. Chairman, Ranking Member Larsen and members of the subcommittee, thank you again for inviting me to participate in this hearing on air service at small and rural communities.

I would be pleased to respond to any questions or comments you may have.

Statement for the Hearing Record

Captain Keith Wilson, Allied Pilots Association President

Captain Bob Coffman, Allied Pilots Association Government Affairs Committee Chairman

U.S. House of Representatives Transportation and Infrastructure Committee,
Aviation Subcommittee

Hearing: Air Service to Small and Rural Communities

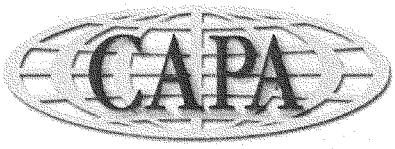
Submitted May 9, 2014

Chairman LoBiondo, Ranking Member Larsen and members of the Aviation Subcommittee of the U.S. House of Representatives Transportation and Infrastructure Committee, on behalf of the 8,500 professional pilots of the Allied Pilots Association, thank you for the opportunity to enter written testimony to supplement what was already given at the hearing "Air Service to Small and Rural Communities" on April 17, 2014. We represent the pilots of American Airlines and have not only observed the changes to the U.S. airline industry over the last three-plus decades but also lived them. A glance at industry timetables from the early 1990s shows mainline service to smaller and rural communities such as Kalispell, Mont.; Baton Rouge, La.; and Syracuse, N.Y.; with aircraft such as the 727 and 737, many with several flights a day. This period of time also marked reasonable airline profitability. What has changed over the years that rendered these markets accessible only to small aircraft and now has even that service in apparent jeopardy? Crew costs, particularly cockpit, versus inflation have gone down while community affluence and populations, stimulating demand, have risen. The short answer, according to leading industry analysts Mike Boyd and Bob Mann, is the cost of fuel.

The emergence of the regional airline business model, offering higher frequency, necessitated the use of smaller aircraft to replace those mainline flights to sustain sufficient demand for those seats. This practice leads to the most inefficient use of the valuable cockpit assets, with these pilots carrying the smallest number of passengers. The economics of such an operation dictate that the cockpit cost/hour be far below those of the mainline carrier, lest the cost per seat mile (CASM, more properly) get excessive. The pay and benefit packages for this model continued to decline to make up for increased pressure from fuel costs to the point that the qualifications to apply for the job were continuously decreased, which resulted in too few applicants willing to embark on their career as professional aviators — regardless of the entrance qualifications (University of North Dakota presentation to the 35th Annual FAA Aviation Forecast Conference, 2010, well before the implementation of the ATP requirement for first officers). The recent GAO study confirms this observation, remarking that there is not a shortage of airline pilots but a shortage of pilots willing to work for these pay and benefit packages.

We patently reject arguments that would point at the recent regulatory change in first officer qualifications as the reason some carriers are unable to provide service to rural communities. What we see is a business model that attempts to make up for increased fuel costs by decreasing the labor cost to the point where the potential labor force has voted with its feet and sought employment elsewhere.

Thank you again for the opportunity to submit this testimony. We stand by to answer any questions the committee may have.



STATEMENT FOR THE HEARING RECORD
SUBMITTED BY

COALITION OF AIRLINE PILOTS ASSOCIATIONS

TO THE

U.S. HOUSE OF REPRESENTATIVES
TRANSPORTATION AND INFRASTRUCTURE COMMITTEE
AVIATION SUBCOMMITTEE

HEARING ON

"AIR SERVICE TO SMALL AND RURAL COMMUNITIES"

UNITED STATES SENTATE
WASHINGTON, DC

Submitted: May 14, 2014

Representing over 25,000 professional pilots at American Airlines, US Airways, UPS Airlines, ABX Air, Allegiant Air, Horizon Airlines, Southern Air, Miami Air, Kalitta Air, Silver Airways, Atlas Airlines, Cape Air, Omni Air, Frontier Airlines, Republic Airlines, Shuttle America and Chautauqua Airlines.

Coalition of Airline Pilots Associations
World Headquarters
444 N. Capitol Street
Suite 532
Washington, DC 20001
(202) 624-3535 (office)
(202) 624-3536 (fax)
Website: www.capapilots.org

Chairman LoBiondo, Ranking Member Larsen and distinguished members of the Aviation Subcommittee of the U.S. House of Representatives Transportation and Infrastructure Committee, we would like to thank you for the opportunity to provide a statement for the hearing record.

CAPA is a trade association focused exclusively on the safety and security of the flying public and the enhancement of the piloting profession. We represent over 25,000 commercial airline pilots flying for American Airlines, US Airways, UPS Airlines, Horizon Airlines, ABX Air, Atlas Air, Allegiant Air, Cape Air, Kalitta Air, Miami Air, Southern Air, Omni Air, Silver Airways, Frontier Airlines, Republic Airlines, Shuttle America and Chautauqua Airlines. Our professional pilots fly every size aircraft in all operations including domestic and international as well as passenger and cargo.

CAPA fully understands the vital role that aviation plays in our nation's economy, and the necessity to maintain and bolster air service to smaller communities. However, we stand steadfast in our conviction that logical regulatory reforms such as the recently enacted First Officer Qualifications must take precedence over the economic interests of the airline industry. *Any attempt to place economic needs before passenger safety should be rejected outright by this committee.*

In February 2014, the U.S. Government Accountability Office (GAO) published a 60-page study "Current and Future Availability of Airline Pilots". Not surprisingly, the report contains what CAPA has been actively advocating to Congress for quite some time: the ability to continue to provide qualified and experienced pilots is not measured by the pool of available pilots but rather the quality of the profession.

CAPA is no stranger to the external and unforeseen challenges many have referenced in testimony submitted to this Committee. This recent perception of an impending pilot shortage can be placed squarely on the shoulders of those that knew - but failed to prepare for - the known realities of a rapidly aging pilot workforce. As the GAO report clearly points out, there is no existing shortage of qualified pilots but rather a shortage of experienced professionals who are attracted to these meagerly compensated positions.

In a Feb. 20 Business Journal article titled "How Miserly Airlines Created Their Own Pilot Shortage," columnist Joe Brancatelli makes the following observation:

> *"The nation's big airlines don't want you to know that their commuter carriers, which operate half of all the nation's commercial flights, often pay pilots so little that it's often financially wiser to drive a truck or flip burgers than to fly a plane. In case you missed the impossible-to-ignore, cut-to-the-chase conclusion, the pilot shortage is another nasty side effect of the airline's industry race to the bottom of everything from employee wages and benefits to passenger service and comfort. And the airlines bosses are shocked —shocked! -- to find that potential aviators aren't flocking to an industry that offers minimum wages to new employees who've spent hundreds of thousands of dollars to qualify for the job."*

This problem did not manifest itself overnight. It began with a regulatory decision to raise the mandatory retirement age from 60 to 65. Then came a five-year notice on potential changes to pilot certification standards, followed by a two-year advanced notice on new pilot fatigue rules. It is inconceivable for the airline industry to make the claim that it was caught off-guard and now needs additional regulatory relief.

Airlines need to look no further than their business models to fix the pilot shortage problem. Consider the starting wages for professionals in other industries, and the staggering cost of student loans. These conditions are part the economic framework that exist across our nation. The low starting salary at regional airlines is a problem they have created. They can fix this problem by paying a starting wage commensurate with the cost of the professional education, experience and responsibility to the traveling public that the position of an airline pilot requires.

The question then becomes, is the airline industry's economic interest and the crucial public safety component at cross-purposes in defining what constitutes a safe and well trained air crew? Current regulations already have made adjustments to the experience required depending on the training history and type of training acquired. Flying aircraft of any size develops airmanship skills. For example, a pilot flying small single engine aircraft near the limits of the aircraft, such as flight instructors, banner towers and fire fighters, over time develop excellent airmanship skills which can be a crucial component in effectively dealing with in-flight emergencies.

These aeronautical skills together with the training required for the ATP certificate allow for a smooth and confident transition to Part 121 operations. The concept of progression is well-defined in FAA-approved Advanced Qualification Programs (AQP Training Programs) used to train experienced pilots throughout the major airlines.

CONCLUSION:

In Mr. Bedford's testimony, he points to the resulting safety improvements that followed the tragic loss of Colgan Airways Flight #3407 in 2009. This accident opened the aviation industry to an unprecedented look at the way airline operations are conducted from top to bottom. As painful as that analysis was at times, it gave the regulators and the industry a unique opportunity to address a myriad of shortcomings in FAR Part 121 and 135 operations.

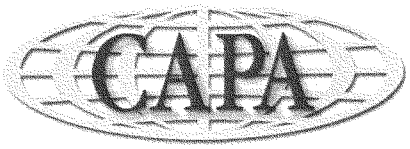
CAPA fully supports the continued adoption of safety programs that seek to predict and address safety deficiencies before they can contribute to a devastating outcome. The Safety Management Systems (SMS), Flight Operations Quality Assurance (FOQA), Advanced Qualifications Programs (AQP), and the Aviation Safety Action program (ASAP) are critically important to ensure the aviation system continues to strive to be predictive rather than reactive.

Specifically, the training methodologies contained in the Advanced Crew Qualification Program (AQP) stress a crew concept approach to problem-solving. This training relies heavily on Crew Resource Management (CRM) and threat and Error Management TEM skills, both of which are integral parts of AQP training. Modern flying skills have moved away from those based on specific seat maneuvers to those that stress pilot flying and pilot monitoring skills. To that end, both captains and first officers must be equally qualified to assume either role in normal as well as abnormal flight situations.

Today, the airline industry finds itself at a crossroads in which it must decide if it is willing to invest in the experienced human infrastructure needed to pilot future aircraft including many that will be employed in support of rural air service. Stated plainly, experience does matter.

Chairman LoBiondo and distinguished members of the Committee, we would like to thank you for this opportunity to provide input to many of the significant issues present in the aviation industry and in the future. We would be happy to answer any questions you or members of the Committee may have.

Attachment: CAPA Follow-on statement to GAO Report on "Current and Future Availability of Airline Pilots": March 10, 2014



Coalition of Airline Pilots Associations
World Headquarters
Washington, D.C.

CAPA Follow-on Statement to GAO Report: "Current and Future Availability of Airline Pilots"

Washington, D.C. (March 10, 2014) — The Coalition of Airline Pilots Associations (CAPA), representing more than 25,000 professional passenger and all-cargo pilots, responds to the GAO's recently released report titled "Current and Future Availability of Airline Pilots." CAPA has long maintained, and this latest GAO report supports, the simple economic reality that entry-level pay is not commensurate with the expense of becoming certified and qualified as an airline pilot.

Today, the airline industry finds itself at a crossroads in which it must decide if it is willing to invest in the experienced human infrastructure needed to pilot future aircraft. Not surprisingly, the report confirms what CAPA has been actively advocating to Congress for quite some time: The ability to continue to provide qualified and experienced pilots is not measured by the pool of available pilots but rather the quality of the profession.

After the tragic loss of Colgan Airways Flight #3407 in 2009, Congress passed legislation that made sweeping changes in both flight-hour experience and mandatory rest-hour requirements for pilots. Sadly, industry officials now look to the government for solutions, as conveyed by recent stories of airlines that previously depended on minimally qualified applicants paid at rock-bottom wages to fly their aircraft.

This is not a problem that manifested itself overnight. It began with the FAA's decision to raise the mandatory retirement age from 60 to 65. Then came a five-year notice on potential changes to pilot certification standards, followed by a two-year advanced notice on new pilot fatigue rules. It is inconceivable for the airline industry to make the claim that it was caught off-guard.

As the GAO report clearly points out, there is no existing shortage of qualified pilots but rather a shortage of experienced professionals who are attracted to these meagerly compensated positions. In a Feb. 20 Business Journal article titled "How Miserly Airlines Created Their Own Pilot Shortage," columnist Joe Brancatelli makes the following observation:

> *"The nation's big airlines don't want you to know that their commuter carriers, which operate half of all the nation's commercial flights, often pay pilots so little that it's often financially wiser to drive a truck or flip burgers than to fly a plane. In case you missed the impossible-to-ignore, cut-to-the-chase conclusion, the pilot shortage is another nasty side effect of the airline's industry race to the bottom of everything from employee wages and benefits to passenger service and comfort. And the airlines bosses are shocked —shocked! — to find that potential aviators aren't flocking to an industry that offers minimum wages to new employees who've spent hundreds of thousands of dollars to qualify for the job."*

Furthermore, CAPA believes that several of the reasons commonly stated as causal factors to any shortage of qualified pilots are self-serving and patently false. One argument heard often is about the need for additional relief in minimum flight experience for first officers in FAR Part 121 airline operations.

In the era that saw the dawn of the jet age, the hiring dynamics and pilot training were drastically different than they are today. The concept of Crew Resource Management (CRM) and Threat and Error Management (TEM) were informal and not recognized, resulting in a safety record that would be considered "alarming" by today's standards.

In that era, the captain's autonomous decisions were typically unquestioned. As a result, the hard-learned and many times tragic lessons of the past have forever changed how we select and train today's flight crews.

Today, the training methodologies contained in the Advanced crew Qualification Program (AQP) stress a crew concept approach to problem-solving. This training relies heavily on CRM and TEM skills, both of which are integral parts of AQP training. Modern flying tasks have moved away from those based on specific seat maneuvers to those that stress pilot flying and pilot monitoring skills.

To that end, both captains and first officers must be equally qualified to assume either role in normal as well as abnormal flight situations. This new reality requires higher experience standards, as mandated by Congress, and must not be allowed to be diminished by parties that would place economics before safety.

CAPA calls on industry stakeholders to take a serious and substantive look at the business models currently in practice that require sub-contractors to compete for the lowest-priced codeshare flights while absolving themselves of any responsibility for the quality, safety or reliability of the fee-for-service contracts they are foisting on the traveling public.

CAPA stands ready to work collectively with airline management, industry stakeholders, Congress and regulators to shape an airline industry that will once again provide an attractive profession for America's best and brightest.

To read the FULL GAO Report: Click Here

The Coalition of Airline Pilots Associations (CAPA) is a trade association which represents more than 25,000 professional passenger and all-cargo pilots at carriers including American Airlines, UPS Airlines, US Airways, ABX Air, Horizon Airlines, Southern Air, Silver Airways, Allegiant Air, Kalitta Air, Miami Air, Cape Air, Omni Air, Atlas Air, Frontier Airlines, Republic Airlines, Shuttle America and Chautauqua Airlines.

For more information, please visit: www.capapilots.org

FORWARD TO A FRIEND - ADD YOUR NAME TO CAPA'S ACTION E LIST

Teamsters Local Union No. 357

"Flightdeck Crewmembers of Republic Airways Holdings"

Affiliated with the International Brotherhood of Teamsters

Testimony of

Craig A. Moffatt

Executive Board President

Teamsters Local 357

Before the

House Committee on Transportation and Infrastructure Subcommittee on Aviation

Hearing on:

Air Service to Rural and Small Communities

April 30, 2014

Chairman LoBiondo, Ranking member Larsen and members of the Subcommittee, thank you for considering my written testimony on the topic of Air Service to Small and Rural Communities.

My name is Craig Moffatt and I am the President of Teamsters Local 357. Our local represents almost 3000 pilots that operate flights for Republic Airlines, Chautauqua Airlines, Shuttle America, and Frontier Airlines. A large percentage of our over 1400 daily flights are operated under Fee-For-Departure contracts with Delta Airlines, United Airlines, and the combined American Airlines and US Airways. Our pilots fly in and out of many of America's small communities on a daily basis. The Local 357 pilot's

Teamsters Local Union No. 357
6100 Clarks Creek Rd., Suite 100, Plainfield, IN 46168
Phone: 317-644-1405 / Fax: 317-644-1408 / www.local357.org

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"Flightdeck Crewmembers of Republic Airways Holdings"

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Collective Bargaining Agreement was ratified in 2003 and became amendable in 2007. The parties have been in Section 6 negotiations for over seven years and under direct mediation with the NMB for over three years.

It is the Teamsters Local 357's position that there is currently no pilot shortage in the US for qualified airline pilots, only a shortage of pay and benefits. This lack of compensation in turn leads to a reduction in the number of pilots willing to work for years at near poverty wages after amassing over $100,000 in debt in order to obtain the required licenses and credentials. Many have asserted that the hiring problems seen at several regional airlines are not due to economic issues but are only due to the Pilot Certification and Qualification Requirements for Air Carriers recently imposed by Congress and implemented by the FAA after the 2009 fatal crash of Colgan Air Flight 3407 in Buffalo, New York. It has been argued that the increase in experience requirements to become an airline pilot is arbitrary, and that these increased requirements do nothing for safety. This is simply not the case.

This problem can be seen understanding the basic law of supply and demand. When supply goes down, the price (i.e. wages and benefits) must go up to maintain equilibrium or sellers (i.e. pilots) will stop offering their goods and the market will shrink. This is exactly what we are seeing in the regional industry right now. Regional airlines are still trying to force concessionary contracts on their pilots or offer them a meager increase in contractual wages and benefits in hopes of attracting new pilots. Over half of the pilots on the regional side of the airline industry have overwhelmingly voted down proposed new contracts over the last several months, including the combined 10,000 pilots at Republic, Envoy (nee American Eagle), and Express Jet airlines. These proposals were sub-standard and did nothing to meet the requirements of increased pay and benefits that today's and tomorrow's pilots need to make this a livable industry worth the huge financial sacrifices it takes to become an airline pilot.

Some assert that pilot wages have increased sharply since their low point in the mid part of the 2000's. While this is the case for many major airline pilot groups, a large portion of the regional industry is still working under either concessionary contracts forced upon them in bankruptcy courts or contracts that were negotiated over a decade ago in the post 9/11 downturn that hit the airline industry hard forcing reductions in pay, benefits, and work rules. Since airline contracts never expire but only become amendable, there is no real incentive for airline managements to negotiate better contracts and permanently increase their labor costs if they can simply offer large hiring bonuses to new pilots to get them in the door. Several regional airlines are offering new hire bonuses of upwards of $10,000 in an attempt to attract pilots. This is a one-time cost that can be amended or discontinued unlike contractual raises and does nothing to address the larger issue of overall lack of attractiveness that is keeping pilots away from this industry. While these temporary bonuses may address some of the financial burdens that new pilots face, they do nothing to provide sustained increases to low pay, outdated work rules, and other benefits. To be clear, it is not just a new hire pay issue. These onetime payouts do not change

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the fact that for the rest of the time a pilot is at a regional airline, they will have very low pay, decreased work rules, and subpar benefits over what is a common metric at a major airline. All of this while operating, in many cases, aircraft in the exact same airspace, flying to the exact same airports, with the exact same passengers. Increasing compensation is only a part of the reason regional airlines such as ours are finding it hard if not impossible to fill training classes. Lack of benefits, decade old work rules, and increased work load due to a lack of planning and mismanagement has led to the reduction in pilots willing to work for regional airlines that the industry is experiencing. Uncertain job stability due to parking of aircraft because of that reduction in pilots, and the ever increasing toxic corporate cultures at many regional airlines are further reasons driving today's budding aviators to vastly better and more rewarding industries outside of aviation.

While this Local points the finger directly at airline managements for failing to actively negotiate improved contracts to better recruit pilots, the blame is not solely theirs. The National Mediation Board (NMB) is also taking an almost hands off approach in mediating these contracts. The NMB is tasked under the Railway Labor Act (RLA) with the prompt and expeditious resolution of disputes between parties in both the railroad and airline industries. The NMB has put some of these disputes "on ice" and shelved any sort of mediation process that they are tasked with, under law, by refusing to meet with the parties. This includes the mediation process between Republic and this Local's pilot group, which was informed last August by the NMB that no meetings would happen for at least a year, in possible contrast to the requirements under the RLA. This is neither fair, expeditious, nor a great way to increase the attractiveness of the regional industry to potential pilots. The Local feels the lack of expeditious contract mediation is resulting in subpar pay and benefits which in turn leads to the trend that airlines are seeing with difficulties hiring pilots.

Any assertion that the ATP requirements enacted on First Officers do nothing to promote safety is patently false. A skill such as flying an aircraft is perfected through practice and continual repetition and learning. By building on the fundamentals a pilot has learned in a solid training environment, he or she increases experience, confidence, and problem solving skills through the increased flight hours that the regulations now require. Examples of pilots flying on clear days resulting in no increase in their safety level do not tell the whole story. For every example of this type, there are untold examples of pilots actually flying in demanding situations on a daily basis, either on their own, through some sort of commercial flying, or through instructing other future airline pilots. This increased experience not only reinforces the training that these pilots received themselves, but further develops their decision making skills by trial and error before they are allowed to pilot the flying public as an airline First Officer.

Most regional airlines have asked congress and the FAA to give them exemptions to the flight time requirements for ATP ratings for First Officers because they say the increased safety requirements are prohibiting them from finding qualified candidates. The FAA has already granted exemptions depending

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on what type of flight school the pilot was trained at. These requirements were years in the making and should not have taken anyone by surprise. Through mismanagement, many airlines are having difficulties finding willing pilots to come to work, not because of the increased requirements imposed on new pilots but because of the lack of wages and benefits the airlines are offering. Instead of increasing the attractiveness of their airlines, they are seeking a change in the flight time requirements so they can continue to offer rock bottom compensation packages to their employees. This labor group demands that the safety initiatives enacted by Congress not be sold out in the name of corporate greed. This pilot shortage has nothing to do with increases in safety rules in that were long overdue. It has everything to do with the lack of pay and benefits that airlines have forced upon their pilots in the name of increasing their own profit margins.

In summary, I respectfully request that this Committee look at this problem for what it is, an economic issue. We also request that this Committee reaffirm its dedication to safety in air travel by upholding the FAR changes that were the result of the tragic and preventable Colgan Air crash in 2009. Thank you for allowing me to submit this testimony to the Committee and for your consideration on this issue.

Craig A. Moffatt

Executive Board President – IBT Local 357

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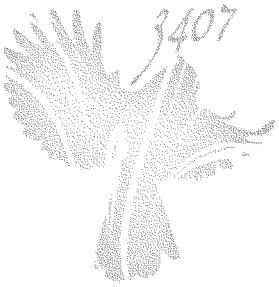

STATEMENT OF

"FAMILIES OF CONTINENTAL FLIGHT 3407"

U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON TRANSPORTATION & INFRASTRUCTURE
SUBCOMMITTEE ON AVIATION

HEARING ON
'AIR SERVICE TO SMALL AND RURAL COMMUNITIES'
APRIL 30, 2014

Chairman LoBiondo, Ranking Member Larsen, and members of the Subcommittee, thank you for the opportunity to make our voice heard today on behalf of the family and friends of the victims of Continental (now United) Connection Flight 3407 operated by Colgan (now Endeavor) Air, which tragically crashed outside Buffalo, New York on February 9th, 2009.

As it is sadly much too late to bring our loved ones back, we just as importantly advocate for the millions of customers who fly on our nation's regional airlines every year, in the hope that they receive what our loved ones didn't: a TRUE 'One Level of Safety' between all regional and mainline U.S. commercial carriers.

A True 'One Level of Safety' and Its Implications for Our Nation's Small and Rural Community Air Service

It is important to realize what is the meaning of a TRUE ' One Level of Safety'. For on paper, all commercial U.S. carriers ranging from United to Delta to Endeavor to Great Lakes are overseen in an equivalent manner by the Federal Aviation Administration (FAA) and theoretically meet the same standards and requirements of safety. However when considering the unconscionable lapses in safety culture at Colgan Air that were allowed to go unaddressed and ultimately led to the needless and preventable crash, and recognizing the fact that all five previous fatal commercial airline crashes (since 2001) had occurred on regional carriers, clearly a gap in safety had been allowed to develop between our nation's mainline and regional carriers.

While in theory at the time of the crash there was 'One Level of Safety' between regional and mainline carriers in meeting the federal MINIMUM standards, the NTSB investigation and numerous Congressional hearings subsequently made very clear that there was a much-too-significant divergence in the commitment to safety made by our nation's regional carriers like Colgan Air when compared with the mainline carriers. By that commitment to safety, we simply refer to the investment by these airlines in their pilots' qualifications, their training programs, and the cutting edge, best practice safety management programs.

So as our loved ones sadly did not receive the benefit of this equal commitment to safety when they boarded that plane painted in Continental (now United) colors that was in actuality operated by Colgan (now Endeavor) Air, we have made it our never-ending cause to fight for the standardization of this commitment to, and investment in, safety between our nation's regional and mainline carriers. That is what a TRUE 'One Level of Safety' entails.

And perhaps nowhere will our efforts be felt more strongly if we succeed, or more tragically if we fail, than at our nation's small and rural community airports. For these are the airports likely serviced by the smallest of planes, by the most inexperienced of pilots, and yes, as dictated by economics, by the regional airlines likely operating at the slimmest of margins above the federal minimum safety standards that we have grown to be so leery of.

Public Law 111-216 'The Airline Safety and FAA Extension Act of 2010'

In the immediate months after this tragic crash, the NTSB public hearing focused intense public scrutiny on the issue of regional airline safety. As we attempted to come to grips with our losses, the FAA and the Aviation Subcommittees of both houses of Congress recognized this gap in safety and set out to find solutions that would address it.

The FAA acted first, unveiling its 'Call to Action'. Recognizing the difficulties of taking swift legislative and regulatory action, a gathering of industry stakeholders was convened with the goal of identifying current best practice safety programs in the airline industry and recommending that all commercial carriers voluntarily implement them.

While certainly well-intentioned and an improvement over the status quo, the NTSB investigation and Congressional hearings into Colgan Air and the crash showed us the truly ineffective nature of voluntary compliance and the need to go above and beyond the 'Call to Action'. More importantly, they illustrated to us how the government's laissez-faire approach to the airlines during our nation's boom in regional airline service in the late 1990's and early 2000's, highlighted by the FAA's 'Dual Mandate' of overseeing safety while at the same time promoting the aviation industry, had allowed this dangerous drift in safety commitment to occur between the nation's regional and mainline carriers.

Recognizing this drift, the House and Senate Aviation Subcommittees, considering testimony and input from stakeholders in all corners of the industry, introduced bipartisan aviation safety legislation that unanimously passed both houses of Congress and was signed into law by President Obama in August 2010. The landmark law called for FAA and DOT to implement critical new regulations addressing pilot fatigue, pilot qualifications and screening, and airline's pilot training and safety programs.

We place strong emphasis on the 'Airline Safety' portion of the title, as we feel it illustrates Congress's mandate for this law to specifically upgrade commercial safety, particularly in regard to how our pilots are screened, selected, prepared, scheduled, and recurrently trained, as well as the support provided to them by an airline's safety management systems. Conversely, there is no reference to enhancing the industry's bottom line or cutting the industry some slack if it does not approve of some of the measures.

"Put the Best Pilots in the Cockpit, and Set Them Up for Success" – Quality AND Quantity

As we considered and re-considered the hard-learned lessons of Flight 3407, our mantra for the improvement of regional airline safety became 'Put the Best Pilots in the Cockpit, and Set Them up for Success.' A recent review of crashes by FAA and the NTSB reveals the prevalence of pilot error as a contributing factor, which is a testament to how far technology has brought us in eliminating so many of the historical causes of commercial aviation accidents. It also highlights the importance of focusing on human factors as a means of preventing future crashes. Consequently, we strongly believe that the preparation of our pilots, both prior to being hired and during their initial and recurrent training, must be a primary focus of our future safety efforts. P.L. 111-216 provides a coordinated approach of multiple initiatives designed to set up for success our commercial airline flight crews, particularly at the regional airline level.

One of the cornerstones of this effort is the Pilot Certification and Qualification Requirements final rule that has recently gone into effect, that mandates that all pilots, mainline and regional, will possess an Airline Transport Pilot (ATP) rating prior to being hired to fly for a Part 121 carrier. Certainly there can be no argument from any sector of the industry that this addressed a need from a qualitative standpoint to better prepare entry-level first officers for the transition to the Part 121 environment and the more complex demands from both an equipment and operational standpoint; indeed as part of the 'Call to Action' FAA had already convened a First Officer Qualifications Aviation Rulemaking Committee (FOQ ARC) to look into such enhancements. Consequently, we

applaud the newly-designed ATP Certification Training Program for how it will strengthen the preparation a pilot receives in terms of operating in a multi-crew environment and being able to handle difficult operating conditions. Just as importantly, it establishes a critical requirement that all new pilots receive an aircraft type rating prior to operating in the Part 121 environment, one of the central recommendations of FOQ ARC. We must note that we find it very ironic that this critical qualitative component of these new Qualification requirements is conveniently overlooked time after time when its detractors are attacking the new rule. But overall, this portion of the rule should go a long way towards standardizing the level of preparedness of potential first officers coming to Part 121 carriers from different training sources.

Hand-in-hand with these increased qualitative requirements, the new rule also raises the bar from an experience standpoint by requiring the additional flight hours necessary to achieve an ATP rating. As we refer to recent NTSB accident reports, and we see repeated examples of pilots' deficiencies in manual handling contributing to accidents, the experiential value of requiring the additional flight hours IN ADDITION TO (not in lieu of) the more robust qualitative training requirements is underlined. We highlight congressional testimony and public statements from accomplished pilots such as the crew of "The Miracle on the Hudson", Chesley Sullenberger and Jeff Skiles, that lend credence to the position that additional hands-on flying experience will enhance the lessons learned in training with real-world examples that are often beyond the scope of the situations on which prospective Part 121 officers have been exposed to in a training environment.

We also believe that the ATP requirement with the additional flight hours that goes with it will serve as an additional layer of screening for future Part 121 first officers, as the additional experience requirement will allow for further evaluation of their airworthiness and readiness to enter the commercial airline environment, where the lives of the flying public rest in their hands. We call attention to the captain of Flight 3407, who after participating in the first officer training program at Gulfstream Academy, was hired by Colgan Air in September 2005 with 618 total flight hours. Over the next two years at Colgan, the pilot received unsatisfactory grades and disapprovals in four training events, which again serves to highlight the value of receiving additional flight experience as a further screening mechanism prior to becoming a Part 121 crewmember.

Safety Over Corporate Greed

Clearly the last five months has seen increased rhetoric from regional airlines about how this new rule jeopardizes their bottom line. They have made claims that they are unable to find enough pilots to be hired, they have had to park planes and cut routes, and ultimately that there is a significant threat to long-term air service at small and rural communities.

On the flip side, a recent GAO report pointed to the fact that there likely is not so much a shortage of pilots themselves as there is a shortage of pilots willing to work as a regional airline first officer for a salary in the $15,000-25,000 range (meanwhile we would like to point out that there is hardly a regional airline executive shortage when it comes to the seven-figure salaries and bonuses that are offered).

If a regional airline executive would like to defend those first officer salaries, we have a heart-breaking example of their impact on safety. Faced with the choice of moving to the Newark base and incurring a fairly hefty monthly rent payment, a $16,000 yearly salary from Colgan Air drove our first officer to make the financial decision to move all the way across the country to Seattle and live with her family. That decision ultimately led her to making a 2 a.m. commute across the

country in the jump seat of a FedEx plane prior to entering the cockpit of Flight 3407 early the next evening. And after repeatedly yawning on the cockpit voice recorder through the duration of the flight, just prior to 10:17 p.m., as Flight 3407 entered into an upset condition, she made an incorrect decision regarding the positioning of the flaps, likely sealing the fate of everyone on board.

Give Safety a Chance

Lest anyone forget, our motives are entirely pure in this regional airline safety discussion. Despite our best efforts, our loved ones are not coming back. We are also not padding any corporate coffers, or filling up our campaign war chests.

As we learn of efforts to get Congress to roll back this safety rule and FAA to loosen up its requirements, and as we learn of Great Lakes Airlines being granted an allowance by FAA to operate some of its Essential Air Service routes under Part 135 rules so that it can then advertise that it is hiring pilots with as little as 600 hours and no ATP license, it is disappointing to see the industry working much harder to circumvent the rules rather than to implement them to enhance the safety of their operations.

These efforts sadly bring us back to a prophetic quote in a recent pilot supply study by Audries Aircraft Analysis that examined the impact of these new safety rules on pilot levels.

'Much depends on how efficiently airline management teams will use their existing pilots. In this regard, the creative teams will find new ways to better deploy their pilots that will both improve pilot productivity, quality of life, and safety. Management teams not up for the task will be left to lobbying for rest rule exemptions and experience financial headwinds due to pilot inefficiency.' [pg. 8, "Pilot Demand Projections/Analysis for the Next Ten Years", Audries Aircraft Analysis, copyright 2013]

To Congress and FAA, we challenge you to stand behind these rules that were unanimously supported in the aftermath of Flight 3407 and to let the free market run its course – we have no doubt that over time the industry will adapt and grow stronger as it always has. To the Regional Airline Association and its members, we challenge you to step up to the plate and 'race to the top' instead of to the bottom. And to Airlines for America and the mainline carriers, who have been fairly conspicuous by their absence in this debate, know that the manner in which you negotiate your code share contracts does create economic pressures that have an impact on safety, and that we are watching closely and expecting you to do the right thing in regards to regional airline safety as well.

We finish by returning to the topic of 'Air Service to Small and Rural Communities.' We can never lose sight of the fact that it is not about the airline executives, it is not about the pilots; instead it is about the passengers from small communities like Dodge City, Kansas and Sheridan, Wyoming flying on regional airlines like Great Lakes Airlines who are relying on our nation's commercial aviation system and all of its stakeholders to provide them service that is just as safe as it is for those flying through Atlanta, New York, or Los Angeles. And for them, we will continue to make our presence felt in Washington, month after month, year after year. Safety first, last, and always!

Mr. Chairman, we sincerely thank you for the opportunity to submit this statement.

Blake Farenthold

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April 29, 2014

Congressman Blake Farenthold
Congressional District 27, Texas
5606 N Navarro, Suite 203
Victoria, Texas 77904

Dear Congressman Farenthold:

Please accept this letter in support of the Victoria Regional Airport and Essential Air Service for Victoria and our surrounding communities.

The Victoria Economic Development Corporation (VEDC) is the contracted marketing agent for the City of Victoria and Victoria County. We work to recruit new industry to our community for the purpose of creating primary jobs and expanding the tax base; and to maintain existing businesses and assist them with expansions. Prospective companies diligently screen potential communities for the right location for their business by scrutinizing the assets available to them. The clients we attract are highly dependent on the availability of local air transportation for their operations. We have been successful in the past to present a strong business case for Victoria resulting in the decision of Caterpillar Inc. to locate their North American Hydraulic Excavator facility in our community. The availability of commercial air service was an important factor in their decision to locate in Victoria.

The business climate in Texas is the strongest in the nation, resulting in numerous requests for information from global companies seeking to locate in the south. Victoria is in direct competition with other communities in the state and nation for these projects. These companies are requiring close proximity to airports as criteria for community consideration. Two hours from a commercial airport is too far. It is imperative for Victoria to maintain the Victoria Regional Airport and commercial air service for advancing and maintaining local economic development. The loss of this asset would place our community at a competitive disadvantage to attract new industry or grow existing industry. We would be precluded from submitting for industrial projects with air service as criteria; resulting in the potential loss of jobs and revenue for our community.

I appreciate the opportunity to offer my comments on this important issue for your consideration, and ask you to help us strengthen the viability of the Victoria Regional Airport by supporting the Essential Air Service program. Please contact me any time if I may be of further assistance.

Sincerely,

D. Dale Fowler

D. Dale Fowler, CEcD
President

700 N Main, Suite 104 Victoria, Texas 77901 361-485-3190 vedc@victoriaedc.com

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